

Strengthening the administration of taxes paid by High-Net-Worth Individuals, Uganda

Introduction

Tax compliance for individual taxpayers is generally low in Uganda, including amongst those with high levels of income and wealth, who could provide a significant source of revenue. Raising revenues from this group has in the past been constrained by their political influence; the under-utilisation of available data by tax authorities; and siloed operations and information-sharing across relevant institutions. This results in severe inequities in the distribution of the tax burden, with taxes revenues mainly being generated by taxes on goods and services, which are regressive in many cases, and the average employee shouldering the burden of personal income tax over their wealthy counterparts.

Background to the reforms

The Uganda Revenue Authority (URA) was established in 1991 as a semi-autonomous revenue agency charged with administering tax laws. During missions engaging the Government of Uganda in 2014 and 2015, the International Monetary Fund (IMF) raised concerns about high levels of non-compliance among large taxpayers and recommended that further work was done to better segment and engage these taxpayers. A Large Taxpayers Office already existed to manage tax issues with large taxpayers, but it was recommended that additional dedicated efforts were required to engage High-Net-Worth Individuals (HNWIs).

Technical overview of the reform programme

In an effort to respond to this recommendation and promote compliance with existing tax policies by wealthy individuals, the URA established a HNWI Unit in the Large Taxpayers Office in 2015, to oversee a dedicated effort to engage this group. In 2017, the HNWI unit was moved to the Public Sector Office (PSO) and merged with the Very Important Persons (VIPs) unit, which dealt with politicians and popular and prestigious figures in society, as the challenges in engaging these groups were seen as similar. Having the new Unit within the PSO also facilitated the identification of HNWIs using information from government contracts. The HNWI unit was initially staffed with six tax officials.

The HNWI Unit began its work by developing a formal set of criteria to identify HNWIs (supported by the International Centre for Tax and Development (ICTD)), thereby generating a list of key individuals it needed to engage. As a result of this work an initial list of 157 HNWIs were identified, alongside a group of 236 VIPs. The HNWI Unit also began to improve its collection of information on these individuals, to professionalise its approach to managing relation-

ships with HNWI's and develop an approach to undertaking taxpayer education. There were also initially high levels of support from senior management in the URA for the work of the Unit. For example, shortly before the 2016 parliamentary and presidential elections the URA requested that the Electoral Commission require a tax clearance certificate from the URA before accepting nominations from candidates for parliamentary seats, and this requirement was put into practice.

Summary of outcomes

The initial impact of the work of the HNWI Unit was to help facilitate a gradual increase in revenue generated from HNWI's, from 19.2 billion UGX in FY 2015/16 to 22.4 billion UGX in FY 2017/18, with the proportion of HNWI's initially targeted by the Unit filing tax returns increasing from 13% to 78%. However, over time the Unit's impact has declined, as HNWI's have engaged in complex and aggressive tax minimisation and avoidance schemes, involving substantially reducing their income and final tax liabilities in relation to income tax, VAT and land transactions. Nevertheless, filing activity has increased amongst some HNWI's and overall revenues increased marginally. It is also possible that the visibility of the work of the HNWI Unit has helped in some way promote tax morale amongst the general populace.

Key challenges and lessons learnt

Although the HNWI Unit has more effectively engaged HNWI's, efforts to substantially raise revenues from this group of individuals required a system-wide response from government, which did not emerge. Such a system wide approach was constrained by poor collaboration and information sharing across relevant government authorities. In addition to these issues, the work of the HNWI Unit was constrained by weak capacity, as by 2021 the HNWI Unit only had four officials (engaging nearly 400 individuals), who had received limited training, and it was unable to expand its operations to engage a wider group of individuals that had been identified. These capacity issues are indicative of the fact that political support for the Unit has not been sustained, and that its work would benefit from stronger high level political backing.



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