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Uganda Budget 2017

8 June 2017

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Contents

Introduction

The Ugandan Budget Statement was delivered by the Hon. Minister of Finance, Planning and Economic Development on 8th June, 2017. The theme of this year's Budget is "Industrialization for Job Creation and Shared Prosperity" which is in line with that of the East Africa Community (EAC). It also corresponds directly with the second National Development Plan (NDPII) 2015/16 to 2019/20: "Strengthening Uganda's competitiveness for sustainable wealth creation, Employment and inclusive growth".

Budget 2017 / 2018

In line with the Public Finance Management Act 2015, as amended, the budget was approved by Parliament on 31st May, 2017.

The overall budget for FY 2017/18 has increased by approximately 10% compared to last year from Ushs 26.3 trillion to Ushs 29 trillion in line with the projected growth of the country.

Economic Growth Strategy

The Economic Growth Strategy in relation to the theme of the budget for the FY 2017/18 rests on four pillars which are as follows:

i. Increasing production and productivity in the key primary growth sectors of Agriculture, Tourism and Minerals, oil and gas
ii. Industrialization through value addition
iii. Enhanced private sector developments
iv. Increased public sector efficiency

However, it is important to note that Uganda's development efforts in FY 2017/18 will face challenges originating from the continued uncertainty surrounding the recovery in global economic growth, weak commodity prices and geopolitical events in some of the key trading partners. Such developments could continue to have negative effects on the country's export earnings, FDI flows and remittances.

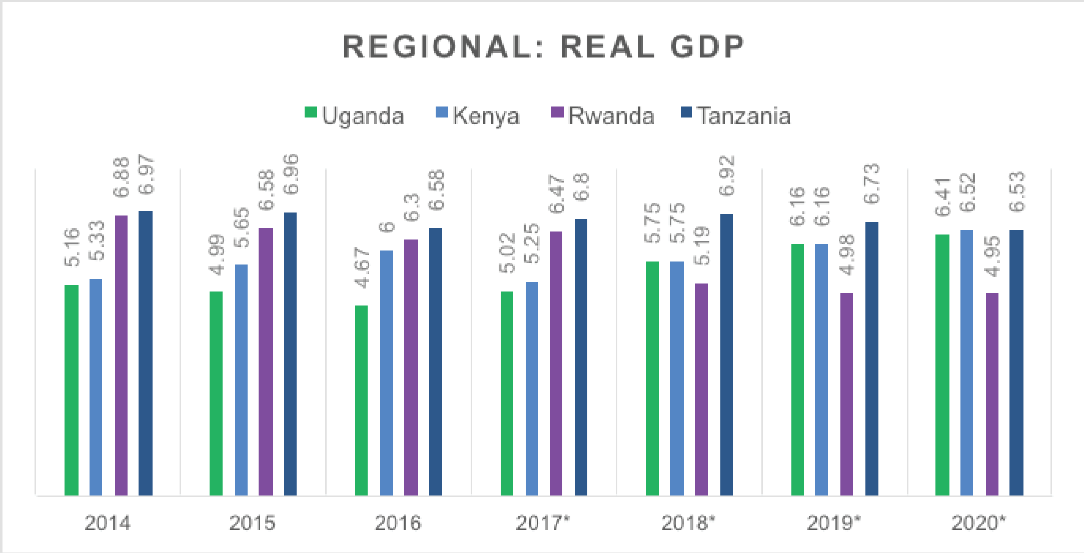
Global and Regional Factors affecting Uganda

There are a number of global factors which have affected the social and economic progress of Uganda. These factors are as follows:

1. Slow economic recovery in Europe which translated into lower demand for our export commodities.
2. Economic recovery in the USA which led to a reduction in capital flows to Africa, as investors prefer to invest in US markets.
3. Rise in interest rates globally. This has resulted in high cost of capital and borrowing.

Growth in the region remains weak as terms of trade worsened and capital inflows declined. Sub Saharan Africa experienced persistent decline in growth over the last four years attributed to low commodity prices, weak external demand, drought and security problems. According to the African Economic Outlook 2017, Africa's growth slowed to 2.2% in 2016/17, down from 3.4% in 2015/16. The regional developments that had an impact on the Ugandan economy include the following:

1. Civil conflicts in parts of the East African region. This has disrupted export markets for our goods and services. Additionally, these conflicts have led to influx of refugees into Uganda, putting pressure on our social amenities.
2. Effects of climate change and environmental degradation. These have undermined food security and economic growth.
3. High interest rates and non-performing loans. This has constrained private sector growth.



4. Undue Delays and inefficiency in execution of Government programs and projects. These have dampened anticipated positive impact on the economy.
5. Corruption. This has held back projects and programs in some sectors.

Despite the fact that growth in the continent was lower, according to the IMF, Uganda's economy has performed reasonably well in a complex environment. Growth slowed marginally to 4.8% in FY15/16, reflecting muted sentiment in an election year and adverse global and regional developments. The current account deficit improved by 1 percentage point to 5.9% of GDP, and the Uganda Shilling has stabilized after its sharp depreciation in 2015.

Macroeconomic outlook

The overall macroeconomic goal this year remains at maintaining macroeconomic stability while raising adequate resources to bridge the infrastructure gap in support of sustainable economic growth and socio-economic transformation. Macroeconomic stability remains the anchor in the country's sustainable economic growth and structural formation of the economy. The macroeconomic objectives for the FY 2017/18 are as follows:

- Achieve high rates of economic growth
- Achieve low and stable rates of inflation
- Increase domestic revenue mobilization efforts
- Maintain a minimum level of international reserves
- Promote a sustainable and competitive exchange rate

These objectives will be achieved through promoting a competitive exchange rate and building international reserves of 4.5 months of future import of goods and services. This approach intends to buffer any unexpected external shocks.

Fiscal Framework

In FY 2016/17, the Government completed the Charter for Fiscal responsibility which was approved by the Parliament in December 2016. This charter provides an approach for operating a fiscal policy that is consistent with sustainable fiscal balances and maintains prudent and sustainable levels of public debt. The main Fiscal policy objectives for the FY 2017/18 are as follows:

- Continue to support the maintenance of macroeconomic stability
- Stimulate economic growth
- Reduce Uganda's infrastructure deficit

The fiscal policy in FY2017/18 will be underpinned by the Charter for Fiscal Responsibility. Compliance with the charter will be key in propelling Uganda to attain the East Africa Monetary Union (EAMU) convergence criteria in 2021.

Monetary Policy

Bank of Uganda (BoU) continues to conduct monetary policy using the Inflation Targeting 'Lite' (ITL) monetary policy framework which is in its 6th year of implementation. The government also continued to support the policy by further recapitalizing BOU in FY 2016/17 through securities worth Ushs100 billion.

Going forward the central bank remains committed to ensuring inflation is stable and close to the medium-term target of 5% to encourage savings, investments and support economic growth. BOU will carefully adapt its monetary policy stance to changing economic, domestic and external developments with the aim of maintaining core inflation within this target.

Economic Review

Real GDP Growth

The economy expanded by 3.9% during the FY 2016/17 against a target of 5.5%. The recorded growth for FY 2015/16 was 4.7%. The slower growth recorded during FY 2016/17 was on account of a smaller increase in agriculture, forestry and fishing sector production due to the lengthy drought that affected many parts of the country. The industrial sector and service sector accounted for 75% of the total production in FY 2016/17, these sectors performed better than the agriculture sector growing at 3.4% and 5.1% respectively.

Growth for the FY 2017/18 is projected at 5.0%, this is mainly on account of improved efficiency and effectiveness in implementation of public investments as well as a recovery in private sector activity since lending rates are expected to continue to decline due to the reduction in the Central Bank Rate.

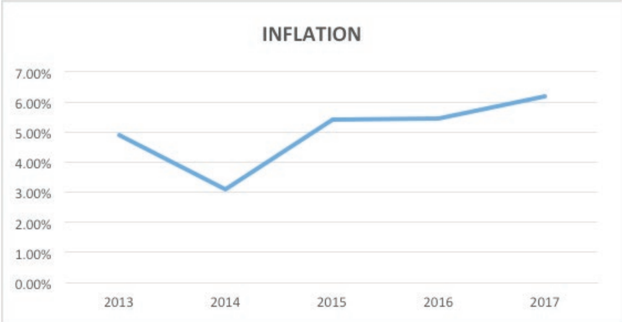
Domestic and External Financing

Government borrowing from the domestic financial market in FY 2017/18 is estimated at Ushs 954.2 billion, keeping it below 1% of GDP. Externally, budget support in the form of grants and concessional loans is projected to significantly fall in FY 2017/18 and FY 2018/19 to Ushs 34.9 billion and Ushs 35.1 billion, respectively. It is thereafter expected to remain at nearly the same levels for the outstanding period. Project support is projected to amount to Ushs 7.1 trillion, of which Ushs 5.5 trillion will be in form of loans. Project loans are projected to increase to Ushs 6.1 trillion in FY2018/19 before declining to Ushs 5.2 trillion in FY2019/20. A further decline in project loans is expected thereafter on account of completion of some of the major infrastructure investments.

Inflation

The disinflationary trend observed since January 2016 at the back of a stable exchange rate, reversed in the second quarter of 2016/17. After being at its lowest at 4.1% in October 2016, annual headline inflation gradually rose, reaching 6.8% in April 2017. Similarly, Core inflation also bottomed in September 2016 at 4.2%, rose to 5.9% in December before declining to 4.8% in April 2017.

Generally, FY2016/17 registered a lower inflation compared to the previous year. In the first ten months of the year, the outturns for headline and core inflation were 5.5% and 5.2% respectively, which is lower than the 6.8% and 6.7% observed in the first ten months of FY2015/16.



Source: IMF Dataset

In the near term, inflation is projected to edge up slightly but will remain well anchored to the medium term target of 5%. Average annual headline inflation for the FY 2017/18 is projected at 5.8%. This projection largely reflects global factors such as, the anticipated increase in international oil and commodity prices and, the tightening of global financial conditions and its associated effects on the exchange rate. It should be noted however that the residual impact of the recent drought could also lead to higher prices.

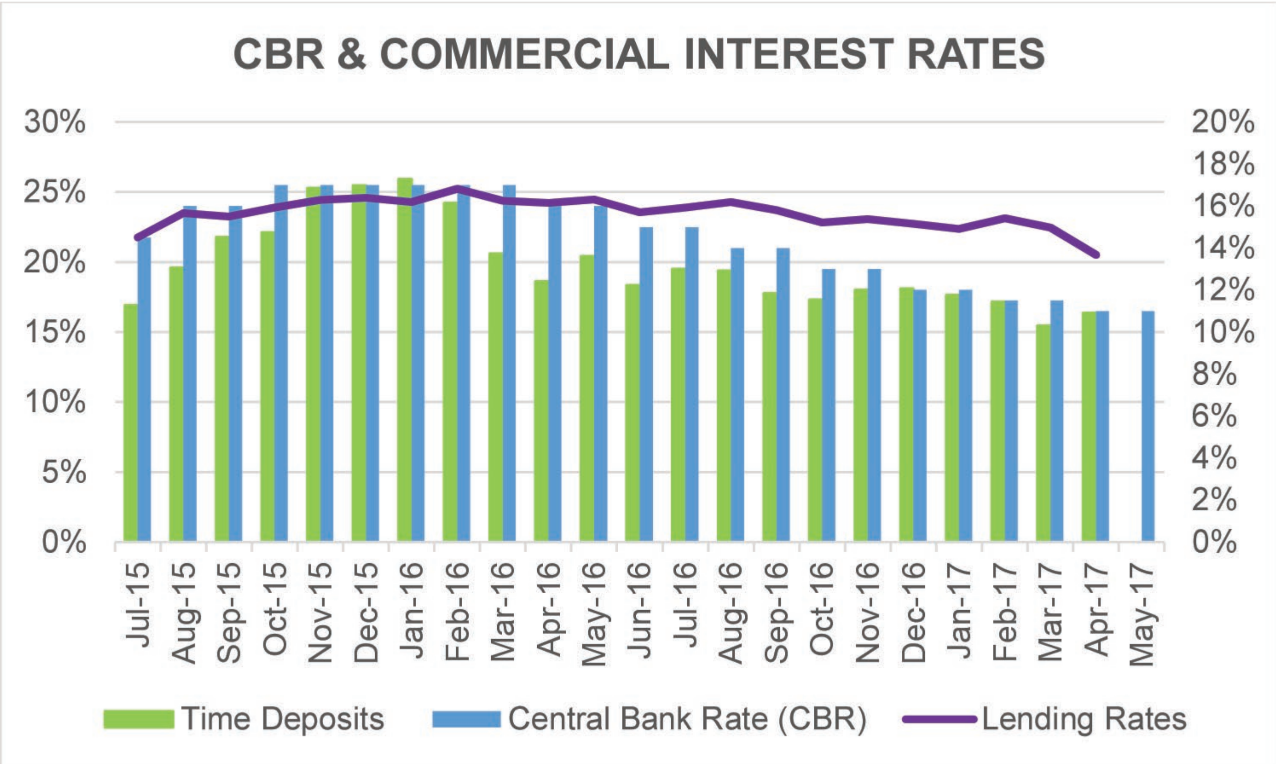
Interest Rates

The central bank's policy around interest rates was in line with the accommodative monetary policy stance given the low growth prospects amid projected low inflation outlook. BOU's easing cycle was also sustained from April 2016, gradually reducing the CBR by 600 basis points to 11.0% in April 2017.

In addition to this, interest rates on Government securities gradually declined during FY 2016/17. The 91-day, 182-day and 364-day Treasury bill yields fell from 15.7%, 16.1%, and 17.4% respectively in July 2016 to 10.5%, 11.9%, and 13.8% in April 2017.

The yields however increased in December 2016 to 15.1 per cent for the 182-day and 15.9 per cent for the 364-day respectively. This temporary increase was partly attributed to seasonal effects, indications that government would be increasing the domestic financing requirement, and anticipation of monetary tightening following depreciation pressures in October/November 2016.

Generally, interest rates mirror the effect of monetary policy easing over the year. However, the downward adjustment in commercial bank lending rates on shilling loans is slow relative to the CBR reduction. The stickiness is



Source: Bank of Uganda

partly driven by structural rigidities in the financial sector, such as the high cost of doing business.

Going forward, lending rate are expected to decline further as loan quality improves, which may lend support to private sector investment and growth. Shown below are the trends for CBR and commercial interest rates

Exchange Rate

The Uganda exchange rate is largely determined by market forces making it susceptible to both external and domestic shocks. The Shilling weakened further against the US Dollar in FY 2016/17, depreciating by 7.4% to Ushs 3,619 per US dollar in April 2017 from Ushs 3,368 per US Dollar in June 2016. The depreciation of the Shilling was generally attributed to strengthening of the US Dollar due to interest rates hikes in the US and increased demand from Oil, manufacturing and telecom sectors.

Overall, the Government remains committed to a floating exchange rate regime as the movement of the exchange rate, whether appreciation or depreciation, provides a mechanism for adjustment to changes in the domestic and/ or global macroeconomic conditions. However, the Bank of Uganda remains able and ready to intervene in the Foreign Exchange Market to ward off elevated volatility pressures.

Sectorial Analysis

Works and Transport

Transport infrastructure is key for the structural transformation of the economy. In the budget for the FY 2017/18 an allocation of Ushs 4.6 trillion has been made for this sector which is an increase of 21% from Ushs 3.8 trillion of last year's budget. The government through the second National Development Plan (NDPII) has made it a priority to increase the quality of economic infrastructure so as to accelerate the country's competitiveness.

Key projects have also been undertaken such as the construction of major expressways aimed at reducing traffic congestion and around Kampala City. About US$ 151 million of the funding will finance the construction of a 23.7 kilometre expressway, which will facilitate the journey between Kampala (Busega) and Mpigi on the Northern Corridor while about US$ 94 million of the loan will finance the rehabilitation of a 208-km road (Kagitumba Kayonza-Rusumo) towards eastern Rwanda.

The government has directed efforts towards revamping the railway system to take advantage of the associated benefits mainly to reduce the costs of transportation. These efforts are aimed at reducing damage to roads, lowering the cost of freight especially for bulky cargo, and increasing the competitiveness of the country. In that regard, progress is being made in terms of financing the construction of the Standard Gauge Railway.

Energy, Oil and Gas

Like many developing countries, the demand for energy in Uganda is expected to continue to rise as the country progresses towards middle income status. The cost of accessing energy remains comparatively high for end users. During the FY 2016/17, the end user tariff for domestic consumers increased by 7%, rising from Ushs 651 to Ushs 696 per kilowatt hour respectively.

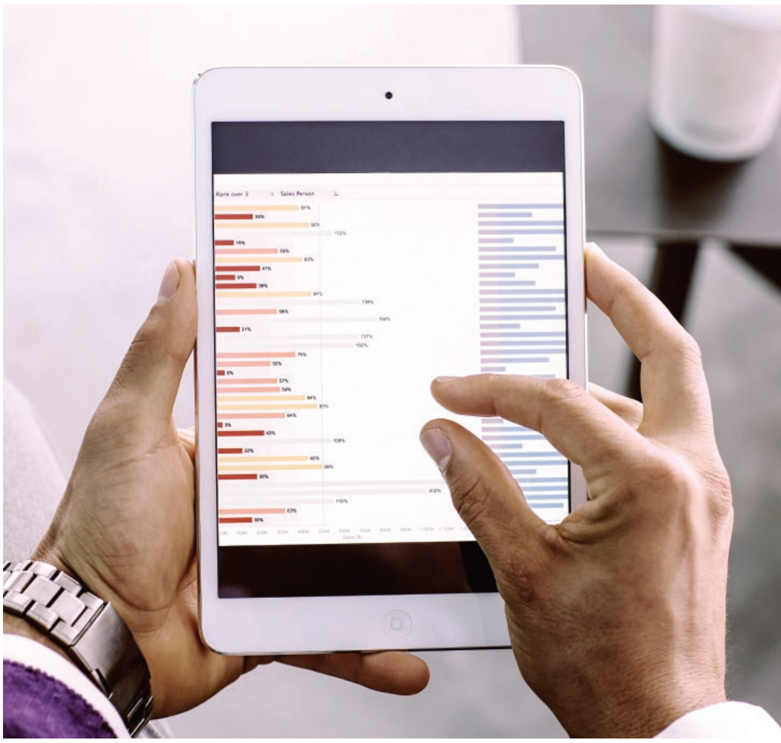
In FY 2017/18, the government has made a decision to continue to waive corporate income tax of at least Ushs 96 billion ($28 million) per year beyond June 2017, as it seeks to reduce the price of electricity produced by the hydropower project. This is expected to lead to a 3.1cents/kWh reduction in the tariff. In addition, a number of NDP II core projects are on course for timely completion including Karuma and Isimba Hydro Power Projects which are due in FY 2017/2018. Moreover, the Bujagali Hydro power project has been given a tax holiday for 5 years.

Government is also in the process of building an oil refinery which will ensure a secured supply of petroleum within Uganda and the region. This is coupled with construction of the Hoima (Uganda) – Tanga (Tanzania) crude oil export pipeline as a lower cost and lower tariff option.

Presently the government shortlisted 4 firms for the oil refinery project and targets to conclude the commercial contracts for refinery within 2017. The Hoima – Tanga route has been selected as the cheapest route to be used to transport the country's crude oil to the East African Coast. In this year's budget, the allocation of funds to this sector has decreased by 2% from Ushs 2.37 trillion to Ushs 2.32 trillion.

Information, Communication and Technology

The Government recognizes ICT as being critical for Uganda's socio-economic transformation. The government has prioritized extending the National Backbone Infrastructure (NBI) together with construction on ICT incubation hubs and ICT parks across the country. The main goal is to complete the NBI as well as the last mile connections so as to receive high speed internet and reduce internet costs to the public.



In FY 2017/18, the allocation to this sector has more than doubled from Ushs 69.5 billion in FY 2016/17 to Ushs 176.2 billion. The government intends to increase its focus to the sector through investing in:

- Expansion of the existing ICT framework
- Research, innovation and promotion of e-business
- Ensuring the increased participation and ownership of ICT infrastructure and businesses as well as
- Providing an environment to attract more investments into the sector

Agriculture

The production trend of major agricultural commodities has been positive, but with more efforts needed to boost production of the priority commodities. The agriculture, forestry and fishing sector that accounted or 25% of total output in FY 2016/17 posted growth of 1.3%. Traditional cash crops of Uganda mainly, coffee and cotton saw an increase in export volumes. For the period July 2016 – March 2017, the total volume of coffee exported increased by 27% from approx. 3 million 60-kilo bags compared to 2.3 million bags for the same period in FY 2015/16. This increase was due to favorable weather in the central and eastern regions. It should however be noted that the first half of FY 2016/17 was faced with a series of challenges such as the prolonged drought and the outbreak of the armyworm, that hampered agriculture productivity.

For the FY 2017/18, government will focus on the following:

- Pre-feasibility studies for construction of small scare irrigation schemes in the cluster production areas
- Promoting contract farming or out-grower schemes for high-value produce to enhance large scale agro-processing and ensure a steady supply of quality produce
- Promote and support private investment in agro-processing of the prioritized agricultural products
- Support women and youth associations to engage in agro-processing
- Facilitate equal access to appropriate agro-processing machinery and equipment through credit facilities
- Intensify enforcement of standards to ensure high quality of local produce and improved market information flow

A total of Ushs 828.5 billion has been allocated to the sector in the budget of FY 2017/18 in order to achieve the above objectives.

Tourism and Hospitality

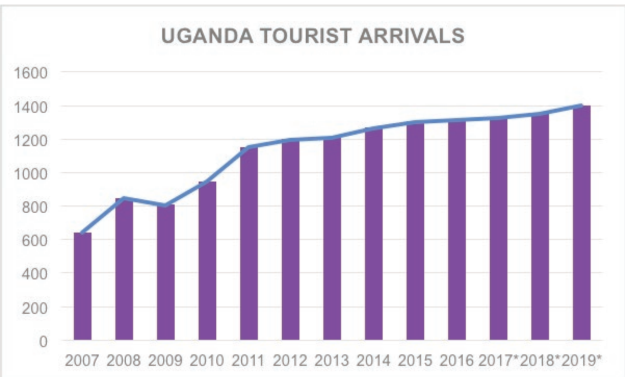
The tourism sector continues to be a pivotal pillar of the Ugandan economy. In FY 2015/16, Uganda earned USD 1.35bn from tourism. Tourism visits to national parks increased from about 202,885 in 2014 to about 215,558 in 2015. This figure is likely to increase as Uganda was named the 5th best tourism destination by CNN.

The incredibly diverse nation of Uganda remains a fascinating yet vastly underexplored destination. Government's commitment to heavy investment in the tourism promotion and infrastructure will create better tourism opportunities for the country. This is evident in FY 2017/18 with the allocation to the sector increasing 30% from Ushs 89.6 billion to Ushs 116.6 billion.

In FY 2017/18, Government through the sector will:

- Organize 6 domestic tourism fairs to showcase Uganda's tourism potential

- Participate in 4 regional marketing events and 6 international tourism marketing exhibitions to showcase Uganda's tourism potential
- Produce and distribute 30,000 promotional materials in the various promotional engagements and markets
- Classify 100 hotels and sensitize 600 tourism facility managers on standards
- Inspect and register 4,000 tourism facilities
- Train 432 Local Government staff of the major tourism districts in quality assurance



Industrialization and Trade

Trade is vital for boosting the country's development and plays a critical role in poverty reduction through enhancing growth and increased commercial opportunities and investment, as well as expanding the productive base through private sector development.

Theme of the budget is centered on the acceleration of industrialization. This can be achieved by increasing the share of industry in GDP from 26.4% in 2010 to 31.4% in 2040, and that of manufactured exports from 4.2% in 2010 to 50%. This is being achieved through economic upgrading and diversification with the aim of effectively harnessing local resources, off-shoring industries and developing industrial clusters along value chains.

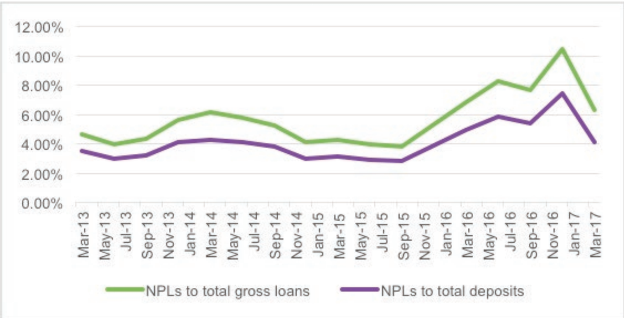
In FY 2016/17, the government launched the Buy Uganda Build Uganda (BUBU) policy. This policy is aimed to promote local content which advocates for Government agencies to procure at least 20% of the total goods and services locally. The policy will give preference to local manufacturers, more especially micro, small and medium enterprises in national projects in order to enable them compete favorably with international investors.

In FY 2017/18 and over the medium term, the government plans to develop more industrial parks, boarder export zones and set up Trade Information posts that will enhance access to information by cross boarder traders.

Banking

The banking sector remained stable and resilient in FY 2016/17. Generally, banks held adequate liquidity and capital buffers, as the ratio of liquid assets to total deposits increased from 43.4% in June 2016 to 48.8% in March 2017. This was well above the regulatory minimum of 20%. The total assets of commercial banks grew by 6.2% between June 2016 and March 2017 mainly driven by an increase in net loans and advances as well as holdings of Government securities.

Nevertheless, the decline of loan quality where the Non-Performing Loans (NPLs) ratio rose to 10.5% in December 2016 was a challenge. During the year, NPLs rose across all sectors and banks. This decline reflected a slowdown in economic growth as well as the rise in government arrears. The graph below shows that NPL ratios for commercial banks in the country:



Source: Bank of Uganda

There were several regulatory reforms instituted in the FY 2016/17 with the view of improving the soundness of the financial system. These include the risk based supervision, improved harmonization with EAC requirements and the introduction of other international best practices. These developments are expected to continue throughout the FY 2017/18 in order to strengthen the stability of the financial sector going forward.

Income Tax

The Income Tax Bill 2017 was presented to parliament, debated and passed into an Act. It takes effect on 1st July 2017, subject to being assented to by the Head of State. Below is an overview of what the act contains and our analysis of its implications:

Income Tax Act Amendments

1. Amendment to Section 2(bb)

The Income Tax Act, in this Act referred to as the principal Act is amended in section 2 by inserting immediately after paragraph (bb) (C) the following -

(D) a body established by law for the purpose of regulating the conduct of professionals;

Substance of the amendment

The amendment expands the definition of Exempt organization to include professional bodies set up by an Act of parliament for the regulation of professionals

Implications

This amendment will have mainly two implications.

i) Any Surplus generated by these professional bodies will be exempt from the Income Tax, subject to the Commissioners decision.
ii) Donations that may be made to these bodies will be considered as an allowable deduction in the hands of donor.

The exemption of the above bodies is subject to the following two conditions;

i) The issuance of the exemption certificate from the Commissioner upon application by the taxpayer, and
ii) The income or assets of these bodies should not confer a private benefit.

2. Amendment to Section 5

Section 5 is amended by inserting immediately after subsection (3), the following new subsections -

(4) For the purposes of assessing rental tax under this section, the Minister shall, by statutory instrument, prescribe estimates of rent based on the rating of the rental property in a specific location.

(5) A Statutory Instrument made under subsection (4) shall only apply to a person who fails to file a return in accordance with subsection (1) or whose return is misleading on the face of it and has been contested by the Commissioner.

(6) A statutory instrument made under this section shall come into force after approval by Parliament.

(7) Notwithstanding the provisions of this section, all rental agreements shall be executed and effected in Uganda shillings".

Substance of the amendment

The amendment gives power to the Commissioner to estimate the rental income based on the statutory instrument provided by the minister.

Background

Despite the increasing growth of the real estate sector, Government believes that the rental tax performance has not been good over the years.
Earlier, Government introduced a requirement by

taxpayers to declare rental income separately from other chargeable incomes. This was one of the effort in tracking and improving revenue from rentals.

Implications

i) The amendment requires the minister to provide estimation of Rental income vide statutory instrument.
ii) In case a Taxpayer fails to file a rental tax return or where the rental tax return filed appears incorrect on the face of it or has been contested by URA, Commissioner has power to estimate the chargeable rental income using rates provided in statutory instrument.
iii) Rental agreements must be executed in Uganda shillings. While tenants will be relieved from paying rents in foreign currency and thereby will be able to pay fixed amount of rent in Uganda Shillings, the landlords will have to bear the exchange losses on the foreign currency borrowings if made.

3. Amendment to Section 21.

Section 21 of the principal Act is amended in subsection (1) by inserting immediately after paragraph (ab), the following -

(ac) the income of Bujagali Hydro Power Project up to 30th June, 2022.

(ad) income of a Savings and Credit Cooperative Society up to 30th June 2027"

Implication

Exempting the income of Bujagali Hydro power project will play a role in facilitating improved power availability at lower cost.

Exempting the income of SACCOS will help to facilitate cost effective alternative credit facilities that are more easily accessible than what banks can provide.

4. Insertion of Section 27A in the principal Act

The principal Act is amended by inserting a new section 27A as follows -

27A. Initial allowance.

(1) A person who places an item of eligible property into service for the first time outside a radius of fifty kilometers from the boundaries of Kampala, during a year of income is allowed a deduction for that year for an amount equal to fifty percent of the cost base of the property at the time it was placed into service.

(2) The cost base of an asset to which subsection (1) applies is reduced by the amount of the deduction allowed under that subsection for purposes of section 27(4)(b).

(3) In this section, "item of eligible property" means plant and machinery wholly used in the production of income included in gross income but does not include

a. goods and passenger transport vehicles;
b. appliances of a kind ordinarily used for household purposes; or
c. office or household furniture, fixtures and fittings.

(4) A person who places a new industrial building in service for the first time during the year of income is allowed a deduction for that year of an amount equal to 20% of the cost base of the industrial building at the time it was placed in service.

(5) The cost base of an industrial building to which subsection (4) applies is reduced by the amount of deduction allowed under that subsection for purposes of section 29.

(6) Where a person has incurred capital expenditure on the extension of an existing industrial building, this section applies as if the expenditure was capital expenditure incurred on the construction of a separate industrial building.

(7) For the purposes of subsection (4) and (6), a new industrial building or extension of an existing industrial building means a building on which construction was commenced on or after 1st July 2000.

(8) In this section, “industrial building” does not include an approved commercial building.”

Background

Previously initial allowances were provided for under Section 28 of the Income Tax Act. A person who placed into use plant and machinery for the first time during a year of income was entitled to an initial allowance (in his first tax returns). The allowance was 50 percent if the property was placed in Entebbe, Kampala, Namanve, Jinja or Njeru. It was 75% if the property was placed outside these areas.

The Income Tax (Amendment) Act 2014 however, abolished these initial allowances. Therefore between, July 2014 to June 2017, a Taxpayer was not entitled to claim such allowances even if he placed plant and machinery to use for the first time.

The 2017 Income Tax Act has now re-instated these allowances by inserting a new Section in The Income Tax Act (Section 27A).

Implication

The Act now allows a deduction of 50% of the cost base of the property placed into use for the first time as long as it is placed **outside a radius of 50 kms from the boundaries of Kampala**. The Act further re-introduces **20% initial allowance on the cost base of an industrial building** placed in service for the first time in Uganda.

The main difference between earlier provision for initial allowance and current one is the **coverage areas for the establishment of plant and machineries for claiming initial allowance**. In the earlier provision initial allowance available for the establishments in some urban areas was 50% and rest of the areas was 75%. Whereas, as per new provisions, flat 50% initial allowance will be allowed for the establishments in areas outside Kampala.

In brief,

1. Initial allowances are a major tax incentive and indeed new investors will take this as a key consideration in placing their investments.
2. Existing investors will also be facilitated in expanding their investments. The main focus of this legislation is to encourage industrialization **outside Kampala**.

5. Amendment to Section 90

Section 90 of the principal Act is amended by substituting for subsection (1) the following -
(1) In any transaction between associates or persons who are in an employment relationship, the Commissioner may distribute, apportion or allocate income, deductions or credits between the associates or persons who are in an employment relationship, as the case may be, as is necessary to reflect the chargeable income realised by the taxpayer in an arm’s length transaction.”

Substance of the amendment

The amendment replaces the previous wording of Section 90(1) with a new wording intended to bring out the meaning and intention of giving power to the Commissioner to distribute, apportion, or allocate income and deductions between associates.

Background

Current Section 90(1) of the Income Tax Act provides for the concept of arm’s length in “transactions between taxpayers who are associates”. Where transactions are not at arm’s length, the chargeable income reported will be affected. It is against this background that this section gives power to the Commissioner to distribute, apportion, or allocate income and deductions/credits between these associates to reflect the substance of what the chargeable income should have been, had the transactions been at arm’s length.

The wording of this section however was limiting the Commissioner in the sense that it refers to **Taxpayers** who are **associates**. The Commissioner cannot distribute, allocate or apportion income or deductions of persons who are not a **taxpayer**, as per the definition of the taxpayer in the Act, even if it is **an associate**.

It is worth noting that multinationals have associates who are resident in various countries. This meant that Section 90(1) was not applicable to them even if they were not taxpayers as per the strict definition under Section 2 of the Act.

In order to address this situation, the act has re-phrased Section 90(1) to replace the wording **"transaction between taxpayers who are associates"** with the wording **"transactions between associates or persons"**.

Implication

The Commissioner can now distribute, apportion, or allocate income and deductions/credits between the subjected taxpayer and its associates (whether associates are taxpayer or not) so that the chargeable income should have been, had the transactions been at arm's length.

Thus Transfer Pricing Policy will play a critical part in justifying the arm's length prices with the associates.

6. Amendment to Section 118C and Part X of the Third Schedule

The principal Act is amended by substituting for section 118C the following -

118C. Payments for winnings of sports betting or pool betting.
A person who makes payments for winnings of sports betting or pool betting shall withhold tax on the gross amount of the payment, at the rate prescribed in Part X of the Third Schedule to this Act."

Substance of the amendment

The Act proposes a withholding tax at a rate of 15% on winnings from sports betting and pool betting.

Background & Implication

The sports and pool betting game houses will be required to withhold 15% when making payments to the winners.

7. Insertion of Section 123A in principal Act and Part III of Second Schedule

The principal Act is amended by inserting immediately after section 123 a new section 123A as follows -

123A. Advance tax for transport services.
A taxpayer who provides a passenger transport service or a freight transport service where the goods vehicle used has a loading capacity of at least two tones shall pay an advance tax at the rates specified in Part III of the Second Schedule."

The Second Schedule to principal Act is amended in Part III -
(a) by substituting for the reference to " 134(e)" in the head note, the reference "123A"; and
(b) in paragraph (b), by substituting for the words "per person" the words "per seat."

Substance of the amendment

The Act has imposed advance tax payable by taxpayers who provides passenger transport services or freight transport services where the goods vehicle used has a loading capacity of at least two tones.

Background

Given the fact that, quite a large section of Owners of commercial vehicles operate informally, compliance levels in this sector is very low. In effort to cover this leakage, the Income Tax Amendment Act of 2015 introduced a requirement for advance income tax on these vehicles (payable at licensing point). This advance tax requirement was, however, repealed in July 2016 by the TPC Act.

This new amendment is now a re-introduction of the advance tax requirement on commercial motor vehicles.

Implication

Owners of these commercial vehicles will be required to pay the advance tax every year whenever they go for renewal of the transport license at the transport licensing board.

Quoting the TIN of the owners in addition to the vehicle number will be very important to claim the said advance tax as tax credit when finally the owner files his income tax return for a year of income.

The rates are prescribed in part III of the second schedule and are Ushs 50,000 per ton per year for goods vehicles and Ushs 20,000 per seat per year for passenger vehicles.

8. Amendment to Section 136

Section 136 of the principal Act is amended by inserting immediately after subsection (6) the following -
(7) The interest due and payable under subsection (1) which exceeds the aggregate of the principal tax and the penal tax shall be waived.

(8) For the avoidance of doubt, where interest due and payable as at 30th June 2017 exceeds the aggregate of the principal tax and the penal tax, the interest in excess of the aggregate shall be waived."

Substance of the amendment

The new amendment introduces a cap on the maximum amount of interest that can be charged for late payment of Income Tax.

Background

Section 136 of the Income Tax Act imposes 2% interest on late payment of tax. URA has been carrying out audits and computing interest which sometimes exceeds the principle tax payable.

Implication

The new amendment has now put a limit to the interest payable on late payment which should not exceed its principle tax liability.

Secondly the amendment provides a waiver on any interest in excess of the principle as long as that interest is still outstanding as at end of June 2017.

9. Amendment to Fifth Schedule

The Fifth Schedule to the principal Act is amended by substituting for paragraph (3) the following -

(3) Where a benefit provided by an employer to an employee consists of the use or availability for use, of a motor vehicle wholly or partly for the private purposes of the employee, the value of the benefit is calculated according to the following formula -

$$(20\% \times A \times B/C) - D$$

Where -

- ***A.*** *is the market value of the motor vehicle at the time when it was first provided for the private use of the employee, depreciated on a reducing balance basis at a rate of 35% per annum for the subsequent years.*
- ***B.*** *is the number of days in the year of income during which the motor vehicle was used or available for use for private purposes by the employee for all or a part of the day;*
- ***C.*** *is the number of days in the year of income; and*
- ***D.*** *is any payment made by the employee for the benefit.*

Substance of the amendment

The amendment introduces a change in the calculation of the motor vehicle benefit by allowing annual depreciation of 35% on the cost of the vehicle.

Background

Employees whose employers have provided them a motor vehicle for use wholly or partly for private purposes, are regarded as having obtained a benefit in kind which is expected to be valued and taxed accordingly.

As per previous provisions, each year in which employee gets the car for personal use, the benefit is calculated as flat 20% of the market value of the car.

Implication

As per this amendment, value of the car for the computation of benefit will be subject to 35% depreciation every year on written down basis

The amendment reflects a more realistic approach to car benefit computation and will definitely be rational for the employees who enjoy the benefit.

Value Added Tax

The Value Added Tax Bill 2017 was presented to parliament, debated and passed into an Act. It takes effect on 1st July 2017, subject to being assented to by the Head of State.
Below is an overview of what the act contains and our analysis of context and implications:

1. Amendment to Section 24

The Value Added Tax Act, Cap. 349 in this Act referred to as the principal Act is amended in section 24 by inserting immediately after subsection (6) the following -

"(7) For purposes of this section, the tax payable on a taxable supply made to a Government ministry, department or agency by a contractor executing an aid-funded project is deemed to have been paid by that ministry, department or agency if the supply is for use solely and exclusively for the aid-funded project

Substance of the amendment

The amendment has introduced VAT deeming for supplies made by contractors (of Aid funded projects) to Government ministries, departments and agencies who are owner of Aid Funded Project.

Background

In last year's tax amendments, Government introduced "VAT deeming" for supplies made to contractors of Aid funded projects. An "Aid-funded project" is defined by the law to mean a project financed by a foreign government or a development agency through loans, grants and donations.

The purpose of introducing "VAT deeming" for supplies to contractors of aid funded projects was to ensure that donor funds are not subject to local taxes. The deeming was intended to ease the VAT burden in respect of these projects. The challenge however was that last year's amendment restricted the deeming provisions to only supplies made to contractors of aid funded projects. It did not cover the entire value chain of the aid funded project as supplies by the contractors to the owners of the projects were ignored. These owners are mainly Government or Government agencies who are mandated to disburse the funds on the contracts. This defeated the whole purpose of the deeming provisions as ultimately, aid funded project owners still had to pay VAT to the contractors.

The amendment of the act, has now introduced VAT deeming for supplies by the contractors to Government and its agencies.

Implications

Owners of aid funded project are not required to pay cash VAT on the procurement of supply from the contractor. This amendment has ensured that the VAT in the entire value chain for Aid funded projects will be washed out and hence the initial objective of making the projects VAT free will be achieved.

2. Amendment to Section 25

Section 25 of the principal Act is amended -

(a) by substituting for subsection (2), the following -

"(2) For a contractor, component X of the formula in paragraph 1(b) of the Fourth Schedule, for a tax period does not include the amount of tax that the licensee is deemed to have paid to the contractor under section 24(5) for the period."

(b) by inserting immediately after subsection(2) the following new subsection -
"(2a) For a supplier, component X of the formula in paragraph 1(b) of the Fourth Schedule, for a tax period does not include the amount of tax that the contractor is deemed to have paid to the supplier under section 24(6) for the period.";

(c) by inserting immediately after subsection (3) the following -
"(4) For a contractor of a Government ministry, department or agency, component X of the formula in paragraph 1(b) of the Fourth Schedule, for a tax period does not include the amount of tax that the Government ministry, department or agency is deemed to have paid to the contractor under section 24(7) for the period."

Substance of the amendment

The amendment explains how the basic VAT formula for VAT payable is to apply in respect to deemed supplies.

Background

Section 25 of the VAT act is about calculation of tax payable by a taxable person and it refers to the basic VAT formula which is provided in the fourth schedule of the VAT act. The formula is X - Y where X is the total tax payable in respect of taxable supplies (i.e. the output tax) and Y is the total credit allowed to a taxable person (i.e. the input tax).
Therefore VAT payable = Output Tax – Input Tax

The amendment explains that in respect of the deemed supplies, component X (or output tax) should not include VAT deemed to have been charged by the suppliers or contractors to aid funded projects.

Implications

Output VAT is not chargeable on deemed supplies, while input tax is claimable on deemed supplies. This VAT deeming has effect similar to Zero rated supply.

3. Insertion of new Section 65A in the principal Act.

The principal Act is amended by inserting immediately after section 65 the following -
Section 65A. Interest on unpaid tax.
(1) The interest due and payable on unpaid tax shall not exceed the aggregate of the principal and penal tax.

(2) For the avoidance of doubt, where the interest due and payable as at 30th June 2017 exceeds the aggregate referred to in subsection (1), the interest in excess of the aggregate shall be waived."

Substance of the amendment

The new insertion of Section 65A introduces a cap on the maximum amount of interest that can be charged for late payment of VAT.

Background

The VAT law imposes compounded interest on late payment of tax. URA has been carrying out audits and computing interest which sometimes exceeds the principal tax payable.

Implication

The new amendment has now put a limit to the interest payable on late payment. The interest should not exceed the principal tax.

Secondly the amendment provides a waiver on any interest in excess of the principal as long as that interest is still outstanding as at end of June 2017.

4. Amendment of Second Schedule to the principal Act

The Second Schedule to the principal Act is amended-

(a) in paragraph 1(a), by inserting immediately after the word "products" the words "except wheat grain";

(b) by inserting immediately after paragraph (q) the following -
(qa) the supply of animal feeds and premixes;

(c) by inserting immediately after paragraph (s) the following -
(sa) the supply of crop extension services;
(sb) the supply of irrigation works, sprinklers and ready to use drip lines;
(sc) the supply of deep cycle batteries and composite lanterns;
(sd) the supply of menstrual cups;
(se) the supply of Agriculture, Insurance Premium or Policy;"

Background & Implication

a) Wheat grain was previously standard rated and was made exempt in July 2016. The Act now has made it standard rated again. Thus, trading of wheat grain will now be subjected to VAT.

b) The Act has exempted the following products;

i) Supply of animal feeds and premixes

Animal feeds and premixes were exempted until June 2014. The Amendment Act of 2014 repealed the exemption and made them standard rated. This Act now re-instates the exemption. The main purpose is to boost animal husbandry in light of the recent shortage of food and escalation of prices for animal feeds.

ii) Supply of crop extension services

Crop extension services have not yet been defined by the Minister of Finance. The definition is envisioned to cover the whole range of services related to crop improvement including soil testing, soil improvement, crop treatment, crop breeding, capacity building in modern farming, green house services and the like. This exemption is aimed at boosting crop production and it is in line with government focus on agriculture.

iii) Supply of irrigation works, sprinklers and ready to use drip lines

Similar to the exemption on crop extension services, this exemption is intended to promote modern farming technics and improve crop productivity.

iv) Supply of deep cycle batteries and composite lanterns

Importation of deep cycle batteries are exempt from VAT by virtue of Fifth Schedule of the East African Custom Management Act. However deep cycle batteries, if manufactured locally and sold were not exempt from VAT. This was discouraging the promotion of battery manufacturing within the country. To address this challenge, deep cycle batteries is made exempt from VAT.

v) Supply of menstrual cups

This exemption is intended to facilitate women of reproductive age by making these tools cheaper and more accessible.

vi) Supply of Agriculture Insurance Premium or Policy

This exemption is intended to encourage persons involved in agriculture for taking insurance to cover their agricultural investment.

Tax Procedures Code

The Tax procedure code (Amendment) Act 2017 was presented to parliament, debated and passed into an Act. It takes effect on 1st July 2017, subject to being assented to by the Head of State.
Below is an overview of what the act contains and our analysis of its implications;

1. **Amendment to Section 16**

The Tax Procedures Code Act, 2014 in this Act referred to as the Principal Act is amended in section 16(8) by substituting for paragraph (c) the following

(c) a provisional taxpayer's estimate shall be in the form prescribed by the Commissioner and shall be furnished to the Commissioner by the due date for the payment of the first installment of provisional tax for the year of income.

Background & Implication

Section 16(8) specifies the due date for furnishing of provisional tax estimates by both individuals and non-individuals.

Before the TPC came into force in July 2016, As per the Income Tax Act, Individual taxpayers were required to file a provisional estimate for the year by the end of the **third month**, and Non-Individual taxpayers by the end of the **sixth month**. It further provided that the estimate could be amended before the end of the year, as and when the Tax payer considers it necessary. Where it was not found necessary, no amendment of the estimate would be done. However the payment of provisional tax always had to be made quarterly in case of individuals and bi-annually in case of non-individuals.

The TPC Act, however, repealed this and instead required all the Taxpayers to file provisional estimates every sixth and every twelve month by virtue of Section 16(8). This particularly was not easy for taxpayers who are individuals. They were being required to make the first quarterly payments without having to file an estimate of income. How would they make a payment before they have prepared an estimate of what they expect to earn?

This Amendment of Section 16(8) now reverts back to the previous position which required one return at the end of the third month (in case of individuals) or the sixth month (in case of non-individual) and these are then amendable during the course of the year, if necessary.

2. **Insertion of new Part VA**

The principal Act is amended by inserting immediately after Section 19 the following new Part -
PART VA—TAX STAMPS

19A. Tax stamps
(1) A person dealing in goods, whether locally manufactured or imported shall affix a tax stamp on any goods locally manufactured or imported as may be prescribed by the Minister under subsection (3).

(2) The Commissioner shall prescribe the manner in which a tax stamp is to be affixed to goods.

(3) The Minister shall prescribe, by statutory instrument, the locally manufactured or imported goods on which tax stamps shall be affixed.

Substance of the amendment

The amendment introduces a requirement for every person dealing in specified goods, whether manufactured or imported to affix a stamp on the goods manufactured or imported. The minister shall by statutory instrument prescribe the goods on which tax stamps shall be required.

This statutory instrument has not yet been issued.

Background & Implication

1. Once the statutory instrument is issued it will mean that dealers of the specified goods will be required to affix stamps on their goods. It is not yet clear who will bear the cost of these stamps (whether URA or the Taxpayer).

2. It may be administratively inconvenient for the client to adhere to this requirement, however the law has to be followed. The URA may also find it administratively demanding for example ensuring that stamps are not forged or that no goods go without stamps.

19B. Penal tax relating to tax stamps

(1) A taxpayer who fails to affix a tax stamp on goods prescribed under section 19A (3) is liable to pay a penal tax equivalent to double the tax due on goods or fifty million shillings, whichever is higher.

(2) A person who prints over or defaces a tax stamp affixed on goods prescribed under section 19A (3) is liable to pay a penal tax equivalent to double the tax due on the goods or twenty million shillings, whichever is higher.

(3) A person found in possession of goods prescribed under section 19A (3), on which a tax stamp is not affixed, is liable to pay a penal tax equivalent to double the tax due on the goods or fifty million shillings, whichever is higher.

(4) A person who attempts to acquire or who acquires or sells a tax stamp without the authority of the Commissioner commits an offence and is liable on conviction, to a penalty equivalent to double the tax due on the goods or ten million shillings, whichever is higher.

Background & Implication

The act imposes penalties for offences related to tax stamps and these include the following;

i) Failure to affix stamps- double the amount of tax payable on the goods or Ushs 50,000,000 whichever is higher.

ii) Writing over or defacing the tax stamp – double the amount of tax payable or Ushs 20,000,000 whichever is higher.

iii) Being in possession of goods which are required to have tax stamps but (on which tax stamps are not found) - double the amount of tax payable on the goods or Ushs 50,000,000 whichever is higher.

iv) Acquiring or attempting to acquire tax stamps without authority of the commissioner; on conviction, pays double the amount of tax payable or Ushs 10,000,000 whichever is higher.

3. Amendment to section 38.

Section 38 of the principal Act is amended in subsection (1) by substituting for paragraph (a), the following -

(a) in payment of the principal tax;".

Background & Implication

Section 38 of the TPC provides for payment allocation rules. This amendment clarifies that first payment should always go towards clearing the principle tax.

Previously that section of the TPC was vague as it stated that first payment was to be allocated to "liability". Liability is a general word to mean any outstanding tax whether principle, interest or penalty.

By replacing the word "liability" by the word "principle tax" it is now clear that any payment made should first be allocated to the principle tax, then to the penalty and lastly to interest

4. Insertion of section 49A

The principal Act is amended by inserting immediately after section 49 the following new section -

"49A. Penal tax for failure to provide information.

(1) A person who, upon request by the Commissioner, fails to provide records in respect of transfer pricing within 30 days after the request, is liable to a penal tax equivalent to fifty million shillings.

(2) A person who fails to provide information other than information referred to in subsection (1), to the Commissioner upon request, is liable to a penal tax of twenty million shillings."

Substance of the amendment

The amendment imposes Penal tax for failure to provide records upon request by the commissioner as follows:

1. Failure to provide records in respect to Transfer Pricing within 30 days of being so requested by the commissioner would lead to Penalty of Ushs 50,000,000
2. Failure to provide any other information would lead to penalty of Ushs 20,000,000.

Background & Implication

We note that the law does not define what failure to provide information means. What is the difference between delay to provide information and failure to provide information? Sometimes there may be delays by the taxpayer to provide information due to the complexity of the information required and also the form in which it is requested and thus Taxpayer may take time for compiling it. There is a possibility that the URA may choose to treat delay as a failure to provide information.

Excise Duty

The Excise Amendment Bill 2017 was presented to parliament, debated and passed into an Act. It takes effect on 1st July 2017, subject to being assented to by the Head of State.
Below is an overview of what the act contains;

1. Amendment of schedule 2

Schedule 2 of the principal Act is amended in part 1. The summary of the amendments is as follows;

			Previous Excise duty rate	Proposed excise duty rate
Cigarettes				
A. Soft Cup	(i)	Locally manufactured	Shs. 50,000 per 1,000 sticks	Shs. 55,000 per 1,000 sticks
	(ii)	Imported	Shs. 50,000 per 1,000 sticks	Shs. 75,000 per 1,000 sticks
B. Hinge Lid	(i)	Locally manufactured	Shs.80,000 per 1,000 sticks	Shs. 80,000 per 1,000 sticks
	(ii)	Imported	Shs. 80,000 per 1000 sticks	Shs. 100,000 per 1000 sticks
Beers				
	A.	Malt beer	60%	60% or Shs. 1860 per litre, whichever is higher
	B.	Beer whose local raw material content, excluding water, is at least 75% by weight of its constituents	30%	30% or Shs. 650 per litre, whichever is higher
	C.	Beer produced from Barley grown and malted in Uganda	30%	30% or Shs. 950 per litre, whichever is higher

			Previous Excise duty rate	Proposed excise duty rate
Spirits				
	A.	Made from locally produced raw materials	60%	60%
	B.	Un denatured spirits	Shs. 2,500 per litre or 100% (whichever is higher)	100% or Shs 2,500 per litre, (whichever is higher)
	C.	Other spirits	80%	80%
Product			**Previous Excise duty rate**	**Proposed excise duty rate**
Non alcoholic				
	A.	Non-alcoholic beverages not including fruit or vegetable juices	13%	13% or Shs. 240 per litre, whichever is higher
	B.	Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda	13%	13% or Shs. 300 per litre, whichever is higher
Furniture				
	A.	Specialized Hospital furniture	Nil	Nil
	B.	Furniture manufactured in Uganda using local materials but excluding furniture which is assembled in Uganda	10%	Nil
	C.	Other furniture	10%	20%

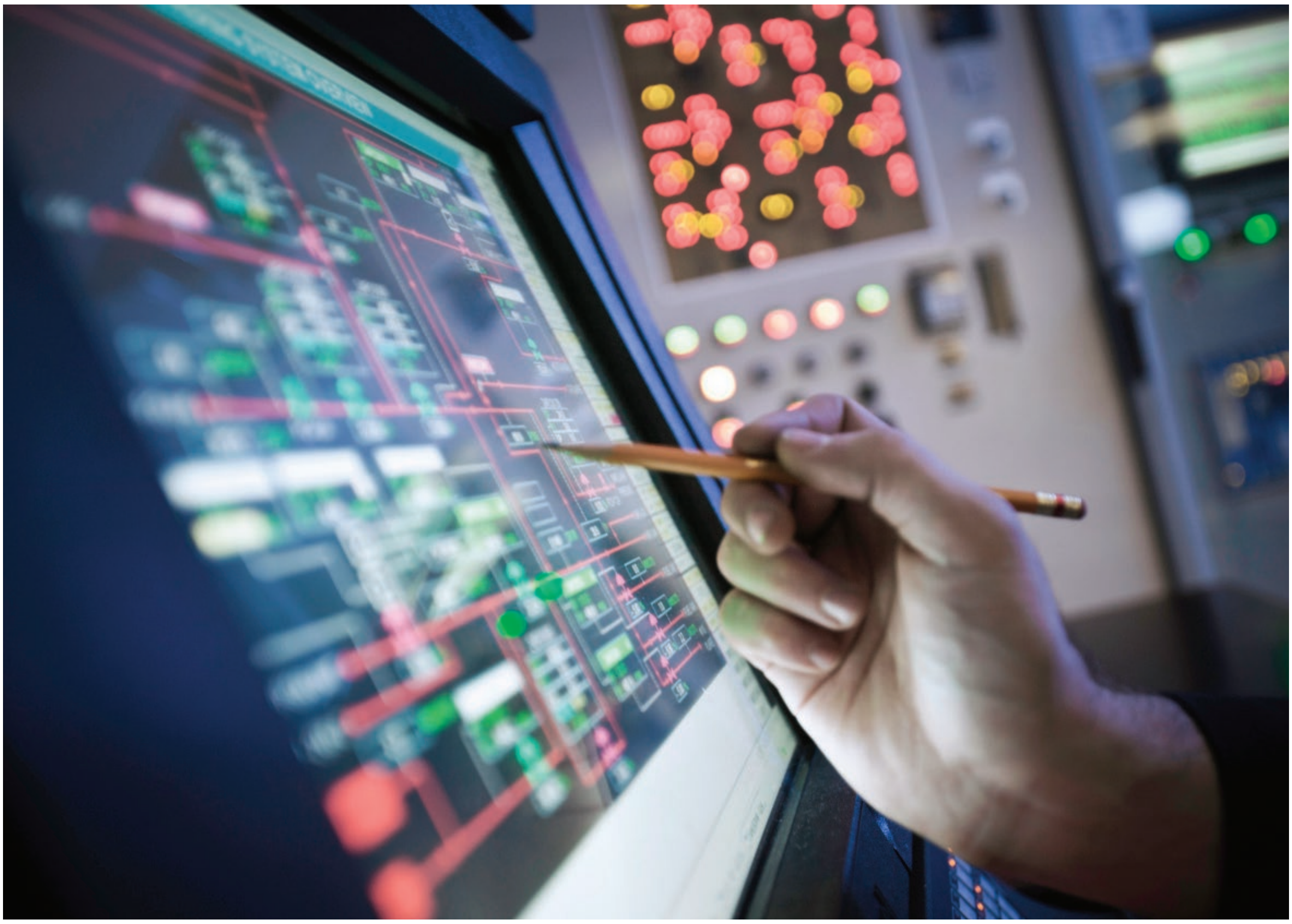
Miscellaneous

Amendment of Schedule 4 of the Lotteries and Gaming Act, 2016, Act 7 of 2016.

The Lotteries and Gaming Act, 2016, is amended in Schedule 4 by substituting for "thirty five percent" the words "twenty percent".

Implications

The rate of tax for lotteries has been changed from 35% to 20%.



Budget Highlights Kenya

The Cabinet Secretary for The National Treasury of Kenya presented the National Budget to the Chairman of the Budget and Appropriation Committee of the National Assembly, on March 30, 2017

Economic Analysis

- The year, Kenyan economy remained buoyant through contributions from the Tourism, Agricultural and Energy sectors respectively.
- The economy grew by 5.9 percent, 6.2 percent and 5.7 percent in the first, second and third quarters of 2016 respectively, bringing the average growth for the first three quarters to 5.9 percent. In 2017, the economy is projected to further expand by 5.9 percent,
- The in turn has contributed to the country's foreign direct investment (FDI), which has risen from about US dollar 0.514 billion in 2013, to at least US dollar 2.3 billion in 2016.
- Revenue collection has increased from Ksh 1,001.0 billion in 2013/14 to the projected Ksh 1,515.5 billion in 2016/17, a 51 percent increase
- This year's budget will require the Kenyan Revenue Authority (KRA) to plug the deficit between this year's budget shortfall and this year's proposed budget.
- There is a continued effort to reduce the fiscal deficit and ensure the continued sustainability of the country's debt.
- The budget projects the fiscal deficit to decline to 6.0 percent of GDP from an estimated 9.0 percent in the FY 2016/17.
- Over the medium term, the deficit is expected to narrow to 4 percent of GDP by 2019/20 which will further lower the debt-to-GDP ratio.

Changes in Tax Laws

A. Income Tax - Review and Overhaul of the Income Tax Act

The draft Income Tax Act is expected to be published soon after input from the public. The review of the Income Tax Act is expected to increase the tax base and ensure certainty with the tax laws.

B. Tax Procedures Act (TPA) Amendments

- The proposal allows KRA officers to be able to initiate prosecution and produce seized evidence in Tribunal or a court of Law.
- The current law excludes penalties from reference to tax liability. This is now been clarified that penalties is part of tax liability.
- Tax Amnesty for income earned outside Kenya was introduced in the Finance Act 2016 and further guidelines published on 8 March 2017 is summarized as below:
- Full disclosure of assets was to be done by 31 December 2017 but the finance bill 2017 has proposed to change same to 30th June 2018.
- Disclosure to be through a prescribed format to be uploaded on iTax by the KRA.
- No further information shall be required to be provided by the KRA
- A certificate of confirmation of amnesty shall be issued by the KRA
- Funds declared under amnesty have to be repatriated.

C. Income Tax Act Amendments

- The proposal to increase investment deduction on the capital expenditure incurred by industries in the Blue Economy sector to 150%.
- Tax bands to increase by another 10% following a similar increment in the year 2017. The lowest taxable income will move to Kshs 13,486.
- Reduced Corporate Tax Rates introduced for motor vehicle assemblers from 30% to 15% for the first five years.
- Betting, Lottery, Gaming and Competition to be taxed as follows
- Gaming Tax – from 12% to 50%
- Betting Tax – from 7.5% to 50%
- Lottery Tax – from 5% to 50%
- Prize Competitions Tax – from 15% to 50%

  Deduction for Expenditure Incurred On Donations towards National Disaster be channeled through the Kenya Red Cross, County Government or any other institution responsible for national disaster.

D. Value Added Tax

- Proposed zero rating of maize flour and ordinary bread and wheat flour, which are currently VAT exempt.
- VAT Exemption on all inputs used in manufacture of pesticide products.
- Locally assembled tourist vehicles to be exempt from VAT
- VAT exemption on Medical Equipment and Apparatus for use in specialized hospitals following
- VAT exemption of transactions related to transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS).
- Zero Rating of packaging materials and other inputs intended to support primary, secondary and ancillary marine fisheries and fish processing.

E. Withholding VAT Proposals

Any VAT withheld is now to be paid within 14 days from the date of payment to the supplier.
A proposal is also being made to revoke the appointment of withholding VAT agents for suppliers in a credit position for a period of not less than 24 months.

F. Issuing of VAT Regulations

Publication of VAT regulations were issued and expected to enhance the smooth implementation of the VAT Act 2013.The VAT regulations have been realigned with the Tax Procedures Act; 2015.

G. Special Economic Zones

- Exemption of withholding tax on dividends paid to non-resident investors by enterprises operating in Special Economic Zones (SEZ)
- Reduced Withholding tax rates shall apply on payment to non-residents by the SEZ entities as below;
- Management Fee - from 20%to 5%
- Royalties - from 20% to 5%
- Interest - from 15% to 5%
- Enterprises licensed under SEZ shall qualify for 100% investment deduction on the capital cost incurred in the construction of buildings and installation of machinery.
- Enterprises licensed under SEZ Act will be exempted from excise duty and Import Declaration Fees on the exportation and importation goods.

H. Customs & Excise

- Refund of Excise duty on illuminating Kerosene used in paint manufacturing
- 80% remission of excise duty on locally manufactured beer made from sorghum, millet or cassava or any other agricultural products grown in Kenya excluding barley.
- Increased excise duty rates on spirits from the current KES 175 to KES 200 per litre.
- Duty exemption of white maize for a period of four months.
- Amendment of excise duty on cigarettes from single rate to a two tier tax of KES 2,500 per mille for cigarette with filters and KES 1,800 per mille for plain cigarette.
- Exemption of excise duty in the manufacture of sanitary towels.
- Exemption of Excise duty for excisable goods supplied to St John Ambulance.
- Exemption of motor vehicles purchased by returning residents in replacement of a left hand drive motor vehicle.

Budget Highlights: Tanzania

The Minister for finance and planning presented the budget for period 2017/18 in the National Assembly of Tanzania on 8th June 2017.

1. Economic Analysis:-

- The country targets GDP growth of 7.1 percent in 2017 up from the actual growth of 7 percent in 2016
- Contain the inflation at single digit in the range of 5-8 percent.
- To maintain Current account deficit to GDP at 7 percent.
- For the period 2017-18 government plans to spend Shs.31,712 billion.

2. Value Added Tax Act Cap 148:-

- Exemption from VAT on procurement of capital goods (plant and machinery) to be used in edible oil, textile, leather and pharmaceutical (including veterinary) industries.
- VAT at Zero rate on ancillary transport services in relation to goods in transit.
- VAT to be exempted on locally produced compounded animal feeds under HS Code 2309.
- Supply of fertilized eggs for incubation to be exempted from VAT.

3. The Income Tax Act, Cap 332:-

- A person with perpetual unrelieved loss for THREE consecutive years is required to pay Alternative Minimum Tax.
- The qualifying amount for purpose of depreciation in case of non-commercial motor vehicles has been raised from Shs.15 million to Shs.30 million.
- Corporate Income Tax rate for new assemblers of vehicles, tractors and fishing boats has been reduced to 10 percent as compared to previous rate of 30 percent for the first five years from commencement of operations.
- Withholding Tax (final Withholding Tax) of 5 percent of the total market value of minerals to all small miners.

4. The Excise(Management and Tariff) Act, Cap 147:-

- An adjustment of 5% to be made to items with specific excise duty (in order to cater for inflation). This will apply to non- petroleum products such as soft drinks, imported water including mineral water, locally produced fruit juices, imported fruit juices, beer, non-alcoholic beers including energy drinks, wine, imported spirits.
- Increase in Excise Duty rates on;
  - Cigarettes without filter tip and containing domestic tobacco more than 75 percent, from Shs.11854 to Shs.12,447 per thousand cigarettes.
  - Cigarettes with filter tip and containing domestic tobacco more than 75 percent, from Shs.28,054 to Shs. 29,425 per thousand cigarettes.
  - Other cigarettes not mentioned in above categories from Shs.50,700 to Shs.53,235 per thousand cigarettes.
  - Cut rag or cut filler from Shs.25608 to Shs.26,888 per kilogram.

- Petrol (Motor Spirit and premium) from Shs.339 to Shs.379 per litre
- Diesel (Gas oil) from Shs.215 to Shs.255 per litre and for kerosene from Shs.425 to Shs.465 per litre.

5. The Road Traffic Act, CAP 168:-

- To abolish the Annual Motor Vehicle license fees and also to increase motor vehicle license fee depending on engine capacity.

6. The Local Government Finance Act, CAP 290:-

- Reduce the produce Cess charged by the local government in connection with cash crops & food crops.

7. The East African Community Customs Management Act, 2004:-

- Various changes introduced in East African Community Customs Management Act in line with similar taxes imposed in member states

8. Minor Amendments in Tax Laws and other other Laws :-

- Various rates of fees and levies charged by ministries, regions and independent Departments have been amended in order to rationalize with current level of economic growth. Also certain levies have been abolished to improve business environment and poverty.

Budget Highlights: Rwanda

Rwanda Cabinet approved the budget for 2017-18 on Tuesday 6th June; targeting to reduce its dependence on donors money to 17%

1. **Position of state finances:-**

   The Tuesday's extra ordinary meeting approved the draft law determining state finances for 2017-18 fiscal year at Rwf 2094.9 billion as compared to Rwf 1954.2 billion for the year 2016-17

2. **Economic Analysis:-**

   As per available data Rwanda economy is projected to grow by 6.2 percent in 2017 and 6.8 percent in 2018 as compared to 5.9 percent in 2016. The major reason driving the growth story is improvement in the agriculture sector which grew at the rate of 4.6 percent in 2017 and 2018 due improvement in foods crops and exports of agricultural products.

   According to budget framework paper (BPF) 2017-18 the country plans to pull its domestic revenue to 66% to whole budget, 17% from borrowings. The remaining 17% to come from foreign aid.

3. **Foreign Direct Investments:-**

   Following table summarizes Year on Year estimated FDI inflows in the economy.

Sr. No	YEAR	Estimated Amount (USD)
1	2017	307.2 million
2	2018	404.4 million
3	2019	439.0 million

   BUGESERA AIRPORT PROJECT: - In the periods 2018 and 2019, USD 67 million is expected as Foreign Direct Investment and USD 81.8 million as external loans to finance imports for the Bugesera airport.

   Due to above expenditure BNR is expected to draw down 109.5 million USD of its reserves in 2017.

4. **Challenges for 2017:-**

   The rising global fuel and food prices as well as the lower than expected domestic food crops harvest pose a significant threat to inflation.
   As a result of above factors inflation is projected at 7 percent for 2017, considering the first round pass through effect of rising fuel and food prices and also agricultural production for 2017 was not in line with expectations.

NOTES

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Grant Thornton moved up three spots in the 2016 survey to #34. The rankings are based on the opinions of business and engineering students from top universities in the world's 12 largest economies: Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, UK and US. These markets represent 70 percent of the world's economy. The field period for the data collection was from September 2015 to April 2016."

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