

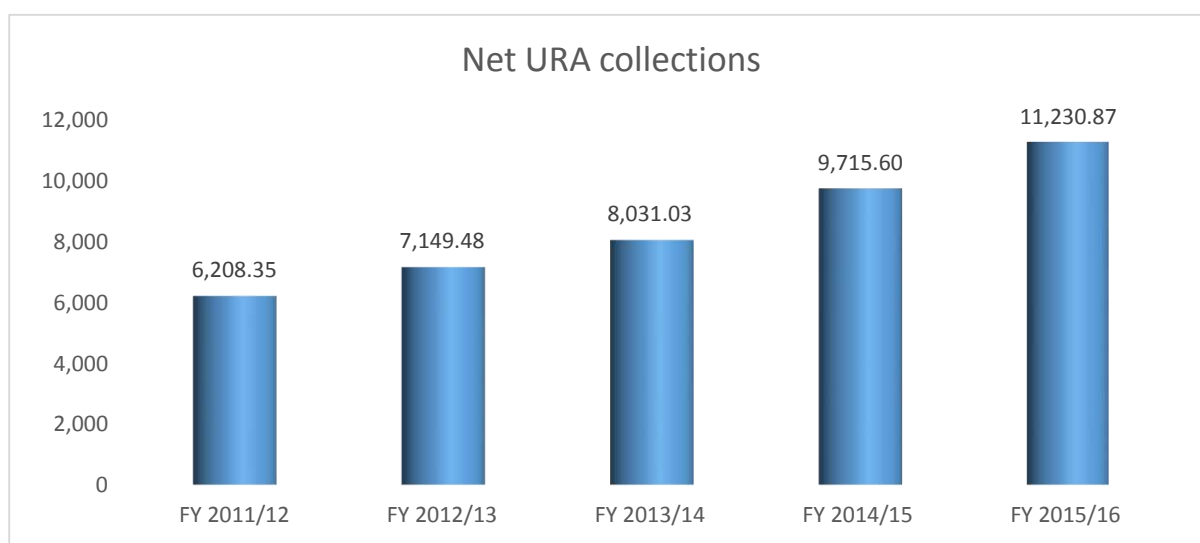
Theme: Productivity Partnership (Partnerships For Business Progress & Revenue Productivity)

In fiscal year 2015/16, URA embarked on a task of mobilizing revenue worth UGX 11.63Tn to finance government development programs, by funding up to 64% of the national budget. The journey we undertook as URA in July 2015 involved various initiatives targeting fostering of partnerships, improving productivity of our tax system and ensuring sustainable progress in the areas we considered critical revenue sources. I am happy to report that despite the numerous economic challenges faced during the concluded financial year including slower economic growth, reduced import volumes, depreciation of the Ugandan shilling and relatively subdued investor confidence due to nervousness surrounding the political period among others, we tried our best to collect UGX 11.23Tn. Therefore, Allow me congratulate you the Taxpayers without whose cooperation, we would not have moved this far.

1.0 Revenue Performance

URA collected net revenue worth UGX 11,230.87Bn, posting a growth rate of 15.60% (UGX 1,515.28Bn) compared to the same period last financial year.

Figure 1: Net Revenue collection (UGX Bn): July to June



Source: URA Data Base

Domestic tax collected UGX 6,399.99Bn while international trade contributed UGX 4,832.47 Bn. Domestic tax performed at 95.63% while International trade tax performed at 97.27%. Domestically, the core tax heads that is corporate tax, VAT, PAYE and Local Excise Duty performed below target just as for customs where the core tax heads namely; VAT at importation, import duty also performed below target with the exception of petroleum duty.

2.0 Reasons for Revenue Performance

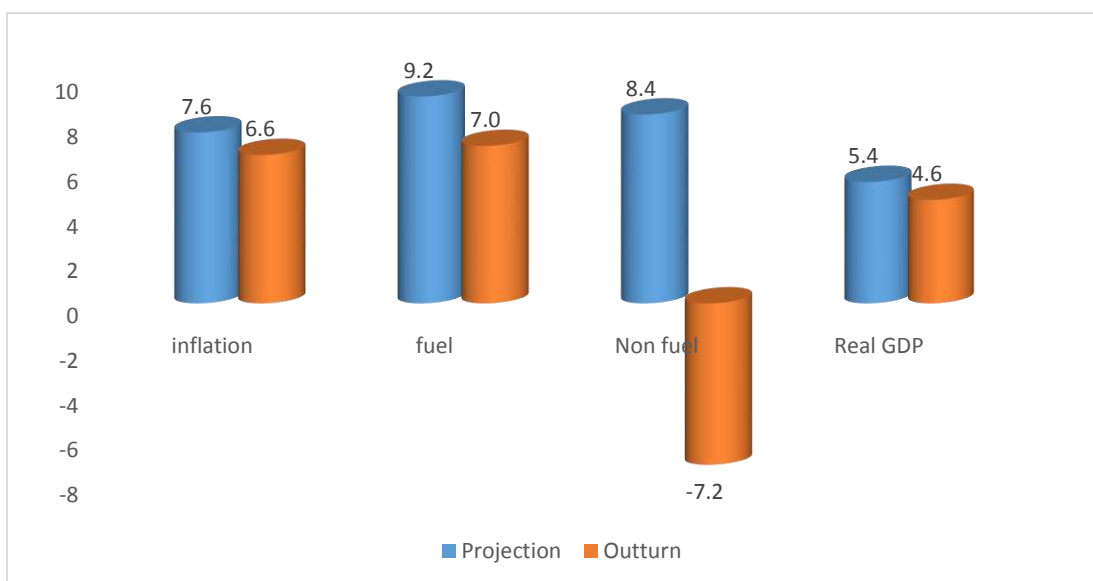
There has been a decline in revenue growth rate in FY 2015/16 compared to that of last year by about 5 percentage points. There are a number of factors that have contributed to this performance and thus a shortfall of UGX 404.54Bn.

2.1 Strained Macroeconomic Environment

There are a number of factors that have contributed to this performance starting with a strained macroeconomic environment experienced during this FY 2015/16 compared to the projected outturn at the beginning of the FY. For example;

- i. GDP growth of **4.6%** vs. the projected **5.4%**;
- ii. An average **14.2%** depreciation of the UGX to the USD from a projected outturn of 3,009 to 3,435.95. The shilling depreciated by 25% in 2015 alone.
- iii. lower than anticipated fuel volume growth of **7.0%** vs. the projected **9.2%**;
- iv. A decline in non-fuel import value in USD of **-7.6%** vs. an anticipated growth of **8.4%**;
- v. Head line inflation growth of **7.6%** vs. the projected **6.6%**.

Figure 2: macroeconomic assumption 2015/16



Source: URA Data Base

The exchange rate developments during the FY 2015/16 had a net negative effect on international trade taxes where the benefits observed from the exchange rate gain were wiped out by the loss in customs value and fuel volumes. On the overall, there was a net loss in revenue of UGX 98.89 Bn from international taxes as the table below highlights.

Table 1: Exchange rate impact on customs revenue

	Estimated Revenue (UGX Bn)
Exchange rate gain/loss	429.86
Fuel import volumes	0.04
Customs import value (US\$)	(528.80)
Net revenue loss/gain	(98.89)

Source: URA Data Base

The paltry revenue gain in fuel is attributed to the front loading of fuel in June 2016 especially for petrol due to the policy rate increase on petroleum imports.

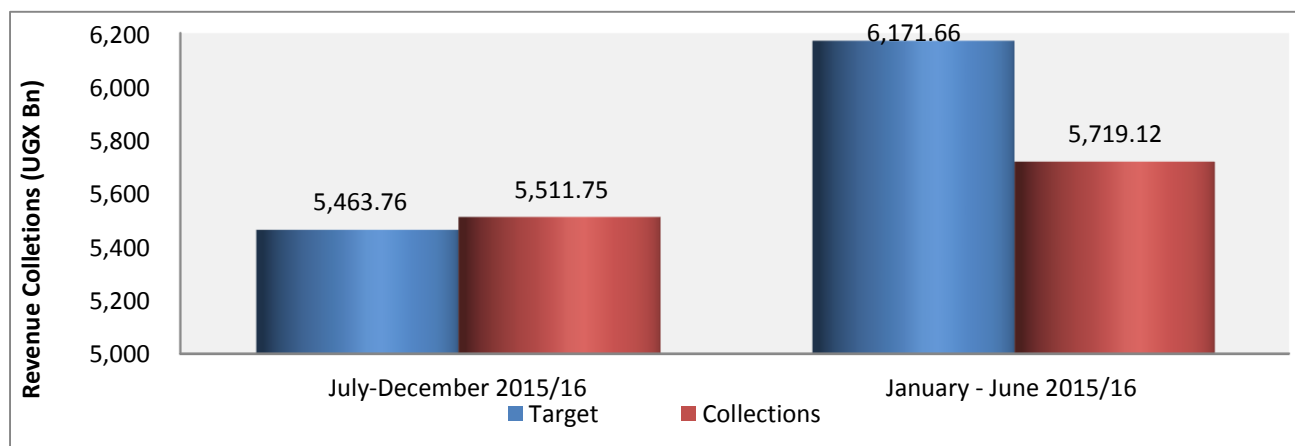
2.2 Funding gaps-Financial Constraints

The budget allocated to facilitate URA operations registered a decline of 10 percentage points during the FY 2015/16 compared to the last FY. As a result of this, we experienced a funding gap of UGX 55.11Bn, this amount was meant to enable us collect taxes worth UGX 110 Bn through administrative initiatives by supporting some structural reviews, processes and system upgrades. Examples of unfunded priorities include Digital tax stamps, Electronic Fiscal Devices (EFDs), Extending Electronic Cargo Track System (ECTS) to Mombasa, e-Tax interface with National ID to mention but a few.

2.3 Election Cycle

The Elections factor coupled with a number of multiple public holidays during this FY 2015/16 further affected the revenue collections as illustrated in the figure below:

Figure 3: Net revenue performance (UGX Bn)



Source: URA Data Base

During the period July- December 2015, URA registered a cumulative surplus of UGX 48Bn. The surplus was offset by a deficit in the second half of the financial year. This was mainly observed in the period preceding and during the elections- January, February and May. URA registered the highest shortfall of UGX 108.30 Bn, UGX 123.01 Bn and UGX 110.33 Bn respectively due to the political environment and uncertainty in the business environment.

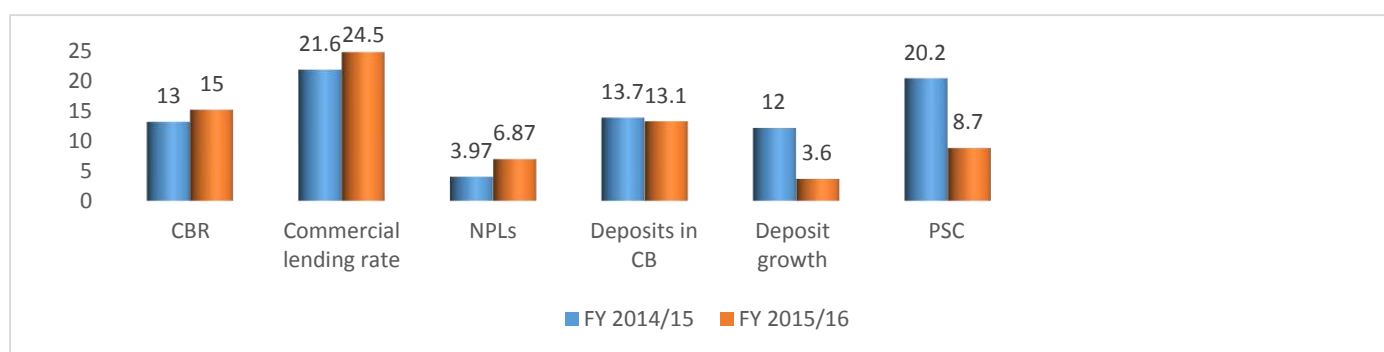
2.4 Reduced Profitability in the Financial Services Sector:

The biting macro environment characterized by depreciation of the shilling and a surge Non Performing Loans (NPLs) experienced by the banking sector affected their profitability and hence revenue performance leading to decline in corporate tax remittance of UGX 12 Bn. The following key factors affected revenue performance:

- i. Central Bank Rate (period ending) was **15 %** in FY 2015/16 vs. **13 %** in FY 2014/15
- ii. Commercial lending rate (average) grew to **24.5 %** in FY 2015/16 vs. **21.6%** in FY 2014/15
- iii. Nonperforming Loans (NPLs) increased to **6.87¹ %** in FY 2015/16 vs. **3.97%** in FY 2014/15
- iv. Total Deposits held by commercial banks declined to **13.1 %** in FY 2015/16 vs. **13.7 %** in FY 2014/15
- v. Shillings deposit growth reduced to **3.6 %** in FY 2015/16 vs. **12.0%** in FY 2014/15
- vi. Growth in Private Sector Credit (PSC) also dropped to **8.7%** in FY 2015/16 vs. **20.2%** in FY 2014/15

¹ As at end of March 2016

Figure 4: key factors that affected banking sector



Source: URA Data Base

2.5 Reduced Sales and Production

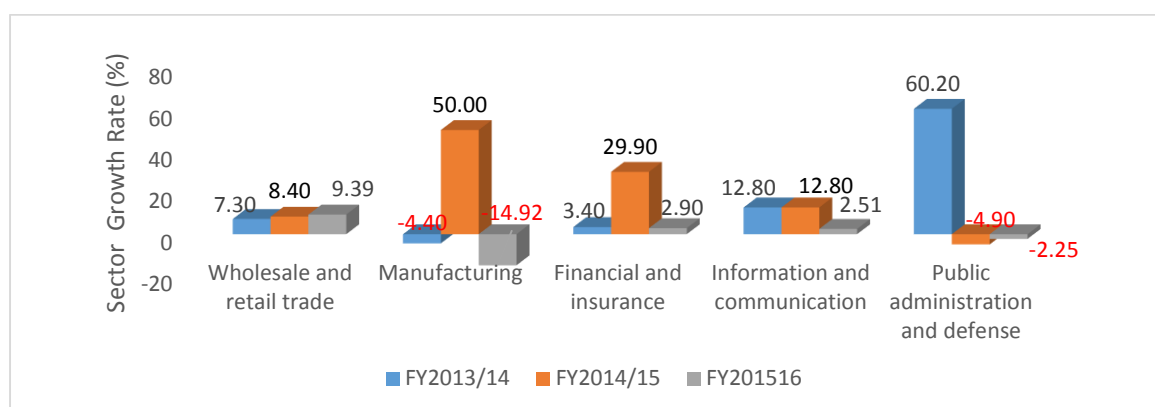
Further still, the reduction in economic activity led to low demand and affected consumption which affected excise and VAT collections (UGX 239.17Bn). During the FY 2015/16 low production was observed especially in sugar, cigarettes and soft drinks sub sectors compared to same period last financial year. Low sales were also observed in cigarettes and sugar sub sectors compared to same period last financial year. Local production was low due to the increase in imported substitutes for domestically produced good.

3.0 Performance of Economic Sectors

There are 21 sectors from which revenue is collected in Uganda. The top five performing sectors contributed approximately 80% of the total net collections. Looking at the year to year growth rates, whole sale and retail sector posted a positive growth although it was very insignificant-whole sale and retail sector registered a less than 1 percentage points. The year to year growth rates for the other four major sectors show that:

- i. Manufacturing sector registered a decline of 64.92% percentage points
- ii. Financial and insurance sector registered a decline of 27.00% percentage points
- iii. Information and communication sector registered a decline of 10.29% percentage points
- iv. Public administration and defense registered a decline of 2.15% percentage points

Figure 5: Performing of the top 5 economic sectors.



Source: URA Databases

4.0 Regional Comparison for FY 2015/16

Figure 6: Regional revenue growth rates comparison



Source: *EARATC Databases (June 2016)*

Despite the economic and political conditions, URA registered a growth rate of 15.60% compared to regional growth average of 14.11% during the period July 2015- June 2016. The regional revenue collections performance (Target Vs collection) for the period was 99.71% compared to URA's performance of 96.52%.

5.0. Initiative implemented in FY 2015/16

5.1 Initiatives done to reduce cost of doing business and improve efficiency of service delivery:

One-stop-shops, In a bid to bring services closer to our esteemed clients and expand the tax register, URA has collaborated with government agencies and 34 urban municipal councils to operate joint offices dubbed One Stop Shops (OSS) with KCCA, and the Uganda Registration Services Bureau (URSB). As a result of this, taxpayers can now register their business name, acquire trade license and register for taxes under the same roof.

Operationalizing the One stop Border Posts (OSBPs): Construction and operationalization of One Stop Border posts has been completed at four (4) border points of Malaba, Mutukula, Busia, and Mirama Hills during the FY 2015/16. Construction of OSBPs is on-going at two (2) border points of Katuna, and Elegu.

Under the OSBP framework, government border agencies of two given countries share a common border operate under one roof and are involved in clearance of goods; traffic crossing the border need only to stop at one side of the border. Each border post handles incoming traffic only, with exit and entry procedures completed in the same building. This initiative has ensured quicker border clearance, limited duplication of border agency interventions, cutting cargo transit time by 50% among others.

Companies receive Authorised Economic Operator (AEO) status: AEO companies increased from 10 to 28. AEO's are rewarded with priority treatment at all times, pre-arrival cargo clearance, self-management of bonded warehouses, choice of place of physical examination of cargo, automatic renewal of Agency licenses for being compliant tax payers. Currently, over 6,000 declarations are made monthly by AEO's and these declarations account for 28% of customs taxes. This initiative has resulted into immense reduction in clearance times and reduced cost of doing business.

Implementation of the Single Customs Territory (SCT): This initiative has enabled lodgement of declarations before cargo arrives at Mombasa. It also resulted into the use of a single declaration for bulk cargo that would otherwise require multiple declarations. This has reduced on time taken to move goods from Mombasa to Kampala. While it took 18 days to move cargo from Mombasa to Kampala prior to implementation of SCT, it now takes 4-6 days.

5.2 Initiatives implemented to enhance compliance

Visiting of taxpayers. The campaign to constantly visit tax payers started 3 years ago to showcase those contributing to the revenue we collect and how it benefits the country. Several corporate companies have been visited to thank them for the role played in supporting URA fulfill its mandate. We promise more of such engagements to enhance relationships and compliance. Through the different engagement with taxpayers, we have been able to identify taxpayers' pains in meeting their obligation and as a result we have developed mechanisms that make it easy for taxpayers to compliance.

Rewarding and complimenting loyal taxpayers: In a bid to motivate taxpayers, we have been rewarding taxpayers who have been contributing to the revenue performance. This is due to the fact that “praise makes hard working men better and encourage lazy men to work hard”. We are doing this through giving tax holidays, preferential treatment when clearing their goods at customs, after exhibiting high levels of compliance in their tax obligations. We call upon other taxpayers to comply so that such services are too enjoyed by them.

Receipt campaign: In order to improve compliance, URA is running this campaign aimed at creating a culture of issuing and demanding for receipts whenever purchases or sales are made. This will in the due course expand the tax base and increase revenue. This is in line with the Government’s strategy to penetrate the informal sector in order to expand the tax base.

Fostering tax awareness: URA has continued to sensitize all its taxpayers in their respective sectors. Examples include real estate, rental, education, manufacturing sectors etc. Key information was shared that includes; new tax policies and their impact, importance of record keeping etc. URA implemented a budget breakfast engagement to sensitize taxpayers on the FY 2016/17 tax policies and their implication.

Open minds forum (OMF): We implemented a OMF aimed at; empowering stakeholders with knowledge on topical issues, promoting stakeholder relation, generating feedback with view of improving services offered, discussing current programs and discovering different ways of approaching initiatives or concern, giving the public an opportunity to participate in policy formulation/review and aiding public expression/community perspectives on various issues. The feedback received will be used to facilitate regional trade, regional integration and provide input to the tax education strategy.

Intelligence Enterprise: We have implemented a data warehouse code named “e-hub” a software intelligence and analytics tool that drives fast decision-making. We will be to monitor and effectively identify non-compliant taxpayers especially those involved in tax planning, tax avoidance etc. I call upon taxpayers to ensure that they comply with the tax laws and obligation before they are found.

Corporate Social Responsibility (CSR): URA supports government priorities such as improving education and healthcare and combating crime through CSR activities. Some of the CSR activities include donating assets such as IT equipment and furniture to schools, raising funds and buying equipment for cancer patients etc.

5.3 Reinforcing Partnerships and Collaborations

URA engaged stakeholders from various walks of life in pursuit of support and partnerships geared towards executing our mandate. New ideas and avenues of enhancing compliance have been identified and implemented. For example, we engaged 80 government communication officers under the umbrella of Government Communications Officers Forum (GCOF). We have partnered with Uganda Investment Authority (UIA) to harness investment and increase tax base. Strategic partnerships have been established with the following Customs Administrations and Agencies: China, Korea and Dubai Customs. This partnership is aimed at easing trade facilitation through quick and timely clearance of imports, improving capacity building, mutual assistance etc.

Legal aid: URA has joined hands with other institutions, partners, and advocates to provide legal aid through pro-bono which is organized by the Uganda Law Society to give free legal services to those who cannot afford it. During this FY 2015/16, we received and issued 122 legal advisory notes and responses. We will continue offering legal support to our clients on legal issues to do with tax amendments and different tax procedures like TIN registration.

Fighting corruption: We have partnered with the Anti-Corruption coalition Uganda (ACCU), Transparency International Uganda chapter, Strengthening Uganda's anti-corruption response (SUGAR), East African Revenue Authorities integrity Forum, Inter-Agency Forum (IAF) and Anti-corruption Court to fight corruption and thus enhance compliance. Partnering with the above institution, is one way of sharing experiences on how best corruption can be fought and also reach larger audiences. This in turn would help citizens of this country to get the services they deserve. In the same vein of fighting against corruption, a shame-list was introduced to publicize cases for deterrence purposes. As URA, we are ready to take legal action on persons who contravene with anti-corruption laws without fear or favor. We also pledge to make sure that all cases of suspected or reported fraud, misconduct or non-compliance are thoroughly investigated after which disciplinary actions are taken. We have carried out internal integrity drives and financial literacy-to boost financial independency among our staff.

Minimizing Aggressive Tax avoidance: URA has worked together with other African tax authorities to mitigate aggressive tax planning and avoidance by Multinational Companies (MNCs) - the practices of moving profits to low tax jurisdictions. This is because repatriated monies reduce the total development resource base and the government is at times forced to plug this gap through borrowing and increase in taxes which more often than not disproportionately falls on the poorest communities of our society. The loss of revenue arising from erosion of the tax base usually has a knock-on effect on social welfare as Governments **enforce** austerity measures.

5.4 Initiative to build professional staff

Staff training: in a bid to ensure standardized client experience as well as improve URA's quality of service, we trained all our front office staff in client service courses related to emotional intelligence and serving clients, communication skills, and attitude. Further still, our customs officers were trained by Chinese customs experts in control and management of free trade zones, risk management, audit and warehousing and customs valuation.

6.0 Key Initiatives to be implemented during FY 2016/17

E-services: In order to tap into the informal sector and help taxpayers meet their obligations timely and conveniently, we launched URA services catalogue, which offers information about all URA services and a eservice payment method known as PayWay in addition to the existing payment platforms such as MTN mobile payment, Mobile App and banks. We hope that PayWay will enable the reduction of turnaround time for the taxpayers and hence increase their efficiency and profitability.

Issuing Certificates Of Origin: We are now issuing certificates of origin for locally produced exports to achieve effective tax administration, reduce turnaround time and bureaucracy.

Declaration Processing Centre (DPC): Construction of the DPC was completed in the FY 2015/16. URA will implement the DPC in the Department of Customs as the single place where declarations will be processed to improve staff productivity, improve declaration control, enhance integrity, enhance implementation of standard operating procedures and improve staff professionalism.

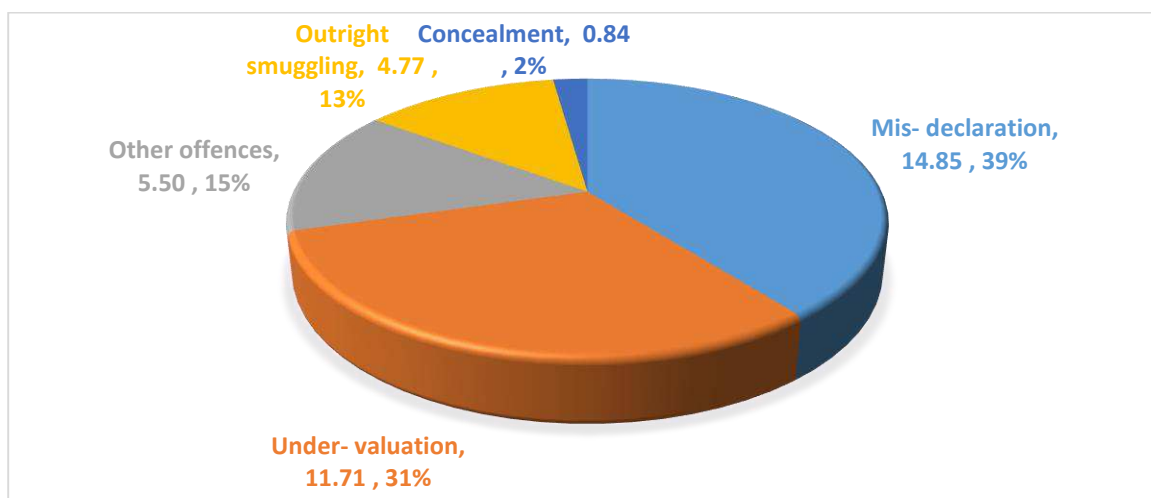
Electronic Single Window: URA is championing the drive to provide a platform on which all parties involved in trade and transport can lodge standardized information and documents at a single point to fulfill all import, export, and transit -related regulatory requirements. This will enable URA Customs and agencies that perform import-export regulatory requirements access through a single point. This initiative which is at pilot stage will further reduce the cost of doing business, create transparency in the supply chain, and result into an increase in government revenue when fully implemented.

7.0 Enforcement Measures To Safeguard Our Economy And Business Community

URA is aware of the harm smuggling brings to the economy and business at large. In light with the above, we implemented various enforcement interventions to reduce on smuggling and exportation of illegal goods and ensure that all imports pay the right duties and levies. We for example, strengthened the enforcement team by launching a forensic audit that ascertains the extent of revenue loss. We have also increased our intelligence at all borders. We have signed a memorandum of understanding (MOU) with Uganda National Bureau of Standards (UNBS) and the Atomic Energy Council (AEC). This partnership is crucial in information sharing and developing a common position on matters of concern such as protecting Ugandan lives and environment. We have further sensitized most importers on implications of under declared or smuggled.

As a result of the above, enforcement interventions during the FY 2015/16 yielded UGX 37.62Bn, with a total of 5,296 notices of seizure for both dutiable and non-dutiable goods issued.

Figure 7: Customs Enforcement Measures



Source: URA Data Base

The top risky items seized during the period include: banned cosmetics, motor vehicle spares, motorcycle spare parts, phones, rice, hardware items, footwear etc.

Tackling Tax Evasion

In order to recover taxes that have been under declared through self-assessment, our Tax Investigation Department investigated 82 cases. These involved the most serious cases of non-compliance and fraud that have criminal implications. We have been able to burst different fraud schemes that include among others: the purchase and sale of fictitious invoices to support VAT declarations; the abuse of the VAT refund regime using fictitious exports, and the forgery of stamp duty payment receipts to facilitate property transfers. Our Tax Investigation Department in collaboration with Financial Intelligence Authority (FIA) has been able to handle a number of Anti- money laundering cases where concealed income has been established and ultimately brought into the tax net. We have also intensified the use of the Input-output coefficients in determining the proper declaration of sales and purchases in the different sectors including road construction etc. We call upon the taxpayers to desist from inaccurate

declaration and reporting because our tax investigator team is well equipped to bring such culprits to law.

Legal Services Performance

During the FY 2015/16, a total of 120 cases were received, profiled and pleadings filed in courts/TAT by our Legal Services and Board Affairs Department. Of the 70 judgments/rulings received, 51 cases were decided in favor of URA. This represents a 73 % success case. A total of UGX 87.63 Bn (representing 138.5% performance) was recovered by the Debt Collection Unit from a number of enforcement measures. I call upon taxpayers to meet their tax obligations so as to avoid circumstances where we institute the various recovery measures stipulated in the tax laws for recovery of tax arrears.

8.0 Conclusion

Our target for FY 2016/17 is UGX 13.18Bn. We have devised a number of strategies to ensure that we surpass this target. We plan to offer personalized taxpayer services by consulting and deeply involving taxpayers in the designing of our processes, systems and products. This will ensure that services offered are based on a deeper understanding of the entire taxpayer experience and that the compliance burden on taxpayers to meet their obligation is reduced. We plan to implement specific and targeted taxpayer engagement programs. For example specific sectors, industries, associations, authorities and institutions will be engaged to ensure the right information is given to the right people.

We plan to increase collaborations with other government agencies and key partners to enable us deliver on our mandate. We will be interfacing with both the public and private sector to allow us access rapid, real-time data sharing, reduce the information burden on the taxpayer and increase compliance levels.

Under our Corporate Plan for 2016/20, we plan to **Cultivate A Taxpaying Culture Through Provision of Reliable Services, Leadership Development and Building Strategic Partnerships**. We appreciate that the journey to transform our economy to middle income status by year 2020 is not an easy one, but at the same time it is not IMPOSSIBLE!

Last but not the least, please allow me bring to your attention a few highlights for the next couple of years beginning FY 2016/17. First, We are bidding farewell to our two former board members whose term of service ended, the former board chairman Mr. Gerald Ssendaula and a former board member Ms. Theodora Mondo Twongyirwe. I am pleased to announce the Hon Minister of Finance appointed Dr. Simon M.S. Kagugube as our new Board Chairman and Ms. Loy Tumusiime as a new board member with effect from 12th July 2016. The rest of the board composition remains unchanged.

On 15th September 2016, URA will be marking 25 years of existence as a semi-autonomous institution. We are also privileged to host the Governing Council for the WCO-East Southern African Regional in Mid-2017 and the 4th WCO Global AEO Conference in 2018.

We appreciate all our clients in your respective capacities and we urge all eligible taxpayers to continue paying your taxes at the right time, in the right amount and let us **DEVELOP UGANDA TOGETHER!**

FOR GOD AND MY COUNTRY.

Doris Akol