THE UHURU INSTITUTE FOR SOCIAL DEVELOPMENT
#Generating Wealth Together

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A PROPOSAL FOR A SPECIFIC TAX REGIME FOR COOPERATIVE SOCIETIES IN UGANDA

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Introduction

The Uhuru Institute for Social Development (TUI) is a social business that provides and connects the cooperative community to a variety of opportunities including but not limited to; affordable financing, training and institutional development, media services, business networking and learning conferences, information and communication technologies (ICT), solutions for business, youth leadership and entrepreneurship development, research as well as policy and advocacy. TUI works with cooperatives, government ministries, departments & agencies (MDAs), development partners, business community and non-profit organizations to advance and apply the cooperative business model in pursuit of inclusive green socio-economic development.

In 2022, The Uhuru Institute for Social Development published and shared the Parliamentary Cooperative Policy Brief with all Members of Parliament and key government ministries, departments and agencies, the content included updates on the implementation status of the Cooperative Petition that had been submitted to The Speaker of Parliament in June 2016. Item No 9. of this 2016 Cooperative Petition to the Speaker of Parliament, demanded that the Government of Uganda establishes a Cooperative Specific Tax Regime that recognises and promotes the economic and social impact of cooperatives to their members, the community they serve, the promotion of equitable development, and national socioeconomic transformation.

In response to this parliamentary policy brief, the Commissioner General of the Uganda Revenue Authority (URA) wrote to the Chief Executive Officer of The Uhuru Institute for Social Development (TUI), requesting a written policy advisory that can inform government decisions on the justifications, nature, content, and implications of the Specific Cooperative Tax Regime.

Upon receiving the URA request, TUI conducted desk reviews of cooperative specific tax policies in various countries, and an online survey to determine the impact of the 10 years corporation tax waiver granted to SACCOs by the government of Uganda to inform the recommendations for a cooperative specific tax regime in Uganda.

A total of 44 SACCOs from the districts of Gomba, Sheema, Isingiro, Ngora, Kampala, Mbarara, Bushenyi, Kabale, Ibanda, Kabarole, Bunyangabo, Kasese, Kyegegwa, Amuria, Ngora, Serere, Lira, Kole, Kwania, Oyam, Moyo, Adjumani, Masindi, Hoima, Madi Okolo, Koboko, Nebbi, Yumbe, Nwoya, Gulu, Amuru, Maracha, Soroti, and Kitgum participated in this survey to assess the impact of Tax waiver on SACCOs. This Tax Policy Brief is a response to this request of the Commissioner General of Uganda Revenue Authority on the Cooperative Specific Tax Regime in Uganda, having drawn from the above-mentioned processes.

Governments world over raise revenue, from taxing citizens, businesses, and other organisations to finance day-to-day public service operations, and development projects, security, and social services etc. Such revenue is then budgeted annually, disbursed to various ministries, departments, agencies, and local governments to finance implementation of annual plans.

These entities are expected to account in their regular reports and audits, ensuring quality, integrity, and trust of the citizens and their willingness to pay tax. Box 1 below enumerates are some key roles of taxes:

BOX 1: KEY ROLES OF TAXATION

1. To finance government re-current and development expenditure i.e., paying salaries for civil servants and funding medium to long-term projects such as the construction of schools, hospitals, roads, electricity dams, strategic research facilities etc.
2. By imposing high duties on competing imports, taxes increase market costs of imported products hence, encouraging the development of local industries, which in turn creates employment and saving foreign exchange. By reducing or removing duties on export making them more competitive in the external market, thus encouraging the export of such goods and services.
3. By imposing high taxes on harmful substances such as cigarettes, alcohol, drugs, chemical substances, or high environmental levy on used vehicles, society is protected from easy access to these undesirable or harmful products and industries.
4. Government may impose a progressive tax on the incomes and wealth of the rich, and using the revenue raised to provide social services like health for the public good of all especially those in society who would not afford, hence achieving greater equity in the distribution of wealth and services.
5. Governments may also grant tax waivers and or rebates respectively, to attract both local and foreign private sector investments in areas deemed to add value, such as, industry, agro-processing, mining, energy, tourism, social services etc, and or promote foreign policy interest of the said country in other parts of the world.
6. Taxes may also be used to regulate demand and supply in the economy in times of inflation through reducing government expenditure, increasing taxes and interest rates, consequently, reducing the amount of money in circulation.

Impact of the current Tax regime on the Cooperative Sector in Uganda

According to the URA Taxation Handbook 4th Edition; a full guide to Taxation, a company is defined as a body of persons corporate or unincorporated, whether created or recognized under the law in force in Uganda or elsewhere, and includes a unit trust, but does not include any other trust or partnership. A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. This makes cooperatives uniquely different from the typical private company which would require a unique tax regime that addresses the nature of their businesses, and institutional purpose.

BOX 2: COOPERATIVE SOCIETIES ARE SUBJECT TO THE FOLLOWING TAXES IN UGANDA:

1. Property tax 10-14% pa; Stamp duty on transfer of property 2%; Stamp duty on legal documents - UGX 5000 per document; Stamp duty of UGX 5,000 on every loan agreement exceeding UGX 3,000,000.
2. Local service tax of cooperative employees who get a monthly income of UGX 1, 000,000 and above pay UGX 100,000, and those earning in between UGX 500,000 but not exceeding UGX 1,000,000 pay UGX 50,000 annually.
3. Environment tax 15%-20%; Excise duty on goods locally produced; Export duty when selling goods outside Uganda; Import duty when buying goods outside Uganda;
4. VAT (Value added Tax)18%;15% withholding tax on interest on members' deposits.
5. PAYE (Pay-As-You-Earn) 30% for all cooperatives employees who earn a gross income of more than UGX 235,000 per month and above .
6. Corporation tax of 30%(except SACCOs that are currently exempted from income tax).

SACCOs are often seen to be paying the most Tax, followed by multipurpose cooperatives, this is because SACCOs operate their businesses on a daily basis increasing the chance for tax application compared to the producer and marketing cooperatives whose business are often seasonal.[1] About 72% of cooperatives are not aware of their tax obligations and are not sure whether they are being taxed or not. Yet with indirect taxes like Excise duty and VAT, no person or business is spared for as long as there is the consumption of these taxable goods.[2]

Impact of the 10-year Tax Exemption on SACCOs in Uganda

TUI conducted an assessment to establish the impact of the 10-year corporate tax exemption granted to SACCOs in 2017 by the Uganda government. This policy has been well received with many reporting varying dimensions of positive impact as summarised here under:

1 MoFPED (2017) National Budget of the Republic of Uganda for the FY2017/18

2 TUI's 2018 Research Report The Legal, Business, Ethical and Knowledge Status of Cooperatives in Uganda: A Fork in the Road.

1. **Growth of SACCOs Portfolio**
   Savings accruing from 30% corporations tax waiver has; expanded capital reserves thereby increasing loan portfolio, and increased the number of member's access to loans, and boosted productivity of members, and increasing business turnover for the cooperative. In one such SACCO, their capital base rose from UGX 36 billion to about UGX 40 billion and business surplus rose from around UGX 40 million to UGX 2.5 billion. Before the tax waiver many SACCOs were chocking on high interest rates on loans from commercial facilities but this has since faded away, as many SACCOs report closure of financing gaps, because of increased internal reserves, instead many have opened up more branches thanks to the tax waiver.

2. **Diversifying SACCO financial products**
   Most SACCOs have designed new loans products such as: Agricultural Loans, Business Loans, Medical Loans, School Fees Loans, and Boda-Boda, Water and Sanitation Products, Solar and Housing. These loans have greatly impacted the lives of members and their well-being positively. Most members have now moved from sleeping in grass thatched houses to owning permanent houses, often with iron sheets roofing.

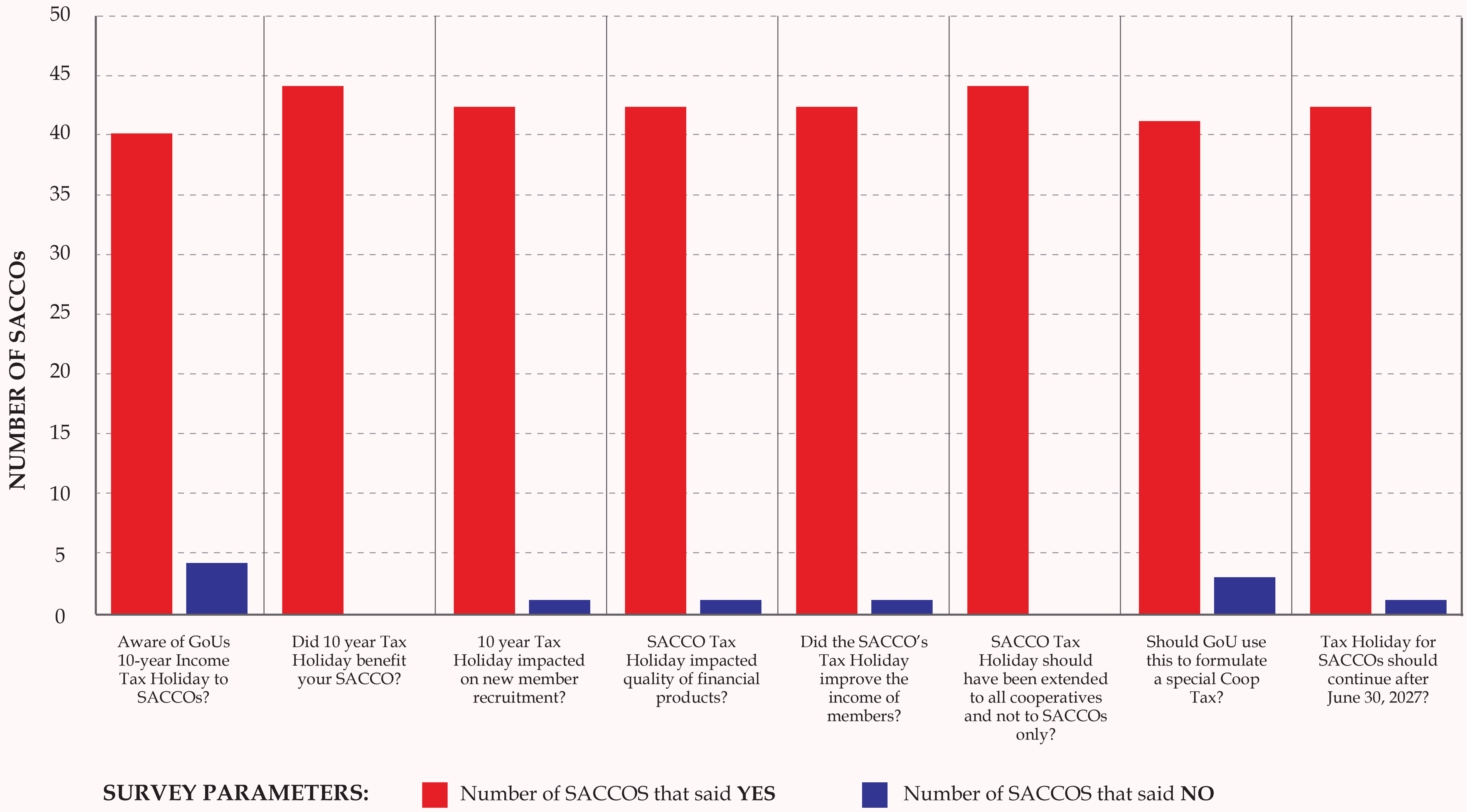
3. **Subsidizing Loan Products Interest Rates**
   e.g., from 12% to 2% interest rate for school fees loans, and from 27% to 2.5% for the business loans per month. Some have reduced loan interest rates, to between 1.5% to 2.5% as opposed to microfinance institutions who charge between 4-5% to 10% interest per month, making many SACCOs more business competitive.

4. **Longer Grace Periods**
   Up to six months for agricultural loans to enable farmers start paying loans after harvesting, which was not the case before the tax waiver. Many SACCOs have also increased the loan period, from one year to two years and in some cases three years reducing financial pressure on members on paying loans.

5. **Improved market Competitiveness**
   Some SACCOs have reported improvement in business efficiency and output because they were able to buy a car for operational management, motorcycles for expanded loan officers' outreach and recruited more staff to cover increasing workload, thus improving performance and strengthening outreach, out of those savings. SACCOs also report that they are now competing favorably with other financial institutions, and have witnessed some stabilization in the SACCO business space.

6. **Investment in concern for community**
   Others used the same money to avail seed capital for startup ventures of unemployed youths, usually children of their members, who invested in business ventures like mobile money and stationery shops, etc. hence contributing to creating employment for youth, social impact at family level, and financial inclusion.

IMPACT ASSESSMENT OF THE GOVERNMENT OF UGANDA'S 10 YEAR CORPORATE TAX HOLIDAY GRANTED TO SACCOS IN 2017



Trends in Cooperative-Specific Tax Regimes for Selected Countries

Because Cooperatives prioritize social benefits for their members over other outcomes, this often restricts their activity in the territories they operate in, mobilize and reinvest resources in these same areas, which discourages the delocalization of their activities, many countries provide for specific tax regimes for cooperatives aiming at promoting wealth creation for members and community development for locations they work in. Below are samples of unique provisions in specific cooperative tax regimes for selected countries across the world:

1. The Philippine Cooperative Code 2008

Sections 6, 7, 8, 9, 10, 11, and 12 of the cooperative code stipulates the parameters under which cooperative societies are exempted from taxes in the Republic of the Philippines. All Cooperative business transactions concluded internally only between the cooperative and its members are exempted from taxation. Only transactions with the external of the cooperative is taxed. If a cooperative union buys rice from her member primary cooperative, proceeds from that business is tax exempted, as shareholders of the cooperative union are actually the primary cooperatives. But the same rice being sold by the cooperative union to the open market outside the cooperative sector attracts relevant tax[3].

2. Cooperative Tax in India[4]

Contribution from members, that is the pooling together of the members' financial resources to pay for the services and amenities are tax exempt, under the 'concept of mutuality', as one cannot profit from one's own contributions. Any interest from penalizing late payments i.e., charging defaulters interest, is 100% tax exempt. Fixed deposits in co-operative banks, dividends earned from a co-operative organization is exempt from tax. Earnings made from members paying parking charges at the cooperative facility is not subject to tax. Interest from any co-operative entity (e.g., a co-operative bank) is tax exempted, but interest from investment in any other non-cooperative entity is taxable.

3. Cooperative Tax in China

Between 2001-2006 China progressively tested and established a tax exemption policy on agricultural products which has had a very positive impact on the growth of agricultural cooperatives particularly in food production, processing and marketing[5].

4. Cooperative Tax in Brazil

Cooperatives are governed under the federal and state laws, but most importantly the cooperative bylaw is central in guiding the daily cooperative operations.

3 Republic Act No. 9520. An Act Amending the Cooperative Code of the Philippines, to be Known as: The Philippines Cooperative Code of 2008

4 Income Tax Rules for Co-operative Housing Societies

5 Chinese Tax Policy and the Promotion of Agricultural Cooperatives and Environmental protection

While cooperatives and other private companies face similar income tax regimes, all businesses between cooperatives and her members are not taxed[6].

5. Cooperative Tax in the European Union

In its judgment of 9th June 2011, the Court of Justice of the European Union (CJUE) established that the specific tax treatment of social economic organizations, including cooperatives, are different from purely profit-making entities. This special tax protection of cooperatives should not be understood as a privilege vis-à-vis other entities operating in open markets, but rather seen as the desire of the legislator to strengthen entrepreneurial organizations. In France and Portugal, it is possible to exempt certain types of cooperatives completely from taxation.

6. Cooperative Tax in the United States of America

The principle underlying the federal income tax treatment of cooperatives and their patrons is that earnings derived by a cooperative from transacting business with and for its patrons are taxed once at the patron level, rather than twice, at both the cooperative and patron levels. This tax treatment is accomplished by allowing cooperatives to deduct from their total income certain distributions and allocations made to their patrons often known as patronage refunds. The rules governing the taxation of cooperatives and their patrons are contained in subchapter T of the Code, 1381 through 1388. Exempt farmers cooperatives and most nonexempt cooperatives are subject to Subchapter T.[7] The following types of organisations may be tax exempted after applying and getting exemption from the Internal Revenue Service: -

- Workers' Productive Societies, pooling resources to run their own productive enterprise.
- Labour, agricultural or horticultural organizations.
- Mutual savings banks not having a capital stock represented by shares.
- Farmers like fruit growers, or associations organized and operated on a cooperative basis (a) for marketing and turning back the [net] proceeds of sales. (b) For purchasing of supplies and equipment at actual cost, plus necessary expenses.

7. The East African Community Cooperative Societies Bill 2014

Section 30 (a), (b) provides for an exemption from the corporate tax for cooperative societies whose annual income does not exceed US $500,000, although individual members shall be liable to pay income tax; and exemption from Value Added Tax, for cooperative societies whose annual income does not exceed US $1,000,000. This provision aims to promote business growth, and financial inclusion for lower income cooperatives as a recognition of the grassroot outreach and capacity of cooperatives to promotion of financial inclusion for micro, small and medium enterprise cooperatives usually owned by the poorest in the money economy. This bill which only ended up in the shelves and was not adopted by

6 Report of the Platform Cooperativismo in Brazil; Dualities, Dialogue, Opportunities

7 Bloomberg Tax Portfolio, Taxation of Cooperatives and Their Patrons, No. 744, analyzes the federal income tax treatment of cooperatives and patrons.

the East African countries was also based on similar policy perspective common in all the countries mentioned above.

BOX 3: COOPERATIVE SPECIFIC TAX REGIMES ACROSS THE WORLD AIM TO:

- Increase household income and improve family welfare of members; create employment especially for youths. The increased in family financial reserves result into the rise in purchasing power, and more taxes for government.
- Promote cooperative social investments in areas such as education, public health, community health insurance etc. Improvement in access to social services supports government's goal to high quality of life for average citizens.
- Promote environment conservation, tree planting and agroforestry, clean energy, waste products recycling, climate action. Improvement in environment status contributes to sustainable development and social economic transformation.
- Community mobilisation and sensitisation for positive mindset change towards self-help, self-responsibility, social solidarity, social cohesion, unity, harmony, peace, and happiness in the society. A population that is self-supporting is more likely to see value in paying tax and contributing to national development.
- The benefit of revenue growth, social impact, overall national development and socioeconomic transformation is worth the investments in tax exemptions and or tax-rebates for cooperatives.

Recommendation for a Cooperative Specific Tax Regime in Uganda

We recommend that the GoU considers the following options for a cooperative specific tax regime that would promote a people centred member value, wealth creation, and socioeconomic transformation in Uganda:

BOX 4: RECOMMENDATION FOR A COOPERATIVE SPECIFIC TAX REGIME IN UGANDA

1. Tax Exemption

Recognition of the role of cooperatives in increasing production and productivity, access to social services, and promoting social cohesion harmony and peace at the grassroots

a. A 100% Tax Exemption for all intra-cooperative businesses conducted between the cooperative and her members, inter-cooperative businesses between cooperatives whose products and services are complementary. This is the trend in many countries that have recognised the value of cooperatives in community mobilising for positive mindset change towards self-help and self-responsibility, wealth creation for improved household income, family welfare, inclusive investment, social cohesion, environment conservation, and socioeconomic transformation.

2. Tax Rebates

Promoting cooperatives investment in Social Welfare Funds

Direct motivation of cooperatives to invest in social welfare funds that improve access to social services like: education, preventive health, community health insurance, clean energy, afforestation, nature conservation, and supporting people centered planning and budgeting in government at all levels:

b. A corporate tax rebate equal to the total amount and or at least 50%of the amount assigned by cooperatives to social welfare funds.

c. An income tax rebate on cooperative members' equal to the total amount and or 50% of the amount assigned by cooperatives to social welfare funds, when such amount is calculated in relation to the volume of member contributions in the cooperative.

Fostering increased investment

At least 50% tax rebate of the corporate tax amounts assigned to non-distributable reserve funds for a period of more than 10 years. The increase in reserve funds in cooperatives is a good strategy for guaranteeing resilience fallback position during lean times and investment finance for the growth of a cooperative.

Conclusion

Cooperatives are a viable tool to deliver sustainable development, hence the need to improve their contribution toward national revenue. This can be best done by maximising the value of a cooperative to all her members through improving household income, employment and social services, consquently expanding the ability of member cooperators to pay more taxes by actively partcipating in the economy.

Section 41-Subsection (1)- Subdivisions (a)-(c), of the Cooperative Societies (Amendment) Act 2020 grants the Minister of Finance the power to exempt a cooperative from paying certain taxes as he or she may deem fit. It would be a good policy move for the Minister to consider tax exemptions and or rebates as proposed above.

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