Tax holidays wipe out Shs160b in corporate tax

In 2022, Uganda lost Shs160b as a result of foregone corporate income tax mostly from multinational companies.

BY BETTY NDAGIRE

Uganda is losing approximately Shs160 billion annually due to foregone Corporate Income Tax mostly from multinational companies as a result of tax holidays, according to Uganda Revenue Authority (URA).

Next to corporate tax avoidance via profit-shifting to tax havens, numerous and generous tax incentives are among the main causes of lower effective tax rates and, lower Corporate Income Tax revenues.

URA says these tax holidays offered to multinational firms are against the backdrop that they will invest, employ and boost their revenues so that they recoup their investments.

However, from its research, such tax holidays don't substantially increase their revenues yet they don't file tax returns, which harms the economy further.

The taxman notes that in 2022, an estimated Shs160b was lost as a result of foregone Corporate Income Tax mostly from multinational companies. Tax experts note that the prevalent non-compliance with the tax system poses a major challenge to the state's capacity to meet its fiscal needs and inclusive economic growth.

"The country's tax-to-GDP [Gross Domestic Product] ratio remains low at 11 percent, whereas net official development assistance stood at 8.3 percent in 2020, a net increase from 7.5 percent in 2016," URA noted in a research note assessing corporate income tax on the country's businesses.

This analysis took advantage of the digital tax administrative data available at the URA's research lab that provides information on non-compliance for evidence -based policy making.

URA, which collaborated with the United Nations University, under the World Institute for Development Economics Research, observed that less than 15 percent of firms in Kampala pay both corporate income tax and local trade licence fee.

This was correlating with businesses neighboured by inadequate infrastructure impeding them to pay local taxes.

"The aggregate estimated revenue loss due to non-compliance in Kampala by businesses amounts to approximately $2.675m in 2022, exceeding 2 percent of the Kampala Capital City Authority's total budget for the 2022/23 financial year," notes part of the research paper.

Previously, a company would carry over all its calculated losses but now it is only allowed to carry 50 percent of its losses which Treasury envisages could reduce the gap if properly implemented.

According to Economic Policy Research Centre (EPRC), top performers in corporate income tax in Africa are resource rich like Zambia and Algeria. But for Uganda's case, this needs to go up because of Ugandan's oil. It will go to four percent of GDP.

"We need to deduct our expenses in tax holidays," said Paul Lakuma, a research fellow at EPRC.

He said there is need to do tax education, resolve tax disputes and use URA research lab's data to understand tax payers' behaviour.

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TAX HOLIDAY

What is a tax holiday?

A tax holiday is 'a deduction, exclusion or exemption from a tax liability, offered as an enticement to engage in a specified activity such as investment in capital goods for a certain period'.

"New investments are given a 10-year tax holiday and are required to employ 70 percent of Ugandans, while having 70 percent of their wage bill dominated by Ugandans. This started in 2019. The investment threshold has also reduced from $5m to $300,000. But this could bring in more CIT [corporate income tax] loss. These firms are not yet in profit and when they become profitable, we shall see more revenue loss," Liam Carson, a senior economist at the Finance Ministry said.