FAIR TAX MONITOR UGANDA

POLICY BRIEFING PAPER

OXFAM

The African Women's Development and Communication Network

TAX JUSTICE NETWORK AFRICA

SEATINI
Strengthening Africa in World Trade

Co-funded by the European Union

POLICY BRIEFING PAPER

The African Women's Development and Communication Network

Co-funded by the European Union

ACKNOWLEDGEMENTS

Oxfam in Uganda would like to thank European Union (EU) for the support that has enabled this policy brief to be published.

This brief owes a lot to the different people who pooled their talents and expertise to generate the information required. Special thanks go to Daniel Lukwago (Nonner Consults) for spearheading the research process and production of this brief. In a special way, we would like to thank Maarten Hietland (SOMO), Martin-Brehm Christensen and Ilse Balstra (Oxfam Novib), Robert Ssuuna (FEMNET), Joseph Olwenyi Okecho, Mark Mutumba, Dorah Ntunga, Winnie Mukalazi Kyamulabi and Elizabeth Nakiru (Oxfam in Uganda), Chenai Mukumba, and Ishmael Zulu (Tax Justice Network Africa), Regina Navuga and Grace Namugambe (SEATINI-Uganda), Gerald Namoma and Moses Kaggwa (Director of Economic Affairs) Ministry of Finance, Planning and Economic Development for providing technical guidance.

Oxfam in Uganda
Plot No. 3459, Tank Hill Rd, Muyenga,
P.O. Box 6228, Kampala, Uganda

This publication was produced with co-funding from the European Union. Its contents are the sole responsibility of Oxfam in Uganda and do not necessarily reflect the views of the European Union

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

Bn	Billion
BoU	Bank of Uganda
CIT	Corporate Income Tax
CRF	Common Research Framework
CSOs	Civil Society Organisations
DRMS	Domestic Revenue Mobilization Strategy
DTT	Double Taxation Treaty
EAC	East African Community
EOC	Equal Opportunities Commission
FIA	Financial Intelligence Authority
FTM	Fair Tax Monitor
FY	Financial year
G&E	Gender and Equity
GDP	Gross Domestic Product
GoU	Government of Uganda
IFFs	Illicit financial flows
IMF	International Monetary Fund
ITA	Income Tax Act
LGs	Local Governments
MDAs	Ministry, Departments and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
OAG	Office of the Auditor General
PAYE	Pay As You Earn
PIT	Personal income tax
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
TIN	Tax Identification Numbers
TJN-A	Tax Justice Network-Africa
Tn	Trillion
UGX	Ugandan shillings
URA	Uganda Revenue Authority
VAT	Value Added Tax

1.0 INTRODUCTION

This policy brief was compiled through a review of the Fair Tax Monitor Uganda from a Gender Perspective study conducted by Oxfam in Uganda in collaboration with Oxfam Novib, SOMO, FEMNET, SEATINI Uganda, Tax Justice Network Africa, and Tax Justice Alliance Uganda members.

In collaboration with partners and Oxfam country offices, the Fair Tax Monitor (FTM) project was started in December 2014 by Oxfam Novib and Tax Justice Network Africa. Two FTM studies (2016 & 2018) have so far been conducted in Uganda. The studies were guided by the Common Research Framework (CRF) methodology. This study is based on the revised CRF (2019) which put into consideration the gendered impact of Uganda's tax system. The study examined how Uganda's fiscal policies during last five FYs (2017/18 -2021/22), contribute to women's and girls' full enjoyment of their rights through addressing gender norms and power relations.

This policy brief presents targeted key practical policy and practices recommendations which are suggested for implementation by key stakeholders with an overall target of improving fairness and gender responsive tax regime in Uganda.

Uganda's dependence on indirect taxes makes the tax system regressive. Indirect taxes disproportionally affect low-income earners, especially women

On a positive note, the share of indirect taxes in total tax revenue has been declining from 66.4% in 2016/17 to 64.4.2% in 2020/21

On a negative side, Government of Uganda has generally ignored the calls from international organisations such as the IMF1 and UN2 for countries to adopt progressive tax measures to fund social support programmes for low-income households

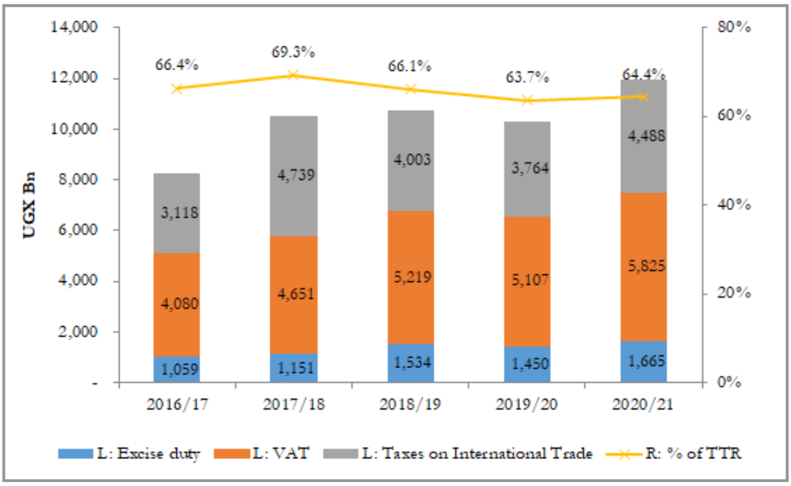
3.0 KEY FINDINGS

3.1 TAX BURDEN AND PROGRESSIVITY

Uganda's dependence on indirect taxes makes the tax system regressive. Indirect taxes disproportionally affect low-income earners, especially women, because they spend a higher proportion of their income on consumer goods for their families. Changes in the price of goods can reduce consumption or substitution of better-quality goods by inferior ones. On a positive note, the share of indirect taxes in total tax revenue has been declining from 66.4% in 2016/17 to 64.4.2% in 2020/21 (see Figure 1), which is sign that Uganda's taxation is becoming less regressive. This is a step in the right direction however more needs to be done to ensure progressivity by strengthening policy around direct taxes like property tax, capital gains, corporate tax and taxation of business income.

On a negative side, Government of Uganda has generally ignored the calls from international organisations such as the IMF1 and UN2 for countries to adopt progressive tax measures to fund social support programmes for low-income households to cushion the effect of the COVID-19 pandemic. Instead, the government during FY 2021/22, instituted numerous tax measures to collect more taxes without evaluating their impact on the people especially the low-income earners (majority of who are women). For example, an additional UGX 100 per litre of gasoline and diesel excise duty levy increased the cost of transport.

Figure 1: Trends in Indirect Taxes



Source: Oxfam, SEATINI, FEMNET, and Tax Justice Network Africa (2021)

There are significant gender inequalities related to personal income taxes in Uganda, but these do not specifically have a negative impact on women, since very few women pay Pay As you Earn (PAYE). Results of the Uganda National Household Survey 2019/20 showed that of the 31.8% of females in paid employment most of their income is not liable for personal income, since the monthly nominal median wages for females were UGX 100,000 (US$ 27.3) in 2019/20, yet the Pay As you Earn (PAYE) threshold is UGX 235,000 (US$ 62.9).

Uganda's excise duty regime has a degree of progressivity, as households in the top deciles pay more excise duty as a percentage of their consumption than households in the bottom deciles. However, in some cases, excise duties are regressive because they are usually flat-rated (i.e. 0.5% levy on mobile money withdraws). These tend to affect more the low-income earners especially women who spent a higher portion of their income of consumption of these items.

There are significant gender inequalities related to personal income taxes in Uganda, but these do not specifically have a negative impact on women, since very few women pay Pay As you Earn (PAYE).

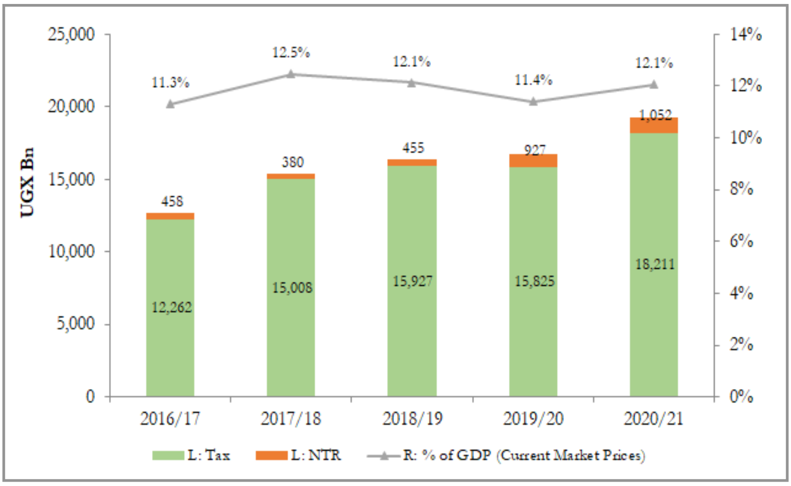
3.2 REVENUE SUFFICIENCY AND TAX LEAKAGES

Uganda is implementing the Domestic Revenue Mobilisation Strategy (DRMS) 2019/20 - 2023/24 which targets to lift the country's tax-to-GDP ratio to between 16-18% by 2023/24 and achieving tax-to-GDP ratio growth of 0.5% every financial year. However, Uganda's tax-to-GDP ratio is still less than 13% (see Figure 2), which is below the Sub-Saharan Africa average of approximately 16.5%, and East Africa Community (EAC) neighbours, Kenya at 15.9%, and Rwanda at 14.6%. Based on the current performance, it's unlikely that Uganda will meet the DRMS target and 16% tax-to-GDP ratio set out in the NDP III and the Charter of Fiscal Responsibility.

Several factors are contributing to insufficient tax collections in Uganda, some of which are: very large informal sector; generous tax incentives, inefficiency in tax collection, low collection of Non-tax Revenues (NTRs), limited number of taxpayers; tax avoidance and evasion mainly double taxation treaties; and illicit financial flows (IFFs), among others.

Uganda is implementing the Domestic Revenue Mobilisation Strategy (DRMS) 2019/20 - 2023/24 which targets to lift the country's tax-to-GDP ratio to between 16-18% by 2023/24 and achieving tax-to-GDP ratio growth of 0.5% every financial year. However, Uganda's tax-to-GDP ratio is still less than 13% (see Figure 2), which is below the Sub-Saharan Africa average of approximately 16.5%, and East Africa Community (EAC) neighbours, Kenya at 15.9%, and Rwanda at 14.6%.

Figure 2: Trends in Total Tax Revenues



Source: Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021)

Non-tax Revenues (NTRs)3 have been improving over the years mainly due to the involvement of URA in its collection since July 1, 2017, and direct remittance to the Consolidated Fund in the Bank of Uganda. However, NTRs from extractives especially mining fees and royalties are very minimal, averaged UGX 15.6 Bn (USD 4.4 Mn) between FY 2016/17 and FY 2020/21, and their share in the total NTR declined during the same period. The low NTRs from extractives can be attributed to mainly three factors. First, limited information on the production sharing agreements (PSAs)4 makes it difficult to know how much Uganda is or will collect from the extractive industries, especially oil and gas. Second, inadequate implementation of the extractive legal framework especially collection of fees and royalties. Third, challenges in collecting NTR from extractives, since operational licences are issued and paid for at national level (by the Ministry of Energy and Mineral Development), however, activities are done at local levels.

Illicit financial flows are estimated to cost Uganda in excess of UGX 2 trillion (US$ 547 Mn) annually. Multinational

Several factors are contributing to insufficient tax collections in Uganda, some of which are: very large informal sector; generous tax incentives, inefficiency in tax collection, low collection of Non-tax Revenues (NTRs), limited number of taxpayers; tax avoidance and evasion mainly double taxation treaties; and illicit financial flows (IFFs), among others.

Illicit financial flows are estimated to cost Uganda in excess of UGX 2 trillion (US$ 547 Mn) annually.

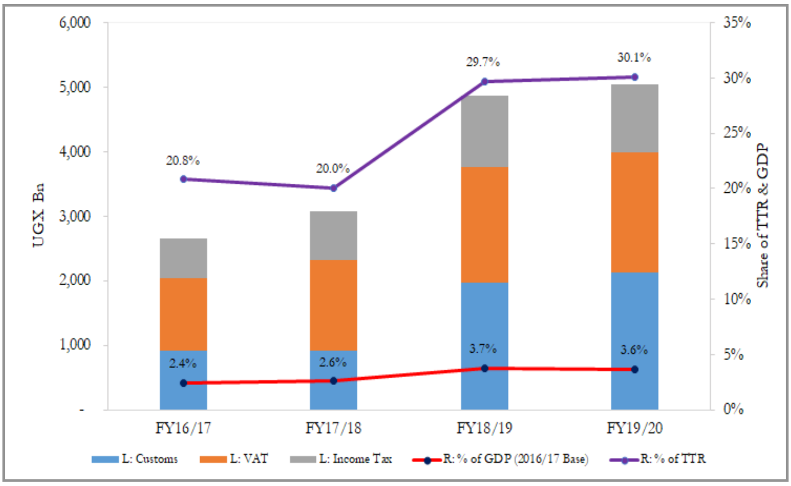
companies are mostly perpetuating IFFs through aggressive tax avoidance mechanisms such as Base Erosion and Profit Shifting (BEPS), double taxation treaties, and trade misinvoicing. IFFs drain critical resources that could be invested in critical areas of development. With a shortfall in revenue collection to finance the budget, there is a reduction in spending in key areas such as education, health care, and care facilities, which directly impacts women. For instance, the estimated annual loss due to IFFs, would be enough to raise the FY 2021/22 health and education budgets by over 28%.

3.3 TAX COMPETITION AND CORPORATE INCENTIVES

The Uganda government has granted both tax and investment incentives over the years, especially to attract Foreign Direct Investments (FDIs). However, tax expenditures are very costly to the Uganda's state budget; during FY 2019/20, Uganda's lost revenue from tax expenditures amounting to UGX 5,030.45 Bn (US$ 1,354 Mn) which is 30% of total revenue and 3.6% of GDP (see Figure 3). This is more than the total allocated to health sector (UGX 2,595 Bn), Agricultural sector (UGX 1,054 Bn), Water and Environment sector (UGX 1,106 Bn), social development sector (UGX 221 Bn) during FY 2019/20. Tax incentives tend to benefit the highest income earners and corporations which are predominantly owned and managed by men and employing relatively few women.

tax expenditures are very costly to the Uganda's state budget; during FY 2019/20, Uganda's lost revenue from tax expenditures amounting to UGX 5,030.45 Bn (US$ 1,354 Mn) which is 30% of total revenue and 3.6% of GDP

Figure 3: Trends in value of Tax Expenditures



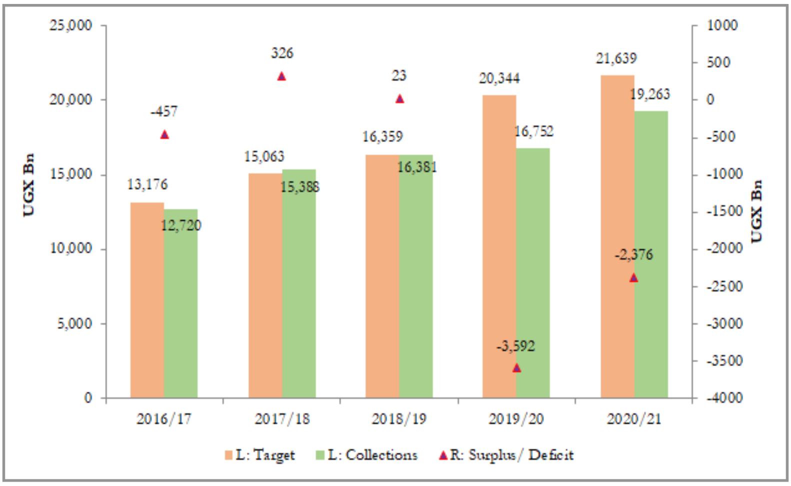
Source: Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021)

3.4 EFFECTIVENESS OF THE TAX ADMINISTRATION

The Ministry of Finance Planning and Economic Development (MoFPED) gives the URA annual targets, which form part of the wider midterm strategies of three to five years. While the URA year-on-year total tax revenue collections growth rate averaged 11.5% during the last five years (2016/17 – 2020/21), the collections were below the target for all the FYs apart from FY 2017/18 (see Figure 4). This is mainly because, tax effort or productivity is relatively low. The tax gap analysis done by Economic Policy Research Centre (EPRC) in 2017 showed that tax collection efficiency (C-Efficiency5) is below its potential for all tax categories.

While the URA year-on-year total tax revenue collections growth rate averaged 11.5% during the last five years (2016/17 – 2020/21), the collections were below the target for all the FYs apart from FY 2017/18

Figure 4: Trends on URA Revenue Collection Performance



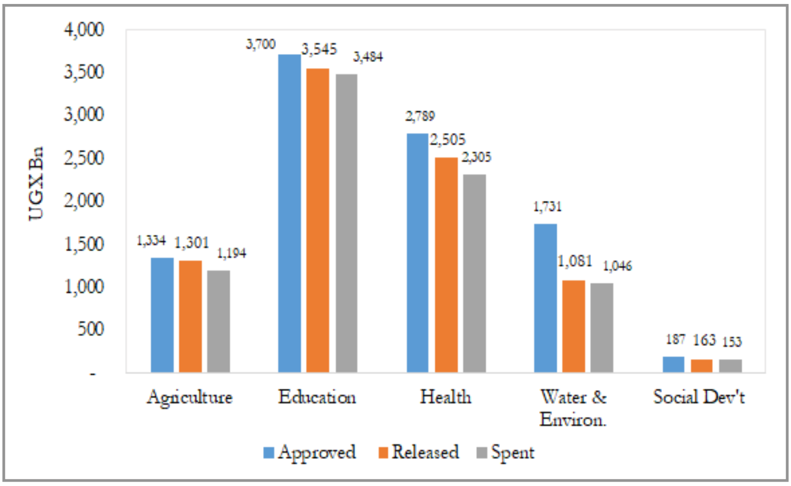
Source: Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021)

URA does not allocate resources to collect and update sex-disaggregated data. Tax returns do not inquire the gender of the person filing the return. Taxes such as income taxes are imposed on the basis of income only, irrespective of gender. This makes it hard to ascertain the gender statistic to facilitate gender analysis.

3.5 GOVERNMENT SPENDING

The impact of COVID-19 pandemic led to the reduction in government revenues and grants of about UGX 2,291 Bn (US $ 626 Mn) against a target of UGX 23,529.6 Bn (US $ 6.4 Bn) during FY 2020/21. Government instituted austerity measures which included cutbacks on spending on social sectors (education, health, and social development), agriculture and water and sanitation. Consequently, those sector spending was lower than expected at 90%, 94%, 83%, 60%, and 81% for agriculture, education, health, water & environment, and social development respectively (see Figure 5) . These budget cuts affected women more, since they use most of the public services such as health facilities.

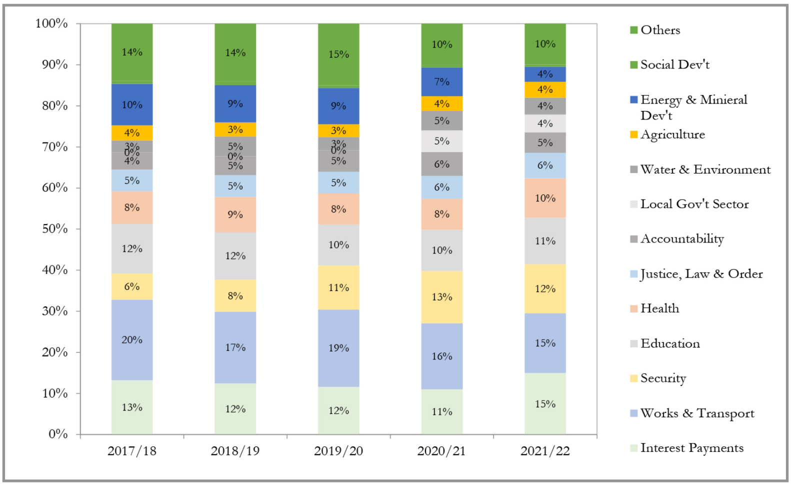
Figure 5: Budget Performance FY 2020/21



Source: Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021)

The share of the budget allocated to social sectors, agriculture and water has remained stagnant at less than 30% of the total national budget (see Figure 6). Consequently, Uganda is unable to meet its international and regional commitments, including allocating at least: 15%, 10%, and 20% of the annual budget to health, agriculture and education sectors, respectively. Due to limited funding, only 3% of the Ugandan population has access to formal social security and only 2.8% and 2.3% of the working population are covered by the public service pensions scheme (PSPS) and National Social Security Fund (NSSF), respectively. Several small, private social security schemes managed by groups also exist but with minimal impact. This results in a high level of vulnerability to shocks and persistent poverty.

Figure 6: Trends in Government Sectoral Budget Allocations (Share)



Source: Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021)

Uganda has made inroads in promoting gender equality. Government expenditure on education, health, agriculture, social protection, water and sanitation seems to be gender responsive. This is mainly because of the legal requirement for all Ministries Departments and Agencies (MDAs) and LGs to obtain a certificate of gender and equity compliance before their budgets are appropriated by Parliament. Consequently, gender and equity (G&E) compliance of the budget has improved over the years; the G&E assessment score was 70% in 2021/22 compared to 60% in 2017/18. Nevertheless, a lot still needs to be done since gender issues are not integrated into all MDA processes but rather considered as a cross-cutting issue, which limits ability of MDAs to implement gender-responses interventions.

The Uganda government does not recognize unpaid care and domestic work in the provision of public services, infrastructure and social protection policies.

The Uganda government does not recognize unpaid care and domestic work in the provision of public services, infrastructure and social protection policies. For instance, the government does not support or provide childcare services, nor care of elderly or disabled dependents. In spite of the fact that women in Uganda spent 30 hours a week on unpaid domestic and care work which is more than twice the amount of time spent by men (12 hours a week), the government has been consistently under-investing in key sectors (i.e. health, education and agriculture), which could reduce the unpaid care workload on women.

3.6 TRANSPARENCY AND ACCOUNTABILITY

Despite having laws on access to information, there are hurdles in accessing information in Uganda. This is mainly due to the culture of secrecy by public officials, high costs of accessing information, lack knowledge of the provisions of Access to Information Act (ATIA) among citizens, and the tedious procedures of requesting for information. In addition, most citizens do not know that they have a right to information regarding taxes they pay and public expenditure due to low literacy levels. Furthermore, there is high level of apathy by citizens regarding the use of publicly available information. All these hinder effectively accountability for the taxes collected and public spending.

Despite having laws on access to information, there are hurdles in accessing information in Uganda. This is mainly due to the culture of secrecy by public officials, high costs of accessing information, lack knowledge of the provisions of Access to Information Act (ATIA) among citizens

Uganda has good policies that promotes or support the participation of women and women's organizations in decision making including development of revenue policies. Government engages all stakeholders including civil society organizations (CSOs) during the budget process (tax formulation and budget allocations). However, the participation of citizens in the tax policy formulation process has generally been very limited. This can be seen in the low score of 22% on public participation in different stages of the budget process in 2019 Open Budget Survey.

4.0CONCLUSIONSAND RECOMMENDATIONS

4.1 CONCLUSION

A fair tax system is defined as being progressive and serves as a mechanism to redistribute income in a gender-responsive way; allows to raise sufficient revenue

to perform government functions and provide high-quality essential public services; refrains from and eliminates tax exemptions and incentives to the elite (individuals and corporate); and tackles causes of illicit capital flight and tax evasion and avoidance by multinational companies and the wealthy.
This Fair Tax Monitor study found that Uganda has made minimal progress in making the Uganda tax system fair and gender responsive. This is mainly because the country depends largely indirect taxes (e.g. excise duty, VAT, and customs), which disproportionally affect low-income earners, especially women, since they spend a higher proportion of their income on consumer goods for their families. Relatedly, URA does not collect and update sex-disaggregated data, which makes it hard to ascertain the gender statistic to facilitate gender analysis.

Large tax incentives and exemptions and illicit financial flows (IFFs) drain critical resources which hinder government's ability to provide critical public services. This coupled with high spending on interest payments and security negatively impact government spending in social sectors (such as health, education and social development) and productive sectors like agriculture and water. Consequently, under-investment in these sectors (which have direct consequence of reducing the unpaid care workload), disproportionally affect women and girls.

On a positive note, Uganda has made commendable progress in promoting gender responsive budgeting. Gender and equity (G&E) compliance of the budget has improved over the years. However, gender issues are not integrated into all MDA processes but rather considered as a cross-cutting issue which hinder their ability to implement gender responsive interventions.

4.2 RECOMMENDATIONS

In line with the findings of the Fair Tax Monitor from gender perspective study in Uganda, we propose the following recommendations.

Thematic Area	Recommendations
Uganda's Tax System	The Ministry of Finance Planning and Economic Development (MoFPED) and Uganda Revenue Authority (URA) should strengthen the consideration given to issues of fairness, inequality and gender in tax policy-making by accelerating a more extensive use of micro-simulation models, so that the potential impacts of policy choices can be better understood
Distribution of tax burden and progressivity	Government should follow the path recommended by the IMF, UN and others to respond to the Covid 19-crisis by enacting progressive tax measures that increase the revenue contribution from wealth and corporations to fund social support programmes to cushion the effect of the pandemic. URA should put in place mechanisms for the collection and analysis of sex-disaggregated data. For instance, when filing Income Tax returns, the sex of the person filling or owners of the company should be included impact assessments by gender and income category should also be done to identify the direct and indirect effects of taxes/ budget choices on poor people, women and vulnerable groups. MoFPED and URA should make personal income taxes (PIT) more progressive by raising the PIT entry threshold, by raising tax rates of the higher brackets, by introducing additional tax bracket(s) for the highest incomes, by focusing compliance efforts on high-income earners, and further strengthen anti-tax avoidance strategies.
Sufficient revenues and illicit financial flows	MoFPED should adopt and enforce legislation barring trade misinvoicing. Equip URA with up-to-date trade pricing databases to facilitate risk management of the potential for trade misinvoicing. Government agencies such as the URA, Inspectorate of Government (IG), Bank of Uganda (BoU), OAG and FIA, should boost their capacity to detect and limit the extent of IFFs. This can be achieved through skilling of existing staff and hiring of specialised staff in the early detection of the different forms of IFFs.

Tax competition and corporate incentives	MoFPED needs to expedite the implementation of the Tax Expenditure Governance Framework to help manage tax exemptions. The framework should include rules related to tax expenditures to assess the efficiency, impact, and equity of tax incentives and remove them if warranted. Given the intraregional competition for FDIs is fuelling an unhealthy "Race to the Bottom' in the region", tax exemptions and incentives should be handled at a regional level by the East African Community. MoFPED should not sign new DTTs, cancel or renegotiate existing DTTs, and make use of the Multilateral Instrument (MLI) with reservations about the Mutual Agreement Procedure (MAP).
Effectiveness of the tax administration	MoFPED (Tax Policy Department) and URA should include gender equality analysis and inclusion and engaging with marginalized groups in their staff on and off job training. MoFPED should realign the structure of URA to the changing demands, as well as focus the roles played by different actors, including the URA Board, the Commissioner General, and the Minister of Finance, particularly with regard to the framework for supervision of URA
Government Expenditure	In the light of the negative impact the Covid-19 pandemic has had on public budgets and revenue collection government needs to reprioritise the budget by increasing spending on social sectors (education, health, social protection) and reducing spending on public administration and security. Failure to do so hits women harder as they are more dependent on health, and WASH services and carry much larger burden of unpaid care work increase. The Equal Opportunities Commission (EOC) needs to build the capacity of Ministries Departments and Agencies (MDAs) and Local Government (LG) officials on the G&E concepts, knowledge and analytical skills needed to prioritize inequality issues, design appropriate interventions, monitor and evaluate gender outcomes.

Transparency and accountability	The Parliament of Uganda should expedite the debate of the Auditor General Reports to Parliament and ensure that all those involved in misuse of public funds are held accountable. MoFPED should conduct impact assessments by gender, income and other groups, to identify the direct and indirect effects of taxes/budget choices, paying particular attention to the impacts of both taxes and public spending on the poor, women and vulnerable groups. MoFPED and URA should reach out to citizens and businesses through all media channels to explain and demonstrate more effectively the relationship between tax and public spending, dispel myths and create a more widespread understanding of the objectives of the tax system.

REFERENCES

1. https://www.theguardian.com/business/2021/apr/07/imf-wealth-tax-cost-covid-pandemic-rich-poor
2. https://www.reuters.com/article/us-health-coronavirus-un-idUSKBN2BZ281
3. NTRs are government revenues from sources other than taxes these include:
4. This is a contract signed between the government and oil producing companies detailing how the different aspects of exploration, participation of government, taxes, loyalties, production and earnings from oil shall be managed. So far, the government of Uganda has signed four production sharing agreements with different oil companies namely; Tullow Uganda Ltd, Tower resource Neptune, Heritage and Dominion petroleum Ltd
5. a measure of actual revenue compared to the theoretical possible revenue - to gauge the overall efficiency and effectiveness of tax system. levies, fees, licences, fines, permits, and surcharges by MDAs.

Oxfam, SEATINI, FEMENET, and Tax Justice Network Africa (2021), Fair Tax Monitor Uganda from a Gender Perspective

Plot No. 3459, kampala Road, Muyenga
P.O.Box 6228, Kampala, Uganda.

+256 414 390 500
Fax: +256 414 510 242

kampalaoffice@oxfam.org

uganda.oxfam.org

OXFAM