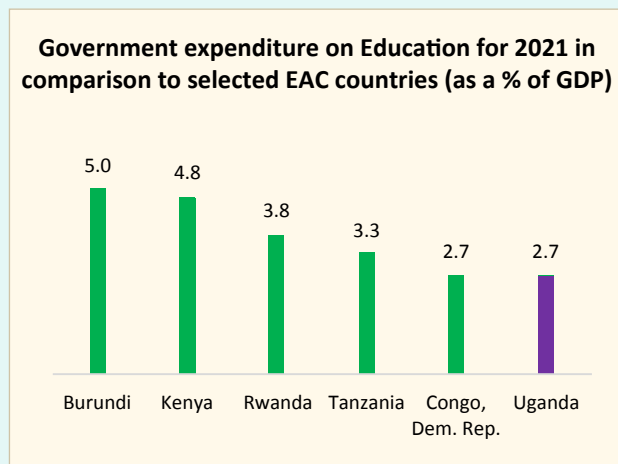


# LEVERAGING PROGRESSIVE TAXATION TO FUND PUBLIC SERVICES



2022

# PUBLIC SERVICES HAVE REMAINED CONSIDERABLY UNDERFUNDED BY GOVERNMENT

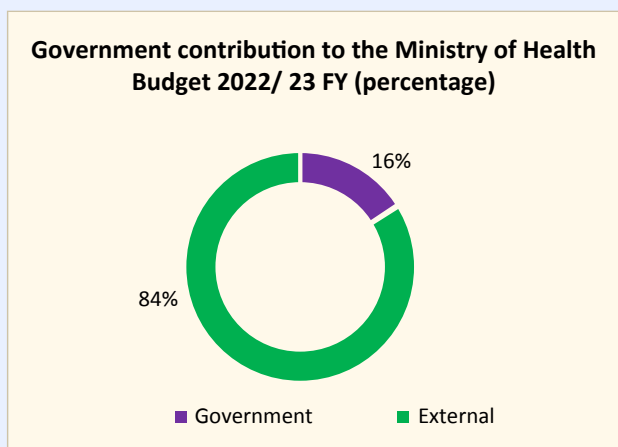


Source: World Bank

Households are still taking on the largest burden to fund their children’s education.



The existing capitation grants that run public schools (UPE and USE) is already insufficient as is, at a paltry UGX 20,000 per pupil per year, below what the National Planning Authority found necessary to run the schools (UGX 63,546 for urban schools and UGX 59,503 for rural schools per pupil per year). When grants to public schools are insufficient, schools pass on this cost to parents in the form of school fees.

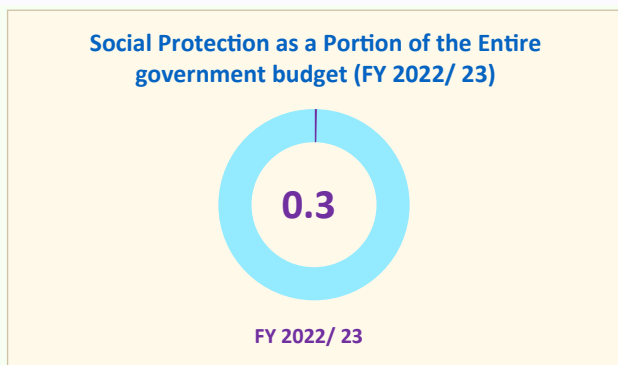


Source: Approved Budget Estimates for 2022/23 FY



With the outbreak of COVID -19, such a weakly funded public health services exposed the lives over **3,500** citizens to demise. A great number of these were poor citizens who weren’t in position to afford better medical treatment.

Shortages in oxygen cylinders, intensives care unit beds, and medical professionals were on several occasions reported and this led to greater suffering and life loss ([ISER\(2021\) How Did We Get Here?](#)).



Not even **1 percent** of government’s budget spending is going to support for the poor, disabled, elderly, and children.

It remains hard for one to picture how these individuals will meet their survival needs amidst the rising cost of living

Many vital services have been left in an inadequate, inaccessible and poor state following weak state funding. Several households are now having to incur high out of pocket expenses. Unfortunately, less well to do households have been the most affected as they lack the necessary resources.<sup>2</sup> Public services remain a collective social commitment, for which the State and/or other public authorities have the main or ultimate responsibility. As the duty-bearer under human rights law, states hold the obligation to ensure the provision of universal quality public services in accordance with the set standards and principles. Universal access to quality services without any marginalization, discrimination or exclusion, is fundamental to the realization of human rights and fulfilment of life's needs. Public services improve everyone's quality of life, strengthen our communities and bind us together as a society. By ensuring everyone's crucial needs are met, such services enable a dignified life, ensure social economic inclusion and promote rights assertion.<sup>3</sup>

But for states to adequately fund these services, they must first mobilize enough resources domestically as other avenues have turned out unsustainable and unpredictable over the years. Uganda has for example relied heavily on donor resources to provide health and education through the years. Donor contributions amounted to approximately 76 percent<sup>4</sup> of the total health sector resource envelope in 2018/19 for instance. This puts the health sector in a precarious position and heavily dependent on external priorities. Distortions, within such funding, have on occasion led to retrogression within some outcomes. Domestic resource mobilization therefore remains a more sustainable means to fund public services

---

2 ISER (2021) Enough is Enough: Reclaim Public Social Services in Uganda, <https://iser-uganda.org/publication/reclaiming-public-social-services-a-peoples-manifesto/>

3 The Future is Public, Global Manifesto for Public Services, retrieved from: <https://futureispublic.org/global-manifesto/>

4 UNICEF, Tracking Off-Budget Financial Resources in The Health Sector Fy2018/19, retrieved from: <https://www.unicef.org/uganda/media/7276/file/Tracking%20off%20budget%20financial%20resources%20in%20the%20health%20sector%20FY2018-19-lores.pdf>

# STATE OF UGANDA'S DOMESTIC REVENUE MOBILIZATION

Uganda's tax-to-GDP ratio as of 2021/22 stood at 12.3 percent<sup>5</sup>. Revenue collections are still not matching up to the size of the Country's economy. This has remained in contrast to other African nations like Tunisia that have managed to raise significantly higher tax revenues (34.3% tax-to-gdp ratio).<sup>6</sup> Part of this points to the tax systems that are being applied by Government where much of the focus is on indirect taxes which now contribute 64 percent<sup>7</sup> to the country's tax revenues. This trend is different from that of developed nations<sup>8</sup> like the USA which seem to be rather mobilizing more revenues through direct taxes on incomes and profits. Much as the International Monetary Fund and other International Financial Institutions have continuously pushed developing countries to step up indirect taxes given their ease of collection, such taxes are disproportionately hurting the poorest (regressive) and pushing many to incur significant sacrifices on other life necessities. This goes against international human rights norms compelling states to levy taxes based on ability to pay. Indirect taxes are taking the form of Value-Added taxes (VAT) imposed on the purchase of goods and services. Other forms include excise duties levied at the point of manufacture but with the burden still lying again with the end-customer. Such taxes are known for taking up larger income shares from poorer households as [evidence](#) suggests that poor households spend more of their incomes on consumption as compared to their rich counterparts. Uganda, much recently, introduced a 0.5 excise duty tax on mobile money transactions driving up prices for these services and rendering them out of reach for the poor. The tax burden is still disproportionately born by small and medium sized enterprises and individuals.

Fair and progressive taxation presents rather a more reliable and sustainable means to fund public services. Reduced tax earnings due to evasion or failure to tax taxable funds directly impact people's access to water, healthcare and education and disproportionately affect vulnerable groups like women who bear the brunt when public services are inadequately financed.

---

5 Ministry of Finance Planning and Economic Development, Background to the 2022/23 budget, retrieved from: <https://www.finance.go.ug/publication/background-budget-202223-fiscal-year>

6 OECD (2021), Revenue Statistics in Africa, retrieved from: <https://www.oecd.org/ctp/tax-policy/revenue-statistics-africa-tunisia.pdf>

7 OXFAM (2021) Fair Tax Monitor Uganda: A Gender Perspective, retrieved from: <https://uganda.oxfam.org/latest/policy-paper/fair-tax-monitor-uganda-gender-perspective>

8 IMF, Government Finance Statistics: <https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405> (Accessed on April 05, 2022)

# PROGRESSIVE TAXATION AS A MEANS TO FUND PUBLIC SERVICES

Progressive taxation means<sup>9</sup> higher tax rates for those with higher incomes or more wealth, so that those who earn or have more are taxed at a higher rate. Progressivity of the tax system looks at whether the burden falls more on those who can afford to pay. It also takes into consideration the impact of tax on inequality. Personal income tax based on graduated scales where the tax rate goes up as income level rises is probably the clearest example of progressivity. It is one way to get the rich to contribute more to development.

Considering the case of personal income taxes, the International Center on Tax and Development (ICTD) has observed that wealthy people in high-income countries contribute a significant<sup>10</sup> share of the revenue collected through these taxes. This however, isn't the case for most low-income countries as the bulk of personal-income-tax revenues come from those in formal employment. This disparity may be attributed to a number of factors that range from current incentives provided for many of those sectors that employ the wealthy but also to a great deal of tax abuse by these individuals.

Research in Uganda found that only 21 of the top 60 lawyers in the country paid any personal income tax in 2013-14; only 5% of company directors did so; and only one of the 71 high-level government officials, who owned considerable assets, had ever paid personal income tax.<sup>11</sup> What's more, the fortunes of the richest are mostly held in assets (e.g. stocks, shares, and real estate) rather than earned through wages. But such wealth is taxed at very low rates or there are big loopholes that allow money to be hidden overseas.

---

<sup>9</sup> Action Aid's Progressive Taxation Briefings (October 2018), retrieved from: [https://actionaid.org/sites/default/files/progressive\\_taxation\\_introduction.pdf](https://actionaid.org/sites/default/files/progressive_taxation_introduction.pdf)

<sup>10</sup> ICTD (2018), What Can We Learn from the Uganda Revenue Authority's Approach to Taxing High Net Worth Individuals, retrieved from: <https://www.ictd.ac/publication/what-can-we-learn-from-the-uganda-revenue-authoritys-approach-to-taxing-high-net-worth-individuals/>

<sup>11</sup> Action Aid's Progressive Taxation Briefings (2018), Wealth Taxes, retrieved from: [https://actionaid.org/sites/default/files/-publications/wealth\\_taxes.pdf](https://actionaid.org/sites/default/files/-publications/wealth_taxes.pdf)

Some key facts<sup>12</sup>;



- The International Growth Center (IGC) has estimated the cost of corporate income tax incentives in Uganda at US\$ 626 billion in FY 2017/18.
- Uganda now loses over US\$ 365 billion annually to global tax abuse by multinational corporations.
- As of 2015, close to US\$ 320 billion had been stashed offshore into Swiss bank accounts by wealthy Ugandans – much of this we must say, untaxed!
- Owing to all these losses, not even 1% of the government budget is left for social protection.

When the wealthy can engage in tax avoidance or tax evasion, or enjoy excessive and redundant tax incentives, resulting in low effective income tax rates, the progressivity of the tax is distorted, as contributions start falling disproportionately on smaller businesses and poorer households. Furthermore, government is then left with little to no spending for social sectors.

A progressive tax system would thus ensure that wealthy individuals and corporations are paying a fair share in taxes. This means that individuals would be assessed based on their ability to pay and that government would do away with flat (regressive taxes) that take away larger shares from incomes of the poor.

---

<sup>12</sup> ICTD (2018), Taxing High Net Worth Individuals: Lessons from the Uganda Revenue Authority's Experience, retrieved from: <https://www.ictd.ac/publication/taxing-high-net-worth-individuals-lessons-from-the-uganda-revenue-authoritys-experience/>

# SO WHAT CAN BE DONE TO MAKE UGANDA'S TAX SYSTEM MORE PROGRESSIVE?

## 1. First exhaust all possible revenue collections within the current tax regime: Let the wealthy pay their share!

There is already ample evidence<sup>13</sup> just as has been highlighted for Uganda, that majority of the rich are paying far less personal income taxes (PIT) and property taxes than they should under the law. Both taxes should have minimal short-term costs to the broader economy, particularly if used to finance direct transfers to the poor, or to otherwise fuel short-term domestic consumption and business continuity. And collection could be substantially enhanced without any major policy or administrative reforms. More specifically, government should aim to; -

### 1.1 Strengthen income tax compliance by High Net-Worth Individuals (HNWIs).

Low compliance by high net worth individuals can indeed result in regressive revenue outcomes. By taking advantage of tax dodging schemes – or even evading their obligations by virtue of their political or elite status – high net worth individuals are able to avoid contributing to personal income tax, defeating the original objective of a progressive personal income tax: that those who earn more, pay more.

In Uganda, research by ICTD examining why wealthy individuals are under-taxed, revealed that problems arose from:

- the Uganda Revenue Authority's (URA) overall focus on companies and employees;
- the political influence of HNWIs, most of whom tended to also be politicians or powerful business people;
- and the lack of information sharing between departments of the URA and other government units, and the limited capacity to review that information.

These challenges meant that much high net worth individuals' income was not subject to personal income tax, and information about their income and assets escaped the automated systems<sup>14</sup>. In response to this, government set-up a high-net worth individuals' unit within URA

<sup>13</sup> ICTD (2020), To help respond to Covid-19, African governments should prioritize taxing the rich, retrieved from: <https://www.ictd.ac/blog/respond-covid19-african-governments-tax-rich/>

<sup>14</sup> Action Aid's Progressive Taxation Briefings (2018), Personal Income Tax, retrieved from: <https://actionaid.org/sites/default/files/publications/Personal%20income%20tax.pdf>

to interact directly with them. But the unit is inadequately facilitated to undertake its role with only 6 staff<sup>15</sup> as of 2018 to handle this entire bracket of tax payers. We recommend therefore that;

- **URA fully facilitates the high-net worth-individuals-unit to undertake its role.**
- URA solicits support from development partners to **undertake massive tax education to raise interest amongst taxpayers into voluntary disclosures of tax information, especially the High Net Worth Individuals**; enhance trust in government and respect for legal tax obligations
- **Government Strengthens progressivity of the Personal Income Tax structure by gradually limiting higher income earners' access to deductions, exemptions and allowances, and by adopting higher tax rates for higher income earners.** It must be recognized that tax allowances and credits may not reach all low income households and sometimes end up benefiting wealthy households more, particularly when there are no caps on the income classes entitled to the allowances. Therefore, allowances and other tax benefits should be capped at an appropriate income level based on the national context. For example, in the UK, the personal allowance – or the amount of income on which an individual is not required to pay tax –gradually decreases for net income above £100,000 and reaches zero where net income amounts to £123,700 or above.<sup>16</sup>
- Another important consideration would be to **apply an alternative minimum tax for companies/tax payers that are declaring losses perpetually**, for example minimum tax for taxpayers who consecutively declare tax liabilities for a period of five years.<sup>17</sup> The provision for an alternative minimum tax is already in place in at least 12 African countries. For example, Tanzania first introduced an alternative minimum tax in 2008 at 0.3% of gross earnings and increased this to 0.5% in 2018. The introduction of such a measure would help raise revenues from some HNWI's that have perpetually declared losses.

---

<sup>15</sup> ICTD (2018), Taxing High Net Worth Individuals: Lessons from the Uganda Revenue Authority's Experience, retrieved from: <https://www.ictd.ac/publication/taxing-high-net-worth-individuals-lessons-from-the-uganda-revenue-authoritys-experience/>

<sup>16</sup> Action Aid's Progressive Taxation Briefings (2018), Personal Income Tax, retrieved from: <https://actionaid.org/sites/default/files/publications/Personal%20income%20tax.pdf>

<sup>17</sup> Tax Justice Alliance Uganda, CSO Position on The Tax Amendment Bills for FY 2020-21, retrieved from: <https://tjau.org/download/cso-position-on-the-tax-amendment-bills-for-fy-2020-21/>

## 1.2 Increase number of people paying Property taxes and make them more progressive

Property taxes are especially important to sustaining vulnerable local government budgets and services. In OECD countries, more than 2% of GDP is raised from property taxes, while in Africa it averages a mere 0.4%. Again, this discrepancy is a mainly a problem of weak administration and enforcement targeting the rich. Property markets across the country have been booming. But the high-value properties of wealthy individuals (which make up the great majority of taxable value), are regularly severely undervalued, omitted from tax rolls, or the tax bills simply go unpaid. Most Local Governments charged with this responsibility lack the finances and man power to conduct the property evaluation exercise. Recent experiences as documented by Action aid demonstrate that there is huge potential to collect far more revenue, in a more equitable manner, from property taxation in LICs. In Freetown, Sierra Leone for example, the City Council has recently added more than 50,000 properties to the register and introduced a more progressive system of valuation and tax rates. As a result, Freetown's potential revenue from property tax has increased more than five-fold, 70% of which will come from the top quarter of most valuable properties. In just the first two months of the new system's implementation, the city collected more than two thirds of what it had collected the entire previous year.<sup>18</sup>

There is substantial evidence that when governments are sufficiently motivated, they do have the capacity to identify such taxpayers and their properties, and to rapidly enhance collection. What is needed is a concerted administrative and political commitment. Therefore; -

- Government should ***strengthen its collaboration with development partners to improve her property evaluation capabilities*** like is already the case with USAID.<sup>19</sup>
- Further ***institutional capacity developments should be undertaken for district local governments*** to effectively mobilize property taxes. This could be achieved with collaboration from civil society.
- Furthermore, for us to ensure progressivity within our property tax system, government could ***consider establishing thresholds for payment or even introducing some exemptions for lower value properties that may belong to low income earners.***

---

<sup>18</sup> ICTD (2021), Pandora's box is open: What should lower-income countries do to tax the wealthy now? Retrieved from: <https://www.ictd.ac/blog/pandora-lower-income-countries-tax-wealthy-now/>

<sup>19</sup> USAID, Domestic Revenue Mobilization for Development Activity Quarterly Report (2021), retrieved from: [http://pdf.usaid.gov/pdf\\_docs/PA00XHF9.pdf](http://pdf.usaid.gov/pdf_docs/PA00XHF9.pdf)

### 1.3 Strengthen compliance for Capital Gains Taxes

Capital Gains Tax (CGT) is a tax on the increase in value of an asset when it is sold. The Income Tax Act imposes a Capital Gains Tax on income from transfers of “immovable property” and mineral and petroleum rights. It does not, however, apply this tax to economic rents like licenses and rights to telecommunication assets domestically. Taxation agreements have impeded the collection of this tax. More than 70 percent<sup>20</sup> of tax treaties with lower-income countries prohibited them from taxing gains made by foreign corporations when selling their shares from local investments. This has to a great extent drained the would be fiscal revenues from many of these countries. Uganda is not an exception.<sup>21</sup> Indeed, the country faced a major standoff with one of the major oil companies Heritage in 2011.<sup>22</sup> A detailed news report<sup>23</sup> published by the Daily Monitor indicated:

*“in 2010, Heritage Oil and Gas company Limited (HOGL) sold its 50 per cent stake in Uganda’s oil fields to Tullow Uganda Limited for \$1.5 Billion (about US\$5.5 trillion). Accordingly, Uganda, through Uganda Revenue Authority (URA) imposed a capital gains tax on the transaction amounting to \$404 million (about 1.4 trillion). This resulted into four years’ tax dispute in Uganda’s Tax Appeals Tribunal and a commercial court in London before Uganda won the battle. The panama papers report that HOGL had learnt about the eminent CGT liability before it was actually imposed. So it opted to re-domicile from Bahamas to Mauritius to dodge the tax liability in Uganda and partake of the benefit from the Mauritius-Uganda DTA, according to one of the leaked emails.”*

***Witnessing the impact that tax treaties can have on developing countries’ taxing rights like Uganda re-echoes therefore, the need to have these DTAs re negotiated/ terminated.***

- Furthermore, Government should ***strengthen and enforce beneficial ownership regulations*** to fight tax dodging through trusts and shell companies.
- Consider ***applying lower thresholds for capital gains taxes such that wealthier segments of society are targeted.***

<sup>20</sup> Action Aid’s Progressive Taxation Briefings (2018), Capital Gains Tax, retrieved from: [https://actionaid.org/sites/default/files/publications/capital\\_gains\\_tax.pdf](https://actionaid.org/sites/default/files/publications/capital_gains_tax.pdf)

<sup>21</sup> ISER (2022) Curb Illicit Financial Flows to Fund Quality Public Social Services in Uganda, <https://iser-uganda.org/publication/curb-illicit-financial-flows-to-fund-quality-public-social-services-in-uganda/>

<sup>22</sup> ISER (2022) Curb Illicit Financial Flows to Fund Quality Public Social Services in Uganda, <https://iser-uganda.org/publication/curb-illicit-financial-flows-to-fund-quality-public-social-services-in-uganda/>

<sup>23</sup> Daily Monitor (August 13, 2019), How Uganda is surrendering trillions in tax agreements to multinational firms, retrieved from: <https://acme-ug.org/wp-content/uploads/How-Uganda-is-surrendering-trillions-in-tax-agreements-to-multi-national-firms.pdf>

## 2. Introduce taxes targeting wealth

### 2.1 Establish annual wealth taxes

Whereas capital gains tax is imposed on earnings realized from the value of an asset after it is sold, a wealth tax is rather assessed annually on the value of the asset itself and is levied irrespective of the returns the assets generated. Taxes on the holding of wealth, known as comprehensive wealth taxes, are fairly rare around the world. They tax a person's 'net worth' (assets minus liabilities). These assets can include (but are not limited to) cash, bank deposits, shares, personal cars, assessed value of real property, pension plans and so forth.<sup>24</sup> In the USA for example, Senator Elizabeth Warren has proposed a 2% annual tax on households with a net worth of more than \$50 million, and a 3% tax on every dollar of net worth over \$1 billion. A family worth \$60 million, for instance, would owe \$200,000 in wealth tax on top of their income taxes.

ICTD argues<sup>25</sup> that the prospects of a wealth tax in lower-income countries (LICs) like Uganda are much less encouraging. Existing taxes on the wealthy are so ineffectively administered that revenue authorities in LICs often lack even the most basic information about the tax base for a potential wealth tax. This, along with weak administrative capacity, are severe constraints in LICs, which would only exacerbate the other challenges mentioned above. Without being able to adequately enforce it, they may end up eroding their credibility and citizens' trust, if the wealthy are simply able to escape the tax net yet again.

However, a wealth tax can be used to encourage more productive use of assets since wealth tax is levied regardless of what returns are made on the asset. It can also generate additional revenue or at minimum alleviate the tax burden from lower income classes. Moreover, for wealth tax to generate adequate revenues, tax exemptions must also be dealt with as this paper discusses further below.

The introduction of wealth tax would not discourage wealthy from living and investing in a country. Switzerland and Norway have successfully had wealth taxes for decades although they then have limited capital gains tax. They have more millionaires per capita than the G7 countries. Even those wealthy that moved away due to a wealth tax, their assets could still be taxed.

---

<sup>24</sup> Action Aid's Progressive Taxation Briefings (2018), Wealth Taxes, retrieved from: [https://actionaid.org/sites/default/files/-publications/wealth\\_taxes.pdf](https://actionaid.org/sites/default/files/-publications/wealth_taxes.pdf)

<sup>25</sup> ICTD (2021), Pandora's box is open: What should lower-income countries do to tax the wealthy now? Retrieved from: <https://www.ictd.ac/blog/pandora-lower-income-countries-tax-wealthy-now/>

- ***Government should start therefore preparations for comprehensive wealth taxes as they will be relevant revenue sources in the near future. Measures should be put in place to ensure mandatory declarations of assets and liabilities. South Africa for example, has already embarked on this.***<sup>26</sup>

## 2.2 Introduce Financial Transactions Taxes (FTTs) on large transactions

Financial transaction taxes (FTT) are levied on different kinds of financial transactions. It is a small tax applied each time the transaction in question has taken place. Some of these range from tax on trading financial instruments like derivatives (value or performance derived from the performance of an asset like a bond, currencies, interest rates); to large bank transactions. Taxes levied can run from as low as 0.0001 percent to upwards of 2 percent depending on the kind of transaction under consideration. FTTs already exist in some form in around 40 countries and in 2011 raised around US\$38 billion.<sup>27</sup> They provide an interesting avenue to tax high net-worth individuals as their resources flow through the financial system. Therefore, developing countries like Uganda that do not use such taxes yet could benefit from exploring them. Venezuela for example, introduced a 0.75 percent tax on large financial transactions in 2016. This was even later revised to 2 percent in 2018. The tax is payable on banking operations by tax payers designated as “special taxpayers.” Uganda’s neighbor, Kenya, in 2018 attempted to introduce a 0.05 percent tax on money transferred by banks, money transfer agencies and other financial service providers in amounts of more than \$5000 USD. The then Finance Minister, Henry Rotich, argued<sup>28</sup> that the tax would help finance critical programs particularly universal healthcare.<sup>29</sup>

A close examination of Uganda’s setting reveals that the country already has FTTs existing in some form. However because they universally apply, they become regressive. Part of these, is an excise duty on bank withdraws and most recently, the recent 0.5 % mobile money tax on all withdraws. Introduced in 2018, the mobile money tax lacks any thresholds and applies rather the same rate on all mobile transactions which then becomes regressive. This definitely, has driven up the cost of these transactions for the poor yet many remain unbanked. We recommend

---

<sup>26</sup> Action Aid’s Progressive Taxation Briefings (2018), Wealth Taxes, retrieved from: [https://actionaid.org/sites/default/files/publications/wealth\\_taxes.pdf](https://actionaid.org/sites/default/files/publications/wealth_taxes.pdf)

<sup>27</sup> POLITICO (March 12, 2012), Why critics are wrong about a financial-transaction tax, retrieved from: <https://www.politico.eu/article/why-critics-are-wrong-about-a-financial-transaction-tax/>

<sup>28</sup> <https://www.ft.com/content/c06aa88a-762d-11e8-b326-75a27d27ea5f>

<sup>29</sup> However, big banks while protecting their clients strongly resisted the move. They petitioned the High court of Kenya which sadly suspended the new tax on grounds of gaps in public consultation.

therefore that Government refine its approach to tax on FTTs. Specifically; -

- **Government considers applying an FTT on large bank transactions exceeding Ugx 20 million.**
- **Government conducts an analysis to ascertain the welfare costs of its current mobile money tax. This should be in comparison to potential revenue benefits from this tax.**

### 2.3 Collect income taxes from large digital multinationals

With the digital economy evolving much faster than anticipated and its share of the overall economy growing each year, it has become more important than ever to bring online multinationals into the tax bracket. For several years, these companies have continued to do business within the country without a single penny in taxes. This has left smaller local businesses shoring up much of the burden. Therefore, to achieve progressivity<sup>30</sup>, government should subject companies in this sector to the same taxes as other local companies and ensure that they pay a fair share, especially in relation to corporate income taxes. We do recognize that government has already imposed<sup>31</sup> value added taxes on supplies made by the same multinational starting financial year 2022/23 but these still, will be borne by end consumers rather than the companies.

To tax digital multinationals, URA will need to assess their domestic earnings. If this turns out complex, consideration should be made to apply special turnover taxes as an alternative. France offers an example. The French government, in 2019, opted for a 3 percent tax on gross international revenues for companies that derived value from its nationals. The tax applies to both French resident companies and non-resident companies with/without a French permanent establishment. All Worldwide revenues (i.e. gross revenues) received by the tax payer are multiplied by a percentage representative of the taxable services to be made or supplied in France. This percentage is evaluated for each service on an annual digital presence basis in France<sup>32</sup>.

Unlike a VAT tax, this digital services tax does not aim to place the burden on consumers and is born by the non-resident supply. It is a targeted measure on three types of

---

<sup>30</sup> Action Aid's Progressive Taxation Briefings (2018), Taxing the Digital Economy, retrieved from: <https://actionaid.org/sites/default/files/publications/Digital%20taxes%20progressive%20tax%20brief%20jan20.pdf>

<sup>31</sup> The Observer (June 20, 2022), URA to start charging VAT on Facebook, Netflix next month, retrieved from: <https://observer.ug/businessnews/74034-ura-to-start-charging-vat-on-facebook-netflix-next-month>

<sup>32</sup> BDO Global (May 27, 2021), France – Digital Service Tax, retrieved from: <https://www.bdo.global/en-gb/microsites/digital-services-taxation/countries-cit-map/france-digital-services-tax>

“digital activities:” online advertising, online intermediary activities and the sale of user data. In other words, the tax is designed for big tech firms like Facebook, Google and Amazon.

Kenya in 2020, imposed a 1.5 percent<sup>33</sup> tax on all income a foreign company earns in Kenya through the digital marketplace and doubled it to 3% in 2022.<sup>34</sup> It applies to foreign firms like Amazon, Netflix, Twitter etc.

OECD countries last year set a 15% minimum corporate tax for multinational enterprises to curtail the evading and shifting of tax to other jurisdictions.

### 3. Put an end to unnecessary tax incentives for the wealthy and corporate entities

Uganda’s wealthy make most of their earnings and fortunes in financial and insurance services; real estate; construction; manufacturing; high value farms and ranches; and the public sector. Many of the sectors however, to date remain the biggest beneficiaries of tax incentives from the Ugandan government. By so doing, government has over time foregone significant revenue collections from these individuals and corporations. This definitely has presented major implications for the country’s resource envelop and consequent ability to deliver public services. From our review of the Finance Ministry’s tax expenditures reports for 2019/20<sup>35</sup> , 2020/21<sup>36</sup> , and 2021/22<sup>37</sup> , we found that that the country had lost over US\$ 6.4 trillion in revenues owing to some of these incentives. This could almost double health financing.

Details are provided in the below table for a six-year period from 2016/17 to 2021/22

<sup>33</sup> BDO Global (2020), Finance Bill 2020: Analysis of its Impact on Business, retrieved from: <https://www.bdo-ea.com/getattachment/Insights/BDO-KENYA-FINANCE-BILL-2020-Analysis/Finance-Bill-2020-BDO-Analysis.pdf.aspx?lang=en-GB&ext=.pdf&disposition=attachment>

<sup>34</sup> Annie Njanja, Tech Firms Face Higher Levies as Kenya Plans to Double Digital Services Tax, April 13,2022, <https://techcrunch.com/2022/04/13/tech-firms-face-higher-levies-as-kenya-plans-to-double-digital-service-tax/>; Digital Service Tax In Kenya Doubles; Takes Effect Today, [https://theouut.com/digital-service-tax-in-kenya-doubles-takes-effect-today/?utm\\_source=rss&utm\\_medium=rss&utm\\_campaign=digital-service-tax-in-kenya-doubles-takes-effect-today](https://theouut.com/digital-service-tax-in-kenya-doubles-takes-effect-today/?utm_source=rss&utm_medium=rss&utm_campaign=digital-service-tax-in-kenya-doubles-takes-effect-today)

<sup>35</sup> Ministry of Finance, Planning and Economic Development, Tax Expenditures Report, FY 2019/20, Retrieved from: <https://www.finance.go.ug/publication/ministry-finance-planning-and-economic-development-tax-expenditures-report-fy-201920>

<sup>36</sup> Ministry of Finance, Planning and Economic Development, Tax Expenditures Report, FY 2020/21, Retrieved from: <https://www.finance.go.ug/publication/tax-expenditure-report-fy-202021>

<sup>37</sup> Ministry of Finance, Planning and Economic Development, Tax Expenditures Report, FY 2021/22, Retrieved from: <https://www.finance.go.ug/publication/uganda-tax-expenditure-report-fy-2021-22>

SECTOR	TAX INCENTIVE	LOST REVENUE OVER THE COURSE OF 5 YEARS (USHS, BN)
Public sector officials	Income tax exemption on employment income , other than salary, of a person employed as a member of parliament	682.7
Financial and insurance services	Income tax exemption on dividends paid by a publicly traded company	6.1
	Lower withholding tax rate for dividends paid by resident companies listed on the stock exchange to resident stockholders (its 10% rather than 15 %)	6.8
Farmers with high value commercial forests, animal ranches & plantations	Exemption of withholding tax on agricultural supplies	24.9 <sup>38</sup>
Manufacturing	Accelerated deductibility of initial allowance in respect of plant and machinery	622.8
	Accelerated deductibility of initial allowance in respect of industrial buildings	396.3
	Customs exemption for Goods imported under Manufacture under bond (MUB)	4,166.6
	VAT tax deferrals on importation of capital equipment (plant and machinery)	365
	Lower withholding tax rate on payment of service fees by mining and petroleum licensees	70.2
	Customs exemptions for Machinery, Spares & Inputs for Direct use in Oil, Gas & mineral exploration	50.3
<b>TOTAL</b>		<b>6,391.7</b>

Observing the significant revenue loss accrued from tax incentives, Uganda should eliminate tax exemptions and incentives. If they must exist: -

- Parliament to **compel the Finance Ministry to conduct a comprehensive cost-benefit analysis for all such incentives currently in place.** Currently, there is no such study in place.
- **Fast-track the development of the governance framework for tax expenditures.** The framework should clearly articulate exemption ceilings for any given financial year.

<sup>38</sup> Tax Justice Alliance Uganda, CSO Alternative Tax Proposals FY 2021/22, retrieved from: <https://tjau.org/download/cso-alternative-tax-proposals-fy-2021-22/>

## 4. Fight Illicit Financial Flows (IFFs)

Illicit Financial Flows are another channel by which the country has continued to lose tax revenues. IFFs generally refer to cross-border movements of capital associated with illegal activity. In some cases, the money is earned lawfully, but the tax due is evaded through failure to legally comply with a country's tax laws by falsification of tax returns. A report by ISER- Uganda indicates that the country is losing over USD 365 million<sup>39</sup> annually through this specific channel. The report observes that continued failure to address IFFs ultimately hurts the poor and vulnerable as social services end up increasingly privatized, posing problems of affordability and accessibility and heightening inequity. Commendably Parliament recently passed and the President approved seven pieces of legislation, which strengthen the legal framework to curb IFFs by strengthening government's ability to collect beneficial ownership information to curb tax evasion. Government should also; -

- Adopt best practices on transparency and automatic exchange of tax information and address capacity gaps.
- Terminate existing double tax agreements.
- Make use of beneficial ownership data collection and impose effective penalties for those who fail to provide accurate up to date data.

---

<sup>39</sup> ISER (2022), Curb Illicit Financial Flows to Fund Quality Public Social Services in Uganda, retrieved from: <https://www.iser-uganda.org/publications/reports/568-curb-illicit-financial-flows-to-fund-quality-public-social-services-in-uganda>

## USE TAXES TO FUND QUALITY PUBLIC SOCIAL SERVICES

It is also important that the post-collection phase is kept in mind. This definitely aims to see that major resource allocations go towards funding public services. Many times, revenues are generated but then end up spent wastefully and times used to de-risk private investment rather than invest in public social services that help everyone, particularly the poor and vulnerable. States are mandated to progressively realize rights by allocating “maximum available resources” towards them. To achieve this, measures like ring-fencing part of the funds deserve consideration. Other measures include setting spending targets and or floors that must be strictly adhered to by the appropriating authorities.

The above steps are already in place in several countries World Wide. Considering Uganda, the government has in 2021 agreed with the IMF on a number of spending floors that should be met over the course of a three-year loan program. These include ring fencing funds towards emergency projects for COVID – 19 response; a social spending floor (towards health, education, and social development) of US\$ 5,895 billion for 2021/22 financial year; and a floor on support to vulnerable households of US\$ 292 billion in the same year.<sup>40</sup> It must be said that these are way lower than what’s required, but remain a step in the right direction.

---

<sup>40</sup> International Monetary Fund (June 2021), IMF Country Report No. 21/141 Request for a Three-Year Arrangement Under the Extended Credit Facility—Press Release; Staff Report; And Statement by The Executive Director for Uganda, retrieved from: <https://www.imf.org/-/media/Files/Publications/CR/2021/English/1UGAEA2021001.ashx>

# CONCLUSION AND RECOMMENDATIONS

Progressive taxation presents valuable pathways for government to fund public services. This brief recommends a three prong strategy: strengthening compliance amongst high-net-worth-individuals for already existing taxes; introduction of new taxes for the wealthy; curbing tax exemptions and illicit financial flows.

## RECOMMENDATIONS

### 1. Strengthening compliance amongst high-net-worth-individuals for already existing taxes

- Government should adequately fund the Uganda Revenue Authority to undertake its function and enforce compliance by high-net worth individuals.
- Apply an alternative minimum tax for companies/tax payers that are declaring losses perpetually.
- Efforts should be taken to solicit further support from development partners to beef up administrative capacities.
- Strengthen and enforce beneficial ownership regulations
- Terminate existing double tax agreements.
- Strengthen measures to ensure mandatory declarations of assets and liabilities.
- Undertake massive tax education to raise interest amongst taxpayers into voluntary disclosures of tax information, especially the High Net Worth Individuals; enhance trust in government and respect for legal tax obligations.
- Government solicit support from several other development partners to improve her property evaluation capabilities like is already the case with USAID.<sup>41</sup>
- Further institutional capacity developments should be undertaken for district local governments to effectively mobilize property taxes.
- To ensure progressivity within our property tax system, government could consider establishing thresholds for payment or even introducing some exemptions for lower value properties that may belong to low income earners.
- Government Strengthens progressivity of the personal income tax structure by gradually limiting higher income earners' access to deductions, exemptions and allowances, and by adopting higher tax rates for higher income earners.
- Government conducts an analysis to ascertain the welfare costs of the mobile money tax. This should in comparison to the potential revenue benefits accrued from this tax.

---

<sup>41</sup> USAID, Domestic Revenue Mobilization for Development Activity Quarterly Report (2021), retrieved from: [http://pdf.usaid.gov/pdf\\_docs/PA00XHF9.pdf](http://pdf.usaid.gov/pdf_docs/PA00XHF9.pdf)

## **2. Introduce new taxes for the wealthy**

- Introduce a wealth tax.
- Tax large multinationals in the digital economy beyond VAT tax recently introduced.
- Apply a Financial Transactions Tax on large bank transactions.
- Apply lower thresholds for capital gains taxes to target wealthier segments of society.

## **3. Curb tax exemptions**

- Parliament to compel the Finance Ministry to conduct a comprehensive cost-benefit analysis for all such incentives currently in place. Currently, there is no such study in place.
- Fast-track the development of the governance framework for tax expenditures. The framework should clearly articulate exemption ceilings for any given financial year.

## **4. Curb illicit financial flows**

- Make use of beneficial ownership data collection and impose effective penalties for those who fail to provide accurate up to date data.
- Focus on value rather than merely asset recovery.
- Strengthen National Coordination mechanisms against IFFs.

## **5. Ensure tax revenues are used to finance quality public social services**

- Make use of ring-fencing measures.
- Strengthen existing social spending floors.

Initiative for Social and Economic Rights (ISER)

Plot 60 Valley Drive, Ministers' Village, Ntinda

P.O Box 73646, Kampala - Uganda

Email: [info@iser-uganda.org](mailto:info@iser-uganda.org) Tel: +256 414 581 041

Website: [www.iser-uganda.org](http://www.iser-uganda.org)



**INITIATIVE FOR SOCIAL AND ECONOMIC RIGHTS**



@ISERUganda



ISERUganda



ISER Uganda