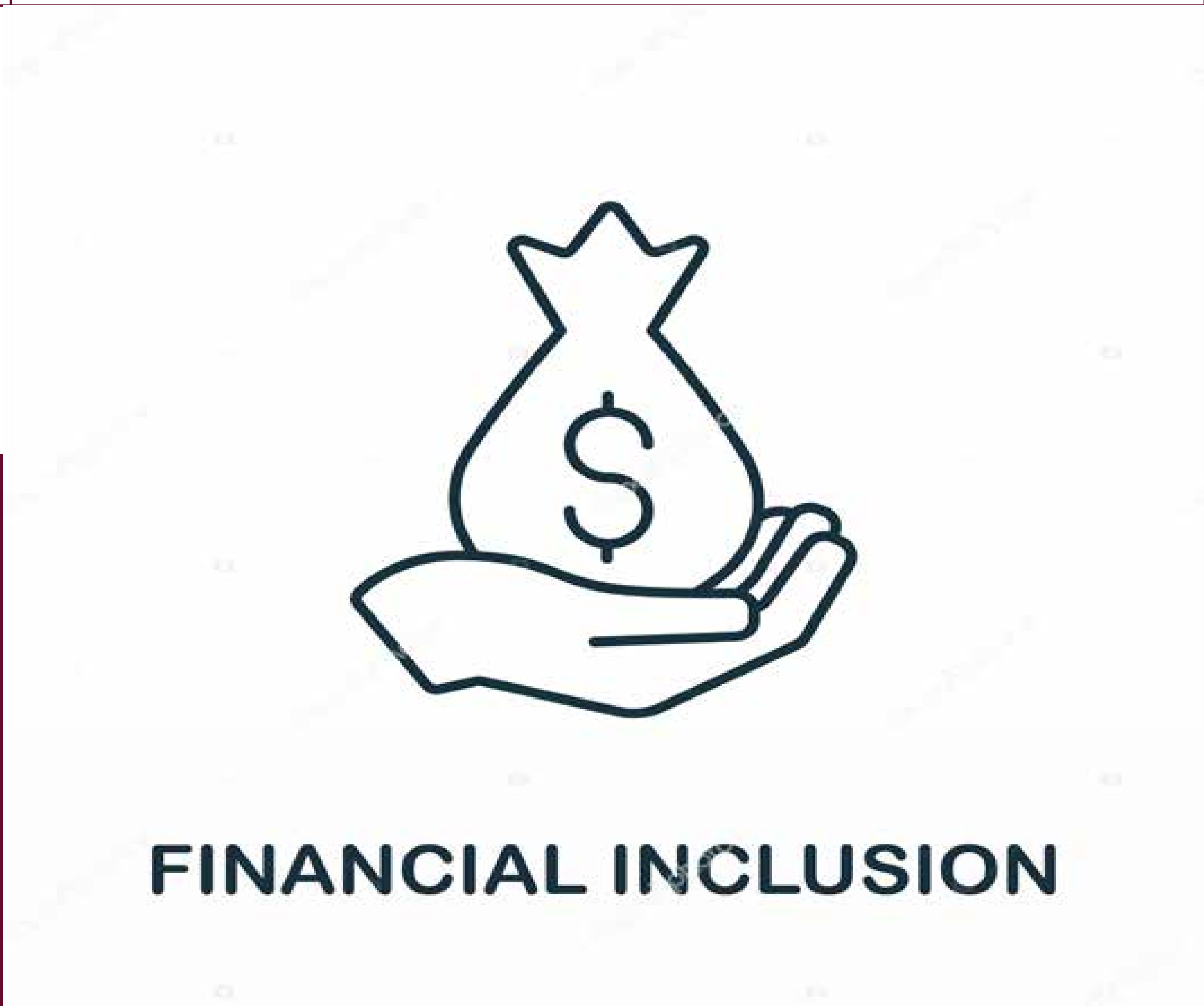
Cristal Advocates

Deepening Financial Inclusion in Uganda
Reconsider taxation of cash withdraws



Cristal Knowledge Series
17th April 2024

1. Introduction

Whereas the theme for Uganda's National Budget Framework for the financial year 2024/25 is the full monetization of the economy through commercial agriculture, industrialization, service sector growth, digital transformation, and improved market access, the proposals contained in the tax bills before Uganda's Parliament for deliberation and enactment into law, effective from 1st July 2024, appear to contradict these objectives.

While public attention and discourse in both print and broadcast media have largely centered on the contentious proposal to tax land sale transactions, an equally important yet less-discussed proposal involves imposing an excise duty of 0.5% on the total value of cash withdrawn through payment systems. Although this duty is not entirely new, as it already applies to mobile money transactions, the broader expansion into other payment systems ignites a fresh debate over the rationale and merits of taxing cash withdrawals more generally.

2. Discussion

Taxing cash withdrawals raises important questions regarding economic policy. Although the government may argue that cash withdrawals represent economic activity deserving of taxation because they involve the movement of funds within the economy, this rationale can be problematic when considering its broader impact on consumers and businesses. Ideally, taxing only the service fees charged by providers for facilitating cash transfers would more equitably target the economic activity without imposing additional burdens on individuals and businesses.

The high taxes on internet services too raise concerns given their central role in the country's digital transformation and payment system operations. Local internet service providers (ISPs) must deduct a 5% withholding tax on payments to foreign internet connectivity service providers, along with 18% VAT on imported internet services and an additional 18% VAT when sold locally in Uganda. Additionally, there is a 12% excise duty on internet sold to local consumers. The profits ISPs make are further subjected to corporation tax at the rate of 30%. These layers of taxation significantly raise the cost of internet access, potentially obstructing the nation's progress towards its digital transformation goals.

The imposition of an excise duty on cash withdrawals raises questions about potential over-taxation and its effects on financial inclusion. With the majority of Ugandans lacking bank accounts, financial technology companies have stepped in to offer services to the unbanked population. However, taxing cash withdrawals may unintentionally discourage the use of formal financial systems and push consumers toward informal channels. This shift could threaten economic growth and development by impeding the integration of more people into the formal economy and limiting access to regulated financial services.

While policymakers may argue that the 0.5% levy on cash withdrawals is minimal, the cumulative impact on individuals and businesses should be carefully considered. For instance, salaried workers already subject to Pay As You Earn (PAYE) taxes face an additional 0.5% tax on cash withdrawals when transferring funds to their mobile money wallets. Service payments via payment systems could also already have been subject to withholding tax.

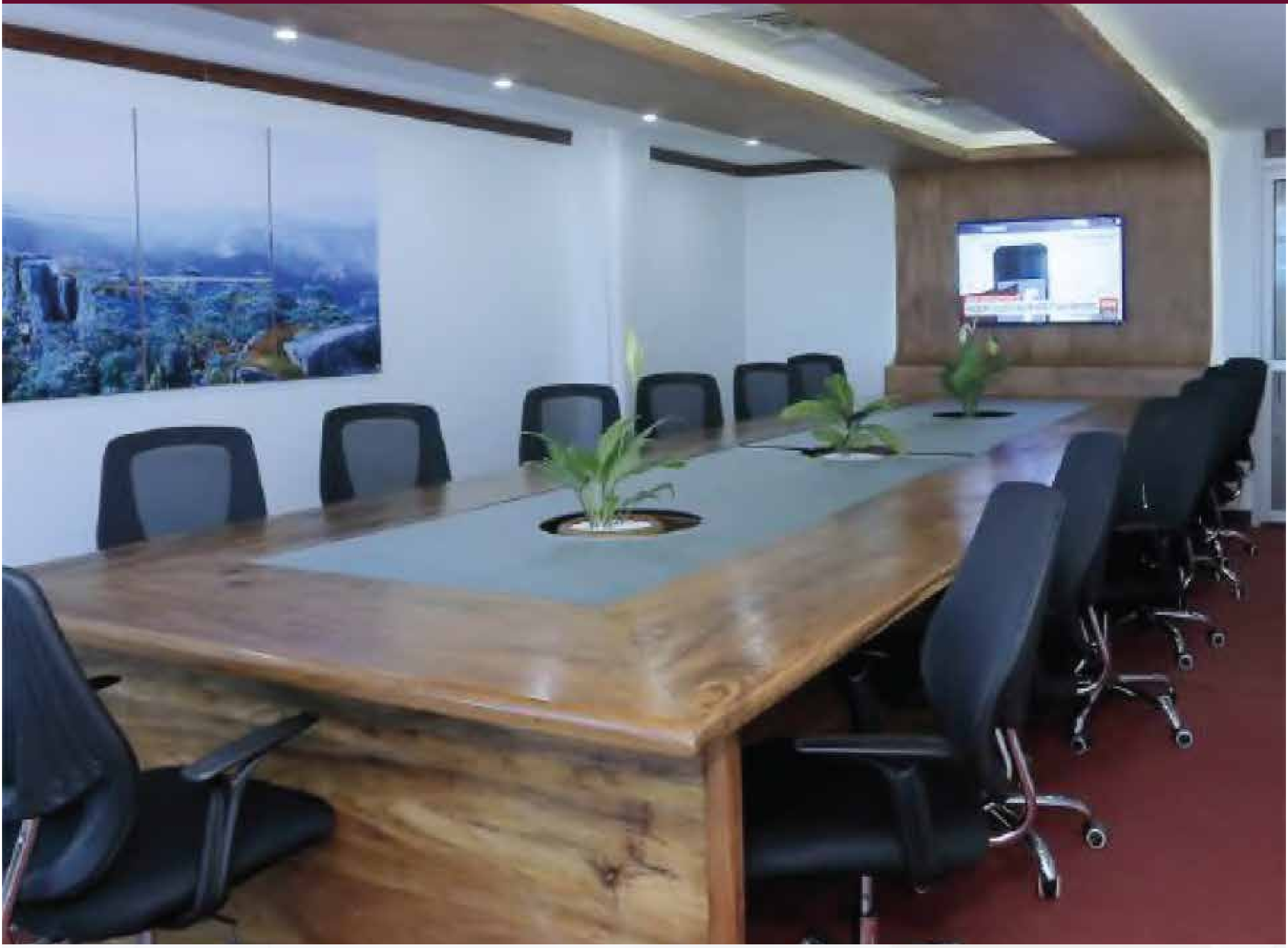
Moreover, this tax could undermine financial inclusion efforts, disproportionately impacting low-income individuals who rely on mobile money and payment system transfers as their primary means of transacting. The added costs may discourage these individuals from engaging with formal financial systems, limiting their access to convenient and secure financial services.

3. Conclusion

The broader implications of the proposed excise duty extend beyond just taxing cash withdrawals. It sets a precedent that may pave the way for further taxation on financial transactions, potentially including cash withdrawals at bank counters in the future. As it has been reported in the press before, it is likely government may consider this proposal as it strives to boost tax revenues. There should be a deterrent to this.

Therefore, it is crucial for both the government and Parliament to critically assess the long-term impact of such proposals. The existing levy on cash withdrawals from mobile money platforms introduced in 2018 was already a controversial measure. Perhaps Parliament should even revisit the same in this year's budget cycle.

While the need to broaden Uganda's tax base is understood, the government must balance this with the risk of overtaxing the population, which could hinder economic growth and development. Careful consideration must be given to ensure that tax policies align with broader economic objectives and do not disproportionately impact those who can least afford it. It is imperative to strike a balance between fiscal responsibility and fostering an inclusive economic environment for all Ugandans.



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Denis is the Managing Partner of the Firm. He is qualified both as a Lawyer and Chartered Accountant with UK training and vast experience serving local, regional and international companies in Sub Saharan Africa. He is recognized as a notable corporate and commercial law practitioner in Uganda.

Before joining Cristal Advocates, Denis spent nearly 10 years at Deloitte, an international professional services firm, where he started his career and rose to senior roles. While with Deloitte, he worked and lived in Uganda, Kenya, Tanzania and the United Kingdom.

Education

a) Master of Laws in Petroleum Taxation and Finance with distinction - University of Dundee, UK
b) Certified Public Accountant (Uganda) - ICPAU
c) Certified Chartered Accountant ("ACCA") – ACCA
d) Post Graduate Diploma in Legal Practice - Law Development Center, Uganda
e) Bachelor of Laws degree - Makerere University, Uganda

John Teira

John is a Partner with the firm but presently on sabbatical leave. Before joining Cristal, he worked as a Private Secretary to the President of Uganda. Prior to this role, he had worked with Shonubi Musoke & Company Advocates and Post Bank Uganda Limited.

John is presently a Member of Parliament representing Bugabula County North in Kamuli District in Uganda National Assembly.

Education

a) Post Graduate Diploma in Legal Practice - Law Development Centre, Uganda
b) Bachelor of Laws (Honours) - Makerere University, Uganda
c) Diploma in Law (First Class) - Law Development Centre, Uganda
d) Basic Philosophy of Public Service Administrative Communication - Uganda Management Institute, Uganda

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Dickens Asiimwe Katta

Dickens is a Partner at Firm where he also leads the oil and gas practice. Before joining Cristal Advocates, Dicken had served as Company Secretary of the Uganda Refinery Holding Company Limited (URHC) and the Uganda National Oil Company (UNOC) where he played key role in its formation.

Prior to joining the UNOC, Dickens had spent five years as Legal Counsel at the Petroleum Directorate of the Ministry of Energy and Mineral Development, where he evaluated several oil and gas transactions, negotiated contracts, and participated in the preparation of Uganda's oil laws and regulations.

Education

a) Master of Laws in Petroleum Law and Policy with merit - University of Dundee, UK
b) Post Graduate Diploma in Legal Practice - Law Development Center, Uganda
e) Bachelor of Laws degree - Makerere University, Uganda

Bill Page

Bill is a Senior Advisor at the Firm and is a leading global energy and tax practitioner with extensive international experience.

From 1986 to 1998, Bill 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 during a period of major infrastructure development for crude oil production.

From 2004 to 2008, Bill worked in Russia, leading Deloitte's oil and gas industry group and establishing the firm's Sakhalin office. In 2009, he moved to East Africa, where he led Deloitte's energy and resources industry group in Uganda, Kenya, Tanzania, Rwanda, Ethiopia, and Mozambique. Initially based in Kampala, Uganda, he later relocated to Dar es Salaam, Tanzania.

In 2014, Bill returned to the UK to support Deloitte UK teams on projects investing in Africa and remained a key member of Deloitte UK's energy and resource practice until his retirement in September 2018.

Education

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