



**MINISTRY OF FINANCE, PLANNING AND ECONOMIC  
DEVELOPMENT**

**TAX POLICY DEPARTMENT**

**TAX EXPENDITURE REPORT FY, 2021/22**

## Uganda Tax Expenditure Report FY21/22

### Executive Summary

- In addition to public expenditure as presented in the National Budget, the Government of Uganda also spends through the tax system in the form of tax reliefs. The value of revenue foregone from the reliefs is described as ‘Tax Expenditure’. Tax Expenditures exist for numerous reasons, whether for a social purpose, to provide relief to certain sectors of the economy, or due to difficulties in collecting revenue from hard-to-tax sectors.
- The value of revenue foregone from tax expenditures in Uganda are estimated to stand at **US\$ 2,478.1bn**, or **1.56% of GDP**, for the financial year **2021/22**. The total amount of tax collected during 2021/22 is estimated to be US\$ 20,877bn, meaning that the value of revenue foregone due to tax expenditures is equal to around **11.9% of total tax collections**.
- The **largest share of revenue foregone came from the VAT**, representing US\$ 1,151.47bn, or 0.72% of GDP.
- Over the past six financial years, Tax Expenditures in Uganda have grown both in number and in terms of the value of revenue foregone. The value of revenue foregone due to tax expenditures has increased from around 0.87% of GDP in FY16/17 to 1.56% of GDP in FY21/22, an increase of around 86% over the period in question.
- Projections for FY22/23 suggest that revenue foregone from Tax Expenditure is expected to be in the region of **UGX 2,881.57 in FY22/23**, or around **1.64% of GDP**.
- Data and modelling constraints mean that the figures presented are certainly an underestimate of the true amount of revenue foregone due to tax expenditure in Uganda. Future expected enhancements in both of these areas should help to more accurately estimate revenue foregone.
- The figures presented herein are not comparable with those in previous reports due to improvements in both the availability of data and modelling techniques employed. However, we include estimates of revenue foregone for the past six financial years to allow for comparison and study the evolution of the estimates.

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## 1 Introduction

In addition to public expenditure as presented in the National Budget, the Government of Uganda also spends through the tax system in the form of tax reliefs. The value of revenue foregone from these reliefs is described as ‘Tax Expenditure’. Tax Expenditures exist for numerous reasons, whether for a social purpose, to provide relief to certain sectors of the economy, or due to difficulties in collecting revenue from hard-to-tax sectors.

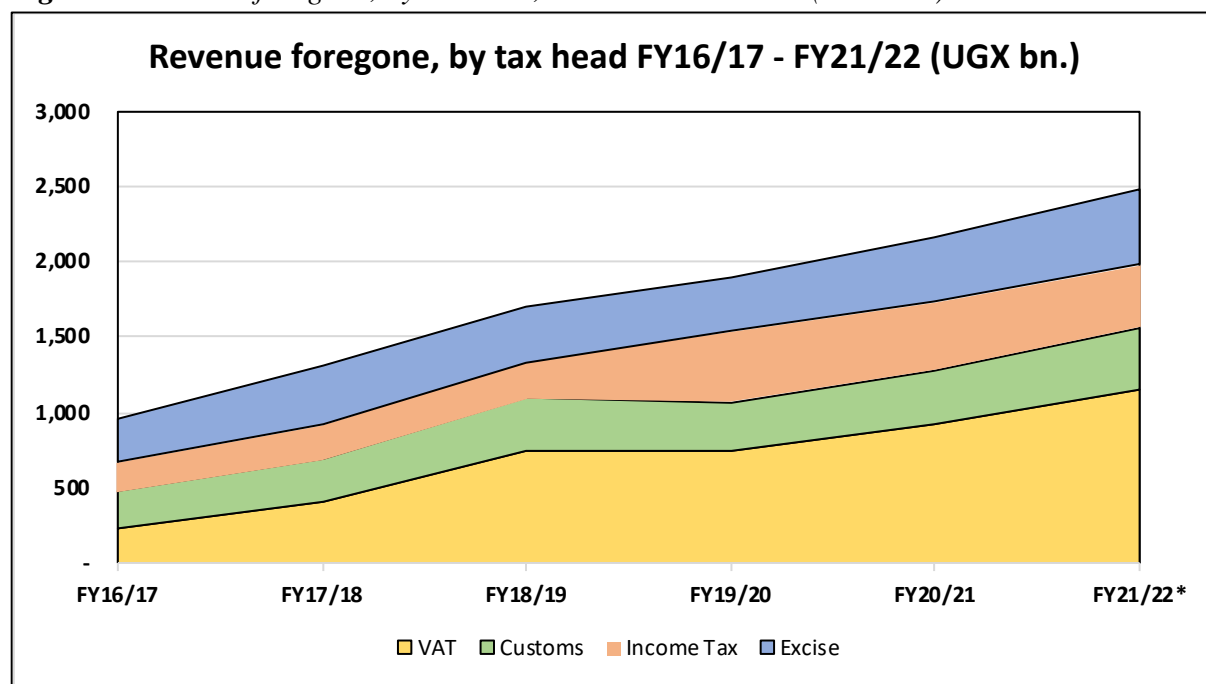
The key objective of tax expenditure reporting is one of improved transparency and to highlight the importance of tax expenditures to the government relative to other forms of expenditure (IMF, 2019). The report is also useful in assisting government to assess the effectiveness and efficiency of the exemptions or reliefs provided and make more informed policy choices. Tax expenditures are provided for a variety of different reasons, such as providing investment incentives, to redistribute income or on equitable grounds, or simply due to administrative complexity with collecting tax from a certain activity, person or sector.

The analysis finds that tax expenditures for FY21/22 stood at **UGX 2,478.08bn**, or 1.56% of GDP. This represents around 11.90% of actual tax collected. **Table 1** and **figure 1** summarises the estimates of revenue foregone by tax head. **Projections for revenue foregone in FY22/23 are detailed in [Section 7](#).**

*Table 1. Summary of Estimates of Revenue Foregone, by tax head. FY16/17 – FY21/22*

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
<b>Total (UGX bn)</b>	947.43	1,318.74	1,703.76	1,891.47	2,164.86	2,478.08
<b>Total (% GDP)</b>	0.87%	1.09%	1.29%	1.35%	1.46%	1.56%
<b>% Total Tax Collected</b>	7.45%	9.12%	10.25%	11.29%	11.24%	11.87%
<b>VAT (UGX bn)</b>	229.58	415.63	743.66	743.25	923.99	1,151.47
<b>VAT (% GDP)</b>	0.21%	0.34%	0.56%	0.53%	0.62%	0.72%
<b>Customs (UGX bn)</b>	246.08	266.00	350.92	322.59	352.99	411.65
<b>Customs (% GDP)</b>	0.23%	0.22%	0.27%	0.23%	0.24%	0.26%
<b>Income Tax (UGX bn)</b>	189.76	231.61	236.35	473.69	449.72	416.62
<b>Income Tax (% GDP)</b>	0.17%	0.19%	0.18%	0.34%	0.30%	0.26%
<b>Excise (UGX bn)</b>	282.01	405.50	372.84	351.94	438.16	498.34
<b>Excise (% GDP)</b>	0.26%	0.34%	0.28%	0.25%	0.30%	0.31%

*Source: Authors calculations from URA data. \*denotes projection*

**Figure 1.** Revenue foregone, by tax head, FY16/17 – FY21/22 (UGX bn.)

Source: Calculations from URA data. \*denotes projection

Data constraints mean that the estimates presented are likely an under-estimate of the true value of revenue foregone due to tax expenditures.

Over the past 6 financial years, Tax Expenditures in Uganda have grown in both the number of provisions and value of revenue foregone. The value of revenue foregone has increased from 1.02% to 1.80% of GDP between FY16/17 and FY21/22. The largest increase under any one tax head is the VAT, where revenue foregone rose from UGX 229.58bn to UGX 1151.47bn between FY16/17 and FY21/22.

This report proceeds as follows. Section 1.1 provides an overview of the methodology followed and limitations to the analysis. Sections 2-5 analyse in depth the results, calculations, assumptions and limitations for Tax Expenditures for Income Taxes, VAT, Customs Duties, and Excise duty respectively. These sections include discussions of the various challenges encountered in computing the estimates of revenue foregone. Section 6 discusses additional revenue foregone from aid-funded projects, whilst section 7 details projections of revenue foregone for FY22/23. The Appendix discusses some methodological issues.

## 1.1 Methodology

Tax expenditures are, broadly defined, any reductions in tax liability compared with some benchmark tax system. They can take the form of exemptions, allowances rate reliefs, credits and deferrals. A brief summary of the benchmark system is defined under each section throughout this report.

The approach taken to estimate tax expenditures in this report is the *Revenue Foregone* approach. This involves estimating the “direct revenue loss associated with the provision under consideration, relative to the benchmark system, which has no such provision” (IMF, 2019:9). It is recognised as the simplest and most widely used method of calculating tax expenditures; all OECD countries, for example, use this approach. **It does not take into account any behavioural changes due to the presence of the tax expenditure.** That is, how taxpayers may respond to the removal of a tax relief or whether an activity would still take place to the same extent. Revenue foregone is therefore not equivalent to *revenue gain* that may be achieved from removing tax reliefs.

Besides the direct cost of revenue foregone from tax expenditures, their presence entails a number of other *indirect* costs, which are **not** captured in the estimations presented here. For example, there are administrative and compliance costs for firms and individuals, whereby they may have to apply to prepare documentation and apply to be granted a tax exemption. There are indirect costs to the economy as a whole, as the tax expenditure in one area or sector may mean that taxes may be higher – or public spending lower – in other areas; accordingly, the benefit provided by the tax expenditure may affect a smaller group of firms or individuals than would the public spending that may be possible in its absence. There are also indirect costs in the form of the resources required by government in order to monitor the effectiveness of tax expenditures. Finally, tax expenditures might induce distortions to economic behaviour. A tax system should strive to be neutral (i.e. not unduly influence behaviour of firms or individuals), but the presence of incentives or exemptions may result with an inefficient allocation of resources across the economy.

The data for the estimations in this report come from a number of sources. Most of the data is from the URA’s eHub, although other sources were consulted where necessary. These are clearly discussed in the relevant sections in the report below.

## 1.2 Updates to the benchmark system and repository

Since the last iteration of the tax expenditure report, a number of new provisions have been added to the repository of tax expenditures for which revenue foregone has been estimated herein. These include:

- (1) Under the **VAT**: the supply of LPG, the supply of processed milk, the supply of cotton seed cake, and VAT relief on products to fight the Covid-19 pandemic.
- (2) Under **Customs**: Various new rate reliefs (see repository estimated below)

A number of other new provisions in the tax amendment acts for FY20/21 and FY21/22 were identified as potentially constituting tax expenditures, however were not estimable due to

data constraints – e.g. the tax base for calculating revenue foregone is not easily estimable as it is not captured in the relevant tax returns.

### 1.3 Caveats and Limitations

A number of caveats and limitations should be borne in mind when reading and interpreting the estimates presented herein.

Firstly, it was only possible to estimate revenue foregone for between 70 and 80% the tax expenditures identified in the **Tax Expenditure Repository**. This is due to the way in which data is captured by URA systems. Specifically, income tax exemptions for investors and VAT exemptions for investments in the construction of industrial parks / free zones are two areas where a number of provisions offer relief to investors, but it was not possible to estimate revenue foregone. Further, it was not possible to estimate revenue foregone from reduced rates on withholding tax under double-taxation-agreements.

Our estimates also include activity by the government (i.e. purchases, or wages on government employees). Questions over whether or not to include government activity in tax expenditure accounting are pertinent. On the one hand, the benchmark system as defined does not suggest that government should be excluded and, indeed, explicitly included some tax expenditures on, e.g., government salaries. On the other hand, government tax expenditure can be ‘circular’ in nature. Take, for (hypothetical) example, a VAT exemption on imports of mosquito nets made by the Ministry of Health. If VAT was levied on this purchase, then the government would simply pay the VAT to itself, but also have to increase expenditure on the nets by 18%.

This report is **not** designed to provide a detailed assessment of the effectiveness – or benefits - of tax expenditures. Evaluating the costs and benefits of tax expenditures is a complex process and whilst this report plays an integral part by providing estimates of the ‘direct cost’ of tax expenditures in Uganda, it does not attempt to make judgements on whether the expenditures described are appropriate, fulfilling their purpose, or well-targeted. Appropriate governance of tax expenditures should, however, take such considerations into account and this will be the focus of future work. **The** report is also not intended as a normative assessment; there are various reasons for tax expenditures to exist – whether a social purpose, to support certain sectors of the economy, or administrative difficulties in collecting tax from hard-to-tax sectors. Thus it is not realistic to expect that all tax expenditures might be removed and the foregone revenue collected. Furthermore, even if all TEs were removed, behavioural responses by taxpayers would mean that the eventual revenue gain would be lower than the figures reported here.

## 2 Income Tax

### 2.1 Introduction: Income Tax Benchmark Definition

The benchmark unit of taxation for personal income tax (PIT) is the individual. The benchmark PIT rate and bracket structure is the PIT schedule as outlined in the Third Schedule of the Income Tax Act.

Monthly Chargeable Income (UGX)	Tax Rate <sup>1</sup>
< 235,001	Nil
235,001 - 335,000	10% of amt > 235,000
335,000 - 410,000	UGX 10,000 + 20% of amt > 335,000
>410,000	UGX 25,000 + 30% of amt > 410,000. <b>Additional 10%</b> on amt > 10,000,000

The benchmark unit of taxation for corporate income tax (CIT) is the company as a separate legal entity. The benchmark CIT rate is the statutory general corporate income tax rate, which is 30% of chargeable income. Partnerships and trusts are not separate tax units and income earned by these entities is taxable in the hands of the recipients. Branch profit repatriation tax is imposed on the income derived by non-resident corporations from business carried out in Uganda at the statutory rate of 15% (unless the provisions in a treaty specify a different rate). Capital gains are classified as business income upon realisation and the benchmark only includes gains or losses arising from the realisation of non-depreciable business assets, sale of shares and sale of commercial buildings

Non-resident withholding tax is imposed on payments to non-residents at the statutory rate of 15% or at a rate provided for by the particular type of payments under a tax treaty. Several withholding tax rates imposed on the income of non-residents are set below this 15% rate. The revenue foregone from these lower rates are therefore classified as tax expenditure.

Deviations from the benchmark included in the tax expenditure calculations include exempt income, income tax holidays, additional allowances and deductions and lower-than-benchmark withholding tax rates for special sectors. These are quantified, where possible, in the estimations below.

### 2.2 Summary of Tax Expenditure from Income Taxes

**Table I.1** Summary of Revenue Foregone, Income Taxes FY16/17 – FY21/22

Income Tax Expenditures	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
<b>Total (UGX bn)</b>	189.76	231.61	236.35	473.69	449.72	416.62
<b>Total (% GDP)</b>	0.17%	0.19%	0.18%	0.34%	0.30%	0.26%

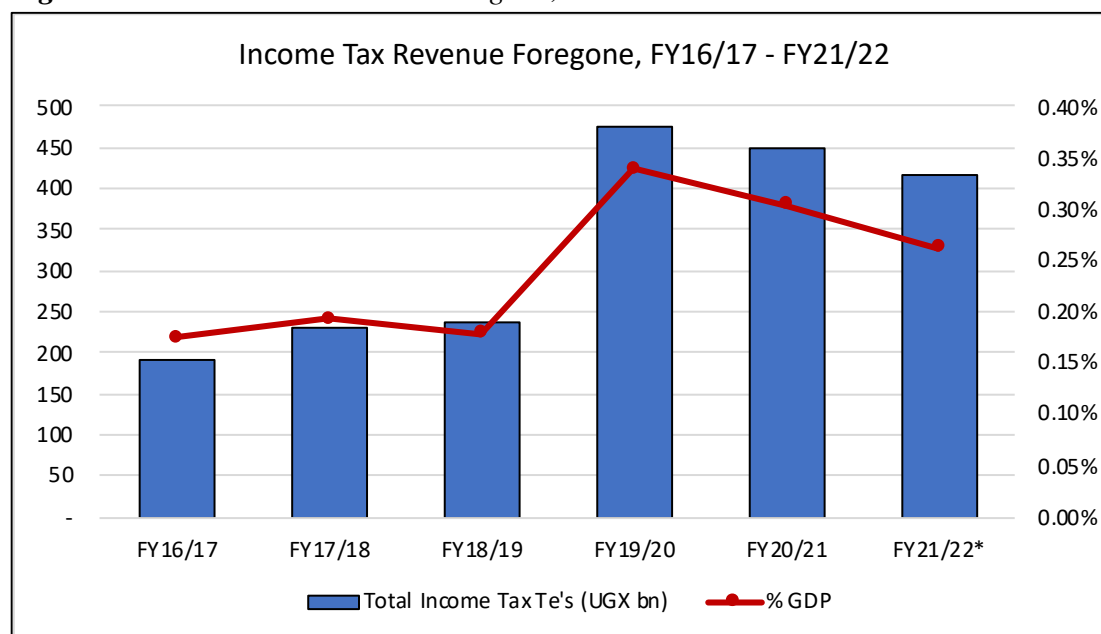
Source: Calculations from URA data

<sup>1</sup> Non-residents are taxed at the same rates, although all income is taxed at at least 10% (thus, there is no 0% band afforded to non-residents).



**Table I.1** shows that revenue foregone under the income tax in FY21/22 is estimated to stand at around 0.26% of GDP, or UGX 416.62bn. This represents a slight decline since FY20/21, where revenue foregone under income tax stood at UGX 449.72 bn or 0.3% of GDP. Trends in Income Tax TEs are shown in Figure I.1.

**Figure I.1** Income Tax Revenue Foregone, FY16/17 – FY21/22



Source: Calculations from URA data

Table I.2 summarises the contribution of each type of tax expenditure to the total revenue foregone under the income tax.

**Table I.2.** Income Tax Expenditures, by type

Type of TE (UShs. bn.)	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
Exemptions	177.19	193.92	211.02	386.44	384.72	335.73
Allowances & Deductions	0.00	0.00	1.37	75.36	56.24	<b>65.80</b>
Rate Reliefs	12.57	37.69	23.96	11.89	8.76	<b>15.08</b>

Source: Calculations from URA data. \*denotes projection.

As can be seen from Table I.2, the largest category of income tax expenditures is that of Exemptions. However, the Allowances and Deductions category has increased in importance, due to the re-introduction of the initial allowances on plant and machinery and industrial buildings under Section 27A of the Income Tax Act, in July 2017 (which is reflected in data from FY18/19 onward).

## 2.3 Exemptions

Tax exemptions on employment income exist for specific groups of individuals, notably armed forces personnel and employees of the East African Development Bank. Additionally, the non-

wage income of Members of Parliament is also exempt from tax. Exemptions also exist on non-business capital gains and the business, investment and/or rental income of several groups of firms, including those in the aircraft sector. Tax holidays are also available on business and rental income to investors fulfilling specific criteria. Interest earned on infrastructure bonds is exempt from withholding tax, as are dividends paid by a listed company. **Table I.3** provides details of estimates of the revenue foregone from each of these tax expenditures for the past six financial years.

### I.3 Income Tax Exemptions FY16/17 – FY21/22

TAX EXPENDITURE	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Exemption of education grant from income tax - <b>Section 21(1)(g) ITA</b>	<i>No data</i>					
2. Exempting non-business capital gains Exemption of education grant - <b>Section 21(1)(g) ITA</b>	<i>No data</i>					
3. Exempting the armed forces from employment income taxation - Exemption of education grant - <b>Section 21(1)(q) ITA</b>	54.40	55.30	68.94	77.75	77.61	79.87
4. Exempting incomes of collective investment schemes - <b>Section 21(1)(t) ITA</b>	0.07	0.17	0.33	0.98	1.98	0.00
5. Exempting salaries of the Judiciary from employment income tax - <b>Uganda Constitution</b>	2.49	2.49	2.49	5.64	7.53	7.53
6. Exempting business income of an investor compensation fund. - <b>Section 21(1)(w) ITA</b>	<i>No data</i>					
7. 10-year tax holiday from rental income tax - <b>Section 21(1)(ae) ITA</b>	0.00	0.00	0.00	0.00	3.77	0.00
8. 10-year tax holiday from business income tax - <b>Section 21(1)(af) ITA</b>	<i>No data</i>					
9. Exemption from business income tax for new investors who invest in new plant and machinery for agroprocessing - <b>Section 21(1)(z) ITA</b>	2.99	7.83	5.61	31.23	25.37	5.96
10. 10-year tax holiday from business income tax for new investors who invest in manufacturing finished consumer and capital goods for export. - <b>Section 21(1)(y)(i) ITA</b>	5.72	7.36	17.01	15.07	10.69	3.04
11. Exemption from employment income tax for the employment income, other than salary, of a person employed as a Member of Parliament. <b>Section 21(1)(qa) ITA</b>	102.91	99.77	98.73	126.64	125.84	128.83
12. Exemption from income tax on business income from sporting activities - <b>Section 21(1)(ab) ITA</b>	<i>No data</i>					
13. Exemption for the income of Bujagali Hydro Power Project for 5 years up to 2022. - <b>Section 21(1)(ac) ITA</b>	0.00	0.00	0.00	108.40	100.04	90.74
14. Exemption from business and investment income tax for SACCOs - <b>Section 21(1)(ad) ITA</b>	0.26	0.35	1.77	3.40	8.88	3.10
15. Exemption of the 25% of the amount derived as compensation for the termination of any contract of employment from employment income tax - <b>Section 19(4) ITA</b>	6.56	7.48	7.58	7.67	12.77	0.00
16. Exemption of private retirement schemes from employment income tax - <b>Section 19(2)(g) ITA</b>	1.79	13.18	8.56	9.65	10.24	16.67
17. Capital gains exemption of employee stock acquisition	<i>No data</i>					
18. Exemption of interest from non-resident withholding tax. - <b>21(1)(ah) ITA</b>	<i>No data</i>					
19. Exemption of interest on infrastructure bonds from withholding tax. - <b>Section 21(1)(ah) ITA</b>	<i>No data</i>					
20. Exemption of dividends paid by a publicly traded company. <b>Enacted by Finance Act, 1993, Cap 181</b>	<i>No data</i>					
21. Corporation Tax holiday for the East African Crude oil pipeline company	<i>No data</i>					

22. The income of the Deposit Protection Fund established under section 08 of the Financial Institutions Act, 2016. <b>Section 21(1) (wa) ITA</b>	<i>No data</i>					
<b>EXEMPTIONS (UShs. bn.)</b>	177.19	193.92	211.02	386.44	384.72	335.73

Source: Estimations from URA data. \*denotes projection

## 2.4 Allowances and Deductions

Whilst – as with any standard income tax system – Ugandan firms can use a range of deductions to lower their chargeable income, the majority of these are not considered as tax expenditures, as they exist as part of the benchmark system. However, a number of deductions exist which are not considered part of the benchmark and thus constitute tax expenditures. The Ugandan income tax system allows deductions for employing people with disabilities and there are also provisions for ‘accelerated deductibility’ on certain assets.<sup>2</sup> In Uganda, these provisions exist on the Initial Allowance with respect to Plant and Machinery, and Industrial Buildings. Estimates of revenue foregone from the aforementioned allowances and deductions are shown in **Table I.4**.

**Table I.4** Revenue foregone from allowances and deductions FY16/17 – FY21/22

Allowance	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Deduction for employing persons with disabilities. <b>Section 22(1)(e) ITA</b>	<i>No data</i>					
2. Initial allowance in respect of plant and machinery. <b>Section 27A ITA</b>	N/A	N/A	0.44	66.61	50.87	<b>58.74</b>
3. Initial allowance in respect of industrial buildings. <b>Section 27A ITA</b>	N/A	N/A	0.92	8.75	5.37	<b>7.06</b>
<b>Total (UShs. bn.)</b>	<b>0.00</b>	<b>0.00</b>	<b>1.37</b>	<b>75.36</b>	<b>56.24</b>	<b>65.80</b>
<b>Total (% of GDP)</b>	<b>N/A</b>	<b>N/A</b>	<b>0.00%</b>	<b>0.05%</b>	<b>0.04%</b>	<b>0.04%</b>

Source: Calculations from URA data. \*Denotes projections

Revenue foregone from allowances and deductions is primarily driven by the initial allowance in respect of plant and machinery, which constitutes between 51 and 67bn UShs. in any given year since reintroduction in FY17/18. The data for these initial allowances in FY21/22 were not yet complete at the time of compilation of this report and thus the figure for FY21/22 is a simple average of the prior two years.

## 2.5 Rate reliefs

Rate reliefs (i.e. various sources of income being subject to a lower tax rate than would be the case in the benchmark scenario) also exist within the income tax system. Estimates of revenue foregone originating from these rate reliefs are highlighted in **Table I.5**.

<sup>2</sup> This refers to any method of depreciation that allows greater deductions than the rate of economic depreciation in the earlier years of a life of an asset.

Estimates of revenue foregone due to income tax rate reliefs are significantly lower than those of exemptions or allowances under the income tax, standing at around UGX 15.08bn in FY21/22. The majority of the revenue foregone under this category is from Payment of Service Fees by mining and Petroleum Licensees.

**Table I.5. Revenue foregone from Income Tax Rate Reliefs, FY16/17 – FY21/22**

TAX EXPENDITURE	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22
1. Rate relief for dividends paid by a resident company listed on the stock exchange to a resident shareholder. <b>Section 118 &amp; 3rd Schedule Part V(2) ITA</b>	2.213	1.553	1.351	0.223	1.365	0.115
2. Payment of Service Fees by mining and Petroleum Licensees. <b>Section 89GG and Part IX of the Third schedule ITA</b>	10.353	18.298	14.668	7.898	6.147	12.866
3. Payment of Fees by a Resident Person or Branch of Non-Resident Person for direct-to-home Pay Services. <b>Section 86(4)(b) ITA</b>	0.000	17.839	7.941	3.768	1.243	2.103
<b>Total (UShs. bn.)</b>	<b>12.57</b>	<b>37.69</b>	<b>23.96</b>	<b>11.89</b>	<b>8.76</b>	<b>15.08</b>
<b>Total (% GDP)</b>	<b>0.01%</b>	<b>0.03%</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.01%</b>	<b>0.01%</b>

Source: Calculations from URA data. \*Denotes projections

## 3 VAT

### 3.1 Introduction

VAT is an indirect tax imposed on the value added at each stage of production and distribution of goods and services across all commercial activities involving the supply of goods or the rendering of services. The tax is imposed under the Value Added Tax Act on every taxable supply made by a taxable person, and on every import of goods or services other than exempt imports. It is charged on value added at different stages of production and distribution of goods and services.

The benchmark unit of taxation is therefore the final consumer of taxable goods and services, and not intermediate businesses which produce the goods and services. The VAT is charged on both domestic supply and imports of all goods and services. The benchmark VAT base is therefore consumption of goods and services in Uganda. The application of VAT on international trade is based on the destination principle, which requires that imports are taxed on the same basis and at the same rate as domestic supplies in the country where consumption takes place. The export of taxable supplies is zero rated and the associated input tax at importation or domestic supply is refunded to the exporting business.

The VAT rate in Uganda is 18% of the value of the good or service supplied. Exempt and zero-rating of supplies exists in most VAT systems. No VAT is charged on the supply of exempt goods and services, whilst the supply of zero-rated goods and services attracts VAT but at a zero rate. Suppliers of zero-rated goods and services are entitled to claim input tax credits to recover the full amount of VAT they pay on inputs used to produce zero-rated products. In contrast, suppliers of exempt goods and services are not entitled to claim input tax credits to recover the VAT they paid on their inputs.

A number of goods and services receive exemptions (or zero-ratings) but are not considered as tax expenditures. They are, thus, embedded in the benchmark. This is due to numerous technical, social, or political challenges involved in levying VAT on such items.

The data source for VAT revenue foregone is the URA's eHub. The revenue foregone from exempt and zero-rated items is calculated simply as 18% of the sales, or import, value of that item. i.e. The manner in which data is structured in the URA's systems means that it is often not possible to estimate VAT foregone on exempt or zero-rated local sales at the *item* level. VAT returns do not capture a description of specific items sold and thus, when estimating foregone revenues of specific items against a pre-defined benchmark as we do here, it is not possible to identify the value of local sales of those items. It is, however, possible to capture the foregone VAT on **imports** of most items. Thus, the estimates presented for VAT capture revenue foregone on items originating overseas reasonably well, but less comprehensively on items that originate locally. [Appendix 1: Methodological Issues](#) discusses in detail the various approaches taken to modelling revenue foregone on the VAT from imports.

The VAT estimates also include the knock-on effects of revenue foregone through reduced excise and customs duties, as these form part of the VAT base for various goods.

### 3.2 Summary

Estimates of Tax Expenditures from VAT in Uganda for the years FY16/17 – FY21/22 are shown in **Table V.1**

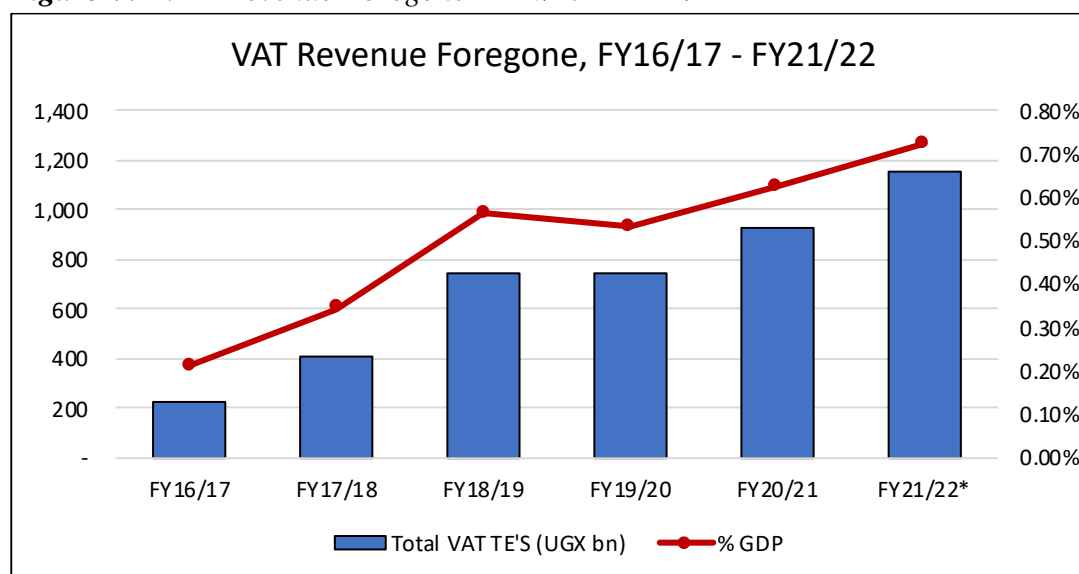
**Table V.1** Summary of Revenue Foregone from VAT, FY16/17 – FY21/22

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22
<b>Total VAT TE'S (UGX bn)</b>	229.58	415.63	743.66	743.25	923.99	<b>1,151.47</b>
<b>Total VAT TE'S (% GDP)</b>	0.21%	0.34%	0.56%	0.53%	0.62%	<b>0.72%</b>

Source: Calculations from URA data. \*denotes projection

Tax expenditures under VAT stood at UGX 1,151.47bn in FY21/22. This represented an increase from UGX 923.99bn in FY20/21, a 25% increase. As a % of GDP, revenue foregone on VAT increased stood at 0.72% of GDP, an increase from 0.62% of GDP in the preceding year.

**Figure V.1** VAT Revenue Foregone FY16/17 – FY21/22



Source: Calculations using data from URA.

VAT revenue foregone is comprised of Exemptions, Allowances, and Rate Reliefs. Each of these are discussed in turn.

### 3.3 Exemptions

Details of revenue foregone from VAT Exemptions are shown in **Table V2**. The value of revenue foregone due to VAT exemptions has risen from UGX 17bn in FY16/17 to UGX 128.9bn in 2021/22. The total value of VAT exemptions as a % of GDP is estimated to stand at 0.081% of GDP in 2021/22. Three new VAT exemptions are estimated in this version of the

report, namely those covering the Supply of Cotton Seed Cake, Processed Milk and VAT relief on products to fight the Covid-19 pandemic.

### 3.4 Allowances

Details of revenue foregone from VAT Allowances are shown in **Table V.3**. All of the revenue foregone for VAT allowances comes from deemed VAT, as shown. It was not possible to access the relevant data for deemed VAT according to the three categories outlined, however an aggregate figure was accessible. Revenue foregone from VAT deeming constitutes the largest category of revenue foregone under the VAT, standing at 0.47% of GDP in FY21/22, continuing an increasing trend seen since the introduction of the practice.

### 3.5 Rate Reliefs

VAT revenue foregone from rate reliefs are shown in **Table V.4**. The total revenue foregone attributable to VAT rate reliefs has increased from UGX 74.72bn in FY16/17 to UGX 124.25bn in FY21/22. In terms of % GDP however, the amount has remained fairly constant, at around 0.07-0.08% of GDP. The expenditure from which the amount of revenue foregone was largest was *Relief for handling services*.

### 3.6 Knock-on effects from other Tax Heads

**Table V.5** shows the VAT revenue foregone due to knock-on effects from other reliefs, specifically those on customs duties and excise duties. The figures here represent 18% of revenue foregone from these categories, thus any increases over time are reflective of increases in the underlying revenue foregone figures under VAT or Customs.

**Table V.2 VAT Exemptions**

<b>TAX EXPENDITURE</b>	<b>FY16/17</b>	<b>FY17/18</b>	<b>FY18/19</b>	<b>FY19/20</b>	<b>FY20/21</b>	<b>FY21/22*</b>
E1. Exempting the sale of residential dwelling units - <b>(Section 19 and para 1(f) Second Schedule VAT Act)</b>	<i>No data</i>					
E2. Exempting the supply of services, inputs, machinery, tools and implements suitable for use only in agriculture. - <b>(Section 19 and para 1 (s), (sa) and (sb) Second Schedule VAT Act)</b>	2.31	7.43	11.45	15.88	13.11	12.72
E3. Exempting the supply of menstrual cups - <b>(Section 19 and para 1(sd) Second Schedule VAT Act)</b>	<i>No data</i>					
E4. Exempting the supply of animal feeds and premises; <b>(Section 19 and para 1(qa) Second Schedule VAT Act)</b>	2.91	7.49	14.85	65.77	34.12	50.01
E5. Cotton Seed Cake <b>(2nd schedule (fff) VAT Act)</b>	N/A	N/A	N/A		0.01	0.03
E6. Exempting the supply of batteries and lanterns. <b>(Section 19 and para 1 (sc) Second Schedule VAT Act)</b>	0.34	0.02	0.02	0.01	0.02	0.05
E7. Exempting the supply of solar devices and equipment <b>(Section 19 and para 1(t) Second Schedule VAT Act)</b>	10.32	12.06	16.46	7.38	6.23	7.45
E8. Exempting the supply of lifejackets, lifesaving gear, headgear and speed governors <b>(Section 19 and para 1 (x) Second Schedule VAT Act)</b>	1.12	0.86	1.33	1.46	1.67	1.75
E9. Exempting supplies to contractors and Subcontractors in energy projects <b>(Section 19 and para 1 (dda) Second Schedule VAT Act)</b>	N/A	13.21	16.20	14.07	18.57	17.25
E10. Exempting construction projects in free zones and industrial parks. <b>(Section 19 and para 1 (dda) Second Schedule VAT Act)</b>	<i>No data</i>					
E11. Exempting the supply of plant, machinery and equipment used in developing free zones and industrial parks. <b>(Section 19 and para 1 (nn) Second Schedule VAT Act)</b>	N/A	N/A	0.242	0	0.053	0.000
E12. Exempting the supply of construction materials for development of an industrial park or free zone. <b>(Section 19 and para 1 (oo) Second Schedule VAT Act).</b>	N/A	N/A	<i>No data</i>			
E13. Exempting specified construction projects and construction materials inside and outside free zones and industrial parks. <b>(Section 19 and para 1 (pp) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E14. Exempting the supply of locally produced raw materials and inputs to specific operators inside and outside an industrial park, free zone. <b>(Section 19 and para 1 (pp) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E15. Exempting the supply of machinery and equipment to specific operators inside and outside the industrial park or free zone. <b>(Section 19 and para 1 (pp) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E16. Exempting construction projects and the construction of tourism facilities by a hotel or tourism facility developer - <b>(Section 19 and para 1 (qq) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E17. Exempting the supply of locally produced materials for construction of premises and infrastructure to a hotel or tourism facility developer. <b>(Section 19 and para 1 (qq) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E18. Exempting the supply of machinery and equipment or furnishings and fittings which are not available on the local market to a hotel or tourism facility developer <b>(Section 19 and para 1 (qq) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E19. Exempting construction projects by a hospital facility developer. <b>(Section 19 and para 1 (rr) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			
E20. Exempting the supply of locally produced materials for construction of premises and other infrastructure to a hospital facility developer. <b>(Section 19 and para 1 (rr) Second Schedule VAT Act)</b>	N/A	N/A	<i>No data</i>			



E21. Exempting the supply of machinery and equipment or furnishings and fittings to a hospital facility developer (Section 19 and para 1 (rr) Second Schedule VAT Act)	N/A	N/A	No data			
E22. Exempting the supply of movie production. (Section 19 and para 1 (rr) Second Schedule VAT Act)	N/A	N/A	No data			
E23. Exempting textile manufacturing operations, equipment and inputs. Section 19 and Para. 1 (tt) Second Schedule VAT Act	N/A	N/A	N/A	1.40	1.25	1.28
E24. Exempting the supply of fabrics and garments made in Uganda. Section 19 and Para. 1 (uu) Second Schedule VAT Act	N/A	N/A	No data			
E25. Exempting the supply of machinery and equipment or furnishings and fittings which are not manufactured on the local market, to a hotel or tourism facility developer - Section 19 and Para. 1 (vv) Second Schedule VAT Act	N/A	N/A	No data			
E26. Exempting the supply of production inputs for iron ore smelting, limestone mining and processing, processing of hides and skins - Section 19 and Para. 1 (vv) Second Schedule VAT Act	N/A	N/A	1.81	3.88	15.90	1.73
E27. Exempting the supply of leather products wholly made in Uganda - Section 19 and Para. 1 (vv) Second Schedule VAT Act	N/A	N/A	No data			
E28. Exempting construction projects for technical or vocational institute operators - Section 19 and Para. 1 (zz) Second Schedule VAT Act	N/A	N/A	N/A	No Data		
E29. Exempting the supply of locally produced materials for construction of premises and infrastructure to technical or vocational institute operators - Section 19 and Para. 1 (zz) Second Schedule VAT Act	N/A	N/A	N/A	No Data		
E30. Exempting the supply of machinery and equipment or furnishings and Fittings to technical or vocational institute operators. Section 19 and Para. 1 (zz) Second Schedule VAT Act	N/A	N/A	N/A	No Data		
E31. Exempting the supply of woodworking machines; welding machines and sewing machines. Section 19 and para 1 (ccc) and 1 (ddd) Second Schedule VAT Act	N/A	N/A	N/A	0.71	1.51	2.83
E32. The Supply of Liquefied Gas	N/A	N/A	N/A	N/A	9.01	14.10
E33. The Supply of Processed Milk; Second sch. (jjj) VAT Act	N/A	N/A	N/A	N/A	0.32	0.64
E34. Covid Reliefs Second sch. (q)(viii) & (qaa) VAT Act	N/A	N/A	N/A	N/A	14.56	19.10
<b>TOTAL TES FROM VAT EXEMPTIONS (UGX)</b>	17.00	41.06	62.36	110.56	116.33	128.94
<b>TOTAL TES FROM VAT EXEMPTIONS (% GDP)</b>	<b>0.016%</b>	<b>0.034%</b>	<b>0.047%</b>	<b>0.079%</b>	<b>0.078%</b>	<b>0.081%</b>

Source: Calculations using data from URA. \*denotes projection

**Table V.3 VAT Allowances**

TAX EXPENDITURE	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Deemed VAT payment on supplies by a contractor to a licensee under mining or petroleum operations. Section 24(5) VAT Act						
2. Deemed VAT on supplies to a contractor executing an aid funded project. Section 24(6) VAT Act	42.80	148.27	449.30	411.01	551.43	743.86
3. Deemed VAT on supplies by contractors executing aid funded projects to a government ministry, department or agency. Section 24(6) VAT Act						
<b>TOTAL FROM VAT ALLOWANCES (UGX bn.)</b>	<b>42.796</b>	<b>148.267</b>	<b>449.298</b>	<b>411.012</b>	<b>551.431</b>	<b>743.861</b>
<b>TOTAL FROM VAT ALLOWANCES (% GDP)</b>	<b>0.04%</b>	<b>0.12%</b>	<b>0.34%</b>	<b>0.29%</b>	<b>0.37%</b>	<b>0.47%</b>

Source: Calculations using data from URA. \*denotes projection

**Table V.4 VAT Rate Reliefs**

TAX EXPENDITURE	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Relief for the supply of educational materials. Section 24(4), 28(1)(a) and Para 1(d) 3rd Schedule VAT Act	11.93	17.94	19.31	19.62	19.45	<b>23.06</b>
2. Relief for agricultural inputs. Section 24(4), 28(1)(a) and Para 1(e) 3rd Schedule VAT Act	18.82	29.65	16.26	13.39	16.16	<b>14.29</b>
3. Relief for the supply of sanitary towels. Section 24(4), 28(1)(a) and Para 1(e) 3rd Schedule VAT Act	13.27	16.25	18.32	18.39	19.86	<b>18.20</b>
4. Relief for cereals. Section 24(4), 28(1)(a) and Para 1(l) 3rd Schedule VAT Act	5.38	5.71	7.99	7.37	9.31	<b>9.96</b>
5. Relief for handling services. Section 24(4), 28(1)(a) and Para 1(m) 3rd Schedule VAT Act	25.32	35.89	39.84	41.50	<b>49.37</b>	<b>58.74</b>
<b>TOTAL FROM VAT RATE RELIEFS (UGX bn.)</b>	<b>74.72</b>	<b>105.44</b>	<b>101.73</b>	<b>100.26</b>	<b>114.14</b>	<b>124.25</b>
<b>TOTAL FROM VAT RATE RELIEFS (% GDP)</b>	<b>0.07%</b>	<b>0.09%</b>	<b>0.08%</b>	<b>0.07%</b>	<b>0.08%</b>	<b>0.08%</b>

Source: Calculations using data from URA. \*denotes projection

**Table V.5 VAT Rate Reliefs**

TAX EXPENDITURE	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
Knock-on VAT effect from Customs Exemptions	4.5	7.4	12.3	8.0	8.8	8.6
Knock-on VAT effect from Customs Rate Reliefs	39.8	40.4	50.9	50.1	54.7	65.5
Knock-on VAT effect from Excise TEs	50.8	73.0	67.1	63.3	78.9	89.7
<b>TOTAL (UGX bn.)</b>	<b>95.1</b>	<b>120.9</b>	<b>130.3</b>	<b>121.4</b>	<b>142.4</b>	<b>163.8</b>
<b>TOTAL (% GDP)</b>	<b>0.09%</b>	<b>0.10%</b>	<b>0.10%</b>	<b>0.09%</b>	<b>0.10%</b>	<b>0.10%</b>

Source: Calculations using data from URA. \*denotes projection

## 4. Customs

### 4.1 Introduction

The benchmark tax system for international trade taxes deals with valuation of goods and rules of origin which affect the taxes imposed on imported or exported goods; and the tax is premised on considerations of what the good is, what it is made of, and in what state of manufacture it is imported or what the item is to be used for. The Customs value of imported goods is the primary basis for determining customs duty liability for imported goods, where *ad valorem* duty applies. Tariff classification and preferential origin are also key elements necessary for establishing duty liability. The benchmark *ad valorem* import tariff for the majority of goods is 25%. Thus, the TE for these goods is 25% of the import value. For some other goods, however, the benchmark tariff is 0%, 10%, 35% or a specific rate. The data source for customs revenue foregone is the URA's eHub.

### 4.2 Summary

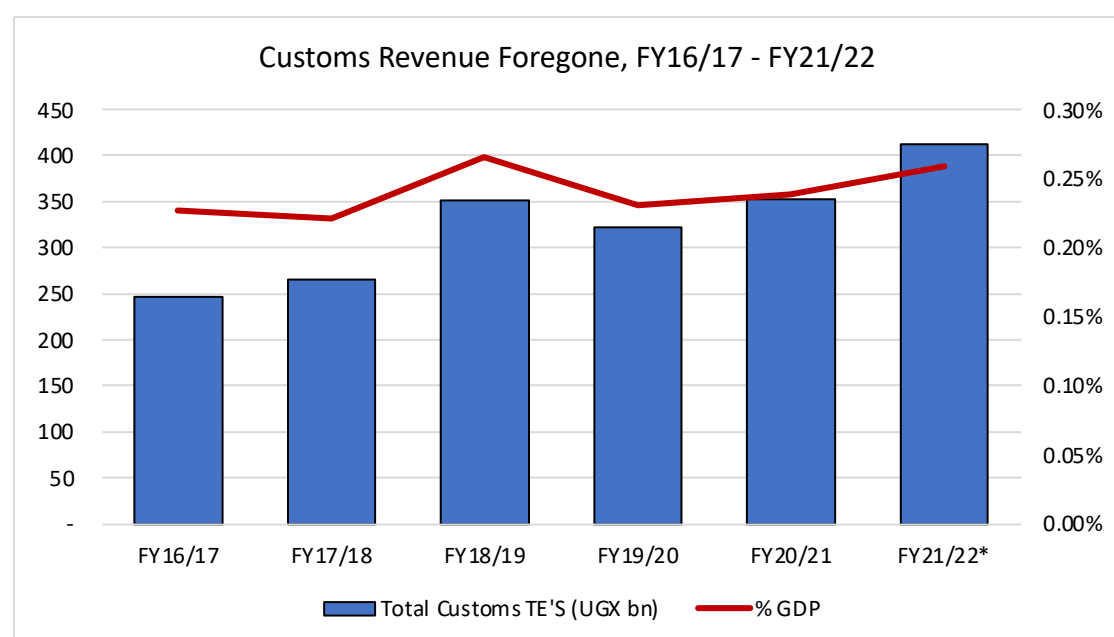
**Table C.1** presents a summary of revenue foregone under customs duty for the years FY16/17 – FY 20/21.

**Table C.1.** Summary of Revenue foregone, Customs FY16/17 – FY20/21

Customs TEs	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
<b>Total (UGX bn)</b>	246.08	266.00	350.92	322.59	352.99	411.65
<b>Total (% GDP)</b>	0.23%	0.22%	0.27%	0.23%	0.24%	0.26%

Source: Calculations using data from URA. \*Denotes projection.

**Figure C.1** Customs Tax Expenditures FY 16/17 – FY20/21



Source: Calculations using data from URA.

Revenue foregone from Customs in FY21/22 stands at **UGX 411.65bn** or around 0.26% of GDP. Whilst in nominal terms this has increased from UGX 246.08bn in FY16/17, as a % of GDP the figure has remained fairly constant at between 0.22 and 0.26% of GDP over the past six financial years. **Figure C.1** displays this information.

### 4.3 Exemptions

Details of revenue foregone from Customs Exemptions are shown in **Table C.2**. The value of revenue foregone due to customs exemptions has risen from UGX 24.48 bn in FY16/17 to UGX 47.88bn in 2020/21. As a % of GDP, however, the revenue foregone from customs exemptions has remained fairly constant over this time period, currently estimated to stand at around 0.2%.

**Table C.2. Summary of Revenue Foregone, Customs Exemptions FY16/17 – FY20/21**

Exemption	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Inputs for gas cylinders	0.254	0.202	0.16	0.017	0.023	0.008
2. Diapers, Urine bags and hygienic bags	0.112	0.12	0.214	0.254	0.33	0.457
3. Solar Equipment	20.15	36.98	62.04	39.49	44.0	43.73
4. Specially designed motor vehicles	0.009	-	0.034	0.046	0.035	-
5. Tourist Vehicles	0.35	0.95	1.29	1.02	0.3	0.33
6. Security Equipment	0.026	-	0.048	0.048	0.056	0.104
7. Battery Operated Vehicles	<i>No Data</i>					
8. Refrigerated trucks, trailers etc.	0.57	0.77	1.21	1.51	2.23	2.09
9. Speed Governors	0.002	0.00	0.017	0.00	0.00	0.001
10. Refrigeration equipment for bodies	0.038	0.004	0.059	0.00	0.00	0.00
11. Hotel Equipment	3.23	2.256	2.465	2.024	1.541	0.848
12. Inputs for use in oil, gas, minerals exploration	0.142	0.016	0.819	0.076	0.445	0.31
<b>Total (UGX bn)</b>	<b>24.87</b>	<b>41.3</b>	<b>68.35</b>	<b>44.49</b>	<b>48.96</b>	<b>47.88</b>
<b>Total (% GDP)</b>	<b>0.02%</b>	<b>0.03%</b>	<b>0.05%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.03%</b>

Source: Calculations using data from URA.

The other categories comprising large amounts of TE under customs exemptions are categories #5, and #14, namely *Specialised solar equipment and Aid funded projects*.

### 4.4 Rate Reliefs

The details of rate reliefs for customs are shown in **Table C.3**. The imports considered here benefit from ‘Stays of Application’ and / or ‘Remission of duty’ as denoted in the EAC Gazettes. Only those goods which received a blanket stay of application or remission of duty are considered. Total revenue foregone from Rate Reliefs has grown from UGX 221.2bn in 2016/17 to UGX 363.8 bn in 2021/22. As a % of GDP, however, they have remained more-or-less constant at between 0.20 and 0.23% over the same time period.

**Table C.3. Details of Revenue Foregone, Customs Rate Reliefs FY16/17 – FY20/21**

Rate Relief	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Wheat Grain	135.567	111.384	146.374	144.509	116.278	<b>200.286</b>
2. Maternity (Mama) Kits	0.065	0.014	0.009	-	-	-
3. Soap Noodles	0.143	0.204	0.297	0.364	0.345	<b>0.702</b>
4. Jacquard Material for making spring mattresses	N/A	0.191	0.286	0.350	0.650	<b>0.550</b>
5. Poly Cotton Material for making mattresses	N/A	1.579	1.510	2.074	2.868	<b>2.271</b>
6. Penstock pipes for use in Hydro Electric Power Projects	0.087	0.071	0.194	0.749	1.260	<b>1.190</b>
7. Barley	1.189	0.002	0.003	0.022	0.001	<b>0.003</b>
8. Poly Vinyl Alcohol		0.023	0.063	0.065	0.051	<b>0.018</b>
9. Motor Vehicles for Transport of Goods with Gross Vehicle Weight Exceeding 5 Tons But not Exceeding 20 Tons.	10.333	10.517	9.791	9.133	11.732	<b>9.443</b>
10. Motor Vehicles for transport of goods with gross vehicle weight exceeding 20 tons	18.623	19.283	26.718	27.076	50.636	<b>51.494</b>
11. EFD, - Cash registers, point of sale (POS), Cashless machines	<i>No Data</i>					
12. Road tractors for semitrailers	3.526	5.109	5.583	6.445	11.403	<b>7.061</b>
13. Bathrobes			0.000	-	0.002	-
14. Clothes-dryers			0.000		0.002	
15. Other toughened (tempered) and laminated safety glass	0.007	0.011	0.005	0.022	0.027	<b>0.002</b>
16. Parts of chains for assemblers of chains for motorcycles, bicycles and industrial machinery	0.000	0.004	0.012	0.002	0.023	<b>0.020</b>
17. Unassembled mobile phones. Inputs for the assembly / manufacture of mobile phones	0.000		0.001	0.004	0.019	<b>0.002</b>
18. Inputs for the manufacture of edible salt of sub-heading 2501.00.00				0.316	0.071	-
19. High tensile galvanised wire	0.026	0.048	0.026	0.065	0.268	<b>0.103</b>
20. Packaging materials	5.616	6.425	7.450	6.164	8.681	<b>9.509</b>
21. Aerosol Cans				0.001	0.127	-
22. Inputs for use in the manufacture of Energy Saving Stoves	0.712	1.170	3.646	3.832	4.242	<b>2.457</b>
23. Equipment for polishing and heating gemstones	0.145	0.023	0.038	0.073	0.090	<b>0.012</b>
24. Organic Surface-Active Agents (Anionic and Cationic)	0.035	0.252	0.069	0.008	0.757	<b>0.877</b>
25. Other organic surface agents	N/A	0.163	0.195	0.190	0.174	<b>0.053</b>
26. Umbrella heads for roofing nails			0.410	0.457	0.602	<b>0.297</b>
27. Inputs for manufacture of baby diapers	4.658	5.675	5.036	5.517	6.396	<b>4.478</b>
28. Steel Blanks for Spoons and forks						
29. Unassembled flat iron (CKD) - inputs for assembly of flat irons	-	-	-	0.012	0.007	<b>0.026</b>
30. Unassembled speakers (CKD) - inputs for assembly of speakers	-	-	-	0.121	0.027	-
31. Unassembled (CKD) LED, CFL bulbs - inputs for assembly of LED & CFL bulbs	0.700	0.006	0.058	0.211	0.168	<b>0.221</b>
32. Unassembled (CKD) DVD players - inputs for assembly of DVD players	-	-	-	0.058	0.060	-
33. Unassembled (CKD) blenders - inputs for assembly of blenders	-	-	-		0.009	
34. Unassembled (CKD) hot water kettles - Inputs for assembly of water kettles	-	0.025	0.034	0.031	0.083	<b>0.034</b>
35. Unassembled floor, table and wall fans	-	-	-	-	-	<b>0.008</b>
36. Unassembled Cookers	-	-	-	-	-	-
37. Motorcycle CKDs	23.219	27.364	30.401	28.825	42.782	<b>35.014</b>
38. -Other non-wired glass -Other Plates, sheets, film, foil and strip of plastic, non-cellular and not reinforced, laminated, supported or similarly combined with Other materials of poly vinyl butyral -Stranded wire, ropes and cable	0.007	0.000	0.006	0.030	0.036	
39. -Other paints and varnishes (including enamels and lacquers) based on synthetic polymers of chemically modified natural polymers, dispersed or dissolved in non-aqueous medium; solutions as defined in Note 4 to this chapter. -Aluminium plates, sheets and strip of a thickness exceeding 0.2 mm of aluminum alloy.	0.047	0.011	0.034	0.453	0.172	<b>0.104</b>
40. Boxes, cases, crates and similar articles of other plastics	0.305	0.297	0.232	0.206	0.310	<b>0.100</b>
41. Odiferous mixtures of a kind used as raw materials in the food or drink industries		15.991	18.202	15.801	19.322	<b>15.150</b>
42. Inputs for the manufacture of furniture	0.073	0.043	0.203	0.185	0.168	<b>0.182</b>
43. Raw materials and industrial inputs for the manufacture of textile (Garments) imported by manufacturers	8.354	5.319	9.845	8.617	8.512	<b>6.751</b>
44. Remission of duty on the following raw materials and industrial inputs imported by manufacturers: Orange juice, frozen or not frozen Other, Apple Juice Active Yeasts Petroleum Jelly Polyurethane Resins Unprinted Unbleached Kraftliner in rolls or sheets Unbleached sack kraft paper in rolls or sheets Other unbleached kraft paper and cardboard Paper and Cardboard coated, impregnated or covered with plastics (excluding adhesives)	7.765	13.489	15.767	16.002	14.975	<b>14.752</b>
45. Raw materials and industrial inputs for the manufacture of footwear (Shoes) imported by manufacturers	0.005	0.009	0.071	0.117	0.693	<b>0.597</b>
<b>Total (UGX bn)</b>	<b>221.2</b>	<b>224.7</b>	<b>282.6</b>	<b>278.1</b>	<b>304.0</b>	<b>363.8</b>
<b>Total (% GDP)</b>	<b>0.20%</b>	<b>0.19%</b>	<b>0.21%</b>	<b>0.20%</b>	<b>0.21%</b>	<b>0.23%</b>

Source: Calculations using data from URA. \*Denotes Projection

## 5. Excise Duty

### 5.1 Introduction

Excise Duty is imposed under the Excise Duty Act 2014 and the excisable goods and services are specified in the Second Schedule of the Act. In addition to their revenue raising objective, excise duties are typically designed to address negative externalities or discourage particular behaviour.

Different specific or *ad valorem* rates form part of the normal tax structure, depending on the good or service in question. Broadly speaking, there are no exemptions by class of taxpayers or activity. The one exception is an exemption for excise duties on ‘Strategic Investment Projects’, discussed further below. Any exceptions or reductions granted to certain consumers would be considered tax expenditures. If prevailing tax rates are used as the benchmark, tax expenditures for goods subject to excise duty arise when one particular type of that good – for example, a locally produced alcoholic drink – is taxed at a lower rate than other products with the same alcohol content.

### 5.2 Summary

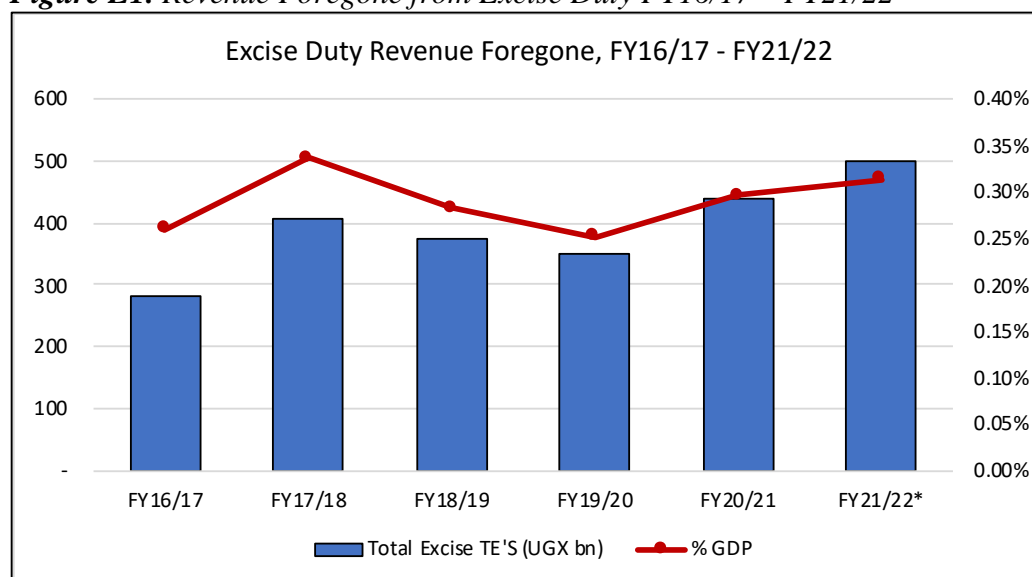
**Table E.1** presents a summary of estimated revenue foregone from excisable goods and services for the period FY 15/16-FY 19/20. This is also depicted in **Figure E1**.

*Table E1. Revenue Foregone from Excise Duty FY16/17 – FY21/22.*

Excise TEs	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
TOTAL (UGX bn)	282.01	405.50	372.84	351.94	438.16	498.34
% GDP	0.26%	0.34%	0.28%	0.25%	0.30%	0.31%

Source: Calculations using data from URA.

*Figure E1. Revenue Foregone from Excise Duty FY16/17 – FY21/22*



Source: Calculations from URA data. \*denotes projection

As can be seen from the depicted figures, revenue foregone under Excise Duty has not shown a constant upward or downward trend over the past six financial years. **Table E.2** summarises revenue foregone under each excise duty category.

**Table E.2** Details of Revenue Foregone from Excise Duties (UGX bn.) FY16/17 – FY21/22

YEAR	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
1. Strategic investment Projects	N/A	N/A	N/A	No Data		
2. Beer	-	60.27	52.76	35.51	26.41	27.69
3. Spirits	169.17	180.14	126.40	83.88	144.79	<b>151.68</b>
4. Wine	0.55	0.60	1.53	1.74	13.09	<b>39.70</b>
5. Int'l calls	112.29	164.49	192.14	230.80	253.88	<b>279.27</b>
6. Furniture	No Data					
<b>TOTAL</b>	282.01	405.50	372.84	351.94	438.16	498.34
<b>% GDP</b>	0.26%	0.34%	0.28%	0.25%	0.30%	0.31%

Source: Calculations using data from URA & UCC. 'N/A' signifies that an expenditure was not applied in the relevant year. The figure for international calls in FY19/20-FY21/22 are estimates, due to missing data.

### **Beers**

The benchmark rate for beer is the Beer Produced from Barley Grown and Malted in Uganda, which is charged LED at the higher of 30% or US\$950/litre. The tax expenditure is, then, the difference between this rate and the rate charged on *Beer whose local raw material content, excluding water, is at least 75% by weight of its constituent*, which is currently charged the preferential rate of the higher of 30% of 650US\$ /litre.

### **Spirits**

The 'benchmark' excise duty rate for spirits in FY21/22 is 100% or UGX 2,500 per litre. Deviations from this are calculated as tax expenditures.

### **Wines**

The benchmark rate for wine is that of 'Other wines' and is set at the higher of 80% or 2,000UGX per litre. Deviations from this rate (applied to locally produced wines) are thus calculated as a tax expenditure.

### **International Calls**

Incoming international calls from the Republic of Kenya, the Republic of Rwanda and the Republic of South Sudan are charged Nil duty while other incoming international calls are charged USD 0.09 per minute. This is the One Network Area (ONA) agreement. It has been in place in Uganda since January 2015. Since calls from the countries covered under ONA are not charged any excise duty, they do not appear in the data of URA. However, the Uganda Communications Commission (UCC) provided a breakdown of incoming calls (in # of minutes), according to whether or not they originated in ONA countries or otherwise. This data

unfortunately only runs until FY18/19, so the estimates for the following years are based on linear projections. It was not possible to retrieve data for more recent years from the UCC.

### ***Furniture***

The excise duty act levies a rate of 0% on ‘*Other furniture*’, compared to 20% on ‘*Specialised hospital furniture*’ and ‘*Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda*’. It was not possible to isolate the appropriate category of furniture in the URA’s data portal on which the tax expenditure should be calculated.



## 6 Additional Revenue Foregone on Aid-Funded Projects

Whilst the Ugandan approach to Tax Expenditure reporting considers reliefs in the form of Customs and VAT exemptions to aid-funded projects (i.e. those listed under the 5<sup>th</sup> Schedule of the EACCMA) as a part of the benchmark tax system, it is nonetheless informative to monitor revenue foregone under these provisions. **Table A.1** shows estimates.

**Table A.1** Aid-Funded Projects

Aid-Funded Projects	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22*
Customs Exemptions	685.68	547.24	653.00	639.21	407.80	360.32
VAT	617.11	492.51	587.70	575.29	367.02	324.29
<b>Total (UGX bn)</b>	<b>1,302.79</b>	<b>1,039.75</b>	<b>1,240.69</b>	<b>1,214.50</b>	<b>774.82</b>	<b>684.61</b>
<b>Total (% GDP)</b>	<b>1.20%</b>	<b>0.86%</b>	<b>0.94%</b>	<b>0.87%</b>	<b>0.52%</b>	<b>0.43%</b>

Source: Estimations from URA. \*Denotes Projection

Estimates for FY21/22 are significantly lower than for prior years. This reflects a projection based on previous years' revenue foregone and data in the FY21/22 to date. VAT revenue foregone here reflects both the VAT exemption on Aid-Funded Projects (18% of their CIF value) in addition to the knock-on effect of a lower tax base due to the customs exemption. Taken together, the Customs and VAT exemptions on these items have been steadily decreasing over the past six years. The estimates for FY21/22 suggest that the extent of these reliefs stands at around 0.43% of GDP, or UGX 685bn; this is less than half of the value of the same in FY16/17.

## 7 Projections of Revenue foregone for FY22/23

This section makes projections for the value of revenue foregone in FY22/23. These projections are based on average growth rates of revenue foregone under each tax head between FY18/19 and FY21/22. These growth rates are assumed as a ‘central estimate’ of revenue foregone. Two other scenarios are projected, namely high and low growth, where the growth rates are assumed to be 50% higher and lower than the above rates, respectively. The estimated growth rates are shown in **Table P.1**.

**Table P.1** Estimated growth rates of revenue foregone for FY22/23

Tax Head	Low-Growth Estimate	Central Estimate	High-Growth Estimate
Income Tax	14.65%	29.3%	43.95%
VAT	8.3%	16.6%	24.9%
Customs	3.0%	6.0%	9.0%
Excise Duty	5.45%	10.9%	16.35%

Accordingly, revenue foregone for FY22/23 is estimated to be as follows:

Tax Head	FY22/23 (Low Growth Estimate)	FY22/23 (Central Estimate)	FY22/23 (High Growth Estimate)
Income Tax	477.72	<b>538.82</b>	661.02
VAT	1,257.38	<b>1,354</b>	1,546.98
Customs	423.97	<b>436.3</b>	460.96
Excise Duty	525.44	<b>552.54</b>	606.74
<b>Total (UGX bn.)</b>	2,684.51	<b>2,881.57</b>	3,275.70
<b>Total (% GDP)</b>	<b>1.53%</b>	<b>1.64%</b>	<b>1.87%</b>

These estimates do not take into account the effect of any new additions or removals to the TE repository. They might, thus over- or under-estimate the actual figures for revenue foregone depending on whether new TEs are granted in the tax amendments for FY22/23.

The Central estimate suggests that revenue foregone from Tax Expenditure will be in the region of **UGX 3,297bn in FY22/23**, or around **1.88% of GDP**.

## Appendix: Methodological Issues

Here, we outline a number of methodological issues that are useful background for understanding the calculations herein. The TE report should always be viewed as a “living” document that evolves with data availability, staff’s understanding of that data and any advancements in modelling techniques.

For this TE report, a number of improvements over previous iterations have been incorporated.

### Customs.

The basis for calculating revenue foregone on imports is the difference between the actual CIF value and the CIF value, were customs duties to be applied (i.e. in the absence of a particular provision).

The benchmark rate is that for each specific item (calculated at the HS Code level) under the Common External Tariff. Normally, this is 25%, but there are times when the benchmark tariff rate is 10, or 35%.

A number of cases exist that *do not* represent tax expenditures.

- Imports from other EAC members
- Imports from COMESA members
- Higher import duties on certain products.

Thus, any imports from EAC or COMESA members are not included in the analysis, whilst those goods (i.e. sensitive or luxury items) where a higher tariff (such as 65%) is charged would actually represent a *negative* tax expenditure. However, for now, these are not incorporated in the TE analysis.

This report also incorporates the knock-on effect to VAT revenues of customs TEs. As customs duty forms part of the VAT base, any reduction in customs liability will have a mechanical effect on the amount of VAT collected (to the tune of 18% of the value of revenue foregone). This is incorporated under the VAT section of the report.

### VAT

The majority of the data for VAT TEs etc. comes from customs data, as the majority of the relevant goods (and services) are imported. However, in order to better approximate the final revenue foregone due to TEs on VAT-able imports, it is necessary to incorporate information about the importer, reseller markups etc.

Broadly, we can consider four cases of imported goods. Figure A1 illustrates.

**Figure A.1** VAT Import Pathways

Who purchases / imports?	Consumer / user
1. Final consumer / Exempt enterprises	Final consumer / Exempt enterprises
2. Taxable enterprises	Taxable enterprises
3. Taxable resellers	Final consumer / Exempt enterprises
4. Taxable resellers	Taxable enterprises

Source: Authors' elaboration from Hutton (2010)<sup>3</sup>

**In the first case**, the TE calculation is relatively straightforward: the final consumer or a VAT exempt enterprise both imports and consumes the good, and thus the value of revenue foregone is simply

$$(\text{Value}) * 0.18$$

The 'Value' here incorporates the CIF value plus any additional charges such as excise duty that form part of the VAT base.

In the customs data from URA, we consider any importer in the 'UNKNOWN' or 'Agriculture, Forestry and Fishing' sectors as falling in this category.

**In the second case**, there is *usually* no tax expenditure. That is because, were a taxable enterprise to import the good *and the tax expenditure was not in place*, then they would be eligible for an input tax credit as soon as it was consumed or used in the production process.

However, in one specific case, a tax expenditure does exist. That is where the good is used as an input in the production of an exempt output. In this case, it is necessary to impose some assumptions over the portion of output of a given sector that is exempt. This report uses VAT returns data from the URA to estimate the ratio of taxable sales to total sales. The portion of tax-exempt sales ratio (*TER*) is estimated as

$$TER_{it} = 1 - \left( \frac{\sum_{i=1}^n TXS_{it}}{\sum_{i=1}^n TS_{it}} \right)$$

where  $TXS_{it}$  represents the value of taxable sales for firm  $i$  at time  $t$  and  $TS_{it}$  represents the value of Total Sales for firm  $i$  at time  $t$ . Thus, the value of *TER* is the average ratio across all firms in sector  $i$ .

<sup>3</sup> Hutton, E., (2010), "[A Basic Framework for Evaluating Value Added Tax Expenditures](#)", *Inter-American Development Bank*, Discussion Paper No. IDB-DP-138

We apply this ratio to imports of goods in all sectors apart from Agriculture, Unknown and Wholesale and Retail Trade, also incorporating a markup.

Thus, the calculation for VAT revenue foregone of any such imports is:

$$(Value + Markup) * TER * 0.18$$

As above, the Value incorporates any additional charges such as excise duty that form a part of the VAT base.

The value of the markup is 17.5%. This is elaborated upon below.

**In the third case**, i.e. imports to taxpayers in the ‘Wholesale and Retail Trade’ sector, it is necessary to apportion the share of imports going to ‘final consumers (or exempt enterprises)’. In order to do this, we again considered VAT returns from URA, taking the entire universe of VAT declarations for the FY20/21. These returns apportion a firms’ sales to either ‘final clients’ or to ‘registered clients’. ‘Final clients’ represent those sales to either a consumer or firm not registered for VAT; in either case the purchaser will not claim back VAT as an input.

In order to find this ratio, we simply take the share of all sales to final clients as a share of the sum of sales to final clients and sales to registered clients, or:

$$FCl.share_{it} = \left( \frac{\sum_{i=1}^n FCl_{it}}{\sum_{i=1}^n RC_{it} + \sum_{i=1}^n FCl_{it}} \right)$$

where  $FCl.share_{it}$  is the share of sales to final clients in sector  $i$  at time  $t$ .  $FCl_{it}$  represents the total US\$. value of all sales to final clients in sector  $i$  at time  $t$  and  $RC_{it}$  is the total US\$. Value of all sales to registered clients in sector  $i$  at time  $t$ .

As we are concerned with the Wholesale and Retail Trade sector, we carry out this calculation only on sales for that sector. The result is that 70.12% of sales from this sector are to final consumers; by definition,

We also must estimate a retail markup. Using Uganda’s Supply and Use tables, a weighted average retail markup was calculated for a basket of 100 goods. The result was a markup of 17.5%, which we apply accordingly here.

Thus, in order to find the value of VAT foregone for goods imported by taxable resellers and sold directly to ‘final clients’, we apply the following calculation

$$[(Value + Markup) * FCl.share] * VAT rate$$

i.e.

$$(Value * 1.175) * 0.7012 * 0.18$$

**Turning to the fourth case**, we must finally deal with the share of goods imported by Retail and Wholesale Trade that do not pass to final clients. This value is simply:

$$RC.share = (1 - FCl.share)$$

The share to registered clients is 1-0.7012, or 29.88%.

We also must estimate the share used in the production of an exempt output. We know from above that the portion of tax-exempt sales ratio (*TER*) stands at 8.5%. Thus, in order to estimate revenue foregone for this case, we apply the following calculation:

$$[(Value + Markup)] * RC.share * TER * VAT\ rate$$

i.e.

$$(Value * 1.175) * 0.2988 * TER * 0.18$$

Returning to Figure A1, we can now incorporate each of these calculations in order to summarise:

**Figure A2. VAT Import Calculations**

Who purchases / imports?	Consumer / user	Applicable Sectors	Calculation
Final consumer / Exempt enterprises	Final consumer / Exempt enterprises	Agriculture, Unknown	$Value * 0.18$
Taxable enterprises	Taxable enterprises	All others	No TE, except when used in the production of an exempt output, calculated as: $(Value * 1.175) * TER * 0.18$
Taxable resellers	Final consumer / Exempt enterprises	Wholesale & Retail Trade	$(Value * 1.175) * 0.7012 * 0.18$
Taxable resellers	Taxable enterprises	Wholesale & Retail Trade	$(Value * 1.175) * 0.2988 * TER * 0.18$

### Excise Duty

The knock-on effects of excise duty to VAT revenues have been incorporated in a similar manner to those from Customs.

### Income Taxes

The primary change to methodology for this version of the TE report is with regard to the initial allowances on plant and machinery and industrial buildings. The report now only considers TE on these initial allowances to occur in cases where, if the allowance were removed, it would either bring the firms' chargeable income into a positive position if it were previously negative.