



TAX POLICY BRIEF ON FY 2023/24 TAX BILLS IN UGANDA AND THEIR POTENTIAL IMPLICATIONS ON SMALL HOLDER FARMERS

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CONTENTS

List of Acronyms.....	ii
List of Tables.....	ii
List of Figures.....	ii
1. About Advocacy Coalition for Sustainable Agriculture (ACSA).....	1
2. FY 2023/24 Projected Budget.....	1
3. FY 2023/24 Tax Amendment Proposals.....	2
6. Conclusion.....	9
References.....	9



LIST OF ACRONYMS

ACSA	Advocacy Coalition for Sustainable Agriculture
CSO	Civil Society Organisation
FY	Financial Year
GoU	Government of Uganda
SHFs	Small Holder Farmers
UGX	Uganda Shillings
VAT	Value Added Tax

List of Tables

Table 1: FY 2023/24 Tax amendment bills and their potential implications for SHFs.....	3
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List of Figures

Figure 1: Breakdown of the FY 2023/24 projected resource envelope (in UGX Trillion and percentage shares).....	2
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1. About ACSA

ACSA is a national network of Civil Society Organizations (CSOs), which work with smallholder farmers and promote Sustainable Agriculture, Agricultural market development, Environmental conservation, Research and advocacy with the aim of increasing farmers' understanding of policy issues affecting small holder farmers in Uganda. ACSA's mandate is "Advocating for the agrarian policy environment for small holder farmers in Uganda," targeting the ACSA membership of 29 (9 Caritas organizations, 3 Networks, 5 Farmers' Associations and 13 NGOs) spread country wide, smallholder farmers, local governments and other likeminded stakeholders.

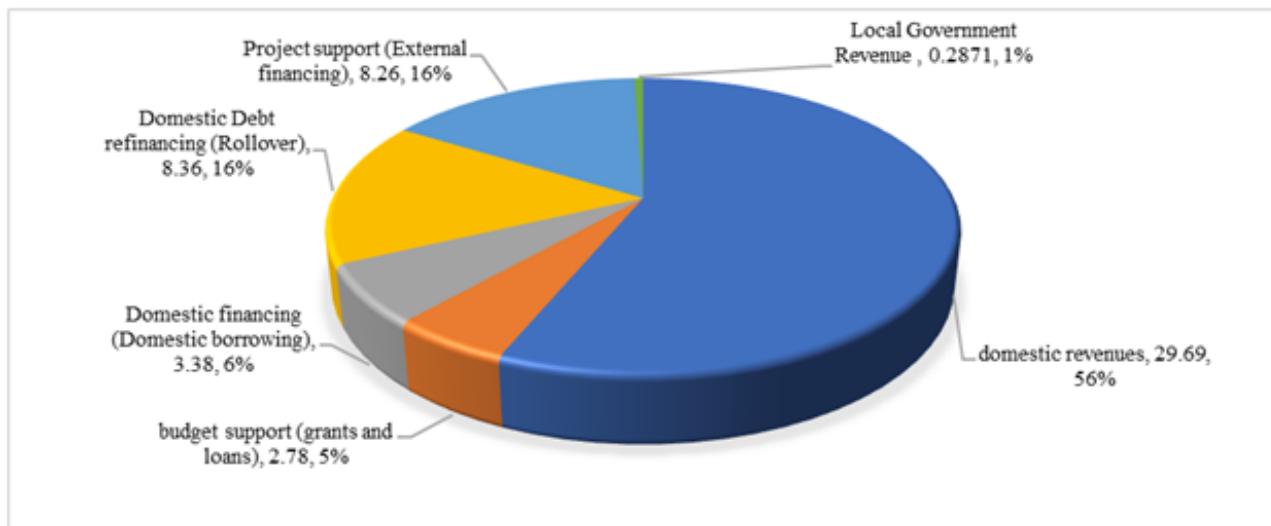
ACSA's Mission is "to Empower civil society organizations working with small holder farmers to advocate for favourable agrarian Policy environment for sustainable communities" and a Vision of "Smallholder farmers living in a Sustainable Environment". ACSA's focus areas are; Advocacy and Lobbying, Research and documentation, Capacity building of member Organisations, Capacity building of ACSA secretariat, Networking and partnership building, which are undertaken under the overall Goal of : "***Relevant agriculture policies and services for Small Holder Farmers (SHFs) are implemented to foster profitable sustainable agriculture enterprises.***"

Under her objectives of, "ACSA Member Organizations (MOs) and smallholder farmers influence the agrarian policy and budgeting processes at local and national level". This calls for among other initiatives, an analysis of the national budget and tax policies, and their implications on the agriculture sector and the small holder farmers in particular. This brief provides highlights of the FY 2023/24 tax proposals that are likely to have an impact on the Small Holder Farmers (SHFs).

2. FY 2023/24 Projected Budget

Every Financial Year (FY), the Government of Uganda (GoU) devises mechanisms of financing the annual budget to realize the intended development targets and extend services to the citizenry. Domestic Revenue sources constitute a key financing component in the annual budgets. For the FY 2023/34, the budget is projected at UGX 52.76 trillion and the resource envelope is broken down as summarized in Figure 1.

Figure 1: Breakdown of the FY 2023/24 projected resource envelope (in UGX Trillion and percentage shares)



Source: Ministry of Finance, Planning and Economic Development

From Figure 1, domestic revenue are to contribute the largest share in financing the FY 2023/24 projected budget at 56 percent equivalent to UGX 29.69 trillion.

3. FY 2023/24 Tax Amendment Proposals

To realize the UGX 28.922 trillion in the FY, numerous amendments in the country's tax laws were proposed on the various tax heads through respective tax heads. This analysis takes into consideration of the taxation amendments that have a direct bearing on the Small Holder Farmers. The Tax heads amendments that have potential effects on Small Holder Farmers (SHFs) as illustrated forth in Table 1.

Table 1: FY 2023/24 Tax amendment bills and their potential implications for SHFs

S/N	Tax Head amendment bill	Proposed amendment(s)	Likely implications to Small Holder Farmers and related service provider	Advise to Small Holder Farmers and related service providers
1.	Excise Duty (Amendment) Bill 2023	<p>Definition: Excise duty is a tax on consumption of specified goods and services. It is imposed to protect revenue resources as domestic production replaced importation and regulate consumption of certain goods with negative health implications like spirit and cigarettes.</p> <p>(Source: Taxation Handbook ; A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)</p>	<p>The definition of fruit juice in the tax law provides clarity on what fruit juice means in the particular tax context.</p> <p>The clarification removes any ambiguities in regards to what fruit juice means. This is critical for fruit farmers or suppliers to know that their supplies are excisable as provided for in Schedule 2 of the Principal Excise Duty Act. Schedule 2 of the Principal Excise Duty Act, which indicates all the excisable goods and services.</p> <p>The definition of fruit juice enables the fruit suppliers to know their respective tax obligations in relation to their fruit supplies and therefore set the market price of their fruits with the tax component in mind.</p>	<p>Small holder farmers (engaged in fruits supply) should interest themselves in tax amendment clauses that affect the respective suppliers they are engaged with.</p>

¹ Vegetable means juice blended or made from vegetables.

S/N	Tax Head amendment bill	Proposed amendment(s)	Likely implications to Small Holder Farmers and related service provider	Advise to Small Holder Farmers and related service providers
1.	Excise Duty (Amendment) Bill 2023 Definition: Excise duty is a tax on consumption of specified goods and services. It is imposed to protect revenue resources as domestic production replaced importation and regulate consumption of certain goods with negative health implications like spirit and cigarettes. (Source: Taxation Handbook ; A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)	art of a vegetable, whether the extracted liquid is diluted or not”. This definition is suggested to be inserted immediately after the definition of “value added tax”.	helps the vegetable suppliers to know their respective tax obligations in relation to their vegetable supplies and therefore set the market price of their vegetables with the tax component in mind.	Small holder farmers dealing in the produce of local agricultural products like sorghum, maize, barley, among others should increase on their respective supplies since there will be increased demand from the opaque beer producers due to projected lower prices of beer – consumers of the beers will consume more which subsequently creates the need for the producers to produce more beer. These have an upward demand effect on the agricultural produce used in the making of the opaque beer.

S/N	Tax Head amendment bill	Proposed amendment(s)	Likely implications to Small Holder Farmers and related service provider	Advise to Small Holder Farmers and related service providers
1.	Excise Duty (Amendment) Bill 2023	<p>Item 3 of the Principal Excise Duty Tax Act is proposed to be amended as;</p> <ul style="list-style-type: none"> -Un-denatured spirits² of alcoholic strength by volume of 80% or more made from locally produced raw materials to attract 60% or UGX 1500 per litre, whichever is Higher -Un-denatured spirits, of alcoholic strength by volume of 80% or more made from imported raw materials. This amendment for un-denatured spirits of an alcoholic strength by volume of 80% or more made from imported raw materials to attract a tax 100% or UGX 2500/= per litre, whichever is higher <p>Definition; Excise duty is a tax on consumption of specified goods and services. It is imposed to protect revenue resources as domestic production replaced importation and regulate consumption of certain goods with negative health implications like spirit and cigarettes. (Source: Taxation Handbook ; A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)</p>	<p>Amendment of Item 3 of the Excise duty harmonizes with other East African Nations like Kenya and Tanzania that taxation of un-denatured spirits on the alcohol content.</p> <p>The amendment to have Un-denatured spirits, of alcoholic strength by volume of 80% or more made from imported raw materials attract a tax 100% or UGX 2500/= per litre, whichever is higher is advantageous to the small holder farmers who produce and supply local raw materials for the production of un-denatured spirits. This amendment makes un-denatured spirits from imported raw materials more expensive and costly to produce and as such producers of un-denatured spirits will opt for local raw materials which will boost the aggregate demand for the local raw materials hence a boom for the suppliers of the local materials (Bananas, Sugarcane, Cassava, Sweet potatoes) who also include Small Holder Farmers.</p>	<p>This proposed tax amendment will make un-denatured spirits from imported raw materials more expensive and costly to produce. This will subsequently make the producers of un-denatured spirits to source local raw materials which will also imply the small holder farmers supplying the local raw materials will gain positively from the high demand for the local agricultural products supply.</p> <p>Additionally, the harmonization (with Kenya and Tanzania in basing taxation of un-denatured spirits basing on the alcohol content) enhances the competitiveness of the Ugandan made un-denatured spirits which subsequently creates demand for the local materials meant for the production of the un-denatured spirits.</p> <p>Farmers should therefore beef up the supply of the needed local agricultural raw materials needed to produce the un-denatured spirit as alternative cash crops.</p>

² Undenatured spirits are spirits that are not mixed with any ingredients that are toxic to make the spirit unfit for human consumption. In Uganda un-denatured spirits include among others; Uganda Waragi, Baileys, Bond 7, Gilbey's, and Gordons Gin.

S/N	Tax Head amendment bill	Proposed amendment(s)	Likely implications to Small Holder Farmers and related service provider	Advise to Small Holder Farmers and related service providers
1.	Excise Duty (Amendment) Bill 2023	<p>Items 5 of the Excise Duty Act is proposed for amendment by substituting as follows;</p> <ul style="list-style-type: none"> - any other non-alcoholic beverage locally produced other than a beverage referred to in paragraph (a) made out of fermented sugary tea solution with a combination of yeast and bacteria to be subjected to a tax of 12% or 150/= per litre, whichever is higher. <p>Definition; Excise duty is a tax on consumption of specified goods and services. It is imposed to protect revenue resources as domestic production replaced importation and regulate consumption of certain goods with negative health implications like spirit and cigarettes.</p> <p>(Source: Taxation Handbook ; A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)</p>	<p>The proposed amendment of Item 5 as illustrated seeks to reduce the excise duty rate from 12% or UGX 150/= which ever is higher to 12% or 250/= per litre, which is higher and promotes the local industry that largely depends on the locally produced materials. This is to boost demand for such agricultural raw materials and subsequently a boom for the respective farmers.</p>	<p>Small Holder Farmers of agricultural raw materials for the other non-alcoholic beverages need to tap into this opportunity by increasing on their respective supplies.</p> <p>Small holder farmers (engaged in locally grown or locally produced raw materials) should interest themselves in tax amendment clauses that affect the respective supplies they are engaged with.</p> <p>This brings clarity by emphasizing locally grown or locally produced raw materials. This clarity contributes to increase in demand for locally grown or locally produced raw materials to produce the respective fermented beverages. This subsequently benefits the small holder farmers of the locally grown or locally produced raw materials.</p>

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2.	Value Added Tax (Amendment) Definition: Value Added Tax (VAT) is an indirect tax that is paid by a person who consumes or imports goods and/or services in Uganda. The Tax is charged on the value added at different stages of production or supply of goods and services. (Source: Taxation Handbook :A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)	<p>There is a proposal to amend the Second Schedule of the Principal VAT Act by substituting for subparagraph qa-(in which the supply of animal feeds and premixes is exempted from VAT) with the supply of animal feeds, premixes, concentrates and seed cake</p> <p>The second schedule of the VAT act shows items that are exempted from VAT in Uganda. The inclusion and specification of animal feeds, premixes, concentrates and seed cake in the second schedule of the VAT act means that they are exempted from VAT. This will lower the price of animal feeds, premixes, concentrates and seed cake.</p>	<p>Small holder farmers in animal husbandry (rearing animals) and keeping birds stand to benefit as the price of animal feeds, premixes, concentrates and seed cake will be lower hence reducing their aggregate cost of operation.</p>	<p>Small holder farmers dealing in cotton seed cake need to increase its production given the projected rise in demand for the cotton seed cake as a raw material for the animal feeds production.</p>

S/N	Tax Head amendment bill	Proposed amendment(s)	Likely implications to Small Holder Farmers and related service provider	Advise to Small Holder Farmers and related service providers
2.	Value Added Tax (Amendment)	<p>Definition; Value Added Tax (VAT) is an indirect tax that is paid by a person who consumes or imports goods and/or services in Uganda. The Tax is charged on the value added at different stages of production or supply of goods and services.</p> <p>(Source: Taxation Handbook; A Guide to Taxation in Uganda, Second Edition – Uganda Revenue Authority)</p>	<p>benefit small holder farmers in two folds namely; (i) – the reduction in the price of cotton seed cake will reduce the operational cost of producing animal feed which subsequently reduces the final price. This benefits small holder farmers who purchase the animal feed for their animals.</p> <p>(ii). The lower price for cotton seed cake will also increase the demand for the seed cake by the producers of animal feed. This will benefit the small holder farmers dealing in cotton seed cake due to increase in demand for the cotton seed cake as a raw material for the animal feeds.</p>	<p>The suppliers of cassava used for making liquefied gas and denatured fuel ethanol need to diversify into the other exempted raw materials used in the production of liquefied gas and denatured fuel ethanol. This is to cushion the cassava dealers from the competition from producers of the other exempted liquefied gas and denatured fuel ethanol raw materials.</p>

4. Conclusion

Smallholder farmers are central to the sustainability of the agro-industrialization program which subsequently contributes to the realization of national poverty reduction targets in the national development frameworks like the Third National Development Plan (NDP III). Fair and just tax policies are central to providing an enabling environment through which small holder farmers thrive to provide positive spillovers to the citizens and entire economy at large, hence a need to do massive awareness for the stakeholders along the value chain to understand the wins and losses that will drive them to either benefit from the tax regime or find the alternatives.

REFERENCES

Ministry of Finance, Planning and Economic Development (2023). The Excise Duty (Amendment) Bill, 2023

Ministry of Finance, Planning and Economic Development (2023). The Value Added Tax (Amendment) Bill, 2023



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