Domestic Revenue Mobilization Strategy

Semi-Annual Monitoring Report

Financial Year 2022/23

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Budget Monitoring and Accountability Unit
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ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AGO	Accountant Generals Office
AEOI	Automatic Exchange of Information
AIA	Appropriation in Aid
BMAU	Budget Monitoring and Accountability Unit
Bn	Billion
CIT	Corporate Income Tax
CF	Consolidated Fund
COVID-19	Coronavirus Disease 2019
DINU	Development Initiative for Northern Uganda
DTS	Digital Tax Stamps
DRMS	Domestic Revenue Mobilization Strategy
EAC	East African Community
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
EPR	Effective Protection Rates
EPRC	Economic Policy Research Centre
FY	Financial Year
GDP	Gross Domestic Product
GoU	Government of Uganda
ICT	Information Communication Technology
IMF	International Monetary Fund
IRAS	Integrated Revenue Administration System
LED	Local Excise Duty
LGFC	Local Government Finance Commission
LGs	Local Governments
Ltd	Limited
MDAs	Ministries, Departments and Agencies
MFPED	Ministry of Finance, Planning and Economic Development
MEMD	Ministry of Energy and Mineral Development
MoES	Ministry of Education and Sports
NIRA	National Identity and Registration Authority
NITA-U	National Information Technology Authority Uganda
NTR	Non-Tax Revenue
NWSC	National Water and Sewerage Corporation
OECD	Organization for Economic Co-operation and Development
PAU	Petroleum Authority of Uganda
PAYE	Pay as You Earn
PFMA	Public Finance Management Act
PIT	Personal Income Tax
PRN	Payment Registration Number
PS/ST	Permanent Secretary/ Secretary to the Treasury
PODITRA	Post Graduate Diploma in Tax Administration
PRN	Payment Registration Number
STI	Science, Technology and Innovations
TAT	Tax Appeals Tribunal

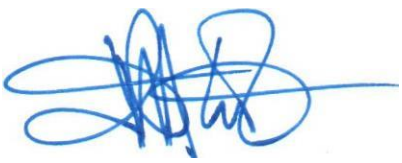
TIN	Tax Identification Number
TPD	Tax Policy Department
TREP	Tax Registration and Expansion Project
UBOS	Uganda Bureau of Statistics
UNBS	Uganda National Bureau of Standards
UNHCE	Uganda National Council for Higher Education
URA	Uganda Revenue Authority

FOREWORD

The Government of Uganda remains committed to adopting reforms that will enhance its domestic revenue mobilization, especially within the current challenging domestic and global shocks. These shocks have made it more evident that there is an urgent need to improve our public financing strategies as envisioned in the Domestic Revenue Mobilization Strategy (DRMS) 2019/20-2023/24.

This report presents monitoring findings of interventions aimed at improving our tax policy and tax administration regime. Fair performance is noted across board, which shows that there is still room for improvement. With almost only one-and-a-half years left of the DRMS, it is imperative that the concerned stakeholders devise means to accelerate the implementation of the strategies to achieve the objectives set therein. There is an urgent need to embrace the achievements noted, and identify good practices to enhance the areas that need improvement.

I therefore call for a unified front from all stakeholders to eliminate the bottlenecks impeding our success to achieving enhanced revenue mobilization.



Ramathan Ggoobi
Permanent Secretary/ Secretary to the Treasury

EXECUTIVE SUMMARY

This report presents a review of the performance of interventions under the Domestic Revenue Mobilisation Strategy (DRMS), based on the Tax Policy and Tax Administration indicators.

Methodology

This DRMS Monitoring Report is based on the performance of selected interventions under tax policy and tax administration between 1st July and 31st December 2022. The DRMS comprises a total of 80 interventions, of which 42 were directly assessable at half year. Of these, 34 (83%) were assessed (11 under tax policy and 23 in tax administration).

Specifically, for Tax Policy, of the 14 interventions assessable at half year, 11 (79%) were assessed under the broader DRMS objectives as follows: Process reform and institutional changes, strengthening the productivity of Value Added Tax (VAT), developing a strong extractive industry taxation regime, promotion of international trade, improve the excise duty regime, and taxation of the digital economy. Additionally, for Tax Administration, of the 28 interventions assessable at half year, 23 (82%) were assessed under the broader DRMS objectives of Governance and management of URA, lifting the human resource capacity at URA, data management and analytics, information, communication, and technology infrastructure, taxpayer registration, timely payment of taxes, tax audit, investigations & enforcement, dispute resolution, processing of tax refunds and customs and trade facilitation.

The semi-annual assessment covered interventions under Uganda Revenue Authority (URA), Tax Policy Department (TPD) and Tax Appeals Tribunal (TAT) of the Ministry of Finance, Planning and Economic Development (MFPED). Other Ministries, Departments and Agencies (MDAs) that provided data in respect of interventions and indicators included the Petroleum Authority of Uganda (PAU), Uganda Bureau of Statistics (UBOS), Bank of Uganda (BoU), Economic Policy Research Centre (EPRC), and the National Information and Technology Authority-Uganda (NITA-U).

Primary and secondary data was collected through literature review, consultations and key informant interviews, focus group discussions and field visits to URA customs border posts. Data was collected by two monitoring teams, comprised of both BMAU and URA staff. The performance of the interventions was assessed by monitoring a range of indicators and linking the progress to planned targets, previous Financial Years (FYs) semi-annual performance or the baseline and policy measures initiated in the FY.

Findings

Overall performance based on the DRMS interventions assessed was rated fair (58%). Of the 34 interventions appraised, 7(24%) were rated good, 21 (59%) fair and 6(18%) poor.

i) Tax Policy Interventions

The interventions performed fairly at 55%. Of the 11 interventions assessed, two were rated good, six were rated fair, and three were rated poor.

Good performance

1. **Review the current VAT threshold and rate to minimize administrative and compliance costs, encourage small business growth, and safeguard revenues**: The threshold was not reviewed, however, the growth of small businesses was registered. In the first half of FY 2022/23, the VAT paid per taxpayer increased to Ug shs 5.9 million from Ug shs 5.5 million

in the first half of FY 2021/22. Except for payers below the threshold of Ug shs 150 million, there was growth in average VAT paid by the taxpayers. The filing continues to be conducted online which reduced administrative and compliance costs, thus encouraging the growth of small businesses and minimising costs for URA.

2. **Address TPD structure and staffing/training needs** during the first half of FY2022/23, Tax Policy staff were trained in digital economy tax., and handling the VAT policy and advanced revenue forecasting. This was an improvement as there was no staff training conducted in the first half of FY 2021/22.

Fair performance

1. **Limit the range of zero-rated supplies as far as possible**: In the first half of the FY 2022/23, the proportion of zero-rated supplies of total supplies registered increased slightly to 16.62% from 16.06% for the same period in the FY 2020/21. Zero-rated supplies of non-export items as a proportion of total zero-rated supplies increased to 31.34% from 22.79% attained in the first half of FY 2021/22. Additionally, the value of zero-rated supplies by type of supply registered an upward trend when compared to the same period in FY 2021/22. Although the range of zero-rated supplies increased, a range of welfare objectives and the promotion of agricultural activities were supported.
2. **Remove unnecessary VAT exemptions to curb unjustifiable revenue leakages:** Exempt supplies as a percentage of total supplies increased to 16.59% from 11.44%. The value of exempt supplies by type of supply decreased for the respective supplies except for petroleum fuels which comprise 76% in value of the exempt supplies compared to the same period in FY 2021/22. Although government supports certain supplies through exemption their consumption declined.
3. **Balance the objectives of export promotion, revenue generation, and support to domestic industry:** Locally produced items were protected while encouraging the importation of others not produced. The import tariff rates were within range and this promoted international trade. Overall, 59% of goods entering the country where effectively protected through the tariffs. Import duty rates increased to 37.4% from 28.3% for the same period of FY 2021/22.
4. **Improve inter-agency coordination and infrastructure**: Processes and infrastructure at the one-stop border posts were developed although some stations were yet to be operational. The roads to some border stations were in a poor state, for example, the roads to Mpondwe, Goli, Mutukula and Ntoroko. Overall, 70% of border stations did not have reliable sources of power as noted in Lwakhakha, Goli, Vurra and Oraba. Coordination between the various border control agencies, including customs, immigration, internal affairs, and the UNBS were enhanced at some border stations.
5. **Fine-tune the framework for taxing the extractives industries**: The Draft Petroleum Returns were completed by the URA technical team and presented to other stakeholders. The oil & gas and mining risk matrices were completed and used in the development of the Compliance Improvement Plan (CIP) for the taxpayers. On the other hand, oil and gas licensing received a failing score, as it was hampered by the absence of a cadastre, lack of beneficial ownership rules on public disclosures and the government's failure to disclose contracts with oil and gas companies.
6. **Address the impact of the digital economy on the tax base**: No policy on the taxation of income from the digital economy has been concluded, however, the URA commenced capturing the digital economy into the tax base in FY 2021/22. In the first half of FY

2022/23 revenue collected from web-based businesses as a percentage of total revenue realized was 0.03%, an improvement from none for the same period in FY 2021/22. The number of active taxpayers classified as web-based businesses increased to 16 from 2 in the same period in FY 2021/22.

Poor performance

1. **Review the policy on deeming to allow the VAT system to function normally**: The policy on deeming to allow the VAT system to function normally was not reviewed. However, in the first half of FY 2022/23, the value of VAT foregone was Ug shs 253.21bn, this reduced from Ug shs 609.34bn compared to the same period in FY 2021/22. The reduction notwithstanding the distortion to the VAT system arising from deeming activities persists.
2. **Elevate the status of taxation within MFPED**: The TPD's status was unchanged, and the appropriated budget for FY2022/23 is Ug shs 13.02bn as has been over the last three FYs. This limits the scope of activities undertaken especially for research and developing and drafting policies.
3. **Rationalize multiple rates (excise),** and **design an alternative incentive scheme promoting the use of local content**: This was not achieved but efforts were underway to remedy this effect. The specific rates and advalorem rates were applied to products such as beer and spirits. The effective excise duty rate on beer was 41% but could have been higher (60%) if specific rates were adopted or rationalised.

(ii) Tax Administration Interventions

Tax administration interventions performed fairly (65%). Of the 23 interventions assessed, five had good performance, 15 were fair and three poor.

Good performance

1. **Implement the Automatic Exchange of Information and common reporting standards for tax purposes**: The following progress was noted: (i) a full Act was recommended to align the regulations with domestic law, so a Bill was drafted and shared with MFPED. (ii) A consultative meeting with the regulatory bodies was held in preparation for the presentation of the Bill, (iii) the customs and trade solution (CTS) agreement was signed and a contact person designated, (iv) developers were benchmarking with systems in other jurisdictions to develop an internal Automatic Exchange of Information (AEOI) system.
2. **Enhance resources to equip scientific laboratories and investigations personnel**: This was not done however, the number of forensic tax investigations completed increased by 29% from 64 as at 31st December 2021/22 to 83 during the same period in FY 2022/23. The scientific labs provided technical scientific support, seven new staff were not adequately trained but were undertaking on-job training in laboratory analytical procedures, operation and application of laboratory equipment, safety procedures and risk assessment. The number of forensic tax investigations completed increased by 19% from 51 in FY 2020/21 to 61 in FY 2021/22.
3. **Intensify penalties for non-compliance and increase the number of tax investigations**: The tax investigation efforts resulted in 83 cases conducted and completed with identified recoverable revenue worth Ug shs 105bn. This represented a 30% growth in the number of cases conducted and a substantial increase in the recoverable revenue identified from the half-year FY 2021/22. Tax investigation analysis for the period ending July – December 2022/23 mainly covered areas of tax crime, financial crime and science investigations.

4. **Publicize the results of enforcement initiatives**: The URA issued 17 media reports across numerous media outlets. This was 68% of those issued in the FY 2021/22 and will surpass previous performance if sustained. Increasingly publicising the result of enforcement activities should act as a deterrent to taxpayers.
5. **Strengthen URA's Audit Function by adopting modern audit tools, enhancing the use of risk targeting, and increasing the number of "mass audits**: The Audit Function was strengthened and the number and type of domestic audits completed increased from 5,566 to 41,371 by 31st December 2022, alongside a 180% increase in tax assessed. Conversely, the percentage of total targeted customs post-clearance audits completed decreased, from 79% to 36% compared to the same period in the previous year. As a result, there was a decrease in tax assessed, which declined from Ug shs 44.4bn to Ug shs 8.18bn.

Fair performance

1. **Expand the range of measures for assessing URA's performance to reduce reliance on collection targets**: The uncollected tax to target reduced (from 9% to 1%) and there was a growth in revenue collected of Ug shs 1,618bn. This was indicative of an increase in compliance by taxpayers as a result of the tax administrative measures and policies implemented during the half-year period.
2. **Conduct an independent staffing review**: This was not conducted independently, however, by 31st December 2022 the ratio of taxpayers to URA staff increased to 1,073 from 887 in the first half of FY 2021/22. This was due to an increment in the number of taxpayers alongside a disproportionate increment of URA staff. The number of taxpayers increased by 54%, whereas the number of URA technical staff increased by 29%. This was therefore likely to compromise tax administration.
3. **Implement a comprehensive training strategy and develop a URA tax training academy**: A request to develop a tax training academy was not yet adopted, nonetheless, the percentage of Domestic Tax (DT) operational staff that completed the Post Graduate Diploma in Taxation and Revenue Administration (PODITRA) increased from 11.6% at half year 2021/22 to 31.5% as at 31st December 2022/23.
4. **Develop a cross-government policy framework for data sharing and managemen**t: The National Information Technology Authority-Uganda, (NITA-U) developed the Uganda e-Government Interoperability Framework to outline the main principles and general guidelines enabling the development and implementation of shared electronic services for citizens, businesses, and Ministries, Departments, Agencies and Local Governments (MDA/LGs). However, the number of forced tax registration could not be tracked.
5. **Promote political messaging supportive of a civic duty to register**: The register expansion team conducted eight external stakeholder engagements. In addition, there were Joint Tax Registration and Expansion Project (TREP) field operation exercises between URA, KCCA and URSB in three KCCA divisions (Central, Nakawa and Kawempe). There were also engagements with the Law Council, religious leaders, and some major players in the entertainment industry. However, the number of voluntary registrations was not availed to the monitoring team.
6. **Address infrastructure constraints by offering points for connection across the country:** NITA-U successfully commissioned the Regional Communications Infrastructure Program (RCIP) to address infrastructure constraints in FY 2022/23. Through the last mile project, the NITA-U extended the National Backbone Infrastructure (NBI) connectivity to additional 855 sites bringing the cumulative number of sites connected to 1,459 government

MDAs/LGs sites and other target user groups across the country. However, the number of returned filed through URA could not be tracked at half year.

7. **Design and implement a medium-term ICT strategy**: The strategy was designed but not yet under implementation and thus delayed. The overall project status was at 61%. Eighty percent of the Data Centre in-build inputs were received. In addition, the contractor was on site and construction/build works were ongoing.
8. **Standardise key government systems to improve integration:** To support the standardisation of key government systems to improve integration, NITA-U developed a data-sharing and integration platform to enhance the delivery of services in the government and private sector. This platform was rolled out to 102 entities with 58% being private and 42% MDAs.
9. **Facilitate the Tax Appeals Tribunal (TAT) to expeditiously deal with cases by increasing staff training and numbers:** TAT remains understaffed and no trainings were conducted owing to underfunding, however, the number of new tax disputes lodged to TAT reduced by 48.8% from half year FY 2021/22. Conversely, the number of disputes resolved within the first half of FY 2022/23 drastically reduced by 16.7% from 143 to 119 in the first half of FY 2021/22 and the proportion of cases escalated to the high court grew from nine to twelve. This indicates that the pace of case resolution was not keeping up with that of new cases lodged. Having a large number of pending cases ties up revenue and acts as a deterrent for businesses to invest more. It also affects the turnaround time of refunds.
10. **Develop a plan to streamline the management of offsets and refunds, including automatic cross-matching of taxpayer declarations:** The number of approved tax refund claims (of the claims received by half year FY22/23) increased by 39.5% and the value by 23.3% from half year FY 2021/22. Comparatively, the proportion of refund claims processed timeously (within 30 days) only increased by 5.36 percentage points, indicating a slight improvement in turnaround time from the previous half year (2021/22) but not proportionate to the increase in the number and value of refund claims. The turnaround time was affected by lengthy audits, delays in the submission of additional documentation by taxpayers to support the audit process, pending objection applications and delays in TAT rulings.
11. **Develop electronic systems to record incidents in customs processes:** The systems are in place and intelligence information is recorded electronically from informers. The tipoffs totalled 1,665 by 31st December 2022. They mainly concerned smuggling, concealments, misdeclaration, transit diversions and other violations.
12. **Strengthen the capacity to monitor transit procedures, detect evasion and non-compliance, and sanction offenders**: Seven trainings were conducted, URA deployed 3,800 e-seals and began the procurement process to acquire an additional 4,500 e-seals. The electronic seal cargo rate increased from 18% - 33% with the additional 3,800 e-seals. Three researched papers were produced to guide tax incentives/ exemptions for investors, and the researched valuation research and quarterly valuation database research to guide customs staff and taxpayers.
13. **Agree Customs Mutual Assistance Agreements (CMAA) and electronic exchange of information agreements with major trading partners**: Two Mutual Assistance Agreements (CMAA) and electronic exchange of information agreements were developed with China and South Africa.
14. **Make more pre-arrival and pre-clearance options available to facilitate the clearance of most entries at Mombasa Port. This should include having a full-fledged Ugandan**

Customs clearance office in Mombasa with adequate facilities, resources, and legal powers: URA's customs clearance office in Mombasa has resulted in a reduction of average clearance time from 18 to 3-4 days, elimination of diversion of transit goods, and a reduction in the cost of doing business in terms of multiple declarations that needed declaration fees.

15. **Enhance warehousing control and increase the direct clearance of goods for domestic consumption:** The Bonded Warehouse Management Information System (BWIMS) was developed and deployed to address the inefficiencies in the management of cargo in bonded warehouses. The BWIMS is expected to improve cargo management, inventory management, reconciliation, and information sharing, prevent revenue leakage and facilitate cargo clearance in bonded warehouses.

Poor performance

1. **Review the URA performance management and reward system**: The URA reviewed its performance management and rewards system at the start of the FY 2022/23, but was only able to implement the performance management. There was a 28% increase in the number of staff, which was accompanied by a 116% increase in the number of staff leaving, resulting in a rise in the total staff attrition rate by 0.67 percentage points from the same period in the previous FY. Domestic Taxes and Customs had the highest number of staff leaving (17 and 16 respectively) across the two periods, yet they are the most critical in tax administration and revenue mobilization. This implies that there is a need to improve the terms and conditions of work at the URA.
2. **Improve URA's access to external data to identify potential taxpayers:** The total number of new taxpayers registered had increased by 146% (from 182,553 to 449,975). Of the new taxpayers registered, 32,877 (7%) obtained data from various external sources. Although the number of new taxpayers identified increased significantly, the percentage share of those identified through external data was low. Consequently, the URA had planned to generate Ug shs 317bn by expanding the taxpayer register through the use of third-party data, however, by 31st December 2022, the estimated revenue gain from all new taxpayers was only Ug shs 4.50bn (1.42%).
3. **Fully implement the recently-adopted policy on digital tax stamps:** The number of firms using digital stamps increased by 78% (from 520 to 925) and by (546.8%) from the baseline. Although the total LED paid by firms applying the digital tax stamps (DTS) increased by 28% (from Ug shs 365bn to Ug shs 468.97bn, the average LED paid by firms using DTS decreased from Ug shs 1.54bn to Ug shs 1.04bn, over the same period and thus the percentage of average LED paid by firms using digital stamps declined to -33% from -27%. This was partly attributed to an increase in low-cost products.

Key Challenges

1. Limited leveraging of available systems to enhance the setting of revenue targets and collection. The half-year revenue target increased by 6.5% (less than the level of inflation 10% experienced in the period) from that of the first half of FY 2021/22 resulting in limited exploitation of the revenue potential.
2. Slow progress in the development of relevant policies to support the unlocking of the revenue potential of certain interventions. Under digital taxation, excise duty and double tax agreements (DTAs) with some countries. These, have been ongoing for some time.
3. Delays in the processing of VAT tax refunds have the potential to adversely affect businesses.
4. High staff attrition levels in the Domestic and Customs tax departments yet they are critical in tax administration and revenue mobilization.

Conclusion

Overall, 75% of the interventions have since registered some progress, although some have gradually slowed and others stalled. For instance, data management, analytics and design, implementation of a medium-term ICT strategy and strengthening of international tax rules and enforcement slowed down. There is an elevated risk of stagnation of the DRMS interventions and thus objectives translating into fair performance. Other factors hampering progress in the first half of the FY 2022/23 were the delays in developing relevant policies to derive revenue from potential sources while minimizing revenue leakages.

Recommendations

1. The MFPED and URA should leverage systems to realize greater revenue yields and efficiency, for example, the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) to hasten VAT tax refunds and revenue projection.
2. The MFPED-TPD should hasten the policies regarding the digital service tax to align it with the new two-pillar plan that seeks to reform international taxation rules. As well as conclude relevant DTAs with the attendant arrangements of exchange of information.
3. The NITA-U and MFPED-TPD should work together to support the process of increased sharing of relevant information between MDAs and LGs. They should ensure that the relevant infrastructure is in place and the relevant laws for implementation are drafted.
4. The MFPED-TPD and URA should continue developing the capacity to conduct relevant research on the impact of certain policies and tax administration measures on businesses and households to harness revenue sources.
5. The URA should improve the terms and conditions of work, and the reward system to minimize staff attrition.
6. The MFPED, URA and MDA&LGs should insist on the aspect of information sharing to support the growth of the tax base. Furthermore, there is a need to nurture deeper forms of coordination between the MFPED, URA and MDAs toward focusing on key DRMS interventions.

CHAPTER 1: INTRODUCTION

1.1 Background

The mission of the Ministry of Finance, Planning and Economic Development (MFPED) is, "*To formulate sound economic policies, maximize revenue mobilisation, and ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development.*" To maximise revenue mobilization, the Domestic Revenue Mobilization Strategy (DRMS) 2019/20-2023/24 was developed in Financial Year (FY) 2019/20. The strategy's core objective is to improve revenue collection and raise Uganda's tax to Gross Domestic Product (GDP) ratio from 12.5% to 16%-18% within the five financial years. The revenue strategy over the third National Development Plan (NDP III) period envisages improving compliance and efficiency in tax revenue collections through the implementation of the DRMS.

Emphasis is on strengthening administrative efforts to narrow the gap between current and potential revenue performance. On the tax policy side-it is essential that tax reforms are carefully assessed, quantitatively analysed, and openly debated. An increase in revenue would reduce the country's deficit and consequently her reliance on borrowing, thus keeping debt at sustainable levels.

The DRMS interventions are broadly geared to:

1) Raise additional revenues to support the government's budgetary position.

2) Encourage a healthy flow of investment.

3) Address issues of fairness and transparency in the tax system.

Implementation of the DRMS interventions and performance has since FY2020/21, been tracked by the Budget Monitoring and Accountability Unit (BMAU), semi-annually. This is done using performance indicators of Tax Policy and Tax Administration and is aimed at supporting the Government of Uganda's efforts to improve its domestic revenue mobilisation efforts. The semi-annual assessment for FY2022/23 includes a detailed description of the performance of the DRMS interventions. The DRMS status of the implementation matrix is included in annexes 2 and 3.

CHAPTER 2: METHODOLOGY

2.1 Scope

The FY2022/23 semi-annual DRMS Monitoring Report is based on selected interventions under Tax Policy and Tax Administration. The DRMS comprises a total of 80 interventions, of which 42 (14 Tax Policy and 28 Tax Administration) were directly assessable at half year, and 34 (81%) were assessed.

Specifically, for Tax Policy, of the 14 interventions assessable at half year, 11 (79%) were appraised under the broader DRMS objectives as follows:

1. Process reform and institutional changes
2. Strengthening the productivity of Value Added Tax (VAT)
3. Develop a Strong Extractive Industry Taxation Regime
4. Promotion of International Trade
5. Improve the Excise Duty Regime
6. Taxation of Digital Economy
7. Promotion of International Trade

Under Tax Administration, of the 28 interventions, 23 were appraised (82% coverage) under the broader objectives as follows:

1. Governance and management of URA
2. Lifting the human resource capacity at URA
3. Data management and analytics
4. Information, communication, and technology infrastructure
5. Taxpayer registration
6. Taxpayer education, service, and communication
7. Timely and accurate filing
8. Timely payment of taxes
9. Tax audit.
10. Investigations & enforcement
11. Dispute resolution
12. Processing of tax refunds

The semi-annual assessment covered interventions under the Uganda Revenue Authority (URA), Tax Policy Department and Tax Appeals Tribunal (TAT) of the Ministry of Finance Planning and Economic Development (MFPED). Other Ministries, Departments and Agencies (MDAs) that provided data in respect of interventions and indicators included: The Petroleum Authority of Uganda (PAU), Uganda Bureau of Statistics (UBOS), Bank of Uganda (BOU), Economic Policy Research Centre (EPRC), and the National Information and Technology Authority-Uganda (NITAU)

2.2 Approach and Sampling Methods

The performance of interventions, actions and outcomes was assessed by monitoring a range of indicators and linking the progress to planned targets, and comparing to previous FYs' semi-annual performance, baseline data and policy measures undertaken. The selection of interventions assessed was based on significance in contribution to the DRMS objectives, and the availability of sufficient data for the period under review.

2.3 Data collection and Analysis

Data collection

Both primary and secondary data was collected. Secondary data was collected through a literature review (references). The primary data was collected through informant interviews, focus group discussions and observations. Consultations and key informant interviews were held with staff of the MFPED Tax Policy Department; Accountant General's Office, TAT; URA, UBOS, BOU, Petroleum Authority, EPRC and NITAU. Field visits to URA border stations were conducted and observations of processes on site were made.

Data was collected by two monitoring teams, comprised of both BMAU and URA staff.

Data analysis

Qualitative and quantitative approaches were used to analyse the data. Qualitative data was examined and classified in terms of constructs, themes or patterns to explain events among the implementers of tax administration and policy measures. In addition, reflective analysis was done where the monitoring teams provided an objective interpretation of the field events.

Quantitative data was analysed using advanced excel tools to aid interpretation. Comparative analysis was done using percentages and values of indicators. Additionally, the previous FY's semi-annual performance, baseline and planned targets were compared with observed performance.

The overall DRMS performance was based on policy measures enacted towards the interventions, and individual indicators against the target set or trend achieved. An average of the individual rating of indicators and policy measures was taken to determine the achievement of tax policy and tax administration interventions (Table 2.1).

Table 2.1: Assessment Guide to Measure the DRMS FY2022/23 Semi-Annual Performance

Score	Comment
90% and above	Very Good (Achieved at least 90% of indicator or target)
70%-89%	Good (Achieved at least 70% of the indicator or target)
50%- 69%	Fair (Achieved at least 50% of the indicator or target)
Less than 50%	Poor (achieved below 50% of the indicator or target)

Source: BMAU

Ethical considerations

Entry meetings were undertaken with the Ag. Commissioner Tax Policy (MFPED), URA Top Management, and Accounting Officers of MDAs upon commencement of the monitoring exercises. Consent was sought for all information obtained during the monitoring exercise.

2.4 Limitations of the Report

The key problem was the lack of data for several high-priority interventions and indicators for both Tax Policy and Tax Administration. As such performance of seven key interventions was left out.

2.5 Structure of the Report

The report has four chapters. These are Introduction, Methodology, DRMS Performance, Conclusion and Recommendations

CHAPTER 3: DRMS PERFORMANCE

3.1 Status and Progress in Implementation of the DRMS

The overall performance based on the DRMS interventions assessed was rated fair (58%). Of the 34 interventions appraised, 7 (24%) were rated good, 21 (59%) fair and 6(18%) poor.

3.2 Performance of Tax Policy Interventions

Development of the initial idea, through policy analysis and consultation, drafting of legislation, interrogation and approval by the legislature, and the subsequent review of the successes or failures of policy enactment are interlinked. A breakdown at any stage weakens the tax policy instrument, risks policy error, and limits the opportunities for policies to be improved through proper analysis and consultation. Mapping Uganda's tax policy process is an opportunity to improve both policy-making and the strength of the tax system. The half-year performance of tax policy interventions was assessed under the respective broader objectives highlighted in the following section.

PROCESS REFORM AND INSTITUTIONAL CHANGES

The process reform was measured under two interventions: i) Elevate the status of taxation within MFPED, ii) Address Tax Policy Department (TPD) structure and staffing/training needs. The remaining three interventions (Reform of the tax policy-making process, enhancing the analytical capacity of TPD, strengthening partnership with URA and formalising arrangements) were not handled given the nature of policy processes that go through a whole year therefore the information was not available.

3.2.1: Elevate the status of taxation within MFPED

In designing a revenue system that fosters sustainable growth and development, the Government requires the support of a well-resourced, high-functioning Tax Policy Department The current TPD is located within the Directorate of Economic Affairs and has a mandate covering a wide range of areas. However, TPD currently faces several challenges which have limited the department's ability to undertake a thorough analysis of policy options, conduct wide high-level consultations with public and private groups, develop well-targeted proposals, and participate in treaty negotiations. This intervention is measured through one indicator:

1) **Tax Policy Department's budget as a percent of the MFPED budget**

The Tax Policy Department's (TPD) appropriated budget for FY2022/23 is Ug shs 13.02bn which decreased slightly from Ug shs 13.2bn in FY 2021/22. There was no percentage change over the last three FYs. The intervention proposes to see a significant and steady increase in the budget allocated to TPD, as well as the expansion of the department. On the contrary, the budget allocation for the department decreased and as such the indicator has not been achieved, hence poor performance was noted.

3.2.2: Address TPD structure and staffing/training needs

This intervention aims at establishing an appropriate structure for TPD commensurate to the importance of taxation and ensuring that this structure is fully staffed with relevant skills. The approved structure does not complement the wide mandate of the department and is not fully staffed with relevant skills. Without a proper enabling structure, the department runs a high risk of policy error, which can have a considerable impact on government revenues. This intervention is measured through the indicator:

1) **Number of TPD staff that attended specialised training in a year**

Tax policy is a complex field and requires staff to have specialised training to acquire the expertise needed to formulate effective tax policies.

During the first half of FY2022/23, Tax Policy staff were trained in Digital Economy Tax Administration. Levels 1, 2 and 3 of the capacity building were completed (i.e., introduction and intermediate stages and the third (advanced) stage; handling VAT policy and advanced revenue forecasting. Additionally, introduction, intermediate and specialized stages of the training in economic analysis and taxation for staff were undertaken. One officer was undertaking a Master of Science in Oil and Gas Economics, while another was studying for a Master's Degree in Economics.

Conclusion

The objective of enhancing the status of taxation through increased support to TPD was not realised as the allocation for the department was reduced. On the other hand, staff members were trained in various fields thus increasing capacity building that is required to handle the complex area. The overall performance was rated fair.

STRENGTHENING THE PRODUCTIVITY OF VALUE-ADDED TAX (VAT)

Value Added Tax (VAT) is normally a buoyant source of revenue, with growth expected to at least match that of the GDP. Improvements in the performance of VAT would focus on compliance and policy gaps. The compliance gap gives the impact on potential yield for a given policy structure from non-compliance, while the policy gap refers to the impact on the potential yield due to exemptions and zero-rating. Where exemptions and zero-rated supplies are inefficient in their scope, poorly targeted, or no longer effectively support other government objectives, they should be considered for removal to expand the VAT base.

3.2.3: Limit the range of zero-rated- supplies as far as possible

The intervention requires that certain items on the list of zero-rated supplies should be removed. Additionally, the definition of zero-rated drugs and medicines should be tightened to limit abuse. Many zero-rated supplies support government social and welfare objectives however, expansions to this should be limited-as zero-rating supplies lead to revenue leakages, increases the administrative burden, and negatively impacts transparency.

In FY2022/23, revisions to the list of zero-rated supplies expanded to include "menstrual cups" as a zero-rated supply alongside sanitary towels, tampons and inputs for their, manufacture. Previously, menstrual cups were listed as exempt supplies under the VAT Act. Whereas this was a welcome amendment since it allows manufacturers of menstrual caps and other taxpayers to claim their input credit incurred in their business activities, it expands the zero-rate list. The intervention was assessed through 3 indicators:

i) Zero-rated supplies as a percentage of total supplies

The intervention seeks to reduce the zero-rated supplies. Where the proportion of zero-rated supplies in comparison to total supplies remarkably reduces (relative to the baseline), the taxable VAT base is expanding, which is the ultimate goal of the policy intervention. Where the tax ratio keeps increasing it would mean the VAT base is narrowing on account of zero-rated supplies.

The proportion of zero-rated supplies as a percentage of total supplies increased by 0.56% by December FY 2022/23 (from 16.06%: December 2021/22). The performance averagely kept within the same levels, indicating no changes in the law and thus fair performance (Table 3.1)

Table 3.1: Zero-rated supplies as % of total supplies for the first half FYs 2021/22 to 2022/23

	Baseline FY 2019/20	Half-year FY 2021/22	Half-year FY 2022/23
Value of Zero-rated Supplies (Ug shs bn)	6,276.30	7,281.04	7,380.67
Total Value of declared Supplies (Ug shs bn)	41,015	45,328	44,396.56
Zero-rated supplies as % of total Supplies (%)	15.30	16.06	16.62

Source: URA E-HUB

ii) Zero-rated supplies (non-export items) as a percentage of total zero-rated supplies

The indicator aims to monitor the implementation of the policy intervention whose ultimate goal is to increase the taxable VAT base by reducing zero-rated supplies for non-export items. The intervention seeks to register a reduction in the list of zero-rated items that are non-export.

For the first half of FY 2022/23, the ratio of zero-rated supplies (non-export items) as a percentage of total supplies registered an 8.55% increase compared to the same period in FY 2021/22. There was a 6.07% decrease in the FYs 2019/20 and 2021/22 and this was majorly because of the COVID pandemic which reduced the total values for zero-rated supplies (Table 3.2).

The intervention however requires that a policy that restricts non-export zero-rated supplies to a minimum as far as possible is adopted. This consistent reduction is evidenced in table 3.2 where the value reduced by 14% from Ug shs 2,691bn at half year 2021/22 to Ug shs 2,313.09bn in the same period for FY 2022/23, and hence the target was achieved. The performance was rated good.

Table 3.2: Zero-rated supplies as % of total supplies for the half-year FYs 2021/22 to 2022/23

	Baseline FY 2019/20 (Half year)	Half FY 2021/22	Half FY 2022/23
Value of Zero-rated supplies (non-export items) (Ug shs bn)	3102.21	2,691.91	2,313.09
Total Value of declared supplies (Ug shs bn)	10747.85	11,809.40	7,380.67
Zero-rated supplies (non-export items) as % of total Supplies (%)	28.86	22.79	31.34

Source: URA E-HUB

iii) Value (and proportion) of Zero-rated supplies by type of supply

The indicator tracks the trend in the value of the zero-rated supplies by type of supply. Items removed from the list will not be expected to return zero values. Where the values continue to be seen would signify a weakness. The indicator values and proportions are also used to examine whether the non-export zero-rated supplies are the kind of supplies that support the poor and if not, this points to areas where revisions in the VAT law could be considered regarding zero-rated supplies.

The proportion of export goods to total zero-rated supplies increased by 2% in the first half of FY2022/23 from 94% in 2021/22. International transportation of goods and passengers increased by 0.04% by 31st December 2022 compared to the same period in FY 2021/22. Zero rating minimizes the costs of exports and international transportation, thus making them affordable. Similarly, the supplies of educational materials used in schools, colleges and institutions increased significantly in value and proportion by 1.17% at half year FY 2022/23. The value and proportion of supplies of agricultural items, i.e., seeds, fertilizers, pesticides and hoes increased by 0.88% in FY2022/23 from 0.45% in FY2021/22. Supplies of cereals grown and milled in Uganda also increased in proportion to 0.33% from 0.19% and 0.22% in FY 2021/22 and FY 2020/21 respectively (Table 3.3). Sanitary towel supplies increased in proportion as well from 0.50% in FY 2021/22 to 0.87% in FY 2022/23.

Handling services for medical supplies funded by donors decreased to 0.00% as the National Medical Stores (NMS) did not declare any supplies during the period in FY 2022/23. There was no information/declaration for the supply of leased aircraft, parts, maintenance equipment and repair services, which indicates non-compliance. There was no policy change targeting zero-rated supplies that were not compliant and or were no longer effective in addressing welfare objectives. The proportion of the zero-rated supplies shows an upward trend across and this is for supplies that address welfare objectives. The performance was rated good.

Table 3.3: Value and Proportion of Zero-Rated Supplies by type of supply

Type of zero-rated supplies	Half-year FY 2019/20		Half-year FY 2020/21		Half year FY2021/22		Half year FY2022/23	
	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%
1. Export goods	7,645.64	97.66	9074.84	88	9,117.49	93.85	5,067.58	95.59
2. International Transportation of goods and passengers	4.74	6.00	7.03	0.07	8.21	0.08	6.61	0.12
3. Domestic supply of:	**178.57**	**0.02**	**1,178.83**	**11.49**	**589.68**	**0.06**	**227.15**	**4.28**
a) Educational materials used in schools, colleges, universities, and institutions engaged in adult education, vocational or technical education, or training for handicapped person	68.02	87.00	57.36	0.56	75.78	0.78	103.54	1.95
b) Seeds, fertilizers, pesticides, and hoes	44.85	0.57	58.91	0.57	43.37	0.45	70.72	1.33
c) Cereals where these are grown, milled, or produced in Uganda	20.87	0.27	22.06	0.22	18.55	0.19	6.99	0.33
d)Sanitary towels and tampons and the inputs for their manufacture	44.81	0.57	50.92	0.50	48.78	0.50	45.88	0.87
e) Supply of leased aircraft, parts, and maintenance equipment	-	0.00	-	0.00	0	0	0	0
f) Handling services for medical supplies funded by donors	-	0.00	989.56	9.64	403.19	4.15	-	-
TOTAL	**7,828.96**	**96**	**10,260.68**	**100**	**9,715.38**	**100**	**5,301.34**	**100**

Source: URA E-HUB

3.2.4 Remove unnecessary VAT exemptions to curb unjustifiable revenue leakages

The intervention requires a review of items under the second schedule of the VAT Act to remove exemptions that result in unfair competition or do not effectively benefit the targeted parties or bring about equity through the consumption of those items. There is a need to review definitions of certain items to be tightened to remove the scope of abuse. The intervention was assessed through two indicators as follows:

1) Exempt supplies as % of total supplies

The intervention aims to reduce exempt supplies. Where the proportion of exempt supplies to total supplies remarkably reduces (relative to the baseline), then the taxable base is expanding, which is the ultimate goal of the policy intervention.

The value of exempt supplies as a proportion of total supplies increased by 5.15% at half year FY2022/23. There was a gradual decline of 5.3% during the same period compared to the baseline FY2019/20 and FY2021/22 (Table 3.4). The taxable base reduced on account of the expanded proportion of exempt supplies. The value of the exempt supplies increased thus the performance was rated poor.

Table 3.4: VAT-exempt supplies as a % of total supplies

	Baseline Half year FY2019/20 -	Half year FY2020/21	Half year FY2021/22	Half year FY2022/23
Value of VAT-exempt supplies (Ug shs bn)	10,632.19	10,059	10,625	7,366.09
Total Value of declared supplies[1] (Ug shs bn)	61,001.28	64,681.10	92,882.39	44,396.56
VAT exempt supplies as a % of total supplies (%)	**16.74**	**15.55**	**11.44**	**16.59**

Source: URA E-HUB

Value (and proportion) of exempt supplies by type of supply

The indicator tracks trends in the value of exempt supplies by type of supply. Items removed from the list will not be expected to return zero values. Where the values continue to be seen would signify a weakness. The indicator values and proportions are also used to examine whether the exempt supplies benefit the poor and if not, this points to areas where revisions in the VAT law could be considered.

The items that had no values included; i) supply of unimproved land, ii) sale, leasing and letting of immovable property, iii) Supply of goods as part of a transfer of a business as a going concern, iv) burial and cremation services, v) Deep cycle batteries, composite lanterns, and raw materials for their manufacture, vi) Menstrual cups, vii) Agricultural insurance premiums or policies, any goods and services to the contractors and subcontractors of hydroelectric power, solar power, geothermal power or biogas, and wind energy power projects, viii) supply of movie productions. These items have no values from the previous FYs, which was attributed to non- compliance and lack of information due to the return design where these items could not be distinguished from other supplies.

The items that increased in value include the supply of i) education services; ii) social welfare services; iii) betting, lotteries, and games of chance, iv) petroleum fuels subject to excise duty, v) crop extension services, vi) deep cycle batteries, composite lanterns, and raw materials for their manufacture, vii) Bibles, Qurans, and textbooks increased in value at half year in FY 2021/22 and 2022/23. These items tend to address social, welfare and equity objectives, as they are consumed primarily by the poor. Thus, addressing the objectives of the intervention.

[1] Utilized total declared sales in the VAT returns

During the first half of the FY 2022/23, the highest value and proportions for exemption supplies were registered under petroleum fuels subject to excise duty (76%), and financial and insurance services (14%) (Table 3.5). This was mainly to support and minimize the costs of petroleum products. Although financial and insurance services were second in this period, their value and proportion declined to Ug shs 1,223.58bn (13.81%) from Ug shs 1,975.67bn (34%). The performance was **rated fair**;

Table 3.5: Value (and proportion) of VAT-exempt supplies by type of supply

Type of Exempt supplies	Baseline FY 2019/20 - Half- year (Ug shs bn)		Half Year FY 2020/21(Ug shs bn)		Half Year 2021/22 (Ug shs bn)		Half Year FY2022/23(Ug shs bn)	
	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%
Unprocessed foodstuffs, agricultural products, and livestock	153.77	2.09	180.69	4.25	210.45	3.66	113.02	1.28
Postage stamps	141.54	1.93	44.11	1.04	0.63	0.03	0.64	0.01
Financial and insurance services	1,211.34	16.50	1,414.51	33.26	1,975.67	34.38	1,223.58	13.81
Supply of unimproved land	0	-	0	-	0	-		0.00
Sale, leasing, and letting of immovable property, excluding commercial premises	0	-	0	-	0	-		0.00
Education services	8.75	0.12	2.72	0.06	6.11	0.11	7.37	0.08
Veterinary, medical, dental, and nursing services	520.05	7.08	555.56	13.06	439.60	7.65	306.65	3.46
Social welfare services	0.67	0.01	0.88	0.02	0.69	0.01	1.26	0.01
Betting, lotteries, and games of chance	6.38	0.09	0.23	0.01	1.37	0.02	6.42	0.07
Supply of goods as part of a transfer of business as a going concern	0	-	0	-	0	-		0.00
Burial and cremation services	0	-	0	-	0	-		0.00
Passenger transportation services, except travel and tour operators	15.46	0.21	16.83	0.40	8.62	0.15	7.64	0.09
Petroleum fuels subject to excise duty	4,970.84	67.70	1,660.82	39.05	2,541.79	44.23	6,724.24	75.88
Dental, medical, and veterinary equipment	146.78	2.00	179.25	4.21	266.67	4.64	233.05	2.63
Animal feeds and premixes	66.92	0.91	114.70	2.70	210.88	3.67	192.74	2.17
Machinery, tools, and implements suitable for use only in agriculture	14.32	0.19	22.53	0.53	17.26	0.30	14.07	0.16
Crop extension services	12.28	0.17	1.52	0.04	1.81	0.03	4.91	0.06
Irrigation works, sprinklers and ready-to-use drip lines	14.32	0.19	22.53	0.53	17.26	0.30	14.07	0.16

Type of Exempt supplies	Baseline FY 2019/20 - Half- year (Ug shs bn)		Half Year FY 2020/21(Ug shs bn)		Half Year 2021/22 (Ug shs bn)		Half Year FY2022/23(Ug shs bn)	
	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%	Ug shs bn	%
Deep cycle batteries, composite lanterns, and raw materials for their manufacture	0.04	0.00	0.17	0.00	0.01	0.00	0.30	0.00
Menstrual cups	0	-	0	-	0	-		0.00
Agricultural insurance premiums or policies	0	-	0	-	0	-		0.00
Photosensitive semiconductor devices, light emitting diodes, solar water heaters, solar refrigerators, and solar cookers	42.79	0.58	30.25	0.71	40.70	0.71	0.99	0.01
Lifejackets, life-saving gear, headgear, and speed governors	4.33	0.06	5.33	0.13	4.51	0.08	5.17	0.06
Any goods and services to the contractors and subcontractors of hydroelectric power, solar power, geothermal power or biogas, and wind energy power projects	0	-	0	-	0	-		0.00
Bibles, Qur'ans, and textbooks	11.97	0.16	0.84	0.02	2.30	0.04	5.98	0.07
Supply of movie productions	0	-	0	-	0	-		0.00
TOTAL	**7,342.55**		**4,253.46**		**5,746.29**		**8,862.08**	

Source: URA E-HUB

3.2.5 Review the policy on deeming to allow the VAT system to function normally

The intervention seeks to have deeming limited to special circumstances where its application upholds the integrity of the VAT system. The tax payable on a supply made by a supplier to a contractor on an aid-funded project is deemed to have been paid by the supplier. It is assessed by the indicator; Value of VAT foregone on deemed supplies. The ratio should be expected to remain within baseline levels. If it increases remarkably, this would be a point of concern, as it would be eroding the VAT base.

In the first half of FY 2022/23, the value of VAT foregone was Ug shs 253.21bn, this was a 58.4% reduction for the same period for FY 2021/22 (Table 3.6). Although the value of VAT foregone on deemed supplies reduced, this performance was not a result of a revision to have all items charged VAT at the standard rate, thus the performance was rated poor.

Table 3.6: Value of deemed supplies as % of total supplies to Government

	Half-year FY 2021/22	Half-year FY 2021/22	Half-year FY 2022/23
Value of deemed supplies (Ug shs bn)	2,608.35	3,385.26	1,406.73
Value of VAT foregone on deemed supplies (Ug shs bn) (18%)	469.50	609.34	253.21

Source: URA Database

3.2.6 Review the current VAT threshold and rate to ensure that together these minimise administrative and compliance costs, encourage small business growth, and safeguard revenues

The intervention requires that the effects of allowing businesses below the threshold[2] to voluntarily register for VAT should also be examined. The VAT registration threshold should aim to alleviate the administrative burden, limiting the number of taxpayers to monitor, and exclude smaller businesses where the compliance and administrative costs are likely to outweigh the small amount of revenue received. While a lower threshold widens the tax base, a threshold that is too low generates administrative problems, as small businesses generally do not keep adequate accounting records. The intervention was assessed through two indicators as follows:

1) No. of VAT payers and tax paid per turnover bracket

The intervention aims to alleviate the administrative burden and limit the number of taxpayers to monitor. This is measured by indicator; No. of VAT payers compared with the revenue generated. In the first half of FY 2022/23, the number of payers and VAT paid declined for all thresholds when compared to the same period in FY 2021/22. The highest decline was registered for a turnover of greater than Ug shs 1bn (61%) and 58% for the VAT paid (table 3.7). The VAT declined when administrative costs were reduced on account of the introduction of the Electronic Fiscal Receipting and Invoicing System (EFRIS), thus the performance was rated fair.

Table 3.7: Number of registered VAT payers and VAT paid per turnover band

Turn over level (in millions)	Baseline FY 19-20		Half Year FY 2020/21		Half Year FY 2021/22		Half Year 2022/23	
	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn
Less 150	8,171	41.18	9,445	27.58	9,095	28.61	8,490	21.59
150-250	1,388	18.59	1,287	12.14	1,407	17.27	953	15.12
250-350	948	14.67	837	11.19	1,008	16.60	544	12.31
350-450	661	14.33	603	10.38	724	15.16	369	10.13
450-550	526	12.69	416	8.20	573	14.47	290	9.58
550-750	817	25.62	641	16.71	801	24.43	374	16.16
750-1000	665	23.23	580	17.64	696	26.04	334	16.57

2 Previously VAT threshold was increased from Ug shs 50m to Ug shs 150m with the objective of helping tax administration focus their enforcement actions.

Turn over level (in millions)	Baseline FY 19-20		Half Year FY 2020/21		Half Year FY 2021/22		Half Year 2022/23	
	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn	No. of registered VAT payers	Ug shs bn
Greater than 1,000	4,521	2,403.85	3,211	1,280.75	4,772	2,647.97	1,857	1,097.43
Total:	**17,697**	**2,554.15**	**17,020**	**1,384.59**	**19,076**	**2,790.55**	**13,211**	**1,198.90**

Source: URA E-HUB

The average VAT paid per tax payer was less than Ug shs 1 million in the first half of the FY 2022/23 which was the case for the same period in FY 2021/22. But VAT paid per taxpayer whose turnover was more than Ug shs 1bn increased to Ug shs 5,900,000 from Ug shs 5,500,000 in FY 2021/22. Except for those under the threshold of less than Ug shs 150 million, there was growth in average VAT paid by the taxpayers, thus performance was good (table 3.8).

Table 3.8: Average VAT paid per VAT payer per turnover band

Turn over level (in millions)	Baseline FY 2019/20 - Half year	Half-year FY 2020/21	Half-year 2021/22	Half-year FY2022/23
Less 150	0.0050	0.0029	0.0031	0.0025
150-250	0.01	0.01	0.01	0.02
250-350	0.02	0.01	0.02	0.02
350-450	0.02	0.02	0.02	0.03
450-550	0.02	0.02	0.03	0.03
550-750	0.03	0.03	0.03	0.04
750-1000	0.03	0.03	0.04	0.05
Greater than 1,000	0.53	0.40	0.55	0.59
Total:	**0.14**	**0.08**	**0.09**	**0.09**

Source: URA E-HUB

Challenge

Although supporting social and welfare objectives some of the policies need to be reviewed as they are not appropriately targeted. For example, the exemption of sale, leasing, and letting of immovable property, excluding commercial premises.

Conclusion

There were no changes in the VAT law targeting the removal or limitation of the zero and exempt supplies. Two indicators attained good performance and four achieved fair, but the performance was based on trends in the economy and not as a response to policy revisions, such as the desired removal of the deeming for supplies on aid-funded projects. The VAT paid by taxpayers under the different thresholds improved amidst the reduced costs of tax administration arising from the EFRIS.

Recommendation

1. MFPED-Tax Policy Department should continue assessing the list of zero-rated and exempt supplies and reverse those that no longer support the objectives for example betting lotteries and games of chance.

2. MFPED-Tax Policy Department should revisit the deeming policy for aid-funded projects with a view of removing the provision and processing refunds for qualifying projects.

DEVELOP A STRONG EXTRACTIVES INDUSTRY TAXATION REGIME

To limit pressure for future changes, Uganda seeks to impose a tax burden that is neither too high nor too low, and effectively administer this. The current VAT, Withholding Tax, and Income Tax rules may not be entirely appropriate for promoting the development of the sector while ensuring that the Government can extract a reasonable share of tax and other revenues. There is one intervention assessed using three indicators.

3.2.7 Fine-tune the framework for taxing the extractives industries

The current fiscal regimes for oil, gas, and mining are generally sound. However, the appropriateness of the regime for taxing the full value chain, including mid-stream and downstream businesses, and related transactions is limited. This intervention is to ensure that the framework is fine-tuned for taxing the full value chain.

Section 57 of the Public Finance Management Act (PFMA)-2015 gives URA the responsibility to collect petroleum revenues. Petroleum revenues are defined to include, royalty, the Government's share of profit from oil, and Income tax among others. URA is designing the petroleum returns to ensure that correct petroleum revenue is declared to URA. The petroleum returns are expected to be ready by June 2023 and it is measured under four indicators:

1. **Resource Governance Index (RGI) score for Uganda**

The RGI is a measure of the governance of oil, gas and mining sectors in resource-producing countries. The index covers many issues, from the allocation of extraction rights to the management of the revenue generated by the oil, gas and mining sectors.

The governance of Uganda's nascent oil and gas sector scored 49 points in the 2021 Resource Governance Index (RGI), increasing by five points from the 2017 RGI. This was driven by improvements in revenue transparency, governance of the Uganda National Oil Company (UNOC) and reporting on the performance of the Petroleum Fund. Despite the positive upward trend, challenges remain, placing the governance of Uganda's oil and gas sector in the "weak" performance band of the RGI.

Oil and gas licensing received a "failing" score, hampered by the absence of a cadastre, lack of beneficial ownership rules on public disclosures and the government's failure to disclose contracts with oil and gas companies. Governance of local impacts placed in the "poor" performance band, with access to environmental and social impact assessments limited by the requirement to submit an application and pay a fee to access information on assessments.

Although numerical fiscal rules are documented in a public policy, these are not enshrined in law and there is no adherence requirement or monitoring by the government. Despite improvements to the governance of the Petroleum Fund, laws regarding deposits, withdrawals and investment rules scored as "poor" and "failing."

2. **Build knowledge and expertise on tax issues unique to oil, gas, and mining**

The URA Petroleum Division (PD) has eight staff with specialised training in oil and gas. Every year at least one staff is sent abroad to further studies in oil and gas. By 31st December 2022, one staff of the Petroleum Division was scheduled to undertake a masters at the University of Aberdeen (UK) in January 2023. A total of 8 Petroleum Department staff had undertaken training on the taxation of natural resources as organized by the International Bureau of Fiscal Documentation (IBFD) from 3rd-5th October 2022. Another 12 Petroleum

Department (PD) staff continued to participate in a training organized by the Internet Governance Forum (IGF) secretariat on international taxation and the extractive Industry running from July-November 2022.

In addition, nine new staff in PD have undertaken an Organization for Economic Co-operation and Development (OECD) module training covering Tax treaties, transfer pricing, Exchange of Information and beneficial ownership.

3. **A targeted, risk-based compliance strategy for both the oil and gas and mining sectors**

The oil and gas and mining risk matrices have since been completed with the help of the International Monetary Fund (IMF). The risk matrices were used in the development of the Compliance Improvement Plan (CIP) of the taxpayers under the Petroleum Division for FY 2022/23.

4. **Re-design the tax return form to capture more information from the extractives sector**

Following on from benchmarking in Angola and Indonesia in FY 2021/22, a technical team comprising staff from the Tax Investigations Department (TID) and Petroleum Division embarked on drafting the Petroleum Returns which include: UNOC returns (monthly returns and annual returns), International Oil Companies (IOC) Returns (monthly returns, quarterly returns, annual estimates and final returns), Operator Returns (monthly returns and annual forecast returns). The Draft Petroleum Returns were completed by the URA technical team and presented to other stakeholders like UNOC on 18th January 2023. The international oil companies were to be engaged in the second half of the FY 2022/23.

Conclusion

As Uganda looks to become a new producer, solid governance of its oil and gas operations will become increasingly crucial to the success of the sector, and to translating oil revenues into sustainable and inclusive development. The government has been building an institutional framework and infrastructure, with production projected to reach 230,000 barrels per day (bpd) by 2025, making it a major player in Sub-Saharan Africa.

Recommendation

The government should ensure UNOC continues to strengthen its legal framework in several areas. Laws should be put in place requiring transparent financial reporting or the disclosure of annual reports or financial statements. Disclosing financial information is essential to allow citizens to understand how the oil and gas sector is managed and how revenues are transferred or spent.

PROMOTION OF INTERNATIONAL TRADE

The government is pursuing a strategy for support to local industries, promoting import substitution. Competition from exporters such as China and India has hurt Ugandan manufacturers and protecting certain sectors will help to build growth-enhancing industries.

Tariff measures have been the chief tool used to protect domestic producers, to encourage the consumption of targeted products that are produced locally in sufficient quantity and to an acceptable standard. However, it is likely that for every product where Ugandan manufacturers desire protection, trade partners will have a similar interest. Achieving a balance between the objectives of export promotion, raising revenue, and supporting domestic industries are essential to the sustainability of trade.

Uganda is a landlocked country and is mainly dependent on ports in neighbouring countries for the import and export of goods. Poor monitoring of long trade corridors, porous borders, and the extensive use of warehouses has introduced opportunities for smuggling and tax evasion. Furthermore, customs administration experiences challenges in determining the value of imported goods and the tax due, as well as the accuracy of declarations. This can undermine domestic producers and introduces tax competition, as different values are assessed for different importers. Additionally, international trade taxes to overall revenue was on a downward trend on account of the higher-level objective of promoting trade, and the lowering of tariffs and trade barriers that this entails. This objective was assessed through two interventions as follows:

3.2.8 Balance the objectives of export promotion, revenue generation, and support to the domestic industry

This intervention intends to determine the optimal level of protection for domestic industries. This should avoid unnecessarily undermining welfare, creating trade diversion, or propping up inefficient industries. It is measured under five indicators of which two were tracked.

1) Effective Protection Rates (EPR)

The EPR is sometimes referred to as the effective tariff rate. A tariff is a charge or list of charges for goods entering a country. An effective tariff rate is an indicator of the actual level of protection that a nominal tariff rate provides. Where the EPR is significantly below the nominal tariff rate, a flag should be raised. The 20 items where the EPR is significantly low i.e. with the effective protection rate below 10%[3] cover a 21% proportion of the total items which is big and lower than the nominal tariff rate (Annex 1). Twenty percent (20%) of the items have an EPR between 10%-20%, this indicates that there is less protection rate over a big number of items (41%). However, a greater percentage (over 59%) is being protected therefore this performance is rated fair.

1) Effective Import Duty Rates

The indicator measures the average customs duty rates applied in a given period. It aims to monitor whether more or less protection is being realized as a result of the implementation of the DRMS intervention. If the average rate decreases relative to the baseline, it will imply the intervention actions are probably providing less protection to domestic producers all other factors remaining constant.

Overall, the average effective duty increased. During the first half of FY2022/23, the average (world) effective duty rate increased to 37.4% from 28.3% in the same period for FY 2021/22. In the same period in FY 2019/20, the average effective duty rate was 35.7%. The rate reduced to 16% in FY 2020/21 due to the effects of the COVID-19 pandemic where borders were closed for a while, thus limiting the imports into the country (tab1e 3.9). The average rate, therefore, increased relative to the base year, this implies that the intervention actions are providing more protection to the domestic producers.

[3] Live animals, products of animal origin, products of animal origin, , live tree & other plant; bulb, root; cut flowers etc, edible vegetables and certain roots and tubers, oil seed, oleagi fruits; miscell grain, seed, fruit etc, residues & waste from the food industry; prepr ani fodder, pharmaceutical products, fertilisers, explosives; pyrotechnic prod; matches; pyro alloy; etc, raw hides and skins (other than furskins) and leather, natural/cultured pearls, precious stones & metals, coin etc,tin and articles there of nuclear reactors, boilers, machinery & mechanical appliance; parts, railway locomotive, rolling-stock & parts thereof; etc,aircraft, spacecraft, and parts of ships, boats and floating structures, optical, photo, cine, meas, checking, precision, etc arms and amunition; parts and accessories thereof and works of art, collectors' pieces and antiques.

On the other hand, there are regions where the effective duty rates reduced, for example, China, Latin America, the Middle East, north America, and the rest of Asia (table 3.9). Also to note is that trade within the East African Community has increased over the years as the EDR has steadily increased. The rest of Asia has the highest EDR indicating that international trade with that region is high and thus very significant. Overall, international trade was promoted, which increased the availability of necessary goods/items not produced locally. On average, the effective duty rates are 37% and below which is close to the nominal rate of 30%, thus the performance was rated good.

Table 3.9: Effective Import Duty Rates

Region	Effective Duty Rate (baseline) (%)	Effective Duty Rate 2020/21 (Half year) (%)	Effective Duty Rate 2021/22 (Half year) (%)	Effective Duty Rate 2022/23 (Half year) (%)
China	28.16	28.48	29.66	19.26
East African Community (EAC)	10.13	10.54	11.88	17.16
European Union	11.99	27.15	18.53	11.69
Latin America and the Caribbean	25.01	30.16	25.40	22.73
Middle East	29.08	15.70	20.25	16.23
North Africa	0.37	8.60	2.05	7.15
North America	15.61	9.90	7.76	10.32
Rest of Africa	1.82	3.35	12.33	19.31
Rest of Asia	44.15	50.09	50.14	40.99
Rest of Europe	18.38	20.02	8.80	20.07
South Africa	6.90	7.47	25.10	9.89
Other	0.00			0.00
World	**35.68**	**16.03**	**28.27**	**37.40**

Source: URA e-Hub

3.2.9 Improve inter-agency coordination and infrastructure to facilitate trade

This included deploying an appropriate number of scanners and tracking devices at border posts, as well as ensuring that ICT connections are uninterrupted. The Uganda Electronic Single Window should be fully operationalised as this will lead to improved data sharing among trade regulatory agencies and reduce the time it takes to process import and export documents.

Time taken to clear imported goods (non-warehoused goods): The objective of the intervention is to improve trade facilitation by reducing the time it takes to process import documents. In the FYs 2021/22 and 2020/21, the selectivity profile created in the customs management system (Asycuda world) determines which lane the import was subjected to when the licensed customs agent completed the assessment and or payment of a customs declaration. The system has four (4) selectivity lanes for declaration as follows:

Red Lane-(24 to 72 hours) is considered high-risk goods, which have to be subjected to physical examination at the border or bonded warehouses and thereafter documentary check by the centralised Document Processing Centre (DPC) before the goods are released to the importers.

Yellow Lane-16 hours: Transactions are subjected to documentary check by the DPC to verify the authenticity of documents and values applied, and when the declarations are found to meet the criteria, the DPC issues the release of a system upon which the border stations and bonded warehouses initiate an exit process of goods to the importers.

Blue Lane-4 hours: Under these transactions, the customs agent proceeds to the border station or bonded warehouse where the cargo is secured to initiate the exit process and delivery of cargo. It is important to note that the clearance documents will be subjected to post-clearance audit checks by customs.

Green Lane-4 hours: The customs agent will proceed to the border or bonded warehouse to initiate the exit process and physical release of goods. However, the lead times of the respective lanes can be impacted by the interventions of other government regulatory agencies for instance the Uganda National Bureau of Standards (UNBS), Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and National Drug Authority (NDA) among others.

During the first half of FY2022/23, the proportion of goods cleared under the red and yellow lanes was 27.87% and 37.48% respectively. This indicates that the goods are subjected to physical examination, documentation checks etc. (table 3.10). This enables assigning risk and minimising potential effects. Therefore, facilitating trade as well as increasing collections on international trade.

The clearance time at the border points has improved form 5.8 days in the financial year 2018/2019 to 1.02 days in FY 2022/23 against a target of 2 days. This performance was rated very good. Additionally, scanners and regional electronic cargo tracking devices were deployed at the one-stop border posts with generally stable ICT connections. On border points (Malaba) with high traffic, second scanners have been installed plus mobile scanners to ensure a constant flow of traffic. The Uganda Single Electronic Window was operational and URA teams can interface with it at any given time, thus improving data sharing among trade regulatory agencies.

It was noted however that the border is porous and smuggling of goods is inevitable, for example from the far West Nile to the far East Nile, there are numerous points where there is no presence of the enforcement teams, and these are generally used to smuggle goods in and out of the country. This is brought about by the uneven markets across borders where trade/tax policies are different. Therefore, creating great price differences across borders and encouraging smuggling. Higher proportions of imports being in the yellow and red lanes implies lower levels of compliance by the importers based on voluntary declarations.

Table 3.10: Proportion of goods cleared under the different lanes for the period July 2022 to February 2023

Lane	Lane Entries	Proportion (%)
RED	185,349	27.87
BLUE	44,789	6.73
GREEN	185,679	27.92
YELLOW	249,230	37.48
TOTAL	**665,047**	**100**

Source: URA Database

Challenges

1. There are several items with a very low protection rate, for example, pharmaceutical products, fertilizers, cotton etc. This continues to lower competitiveness in the local market.

2. Uneven markets across the borders have continued to fuel smuggling.

Conclusion

International trade has generally improved as import tariffs continue to increase and clearance of goods at the border is averagely smooth and shorter. Locally produced items are being protected while encouraging the importation of others not produced. The infrastructure and systems at all border points have improved across where ICT systems are stable, inter-agency coordination greatly improved and the Electronic Single Window is operational. The one-stop border posts were developed, although some stations were yet to be operational. Coordination between the various border control agencies, including customs, immigration, internal affairs, and the UNBS were enhanced as several systems have been put in place to handle various tasks. The import and export processes were to a greater extent automated which reduced the lead times. However, economic policies with neighbouring countries should be streamlined to limit smuggling.

Recommendations

1. The URA should tighten protection rates for all items produced within the country to increase competitiveness in the local market.
2. The MFPED-Tax Policy Department, URA, and the Ministry of Trade Industry and Cooperatives (MoTIC) should work together with the neighbouring countries to streamline trade and tax policies.

IMPROVE THE EXCISE DUTY REGIME

Excise duties are traditionally designed to address negative externalities and influence consumer behaviour, such as taxing alcohol and cigarettes. However, over time the government has shifted the policy approach to broaden the range of motivations and tended, instead, to use excise duties as a revenue-raising tool. This saw the introduction of taxes on mobile money, airtime, sugar, cement, cooking oil, and the Internet. Revenue from excise duties is normally responsive to growth in GDP, as more prosperous consumers purchase more excisable products. The government now seeks to take a smarter approach to excise duties, reducing complexity, ensuring buoyancy, and properly balancing revenue needs with targeting negative externalities. In the first half of the FY 2022/23 one intervention was assessed and presented as follows:

3.2.10 Rationalize multiple rates, designing an alternative incentive scheme promoting the use of local content

Excises on items like alcohol are applied in response to the negative externalities resulting from their consumption, so the tax observed by consumers should not differ according to the source of the inputs. The intervention was assessed through the indicator**:**

Effective excise duty rates by excisable items: Where the intervention against multiple rates is implemented, it will ensure maintenance of the same average rates for excisable items all other things remaining constant.

Beer: Overall effective excise duty rates for beer for the first half period increased by 7% in FYs 2022/23 (41%), however, this was lower than (76%) that was attained on beer from barley in the first half of FY 2022/23 and (65%) that was attained on malt beer in FY 2021/22. These could have been the respective applicable rates for the half-year period in the FYs if the intervention to- rationalize multiple rates was effected, while incentivizing the use of local content through another scheme, for example, subsidized inputs, thus performance was rated poor (table 3.11).

Table 3.11: Calculation of Excise Duty Rates and Effective Excise Duty Rate for Beer

Name based on source of raw material	Excise duty rate	EDR Half Yr 2021/22	EDR Half Yr 2022/23
Malt beer	60% or shs 1,860 per litre, whichever is higher	65	60
Beer whose local raw material content, excluding water, is at least 75% by weight of its constituent	30% or shs 650 per litre, whichever is higher.	31	30
Beer produced from barley grown and malted in Uganda	30% or shs 950 per litre, whichever is higher	31	76
Opaque beer	30% or shs 650 per litre, whichever is higher	42	21
Other alcoholic beverages locally produced	20% or shs 230 per litre, whichever is higher	-	20
Effective excise duty rate for beer (%)	-	34	41

Source: URA Database

Conclusion

By 31st December 2022, policy and administrative measures had been proposed including, adjustment of Excise Duty on malt beer upwards, adjustment of Excise Duty on distilled spirits; applying specific rates only and abolishing advalorem if the duty would be higher and excisable imports should be taxed at the same rate as excisable local products.

TAXATION OF THE DIGITAL ECONOMY

E-commerce broadly refers to conducting business over the internet, including the sale of products and services online, such as Jumia, Uber, and Facebook. Unlike in traditional businesses, it is difficult to assess where e-commerce creates value, what it is, and how it should be measured. While digital companies operate virtually, their profits are often taxed only in the state where they have a physical establishment.

Given the provisions of the Income Tax and VAT Act, Uganda is limited in its ability to tax businesses which do not meet the thresholds of physical presence. For instance, web-based businesses such as Facebook have a significant presence in the country, from which they profit, but do not qualify as resident under the current law. While Uganda should look to limit revenue losses, it should also avoid creating a policy environment that is hostile to e-commerce and hinders the development of new technology. This objective was measured through the intervention: Address the impact of the digital economy on the tax base.

3.2.11 Address the impact of the digital economy on the tax base

The intervention requires that the URA conducts an audit of a representative group of known e-commerce companies based in Uganda. In FY 2021/22, there were no audits conducted for e-commerce companies, however, two companies Apple and the ACCA were on-boarded for tax purposes. The intervention is assessed through two indicators:

1) **Revenue collected from web-based businesses as % of total URA revenue**. The indicator aims to assist in monitoring the capturing of the digital economy into the tax base. The desired outcome will be an increase in the ratio relating to revenue collected from digital businesses as a percentage of total URA collections.

Since the amendment of the VAT Act in 2021/22 to provide for filing returns and payment of tax, URA has been able to register 16 non-resident providers of digital services and engaged them to charge VAT on sales made to final consumers and remit the same to URA. Non-Resident Service Providers are required to collect and pay VAT under Section 16 (2) of the VAT Act. Tax on the Non-Resident Service Providers is not a new tax as Section 16 (2) (d) of the VAT Act has always deemed a supply of electronic services delivered to a non-taxable person in Uganda to be a supply taking place in Uganda. A simplified registration regime was developed to aid the Non-Resident Service Providers comply with their registration obligation. Therefore, minimal registration requirements are required to facilitate this process.

In the first half of FY 2022/23, Ug shs 3.26bn was collected from web-based businesses whereas no funds were collected during the same period in the previous FY 2021/22, as the modalities for charging VAT on web-based businesses had not been streamlined. The URA started taxing the digital economy during the second half of the previous FY and Ug shs 0.6bn was collected at the end of the same. There is an increase in the ratio relating to revenue collected from digital businesses (table 3.12). This performance was rated good.

Table 3.12: Revenue collected from web-based businesses as a % of total URA revenue

	FY2021/22	Half year 2022/23
Collections from digital businesses (Ug shs bn)	0.6	3,263,9
Total URA collections (Ug shs bn)	21,658.01	11,670,03
Performance (%)	**0.00277**	**0.027968492**

Source: URA Database

2) No. of active taxpayers classified as web-based businesses

The aim is to ensure digital businesses are tracked and captured into the tax net. By active it means digital taxpayers that are both registered and paying taxes. An increase in the number of digital taxpayers concerning the baseline will imply a positive outcome as a result of implementing the related intervention. A decrease or no change from the baseline would need to be flagged.

During the first half of FY 2022/23, 16[4] web-based businesses were registered, while only two web-based businesses were taxed in the previous FY 2021/22. Of the 16 web-based businesses registered, 11 have paid taxes (active) during the same period (table 3.13). Apple distribution merged as the biggest contributor of the web-based business followed by Netflix International. The list contributor noted was ACCA (Association of Chartered Certified Accountants).

[4] Netflix International B.V, Zoom Video Communications Inc. , Microsoft Ireland Operations Limited, Uber B.V, Google Commerce Limited, Google Cloud EMEA Limited, Google LLC, Meta Platforms Ireland Ltd, Amazon Web Services, EMEA SARL, Amazon Com Services, Audible Inc, Bolt Operations OU, Spotify AB, Apple Distribution, Association of Chartered Certified Accountants, LinkedIn Ireland Unlimited Company.

Table 3.13 Active digital taxpayers as at 31st December 2022

S/NO	Taxpayer	Revenue collected (Ug shs)
1	Netflix International B. V	665,643,794
2	Zoom Video Communications Inc.	91,103,179
3	Google Commerce Limited	342,697,884
4	Meta Platforms Ireland Ltd	646,817,427
5	Amazon Web Services EMEA SARL	280,051,692
6	Amazon com Services	60,424,450
7	Audible Inc	17,328,114
8	Bolt Operations OU	50,069,202
9	Spotify AB	31,999,241
10	Apple Distribution	1,075,181,519
11	Association of Chartered Certified Accountants	2,615,349
Total		**3,263,931,851**

Source: URA Database

Conclusion

URA has taken strides in its attempt to collect revenue from digital businesses including VAT for digital services provided by non-residents, however, the income tax from the companies had not been realized because the framework has not been concluded by the OECD to enable alignment of our policy.

TAX ADMINISTRATION INTERVENTIONS /INDICATORS

3.3 Performance of Tax Administration Interventions

Tax Administration interventions performed fairly (65%). Of the 23 interventions assessed, 5 had good performance, 15 were fair and 3 poor.

GOVERNANCE AND MANAGEMENT OF URA

The URA Act (1991) established the Authority as “an agency of government under the general supervision of the Minister of Finance” for the assessment and collection of specified revenue and to administer and enforce the laws relating to such revenue. The URA Board is responsible for monitoring the performance of the URA and determination of policies relating to staffing and procurement of the authority. This objective was assessed through one intervention: (i) expand the range of measures for assessing URA’s performance to reduce reliance on collection targets as follows:

3.3.1 Expand the range of measures for assessing URA’s performance to reduce reliance on collection targets

The DRMS requires balancing Key Performance Indicators (KPIs) with quantity, quality, and taxpayer satisfaction indicators, which will give a wider view of the effectiveness of the administration. This should include the tax compliance gap, growth in active taxpayer population, on-time filing and payment rates, and improvement of arrears collection, IT availability and response times. This intervention is measured through five indicators, one of which was tracked semi-annual and the following was noted:

1. **Revenue Collection to target (collected revenue as % of revenue target)**

The indicator seeks to measure the extent to which the revenue target is being met. During the first half of the FY (22/23), the gross revenue collections were Ug shs 11,923.88bn, against a target of Ug shs 12,014.68bn5 leading to a deficit of Ug shs 90.80bn (1%). Comparatively, in the same period FY 2021/22, the gross revenue collections were Ug shs 10,305.80bn against a target of Ug shs 11,283.45bn, indicating a tax deficit of Ug shs 977.66bn (9%). The uncollected tax to target was therefore reduced (from 9% to 1%) and there was a growth in revenue collected of Ug shs 1,618bn (Annex 2). This is indicative of an increase in compliance by taxpayers as a result of the tax administrative measures and policies implemented during the FY such as: increased working operational hours, improved arrears management, increased engagements with the tax payers regarding compliance, use of the mobile offices, increased sensitization, use of alternative dispute resolution, data sharing, increased tax investigations and use of technology in custom processes (i.e. Bonded Ware House Information Management System (BWIMS). Similarly, the implementation of the Electronic Fiscal Receipting and Invoicing System (EFRIS) and Digital Tax Stamps (DTS) as major sources of information has resulted in timely and improved accuracy in the declaration of VAT & Local Excise Duty.

However, it is also important to note that the increase in the set target (6.5%) Ug shs 731.23bn is minimal compared to the number of new tax administrative measures being implemented targeting raising revenue (EFRIS, DTS etc.).

At the tax head level, direct domestic taxes registered a surplus of Ug shs 84.73bn, Non-Tax Revenue registered a surplus of Ug shs171.07bn, while indirect domestic taxes and International taxes both posted deficits of Ug shs 236.50bn and Ug shs110.10bn, respectively. Indirect Domestic Taxes continue to register the largest tax to target deficit, in comparison to the half-year (FY 2021/22) period, although there has been a 9.5 percentage point collection improvement. Indirect Taxes have been greatly affected by the COVID-19 pandemic and slow economic recovery. The contractionary policy implemented by the government in quarter one of the FY 2022/23 to control inflation has reduced consumption and resulted in the reciprocal effect of low demand and supply in the economy leading to low consumption tax yield.

LIFTING THE HUMAN RESOURCE CAPACITY AT URA

Weak human resource (HR) management is a major obstacle to modernizing a tax administration. To support the achievement of the objectives of DRMS, the URA needs a productive, highly skilled, and motivated work-force. This objective is assessed through Interventions; (i) Conduct an independent staffing review (ii) Implement a comprehensive training strategy and develop a URA tax training academy and (iii) Review the URA performance management and reward system.

3.3.2 Conduct an independent staffing review

The DRMS envisaged URA conducting a staffing review, which would interrogate the current staff structure, and workload and examine where staff might be internally reallocated to improve efficiency, prioritisation, and productivity. It would also provide critical guidance necessary for new recruitment, such as front-loading hiring and redeployment to areas that will

[5] Annual revenue target FY 2022/23 is Ug shs 25,15.57bn (including NTR) of which 48% (Ug shs 12,014.68bn) was realized by December 2022.

have the greatest impact on domestic revenue mobilisation. This intervention is measured through two indicators, which were both tracked, and the following was noted:

1. **Taxpayer/technical staff ratio**

This intervention aims to track the number of taxpayers handled by each staff member. It is assumed that each technical/operational staff (Domestic and Customs) is expected to handle a maximum number of taxpayers to remain efficient.

By December 31st 2022, the ratio of taxpayers to URA staff increased to 1,433 from 1,122 due to an increment in the number of taxpayers alongside a disproportionate increment of URA staff. (Table 3.14). The number of taxpayers increased by 56%, whereas that of URA technical staff increased by 22%. The current URA-approved staff structure provides for 2,510 operational/technical staff of which 2,140 (85%) are filled. This is likely to compromise tax administration.

For the period ending 31st December 2022, URA continued to have Technical Assistance Programs to directly support domestic revenue mobilization and coordinated the implementation of the training-of-trainers program (ITRAT, PODITRA[6]) for 45 staff and Big Data Analytics Training for 36 participants across different departments: Domestic Taxes, Customs, Internal Audit, and Tax Investigations conducted by the International Bureau of Fiscal Documentation (IBFD) experts.

Table 3.14: Taxpayers to Technical Staff

	Half year FY2021/22	Half year FY2022/23
No. of Taxpayers	1,966,106	3,067,983
No. of URA technical/operational staff	1,751	2,140
Taxpayer to Technical/operational staff ratio	1,122	1,433

Source: URA Database

2. **Revenue per URA staff (by tax group)**

The goal is to monitor the contribution of each staff in terms of the average revenue collected per staff. A decrease in the average revenue per staff would need to be examined if it is not due to additional staff recruited to ensure a balanced taxpayer/staff ratio.

Revenue collected by 31st December 2022 was Ug shs 11,923.87bn, of which Ug shs 7,470.03bn was domestic taxes and Ug shs 4,453.85bn customs (Table 3.15). The total (operational) average revenue per staff decreased by 5.3 % from the previous half year 2021/22. The average revenue per staff for Domestic Taxes declined by 15% as of 31st December 2022; however, it was accompanied by a 41.5% growth in the number of staff. Conversely, average revenue per staff for Customs increased by 7% alongside a 2% increment in staff, over the same period. The decline in performance by domestic taxes and the minimal improvement by customs was attributed to the on-boarding of the new staff which meant that although staff had been recruited they had not begun working. In addition, the improvement in customs was mostly attributed to a new performance management approach and the use of technology in custom processes.

[6] Post Graduate Diploma in Taxation and Revenue Administration

Table 3.15: Average revenue per staff

Area	Half Year 2021/22			Half Year FY 22/23		
	Revenue collected (Ug shs bn)	No. of staff	Average Revenue per staff (Ug shs bn)	Revenue collected (Ug shs bn)	No. of staff	Average Revenue per staff (Ug shs bn)
Total (Operational)	10,305.80	1751	5.885	11,923.87	2140	5.571
o/w Domestic taxes	6,229.62	893	6.976	7,470.03	1264	5.909
o/w Customs	4,076.18	858	4.750	4,453.85	876	5.084

Source: URA Database

3.3.3 Implement a comprehensive training strategy and develop a URA tax-training academy

The intervention seeks to facilitate staff on boarding, ensure that the necessary skills are acquired quickly, and achieve a higher level of productivity. The impact of the adoption of new technologies should be factored into this training plan, enabling URA to react better to changes in the tax environment due to disruptive technologies. This intervention was measured through one indicator, as follows:

1. **Proportion of operational staff that completed basic training in taxation**

The indicator aims to measure the capacity of operational staff handling technical matters relating to domestic taxes. The indicator requires that at least 95% of the staff should have completed basic training in taxation (PODITRA). By 31st December 2022/23, the percentage of Domestic Tax (DT) operational staff that completed the PODITRA increased to 31.5% from 11.6% at half year 2021/22 (table 3.16) indicative of an improvement in training efforts.

Additionally, the URA implemented:

i) The standard training programs that concluded the ITRAT for 672 staff, and continued the EAC Customs course for 104 staff under the Management Module;
ii) The Data Analytics class for 397 officers in Domestic Taxes ran online on both ZOOM and Moodle until 14th December 2022.
iii) TADAT Social Learning Engagements (TADAT COFFEE CHAT) under the themes: Enhancing Compliance management through the use of Digital Fiscal Devices: Using Field experiences as case studies and the importance of cyber security to tax administration in the context of TADAT where URA had its Manager IT Security as one of the panelists with representation from Tax Administration Jamaica and Kenya Revenue Authority.

A total of 66 new learners were enrolled on the Coursera learning platform. There was increased learning and usage with over 85-course enrollments and 166 lessons undertaken and an average of 125 learning hours per month.

By 31st December 2022, under the initiative to develop a Tax Training Academy, URA conducted quality assurance for the core competency programs developed i.e. Modules of Service orientation; Integrity, compliance & ethics; Change management; Innovations; and Interpersonal relations. These will form part of the modules offered by the Tax Academy. Online content development continued to ensure the digital platforms are well-resourced to handle the proposed blended learning approach. Management also engaged the Ministry of Trade on the options of utilizing part of the MTAC institute.

Table 3.16: Number of staff that completed basic training in taxation

	Half Year 2021/22	Half Year FY22/23
No. of DT & Customs staff with PODITRA or some other recognized qualification* (ITRAT)	199	674
Total No. of DT & Customs staff	1719	2140
DT & Customs staff with basic training (PODITRA) (%)	11.6	31.5

Source: URA Database

3.3.4 Review the URA performance management and reward system

Morale and motivation are low among URA staff. Therefore, the DRMS seeks to consider expanding the salary structure to support career progression for high-performing technical staff. In addition, develop a framework based on clear Key Performance Indicators (KPIs) to reward staff for good performance, and introduce clear criteria for the retention of key staff that are nearing retirement. Furthermore, salaries should be periodically adjusted for inflation. This intervention is measured through one indicator, as follows:

1. **Staff attrition rate**

The indicator aims to track the number of staff that leave the URA before reaching retirement age, excluding deaths. It is assumed that poor terms and conditions of work are the key factors influencing staff to leave the institution before retirement.

There was a 28% increase in the total number of staff recruited which was accompanied by a 116% increase in the number of staff leaving, resulting in a rise in the total staff attrition rate by 0.67 percentage points from the same period in the previous financial year (Table 3.17). Domestic Taxes and Customs had the highest number of staff leaving (17 and 16 respectively) across the two periods, yet they are the most critical in tax administration and revenue mobilization. This implies that there is a need to improve the terms and conditions of work at the URA. For instance, there has been no salary increment since 2019 and according to an internal benchmark undertaken with other government agencies, the URA salaries were 46% less. Over this period, emphasis has been placed on recruitment and training.

However, the URA reviewed its performance management and rewards system at the start of FY 2022/23 but was only able to implement performance management. URA is yet to implement the reward system due to a lack of funds. This could potentially reduce the attrition rate so long as they consider the need for including bonuses and other rewards, based on long service and experience. In terms of performance management, the following initiatives were instituted to support the implementation of the new Performance Management (PM) approach that is geared to foster a high-performance culture:

i. Introduction of monthly performance conversations themed "Monthly One-on-RAP" aimed at cultivating a culture of continuous performance monitoring and feedback.

ii. Introduction of Monthly PM validations for Senior Management

iii. Development of the PM Rewards & Recognition paper which was awaiting Board approval.

iv. Development of the Enterprise Resource Planning (ERP) Performance Management System enhancements and requirements to guide automation of the new performance management system. Several engagements have been held with Information Technology and Innovations (IT&I) to conceptualize and model user requirements.

v. Held an engagement with His Majesty Revenue and Customs (HMRC)[7] to benchmark how to align and measure competences in the new performance management system.

Table 3.17: Staff attrition rate

Department	Half Year 2021/22			Half Year 2022/23		
	No. of staff	No. of staff left	Attrition rate (%)	No. of staff	No. of staff left	Attrition rate (%)
CG's Office	68	1	**1.47**	141	2	**1.41**
Domestic Taxes	983	10	**1.01**	1,426	17	**1.19**
Customs	947	7	**0.74**	1,001	16	**1.59**
Corporate Services	235	4	**1.70**	242	9	**3.71**
Internal Audit	36	1	**2.78**	43	1	**2.32**
Tax Investigations	86	1	**1.16**	154	2	**1.29**
Information Technology and Innovation	133	1	**0.75**	182	3	**1.64**
Legal Services	51	0	**0.00**	65	4	**6.15**
Total URA	**2,539**	**25**	**0.98**	**3,254**	**54**	**1.65**

Source: URA Database

Conclusion

The overall performance towards the achievement of the objective of *lifting the human resource capacity* was rated as fair as two out of the three interventions attained their respective targets. There has been an increase in staff attrition rate over the period ending 31st December 2022, similarly, the average revenue per URA staff decreased. The percentage of Domestic Tax operational staff with the PODITRA increased, and URA has implemented more trainings across different departments. It has also conducted recruitment to fill the gaps in the organizational structure, although it has not been enough to narrow the taxpayer-to-operational staff ratio, which could affect performance.

DATA MANAGEMENT AND ANALYTICS AND ICT GOVERNANCE AND INFRASTRUCTURE

While URA has increasingly adopted a data-driven approach, data analysis has not been fully exploited to promote revenue generation and enhance voluntary compliance. Weak data integrity lies at the heart of many of URA's challenges. Without clean data on the entire lifecycle of taxpayers and error-free account management, URA cannot have a full picture of their tax base or effectively manage compliance. In addition, it has become imperative that Information and Communications Technology (ICT) systems become less complex, more user-friendly, easily adjustable, and more intelligent, effectively moving to a level that allows for pre-populated returns.

[7] Tax authority of the United Kingdom

This objective is assessed through intervention: i) develop a cross-government policy framework for data sharing and management to ensure that data is captured and stored in a systematic, standard way. This would make data usable across the government. ii) Standardise key government systems to improve integration.

3.3.5 Develop a cross-government policy framework for data sharing and management

The goal of the intervention is to expand the URA tax base through the use of data obtained from other government departments. The law allows URA to register or amend a taxpayer registration profile where the URA happens to obtain a taxpayer's information that the tax payer is unwilling to declare to the URA. An increasing number of forced registration will thus imply the implementation of the intervention is not bearing fruit. This intervention is assessed through one indicator as follows:

1. **No. of forced taxpayer registration made in a fiscal year**

Although the number of forced tax registration could not be tracked, the National Information Technology Authority-Uganda, (NITA-U) developed the Uganda e-Government Interoperability Framework to outline the main principles and general guidelines enabling the development and implementation of shared electronic services for citizens, businesses, and Ministries, Departments & Agencies/Local Governments (MDA/LGs) in the Ugandan Government. The Interoperability framework aims to improve: cooperation between MDA/LGs aiming at the establishment of public services, information exchange between MDA/LGs to fulfil legal requirements or political commitments, and sharing and reusing information among MDA/LGs to increase administrative efficiency and reduce the administrative burden on citizens and businesses.

The e-Government Interoperability Framework (e-GIF) document will be maintained by the Inter-Agency Digital Technical Implementation Committee and the e-Government Working Group with the leadership of the Secretariat at the Ministry of ICT and National Guidance**.**

3.3.6 Design and implement a medium-term ICT strategy

The objective of the intervention was to address the need for a modern tax administration system. The strategy supports the tax system going forward and considers future business requirements to be able to adapt to the changes.

By 31st December 2022, the overall project status was at 61% and 80% of Data Centre Build inputs were received. In addition, the contractor was on site and construction/build works were ongoing. Specifically:

i. Design changes were approved and a 15% payment milestone based on Design Lock-in was paid.
ii. Multiple datacentres components were delivered by the contractor. These included racks and containment systems, STS, UPS, batteries and power modules, raised floor panels & ceiling, cable trays and ladders, power cables, active glass and generators. At least 20% of the components were pending delivery in quarter three.
iii. Build works for electrical installations, mechanical and service works commenced in the data centre and are at 5%.
iv. Power cable laying works between generator sites were at 95% completion.

3.3.7 Standardise key government systems to improve integration

This intervention seeks to enhance interfacing. To support the standardisation of key government systems to improve integration, NITA-U developed a data-sharing and integration platform to enhance the delivery of services in the government and private sectors. This was created to tackle the challenges faced by MDAs in data sharing due to: low levels of automation, use of legacy systems, limited funding for Active Programming Interface (API) development, and lack of a mechanism through which data can be exchanged between MDAs in a rational, secure, efficient and sustainable way.

Furthermore, through the Ministry of ICT, NITA-U put in place regulations to guide operations of e-government and other ICT related such as National Data Bank Regulations, Guidelines for the development and management of Government websites, guidelines and standards for acquisition of IT hardware and software for MDAs; and standards for structured cabling in Government MDAs. This will enhance interfacing and thus improve integration in government systems.

By the end of December 2022, this platform had been rolled out to 102 entities with 58% being private and 42% MDAs, including URA. To that end, 29,196,379 transactions were made through the platform with the Centenary Rural Development Bank(CRDB) and the National Identity and Registration Authority (NIRA) having the highest number of transactions Table 3.18.

Table 3.18: Transactions by MDAs through the data sharing and integration platform

No.	Ministries, Departments & Agencies	Transactions
1	NITA-U	5,815
2	NIRA	2,466,673
3	URSB	411
4	URA	14,545
5	KCCA	0
6	MLHUD	0
7	Ministry of Finance, Planning Economic Development	2,311
8	National Medical Stores (NMS)	230
9	Ministry of Public Service	54,038
10	CRDB	26,652,356
	Total	**29,196,379**

Data Source: NITA U

TAXPAYER REGISTRATION

The taxpayer register is the cornerstone of any tax administration, so any lack of accuracy, reliability and credibility in the taxpayer register will in turn lead to deficiencies in collection and enforcement, increasing administrative and compliance costs. Identifying and registering taxpayers is thus vital for undertaking the full spectrum of compliance functions, such as detecting stop-filers and managing tax arrears. This objective is assessed through four interventions; one of which was reported as follows:

3.3.8 Improve URA access to external data to identify potential taxpayers

This intervention requires improvement in the identification of potential taxpayers and verification of information through better access to and use of external data. This will assist in identifying potential taxpayers and verification of information. To minimize the need for cumbersome data requirements from taxpayers for registration, e-Tax should be linked to the

Uganda Registration Services Bureau (URSB), NIRA, National Social Security Fund (NSSF), the Ministry of Foreign Affairs (MoFA), and more licensing and utilities databases.

This intervention is assessed through one indicator as follows

1. **No. of new potential taxpayers identified and registered from external data**

It aims to track the usage of information obtained from external sources as far as identifying new taxpayers is concerned.

By 31st December 2022, the total number of new taxpayers registered had increased by 146% (from 182,553 to 449,975). Of the new taxpayers registered, 32,877 (7%) were obtained from various external sources as listed in Table 3.19. Uganda Bureau of Statistics, National Water and Sewerage Corporation and Kampala Capital City Authority (KCCA) accounted for the largest share of the new taxpayers identified.

Although the number of new taxpayers has increased significantly, the percentage share of those identified through external data is low. Consequently, the URA had planned to generate Ug shs 317.00bn by expanding the taxpayer register through the use of third-party data, however, by 31st December 2022 the estimated revenue gain from all new taxpayers was only Ug shs 4.50bn (1.42%). This is indicative of a need to strengthen the collaborative efforts with relevant MDAs to further expand the register.

Table 3.19: No. of new potential taxpayers identified and registered from external data

Entity data source	New taxpayers identified
KCCA trade license data	756
UBOS	30,119
Ministry of Education and Sports	273
Private schools data	659
Pharmacist association	22
National Water Sewerage Corporation	1,048
Total	**32,877**
Newly registered taxpayers	**449,975**
% registered through external data	**7%**

Source: URA

3.3.9 Promote political messaging supportive of a "civic duty to register"

The goal of the intervention is to expand the taxpayer register. An increase in voluntary registrations will indicate a successful implementation of the intervention. Zero or no change in voluntary registrations relative to the baseline value will imply there is more that needs to be done to improve voluntary registrations. This intervention is assessed through one indicator as follows:

1. **Voluntary registrations as % of new registrations**

Although the number of voluntary registrations was not availed, the URA conducted some stakeholder engagements to promote registration. The register expansion team conducted eight external stakeholder engagements with (i) Kisenyi and Rubanga/Nateete Millers associations, (ii) Kalerwe Animal Market Vendors (iii) Integrated Revenue Administration System (IRAS) Management and Enterprise Storage System to the Municipalities and Local Government Commission, (iv) National Drug Authority, (v) KCCA, (vi) Fisheries Department, (vii) NSSF and (viii) National Water and Sewerage Corporation. In addition, there were Joint Tax Registration and Expansion Project (TREP) field operation exercises between URA, KCCA and URSB in three KCCA divisions (Central, Nakawa and Kawempe). There were also engagements with the law council, religious leaders, and some major players in the entertainment industry.

TIMELY AND ACCURATE FILING BY TAXPAYERS

The tax system relies heavily on timely, accurate and complete reporting by taxpayers in their tax declarations. To mitigate fraud and revenue losses, tax administrations should therefore undertake a range of actions to ensure compliance. Low filing rates are prevalent and this is largely due to poor connectivity in certain regions which is not reliable so the environment cannot support a fully online system. This objective is assessed through the intervention:

3.3.10 Address infrastructure constraints by offering points for connection across the country

This intervention is assessed through one indicator as follows: No. (percentage) of returns filed through URA-sponsored connection points. This indicator aims to monitor the effectiveness of the intervention regarding improving tax filing rates using URA-sponsored connection points. An increasing proportion will imply the intervention is working.

The number of returns filed through URA connection points could not be tracked at half year, however, NITA-U successfully commissioned the Regional Communications Infrastructure Program (RCIP) to address infrastructure constraints in the FY 2022/23.

TAX AUDIT

The tax administration relies on effective enforcement strategies to deter, detect, and address non-compliance, where voluntary compliance initiatives fail. With a low tax effort and high evasion, URA needs a smart approach to audit assessments and enforcement, premised on identifying the most significant risks.

This objective is assessed through interventions; (i) fully implement the recently adopted policy on digital tax stamps. (ii) strengthen URA's audit function by adopting modern audit tools, enhancing the use of risk-targeting, and increasing the number of "mass audits.", (iii) bring the entire audit and payment process online, (iv) promote audit process integration across taxpayer offices at URA and (v) include reports on audit activities and outcomes as an integral aspect of reports to MFPED. Two of the above interventions were monitored and the following performance was noted.

3.3.11 Fully implement the recently-adopted policy on digital tax stamps

Digital Tax Stamps aid in combatting illicit trade, counterfeiting, tax evasion, and smuggling. In addition to improving revenue collection, the stamps protect consumers from counterfeits, enable the pre-population of returns, accelerate customs clearance, and enable traders and manufacturers to monitor the movement of goods easily. This intervention is assessed through one indicator as follows:

1. **Percentage increase in the average amount of Local Excise Duty (LED) paid by firms**

The objective of the intervention is to minimize tax evasion through under declaration of sales. The implementation of the intervention is thus expected to lead to an increase in the average LED declared/paid by firms that have adopted the use of digital tax stamps (DTS). No change from the baseline will imply the intervention is not working as expected.

In FY2019/20, the Government introduced DTS on some excisable goods[8] and has continued to expand the portfolio since. By 31st December 2022, the number of firms using digital stamps increased by 78% (from 520 to 925) and by (546.8%) from the baseline (table 3.20). Although the total LED paid by firms on DTS has increased by 28% (from Ug shs 365bn to Ug shs 468.97bn, the average LED paid by firms using DTS decreased from Ug shs 1.54bn to Ug shs 1.04bn, over the same period and thus the percentage of average LED paid by firms using digital stamps declined to -33% from -27%. This was due to an increase in low-cost products i.e. fermented beverages (*kombucha)* that are very price sensitive.

The decline in the LED realised within certain tax heads was due to: (i) a decline in demand for cooking oil due to inflation causing consumers to shift to other substitutes. In addition, the production capacity has been affected by a contraction in the supply of sunflower oil from Ukraine, as well as a ban on Indonesian palm oil exports which lasted until July 2022. This affected the supply chain of cooking oil inputs needed for the domestic supply of products. (ii) Similarly, sugar has been affected by low production capacity due to a shortage of raw material (raw sugarcane) for example, Kyenjojo Sugar Industries Limited's production declined by 11.41% and sales declined by 14.79 %, (iii) cement has experienced a decline in demand which has led to low production and hence low sales, (iv) there was also an increase in the sale of counterfeit and unstamped goods (e.g cigarettes.) within the informal sector creating unfair competition for compliant[9] firms.

Table 3.20: Average amount of LED paid by firms using digital stamps

Variable	Baseline (2019/20)Half Year	July –Dec 2021/22	July –Dec 2022/23
No. of firms using digital stamps (after baseline year)	143	520	925
Total LED paid by the firms (Ug shs bn)	639	776	919.77
No. contributing (of those on DTS)	65	237	452
Total LED all firms on DTS (Ug shs bn)	251	365	468.97
Total No. contributing	244	487	675
Average LED paid (by firms using digital stamps) (Ug shs bn)	3.85	1.54	1.04
Percent growth in average LED paid by firms using digital stamps (%)	0	(27)	(33)
Average LED paid by firms not using digital stamps (Ug shs bn)	2.17	1.64	2.02
Percent growth in average LED paid by firms, not on DTS (%)	0	(32.77)	22.90

Source: URA Database

3.3.12 Strengthen URA's audit function by adopting modern audit tools, enhancing the use of risk targeting, and increasing the number of "mass audits"

This intervention was assessed through two indicators as follows:

1. **Domestic Tax audits conducted**

The aim is to monitor tax audit efforts/activities at URA. Each sub-indicator will be expected to exhibit improvements in the respective indicator values over the years. Where no change from baseline values is observed, it means the intervention probably needs reviewing.

[8] Beer, spirits, fruit juice and vegetable juice, any other fermented beverages, any other alcoholic beverages, cooking oil, sugar, soda, wine, mineral water or bottled water, any other non-alcoholic beverages tobacco product, cement, cement bulker.

[9] Firms producing DTS gazetted products that are on DTS

The number and type of domestic audits completed increased from 5,566 to 41,371 by 31st December 2022, alongside a 180% increase in tax assessed which shows a strengthening of the audit effort (Table 3.21). During the half-year period, more emphasis was placed on conducting compliance advisories (63%), register maintenance (47%) and compliance visits (45%), as opposed to comprehensive audits (18%) which are more detailed and labour intensive.

Table 3.21: Domestic Audits

	July-December 2021				July-December 2022			
Initiative	**Target**	**Completed**	**Percentage completed (%)**	**Tax Assessed (Ug shs bn)**	**Target**	**Completed**	**Percentage completed (%)**	**Tax Assessed (Ug shs bn)**
Compliance advisories	14,490	5,363	37	78.24	15,230	9,542	63	256.02
Compliance visit					656	292	45	7.31
Comprehensive audit	321	107	33	30.63	186	33	18	43.37
Issue audit	1,461	96	7	30.02	2,234	563	25	74.98
Self-health review	0	0	0	0	234	66	28	6.78
Spot inventory check	0	0	0	0	45	13	29	0.24
Register maintenance	0	0	0	0	65,703	30,862	47	0
Total	**16,272**	**5,566**	**34**	**139**	**84,288**	**41,371**	**49**	**389**

Source: URA Database

2. Customs Post Clearance Audits

The percentage of total targeted custom post-clearance audits completed decreased, from 79% to 36%, by 31 December 2022 compared to the same period in the previous year (table 3.22). As a result, there was a decrease in tax assessed, which declined from Ug shs 44.4bn to Ug shs 8.18bn. The amount agreed was not availed and therefore it is not possible to determine the Audit yield however this shows a decline in audit effort. In addition, more emphasis was placed on completing spot audits (217%) and issue audits (60%) than comprehensive audits (14%).

Table 3.22: Customs post Clearance Audits

	July-December 2021				July-December 2022			
Initiative	**Target**	**Completed**	**% Completed**	**Tax assessed (Ug shs bn)**	**Target**	**Completed**	**% Completed**	**Tax assessed (Ug shs bn)**
Comprehensive audits	68	25	37	15.15	78	11	14	2.08
Issue audits	38	48	126	29.16	48	29	60	4.52
National Economic Operator audits	5	6	120	0.09	12	-	0	-
Post Authorization Audits	6	13	217	0.004	6	1	17	0.59
Spot Audit	0	0	0		6	13	217	0.99
Totals	**117**	**92**	**79**	**44.4**	**150**	**54**	**36**	**8.18**

Source: URA Database

Conclusion

The overall performance of the two interventions was rated fair. The number of firms on DTS has grown, alongside a moderate increase in total LED paid. Similarly, domestic tax audits conducted increased. However, the URA has been unable to meet the targets for customs post-clearance audits and has placed more emphasis on issue audits.

INVESTIGATIONS & ENFORCEMENT

URA's Investigations Department carries out annual risk and threat assessments to determine problem areas. The identified areas are then investigated using information sourced internally and externally. However, poor access to technology, a lack of specialized skills, and low staff numbers have limited the ability to effectively tackle tax fraud, particularly as sophisticated tax crimes have proliferated, and transactions have become increasingly difficult to trace online.

This objective is assessed through interventions: (i) Implement the Automatic Exchange of Information and common reporting standards for tax purposes, (ii) Enhance resources to equip scientific laboratories and investigations personnel, (iii) Intensify penalties for non-compliance and increase the number of tax investigations and (iv)publicize the results of enforcement initiatives.

3.3.13 Implement the Automatic Exchange of Information and common reporting standards for tax purposes

The DRMS envisaged that adopting these protocols would help URA to combat international tax evasion, detect illicit financial flows and transfer pricing issues through enhanced cooperation with other tax jurisdictions. Expanding the sources of information available to URA will enable the investigations department to detect evasion, as well as find new taxpayers. This intervention is assessed through two indicators, of which one was assessed as follows:

1. **Progress towards Automatic Exchange of Information**

By 31st December 2022, the following progress was noted: i) A full Act was recommended to align the regulations with domestic law. To that end a Bill was drafted and shared with MFPED; ii) a consultative meeting with the regulatory bodies was held in preparation for the presentation of the Bill; iii) Central Transmission System (CTS) agreement was signed and a contact person designated; (iv) developers were benchmarking with systems in other jurisdictions to develop an internal Automatic Exchange of Information (AEOI) system.

3.3.14 Enhance resources to equip scientific laboratories and investigations personnel

The DRMS requires that URA adopts international standards, particularly to allow for the admittance of evidence into court. Resources to facilitate the acquisition of relevant technologies, skilled staff, and necessary training should also be prioritized. This intervention is assessed through one indicator, which was assessed as follows:

1. **No. of forensic tax investigations completed**

The objective of the intervention is to ensure URA adopts international standards particularly to allow for the admittance of (such) evidence into court. Initiating and completing an increasing number of forensic tax investigations will imply the intervention is working.

The number of forensic tax investigations completed increased by 29% from 64 as at 31st December 2021/22 to 83 during the same period in FY 2022/23. The scientific labs provided technical scientific support; 7 new staff not adequately trained but currently undertaking on-job training in laboratory analytical procedures, operation and application of laboratory equipment, safety procedures and risk assessment. Other trainings undertaken include Operation and application of the Gas Chromatography Mass Spectrometer (7 staff trained), training on sampling and analysis in a highly contaminated environment (2 staff trained). However, more specialized training is required on specific analytical procedures, laboratory quality management systems, method validation, and laboratory safety, among others.

Good performance was registered, however for the scientific laboratories to remain efficient, there was a need to fully equip the laboratories and address the staffing, training and funding gaps. For the period July to December 2022, the URA allocated 0.22% of their budget to the scientific laboratories, resulting in a funding gap of Ug shs 4.204bn **(**this amount was shared between the science laboratory and forensics laboratory**).**

The forensic and scientific laboratories were still missing some necessary equipment.[10] There was an urgent requirement to replace the obsolete equipment, increase the field kits, and procure enough consumables. Forensics staff are not adequately trained at the moment. Two new staff need specialized training in forensics and document examination. No training was undertaken for the period July to December 2022.

Lastly, the labs were yet to attain international certification though some progress was registered. Regarding the Forensics lab, the Professional Examination and Certification Board (PECB)/Certified Lead Forensics Examiner was undertaken in preparation for ISO IEC 27037 certification. A phased re-tooling plan for the lab is in place for achieving the same goal.

The laboratory is developing mandatory procedures required for international accreditation. Implementation of the Laboratory Management System was ongoing. Procurement of the Laboratory Information Management System was initiated awaiting final approval and availability of funds.

3.3.15 Intensify penalties for non-compliance and increase the number of tax investigations

The intervention requires establishing a collection strategy that includes full use of asset seizures where appropriate and pursuing criminal prosecution for serious non-compliance. This intervention is assessed through one indicator, which was assessed as follows:

1. **Tax investigations and related enforcements conducted**

The indicator aims to monitor URA's efforts in enforcing tax compliance through tax investigations.

In the first half of FY 2022/23, tax investigation efforts resulted in 83 cases conducted and completed with identified recoverable revenue worth Ug shs 105bn (table 3.23). This represents a 30% growth in the number of cases conducted and a substantial increase in the recoverable revenue identified. Tax investigation analysis for the period July –December 2022 mainly covered areas of Tax Crime, Financial Crime and Science Investigations. The cases identified were forwarded to the respective collecting departments for enforcement of recovery while other cases were referred to legal for prosecution.

[10]**Scientific Laboratory:** Gaps include: Isotope Ratio Mass Spectrometer and DNA Laboratory equipment for use in determining geographical origin and authenticity of products. Inductively coupled plasma - optical emission spectrometry (ICP-OES) for determination of elemental composition in assorted products, Fourier Transform Near Infrared Spectrometer (FTIR-NIR) Equipment for satellite laboratories at Boarder points, DNA analysis for identification of biological materials

Three (3[11]) intelligence briefs were disseminated to support compliance interventions against a target of three (3), and 16 target profiles for investigation were developed against a target of 15.

Customs enforcement initiatives resulted in 5,734 seizures (4,503 of which were from dutiable goods and 1,231 from non-dutiable goods) leading to a recovery of Ug shs 57.21bn which was an improvement from the first half of FY 2021/22, (July to December 2021 led to 3,860 seizures and recovery of Ug shs 47.14bn.) Recoveries were mainly due to the following major offences: under-declaration, misdeclaration/false documentation, other offences (inclusive of temporary road violations, and transit violations), outright smuggling, undervaluation, concealment and misclassification.

To intensify penalties and improve compliance i.e. Part XV (offences) of the Tax Procedure Code of Act (TPCA) was comprehensively amended to introduce tougher sanctions and penalties. For some offences, custodial sentences were provided unlike before. For example, Sec. 54 of the TPCA was amended to provide for steeper penalties relating to failure to furnish a tax return. Also, the custodial sentence for making false and misleading statements has been increased to ten years from the two years provided hitherto. Internal consensus on implementing laws relating to asset seizures was built, and the drafting of appropriate legal provisions was underway.

Although performance for the financial year was good, no asset seizures were conducted during the first half of FY2022/23 due to a lack of a supporting legal framework. Asset seizures are necessary to meet the OECD and as a means to increase advantage over the taxpayer to enforce compliance.

Table 3.23: Tax investigations conducted

Audit Sub-Indicators	FY 2021/22 (Half year)	FY 2022/23 (Half year)
No. of tax investigations conducted & completed	64	83
Tax value of tax investigations completed	23.79	105.01
No. of criminal prosecutions initiated for tax non-compliance	11	16

Source: URA Database

3.3.16 Publicize the results of enforcement initiatives

The DRMS asserts that enforcement programs will have limited deterrent effects if they are not visible, and thus not as threatening. It, therefore, requires that the successes of efforts to curb non-compliance by specific taxpayers are publicized. This intervention is assessed through one indicator, which was assessed as follows:

1. **No. of media reports on results of URA tax enforcement initiatives**

The aim is to monitor URA's efforts in improving tax compliance through traditional media (excluding the URA website and social media). The indicator assumes that the dissemination of news relating to tax enforcement activities will send a message to taxpayers especially non-compliant taxpayers that business is no longer as usual.

By 31st December 2022, the URA had issued 17 media reports across numerous media outlets (Annex 2). Increasingly publicizing the result of enforcement activities should act as a deterrent to taxpayers.

[11] 1. Risks posed by crypto-currencies to tax collection. 2.The Agent Banking Players. 3. Digital Tax Stamps (DTS) Compliance among specific players.

Challenges

i. The Tax Investigation Department (TID) is not empowered to undertake asset seizure due to the lack of a supportive policy, regulation or law.
ii. Inadequate funding to adequately equip the science laboratories and conduct the necessary trainings. The commitment of funds for continuous refresher training and equipment updates is required.
iii. The TID had intensified compliance checks on taxpayers, thus more field equipment was required to fully support this initiative.

Conclusion

The overall performance was rated as good as all four interventions assessed which contribute to the objective, *Tax Investigations and Enforcement*, performed as expected. As the URA continues to enhance its intelligence and enforcement activities, alongside addressing the efficiency gaps and utilizing media to publicize the results, compliance should increase and evasion reduce.

DISPUTE RESOLUTION

Independent, accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and receive a fair hearing promptly. In Uganda, this process is enshrined in the legal framework and taxpayers can dispute: (i) the accuracy of the facts used by the auditor, (ii) the correctness of the interpretation of the tax law, and (iii) the amount of penalties imposed by URA. This objective is assessed through the following intervention:

3.3.17 Facilitate Tax Appeals Tribunal (TAT) to expeditiously deal with cases by increasing staff training and numbers

The DRMS intended to see the TAT properly resourced, specifically requiring the Chairperson of TAT to be appointed as a full-time position, as well as extending the terms of services of TAT members to enable them to gain the necessary experience and contribute meaningfully. It also sought to have its staffing levels, financial resources, equipment infrastructure and training budget enhanced, requiring that the same principle used to provide a budget to URA be extended to TAT and increase its presence and accessibility to taxpayers across the country.

The intervention is assessed through one indicator which was tracked and the following performance was noted:

1. **No. of tax objections and appeals**

The indicator aims to monitor the implementation of the DRMS interventions relating to the tax dispute resolution process within URA and the Tax Appeals Tribunal. By 31st December 2022, the number of new tax disputes lodged to TAT reduced by 48.8% from the half year 2021/22. Conversely, the number of disputes resolved within the first half of 2022/23 drastically reduced by 16.7% from 143 to 119 in the first half of FY 2021/22 and the proportion of cases escalated to the high court grew from nine to twelve (table 3.24).

This indicates that the pace of case resolution is not keeping up with that of new cases lodged. Having a large number of pending cases ties up revenue and acts as a deterrent for businesses to invest more. It also affects the turnaround time of refunds.

Tax Appeals Tribunal is still understaffed: there were three lawyers out of the desired seven and two accountants out of the three desired. They also require records officers and transcribers to work in the registry and courts, as well as additional internal auditors to assist the accountants. In addition, the Chairperson of TAT is not fully appointed to a full-time position as per the requirement of the DRMS, similarly, the terms of services of TAT members have not been extended to enable them to gain the necessary experience and contribute meaningfully. This level of understaffing is affecting their ability to swiftly conclude cases.

There was progress trying to improve the perception of TAT among the public and the following measures were implemented: User court meetings held with stakeholders, radio talk shows countrywide, and advertisements in newspapers/magazines and branding. The Alternative Dispute Resolution Unit was established on 22nd July 2022 by URA. It is resident under the Office of Commissioner General, Domestic Taxes Department (CDTO). The Unit's mandate is to address taxpayers' disputes with the Commissioner in respect of DT Objection Decisions.

The disputes mainly arise from instances where taxpayers who are dissatisfied with objection decisions seek administrative reviews from the Commissioner General (CG)/Commissioner Domestic Taxes (CDT)/ Commissioner Legal Services and Board Affairs (CLSBA) rather than appeal to the TAT. The station has a target of 64 cases with 8 cases per staff per month and the Unit is staffed with one manager, four officers, four supervisors and one STE.

The Unit also handles review referrals from TAT through CLSBA under the negotiation process. By half year 2022/23 the Unit had a backlog (appeals) of 290 cases and with a target completion date by June 2023 based on the planned cases vis-a-vis the number of staff. The new ADR cases had accumulated to 328 by 31st December 2022.

Table 3.24: Tax disputes resolution process indicators 2021/22 – 2022/23

Tax disputes sub-indicators	Half year 2020/21	Half Year2022/23
1. No. of outstanding tax disputes (excluding new cases)	226	114
2. Tax value of outstanding tax disputes (TAT), (Ug shs bn)	346,256,001,322	127,310,099,189.94
3. No. of new tax disputes lodged to TAT	240	123
4. Tax value of new tax disputes lodged to TAT (Ug shs bn)	235,253,649,489	127,310,099,189.94
5. No. of tax disputes resolved	143	119
6. Value of tax disputes resolved (Ug shs bn)	113,094,881,818	138,488,901,544
7. Proportion of tax disputes resolved within 6 months of lodging the case (%)	107	68
8. Proportion of TAT cases escalated to the High Court (%)	9	12
9. Tax value of cases escalated to the High Court (Ug shs bn)	82,462,758,931	14,884,799,883.49
10. TAT expenditure as % of net revenue collected by URA	60	70

Source: TAT

Challenges

i. The TAT is underfunded thus impacting their performance.
ii. Inadequate office space to enable TAT efficiently enact their mandate i.e. Library, courtrooms, fully furnished registry, and CT equipment to digitalize the different processes.

Conclusion

Overall performance was rated as fair, as the intervention that contributes to the objective, *Dispute Resolution*, did not perform as expected. The pace of case resolution is not keeping up with the pace of new cases lodged. Delays in resolving cases impact severely Uganda's competitiveness, as it increases the cost of production and renders our goods and services uncompetitive.

Recommendation

i. Increase the level of facilitation to TAT to enable them to handle their mandate effectively and efficiently.
ii. The GoU should facilitate the tribunal to have a permanent structure.

PROCESSING OF TAX REFUNDS

In line with best practices, the DRMS requires all refund claims to be subjected to automatic risk assessment and review by a URA Officer. Claims that are considered suspicious are subjected to a pre-refund audit, while credible cases receive lighter checks. This objective is measured through one intervention as follows:

3.3.18 Develop a plan to streamline the management of offsets and refunds, including automatic cross-matching of taxpayer declarations

The intervention requires (1) Transparency in offset and refund management, which would be enhanced by improving online access to information about the amount and status of refunds due, (2) Use of big data to control compliance and management of tax refunds, (3) e-Tax inter-module integration and effective eTax-Automated System for Customs Data (ASYCUDA) interfacing to improve the effectiveness of refund processing. This intervention is assessed through one indicator**:**

1. No. (and Value) of tax refunds and offsets

The indicator monitors URA's efforts towards managing tax refunds and offsets in a way that does not narrow the revenue base.

The number of approved tax refund claims (of the claims received by half year FY2022/23) increased by 39.5% and the value by 23.3% from half year FY 2021/22 (table 3.25). Comparatively, the proportion of refund claims processed timeously (within 30 days) only increased by 5.36 percentage points, indicative of a slight improvement in turnaround time from the previous half year (2021/22) but not proportionate to the increase in the number and value of refund claims. A lengthy refund process gives the impression that the refund system is arbitrary and provides room for fraud and leakages. The turnaround time was affected by lengthy audits, delays in the submission of additional documentation by taxpayers to support the audit process, pending objection applications and delays in TAT rulings.

Table 3.25: Tax refunds half year FY 2021/22 and FY 2022/23

Tax disputes sub-indicators	July-Dec FY 21/22	July – Dec FY 22/23
1. No. of tax refund claims	1,815	3,056
2. Value of tax refund claims	315.38	660.57
3. No. of refund claims approved	1,032	1,440
4. Value of refund claims approved	282.87	348.99
5. No. of refund claims audited	1,094	1,772
6. Value of refund claims audited	384.39	435.38
7. No. of tax refunds claims disallowed	62	827

Tax disputes sub-indicators	July-Dec FY 21/22	July – Dec FY 22/23
8. No. of tax refunds claims disallowed as % of total claims received	3.42%	27.06%
9. No. of tax refunds paid	1021	1,440
10. Value of tax refunds paid	161.04	348.99
11. Proportion of refund claims processed timeously (within 30 days)	36.00%	41.36%

Source: URA Database

Challenge

i. Processing of tax refunds is inefficient as refund claims are not paid promptly.
ii. Increased number of accumulated tax refunds of cases and amount.

Conclusion

Overall performance was rated as fair, as the intervention that contributes to the objective, *Tax refunds*, was fairly attained. The number and value of approved tax refund claims and offsets have consistently grown, and the turnaround for processing refunds slightly improved.

Recommendation

The URA should increase the effectiveness of the tax refund process by improving the turn-around times.

CUSTOMS AND TRADE FACILITATION

Uganda is an East African Community (EAC) partner state within the Single Customs Territory (SCT). Goods originating from outside of the EAC are cleared at the external borders, with customs declarations and duty payments made directly into the IT systems of the destination countries. Further, the SCT aims to facilitate the circulation of all goods (EAC and non-EAC) within the community. However, misclassification, misdeclaration, short landing, abuse of rules of origin, dumping of transit cargo, and outright smuggling pose a substantial risk to customs trade facilitation and revenue mobilization.

3.3.19 Develop electronic systems to record incidents in customs processes

The intervention requires that electronic systems are developed to record incidents in customs processes to assist risk management. Furthermore, intelligence information such as tip-offs from informers and border agents should be recorded electronically to allow for proper follow-up and swift enforcement action should follow any incident.

The intervention is assessed through two indicators; (i) the number of electronic systems developed, and (ii) number of intelligence information such as tip-offs from informers and border agents recorded electronically and number of enforcement actions taken. Both of these were assessed.

1. **Number of Electronic systems developed**

By 31st December 2022, stakeholder engagements and sensitizations were undertaken and pilots conducted in six bonded warehouses, Spedag, Inter-freight, General Machinery, COSMOS, Liberty ICD, Toyota U. Ltd and Lexus Bond) in preparation for the launch of the Bonded Warehouse Information Management System (BWIMS). The BWIMS is one of the trade facilitation interventions aimed at addressing the challenges of the increased volumes of goods and movement through the bonded warehouses.

2. **Number of intelligence information (such as tip-offs from informers and border agents) recorded electronically**

Intelligence information recorded electronically from informers in terms of tipoffs totaled 1,665 by 31st December 2022. The tipoffs were about smuggling, concealments, misdeclaration, transit diversions and other violations.

3.3.20 Strengthen the capacity to monitor transit procedures, detect evasion and non-compliance, and sanction offenders

The intervention aims to address smuggling which remains a major offence reducing the volume of revenues collected from import tariffs. Addressing this should include conducting trainings and expanding the use of modern equipment such as scanners and electronic seals to facilitate tracking.

The intervention is assessed through two indicators: the number of trainings on transit procedures, evasion detection and non-compliance, and sanctions; and the number of modernised equipment (such as scanners and electronic seals) procured. Both of these were assessed and the following performance was noted.

1. **Number of trainings on transit procedures, evasion detection and non-compliance, and sanctions**

Seven trainings were conducted as follows:

(i) Four customs refresher trainings between July and December 2022 (8th – 12th August, 5th – 9th September, 3rd – 7th October and 21st – 25th November).

(ii) One training on transit and coordinated border management was held on 26th September 2022

(iii) Three advanced Non-Intrusive Inspection (NII) trainings held on 21st October, between 26th and 30th September and 12th and 16th December

(iv) One training on passenger clearance at Entebbe on 14th December

2. **Number of modernized equipment (such as scanners and electronic seals) procured**

By 31st December 2022, URA had deployed 3,800 e-seals and began the procurement process to acquire an additional 4,500 e-seals. The electronic seal cargo rate has increased from 18% - 33% with the additional 3,800 e-seals. In addition, the non-intrusive inspection equipment (i.e. scanners) was being procured on a four-year contract and the delivery of the equipment was to be done in batches. The procurement for 39 non-intrusive inspection equipment items (including scanners for baggage, passenger car, air cargo, and mobile truck cargo; plus radiation portal monitors, handheld radio, backscattering, explosive and narcotics trace detectors, mobile van back scatters and fixed fast scanner) was initiated.

3. **Number of research papers produced on emerging business trends to manage classification and valuation risks**

Three researched papers were produced i.e. annual researched classification guides on tax incentives/ exemptions for investors, the researched valuation research and quarterly valuation database research to guide customs staff and taxpayers.

3.3.21 Agree on Customs Mutual Assistance Agreements (CMAA) and electronic exchange of information agreements with major trading partners

Number of Mutual Assistance Agreements (CMAA) and electronic exchange of information agreements with major trading partners developed

Two Mutual Assistance Agreements (CMAA) and electronic exchange of information agreements were developed with China and South Africa.

3.3.22 Make more pre-arrival and pre-clearance options available to facilitate the clearance of most entries at Mombasa Port. This should include having a full-fledged Ugandan Customs clearance office in Mombasa with adequate facilities, resources, and legal powers.

This intervention seeks to decongest the Malaba border post which is facing challenges in terms of infrastructure and system connectivity.

Number of new measures put in place to decongest the Malaba border post

The new measures put in place to decongest the border post include:

i. Installed scanners to reduce the opening of containers to enable risk-based intervention.
ii. Clearance before arrival in Malaba which is done in Mombasa.
iii. Implementing SCT operations to ensure that importers have all necessary documents by the time the trucks arrive at the border.

i) Notable outcomes of the Ugandan Customs clearance office in Mombasa

The Mombasa customs office and customs external operations division registered the following successes: a collection of Ug shs 5.339bn expected from customs external operation in the FY2022/23 as revenue, availability and uploading of manifests for cargo declaration 48hrs to vessels docking, approximately 40% of cargo received was under pre-arrival declaration, real-time cargo monitoring using Regional Electronic Cargo Tracking System (RECTS) which improved cargo security including sharing of resources.

In addition, reduction of average clearance time from 18 to 3-4 days from Mombasa to Uganda, elimination of diversion of transit goods, reduction in the cost of doing business in terms of multiple declarations that needed declaration fees, efficient fuel management, efficient revenue management and timely revenue realization, 80% of the fuel was being entered within 10 days after vessel discharge, 100% sealing of inter-state cargo buses from Nairobi, and generation and dissemination of Pre-Arrival Alerts that aid targeting.

3.3.23 Enhance warehousing control and increase the direct clearance of goods for domestic consumption

Measures taken to enhance warehouse control

Some of the measures undertaken to enhance warehouse control included the development and deployment of the BWIMS to address the inefficiencies in the management of cargo in bonded warehouses. The BWIMS is expected to improve cargo management, inventory management, reconciliation, and information sharing, prevent revenue leakage and facilitate cargo clearance in bonded warehouses.

CHAPTER 4: CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

Overall, the performance of the DRMS for the first half of FY 2022/23 was rated fair (58%). The DRMS faces a risk of stagnation as a result of limited information concerning key performance measures for the income tax system, slow formalization within the economy, inefficacies in compliance management stemming from the quality of the taxpayer register, and limited use of third-party data to reconcile returns information.

Tax Policy Interventions

There was slow progress in limiting items classified for zero-rating and exempt supplies. While the government has continued to expand the list of zero-rated supplies, this has been driven more by social and welfare concerns and the promotion of certain sectors such as agriculture. However, there is a risk that this trend will continue reducing the tax base especially where there is no matching growth in consumption and investment. Additionally, VAT exemptions continue to exist on postage stamps, supply of unimproved land, sale, leasing, and letting of immovable property, excluding commercial premises that may no longer be appropriately targeted.

Although the value of VAT foregone on deemed supplies reduced by 58% from that registered for the same period in FY 2021/22, the effect of deeming continued to distort the functionality of the VAT system. Delays in the conclusion of the new two-pillar plan aiming at reforming international tax rules to ensure that multinational enterprises pay a fair share of tax, currently being developed by the Organisation for Economic Cooperation and Development (OECD), limits revenue (digital services tax) derived from tech giants such as Google, Amazon and Zoom video communications Inc. Additionally, the revision of double tax agreements with China, Netherlands and Qatar in favour of having an automatic exchange of information was ongoing.

The resource constraints at MFPED's Tax Policy Department impede the progress of attainment of the DRMS objectives. The TPD's budget for FY 2022/23 was Ug shs 13.02bn and remained static from FY 2021/22, so the budget for skills enhancement to undertake revenue forecasting, and economic and social impact modelling that is essential for tax policy formation is constrained.

Tax administration interventions

For the first half of the FY 2022/23, the uncollected tax to target reduced from 9% to 1% giving a growth in revenue collected of Ug shs 1,618bn compared to the same period for the FY 2021/22. This was attributed to some process reengineering and efficiencies, increased working operational hours, improved arrears management, increased engagements with the taxpayers regarding compliance, use of the mobile offices, increased sensitization, use of alternative dispute resolution, data sharing, increased tax investigations and use of technology.

Nonetheless, it was noted that strategic DRMS interventions that would enhance revenue performance were not implemented as desired. Although there was registered growth in URA's staffing levels of about 29%, this was not a result of conducting an independent staffing review. The staff attrition rate increased by 0.67 percentage points compared to the same period in FY 2021/22, with key departments - Domestic Taxes and Customs- experiencing the highest attrition.

Systems were not adequately leveraged for revenue growth. Of the 146% growth in taxpayers, only 7% were from external data sources. On the other hand, the average local excise duty paid by firms using Digital Tax Stamps declined to -33% from -27% attained in the first half year of FY 2021/22.

The pace of case resolution by the Tax Appeals Tribunal (TAT) was not keeping up with the rate of new cases lodged. Having a large number of pending cases ties up revenue and acts as a deterrent for businesses to invest more. It also affects the turnaround time of refunds, for example, comparatively, the proportion of refund claims processed timeously (within 30 days) only increased by 5.36 percentage points, indicative of a slight improvement in turnaround time from the previous half-year (2021/22) but not proportionate to the increase in the number and value of refund claims.

4.2 Key Challenges

i. Resource constraints impact the TPD's level of analysis as it engages in a wide range of policy issues. The current level of analysis, particularly concerning revenue forecasting, the impact of policy changes on business, households and distributional analysis is inadequate. This risks revenue, introduces scope for poor targeting, and can cause policy errors – set a tariff too high and the net effect on the economy is negative which can undermine the competitiveness of the economy.

ii. Delays by the TPD in developing and concluding the essential policies to enhance revenue. Some of these include double tax agreements with certain countries and those for digital service tax.

iii. Low staff morale at the URA arising from inappropriately targeted recruitments and deployments of staff.

iv. Limited leveraging of systems by the URA to expand the taxpayer register, hasten tax refunds and reduce revenue leakage.

4.3 Recommendations

i. The MFPED-TPD budgets should prioritize the allocation of resources to building capacity to support research and analysis, policy development and implementation.

ii. The URA should adopt the DRMS recommendation to have an independent evaluation of staffing levels and workload to inform recruitment, deployment and incentivisation.

iii. The MFPED-TPD and URA should explore options for leveraging information systems to enhance revenue forecasting, analysis, collection and expansion of tax register.

ANNEXES

Annex 1: Effective Protection Rates (EPR)

Chapter description (ii)	Effective Duty Rate (baseline) (v)=(iv)/(iii)	Effective Duty Rate 2020/21 (v)=(iv)/(iii)	Effective Duty Rate 2021/22 (v)=(iv)/(iii)	Effective Duty Rate 2022/23 (v)=(iv)/(iii)
01-:Live animals	0.83%	1.40%	2.25%	2.57%
02-Meat and edible meat offal	22.39%	23.40%	20.09%	14.69%
03-Fish & crustacean, mollusc & other aquatic invertebrate	1.25%	1.40%	2.99%	16.05%
04-Dairy prod; birds' eggs; natural honey; edible prod nes	57.93%	24.03%	19.25%	33.36%
05-Products of animal origin,	0.86%	5.34%	0.92%	3.90%
06-Live tree & other plant; bulb, root; cut flowers etc	0.80%	0.29%	0.38%	2.55%
07-Edible vegetables and certain roots and tubers	3.72%	5.10%	4.41%	5.18%
08-Edible fruit and nuts; peel of citrus fruit or melons	19.92%	13.89%	19.81%	22.25%
09-Coffee, tea, mate and spices	28.28%	4.44%	25.55%	26.91%
10-Cereals	20.68%	15.46%	13.94%	23.73%
11-Prod mill industry; malt; starches; insulin; wheat gluten	6.06%	27.20%	29.97%	31.55%
12-Oil seed, oleagi fruits; miscell grain, seed, fruit etc	2.43%	1.27%	0.24%	1.82%
13-Lac; gums, rasins & other vegetable saps & extracts	21.54%	18.16%	19.31%	18.53%
14-Vegetable plaiting materials; vegetable products	34.20%	40.14%	5.21%	31.34%
15-Animal/veg fats & oil & their cleavage products; etc	17.24%	17.67%	29.65%	29.07%
16-Prep of meat, fish or crustaceans, molluscs etc	19.94%	21.95%	11.05%	11.95%
17-Sugars and sugar confectionery	29.23%	28.16%	29.09%	27.23%
18-Cocoa and cocoa preparations	80.27%	76.69%	57.77%	59.89%
19-Prep of cereal, flour, starch/milk; pastrycooks' prod	38.40%	22.58%	33.27%	29.09%
20-Prep of vegetables, fruit, nuts or other parts of plants	42.52%	34.28%	33.17%	45.49%
21-Miscellaneous edible preparations	24.99%	24.27%	24.66%	27.97%
22-Beverages, spirits and vinegar	124.75%	129.15%	59.84%	122.96%

Chapter description	Effective Duty Rate (baseline)	Effective Duty Rate 2020/21	Effective Duty Rate 2021/22	Effective Duty Rate 2022/23
23-Residues & waste from the food industry;	2.33%	2.28%	1.01%	1.36%
24-Tobacco and manufactured tobacco substitutes	307.77%	315.58%	342.29%	307.96%
25-Salt; sulphur; earth & ston; plastering mat; lime & cem	24.86%	11.52%	20.53%	21.38%
26-Ores, slag and ash	15.91%	19.29%	17.75%	15.20%
27-Mineral fuels, oils & product of their distillation; etc	21.92%	60.79%	48.11%	20.19%
28-Inorgn chem; compds of prec met, radioact elements etc	18.50%	18.71%	17.21%	17.74%
29-Organic chemicals	10.90%	9.00%	10.06%	10.55%
30-Pharmaceutical products	0.05%	0.19%	0.12%	0.14%
31-Fertilisers	0.73%	1.44%	0.11%	0.15%
32-Tanning/dyeing extract; tannins & derivs; pigm etc	21.26%	24.01%	24.31%	20.04%
33-Essential oils & resinoids; perf, cosmetic/toilet prep	31.44%	29.92%	30.12%	28.02%
34-Soap, organic surface-active agents, washing prep, etc	28.14%	32.47%	31.66%	31.94%
35-Albuminoidal subs; modified starches; glues; enzymes	29.07%	28.96%	30.73%	27.23%
36-Explosives; pyrotechnic prod; matches; pyro alloy; etc	2.13%	0.16%	2.22%	5.03%
37-Photographic or cinematographic goods	27.99%	22.98%	21.43%	23.07%
38-Miscellaneous chemical products	4.71%	3.84%	4.56%	5.58%
39-Plastics and articles thereof	20.81%	20.85%	24.73%	24.00%
40-Rubber and articles thereof	31.14%	28.08%	29.20%	29.48%
41-Raw hides and skins (other than fur skins) and leather	18.06%	19.36%	18.63%	2.86%
42-Articles of leather; saddlery/harness; travel goods etc	49.76%	41.79%	53.32%	53.03%
43-Fur skins and artificial fur; manufactures thereof	25.25%	52.11%	53.47%	52.17%
44-Wood and articles of wood; wood charcoal	38.17%	36.93%	37.35%	40.06%
45-Cork and articles of cork	24.18%	8.08%	16.39%	18.00%
46-Manufactures of straw, esparto/other plaiting mat; etc	16.31%	13.66%	38.01%	39.40%
47-Pulp of wood/other fibrous cellulosic mat; waste etc	18.75%	18.47%	18.96%	18.16%

Chapter description	Effective Duty Rate (baseline)	Effective Duty Rate 2020/21	Effective Duty Rate 2021/22	Effective Duty Rate 2022/23
48-Paper & paperboard; art of paper pulp, paper/paperboard	25.09%	25.20%	23.82%	23.43%
49-Printed books, newspapers, pictures & other products etc	2.62%	6.93%	12.70%	19.56%
50-Silk	58.11%	55.00%	36.74%	34.14%
51-Wool, fine/coarse animal hair, horsehair yarn & fabric	36.67%	39.57%	55.14%	58.90%
52-Cotton	41.69%	30.60%	12.03%	17.26%
53-Other vegetable textile fibres; paper yarn & woven fab	3.55%	18.02%	3.60%	25.68%
54-Man-made filaments; strip and the like of man-made textile materials.	25.24%	28.88%	24.86%	12.14%
55-Man-made staple fibres	34.89%	35.78%	35.62%	34.09%
56-Wadding, felt & nonwoven; yarns; twine, cordage, etc	28.05%	27.44%	27.27%	25.84%
57-Carpets and other textile floor coverings	48.00%	52.79%	47.37%	43.83%
58-Special woven fab; tufted tex fab; lace; tapestries etc	47.30%	44.80%	53.70%	44.99%
59-Impregnated, coated, cover/laminated textile fabric etc	21.94%	28.06%	29.56%	29.45%
60-Knitted or crocheted fabrics	19.16%	21.71%	14.96%	26.95%
61-Art of apparel & clothing access, knitted or crocheted	52.49%	53.38%	49.95%	67.83%
62-Art of apparel & clothing access, not knitted/crocheted	52.06%	50.54%	60.12%	51.10%
63-Other made up textile articles; sets; worn clothing etc	49.81%	37.06%	59.38%	45.94%
64-Footwear, gaiters and the like; parts of such articles	44.76%	45.34%	45.89%	54.79%
65-Umbrellas, walking sticks, seat sticks, whips, etc	18.36%	21.95%	19.52%	18.82%
66-Umbrellas, walking sticks, whips, riding crops and parts thereof	52.95%	53.32%	49.10%	42.18%
67-Prep feathers & down; arti flower; articles human hair	51.39%	47.06%	39.67%	41.95%
68-Art of stone, plaster, cement, asbestos, mica/sim mat	34.67%	27.44%	37.73%	37.06%
69-Ceramic products	46.52%	45.32%	44.97%	40.42%
70-Glass and glassware	27.43%	29.19%	27.33%	27.86%
71-Natural/cultured pearls, precious stones & metals, coin etc	0.04%	0.03%	0.13%	0.11%

Chapter description	Effective Duty Rate (baseline)	Effective Duty Rate 2020/21	Effective Duty Rate 2021/22	Effective Duty Rate 2022/23
72-Iron and steel	17.13%	18.89%	18.29%	16.88%
73-Articles of iron and steel	12.03%	20.66%	25.89%	17.58%
74-Copper and articles thereof	18.63%	24.74%	21.90%	20.78%
75-Nickel and articles thereof	40.76%	40.71%	22.76%	33.18%
76-Aluminium and articles thereof	15.01%	14.51%	15.69%	21.35%
78-Lead and articles thereof	5.93%	28.93%	30.41%	20.12%
79-Zinc and articles thereof	18.16%	18.13%	18.15%	18.04%
80-Tin and articles thereof	8.55%	3.60%	10.87%	6.10%
81-Other base metals; cermets; articles thereof	17.81%	20.28%	18.02%	18.14%
82-Tool, implement, cutlery, spoon & fork, of base met etc	24.62%	25.12%	24.39%	20.98%
83-Miscellaneous articles of base metal	39.76%	40.26%	32.46%	38.31%
84-Nuclear reactors, boilers, mchy & mech appliance; parts	9.90%	8.95%	10.84%	5.66%
85-Electrical mchy equip parts thereof; sound recorder etc	17.23%	24.23%	20.97%	19.48%
86-Railw/tramw locom, rolling-stock & parts thereof; etc	12.68%	5.41%	0.60%	9.54%
87-Vehicles o/t railw/tranw rool-stock, pts & accessories	53.76%	54.03%	53.87%	49.66%
88-Aircraft, spacecraft, and parts of	0.01%	0.01%	0.02%	0.02%
89-Ships, boats and floating structures	11.88%	1.01%	2.59%	0.50%
90-Optical, photo, cine, meas, checking, precision, etc	4.90%	3.84%	0.80%	1.77%
91-Clocks and watches and parts thereof	55.35%	56.10%	51.77%	54.63%
92-Musical instruments; parts and access to such articles	38.44%	34.74%	35.80%	34.64%
93-Arms and ammunition; parts and accessories thereof	0.13%	0.05%	0.09%	0.50%
94-Furniture; bedding, mattress, matt support, cushion etc	35.23%	37.87%	39.08%	29.56%
95-Toys, games & sports requisites; parts & access thereof	52.20%	52.01%	51.75%	53.98%
96-Miscellaneous manufactured articles	19.89%	18.75%	16.62%	18.54%
97-Works of art, collectors' pieces and antiques	33.59%	37.18%	29.75%	9.83%
Not categorized	18.64%	12.01%	28.93%	38.96%

Annex 2: Tax Collection to Target

Revenue source	July-December 2021-22			July 2022 to December 2022		
	Estimated revenue target	Revenue collected	%uncollected tax	Estimated revenue target	Revenue collected	%Uncollected Tax
Direct domestic taxes						
PAYE	1,484.41	1,640.87	- 10.54	1,746.21	1,972.06	-13
Corporate tax	971.14	738.38	23.97	919.83	860.75	6
Rental tax	167.01	71.32	57.29	80.11	97.17	-21
Presumptive taxes	14.87	2.03	86.32	4.79	5.45	-14
Withholding Tax	612.35	559.09	8.70	692.71	628.93	9
Tax on Bank Interest (w/o BoU)	45.39	47.02	-3.59	49.91	58.71	-18
Treasury Bills (BoU)	281.89	267.14	5.23	320.50	281.19	12
Casino Tax	16.00	24.84	-55.25	16.27	45.58	-180
Other	57.28	26.04	54.53	74.27	39.49	47
Indirect domestic taxes						
Excise duty	909.46	777.67	14.49	984.38	919.61	7
VAT	1,874.11	1,518.71	18.96	1,956.30	1,784.57	9
International trade						
Petroleum duty	1,291.24	1,299.97	-0.68	1,414.95	1,345.15	5
Import duty	860.25	758.88	11.78	816.04	839.80	-3
Excise duty	131.44	131.82	-0.29	153.32	131.37	14
VAT on imports	1,416.76	1,571.81	-10.94	1,804.40	1,761.51	2
Withholding tax on imports	104.45	83.81	19.76	111.81	103.01	8
Surcharge on Imports	125.48	131.53	-4.83	135.02	136.08	-1
Temporary Road Licenses	47.27	37.58	20.50	52.81	68.91	-30
Infrastructure levy	62.01	54.85	11.54	65.97	60.29	9
Export levy	63.60	5.91	90.71	9.63	7.73	20
Non-Tax Revenues						
Motor vehicle fees (Traffic Act)	67.62	65.24	3.52	72.74	65.79	10
Drivers Permits	29.48	34.51	-17.04	32.20	40.43	-26
Passport Fees	30.18	47.78	-58.30	24.15	47.20	-95
Migration Fees	71.57	90.36	-26.25	77.03	131.60	-71

Revenue source	July-December 2021-22			July 2022 to December 2022		
	Estimated revenue target	Revenue collected	%uncollected tax	Estimated revenue target	Revenue collected	%Uncollected Tax
Land Transfer Fees	2.58	2.38	7.68	7.07	2.68	62
Transport Regulation Fees	4.26	3.69	13.25	5.89	3.69	37
Company Regulation Fees	0.20	0.09	56.38	147.79	79.64	46
High Court Fees	3.71	5.99	-61.61	8.25	3.35	59
Mining Fees & Royalties	6.78	5.89	13.07	9.23	4.27	54
URSB	28.46	34.25	-20.33	41.79	38.80	7
Occupational Safety & Health (Gender)	4.28	1.43	66.70	1.81	8.99	-397
Other NTR (MDAs)	458.59	212.97	53.56	118.55	295.55	-149
Stamp Duty & Embossing Fees	39.30	51.93	-32.14	58.95	54.53	7
Summary:						
Direct domestic taxes	***3650.35***	***3376.74***	***7.50%***	**3,904.60**	**3,989.33**	**-2**
Indirect domestic taxes	***2,784***	***2,296***	***17.50%***	**2,940.68**	**2,704.18**	**8**
International trade taxes	***4102.51***	***4076.18***	***0.64%***	**4,563.95**	**4,453.85**	**2**
NTRs	***747.01***	***556.50***	***25.50%***	**605.45**	**776.52**	**-28**
Total	***11283.45***	***10305.80***	***8.66%***	**12,014.68**	**11,923.88**	**1**

Annex 3: No. of media reports on the results of URA tax enforcement initiatives

1	17/Jan/2023	https://www.monitor.co.ug/uganda/business/prosper/unmasking-the-secrecy-behind-shell-companies-4088804	Unmasking the Secrecy Behind Shell Companies	Daily Monitor
2	18/Aug/2022	https://thetaxman.ura.go.ug/ura-on-the-hunt-for-violators-of-the-temporary-road-licenses/	Why URA is Involved in Anti-Illicit Alcohol Campaign	The URA-Taxman Blog
3	05/Sept/2022	https://observer.ug/news/headlines/75009-ura-impounds-kenyan-tracks-smuggling-battery-scrap	URA Impounds Kenyan Trucks Smuggling Battery Scrap	Observer
4	01/Sept/2022	https://redpepper.co.ug/smuggling-ura-impound-trucks-violating-govt-ban-on-battery-scrap-at-busia-border/122094/	SMUGGLING: URA Impounds Trucks Violating Gov't ban on battery scrap Export at Busia Border	Red pepper
5	22/Sept/2022	https://businessfocus.co.ug/why-ura-has-adopted-science-based-approach-to-revenue-mobilization/	Why URA has adopted a Science-Based Approach To Revenue Mobilization	Business Focus
6	22/Sept/2022	https://www.newvision.co.ug/category/business/ura-resorts-to-science-to-achieve-tax-complia-143646	URA Resorts to Science to Achieve Tax Compliance	New Vision
7	23/Sept/2022	https://chimpreports.com/ura-sets-up-laboratory-to-assess-non-compliant-importers-manufacturers/	URA Sets Up Laboratory to Assess Non-Compliant Importers, Manufacturers	Chimp Reports
8	23/Sept/2022	https://nilepost.co.ug/2022/09/23/ura-to-apply-science-in-revenue-mobilisation/	URA to Apply Science in Revenue Mobilization	Nile Post
9			Journalist Engaged in the Role of Science in Revenue Mobilization	
10	27/Sept/2022	https://thetaxman.ura.go.ug/vat-fraud-schemes-are-hindering-revenue-collection-ura/	VAT Fraud Schemes are Hindering Revenue Collection – URA	The Taxman Blog
11	15-Jul-22	https://thetaxman.ura.go.ug/ura-steps-up-fight-against-illicit-financial-flows-to-curb-revenue-leakages/	URA Steps up the fight against Illicit Financial Flows to Curb Revenue Leakages	The Taxman Magazine

12	08/July/2022	https://thetaxman.ura.go.ug/how-ura-is-using-forensics-to-counter-revenue-leakages/	How URA is Using Forensics to Counter Revenue Leakages	The Taxman Magazine
13	10/July/2022	https://softpower.ug/ura-launches-intelligence-networks-to-counter-revenue-leakages/	URA Launches Intelligence Networks to Counter Revenue Leakages	soft power news
14	22/Sept/2022	https://www.youtube.com/watch?v=Up6ca-OS18s	*Uganda Revenue Autholity enaine enteekateeka edokusoloza omusolo nga ekozesa enkolaya Sayansi.*	Babba Tv
15	22/Sept/2022	https://youtu.be/Tfshtwl5Ip8	*URA Ereese Ekyuma Ekigereka Omusolo, Kino Kyakuyamba Eggwanga Obutafiirwa - URA*	BBS Terefayina
16	22/Sept/2022	https://youtu.be/wU2b9AI66cU	URA adopts efficient Scientific Models – Forensics Model yields 2.1 Trillion Shillings	UBC Tv
17	26/Sept/2022		URA *Eleese Sayaansi Mukusoloza Omusolo*	Babba Tv
18	09/Sept/2022	Webinar https://youtu.be/yfowHV4exT0	Exchange of Information (EOI): What is in it for taxpayers?	Tax Investigations Webinar on URA – Tv

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