The Republic of Uganda

MONEY LAUNDERING AND TERRORISM FINANCING TAX CRIMES & PROCEEDS RISK ASSESSMENT REPORT FOR UGANDA

OCTOBER **2024**

DISCLAIMER

This Tax Crimes and Proceeds Risk Assessment has been conducted as a self-assessment by the authorities of the Republic of Uganda using the Domestic Tax Evasion Risk Assessment Tool that has been developed and provided by the World Bank Group. The World Bank Group project team's role was limited to delivery of the tool, providing guidance on the technical aspects of the tool, and review/feedback to assist with the accurate use of it. Data, statistics, and information used for completing the Tax Crimes and Proceeds Risk Assessment Tool modules, as well as findings, interpretation, and judgment under the scope of Tax Crimes and proceeds Risk Assessment, completely belong to the authorities of the Republic of Uganda and do not reflect the views of the World Bank Group, its Board of Executive Directors, or the governments they represent.

FOREWORD

The Tax Crimes & Proceeds Risk Assessment is the first to be undertaken in Uganda. The exercise involved the participation of all stakeholders from the private sector and government (Ministries, Departments, and Agencies).

The Uganda Domestic Tax Evasion assessment was conducted by Uganda Revenue Authority in collaboration with Financial Intelligence Authority and other authorities/agencies to understand tax crimes and associated money laundering risks. It is a country self-assessment carried out using the World Bank's Tax Crimes and Proceeds Risk Assessment Tool and covers the period from 2017 to 2022. It is a result of a broad effort and process of identifying and analyzing Uganda's tax regime, its threats, vulnerabilities, and the measures in place to mitigate the risk.

The assessment indicates that Uganda has a robust legal and tax compliance framework, and the tax regime sets out various tax offenses in line with international taxation standards. The tax regime is broadly strong on the legal and institutional framework but still faces a few challenges at the operational level.

The findings identified various areas for improvement concerning taxpayer registration, enforcement, and recoveries, access to and the use of data by competent authorities, and information sharing to combat tax crime as well as recovery of associated money laundering proceeds.

It is important to recognize the role played by tax crimes in generating proceeds for money laundering in the economy. Uganda has demonstrated a strong commitment to tax transparency and to tackling tax evasion. Uganda Revenue Authority (URA) is aware that the success of domestic resource mobilization efforts depends on ensuring that everyone pays a fair share of the tax and Ugandans perceiving a closer link between taxes paid and public services enjoyed by them, we have a responsibility to strengthen this fiscal-social contract and redouble our efforts to stamp out tax crime in all its forms.

The government should therefore consider the findings of this report to further strengthen Tax compliance and increase tax revenue.

I congratulate the Board and Management of the Financial Intelligence Authority, Uganda Revenue Authority, and all the stakeholders who worked hard to ensure that the exercise was successfully concluded.

John Musinguzi Rujoki

Commission General, Uganda Revenue Authority

PREFACE

I am honoured to present the first tax crimes and proceeds risk assessment for Uganda. This report provides a framework for Uganda Revenue Authority and Financial Intelligence Authority in dealing with tax crimes and related money laundering threats. Tax crime generates significant amounts of illicit proceeds and tax evaders are increasingly finding new complex ways and schemes to launder their proceeds. Therefore, combatting tax crimes requires effective collaboration between the tax authority and the Financial Intelligence Authority and, more broadly, law enforcement agencies (LEA) and the judicial system to effectively trace, identify and confiscate tax crime-related proceeds.

The starting point is to understand the threats, and vulnerabilities and devise appropriate mitigation measures that are commensurate to the risks identified. This risk assessment was conducted jointly by our two agencies and will therefore go a long way in enhancing our understanding of tax crimes and money laundering risk and will guide the application of risk-based approach to supervision, enforcement actions, and resource allocation in line with international standards.

The report indicated that tax crimes are the second leading generators of illicit proceeds for money laundering after corruption which is consistent with the findings of the National money laundering and terrorism financing national risk assessments for Uganda conducted in 2017 and 2023. The major challenges to Uganda's tax regime are trade-based through smuggling of goods and services, undervaluation of goods and services, mis-declaration and concealment, non-filling of tax returns, under-reporting, non-payment of assessed taxes and other payroll and VAT-related schemes. Therefore, there is a need for increased capacity of our agencies to trace and investigate ML linked to tax crime and to increase inter-agency cooperation, and international collaboration in dealing with the identified risks.

The findings of this report will enable responsible people to address the identified tax crimes and associated money laundering (ML) risks in a more holistic way.

Finally, I would also like to thank the World Bank for providing us with the tax crime and proceeds risk assessment tool and for the technical guidance provided throughout the entire exercise. It is my hope that the Government and relevant agencies will consider the report's findings and collaborate to implement its recommendations.

Samuel Were Wandera

Executive Director - Financial Intelligence Authority

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LIST OF ACRONYMS

AEOI	Automatic Exchange of Information
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering / Counter-Terrorist Financing
AMLA	Anti-Money Laundering Act
ATA	Anti-Terrorism Act
BOU	Bank of Uganda
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism/ Counter-Terrorism Financing
CG	Commissioner General
CID	Criminal Investigations Department
COMESA	Common Market for Eastern and Southern Africa
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
DRC	Democratic Republic of Congo
DRMS	Domestic Revenue Mobilization Strategy
DT	Domestic Taxes
DTS	Digital Tracking Solution
EACCMA	The East African Customs Management Act 2014
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
EITI	Extractive Industries Transparency Initiative
EOI	Exchange of information
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIA	Financial Intelligence Authority
LTO	Large Taxpayer’s Office
MTO	Medium Taxpayers Office
NRA	National Risk Assessment

OECD	The Organization for Economic Cooperation and Development
PAYE	Pay As You Earn
PSO	Public Sector Office
SAR	Suspicious Activity Report
SRB	Self-Regulatory Body
STR	Suspicious Transaction Report
TF	Terrorist Financing
TIN	Tax Identification Number
TPCA	Tax Procedures Code Act
TREP	Taxpayer Register Expansion Project
UAE	United Arab Emirates
UGX	Uganda Shillings
UPF	Uganda Police Force
URA	Uganda Revenue Authority
VAT	Value Added Tax
WHT	Withholding Tax

EXECUTIVE SUMMARY.

This domestic tax crimes and proceeds risk assessment is the first comprehensive exercise undertaken by Ugandan authorities to identify, assess and understand Uganda's tax evasion risks and the connection between tax crime and money laundering. The assessment team undertook a comprehensive exercise of data collection and analysis of tax crime threats and vulnerabilities in Uganda and proposed measures to address the identified risks. The assessment covered the period 2017 to 2022.

The Ugandan tax system is comprehensive, it requires natural and legal persons to provide information about their income and assets during the tax year. This has been improving annually considering the increase in the taxpayer register from 1,024,483 taxpayers in 2016/17 to 1,590,241 taxpayers in 2019/20 which indicates an improvement in the level of tax compliance. Performance of tax to GDP has however stagnated at around 13% during the assessment period and is projected to increase to 15% in the next three financial years. Despite the reported increase in tax compliance, there are still significant deficiencies in the tax regime with respect to enforcement and administration and identified issues of false tax declarations, misleading financial records and non-declarations among others.

Despite the steady increase in Tax revenues, Uganda is still faced with a widening fiscal deficit, rising debt burden and a high rate of tax evasion. The fiscal deficit has risen from 7.1% of GDP in 2019/20 to about 9% of GDP in the financial year 2020/2021. Fiscal deficit and debt have largely been a result of a small tax base and non-compliance by some taxpayers leading to low tax collections.

The Tax Crimes and Proceeds Risk Assessment was undertaken by a working group composed of representatives from the Ministry of Finance Planning and Economic Development (MOFPED), Uganda Revenue Authority (URA), Financial Intelligence Authority (FIA), Uganda Police Force -Directorate of criminal Investigations (UPF-CID), Uganda Registration Services Bureau (URSB), Directorate of Citizenship & Immigration (DCIC), Uganda Bankers Association (UBA) and Non-Profit Organization (NPO) sector represented by the Civil Society Budget Advocacy Group (CSBAG), with technical assistance from the World Bank.

The assessment team analyzed Uganda's tax threats, vulnerabilities and mitigation measures as indicated below.

a) Threat Analysis

The threat analysis indicated that at domestic level, the tax crimes threat is High. This rating considered the assessment of various tax evasion schemes, enforcement data and offences including smuggling, obstruction, non-filling, under filing, fraudulent schemes, inaccurate record keeping, falsehoods and other tax crimes that generate proceeds for money laundering and criminal enrichment. In addition, the threat assessment considered a number of suspicious transactions and corresponding values as indicated in intelligence reports disseminated to LEAs, investigations conducted, convictions obtained, assets seized/frozen, and Mutual Legal Assistance (MLA) requests received by Ugandan authorities from foreign jurisdictions during the assessment period.

From the assessment of Uganda's domestic tax threats, Value Added Tax (VAT) was the leading tax crime category by order of magnitude, followed by corporate income tax (CIT), payroll tax (PRT) and personal income tax (PIT) respectively.

The major drivers of tax crime threats are trade-based money laundering schemes by smuggling of goods and services due to the porous borders that Uganda shares with its neighbours. Proximity to countries prone to illegal traffic of precious stones and metals and other tradeable goods which makes it easier for tax evaders and launderers to perform cross border trading that goes on unlicensed and unrecorded. In addition, there are cases of undervaluation by tax evaders to dodge tax, falsification of documents, misdeclaration, and concealment.

b) Vulnerability Assessment

The level of domestic tax evasion vulnerability was rated as **Medium.** The major drivers of Uganda's tax vulnerability are weaknesses in tax enforcement by the tax authority and administration of tax evasion penalties to enhance compliance and increase responsiveness. There are still gaps in dealing with transfer pricing issues, offshore tax schemes, trade-based money laundering, timely exchange of information with other government agencies and other jurisdictions and other measures to enhance identification of tax evasion schemes and concealment of proceeds to effectively combat tax crime and related money laundering.

Generally, tax crimes rank among the second highest proceeds-generating crimes for money laundering in Uganda*, the analysis of the ML threat originating from tax crimes is high. Between 2017 and 2020, a total of 31,689 tax-related cases were investigated, 233* *cases were prosecuted, and 168 cases led to the conviction of 176 persons. Approximately UGX 255 billion (about $70.8 million) of evaded tax was recovered by URA. During the same period, FIA disseminated 41 intelligence reports involving tax crimes to Uganda Revenue Authority for investigation. These cases are still at various levels in the court system and the tax tribunal, as a result, no successful ML investigation related to tax crime has been registered. However, there are successful collaboration efforts between FIA, URA, and other relevant agencies which have yielded success in terms of disrupting tax crime.*

c) Recommendations.

Analysis for the last four years, indicated continuous improvement and growth in revenue collections. However, this performance remains below expectations. Despite tax crime being a major predicate offence to money laundering in Uganda, the number of tax crime related money laundering investigations, prosecutions and convictions remain low or non-existent generally.

There are still opportunities for improvement by Uganda on its current initiatives. There is an urgent need to pursue money laundering investigations alongside tax crime investigations to trace related proceeds, enforce recoveries and strengthen tax enforcement actions.

Identified taxpayers that are subjected to the different compliance improvement initiatives, such as audits, inspections, enforcement actions are still few in comparison to the taxpayer register and possible number of eligible taxpayers in the country.

In addition, the government should consider enactment of a law to facilitate non-conviction-based asset forfeiture/confiscation, capacity building of all stakeholders, and encourage formalization of the economy to boost tax revenue, reduce tax evasion and associated Money laundering crime.

1.0 INTRODUCTION.

The Tax system is a broad structure that includes Tax laws, Tax policy, international trade, and Domestic Taxes. Uganda Revenue Authority established by the URA statute of 1991 is the central body for the assessment and collection of tax and non-tax revenue. It has since played a commendable role on delivering on this mandate and hence growth and transformation of Uganda's economy.

The Tax regime is in line with international standards, and it comprises of several Tax instruments including direct personal and corporate income Taxes, and indirect Taxes such as excise duties and VAT. The revenues collected reflect a deliberate policy of the Government to balance taxes on consumption, income, and international trade.

Despite the steady increase in Tax revenues, Uganda is still faced with a widening fiscal deficit and a rising debt burden. The fiscal deficit has risen from 7.1% of GDP in 2019/20 to about 9% of GDP in the financial year 2020/2021. Fiscal deficit and debt have largely been a result of a small tax base and non-compliance by some taxpayers. For instance, the deficit increased from UGX 9.9 trillion in 2019/20 to UGX 13.5 trillion in 2020/21, while the debt increased from UGX 57.2 trillion to UGX 69.5 trillion over the same period. The increase in the deficit is partly a result of low tax collections coupled by persistent tax evasion schemes by some taxpayers. As a result, Uganda's Tax to GDP ratio is currently oscillating between 11 to 13 percent.

According to the second National Money Laundering and Terrorism Financing National Risk Assessment for Uganda conducted in 2023, Tax crime was ranked among the most proceeds-generating predicate offences for Money Laundering based on the crime statistics, prosecutions and associated total recoveries from tax-related cases during the assessment period. Analysis of tax crime enforcement data indicated that between 2017 to 2020, the government handled tax crimes involving approximately UGX 255 billion (over $ 70.8 million).

Money laundering can be a means to accomplish tax evasion through a scheme of hiding assets (tax evasion engineered through money laundering). It can also work as a mechanism to launder illicit proceeds after the tax evasion crime has been committed. Since tax evasion can result in significant amounts of illicit proceeds being generated, tax evaders are now using money laundering to legitimize those proceeds in the process of committing more financial crime. The nexus between money laundering and tax evasion has been so extensively recognized by the Financial Action Task Force (FATF) as a predicate offense to money laundering that requires serious attention by governments through a concerted effort by Financial Intelligence Units (FIUs) and tax authorities.

Tax crime generates significant amounts of illicit proceeds and tax fraudsters have devised increasingly complex, transnational schemes that enable them to launder significant amounts of illicit proceeds without detection by the tax authorities and other law enforcement agencies. Tax crimes have a significant effect on the ability of government to raise tax revenue and provide the necessary public goods necessary for growth. Tax crimes distort fair economic competition, erode confidence in state institutions, and deprive public finances of billions every year. But importantly, tax crimes can also be connected to other financial crimes, such as money laundering.

The links between tax crime and money laundering mean that tax authorities and law enforcement authorities can benefit greatly from more effective co-operation and sharing of information. In Uganda, Uganda Revenue Authority (URA) holds a lot of tax information for both resident and non-resident persons and entities, this includes a wealth of information on personal and company data such as income, assets, financial transactions, and banking information, that taxpayers file as part of their tax filing obligations. Similarly, the Financial Intelligence Authority (FIA) and other Anti-Corruption Agencies can provide URA with important information and intelligence about ongoing and completed Money laundering and other corruption investigations that involve tax crime proceeds.

The Uganda Domestic Tax Evasion and Proceeds risk assessment report, therefore, is the first assessment conducted by URA in collaboration with FIA and other authorities/agencies to identify, assess and understand tax crime and associated money laundering risks. It is a country self-assessment carried out using the World Bank's Tax Crimes and Proceeds Risk Assessment Tool. It covers the period 2017 to 2022.

1.1 Uganda's Tax Regime.

Uganda's tax regime is geographical for all Ugandan residents and source-based for non-residents. Any non-resident who carries on business in Uganda, is employed in Uganda, or sells certain types of properties, goods or services will be subject to the tax system, provided they derive income from sources within Uganda. The Uganda Tax regime is the same nationwide, with the URA as the sole central agency responsible for tax collection and enforcement. Every person both resident and non-resident that are liable to pay tax are obliged to apply to the Uganda Revenue Authority for registration. Once this process is concluded, a certificate of registration and a Tax Identification Number (TIN) are issued.

Government of Uganda has enacted several legislations to enhance effectiveness of tax administration and to broaden the tax base and these include; The Uganda Revenue Authority Act Cap 196; Income-tax Act Cap 340 2000; Value Added Tax Act Cap 349; Excise Duty Act 2014; Tax Procedures Code Act 2014; Stamp Duty Act 2014; the Tax Appeals Tribunal Act Cap 345 and other respective regulations. The other legislations include the East African Community Customs Management Act; and multisectoral laws, with tax administration components. Therefore, the tax laws are comprehensive and provide adequate powers for obtaining information and an appropriate regime of sanctions to deter and penalize non-compliance with tax laws. URA has a sanctions regime for individuals and businesses which fail to comply with the tax laws. The sanctions and penalty regime are proportionate and dissuasive.

1.2 Tax Categories in Uganda

i. Income Tax

The Income Tax Act (ITA) Cap 340 imposes income tax on income of corporations, partnerships, trusts and individuals residing or carrying on business within the country. They are subject to various deductions and exemptions under the ITA. The ITA also imposes a withholding tax on individuals and corporations, which is withheld at source at the time of payment.

Income tax is imposed on three broad categories of income, business income, employment income and property income. Most of the taxes imposed are self-assessed and reported to URA. The self-assessment system imposes on the taxpayer, in the first instance, responsibility for calculating taxable income and the tax due on that income. The taxpayer's calculations may however be reviewed by The Commissioner General when returns are filed and may be subject to further tax audit. The income tax rates depend on the income schedules in which the taxpayer falls as indicated in the table below.

Table 1: Showing Income Tax Rates for Uganda as at June 30th, 2023.

CHARGEABLE INCOME (CY)	RATE OF TAX	
UGX (Annual)	Residents	Non-residents
0 to 2,820,000	Nil	CY x 10%
2,820,000 to 4,020,000	(CY – 2,820,000) x 10%	CY x 10%
4,020,000 to 4,920,000	(CY – 4,020,000) x 20% + (120,000)	(CY – 4,020,000) x 20% + (402,000)
4,920,000 to 120,000,000	(CY – 4,920,000) x 30% + (300,000)	(CY – 4,920,000) x 30% + (582,000)
Above 120,000,000	[(CY – 4,920,000) x 30% + (300,000)] + [(CY – 120,000,000) x 10%]	[(CY – 4,920,000) x 30% + (582,000)] + [(CY – 120,000,000) x 10%]

Source: URA

- **Personal Income Tax (PIT)**

  This is a tax charged on incomes above a minimum threshold of Ushs 2,820,000 per annum. Persons who earn below this threshold are not subject to any form of PIT. The incomes of persons covered by this threshold are taxed within 10%, 20%, and 30% bands, while incomes more than UGX 120 million per annum attract an extra tax of 10% on the value of the excess. PIT includes the income of directors and sole proprietors.

Table 2: Showing Pay as You Earn (PAYE) Rates for Uganda as at June 2023.

CHARGEABLE INCOME (CY)	RATE OF TAX	
UGX (MONTHLY)	RESIDENTS	NON-RESIDENTS
0 to 235,000	Nil	CY x 10%
235,000 to 335,000	(CY – 235,000) x 10%	CY x 10%
335,000 to 410,000	(CY – 335,000) x 20% + (10,000)	(CY – 335,000) x 20% + (33,500)
410,000 to 10,000,000	(CY – 410,000) x 30% + (25,000)	(CY – 410,000) x 30% + (48,500)
Above 10,000,000	[(CY – 410,000) x 30% + (25,000)] + [(CY – 10,000,000) x 10%]	[(CY – 410,000) x 30% + (48,500)] + [(CY – 10,000,000) x 10%]

Source: URA

- **Rental Tax.**

This is tax levied on income earned by a person from letting out immovable property (mostly land and buildings) in Uganda. For income tax purposes, it does not matter whether the building is let out as a residence or for commercial use. A person (landlord or landlady) may take the form of an individual and is liable to pay this tax.

Taxation of Rental Income is provided for under S. 5 of the ITA Cap 340. This is rent earned by persons and is segregated and taxed separately as though it were the only source of income for the taxpayer. Tax on rental income derived by a Taxable person is assessed separately from the individual's other business incomes or employment income.

ii. Corporate Income Tax (CIT).

A standard 30% income tax rate is imposed on corporations. This applies to both resident and non-resident corporations. A company is resident in Uganda if it is incorporated or formed under Ugandan law, if it has management and control of its affairs exercised in Uganda or if the majority of its operations are carried out in the country during the taxation year. Residents are taxed on their worldwide income whereas non-residents are taxed only on income sourced/ earned in Uganda. The standard 30% CIT charged on income (and capital gains), is less allowable deductions, such as expenses incurred in deriving income and carry forward losses[1]. Resident businesses with a turnover less than UGX 150 million are exempt from CIT but are subject to a simplified presumptive tax regime.

To encourage foreign direct investments and attract foreign capital into the economy, Uganda has contracted over nine (9) Double Taxation Agreements[2] (DTAs) with other countries, this is meant to assure foreign investors of a predictable and internationally accepted tax environment, reducing and removing tax constraints. The main effect of such treaties is to divide up the "rights" to tax cross-border investment between states, reducing the possibility that businesses will incur double taxation.

In the case of non-resident corporations, in addition to payment of the standard 30% corporate tax, a withholding tax rate of 15% is levied on a branch of a foreign company on the profit repatriated to the head office. The ITA also designates income earned by specific types of organizations as exempt from tax. The ITA expanded the definition of

[1] Other allowable deductions, subject to conditions, include bad debts written off during the year of income, interest incurred during the year of income, repairs of property used in the production of income, depreciable assets, initial allowances, capital expenditure on the construction of industrial buildings, start-up costs, costs of intangible assets, training expenditure, and charitable donations.

[2] DTAs exist between Uganda and India, South Africa, Zambia, Italy, Belgium, Denmark, Mauritius, the Netherlands, Norway, and the UK.

exempt organizations to include a non-profit research institution. The intention of this is to promote investment in not-for-profit research.

- ***Tax rates for Companies***

The income tax rate for legal persons i.e., a body of persons, corporate or unincorporated, created or recognized under any law in Uganda or elsewhere, is 30% of the entity's chargeable income. For non-resident companies, an additional 15% tax may become chargeable on repatriated branch profits.

- ***Tax rates for Small Businesses***

Uganda's tax law is very progressive in nature, for income tax purposes, small business taxpayer is a resident taxpayer whose annual gross turnover from all businesses owned by such person is above UGX 10M shillings but less then UGX 150M are taxable at Presumptive rates below:

Table 3: Showing Tax Rates for small businesses in Uganda.

GROSS TURNOVER PER ANNUM (UGX)	TAX (FINAL)
Not exceeding 10M	NIL
Exceeding 10M but not exceeding 30M	80,000
Gross turnover Exceeding 30M but not exceeding 50M	The lower of 200,000 or 1% of gross turnover.
Exceeding 30M but not exceeding 40M	The lower of 350,000 or 1% of gross turnover.
million Exceeding 40M but not exceeding 50M	The lower of 450,000 or 1% of gross turnover.

Source: URA

- **Withholding Tax (WHT) System.**

The ITA Cap 340 specifies the persons who are required to withhold tax as well as those upon whom the tax should be imposed, depending on the nature of the transaction. This tax is deducted at source by a withholding agent upon making payment to another person.

A withholding agent is the person making payment and obliged to withhold tax; and the recipient of the payment is the payee. Withholding tax modules include; Payment for professional fees, withholding tax on interest income, employment income:

Payments to non-resident contractors or professionals, WHT on payments to foreign entertainers and sports persons: payment of dividends, gaming and pool betting, Withholding tax on commissions to insurance agents, payments on imports and international payments for non-residents among others.

WHT is imposed on every non-resident person who derive any dividend, interest, royalty, natural resource payment or management charge from sources in Uganda. The tax is withheld by the payer at the rate of 15% on the gross amount before payment.

iii. Value Added Tax (VAT).

VAT is levied on goods and services, thus taxing consumption, it is charged at a standard rate of 18% on supplies made by businesses with annual turnover greater than UGX 150 million except if it's zero rated or exempt. It's levied on taxable supply of goods and services by a Taxable person.

This was introduced in 1996, replacing the Commercial Transaction Levy and the Sales Tax. These taxes were inefficient and difficult to administer due to their multiple rates and limited scope to trace transactions through a defined trail. The current VAT raises revenue in a neutral and transparent manner, broadening the base and reducing opportunities for evasion. The tax is a staged collection mechanism in which successive taxpayers are entitled to deduct input tax on purchases and must account for output tax on sales. Thus, the tax collected by URA reflects the VAT paid by the final consumer to the final vendor. VAT is the largest source of tax revenue in Uganda, with VAT on local and imported goods and services accounting for 30.7% of total revenues in the FY2020/2021.

To alleviate the regressive nature of such a tax (as everyone pays the same rate no matter what the income level), Uganda applies various exemptions and zero-rates to essential goods and services (including health and educational materials and services, unprocessed foodstuffs, and social welfare services). In addition, Uganda applies exemptions to certain goods and services to promote strategic key industries, in line with the Vision 2040 and NDPII objectives, and all exports are zero-rated to improve the competitiveness of Ugandan products on the international market. Zero-rating a supply entails that the VAT applied to inputs can be recovered, whereas input VAT cannot be claimed on exempt supplies. Zero-rating can thus imply a larger revenue loss and a greater compliance challenge through the vetting of refund claims.

VAT is levied on imported taxable services that are supplied in Uganda by a non-resident person who is not required to register for VAT in Uganda. The VAT (Amendment) Regulations, 2007 require the person importing the service to account for the VAT at the time when the performance of the service is completed, when payment for the service is made, or when the invoice is received from the foreign supplier, whichever is earliest.

Failure to pay VAT on non-exempt imported services is tantamount to a lack of compliance with the law, and a penalty of 2% per month, compounded, may apply. Interest payable on overdue payment of VAT is capped to a maximum of the aggregate of the principal tax and penal tax.

iv. Stamp Duty.

Stamp Duty is imposed by the Stamps Act. It is a duty payable on any instrument (document) which upon being created, transferred, limited, extended, extinguished, or recorded, confers upon any person, a right or liability. The affected instruments are listed in the Schedules to the Stamps Act. The applicable rates are either fixed or ad valorem. The most common instruments that attract stamp duty include Insurance Policies, Agreements, Affidavits, Company Articles and Articles of Association Caveats among others.

v. Excise duty.

This applies to specific products to address negative externalities and influence human behaviour, such as taxing alcohol and cigarettes[3]. Thus, excises duties are a kind of "repair cost" for the incidental damages the product causes to health, the environment, or public finances (for example, the additional burden that smokers place on the healthcare system). A further rationale for excises is that they can encourage an "ability-to-pay" approach, taxing luxury items disproportionately consumed by higher-income individuals, such as perfumes. Over time, Uganda has shifted the policy approach to broaden the range of motivations and, instead, use excise duties as a revenue-raising tool such as introducing taxes on mobile money, airtime, sugar, cement, and cooking oil.

vi. Customs (trade taxes).

These include petroleum duty and import duties amounting to 23.6% of total revenues. This is in line with the experience of other countries – duties typically contribute less than 50% of all revenue collected from taxing imports in developing countries (Brenton, et al., 2009). The sizeable contribution to total revenues is partly due to ease of collection. While collecting trade taxes only requires observing trade flows at borders, income taxes require a more elaborate system for monitoring, enforcement, and

[3] Excise duty rates can be ad valorem or specific. Ad valorem rates are a fixed percentage assessed on the value of goods at ex- factory price while specific rates are fixed amounts for each unit of a good or service sold, such as cents per kilogram.

compliance. Uganda currently applies various duties on imports, depending on their origin. Imports are currently subject to two preferential trade agreements; The East African Community (EAC) customs union and the Common Market for Eastern and Southern Africa (COMESA) free trade agreement. Further, intra-EAC trade (between member states) is generally free of all import duties. The EAC accounts for just over 10% of the value of Uganda's total imports, with Kenya as the largest regional trading partner. Most of Uganda's imports originate from China, India, and the UAE, accounting for a total of 42.6% of import value in 2017 (UN Comtrade, 2019).

1.3 Tax Administration

The Uganda Revenue Authority is the central body that assesses and collects all taxes on behalf of the Ministry of Finance, Planning and Economic Development (MoFPED). It's a semi- automatous body established by an Act of Parliament under Cap 196.

URA is divided into two operational departments (Domestic Taxes and Customs) headed by Commissioners who are directly responsible for the assessment and collection of revenues.

URA provides online services via a robust portal (e-Tax) for the taxpayers to self-manage their tax assessments and related matters, services offered include among others TIN registration, assessment, motor vehicle validation, Tax returns, payments for both tax and non-tax revenue, objections and appeals, stamp duty, tax clearance certificate among others.

1.4 Background: Understanding Tax Crime.

Taxation plays a critical function in fostering economic growth. Not only are tax revenues critical in funding public infrastructure and services, tax policy and administration also play a key role in directing productive and sustainable economic activity. Uganda's tax regime is based on the idea of voluntary compliance, it requires natural and legal persons to accurately report information about their income and assets. Thus, when a person or a company deliberately underreports income or wilfully fails to pay taxes, it can qualify as tax evasion which is illegal. However, there are elements where a taxpayer may dodge paying taxes through tax avoidance which is legal and often involves the manipulation of profits and revenues through "aggressive" tax planning. While it is unethical it is not illegal in Uganda.

Tax evasion[4] and Tax avoidance are important in understanding the nature of a country's tax crime as both influence a country's tax revenue. Tax avoidance can involve taking advantage of deductions, credits, and adjustments that are allowable under the law. It may also involve aggressive tax planning techniques involving exploitation of loopholes in the tax laws, tax systems, and mismatches between Ugandan laws and across various jurisdictions. Regardless of the methods and tricks employed, tax evasion is intentional and illegal. Criminals deliberately refuse to pay tax, and many times attempt to launder the associated proceeds. Thus, the focus of this assessment is on tax evasion and related money laundering (ML) crime.

The Ugandan tax system is comprehensive and aligned to international taxation standards. As at end of the FY 2020/21 the total number of registered taxpayers was close to two million, this number has been improving annually from 1,024,483 taxpayers in 2016/17 to 1,590,241 taxpayers in 2019/20 which indicates an improvement in the level of tax compliance albeit a little slower than projected by the tax authorities. In addition, the performance of tax to GDP ratio has stagnated at approximately 13% of GDP. For years, tax compliance has eluded URA with slightly less than two million taxpayers out of a population of twenty million working adults contributing to the tax base. Of the 1,783,493 registered taxpayers by the end of June 2021, 50% are companies doing business in Uganda. This means a small number of Ugandans are actively contributing to the tax basket.

There are reported cases of non-tax compliance by multinationals and high net-worth individuals to evade tax and launder associated proceeds. This can be explained by the high number of tax evasion intelligence reports disseminated by the FIA to the URA. In FY 2020/2021, FIA disseminated a total of twenty-two intelligence reports to URA related to money laundering and tax crime. Consistently during the assessment period, URA ranked second in terms of dissemination from FIA.

Tax crime takes many ways but through two major ways: (1) Evasion of assessment and (2) Evasion of payment. All tax evasion crimes deprive the Government of the tax owed by wilful means and through an affirmative act or omission as criminals choose to hide, disguise, and fail to report for tax purposes. They may also over-report to launder the proceeds of tax crimes.

Uganda through its domestic Revenue mobilization strategy (DRMS) 2019/20 - 2023/24 has adopted a number of measures to address the issues of tax evasion and to bring transparency in direct tax policy and administration. Consequently, Taxpayer

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[4] OECD under its glossary of tax terms has defined Tax evasion as a term generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e., the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authority.

Registration has become a key measure in this effort. Any person who is likely to transact in any tax-related business with URA, is required to apply for a Tax Identification Number (TIN) directly at a URA office or via the URA web portal. The TIN is a legal requirement and applies to all Taxpayers regardless of the tax transaction. The purpose of a TIN is to provide a unique identifier to taxpayers and is used for all tax administration purposes and applied across all tax types.

There are limited studies in Uganda on the total revenue lost through tax evasion. What is, however, very true is that tax revenues remain far below from the required financing to support the budget. This is due to several factors of which tax evasion and a narrow tax base are the major contributing factors. The study sets out to assess tax evasion threats and vulnerabilities within Uganda's tax system that propagate it and explore ways that can be used by URA, FIA, and other law enforcement agencies to strengthen their capacities to respond to these crimes.

1.5 Objectives of the Tax Crimes and Proceeds Risk Assessment.

The main objective of the Tax Crimes and Proceeds risk assessment is to assess the scale, relative incidence, and proceeds of tax crimes, the nature of tax crimes and common typologies, as well as the legal, institutional, and operational framework. The assessment seeks to analyse loopholes and weaknesses within the tax regime that may be exploited to commit tax crimes. It also reviews the adequacy of the measures in place to address the identified tax crimes and ML risks.

The findings of the assessment will be used to apply a risk-based approach in resource allocation and appropriately adopt mitigation measures against identified tax crimes.

The 4 objectives of this assessment are:

a) Determine the magnitude of known tax crimes proceeds based on enforcement data.

b) Determine the relative scale of tax crimes through their incidence and proceeds, by tax revenue source.

c) Understand the nature of tax crimes based on qualitative analysis and past cases of tax evasion.

d) Determine the scale and nature of money laundering of proceeds of tax crimes: Understanding the connection of money laundering to domestic and foreign tax crimes.

1.6 Methodology

The Tax Crimes and Proceeds Risk Assessment was undertaken by a working group composed of representatives from the Ministry of Finance Planning and Economic Development (MOFPED), Uganda Revenue Authority (URA), Financial Intelligence Authority (FIA), Uganda Police Force -Directorate of criminal Investigations (UPF-CID), Uganda Registration Services Bureau (URSB), Directorate of Citizenship & Immigration (DCIC), Uganda Bankers Association (UBA) and Non-Profit Organisation (NPO) sector represented by the Civil society Budget Advocacy Group (CSBAG).

This is a self-assessment by Ugandan Authorities using the Tax crimes and Proceeds risk assessment tool provided by the World Bank.

The assessment used both quantitative and qualitative data. Quantitative data included statistics obtained from periodical reports of Uganda Revenue Authority, other government Ministries, Departments and Agencies (MDAs) and international sources. The working group analyzed 50 responses to the questionnaire data from surveys, interviews, and focused group discussions with key persons at the Uganda Revenue Authority mainly in domestic and customs tax administration, Tax investigations and key persons in law enforcement and security agencies, supervisory authorities, financial and non-financial institutions, and self-regulated private businesses or groups.

The main goal of the Tax crime risk assessment methodology, is to determine the overall tax crimes risk to Uganda by coherently and accurately identifying and analysing weaknesses and uncertainties in the tax system in form of threats[5], vulnerabilities[6] and the various mitigation measures against the same and determine the final tax crimes risk[7] exposure for Uganda. The assessment covers a period of five financial years from 2017/2018 to June 2021/2022.

[5] Threats are persons, groups, organizations, or activities with the potential to cause harm to the financial system or economy of a country, or in this to the tax system.
[6] Vulnerabilities are weaknesses in the anti-tax crime measures, controls, and institutional features that criminals could exploit. Vulnerabilities could also include particular features of law, taxation practice/arrangement or service that makes them more attractive to tax criminals and money launderers.
[7] Risk assessment in this chapter, is considered as the process of assessing the likelihood that tax crime threats materialize by assessing the extent to which vulnerabilities in anti-tax crime measures or controls can be exploited by a threat.

2.0 UGANDA'S TAX REVENUE PERFORMANCE.

Uganda has implemented a wide range of tax reforms, which have formed a foundation for stronger revenue performance over the years and particularly during the assessment period largely by addressing the loopholes within the tax system that are contributary factors to tax evasion. The establishment of the URA as a semi-autonomous body in 1991, the introduction of VAT in 1996, and reforms to the income tax regime have all contributed to significant growth in the tax base and ultimately the tax collected. Further, Government has undertaken several policy and administrative reforms over the years to curb smuggling, increase the tax base and ensure adoption of Information and Communications Technology (ICT) solutions to facilitate tax administration, ease adoption of Common External Tariff (CET) under the EAC Customs Union and other compliance initiatives.

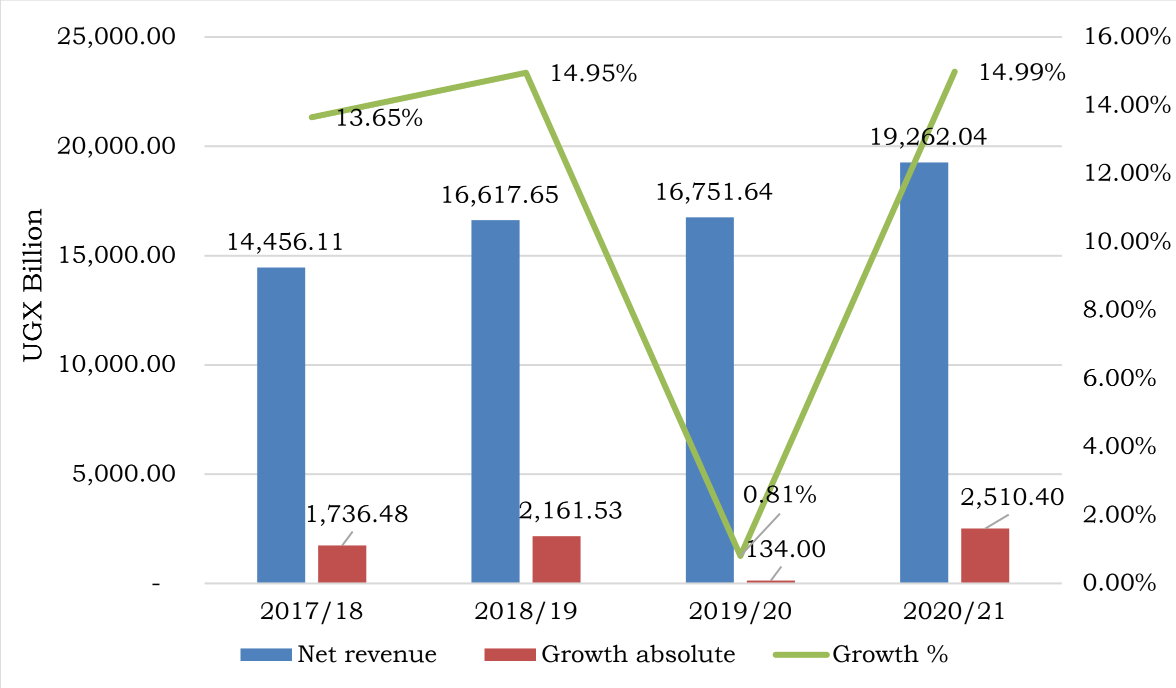
That notwithstanding the Uganda's tax base remains very small, comprising only of about 1,783,493 registered taxpayers by the end of the FY2020/21 while leaving out a huge informal sector which has led to a low tax-to-GDP ratio. During the FY 2020/21, a total of UGX 19,263.00 billion was collected up from UGX 14,456.11 billion during the FY 2017/18. The Tax to GDP ratio has also steadily been improving now at 13% from 11.1% in 2020

In FY 2020/21 alone, domestic revenue collections contributed a total of UGX 12,144.01 billion in the FY 2020/21, during the same period customs tax collections posted a total of UGX 7,505.86 billion against a target of UGX 8,001.35 billion.

A trend analysis for the last four years 2017/2018 to 2020/21 indicates continuous improvement and growth in the net revenue collections in absolute terms. The year-to-year growth rates are an indication of a robust and healthy tax system. However, Uganda's tax to GDP ratio remains far below the sub-Saharan Africa average and consistently falls below the projections of the tax authorities, this is largely due to a small tax base and weaknesses in the tax system that are a precursor for tax crime and money laundering. It's possible that without leakages in the form of tax evasion and avoidance, URA could even have registered a more impressive performance.

The Performance of tax to GDP is approximately projected to increase to 15% in the next three financial years. This requires effort to address the low levels of tax compliance and associated offences such as false tax declarations, misleading financial records, and existence of different books of accounts for tax purposes.

Figure 1: Trend Analysis of Net Revenue Performance from FY 2017/18 to 2020/21



Source: URA Databases

The above performance is underpinned by a deliberate effort by Government and tax authorities to curb widespread evasion and avoidance and to tackle weaknesses across tax compliance. However, tax evasion remains the main obstacles to enhancing domestic revenue mobilization in Uganda. The past decade has shown that tax transparency and exchange of information for tax purposes (EOI) is a potent weapon for tackling tax evasion and other forms of IFFs such as corruption and money laundering. To achieve this the country must understand the tax crimes in terms of threats, vulnerabilities from both domestic and foreign sources and develop measures that commensurate with the risk identified.

Table 4. Trends in Revenue contribution Per sector from 2018/19 to 2020/21

Current Sector Main Activity	Collected Amount 2018/19 (bns)	% Contribution 2018/19	Collected Amount 2019/20 (bns)	% Contribution 2019/20	Collected Amount 2020/21 (bns)	% Contribution 2020/21
SECTORS						
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,968.28	29.30%	4855.06	28.35%	5,783.70	29.43%
Manufacturing	3,698.92	21.81%	3498.51	20.43%	4,461.29	22.70%
Information and communication	1,644.18	9.70%	1638.27	9.57%	2,059.83	10.48%
Financial and insurance activities	1,430.57	8.44%	1562.05	9.12%	1,648.74	8.39%
UNSECTORIZE	764.56	4.51%	906.03	5.29%	934.17	4.75%
Public administration and defense; compulsory social security	907.17	5.35%	941.18	5.50%	913.78	4.65%
Electricity, gas, steam and air conditioning supply	444.78	2.62%	484.91	2.83%	580.92	2.96%
Construction	454.61	2.68%	417.99	2.44%	432.78	2.20%
Real estate activities	287.44	1.70%	323.51	1.89%	406.56	2.07%
Q-Human health and social work activities	318.1	1.88%	333.12	1.95%	358.1	1.82%
Other service activities	251.05	1.48%	254.08	1.48%	312.04	1.59%
Professional, scientific and technical activities	271.68	1.60%	313.52	1.83%	304.3	1.55%
Mining and quarrying	142.25	0.84%	109.54	0.64%	301.04	1.53%
Transportation and storage	256.92	1.52%	276.48	1.61%	280.77	1.43%
Education	266.47	1.57%	273.99	1.60%	245.63	1.25%
Agriculture, forestry and fishing	172.64	1.02%	157.52	0.92%	152.71	0.78%
Administrative and support service activities	234.77	1.38%	145.9	0.85%	143	0.73%
Accommodation and food service activities	184.36	1.09%	157.7	0.92%	98.75	0.50%
Water supply; sewerage, waste management and remediation activities	92.03	0.54%	71.88	0.42%	90.78	0.46%
Activities of extraterritorial organizations and bodies	69.4	0.41%	316.8	1.85%	77.98	0.40%
Arts, entertainment and recreation	87.29	0.51%	82.5	0.48%	56.6	0.29%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	10.63	0.06%	5.86	0.03%	6.4	0.03%
Grand Total	**16,958.1**	**100.00%**	**17,126.41**	**100.00%**	**19,649.8**	**100.00%**

Source: URA Annual Performance Report FY 2020/2021

Note: The table above shows Uganda's tax revenue performance and contribution of the different tax heads during the assessment period. The decline in performance between 2019 and 2021 is a result of the global Covid19 pandemic and its resultant effect on the economy and tax collections.

3.0 TAX CRIMES & PROCEEDS RISK ASSESSMENT

Tax evasion is among the leading offences generating significant amounts of illicit proceeds. The rate of occurrence of tax evasion in Uganda is comparably higher than in the rest of East Africa with income tax the most affected. While the number of registered taxpayers has been improving annually from 1,024,483 taxpayers in 2016/17 to 1,783,493 registered taxpayers by the end of the FY2020/21, the level of tax compliance largely remains below expected levels.

The large informal sector has made it costly for government to enforce the various measures that have been put in place to curb tax evasion. To date the size of the informal sector accounts for 43.1% of Gross National Product. The sector is characterized by the nomadic nature of operation and improper record keeping which makes it hard to track eligible taxpayers' operations and actual taxable income.

Tax crime is connected to other financial crimes, such as money laundering, corruption and bribery. Therefore, combatting tax crime is of prime interest to all law enforcement agencies, not just URA. The framework for improving tax compliance consists of three broad measures: making it easier for taxpayers to comply, enforcement & increasing trust in the Government and its institutions and strengthening tax administration to reduce leakages.

Using the above framework and the assessment methodology, the Uganda Tax Crimes[8] and proceeds risk assessment working group undertook a comprehensive exercise of data collection and analysis to understand Uganda's threats and vulnerabilities from a domestic angle. The assessment evaluated strengths, successes and weaknesses of Uganda's tax regime. Detailed analysis and ratings are provided in the subsequent chapters.

[8] Mean all criminal offences that concerning the administration or payment of taxes. It broadly covers all violations of income tax laws and indirect tax obligations (such as property tax, rental tax, market dues or Value Added Tax (VAT)) among others.

4.0 THREAT ANALYSIS

The threat assessment of Tax crimes and associated proceeds included; a review of magnitude of the known tax crime threat, based on analysis of the tax crime enforcement data, the relative and the perceived tax crimes threat through the assessment of incidence and proceeds, the money laundering threat from tax crime proceeds, typologies analysis, qualitative analysis of both tax crimes, money laundering and all related crimes based on their scale and nature, the estimated amount/potential proceeds generated, the capacity of the criminal actors to launder and use proceeds.

Analysis of the Tax evasion threat at domestic level was assessed to be High. This rating considers the assessment of various tax evasion schemes, offences including smuggling, obstruction, non-filing, under filing, fraudulent schemes, tax evasion, inaccurate record keeping, falsehoods and other tax crimes that generate proceeds for money laundering and criminal enrichment. In addition, the assessment further considered the number of reported cases and value involving the above crimes, numbers of suspicious transactions and corresponding values as indicated in intelligence reports disseminated to LEAs; investigations conducted; convictions obtained; assets seized/frozen; and MLA requests received by Ugandan authorities from foreign jurisdictions during the assessment period. Detailed analysis of the various assessment variables is provided here below.

4.1 Magnitude of Tax Crime Threat.

The assessment identified that between the period 2017 to 2021, a total of 230,379 cases were detected from different sources, 979 criminal investigations were conducted, 379 of these were prosecuted and convicted, a total of UGX 600.86 billion was confiscated, UGX 8 billion recovered was attributed to incoming MLA requests and a total of 9 Outgoing MLA requests were sent as illustrated in the table.

Table 5. Showing Enforcement data and recoveries during the assessment period.

Tax years ending	Number of detected cases (from any source, e.g., audit, criminal investigation, whistle-blower)	Total number of criminal tax investigations(a)	Total number of criminals prosecutions in terms of cases(b)	Number of criminals Convictions for tax crimes (c)	Total amount of confiscated tax crime proceeds (Bn)	Total amount related to incoming MLA requests	Number of outgoing MLA requests
2017	1,165	180	96	96	0	0	0
2018	15,548	134	55	55	5.8	0	0
2019	193,167	218	110	110	47.4	8	19
2020	12,656	137	28	28	218.31	0	0
2021	7,843	310	90	90	329.35	1	10

Source: URA Annual Performance Report FY 2020/2021

Note: *(a) This includes all tax crimes started by the URA on CIT, PIT, VAT/GST and all other tax crimes*

(b) Criminal prosecutions include the presentation of a formal case by the prosecutor for both resident and non-residents. It is worth noting that one prosecution case might pertain to several legal and/or natural persons.

(c) Reflects all convictions or cases where URA was involved and made recoveries for both resident and non-residents

4.2 Relative and Perceived Tax Crime Threat (Incidence & Proceeds).

According to the National Risk Assessment for Uganda conducted in 2021, Tax crimes ranked as the second highest proceeds generating crimes after corruption. Analysis of enforcement data for the period 2017 to 2021 indicated that VAT was the leading tax crime category by order of magnitude, followed by CIT, PRT and PIT respectively. Accordingly, during FY 2018/2019, URA through the Tax Investigations Department (TID) concluded investigations on 88 cases resulting in recoverable revenue worth UGX 62.51 billion.

Additionally, URA implemented compliance campaigns and rolled out “The Missing Trader VAT fraud scheme”. This scheme involves the theft of Value Added Tax (VAT) from Government by organized fraudulent taxpayers who exploit the way VAT is treated within internal and/or multi-jurisdictional trading.

Table 6. Statistics on Cases of Tax Crime Prosecutions and Seizures during the period 2016-2020.

Item	2016/17	2017/18	2018/19	2019/20	2020/21	Total
No. of Tax Crimes Prosecuted	53	56	76	48	90	323
No. of Tax Crimes Seizures	6,710	8,918	9,152	6,909	-	31,689

Source: URA

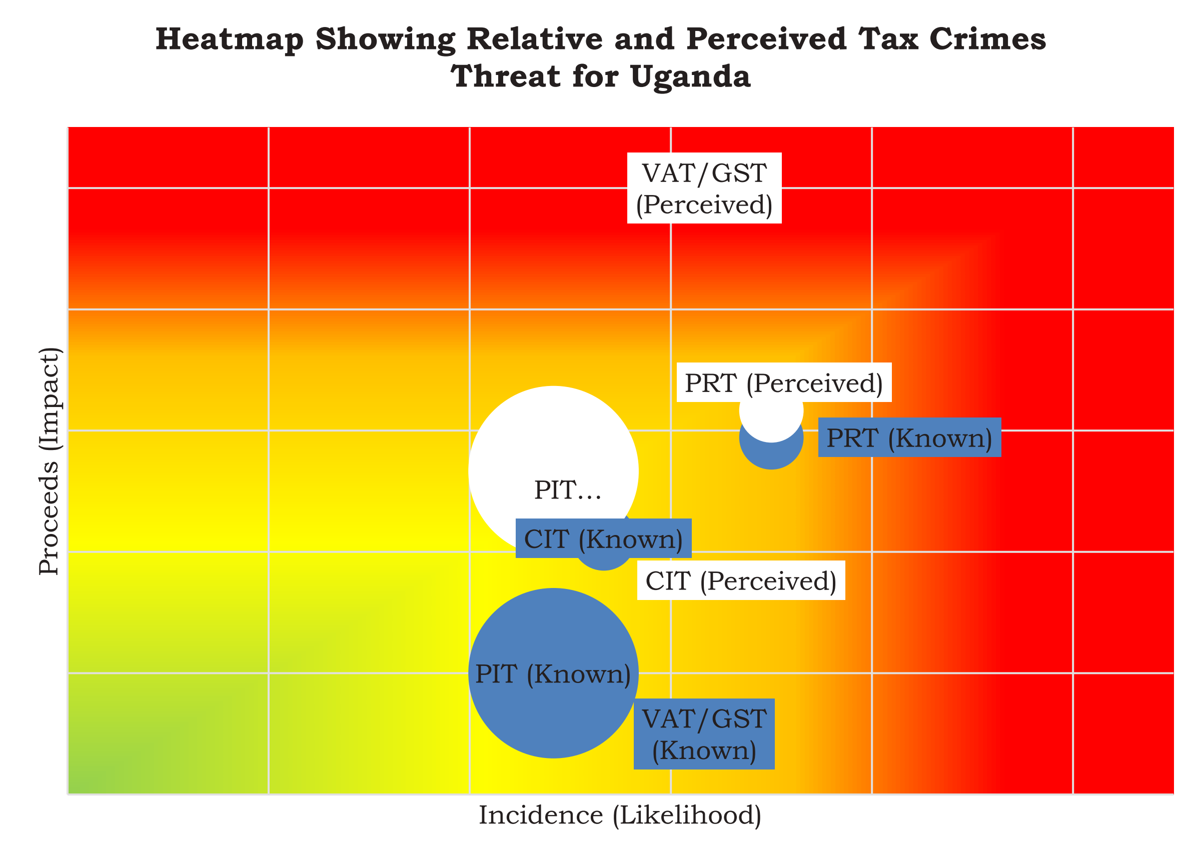
Table 7: Analysis of investigation cases during the FY 2021/22

Area	Number of cases	Revenue Identified (UGX Bn)
VAT Fraud Investigations	84	9.78
	10	-
Financial Crime Investigations	59	287.70
Science Investigations	4	7.18
	9	-
Corporation Tax Fraud	20	-
Tax Crime Investigations	10	3.98
	23	20.72
	4	-
Total	**223**	**329.35**

Source: URA Databases (URA annual performance report, URA annual M&E Report 2021/2022)

Tax investigation efforts resulted into the completion of two-hundred twenty-three (223) cases with identified recoverable revenue worth UGX 329.35 billion as analyzed in Table 7 above. These cases were forwarded to the respective collecting departments for enforcement of recovery.

The ML threat from Tax crimes was rated high based on enforcement data and crime statistics as indicated in the tables above, and the total recoveries from Tax related cases between 2017 and 2020 was UGX 65 billion. In addition, in 2020/2021, FIA disseminated a total of twenty-two intelligence reports to URA for suspected ML and Tax Crimes and investigations and prosecution of these cases is at various stages.



From the heat map above, assessment of Uganda's domestic tax crimes has indicated that value added tax (VAT) is the leading tax crime by category in terms of order of magnitude, followed by Payroll Tax (PRT), corporate incorporate tax (CIT), and personal income tax (PIT) respectively.

4.3 Money Laundering threat

The Assessment of ML tax crimes threat considered four major input variables namely, Domestic, Incoming, Outgoing and Transit Tax Crime related Money Laundering. The analysis was based on data and information obtained from the tax authority and law enforcement agencies (LEAs) and other stakeholders in the process of conducting the ML Tax crimes threat analysis. It also considered the amount of tax assessed, the number of cases detected, investigated, and prosecuted as well as the number of people involved, and the monetary value of the proceeds involved. The analysis was also supported by other available information including intelligence and other in-house statistics, expert opinion and anecdotal evidence.

The second ML/TF NRA for Uganda conducted in 2021 indicated that Tax crimes (Tax Evasion and fraud) are the second leading proceeds generating crimes after corruption.

4.4 Typologies.

The assessment identified reported incidences of ML typologies linking tax crimes and ML cases. However, there are limited typology studies that have been conducted to understand the nature of both the types of tax crimes that take place in Uganda, particularly those that are more sophisticated or generating higher proceeds, as well as the money laundering connected to tax crimes.

4.5 Tax Crime Schemes

In terms of the underlying criminal activity that generated laundered proceeds (i.e., the predicate offenses), the most common techniques used in the country by tax evaders included tax evasion/tax fraud, other fraud or scams, counterfeiting, smuggling, and illicit drug trafficking and corruption. The assessment found out that almost any type of merchandise can be purchased to launder illicit proceeds used in TBML schemes.

The analysis of the various indicators relating to ML typologies has indicated the presence of Multinational Enterprises (MNEs) and high net-worth individuals

The assessment also indicated that there are several ongoing tax crime investigations. Corruption is still very high and rated high among the most proceeds generating crimes in Uganda as per the National Risk Assessment 2017. However, the level of institutional corruption in URA is considered medium and this is because URA has established a mechanism within the internal audit and staff compliance department that continuously conducts integrity checks and addresses elements of corruption among others. A report by the Tax Justice Network, titled "State of Tax Justice" in 2020 found that Multinational corporations paid billions less in tax than they should have by shifting close to $1.38 trillion worth of profit out of the countries where they were generated and into tax havens, where corporate tax rates are extremely low or non-existent. Private tax evaders paid less tax than they should have by storing a total of over $10 trillion in financial assets offshore. Accordingly, Uganda is estimated to lose $115.3 M of which $96.5 million is by corporate tax dodging and $18.7 million by high-net-worth individuals. However, there is limited official data/study on tax lost through such schemes.

4.6 Tax Crime Related Money Laundering Typologies

The ML threat from tax crimes is rated high. Tax crimes rank as the 2nd highest proceeds generating crimes after corruption. In terms of tax crimes and money laundering typologies, the assessment has not identified incidences of multi jurisdiction structuring.

The ML/TF risk assessment of legal persons and arrangements indicated that companies are most abused through incidents of VAT fraud and TIN abuse. In addition, Uganda's economy is largely informal, and a lot of transactions are not conducted through formal financial institutions and Uganda is yet to undertake a risk assessment on use of virtual assets.

The Uganda government has recently made efforts to address some of these issues, including enacting changes to its tax laws aimed at closing loopholes exploited by multinational corporations and wealthy individuals. However, the tax leakages in the country remain an alarming issue – as highlighted by the various typologies and the National DRMS. Uganda has been working to improve its tax systems by undertaking fundamental reforms in its fiscal policy towards fighting extreme inequality, improving tax administration and creating a fairer tax system[9].

4.7 Qualitative analysis.

The Uganda Tax Crimes and Proceeds Risk Assessment has indicated incidences of Uganda's tax and non-tax residents being involved in legal entities that have links to known tax havens and other financial secrecy jurisdictions for tax evasion and money laundering purposes.

Available information indicates that gold is the most significant precious metal traded in Uganda. According to data from Bank of Uganda, gold is Uganda's leading export, contributing at least 44% of total export by value. In 2020, Uganda earned USD 1, 817.27 million from gold exports up from USD 417.92 million in 2017. The licensed gold refineries have increased from one in 2017 to four in 2020. Gold is vulnerable to TBML schemes and associated tax evasion schemes. This, therefore, increases the Money Laundering threat for precious minerals and gems, especially gold smuggling[10].

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[9] a fair national tax system is a fundamental way to tackle inequality and alleviate poverty, while creating a sustainable structure for Uganda to raise revenues for public investment and fundamental public services. The focus on improving Uganda's revenue collection capacity through the Domestic Revenue Mobilization (DRM) – in a fair manner can be achieved through policy reform and the strengthening of tax administration.

[10] "Uganda," The Observatory of Economic Complexity, Accessed April 5, 2023, available at https://oec.world/en/profile/country/uga

In 2018, the Police Mineral Protection Unit seized 93kgs of gold estimated at USD 5 million that was being smuggled out of the country through Entebbe international airport, busting a crime syndicate that was going to cost the country over UGX 1 billion in income tax revenue. It is suspected that this gold originated from another country and Uganda was being used as a transit route.

Our analysis has indicated that between 2014 and 2019, Uganda made sixty-nine (69) exchange of information (EOI) requests up from only two in 2012 – identifying nearly USD 26 million (Approximately UGX 95.8 billion) in lost tax revenue. Some of these requests involved high risk corporate jurisdictions.

Therefore, the ML threat related to tax crimes from analysis of both resident and non-resident individuals and their involvement in tax crime cases involving Uganda is high on account of threats emanating from known tax crime cases and ML cases is rated as High.

4.8 Case studies.

The assessment has analyzed various tax evasion and money laundering schemes in Uganda to identify the patterns and common techniques used in Money Laundering. For example, in 2021, a lawyer and two businessmen were charged for money laundering, facilitating money laundering, and obtaining money by false pretense and tax evasion. It was reported that between March 2020 and February 2021, the accused persons acquired UGX 20 billion (approximately USD 5.5 million) well knowing that the funds were proceeds of crime. They reportedly received the money from a foreign citizen under the guise of selling him gold. The lawyer is accused of facilitating the fraudulent transaction. The prosecution of this case is still ongoing.

4.9 Methods of Tax Evasion.

As indicated above there are several methods and case studies that tax evaders have been using to evade taxes as described in the following section.

I. **Over and under-invoicing** of goods and services entails misrepresenting the value of a transaction on an invoice to illegally transfer value across borders. These two methods can be used for multiple purposes. For instance, the over-invoicing of imported goods can be used as a method to transfer criminal proceeds out of a country. This would provide the appearance of honest business dealings, thus allowing illicit actors to transfer the proceeds of crime undetected. According to the FATF, mis-invoicing is one of the most common TBML methods.

II. **Falsification of Documents;** This technique is used by tax abusers to play around business revenue, country of origin and profits with focus on lowering tax liability.

III. **Falsely describing goods and services;** Similar to over- and under- invoicing, falsely describing products involves a misrepresentation of the quality or type of goods or services to manipulate the transaction value.

IV. **Misclassification of Goods;** This technique is used to make goods attract lower rates of tax with intent to reduce the tax liability.

V. **Multiple invoicing of goods and services;** Multiple invoicing involves issuing more than one invoice for the same trade transaction. By invoicing the same goods or services more than once, a money launderer or terrorist financier can justify multiple payments for the same shipment of goods or delivery of services.

VI. **Phantom shipment of goods and services;** The phantom shipment, otherwise referred to as over- or under-shipment of goods and services involves creating a mismatch in the quantity of invoiced goods versus the amount of goods shipped. Often, the seller and buyer may collude and arrange for the routine processing of shipping and customs documents for a cargo shipment with no goods at all, i.e., a phantom shipment. By overstating or understating the quantity of goods shipped or services provided, the buyer and seller can transfer value from one to the other when the buyer submits payment.

VII. **Smuggling of goods and services;** This form of smuggling is generally associated with highly marketable goods, goods of high tax value, and prohibited or restricted goods across Uganda's porous borders. As noted in the 2017 ML/TF national risk assessment, significant ML and Tax crimes still exist on account smuggling of high value goods via the country's porous borders. While there are efforts through regional cooperation and coordination by East African Partner States that share a common border to prevent and detect the smuggling of strategic goods, the presence of porous and motorable border points that are not controlled by customs and immigration, can be used by criminals to smuggle strategic goods remains a threat.

Case study 1.

Money Laundering Case Involving Gold.

In March 2021, senior army officers were arrested for involvement in a gold scam in which two foreign victims lost about US$10 million (UGX 37b). The scam started in 2019 when two businessmen allegedly bought gold in a West African Country worth US$5 billion. The gold bars were switched for aluminium bars.

The victims were called and given a week to travel back to Uganda to recover their gold or forfeit it. In February 2020, the victims travelled to Uganda and the accused persons again sucked the victims into another gold scam in which they lost US$2million. The accused persons have since been charged in court for money laundering, facilitating money laundering and Tax evasion.

5.0 TAX CRIMES & PROCEEEDS VULNERABILITY ASSESSMENT.

The tax crime and proceeds vulnerability assessment were conducted using the Development Implementation and Monitoring Directives (DIAMOND) Domestic Tax Evasion (DTE) module developed by the World Bank. The DIAMOND is an integrated assessment tool for assessing the vulnerabilities of a jurisdiction in its framework to combat tax evasion practices that affect its tax revenue (including cross-border tax evasion schemes). The assessment tool allows collection of data and information on tax evasion practices and features, and subsequently to do the measurements.

Data collection and analysis was aimed at measuring strengths and weaknesses related to the legal, Institutional and operational measures that are in place to tackle tax evasion and related financial crimes.

5.1 Legal Regime

The legal aspect assessment evaluated Uganda's legal framework for gaps that may enable tax evasion. It includes legal loopholes in the control and enforcement of core tax obligations, and in the tax penalty framework.

The Tax Procedures Code Act 2014 sets out a range of tax offences, some of which either require criminal intent or negligence and apply to all tax types under a tax act, such as income tax or VAT (GST). Tax litigation consists of a combination of both criminal and civil law matters. The law gives broad powers to the Commissioner General URA and court on a number of tax offences. Some examples of Uganda's tax offences are included in the table below, together with their minimum and maximum sanctions[11]. URA has specialised tax crime prosecutors while other financial crimes are handled by Office of the Director of Public Prosecutions (ODPP).

[11] Taxes are the most the dynamic laws in Uganda as they are amended almost every year by Parliament

Tax Crime Offences related to	Minimum sanction[12][13]	Maximum Sanction
Offences (Tax Procedures Act 2014 - PART XIV), including where a person willfully: • Fails to file returns by due date. • Fails to maintain proper records. • Delays in paying taxes submits a false certificate or statement. • issues an erroneous, incomplete or false document. • fails to reply to or answer truly and fully any questions put to the person by URA official. • obstructs or hinders a URA official in the discharge of the official's duties. • fails to apply for tax registration. • conceals person's assets or assists another person to conceal that other person's assets to impede the collection of any taxes, penalties or interest.	At the discretion of the judge.	• A penal tax equal to 2 percent of the tax payable under the return fine or to imprisonment for a period not exceeding two years. • Liable to pay a penal tax equal to double the amount of tax payable by the person for the period to which the failure relates
Criminal offences under TPCA 2014 PART XV) • Failure to file a tax return by the due date. • Failure to furnish, produce or make available any information, document or thing, excluding information requested by URA. • A taxpayer who knowingly or recklessly does not maintain records. • Making false or misleading statements • Obstructing a tax officer • Offences in relation to tax officers • Compounding of offences	At the discretion of the trial court	A fine or imprisonment for a period not exceeding two years.
Other Tax crime offences Attempt to acquire or acquiring or selling a tax stamp without goods is punishable	At the discretion of the trial court	On conviction to a fine not exceeding 500 currency points or to imprisonment for a term not exceeding five years or both.

However, the assessment identified a number of deficiencies and weaknesses within the legal regime that have previously been exploited by Tax evaders.

5.2 Institutional Framework

It refers to any feature of the country's institutional framework that, unless addressed, may enable tax evasion. It includes weaknesses in the organizational structure of the Tax Administration that may affect its capacity to control, monitor, audit, investigate,

[12] Under Uganda's legal system, sentencing is considered the primary prerogative of trial courts and they enjoy wide discretion to determine the type and severity of a sentence on a case-by-case basis. In doing so, they follow judge-made, broad sentencing principles which require that, when making sentencing determinations, that judges consider three elements: the gravity of the offence, the circumstances of the offender, and public interest.

[13] In addition, URA introduced the Alternative Dispute Resolution (ADR) mechanism where cases are amicably resolved outside court. This initiative yielded UGX 365 billion in revenue collected during the FY 2020/2021 thus unlocking revenue that had been locked in some of the Court cases especially with the Large Taxpayers.

detect and sanction tax evasion practices. Tax administration in Uganda is managed by URA. URA is structured into several departments facilitated with well trained staff and requisite IT tools to perform their functions which include; Tax Education, Tax Audits, Tax Investigations and ensure compliance. During the F/Y 2017/2018, 02 cases were prosecuted, 01 was convicted and 01 out of court settlement for invoice trading and false VAT refund claim.

5.3 Operational Efficiency

It refers to any feature of the Uganda's operational practices that unless addressed, may enable tax evasion. It focuses on operational gaps in tax control, risk assessment and monitoring practices, including the use of technology to detect and penalize tax evasion practices (data mining, automatic mechanisms to cross-check accuracy of data, automatic gathering of information, etc). It also includes obstacles or restrictions to inter-agency cooperation and exchange of information. URA through the Taxpayer Registration and Expansion Program (TREP), has developed a mechanism to enhance collaboration with various agencies that include; Local Government for business licensing, URSB for business registration, and the Ministry of Works to expand the tax register and lower cost of Tax administration. In addition, the URA has also embraced analysis of third-party information and intelligence activities all aimed at expanding the Taxpayer register.

From analysis of the above operational variables, the assessment has indicated that Uganda's tax system is at advanced level at an operational level on account of the country's tax system being fully aligned with internationally agreed upon standards on tax transparency and exchange of information.

Uganda's tax register stood at a total of 1,783,493 taxpayers by the end of June 2021 of which 187,377 were new taxpayers registered during the financial year representing a growth of 11.88%. The average filing ratio was 72.88 percent for PAYE against a target of 85% and 80.47% for VAT. The number of registered taxpayers has been steadily growing across the years on account of the increasing capacity by URA to cross taxpayers' data with other registration agencies and jurisdictions.

The total arrears stock as at end of the FY 2020/21 was UGX 4,190.10 billion, of which UGX 4,11.78 billion were domestic tax arrears and UGX 78.32 billion were customs tax arrears. The total arrears recoveries in the FY 2020/21 were UGX 1,024.38 billion.

In addition, the assessment further analysed eighteen cross-functional dimensions which were grouped into three categories: a) general cross-functional dimensions, b) taxpayer segments cross-functional dimensions, and c) type of taxes cross-functional dimensions. The dimensions allow determination of taxpayer segments, taxes, tax processes, and enforcement capabilities that are usually undermined by the identified vulnerabilities.

General Cross-functional dimensions:

The following are the general cross-functional dimensions:

- Residence Taxation
- Source Taxation
- Control and Monitoring
- Intelligence and Risk Assessment
- Audit and Investigation
- Enforcement and Penalties
- Exchange of Information
- Inter-Agency Cooperation
- Automation

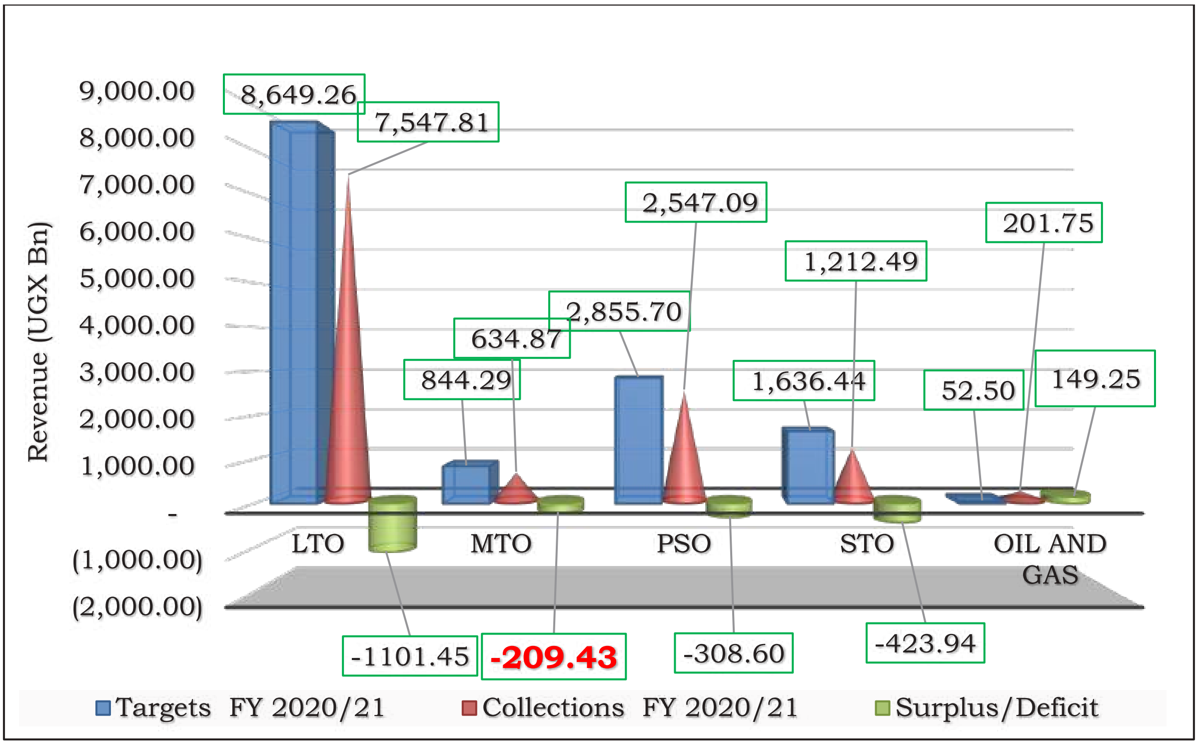
5.4 Segmentation of taxpayers.

The assessment looked at segmentation of taxpayers by size and volume. Segmentation of taxpayers is a compliance strategy used by URA to enhance understanding of taxpayer behavior, risk analysis, risk management and enforce compliance. In addition, it facilitates implementation of personalized service delivery to different taxpayer segments and enactment of target specific compliance strategies which simplify revenue collection. The various Taxpayer segments are as indicated below;

- Small Taxpayers' Office (STO),
- Medium Taxpayers' Office (MTO)
- Large Taxpayers' Office (LTO),
- Public Sector Office (PSO)
- Multinational Enterprises
- Oil and Gas office
- High-Net Worth Individuals

Available information during the assessment period indicates that most of the tax fraud cases were registered amongst MTO Tax category followed by the LTO and STO.

During the FY 2020/2021, Large Taxpayers' Office (LTO), Small Taxpayers' Office (STO), Public Sector Office (PSO) and Medium Taxpayers' Office (MTO) performed below target posting shortfalls of UGX 1,101.45 billion, UGX 423.94 billion, UGX 308.60 billion and UGX 209.43 billion respectively as indicated in the graph.

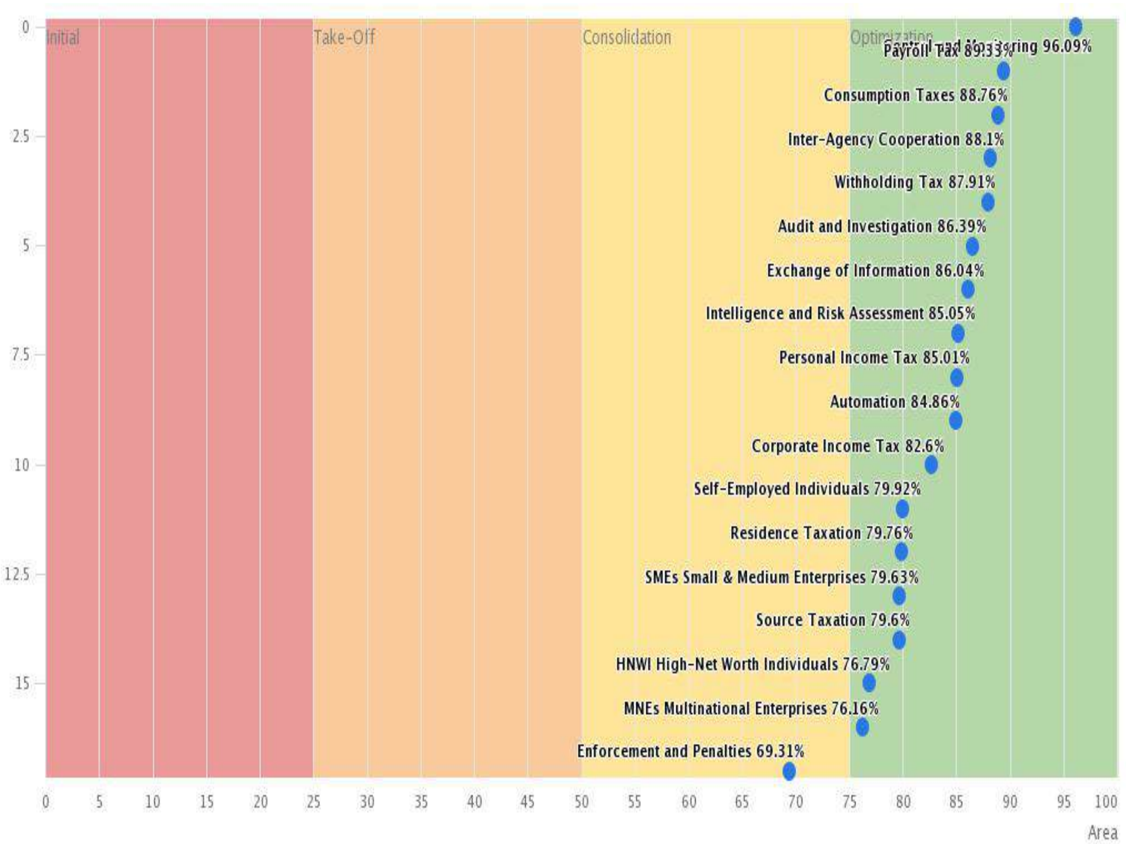


6.0 ASSESSMENT OF TAX VULNERABILITY

The assessment of domestic tax crimes vulnerability determines national vulnerability by assessing the mitigation and response mechanisms available for combating tax evasion and related crimes. The mitigation mechanisms are in form of robust laws, institutional measures/frameworks which include; taxpayer registration, filling, tax audits, tax assessments, foreign goods controls/laws, existence of strong supervisory/regulatory bodies or frameworks, effectiveness of competent authorities, strength of investigation and prosecution for tax evasion, ML and related crimes. These were assessed to understand their level of effectiveness and overall level of vulnerability.

The assessment indicated that although Uganda has developed a robust tax regime in line with the international taxation standards, the vulnerability to tax evasion domestically continues to be of concern affecting the country's ability to curb tax evasion and increase tax revenue.

Following a detailed analysis of the various indicators, the overall domestic tax evasion vulnerability was rated as **Medium** with the major weakness being found to be in enforcement and administration of tax evasion penalties and the most effective being on administration of pay roll tax as indicated below.



6.1 Offshore Vulnerability Assessment (Cross border Tax Evasion Practices)

These are tax crime offences committed in Uganda or abroad by both resident and nonresident taxpayers and whose money or proceeds are eventually laundered in a foreign jurisdiction or predicate offences committed in an offshore jurisdiction and laundered in or through Uganda. The external threat is mainly dominated by unreported offshore investment income, unreported secret bank accounts, Unreported secret offshore companies, Unreported secret offshore trusts, Unreported secret offshore foundations, Unreported income and assets through the use of combined multi-jurisdictional structures.

The assessment also evaluated the corresponding action taken by tax and law enforcement authorities to the various tax evasion schemes in form of, tax penalties imposed on resident persons and accessories for offshore asset and income concealment tax offences, during the period and number of recovered or confiscated assets from offshore tax schemes.

Case Study 2: Exchange of information

Company "A", a subsidiary of Company "B", is the taxpayer under audit and a resident of Uganda; Company "B", resident in Country "B" in Asia; and Company "C", resident in Country "C" in Africa. Company "A" in Uganda is engaged in the purchase and distribution in the local market of fast-moving consumer goods (FMCG) manufactured by Company "B". Company "C" provides management services, licenses the use of the Group's brand and trademark and provides intragroup financing. In particular, Company "A" carried out the following transactions with connected parties: Payment of management fees (as a percentage of sales) for strategic and management services provided by Company "C"; Payment of royalty (as a percentage of sales) for the use of Company "C"'s brand including the trademark; Payment of interests (based on a fixed rate of 7%) to Company "C" for intragroup financing; Purchase of finished goods from Company "B". URA performed a risk assessment exercise and highlighted the following indicators of transfer pricing risks: Company "A" has been reporting losses for the past five years; Company A has been paying for management services.

Open-source information revealed the operations of the Group entity comprising Company "A", "B" and "C"; Open-source information on the internet about Company "C" in "Country C" indicated that Company "C" was not listed as a corporate or operating subsidiary of the Group. URA requested Company "A" to provide information about Company "C" to establish the following:

The functional structure of Company "C" showing the departments and details of staff (names and their roles). This enabled the URA to establish the substance of Company "C"'s activities including the capacity to provide management services and to control the development of the brand in the Ugandan market.

Financial statements and tax returns of Company "C" to analyze their cost structure and profitability; "Pay-As-You-Earn" returns and the payroll information to establish the number of staff and their remuneration. This was aimed at verifying their competencies and skills to provide the purported management services. Company "A" responded to URA by saying that they had no access to information from companies in a foreign jurisdiction. This necessitated and justified the need to use EOI. EOI request made, and information obtained the information requested from Country "C" in Africa included: Tax Registration status, addresses and business operations of Company "C"; The functional structure of Company "C" showing the departments and staff details; Financial statements and tax returns of Company "C" "Pay-As-You-Earn" returns and the payroll information. In a period of three months, the URA received a partial response from Country "C". Reconciliation meetings took place with the taxpayer while the URA EOI office worked.to obtain the missing information and clarification from Country "C"'s Competent Authority. This led to the case being resolved after one year and six months. Findings from the information received from country "C" provided evidence that: l the management staff of Company "C" in Country "C" were earning an average of USD 1000 compared to USD 5 000 earned by employees in Company "A" in Uganda. This was an indicator that most of the value-added functions were performed by Company "A" and not Company "C"; l Company "C" reported an operating profit margin of approximately 60% compared to 25% earned by the Ugandan entity; l Company "C" outsourced some of the functions to both related and unrelated companies who were remunerated on a Cost-plus basis (and not a turnover that they charged the Ugandan entity)

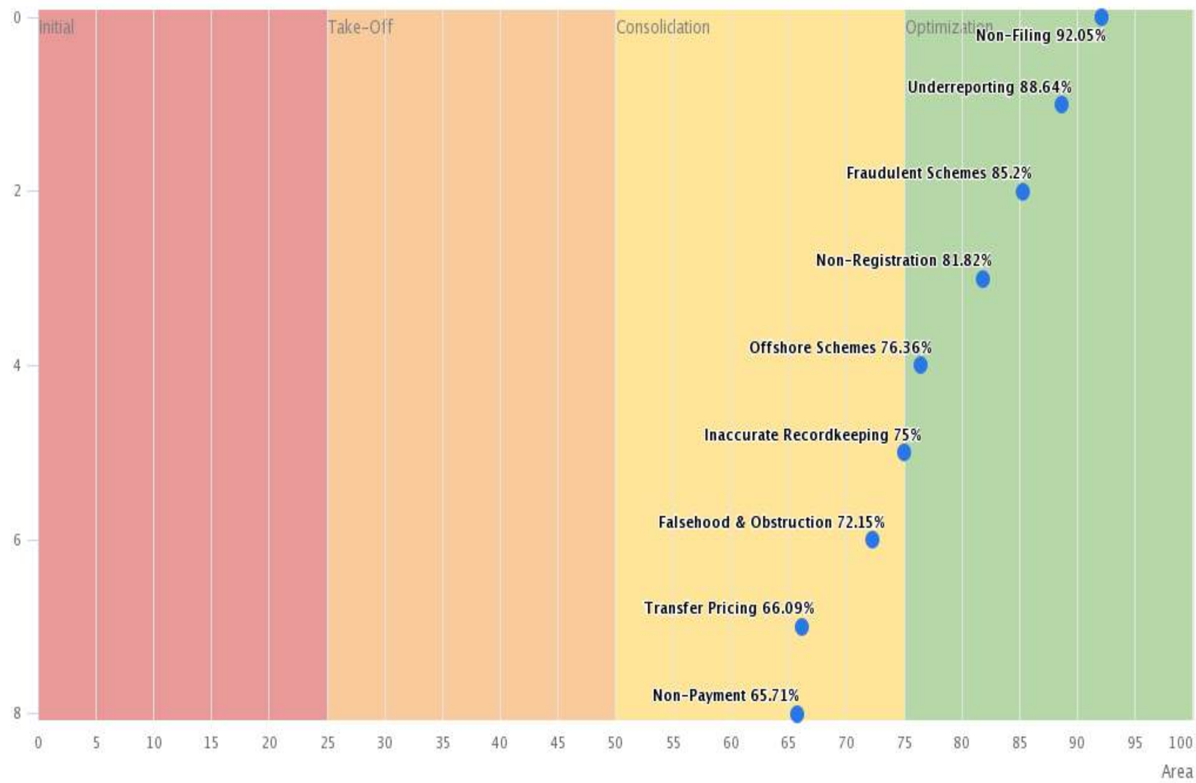
The advertising, marketing and promotional functions and associated costs were performed and paid for by the Ugandan entity and not Company "C"; l the functions of Company "C" in Country "C" were low-value/routine functions that should be rewarded based on a cost-plus basis. Conclusion of the issues the audit team established that the appropriate remuneration for management services in accordance with the functions performed, assets used, and risks assumed by both Companies "A" and "C" should be based on the Cost-Plus method. The audit team also established that Company "C" was performing intellectual property administration functions, which should also be remunerated on a Cost-Plus method approach. With the overwhelming evidence provided with the help of EOI, the taxpayer (Company "A") agreed to the facts presented by the URA and to pay EUR 13 million after reconciliations and negotiations.

6.2 Assessment of Tax Vulnerability Indicators.

Tax evasion is well defined in a general manner to capture a wide range of activities such as criminal actions that are intended to defraud the Government or enable a taxpayer dodge tax payment. Uganda under the various laws has properly spelt out the specific offences for each of the various actions that constitute tax crimes like; non-compliance, deliberate failure to file a tax return, filing a false return, non-registration for tax and tempering with records to evade taxes. The tax laws also provide for aggravating factors such as repeat offences, active concealment of taxable income and deliberate concealment or falsification of records and evidence.

The assessment reviewed tax evasion practices in general that affect Uganda's tax revenue from both a domestic and offshore perspective along nine (9) evaluation areas namely, non-payment, transfer pricing, falsehood & obstruction, Inaccurate record keeping, offshore schemes, non-registration, fraudulent schemes, under reporting and non-fillings as indicated in the graph below.

Status Report showing domestic Tax Evasion nine evaluation areas



The Status Report above is a visualization of the assessment scores showing the strengths and weaknesses of Uganda's tax regime.

Below is a detailed analysis of the various parameters that affect tax revenue that the assessment has focused on to determine the extent of tax crimes vulnerability in Uganda.

a) Non-Registration.

Uganda has undertaken a number of measures to ensure that all eligible taxpayers are registered for tax payment purposes. Taxpayers are identified by a unique ten-digit taxpayer identification number (TIN). The TIN is a legal requirement for resident and non-resident individuals and entities that derive income from Uganda, and it applies to all tax transactions. Taxpayer registration is entirely through e-tax. For remote areas with poor information technology infrastructure, registration is done the URA regional offices with the help of a URA officer. The TIN application details are subjected to verification before approval. This involves checking the information for consistency and truthfulness. For example, if the TIN applicant is an employee, the URA officer may check the employers' return details to check if he/she appears on their payroll.

All resident and non-resident persons that derive income from the country are required by law to register for a TIN. Failure to register and pay applicable taxes is sanctioned under the law. In a bid to widen the tax base, a number of Tax Reforms and Policy initiatives have been adopted to expand the Tax register. One of the initiatives has been to extend business registration and taxpayer register expansion activities outside Kampala and to ensure that the tax register is centrally managed by the Uganda Revenue Authority, the data is accurate and updated on a regular basis. The URA has an electronic system for onboarding of new Taxpayers on the Tax register. To ensure accuracy of the data, conducts regular updates. URA embarked on the register cleaning initiative to improve the accuracy and reliability of the Taxpayer information on the register and hence impact on Taxpayer compliance. As at the end of June 2020, 38,855 Taxpayer profiles had been cleaned and updated with basic information including; Name, Physical location, Contact and Tax type. The risks addressed during this exercise included dormant Tax type, duplicate TIN, duplicate contact information and income Tax with no source of income.

To address the issue of non-registration, URA in collaboration with URSB and KCCA, expanded the Taxpayer Register Expansion Programme to identify new Taxpayers and collect taxes on small businesses. The objective of this was to ease tax administration and enforce compliance by bringing more taxpayers into the tax net for central Government, KCCA and Local Governments through encouraging formalisation of business by creating a one stop centre that handles everything from business registration, licensing to TIN issuance. According to the URA, during the first half of F/Y

2021/2022, TREP registration performed at 83.92%, whereby 232,436 Taxpayers were registered. At the close of quarter 3, registration performance was 114.66%, having registered 635,153 Taxpayers. The half year performance for 2021/2022 was UGX 26.8 billion that was generated from TREP, whereas by end of quarter 3, it had accumulated to UGX 35.63 billion.

The large informal sector coupled with a fragmented legal regime has made it costly and inconvenient for both the Government and the private sector to administer businesses, enforce tax registration and compliance especially by the small business owners, as result several eligible businesses and persons are not registered for tax. This is evidenced by the small number on the tax register. As at end June 2021, the Uganda's taxpayer register had 1,783,493 taxpayers. Of these, 139,652 were non-individuals and 1,643,841. However, the number of registered Taxpayers has been increasing because of new registrations as indicated in table below.

Table 10: Growth in the taxpayer register during the FY 2020/21

Tax registration type	As at 1st July 2020	As at 30th June 2021	Increase/Decrease
Non individual	121,096	139,652	18,556
Individual	1,473,020	1,643,841	170,821
Total	**1,594,116**	**1,783,493**	**189,377**

Source: URA Databases

The Tax Procedure Code Act (TPC), 2014, provides a penalty for non-Tax registration for all Taxable persons. However, during the assessment period, there was no data to indicate instances of sanctions and penalties on Taxable persons for non-registration.

b) Inaccurate Record Keeping

The Tax Procedure Code Act, 2014, makes it mandatory for all Taxpayers to maintain records and file accurate returns to the URA. Taxpayers are required under the law to conduct self-assessments and file returns to the URA by their due dates. Further, during tax registration information such as address, contact details and bank account details are often inaccurate with instances of different Taxpayers having the same contact information or taxpayers maintaining different sets of business records.

Return inspections are conducted by URA through examination of the individual's returns and financial information to ensure accuracy, correctness and compliance with the Tax laws. Further, URA undertakes audits in accordance with the Compliance Improvement Plan (CIP) and review of selected Taxpayers. The Taxpayers due for auditing and review are selected using several methods such as document matching (where the Taxpayer records do not match the information declared), cross checking with third party databases to ensure accuracy.

The Ugandan tax laws require all resident and non-resident individuals and legal entities to maintain business records and any other tax relevant documents for a period of up to five years or more and furnish those records to tax authorities upon request. Section 15 and 16 of the Tax Procedures Code (TPC) Act provides wide ranging obligations for the taxpayers in relations to record keeping. The Tax procedures code further gives the URA general powers on with respect to access to taxpayer business premises, conducting investigations and sanctioning of errant taxpayers.

URA has a penalty regime for Taxpayers who do not comply with their Tax obligations such as; inaccurate record keeping, in accordance with section 49 of the TPC Act, 2014 as amended. The penalties are proportionate and dissuasive.

The tax system still faces data quality challenges particularly resulting from inaccurate records fed into the system.

c) Non-filing.

Return filing is a process where a registered taxpayer periodically declares his or her income to URA indicating how they have transacted during a given period and this will reveal the tax payable for that period. Filling of tax returns is a key requirement under the Tax Procedures code Act 2014 and the Income Tax Act Cap 134. Filling of tax returns is mandatory for all taxpayers, all individuals and entities whether resident or non-resident who fail to fill returns are adequately sanctioned. To simplify the return filing procedure, URA has introduced the web-based return template for presumptive business taxpayers. These are taxpayers whose business turn over in a year does not exceed UGX 150,000,000. Taxpayers under this bracket are not required to file the excel-based return that they would find complicated to use because they hardly keep records.

Returns are categorized into four forms depending on the period in which they are expected to be filed. First are the provisional Income tax returns which are filed by registered taxpayers at the end of the first six and three months of the of the tax period. The provisional tax return is an estimate of what an individual's or company's financial performance for the tax period will be for that assessment period. A presumptive taxpayer only needs to visit the URA website, select e-Services and select their tax head as Income Tax for small business. The taxpayer will be required to fill in their TIN, personal business details, submit and the system auto computes the relevant tax amount. In addition, URA has introduced a web-based provisional income tax return which is accessible through a taxpayer's TIN account.

However, no return of income is required from a non-resident or resident individual where their income consists exclusively of income derived from a single employer from which tax has been withheld by the employer as required by the law. A return is also not required for a non-resident individual whose tax obligation has fully been satisfied through the withholding of tax by withholding agents. Resident individuals whose chargeable income falls in the zero-rated threshold of tax are also not required to file returns.

The average on-time filing ratios for the FY 2020/21, were 72.88% for PAYE against a target of 85% and 70.47% for VAT against a target of 89%. Therefore, the assessment has found that filing of tax returns in Uganda is in line with international best practices and is rated high on efficiency. Detailed filling ratios for the FY 2020/2021 are indicated in the table below.

Table 11: On- time filing ratios during FY 2020/21

Pay As You Earn (PAYE)			
Taxpayer segments	**Target Filing ratio (%)**	**Actual Filing ratio (%)**	**Average Filing gap (%)**
LTO	98.00	93.60	4.40
MTO	97.00	87.08	9.92
STO	75.00	55.85	19.15
PSO	70.00	54.97	15.03
PAYE Average	**85.00**	**72.88**	**12.13**
Value Added Tax (VAT)			
Taxpayer segments	**Target Filing ratio (%)**	**Actual Filing ratio (%)**	**Average Filing gap (%)**
LTO	98.00	91.40	6.60
MTO	99.00	88.78	10.22
STO	75.00	71.55	3.45
PSO	84.00	70.13	13.87
VAT Average	**89.00**	**80.47**	**8.54**

Source: URA Annual Monitoring and Evaluation Report FY 2020/21.

d) Under reporting

Under reporting is the deliberate criminal act of reporting less income or revenue than was received. The assessment has indicated that tax audits instituted by the URA often identify several discrepancies in income earned by businesses and individuals and the income declared to URA with VAT and CIT being the most affected. VAT under reporting has been reported resulting from deliberate omission, concealment or misrepresentation of information to reduce the VAT liability.

The assessment noted that URA undertook regular enforcement actions and other measures to curb incidences of under reporting and ensure compliance, for example during the FY 2020/2021, various administrative initiatives were undertaken aimed at improving taxpayer declarations and behavior and to recover outstanding taxes and enforce compliance. For instance, there was the introduction of EFRIS aimed at improving compliance by facilitating transactional based revenue collections on mainly VAT and income Tax. EFRIS further enhances the capacity of the Tax body to cross match Taxpayer declarations such as VAT refunds against declarations of the seller, and where anomalies are discovered, appropriate corrective action is taken by the Tax body. Under the TPC Act, a Taxpayer who contravenes the provisions in the law is subject to prosecution and on conviction is liable to a fine not exceeding UGX 110 million or imprisonment for a term not exceeding 10 years or both.

Table 12: Domestic Tax Compliance interventions executed during the FY 2020/21

	Annual target 2020/21	Actual 2020/21	Performance based on Annual target
Number of Tax Audits and compliance inspection actions undertaken	19758	Tax audits – 3,820 (581 issue audits; 167 comprehensive audits; 3,072 refund audits). Compliance inspection actions -6,413	51.79%
Proportion of Sectors where EFRIS has been deployed	100.0%	As of June 2021, 94% of VAT registered taxpayers were registered on EFRIS and as a result: 76.19% of these taxpayers are issuing Invoices.	94%
% rollout of DTS on companies for gazette products	95.0%	96.1%	100%
No. of post clearance audits	250	100	
No. of intelligence focused operations carried out.	96	139	100%
Proportion of e-tracked cargo	25.0%	25.02%	100%
No of valuation alerts generated	50 alerts	251 alerts	100%
No. of intelligence briefs issued to inform decision making	4	Issued 5 briefs; ▪ Threats arising from the fuel Industry.	100%

		▪ Forgery and Counterfeiting of Digital tax stamps. ▪ Tax compliance risks in the extractives sector. ▪ Tax Compliance risks resulting from Illicit Financial Flows (IFF's) in Uganda.	
% of suspected VAT fraudsters investigated	80%	42 VAT fraud cases were investigated representing 90%	100%
Success rate/ convictions in court	80%	76.23%	95.29%

Source: URA Annual Monitoring and Evaluation Report FY 2020/21.

In addition to the above measures, several companies and individuals have been sanctioned by the URA as provided under the Tax procedures Code, Income Tax Act and other relevant laws. URA has created a sperate department for tax investigations that is well equipped, staffed and trained to trace incidences of willful under reporting by tax payers. The Department has access to third-party data from financial institutions, FIA and other jurisdictions in line with the established information sharing protocols to aid them in detecting underreporting cases. This has aggressively helped to curb this vice.

e) Non-payment.

The Government of Uganda has enacted several legislations concerning tax administration. The legislations support effectiveness of tax enforcement and deter non-payment. The tax laws are comprehensive and provide adequate powers for obtaining information and an appropriate sanctions regime to penalize cases of non-payment. For instance, S.29 of the TPC Act, 2014, provides that the commissioner URA may sue for and recover unpaid Tax in a court of competent jurisdiction in Uganda. S.31 of the TPC Act, 2014, provides that the commissioner URA may by notice in writing require any person who owes or may subsequently owe money to the Tax payer, holds or may subsequently hold money for or on account of a Tax payer, holds money on account of some other person for the payment of the Tax payer and or has authority from some other person to pay money to the Tax payer, to pay the money specified in the notice to the commissioner. S.32 of the TPC Act 2014, provides that the commissioner URA, or an Officer authorised by the commissioner in writing may issue an order, in writing, for the recovery of unpaid Tax by distress and sale of the moveable property of the Taxpayer. There are cases where individuals and businesses have been sanctioned for non-payment. In addition, URA maintains a shame list of non-compliant entities, which is published on the URA website and other print media.

URA has a fully functional and constituted debt collection unit under the Legal department that is specifically charged with the responsibility of debt/arrears collection. In addition, URA undertakes tax education programmes through workshops, the Annual Taxpayers' Appreciation Week, billboards, radio presentations, webinars, and TV presentations. This is meant to promote voluntary compliance and reduce non-payment.

f) Falsehood and Obstruction.

The tax procedures code Act 2014 makes it illegal for all taxpayers to provide/file false information to the URA. It further criminalizes obstruction of URA staff in execution of their tax compliance and enforcement measures. In addition to other clauses, section 50 and 59 of the Tax procedures code Act 2014, makes it a Penal tax for making false or misleading statements knowingly or recklessly to a tax officer or obstructing the work of URA officers on duty, its broad in coverage to include anyone who makes a false, misleading or omits from a statement made to an officer of the Uganda Revenue Authority any matter or thing without which the statement is misleading in a material particular, and the tax properly payable by the person exceeds the tax that was assessed as payable based on the false or misleading statement or omission, that person is liable to pay a penal tax equal to double the amount of the excess. Under the TPC Act, a Taxpayer who contravenes the provisions in the law is subject to prosecution and on conviction is liable to a fine not exceeding UGX 110 million or imprisonment for a term not exceeding 10 years or both. These applicable penalties in place are appropriate and dissuasive.

g) Transfer Pricing

Uganda's legal framework for transfer pricing is provided under The Income Tax Act (Transfer Pricing) Regulation 2011 issued under sections 90 and 164 of the Income Tax Act. These regulations are applied in a manner consistent with Article 9 of the OECD Model Tax Convention on Income and Capital; and the OECD Transfer Pricing Guidelines for Multi-national Enterprises and Tax Administrations approved by the Council of the OECD for publication on 13 July 1995 (C(95)126/FINAL) as supplemented and updated from time to time.

The transfer pricing regulations apply to Ugandan taxpayers and the responsibility is on the taxpayer to confirm that its transfer prices meet the standard or to adjust its tax return accordingly. The filing of transfer pricing documentation with tax return forms to URA is not mandatory, but because it is the taxpayer's responsibility, transfer pricing analysis and documentation is prepared to help protect against penalties. Transfer pricing documentation should be finalized prior to the due date of filing the income tax returns in a given financial year.

Transfer pricing Regulations in 2011 and the Income Tax Act Cap 340 allow the Commissioner General of the Uganda Revenue Authority to adjust, distribute, apportion and allocate taxpayers' incomes and expenses, and to determine tax liability. The Commissioner General can also re-characterise a transaction as a tax avoidance scheme. These statutory provisions are supported by:

1. The Income Tax (Transfer Pricing) Regulations.
2. Double taxation treaties with select countries,

The Regulations apply to taxpayers dealing with related parties inside or outside of Uganda. Domestic aspects of transfer pricing typically do not pose a huge risk of loss of revenue as result Uganda's legal regime and practice by the URA focuses on international aspects of transfer pricing, i.e., where the parties are in different countries thereby creating a potential for shifting profits from one country to the other.

The Uganda Revenue Authority (URA Practice Note issued on May 14th, 2012) gives details on the transfer pricing documentation to be maintained by the taxpayer. These include company details and transaction details, including agreements and the pricing methodology used in determining the arm's-length price[14]. A penal tax of UGX 50 million is due on the taxpayer for failure to provide records requested by the Commissioner in respect of transfer pricing matters, for instance in the F/Y 2019/2020, URA through its International Taxation Unit reviewed cases of complex Transfer Pricing and identified a Tax of UGX 19.8 billion arising from Transfer Pricing adjustments. In addition, there were other related party transaction reviews in which UGX 57 million resulting from transfer pricing risk and adjustments made on headquarter charges resulting in a decrease in withholding Tax.

This variable is rated medium on effectiveness.

h) Fraudulent Schemes.

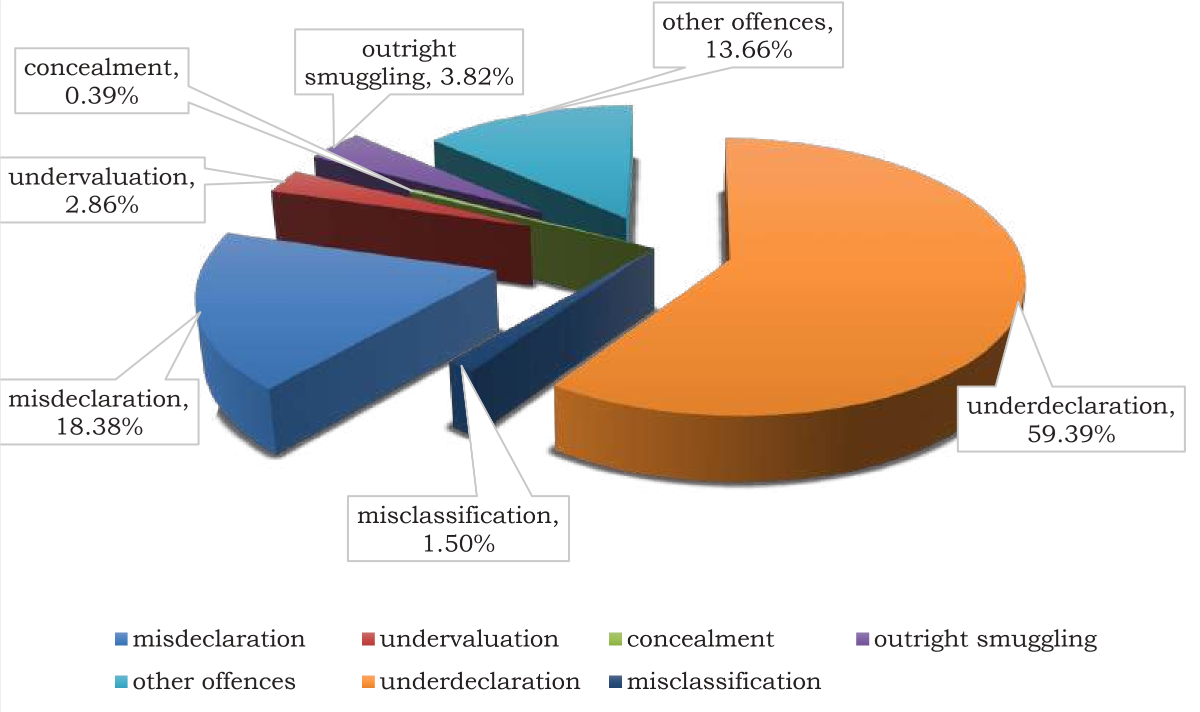
URA has initiated and developed revenue leakage minimization strategies, with a broad objective of tackling fraudulent tax schemes and increasing revenue yield. The strategies are aligned to the URA Corporate plan 2020/21 – 2024/25. The strategy was

[14] Taxpayers who engage in controlled transactions aggregating to or exceeding 25,000 currency points (UGX500 million) and multinational enterprises must comply with the documentation requirements set out in the Practice Note of 5 May 2012. The Practice Note of 5 May 2012 provides a very detailed description of what must be included under each item listed.

anchored on the compliance, operational and human resource risks. The manifestation of the risks was identified, treatment strategies proposed, and alignment to the corporate objectives done.

The Ugandan tax legal regime empowers the URA and the courts with broad powers to identify and sanction all tax evasion schemes including, fraud-related tax offences sanctioned with tax penalties, employment tax evasion schemes, fraud-related tax offences, tax officials' subversive behaviors among others. URA, through a multi-collaborative approach with other agencies has mechanisms to access and share data with other agencies that collect both tax and non-tax revenue. Particularly to enhance detection of fraudulent tax schemes, URA has adopted the following strategies;

- URA rolled out the Digital Tracking Solution (DTS) as well as EFRIS as a mechanism to detect fraudulent schemes such as; sales suppression, payroll padding and VAT/GST-specific fraudulent schemes. In addition, URA undertakes sector/industry-based Intelligence and investigations to follow up incentives for tax evasion, identify beneficiaries and detect other Tax evasion schemes.
- URA signed several memoranda of understanding for exchange of information, joint and strengthened monitoring, as well as enforcement programmes to identify non-compliant Taxpayers and related fraudulent schemes for example during the FY 2020/21, eight joint monitoring & enforcement operations were undertaken to enforce tax compliance and address leakages identified by the URA. Total assessment in revenue from the joint operation amounted to UGX 1,578 billion. Furthermore, the departments are jointly handling VAT Fraud under the VAT Fraud competence center, that has staff from Tax Investigations Department (TID), DT and Customs. In addition, URA has set up 44 One Stop Shops distributed across the country. These collaborate with local Government and Uganda Registration Service Bureau to register taxpayers and ease coordination of tax enforcement actions. For example, Customs country wide enforcement operations during the FY 2020/21 led to a recovery of UGX 67.73 billion because of 5,823 seizures. 4,843 seizures were issued on dutiable goods and 980 seizures were issued on non-dutiable goods as illustrated in the figure;



Source: URA Databases

Uganda legal tax regime does not criminalize separately abusive tax avoidance schemes as has been adopted in other jurisdictions. There is no legal framework against abusive tax avoidance schemes that would help to mitigate abusive tax schemes as marketed by promoters and trust service companies through creation of complex, multi-layer transactions meant to conceal the true nature and ownership of the taxable income or assets. This, however, is being handled with the existing legal framework. The TPC Act 2014, provides the Commissioner General with powers to sanction any Tax evasion scheme including abusive Tax avoidance when identified to possess criminal elements.

i) Offshore Schemes.

The use of offshore schemes to evade tax is a common practice especially by multinationals and high net worth individuals. To curb against this vice Uganda has enacted a strong legal framework that is well aligned with internationally agreed upon standards on tax transparency and exchange of information. To ease global exchange of information, Uganda has ratified several treaties and protocols, for example on November 4th, 2015, Uganda signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters[15] becoming the 8th country in Africa to sign

[15] Multilateral Convention on Mutual Administrative Assistance in Tax Matters provides for all forms of administrative assistance in tax matters: exchange of information on request, spontaneous exchange, automatic exchange, tax examinations abroad, simultaneous tax examinations and assistance in tax collection.

the Convention and the 90th jurisdiction to join it. The Exchange of Information on request is already in place and URA is expected to transition to Automatic exchange of information on 1st September 2023 in line with its prior international commitment. URA has established an EOI unit to fast truck the implementation of the necessary legal, regulatory framework and IT and administrative infrastructure necessary to ensure cconfidentiality and data safeguards in time for the first Automatic Exchange of Information (AEOI) in 2023[16].

The URA EOI unit reviews all requests to and from Uganda to ensure adherence to both the domestic legal framework and international standards. The use of EOI in fighting offshore tax schemes has led to an increase in the number of information requests from authorities to grow from two (02) in 2012 to one hundred seventy (170) between 2014 and 2022, Uganda has been able to recover UGX 259,935,498,396 between 2014 and 2021 from international exchange of information.

Analysis of available information has indicated that Uganda is exposed to a number of countries highly known as tax havens which makes it possible for a person to use an offshore structure to evade tax in Uganda by structuring the entities country of residence. To curb this, Uganda's tax regime requires all resident individuals and entities to report to URA all assets and income held abroad during the tax year. Further Uganda has put in place strong sanctions for non-compliant taxpayers and regularly uses and shares data with other jurisdictions for purposes of identifying and detecting unreported assets and income held abroad by taxpayers in Uganda. However, challenges remain in sanctioning and prosecuting taxpayers involved in offshore asset and income concealment tax offences.

To address this challenge, Uganda joined the Global Forum on Transparency and Exchange of Information for Tax purposes in 2012 and the OECD Convention on Mutual Administrative Assistance in Tax matters in 2016. This has expanded the information network of URA to over 144 Jurisdictions worldwide, and consequently, URA's information exchanges have increased in number. Further, an initiative to combat aggressive tax planning using Base Erosion and Profit Shifting (BEPS) techniques was launched by the G20 in 2012.

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[16] According to the OECD Global Forum annual report, 2020, multilateral co-operation on transparency and the exchange of information for tax purposes is becoming an increasingly important tool for tax administrations in mobilizing revenues and ensuring that all taxpayers pay what is due. This is on the backdrop of the increased economic globalization that has made it easy for taxpayers to hide income and assets in other jurisdictions behind layers of corporate entities, thus making it difficult for authorities to investigate and audit cases of cross-border tax evasion https://thetaxman.ura.go.ug/ura-enrols-exchange-of-information-program-to-bolster-revenue/

In 2015, Uganda joined the BEPS convention[17]. The Convention provides for all forms of administrative assistance in tax matters; exchange of information on request, spontaneous exchange, automatic exchange, tax examinations abroad, simultaneous tax examinations and assistance in tax collection. It guarantees extensive safeguards for the protection of taxpayers' rights. In addition, Uganda is also a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) - The Africa Initiative. The objective the Africa Initiative is to unlock the potential of tax transparency and exchange of information for Africa by ensuring that African countries are equipped to exploit the improvements in global transparency to better tackle tax evasion.

Therefore, the robustness of Uganda's tax regime and other measures that have been taken by Uganda to enhance identification of tax schemes and concealment of money Laundering proceeds proves Uganda as an effective and efficient player in combating tax crime and related money laundering crime. However, there is limited evidence to indicate that URA was able to identify and sanction taxpayers involved in offshore income and asset concealment schemes.

7.0 RECOMMENDATIONS

Uganda's tax system is robust and is line with international taxation standards. There are significant taxes on goods sourced through international trade and revenues have shown considerable growth in nominal terms over recent years raising to UGX 19,263.00 billion collected during the FY 2020/21 up from UGX 14,456.11 billion collected during the FY 2016/2017.

A trend analysis for the last four years, indicated continuous improvement and growth in the net revenue collections in absolute terms. However, this performance remains below expectations. The assessment therefore recommends government to consider the following recommendations to reduce tax evasion and associated Money laundering crime and to boost tax revenue.

i. **Enactment of a law to facilitate non-conviction-based asset forfeiture/confiscation.** This law will enable tax authorities and law enforcement agencies to confiscate money laundering proceeds obtained from tax crimes. Currently there are no specific provisions under the Tax law

[17] Uganda becomes the 90th jurisdiction to join the most powerful multilateral instrument against offshore tax evasion and avoidance , accessed via https://www.oecd.org/tax/uganda-becomes-the-90th-jurisdiction-to-join-the-most-powerful-multilateral-instrument-against-offshore-tax-evasion-and-avoidance.htm.

empowering tax authorities and many other law enforcement agencies to deal with tax/ML crime proceeds.

ii. **Undertake money laundering investigations alongside tax crimes.** The assessment has indicated that despite the rise in the number of tax crime related investigations, the tax authority has not actively pursued related money laundering crime with view to trace, identify and recover proceeds. URA therefore needs to increase its focus on parallel financial investigations to not just recover taxes but also the related proceeds this will effectively deter more tax crime.

iii. **Strengthen Enforcement and tax compliance.** URA should strengthen its current measures i.e., arrears management, robust system to track arrears, institute punitive penalties for non-payment of Taxes and other deliberate tax evasion schemes.

iv. **Improve the quality of tax policy design and related revenue.** This can be through collaboration between URA, and other stakeholders designated to collect both tax and non-tax revenue and the Ministry of Finance, Planning and Economic Development (MoFPED); to ensure effective implementation of Domestic Revenue Mobilization strategy.

v. **Limited attention is given to small taxpayers.** The assessment identified that URA applies a risk-based approach in allocation of resources in implementation of Tax enforcement measures. To meet revenue targets, coupled with the limited available resources, tax collectors tend to target taxpayers that have the potential to pay significant amounts. As a result, limited attention is given to small taxpayers, most of whom are in the informal sector. This, however, creates stress on taxpayers who are continuously targeted, while making those not monitored more non-compliant, URA should consider scaling up its enforcement actions by making a deliberate effort to enforce on all categories of taxpayers small, medium or large in order to build a culture of tax compliance in all taxpayers.

vi. **Capacity building for staff:** Apart from Tax recovery, URA should train and enhance staff capacity in parallel Investigations and prosecution of money laundering cases.

vii. **Record keeping and reporting:** Records and reports should be stored in a standard format (disaggregation of data) to ease access and availability as and when required by stakeholders.

viii. **Enhance resource allocation to URA, FIA and the law enforcement agencies** to enable them adequately counter emerging global tax evasion and money laundering threats.

ix. **Formalization of the Economy.** Government should develop and implement policies that facilitate the formalization of the economy, including aggressively promoting business registration.

8.0 CONCLUSION

The assessment indicated that Uganda has put in place a robust legal and tax compliance framework. Uganda's tax regime sets out various tax offences in line with international taxation standards. The tax regime is broadly strong on the legal and institutional framework but still faces some challenges at the operational level. This is due to a large cash-based informal sector that leads to a small Tax base and hence less contribution to the tax-to-GDP ratio when compared with other similar developing countries. The tax-to-GDP ratio is currently at less than 13%. The administration and enforcement of sanctions on non-compliant taxpayers is low. Prosecution of Tax crimes and related Money Laundering offences is still low which affects tax revenue and recovery of illicit proceeds.

The assessment identified various areas for improvement concerning taxpayer registration, enforcement, recoveries, access to and the use of data by competent authorities, and information sharing to combat tax crime.

Government should consider the findings of this report to further strengthen Tax compliance and increase tax revenue.

Action Plan for the Implementation of Recommendations from the ML/TF Tax Crimes and Proceeds Risk Assessment

S/N	Vulnerability	Key Action	Primary Agency	Secondary Agency	Detailed Action	Remarks	Time Frame
1	Lack of parallel investigations incorporating the offence of Money Laundering in tax crimes investigations	• Conduct investigations on Money Laundering for selected tax crime investigations.	URA	ODPP, FIA, Uganda Police Force, and other security agencies.	• URA to include and investigate the offence of money laundering in tax crime investigations with the view of tracing, identifying and recovering proceeds. URA should phase the introduction of the offence of ML in tax crime investigations; starting with VAT-related tax crimes that are the highest category in order of magnitude as established in the assessment. • URA and relevant stakeholders should provide trainings to enhance staff capacity in conducting parallel Investigations and prosecution of money laundering cases. • ODPP to provide guidance for the	The parallel financial investigations on Money Laundering will deny the tax evaders the chance to enjoy the proceeds of their crime.	Within six months of launching the report

					investigation, sanction and prosecution of money laundering alongside tax crimes • Uganda Police Force to conduct in-depth investigations on cases related to Money Laundering alongside tax crimes • FIA to support Money Laundering investigations that stem from tax crimes by providing Financial Intelligence to URA and other Law Enforcement Agencies. Additionally, URA should hold regular engagements with LEAs and competent agencies to identify deficiencies in curbing ML, tax crimes and proceeds.		
2	Low levels of tax compliance	Strengthen Enforcement mechanisms	URA	FIA, URSB, Uganda Police Force, and other security agencies.	• URA should design tools to track tax arrears and other methods used by criminals to evade payment of taxes.	Nil	Within six months of launching the report

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