MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

FOR GOD AND MY COUNTRY

THE REPUBLIC OF UGANDA

TAX EXPENDITURES REPORT FINANCIAL YEAR 2022/23

AUGUST 2024

Uganda Tax Expenditure Report FY22/23

Executive Summary

In addition to public expenditure, as presented in the National Budget, the Government of Uganda also spends through the tax system in the form of tax exemptions, rate reliefs, allowances, deferrals, and credits. The value of revenue foregone from the reliefs (compared to modeled revenue under a 'benchmark' system) is described as 'Tax Expenditure.' Tax Expenditures in Uganda exist for numerous reasons, whether to support investment, local manufacturing, job creation, for a social purpose, or due to administrative difficulties in collecting revenue from hard-to-tax sectors.

For FY2022/23, the value of foregone revenue due to tax expenditures is estimated to stand at UShs. **2,972** bn, or **1.62**% of GDP. The total amount of tax collected during 2022/23 is UShs. **23,733** bn, meaning that the value of revenue foregone due to tax expenditures is equal to around **12.5% of total tax collections.**

This is broadly in line with recent years as a share of GDP. In FY2018/19, the foregone revenue associated with tax expenditures stood at an estimated 1.57% of GDP—only modestly lower than the most recent figure. In other words, after factoring in the economy's growth (and thus the larger resource base), **there is little evidence of a meaningful rise in the cost of tax expenditures**.

Based on estimates, VAT is the tax head where revenue foregone associated with tax expenditures is highest. The cost of VAT expenditures in FY2022/23 is estimated at UShs 992.2bn—equivalent to 0.54% of GDP and accounting for 33.3% of the total revenue foregone from tax expenditures in Uganda.

The headline figures in this report are estimates. Data and modeling limitations mean that it is not possible to calculate the revenue foregone associated with every single tax expenditure outlined in this report, while assumptions are made to allow us to provide estimates for some expenditures. It is important to note that this lack of data means that the headline aggregated numbers are underestimated. In particular, the estimates of revenue foregone under VAT primarily focus on imported goods and thus underestimate TE on local sales and purchases.

Acknowledgments

The technical work that culminated in this report began in the first half of 2023. The analysis was spearheaded by staff from the Ministry of Finance, Planning and Economic Development's (MoFPED) Tax Policy Department (TPD) and the Uganda Revenue Authority (URA). Technical support was provided by the Country Advisor from the Centre for Tax Analysis in Developing Countries (TaxDev). This analysis builds on initial benchmarking conducted by the World Bank in early 2020 and diagnostic work from two IMF missions in 2022 and 2023.

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1 Introduction

In addition to public expenditure as presented in the National Budget, the Government of Uganda also spends through the tax system in the form of tax exemptions, rate reliefs, allowances, deferrals and credits. The value of revenue foregone from the reliefs (compared to modelled revenue under a 'benchmark' system) is described as 'Tax Expenditure'. Tax Expenditures (TE) in Uganda exist for numerous reasons, whether to support investment, local manufacturing, job creation, for a social purpose, or due to administrative difficulties in collecting revenue from hard-to-tax sectors.

The key objectives of TE reporting are

(i) improved transparency around the use of public funds
(ii) to highlight the importance of tax expenditures to the government relative to other forms of expenditure and
(iii) serve as a basis for making more informed policy choices. However, the TE report **does not** constitute an evaluation nor does it quantify the benefits of the reliefs described herein.

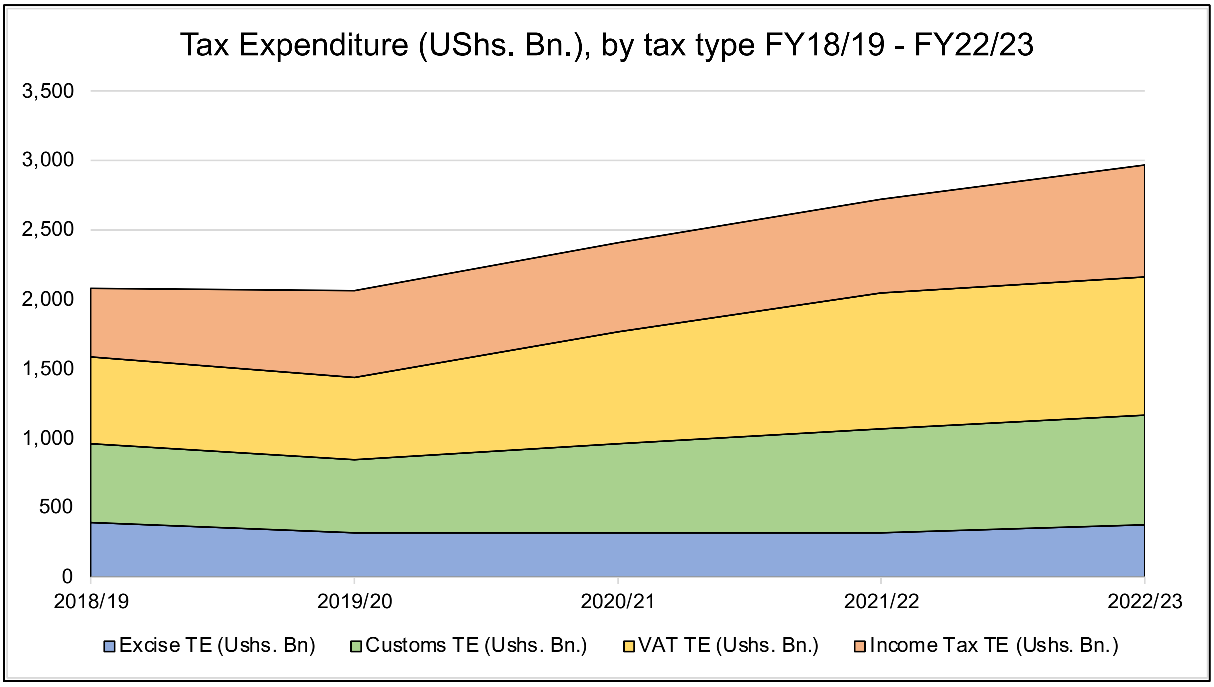
The analysis estimates that revenue foregone from tax expenditures for FY22/23 stood at. UShs. 2,972bn. This represents 12.5% of actual tax collected for the same period. Table 1 and Figures 1 & 2 summarise the estimates of revenue foregone by tax head, both in UShs and % GDP. Projections for revenue foregone in FY23/24 are detailed in **Appendix 4**

Table 1. *Estimates of Revenue Foregone, by tax head. FY18/19 – FY22/23.*

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23***
Total TE (Ushs. Bn.)	2,079	2,065	2,408	2,723	2,972
Total TE (% GDP)	1.57%	1.48%	1.62%	1.67%	1.62%
Income Tax TE (UShs. Bn.)	491	627	640	673	810
Income Tax TE (% GDP)	0.34%	0.40%	0.43%	0.41%	0.44%
VAT TE (Ushs. Bn.)	628	593	805	983	992
VAT TE (% GDP)	0.48%	0.42%	0.54%	0.60%	0.54%
Customs TE (Ushs. Bn.)	560	522	643	747	794
Customs TE (% GDP)	0.42%	0.37%	0.43%	0.46%	0.43%
Excise TE (Ushs. Bn)	399	323	320	320	376
Excise TE (% GDP)	0.30%	0.23%	0.22%	0.20%	0.21%

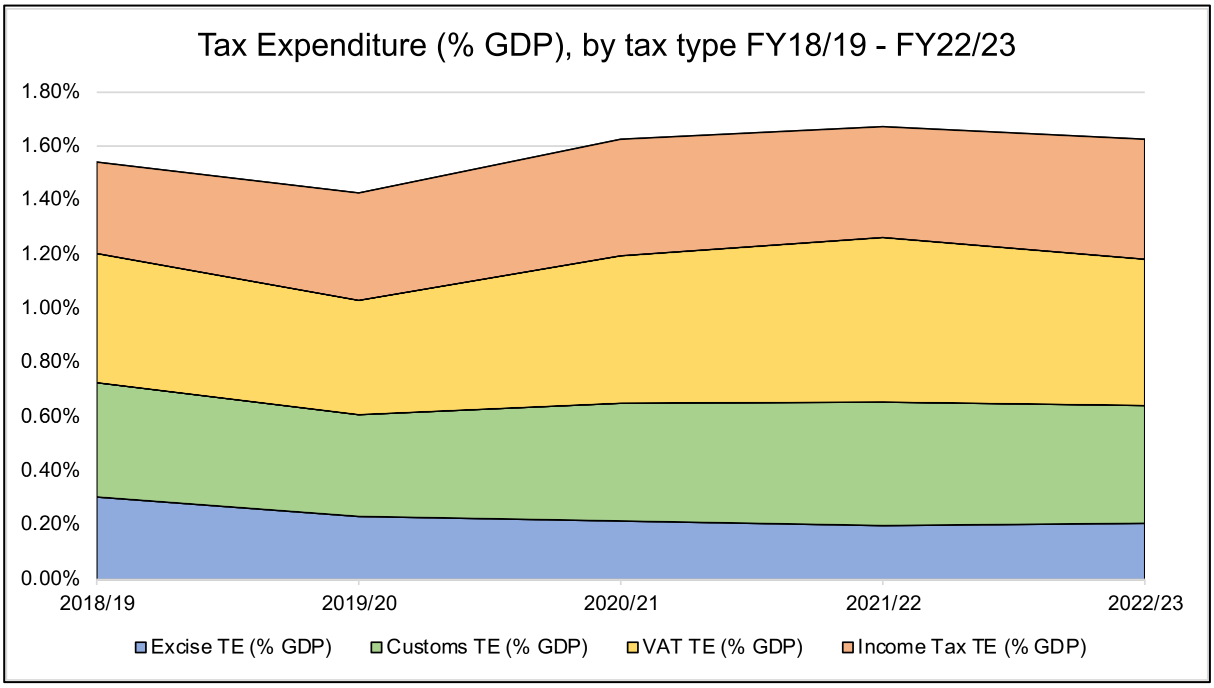
*Source: Calculations from URA data; *2022/23 are estimates.*

***Figure 1**. Tax Expenditure (UShs. Bn.), by tax type FY18/19-FY22/23*



Source: Calculations from URA data

***Figure 2**. Tax Expenditure (% GDP), by tax type FY18/19-FY22/23*



Source: Calculations from URA data

Data constraints mean that the estimates presented are likely an under-estimate of the true value of revenue foregone due to tax expenditures. For a number of provisions in the relevant tax acts that have been identified as tax expenditures, data was not appropriately captured to allow for computation of revenue foregone. These are retained in the report with no cost estimate assigned.

Over the past 5 financial years, the value of revenue foregone has grown in nominal terms, from UShs. 2,079bn to UShs. 2,972bn, representing an increase of 43%. However, expressed as a % of GDP, revenue foregone has remained fairly constant, increasing only modestly from 1.57% in 2018/19 to 1.62% of GDP in 2022/23.

This report proceeds as follows. The remainder of section 1 provides an overview of the methodology followed, updates to the benchmark tax system and limitations to the analysis. Sections 2-6 present the analysis of revenue foregone for Tax Expenditures under Personal and Corporate Income Taxes, VAT, Customs Duties, and Excise duty respectively. **Appendix 3** discusses additional revenue foregone from aid-funded projects, whilst **Appendix 4** details projections of revenue foregone for FY23/24.

1.1 Methodology

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

The approach taken to estimate tax expenditures in this report is the ***Revenue Foregone*** approach. This involves estimating the

> "direct revenue loss associated with the provision under consideration, relative to the benchmark system, which has no such provision" (IMF, 2019:9).[1]

Revenue Foregone is the most widely used method of calculating tax expenditures; all OECD countries, for example, use this approach. **It does not take into account any behavioural changes**. That is, how taxpayers may respond to the removal of a tax relief or whether an activity would still take place to the same extent, were the relief not in place. Revenue foregone is therefore not equivalent to *revenue gain* that may be achieved from removing tax reliefs.

Besides the direct cost of revenue foregone from tax expenditures, their presence entails a number of other *indirect* costs, which are **not** captured in the estimations presented here. For example, there are administrative and compliance costs for firms and individuals, whereby they may have to apply to prepare documentation and apply to be granted a tax exemption.

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

There are also indirect costs to the economy as a whole of TE, as a relief in one area or sector may mean that taxes may be higher – or public spending lower – in other areas; accordingly, the benefit provided by the tax expenditure may affect a smaller group of firms or individuals than would the public spending that may be possible in its absence. There are also indirect costs in the form of the resources required by government in order to monitor the effectiveness of tax expenditures. Finally, tax expenditures might induce distortions to economic behaviour. A tax system should strive to be neutral (i.e. not unduly influence behaviour of firms or individuals), but the presence of incentives or exemptions may result with an inefficient allocation of resources across the economy. **None of these indirect costs or distortions are modelled in this TE report.**

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

1.2 Methodological Updates

The estimates of revenue foregone presented in this report should not be compared with those in previous TE reports. This is due to several methodological differences.

- Firstly, revenue foregone from reduced import duty rates offered under the duty remission scheme has been calculated for the first time. This represents a substantial amount of revenue foregone (around UShs 316bn in FY2022/23).

- Secondly, revenue foregone from 'knock-on' VAT, whereby reductions in Customs or Local Excise Duty mechanically reduce the VAT base, (even if no exemption or zero rating exists on VAT for that product) has been added to the tax head under which the foregone revenue 'originates', rather than that where it is realised. The previous version of the TE reports followed the latter approach, by simply allocated this as a separate 'provision' under the VAT. By allocating this knock-on foregone revenue to the provision that causes it, we more closely tie estimates of revenue foregone to policy choices.

- Revenue foregone from the exemption of income tax on employment income as outlined under Section 21(1)(q) of the Income Tax Act has been expanded to the full range of institutions listed under that subsection. Previous iterations of the TE report had only calculated revenue foregone from the Uganda Peoples' Defence Forces, however the provision also includes employment income from individuals employed in the Uganda Police Force, the External Security Organisation, the Internal Security Organisation and the Uganda Prisons Service (other than those employed in a civil capacity). Thus, the estimates of foregone revenue are higher than previously reported.

- Numerous other revisions, where clarification was obtained on how to understand the tax base, or access data to which the TE applies.

1.3 Updates to the Benchmark Tax System and Repository

No new tax expenditures were identified from the Income Tax and VAT Amendment Acts (2023) for FY22/23.[2]

However, a few notable amendments were:

- The income tax exemption granted to the Bujigali hydropower project, which was due to expire in June 2022, was extended for a further 5 years (until June 2027).

- The supply of oxygen for medical use and the supply of assistive devices for persons with disability were listed as an exempt supply.[3]

- The exemption on the supply of menstrual cups was repealed and replaced with a zero-rating.

Various new rate customs duty reliefs via either the stay of application or duty remission schemes were Gazetted. The full range of imports subject to rate relief is too lengthy to outline in this report, new additions for FY2022/23 are:

- Duty Remission on import of inputs for the manufacture of:
    - Cables
    - Road Guard Rails
    - Filters
- Duty remission on the import of specified quantities of Mechanically deboned meat (MDM).
- Stay of Application of the CET for Steel Articles under Chapter 72 of the EACCET.
- Stay of Application of the CET for stoves, ranges, cookers etc.
- Stay of Application of the CET for valves used in the manufacture of motorcycle inner tubes.

The provision outlined in Para. 1(tt) Second Schedule VAT Act, which exempts textile manufacturing operations, equipment and inputs was removed from the repository, as

[2] A summary of the amendments can be found here: https://ura.go.ug/resources/webuploads/INLB/Tax%20Amendments%202022-23.pdf

[3] However, in keeping with other similar reliefs on medical goods, these were deemed to be part of the benchmark tax system and thus not costed in this report. Furthermore, a provision to exempt assistive devices from both customs and domestic taxes is contained under the Nairobi Protocol (1976).

this represents input VAT.[4] The output of these operations is also exempted from VAT under Para. 1(uu). Thus, the revenue foregone is new calculated as net VAT foregone across the value chain of both input and output in the manufacture of textiles.

1.4 Caveats and Limitations

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

Firstly**, it was not possible to estimate revenue foregone for all tax expenditures identified** as deviations from the Benchmark Tax System. This is due to the way in which data is captured by URA systems. Specifically, exemptions for strategic investors and developers of industrial parks / free zones are two areas where a number of provisions offer relief to investors, but it was not always possible to estimate revenue foregone. Further, it was not possible to estimate revenue foregone from reduced rates on withholding tax under double-taxation-agreements.

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

This **report is not designed to provide a detailed assessment of the effectiveness – or benefits - of tax expenditures**. Evaluating the costs and benefits of tax expenditures is a complex process and whilst this report plays an integral part by providing estimates of the 'direct cost' of tax expenditures in Uganda, it does not attempt to make judgements on whether the expenditures described are appropriate, fulfilling their purpose, or well-targeted. Appropriate governance of tax expenditures should, however, take such considerations into account and this will be the focus of future work.

[4] Compared to the Benchmark System where the output is *not* VAT exempt, *removal* of this provision (which is what is simulated to calculate revenue foregone) leads to revenue *loss* for the government as, if the provision were removed, then textile manufacturers could reclaim input VAT.

2. Tax Expenditure under the Personal Income Tax

Benchmark Tax System (BTS)

The benchmark tax system is identified according to four criteria, namely the

(i) tax unit,
(ii) tax base,
(iii) tax rate and
(iv) tax period.

Thus, any tax provisions that alters the tax unit (e.g. an exemption), the size of the tax base (e.g. a deduction), the tax rate (e.g. a reduced rate) or the tax period (e.g. a deferral) might be considered as a tax expenditure.

Employment income in Uganda is taxed according to the Pay-As-You-Earn (PAYE) system. For PAYE, the benchmark system is defined as follows:

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

PIT Schedule:

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

Not all personal income is taxed according to this rate schedule. For example, some payments such as interest and dividends are subject to final withholding tax.

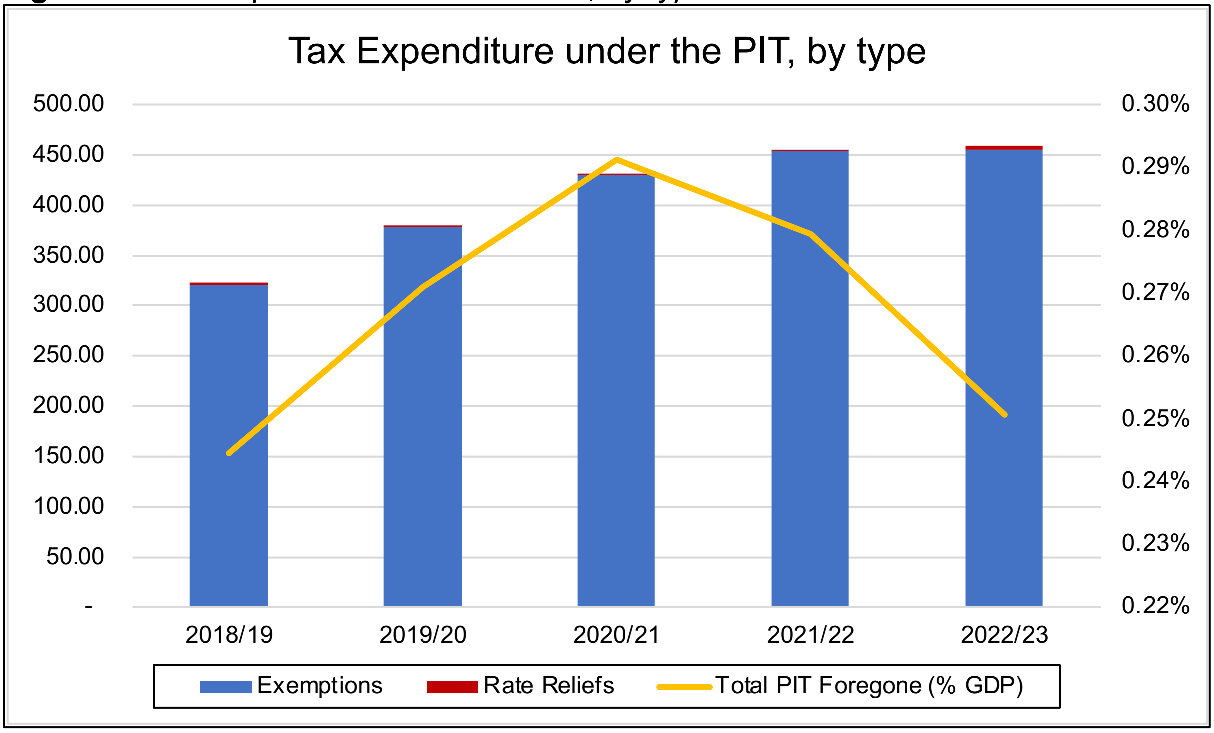
Estimates of revenue foregone from tax expenditures under the PIT, by TE type, are shown in **Table I1** and **Figure I1**, for the previous 5 financial years. Whilst revenue foregone from TEs under the PIT have grown in nominal terms over the last 5 years, from UShs 322.93bn to UShs 458.9bn (an increase of around 42%), as a % of GDP this has peaked at 0.29% in FY20/21, before falling back to around 0.25% for FY22/23. Around 99% of the foregone revenue comes from exemptions.

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

	Revenue Foregone Estimates (UShs. Bn.):				
TE Type	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Exemptions	320.29	378.13	430.62	454.63	454.90
Rate Reliefs	2.64	0.44	1.36	0.12	4.00
Total (UShs. bn.)	**322.93**	**378.57**	**431.98**	**454.75**	**458.90**
Total (% GDP)	**0.24%**	**0.27%**	**0.29%**	**0.28%**	**0.25%**
Total (% of PAYE collected)	**11.5%**	**12.5%**	**13.9%**	**12.5%**	**10.3%**

Source: Calculations from URA data.

Figure I1. *Tax Expenditure under the PIT, by type*



Source: Calculations from URA data.

Detailed estimates of revenue foregone under the PIT, at the provision level, are shown in **Table I2** below.

Table I2: *Tax Expenditures under the PIT*

Exemption:	Legal Reference	Rationale	Revenue Foregone Estimates (UShs. Bn.):				
			FY18/19	FY19/20	FY20/21	FY21/22	FY22/23*
Official employment income of a person employed in the Uganda Peoples' Defence Forces, the Uganda Police Force, the External Security Organisation, the Internal Security Organisation or the Uganda Prisons Service, other than a person employed in a civil capacity	Section 21(1)(q) ITA	To enhance low pay of security personnel	115.49	117.58	138.55	144.85	150.18
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.	2.49	5.64	7.53	7.53	7.15
The employment income, other than salary, of a person employed as a Member of Parliament.	Section 21(1)(qa) 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.	98.73	126.64	125.84	128.83	158.56
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.	7.57	7.62	6.99[5]	6.99	6.99
Exemption of private retirement schemes from employment income tax	Section 19(2)(g) ITA	To encourage long-term savings.	96.01	120.65	151.71	166.43	132.02
Education grants	Section 21(1)(g) ITA	To assist the recipient to study at a recognized educational or research institution.	Data not captured				
Non-business capital gains	Section 21(1)(k) ITA	To reduce administration or compliance costs due to limited administrative capacity and the difficulty of enforcement	Data not captured				
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				
Withholding tax exemption on Interest paid by a resident company in respect of debentures issued outside Uganda	Section 83(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				
Exemption of interest on infrastructure bonds from withholding tax	Section 21(1)(ah) ITA	To encourage lending for infrastructure development.	Data not captured				

[5] Data on lump sum payments is no longer captured accurately in the URA's eHub. Calculations from the raw data suggest that in FY20/21, the revenue foregone here is 12.67bn, whilst in FY21/22 it was 1.31bn. There are, then, no records of any lump sum payments being made since December 2021. This does not tally with the data as captured on individual company PAYE returns, however it is not possible to individually download from the latter source to obtain a complete picture for our analysis. We thus average the amounts for FY20/21 and FY21/22 and assume a constant amount for 2022/23, of 6.99bn.

Exemption from income tax of dividends paid by a publicly traded company.	Finance Act, 1993, Cap 181	To encourage investment in publicly traded stocks.	Data not captured				
An award received by a sports person as a reward for winning or participating in a sports competition.	Section 21(1)(aba) ITA	To encourage and promote the growth of professional sporting activities.	Data not captured				
Rate Reliefs:	**Legal Reference**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Rate relief for dividends paid by a resident company listed on the stock exchange to a resident shareholder.	Section 118 & 3rd Schedule Part V(2) ITA	To encourage investment by individuals in stocks.	2.64	0.44	1.36	0.12	4.00
		Total PIT Foregone (Ushs. bn.)	**322.93**	**378.57**	**431.98**	**454.75**	**458.90**
		Total PIT Foregone (% GDP)	**0.24%**	**0.27%**	**0.29%**	**0.28%**	**0.25%**

Source: Calculations from URA data and budget.go.ug.

3. Tax Expenditure under the Corporate Income Tax

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

A summary of revenue foregone under the CIT, by TE type, is provided in **Table I3**; **Figure I2** summarises total revenue foregone under CIT in nominal UShs. and % of GDP. Provision-level estimates of revenue foregone from tax expenditures under the CIT are shown in **Table I4.**

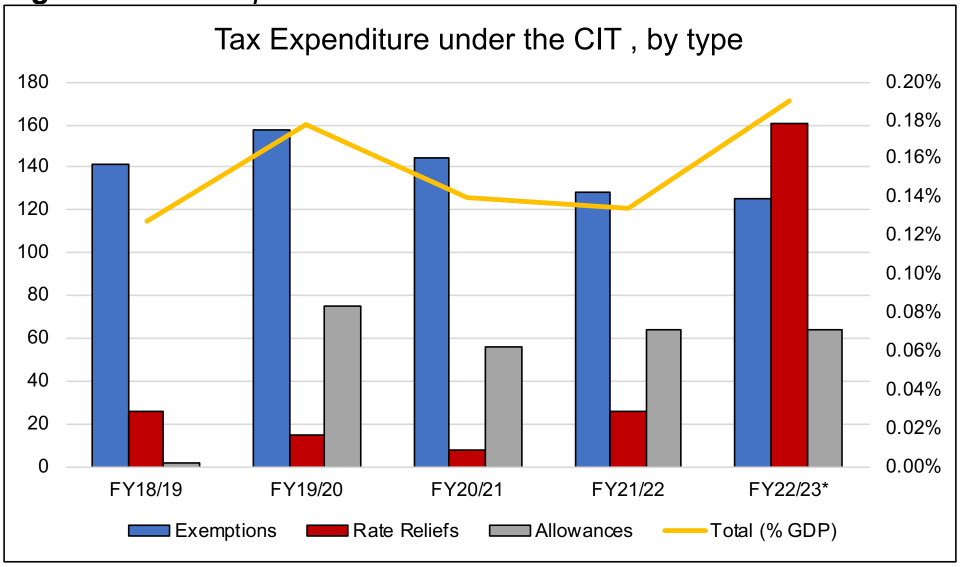
Table I3. *Tax Expenditure under the CIT, by TE type*

	Revenue Foregone Estimates (UShs. Bn.):				
TE Type	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Exemptions	141.28	157.86	144.26	128.07	125.75
Rate Reliefs	25.85	14.99	7.47	25.88	160.72
Allowances	1.36	75.36	56.24	64.19	64.15
Total (UShs. Bn)	**168.49**	**248.21**	**207.97**	**218.14**	**350.62**
Total (% GDP)	**0.13%**	**0.18%**	**0.14%**	**0.13%**	**0.19%**
Total (% of CIT collected)	**14.43%**	**19.06%**	**13.27%**	**13.33%**	**16.88%**

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

Revenue foregone from tax expenditures under the CIT has increased from UShs.168.5bn in FY18/19 to UShs.350.62bn in FY2022/23. This represents an increase of 108%. As % of GDP, revenue foregone has increased from 0.13% to 0.19% over the same period, an increase of 46%. A large increase was seen in the most recent fiscal year, due to the rate relief on Payments for the supply of technical and other services provided directly and exclusively for the EACOP project. It should be noted that it was not possible to (fully) estimate revenue foregone on a number of key provisions, such as DTAs or some strategic investor exemptions.

Figure I2. *Tax Expenditure under the CIT*



Source: Calculations from URA data.

Table I4: *Provision Level Tax Expenditures under the CIT*

Exemptions	Legal Reference	Rationale	Revenue Foregone Estimates (UShs. Bn.):				
			FY18/19	FY19/20	FY20/21	FY21/22	FY22/23*
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)(t) ITA	To encourage savings and investment.	Data not captured				
Business income of an investor compensation fund.	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				
Tax holiday from rental income tax -	Section 21(1)(ae) 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	0.00	3.77	0.00	0.00
Tax holiday from business income tax[6]	Section 21(1)(af) 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.	5.61	34.05	25.37	5.96	9.82
10-year tax holiday from business income tax for new investors who invest in manufacturing finished consumer and capital goods for export.	Section 21(1)(y)(i) ITA	To encourage investment in manufacturing finished consumer and capital goods for export. To promote industrialization and exports.	14.83	10.49	5.99	7.61	7.28*
Exemption for the income of Bujagali Hydro Power Project for 5 years up to 2022 (extended to 2027).	Section 21(1)(ac) ITA	To boost the amount of energy produced in Uganda, while supporting the transition towards cleaner energy.	108.40	100.04	90.74	89.52	80.69[7]
Income of a Savings and Credit Cooperative Society up to 30th June 2027	Section 21(1)(ad) ITA	To promote savings and the growth of cooperative societies.	12.44	13.28	18.40	24.99	27.96*
Corporation Tax holiday for the East African Crude oil pipeline company		Intended to reduce the cost of transporting crude oil to the market.	Data not captured				
Exemption from CIT of the income of the Deposit Protection Fund	Section 21(1) (wa) ITA	To maximise the resources available for deposit protection,	Data not captured				

[6] The foregone revenue referred to here accrues only from those engaged in Agro-processing, where exempt income was previously catered for under Section 21(1)(z). None of the strategic investors catered for under Section 21(1)(af) have yet filed any positive amounts of taxable income.
[7] Projection.

established under section 08 of the Financial Institutions Act, 2016.		helping to maintain confidence in the domestic banking system.S					
Allowances	**Legal Reference**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Deduction for employing persons with disabilities.	Section 22(1)(e) ITA	To encourage the employment of persons with disabilities.	Data not captured				
Initial allowance in respect of plant and machinery.	Section 27A ITA	To encourage or attract new investments in plant and machinery outside of Kampala.	0.44	66.61	50.87	58.74[8]	58.74
Initial allowance in respect of industrial buildings.	Section 27A ITA	To encourage or attract investment in new industrial buildings outside of Kampala.	0.92	8.75	5.37	5.45	5.41*[9]
Rate Reliefs	**Legal Reference**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Payment of Service Fees by mining and Petroleum Licensees. Relief from 15% to 10%.	Section 89GG and Part IX of the Third schedule 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.	17.91	11.22	6.23	23.63	27.93
Payment of Fees by a Resident Person or Branch of Non-Resident Person for direct-to-home Pay Services. Relief from 10% to 5%.	Section 86(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.	7.94	3.77	1.24	2.25	4.56
Payments for the supply of technical and other services provided directly and exclusively for the EACOP project. Relief from 15% to 5%.	EACOP Special Provisions Act (2021) 4(1)(c)	Intended to reduce the cost of transporting crude oil to the market.	-	-	-	-	128.23
		Total (UShs. Bn.)	**168.493**	**248.206**	**207.969**	**218.136**	**350.615**
		Total (% of GDP)	**0.13%**	**0.18%**	**0.14%**	**0.13%**	**0.19%**

[8] Data on initial allowances in respect of plant and machinery is no longer captured accurately in the URA's data 'eHub'. For example, just 10 entries appear for the FY2021/22, with none appearing for FY2022/23. Thus, the estimates here for FY21/22 and FY22/23 are a simple average of the values reported in FY19/20 and FY20/21.

[9] Projection, based on average of previous two FY. Data for FY22/23 is not yet available.

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

VAT Benchmark system

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

The benchmark tax unit under the VAT is the final consumer. The tax base is the value of the item sold, inclusive of any other taxes particularly customs duty and local excise duty. The rate charged is 18% and VAT is filed on a monthly basis in Uganda. There are a range of VAT exemptions, rate reliefs (all to 0%; there are no other VAT rates applicable in Uganda) and allowances under the VAT in Uganda, many of which are tax expenditures.

A summary of revenue foregone under the VAT is shown in **Table V1** and **Figure V1.** Estimates of revenue foregone at the provision level under the VAT are shown in **Tables V2** (Exemptions), **V3** (Rate reliefs) and **V4** (Allowances).

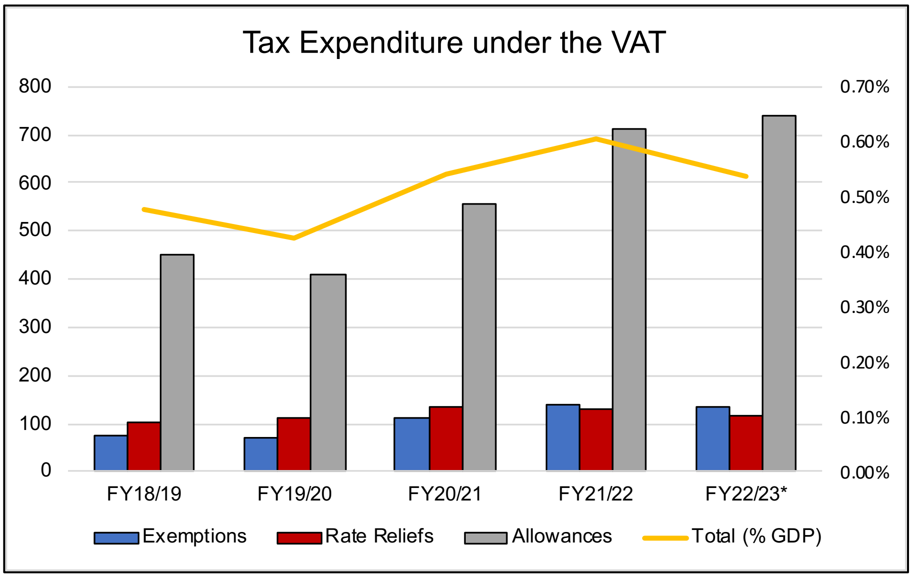
Table V1 *Tax Expenditure under the VAT, by TE type*

	Revenue Foregone Estimates (UShs. Bn.):				
TE Type	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Exemptions	76.35	72.06	114.16	140.50	133.93
Rate Reliefs	102.58	110.41	133.61	130.73	117.37
Allowances	449.3	410.78	556.93	712.07	740.90
Total (Ushs. Bn.)	**628.23**	**593.25**	**804.70**	**983.30**	**992.20**
Total (% GDP)	**0.48%**	**0.42%**	**0.54%**	**0.60%**	**0.54%**
Total (% of VAT collected)	**24.59%**	**22.74%**	**26.89%**	**32.85%**	**28.22%**

Source: Calculations from URA data.

Revenue foregone under the VAT has increased from UShs 628bn in FY18/19 to UShs 992.2bn in FY22/23. This represents an increase of 58%. As a percent of GDP, the figure has increased from 0.48% to 0.54% in the same time period, a proportional increase of just 13%. Notably, however, revenue foregone under the VAT has fallen from FY21/22 to FY22/23, by 0.06 percentage points. The primary source of foregone revenue under the VAT comes from Allowances, namely deemed VAT, which accounts for 75% of revenue foregone under VAT in the most recent financial year.

Figure V1 *Tax Expenditure under the VAT*



Source: Calculations from URA data.

Table V2: *Exemptions under the VAT*

Exemption	Legal Reference	Rationale	Revenue Foregone Estimates (UShs. Bn.):				
			2018/19	2019/20	2020/21	2021/22	2022/23*
1The sale of residential dwelling units	1(f) 2nd Schedule VAT Act.	To ensure affordability of housing	Data Unavailable				
2The supply of services, inputs, machinery, tools and implements suitable for use only in agriculture.	1(s), (sa) & (sb) 2nd Schedule VAT Act	To support agriculture; food security	11.28	14.98	13.48	16.96	19.93
3The supply of menstrual cups	1(sd) 2nd Schedule VAT Act	Social / Health purpose.	N/A	0.00	0.00	0.06	-
The supply of animal feeds and premixes + Cotton Seed Cake	1(qa) 2nd schedule (fff) VAT Act	To support agriculture; food security	17.30	22.36	43.73	60.86	61.06
The supply of batteries and lanterns.	1(sc) 2nd Schedule VAT Act	To support the transition towards cleaner energy.	0.02	0.01	0.08	0.05	0.16
The supply of solar devices and equipment	1(t) 2nd Schedule VAT Act	Promoting development and generation of solar power.	29.23	14.88	13.29	14.63	14.17
7The supply of lifejackets, lifesaving gear, headgear and speed governors	1(x) 2nd Schedule VAT Act	To prevent accidents and reduce pressure on healthcare.	1.39	1.58	2.35	1.62	5.48
8Supplies to contractors and Subcontractors in energy projects	1(dda) 2nd Schedule VAT Act	Promoting energy security	14.25	4.40	1.82	3.90	0.08
9 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(mm), (nn), (oo) 2nd Schedule VAT Act	Export promotion & job creation.	Data Unavailable				
10 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(pp) 2nd Schedule VAT Act	Export promotion & job creation.	Data Unavailable				
11 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 fittings which are not available on the local market to a hotel or tourism facility developer	1(qq) 2nd Schedule VAT Act	To support the tourism sector.	Data Unavailable				

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(rr) 2nd Schedule VAT Act	To ensure affordable access to healthcare.	Data Unavailable				
The supply of movie production.	1(ss) 2nd Schedule VAT Act	To support the growing domestic film industry.	Data Unavailable				
The supply of fabrics and garments made in Uganda.	1(uu) 2nd Schedule VAT Act	To support job and wealth creation in the local textiles industry.	2.82	5.42	21.37	12.98	5.52
Processing of hides and skins + Exempting the supply of leather products wholly made in Uganda -	1(yy) 2nd Schedule VAT Act	To support job and wealth creation in the local textiles industry.	0.06	0.13	0.27	0.16	0.46
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(zz) 2nd Schedule VAT Act	To ensure affordable access to education / vocational training institutes.	Data Unavailable				
The supply of woodworking machines; welding machines and sewing machines	1(ccc) & (ddd) 2nd Schedule VAT Act	To allow the domestic furniture and textile sectors to become more competitive.	N/A	8.30	4.64	6.47	9.32
The Supply of Liquefied Gas	2nd sch. (hhhb) VAT Act	To support availability of affordable, cleaner cooking fuel	N/A	N/A	7.52	15.98	16.42
The Supply of Processed Milk	2nd sch. (jjj) VAT Act	To support value addition in the dairy industry in Uganda.	N/A	N/A	0.32	0.60	0.67
Covid Reliefs	2nd sch. (q),(viii) & (qaa) VAT Act	To provide relief on the supply of goods deemed critical in the fight against covid-19.	N/A	N/A	5.28	6.23	0.65
TOTAL TES FROM VAT EXEMPTIONS (UGX bn.)			**76.35**	**72.06**	**114.16**	**140.50**	**133.93**
TOTAL TES FROM VAT EXEMPTIONS (% GDP)			**0.058%**	**0.052%**	**0.077%**	**0.086%**	**0.073%**

Source: Calculations from URA data.

Table V3: *Rate Reliefs under the VAT*

Rate Reliefs	**Legal Reference**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Relief for the supply of educational materials	**1(d) 3rd Schedule VAT Act**	To support affordable education materials.	26.91	24.39	37.29	45.52	46.15
Relief for agricultural inputs.	1(e) 3rd Schedule VAT Act	To support agriculture; food security.	16.26	13.39	16.16	15.47	10.29

Relief for the supply of sanitary towels.	1(j) 3rd Schedule VAT Act	To support affordable access to vital products for women.	18.88	17.35	16.49	11.59	5.75
Relief for cereals.	1(l) 3rd Schedule VAT Act	To support the domestic agricultural sector and strengthen food security.	15.21	19.39	23.83	15.92	10.41
Relief for handling services.	1(m) 3rd Schedule VAT Act	To support affordable access to vital medication.	25.32	35.89	39.84	42.23	44.77
TOTAL FROM VAT RATE RELIEFS (UGX bn.)			**102.58**	**110.41**	**133.61**	**130.73**	**117.37**
TOTAL FROM VAT RATE RELIEFS (% GDP)			0.078%	0.079%	0.090%	0.080%	0.064%

Source: Calculations from URA data.

Table V4: *Allowances under the VAT*

Allowances	**Legal Reference**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Deemed VAT payment on supplies by a contractor to a licensee under mining or petroleum operations.	**Section 24(5) VAT Act**	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.	449.30	410.78	556.93	712.07	740.90
Deemed VAT on supplies to a contractor executing an aid funded project.	**Section 24(6) VAT Act**	To encourage donor coordination and support inward contributions of aid, while reducing the financial burden of the recipient and donor.					
Deemed VAT on supplies by contractors executing aid funded projects to a government ministry, department or agency.	**Section 24(6) VAT Act**	To encourage donor coordination and support inward contributions of aid, while reducing the financial burden of the recipient, donor and sub-contractors.					
TOTAL FROM VAT ALLOWANCES (UGX bn.)			**449.30**	**410.78**	**556.93**	**712.07**	**740.90**
TOTAL FROM VAT ALLOWANCES (% GDP)			**0.34%**	**0.29%**	**0.38%**	**0.44%**	**0.40%**

Source: Calculations from URA data.

5. Tax Expenditure under Customs Duty

Benchmark Tax System for Customs Duty

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

For Customs purposes, the East African Community (EAC) is governed by one Customs law – the East African Community Customs Management Act (EACCMA). The EAC countries (Burundi, Democratic Republic of the Congo, Kenya, Rwanda, South Sudan, Tanzania & Uganda) operate a harmonised trade policy via the Common External Tariff (CET) and import quotas on products entering the region from third-party countries. The EAC therefore constitutes a single customs territory for the member states where duties and other restrictive trade regulations are eliminated for most trade between the parties.

Customs duty is levied on the Customs, Insurance and Freight (CIF) value of imported goods. The benchmark rates (0%, 10%, 25% or 35%) are those outlined in the EAC Tariff Handbook. Thus, any preferential tariffs e.g., through exemptions in the 5th Schedule EACCMA, stays of application (Articles 12 (3) and 39(c) of the Protocol on the Establishment of the East African Community Customs Union) or duty remission (section 140 of the EACCMA), constitute tax expenditures, where those imports originate outside of the EAC. Duty-free treatment to all products originating from EAC member States, and an 80% reduction in the EAC CET rates to goods originating in other COMESA countries, also constitute the benchmark. Duty relief schemes of Temporary importation, Duty drawback, Manufacturing under Bond, Bonded Warehousing and Export Processing Zones or Free Zones are part of the benchmark tax system for Customs. All items and activities listed under Part A and B of the EACCMA 5th Schedule, aside from those listed in **Table C1 below**. Finally, some exemptions are stipulated in international conventions. Exemptions arising from the following international agreements are part of the benchmark for Customs duties: The Kyoto Convention (1973, 1999); The Vienna Conventions (1961,1963); The Chicago Convention (1944), The Florence Agreement (1950), The Nairobi Protocol (1976)

Table C1 provides a summary of revenue foregone from tax expenditures under Customs, by type. This is illustrated in **Figure C1**. Table C2 shows a detailed breakdown of revenue foregone at the provision level.

Total revenue foregone under customs duty has increase from UShs 560bn in FY18/19 to UShs 794bn in FY22/23. This represents an increase of 42% in nominal terms. As a percentage of GDP, however, revenue foregone under customs has risen only modestly over the same period, from 0.42% to 0.43%. Compared to the previous financial year (2021/22), revenue foregone has decreased by 0.03% of GDP (although increased in nominal terms from UShs 747bn to UShs 794bn). The majority of revenue foregone under customs duty (93% in FY22/23) is from rate reliefs offered via the Stay of Application and Duty Remission schemes.

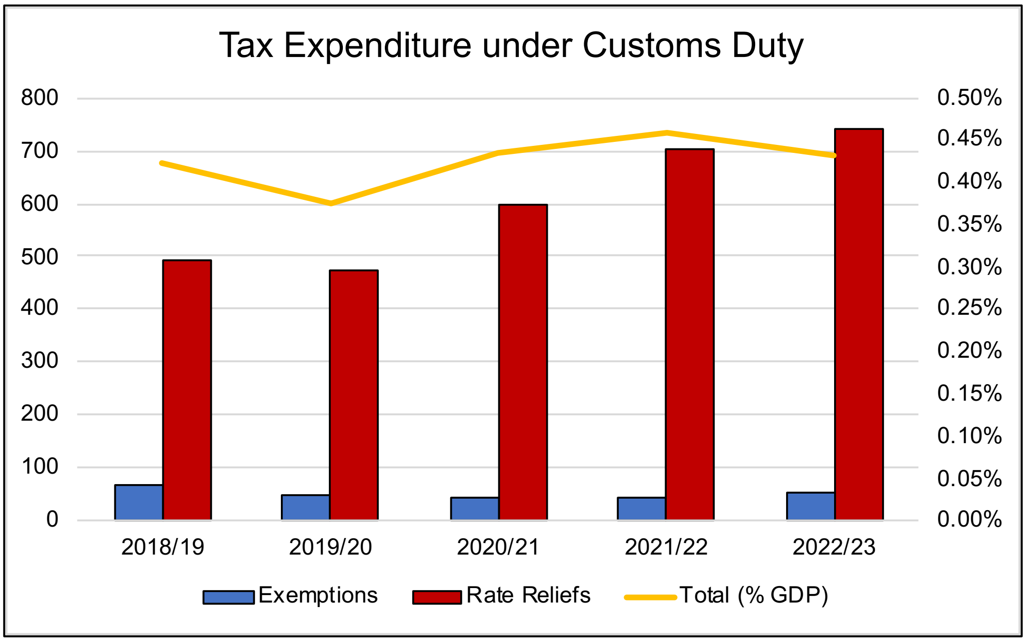
The rate reliefs offered via the stay of application and duty remission scheme are too numerous to list separately here. However, in Appendix 1, we break down revenue foregone from stays of application by CET Chapter and in Appendix 2, those from the Duty Remission scheme.

***Table C1**: Tax Expenditure under Customs, by TE Type*

	Revenue Foregone (Ushs. Bn)				
TE Type	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Exemptions	66.09	48.01	43.65	42.95	54.51
Rate Reliefs	494.23	474.47	599.74	704.27	739.24
Total (UShs. bn.)	**560.32**	**522.48**	**643.39**	**747.21**	**793.74**
Total (% GDP)	**0.42%**	**0.37%**	**0.43%**	**0.46%**	**0.43%**
Total (% of Customs collected)	**8.14%**	**8.10%**	**8.57%**	**9.96%**	**8.59%**

Source: Calculations from URA data.

***Figure C1**: Tax Expenditure under Customs, by TE Type*



Source: Calculations from URA data.

***Table C1**. Exemptions and Rate Reliefs under Customs Duty*

Exemptions	**Legal Basis**	**Rationale**	**Revenue Foregone Estimates (UShs. Bn.):**				
			FY18/19	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Gas Cylinders	EACCMA 5th Schedule PART B,	Supporting transition away from charcoal as main source of energy.	0.202	0.018	0.062	0.042	0.111
Diapers, Urine bags, Hygienic bags	EACCMA 5th Schedule PART B, Para 13	Not available locally: Medical supplies / Social Purpose.	9.614	9.547	6.983	4.766	5.642
Hotel Equipment	EACCMA 5th Schedule PART B, Para 21	Support to the tourism sector.	6.173	7.762	3.555	4.367	6.078
Refrigerated Trucks	EACCMA 5th Schedule PART B, Para 22	Not available locally; for supporting transportation of food / food security.	0.882	1.295	1.865	1.617	1.885
Speed Governors	EACCMA 5th Schedule PART B, Para 23	Not available locally, safety/social purpose.	0.000	0.000	0.001	0.006	0.02
Solar Equipment	EACCMA 5th Schedule PART B, Para 26	Promoting development and generation of solar power.	45.692	21.768	19.039	20.917	14.141
Garbage Disposal Trucks	EACCMA 5th Schedule PART B, Para 29	Promoting waste collection and urban planning.	0.744	0.011	0.026	0.022	0.035
Inputs for Oil, Gas & Mineral Exploration	EACCMA 5th Schedule PART B, Para 30	Promoting inbound investment into the nascent oil and gas sector	1.926	6.808	11.612	9.605	25.395
Tourist Vehicles	EACCMA 5th Schedule PART B, Para 32	Support to the tourism sector.	0.635	0.699	0.421	0.775	1.078
Security Equipment	EACCMA 5th Schedule PART B, Para 35	Some equipment not available locally; important for national defence.	0.026	0.048	0.048	0.057	0.107
Battery Operated Vehicles	EACCMA 5th Schedule PART B, Para 36	Supporting transition to cleaner energy.	0.159	0.011	0.011	0.004	0.000
Mortuary Freezers	EACCMA 5th Schedule PART B, Para 37	Essential equipment used in healthcare sector.	0.038	0.042	0.023	0.768	0.014
		A Total Exemptions (UShs. Bn.):	**66.091**	**48.009**	**43.646**	**42.946**	**54.506**
Rate Reliefs	**Legal Basis**	**Rationale**	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Stays of Application	EAC Gazettes (various)	Various	276.003	276.581	345.437	346.261	423.450
Duty Remission	EAC Gazettes (various)	Lower the cost of inputs for manufacture.	218.224	197.893	254.307	358.004	315.785
		B Total Rate Reliefs (UShs. Bn.):	**494.227**	**474.474**	**599.744**	**704.265**	**739.235**
		(A+B) Total Revenue Foregone under Customs (UShs. Bn.):	**560.318**	**522.483**	**643.39**	**747.211**	**793.741**
		Total Revenue Foregone under Customs (% GDP.):	**0.42%**	**0.37%**	**0.43%**	**0.46%**	**0.43%**

Source: Calculations from URA data. Note that the estimates of revenue foregone under Rate Reliefs include the 'knock-on' effect onto VAT, as customs duty forms a part of the VAT base. Previous iterations of the TE report included this 'knock-on' effect as a line under VAT revenue foregone. * FY22/23 are projections based on data available at the time of writing.

6. Tax Expenditure under Excise Duty

The benchmark Tax System for Excise Duty can be summarised as follows.

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

Thus, any deviations from the benchmark structure represent tax expenditure. Six TEs were identified under the Excise Duty.

Beers

The benchmark rate for beer is the *Beer Produced from Barley Grown and Malted in Uganda*, which is charged LED at the higher of 30% or UShs950/litre. The tax expenditure is, then, the difference between this rate and the rate charged on *Beer whose local raw material content, excluding water, is at least 75% by weight of its constituent*, which is currently charged the preferential rate of the higher of 30% of 650UShs /litre.

Spirits

The 'benchmark' excise duty rate for spirits in FY22/23 is 100% or UGX 2,500 per litre. Deviations from this are calculated as tax expenditures. There are two separate deviations, namely:

(i) the rate of zero outlined in 3(a): Un-denatured spirits made from locally produced raw materials used in the production of disinfectants and sanitizers for the prevention of the spread of COVID-19, &
(ii) the rate of the higher of 80% or 1,700/litre outlined in 3(c), applied to ready to drink spirits.

Wines

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

International Calls

Incoming international calls from the Republic of Kenya, the Republic of Rwanda and the Republic of South Sudan are charged Nil duty while other incoming international calls are charged USD 0.09 per minute. This is the One Network Area (ONA) agreement. It has been in place in Uganda since January 2015.

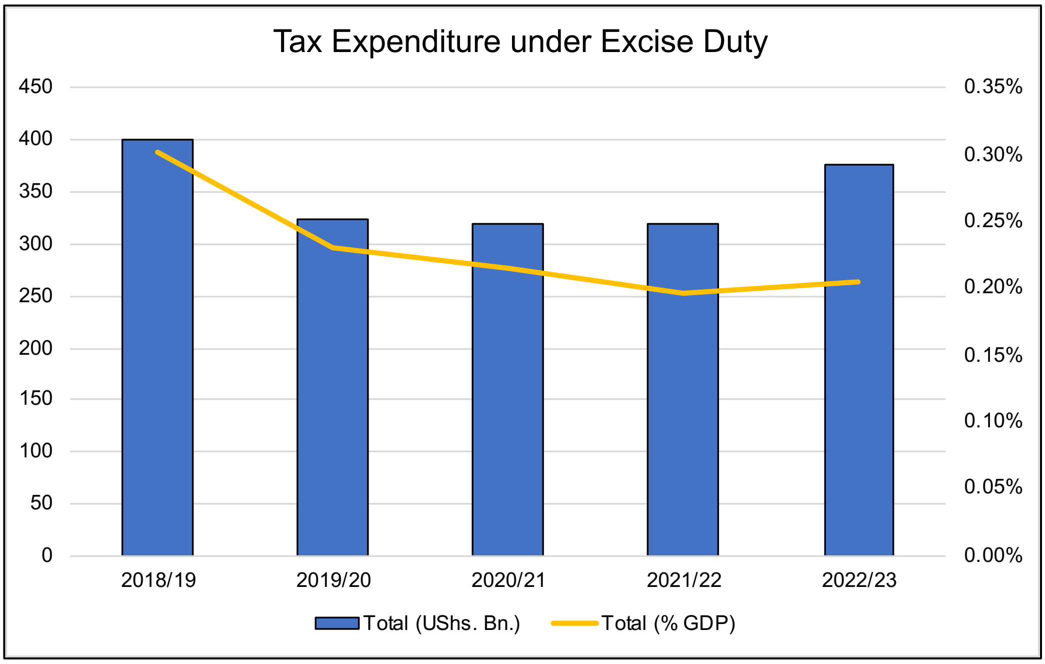
Furniture

The excise duty act levies a rate of Nil on and '*Specialised hospital furniture'* and '*Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda'*, whilst 20% is levied on '*Other furniture*'. There is tax expenditure on '*Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda'*, whilst the Nil rate on Specialised hospital furniture is considered as a part of the Benchmark Tax System.

Revenue foregone from these six tax expenditures (all rate reliefs) is summarised in **Table E1** and **Figure E1.**

Revenue foregone under excise duty had been on a downward trend since FY18/19, falling in both nominal terms and as a % of GDP. However, in the most recent financial year, it rose modestly. The downward trend is mostly a result of lower revenue foregone due to rate reliefs on beer and spirits.

Figure E1 *Tax Expenditure under Excise Duty*



Source: Calculations from URA data.

Table E1 *Tax Expenditures under Excise Duty*

Rate Relief:	Legal Basis	Rationale	Revenue Foregone Estimates (UShs. Bn.):				
			FY18/19	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
1. Strategic investment Projects	LED Act, 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				
2. Beer	LED Act, Sch.2 Part 1 Section 2	To encourage use of LRM content	53.08	47.31	46.65	38.38	40.27
3. Spirits	LED Act, Sch.2 Part 1 Section 3	To support use of LRM content in production of spirits; To reduce cost of local manufacture of hand sanitiser (Social/health purpose).	133.53	64.67	91.31	102.25	132.54
4. Wine	LED Act, Sch.2 Part 1 Section 4	To encourage use of LRM content.	1.80	2.05	6.78	4.29	1.46
5. Int'l calls	LED Act, Sch.2 Part 1 Section 13(g)	To increase affordability of phone calls to neighbouring countries under the ONA agreement.	210.99	208.88	175.64	174.61	202.02
6. Furniture	LED Act, Sch.2 Part 1 Section 17 (a) & (b)	Encourage LRM content and provide relief to hospitals importing specialised furniture.	Data not captured				
TOTAL (UShs bn.) (inc. VAT):			**399.41**	**322.91**	**320.39**	**319.54**	**376.29**
Total (% GDP)			**0.30%**	**0.23%**	**0.22%**	**0.20%**	**0.21%**
Total (% of LED collected)			**30.33%**	**25.50%**	**21.65%**	**21.59%**	**19.59%**

Source: Calculations from URA data. NB includes knock-on effects to VAT; *Denotes projection.

Appendix 1: Stays of Application, by CET Chapter

Chapter:	Revenue Foregone Estimates (UShs. Bn.):				
	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23*
10 - Cereals	172.493	179.836	193.569	203.697	272.716
11- Products of milling industry; malt; starches; inulin; wheat gluten	-	-	-	-	0.406
20- Preparations of vegetables, fruit, nuts, other parts of plants	0.489	0.233	0.210	0.034	0.110
21- Miscellaneous edible preparations	0.393	0.326	0.424	0.266	0.209
25- Salt; sulphur; earths and stone; plastering materials, lime and cement	0.016	0.027	0.221	0.107	-
27- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0.134	0.127	0.121	0.197	-
32- Tanning or dyeing extracts; tannins & their derivatives; dyes, pigments & other colouring matter; paints and varnishes; putty & other mastics; inks	-	-	-	-	0.235
33- Essential oils and resinoids; perfumery, cosmetic or toilet preparations	21.914	18.112	23.504	25.789	36.294
34- Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, “dental waxes” and dental preparations with a basis of plaster	0.707	0.833	1.706	3.664	0.320
35- Albuminoidal substances; modified starches; glues; enzymes	0.042	0.029	0.017	0.190	0.349
36- Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	-	-	0.000	0.000	-
39- Plastics and articles thereof	4.641	5.495	4.825	6.277	8.328
40- Rubber and articles thereof	0.029	0.019	0.092	0.061	0.116
44- Wood and articles of wood; wood charcoal	-	-	0.077	0.053	0.307
48- Paper and paperboard; articles of paper pulp, of paper or of paperboard	15.092	13.834	13.936	13.281	21.106
52- Cotton	-	0.004	-	0.008	0.009
54- Man-made filaments; strip and the like of man-made textile materials	0.337	0.457	0.786	0.876	0.662
55- Man-made staple fibres	3.967	3.419	5.514	5.035	2.348
56- Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1.135	0.748	0.796	1.023	0.034
58- Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	-	-	-	-	0.043
59- Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	-	-	-	-	0.235
61- Articles of apparel and clothing accessories, knitted or crocheted	0.001	0.004	0.002	0.000	0.001
62- Articles of apparel and clothing accessories, not knitted or crocheted	-	-	-	-	0.028
63- Other made up textile articles; sets; worn clothing and worn textile articles; rags	-	-	-	-	12.055
68- Articles of stone, plaster, cement, asbestos, mica or similar materials	0.001	0.138	0.026	0.111	0.166
70- Glass and glassware	0.017	0.026	0.019	0.073	0.022
72- Iron and Steel	1.152	0.383	2.275	1.435	2.030
73- Articles of iron or steel	2.062	2.612	2.477	3.530	4.387
76- Aluminium and articles thereof	-	-	-	-	0.448
82- Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	0.031	0.021	0.041	0.025	0.068
83- Miscellaneous articles of base metal	0.001	0.035	0.038	0.176	0.411
84- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.209	0.247	0.131	0.146	0.238
85- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	0.429	4.175	4.977	5.770	6.319

image and sound recorders and reproducers, and parts and accessories of such articles					
87- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	51.046	47.436	90.256	76.572	53.451
90- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	0.017	-	0.000	-	-
96- Miscellaneous manufactured articles	0.060	0.243	0.066	0.169	-
Total Revenue Foregone: Stays of Application	**276.41**	**278.82**	**346.11**	**348.57**	**423.45**

Appendix 2: Duty Remissions, by CET Chapter

Chapter:	Revenue Foregone Estimates (UShs. Bn.):				
	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23*
2-Meat and edible meat offal					0.074
11- Products of the milling industry; malt; starches; inulin; wheat gluten			0.126	0.394	0.550
17 - Sugars and sugar confectionery	153.232	134.128	180.434	239.751	123.193
20- Preparations of vegetables, fruit, nuts or other parts of plants		0.020			
25- Salt; sulphur; earths and stone; plastering materials, lime and cement	0.000	0.002		0.001	0.002
27- Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	3.378	0.000			
28 -Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	0.001	0.001	0.022	0.021	0.004
32- Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks			0.002		
34- Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, “dental waxes” and dental preparations with a basis of plaster		0.000		0.080	0.037
35- Albuminoidal substances; modified starches; glues; enzymes	0.050	0.051	0.060	0.056	0.367
37 - Photographic or cinematographic goods				0.003	
38- Miscellaneous chemical products	0.001	0.001	0.262	0.003	0.070
39- Plastics and articles thereof	3.504	4.105	2.942	6.262	5.176
40- Rubber and articles thereof	0.524	0.332	0.305	0.451	0.704
44- Wood and articles of wood; wood charcoal			0.004	0.076	
48- Paper and paperboard; articles of paper pulp, of paper or of paperboard	16.868	17.428	7.677	34.140	37.044
49- Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	0.285	0.286	0.172	0.136	0.083
51 - Wool, fine or coarse animal hair; horsehair yarn and woven fabric	0.007				
52- Cotton		0.086			0.039
54- Man-made filaments; strip and the like of man-made textile materials	4.279	3.931	1.751	4.412	8.417
55- Man-made staple fibres	1.550	0.514		0.042	6.109
56- Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	0.035	0.047	0.102	0.033	1.433
58- Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	0.063	0.078	0.072	0.103	0.101
59- Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	0.020	0.299		0.074	0.086
60 - Knitted or crocheted fabrics	0.520	0.270		0.304	0.116
62- Articles of apparel and clothing accessories, not knitted or crocheted	0.001	0.015		0.011	
63- Other made-up textile articles; sets; worn clothing and worn textile articles; rags			0.002		0.182
64- Footwear, gaiters and the like; parts of such articles	0.033	0.040	0.464	0.741	2.989
70- Glass and glassware					0.000
72- Iron and Steel	0.180	0.452	0.451	0.232	57.174
73- Articles of iron or steel	0.012	0.015	3.981	0.023	0.206
74- Copper and articles thereof		0.016	0.013	0.120	0.052
75- Nickel and articles thereof	0.033	0.002	0.000		
76- Aluminium and articles thereof	0.142	0.029	0.257	0.416	0.033
78- Lead and articles thereof	0.001	0.002	0.000		0.000

79- Zinc and articles thereof			0.013		
82- Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal					0.000
83- Miscellaneous articles of base metal	0.005	0.013	0.022	0.023	0.019
84- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.008	0.046	0.114	0.006	0.003
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	0.404	0.480	0.528	0.256	0.548
87- Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	33.083	35.096	54.528	69.831	70.936
94- Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included illuminated signs, illuminated name-plates and the like; prefabricated buildings	0.002		0.003		
96- Miscellaneous manufactured articles	0.002	0.108			0.036
Total Revenue Foregone: Duty Remissions	**218.224**	**197.893**	**254.307**	**358.004**	**315.785**

Appendix 3. Additional Revenue foregone from Aid-Funded projects

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

Table A.1 *Aid-Funded Projects*

Aid-Funded Projects	**FY18/19**	**FY19/20**	**FY20/21**	**FY21/22**	**FY22/23***
Customs Exemptions	1,000.21	505.85	444.84	307.17	258.48
VAT	980.21	495.73	435.95	301.03	253.31
Total (UGX bn)	1,980.42	1,001.58	880.79	608.19	511.80
Total (% GDP)	1.50%	0.72%	0.59%	0.37%	0.28%

*Source: Estimations from URA. *Denotes Projection*

We consider here all duty-free imports under CPC 461 and 462. We apply an effective customs duty rate of 22.5% and VAT of 18% to the import value of these goods.

The high estimate in FY18/19 can be attributed to capital imports for use in hydropower projects; it accounts for around half of the revenue foregone here. Otherwise, it is clear that revenue foregone from aid-funded projects has been on a downward trajectory, falling by over half since FY19/20.

Appendix 4. Projection of Revenue Foregone FY23/24

This section makes projections for the value of revenue foregone in FY23/24. These projections are based on average growth rates of revenue foregone under each tax head between FY18/19 and FY22/23. These growth rates are assumed as a 'central estimate' of revenue foregone. Two other scenarios are projected, namely high and low growth, where the growth rates are assumed to be 50% higher and lower than the above rates, respectively. The estimated growth rates are shown in **Table P.1.**

Table P.1 *Estimated growth rates of revenue foregone for FY23/24*

Tax Head	Low-Growth Estimate	Central Estimate	High-Growth Estimate
Income Tax	7.70%	15.40%	23.11%
VAT	6.65%	13.29%	19.94%
Customs	13.64%	9.10%	4.55%
Excise Duty	-0.91%	-0.61%	-0.30%

Table P.1 *Projected revenue foregone in FY23/24*

Tax Head	FY23/24 (Low Growth Estimate)	FY23/24 (Central Estimate)	FY23/24 (High Growth Estimate)
Income Tax	803.76	844.48	885.19
VAT	1,112.16	1,232.12	1,352.09
Customs	854.88	916.02	977.15
Excise Duty	401.30	426.31	451.32
Total (UGX bn.)	**3172.10**	**3418.93**	**3665.75**
Total (% GDP)	**1.53%**	**1.65%**	**1.77%**

These estimates do not take into account the effect of any new additions or removals to the TE repository. They might, thus over- or under-estimate the actual figures for revenue foregone depending on whether new TEs are granted in the tax amendments for FY23/24, or some existing TEs are removed.

The Central estimate suggests that revenue foregone from Tax Expenditure will be in the region of **UGX 3,418.93bn in FY23/24**, or around **1.65% of GDP**.

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