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COVID-19: OPPORTUNITY TO THRIVE:

DOMESTIC REVENUE IN THE POST COVID ERA

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ABBREVIATIONS AND ACRONYMS

ATAF	African Tax Administrators Forum
CG	Commissioner General
CGT	Capital Gains Tax
CIT	Corporate Income Tax
COVID 19	Coronavirus Disease of 2019
DRMS	Domestic Revenue Mobilisation Strategy
GDP	Gross Domestic Product
IMF	International Monetary Fund
LED	Local Excise Duty
NPA	National Planning Authority
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
PIT	Personal Income Tax
PwC	PricewaterhouseCoopers
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
USD	United States Dollars
VAT	Value Added Tax
VDP	Voluntary Disclosure Program
WHT	Withholding Tax

1. INTRODUCTION

Uganda has a GDP of UGX 138 trillion (USD 37.2 billion) currently has a tax to GDP ratio of 14.3%.[1] This is below the maximum tax revenue potential for countries in the sub-Saharan region which is estimated to average 19.6% of GDP.[2] This limited tax effort is due to a number of factors including the large informal sector which is estimated to account for 52.4% of the GDP, widespread tax evasion and administrative weaknesses in the country's tax body, Uganda Revenue Authority (URA).[3]

The third National Development Plan covering the period 2020/21 – 2024/25 states that the country's revenue strategy over that period will focus on improving compliance and efficiency in tax revenue collections through implementation of the Domestic Revenue Mobilization Strategy (DRMS).[4] The DRMS which was launched on 20th February 2020 proposes to reignite the fiscal-social contract to ensure that Ugandans perceive a closer link between taxes paid and public services obtained and to have confidence that corruption in government has been tackled effectively. The DRMS also proposes to address weaknesses in Value Added Tax (VAT), Corporate Income Tax (CIT) and Personal Income Tax (PIT) and in revenue administration including governance issues in the URA, human resource challenges and ICT infrastructure.[5]

It is in this environment that the highly infectious Coronavirus disease 2019 (COVID-19) now ravaging the world has struck. In mid-March 2020 the Government of Uganda instituted a series of measures designed to limit its spread. Religious gatherings were suspended, education institutions were shutdown, all cross border travel save for cargo was suspended, all movement by public and private passenger cars was ordered to cease and non-essential businesses and

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[1] 'Budget Speech Financial Year 2020/21: Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery', June (2020) https://www.finance.go.ug/sites/default/files/Publications/FY%202020-21%20Budget%20Speech_Final.pdf

[2] The World Bank, 'Mobilizing Tax Resources to Boost Growth and Prosperity in Sub-Saharan Africa' 9 September (2019) https://www.worldbank.org/en/results/2019/09/09/mobilizing-tax-resources-to-boost-growth-and-prosperity-in-sub-saharan-africa

[3] Doris Akol, 'Informal sector is threat to tax revenue collection' *The Observer* 13 May (2015) https://www.observer.ug/viewpoint/37810-informal-sector-is-threat-to-tax-revenue-collection;

[4] National Planning Authority, *Third National Development Plan (NDPIII) 2020/21 – 2024/25*, January (2019) http://www.npa.go.ug/wp-content/uploads/2020/08/NDPIII-Finale_Compressed.pdf

[5] MoFPED, *Domestic Revenue Mobilisation Strategy for Uganda 2019/20 – 2023/24* October (2019)

government agencies were ordered to close down with a 7pm-6:30 am countrywide curfew imposed.[6] While many of these measures have since been eased, some of them have remained in force in order to curb the spread of the disease. As at 15th October 2020, Uganda has had 10,117 confirmed COVID 19 cases, 6,725 recoveries and 96 deaths.[7]

2. COVID-19/ LOCKDOWN IMPACT ON THE ECONOMY

COVID-19 along with the lockdown measures implemented to limit its spread have had a significant impact on the global economy in general and the Ugandan economy has similarly been impacted.

One of the hardest hit sectors is tourism which contributes approximately 7.7% of GDP and over USD 1.6 billion in foreign exchange.[8] The tourism sector is estimated to contribute more than 6% of total employment. In 2017 alone, tourism employed 605,500 Ugandans. The stoppage of airline travels, and imposition of quarantines on inbound travellers across the globe resulted in a significant plummeting of the number of tourist arrivals. The sudden drop in occupancy rates has forced many large hotels to lay off thousands of personnel. Similarly, accommodation in national parks has dropped drastically.[9] The local communities living adjacent to tourist sites and hotels also greatly depend on tourism for their livelihoods. The sudden closure of this source of livelihood has had adverse consequences for the livelihoods of the concerned families.[10]

Related to this, the floriculture sector through the Uganda Flower Exporters Association reported that 90% of the export market had vanished and prices had fallen by 50%. Flower farms laid off 30% of their workers.[11] A PwC study noted that Ugandan businesses are suffering from lost revenue and disrupted supply

[6] H.E. Yoweri Kaguta Museveni, 'President Museveni's 8th Address on COVID 19 and Lockdown Relaxation' *Media Centre* 22 June 2020 https://www.mediacentre.go.ug/media/president-musevenis-8th-address-covid-19-and-lockdown-relaxation

[7] https://www.health.go.ug/covid/

[8] UNDP, *COVID-19 Scenarios for short, medium, and longer-term socioeconomic impacts*, April (2020); NPA, 'NPA Position Paper on the Implications of Coronavirus on Uganda's Economy and the Possible Interventions' (2020) http://www.npa.go.ug/wp-content/uploads/2020/04/FINAL-NPA-CoronaVirus-Position-Paper_2142020.pdf

[9] Ibid

[10] Adam Mugume *et al*, 'The COVID-19 Pandemic: Socio Economic impact in Uganda' BoU Working Paper No. 20/2020 June (2020) https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/research/BoUworkingPapers/research/BouWorkingPapers/2020/The-COVID-19-Pandemic-Socio-economic-impact-in-Uganda.pdf

[11] 'Uganda Flower Exports drop by 90%, prices dip by half' *Floral Daily* 27 March 2020 https://www.floraldaily.com/article/9203472/uganda-flower-exports-drop-by-90-prices-dip-by-half/

chains due to the global nature of the crisis and in particular China's factory shutdowns.[12] PwC also noted that China is a lead investor in Uganda contributing up to 45% of all FDI into Uganda. The impact of the virus on China is inevitably having an impact on the Ugandan economy.[13] SMEs which constitute 13% of Uganda's economy deal mostly with China.[14]

The education sector which contributes about 5% of GDP and employs close one million teachers and instructors has about 20 million Ugandans between the aged of 3 and 24 years who are enrolled in different education centres.[15] These teachers and students have not been in school. An EPRC study found that 3.8 million workers will lose their jobs temporarily while 0.6 million will lose their employment permanently. Over 75% of employees projected to lose their jobs permanently are from the service sector and mainly from Kampala.[16]

According to the Uganda Bureau of Statistics, (UBOS), most sectors of the economy will suffer the impact of the lockdown and other COVID relief measures for the medium to long term.[17] Sectors such as tourism, accommodation and food service, manufacturing, Micro, Small, and Medium Enterprises (MSMEs) and construction are expected to suffer effects for the long term.[18] The National Planning Authority (NPA) has noted that the anticipated economic growth rate will be negatively affected by COVID and this should be accounted for. The Ministry of Finance Planning and Economic Development (MoFPED) estimates that about 2.6 million Ugandans will be pushed into poverty by the effects of the pandemic.[19]

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[12] 'Impact of the Corona virus on the Uganda Economy' *PwC* https://www.pwc.com/ug/en/press-room/impact-of-the-corona-virus-on-the-uganda-economy.html

[13] Ibid

[14] NPA, 'NPA Position Paper on the Implications of Coronavirus on Uganda's Economy and the Possible Interventions' (2020) http://www.npa.go.ug/wp-content/uploads/2020/04/FINAL-NPA-CoronaVirus-Position-Paper_2142020.pdf

[15] Adam Mugume *et al*, 'The COVID-19 Pandemic: Socio Economic impact in Uganda' BoU Working Paper No. 20/2020 June (2020) https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/research/BoUworkingPapers/research/BouWorkingPapers/2020/The-COVID-19-Pandemic-Socio-economic-impact-in-Uganda.pdf

[16] Corti Paul Lakuma *et al*, 'How has the COVID-19 pandemic impacted Ugandan businesses? Results from a business climate survey' EPRC Uganda Business Climate Index Special Issue No. 01 May, (2020) https://eprcug.org/research/education/652-how-has-the-covid-19-pandemic-impacted-ugandan-businesses-results-from-a-business-climate-survey

[17] Chris Ndatira Mukiza, 'Impact of COVID-19 on Key Economic Activities in Uganda and Suggested Policy Interventions' UBOS https://www.ubos.org/wp-content/uploads/2020/06/Impact-of-COVID-2019-On-the-Ugandan-Economy692020.pdf

[18] Ibid

[19] Adam Mugume *et al*, 'The COVID-19 Pandemic: Socio Economic impact in Uganda' BoU Working Paper No. 20/2020 June (2020)

3. RECOMMENDED TAX MEASURES AROUND THE GLOBE

A number of tax measures to deal with the COVID crisis were recommended by various international bodies.

3.1. INTERNATIONAL MONETARY FUND (IMF)

The IMF recommended that revenue administrations should nominate and implement a Crisis Management Group (CMG) and which will act as liaison between the revenue administration and the Ministry of Finance to guide on policy decisions and to lead the implementation of COVID-19 measures in the revenue administration.[20] IMF also recommended that essential revenue administration activities be identified including issuance of refunds and trade facilitation. The management team should continuously re-evaluate the evolving situation and adjust their actions accordingly as the crisis progresses. IMF also recommended identifying key taxpayer segments for revenue and decide on service and compliance measures to sustain revenue stream and increasing the capacity of supporting processes such as information technology that are necessary to enable the delivery of essential services.[21]

3.2. ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

The OECD[22] noted four policy goals to be adopted:

(1) Policies to support efforts to reduce the health crisis;
(2) Policies to limit the adverse effects from containment and mitigation measures on households and businesses;
(3) Policies to support economic recovery and ensure that the recovery from the crisis is as swift as possible;
(4) Policies to strengthen the resilience of economic and health systems.

OECD noted that many businesses are experiencing a sharp decline in liquidity, hindering their ability to pay for wages, rents, intermediate goods, interest on

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https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/research/BoUworkingPapers/research/BouWorkingPapers/2020/The-COVID-19-Pandemic-Socio-economic-impact-in-Uganda.pdf

[20] IMF, 'Business Continuity for Revenue Administrations' *Fiscal Affairs* Special Series on Fiscal Policies to Respond to COVID-19 https://www.imf.org/~/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-business-continuity-for-revenue-administrations.ashx?la=en

[21] Ibid

[22] OECD, *Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience*, 19 May (2020) https://read.oecd-ilibrary.org/view/?ref=128_128575-o6raktc0aa&title=Tax-and-Fiscal-Policy-in-Response-to-the-Coronavirus-Crisis

debt, and taxes. It recommended focusing on alleviating cash flow difficulties to help avoid escalating problems such as the laying-off of workers, temporary inability to pay suppliers or creditors, and, in the worst cases, closure or bankruptcy. It recommended deferral of payment of taxes as a form of cash-flow support.[23]

OECD also recommended action to reduce the tax burden of businesses including waiver of social security contributions, property taxes and presumptive taxes for small businesses. OECD recommended preferential tax treatment to stimulate health-related spending and investment, including measures to safeguard the deduction of input VAT on items donated by businesses and the full or increased deductibility of donations made by enterprises or households to healthcare institutions.[24]

3.3. AFRICAN TAX ADMINISTRATION FORUM (ATAF)

ATAF noted that in assessing the potential impact of COVID 19, revenue authorities ought to assess the extent to which the pandemic may reduce their ability to function effectively. ATAF also recommended that all tax operations like registration, filing and payments should be conducted through the digital channels such that physical interactions with taxpayers should be limited to the barest minimum. ATAF also advised that the deadline for filing tax returns should be extended to accommodate the disruption taxpayers may be facing due to the pandemic. Specifically, ATAF advised that all returns to be filed between March and June be filed on or before August and all monthly returns be filed quarterly till a certain date.[25]

ATAF recommended that revenue authorities consider granting taxpayers flexible payment plans like monthly or bimonthly instalment payments over a certain period beyond the extant due date to ease the some of the economic burden the pandemic may cause for the taxpayers.[26]

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[23] Ibid
[24] Ibid
[25] ATAF, *Suggested COVID-19 Measures for Revenue Authorities*, April 08, 2020, Pretoria, South Africa https://irp-cdn.multiscreensite.com/a521d626/files/uploaded/COVID-19%20Measures%20Final%20English.pdf
[26] Ibid

Finally, ATAF recommended the suspension of penalties and interest and the suspension of other compliance activities.[27]

4. UGANDAN GOVERNMENT TAX MEASURES RESPONDING TO COVID 19

4.1. URA RESPONSE

On 25th March 2020, the URA issued a public notice with business continuity measures during the COVID-19 lockdown. According to the notice, taxpayers whose accounting date is in September and are unable to file corporation tax returns by 31st March 2020, were granted a two-month extension up to May 2020 to file their final returns. In respect to Value Added Tax, Pay As You Earn (PAYE), Local Excise Duty (LED), Withholding Tax (WHT) and Taxes under Lottery & Gaming, returns due for March were the filing date for March returns was extended from 15th April to 30th April 2020. The notice also provided for remitting of penalties for late filing of returns that were due on 15th March 2020 if filed by 31st March 2020, deferment and rescheduling of payments under Memoranda of Understanding due in March and April, and remittance of interest and penalty for taxpayers who make voluntary disclosure during March and April, by payment of the principal tax only.

Significantly, this notice did not defer the due date of payment of any tax. It only deferred the due date of filing returns. This is because Section 19 of the Tax Procedures Code Act, 2014 (TPC) only allows the Commissioner General (CG) to extend the due date of filing. There is no law that permits the CG to extend the due date of payment. This therefore raises the question of interest running for late payment of the amounts due.

On 7th May 2020 URA issued another Public Notice allowing further extension for filing of Returns due on 15th of May to be done on 31st of May and reiterating the use of payment in instalments. The question of interest running for late payment remained unanswered.

URA's emphasis on the use of the voluntary disclosure program (VDP) is welcome. VDPs have been acknowledged as a helpful compliance tool around the world and given Uganda's challenges with non-compliance, this is a welcome effort. The

[27] Ibid

program, however, needs to be clarified more. URA's Public Notices issued on July 17th and 5th October 2020 clarifying the application of the program have been welcome moves. However, it should be remembered that this is an environment in which there is little trust between the people and the Government. URA needs to publicise the results of the VDP to encourage more people to take advantage of it.

URA's emphasis on the use of digital tools as part of its COVID response has also been noted. TIN Applications can now be concluded online with relevant documents sent to the URA email services@ura.go.ug. But there is still a problem of the challenge of delays. It is necessary for the vetting process to be done speedily so that taxpayers can receive TINs in one day. The roll out of digital support tools like the Digital Tax Stamps and the Electronic Fiscal Receipting and Invoicing System (EFRIS) is also welcome. This was in the process for some years but coming in force now can be seen as a support measure for COVID as it serves to ease reporting for the taxpayer and reviewing of data by URA. Access to real-time information for the taxman will make their jobs easier. However, there is great need for sensitisation to people for the public to buy into these measures. Many still view them with suspicion and are concerned that they may in fact raise the cost of doing business.

4.2. MINISTRY OF FINANCE RESPONSE

In June 2020 the Minister of Finance unveiled a UGX 45 trillion budget under the theme "Stimulating the economy to safeguard livelihoods, jobs, business and industrial recovery".[28] In his Budget Speech, the Minister Committed to:

(1) Defer payment of Corporate Income Tax or Presumptive tax for Corporations and Small, Medium Enterprises (SMEs);
(2) Defer payment of PAYE by sectors affected; and
(3) Waive interest on tax arrears;
(4) Provide for Tax Deductibility of Donations for the Corona Virus Response.

Tax bills had already been presented to Parliament but had not yet been passed. In response to the COVID crisis, the Finance Committee of Parliament recommended changes to the Stamp Duty (Amendment) Bill 2020. Stamp Duty is

[28] 'Budget Speech Financial Year 2020/21: Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery', June (2020) https://www.finance.go.ug/sites/default/files/Publications/FY%202020-21%20Budget%20Speech_Final.pdf

a duty payable on every document that confers any right or liability upon being created, transferred, limited, extended, extinguished or recorded. Stamp Duty has traditionally been payable on loan instruments such as chattels securities and mortgages. The Finance Committee recommended that stamp duty on various loan instruments such as debentures and equitable mortgages be reduced to NIL in order to ease access to credit. This was adopted by Parliament. However, key loan instruments like mortgages (different from equitable mortgages) and chattels securities still have to pay stamp duty. Considering that most debentures are usually accompanied by mortgages or chattels securities, it would appear that this amendment is of little value.

The Value Added Tax (Amendment) Bill, 2020 exempted among other things the supply of processed milk and the supply of locally developed computer software, its maintenance and software licenses. These measures support the agricultural sector and the ICT sector which have been critical support sectors throughout COVID. The provision also

The Income Tax Amendment Bill, No. 1 of 2020 and the Excise Duty Amendment Bill No 1 of 2020 were referred back to Parliament by the President and are now being reconsidered.

The Government introduced the following Bills specifically addressing the COVID 19 crisis.

The Income Tax Amendment Bill, No. 2 of 2020 contains one provision amending section 34 of the Income Tax Act to provide that a person is allowed a deduction for a gift made to the Government during a year of income for purposes of facilitating the Government in the prevention, treatment and containment of the COVID-19 pandemic. This is necessary because the Income Tax Act only provides for gifts made to exempt organisations as being deductible. The COVID taskforce was not an exempt organisation therefore deductions could not be claimed for gifts made there. This amendment is in line with international recommendations specifically those made by the OECD.

The VAT (Amendment) Bill, No. 2 of 2020 provides for VAT exemption on materials used in containing COVID 19 such as face masks, motorized fumigation pumps, oxygen cylinders, biohazard bags and disinfectants. This is a welcome measure as it will lower the costs of these items on the market. It should be remembered that the health sector already receives some preferential VAT treatment such as VAT exemption on construction material and construction and design services for a person who manufactures or assembles medical appliances whose minimum investment capital is ten million United States Dollars in the case a foreigner or one million United States Dollars in case of a citizen.[29] VAT exemption for a hospital facility developer whose investment capital is at least five million United States Dollars and who develops a hospital at the level of a national referral hospital with capacity to provide specialised medical care.[30] The supply of health insurance services is exempt from VAT.[31] The supply of medical, dental, and nursing services is exempt from VAT.[32] The supply of dental, medical, and veterinary goods which include: dental, medical and veterinary equipment; ambulances; contraceptives of all forms; maternity kits (mama kits); medical examination gloves; medicated cotton wool; mosquito nets, and mosquito repellent devices; and diapers is exempt from VAT.[33] There is VAT exemption for the supply of imported drugs, medicines and medical sundries and VAT zero-rating for the supply of drugs, medicines and medical sundries manufactured in Uganda.[34] These measures are meant to ease access to health services in the country.

The Excise Duty Amendment Bill No. 2 of 2020 provides that un-denatured spirits made from locally produced raw materials will be charged at a Nil rate. This is meant to aid in the production of disinfectants.

The Tax Procedure Code (Amendment) Bill, 2020 (TPC Bill) introduces is a waiver of all outstanding interest and penalties owed by any taxpayer as at 30 June 2020. This provision is meant to ease the burden borne by taxpayers who will have challenges clearing their tax arrears following the lockdown measures that affected their businesses. This provision is a fulfilment of the budget speech promise and is in line with IMF, OECD and ATAF recommendations for measures addressing business continuity following the COVID pandemic.

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[29] Paragraph 1(pp) of the Second Schedule to the VAT Act
[30] Paragraph 1(rr) of the Second Schedule to the VAT Act
[31] Paragraph 1(d) of the Second Schedule to the VAT Act
[32] Paragraph 1(h) of the Second Schedule to the VAT Act
[33] Paragraph 1(q) of the Second Schedule to the VAT Act
[34] Paragraph 1(aaa) of the Second Schedule to the VAT Act and paragraph 1(c) of the Third Schedule to the VAT Act

The TPC Bill provides for a deferral of CIT for businesses in tourism, manufacturing, horticulture or floriculture and the education sectors. This measure was meant to provide cash flow relief for the sectors that were the most hard hit by COVID and the lockdown measures. It has not been passed yet and as a result, businesses that were ravaged by COVID are still subject to enforcement action by URA.

The TPC Bill also provides for the deferral of PAYE. The Bill provides that the payment of PAYE could be deferred up to 30 September 2020. This measure was meant to allow employers manage their cash flows with the deferred PAYE used as an interest-free loan from the government. The period deferred by the Bill has since passed rendering it redundant unless the provision is amended.

The delay in passing these COVID related Bills has caused a challenge for the revenue administration. While it is collecting significant amounts at the moment, when these Bills come in force, they may be forced to refund significant amounts to taxpayers because the effective dates of these Bills is 1st July 2020 and the Finance Committee of Parliament has proposed that it be pushed further back to 1st April 2020. Further, the taxpayers remain in a state of uncertainty about the promised measures which remain unpassed.

5. THE WAY FORWARD: REVENUE MOBILISATION IN THE POST COVID ERA

With all this in mind, we still need to look beyond the current COVID period to consider how revenue mobilisation will be done in the post COVID era to support economic recovery of the sectors that are experiencing long term effects from COVID as well as allow Government to collect much needed revenues.

5.1 Easing access to credit

The Stamp Duty Act should be amended to provide for Nil duty on mortgages and chattels securities in order to ease access to credit. In the post COVID era, businesses will need easy access to credit in order to survive and to grow. There are already significant challenges to accessing credit and having to pay 0.5% or 1% of the value of the amount borrowed is an unnecessary additional barrier. According to URA, in 2019/2020 UGX 40 billion was collected from these two loan instruments. However, the overall benefits of easing access to credit in an economy that is in recovery will lead to sufficient revenue collections under other tax heads which will offset this amount lost.

5.2 Attracting Foreign Direct Investment (FDI).

There is a need to attract FDI in order to revivify the economy. One of the tools of achieving this is a clear tax exemptions regime for the certain sectors. However, accessing exemptions in URA has remained a challenge for many qualifying investors.

The WHT exemption regime under the Income Tax Act appears to be discretionary, subjective and arbitrary. Section 119(5)(f) of the ITA exempts a supplier or importer who the Commissioner is satisfied has regularly complied with the obligations imposed on the supplier or importer under the ITA from WHT. The rationale for this provision as we understand it was to ease cash flows of tax compliant businesses. However, the process of accessing this exemption for businesses has remained complicated and unclear. It was made an online process instead of the cumbersome manual process and the exemption which previously lasted six months has been extended to last one year. However, the criteria for qualifying remains a challenge. There is a need to make the process of accessing a tax exemption more objective. The challenges of subjective and arbitrary application of tax exemptions by URA were highlighted in *International School of Uganda v Commissioner General of URA*[35] where URA was found to have unlawfully denied the applicant their status as an exempt organisation.

Other exemptions such as those targeting investors need to be harmonised and the exact criteria and qualifications clarified. The rationale for selecting the sectors that are benefitting from these exemptions needs to be clearly explained. It also remains unclear whether or not the taxpayer has to apply for these exemptions or whether they are automatic once the taxpayer meets the requirements. The international best practice is for exemptions to be automatic so as to eliminate opportunities for rent seekers and corruption.

Further, in order to attract FDI into Uganda we need to make it easy to do business in Uganda. The 2020 Ease of Doing Business ranks Uganda at number 116 while our neighbours like Rwanda (number 38) and Kenya (number 56) are

[35] *International School of Uganda v Commissioner General of URA* HCCA No 3 of 2018

ranked much higher.[36] We need to understand the challenges involved in simple processes like setting up companies and accessing licences and permits and eliminate these challenges. Lengthy bureaucratic processes create opportunities for corruption and unnecessary delays. We need to make processes such as these purely electronic. While Uganda Registration Services Bureau (URSB) boasts that its registration process is now entirely online, the fact is registering a company which used to take two or three days now takes up to ten days as a result because there are delays which are not easily. Going online should be a solution not a problem. The One Stop centres still have various challenges that make the completing of a simple process like registration for businesses very difficult. These need to be addressed such that FDI can flow in and through that, new revenues can be collected.

Attraction of FDI will also involve clarification on the application of relevant laws in Uganda such as access to credit laws. The recent problematic ruling in *Ham Enterprises Limited & 2 Others v Diamond Trust Bank (U) Limited & Another*[37] is an example of application of laws that can hinder FDI. It is necessary that laws be harmonised to match international practices. The world is now a global village. Uganda's legislation should incorporate international norms and standards so as to attract FDI.

Finally, Uganda needs to focus on developing and mobilising revenue from the. Oil and Gas sector. Once the final investment decision has been made, it is expected that many activities around the oil and gas sector will pick up and this can stimulate growth in the rest of the economy.

5.3 Focus on new areas of revenue.

The Government of Uganda needs to focus on emerging technologies and taxation of the digital economy. This is one of the critical sectors of the economy that has benefited during the COVID era as many were forced to rely on ICT and digital tools to continue business. In the first quarter of 2020 there was a growth of more than 1 million mobile internet subscriptions.[38] The 2018 UNCTAD Rapid eTrade

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[36] World Bank, *Doing Business 2020*, http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

[37] *Ham Enterprises Limited & 2 Others v Diamond Trust Bank (U) Limited & Another* [2020] UGCOMMC 32

[38] https://www.ucc.co.ug/wp-content/uploads/2020/10/Industry-Perfomance-report-Q2-20.pdf

Readiness Assessment, estimates that up to UGX 10 billion can be raised from taxation of the digital economy.[39] At the end of June 2020, total internet stood at 18.9 million connections, translating into a penetration of 46 internet connections for every 100 Ugandans. It is a sector from which revenue may be received.

The law already provides for this and administrative capacity may be all that is lacking. Section 16(2)(d) of the VAT Act provides that the supply of services shall take place in Uganda if the recipient of the supply is not a taxable person and the services are electronic services delivered to a person in Uganda at the time of supply. Therefore, there is a need for these non-resident businesses to register for this tax.

Another untapped source of revenue is the agriculture sector which has also been one of the "winners" in the COVID era.[40] In July 2018 a WHT at a rate of 1% for agriculture was introduced. In July 2019 the tax was repealed and agricultural supplies exempted from WHT under Section 119(5)(h) of the Income Tax Act. Agriculture is estimated to contribute up to 20% of the GDP of Uganda.[41] However in 2019/2020 the entire sector contributed just UGX 14,996,121.32 in revenue or 0.09% of the total revenue collections of the year. During COVID 19, agriculture is one of the sectors that has gone relatively unaffected. In 2018/2019 when the tax was in force at a rate of 1%, a total of UGX 24.9 billion was collected against an estimate of UGX 15 billion. We note that this was just the first year of introducing the tax and we believe that it underperformed below its potential. We can also note that during CoVID 19 agriculture has generally continued to boom. We therefore expect a lot more to be collected if this tax is re-introduced.

5.4 Support cash flow for taxpayers.

Section 117 and Part V of the Third Schedule to the ITA provides that a resident person who pays interest to another resident person shall withhold tax on the gross amount of the payment at the rate of 15%. Banks currently withhold 15% when paying out interest. This rate ought to be lowered to about 5-10%. This

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[39] UNCTAD. (2018). Uganda Rapid eTrade Readiness Assessment. Retrieved from https://unctad.org/en/PublicationsLibrary/dtlstict2018d9_en.pdf

[40] Ronald Waiswa 'Uganda should tax "Covid-19 winners" to fill revenue gaps' ICTD Blog https://www.ictd.ac/blog-author/ronald-waiswa/

[41] Ministry of Agriculture. (2020, August). How important is agriculture in Uganda? https://www.agriculture.go.ug/agricultural-sector-potential/

would increase the returns to on amounts saved in the banks. Many people have lost their income due to the CoVID 19 pandemic and efforts to curb its spread. They are likely to rely on among other things savings to restart their businesses. This measure would increase the amount available to them. In 2019/2020 a total of UGX 80,635,465.36 was collected under this tax. It the rate is lowered, total collection under this provision will be about UGX 55 billion.

An adjustment of the PAYE rates is also necessary. The employees are subject to the rates in the Third Schedule to the ITA which was last adjusted in 2012. Under Section 116 of the ITA employees are subject to a WHT and therefore unable to make any deductions. Businesses on the other hand have room for manoeuvre under Section 22 which provides for allowable deductions. The effective rate of tax on employees is therefore considerably higher than that on businesses. Further, employees make up about 60% of the 1.7 million taxpayers on the tax register with URA. We propose a new threshold for employees of UGX 4,020,000 up from UGX 2,820,000.

The chief purpose of such an amendment is to boost consumption in a large segment of the population so as to reignite the economy. Increasing the threshold will empower the persons in the lowest bands the most. In 2019/2020 PAYE raised up to UGX 3 trillion accounting for 17% of the total collections. We estimate a decline in revenue from PAYE by about (UGX 200 billion) as a result of this measure. However, we expect an increase in consumption taxes under VAT and excise duty as a result of increased spending by the employees. Further, it will free up more cash for employers who do not increase their employees' salaries to hire more employees thereby dealing with the unemployment challenge resulting from COVID.

Lower the Capital Gains Tax (CGT) rate. Capital Gains Tax under Sections 50-54 of the ITA is subject to a tax at the normal income tax rates in the Third Schedule. This means that for companies, CGT is 30%. This ought to be lowered to about 15%. CGT is essentially a tax on saving and investment. Taxing it as normal income is problematic. Most jurisdictions provide a preferential rate for CGT. In Kenya it is 5%. In Tanzania it is at 10% for a resident, 20% for a non-resident. The high rate in Uganda has resulted in a lot of evasion. Moreover, a high CGT rate leads to lock-in effects where capital is locked in suboptimal investments and not reallocated to more profitable investments in order to avoid the tax. Following CoVID 19, it is critical that capital be allowed to move as freely as possible. We therefore propose a considerable reduction in CGT rate. We believe that this measure would have positive externalities due to the ease of movement of capital to where it is best utilised and boost revenue collections in CIT enough to compensate for any amount lost in CGT.

6. CONCLUSION

Even before the outbreak of COVID, there were already clear plans in motion for reform of the tax system as evidenced by the DRMS. The impact of COVID has necessitated speeding up these reforms. Key among the reforms was the reinvigoration of the fiscal social contract. The people need to feel that they are justly taxed and are getting proper services in return for the taxes. Critical here is the need to see a change in approach to taxing them following a great change in their circumstances after the COVID pandemic. The Government has taken steps to do this through the COVID Bills, however, these have not yet been passed into law. These need to be passed as soon as possible for the people of Uganda to get tax relief in this crisis time.

A dynamic approach will then have to be adopted in the post COVID era. Focusing on easing access to credit, easing doing business to attract FDI, taxing sectors that benefited even during the crisis such as agriculture and the digital economy will be critical. Tax relief that allows taxpayers to retain more of their money such as lowering the CGT rate and increasing the PAYE threshold will also be needed to deal with this crisis.

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The Centre for Advanced Strategic Leadership (CASTLE) is a non-profit think tank that has been established to provide research and consultancy towards approaches for addressing challenges to Africa's advancement. CASTLE is a product of the Institute for National Transformation (INT), a leadership training institution in Africa, which has since 2005 been developing transformational leaders who are serving society in a variety of sectors. INT is headquartered in Nigeria and operates in Uganda, Kenya, South Africa and Cote d'Ivoire. INT also has training centres in the United Kingdom and the United States of America for reaching out to the African diaspora. CASTLE complements INT by providing a practical platform to offer tailored interventions to specific issues that will be identified across the African continent.

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