

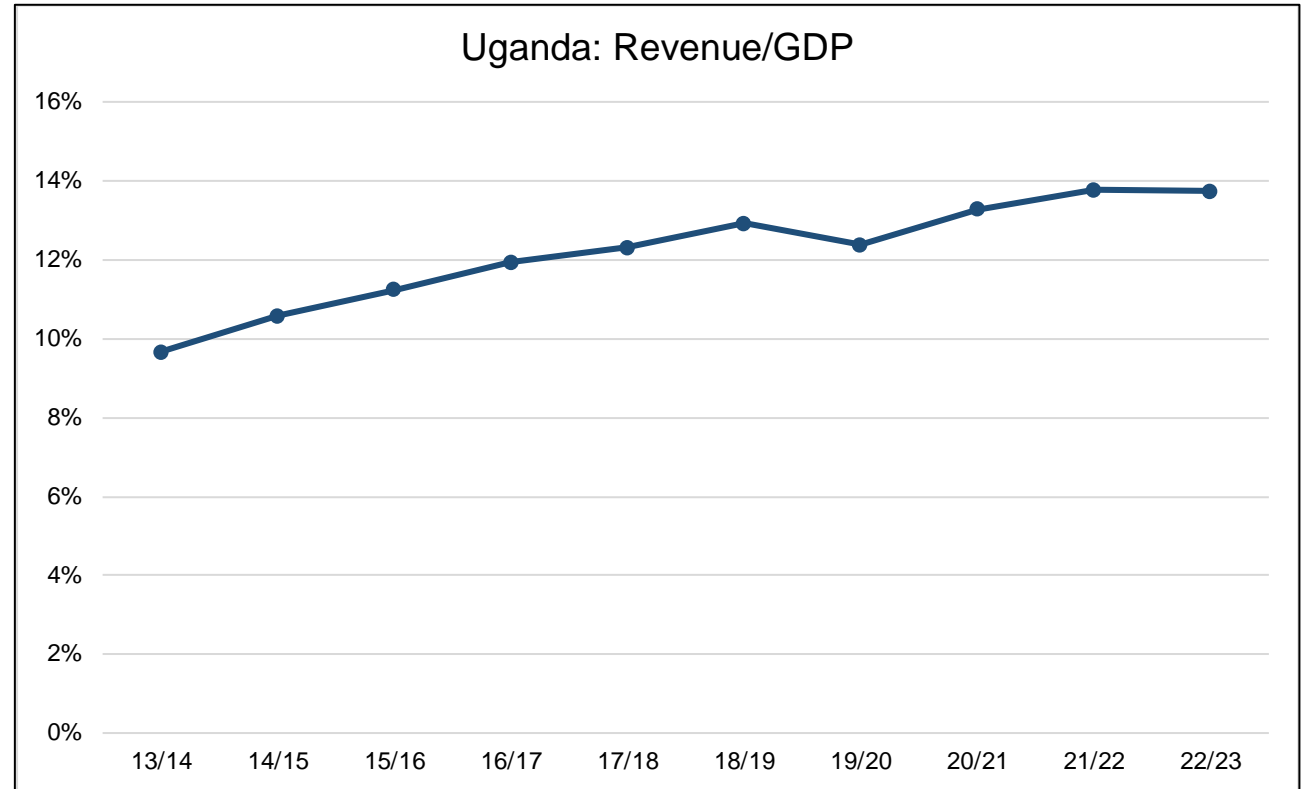
# Tax Expenditure Reporting: Experiences from Uganda

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# Background & Context I

- Revenue:GDP growing slowly
- How to improve revenue effort?
- TE has become an important area of scrutiny e.g. outlined in Uganda's MTRS (DRMS)
- Further scrutiny on TE from Parliament, development partners and other important stakeholders (private sector, tax practitioners).



# Background & Context II

- Legal basis for TE reporting found in the Constitution and Public Finance Management Act.
- Even outlines the format the report should take

## 152. Taxation.

(1) No tax shall be imposed except under the authority of an Act of Parliament.

(2) Where a law enacted under clause (1) of this article confers powers on any person or authority to waive or vary a tax imposed by that law, that person or authority shall report to Parliament periodically on the exercise of those powers, as shall be determined by law.

(3) Parliament shall make laws to establish tax tribunals for the purposes of settling tax disputes.

## 77. Report on exemption of tax.

(1) A person or an authority granted power to exempt the payment or to vary any tax under an Act of Parliament, shall in each financial year, on or before the 30th day of September, the 31st day of December, the 31st day of March and the 30th day of June, make a report on the matter, to Parliament.

70

## Act 3 *Public Finance Management Act* 2015

- (2) A report made under subsection (1) shall indicate—
- (a) the person exempted from the payment of tax;
  - (b) the reasons for the exemption;
  - (c) the amount of tax foregone by the Government; and
  - (d) the benefits to Government, from the exemption.

# TE Reporting in Uganda

- Initial TE reports (responding to Constitution / PFMA) were on 'discretionary' tax waivers, i.e. those granted by the Minister (via MoU / letter), where the activity is deemed to be of critical importance to economy and waivers on recommendation of the CG-URA (Sec. 40 of the TPCA)
  - Report given to Parliament, but not read out / made public.
- But no report of the TE provided for within the various tax laws.
- In 2019/20, work began on establishing a benchmark tax system
  - With support from the World Bank. Initially, proposed that it be defined according to the 'legal' approach
  - Comprehensive discussions between MoFPED & URA led to a number of changes; a more '**normative**' approach taken.

# TE Reporting in Uganda

- TaxDev advisors support the production of the annual TE report.
  - Work closely with URA, MoFPED in order to estimate revenue foregone.
- Estimates of revenue foregone under Customs, Income Tax etc. are fairly sound due to good data and comprehensive modelling.
- Challenges w/ modelling: VAT estimates are largely drawn from VAT charged on imports; more difficult to estimate revenue foregone on local supplies.
  - Recent IMF TA has been helpful

# TE “Political Economy” → Reform

- WB and IMF budget support is now linked to rationalisation of tax expenditures.
- IMF commitment to rationalise TE that would generate 0.2% of GDP in additional revenues.
  - Structural benchmark under the ECF
- In 2023 Income Tax Amendment Act, removed initial investment allowances and set in place a mechanism to limit carry forward of losses.
- Questions linger over taxation of agriculture. Huge contribution to economy, largely exempt from taxation. **How to think about reform?**
- Often Parliament does not agree with termination of some tax expenditures. Most recently the mindset has changed, which is why we succeeded with some reform last year.

Measures	Rationale	Deadline	S
Adopt a tax exemption rationalization plan applying criteria defined in the tax expenditure framework that would identify at least 0.1 percent of GDP in savings in FY 22/23 and 0.2 percent in subsequent years.	Revenue mobilization through a wider base	June 2022	N n

# TE: Monitoring & Evaluation

- Rationalisation plan: Provides a sequence of which TE to reform, annually, over the medium-term period.
- Major challenges:
  - How do we find a causal effect of the existing TE in order to ‘rationalise’ it?
  - Challenge: Other concurrent reforms that gov’t has been doing (e.g. licensing reforms to reduce cost of doing business, infrastructure developments [power, roads, ICT services]), provision of cheaper financing through Uganda Development Bank.
    - **So how do you isolate the benefits of the tax incentives...**

Thank you for listening