



# COVID-19


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Are ura measures  
an Adequate relief  
for Individuals and  
businesses?




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The URA recently issued Business continuity measures in light of the Corona Virus (COVID-19) which pandemic has unexpectedly entered into our lives. The Pandemic has had both direct and indirect consequences both to our health but also economically. In many states around the world, lockdowns have been ordered to mitigate the spread of the virus which is growing at an uncontrollable rate. The rapid spread of the virus has caused governments to ban movements of people consequently stopping many businesses from running and halting employment. Only “essential services” have been permitted to continue to serve people. Essential services have been defined to mean services that; the interruption of which would endanger the life, health or personal safety of the whole or part of the population. These include, provision of food supplies, health, financial support (banks), Private security. Non-essential services are those that do not provide any of the above.

In light of the challenging economic situation, some governments have attempted to provide assistance through various economic plans many of which are still undergoing revision. The objective of these plans is to sustain jobs and allow people to continue earning income through employment and business which they can use to sustain themselves by purchasing goods and accessing services while at the same time keeping the economy running through continued payment of taxes. To put some context to this, we will provide examples of states that have put in place some measures, particularly taxation measures, to provide some sort of relief to employees, business owners, consumers and the tax man during this period.



Before we delve into the examples of tax measures taken by the different governments, it is worth mentioning a quote from Adam Smith's *"The Wealth of Nations"* where he stated as follows:

“ *All nations have endeavored to the best of their Judgment, to render their taxes as equal as they could contrive, as certain as, as convenient to the contributor, both in the time and in the mode of payment, and in the proportion to the revenue which they brought to the prince, as little burdensome to the people.* ”

The above quote denotes four maxims that should be present in all tax systems which are according to Adam Smith are: equality, certainty, convenience of payment; and economy in collection. The times that we find ourselves in are the perfect opportunity for the government to follow the aforementioned principles while going about their "essential duty/service" to collect taxes. With respect to Equality, taxpayers should pay taxes in proportion to their respective abilities to pay tax, which is in proportion to their respective earnings.

During this period, it is reasonable to expect that most businesses, especially non-essential, will not earn much. Some will lay off employees and have no taxes to remit. The taxman should therefore charge tax proportionate to earnings for the time being.



Certainty denotes the need to be clear as to the amount of tax to be paid, when it should be paid and the manner of payment. During this pandemic, people will not earn as much as they did before the pandemic came into place. The URA should therefore provide measures to deal with issues like provisional tax, which provisional tax is based on estimates of income. Businesses/individuals on lock down cannot make such estimates since they are not operating and estimates made prior to the lockdowns should be revised since they were done before and without anticipating COVID. Convenience of Payment means taxes ought to be levied at a time which is most likely to be inconvenient to the payer. It is clearly not a convenient time to pay taxes for most tax payers. Measures ought to be proposed that take into account the lockdowns vis a vis a time when tax payers can conveniently pay taxes. Finally, Economy in collection represents the cost of raising taxes should be minimized. Under this maxim, smith observes that, among other things, penalties and forfeitures for the non-payment of tax may ruin an individual who may have used capital to benefit the community. That therefore, governments should avoid exacerbating difficult financial situations of tax payers such as the ones presented to them during this pandemic. In our situation, this can be done by waiving and/or proposing payment plans for penalties to be paid –this gives time to citizens and their businesses to recover from COVID effects.

In the UK, some of the notable measures that have been put in place include: (a) VAT deferrals for all UK VAT registered businesses between 20 March and 30 June. Interests and penalties will also not be charged. The deferral is automatic and does not need to be applied for. However, VAT returns due to be submitted during the deferral period must be submitted as usual. (b) Time to Pay arrangements have been introduced to assist those struggling with cash flow and allow those who enter into arrangements with the Revenue authority to spread liabilities over a pre-agreed period. In addition the Revenue Authority will waive late payment penalties and interest where businesses experience difficulty paying taxes due to COVID-19. In order to facilitate this Time To Pay arrangements and in light of the lockdowns, the Revenue authority will commit 2,000 experienced call handlers to support tax payers on toll free lines.

With respect to Israeli taxation, several interim measures, most of which are technical and relatively minor, have been introduced, such as: (a) temporary recognition of copies of invoices, for the purposes of input tax credits with respect to transactions conducted between March and May 2020; (b) immediate payment of tax refunds; (c) a 2-month deferral of the income tax report filing date for 2019; (d) extended validity of 2019 tax status certification (until June 13, 2020); (e) extended validity of tax deduction certification (from March 31, 2020 to April 30, 2020); and (f) postponement of VAT filing and payment dates.

In Kenya, which is probably the closest comparison to Uganda in terms of economic status, the following measures have been put in place by the President: (a) persons earning Kshs. 24,000 (Ugx. 880,000) are allowed a 100% tax relief meaning they will not be taxed on their income; (b) reduction of income tax (PAYE) from 30% to 25% and reduction of corporation tax from 30% to 25%; (c) reduction turnover tax rate from 3% to 1% for all micro, medium and small enterprises (MSME's); (d) reduction of VAT from 16% to 14%; and (e) expediting payments of all verified VAT refund claims amounting to Kshs. 10 billion within three weeks or in the alternative allow for offsetting WHT VAT in order to improve cash flows for businesses.

In Uganda, the URA announced only two tax reliefs: (a) companies have been granted more time to file tax returns and penalties for late submission will not apply or will be refunded if the companies are able to submit on or before March, 31, 2020 or May 31, 2020 depending on when their accounting year ends; and (b) taxpayers with MoU's with URA to pay in installments, whose payments were due in March and April are allowed to defer and reschedule the payments to May. This will apply to tax payers whose business has been affected by COVID-19 and who are unable to meet their obligations during this period. It is worth noting that installment payments attract an interest of 25% per annum. Perhaps this interest ought to have been relaxed too. That remains unclear.

Whereas the continuity measures provide some sort of relief in form of delaying filing returns or delaying payments of taxes where MoU's have been executed, these reliefs do not necessarily represent the real issues for most individuals and businesses. The question then is, are the proposed tax reliefs by Uganda adequate for the tax payers in Uganda under the current lockdown (which could be extended as the Government announces more cases of COVID-19) and in light of the measures discussed above. We think not.

## COVID-19: ARE URA MEASURES AN ADEQUATE RELIEF FOR INDIVIDUALS AND BUSINESSES?

Whereas all Ugandans have a constitutional duty to pay taxes, during this “Force Majeure” moment, it is incumbent on the Government to apportion the taxes with respect to the People’s ability to pay them versus the peoples need to have money to support themselves and their families during the pandemic, while at the same time preserving their businesses and employment.



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The only way to ensure that people are able to, at least those that are still able to earn an income whether employment or business, retain some income during this pandemic in order to support themselves is to reduce the taxes applicable to that income. Reducing VAT would reduce the amounts payable for goods and services. Reducing or waiving PAYE would increase the disposable income available to a person for this rainy day

Reducing corporation taxes and turnover rates would enable the corporations and small businesses retain extra income to pay their employees. Ordering an immediate payment of verified refunds would put more money in accounts of businesses that are struggling to pay employees who need the money to survive. Waiving taxes for a bracket of people who earn below a certain threshold would enable these people save money to access essential goods and services for as long as the pandemic persists.

All these measures have been put in place by economies larger than Uganda (Kenya) which has fewer people employed and many businesses operating, but which struggle, even without a pandemic, to pay their taxes. Now is surely the best time to provide more relief other than delay installment payments or filing of returns for these businesses and employees in order to simply ensure that people have income to sustain their lives during this pandemic.

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