

Evaluating a CIT holiday in Uganda

Follow-up Technical Meeting on Tax
Expenditures

Kyle McNabb

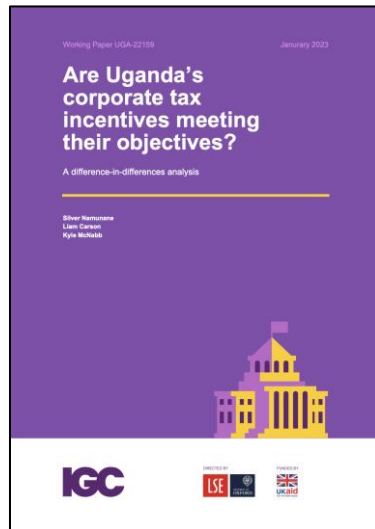
May 2024

#TaxDev

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)

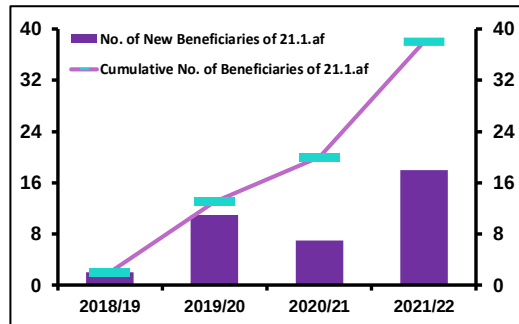
- 10-year tax income tax holiday offered on the income of qualifying investments in priority sectors, subject to a number of criteria
- Available to new investments by either new or existing firms.

Example of TE evaluation (Uganda)

Year	Qualifying Investment	LRM Requirement	Local Employment Requirement	Qualifying Sectors Added
2018/19	Foreigners - USD 15m Citizens – USD 5m	-	-	-
2019/20	Foreigners - USD 10m Citizens – USD 1m	Source 50% of raw materials locally	-	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
2020/21	Foreigners - USD 10m Citizens (Kampala) – USD 0.30m Citizens (Upcountry) – USD 0.15m	Source 70% of raw materials locally	Citizens account for 70% of employees.	Manufacturers of tyres, footwear, mattresses and toothpaste
2021/22	Foreigners - USD 10m Citizens (Kampala) – USD 0.30m Citizens (Upcountry) – USD 0.15m		Citizens account for 70% of wage bill.	Manufacturers of chemicals for agricultural and industrial use Manufacturers of textiles, glassware, leather products, industrial machinery, electrical equipment, sanitary pads and diapers

Example of TE evaluation (Uganda)

- 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



Example of TE evaluation (Uganda)

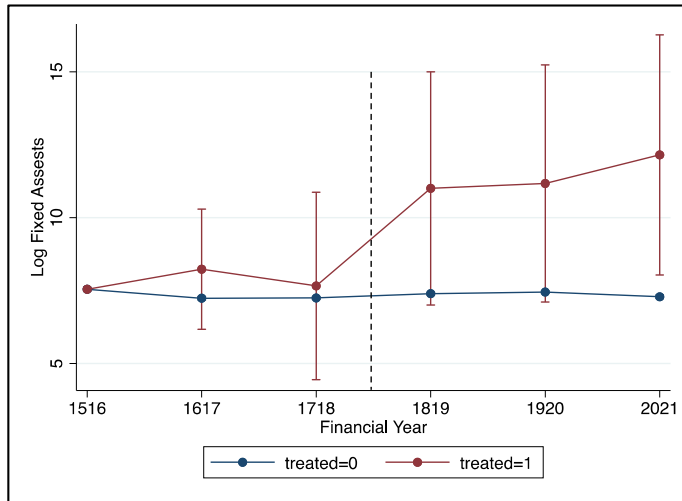
- **(Implicit) Objective** of this incentive **is to encourage/attract investment**. **Is this being met?**
 - Our results suggest that this is difficult to assess.
 - ~50% beneficiaries are existing firms.
 - Whilst they did meet the investment threshold, what we really want to know is... (e.g.)
 -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

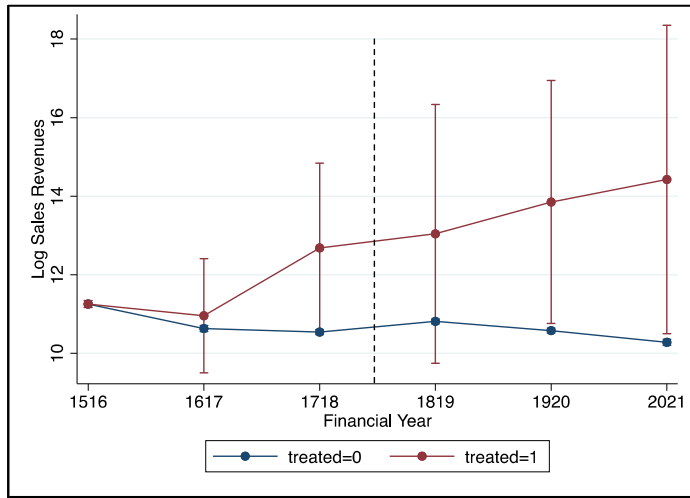
Example of TE evaluation (Uganda)

- Fixed Assets
- Beneficiaries
- Non - beneficiaries



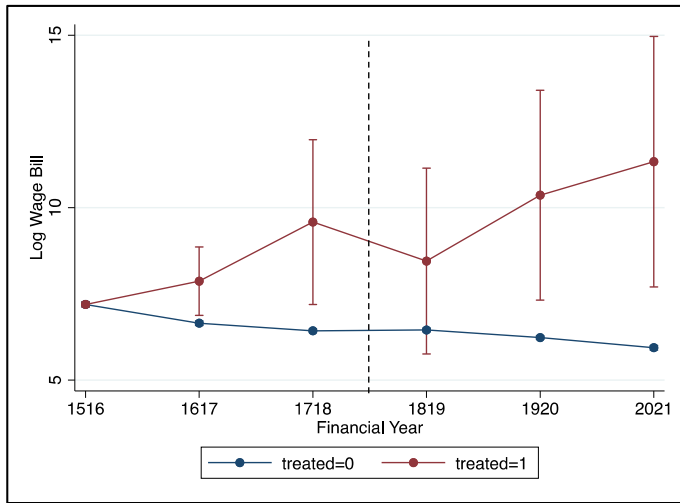
Example of TE evaluation (Uganda)

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



Example of TE evaluation (Uganda)

- Wage Bill
- Beneficiaries
- Non - beneficiaries



Example of evaluation from Uganda

- 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, little evidence of positive spillovers.
 - But, difficult at this stage to quantify whether there are net benefits to society

Example of evaluation from Uganda

- 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.

The Centre for Tax Analysis in Developing
Countries (TaxDev)
LinkedIn: @taxdev
Twitter: #TaxDev

www.taxdev.org

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

The Overseas Development Institute
203 Blackfriars Road
London
SE1 8NJ

www.odi.org

TaxDev