

25 years of URA's transformation

In a journey that started in 1991-2016, Uganda Revenue Authority (URA) turns 25 years old today. Established by an Act of Parliament in 1991, URA was formed by merging three departments of customs, income tax and inland revenue, and sales formerly under the finance ministry. In addition, support departments including finance, administration and human resource were created and that is how URA was formed. Today URA marks a silver jubilee since its inception to collect central government revenue and facilitate trade in Uganda. URA, before its establishment as a tax administration institution in Uganda, faced a number of challenges among them high domestic tax rates and bureaucracies, but after 25 years could the trend have changed. URA Commissioner General Doris Akol spoke to *Jacky Achan* about the journey of tax system transformation

Let us start with the journey of URA. How has it transformed over the years?

The creation of URA was as a result of the inefficiencies in revenue collection at the time. Revenue was not being collected efficiently and there was a lot of leakage because there was no proper system for revenue collection. It was discovered that as part of the public finance reform programme at that time, a revenue authority had to be created, which led to the creation of URA. On its inception, URA was headed by an expatriate commissioner general Edward Larbi Siaw from Ghana and a team of other expatriates from the UK. Over 25 years, we have seen this trend changing to the point where URA is now completely led by Ugandans and the leadership is drawn from people that have been professionally groomed and trained within URA, so that is one of the highlights of the 25-year journey.

What have been your key successes since inception in 1991?

To be specific, we started off as an institution using rudimentary methods of revenue collection. We were collecting revenue in cash, but over the years, this has changed. Uganda Commercial Bank was the single collecting bank then, but now we have up to 25 banks collecting revenue on behalf of URA and remitting the money directly to the consolidated fund.

We were also operating manual processes that made us inefficient and bureaucratic. There are a lot of shortcomings that go within a manual environment like fraud, but right now over 90% of the processes we operate are electronic or automated. We are aiming at working within a paperless environment, but of course when it comes to issues of revenue reconciliation we cannot totally rule out paper processes, but we are targeting making ourselves as much as possible automated to reduce inefficiencies and bureaucracies.

When we started, we were collecting sh180b in revenue, but as of last year, we collected sh11.2 trillion, the growth in revenue collection has been exponential. We have also had policy changes in between, including the introduction of VAT as a new tax, moving away from collecting sales tax and commercial transactions levy, which was a tax collected on services, and introduced tax appeals tribunal in order to give taxpayers an

opportunity to have our decisions reviewed by an independent party.

Also, leadership is now drawn from within URA to head the institution and perhaps quite significant is the construction of our headquarter building. We have property outside the centre of the country, but not in the central. So the construction of our head office is also a key highlight of the 25-year journey.

For our brand, we started out with a logo that served us up to 2005 and changed the way the public views us through it. The old logo had been associated with a URA that was not friendly, extremely corrupt, not efficient and non-responsive to clients. To transform, we changed our brand by adopting a new logo, which came with structural transformation. We moved from a 17-layered, to six-layered organisation. We changed our management structure from about 45 senior managers to a leaner 28, including the commissioner general. We also reduced certain layers among the staff which were creating duplications and hampering quick decision making and merged them to form structural greats that we have right now. The transformational journey started in 2004 and that journey creates very much the picture of what URA is right now.

What are some innovations that you are proud of?

One of the outstanding innovations we have deployed is in administration of customs revenue. We started off by using the Automated Systems for Customs Data (ASYCUDA) 2.7 to the world version, removing eight layers of paper work and creating e-declaration where you lodge your declaration online as soon as your goods arrive. This has eased the process of administering customs revenue and also reduced the time.

We implemented the single customs territory, which is significant in revenue collection. Now when goods arrive at the ports of Mombasa and Dar es Salaam, they are viewed to have entered the customs union and we are able to clear the goods as soon as they arrive and taxes are collected.

For domestic taxes in 2007, we rolled out an integrated electronic tax administration system (e-tax). Previously, you would have a tax number for each tax head, but we unified the tax identification process, by issuing a new tax identification number (TIN) that enables us to see the taxpayer across the various tax heads, including excise duty, VAT



Doris Akol says URA looks at continually improving its relation with the tax payers

"WHEN WE STARTED, WE WERE COLLECTING SH180B IN REVENUE, BUT AS OF LAST YEAR WE COLLECTED SH11.2 TRILLION"

and income tax. The taxpayer also has a single view of what they look like in the books of URA.

Recently, we also launched an app called *AskURA*. It provides the URA office in the palm of your hand. Once you download it, you are able to interact with URA from the phone, ask questions, register for payment and if you have mobile money, you are even able to carry out payment by starting the process on your phone and eventually paying with mobile money, that automation is what we are using to make it quick and convenient for our clients.

But with automation, there are complaints that documents get lost within the system and people have to come physically and make follow ups?

With automation, we do not have documents because you lodge the declarations and everything is processed online up to the point of

release and then you come and get your goods. It is the releases that you print out, come with and process the cargo to get out. But the cargo does not get out from here because they are in warehouses and Inland Car Ports (ICDs). People just come here maybe for number plates.

Weren't you fearful that by automating, you would put a lot of people out of employment?

On the contrary, no! When we designed the structure, we cut down a number of staff from the pre-2004 numbers to current numbers. The systems that we are using are conditioned to work with the numbers that we have. For example, in domestic taxes, even though we rolled out the e-tax, the system creates a lot of jobs or tasks for staff to handle and we found we needed a little bit more staff than we had before because of the quickness with which the system is working. It created tasks and with the current numbers, we were falling behind, so we actually had to recruit more staff. Automation has not led to job layoffs, but it has exposed us because when you are automated you are heavily reliant on IT, so that makes us more vulnerable than before. Yes, papers were being manipulated before, but when someone wrong gets into an automated system, the damage that they can do is more significant than when they forge our documents.

Who are the key partners who have helped you innovate and transform?

We have had assistance from a number of partners. DFID UK has helped us in funding and developing our voice and data network (URANET) that we use in internal and external communication. They have also helped us with domestic taxes (e-tax) and developing oil and gas management solutions.

Trademark East Africa has been very instrumental in funding the roll out of ASYCUDA world and also in the construction of one-stop border posts. We have six one-stop border posts and four are complete, two are under construction and have been funded by Trademark East Africa, inclusive of the construction of the document processing centre which is under customs. The World Bank has also helped us in building border stations at Busia and Malaba and the construction of the one-stop border posts.

Danida has helped us with integrity aspects; the Germany government and KfW are helping us with the data warehouse. It stores all of our data electronically and helps us analyse this data for quick decision making. We are using it right now but it is still being rolled out. The IMF is also a significant partner who has provided technical assistance over the years.

The UPDF has helped us in training of staff. Whenever we have new staff we take them to the National Leadership Institute in Kyankwanzi and take them through in-service training. We are working with the UPDF as well on skilling our customs enforcement, they also provide back-up to our customs enforcement operations. The Uganda Police have supported us in security as well as providing seconded staff in investigations both for internal affairs as well as tax investigations.

When you started as URA, the public had a negative view on the institution. How did you turn around that perception?

When URA began, the mandate was to make revenue collection more efficient, but the public was used to systems where the Government was not aggressive or assertive in collecting revenue. Therefore, when URA came in implementing its mandate, there was a bit of force used to get people to comply. This affected the image of URA, people feared to deal with us whenever we would go out. We had an anti-smuggling unit that was 100% militarised. This added to the perception of URA being merciless in the way we operated. At the time, we were also doing tax education, but because of this image we were not getting the message across. As part of the transformation journey, it was found that we must get people to come closer to us. This called for a change in approach in how we deal with taxpayers. Changing from a typical collector to a service-oriented tax collection is what endeared us more to our clients.

We are doing more on the service front by rolling out more tax education and tax service products to ensure the needs of all our clients

and building Uganda's tax base

are addressed in a manner that is convenient and at the least cost to them. Once you deploy services, the taxes are paid in an easier and friendlier manner. People comply because they feel URA is actually out there to support them. Instead of a tax collector who is out there just collecting revenue.

With the significant change of approach in how you handle taxpayers, have you realised remarkable compliance in tax collection?

Yes, 95% of the taxes we collect come through the normal flow. People pay because of the service channels that we have rolled out, the tax education we have given out and basically providing compliance solutions to them. The 5% comes through audits, URA enforcement and arrears collection. If we perfect the service approach, we will even increase the voluntary compliance percentage from 95% to about 99%.

Does the high level of tax compliance indicate a change of mind-set and attitude towards paying tax?

Many people are realising the benefit that comes from paying taxes, but also that payment of taxes is not optional but mandatory. If you engage in economic activity that triggers off taxation and you do not want to pay taxes, that puts you in the non-compliant bracket, which attracts URA enforcement action on you. No one wants the inconveniences that come to a business or taxpayer as a result of not complying with tax payment. No one wants to be worried about enforcement action coming from the tax administration and this has influenced a tax compliance culture. We find that information passed through tax education is instrumental. So as we continue to educate and bring more people on board, we find that there are people who did not even know that they should be paying rental tax and yet after a tax education seminar someone gets to understand they have to pay and ask how to comply with the process. So the attitude is changing quite significantly.

How about vices such as tax avoidance and tax evasion?

We do have those, especially among the most sophisticated taxpayers, key among them are multinational companies. They do aggressive tax avoidance. They use the loopholes in the law to pay as little tax as they are legally obliged to. Multinational companies pay huge sums of money to tax consultants and take advantage of treaties and all those kind of jurisdictions where there are low taxes, do aggressive tax planning either to ensure they pay no tax in Uganda or pay very little or even pay somewhere else. To do this, they use aggressive schemes like transfer pricing which borders on tax evasion and aggressive tax planning. Among the wholesale and retail segment, there is trade mis-invoicing where goods are categorised as if they are

exempt from taxes yet they should pay. Others outrightly do not pay, which amounts to tax evasion. These kind of schemes are handled by our tax investigators who are specifically trained and empowered to investigate and crack such tax fraud schemes whether from an aggressive tax planning perspective or a tax evasion perspective. So that is business as usual for URA and that is why we have a tax investigations and customs enforcement wing.

You won a case for URA against Heritage Oil a multinational company, how did you pull that off?

Heritage Oil and Gas had property in the oil industry in Uganda and they decided to sell that property to Tullow Oil. That sale triggered off a capital gain which attracted tax in Uganda. Now, Heritage fronted the view that they should not pay tax in Uganda because they had never paid that tax before, they had never paid it anywhere else and had no reason to pay, but on assessment of their position, we ended up in court.

What led us to victory is that we knew the law very well and we applied the law to the facts and it was clear from the outset that Heritage simply did not want to pay the tax we acknowledged that they should pay. Being assertive about Uganda's right to tax from the transaction was significant in getting us the victory, it was a clear case that this was a company supposed to pay tax and just did not want to pay, so when we went to court and argued our case it was clear even to those who were adjudicating the matter that there was actually a tax to pay.

Did this change how multinational companies remit taxes in Uganda?

I would say there was an impact on compliance in the oil and gas sector, but the facts of Heritage do not cut across all the other transfers. I would say these days, even outside of the oil and gas sector when you have transactions that involve transfer of interests, the companies will come to URA and make sure they understand our position before they complete their transactions.

What is URA doing to ensure that loopholes in the laws that lead to tax evasion are dealt with?

As tax administrators, we are at the frontline, we are the ones who get to see the weaknesses in the law. When we find areas of weaknesses, we advise the finance ministry, which is responsible for the policy and legislation on how they have to be closed off. Previously, companies owning houses as a company would pay their rental tax separate from their income taxes. They would lump up all the income they get as a company and take off the deductions and then pay. We found that hardly anyone was paying rental income tax and informed the finance ministry that they cannot have different treatment for a landlord who owns property as an individual and for a



An artistic's impression of the new URA one-stop centre and headquarters at Nakawa in Kampala

GETTING MORE LANDLORDS ONTO THE TAX NET IS SOMETHING THAT IS HAPPENING PROGRESSIVELY

landlord who owns property as a company. We made it known that in doing so, they were creating a loophole and people would simply incorporate companies through which they would own rental property. When we closed that loophole, we began to see rental remittances improving gradually.

So when we see a loophole that is exploited through tax avoidance, we inform the finance ministry which amends the law then we are able to close that loopholes.

Has the support in improving the laws been good?

Yes, every year we go through a process where we amend the laws and we have never had any problems. Of course sometimes we are not able to get them through because you know Parliament is the one that debates proposals that we give. Some of them are not able to come through, but with further education of the parliamentarians eventually they come through.

How is URA getting more landlords to comply with rental tax?

Getting more landlords onto the tax net is something that is happening progressively, because of the way rental properties are constructed and located. URA does not get to know about them unless we get information.

Now we are using different mechanisms of getting people into the rental tax bracket. One of those is using the local authorities, using the Kampala Capital City Authority and other local governments registration service bureaus. By directly using the LC chairpersons who know who

owns which property being put out for rent, we also use intelligence information from brokers who provide services to landlords, with this information we recruit more landlords on board and I think progressively we have seen growth. We had a doubling of the rental tax paid from sh27.6b in 2014/15 to sh55b in 2015/16, so the rental project is actually expanding.

Has tax collection improved on all fronts?

We have an annual growth rate target of between 15-20% and that is where we must make our tax revenues grow. Over the past 10 years or more, we have had revenue growth rates fitting within the 15-20% bracket. From 2013/14 - 2014/15 we had a 20% growth rate and in 2014/15 to 2015/16 we had a 15.6% growth rate.

We have had conflict within the region especially South Sudan. How has that affected URA tax performance?

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Transforming tax collection

In the past one year because of the conflict in South Sudan, customs revenue fell by up to 26%. That huge fall in revenue indicates the importance of South Sudan as a trading partner, which is our largest export destination. If we are not able to sell our goods there, not only do we lose revenue, but also trading volumes are decreased and profitability goes down for the people who trade with South Sudan. From Kenya, we import a lot of goods and when there are problems there, we are not able to get a number of goods coming through and we encounter some challenges, but mainly from a trade perspective Kenya and South Sudan are major trading partners and if they have challenges, we also get affected.

Are there any challenges that still persist in tax collection?

Of course, building a compliance culture still remains a challenge, particularly among small and medium enterprises (SMEs). They are the biggest proportion of our informal business, yet they are not registered, not regulated, we even do not know about them yet they are earning income.

We also do not have all staff we need to be able to cover all the areas of growth. Business in some outskirts of Kampala are even bigger than the businesses in some districts

where we have offices so we need to open offices in these places, but we need staff to do that.

Single customs territory (SCT) is another example we need to have more staff sitting in Kenya and Tanzania to administer or implement the single customs territory, because more than 50% of our customs revenue come from goods under the SCT, but we cannot roll out more goods onto SCT because we do not have the staff.

We are also heavily dependent on ICT, and reliability has become a challenge to us. Sometimes we are not available to monitor our clients because the people who provide us with ICT services are having frequent service breakdowns. Also, because we are heavily dependent on IT, we have to be security alert. We had a scenario where our IT system was hacked into and most of the motor vehicles were registered as if they had paid tax whereas not.

However, there is the funding problem. There are a lot of things that we would like to do, initiatives for enhancing revenue collection that we would like to roll out as URA, but we do not have the funding, which hampers our ability to even bring in more revenue.

You mention ICT unreliability, is that what has affected your 24-hour



Former URA Commissioner General Allen Kagina (left) handing over the instruments of power Akol right during the handover ceremony at the URA headquarters Kampala

clearance and work on holidays?

When it comes to 24-hour operations, we have it at Entebbe, Kampala CBC, Malaba, Busia, Mutukula, Katuna and all major entry points. It is in some entry points that are not busy that we do not operate 24-hours. So it is business volume and not network that determines where we operate 24-hours, in places like the airport we have even employed the services of PayWay because the banks

do not operate 24 hours and yet people come in even at 3:00am with goods and they need to pay on public holidays and weekends. We do not stop working, it is just because of the volumes during weekend and holidays, our revenue is

low in those days but, URA works seven days a week.

As a government body collecting revenue, how do you feel when government departments ask for money and at the end of the financial year return it to the treasury unspent?

When we collect money, we send it to the Government to spend. It is not our mandate to ask how the money has been distributed or spent, but like everyone else at URA we also feel frustrated that some institutions are getting money through allocations and do not use it while other institutions that have the capacity to use that money are not being given that money. As URA, we have needs that we would be able to use it for but cannot get it because it has been allocated rightly so to other Government departments, but at the end of the year they have not utilised it, so we feel cheated that we have been denied an opportunity to do something because money is allocated to other government entities and it is frustrating. But, also perhaps from a wider perspective is that money un-utilised means services not delivered and that is what creates the frustration of taxpayers. That they pay taxes but do not see how the taxes they are paying benefit them. But on the flip side of the argument is that there are certain services which are delivered which

are not so obvious in the eyes of a taxpayer that they take them for granted and a lot of government money is spent on those services. So it is one of those things that you see and you try to explain to taxpayers all the time.

What inspired the construction of the new URA building to host the headquarters?

The new building will house all the back offices and their operations within Kampala region (Entebbe, Mukono and Kampala). Back operations involves a client knowing how much tax they should pay. We will retain service hubs in those areas where we will have closed offices, but purely as service centres to enable people come interface with us when they have issues or finding solutions. But everything from audit assessment and planning, investigations and legal audit and customs, will all be sitting in this new buildings. We are calling it a one-stop centre.

I must point out that when we come to this building when it is completed and close off all the other offices, we will be saving significantly on the rent. The money we will have saved on rent will be deployed in operations to roll out more service-oriented innovations and solutions for our clients.

How much money is being channelled into construction of this building?

When completed, it will have cost us about sh139b and we will be saving in rent and logistics about of \$3m a year and if everything goes according to plan, we shall be cutting the tape in February 2018.

During your first year in office, URA hit its target, but this was not the same in the second year, what happened?

The results of URA are a reflection of how the economy has performed, URA, therefore, is a pulse point of how the economy is performing. In 2014/15, we had a good year and this was evidenced because almost all banks were profitable. If you have huge profits in your financial services and in manufacturing and telecoms, then you will have good revenues and that is what drove revenue performance in 2014/15. I was lucky that was my first year. In 2015/16, we had a slowdown and we all know that the economy should have performed at 5.4% but it performed at 4.6% and that had to be reflected somewhere, reflected in money in people's pockets



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which was missing, there was not as much money in circulation, you could see it reflected in the growth of non-performing loans in the banks. Indeed, you find that the profitability of the banks is where we took our biggest hit, profitability dropped significantly, we had a slowdown in manufacturing and with that VAT was not coming through as much. We had layoffs and Pay As You Earn dropped significantly, we had import volumes drop because of the depreciation of the shilling, people did not import as much because they did not have the money to import and that is what led to the drop in the revenue collection. However, even if we did not meet our 2015/16 target, we still collected over sh1 trillion more than in the previous year. It would have been a real concern if we had collected less revenue than the year before, but that was not the case.

From your experiences in the office, what do you desire for the future at URA?

Our strategy is multi-pronged for revenue mobilisation. We are going to focus on



Vehicles stolen from the UK that were impounded by URA and Interpol last year, parked at the URA head office before being handed over to the British High Commissioner to Uganda

improving tax compliance and we are looking at segmented approach with the sectors or industries, including manufacturing, construction, transport as areas of focus. We also have to increase our partnerships which enable us in collecting revenue because URA does not work alone.

We will also focus a lot on tax education because it is the key to compliance and goes along to improving our services. We must roll out

products and solutions that enable our clients comply easily.

From the staffing perspective, we are looking forward to making our staff fit for the job and our purpose. They must be professional, well-trained, courteous and able to assert their mandate to collect revenue while upholding our ethics and integrity. That is having quality people.

But we are also looking at

building URA, improving facilities through which we collect revenues, hopefully build more offices and complete the headquarter offices.

These are the things we will be focusing on in the future.

When we put all that together, we know that revenue will continue to grow at the pace it is growing now, perhaps even higher as we roll out more solutions.

MAIN AREAS OF IMPROVEMENT

■ Building a compliance culture still remains a challenge particularly among SMEs. They are the biggest proportion of our informal business yet they are not registered, not regulated, we even do not know about them yet they are earning income.

We also do not have all staff we need to be able to cover all the areas of growth. Business in some outskirts of Kampala are even bigger than the businesses in some districts where we have offices so we need to open offices in these places, but we need staff to do that.

What is your message to the taxpayers as URA celebrates its silver jubilee?

As we celebrate 25 years, we have themed it "25 Years of Building the Nation." It is just evidence of that fact that the revenue that URA collects is responsible for the growth and progress that you have seen in the country over the past 25 years and, therefore, it means that if we want and indeed we all aspire to have middle-income status by 2020, we are aspiring to be a prosperous nation that will be a reality if we continue to pay our taxes but of course on the backdrop of that is to thank the clients and the taxpayers

for paying their taxes.

Over the last 25 years, we have seen tax revenue growing and that could not have been possible if our clients were not actually meeting their obligation consistently in a timely manner and in an improved way.

So in as much as I urge them to continue, it also comes with saying thank you to them and to commit to them that the future is bright as far as URA is concerned, the future with URA is bright.

URA is moving forwards from strength to strength and we can see URA has matured over the past 25 years and the future is bright.

Congratulations

Our warmest salutations go to URA for their 25 years of distinguished service in Uganda. We are proud to have a wonderful business partnership with you.



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