GOVT URGED TO REVIEW WITHHOLDING TAX REGIME

By Ali Twaha

Former director of the Uganda Importers and Exporters Traders Association, James Kakooza, has urged the Government to review Uganda's withholding tax regime as the country embarks on a digital transformation journey.

Under the National Development Plan III, Uganda's digital transformation plan aims at reducing the cost of ICT devices and services, increasing government services online and deepen penetration services.

Speaking during a dialogue on domestic revenue mobilisation at Hotel Africana in Kampala, Kakooza noted that several businesses have failed to scale operations cash flow challenges linked to withholding taxes on goods and services by the Government.

"Most countries are now doing away with withholding tax because retaining 6% of businesses capital flow for a full year needs to be studied as we go digital," he said.

"Is it still necessary to have withholding tax as a deposit in my business? The finance ministry should study how other countries have managed to do away with withholding tax because you are hurting the capital flow of many businesses," Kakooza said.

The event was organised by Advocates for Research in Development, in partnership with the Southern and Eastern Africa Trade, Information and Negotiations Institute (SEATINI).

Musasizi said the Government plans to assess the current exemptions as part of the tax expenditure governance structure

WHAT IS WITHHOLDING TAX

Withholding tax is a form of income tax that is withheld at source by one person (withholding agent) upon making payment to another person (payee).

This tax is deducted at source and remitted to the Uganda Revenue Authority (URA) in advance by the withholding agent.

The law stipulates the persons who are required to withhold the tax and the persons from whom the tax is withheld.

However, the withholding rates largely depend on the nature and circumstances of the transaction.

For instance, the importation of goods into Uganda, unless by an exempt organisation or a taxpayer who has been ruled by URA to be tax-compliant, is subject to 6% withholding tax on the customs value of the consignment. The Government also put a 10% withholding tax on the commission paid by telecom firms to agents.

The revenue effects on the suggestion to review and possibly eliminate some withholding taxes are difficult to determine.

However, in the financial year 2020/21, URA collected sh1.1 trillion in withholding taxes.

State minister for finance in charge of general duties, Henry Musasizi, said the government would benchmark in countries taking that route, which will inform policy interventions.

"We shall find out if countries are running away from this approach," he said.

Winnie Kiiza, the former Kasese district Women MP, noted that the Government should "reconsider the 6% tax on agricultural inputs" to enable Ugandans sustain them and bounce back from the disruptive effects of the COVID-9 pandemic.

COUNTER HARMFUL TAX EXEMPTIONS

As economic challenges persist, Uganda has continued to maintain a generous tax exemptions and incentives regime that include grants of free land and tax breaks to foreign investors.

State minister for finance in charge of general duties, Musasizi noted that the Government plans to assess the current exemptions as part of the tax expenditure governance structure.

In the financial year 2021/2022, revenue foregone as a result of tax exemption amounted to sh2.8 trillion, representing about 1.8% of the gross domestic product (GDP).

Entities working in several important strategic industries, including agro-processing, manufacturing, textiles and energy, are eligible for tax exemptions from the Government.

To be eligible for the aforementioned incentive, the taxpayer must source 75% of the raw materials locally, provided they are available. They must also employ at least 75% of locals, who collectively make at least 75% of the overall wage bill.

According to Musasizi, the action is one of the several plans to raise Uganda's tax- to-GDP ratio, which is now at 13%.

The East African region should have a tax-to-GDP ratio of 23%, according to the World Bank and International Monetary Fund. Uganda now has the lowest ratio in the area.

"We want a tax collection which is 18% and above so that we can largely finance our budget by ourselves," Musasizi said.

Regina Navuga, a trade and investment analyst at SEATINI, said: "The tax burden still relies on a few people in the country because many people are not paying. There is need for the Government to broaden the tax base."