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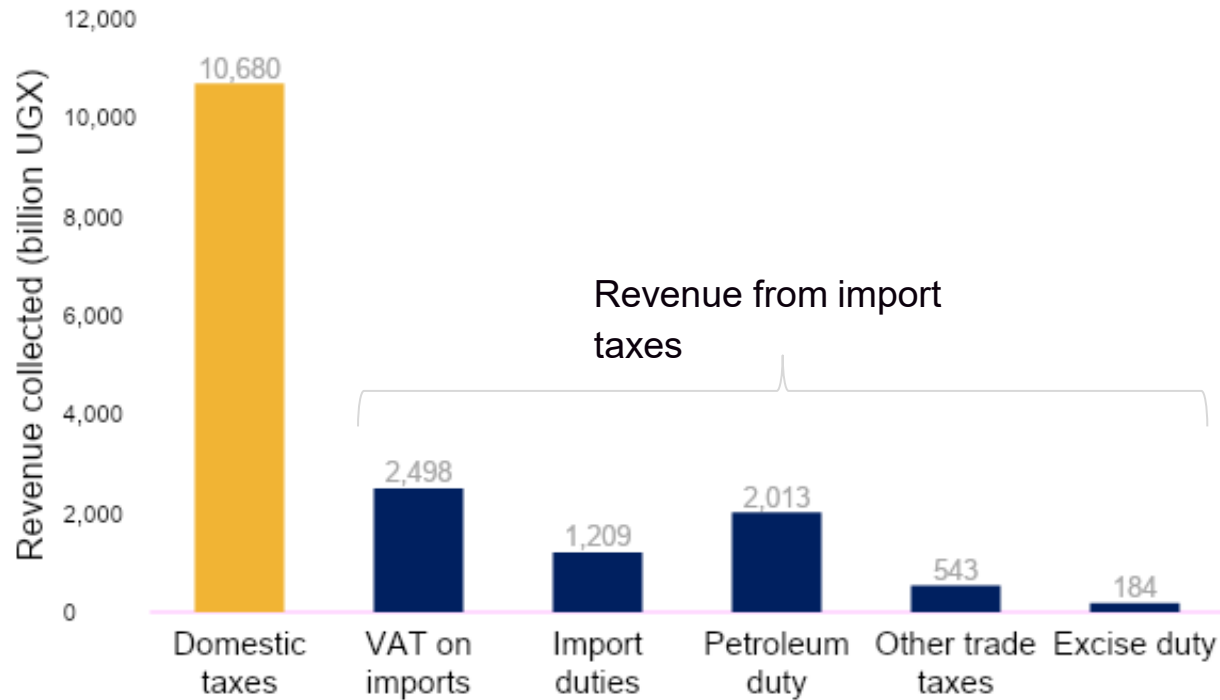
Import tax evasion and its impact on prices in Uganda

31st August, 2022

Outline

- **Motivation**
- **Methods for measuring import tax evasion**
- **Fiscal cost of import tax evasion**
- **Drivers of non-compliance**
- **Next steps**

Import taxes are important ...



Source: Authors' illustration based on URA data for the 2019/20 fiscal year.

.... but there is ample evidence of evasion. *“Trade fraud sucks the lifeblood from Uganda’s already struggling economy” The East African (2019).*

This project: Measuring import tax evasion and its effects

- **Detecting evasion in customs data:** Compare reported imports by Ugandan traders with reported exports by trading partners
- **Detecting evasion in VAT data:** Compare VAT paid value reported in customs declarations with value reported in VAT declarations by the same trader
- Use detailed customs and VAT data provided by the URA to **identify trends in evasion** through “missing” import and VAT values and the associated **fiscal losses**
- Goal is to study the effects of this evasion on domestic prices by incorporating **disaggregated local price data**

Methodology

Multiple evasion pathways for firms

- Firms can try to **minimize the tariffs and VAT they pay on imports** through strategic misreporting
- **In customs declarations, firms may**
 1. Underreport imported quantities
 2. Misclassify products to avoid highly taxed categories
 3. Underreport unit values of imported goods
- **In Schedule 3 of their VAT declarations, VAT-registered importers may**
 4. Overreport the VAT previously paid on imports to reduce their net VAT liability

1: Underreporting of quantities (customs declarations)

UNComtrade data for “Organic surface active products”

Year	Imports from UK reported by Uganda (kg)	Exports to Uganda reported by UK (kg)
2010	12,196	6,336
2011	18,005	39,445
2012	11,389	23,673
2013	33,917	29,874
2014	11,958	42,580
2015	14,128	43,280
2016	13,958	39,861
2017	922	18,810
2018	7,142	12,843

HS-code: 34.01.30. Tariff 25% and 35% from 2017 onwards (*Stay of Application* from CET).

2: Miss-classification and “orphan exports” (customs declarations)

- Example from *UNComtrade* data
- UK reported exports of “Jute sacks and bags” to Uganda in 2016. But **no reported imports** of this product by Uganda from the UK in 2016.
- Tariff on this product is 45 percent (“Sensitive Items” list).
- Incentive to miss-classify as a different but similar product with a lower tariff?

63.05		Sacks and bags, of a kind used for the packing of goods.		
	6305.10.00	- Of jute or of other textile bast fibres of heading 53.03	kg	SI
	6305.20.00	- Of cotton	kg	25%
		- Of man-made textile materials :		
	6305.32.00	-- Flexible intermediate bulk containers	kg	25%
	6305.33.00	-- Other, of polyethylene or polypropylene strip or the like	kg	25%
	6305.39.00	-- Other	kg	25%
	6305.90.00	- Of other textile materials	kg	25%

CET 2012 version

3: Underreporting of unit prices (customs declarations)

Systematically identify shipments with unit prices far below the median unit price for the same product, from the same country, in the same year:

1001.9990 (Hard wheat), 2019, India. Specific, but generic.

	stat_cd	front_off	mot	cty_c	cty_o	cty_d	item_no	nt_wt	ushsval	duty	vat	rcpt_date	median_val~g	valperkg
935	UGKLA	UGMAL	Road	IN	IN	UG	1	18950	25315387	2531539	5012447	08/05/2019	1163	1336
936	UGKLA	UGMAL	Road	IN	IN	UG	1	25050	26382357	2638236	5223707	02/09/2019	1163	1053
937	UGKLA	UGMAL	Road	IN	IN	UG	1	2000	2262459	226246	447967	02/28/2019	1163	1131
938	UGKLA	UGMAL	Road	IN	IN	UG	1	3000	3488039	348804	690632	04/15/2019	1163	1163
939	UGKLA	UGMAL	Road	IN	IN	UG	1	2000	2447584	244759	484622	01/08/2019	1163	1224
940	UGKLA	UGMAL	Road	IN	IN	UG	1	20000	28220396	2822040	5587639	02/13/2019	1163	1411
941	UGKLA	UGMAL	Road	IN	IN	UG	1	17000	4640350	464035	918790	11/08/2019	1163	273
942	UGKLA	UGMAL	Road	IN	IN	UG	1	5000	4670112	467012	924683	07/29/2019	1163	934
943	UGKLA	UGMAL	Road	IN	IN	UG	1	7000	6476890	647689	1282425	08/15/2019	1163	925
944	UGKLA	UGMAL	Road	IN	IN	UG	1	3000	3455449	345545	684179	03/23/2019	1163	1152
945	UGKLA	UGMAL	Road	IN	IN	UG	1	2000	2447584	244759	484622	01/17/2019	1163	1224

4: Overreporting VAT paid on imports at the border (VAT declarations)

Record from November 2015 for *Assessment A59493* in *ASYCUDA*

mondate	anum	mod_hs8	duty	vat_cust
2015m6	A119140	39269090	29698152	26728336
2015m8	A32195	39269090	0	2673457
2015m9	A51191	39269090	1030750	927675
2015m10	A54468	39269090	192070	172863
2015m10	A56262	39269090	275231	247708
2015m10	A43177	39269090	0	357474
2015m11	A61784	39269090	1038247	934422
2015m11	A59930	39269090	1087779	979001
2015m11	A59493	39269090	2275390	2047851
2016m1	A2237	39269090	0	218620
2016m1	A11543	39269090	0	1485900
2016m1	A13849	39269090	25304	22773

Declaration for *Assessment A59493* in *VAT Schedule 3* – *Imported Inputs* claimable for input tax credit

mondate	anum	mod_hs8	total_base	vat_vat
2015m6	A119140	39269090	4.45e+08	8.02e+07
2015m8	A32195	39269090	2.97e+07	5346914
2015m9	A51191	39269090	1.03e+07	1855348
2015m10	A54468	39269090	1920700	345726
2015m10	A56262	39269090	1529061	275231
2015m10	A43177	39269090	4.96e+07	8936859
2015m11	A61784	39269090	1.04e+07	1868844
2015m11	A59930	39269090	9572454	1723042
2015m11	A59493	39269090	2.28e+07	4095702
2016m1	A2237	39269090	3.04e+07	5465507
2016m1	A11543	39269090	1.65e+07	2971800
2016m1	A13849	39269090	2.53e+07	4554590

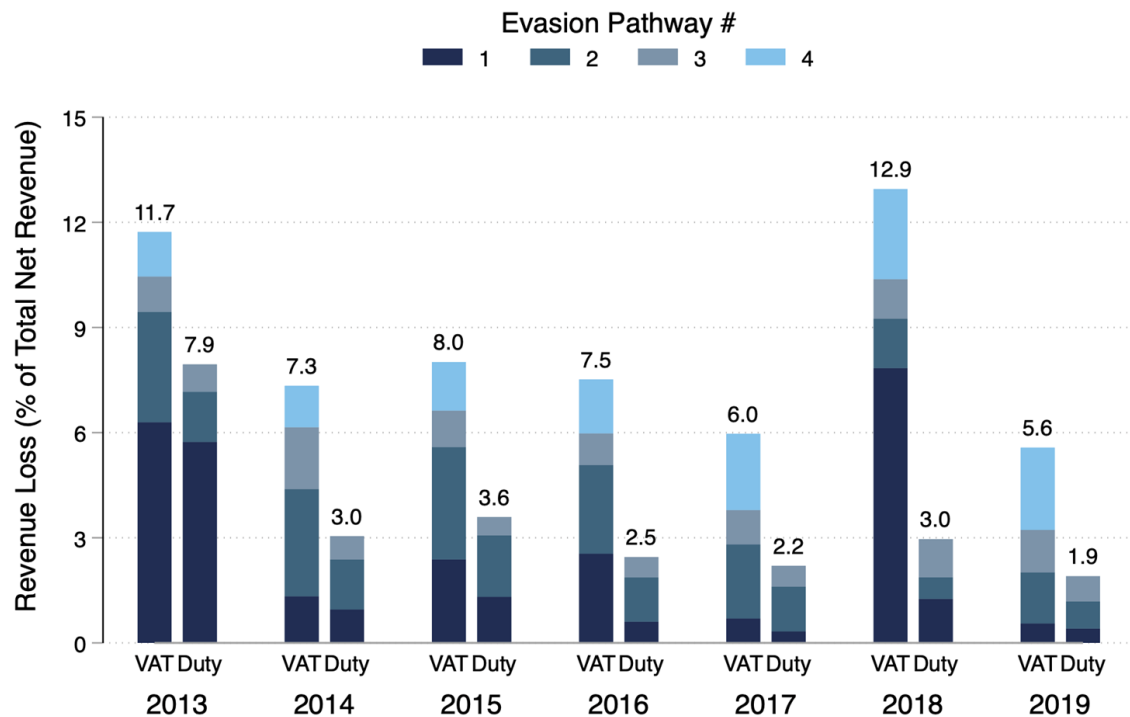
HS-code: 39.26.90.00 “Other Articles of Plastics” Tariff 0% in FY 2012/13, and 25% in other FYs in 2010 - 2020



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Fiscal cost of import tax evasion

Estimated revenue loss by evasion pathway and tax head



In 2019, evasion from the 4 pathways meant a loss in VAT collection equal to ~5.6% of all public revenue (loss in duty collection ~1.9% of public revenue)

The **estimates are sizeable**, with ~1,337 billion UGX lost to evasion in 2019. For comparison, health sector budget in 2018/19 was 1,636 billion UGX.

This is potentially an underestimate. Only VAT and duty are considered (i.e., no accounting of excise duties, withholding tax, etc.)



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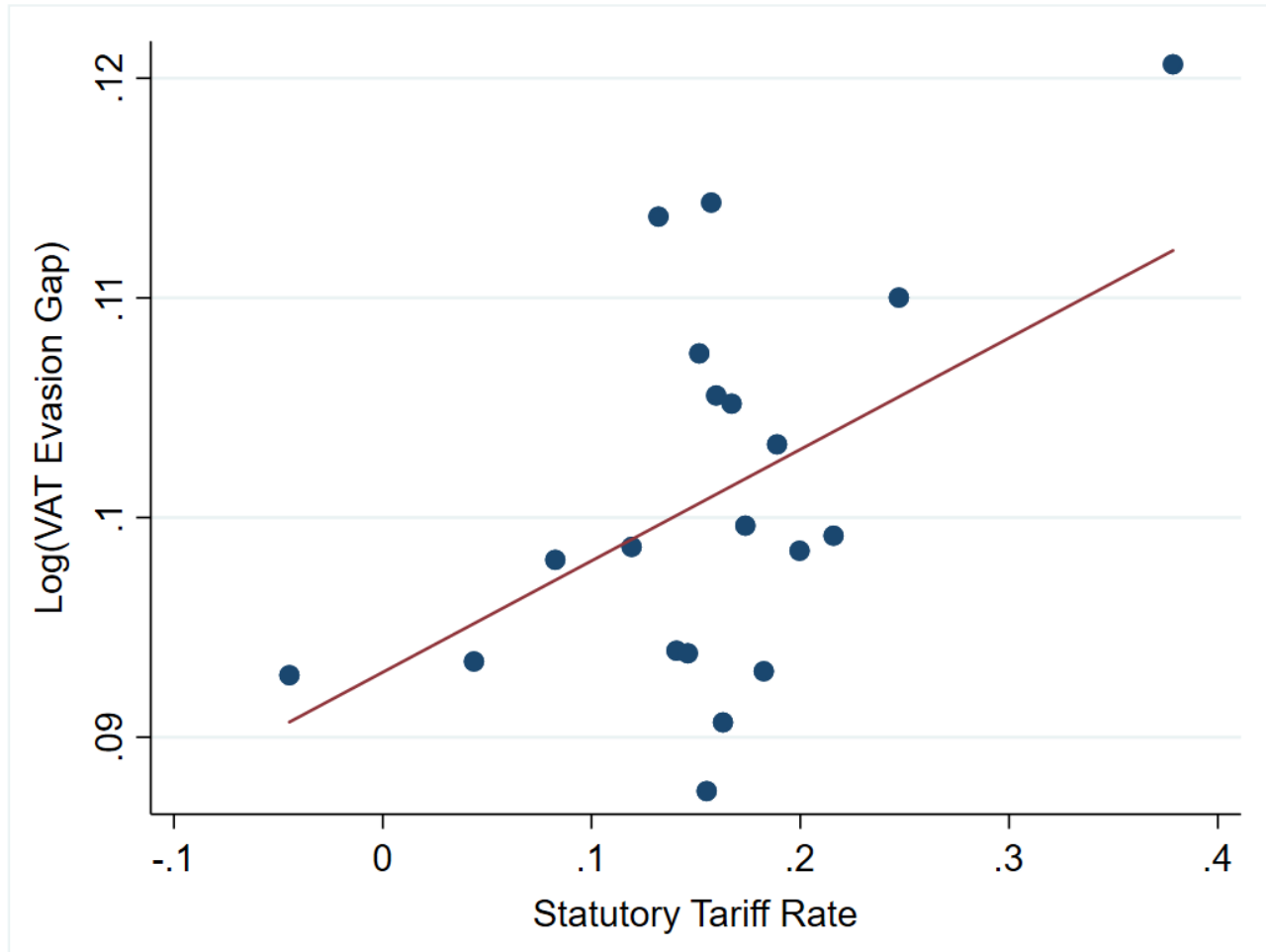
Drivers of import tax evasion

Factors that can predict evasion

- **Tariffs:** higher duty rates increase the incentive to evade
- **Consignment characteristics:** we observe substantial variation in estimated evasion across
 - Custom clearing agents
 - Firm sectors
 - Product types
 - Countries of origin
- **Fluctuations in exchange rates:** a weaker UGX makes imports more expensive (while boosting export competitiveness) and may make evasion more attractive

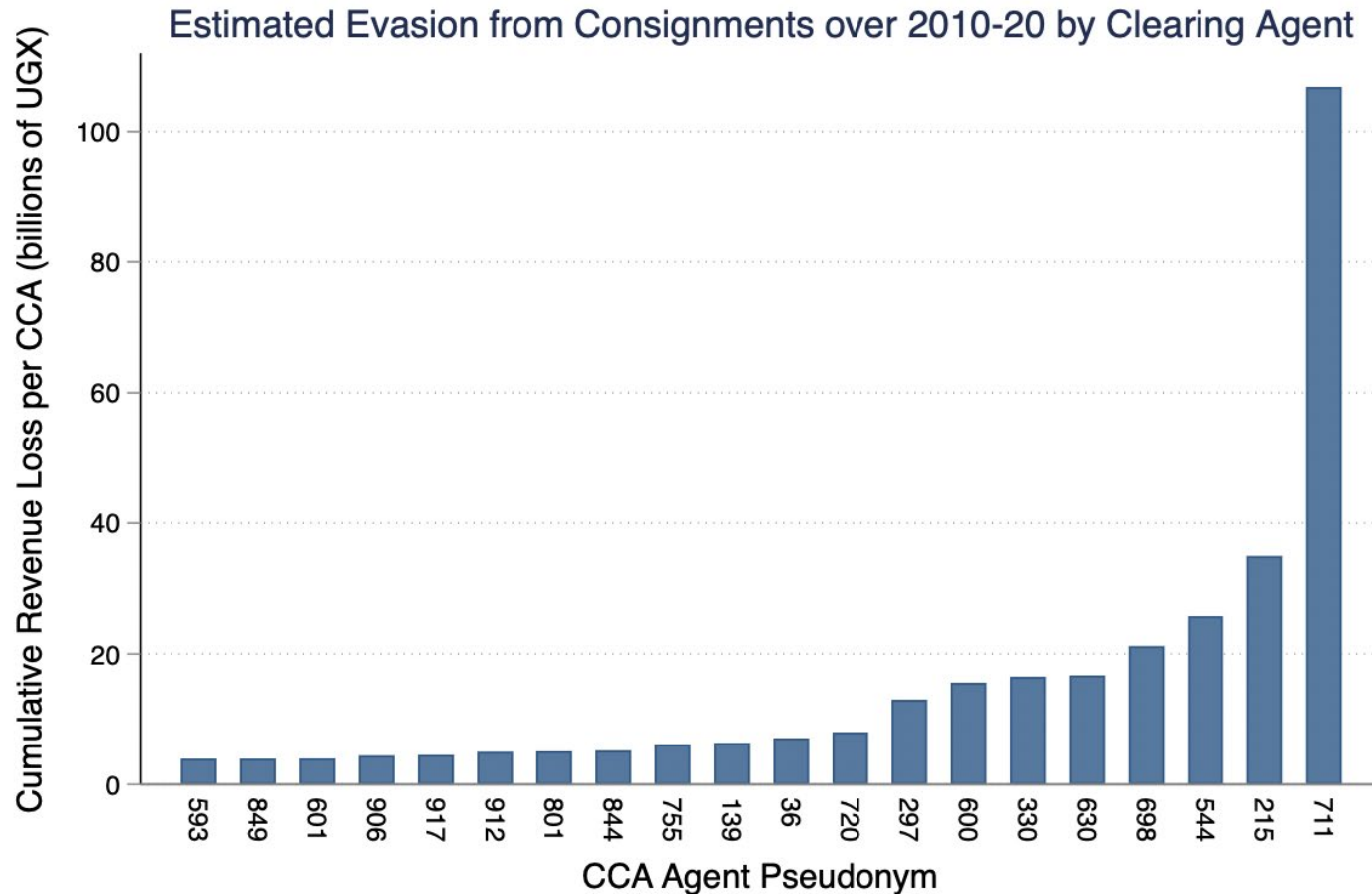
Statutory Tariff Rates

Higher tariffs increase incentive to overreport in VAT declarations



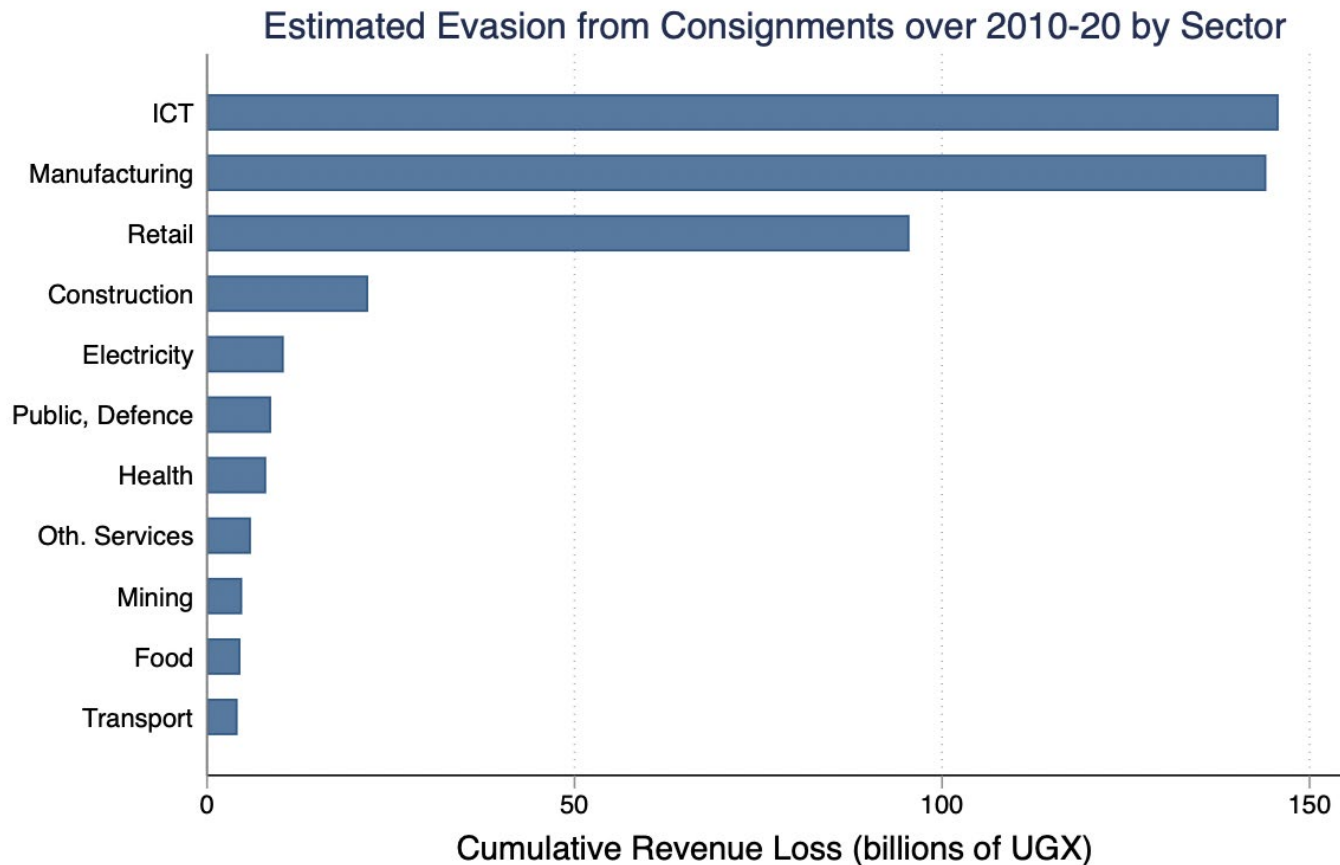
Customs Clearing Agents

2010-2020: 1,486 customs agents in charge of 277,000+ consignments over this period. We can estimate evasion via underreporting of unit prices to look at variation across clearing agents



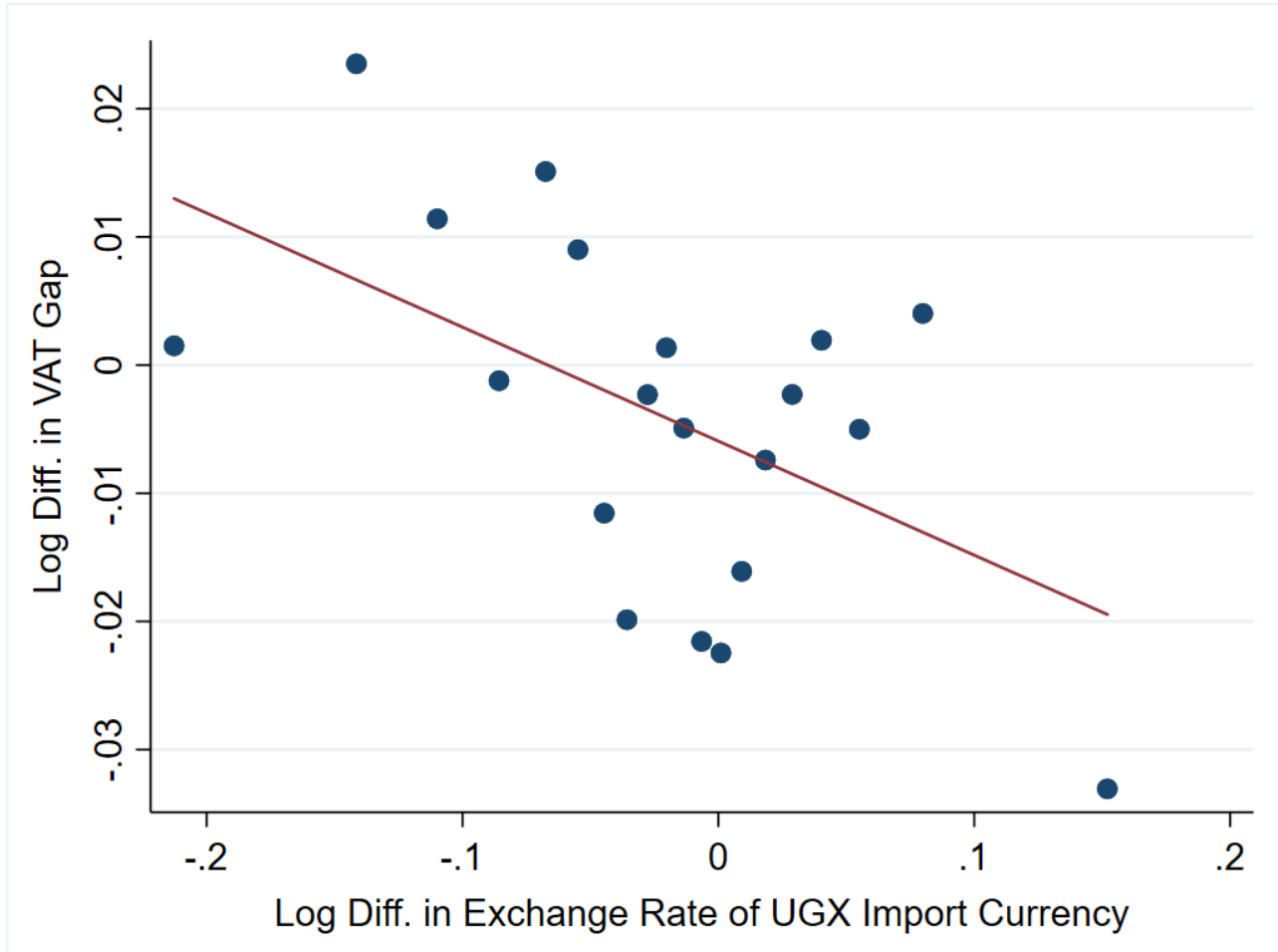
Firm Sector

2010-2020: We merge the list of almost 80,000 firms importing over this period with the tax register to obtain their sector of operation. We can estimate evasion from underreporting of unit prices for imported goods across sectors



Exchange Rate Fluctuations

Depreciation in UGX increases incentives for evasion





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Next steps

Impact of evasion on prices

- Beyond the fiscal costs, the behavior we study in importers may **ultimately affect prices** faced by Ugandan consumers
- **Goal: Combine customs and VAT data with disaggregated local price data** to study the pass-through of exchange rate shocks and import tax evasion onto prices in Uganda
- Work would be complementary for URA, UBoS, and BoU, especially in current macroeconomic environment

Policy implications and next steps

- Some evidence that higher-risk consignments are flagged at customs
 - We find a positive correlation between the gap from underreporting of quantities and likelihood of assignment to red lane
- Augment **strategies for ongoing detection of tax evasion** by URA, including stronger supervision of
 - Clearing agents and sectors at higher risk of customs evasion
 - Product x country-of-origin combinations with persistent evasion gaps (*initial list shared in 2021*)
 - Inconsistencies in ASYCUDA vs. VAT Schedule 3 declarations
- Develop understanding of **how import tax evasion can factor into broader policy decisions**
 - E.g., size of VAT revenue gain from raising tariffs may be constrained by increased incentives to evade
- Potential for **productive collaboration within the URA** (Customs, VAT) and **across agencies** (URA, UBoS, BoU)

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