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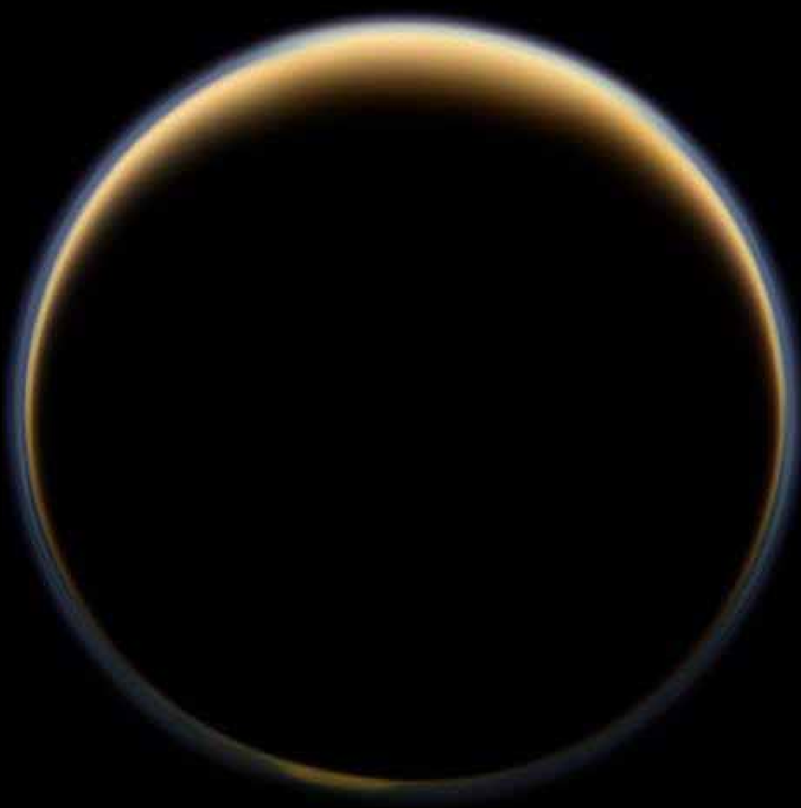
Uganda's Budget for the Financial Year 2019/2020

A new direction



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Cristal Knowledge Series

1. Introduction

Consistent with the tradition of reading their national budgets on the same day, the Finance Ministers of Uganda, Kenya, Tanzania and Rwanda unveiled their fiscal proposals for the financial year 2019/2020, that will run from 1st July 2019 to 30th June 2020, in speeches that were delivered to their respective Parliaments on 13th June 2019.

With the theme "Industrialisation for job creation and shared prosperity", Uganda's Finance Minister unveiled a Uganda Shilling (UGX) 40 Trillion or United States Dollars (USD) 10.7 Billion budget with fiscal measures aimed at turning Uganda into a middle income country by 2020. These measures notwithstanding, it is highly unlikely this aspiration will be achieved by 2020.

A key trend in these budgets is the increasing public sector burden with some pundits questioning whether this debt largely acquired for infrastructure projects is sustainable. In this alert, we set out highlights of Uganda's economic performance for the past year, budget and tax proposals for the coming financial year. We hope you will find the publication useful and we look forward to your questions and comments.

2. Global Economic Outlook

According to the International Monetary Fund (IMF), global economic activity slowed down in the second half of 2018 persisting through the first half of 2019.The escalating US-China trade war, tightened credit policies in China and inflationary pressures caused by a strengthening US dollar, largely account for this slackened economic growth projected to decline to 3.3% in 2019 from 3.9% in 2018.

Though global economic growth for 2019 is at 3.3%, the situation remains fluid with significant uncertainties in the short run. While a raise in interest rates in the year by the US Federal Reserve is highly unlikely, there is no assurance for this. The US-China trade war could intensify with exacerbated adverse economic impact while the risks surrounding a no deal Brexit are increasing.

The above projection notwithstanding, the suspension of US interest rate increments and China ramping up its monetary stimulus to counter the negative impact of the US trade tariffs have helped moderate the tightening of global financial conditions. There is resumption of portfolio flows in emerging markets, appreciation of their currencies against the US dollar and decline in sovereign borrowing costs.

3. Sub Saharan Africa

According to the IMF, combined growth within Sub Saharan Africa (SSA) is set to pick up from 3% in 2018 to 3.5% in 2019 and projected to stabilise between 4% and 5% in the medium term excluding Nigeria and South Africa with lingering economic woes.

Almost half of the economies in SSA especially those that depend less on natural resources are expected to grow beyond the global average of 3.3% at 5% or more. Natural resource dependent countries within the SSA including Nigeria and South Africa are expected to fall behind because current commodity prices are not projected to rise significantly in the short to medium term. The recently launched African Continental Free Trade Area aimed at removing bottlenecks to the seamless exchange of goods and services across African borders could spur more private investment if it is fully implemented.

There are short term threats to economic growth in SSA. Global economic expansion is losing steam and trade tensions between the US and China remain elevated. Global financial conditions are volatile. Drought and adverse climatic conditions seen in the year are also likely to impact agricultural output. Public debt levels in some countries remain high with pundits questioning this debt sustainability.

4. East African Community

The Africa Development Bank estimates East Africa's economic growth at an aggregate rate of 5.9% in 2019 and 6.2% in 2020 and the region will remain an attractive destination for foreign investment largely because of several impending energy projects.

According to the IMF, Rwanda is tipped to grow at 7.8% in 2019 and 8% in 2020 ahead of Tanzania at 4% for both 2019 and 2020. Kenya is projected to grow at 5.8% in 2019 and 6.1% in 2021 while Uganda will grow at 6.3% in 2019 and above 6% in 2020. It remains to be seen what will be the impact on economic growth of the strained relationship between Uganda and Rwanda (that has led to latter closing its borders for trade with Uganda).

5. Uganda economic performance

According to the IMF, Uganda's economy could grow up to 6.3% for the 2018/2019 financial year though the delayed rains and strained relationship with Rwanda could impact this projection. This growth is supported by among others the improved access to credit helped by an accommodative monetary policy stance. Over the medium term, growth could range from 6 to 7 percent if infrastructure and oil sector investments proceed as planned

Government macroeconomic policies are also supportive of economic activity. The government has continued to scale up infrastructure development but there is still need for increased investment in social development to better support inclusive growth especially for the youth, women and low skilled workers.

While Uganda's debt level remains at low risk of debt distress, debt metrics have weakened and some investment projects may not generate the envisaged return. Interest payments are rising.

2018/2019	Uganda	Kenya	Tanzania	Rwanda
Ratio of public debt to GDP	42.2%	52%	43%	38%
GDP in USD	30	99	61	10
Population (Million)	40	9	52	12
Access of population to electricity % (USAID, 2017)	19	64.5	32.7	30
Ease of doing business ranking	127	61	144	29
Foreign Direct Investment in USD (UNCTAD 2017)	700	672	1180	366
Projected budget expenditure in USD based on budget statement	10.7 Billion	28 Billion	14.3 Billion	3 Billion
Economic growth rate	6.3%	5.8%	4%	7.8%
Projected tax revenues for 2019/2020 in USD based on budget statement	5 Billion	18 Billion	10 Billion	1.9 Billion
Ratio of tax collections to GDP (2017)	13.7%	15.6%	11.5%	13.6%

**Unless stated otherwise, the data above is derived from IMF and World Bank statistics*

6. Uganda's fiscal performance for 2019/20

a) Projected budget

The budget for the year is projected at UGX 40 trillion. See the breakdown below.

Item	Amount in UGX Billion
Grants	100.6
Loans	574.6
Externally financed projects	9433.6
Tax revenues	18877.3
Non tax revenues	1571.4
AIA	832.1
Oil revenues	197.7

Item	Amount in UGX Billion
Domestic financing	9300.9
Grand Total	40,888.2

b) Budgeted tax revenue for 2019/2020

The URA tax collection target for the coming financial year is UGX 18.7 trillion, representing an increment of UGX 2.7 trillion. The following interventions in tax administration are expected to bridge this gap.

- Use of Electronic Fiscal Devices (EFDs) to improve compliance in VAT;
- Use of a digital tax stamps solution to avert under-declaration of excise and customs duties;
- Enhanced rental income tax collection;
- The purchase and deployment scanners at major ports of entry into Uganda, to facilitate faster clearance of goods and curb misdeclaration;
- Expanding deployment of the Electronic Cargo Tracking system to eliminate dumping of imports in the Ugandan market.

c) Government expenditure

Government planned expenditure for the coming year, including interest but excluding domestic arrears, is UGX 32,093 billion. See the breakdown below.

Sector	2018/19	%	2019/20	%
Security	2,068.0	8.2	3,620.8	11.1
Works and Transport	4,786.2	19.1	6,460.1	19.8
Agriculture, animal industry and fisheries	892.9	3.6	1,052.9	3.2
Education and Sports	2,781.1	11.1	3,373.0	10.3
Health	2,310.1	9.2	2,622.7	8.0
Water and Environment	1,265.8	5.0	1,092.8	3.4
Justice, Law and Order	1,296.1	5.2	1,732.6	5.3
Accountability	1,123.7	4.5	1,542.8	4.7
Energy and Mineral Development	2,438.2	9.7	3,007.2	9.2
Trade and Industry	134.1	0.5	202.8	0.6
Tourism	32.6	0.1	193.7	0.6
Lands, housing and urban development	202.4	0.8	227.0	0.7
Social Development	214.7	0.9	219.2	0.7
ICT and National Guidance	149.1	0.6	146.2	0.4
Public Sector Management	612.8	2.4	857.2	2.6
Local Government Sector	964.9	3.8	1,252.3	3.8
Public Administration	624.1	2.5	979.1	3.0
Legislature	497.8	2.0	687.8	2.1
Science, Technology and Innovation	184.0	0.7	186.0	0.6
Interest payments	2,514.1	10.0	3,145.2	9.6
Grand Total	25,092.7	100.0	32,601.4	100

7. Uganda Tax amendments

In our tax knowledge publication of April 2019 at this link http://cristaladvocates.com/?mdocs-file=22097, we outlined the tax changes in the 2019 Tax Bills. The Bills have since been passed by Parliament and are awaiting Presidential assent to become law. We summarise below the amendments that will come into effect on 1 July 2019 unless returned to the house by the President.

a) Value Added Tax

- Individuals who are citizens of East Africa Community countries and companies they control are included in the definition of citizens. This will clear ambiguity on the definition of a citizen for eligibility to exemptions on supplies for the construction of factories, warehouses, industrial parks and free zones.
- Clarifications are introduced to the rules regarding the obligation to withhold VAT on payments to suppliers. Designated taxpayers will be required to withhold 6% of the VAT payable as opposed to all the VAT charged as introduced last year. Compliant taxpayers may be eligible for a waiver. This withheld VAT payment shall be recognised as a payment in the subsequent value added tax return of the taxpayer from whom the tax is withheld.
- The list of Public International Organisations under the First Schedule to the VAT Act will be expanded to include UN Women. Public International Organisations and accredited personnel are able to claim a VAT refund in respect of the VAT they incur on their operations.
- The Second Schedule to the VAT Act that provides that certain supplies will be treated as exempt will be expanded to include additional categories of goods and services. These are:
    - Aircraft insurance services;
    - The supply of rice mills and agricultural sprayers suitable for use only in agriculture;
    - Various supplies of goods and services to operators of technical or vocational institutes; provided that the investment is not less than USD 10 million in the case foreign investors or USD 2 million in the case of citizens and also meeting all the applicable conditions;
    - Supplies of imported drugs, medicines and medical sundries;
    - Supplies of imported mathematical and geometry sets for use in technical and vocational education;
    - Supplies of woodworking, welding and sewing machines.
- The minimum investments required to qualify for VAT exemption on certain inputs in relation to activities in industrial parks and free zones are to be reduced.
- Drugs and medicine manufactured in Uganda are to be added to the list of zero-rated items.

b) Income Tax Act

- A new definition of 'beneficial owner' is proposed. This will be relevant in the case of claims to relief under double tax treaties.
- A new definition of 'citizen' is to be introduced in line with the proposal in respect of VAT. Citizens will be eligible for income tax exemptions in respect of certain activities relating to investment in free zones.
- The proposal for Income tax on rental income to be calculated separately for each let property has been rescinded in the final Act.
- Reductions are proposed to the minimum levels of investment required to qualify for tax exemptions for activities associated with industrial parks and free zones meeting all the applicable conditions.
- Interest on infrastructure bonds (as defined) will be exempt from income tax.
- The limit on interest deductions in respect of companies forming part of a group is abolished for banks and insurance companies.
- The proposal for companies that have carried forward losses for 7 consecutive years to pay income tax from year 8 even if they continue to have losses has been rescinded in the final Act.
- Reliefs under international agreements (mainly double tax treaties) is not be available unless the claimant is the beneficial owner of the relevant income. The definition of 'beneficial owner' is to be included in domestic law.
- Withholding at the rate of 6% will apply to consideration for the purchase of a business or business assets by a resident person.
- The withholding tax on agricultural supplies has been removed.
- No official licence, permit or authorization may be issued unless the applicant provides a Taxpayer Identification Number.

- The rate of withholding tax on payments of interest in respect of government securities with a maturity of 10 or more years is to be reduced from 20% to 10%.

c) Excise Duty

- The definition is the same as that proposed for VAT and Income Tax. Citizens will be eligible for duty exemption on purchases made for certain activities.
- New rules are proposed clarifying which entities are required to register for Excise Duty purposes.
- It is proposed to make clear that this applies to duty in respect of excisable services as well as goods.
- A rate reduction is proposed for non-alcoholic beverages (excluding fruit and vegetable juices).
- A nil rate will be available for excisable inputs (mostly cement) used for qualifying construction.
- Proposal is in line with the proposed VAT exemptions for inputs in respect of industrial parks, free zones, technical and vocational institutes.

d) Stamp Duty

- The definition of Citizen is the same as that proposed for VAT, Income Tax and Excise Duty. Citizens engaged in qualifying activities will be eligible for duty exemption in respect of certain instruments.
- Various types of bonds and guarantees will be subject to a fixed rate of UGX 100,000.
- The minimum investments required to qualify for exemption on certain instruments executed in relation to activities in industrial parks and free zones are to be reduced. This relief is extended to qualifying investments in vocational and technical institutes, consistent with exemptions proposed for VAT and Excise Duty.

e) Tax Procedures

- A gap in the current Act is to be remedied by introducing a list of tax returns subject to the provisions of the Act.
- The Minister of Finance will be required to pay any taxes payable by Government, arising from a commitment made by Government to pay tax on behalf of a person or owing from Government as counterpart funding for aid funded projects. Any arrears of such tax at the end of 2018/19 will be waived.
- In case of a voluntary disclosure prior to litigation, the URA may waive fines and interest imposed in respect of tax offences.
- The Uganda Revenue Authority is given the power to reward an informer with 5% of any delinquent taxes recovered as a result of his/her information.
- The Finance Act 2014 previously provided for a reward of 10% of any delinquent taxes recovered as a result of his/her information. This has been repealed but a similar provision introduced in the Tax Procedures Code Act but with a reduced reward of 5%.

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Denis is the Managing Partner at Cristal Advocates where he also leads the energy and tax practice. He is qualified both as a Lawyer and Chartered Accountant with vast experience serving various industries in Sub Saharan Africa. Before joining Cristal Advocates, he had worked for close to 10 years with Deloitte and Touche where he started his career and rose to senior managerial positions.

At Deloitte, he lived and worked in Uganda, Kenya, Tanzania and the United Kingdom for over 6 years and subsequently became the firm's chief of staff for the Energy and Resources Industry Group seeing him play a lead advisory role in Uganda, Kenya, Tanzania, Mozambique, South Sudan, Somalia and Ethiopia.

Denis is widely published and a regular commentator in the local, regional and international media and speaker at various forums regarding the taxation and financing of energy projects as well as the protection of large capital projects within the framework of international investment law.

He holds a Master of Laws degree in Petroleum Taxation and Finance from the University of Dundee in the United Kingdom, a Post Graduate Diploma in Legal Practice and a Bachelor of Laws degree from Makerere University. ■

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Bill is a Senior Advisor with Cristal Advocates. He has concentrated on working with energy companies with a particular focus on cross border transactions and M&A since 1989 and is a leading global energy and tax practitioner with wide international experience. Between 1986 and 1998, he worked in London with the UK tax authorities and Big Four accounting firms. From 1998 to 2004, he was based in Kazakhstan working across the Caspian region with Deloitte. He was in the region at the time it was developing its infrastructure for crude oil production with international investment following the collapse of the Soviet Union.

From 2004 to 2008, he worked in Russia where he led Deloitte's oil and gas industry group and established Deloitte's office in Sakhalin. He moved to East Africa in 2009 leading Deloitte's energy and resources industry group in Uganda, Kenya, Tanzania, Rwanda, Ethiopia and Mozambique. He was initially based in Kampala, Uganda later relocating to Dar es Salaam, Tanzania. Bill returned to the UK in 2014 supporting Deloitte UK teams working on outbound projects investing in Africa and was a key member of Deloitte UK's energy and resource practice until his retirement from the firm in September, 2018.

Bill is a graduate of Oxford University and completed his inspectors' training with the UK Inland Revenue in 1989. ■

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John leads the public policy and advocacy practice at the firm and combines unique public and private sector experience.

Prior to joining Cristal Advocates, he had worked as a Private Secretary to the President of the Republic of Uganda. During this time, he participated in several public and private sector engagements that included advising and coordinating activities relating to oil and gas as well as infrastructural projects of national significance. John had earlier worked with the Post Bank Uganda Limited and Shonubi Musoke and Co. Advocates.

He holds a Bachelor of Laws degree from Makerere University and a Post Graduate Diploma in Legal Practice from the Law Development Centre and various other qualifications. ■

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Dickens leads the oil and gas practice at Cristal Advocates. He has an in depth appreciation of Uganda's oil and gas sector having served as the maiden Company Secretary of the Uganda National Oil Company (UNOC) and the Uganda Refinery Holding Company Limited (URHC). UNOC represents the Government of Uganda commercial interests in the oil and gas sector while URHC represents government interests in the refinery project as well as managing the petrol based industrial park.

Dickens was instrumental in UNOC's formation and initial period of operation and also served as its head of Contracts, Negotiations and Advisory until May 2018. Prior to joining UNOC, Dickens was Legal Counsel at the Petroleum Directorate of the Ministry of Energy playing key legal advisory roles on the negotiation and implementation of PSAs, Joint venture and other oil and gas agreements. He was also part of the team that shepherded the process of enacting the current Ugandan oil and gas Legislations and Regulations including the local content requirements.

He is a certified project control specialist (IFP) and holds a Master of Laws Degree in Petroleum Law and Policy from the University of Dundee in the United Kingdom, a Post Graduate Diploma in Legal Practice and a Bachelor of Laws degree from Makerere University. ■

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He joined Cristal Advocates from Kizza, Tumwesige, and Ssemambo Advocates. He previously worked with the Advocates Coalition for Development and Environment (ACODE). He also undertook a traineeship with the oil and gas division of Webber Wetzel in Johannesburg, South Africa.

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