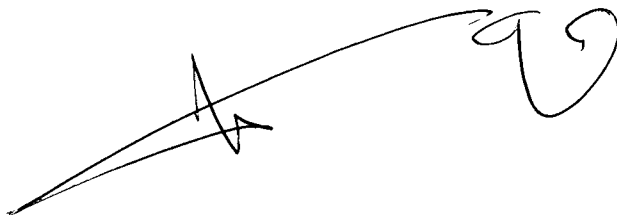


## PARLIAMENT OF UGANDA

### A MINORITY REPORT ON THE INCOME TAX (AMENDMENT) BILL, 2022

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MAY 2022

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## 1.0 INTRODUCTION

The Income Tax (Amendment) Bill, 2022 was laid on 31<sup>st</sup> March 2022 and subsequently referred to the Committee on Finance, Planning and Economic Development for scrutiny.

Pursuant to Rule 205 of the Rules of Procedure of the Parliament of Uganda, we hereby present a dissenting opinion from the majority report.

## 2.0 AREA OF DISSENT

We dissented with the majority report on the issue of rental tax.

## 3.0 DISSENTING OBSERVATIONS

### 3.1 Rental Tax Issues

Several issues arise with the proposed rental tax measures particularly discrimination, impact on citizens recovery and risk of Ripple Nami Inc.

#### 3.1.1 Risk of Ripple Nami Inc

In 2020, Government of Uganda entered an agreement with Ripple Nami Inc with the objective of increasing rental tax collections. The Company was charged with identifying individuals and corporations who are under paying or not paying rental tax by deploying a Tax Compliance System based on RippleNami's Blockchain Visualisation Platform. The system was adopted as a reform in rental tax collections.

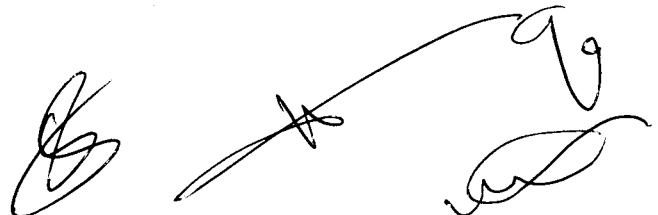
The proposed amendments in Clauses 3, 5 and 12 of the Bill are an indication of a failed reform that was expected to develop a Rental Geographical Information System solution in Uganda<sup>1</sup>.

It has however been noted that the company is underperforming on its obligations on the agreement. For instance, the Company was expected to contribute to the realisation of UGX 170 billion in FY 2020/21. Unfortunately, the solution has never been implemented<sup>2</sup>. The Committee was informed by the Uganda Revenue Authority (URA) that solution is expected to be implemented in June 2022.

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<sup>1</sup> Ministry of Finance, Planning and Economic Development, 2020. Press Release - Government signs Agreement with RippleNami Inc for Rental Tax Compliance System

<sup>2</sup> Ministry of Finance, Planning and Economic Development, 2021. Background to the Budget Fiscal Year 2021/22

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Nonetheless, UGX 117.24 billion was actualised in FY2020/21 without effort of Ripple Nami Inc. A short fall of UGX 52.76 billion<sup>3</sup> off the target. Instead of holding the company accountable for its failure to execute the contract, Government has resorted to fixing the failed solution and deficit with fiscal interventions.

**Table 1: Performance of Rental Tax for the FY2017/18 – FY2020/21**

Description	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Rental Tax	88.75	115.23	103.69	117.24

Source: URA

Following review of the agreement between Government and Ripple Nami Inc, several concerns were noted. Government did not source the company through a competitive process. The agreement entered was poorly negotiated and contains provisions that are non-beneficial to the country. The following are the critical aspects of the agreement:

- a) The project only operates in Greater Kampala Metropolitan Area that comprises all the Divisions of Kampala City as well as neighboring municipalities of Mukono, Entebbe, Nansana and Wakiso (Paragraph 5.3);
- b) Even without any effort, the company is entitled to a share of 15% of net rental income tax collected by URA (Paragraph 5.7.2);
- c) After every quarter of a financial year, revenue sharing payments are made after 30 days (Paragraph 5.7.3);
- d) Failure to remit revenue sharing payments attracts an interest of 12% per annum (Paragraph 5.7.4);
- e) Project Managers for the Government and company have authority to act on behalf of their respective parties in all matters regarding the project (Paragraph 5.7.11);
- f) Government is expected to assign an Executive Project Sponsor to oversee the project at high level and assist in removing roadblocks (Paragraph 5.7.11);
- g) Government to provide the company with office space, supplies, furniture, internet and other facilities (Paragraph 6.1(b));
- h) Facilities, software, hardware or other resources required for Ripple Nami Inc performance of services will be borne by Government (Paragraph 6.1(d));
- i) Tax exemptions for import, export or re-import or re-export and movement facilities related to the development, deployment and implementation of tax compliance system (Paragraph 6.1(j));
- j) Government waived claim to sovereign immunity (Paragraph 6.8); and
- k) Provision to terminate agreement if rental tax compliance system is not setup within 1 year from commencement date at no cost (Paragraph 7.1).

<sup>3</sup> Uganda Revenue Authority, 2021. Annual Revenue Performance Report for FY2020/21

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Based on the above provisions particularly Paragraph 5.7.2 of the Agreement, it can be noted that any increment arising from the proposed amendment will benefit Ripple Nami Inc a share of 15% of the net increment of rental tax. This is unfair for the additional rental income in FY2022/23 will largely be realized from a fiscal measure not the prowess of the interventions of Ripple Nami Inc.

It is now 2 years since the signing of the contract but the Ripple Nami Software is still under development and not yet in operation. Despite the non-performance, Government extended the agreement by additional 2 years so that it ends in 2027 instead of terminating it as provided in Paragraph 7.1.

### 3.1.2 Discrimination

The losers in the proposed amendment are individuals and partnerships who will no longer be entitled to expenditure or loss deductions. These are to be subjected to a flat rate of 12% tax of the gross rental income.

**Table 1: Illustration of the effect of the proposed Rental Tax Amendment**

CATEGORY	CURRENT LAW (1)	BILL (2)	VARIANCE (2-1)
Individual and partners	(A) Annual rental income = UGX 10 million	Annual rental income = UGX 10 million	<b>UGX 450,000</b>
	(B) Less allowable deduction (75%) = UGX 7.5 million	Chargeable income = UGX 10 million	
	Chargeable income (A-B) = UGX 2.5 million	Payable rental tax (12%) = <b>UGX 1.2 million</b>	
	Payable rental tax (30%) = <b>UGX 750,000</b>		
a) Company	(A) Annual rental income = UGX 10 million	(A) Annual rental income = UGX 10 million	<b>UGX 750,000</b>
b) Trustee of a Trust or Retirement Fund	(B) Less allowable deduction (75%) = UGX 7.5 million	(B) Less allowable deduction (50%) = UGX 5 million	
	Chargeable income (A-B) = UGX 2.5 million	Chargeable income (A-B) = UGX 5 million	

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CATEGORY	CURRENT LAW (1)	BILL (2)	VARIANCE (2-1)
	Payable rental tax (30%) = UGX 750,000	Payable rental tax (30%) = UGX 1.5 million	

Source: OLOP

It is also important to note that trusts, companies and retirement funds would benefit from the 50% expenditure or loss deductions in a year of income unlike individuals or partnerships. This is discriminatory. Individuals or partnerships also incur expenses or losses especially repairs when generating rental income.

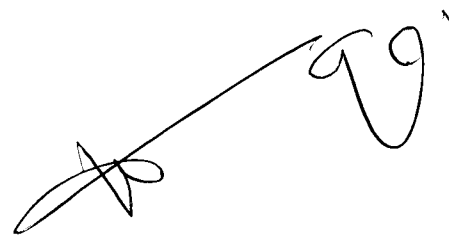
### 3.1.3 Impact on Recovery of Citizens

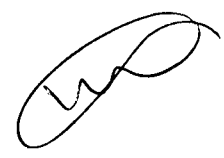
Additionally, citizens are recovering from the adverse impacts of COVID-19 pandemic particularly the lockdowns that distorted their livelihood. Many individuals rely on rental income to pay school fees and meet medical expenses. Hence any measure that increases their rental tax depletes their disposable income amidst escalating inflation and commodity prices.

Furthermore, any increment in payable rental income increases vulnerability of businesses hit by COVID-19, staff who were laid off or suffered a reduction of wages. It would therefore be prudent not to increase rental tax when citizens are struggling to revive their livelihoods.

### Recommendation

*The current provisions on rental tax should not be amended. This will ensure maintenance of rental tax rates, support recovery of citizens and prevent enhancing revenue sharing payments of Ripple Nami Inc through fiscal measures. This will also grant Parliament sufficient time to assess the performance of the Ripple Nami Inc agreement.*





## **4.0 PROPOSED AMENDMENTS**

### **4.2 Delete Clause 3**

#### ***Justification***

*To ensure stability of taxation regime and affordability of rent in the post lockdown recovery phase.*

*To prevent enhancing revenue sharing payments of Ripple Nami Inc through fiscal measures.*

### **4.4 Delete Clause 5**

#### ***Justification***

*To ensure non-discrimination of rental tax.*

### **4.5 Delete Clause 12**

#### ***Justification***

*To ensure non-discrimination of rental tax.*

*To prevent enhancing revenue sharing payments of Ripple Nami Inc through fiscal measures.*

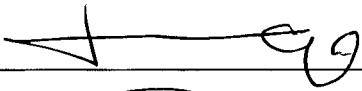

## **5.0 CONCLUSION**

Rt. Hon. Speaker and Members, I implore you to support the Minority report.

WE BEG TO SUBMIT

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**MEMBERS ON THE COMMITTEE ON BUDGET WHO SIGNED THE MINORITY REPORT ON THE INCOME TAX (AMENDMENT) BILL, 2022**

S/N	NAME	Signature
	Muwanga Kevulo Muhammad	
	Nabukeera Hanifa Hussein	
	MACABA KARIM	