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Evaluating a CIT holiday in Uganda

Follow-up Technical Meeting on Tax Expenditures

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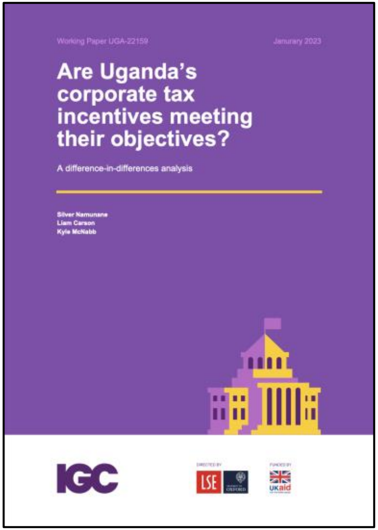
Example of TE evaluation (Uganda)

- Namunane, Carson & McNabb (2023)
- Attempt to understand the benefits of granting a 10-year CIT holiday to strategic investors
- Statutory tax holiday offered in the Income Tax Act (ITA)
- **Difference-in-differences (DiD) analysis**

Read online here.



Example of TE evaluation (Uganda)

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- 10-year tax income tax holiday offered on the income of qualifying investments in priority sectors, subject to a number of criteria
- Available to new investments by either new or existing firms.

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Example of TE evaluation (Uganda)

<table>
<tr><th>Year</th><th>Qualifying Investment</th><th>LRM Requirement</th><th>Local Employment Requirement</th><th>Qualifying Sectors Added</th></tr>
<tr><td>2018/19</td><td>Foreigners - USD 15m
Citizens – USD 5m</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2019/20</td><td>Foreigners - USD 10m
Citizens – USD 1m</td><td>Source 50% of raw materials locally</td><td>-</td><td>Agro-processing
Manufacturers or assemblers of medical appliances & sundries, pharmaceuticals, building materials, vehicles & HH appliances
Manufacturers of furniture, pulp and paper
Printers & publishers of instructional materials
Establishers or operators of VTIs
Logistics, warehousing, ICT & comm. farming</td></tr>
<tr><td>2020/21</td><td>Foreigners - USD 10m
Citizens (Kampala) – USD 0.30m
Citizens (Upcountry) – USD 0.15m</td><td rowspan="2">Source 70% of raw materials locally</td><td rowspan="2">Citizens account for 70% of employees.
Citizens account for 70% of wage bill.</td><td>Manufacturers of tyres, footwear, mattresses and toothpaste</td></tr>
<tr><td>2021/22</td><td>Foreigners - USD 10m
Citizens (Kampala) – USD 0.30m
Citizens (Upcountry) – USD 0.15m</td><td>Manufacturers of chemicals for agricultural and industrial use
Manufacturers of textiles, glassware, leather products, industrial machinery, electrical equipment, sanitary pads and diapers</td></tr>
</table>

Example of TE evaluation (Uganda)

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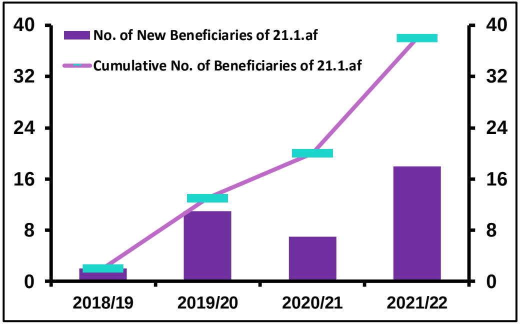
- Number of new beneficiaries since introduction has risen from 2 to 18 p/year (2021/22)
- The increase may have been driven by
  - Expansion of qualifying sectors
  - Firms having adequate time to raise investment to meet qualifying threshold
  - Lowering of thresholds for local investors
- Recent patterns suggest that further sharp rise in beneficiaries may lie in store
  - Evidence that this is true



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Example of TE evaluation (Uganda)

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- **(Implicit) Objective** of this incentive **is to encourage/attract investment**. Is this being met?
  - Our results suggest that this is difficult to assess.
    - ~50% beneficiaries are existing firms.
    - Whilst they did meet the investment threshold, what we really want to know is… (e.g.)
      - **Would they have made the investment anyway?**
      - **Did the holiday shift the timing?**

Example of TE evaluation (Uganda)

- Technique: Difference–in–Difference (DiD) is used to estimate the economic impact of the introduction of the investment incentive on three outcomes, namely
    i. Investment,
    ii. Sales revenues (turnover) &
    iii. Total wage bill

- We attempt to measure the changes in these outcomes for beneficiaries (“treatment”) relative to non-beneficiaries (“control”).
- Data is from firm-level CIT returns (URA).

Example of TE evaluation (Uganda)

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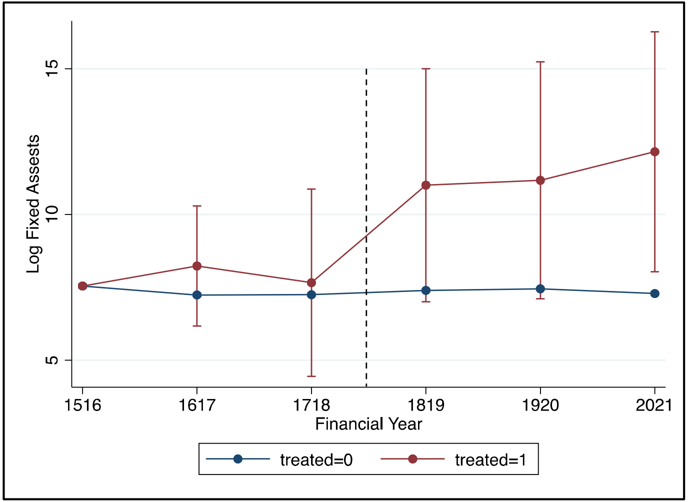
- **Fixed Assets**
- **Beneficiaries**
- **Non - beneficiaries**



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Example of TE evaluation (Uganda)

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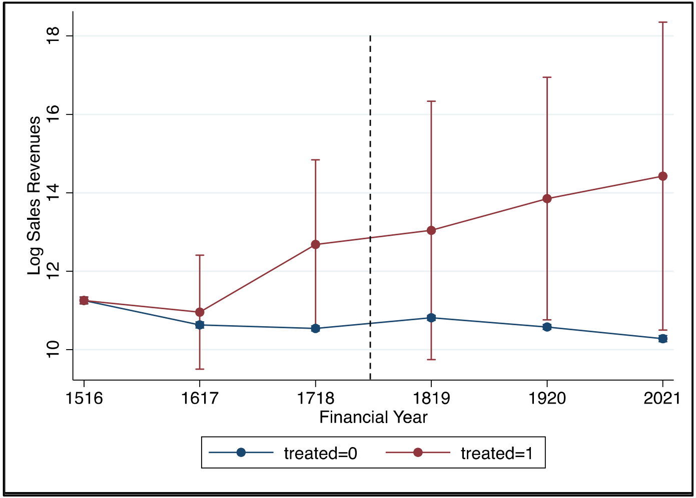
- **Sales Revenues**
- **Beneficiaries**
- **Non - beneficiaries**



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Example of TE evaluation (Uganda)

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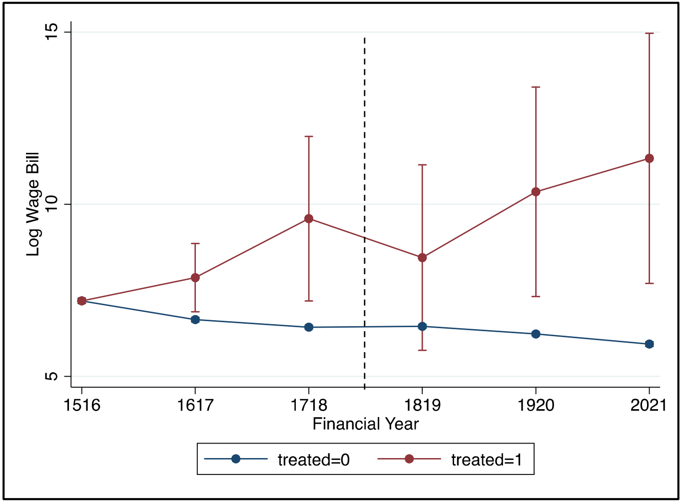
- **Wage Bill**
- **Beneficiaries**
- **Non - beneficiaries**



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Example of evaluation from Uganda

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- There is evidence that beneficiary firms are structurally different from non-beneficiaries. (larger, etc.).
  - Makes comparison difficult
- Results not statistically significant for sales and wage bill.

- D-i-D analysis found that beneficiaries invested more (fairly obvious result), but didn’t have higher sales, pay higher wages *vis-à-vis* control group of non-beneficiaries
  - So, <u>little evidence of positive spillovers</u>.
  - But, difficult at this stage to quantify whether there are net benefits to society

Example of evaluation from Uganda

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- Used CIT returns. Not sufficient to evaluate. Qualitative and other supporting info would be valuable to help decision-making.
- Difficulties in evaluating a 10-year holiday after just a few years (time pressures!)
  - Net benefits (spillovers) might only be apparent after a longer period
  - Disruption to economy due to covid
- We can't for certain answer the question of whether the investments would have happened anyway…
- Arguably, descriptive / supporting evidence was the most powerful finding.

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