MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

THE GOVERNANCE FRAMEWORK FOR TAX EXPENDITURES FOR THE GOVERNMENT OF UGANDA

March 2025
www.finance.go.ug

List of Acronyms

BTS	Benchmark Tax System
CET	Common External Tariff
DRMS	Domestic Revenue Mobilization Strategy
EAC	East African Community
EACCMA	East African Community Customs Management Act
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MDAs	Ministries, Departments and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
PAYE	Pay As You Earn
PSFU	Private Sector Foundation Uganda
TE	Tax Expenditures
UMA	Uganda Manufacturers Association
URA	Uganda Revenue Authority
VAT	Value Added Tax

1. Introduction

Uganda's Domestic Revenue Mobilization Strategy (DRMS), published in 2020, identified the need to establish an effective Tax Expenditure Governance Framework as a 'high priority'. Since 2021, MoFPED has published annual tax expenditure assessments to enhance transparency and assist in evaluating the effectiveness and efficiency of exemptions and reliefs. Uganda has become the first East African country to regularly estimate tax expenditures. In 2024, tax expenditures are estimated to be 1.78 percent of GDP.

Having estimated the revenues forgone from TEs for FYs 2014/15-2023/24, there is growing interest in conducting comprehensive evaluations that assess the costs and benefits of TEs.

2. Objectives of the Governance Framework for Tax Expenditures (TEs)

The main objective of this framework is to institute an objective and transparent mechanism for managing and administering TEs in Uganda. The framework ensures that TEs are strategically planned, analyzed, approved, implemented, and effectively monitored. i.e., the effective management of the value chain of TEs in Uganda.

Specifically, this framework aims to;

a. Clarify the process and criteria for costing and evaluating new and existing tax expenditures, approving/admitting new tax expenditures into the tax laws, and maintaining existing ones. This involves instituting minimum requirements for initiating new tax expenditures and managing/administering/monitoring existing ones.
b. Clarify the roles and responsibilities of the stakeholders involved in the governance of tax expenditures in Uganda.

3. Rationale for the Governance Framework for Tax Expenditures

The Governance Framework for Tax Expenditures will ensure proper management of tax expenditures–essential for Uganda's economy, as it strives to attract investments, enhance transparency, and improve resource mobilization essential for the provision of social services and public infrastructure. The framework will facilitate Government goals of;

a. **Revenue Preservation:** Tax expenditures reduce government revenue. The framework will ensure careful management of tax expenditures, minimizing unnecessary revenue losses and ensuring analytical review of TEs to terminate unjustifiable ones.
b. **Efficiency in Resource Allocation**: TEs distort market dynamics, can lead to inefficient investments, and create an uneven playing field for businesses.

Therefore, TEs that do not achieve their objectives are poorly targeted or are excessively generous should not be approved or should be terminated. The framework will facilitate proper monitoring and evaluation of the costs and benefits of TEs to welfare, savings, and investments. It proposes sunset clauses so that TEs can be removed once they have achieved intended objectives or failed to do so – in line with international best practice.

c. **Fiscal Discipline and Sustainability**: Tax expenditures represent foregone revenue that could otherwise fund public spending. The framework will facilitate monitoring and limiting tax expenditures, maintaining a sustainable budget.
d. **Transparency and Accountability**: TEs are an alternative to direct expenditures, which should be transparently reported. The framework will facilitate comprehensive tracking and reporting of tax expenditures to improve government transparency. This will enable the public and policymakers to understand better where resources are allocated and assess the effectiveness of tax policy choices. It will also hold decision-makers accountable for ensuring that tax incentives deliver value.
e. **Alignment with Policy Objectives**: The framework will ensure that all tax expenditures are designed to align more closely with broader Government policy objectives, such as promoting investment, supporting small and medium-sized enterprises (SMEs), or encouraging environmentally sustainable practices. This alignment will strengthen the effectiveness of tax expenditures as a tool for achieving economic and social goals.
f. **Reduction of Complexity and Administrative Burden:** The framework will simplify and rationalize tax expenditures to reduce administrative burdens for both the Uganda Revenue Authority and taxpayers. This will lead to greater compliance, reduce opportunities for tax avoidance, and make the tax system more accessible to manage and enforce.

4. Integration with Uganda's Growth Strategy

The Governance Framework for Tax Expenditures is aligned with Uganda's national growth strategy, as outlined in the Fourth National Development Plan (NDP IV) and the Ten-Fold Growth Strategy, which aims to expand Uganda's economy from the current Gross Domestic Product (GDP) of USD 53 billion in 2024 to USD 500 billion by 2040.

The governance of tax expenditures will focus on accelerator actions in the following priority areas:

a. Agro-Industrialization
b. Tourism Development
c. Mineral-Based Industrial Development, including oil and gas; and
d. Science, Technology, and Innovation, with emphasis on ICT and the creative arts (Knowledge Economy)

Furthermore, the Governance Framework for Tax Expenditures will prioritize following outcomes;

i. **Accelerated Economic Growth**: Raising the economic growth trajectory to an average real GDP growth rate of at least 7% per annum, with the potential for double-digit growth upon the commencement of commercial oil and gas production.
ii. **Substantial GDP Expansion**: More than doubling the size of the economy every five years over the next 15 years.
iii. **Significant Increase in Per Capita GDP**: Raising per capita GDP six-fold, from the current USD 1,154 to approximately USD 7,000 by 2040.
iv. **Higher Domestic Savings**: Doubling the domestic savings rate from 20% of GDP to 40% of GDP by 2040, ensuring sufficient capital for investment.
v. **Enhanced Export Performance**:
    a. Increasing the share of exports in GDP from 15% in FY 2022/2023 to 50% by 2040.
    b. Raising the share of manufactured products in merchandise exports from 13% to 50%.
    c. Expanding medium high-tech exports from 21% to 50% by 2040.
vi. **Increased Foreign Direct Investment (FDI) Inflows**: Growing annual FDI inflows from USD 3.01 billion as of April 2024 (largely driven by oil and gas investments) to USD 50 billion by 2040.

The above notwithstanding, the framework ensures strategic alignment with Uganda's development goals by ensuring that fiscal measures promote both private sector dynamism and robust state capacity. By balancing incentives for private investment with sustained state funding, the framework creates an enabling environment that stimulates economic growth and enhances the government's ability to deliver essential social services and drive sustainable development.

5. Definition of Tax Expenditures (TE)

A tax expenditure is defined as a deviation from a defined Uganda-specific benchmark tax system, which results in a reduction of the effective liability of the taxpayer and includes taxes paid by the government on behalf of a taxpayer.

Broadly, tax expenditures are government revenue foregone from tax exclusions, exemptions, deductions, credits, deferrals, and preferential tax rates.

The detailed benchmark tax system and the deviations from the BTS that constitute tax expenditures are defined in a repository that is updated annually based on changes in the tax legislation. Tax expenditures in Uganda are provided for under relevant tax laws, and they include;

i. **Income Tax**: Income tax is a direct tax imposed on the income of a person. This income includes business income, personal income (such as Pay as You Earn), rental income, and property income, in accordance with the Income Tax Act Cap. 338. In Uganda, employment income is taxed under the Pay-As-You-Earn (PAYE) system, although it is crucial to note that not all personal income is taxed at the standard PAYE rate. The benchmark tax unit for business income tax is defined as the company and is treated as a separate legal entity. The standard business income tax rate is 30% of chargeable business income, calculated as pre-tax profit minus allowable deductions plus non-allowable deductions. TEs under income tax include, among others;
    a. Corporate income tax holidays for investments in strategic sectors and income derived by manufacturers who export at least 80% of their products.
    b. A range of allowances, including capital allowances and deductions, which reduce chargeable income and the effective tax rate.
    c. Exemptions on employment income derived by individuals as part of aid fund agreements.
    d. Exemption on employment income of some public officials such as the judiciary, Members of Parliament, and officers and men of the armed forces.

ii. **Value Added Tax (VAT):** VAT is imposed on the value added to a supply at each stage of its production or distribution. In Uganda, VAT is levied at 18% of the value added in accordance with the Value Added Tax Act Cap. 344. The TEs under the VAT Act include:
    a. The zero-rated supplies;
    b. Exempt supplies; and
    c. Deeming provisions for supplies to contractors and sub-contractors executing aid-funded projects and supplies by a contractor to a licensee under mining or petroleum operations.

iii. **Excise duty**: Excise Duty in Uganda is imposed by the Excise Duty Act Cap. 336. The TEs under excise duty are;
    a. Excise duty exemption construction materials for use in strategic investment projects.
    b. Preferential rates are imposed on beer, spirits, wine, and furniture manufactured using local raw materials.
    c. The preferential rate imposed on incoming international incoming calls originating from the One Network Area.

iv. **Customs Duty**: The East African Community (EAC) operates under a unified customs framework governed by the East African Community Customs Management Act (EACCMA). The EAC member countries (Burundi, Democratic Republic of Congo, Kenya, Rwanda, South Sudan, Tanzania, and Uganda) apply a harmonized trade policy (tariff regime) through the Common External Tariff (CET) and product import quotas from third-party countries for goods entering the region. Collectively, the EAC functions as a Single Customs Territory, where trade between Member States is free of duties and restrictive trade regulations. Customs duties are imposed on the Customs, Insurance, and Freight (CIF) value of imported goods. The CET provides benchmark tariff rates (0%, 10%, 25%, or 35%). TEs under customs duties include;

a. Exemptions listed under the 5th Schedule of EACCMA;
b. Stays of application of the CET (Articles 12(3) and 39(c) of the Protocol on the Establishment of the EAC Customs Union); and
c. Rate reliefs under the Duty Remissions Scheme in accordance with Section 140 of EACCMA.

v. **Government Commitments**: These are commitments to pay taxes on behalf of strategic investments and cultural and religious organizations in accordance with Section 44 of the Tax Procedures Code Act Cap. 343.

6. Prohibition of Tax Expenditures in other topical- or sector legislation

All tax expenditures shall be granted through an Act of Parliament enacted to impose a specified tax, levy, or duty. In the case of taxes paid by the government on behalf of any taxpayer, TEs shall be granted through the appropriated budget. The Ministry of Finance, Planning, and Economic Development, which has the sole responsibility for coordinating and centralizing oversight over all tax matters, prepares and tables draft bills to Parliament.

7. Proposals for New Tax Expenditures

All proposals for new TEs shall primarily be generated from internal technical and research work conducted within MoFPED, leveraging evidence-based analysis to ensure alignment with national policy priorities.

However, the Ministry recognizes the importance of diverse perspectives and expertise and shall welcome additional proposals from other stakeholders within Government, including the Uganda Revenue Authority (URA) and other Ministries, Departments, and Agencies (MDAs). Contributions from academia, tax practitioners, taxpayers, and private sector umbrella organizations such as the Uganda Manufacturers Association (UMA), the Private Sector Foundation Uganda (PSFU), and others will also be encouraged.

The following issues are critical in the management of new TE proposals;

a. Proposals from stakeholders shall be welcomed at any time, but preferably during the budget preparation process.
b. Any newly adopted TEs will be implemented only at the beginning of the next fiscal year. This ensures that implementation follows the budget cycle to avoid

unprecedented and unnecessary in-year amendments to the tax laws and to prevent unexpected shortfalls in revenue collections.

c. **<u>If approved, government commitments to pay on behalf of strategic taxpayers</u>** will be implemented in the next financial year. This approach ensures adequate time for planning, budgeting, and appropriating the necessary funds to be paid by the government as its obligation to pay taxes on behalf of taxpayers. Aligning implementation with the fiscal year enables better coordination with the budget process and ensures fiscal discipline.
d. Individuals or entities seeking to benefit from existing TEs are advised to approach the URA directly. URA is responsible for administering all TEs and ensuring eligible beneficiaries meet the required criteria stipulated in the relevant laws and guidelines. This streamlined process ensures efficient and effective access to the benefits provided under existing TE provisions.

8. Criteria for Ex-ante Evaluation and Approval of New Tax Expenditures

In Uganda, certain TEs are automatically accessible to beneficiaries who meet specific conditions outlined in the relevant tax laws. Other tax expenditures, however, arise from explicit government commitments to pay on behalf of taxpayers. Regardless of the nature of these tax expenditures, a uniform criteria will be applied to assess their introduction, ensuring consistency and transparency in granting tax benefits across all categories.

Once a TE has been proposed (or once the need for a tax expenditure has been acknowledged), the Ministry of Finance, Planning and Economic Development will assess the proposal using the following criteria:

i. Criteria at a broad economy-wide level

a. The problem or challenge being addressed through the proposed tax expenditure.
b. Consideration of available fiscal options to address the challenge and confirmation that this challenge can only be addressed by a tax expenditure and not any other fiscal policy tool (e.g., appropriated budgetary expenditure, provision of affordable financing, electricity or other infrastructure).
c. Confirmation that the envisaged investment or activity aligns with national priority strategic goals as stated in the National Development Plan.
d. Confirmation that the proposed investment or activity aligns with the program or sector strategy within which the tax expenditure is expected to apply.

e. A statement of the estimated cost regarding revenue that will be foregone if the TE is approved.
f. Statement of the expected benefits from granting the tax expenditures.
g. Summary statement on the projected economic and social cost-benefit assessment of the tax expenditures. These costs include both direct and indirect employment, value addition, import replacement, export revenues, knowledge introduction, and transfer, among others.
h. Proposal of the monitoring and evaluation mechanism of the tax expenditure.

The above information shall be submitted to Cabinet at the time of tabling the TE proposal for discussion, as well to Parliament at the time of legislation for the new TE to enable informed deliberation and decision-making.

ii. Criteria at tax policy level (to be employed by Ministry of Finance, Planning and Economic Development)

a. Confirmation that the new tax expenditure is consistent with a fair and efficient tax system, which ensures fiscal sustainability as envisaged in the National Tax Policy.
b. Confirmation that the tax expenditure is consistent with the economic management priorities of the government and the government's general policy on tax expenditures.
c. Confirmation that the TE has a clear sunset clause which automatically ends after a specific period.
d. Report on the outcome of a comprehensive analysis of the economic, policy, efficiency, administrability, and equity of new tax expenditures.

9. Criteria for the sustenance of existing TEs

The Government of Uganda continues to estimate revenues foregone from TEs and publish annual tax expenditure assessments. These assessments will be complemented with evaluations of the costs and benefits of existing TEs.

The Government of Uganda will consider whether to terminate or maintain an existing TE after a systematic review and an evidence-based decision-making process to weigh the costs, benefits, and alignment with policy objectives such as balancing fiscal responsibility, equity, and economic efficiency. This process shall be led by the Ministry of Finance, Planning and Economic Development. MoFPED aims to evaluate a number of existing TEs every year in line with its capacity and institutional priorities. Over time, the aim is to evaluate existing TEs every four fiscal years after their introduction and will follow the following steps.

a. **Comprehensive evaluation of the TE (Cost-Benefit Analysis):** Assess the fiscal cost of the TE against its benefits to determine if the expenditure provides adequate value. This includes;
   i. Calculate the revenue forgone and analyze whether it justifies the economic and social benefits generated.
   ii. Establish whether the TE has achieved its intended goals, such as promoting investment, encouraging employment, or fostering specific industries.
   iii. Examine the TE's impact on different income groups or sectors to ensure the expenditure promotes equity rather than disproportionately benefiting high-income earners or specific industries. If termination risks disrupting sectors or communities, Government may consider phased adjustments.

b. **Policy alignment and relevance assessment**: This shall include;
   i. A review of whether the TE still supports critical policy goals, such as growth, equity, and fiscal sustainability. This can influence the decision if priorities shift (e.g., from economic stimulus to fiscal deficit reduction).
   ii. Whether maintaining the TE creates compliance burdens or encourages tax avoidance.

c. **Stakeholder consultation:** The Ministry of Finance, Planning, and Economic Development will consult with businesses, industry representatives, or individuals who benefit from the TE to gather information regarding the potential impacts of maintaining or terminating it.

d. **Exploring alternatives or modifications:**

   i. Explore alternative policy instruments, such as direct spending or other incentives (e.g., grants, and subsidies), that can achieve the same policy objectives more cost-efficiently and effectively.
   ii. Explore modification options where outright termination is not the best alternative by narrowing eligibility, capping benefits, or setting expiration dates (sunset clauses) for regular reassessment.

e. **Decision to sustain, modify, or terminate:** This decision shall be guided by the following principles;
   i. **Retain if justified**: If the TE is effective, aligned with policy goals, and provides value for money, the Government will maintain it. However, the Government will conduct regular reviews to ensure its ongoing relevance.

ii. **Modify for better targeting**: If partial adjustments could improve effectiveness or cost-efficiency, the Government will revise eligibility criteria, limit benefit amounts, or adjust the scope to better target intended beneficiaries.
iii. **Terminate if ineffective or redundant:** If the evaluation finds the TE ineffective, inequitable, or unnecessary, Government will terminate it, preferably with a transition plan to ease the change.

f. **Implementation of decision:** The Ministry of Finance, Planning and Economic Development will;
    i. Depending on whether the decision is to maintain, modify, or terminate the TE, undertake legislative and/or regulatory adjustments.
    ii. Undertake clear public communication to ensure transparency around the decision, its reasons, and any accompanying measures (such as phase-out periods, replacements, or alternative policy support actions).

g. **Post-implementation monitoring and review**: Following the decision, the Ministry of Finance, Planning and Economic Development will monitor the impact on revenue, economic activity, and stakeholder compliance.

10. Key Responsibilities

Efficient management and administration of TEs typically involve inputs, such as consultative processes, from various government stakeholders. Below are summarized the key responsibilities of the major players in a reformed tax expenditure governance framework.

a. Ministry of Finance Planning and Economic Development

The Ministry of Finance, Planning, and Economic Development is responsible for overall fiscal policy and, therefore, the efficiency and sustainability of fiscal measures. In this context, the Ministry is responsible for continuous improvements through designing and monitoring a fair, broad-based, and efficient tax system and drafting legislation for all TEs.

Specifically;

1. On receipt of a proposal for a new TE, the Ministry of Finance, Planning and Economic Development shall scrutinize the proposals/applications for new (or extension of) TEs following the process outlined in 8(i) and (ii). The scrutinized TE proposal will then be submitted to Cabinet for consideration.

2. Following the Cabinet's consideration and approval, the Ministry of Finance, Planning, and Economic Development will collaborate with the Attorney General's Office (specifically, the First Parliamentary Counsel) to draft the relevant tax legislation for Parliament's consideration.
3. The Ministry of Finance, Planning, and Economic Development shall require URA to publish detailed administrative guidelines, processes, or steps for implementing the TEs.
4. The Ministry of Finance, Planning, and Economic Development shall;
    iii. Make annual updates of the Tax Expenditure Repository;
    iv. Monitor the use of tax expenditures as an economic and social management tool;
    v. Prepare and publish an annual Tax Expenditures Report which includes the evaluation of selected existing TEs in collaboration with URA.

5. Where the Ministry of Finance, Planning and Economic Development has committed to pay taxes on behalf of any person in line with Section 44 of the Tax Procedures Code Act Cap. 343, the Ministry shall ensure that such commitments are adequately provided for by appropriation by Parliament and taxes duly paid to URA.
6. The Ministry of Finance, Planning, and Economic Development shall report to Parliament on TEs in accordance with Article 152 (2) of the Constitution, which requires the Minister responsible for finance to periodically report to Parliament on the exercise of powers conferred upon him by any law to waive or vary a tax imposed by the law. Also, Section 77 (1) of the Public Finance Management Act, 2015 requires a person or an authority granted power to exempt the payment or to vary any tax under an Act of Parliament to report on the matter to Parliament in each Financial Year and on or before the 30th day of September, the 31st day of December, the 31st day of March and the 30th day of June.

<u>**Note:**</u> The Ministry of Finance, Planning, and Economic Development acknowledges the comprehensiveness of the fiscal management tasks related to TEs and will anchor the tasks outlined above in a specific, dedicated unit led by a principal official in the Tax Policy Department. This enhanced management attention and focus on TEs aligns with good country practice in jurisdictions where TEs are efficiently managed.

b. Uganda Revenue Authority

i. Administer enacted tax expenditures.
ii. Publish detailed administrative guidelines, processes, or steps for implementing the TEs.

iii. Support the preparation of the ex-ante evaluations of new TEs and the annual tax expenditure assessments

c. **Attorney General's Office**

i. Based on the Cabinet Minute directing the Minister responsible for finance to implement the new TEs, as approved by Cabinet and receipt of instructions from the Minister responsible for finance, shall draft the relevant legislation.
ii. Authorize the Uganda Printing and Publishing Corporation (UPPC) to print and publish the relevant Bill in the Uganda Gazette.
iii. Review and/or approve draft agreements and/or Memorandums of Understanding that authorize the government to pay taxes on behalf of private-sector taxpayers.

d. **Parliament**

i. Review and debate the annual tax expenditure report.
ii. Consult with key stakeholders during legislative processes.
iii. In case of a need for adjustment of the proposals by Parliament, Parliament shall recommend the proposed changes to the Ministry for further scrutiny. This process ensures that the adjustments are thoroughly analyzed following the established principles under 5(i) and (ii) before they are adopted.
iv. Enact legislation related to tax expenditures.