Tax Incentives have been used over the years with the belief that they lead to the attainment of public policy objectives that would ordinarily be accomplished through public (revenue) spending or as an avenue of encouraging activities that will lead to setting up of investments especially FDI that would provide jobs and contribute to future revenues.

We recognise that Foreign Direct Investment (FDI) is critical in fostering economic growth and development. We are aware that tax incentives can promote investments in the country if they are transparent and equitably accessed, awarded and managed. However, tax incentives when mismanaged can distort internal market dynamics and breed corruption.

An analysis conducted by the Tax Justice Alliance suggests that developing countries do not need to grant tax incentives to attract Foreign Direct Investment (FDI), because the decision to invest by genuine multinationals is largely based on other parameters such as market potential and energy; presence of adequate infrastructure; and the country’s overall investment climate. This has also been confirmed numerous times by IMF and the World Bank, which state that countries that mismanaged can distort internal market dynamics and breed corruption.

Our concerns regarding tax incentives revolve around; the lack of public disclosure of information on how the incentives are awarded particularly to corporations and individuals; and also the failure by government to routinely review the impact or benefits that are accruing from the respective incentives.

It must be noted that where the tax laws do not provide for an enterprise to deduct or access preferential tax-rates, the government then has to bear and make payments on behalf of the enterprise; in this case it is the citizens that bear that cost.

**Tax Revenues Forgone!**

Uganda’s current Tax-to-GDP ratio has stagnated between 12.5% to 13% over the past 5 years, which accounts for an average annual tax generation of between 11.36 and 11.82 trillion shillings. In the financial year 2015/16, the revenue forgone in the form of tax holidays was UGX 999.8 billion that constituted 1.1% of GDP. Such revenues foregone each year collectively are a lot of money. Furthermore, in 2016, MPs exempted themselves from paying taxes on their allowances. This alone led to a loss of more than 53 billion annually. A recent development where saving and Credit institutions (SACCOs) are now exempted from paying tax has seen the revenue foregone increase from Ushs. 553.56 Billion to almost Ushgs. 1,639.89. Tax collections for the financial year now ending were projected to amount to Shs 12,882.3 billion, against a budgeted figure of Shs. 13,259.32, reflecting a shortfall of Shs. 377.02 billion. It is possible that part of this deficit could be covered with a surplus by the foregone revenues in form of tax incentives.

**Discretionary Powers!**

A number of legal and policy frameworks give discretionary powers to individuals to award tax exemptions. For example, Section 77(1)-(2) of the Public Finance Management Act (PFMA), 2015 accords the Minister to award tax exemptions and thereafter report and justify the award to parliament. This limits parliament exercising its oversight role before exemptions and incentives are awarded. Retrospective reviews such as these weaken parliamentary supervision and breeds impunity in executive public mandates.

**Our Recommendations!**

1. Parliament, with the assistance of the Auditor General, needs to conduct routine cost-benefit and opportunity-cost analyses of all tax exemptions, incentives and holidays that have so far been awarded and the subsequent ones to justify their continued existence. We are urging Government to critically evaluate tax incentives so far awarded to critically evaluate tax incentives so far awarded to corporations and individuals; and also the failure by government to routinely review the impact or benefits that are accruing from the respective incentives.

2. Government should put in place a comprehensive policy framework which lays down principles, criteria and policy objectives for awarding or continuation of a tax incentive/holiday that is in place.

3. Government should establish a multi-stakeholder panel including policy makers and civil society to establish the criteria for enterprises to qualify for tax incentives and evaluate the relevance of awarded tax incentives. The panel should report to parliament.

4. Government should put in place transparent processes and procedures for managing and granting tax incentives. This will promote transparency and deter political patronage.

5. Section 77(1)-(2) of the Public Finance Management Act (PFMA) should be amended to allow parliament review tax incentives and have them justified by the minister before they are awarded.

6. Given the deepening integration within the East African Community, it is necessary to handle the matter of incentives at a regional level. The intra-regional competition for Foreign Direct Investment is only fuelling an unhealthy “Race to the Bottom” in the region.

7. Uganda Revenue Authority should have an express mandate to audit tax incentives awarded.

We the undersigned civil society organizations, commend parliament for the decision to reduce the duration of the Bujagali power project tax exemption from 15 to 5 years subject to review. Therefore, we are urging Government to critically evaluate tax incentives so far awarded to corporations and individuals to award tax exemptions.

FOR GOD AND OUR COUNTRY

For more information, please contact

Secretariat: Tax Justice Alliance
SEATINI-Uganda
PO BOX 3138 Kampala,
Tel: +256-41-45-0856
Email: seatini@infocom.co.ug
Web: www.seatiniuganda.org

1. Southern and Eastern Africa, Trade Information and Negotiations Institute (SEATINI) Uganda;
2. Oxfam in Uganda;
3. Civil Society Debt Advocacy Group (CSBAG);
4. Uganda Debt Network (UDN);
5. Action Aid Uganda (AAIU);
6. Citizens Watch-Information Technology (CEW-IT);
7. Women and Girl Child Development Association (WEGCDA);
8. Water Governance Institute (WGI);
9. Africa Freedom of Information Centre (AFIC);
10. Inter University Tax Justice Forum (IUTJF);
11. Initiative for Social and Economic Rights (ISER)