tax justice network — Africa

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Tax incentives are draining Uganda of needed revenue for essential public services

Every year Uganda sacrifices an amount equal to nearly twice its entire health budget due to its use of tax incentives such as tax holidays for foreign businesses. Worse still, research shows that these incentives are not necessary to attract investments to Uganda. Government needs to remove excessive tax incentives, promote transparency on the tax incentives they give, and coordinate with the East African Community to avoid harmful tax competition.

A new report by Tax Justice Network-Africa and ActionAid International shows that tax incentives reduce revenues available to fight poverty. Uganda's revenue losses from tax incentives and exemptions –as much as **UShs 690 billion** in 2009/10 – amount to nearly twice Uganda's entire health budget of UShs 375 billion for 2008/09. While these enormous funds are lost every year, Uganda's revenue collection is among the lowest in East Africa. **Removing these incentives could raise more revenue for essential public services**.

> *"Eliminating tax exemptions and incentives is the right way to address Uganda's revenue gap"*
> - IMF

Tax incentives are granted by the Government to businesses to attract Foreign Direct Investment (FDI). **The primary beneficiaries of Uganda's tax exemptions and incentives are large domestic firms and foreign multinational companies**. The poor bear the burden of the incentives as they reduce the revenue available to fund essential public services.

What is worse, there is ample research documenting that **tax incentives are not needed to attract FDI** in countries such as Uganda. The IMF, World Bank, OECD, UN, and African Development Bank are among the institutions that endorse this conclusion.

The Government has promised to review the tax incentives that they have granted, but very little has so far been done and lack of transparency around tax incentives is still the norm.

> *"Studies.... suggest that tax-driven investment does not provide a stable source of investment in the recipient country"*
> - Joint IMF, OECD, UN and World Bank report for the G-20

Uganda's provision of tax incentives is part of the **tax competition among countries in the region**. Countries are being tempted to increase tax incentives in the belief that it will attract FDI, creating **'a race to the bottom'**.

Urgent action is needed to address the problem of excessive tax incentives and harmful tax competition. The Government should:

- Remove tax incentives granted to attract FDI, especially tax holidays.
- Promote transparency in the granting of tax incentives by:
  - Publishing all Production Sharing Agreements in the oil sector to make clear the extend of investment incentives granted.
  - Undertake the promised review of all tax incentives, which should be made public,
  - During the annual budget process, provide a tax expenditure analysis with annual figures on the cost to the government of tax incentives and information on the beneficiaries of such tax expenditure. This information should be made freely available.
- Promote coordination in the EAC to address harmful tax competition.

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