NEW TAX

All cash withdrawals from banks could be subjected to a 0.5% tax. Should the proposal be adopted?

EXPERTS SPEAK OUT ON TAXING BANK CASH WITHDRAWALS

By Ali Twaha and Benon Ojiambo

The Government is considering the possibility of introducing a 0.5% tax on all cash withdrawal channels next the fiscal year 2020/21, a move it said would speed up Uganda's journey to a cashless economy.

On the flip side, critics said the decision is likely to deepen the tax burden instead of broadening it, because in most cases money banked is already taxed.

However, the proposed tax will not apply to individuals opting to transact using emerging payment platforms such as Momo Pay and Airtel Money Pay to pay for goods and services.

Technocrats at the finance ministry are mulling the move following closed-door discussions since last year with officials from Uganda Communications Commission (UCC), Uganda Revenue Authority (URA) and leading telecom operators.

The introduction of the 0.5% tax on all mobile money withdrawals in the financial year 2018/2019 triggered a rocky relationship between bankers and telecom players.

As some mobile money customers returned to dealing in cash, those with large cash transactions preferred using banks and their agents as opposed to mobile money platforms.

According to telecom players, the 0.5% tax was discriminatory, which they argued put pressure on the dealing with small cash transactions.

The Deputy Secretary to the Treasury, Patrick Ocailap, confirmed writing to Bank of Uganda Governor Emmanuel Tumusiime Mutebile.

Cash withdrawals from banks, including those over the counter could soon be subject to a tax

"We are exploring the use of electronic fund transfers (EFT), e-financing, and a cashless economy," he said.

"Once we get a response from the central bank in consultation with Uganda Bankers Association (UBA), we shall see if it is a policy measure that can be taken," he added.

"It was proposed that we explore the taxation of cash withdrawals in commercial banks. Currently, mobile money withdrawals are subjected to 0.5% excise duty, but over the counter, agency and automated teller machines (ATMs) withdrawals in commercial banks are not subjected to the same tax."

Financial experts believe that the shift towards electronic transactions would lead to greater transparency and bring a larger number of people under the taxation ambit.

While the final decision is yet to be made, the Government is clear: more money is needed to run the economy.

Agency banking, internet banking and mobile money have revolutionalised the movement of money and are likely to transform Uganda into a cashless economy.

Uganda Bankers Association (UBA) says the volume of transactions through shared agent banking have grown to a monthly average of sh2.2 trillion, with more than 12,154 agents active as at the end of 2019.

The channels continue to be a key driver in financial inclusion, providing a bridge between banks and customers across the country.

Wilbrod Owor, the executive director of UBA, said they are consulting stakeholders and that "we shall respond and address ourselves to the central bank"

The new tax will hit salaried employees hard as this will be another indirect tax that would apply to their incomes monthly.

Employment income consists of salaries, allowances and benefits in kind. Income tax on employment income (commonly known as Pay As You Earn or PAYE) is deducted by the employer from the employment income of every qualifying employee on a monthly basis and remitted to URA.

According to data from the finance ministry, there are about 629,962 Ugandans in formal jobs who remit PAYE.

Close to nine million are reported to be in the informal sector, a sector is largely difficult to tax, according to officials.

John Walugembe, the executive director of Federation of Small and Medium Entreprises, said the Government should focus on creating more jobs to widen the tax basket.

"We have a narrow tax base of people who are known and pay taxes, meaning you are taxing the same people over and over again," Walugembe said.

"I think this tax is not in good faith because some private companies are pushing the Government to put pressure on more companies," he added.

Jane Nalunga, the executive director Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI), said there is need to reorganise the entire economy to tap into the emerging e-commerce platforms.

"The infrastructure and policies to support e-commerce are not yet in place. We need financial policies that will grow the economy rather than putting in place punitive measures that will deter people from using banking services," she said.

"The proposal/move by government to tax cash withdrawals will not help the economy, the people and the banks themselves," she added.

IS GOVERNMENT STRUGGLING?

Stephen Kaboyo, the managing director at Alpha Capital Partners, said the idea of on introducing a banking transaction tax comes at a time when the Government is really struggling to find new revenue sources to support its expenditure.

"Globally, there a few countries that have taken a similar approach such as India and Greece, and have been successful. However, here, it needs to be well thought out, by looking in particular the structure of Uganda's financial system and its merits and demerits," Kaboyo said.

"For instance, this would be an indirect tax that is applicable across the board, for both the rich and poor irrespective of income. Therefore, it can easily be deemed unfair. In addition, how would this affect the rural economy which largely deals with cash?" he asked.

REVENUE TARGETS

Towards the end of 2020, the Government slashed some ministries, departments and agencies' (MDAs) expenditures, citing tight liquidity positions. For instance, the finance ministry directed all MDAs to cancel all Christmas and end of year festivals.

URA was assigned a revenue target of sh20.3 trillion for the fiscal year 2019/20, from sh16.3 trillion the previous year. The target growth represents a 24.3% or sh3.9 trillion.

According to URA, the projection was anchored on macro-economic assumptions, administrative and policy measures and expenditure requirements, which did not perform as expected.

In the period, URA collected net revenue of sh16.7 trillion. The collections were below the target by sh3.5 trillion, of which nearly sh2.6 trillion was accumulated in the last five months of the fiscal year.

OVERDUE

Julius Mukunda, the executive director at the Civil Society Budget Advocacy Group (CSBAG), said the move is long overdue as the tax on mobile money targeted the poor.

"Taxing mobile money withdrawals while leaving out the banks was punishing the poor people," Mukunda said.

He said: "It was discriminatory to tax mobile money. The transactions being taxed most were those between sh45,000 and sh50,000. But we can still protect the vulnerable by exempting those withdrawing below sh5m from the tax."