PRESS STATEMENT- FOR IMMEDIATE RELEASE

CIVIL SOCIETY POSITION ON TAX HOLIDAYS IN UGANDA

A call to Action! End Harmful Tax Holidays in Uganda

Monday, 29th May 2017

We the members of the Tax Justice Alliance[1] including SEATINI [2]Uganda; Oxfam in Uganda; Civil Society Budget Advocacy Group (CSBAG); Uganda Debt Network(UDN); Action Aid Uganda (AAIU); Citizens Watch-Information Technology (CEW-IT); Women and Girl Child Development Association (WEGCDA); Water Governance Institute (WGI); Africa Freedom of Information Centre (AFIC); Inter University Tax Justice Forum (IUTJF); and Initiative for Social and Economic Rights (ISER) that are gathered here at SEATINI Uganda offices in Kampala this 29th May 2017 hereby present our concerns, observations and recommendations in respect to tax holidays in Uganda.

We recognise that Foreign Direct Investment (FDI) is critical in fostering economic growth and development. We are aware that tax incentives such a tax holidays and exemptions can promote investments in the country if they are transparent and equitably accessed, awarded and managed. We are also aware that tax incentives when mismanaged can distort internal market dynamics and bleed corruption.

However, an analysis conducted by the Tax Justice Alliance suggests that developing countries do not need to grant tax incentives, exemptions and/or holidays to attract Foreign Direct Investment (FDI), because the decision to invest by genuine multinational corporations is largely based on other parameters such as cost of labour and energy; presence of adequate infrastructure; and the country's overall investment climate. This has also been confirmed numerous times by IMF and the World Bank, which state that countries that are most successful in attracting foreign investors did not have to offer tax holidays, but rather invested in other important factors such as good quality infrastructure, low administrative costs of setting up and running businesses, political stability and predictable macro-economic policy that will encourage growth and expansion of

[1]The Tax Justice Alliance-Uganda is a loose coalition established in 2014, comprising of civil society organisations following the realization that it was important for civil society to come together and discuss and analyse tax policy and practice at local, national, regional and global level. The alliance envisions a fair, just and accountable tax system in Uganda.

[2] Southern and Eastern Africa, Trade Information and Negotiations Institute

indigenous investments. The same questions abound whether it is relevant and critical to offer tax holidays to attract FDI.

Our Concerns

Our concerns revolve around the presence of harmful tax holidays; foregone tax revenues as a result of the holidays/incentives; the discretionary powers accorded to the line minister to award tax incentives, exemptions and holidays; the lack of access or public disclosure of information on the incentives, exemptions and holidays awarded to corporations and individuals; and also the failure to routinely review the impact or benefits that are accruing from the respective incentive, exemptions and holidays. These concerns are triggered by the following cases cited in Table 1 below.

It must be noted that tax incentives/holiday/ exemptions equals to tax foregone that ultimately has to be paid by someone else; in this case it is the citizens that bear that cost.

Harmful Tax Holidays!

According to documents tabled before the parliamentary budget committee early this month (May 2017) government will in the current Financial Year 2016/17 spend Shs77bn to pay taxes for BIDCO Oil Refineries Ltd; Aya Investments Ltd; Steel and Tube; Cipla Quality Chemicals; Uganda Electricity Generation Company Ltd; and Uganda Electricity Transmission Company Ltd. This is as a result of tax exemptions/incentives given to these companies that have for so many years continued to drain the treasury and take away critical revenues that would have been useful in other sectors of the economy such as Trade, Water & Environment, and Education. There is no clear evidence of the benefits that such holidays/ incentives/ exemptions have accrued to the economy. Tax incentives, exemptions and/or holidays that outstrip their benefits are harmful to the economy.

Table 1: Enlisted institutions/individuals benefiting from tax holidays

No.	Enlisted Beneficiaries	Length, Expiry Date	Objective	Entitlements
Category a: Fixed term tax holidays				
1	BIDCO	25years, 30/06/30	Value addition[e]	All taxes[a]
2	Roofing Rolling Mills	10years,30/06/21	Boosting trade[d]	Corporation taxes
3	Cipla Quality Chemicals Limited	10years, 30/06/19	ARV Production	Corporation taxes
4	Steel & Tube Industries Limited	10years, 31/12/20	Boosting trade[d]	Corporation taxes
5	Vinci Coffee Company Ltd	10years, 01/05/24	Value addition[f]	Corp. tax & others[b]
6	Liao Shen Industrial Park	10years, 30/06/25	Na	Corp. tax, WHT & VAT
7	ASB Group of Companies	10years, 20/12/20	Na	Free-zone
8	National Cement Ug. Limited	10years, Pending app	Na	Corp. tax & VAT
Category b: Renewable tax holidays (annually)				
1	Aya Investment Limited	4months, 31/09/16	Boost Tourism	Import duty & VAT[c]
2	Southern Range Nyanza	1year, 30/06/17	Value addition[g]	Import duty & VAT[c]
3	Lydia Home Textile Ltd	1year, 30/06/17		Import duty & VAT[c]
4	Great Value Investment Ltd	1year, 30/06/17		Import duty & VAT[c]
5	Lily Benefit	1year, 30/06/17		Import duty & VAT[c]
6	Xiang Long Intern. (U) Ltd	1year, 30/06/17		Import duty & VAT[c]
7	Christex Garment Industry	1year, 30/06/17		Import duty & VAT[c]
8	Phoenix Logistics	1year, 30/06/17		Import duty & VAT
9	Intern. Coop. & Development	5year, 30/06/18	Service delivery[h]	Import duty & VAT
10	Emmaus Foundation	5year, 30/03/17	Service delivery[h]	Import duty & VAT
11	All Nations Christian Care	5year, 30/06/20	Service delivery[j]	Import duty & VAT
12	Building Tomorrow	5year, 30/06/18	Service delivery[j]	Import duty & VAT
13	AVSI Foundation	Na	Service delivery[h]	Na
Category c: Recently expired tax holidays				
1	Kingdom Kampala Limited	1year, 09/08/14	Boost Tourism[k]	Import duty & VAT
2	Sameer Agri. & Livestock	10years, 30/06/2016	Value addition[g]	Corporation taxes

Source: MoFPED Database, FY2011/12 – FY2016/17

Tax Revenues Forgone!

Uganda's current Tax-to-GDP ratio has stagnated between 12.5% to 13% over the past 5years, which accounts for an average annual tax generation of between 11.36 and 11.82 trillion shillings. In the financial year 2015/16, the revenue forgone in the form of tax holidays was UGX 999.8 billion that constituted 1.1% of GDP. Such revenues foregone each year collectively are a lot of money. Furthermore, in 2016, MPs exempted themselves from paying taxes on their allowances. This alone led to a loss of more than 53billion annually. We have also learnt that SACCOs have been exempted from paying taxes. In the period July 2016 to March 2017, URA collected shs9.2trilling, but registered a deficit of shs253billion, which would have been covered with a surplus by the foregone revenue in form of tax holidays or exemptions. From Table 1 above, it is clear that tax holidays have continued to deplete the national treasury for many years. Tax Holidays of more than 5years should not be awarded.

Discretionary Powers!

A number of legal and policy frameworks give discretionary powers to individuals to award tax exemptions. For example, Section 77(1)-(2) of the Public Finance Management Act (PFMA), 2015 accords the Minister to award tax exemptions and thereafter report and justify the award to parliament. This limits parliament exercising its oversight role before exemptions and incentives are awarded. Retrospective oversights such as these weaken parliamentary supervision and breeds impunity in executive public mandates.

Access to information!

As civil society, we are concerned that information on tax holidays remains a preserve of technocrats and some politicians. There is no routine review of the impact or benefits accruing from tax incentives, exemptions and holidays that justifies there continued existence.

Our Recommendations!

1. Parliament, with the assistance of the Auditor General, needs to conduct routine cost-benefit and opportunity-cost analyses of all tax exemption, incentives and holidays that have so far been awarded and the subsequent ones to justify their continued existence.
2. Review the investment regime to allow more scrutiny and due diligence of investors by Uganda Investment Authority.
3. Government should establish a multi-stakeholder monitoring panel including policy makers and civil society to evaluate the relevance of awarded tax incentives, exemptions and holidays that reports to parliament.
4. Government should put in place transparent processes and procedures for managing and granting tax exemptions. This will promote transparency and deter political patronage.

Conclusion

As civil society organisations, we commend parliament for the decision to reduce the duration of the Bujagali power project tax exemption from 15 to 5 years subject to review. Therefore, we are urging Government to critically evaluate tax incentives, exemptions and holidays so far awarded to justify their continued existence. The multiplicity of tax incentives, exemptions and holidays risks undermining government's ability to realise her annual revenue collection targets and unfairly transfers the burden to the taxpayers who are already overstretched.

FOR GOD AND OUR COUNTRY

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