

Tax and Development Case Study

Strengthening tax transparency to combat tax evasion, illicit financial flows and profit shifting in **Uganda**





Context

Retail, construction, and telecommunications drive Uganda's economy, with mining, transport, and hospitality expected to grow. Public and private oil and gas investments are also growing.¹

In 2018, Uganda's tax-to-GDP ratio² amounted to 11.8%, almost 5 percentage points lower than the average (16.5%) among the 30 African countries covered by *Revenue Statistics in Africa 2020*.³ The national economy reported strong growth in 2019, estimated at 6.3% and largely propelled by an expansion of the service sector.⁴

However, economic growth is projected to decline in 2020 as a result of the COVID-19 crisis, reaching between 0.4 and 1.7%.⁵ Even prior to COVID-19, expenditures were increasing faster than domestic revenues, widening the fiscal deficit.⁶ Enhancing domestic resource mobilisation and fighting illicit financial flows (IFFs), therefore, will be all the more essential for Uganda in a post-COVID-19 crisis environment.

The country considers the exchange of information (EOI) for tax purposes to be one of the key components of its national domestic resource mobilisation strategy and expects that EOI will improve the compliance management of Multinational Enterprises (MNEs) and individuals, including high net-worth individuals.

This case study illustrates how the Uganda Revenue Authority, the African Tax Administration Forum (ATAF), the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), the OECD, the World Bank Group (WBG) and other international and development partners have successfully worked together to strengthen tax transparency in Uganda. Together they have helped to tackle tax evasion, IFFs and aggressive tax avoidance mechanisms, such as inappropriate transfer pricing, abuse of tax treaties and profit shifting.

Box 1: Uganda's key achievements in tax transparency and exchange of information

- The 2016 peer review of Uganda's implementation of the standard on Exchange of Information on Request (EOIR) delivered a “**largely compliant**” rating.⁷ It recognised the amendments Uganda had made to its tax laws, company laws and regulations, and the establishment of the Anti-Money Laundering Act.
- The **Convention on Mutual Administrative Assistance in Tax Matters (MAAC)**,⁸ in force in Uganda since September 2016, widens the information reach – from the previous nine partners covered under tax treaties to more than 140 EOI partners under the MAAC.
- **Uganda made 69 exchange of information (EOI) requests between 2014 and 2019 – up from only two in 2012 – identifying nearly USD 26 million in additional revenues.**⁹ The Uganda Revenue Authority received effective responses to most of these EOI requests and is engaging with its treaty partners on the few outstanding requests to achieve **100% resolution**. This excellent response rate can be attributed to an efficient follow-up process, the use of the peer input mechanism and the good relationships built with competent authorities from key partner countries.
- Uganda has demonstrated a **strong commitment to tax transparency work in Africa**. Examples include the country's endorsement of the Yaoundé Declaration¹⁰ and its active participation in the Africa Initiative,¹¹ both advocating for more political support to tax transparency. The Africa Initiative was launched in 2014 as a partnership between the Global Forum, its African members, ATAF and a number of other regional and international organisations and development partners.

“Uganda considers the exchange of information for tax purposes to be one of the key components of its national domestic resource mobilisation strategy.”



Strengthened tax transparency in Uganda is helping to tackle tax evasion, IFFs and BEPS

Technical assistance on tax transparency and EOI

It is estimated that some 44% of Africa's financial wealth is held offshore¹² and that the continent loses around USD 40 to 80 billion every year in tax evasion.¹³ The international standards on transparency and EOI for tax purposes help ensure that governments around the world co-operate in good faith and make information available to their peers to track untaxed income of companies and individuals held offshore. This prevents companies and high net-worth individuals from remaining above the law. The Global Forum assists jurisdictions around the world in fighting tax evasion and avoidance, tackling IFFs and securing the integrity of tax systems by facilitating global co-operation for the implementation of agreed standards.

The African Union Commission encourages African Union members to join the Africa Initiative and to make tax transparency a priority in their domestic resource mobilisation efforts.¹⁴ Indeed, African countries are exposed to tax avoidance resulting from inappropriate transfer pricing and other issues related to base erosion and profit shifting (BEPS).¹⁵ EOI allows tax administrations to send and obtain useful information to and from foreign tax administrations automatically,

spontaneously or upon request, and is therefore an important tool in addressing the main threats to international tax systems.

Uganda became a [Global Forum member](#) in October 2012 and since then has benefitted from its support, both within the country and remotely. When it joined the Global Forum, Uganda faced challenges in ensuring the transparency of its taxpayers' cross-border activities. It had made little use of EOI and had a limited network of EOI agreements, as well as underdeveloped relations with its partners' competent authorities. Also, the country did not have a central EOI processing function, resulting in delays in making and processing requests.

The Ugandan authorities embarked on a strategy aimed at making the country a visible player in the global tax transparency community through greater use of EOI in the national tax compliance programme. A cross-government working committee was established to address the challenge, engaging with key international and regional associations such as ATAF and the Global Forum, as well as with Africa Initiative targets. Uganda also expanded its EOI network and began working on capacity building with ATAF, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Global Forum.

Box 2: Establishment of a central EOI function

- In 2014, the Minister of Finance delegated the EOI role to the Uganda Revenue Authority's Commissioner General, who established an EOI unit in the Uganda Revenue Authority's Tax Investigation Department.
- The EOI office expanded over time, from two part-time staff to four officers, with plans to further expand to eight officers to manage the increasing workload.
- The EOI office serves a broad support function across the Uganda Revenue Authority, handling all matters relating to EOIR, spontaneous exchange and mutual agreement procedures. It

has developed a five-year EOI strategy aligned with the Uganda Revenue Authority's organisational plan, thus creating linkages to various organisation-wide compliance aspects.

- The EOI office also organises periodic strategic engagements and awareness campaigns with other stakeholders - such as the Central Bank, the Registry of Companies and the Financial Intelligence Authority - on legal and policy related matters. This has facilitated smooth information access and has provided support for EOI initiatives, as well as for the implementation of international best practices, both within the Revenue Authority and among the stakeholder agencies.



Uganda, in collaboration with the Global Forum, DFID and the WBG, hosted a training workshop on beneficial ownership. Kampala, 2016.

The Global Forum made a visit to Uganda in April 2014 to advise the country's stakeholders on Global Forum membership, including the peer review process and the responsibilities Uganda was expected to fulfil, some of them through the stakeholders. In 2014/2015, the Global Forum provided technical support in preparation for Uganda's first round of peer reviews and gave guidance on the legal framework as well as the legal provisions identified for amendment. It also provided onsite technical assistance to evaluate the practical aspects of EOI implementation and make recommendations for improvements.

In 2016 in Kampala, in collaboration with the Global Forum, the United Kingdom's Department for International Development (DFID)¹⁶ and the WBG, Uganda hosted a training workshop on beneficial ownership; over 20 African countries participated.

In 2017, the Global Forum held a training workshop for Uganda Revenue Authority officials on the use of EOI

in tax audits and investigations, with the support of an expert from Her Majesty's Revenue and Customs (United Kingdom).

In 2018, ATAF and the Global Forum provided support to Uganda in determining a practical timeline for the implementation of the Automatic Exchange of Financial Account Information (AEOI) standard in the country. In February 2021, **Uganda committed to implement the AEOI standard by 2023, making it the 116th Global Forum member to commit to start AEOI by a specific date.**

In 2020, upon request from the Uganda Revenue Authority, the Global Forum began to provide remote support for the implementation of the enhanced EOIR standard, including beneficial ownership information, in view of the second round of EOIR reviews to be launched in the third quarter of 2022. The support includes facilitating stakeholder engagement on beneficial ownership.

Box 3: Building sustainable EOI skills

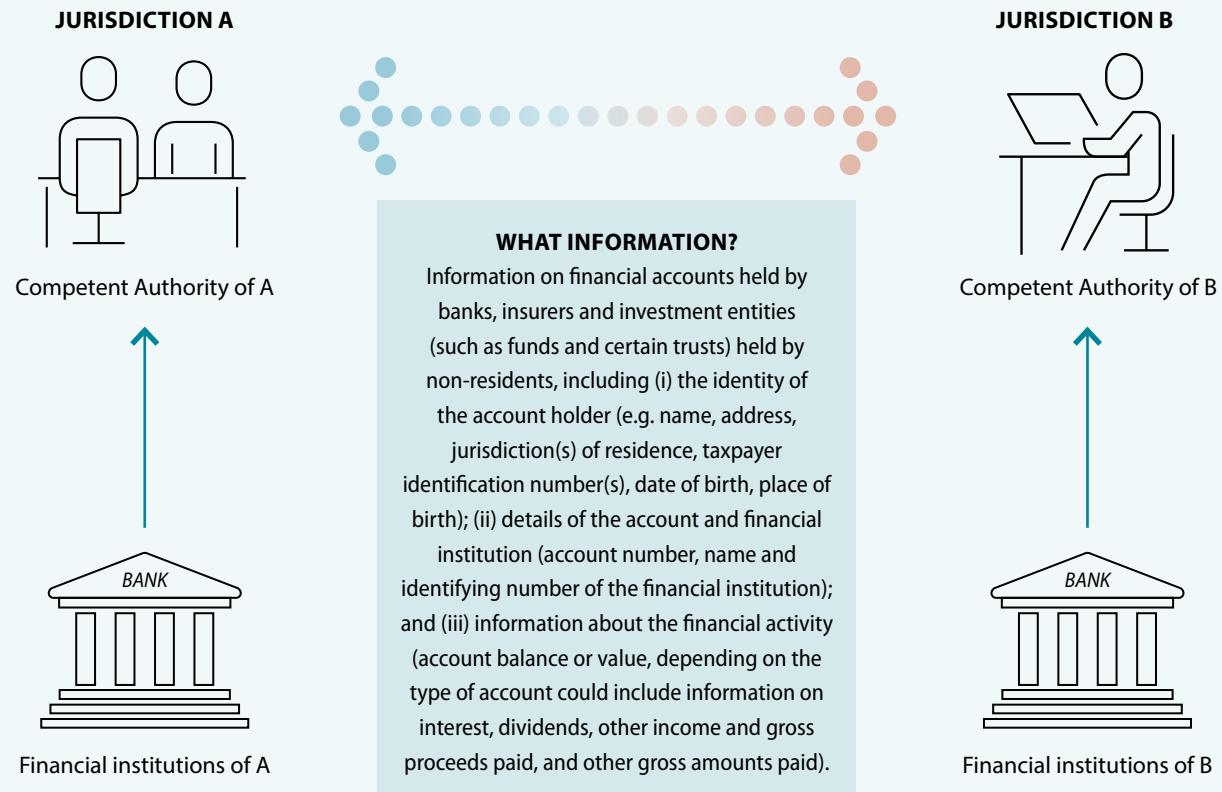
Thanks to various trainings and other activities delivered by ATAF, the Global Forum and GIZ, Uganda Revenue Authority staff have enhanced their analytical skills and strengthened their knowledge of EOI principles, as well as the application of EOI in cross-border transactions, including in transfer pricing cases. This has resulted in improvements of the quality of EOI requests made by the Uganda Revenue Authority and has also benefitted other jurisdictions:

- **At a workshop conducted in 2017 in Uganda, the Global Forum trained 42 Uganda Revenue Authority officials in the use of EOI in tax audits and investigations. The officials managing EOI have, in turn, trained 278 tax officials within the Uganda Revenue Authority, transferring knowledge on EOI through in-house training programmes.**
- As a member of the Global Forum's Peer Review Group, Uganda has participated in the review of 69 other jurisdictions, providing

peer input and comments for peer review reports. Two Uganda Revenue Authority officials are also members of ATAF's Technical Committee, enabling Uganda to transfer its EOI knowledge and experience to this group.

- A Uganda Revenue Authority official participated as an expert assessor in peer review assessments for two other jurisdictions. In preparation, the officer attended a specific training seminar for peer review assessors organised by the Global Forum.
- Uganda provided support to other African countries through benchmark visits and online discussions targeting EOI and compliance programmes that make use of EOI.
- A former Ugandan staff member was recruited in the Global Forum Secretariat to build staff and institutional capacity in all areas of tax transparency.

Automatic Exchange of Financial Account Information



“Uganda’s strategic partnership with the OECD Global Forum has inspired policy and administrative reforms which have informed the design of the national domestic resource mobilisation strategy, specifically in the areas of cross border transactions and tax transparency.”

Dr Ajedra Gabriel Aridru, Uganda’s Minister of State for Finance, 10th Anniversary meeting of the Global Forum. Paris, 2019.

Technical assistance, including through TIWB, is helping to address aggressive transfer pricing practices and other BEPS-related issues

Domestic tax base erosion and profit shifting, which occurs when MNEs exploit gaps and mismatches between different countries’ tax systems, affects all countries. Conservatively estimated, BEPS practices cost countries USD 100-240 billion in lost revenues annually, which is equivalent to 4-10% of global corporate income tax revenue. In particular in Africa, taxation of MNEs is key to domestic resource mobilisation. Tax transparency is one of the fundamental pillars in the fight against BEPS allowing tax administrations access key data for transfer pricing risk assessment and audits.

Long-term programme on transfer pricing and other BEPS-related issues

The Uganda Revenue Authority considered that they were losing millions of US dollars in tax because of aggressive transfer pricing practices and abuse of tax treaties by a number of MNEs operating in Uganda. In 2016, they requested technical assistance from an ATAF/OECD/WBG partnership on transfer pricing and

other BEPS-related issues. The three organisations agreed to provide transfer pricing experts, with ATAF contributing knowledge of the specific challenges in Africa. The assistance included a review of Uganda’s transfer pricing and interest deductibility rules, as well as skills-building workshops for the Uganda Revenue Authority and the Ministry of Finance. Together the experts identified gaps in the existing rules which were leading to tax loss through profit shifting, introducing new rules to close these gaps.

Box 4: Uganda’s key achievements on transfer pricing

- In 2017, Uganda introduced new transfer pricing penalties and in 2018, it introduced new interest deductibility legislation that is based on the BEPS Action 4 recommended approach*.
- Thanks to its transfer pricing audit work, the Uganda Revenue Authority has collected additional tax of nearly USD 125 million over the past five years, including approximately USD 26 million from a TIWB audit case.

* <https://www.oecd.org/tax/beps/beps-actions/action4/>

Box 5: Uganda Revenue Authority's transfer pricing audit facilitated through the use of EOI

In 2019, the Uganda Revenue Authority - with the assistance of the ATAF/OECD/WBG partnership - started an audit of a MNE operating in the agricultural sector. The case involved the sale of a commodity by the Ugandan company (Company A) to a related party (Company B) in a low-tax jurisdiction that acts as a marketing hub for the sale of the commodity to third parties in a number of tax jurisdictions.

To test whether the price paid for the commodity by Company B to Company A was arm's-length, the Uganda Revenue Authority asked Company A for information on the price for which Company B sold the commodity (which was not altered in form) to the third parties. The aim was to enable the Uganda Revenue Authority to establish the mark-up added by Company B to the price it paid Company A for the commodity.

Revenue statistics

Revenue statistics are critical to underpin tax policy including tracking how corporation tax levels can be monitored, one measure of progress on BEPS issues.

Since 2017, ATAF, the African Union Commission and the OECD have been working closely with Ugandan tax experts and statisticians to produce harmonised statistical data on tax and non-tax revenues that meet international standards. This information is showcased in the annual *Revenue Statistics in Africa*, which for the 2020 edition compiled data from 30 African countries.¹⁷ Technical assistance, provided remotely and through technical workshops, enabled Uganda to collect comprehensive revenue data, and refine its methodology. As a result, Uganda benefits from comparable tax and non-tax revenue indicators, which establish a common regional database to inform tax policy and reform.

TIWB programmes

Tax Inspectors Without Borders (TIWB),¹⁸ a joint initiative of the OECD and the United Nations Development Programme (UNDP), take a practical hands-on approach to improving tax audit capacities. In Uganda, TIWB has worked in co-operation with ATAF.

From 2017 to 2019, a South African transfer pricing expert was deployed under a first TIWB programme in Uganda. He helped the Uganda Revenue Authority to process nine audit cases, guiding the tax officials through all audit stages from risk assessment and case

Company A informed the Uganda Revenue Authority that it was not in possession of the requested information and was unable to obtain it. The Uganda Revenue Authority then used the EOI provisions established in its tax treaties and under the MAAC to request the invoice from the jurisdictions of the third-party customers of Company B. The Uganda Revenue Authority has begun to receive this information, which is proving to be extremely useful in determining the arm's-length price for the sale of the commodity by Company A to Company B.

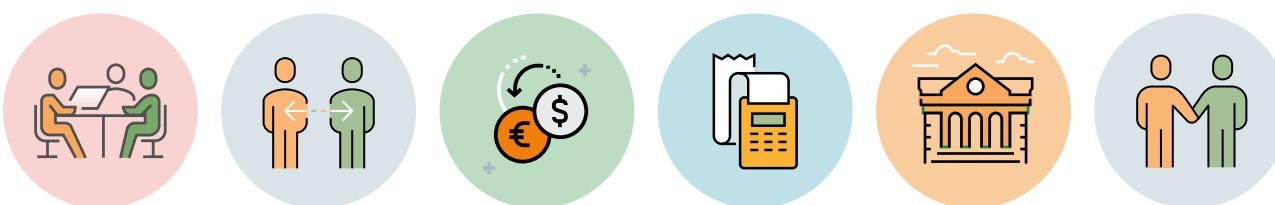
This illustrates how EOI enables auditors to access taxpayer-specific information, thus facilitating their work.

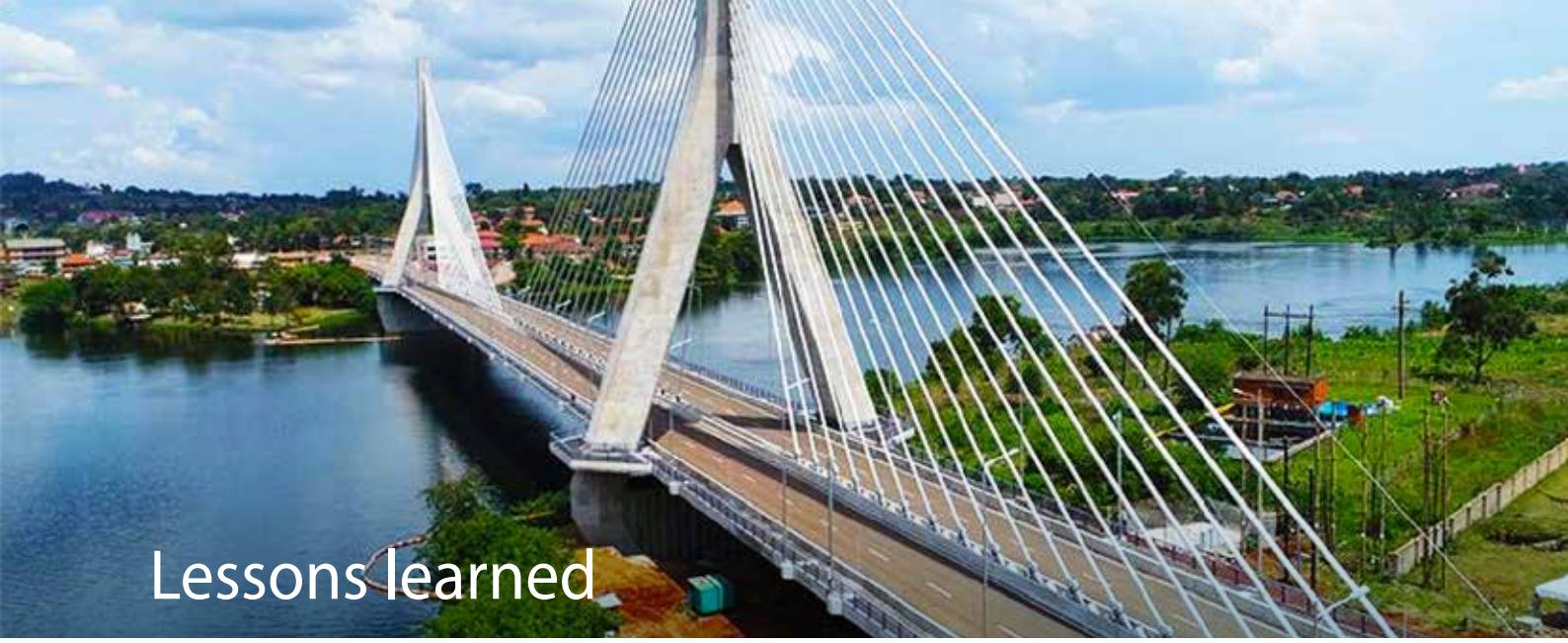
selection to tax assessment and collection. One of the cases resulted in the **collection of approximately USD 26 million in additional revenue**.

The Uganda Revenue Authority commended TIWB's learning-by-doing approach, which not only facilitates the transfer of knowledge and experience, but also increases overall confidence among tax officials. As an example of the sustained, organisation-level impact attained through this programme, following the TIWB expert's recommendations the Uganda Revenue Authority revised the international tax unit's remuneration structure to support staff retention.

A second TIWB programme, delivered by transfer pricing experts from the ATAF/OECD/WBG partnership, provides intensive support on transfer pricing audits to the Uganda Revenue Authority. Since its initiation in 2019, it has assisted in identifying a number of high-risk cross-border transactions worth millions of US dollars in tax. The programme will continue through 2021 to ensure that the Uganda Revenue Authority is able to address these high-risk cases.

As of July 2019, the Uganda Revenue Authority also participates in a **TIWB pilot programme for criminal investigation**. The objective of this programme is to build capacity in the functional area of tax crime investigation, including the transfer of investigative skills through a bilateral capacity building programme in collaboration with the Indian Tax Administration. The pilot is to be completed by December 2021.





Lessons learned

- Positive results on tax transparency and EOI can be effectively achieved if the process is supported by a strategic, cross-governmental approach, including engagement with international and regional stakeholders.
- The experience and lessons derived by Uganda through its participation in the Global Forum Peer Review Group meetings and the review of other jurisdictions are hallmarks of good practice in tax administration. In designing its own policy and administrative improvements, Uganda has often referred to this good practice and its international experiences have driven progress in the country.
- Skills can be built more sustainably if technical assistance programmes include transfer of knowledge mechanisms within the country and beyond, as well as staff retention policies.
- Multi-faceted and co-ordinated approaches involving regional and international organisations such as ATAF, the Global Forum, the OECD and the WBG, as well as development partners such as GIZ, are key in ensuring the optimal growth of tax transparency and in curtailing tax avoidance initiatives.
- EOI and anti-BEPS measures go together in protecting a country's tax base. Combining such measures with expert technical assistance in transfer pricing and other areas can help national tax administrations to significantly improve domestic resource mobilisation in their country.
- Developing countries require technical assistance over many years, if not decades, to achieve sustainable results in addressing tax avoidance and tax evasion.



“Uganda’s successful journey on tax transparency paves the way for other developing countries and is the result of strong political and administrative commitment, clear strategy, and coordinated and steady support from development partners.”

Endnotes

1. African Development Bank, *African Economic Outlook 2020*. <https://www.afdb.org/en/countries/east-africa/uganda/uganda-economic-outlook>.
2. This excludes social security contributions, as the data are not available.
3. OECD/AUC/ATAF, *Revenue Statistics in Africa 2020*. <https://www.oecd.org/tax/revenue-statistics-in-africa-2617653x.htm>.
4. African Development Bank, *African Economic Outlook 2020*, op cit.
5. World Bank (2020), *The World Bank in Uganda*. <https://www.worldbank.org/en/country/uganda/overview>.
6. African Development Bank, *African Economic Outlook 2020*, op cit.
7. OECD (2016), *Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews, Phase 2: Uganda 2016*. <https://www.oecd.org/countries/uganda/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-peer-reviews-uganda-2016-9789264266209-en.htm>.
8. <http://www.oecd.org/tax/the-multilateral-convention-on-mutual-administrative-assistance-in-tax-matters-9789264115606-en.htm>.
9. The amount refers to tax revenues that had not been previously reported in Uganda. See also OECD, Global Forum on Transparency and Exchange of Information for Tax Purposes, *Tax Transparency in Africa 2020: Africa Initiative Progress Report 2019*. <http://www.oecd.org/tax/transparency/documents/tax-transparency-in-africa-2020.htm>.
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12. Zucman, G., Fagan, T. L., & Piketty, T. (2017), *The Hidden Wealth of Nations: The Scourge of Tax Havens*, second edition updated and extended, Le Seuil, Paris.
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14. See OECD, Global Forum on Transparency and Exchange of Information for Tax Purposes, *Tax Transparency in Africa 2020: Africa Initiative Progress Report 2019*, op cit.
15. <https://www.oecd.org/tax/beps/>.
16. Replaced by the Foreign, Commonwealth & Development Office (FCDO) in September 2020.
17. See OECD/AUC/ATAF, *Revenue Statistics in Africa 2020 – Uganda*. <https://www.oecd.org/tax/tax-policy/revenue-statistics-africa-uganda.pdf>.
18. <http://www.tiwb.org>.



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ATAF: www.ataftax.org

Global Forum: <https://oe.cd/tax-transparency>

OECD: <https://oe.cd/tax-global>

Uganda Revenue Authority: www.ura.go.ug

World Bank Group: worldbank.org/globaltaxprogram



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