GOVERNMENT OF UGANDA

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

TAX EXPENDITURES REPORT, FY 2023/24

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Executive Summary

Government of Uganda supports various policy objectives through tax expenditures, including exemptions, rate reliefs, allowances, deferrals, and credits. These measures reduce the amount of tax revenue collected compared to a standard benchmark tax system, and the revenue forgone is referred to as Tax Expenditure.

In FY 2023/24, Tax Expenditure (TE) is estimated at UGX 3,609 billion, equivalent to 1.78% of GDP and 13% of total tax collections (UGX 27,301 billion) for the same period. This is lower than FY 2022/23, where foregone revenue stood at 2.0% of GDP. The decrease is mainly attributed to reduced VAT deemed due to tighter administrative controls by the Uganda Revenue Authority (URA).

The key highlights of this report include:

i. **Customs Duty**: The highest share of revenue foregone, at UGX 1,137 billion (0.56% of GDP), representing 32% of total tax expenditures.

ii. **VAT:** The revenue foregone from VAT TEs declined from UGX 1,113.21 billion or 0.61% of GDP in FY 2022/23 to UGX 677.27 billion or 0.34% of GDP in FY 2023/24. This was mainly on account of improved administrative efficiency in the management of the VAT deeming regime.

iii. **Emerging Development in TE reporting in Uganda**: Although the following two aspects are not TEs under the current BTS, they have been captured in the TE report for the first time;

   a. **Aid-Funded Projects**: in FY 2023/24, 0.22% of GDP is forgone through VAT and customs exemptions on aid-funded projects.

   b. **Government Commitments**: The expenditure incurred by Government on behalf of taxpayers, which is approximately 0.1% of GDP, has been captured for FY 2023/24.

Despite these estimates, limitations in data and modelling suggest that the reported figures are conservative, as not all tax expenditures could be quantified.

The report is structured as follows: Section 1 provides an overview of the methodology, updates to the benchmark tax system, and critical limitations of the analysis. Sections 2 to 6 present the revenue forgone under each tax type—Personal Income Tax, Corporate Income Tax, Value Added Tax, Customs Duty, and Excise Duty. Appendix 3 estimates the additional revenue forgone from aid-funded projects, Appendix 4 presents projections of forgone revenue for FY 2024/25, and Appendix 5 details cases where the government has committed to pay taxes on behalf of specific taxpayers.

Acknowledgements

This report was prepared between July and September 2024 through collaborative efforts by the Ministry of Finance, Planning, and Economic Development's (MoFPED)[1] Tax Policy Department (TPD) and the Uganda Revenue Authority (URA)[2]. The team received valuable technical support from the Centre for Tax Analysis in Developing Countries (TaxDev)[3]. This report builds on the foundational work initiated by the World Bank through establishing the Benchmark Tax System for Uganda in early 2020. The report further builds on Tax Expenditure reports previously published by MoFPED in 2021, 2022, and August 2024.

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List of Abbreviations

BTS	Benchmark Tax System
CET	Common External Tariff
CIF	Cost, Insurance and Freight
CIT	Corporate Income Tax
COMESA	Common Market for Eastern and Southern Africa
CPC	Customs Procedure Codes
EAC	East African Community
EACCMA	East African Community Customs Management Act
EFRIS	Electronic Fiscal Receipting and Invoicing System
EPZ	Export Processing Zone
FY	Financial Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
ITA	Income Tax Act
MoFPED	Ministry of Finance, Planning and Economic Development
NGO	Non-Governmental Organization
OECD	Organization of Economic Cooperation and Development
ONA	One Network Area
PAYE	Pay As You Earn
PIT	Personal Income Tax
TE	Tax Expenditure
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shillings
UN	United Nations
URA	Uganda Revenue Authority
VAT	Value Added Tax
WHT	Withholding Tax

Chapter One

1.1. Introduction

In addition to the public expenditure outlined in the National Budget, the Government of Uganda incurs costs through the tax system by providing various tax reliefs, including exemptions, rate reductions, allowances, deferrals, and credits. The value of revenue forgone due to these measures, compared to what would be collected had they not been provided, is known as Tax Expenditure (TE). Under a standard BTS, these TEs are not granted, i.e., they are deviations from this system. These tax expenditures are introduced for several reasons, such as promoting investment, supporting local manufacturing, creating jobs, achieving social objectives, or addressing difficulties in taxing specific sectors.

The main objectives of reporting on Tax Expenditures are to:

- Improve transparency in the use of the tax system to achieve Government's socio-economic objectives.
- Highlight the significance of TEs relative to other government spending.
- Provide a basis for making more informed policy decisions.

Note: This report does not evaluate or quantify the benefits of the reliefs described.

The analysis indicates that revenue foregone due to tax expenditures in FY2023/24 amounted to UGX 3,609 billion, equivalent to 13% of the total tax collected during the period. Table 1 and Figures 1 and 2 provide a detailed breakdown of the revenue forgone by tax category, both in UGX and as a percentage of GDP. Appendix 4 includes projections for revenue forgone in FY 2024/25 and beyond.

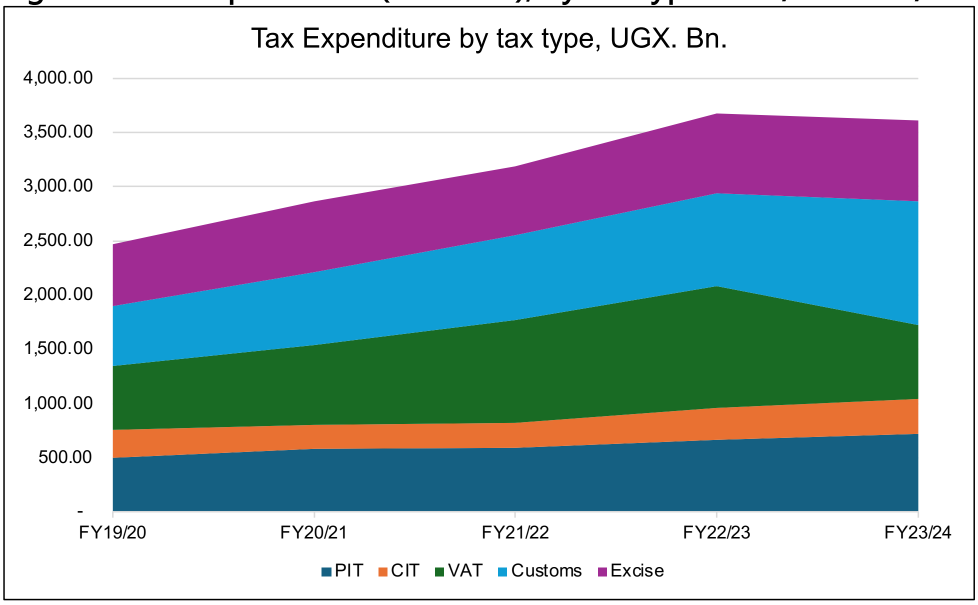
Table 1. Estimates of Revenue Forgone by tax head. FY19/20 – FY23/24.

	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Total TE (Ushs. Bn.)	2,467	2,860	3,180	3,665	3,609
Total TE (% GDP)	1.76%	1.93%	1.95%	2.00%	1.78%
Personal Income Tax TE (UShs. Bn.)	500.57	580.74	588.28	666.01	715.65
Personal Income Tax TE (% GDP)	0.36%	0.39%	0.36%	0.36%	0.35%
Corporate Income Tax TE (UShs. Bn.)	253.94	222.81	229.13	295.82	326.00
Corporate Income Tax TE (% GDP)	0.18%	0.15%	0.14%	0.16%	0.16%
VAT TE (Ushs. Bn.)	592.95	728.82	944.62	1113.21	677.27
VAT TE (% GDP)	0.42%	0.49%	0.58%	0.61%	0.34%
Customs TE (Ushs. Bn.)	549.43	676.20	784.87	855.60	1,137.31
Customs TE (% GDP)	0.39%	0.46%	0.48%	0.47%	0.56%
Excise TE (Ushs. Bn)	570.44	651.41	633.30	734.35	752.97
Excise TE (% GDP)	0.41%	0.44%	0.39%	0.40%	0.37%

Source: Calculations from URA data

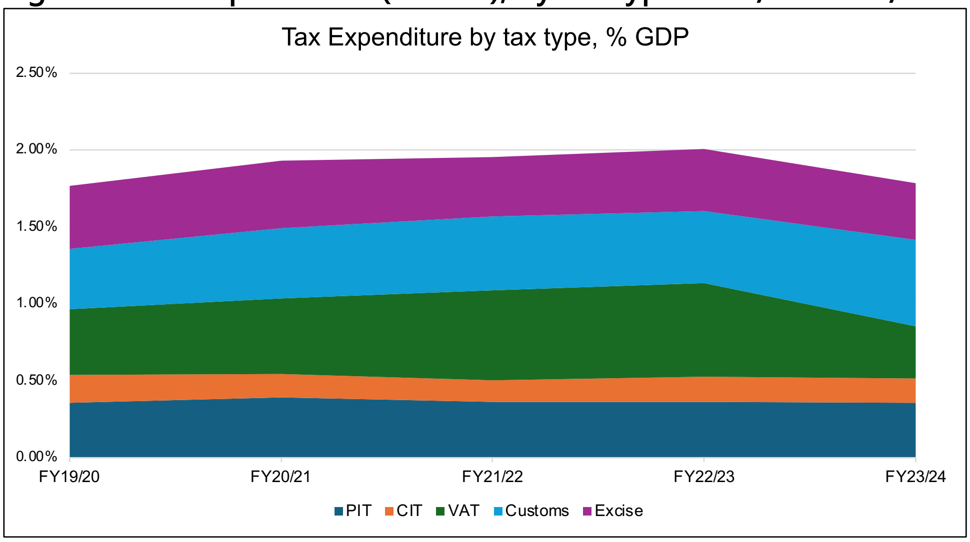
Over the past five FYs, the value of revenue forgone has increased in nominal terms, rising from UGX 2,467 billion in FY 2019/20 to UGX 3,609 billion in FY 2023/24—a 46% growth. As a percentage of GDP, revenue forgone rose from 1.76% in FY 2019/20 to 2.0% in FY 2022/23 before declining to 1.78% in FY 2023/24. This recent decrease is mainly attributed to a reduction in the revenue foregone through VAT deeming provisions. As a % of GDP, foregone revenue has remained fairly stable on aggregate over the past 5 years, whilst the recent decrease in foregone revenue from VAT has been accompanied by an increase in that from customs duties.

Figure 1. Tax Expenditure (UGX. Bn.), by tax type FY19/20-FY23/24



Source: Calculations from URA data

Figure 2. Tax Expenditure (% GDP), by tax type FY19/20-FY23/24



Source: Calculations from URA data

Due to data limitations, the estimates presented herein may understate the actual value of revenue forgone from TEs. Adequate data is not available to calculate the revenue impact for some provisions identified as TEs in the relevant tax laws. These provisions are noted in the report without a corresponding cost estimate.

1.2. Methodology

Tax expenditures are defined as

> *a deviation from a defined Uganda specific benchmark tax system which results in reduction of the effective liability of the taxpayer and includes taxes paid by government on behalf of a taxpayer*

Tax expenditures can take various forms, including exemptions, allowances, rate reductions, credits, and deferrals. A summary of the benchmark system for each type of tax is provided in the respective chapters of this report. All TEs identified under each tax type are listed in the summary tables. However, there are additional frameworks which provide relief to taxpayers that are not identified as TE or costed in this report.

The estimates in this report are calculated using the Revenue Forgone method. This involves estimating the

> "direct revenue loss associated with the provision under consideration, relative to the benchmark system, which has no such provision" (IMF, 2019:9).[4]

The Revenue Forgone method is the most commonly used approach for calculating TEs and is applied by all OECD countries as well as regional peers such as Rwanda and Kenya. This method does not account for behavioural changes, such as how taxpayers might respond if tax relief were removed or whether the activity benefiting from the relief would still occur at the same level. Therefore, the revenue forgone is not equivalent to the potential revenue gain from eliminating tax reliefs.

In addition to the direct cost of revenue foregone, TEs have indirect costs that are not captured in this report. For instance, there are administrative and compliance costs for businesses and individuals who may need to prepare documentation and apply for exemptions. There are also broader economic costs: tax reliefs in one sector may require higher taxes or reduced public spending in others, meaning the benefits of the relief are limited to a smaller group than potential public spending. Additionally, resources are needed to monitor the effectiveness of these TEs, and they can create economic distortions by incentivizing behaviours that lead to an inefficient allocation of resources. None of these indirect costs or distortions are modelled in this report.

[4] IMF (2019) 'Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies', *Fiscal Affairs Department*, Note 19/01.

It is also important to note that revenue forgone from "knock-on" VAT effects—where reductions in Customs or Excise Duty lower the VAT base—is attributed to the tax head that originally caused the foregone revenue rather than VAT. This ensures that the estimates are more closely tied to the specific policy choices responsible for the loss.

The data used for these estimations come from various sources, primarily URA's eHub and the ASYCUDA system, with additional sources referenced as needed.

1.3. Methodological Updates

This TE report incorporates several methodological adjustments based on an improved understanding of the data and how it is captured for various TEs. The key adjustments are as follows:

a. **Report Structure**: Each provision has been assigned a TE Identifier (TE ID) to facilitate easier reference.
b. **PIT Exemption for Judicial Officers (PITE2)**: The calculation now includes all judicial officers, whereas previous estimates only accounted for High Court, Court of Appeal and Supreme Court Justices. This update more accurately reflects the tax treatment of the complete list of all judicial officers.
c. **VAT Relief on Services by National Medical Stores (VATE26)**: Estimates for this provision have been removed as the previous approach inaccurately captured the revenue base. Further analysis revealed that the available data is insufficient to estimate the foregone revenue for this provision reliably.
d. **Inclusion of foregone revenue from knock-on effects to the infrastructure levy.** Where customs duty reliefs are provided that reduce the duty rate to zero, this also triggers an exemption of the 1.5% infrastructure levy. This was not previously accounted for in prior TE reports but is included in the customs calculations below.

1.4. Updates to the Benchmark Tax System and Repository

A review of the BTS was undertaken and it resulted in the following adjustments to the BTS and the Repository.

1. **VAT exemption of imports under the 5th Schedule East African Community Customs Management Act (EAC CMA):** Section 20(1)(a) of the VAT Act Cap. 349 states that; (1) An import of goods is an exempt import if the goods - (a) are exempt from customs duty under the 5th Schedule of the EACCMA, 2004, except compact fluorescent bulbs with a power connecting cap at the end, and lamps and bulbs made from Light Emitting Diodes (LED) technology for domestic and industrial use. Previous TE reports acknowledged that some customs duty exemptions under the 5th Schedule qualify as TEs, while other exemptions, such as those for aid-funded projects or goods for presidential use, are considered part of the BTS. Similarly, the VAT exemption specified in Section 20(1)(a) of the

VAT Act was treated as part of the BTS; hence, an inconsistency in the TE reporting framework. To eliminate this inconsistency, in this report, the VAT exemption in Section 20(1)(a) of the VAT Act has been excluded from the BTS and costed as part of the TE report for FY 2023/24.

2. **Revision of various TE under excise duty:** The benchmark tax system has been updated for beer, spirits and other alcoholic beverages such as cider. The benchmark and TE for each are defined in detail in **Chapter six**.
3. **Appendix 5:** The report incorporates an estimate of forgone revenue due to government commitments in Appendix 5. While these are not acknowledged as tax expenditures under the current BTS, they have been captured since it is expenditure incurred by Government on behalf of taxpayers.
4. **Amendments to tax laws in 2023:** Where the tax amendments of 2023 altered the tax treatment of any items considered as TEs, this has been reflected in the report.

1.5. Caveats and Limitations

When interpreting the estimates in this report, several caveats and limitations should be considered:

1. **Incomplete Estimation**: Revenue forgone for all identified tax expenditures could not be estimated due to insufficient data on the revenue bases captured in tax returns.
2. **VAT Revenue Modelling**: The modelling approach used for estimating forgone revenue under VAT does not employ a 'VAT-Gap' model, which could more accurately reflect the cascading effects of tax expenditures through supply chains. As a result, the VAT estimates may not capture all VAT foregone; however, they are closely aligned with specific provisions in tax laws due to reliance on declaration data.
3. **Effectiveness of TEs**: This report does not assess the effectiveness or benefits of TEs. While it provides estimates of their direct costs, it does not evaluate whether these expenditures are appropriate, effective, or well-targeted. Follow-up work will focus on governance considerations surrounding tax expenditures.

Chapter Two

2.0. Tax Expenditure under the Personal Income Tax (PIT)

2.1. Benchmark Tax System (BTS) under PIT

The benchmark tax system is defined based on four key criteria: (a) Tax Unit; (b) Tax Base, (c) Tax Rate; and (d) Tax Period. Any tax provision that changes the tax unit (e.g., an exemption), modifies the tax base (e.g., a deduction), adjusts the tax rate (e.g., a reduced rate), or alters the tax period (e.g., a deferral) is considered a tax expenditure.

In Uganda, employment income is taxed under the Pay-As-You-Earn (PAYE) system, with the BTS for PAYE defined as follows;

Tax Head	(i) Tax Unit	(ii) Tax Base	(iii) Tax Rate	(i) Tax Period
PAYE	Individual	Employment income minus allowable deductions	PIT schedule	Monthly

The PIT and PAYE schedule is shown below;

Monthly Chargeable Income (UGX)	Rate (Resident)	Rate (Non-Resident)
< 235,001	Nil	10%
235,001 - 335,000	**10%** of amt > 235,000	
335,000 - 410,000	UGX 10,000 + **20%** of amt > 335,000	UGX 33,500 + **20%** of amt > 335,000
>410,000	UGX 25,000 + **30%** of amt > 410,000. **Additional 10%** on amt > 10,000,000	UGX 48,500 + **30%** of amt > 410,000. **Additional 10%** on amt > 10,000,000

It is important to note that not all personal income is taxed at the standard rate as indicated in the schedule above. For example, rental income for individuals is taxed at 12% of the gross amount exceeding the annual tax-free threshold (UGX 2,820,000) and final withholding tax of 15% is applied to dividends and interest.

Table I1. Tax Expenditure under the PIT, by TE type

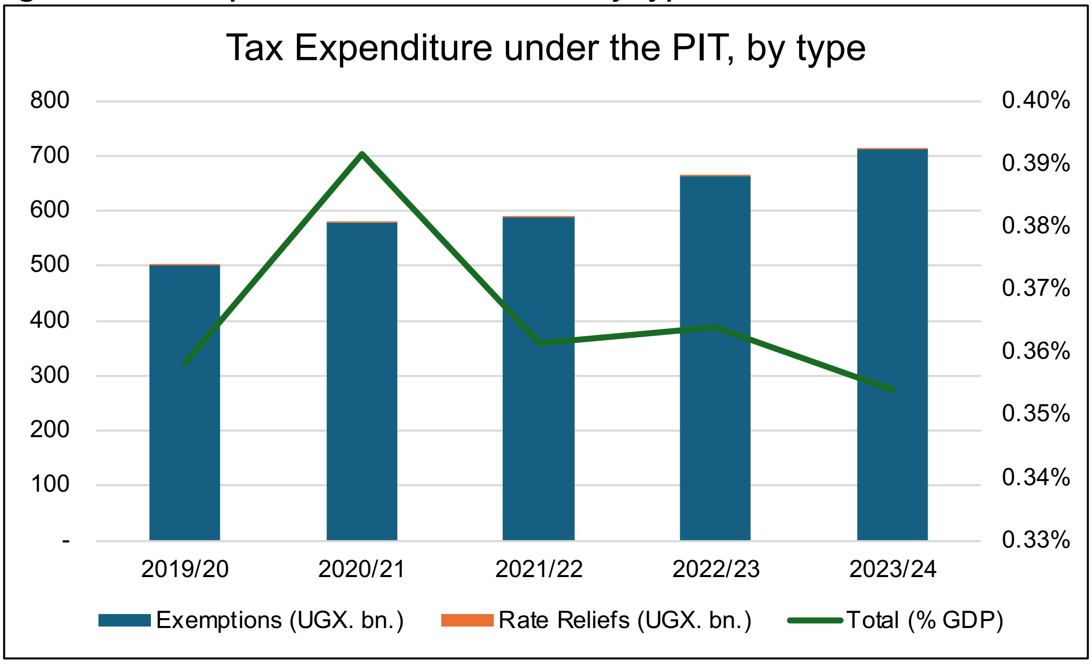
TE Type	Revenue Foregone Estimates (UGX. Bn.):				
	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Exemptions	500.56	580.74	588.29	666.01	715.65
Total (UGX. bn.)	**500.56**	**580.74**	**588.28**	**666.01**	**715.65**
PIT foregone (% GDP)	0.36%	0.39%	0.36%	0.36%	0.35%
Total (% of PIT collected)	16.5%	18.7%	16.2%	15.0%	14.4%

Source: Calculations from URA data and UBOS.

Estimates of revenue forgone from PIT expenditures over the past 5 FYs are shown in Table I1 and Figure I1. Over this period, revenue forgone from PIT has increased from

UGX 470.71 billion to UGX 799.95 billion, representing a 70% rise. As a percentage of GDP, the foregone revenue grew from 0.34% to 0.40%. The majority—99%—of the revenue foregone under PIT is attributed to exemptions.

Figure I1. Tax Expenditure under the PIT, by type



Source: Calculations from URA data and UBOS

Table I2 below shows detailed estimates of revenue forgone under the PIT per TE provision.

Table I2: Tax Expenditures under the PIT

TE ID	Exemption:	Legal Reference	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
PITE1[5]	Official employment income of a person employed in the Uganda Peoples' Defence Forces, the Uganda Police Force, External Security Organisation, Internal Security Organisation or the Uganda Prisons Service, other than a person employed in a civil capacity	Section 21(1)(p) ITA	To enhance the low pay of security personnel	220.26	275.87	268.80	284.11	412.85
PITE2[6]	Salaries of the Judiciary from employment income tax	Uganda Constitution Art 128(7).	To ensure that members of the Judiciary are treated in same manner as rest of criminal justice system.	5.70	7.60	7.60	7.21	7.32
PITE3[7]	The employment income of a person employed as a Member of Parliament, other than salary	Section 21(1)(q) ITA	To relieve the burden of tax on the emoluments of Member of Parliament and to recognize expenses incident to the discharge of their duties.	111.64	112.82	116.22	135.28	135.74
PITE4	The 25% of the amount derived as compensation for the termination of any contract of employment from employment income tax	Section 19(4) ITA	To provide tax relief on a retirement benefit, encouraging long-term savings.	4.33	7.58	4.22	6.25	7.70
PITE5	Contribution or similar payment by employer made to a retirement fund for the benefit of an employee or any of his or her dependants	Section 19(2)(g) ITA	To encourage long-term savings.	152.29	167.27	178.88	217.18	132.41
PITE6	Education grants	Section 21(1)(g) ITA	To assist the recipient to study at a recognized educational or research institution.	Data not captured				
PITE7	Non-business capital gains not included in business income other than capital gains on sale of shares in a private LLC or on the sale of a commercial building	Section 21(1)(j) ITA	To reduce administration or compliance costs due to limited administrative capacity and the difficulty of enforcement	Data not captured				

[5] Data for PITE1 is from the Approved Estimates of Revenue and Expenditure FY2023/24 (accessed from budget.go.ug). The allocated amounts for 'General Staff Salaries' for each of the five listed organisations is used. From this, the *taxable* wages paid to staff from these organisations (from the URA's PAYE filings data) is subtracted. An effective tax rate (calculated from the universe of PAYE filings for each FY and assumed as a representative average effective tax rate) is then applied to the net staff salaries figure for the five organisations to compute the estimate of foregone revenue.
[6] Data on the number of staff at each rank are taken from the website of the judiciary. Info on the salaries are taken from various sources, depending on the FY. The PAYE schedule is then applied to the gross salaries to compute foregone revenue.
[7] Data on allowances for MPs is taken from the Approved Estimates of Revenue and Expenditure FY2023/24 (accessed from budget.go.ug). The requisite figure is from Vote 104: Parliamentary Commission, Item # 211106 'Allowances'

TE ID	Exemption:	Legal Reference	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
PITE8	The value of a right or option to acquire shares granted to an employee under an employee share acquisition scheme.	Section 19(2)(h) ITA	To encourage employee participation in the ownership of the employer's business so as to promote increased productivity.	Data not captured				
PITE9	Withholding tax exemption on Interest paid by a resident company in respect of debentures issued outside Uganda	Section 82(5)(c) ITA	To encourage foreign borrowing for domestic investment. to enhance the competitiveness of Ugandan businesses by lowering the cost of accessing capital from abroad.	Data not captured				
PITE10	Exemption of interest on infrastructure bonds from withholding tax	Section 21(1)(af) ITA	To encourage lending for infrastructure development.	Data not captured				
PITE11	An award received by a sports person as a reward for winning or participating in a sports competition.	Section 21(1)(aa) ITA	To encourage and promote the growth of professional sporting activities.	Data not captured				
PITE12	Dividends earned from a company which came into existence through a stock exchange	Section 118 & 3rd Schedule Part V(2) ITA	To encourage investment by individuals in Ugandan stocks.	0.22	1.36	0.12	3.00	2.73
	Total PIT Foregone (UGX. bn.)			**500.57**	**580.74**	**588.28**	**666.01**	**715.65**
	Total PIT Foregone (% GDP)			0.36%	0.39%	0.36%	0.36%	0.35%

Source: *Calculations from URA data, budget.go.ug and judiciary.go.ug.*

Chapter Three

3.0. Tax Expenditure under the Corporate Income Tax (CIT)

3.1. CIT Benchmark system

Tax Head	(i) Tax Unit	(ii) Tax Base	(iii) Tax Rate	(iv) Tax Period
CIT	Company as a separate legal entity	Chargeable Income	30%	Annual

The benchmark tax unit for CIT is defined as the company and is treated as a separate legal entity. The standard CIT rate is 30% of chargeable business income, calculated as pre-tax profit minus allowable deductions plus non-allowable deductions.[8] Resident companies with an annual turnover of less than UGX 150m are subject to the presumptive tax unless the Commissioner General approves their application to elect otherwise. Capital gains are included in determining business income and are not taxed separately. Income from dividends, interest, and royalties are subject to withholding tax at 15%, creditable against the CIT liability. Businesses with rental income are allowed to deduct expenses relating to that income not exceeding 50% of the gross rental income. Partnerships and trusts are not considered separate tax units; their income is taxed at the recipient level. For non-resident corporations, branch profit repatriation tax is applied to income earned from business activities in Uganda at a rate of 15% unless a different rate is specified in an applicable treaty. Capital gains are treated as business income upon realization and only include gains or losses from the sale of non-depreciable business assets, shares, and commercial buildings.

Table I3 summarizes revenue forgone under CIT by type of TE, while Figure I2 shows the total revenue foregone in nominal UGX and as a percentage of GDP. Table I4 provides detailed provision-level estimates of forgone revenue.

Table I3. Tax Expenditure under the CIT, by TE type

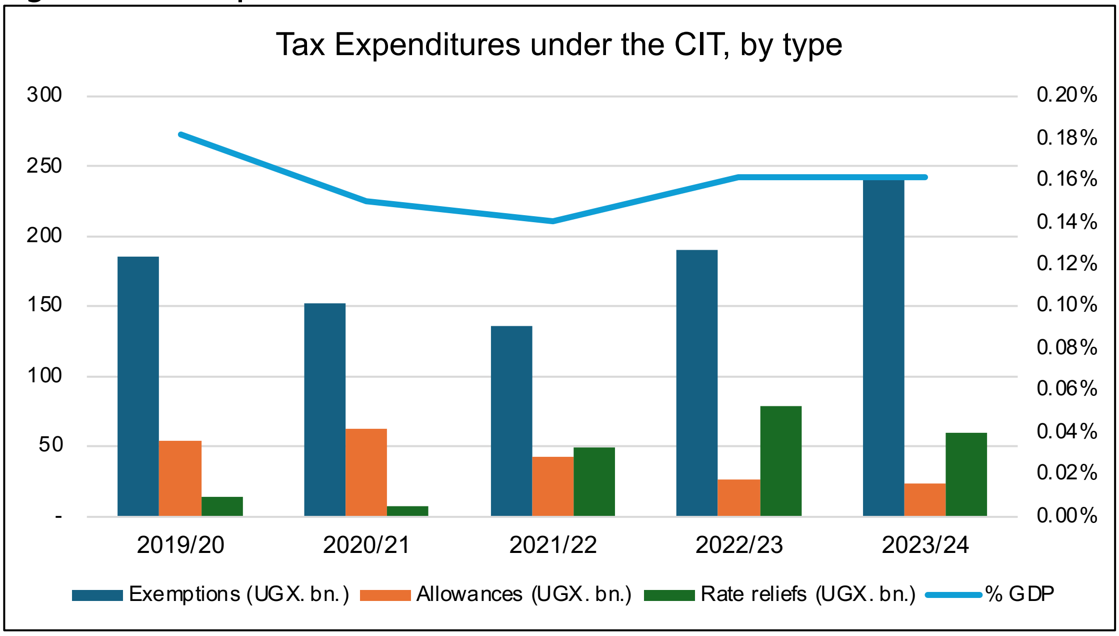
	Revenue Foregone Estimates (UGX. Bn.):				
TE Type	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23**	**FY23/24**
Exemptions	185.18	152.43	136.4	190.7	241.83
Rate Reliefs	54.37	62.97	43.03	26.34	23.87
Allowances	14.38	7.41	49.71	78.79	60.3
Total (UGX. Bn)	**253.94**	**222.81**	**229.13**	**295.82**	**326.00**
CIT foregone (% GDP)	0.18%	0.15%	0.14%	0.16%	0.16%
Total (% of CIT collected)	19.5%	14.2%	14.0%	14.2%	14.5%

Source: Calculations from URA data.

[8] See, e.g., Schedule 1 of the income tax return for how the Income Tax rules are applied and the calculation is carried out in practice.

Revenue foregone from CIT TEs increased from UGX 253.94 billion in FY2019/20 to UGX 326 billion in FY2023/24, reflecting a 28% growth. However, as a percentage of GDP, the revenue foregone declined from 0.18% to 0.16% over the same period, representing an 11% decrease. It is important to note that the estimates do not fully capture the revenue foregone for certain key provisions, such as Double Taxation Agreements (DTAs) and some exemptions for investors in strategic sectors (these are captured separately under Appendix 5).

Figure I2. Tax Expenditure under the CIT



Source: Calculations from URA data and UBOS

Table I4: Provision Level Tax Expenditures under the CIT

TE ID	Exemptions	Legal Reference	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
CITE1	Income of a collective investment scheme to the extent of which the income is distributed to participants in the collective investment scheme	Section 21(1)(u) ITA	To encourage savings and investment.	Data not captured				
CITE2	Business income of an investor compensation fund established under section 90 of the CMA Act.	Section 21(1)(w) ITA	To boost the use of investor compensation funds, which can enhance investor confidence and promote financial stability.	Data not captured				
CITE3	10-year tax holiday from on income derived by a person from letting or leasing facilities in an industrial park or free zone	Section 21(1)(ad) ITA	To support the construction of industrial buildings by local and foreign investors in industrial parks and free zones. To promote industrialization and to achieve the desired substitution of imports.	0.00	3.77	0.00	0.00	0.00
CITE4[9]	10-year tax holiday from business income tax for qualifying sectors	Section 21(1)(ae) ITA	To encourage investments in specified business undertakings by local and foreign investors in any part of the country. To promote industrialization and to achieve the desired substitution of imports.	57.93	32.23	21.53	65.36	101.57
CITE5	10-year tax holiday from business income derived from exportation of finished consumer or capital goods	Section 21(1)(z) ITA	To encourage investment in manufacturing finished consumer and capital goods for export. To promote industrialization and exports.	15.07	13.51	7.61	9.36	15.22
CITE6	Exemption for the income of Bujagali Hydro Power Project for 5 years up to 2022 (extended to 2027).	Section 21(1)(ab) ITA	To boost the amount of energy produced in Uganda, while supporting the transition towards cleaner energy.	100.04	90.73	89.52	94.05	99.06
CITE7	Exemption for the income of a Savings and Credit Cooperative Society up to 30th June 2027	Section 21(1)(ac) ITA	To promote savings and the growth of cooperative societies.	12.14	12.19	17.73	21.93	25.98
CITE8	Corporation Tax holiday for the East African Crude oil pipeline company	EACOP (Special Provisions) Act	Intended to reduce the cost of transporting crude oil to the market.	Data not captured				

[9] Prior iterations of the TE report included only agro-processors in receipt of this exemption (**CITE4**), however it was possible to incorporate a fuller list of beneficiaries of the strategic investor tax holidays in this report.

TE ID	Exemptions	Legal Reference	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
CITE9	Exemption from CIT of the income of the Deposit Protection Fund established under section 108 of the Financial Institutions Act, 2016.	Section 21(1) (x) ITA	To maximise the resources available for deposit protection, helping to maintain confidence in the domestic banking system.	Data not captured				
	Allowances	**Legal Reference**	**Rationale**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23**	**FY23/24**
CITE10	Deduction for employing persons with disabilities.	Section 22(1)(e) ITA	To encourage the employment of persons with disabilities.	Data not captured				
CITE11	Initial allowance in respect of plant and machinery.[10]	Section 27A ITA Cap 340	To encourage or attract new investments in plant and machinery outside of Kampala.	49.42	56.32	38.03	21.96	21.96
CITE12	Initial allowance in respect of industrial buildings.	Section 27A ITA Cap 340	To encourage or attract investment in new industrial buildings outside of Kampala.	4.95	6.65	5.00	4.38	1.91
	Rate Reliefs	**Legal Reference**	**Rationale**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23**	**FY23/24**
CITE13	Payment of Service Fees by Mining and Petroleum Licensees. Relief on withholding tax from 15% to 10%.	Section 103 (1) and Paragraph 3 of Part VII of Schedule 4 of ITA	Administrative: The provision ensures that a non-resident contractor who is paid service fees by a mining or petroleum licensee is liable to a non-resident contractor tax.	11.22	6.25	49.16	71.89	50.25
CITE14	Payment of Fees by a Resident Person or Branch of a Non-Resident Person for direct-to-home Pay Services. Relief on withholding tax from 10% to 5%.	Section 85(4)(b) ITA	Administrative: The provision ensures that non-resident persons who derive business income from sources in Uganda by providing direct-to-home pay services in Uganda are subjected to tax.	3.17	1.15	0.55	0.11	0.06
CITE15	Payments for the supply of technical and other services provided directly and exclusively for the EACOP project. Relief on withholding tax from 15% to 5%.[11]	EACOP Special Provisions Act (2021) 4(1)(c)	Intended to reduce the cost of transporting crude oil to the market.	0.00	0.00	0.00	6.79	10.00
Total (UGX. Bn.)				**253.94**	**222.81**	**229.13**	**295.82**	**326.00**
Total (% GDP)				0.18%	0.15%	0.14%	0.16%	0.16%

[10] The estimate for FY23/24 assumes that foregone revenue under this TE remains constant in FY23/24. The requisite data for calculation was not available from URA at the time of writing.
[11] The estimate of foregone revenue under this TE are lower than in prior reports due to the correction of an inconsistency in the modelling.

Chapter Four

3.0. Tax Expenditure under the Value-Added Tax (VAT)

3.1. VAT Benchmark System

Tax Head	(i) Tax Unit	(ii) Tax Base	(iii) Tax Rate	(iv) Tax Period
VAT	Final consumer	Value of supply (+Customs + Excise)	18%	Monthly

The benchmark tax unit for VAT in Uganda is the final consumer. The tax base includes the total value of the supply, along with any applicable taxes, such as customs (import) duty and excise duty. VAT is charged at a standard rate of 18% and is filed monthly. Uganda's VAT system offers various exemptions, rate reliefs (all set to 0%, as no other VAT rates apply), and allowances. Many of these provisions qualify as tax expenditures. Any VAT exemptions or reliefs listed in the Third and Fourth Schedule of the VAT Act (Cap 344) respectively, and *not* appearing in the tables below should be considered to be part of the benchmark tax system.

A summary of the revenue foregone due to VAT provisions is presented in Table V1 and Figure V1. Detailed estimates of revenue losses for specific provisions are provided in the following tables:

i. **Table V2**: VAT Exemptions
ii. **Table V3**: Rate Reliefs
iii. **Table V4**: Allowances

Table V1: Tax Expenditure under the VAT by TE type

TE Type	Revenue Foregone Estimates (UGX. Bn.):				
	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Exemptions	107.28	161.03	177.21	207.03	325.03
Rate Reliefs	67.13	77.24	75.87	118.68	108.23
Allowances	418.54	490.55	691.53	787.49	244.01
Total (UGX. Bn.)	**592.95**	**728.82**	**944.62**	**1113.21**	**677.26**
Total (% GDP)	**0.42%**	**0.49%**	**0.58%**	**0.61%**	**0.34%**
Total (% of VAT collected)	**11.6%**	**12.5%**	**14.3%**	**14.9%**	**8.6%**

Source: Calculations from URA data.

Revenue foregone under VAT increased from UGX 593 billion in FY 2019/20 to UGX 677 billion in FY 2023/24, representing a 14% rise over the five-year period. However, as a share of GDP, this amount declined from 0.42% to 0.34% during the same period.

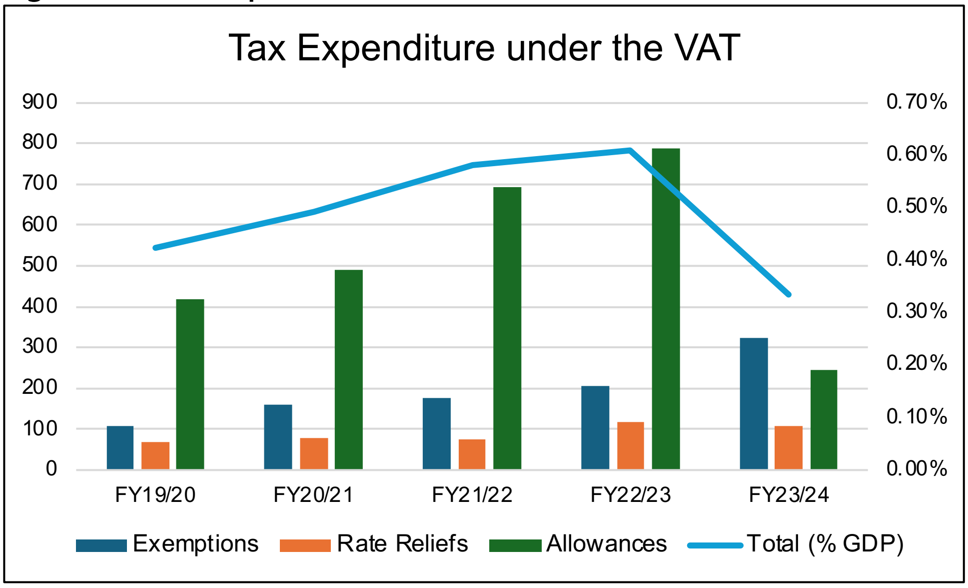
Until the most recent financial year, the largest source of foregone revenue was deemed VAT (classified under allowances). However, in FY 2023/24, exemptions accounted for the highest revenue forgone, amounting to UGX 325 billion.

TEs under VAT dropped from 0.61% of GDP in FY 2022/23 to 0.34% in FY 2023/24, mainly due to a significant reduction in revenue forgone through VAT deeming. This decline resulted from tighter controls implemented by the URA including:

a. **New VAT Deeming Controls (March 2023)**: Taxpayers can now claim deemed VAT only if they issue deemed invoices through the Electronic Fiscal Receipting and Invoicing System (EFRIS).
b. **Automation of VAT Deeming Processes**: URA approvals for deemed VAT are now linked to suppliers' invoicing and filing returns. This control ensures that deemed VAT invoices are capped to the approved quantities and amounts.

There has been a modest increase in VAT foregone from exemptions, driven by the inclusion in the TE repository of VAT-exempt supplies that are also exempt from customs duty under the 5th Schedule of the EACCMA (refer to Section 20(1)(a) of the VAT Act). This category saw a sharp rise in FY 2023/24, from UGX 40 billion to UGX 136 billion, primarily due to hefty import volumes for energy and infrastructure projects, including those in the oil, gas, and mining sectors.

Figure V1: Tax Expenditure under the VAT



Source: Calculations from URA data.

Table V2: Exemptions under the VAT

TE ID	Exemption	Legal Reference (VAT Act)	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				2019/20	2020/21	2021/22	2022/23	2023/24
VATE1	The supply by way of sale, leasing or letting of immovable property	1(f) 3rd Schedule	To ensure affordability of housing	Data not captured				
VATE2	The supply of services, inputs, machinery, tools and implements suitable for use only in agriculture.	1(s) 3rd Schedule	To support agriculture; food security	16.51	23.84	21.53	35.73	44.53
VATE3	The supply of menstrual cups	1(sd) 2nd Schedule of VAT Act Cap 349	Social / Health purpose.	0	0	0.06	N/A	N/A
VATE4	The supply of animal feeds and mixed componets such as egg shells, feed additives, wheat bran, maize bran, premixes, constrates and seed cake	1(q) 3rd Schedule	To support agriculture; food security	22.36	43.73	60.86	68.825	69.786
VATE5	The supply of deep cycle batteries, composite lanterns and raw materials for the manufacture of deep cycle batteries and composite lanterns	1(v) 3rd Schedule	To support the transition towards cleaner energy.	0.01	0.08	0.05	0.208	0.235
VATE6	The supply of photosensitive semiconductor devices, including photovoltaic devices, whether or not assembled in modules or made into panels; light emitting diodes, solar water heaters, solar refrigerators, and solar cookers	1(x) 3rd Schedule	Promoting development and generation of solar power.	14.88	13.29	14.63	8.094	10.79
VATE7	The supply of lifejackets, lifesaving gear, headgear and speed governors	1(y) 3rd Schedule	To prevent accidents and reduce pressure on healthcare.	1.58	2.35	1.62	2.93	1.955
VATE8	the supply of any goods and services to the contractors and subcontractors of hydro- electric power, solar power, geothermal power or bio gas and wind energy projects; and does not include goods and services used for personal and domestic use	1(z) 3rd Schedule	Promoting energy security	4.4	1.82	3.9	0.1	0.24
VATE9	Construction projects in free zones and industrial parks; The supply of plant, machinery and equipment used in developing free zones and industrial parks; The supply of construction materials for development of an industrial park or free zone.	1(ab),(ac), (ad) 3rd Schedule	Export promotion & job creation.	Data not captured				
VATE10	Specified construction projects and construction materials inside and outside free zones and industrial parks; The supply of locally produced raw materials and inputs to specific operators inside and outside an industrial park, free zone; The supply of machinery and equipment to specific operators inside and outside the industrial park or free zone.	1(ae) 3rd Schedule	Export promotion & job creation.	Data not captured				
VATE11	Construction projects and the construction of tourism facilities by a hotel or tourism facility developer; The supply of locally produced materials for construction of premises and infrastructure to a hotel or tourism facility developer; The supply of machinery and equipment or furnishings and	1(af) 3rd Schedule	To support the tourism sector.	Data not captured				

TE ID	Exemption	Legal Reference (VAT Act)	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				2019/20	2020/21	2021/22	2022/23	2023/24
	fittings which are not available on the local market to a hotel or tourism facility developer							
VATE12	Construction projects by a hospital facility developer; The supply of locally produced materials for construction of premises and other infrastructure to a hospital facility developer; The supply of machinery and equipment or furnishings and fittings to a hospital facility developer	1(ag) 3rd Schedule	To ensure affordable access to healthcare.	Data not captured				
VATE13	The supply of movie production.	1(ah) 3rd Schedule	To support the growing domestic film industry.	Data not captured				
VATE14	The supply of fabrics and garments made in Uganda by vertically integrated textile mills that operate spinning, weaving or knitting, wet processing operations and garmenting	1(aj) 3rd Schedule	To support job and wealth creation in the local textiles industry.	5.75	20.43	14.12	14.63	26.61
VATE15	Processing of hides and skins + Exempting the supply of leather products wholly made in Uganda -	1(yy) 2nd Schedule of Cap 349	To support job and wealth creation in the local textiles industry.	0.13	0.27	0.16	0.221	N/A
VATE16	Construction projects for technical or vocational institute operators; The supply of locally produced materials for construction of premises and infrastructure to technical or vocational institute operators; The supply of machinery and equipment or furnishings and Fittings to technical or vocational institute operators.	1(al) 3rd Schedule	To ensure affordable access to education / vocational training institutes.	Data not captured				
VATE17	The supply of woodworking machines; welding machines and sewing machines	1(ao) & (ap) 3rd Schedule	To allow the domestic furniture and textile sectors to become more competitive.	8.3	4.64	6.47	14.644	12.792
VATE18	The Supply of Liquefied Gas	(at) 3rd Schedule	To support availability of affordable, cleaner cooking fuel	N/A	7.52	15.98	17.802	20.886
VATE19	The Supply of Processed Milk	(au) 3rd Schedule	To support value addition in the dairy industry in Uganda.	N/A	0.155	0.263	0.187	0.525
VATE20	Covid Reliefs	(r) 3rd Schedule	To provide relief on the supply of goods deemed critical in the fight against covid-19.	N/A	10.42	8.94	3.40	0.19
VATE21	VAT Exemption for exempt imports under the EACCMA 5th Schedule	Section 20(1)(a)	To provide further relief on these exempt imports – See **Table C2**	33.358	32.474	28.631	40.25	136.49
TOTAL TES FROM VAT EXEMPTIONS (UGX bn.)				**107.28**	**161.03**	**177.21**	**207.03**	**325.03**
TOTAL TES FROM VAT EXEMPTIONS (% GDP)				**0.08%**	**0.11%**	**0.11%**	**0.12%**	**0.16%**

Source: Calculations from URA data.

Table V3: Rate Reliefs under the VAT

<table>
<tr><th>TE ID</th><th><u>Rate Reliefs</u></th><th>Legal Reference (VAT Act)</th><th>Rationale</th><th>FY19/20</th><th>FY20/21</th><th>FY21/22</th><th>FY22/23</th><th>FY23/24</th></tr>
<tr><td>VATE22</td><td>Relief for the supply of educational materials</td><td>1(d) 4th Schedule</td><td>To support affordable education materials.</td><td>24.39</td><td>37.29</td><td>45.52</td><td>77.561</td><td>52.43</td></tr>
<tr><td>VATE23</td><td>Relief for supply of seeds, fertilizers, pesticides and hoes</td><td>1(e) 4th Schedule</td><td>To support agriculture; food security.</td><td>14.16</td><td>17.30</td><td>12.00</td><td>16.50</td><td>37.69</td></tr>
<tr><td>VATE24</td><td>Relief for the supply of sanitary towels. Menstrual cups, tampons and the inputs for their manufacture</td><td>1(f) 4th Schedule</td><td>To support affordable access to vital products for women.</td><td>17.35</td><td>16.49</td><td>11.59</td><td>18.88</td><td>10.83</td></tr>
<tr><td>VATE24</td><td>Relief for supply of cereals grown and milled in Uganda</td><td>1(h) 4th Schedule</td><td>To support the domestic agricultural sector and strengthen food security.</td><td>11.23</td><td>6.16</td><td>6.76</td><td>5.74</td><td>7.28</td></tr>
<tr><td>VATE26</td><td>Relief for handling services by NMS.</td><td>1(i) 4th Schedule</td><td>To support affordable access to vital medication.</td><td colspan="5">Data not captured</td></tr>
<tr><td colspan="4">TOTAL FROM VAT RATE RELIEFS (UGX bn.)</td><td>67.13</td><td>77.24</td><td>75.87</td><td>118.68</td><td>108.23</td></tr>
<tr><td colspan="4">TOTAL FROM VAT RATE RELIEFS (% GDP)</td><td>0.05%</td><td>0.05%</td><td>0.05%</td><td>0.06%</td><td>0.05%</td></tr>
</table>

Source: Calculations from URA data.

Table V4: Allowances under the VAT

<table>
<tr><th>TE ID</th><th><u>Allowances</u></th><th>Legal Reference (VAT Act)</th><th>Rationale</th><th>FY19/20</th><th>FY20/21</th><th>FY21/22</th><th>FY22/23</th><th>FY23/24</th></tr>
<tr><td>VATE27</td><td>Deemed VAT payment on supplies by a contractor to a licensee under mining or petroleum operations.</td><td>Section 24(5)</td><td>To support inward investment into the oil and gas sector, as well as the mining sector. Designed to relieve burden on the government to pay tax on behalf of taxpayer.</td><td rowspan="3">418.54</td><td rowspan="3">490.55</td><td rowspan="3">691.53</td><td rowspan="3">787.49</td><td rowspan="3">244.01</td></tr>
<tr><td>VATE28</td><td>Deemed VAT on supplies to a contractor executing an aid funded project.</td><td>Section 24(6)</td><td>To encourage donor coordination and support inward contributions of aid, while reducing the financial burden of the recipient and donor.</td></tr>
<tr><td>VATE29</td><td>Deemed VAT on supplies by contractors executing aid funded projects to a government ministry, department or agency.</td><td>Section 24(6)</td><td>To encourage donor coordination and support inward contributions of aid, while reducing the financial burden of the recipient, donor and sub-contractors.</td></tr>
<tr><td colspan="4">TOTAL FROM VAT ALLOWANCES (UGX bn.)</td><td>418.54</td><td>490.55</td><td>691.53</td><td>787.49</td><td>244.01</td></tr>
<tr><td colspan="4">TOTAL FROM VAT ALLOWANCES (% GDP)</td><td>0.30%</td><td>0.33%</td><td>0.42%</td><td>0.43%</td><td>0.12%</td></tr>
</table>

Source: Calculations from URA data.

Chapter Five

5.0. Tax Expenditure under Customs Duty

5.1. Benchmark Tax System for Customs Duty

The East African Community (EAC) operates under a unified customs framework governed by the East African Community Customs Management Act (EACCMA). The EAC member countries (Burundi, Democratic Republic of Congo, Kenya, Rwanda, South Sudan, Tanzania, and Uganda) apply a harmonized trade policy (tariff regime) through the Common External Tariff (CET) and product import quotas from third-party countries for goods entering the region. Collectively, the EAC functions as a Single Customs Territory, where trade between Member States is free of duties and restrictive trade regulations.

Customs duties are imposed on the Customs, Insurance, and Freight (CIF) value of imported goods. The CET provides benchmark tariff rates (0%, 10%, 25%, or 35%) or higher for sensitive goods. Preferential tariff treatments, such as: (i) Exemptions listed under the 5th Schedule of EACCMA; (ii) Stays of application (Articles 12(3) and 39(c) of the Protocol on the Establishment of the EAC Customs Union), and (iii) Duty remissions (Section 140 of EACCMA) constitute TEs when applied to imports originating from outside the EAC. The items qualifying under the Stay of Application and Duty Remission schemes are published in the EAC Gazette[12].

The benchmark customs system grants duty-free treatment to goods originating from within the EAC and offers preferential tariff treatment in CET rates for imports from other COMESA countries. Duty relief schemes—such as Temporary Importation, Duty Drawback, Manufacturing Under Bond, Bonded Warehousing, and Export Processing Zones (EPZs)/Free Zones—form part of the benchmark customs tax system. All items listed under Parts A and B of the 5th Schedule of EACCMA, except those outlined in Table C1, are included in the benchmark tax framework.

Tax Head	(i) Tax Unit	(ii) Tax Base	(iii) Tax Rate	(iv) Tax Period
Customs Duty	Shipment	CIF Value	Common external tariff	Various

Some customs exemptions arise from international conventions, which are also treated as part of the benchmark system. These include: The Kyoto Conventions (1973, 1999), The Vienna Conventions (1961, 1963), The Chicago Convention (1944), The Florence Agreement (1950) and The Nairobi Protocol (1976).

[12] https://www.eac.int/documents/category/gazette

Table C1 summarizes revenue forgone from customs tax expenditures by type, illustrated in Figure C1. Table C2 offers a detailed breakdown of revenue foregone at the provision level.

5.2. Trends in Revenue Foregone from Customs Duties

Revenue forgone from customs duties increased from UGX 549 billion in FY 2019/20 to UGX 1,137 billion in FY 2023/24, reflecting a 107% rise. As a percentage of GDP, foregone revenue rose from 0.39% to 0.56% over the same period. Compared to the previous financial year (FY 2022/23), it increased by 0.09% of GDP, rising from UGX 856 billion to UGX 1,137 billion. In FY 2023/24, 93% of the foregone revenue from customs duties resulted from rate reliefs provided through the Stay of Application of the CET and Duty Remission schemes.

Uganda has, over the years, extended the use of the conventional duty remission scheme to goods imported for the implementation of projects under a special operating framework with the Government to reduce the cost of establishment and operation, especially in the manufacturing and tourism sectors, hence making Uganda an investment destination.

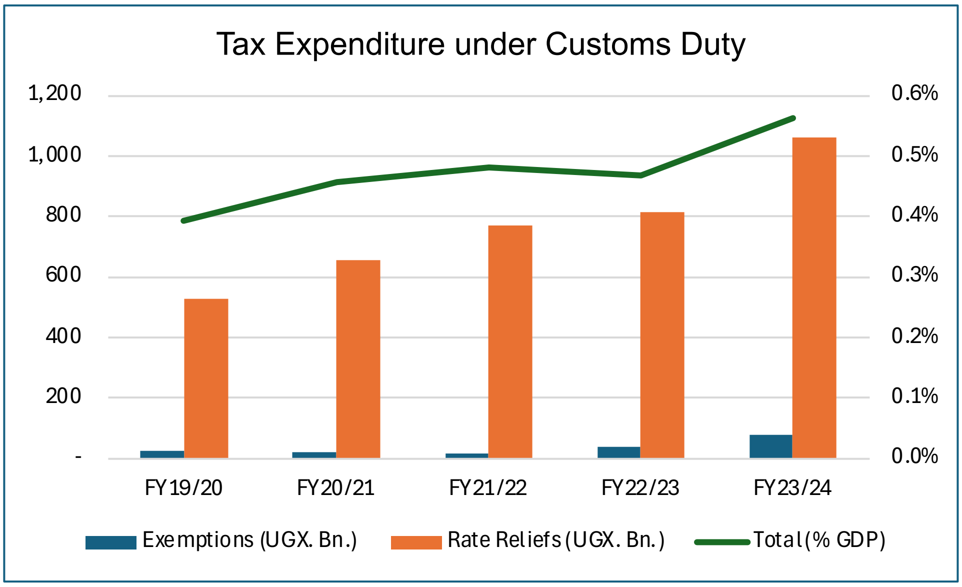
Due to the large number of individual rate reliefs under these schemes, they are not listed here. However, Appendix 1 breaks down revenue foregone from stays of application by CET Chapter, and Appendix 2 provides details on revenue foregone under the Duty Remission Scheme.

Table C1: Tax Expenditure under Customs, by TE Type

TE Type	Revenue Foregone (UGX. Bn)				
	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Exemptions	22.44	21.74	16.62	39.17	75.74
Rate Reliefs	526.99	654.46	768.24	816.43	1061.57
Total (UShs. bn.)	**549.43**	**676.20**	**784.87**	**855.60**	**1137.31**
Total (% GDP)	**0.39%**	**0.46%**	**0.48%**	**0.47%**	**0.56%**
Total (% of customs duty collected)	**45.5%**	**48.2%**	**50.4%**	**43.2%**	**58.0%**

Source: Calculations from URA data.

Figure C1: Tax Expenditure under Customs, by TE Type



Source: Calculations from URA data.

Table C2: Exemptions and Rate Reliefs under Customs Duty

TE ID	Exemptions	Legal Basis	Rationale	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
ITTE1	Inputs to the manufacture of Gas Cylinders	EACCMA 5th Schedule PART B,	Supporting transition away from charcoal as main source of energy.	0.000	0.019	0.018	0.006	0.000
ITTE2	Diapers, Urine bags, Hygienic bags	EACCMA 5th Schedule PART B, Para 13	Not available locally: Medical supplies / Social Purpose.	11.839	8.658	5.911	6.554	4.322
ITTE3	Hotel Equipment	EACCMA 5th Schedule PART B, Para 21	Support to the tourism sector.	5.296	4.188	4.439	8.393	21.455
ITTE4	Refrigerated Trucks	EACCMA 5th Schedule PART B, Para 22	Not available locally; for supporting transportation of food / food security.	2.386	4.021	3.232	4.309	2.781
ITTE5	Speed Governors	EACCMA 5th Schedule PART B, Para 23	Not available locally, safety/social purpose.	0.000	0.000	0.000	0.001	0.000
ITTE6	Solar Equipment	EACCMA 5th Schedule PART B, Para 26	Promoting development and generation of solar power.	0.755	0.942	1.353	1.970	4.770
ITTE7	Garbage Disposal Trucks	EACCMA 5th Schedule PART B, Para 29	Promoting waste collection and urban planning.	0.013	0.023	0.021	1.303	0.000
ITTE8	Inputs for Oil, Gas & Mineral Exploration	EACCMA 5th Schedule PART B, Para 30	Promoting inbound investment into the nascent oil and gas sector	0.599	3.134	0.997	14.872	40.431
ITTE9	Tourist Vehicles	EACCMA 5th Schedule PART B, Para 32	Support to the tourism sector.	1.498	0.693	0.576	1.762	1.984
ITTE10	Security Equipment	EACCMA 5th Schedule PART B, Para 35	Some equipment not available locally; important for national defence.	0.048	0.048	0.057	0.000	0.000
ITTE11	Battery Operated Vehicles	EACCMA 5th Schedule PART B, Para 36	Supporting transition to cleaner energy.	0.011	0.011	0.004	0.000	0.000
ITTE12	Mortuary Freezers	EACCMA 5th Schedule PART B, Para 37	Essential equipment used in healthcare sector.	0.000	0.000	0.016	0.002	0.000
A Total Exemptions (UShs. Bn.):				**22.445**	**21.737**	**16.623**	**39.172**	**75.743**
	Rate Reliefs	**Legal Basis**	**Rationale**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23**	**FY23/24**
ITTE13	Stays of Application	EAC Gazettes (various)	Various	**323.721**	**397.835**	**402.586**	**458.56**	**704.50**
ITTE14	Duty Remission	EAC Gazettes (various)	Lower the cost of inputs for manufacture.	**203.267**	**256.626**	**365.657**	**357.87**	**357.06**
B Total Rate Reliefs (UShs. Bn.):				**526.988**	**654.461**	**768.243**	**816.43**	**1,061.57**
(A+B) Total Revenue Foregone under Customs (UShs. Bn.):				**549.43**	**676.20**	**784.87**	**855.60**	**1,137.31**
Total Revenue Foregone under Customs (% GDP.):				**0.39%**	**0.46%**	**0.48%**	**0.47%**	**0.56%**

Source: Calculations from URA data. Note that the estimates of revenue foregone under Rate Reliefs include the 'knock-on' effect onto VAT and the Infrastructure Levy.

Chapter Six

6.0. Tax Expenditure under Excise Duty

6.1. The benchmark Tax System for Excise Duty

The BTS for excise duty is described as follows;

Tax Head	(i) Tax Unit	(ii) Tax Base	(iii) Tax Rate	(iv) Tax Period
Excise Duty	Item	Ex-Factory Price or Quantity	Various, outlined in ED Act Schedule 2, Part 1	Monthly

Asny deviations from the benchmark structure constitute TEs. Seven TEs (all rate reliefs) have been identified under Excise Duty, summarized below:

1. **Construction materials for use in strategic investment projects:** Strategic investors benefit from a Nil excise duty rate on construction materials for use in those investments. This applies only to cement, where the benchmark rate is UGX500 per 50kg.
2. **Beer:** The benchmark rate for beer is that applied to malt beer, at the higher of 60% or UGX2,050 per litre. There are two preferential rates applied to beers using
    a. Barley grown and malted in Uganda or
    b. where local raw material content, excluding water, is at least 75% by weight of its constituent.

    The rates applied to these beers are, respectively, (a) the higher of 30% or UGX950 per litre and (b) the higher of 30% or UGX640 per litre.
3. **Spirits:** The benchmark rate for spirits is that applied to un-denatured spirits made from imported raw materials, at the higher of 100% or UGX 2,500 per litre. Two preferential rates generate TEs:
    a. Reduced rate of the higher of 60% or 1,500 per litre for un-denatured spirits made from local raw materials
    b. Locally produced ready-to-drink spirits that should be charged the higher of 80% or 1,700 per litre which are misclassified as un-denatured spirits made from local raw materials and thus are charged 60% or 1,500 per litre.[13]
4. **Wine:** The benchmark rate for wine is that applied to Other Wines, set at 80% or UGX 2,000 per liter (whichever is higher). Any deviation, such as lower rates for locally produced wines, results in TEs.
5. **International Calls:** Under the One Network Area (ONA) agreement, incoming international calls from Kenya, Rwanda, Burundi, United Republic of Tanzania

[13] Typically, misclassifications would constitute a compliance or enforcement gap and not be classified as TE, which should typically focus on policy gaps. However, in this particular scenario, the TE arises due to ambiguity in the law (LED Act), whereby locally produced ready-to-drink spirits are also, technically, undenatured spirits made using local raw materials. Thus, the TE arises due to ambiguity at the policy level.

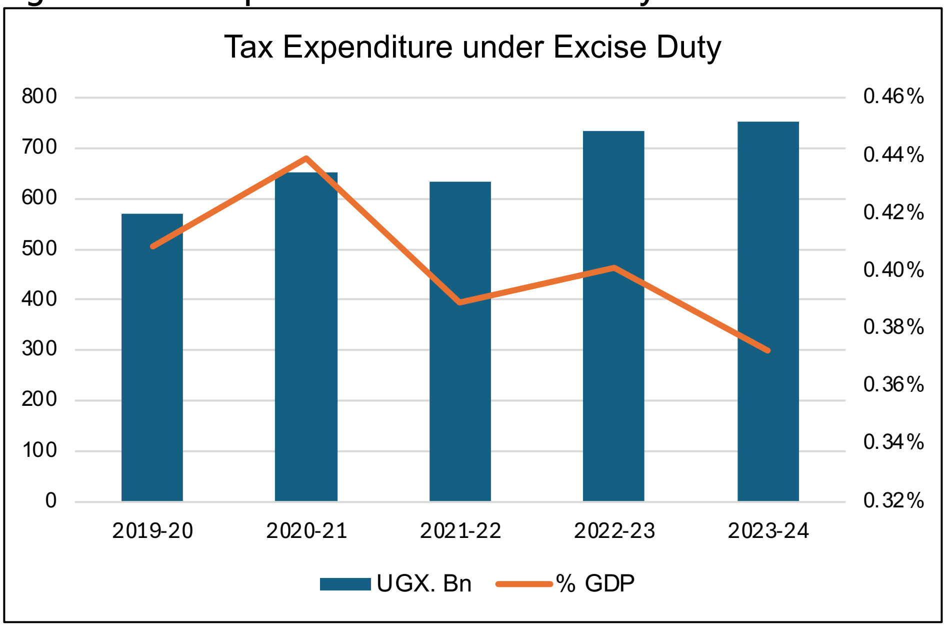
and South Sudan are charged excise duty, while calls from other countries are taxed at USD 0.09 per minute. This preferential rate under the ONA agreement has been in effect in Uganda since January 2015.

6. **Furniture:** The benchmark rate for furniture is 20%, applied to "Other Furniture." However, two deviations generate tax expenditures:
    a. Furniture manufactured in Uganda using local materials (excluding assembled furniture) is taxed at 0%.
    b. Specialized hospital furniture is also taxed at 0%, though this is considered part of the benchmark tax system rather than a TE.
7. **Ciders etc:** This TE pertains to cider, perry, mead, spears or near-beer beverages. The benchmark rate is the higher of 60% or 950 per litre – charged on those items made from imported materials - whilst a preferential rate of 30% of 550 per litre is charged on those items made from local raw materials.

6.2. Summary of Revenue Foregone

Revenue foregone from these seven tax expenditures is summarized in Table E1 and illustrated in Figure E1. From FY 2019/20 to FY 2021/22, revenue forgone under excise duty has declined, as a percentage of GDP, but has risen slightly in nominal terms.

Figure E1: Tax Expenditure under Excise Duty



Source: Calculations from URA data.

Table E1: Tax Expenditures under Excise Duty

TE ID	Rate Relief:	Legal Basis (LED. Act)	Rationale	Revenue Foregone Estimates (UGX. Bn.):				
				FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
LEDE1	Strategic investment Projects	Sch.2 Part 1 Section 21-24.	To encourage investments in specified business undertakings by local and foreign investors in any part of the country. To promote industrialization and to achieve the desired substitution of imports.	Data not captured				
LEDE2	Beer	Sch.2 Part 1 Section 2	To encourage use of LRM content in beer production	374.17	458.64	450.28	485.73	433.87
LEDE3	Spirits	Sch.2 Part 1 Section 3	To support use of LRM content in production of spirits.	26.45	40.24	42.28	58.66	63.62
LEDE4	Wine	Sch.2 Part 1 Section 4	To encourage use of LRM content in wine production	1.97	3.58	7.61	1.46	1.27
LEDE5	Int'l calls	Sch.2 Part 1 Section 13(g)	To increase affordability of phone calls to neighbouring countries under the ONA agreement.	167.85	148.95	133.07	188.36	254.15
LEDE6	Furniture	Sch.2 Part 1 Section 17 (a) & (b)	Encourage LRM content and provide relief to hospitals importing specialised furniture.	Data not captured				
LEDE7	Ciders etc.	Sch.2 Part 1 Section 25 (b)	To encourage use of LRM content in the production of cider, perry, mead, spears or near-bear.	N/A	N/A	0.06	0.13	0.07
TOTAL (UGX bn.) (inc. VAT):				**570.4**	**651.4**	**633.3**	**734.3**	**753.0**
Total (% GDP)				0.41%	0.44%	0.39%	0.40%	0.37%
Total (% of LED collected)				**45.1%**	**44.0%**	**38.5%**	**38.2%**	**34.7%**

Source: Calculations from URA data. NB includes knock-on effects to VAT. N/A denotes a case where the TE was not in effect for that financial year.

Appendix 1: Stays of Application, by CET Chapter

CET Chapter	2020-21	2019-20	2021-22	2022-23	2023-24
10 - Cereals	193.569	179.838	204.124	273.780	272.192
11- Products of milling industry; malt; starches; inulin; wheat gluten				0.369	0.559
15-Animal Fats, Oils etc.					0.000
17- Sugars & Sugar Confectionary					108.297
20- Preparations of vegetables, fruit, nuts, other parts of plants	0.210	0.233	0.034	0.036	0.141
21- Miscellaneous edible preparations	0.424	0.326	0.266	0.345	0.393
25- Salt; sulphur; earths and stone; plastering materials, lime and cement	0.367		0.084	0.046	0.059
26- Ores, Slag, Ash					0.000
27- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0.121	0.127	0.197	0.000	0.412
28- Inorganic chemicals				0.183	0.180
29- Organic Chemicals					0.004
30- Pharmaceutical Products					0.000
32- Tanning or dyeing extracts; tannins & their derivatives; dyes, pigments & other colouring matter; paints and varnishes; putty & other mastics; inks		0.003		0.415	14.514
33- Essential oils and resinoids; perfumery, cosmetic or toilet preparations	26.691	19.246	26.055	39.596	45.842
34- Soap, organic surface-active agents etc.	2.179	2.095	4.981	1.473	3.967
35- Albuminoidal substances; modified starches; glues; enzymes	0.989	0.503	0.824	1.415	1.046
37- Photographic or cinematographic goods	0.000			0.001	0.004
38- Misc. Chemical Products	0.001	0.02	0.003	0.001	0.203
39- Plastics and articles thereof	6.562	7.372	6.93	19.819	26.690
40- Rubber and articles thereof	0.205	0.062	0.143	0.422	1.030
41- Raw Hides, Skins				0.000	
42- Articles of Leather				0.000	0.006
44- Wood and articles of wood; wood charcoal	0.077		0.053	0.170	0.114
45- Cork etc.					0.000

46- Manufactures of straw etc.					0.008
48- Paper and paperboard; articles of paper pulp, of paper or of paperboard	11.410	10.973	9.075	33.281	29.414
49- Printed books, newspapers etc.				0.000	0.002
52- Cotton		0.004	0.008	0.013	0.015
54- Man-made filaments; strip and the like of man-made textile materials	0.786	0.457	0.876	0.818	1.180
55- Man-made staple fibres	8.590	5.951	9.578	7.405	9.797
56- Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	0.957	0.829	1.069	0.059	1.336
57- Carpets and other textile floor coverings				0.086	0.285
58- Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery				0.094	0.145
59- Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use				0.168	0.123
60- Knitted or crocheted fabrics					0.008
61- Articles of apparel and clothing accessories, knitted or crocheted	0.002	0.007	0.001	0.002	0.003
62- Articles of apparel and clothing accessories, not knitted or crocheted				0.324	0.286
63- Other made up textile articles; sets; worn clothing and worn textile articles; rags				10.179	6.922
64- Footwear etc				0.001	6.561
65- Hradgear and parts thereof				0.000	0.000
66- Umbrellas etc.				0.006	0.012
67- Prepareed feathers & down etc.					0.000
68- Articles of stone, plaster, cement, asbestos, mica or similar materials	0.072	0.16	0.147	0.434	3.136
69- Ceramic products				1.177	4.627
70- Glass and glassware	0.178	0.202	0.221	0.336	1.179
71- Precious stones etc.					0.009
72- Iron and Steel	31.621	19.174	46.896	4.881	4.420
73- Articles of iron or steel	7.237	17.522	4.496	17.227	10.713
74- Copper and articles thereof				0.163	0.204
75- Nickel and articles thereof					0.016
76- Aluminium and articles thereof		0.008		1.939	3.181

79- Zinc and articles thereof				0.002	0.017
80- Tin and articles thereof					0.000
82- Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	0.076	0.084	0.076	0.047	0.210
83- Miscellaneous articles of base metal	0.201	0.051	0.28	0.445	0.532
84- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.147	0.384	0.179	3.826	21.856
85- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	5.484	4.606	5.958	7.853	48.353
87- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	99.642	53.371	79.963	20.400	54.013
90- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	0.001			0.016	0.086
91- Cocks, watches etc.					0.005
94- Furniture, bedding etc.				9.199	19.979
95- Toys, games and sports requisites				0.106	0.180
96- Miscellaneous manufactured articles	0.036	0.112	0.07	0.001	0.034
97- Works of art, collectors' pieces and antiques					0.004

Appendix 2: Duty Remissions, by CET Chapter

CET Chapter	Revenue Foregone Estimates (UShs. Bn.):				
	FY19/20	FY20/21	FY21/22	FY22/23*	FY23/24
2-Meat and edible meat offal				0.038	
11- Products of the milling industry; malt; starches; inulin; wheat gluten		0.157	0.394	0.533	0.078
17 - Sugars and sugar confectionery	113.668	180.600	239.753	122.000	109.800
20- Preparations of vegetables, fruit, nuts or other parts of plants	0.201			0.120	
21- Miscellaneous edible preparations	0.024			0.131	
25- Salt; sulphur; earths and stone; plastering materials, lime and cement	0.001		0.001	0.043	0.006
27- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0.000			0.002	4.762
28 -Inorganic chemicals; organic or inorganic compounds etc.	0.044	0.025	0.093	0.124	0.116
32- Tanning or dyeing extracts etc.	0.002	0.002		0.118	0.385
33- Essential oils and resinoids etc.	15.208			3.913	45.775
34- Soap, organic surface-active agents, etc.	0.130		0.080	0.479	3.812
35- Albuminoidal substances; modified starches; glues; enzymes	0.045	0.065	0.056	1.131	1.061
37 - Photographic or cinematographic goods			0.003	0.001	0.004
38- Miscellaneous chemical products	0.001	0.295	0.003	0.054	0.162
39- Plastics and articles thereof	5.090	3.327	6.085	12.548	11.863
40- Rubber and articles thereof	0.281	0.368	0.451	0.296	0.535
44- Wood and articles of wood; wood charcoal		0.005	0.076	0.166	0.000
48- Paper and paperboard; articles of paper pulp, of paper or of paperboard	24.701	8.677	41.997	52.685	41.420
49- Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	0.242	0.180	0.080	0.143	0.058
52- Cotton	0.076			0.048	0.011
54- Man-made filaments; strip and the like of man-made textile materials	3.714	1.972	4.361	9.588	5.370
55- Man-made staple fibres	4.688		0.042	11.516	0.224
56- Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	0.656	0.125	0.033	2.086	2.725

58- Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	0.066	0.079	0.103	0.105	0.052
59- Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	0.254		0.074	0.278	0.141
60 - Knitted or crocheted fabrics	0.229		0.304	0.159	0.347
62- Articles of apparel and clothing accessories, not knitted or crocheted	0.013		0.011	0.066	
63- Other made-up textile articles etc.		0.002		0.297	0.001
64- Footwear, gaiters and the like; parts of such articles	0.034	0.523	0.741	3.307	5.452
70- Glass and glassware	0.009			0.000	0.002
72- Iron and Steel	0.383	0.485	0.232	64.759	39.957
73- Articles of iron or steel	0.048	4.184	0.023	1.257	0.813
74- Copper and articles thereof	0.014	0.015	0.120	0.035	0.038
75- Nickel and articles thereof	0.002	0.000			0.000
76- Aluminium and articles thereof	0.031	0.271	0.411	0.354	0.304
78- Lead and articles thereof	0.001	0.000		0.000	0.000
79- Zinc and articles thereof		0.015			
82- Tools, implements etc.		0.025		0.000	0.315
83- Miscellaneous articles of base metal	0.030	0.128	0.023	0.221	0.222
84- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.039	0.566	0.006	0.196	9.749
85- Electrical machinery and equipment and parts thereof etc.	3.326	54.528	0.267	2.465	71.492
87- Vehicles other than railway or tramway rolling stock, etc.	29.742	0.003	69.830	66.547	0.007
94- Furniture; bedding, etc.					
96- Miscellaneous manufactured articles	0.272			0.109	

Appendix 3: Revenue forgone from Aid-Funded projects

Although Uganda's approach to TE reporting treats Customs and VAT exemptions for aid-funded projects (as outlined in the 5th Schedule of the EACCMA) as part of the benchmark tax system, tracking the revenue foregone under these provisions remains valuable. Table A.3 presents estimates of the revenue forgone. These estimates cover all imports made under: (i) CPC 461: Imports by the UN and other approved international organizations; and (ii) CPC 462: Imports by UN agencies and NGOs supporting projects in Uganda.

Table A.3: Aid-Funded Projects

FY	2019-20	2020-21	2021-22	2022-23	2023-24
Customs	363.03	343.56	209.54	190.13	188.39
VAT	363.18	277.38	224.58	243.15	256.35
Total	726.22	620.94	434.12	433.28	444.75
% GDP	0.52%	0.42%	0.27%	0.24%	0.22%

FY	2019-20	2020-21	2021-22	2022-23	2023-24
Customs	363.03	343.56	209.54	190.13	188.39
VAT	363.18	277.38	224.58	243.15	256.35
Total	726.22	620.94	434.12	433.28	444.75
% GDP	0.52%	0.42%	0.27%	0.24%	0.22%

Source: Estimations from URA data. The estimates under Customs include the 'knock-on' effect onto VAT and the Infrastructure Levy

The estimates presented here differ from those in previous Tax Expenditure (TE) reports for several reasons:

a. **Benchmark Duty Rate Matching**: In prior reports, an effective customs rate of 22.5% was applied across the board. Shipment-level data enables us to match each import with its specific benchmark duty rate from the EAC CET, providing more accurate estimates.
b. **Reallocation of VAT from Customs Exemptions**: Previously, VAT forgone due to customs exemptions was reported under VAT. This report is now correctly reported under customs exemptions, aligning with the principle used throughout the report—revenue is recorded under the provision where the exemption originates rather than where it accrues.
c. **Exclusion of imports by Ministry of Defence**: Some imports by Ministry of Defence appear under CPC461 or CPC462 – these are now excluded from the calculations as they are not the intended transactions to be reported on here.

Appendix 4. Projection of Revenue Foregone FY 2024/25

This section provides projections for the value of revenue foregone in FY 2024/25. The projections are based on the average growth rates of revenue foregone under each tax category between FY 2019/20 and FY 2023/24. These growth rates serve as the central estimate.

To account for uncertainty, two additional scenarios are considered:

a. **High-growth scenario**: Growth rates are assumed to be 50% higher than the central estimate.
b. **Low-growth scenario**: Growth rates are assumed to be 50% lower than the central estimate.

The estimated growth rates for each scenario are presented in Table A4.1.

Table A4.1: Estimated growth rates of revenue foregone for FY24/25

Tax Head	Low-Growth Estimate	Central Estimate	High-Growth Estimate
Income Tax	4.27%	8.55%	12.82%
VAT	3.90%	7.80%	11.70%
Customs	10.14%	20.27%	30.41%
Excise Duty	3.74%	7.48%	11.21%

Source: Authors' calculations

Table A4.2: Projected revenue foregone in FY 2024/25

Tax Head	FY24/25 (Low Growth Estimate)	FY24/25 (Central Estimate)	FY24/25 (High Growth Estimate)
Income Tax	1,086.17	1,130.69	1,175.21
VAT	703.70	730.12	756.54
Customs	1,252.58	1,367.84	1,483.11
Excise Duty	781.11	809.26	837.41
Total (UGX bn.)	3,824	4,038	4,252
Total (% GDP)	**1.71%**	**1.80%**	**1.90%**

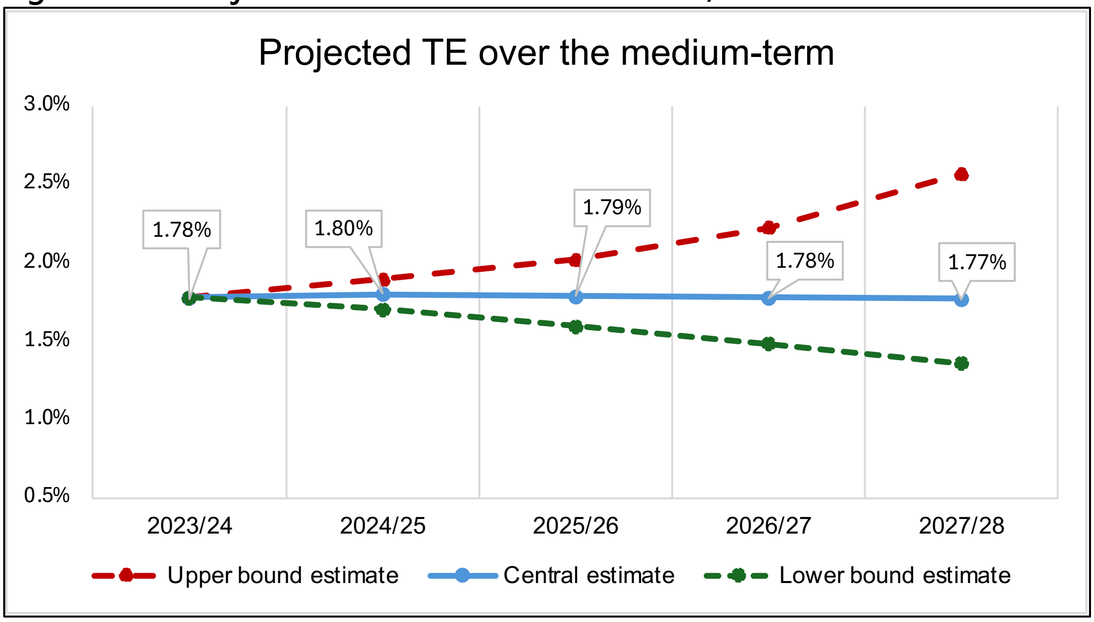
Source: Authors' calculations

These estimates do not account for any potential policy changes that would result in additions or removals to the Tax Expenditure (TE) repository or changes in the nature or generosity of TE. They also do not account for any improvements in compliance or enforcement, which, as seen with the reduction in TE from VAT deeming, can significantly impact the amount of foregone revenue reported. As a result, they may overestimate or underestimate the revenue foregone, depending on whether new TEs are introduced or existing ones are removed through future tax amendments.

The central estimate projects that revenue foregone from TEs will amount to approximately UGX 4,038 billion in FY 2024/25, equivalent to 1.8% of GDP.

Table A4.3 and Figure A4.1 show a projection of foregone revenue for the next 5 years, based on the growth rates displayed in Table A4.1. The central estimate projects that foregone revenue from TE will remain fairly stable, as a % of GDP in the medium term.

Figure A4.1: Projected TE over the medium-term, % of GDP



Source: Authors' calculations

Table A4.3: Projected TE over the medium-term, % of GDP

Estimate	2023/24	2024/25	2025/26	2026/27	2027/28
Upper bound estimate	1.78%	1.90%	2.02%	2.22%	2.57%
Central estimate	1.78%	1.80%	1.79%	1.78%	1.77%
Lower bound estimate	1.78%	1.71%	1.60%	1.48%	1.36%

Source: Authors' calculations

Appendix 5: Government Commitments

Table A5: Government Commitments, by year

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24*
CIT	292.88				8.35
PAYE	15.26				0.512
WHT	34.18				3.677
STAMP DUTY	0.24				0
Customs Duty	43.56	63.62	108.74	50.14	41.81
Total (Incl. arithmetic Avg. of DT)	140.1	160.2	205.3	146.7	75.6
Total (% of GDP)	0.10%	0.11%	0.13%	0.08%	0.04%

Source: MoFPED

Table A5 presents estimates of revenue foregone from tax waivers where the government has committed to paying taxes on behalf of certain taxpayers. Section 77(1) of the Public Finance Management (PFM) Act provides the legal basis for reporting these TEs.

These figures are subject to several limitations and should be viewed as indicative only for the following reasons:

a. **Aggregate Reporting for Domestic Taxes**: Only aggregate figures for domestic taxes are available between July 2019 and June 2023, with no breakdown by tax type or financial year. In the "Total" row of Table A5, we calculate an arithmetic average of the four financial years and apply it to each year. For example, the foregone Corporate Income Tax (CIT) in 2019 is estimated as 292.88 divided by 4.
b. **Calendar-Year Reporting for Customs Duty**: Customs duty data is reported on a calendar-year basis, not a financial-year basis. In Table A5, we assign the calendar-year estimates as follows: 2020 = FY 2019/20, 2021 = FY 2020/21. And so on.
c. **Partial Data for FY 2023/24**: Only data from April to June were available for FY 2023/24. As a result, the estimates for this period are likely to be significantly understated.