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UGANDA BUDGET SPEECH 2021/22- KEY HIGHLIGHTS

- Theme-Industrialisation for inclusive growth, employment and wealth creation.
- Highlights of Uganda's Budget speech-2021

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Preamble

In the absence of a substantive Cabinet, the President of the Republic of Uganda exercised his prerogative powers and delegated the task of presenting this year's budget to the newly designated State Minister for Planning in the Ministry of Finance, Planning and Economic Development, ("the Minister") who delivered his maiden Budget speech on 10th June, 2021 in a largely scientific function.

The theme for this year's budget was "Industrialisation for inclusive growth, employment and wealth creation". In a nutshell, the Government of Uganda expects to spend Ugx.44.779 trillion (USD.12.26 Billion) with projected domestic revenue collections standing at Ugx.22.425 trillion (USD.6.14 Billion) of which Ugx.20.837 trillion (USD.5.7 Billion will be tax revenue and approximately Ugx.1.588 trillion (USD. 435,000) being Non-Tax revenue.

The revenue projections seem to be rather optimistic given the commencement of the second Covid-19 wave which has in itself caused significant disruptions particularly in the education and tourism sectors.

The Budget

The Ugandan economy has not been spared by the effects of the Covid-19 pandemic on global economies. It was against this backdrop that the Minister presented his 2021-22 Budget. According to the Minister, Uganda's debt amounted to USD.17.96 Billion as at 31st December, 2020 with the borrowed funds being used to finance mainly infrastructure projects.

The Minister further acknowledged that the, "Corona Virus pandemic has severely impacted the health, economic and social status of Ugandans.". In his speech, the Minister made reference to a study by the Economic Policy Research Centre (EPRC) and the International Growth Centre (IGC) which showed that only 10% of Micro, Small and Medium Enterprises in Uganda remained open during the lockdown, and 93% of all Micro, Small and Medium enterprises were back in operation by October, 2020. Additionally, 90% of employees of private sector firms who were laid off during the lockdown were subsequently hired back after lockdown, and only 6.5% suffered permanent layoffs.

With this backdrop, the focus of the budget was on recovery of the economy as a way to address the economic shocks brought about by the pandemic. With half of Uganda's budget being financed through tax revenues, the Government was faced with the challenge of whether or not to increase taxes on consumption, having failed to meet its revenue collection targets in the previous year.

Additionally, increasing taxes on consumption would put a strain on consumers who are already feeling the pinch of a depressed economy seeking to recover from the effects of the Covid-19 pandemic.

To increase revenue collections, the Minister indicated that Uganda Revenue Authority ("URA") will implement administrative interventions to boost revenue collection through a myriad of interventions, key of which is to enhance data analysis through interfaces with other Government information systems to enhance taxpayer compliance and to enforce compliance using the Electronic Fiscal Receipting and invoicing solution (EFRIS) and Digital Tax stamps.

Income Tax

In a bid to widen the tax base in regards to taxation of rental income, the Minister indicated in his speech the removal of the incentive for non-individual rental tax payers to claim unrestricted deductions when computing rental tax. Against this backdrop, section 22 (1) (c) of the Income Tax Act has been amended to limit allowable deductible expenses for any person deriving rental income to 75% (Seventy-five percent) of the rental income. The limitation of deductions has also come with a revision of tax rates in regards to rental tax on persons with the enactment of a flat rate of 30%.

Furthermore, the new tax measures have also discontinued concurrent deduction of initial allowances and depreciation in the first year of use of qualifying assets.

Excise duty

Unlike in previous years where it was routine to increase rates of "sin" taxes (namely tax on alcohol and cigarettes), this time round Government acted cautiously so as not to overburden an already financially stressed population trying to recover from the pandemic.

No significant change was made on the tax levy on "sin" taxes due to the effect of the Covid-19 pandemic on the production of goods and a desire not to disrupt the current consumer purchasing power.

Taxation of the Digital economy

In July, 2018, the Government introduced the Over the top"(OTT) tax commonly known as the social media tax. Whereas optimistic projections were presented to justify the introduction of the said tax, the strong arguments in support have fallen short of meeting expected revenue projections despite significant gains realised in the previous financial year.

In light of this reality, the Government has scrapped the excise duty rate on Over the Top services (OTT) and introduced an excise duty rate of 12.0% on airtime, value added services and internet data excluding data for provision of medical services and provision of education services.

While the new tax may be embraced by some with the view of shoring up domestic tax revenues inorder to rebuild an economy that has been battered by the Covid-19 pandemic, the overwhelming majority of urban internet users will have to experience the hardship of having to pay more for internet data while working from home or transacting online.

Sectoral Highlights

Agriculture

Government plans to prioritize Agriculture and special attention will be on implementation of the Parish Development model through production, processing, value addition and marketing as one of the 7(Seven) pillars of the Approach.

Furthermore, in a bid to promote agro-industrialisation, Government plans to develop commodity value chains linking national, regional, district and sub-county level commodity off takers to private nucleus farmers inorder to enable production of the 14 commodities under the Parish Development model.

Infrastructure

The Government plans to upgrade 400 kilometres equivalent of national roads from gravel to tarmac and rehabilitate 200km of equivalent of national roads. Furthermore, acquisition of the right of way for the Standard Gauge Railway (SGR), rehabilitation of the Tororo- Gulu Metre Gauge railway are in the pipeline in a bid to spur growth and socio economic transformation.

Mining and Oil and Gas

In a bid to maintain the momentum in the oil and gas sector that was brought about by the signing of key agreements between Uganda, Tanzania and the International Oil Companies (IOCs) for the East African Crude Oil Pipeline (EACOP), Government has committed to carry out the following interventions namely:

- Commencement of the second licensing round for exploration areas
- Commencement of the construction of oil roads
- Implementation of the National Content Policy

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