



Uganda Revenue Authority

EMERGING ISSUES IN INTERNATIONAL TAXATION – CHALLENGES AND WAY FORWARD

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INTRODUCTION

Structure of Budget Financing in Uganda and most African Countries:

- Reliance on taxes to fund current and development expenditure
- About 70% of the taxes are collected from domestic resources
- Domestic resource mobilization is therefore key for sustainable development and thus the focus is now on international taxation and implementing strategies to enhance compliance with Transfer Pricing Regulations, Preventing Treaty Abuse and Policy redesign

CHALLENGES

Treaty Abuse:

- This is a realistic challenge. Most treaties in developing countries are being abused due to inadequacy of the beneficial ownership anti provision.
- Treaties are vulnerable to abuse and this is as a result of the way the provisions in those treaties are structured and as such the vice of treaty shopping is prevalent.

CHALLENGES

- Lack of information about worldwide activities and operations of multinational entities and finding comparable data for transfer pricing cases.
- The MNEs create cash boxes in preferential tax regimes jurisdictions and these erode the tax base of developing countries through the payments of royalties and interest without substantial presence and value creation in such jurisdictions.

CHALLENGES

- Inadequate capacity of staff

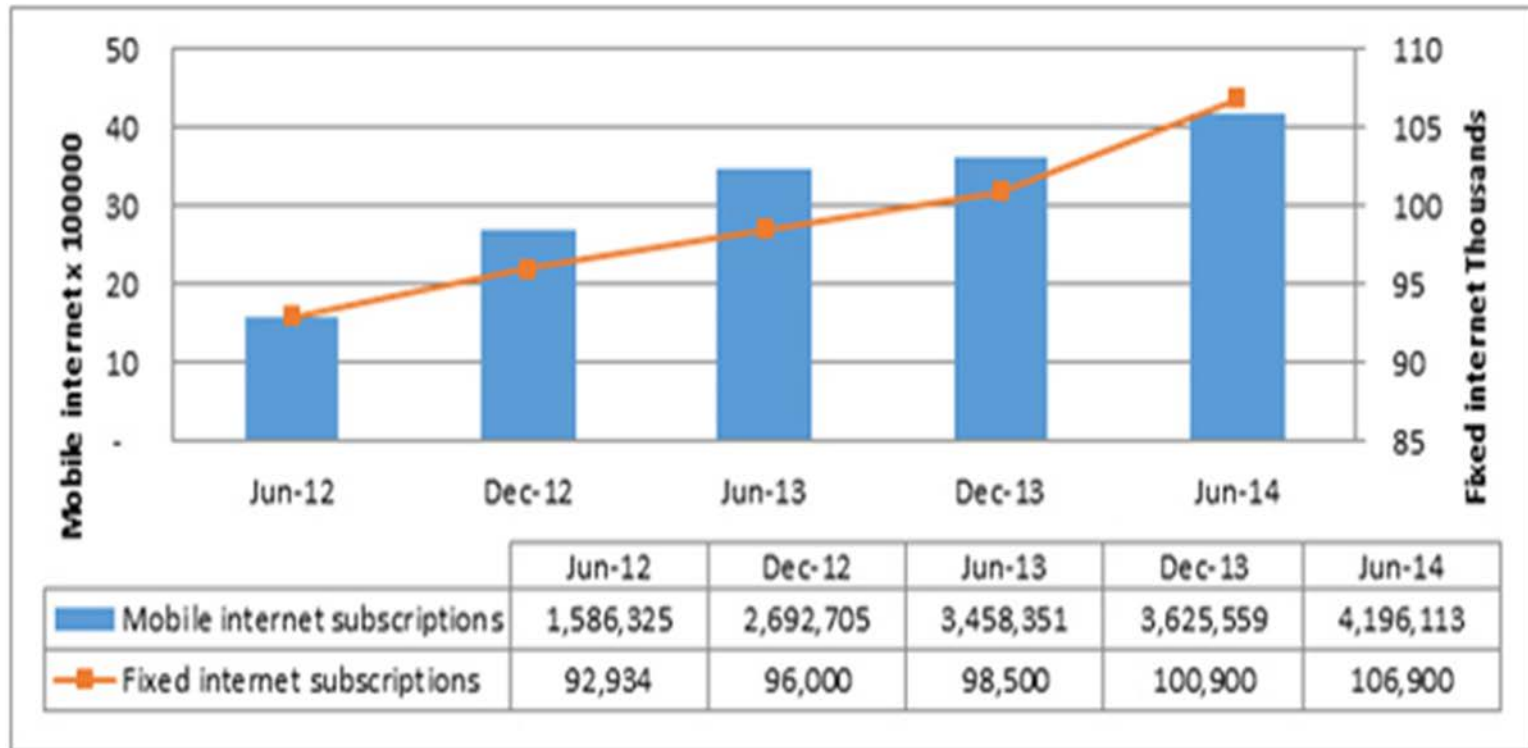
International taxation is complex, takes about four years to build expertise of tax official in international taxation matters.

- Limited financing for capacity building programmes in the face of competing demands for resources which thus undermines domestic resource mobilization efforts.

CHALLENGES- EXTRACTIVES

- Some developing countries have significant oil reserves and other natural resources and often the right to tax income from the activities relating to exploitation of such resources is often an area of disputes that end up in costly international arbitration cases.
- The expectation, governance and transparency around the extractive industry poses challenges yet it has the potential to totally transform domestic revenues of developing countries.

CHALLENGE: INTERNET BASED TRANSACTIONS



- ❑ 2012-2014 , 164% increment in mobile internet usage in Uganda
- ❑ CAGR of 54% from 2013 to 2018 Africa will have 57.1 million users-Cloud services in Africa

PREVALENCE



55% of
vehicles
in 2014
imported
online



Over 25 e-
commerce
sites: only
15% file
consistently




443 Pkgs in
2014
Up from 75
in 2013

MODELS: GOOGLE

- News Websites
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CHALLENGES - GAPS WITHIN THE LAW

- The Domestic Tax laws have have inadequate provisions on taxation of some business models



- Tax Treaties have no explicit clear provisions on e-commerce



COMPLIANCE CHALLENGES

- Emerging tech
 - ✓ Cloud Computing
- Hard to track Intangibles
- Administrative challenges



PROPOSED WAY FORWARD

- Increased dialogue between developing countries and speaking with one voice on common challenge thematic areas
- Policy enactments and Treaty provisions that create a balance between protecting revenue by maintaining source taxing rights and encouraging inbound investment through reduction of tax barriers. The UN should advance this agenda through the cooperation with developed countries.

PROPOSED WAY FORWARD

- Contract Negotiation Guidelines and Policy design of taxing the revenues from the natural resources/ extractives is critical.
- Petroleum revenues can substantially improve the domestic resource mobilization but this is only possible once there a proper policy to ensure governments of developing countries receive a fair share of the revenues.
- Having a common approach on imposition of Capital Gains Tax on transfer of interests in the Extractives sector would be helpful for developing countries with the natural resources.

PROPOSED WAY FORWARD

- Limitation of benefits clause
Need a robust limitation of benefits clause and this would entail a renegotiation of most treaties
- Have a practical approach and clear clauses on anti treaty shopping provisions that can be incorporated in domestic laws of developing countries.

PROPOSED WAY FORWARD

- Increased support in terms of building tax capacity in Revenue Authorities of developing countries to realize their revenue generation goals.
- Need of a framework to effectively pass on to Revenue Authorities the work and recommendation of committee of experts on different subjects for policy redesign and administrative reform

PROPOSED WAY FORWARD

- Effective exchange of Information

The Treaties and Conventions have an exchange of information clause however in a practical sense these clauses have limitations.

Its important to include ways of dealing with exchange of information requests to ensure that they are timeliness and possible penalties for not adhering to the set timelines.

PROPOSED WAY FORWARD

- Widespread circulation of toolkits on various subjects
- Increased UN – ATAF collaboration on capacity building initiatives like the one held in Nairobi



CONCLUSION

- Domestic resource mobilization is key in transforming the economies of developing countries. Challenges do exist as highlighted above but the good news is that there is work in progress in finding solutions.
- Its important to find a balance between attracting investment and protecting government revenue and thus its important to have this in mind as developing countries design their tax policy.
- Capacity building programmes are still needed by developing countries.

Thank You

