Global Minimum Corporate Income Tax: Challenges and Prospects in Uganda

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Introduction

• Uganda charges a corporate income tax (CIT) rate of 30 percent. However, CIT collection has been consistently below 1 percent of GDP.

✓ Lakuma (2019) suggests Average Effective Tax Rate (AETR) is between 4% and 5%,

✓ Koivisto, Musoke, Nakyambadde, & Schimanski (2021) Suggest that MNCs in Uganda deduct 20 percentage points more than their large domestic counterparts.

• This could be evidence of profit shifting
Introduction (cont’d)

• Therefore, Uganda has a significant need for stronger CIT reforms.

• An ambitious reform, agreed upon by 138 jurisdictions, proposes a Global Minimum Corporate Tax rate (GMCTR)

• However, little empirical work has been able to estimate the effects of GMCTR on MNCs.
Introduction (cont’d)

• GMCTR has important implications for different countries;
  ✓ Revenue effects of the GMCTR could be large as incentives are eliminated (IMF, 2023).
  ✓ GMCTR may reduce profit shifting and tax competition and generate positive spillovers for jurisdictions with high CIT rate (IMF, 2019).
  ✓ Conversely, GMCTR is attractive to jurisdictions with low taxes but may be hard to administer (ibid).
  ✓ Yet, most developing countries expect to be losers (Hebous & Keen, 2021).
Introduction (cont’d)

• Broadly, there is need to examine whether the GMCTR does not affect tax collection.

• For a country with low AETR like Uganda, GMCTR is expected to raise AETR of MNCs.

• This may provide opportunities for tax evasion and avoidance that raises elasticities of taxable income, which would imply lower revenue (Klemm, Liu, Mylonas, & Wingender, 2018).

• A significant number of papers have used elasticities as a measure of marginal excess burden.
Methods and Data

• Estimate the mechanical revenue gain from moving from current effective tax rates by firms to a 15% minimum tax for firms exceeding the threshold

• Reviewed international literature on how elastic corporate income tax base or investment are to changes in tax rates

• Elasticities grouped into percentiles (25th, median and 75th)

• Used the estimates and the changes in the tax rate to estimate the likely reduction in tax base as a reaction to the GMCTR.

• Calculate and report the total change, which is the mechanical gain minus the behavioral reaction

• Data: URA firm panel curated by URA and UNUWIDER and documented in McNabb, Nakyambadde, Jouste, & Kavuma (2022).
## Methods and Data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean (Millions)</th>
<th>Std. dev. (Millions)</th>
<th>Min. (Millions)</th>
<th>Max. (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for Taxes</td>
<td>10,798</td>
<td>93</td>
<td>2,030.0</td>
<td>0.2</td>
<td>167,000</td>
</tr>
<tr>
<td>Profit before Taxes</td>
<td>10,798</td>
<td>858</td>
<td>24.3</td>
<td>1,680.0</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>8,465</td>
<td>7,530</td>
<td>188,000</td>
<td>-</td>
<td>15,500,000</td>
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<tr>
<td>Gross Profit</td>
<td>10,798</td>
<td>1,130</td>
<td>15,100</td>
<td>23.5</td>
<td>1,210,000</td>
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<tr>
<td>Profit before Taxes</td>
<td>10,798</td>
<td>858</td>
<td>24.3</td>
<td>1,680.0</td>
<td>2,400,000</td>
</tr>
<tr>
<td>AETR*</td>
<td>10,798</td>
<td>0.133</td>
<td>0.087</td>
<td>0.0</td>
<td>0.30</td>
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<tr>
<td>MNCs*</td>
<td>10,798</td>
<td>.018</td>
<td>0.135</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Sectors*</td>
<td>10,416</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>4</td>
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</table>
Distribution of AETR

- AETR of MNCs increase with introduction of GMCTR
- However, MNCs respond by disproportionately hiding output
- The Overall (by both MNCs and DCs) response to GMCTR is not far from the behavioral change
Overall response to GMCTR

- Overall revenue gain, regardless of elasticity
- The elasticity is proportional to the revenue gain
- The gain in revenue is higher than the current collection

<table>
<thead>
<tr>
<th>Year</th>
<th>25th (e=0.81)</th>
<th>Median (e=1.13)</th>
<th>75th (e=2.02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>615</td>
<td>644</td>
<td>722</td>
</tr>
<tr>
<td>2014/15</td>
<td>921</td>
<td>962</td>
<td>1,074</td>
</tr>
<tr>
<td>2015/16</td>
<td>849</td>
<td>887</td>
<td>993</td>
</tr>
<tr>
<td>2016/17</td>
<td>928</td>
<td>991</td>
<td>1,166</td>
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<tr>
<td>2017/18</td>
<td>1,712</td>
<td>1,784</td>
<td>1,982</td>
</tr>
<tr>
<td>2018/19</td>
<td>1,390</td>
<td>1,455</td>
<td>1,633</td>
</tr>
<tr>
<td>2019/20</td>
<td>1,698</td>
<td>1,783</td>
<td>2,019</td>
</tr>
<tr>
<td>2020/21</td>
<td>2,042</td>
<td>2,126</td>
<td>2,359</td>
</tr>
</tbody>
</table>

Reported Revenue (URA)

- 25th (e=0.81)
- Median (e=1.13)
- 75th (e=2.02)
Sector response

- Information and comm. And manufacturing Sector have the highest gain
Sector Responses
Financial sector sensitive to tax tax changes

Financial and insurance (UGX Billions)

- 25th (e=0.81)
- Median (e=1.13)
- 75th (e=2.02)

Others (UGX Billions)

- 25th (e=0.81)
- Median (e=1.13)
- 75th (e=2.02)
Asset Class Responses

❖ Larger business produce larger revenue gain

Panel A: Asset class (>=UGX 15500 Billion)

Others (UGX Billions)
Capitalization Responses

- Thinly capitalized MNCs produce higher and more stable revenue gain

Panel A: Debt-Equity ratio >30

Panel B: Asset Class (< UGX 15500)
Reported and Real Response by sector

Information and communication sector evade the most taxes and Manufacturing sector invest the most.
❖ Conclusions

• The are size variations regarding response to GMCTR: Large firms provide more revenue gain.

• There are sector variations in response to GMCTR: Information and comm. Provide the highest revenue gain; but also has the least AETR (evades most taxes). The Financial sector is sensitive to tax changes. While the manufacturing sector invest the most.

• Thinly capitalized MNCs provide the largest revenue gain. GMCTR is able to curtail BEPS.

❖ Policy recommendations

• Regional cooperation and Enhance administrative capacity to implement GMCTR.

• Adopt safe harbor rules to simplify and prescribing expected returns for specific sectors and firm sizes.

• Limitations of mechanical deduction for potentially base-eroding payments for interest deductions.