WHY UGANDA MIGHT NOT GAIN FROM GLOBAL TAX RATE

SERVICES

In an effort to generate revenue, the Government is set to introduce a digital marketplace to tap revenues generated from online transactions.

By Ali Twaha

The Organisation for Economic Co-operation and Development (OECD), an inter-governmental economic body, announced that 136 countries had signed up to a tax deal to slap a minimum tax rate of 15% on global corporations.

Multinationals such as Facebook or Google are currently not required by law to publicly disclose how much tax they pay developing countries.

The OECD noted that four countries – Kenya, Nigeria, Pakistan and Sri Lanka – refused to endorse the tax deal which is expected to take effect by 2023, highlighting grey areas in the proposed terms.

The minimum tax and other provisions proposed aim to put an end to decades of tax competition between governments to attract foreign investment.

"This deal was discussed using the OECD inclusive framework and was not inclusive, but they are many countries that are not part of the OECD. Uganda currently is not a member. It means the deal does not include the views of Uganda and 28 African countries," Francis Kairu from Tax Justice Network Africa said.

"The agreement looks very rosy because for many years, multinationals have not been paying any tax in most African countries. However, we would rather have a no deal than have a bad deal," he said.

When you pay companies such as Facebook or Google to promote a product online, the money you pay is received in a country outside Uganda's jurisdiction to tax.

This means, for instance, if Facebook makes $1m (about sh3.6b) in advertising revenue in Uganda, Uganda Revenue Authority (URA) is unable to tax that income because the company is not physically located here.

Remote participation of multinationals in domestic economies through provision of digital advertising, marketing, and buyer-seller matching services has been a sticky issue for many developing countries.

ActionAid International estimates that Google, Facebook and Microsoft have the highest tax gap estimated at $2.8b in developing nations.

Critics of the tax deal say the tax rate floor needs to be higher to fairly spread the benefits of the proposed changes. As it stands, they say, wealthy countries will benefit the most.

"Who gets to benefit from the deal? Is it the country where the revenues are being generated from or where the company originates from? That's a question we need to think about," tax analyst James Muhindo said.

Robert Luvuma, the manager international taxation at URA, said the failure to tax multinationals is largely due to the design of the tax rules in most African countries.

He said the laws have made it increasingly difficult to pinpoint the location of economic activities and how much they actually earn from participating in an economy.

"The current design of our tax system is that for us to be able to tax you, you must come and set up shop in Uganda. Yet, these multinationals that do business online do not have physical presence in Uganda.

"What this tax deal is trying to do is create what we call a digital office such that we are able to tax a proportion of their profits," he said.

UGANDA'S ONLINE SPENDING

Information from the finance ministry indicates that the number of Uganda's online spending has increased over time.

In November last year, Moses Kaggwa, the director of economic affairs at the finance ministry, said Ugandan companies and individuals are spending between sh180b and sh360b annually on advertising and online services.

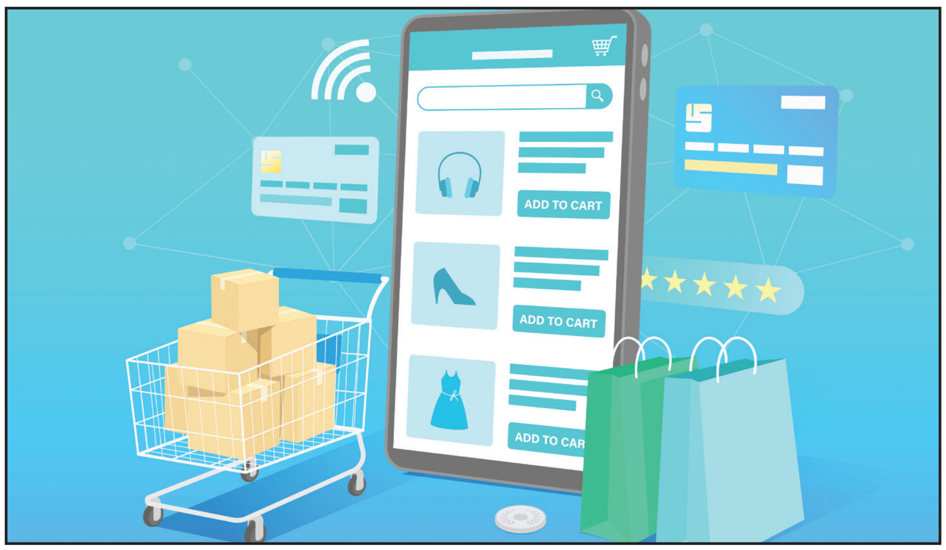
These transactions, he said, are made through financial institutions using credit and debit cards to complete a commercial transaction in the digital marketplace.

"From the banking sector, we spend between $50m and $100m through advertisements and services people buy online. I am optimistic that we shall be ready with digital marketplace because the discussion is ongoing. We need to quantify these transactions," Kaggwa said.

In an effort to generate revenue, the Government is set to introduce a digital marketplace to tap revenues generated by online transactions.

A digital marketplace is any platform enabling direct interaction between buyers and sellers of goods and services via electronic means.

The value of debit card payments grew by 76% to sh1.5 trillion in the 12 months to June 2021, data from Bank of Uganda shows.



The Government is set to introduce a digital marketplace to tap revenues from online transactions

HOW WILL THE DEAL WORK?

The global minimum tax rate would apply to overseas profits of multinational firms with $868m (about sh3.1 trillion) in sales globally.

However, governments in different countries could still set whatever local corporate tax rate they want.

This means that if companies pay lower rates in a particular country, their home governments could top up their taxes to the 15% minimum, eliminating the advantage of shifting profits.

"The 15% is too low. The average corporate tax rates across Africa is between 28% and 35%. This means a huge percentage will still be going to the home countries and as Africa, we will still be losing," Kairu said.

He added: "What the tax deal proposes is that a company must make Euro 20b for them to qualify under this global minimum tax deal. That means by current analysis, maybe only 20 multinationals will be covered because of the thresholds."

The deal also requires countries that have in recent years created national digital services taxes to repeal them.

Fred Muhumuza, an economist, described the tax deal as a double-edged sword for developing countries.

"The countries that were taxing higher than 15% have to come down to 15%. Anyone who was using zero or lower to attract these companies now may have to increase their rate to 15%," he said.

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Shilling recovers as BOU resumes buying dollars

By Vision Reporter

Continued dollar inflows from remittance firms and offshores helped the shilling open the week strong. The unit closed Monday's session trading at 3540/3550 stronger than the day's opening of 3545/3555. Bank of Uganda (BOU) resumed the buying of dollars for reserve build-up after weeks of staying on the sidelines, traders said.

"With the festive season, corporate demand is likely to wane as charity and remittance inflows pick up, rendering support to the shilling. The pair is expected to trade within the 3520–3600 range in the near term," Richard Nsubuga, a trader at Absa Bank, said.

The Kenya shilling continued to trade weaker against the dollar with demand hardly being met by supply. The currency is expected to continue trading within the 111.00-112.50 range in the short term.

The US dollar index settled around 94 on Tuesday, after retreating against major currencies in the last session as traders positioned themselves cautiously ahead of US and China inflation figures due for release today. The US annual consumer inflation is expected to hit more than a decade high of 5.8% in October, seen as a major test for the Federal Reserve's position and outlook for interest rates.

West Texas Intermediate crude oil settled near $82 per barrel on Tuesday, after falling to as low as $78.25 a barrel last week as the passage of a $1 trillion US infrastructure bill, strong Chinese export data and the return of global travel supported a more positive outlook for oil demand.

Major economies, including the US, have started to ease travel curbs and opened borders for foreign tourists, in what is expected to be a sharp pick up in travel and fuel demand. Gold prices firmed up above $1,820 an ounce yesterday, scaling new two-month highs amid rising inflation expectations coupled with dovish central bank statements.

FOREXRATES

CURRENCY	BUYING	SELLING
DOLLAR	3540	3560
EURO	4055	4215
POUND	4730	4915
KENYA SH	31.5	32.8
TZ SH	1.45	1.61
DHIRAM	600	1015
S.A.RAND	200	250
JAPANESE YEN	15.55	33.05
RWANDESE FRANCS	2.0	4.0
DOLLAR SMALL & OLD	3430	3540

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