

Taxing High net worth Individuals in Uganda

Phase 1& 2

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WHY TARGET THE RICH?

- Personal income tax remains largely untapped in Uganda (Excluding employees, accounts for Less than 1% of Domestic taxes)
 - Administration traditionally targeted corporations and their employees
- **Their population is growing**
 - Fueled by industrialization, FDI and population growth
 - But... administration may be cheaper due to smaller numbers; revenue impact is more significant
- Private elites in 139 low-middle income countries accumulated between US\$ 7.3 and US\$ 9.3 trillion in unrecorded offshore wealth
- Illicit financial flow is common among these individuals
- Poor countries collect very little from the rich.
 - Capital rich countries (2009) - UK (top 0.5%: 17%); Germany (top 0.1%: 8%); USA (top 1%: 40%);

OBJECTIVES

PHASE I

- i. Categorizing and identifying potential HNWLs in Uganda;
- ii. Analyzing the legal and URA administrative strengths and weaknesses in taxing this segment of taxpayers;

PHASE II

- i. Understanding criteria for the identification of HNWLs;
- ii. Assess the URA approach to taxing HNWLs,
- iii. Draw lessons for and from URA

METHODOLOGY

1. Interviews.

- ✓ URA officials; Kampala Capital City Authority; Ministry of finance, Bank of Uganda, Audit Firms, commercial bank, academician in the law school of Makerere University

2. Data matching and analysis,

External data & Internal URA data for FY 2011/2012 – 2014/2015;

- ✓ Taxpayer registration details as at January 2015;
- ✓ Tax payments data for 2011/2012 – 2013/2014;
- ✓ Stamp duty payments on land transfers 2012;
- ✓ Audit data 2011/2012 – 2013/2014.
- ✓ KCCA Property register

3. Textual analysis,

- ✓ Domestic laws;
- ✓ Parliament hansards;
- ✓ Academic articles;
- ✓ URA reports;
- ✓ Budget speeches;
- ✓ Newspaper articles;
- Lifestyle magazines

4. Comparative analysis

- ✓ SARs,
- ✓ HMRC,
- ✓ ATO &
- ✓ Mauritius RA)

FINDINGS

From all economic sectors, both private and public.
Have multiple companies, sometimes hidden.

- 50% are in the **wholesale and retail sector** but those with the highest revenue potential appear to be in;
 - Financial & insurance services,
 - **Real estate sector**
 - Professional & technical services (3 of the 11 billionaires in the CEO magazine were professionals, 2 lawyers & 1 doctor).
 - Manufacturing,
 - Construction,
 - Public sector (VIPs, policy makers, public accountants)

FINDINGS...

They Invest heavily in real estate

Many are traders but most of their proceeds are channeled to the real estate sector (land and buildings)

- Steady rise in property values over the last 30 years
 - Impact of FDI, demand for agricultural land, etc. driving process up
 - Investing in land and buildings seen as safer than other alternatives
- Easy to acquire and register property using third parties
 - Hide illicit wealth, avoid taxes, etc.
- At registration no questions are asked regarding source of the funds used to acquire the property

FINDINGS...

HNWIs Invest off shore

- 2015 leaking of bank account files of an HSBC Swiss Subsidiary 57 HSBC clients were associated with Uganda
- They held a total of \$89.3 million in bank deposits
- It was estimated that at least US\$21 to US\$32 trillion in private wealth escaped tax by being invested in offshore secrecy jurisdictions
- **HNWIs in Uganda are policy makers or can influence policy**
 - They have political capital, Have the ability to lobby and influence policies
 - Tax proposals that directly affect them are rejected by policy makers, e.g.. access to bank information, declaration of income sources when acquiring land, etc.
- **HNWIs have historically faced little pressure to pay personal taxes**
 - Given the political capital pay taxes in most African settings is limited
 - The HNWIs invest off shore largely because of the **perceived political insecurity** and availability of investment options, not due to taxation pressure

HOW THEY HIDE INCOME

Mostly use less sophisticated methods

- Properties, businesses and transactions in the names of children and acquaintances
- Outright mis-declaration and under declaration
- Bribing government officials

More complex tax planning used by a smaller elite group

- Pay lower (withholding) taxes by beating the 183 day rule – they offer “services” to their companies. 15% tax vs. 30%.
 - We anticipate this being a big problem when oil production starts.
- Some will avoid tax on dividends by passing them off as salaries for no services rendered (dividends taxed on gross, not allowed as a deduction for the company)
- For multinationals, the individuals will be well hidden behind a number of shell companies, usually registered in tax havens

URA's Approach to HNWI's

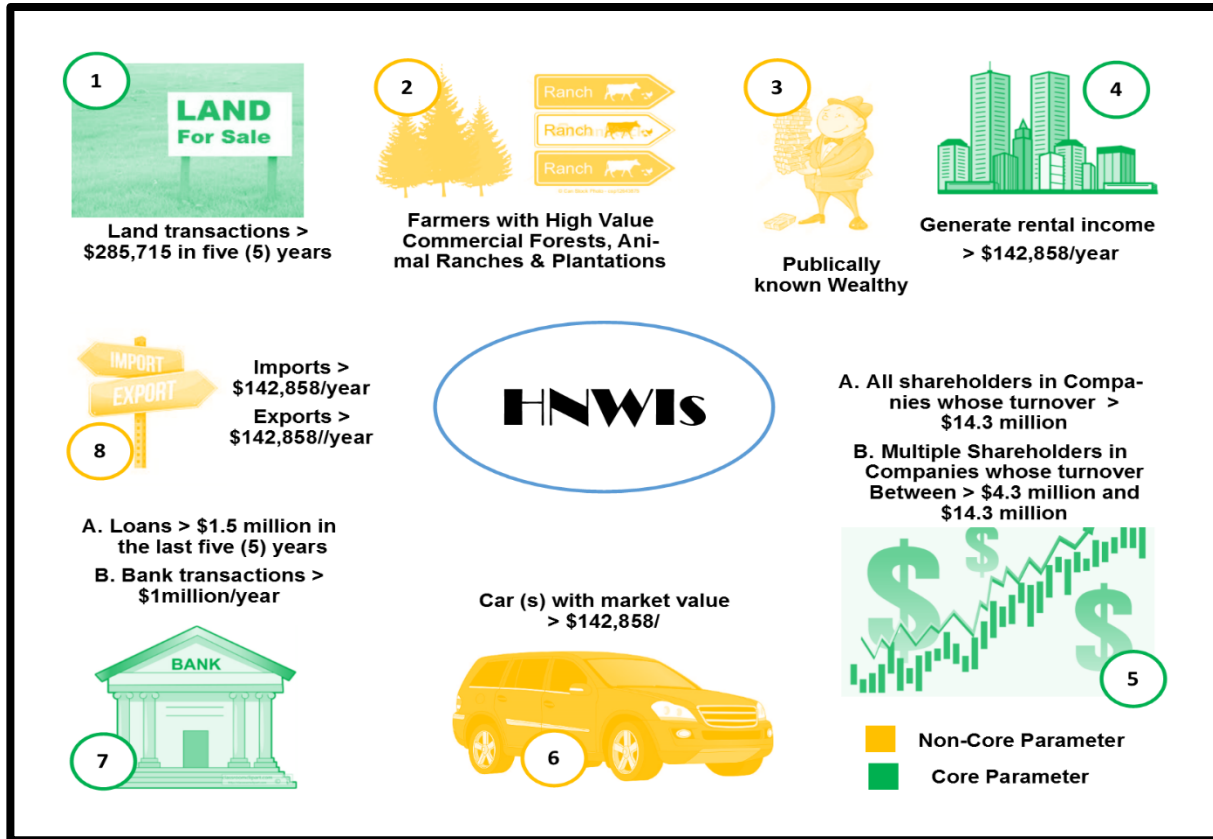
- Following the first phase of this research, the URA established a HNWI unit in September 2015 as part of LTO with 5 staff
- No criteria to identify HNWI's then. First list (117) consisted of directors of large companies and individuals that were publicly known as being wealthy.
- The meetings were **to educate the taxpayers** of their rights and obligations and to **signal to the taxpayers that the URA was looking into their tax affairs.**
- In January 2017, the unit was merged with the VIP in PSO
 - The decision to merge was because a number of individuals on the HNWI register are also VIPs.
 - Second, VIPs and HNWI's have close similarities. Both are influential (politically and economically), they have very busy lifestyles and the skills required to manage their affairs are quite similar.

Who Is a HNWI?



- No universally accepted definition of HNWI
- Wealth reports relate them to with a net worth of at least US \$1 million
- SARs refers to them as individuals with a gross income of at least R 7 million.
- Uganda and many African countries should adopt a multi-parameter criteria

Identifying a Rich Ugandan



Testing The Criteria

Details	Yardstick	Potential HNWIs	Already on Register	VIPs	Not on Register
Shares	Shareholders in companies with Turn over greater than UGX 50 Bn or 14.29 Mn US dollars	493	13	5	475
	Multiple shareholders in companies with Turn ranging from UGX 15 to 50 Bn or 4.29 to 14.29 Mn US dollars	36	4	0	32
Commercial buildings	Generates Rental income greater than UGX 500Mn or 0.14 Mn US dollar per year	163	49	0	114
Land	Land Transactions Worth UGX 1 Bn or 0.29 Mn US dollars and above in the last five years	197	8	2	187
Motor Vehicles	Vehicle(s) with total value above 500Mn or 0.14 Mn US dollar both individually or in aggregate	109	12	7	90
Imports & exports by individuals' TINs	Worth UGX 500 M500Mn or 0.14 Mn US dollar per year	83	3	0	80
	Exports Worth UGX 500 M500Mn or 0.14 Mn US dollar per year	22	0	0	22

Achievements

a) HNWI/ VIP Profiles and updated Register

Before formation of the unit, the management of Wealthy taxpayers was dispersed with no single part of URA having an overview of their tax affairs. There was no register of these potential taxpayers. Currently, there 117 HNWIs and 239 VIPs. All their profiles have been updated to include sources of income that were not declared originally.

b) Filing Ratio greatly improved

	Income tax before the unit (2014)	Income tax after the unit	PAYE (Average Monthly)	VAT (Average monthly)
HNWIs	13%	78%	84%	91%
VIPs		65%	-	-

Achievements...

c) Revenue collections by the unit from HNWI's

Tax head	FY2015/16	FY2016/17	Grand Total
Rental	9,678,619,886	7,306,044,119	16,984,664,005
Income Tax	5,833,116,720	5,793,580,255	11,626,696,975
VAT	3,297,085,469	7,291,237,447	10,588,322,916
PAYE	370,331,167	484,931,799	855,262,966
Total	<u>19,179,153,242</u>	20,875,793,620	40,054,946,862

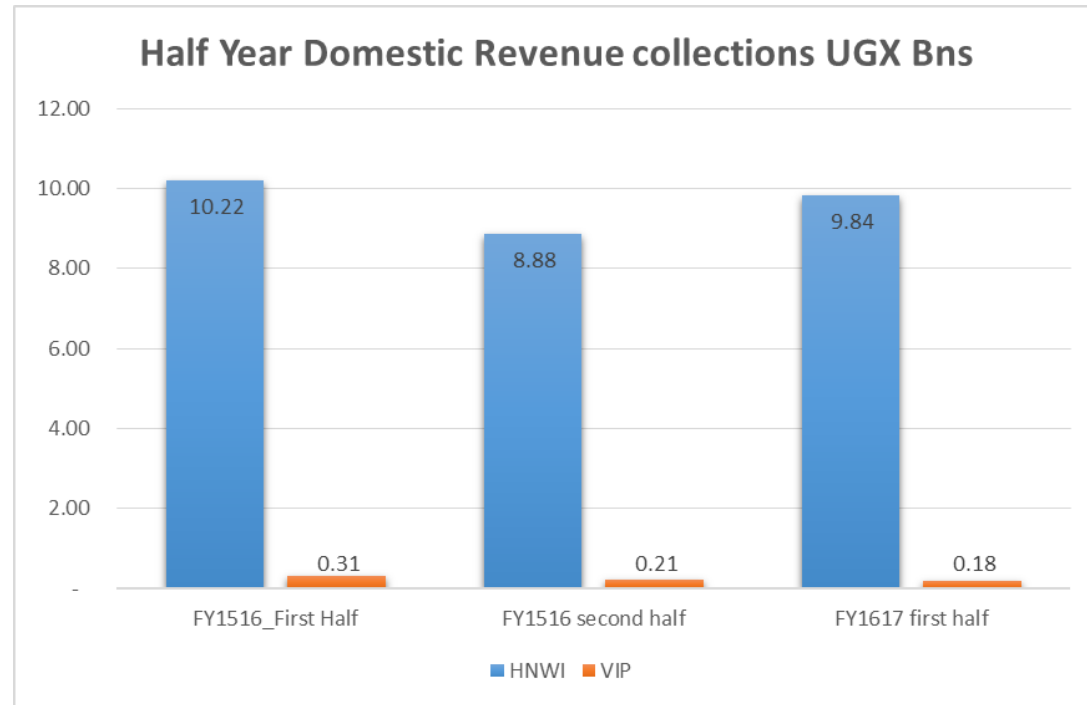
d) Compliance Audits of HNWI'S
Only Five HNWI's have so far been audited

Tax Head	Audit Yield
Income tax	760,999,221
VAT	510,388,567
Rental	213,370,720
Total Assessed / agreed / audit effort	1,484,758,508

Achievements...

e) Increased voluntary compliance for HNWI;

- Revenue collections from the HNWI is fairly stable in the different halves of the years. Collections from the VIPs is still a tall order
- We have however noticed increased voluntary compliance of both- some VIPs are greatly supporting URA



URA Approach vs (HMRC, SARS, ATO)

- All the three revenue authorities at some point in time had special units dedicated to handling the affairs of HNWI's. HMRC still has one. No more units in SARS & ATO but systems are in place for monitoring the affairs of these individuals.
- Many of the indicators of wealth (such as property, shareholding, professional services and luxurious items such as cars) that form part of the URA's criteria are also used in the other countries.
- URA uses multi-parameter criteria, the rest have a single threshold
- VIPs inclusive- separate unit in SARs

Lessons for & from URA

For URA

- a) Staff requirements
- HNWI unit Staff to taxpayer ratio is 1:54 in URA; HMRC is 1:17
 - Each HNWI in HMRC has a customer relationship manager
 - Hire from the private sector-one reason for SARs success
 - Staff development. (Management of the unit is experienced but officers are junior)
 - Staff continuity (Staff in the unit need to be given enough time to learn the taxpayers)
- b) Encouraging voluntary compliance
- Cooperative compliance through regular interactions
 - To encourage voluntary compliance, HMRC & ATO ensures that customer relation managers try to resolve issues before HNWI's submit their tax returns
 - These managers give HNWI's or their agents HMRC's position on a specific issue before the HNWI engages in a particular activity.

For other African RAs

1. It is important to have the support of senior management
2. Sometimes it is important to simply start with the little information available without waiting until one has good definitions and comprehensive lists. The learning process is continuous and definitions and lists can be revised along the way.
3. Use public knowledge- The Rich are known
4. Do a national identification survey- HMRC got 40,000 and retained 2,000 after subjecting them to criteria. Some were richer than those on the register
5. Technical expertise Vs soft skills. If HNWI's wield a lot of political influence, communication skills are more important.
6. More internal and external collaborations

THANK YOU!!!!!!