

Taxation & the Informal Sector

A case study of Uganda



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Presentation Outline



- What can be formalized
- Definitions & Concepts
- The Case for Uganda
 - Tax Challenges
 - Nature of Informal Sector
 - Opportunities & Challenges
 - Recommendations

Bigger Picture: What can be formalized?



- **What is the informal activities**

- Black Economy
- Illegal economic activities
- untraceable or invisible

- **Drivers of informal activities?**

- Tax avoidance & evasion
- unregulated structures (finance)
- Quick profit (time-bound)
- Tech. advancement (new currency)
- Role of government (Political Economy)

Guidelines: Definitions & Concepts

- **Labour Market: Individuals or Households operating small businesses to generate income (cash-only and no record keeping)**
- **Contractual context: Employees of registered companies (under-the-table arrangements, cash payments)**
- **Legality of activities: Illegal businesses and or legal business but illegally operating (non-registration)**
- **Do-it-myself activities: Common in developed countries (non-payment)**



Uganda's Taxation Challenges?



USD 25.53 Billion
compared with others e.g.
Its 10% of SA, 2% of SSA



**5% economic
growth rate pa**

- **Low Tax to GDP Ratio (14.1%, as at end of FY2016/17)**
- **45.4% of GDP accounts for the informal sector activities (untaxed yet has potential revenues)**
- **High tax burden on a few in formal sector (mainly companies and a few individuals)**
- **Informal sector has active High net worth individuals (untaxed) and some vulnerable groups (taxed)**
- **Informal sector is under-regulated and untraceable**

The Case of Uganda: Informal Sector



Nature of Informal Sector: HHs with Businesses



- **UNHS 2009/10: 1.2mn of 6.2million HHs have small businesses operational**
 - **Projected at 1.5mn of 7.4mn 2016/17**
 - **Activities mostly agricultural in nature with some general trade, food processing, restaurants and manufacturing**
 - **Agricultural activities: Sale of produce at garden prices, grain trade, commercial forests, suppliers in value chain (, veterinary services etc)**
 - **General trade include: supermarkets, garages, shops and electronic shops**

Nature of Informal Sector: Labour market

- Labour Statistics (UBOS, 2016): estimates 13.9mn of 34.7mn are employed
 - 72% are employed in the agriculture
 - 13% are paid, 23% unpaid
 - 64% are working proprietors
 - KILM under ILO reveals that 5.6mn are in informal sector (2.1mn in agric. & 3.5mn in non-agric)
 - Minimal traces of contractual agreements
 - Average monthly wage: Ugx460k (\$120)
 - Median wage: Ugx140k (\$38)



Nature of Informal Sector: MSM Enterprises

- Rule of Thumb: Small doesn't mean informal (FSDU Survey-1.1mn MSMEs and COBE UBOS estimate 1.3mn)
- Employs 2.5mn, account for 75% of GDP
 - Micro (71%), Small (18%) & Medium(11%)
 - 31% still in their 1st year, 6-10yrs (38%)
 - 74% are sole proprietors, 12% registered, 10% are partnerships
 - 66% have formal premises, 21% informal premises
 - 52% are of age 35-50yrs (28%-Sec. leavers)



Nature of Informal Sector: Non Registration

- Non regulation with URSB, URA or KCCA or Local Gov'ts, implies formalization
 - URSB – Business Registration
 - Not available
 - COBE shows 1.3mn business running
 - URA – Registration for tax purposes
 - 1,029,201 registered (9% coverage)
 - 943,055 Individuals; 86,146 Businesses
 - Local Govts or City Council
 - Business Assessments conducted annually
 - Estimations are in agreement with COBE



Nature of Informal Sector: High Networth Individ.



- Economic elites whose net assets are above certain threshold (SA-R7+mn, ATO-\$30mn)
 - Deal in commercial real-estates (land, rented building, ranches, construction, forest etc)
 - Rental income over Ugx. 500mn pa - 114
 - Land transactions over Ugx 200mn pa – 167
 - Shareholders in companies (Stock markets)
 - In a company with over Ugx. 50Bn turnover – 475
 - In multiple companies Ugx.15-50Bn turnover - 32
 - Exports or Imports – atleast Ugx. 500mn pa – 80 & 22
 - Vehicle value worth – Ugx. 500mn - 90

Nature of Informal Sector: Penetration Rate

Financial Year	Uganda Revenue Authority Taxpayer Register, Progressive			Uganda Bureau of Statistic on Businesses, informal businesses			Penetration Rate
	Individuals Registered (New)	Businesses Registered (New)	Accumulated URA Register per Annum	Business Establishment Operational	Household with Businesses	Individuals with Formal Work	
FY2009/10	7,182	9,901	17,083	340,602	1,350,942	7,300,000	0.2%
FY2010/11	33,807	8,002	58,892	458,106	1,387,986	7,488,630	0.6%
FY2011/12	57,417	10,284	126,593	575,610	1,425,030	7,677,261	1.3%
FY2012/13	108,178	8,650	243,421	706,170	1,462,074	7,865,891	2.4%
FY2013/14	365,758	9,658	618,837	836,731	1,454,655	8,054,522	6.0%
FY2014/15	132,860	11,112	762,809	967,291	1,498,295	8,243,152	7.1%
FY2015/16	124,103	15,086	901,998	1,097,851	1,543,244	8,431,783	8.1%
FY2016/17	113,750	13,453	1,029,201	1,228,411	1,589,541	8,620,413	9.0%
Subtotal	943,055	86,146	1,029,201	1,228,411	1,589,541	8,620,413	9.0%



Estimate of Revenue Foregone

Revenue Foregone: Presumptive Tax Rates & PAYE Bundles

Business type and Geographical Jurisdiction	With turnover between 50-35million	With turnover between 35-20million	With turnover between 20-10million
Municipalities			
General trade	400,000	300,000	150,000
Carpentry/Metal	400,000	300,000	150,000
Garage (Motor Repair)	450,000	350,000	200,000
Hair and Beauty/Salons	450,000	350,000	200,000
Restaurants or Bars	450,000	350,000	200,000
Clinics	450,000	350,000	200,000
Drug Shops	400,000	300,000	150,000
Others	400,000	350,000	150,000

Note:

- **Presumptive tax regime also captures businesses that have a turnover of Ugx. 150-50mn range**
- **Rates are pegged to jurisdiction and type of business e.g. City or Town Council etc.**

Description of thresholds	Tax Rate or Value
Exceeding Ugx. 4,920,000 (410,000 pm)	a. Ugx 582,000 (48,500 pm) plus 30% of the amount by which chargeable income exceeds Ugx. 4,920,000 (410,000 pm); a. Where the chargeable income of an individual exceeds Ugx.120,000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Ugx.120,000,000 (10,000,000 pm).
Exceeding Ugx. 4,020,000 (335,000 pm) but not exceeding Ugx.4,920,000 (410,000 pm)	Ugx.120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Ugx.4,020,000 (335,000 pm)
Exceeding Ushs.2,820,000 (235,000 pm) but not exceeding Ushs.4,020,000 (335,000 pm)	10% of the amount by which Chargeable income exceeds Ushs.2,820,000 (235,000 pm).
Not exceeding Ushs.2,820,000 (235,000 pm)	Nil

Revenue Foregone: Presumptive Tax, Unregistered businesses

Financial year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Business X-tics	458,106	575,610	706,170	836,731	967,291	1,097,851	1,228,411
<5mil, 70%	320,674	402,927	494,319	585,711	677,104	768,496	859,888
5-10mil, 20%	91,621	115,122	141,234	167,346	193,458	219,570	245,682
>10mil, 10%	45,811	57,561	70,617	83,673	96,729	109,785	122,841
URA Registered	8,002	10,284	8,650	9,658	11,112	15,086	13,453
Unregistered	37,809	47,277	61,967	74,015	85,617	94,699	109,388
Foregone Revenue (Bn)	5.67	7.09	9.29	11.10	12.84	14.20	16.41

Revenue Foregone: Presumptive Tax, HHs with Businesses

Financial Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Household (Million)	1.39	1.43	1.46	1.48	1.50	1.54	1.60
<5mil, 70%	971,591	997,521	1,023,452	1,018,259	1,048,806	1,080,271	1,112,679
5-10mil, 20%	277,597	285,006	292,415	290,931	299,659	308,649	317,908
>10mil, 10%	138,799	142,503	146,207	145,466	149,829	154,324	158,954
Revenue Foregone(Bn)	13.88	14.25	14.62	14.86	15.0	15.43	16.0

Revenue Foregone: PAYE, Unregistered Employees

Financial Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Workforce (000)	13,233	13,566	13,900	14,233	14,566	14,900	15,233
Agriculture (000)	9,528	9,768	10,008	10,248	10,488	10,728	10,968
Working proprietors (000)	6,097	6,251	6,405	6,558	6,712	6,865	7,019
Paid Employees (000)	1,238	1,269	1,301	1,332	1,363	1,394	1,425
Unpaid Helpers (000)	2,191	2,246	2,301	2,357	2,412	2,467	2,522
Non-agriculture (000)	3,705	3,798	3,892	3,985	4,078	4,172	4,265
URA Register (000)	40	98	206	572	705	829	943
Unregistered (000)	11,000	11,221	11,391	11,303	11,449	11,603	11,767
Penetration Rate	0.37%	0.88%	1.81%	5.06%	6.16%	7.15%	8.01%
Revenue Foregone (Bns)	438	447	454	450	456	462	469

Revenue Foregone: All Taxes, Unregistered HNWIs

Tax head	Revenues Collections for FY2015/16	Revenue Collections for FY2016/17	Average Revenues per HNWI pa	Revenues from Potential HNWI s
Rental	9,678,619,886	7,306,044,119	82,449,825	164,899,650,534
Income Tax	5,833,116,720	5,793,580,255	56,440,277	112,880,553,155
VAT	3,297,085,469	7,291,237,447	51,399,626	102,799,251,612
PAYE	370,331,167	484,931,799	4,151,762	8,303,523,942
Audits	-	1,484,758,508	14,415,131	28,830,262,291
Totals	19,179,153,242	22,360,552,128	201,649,055	403,298,110,388
Foregone (Bn)	384	380		

Revenue Foregone: Summary

Financial year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Unregistered Businesses	5.67	7.09	9.29	11.10	12.84	14.20	16.41
Unregistered HHs with Businesses	13.88	14.25	14.62	14.86	15.0	15.43	16.0
Unregistered Employees	438	447	454	450	456	462	469
Unregistered High Net Worth Individuals						384	380
Total Revenues Foregone (Bns)	457.55	468.34	477.91	475.96	483.8	875.6	881.4

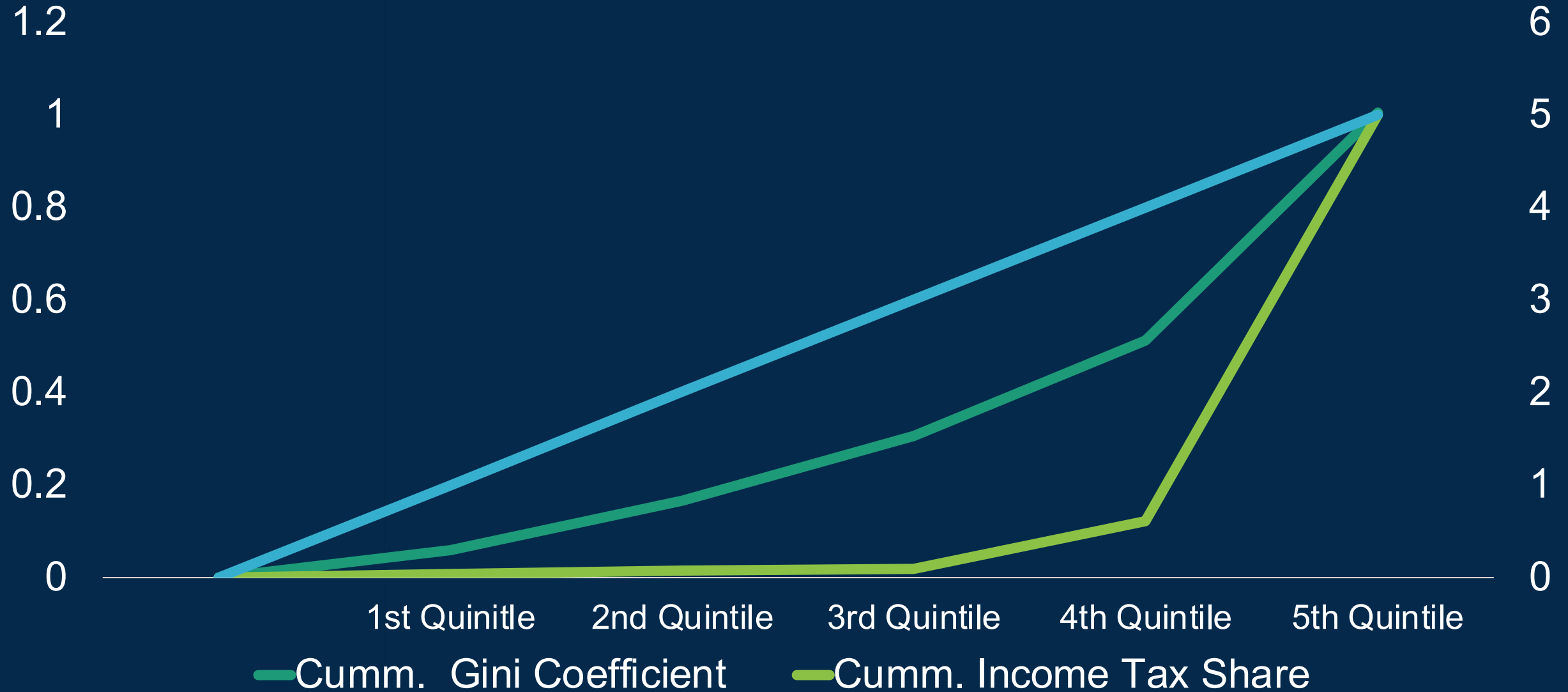
***Would
penetrating into
informal sector
cause some
levels of
inequalities?***



Taxation and Inequality: Income Distribution

Taxpayer Income Group	Income range (Based on URA Segmentation)	Gini-Coefficient (Income Distribution)	Effective tax rate	Relative Tax Burden	Share of taxpayers	Income Share	Income Tax Share
1st Quintile	10-35millions	6.08%	1.027	62.17	53%	1.13%	0.7%
2nd Quintile	36-75millions	10.7%	1.031	62.37	23%	1.22%	0.8%
3rd Quintile	76-125millions	14.0%	1.513	91.57	7%	0.62%	0.5%
4th Quintile	126-400mill	20.4%	1.534	92.82	16%	10.53%	10.4%
5th Quintile	Above 400millions	49.3%	1.441	87.19	3%	86.50%	87.7%

Taxation and Inequality: Lorenz Curve





Challenges & Opportunities

Taxing Informal Sector: Opportunities.

- Simplification of the legal framework
- Established facilities to ease formalizing (One Stop Shops under TREP and UIA)
- Block Management System under URA
- Establishment of HNWI/VIP Section
- Collaborations with private sector e.g. Association, SACCOs
- Accessible & user-friendly tax-payment platforms
- Robust Tax education campaigns (MTRS)



Taxing Informal Sector: Challenges.



- **Poor-record keeping (rudimentary tax assessment)**
- **Phobia for impact of formalization on businesses (small businesses), high morbidity**
- **High cost of collection and low returns**
- **Complicated tax administration procedures (filing and process of payment, webportal access), political interference and high tax rates**
- **Low tax illiteracy & inaccessible tax literature**
- **Emerging Modern informal businesses e.g. online trading (crypto currencies), car-trunk/garage sale model, trade, warehouses at home**

Recommendations (Policy & Administrative)



Taxing Informal Sector: Recommendations



- Lower tax-rates on PTR and include bundle of less than Ugx. 10mn turnover
- Build capacity of local government who are familiar with small business then integrate their data with agencies
- Deploy a single trade tax model to cover all taxes, licenses and fees
- Embark on customized (to language and sector operation) tax education
- Use tax-regime to redistribute income (High Networth Individual not registered yet)

Taxing Informal Sector: Recommendations

- **Install EFDs or Receipt generation or book-keeping enhancement packages**
- **Expand URA footprint and also staffing level**
- **Simplify the tax procedure (from registration/TIN acquisition to payment)**
- **Maximize on TREP, Rental Income Tax projects, Block Management system and Association taxation**
- **Provide tax amenities, rid the practice of taxing retrospectively**





*Asante Sana!
Thank you!
Webale Munoga!
Afoyo Mateki!
Merci Beaucoup!*

