



## **Tough talk: Just pay the \*\*#\$ taxes**

**10 August 2013**

### **Article summary**

*This article provides a ["tongue in cheek"](#) look at the culture of tax non compliance in Uganda and provides a few options on how to deal with tax planning in ways which can save the business the "head ache" of having to deal with "Caesar the taxman". It also provides insights into changes in the global economy that might shape the Uganda Revenue Authority's (URA) actions in the future.*

### **Why I'm pissed off.**

I really do not like my Saturday morning rest being interrupted because sh\*\* has hit the fan or is about to (pardon my French).

One of my friends asked me to call him (at my cost mind you). He was worried and wanted tax advice on how his business, which I estimate has more than Shs. 200m in sales can continue to fly "under the radar" without paying one cent of tax!

I was pretty mad at him (first for waking me up early) so of course I told him:

*"Just pay the bloody taxes"*

His calm response (as if as a matter of fact):

*"I cannot Pay As Yoweri Eats (PAYE).*

This latter statement is a jest aimed at H.E the president and the endemic corruption in Uganda which supposedly depresses them and makes them not pay taxes.

### **A culture of non compliance?**

In addition to the flagrant disregard to proper business ethics, I cannot deal with our hypocrisy as a whole.

You know how we learnt it?

From the very polite Baganda who will invite you to a meal as you pass by the roadside saying:

*"Jangu tulye" (come and let's eat) .....*

DON'T FALL FOR THIS! In actual sense, proper etiquette (or pretence if you prefer) dictates that you are supposed to turn it down (even if your stomach is rumbling). What you must say "Ugandan style" is:

*Nva kulya kati! (I have just finished eating!)*

Oh where was I? Yes, hypocrisy. Only two minutes before he calmly told me about elaborate measures he took to dodge taxes, guess what he had been talking about: Church (he is a born again Christian by his account)!

He seemed to be inadvertently telling me (actions speak louder than words):

*"Praise the Lord (ah), my brother, I have a testimony, with the God given wisdom, today I dodged taxes of Shs. 100m, halleluiah!"*

Does that even make sense! If I recall, isn't it the Good Lord himself who set out one of the principles of Christians and taxes:

*"Give unto Caesar what belongs to Caesar?"*

Do my fellow Christians (oh they are "Sunday" Christians in abundance in beloved Uganda) not know that:

*"Caesar" can be a cruel man and will take your shirt and your tunic too?*

I just cannot understand why Ugandans do not have a compliance culture. Always trying to "cut corners" until the corners cut them.

**The heat in the kitchen is only beginning to go up....**

If you really want to "cut corners", please do me a favour, at least cut them from a point of knowledge!

*"Your enemy is roaming around like a lion, seeking who to devour"*

For the uninitiated, the "corner cutting" or "dodging" I am speaking about is tax planning and tax avoidance mechanisms, which are legal (or acceptable) compared to tax evasion, which is illegal.

And the enemy I refer to is not the nice, decent and polite folks at Uganda Revenue Authority (URA), but rather the enemy is the Income tax law. The enemy I refer to is the shortfall in Uganda's tax revenues....

This short fall can change very easily, for example if the donors continue turning off the taps of aid. .... This means we will have no option but to raise the revenue for our domestic needs, by ourselves.

There is nothing that brings about innovation like desperation.... URA will get smarter as the heat of revenue shortfall is turned up, that I can promise you.

And mind you, this is going to change sooner than you think. You probably already know of the [scandal in the Office of the Prime Minister \(OPM\)](#) about theft of donor money. It continues....

Politicians in many of the western world, struggling under the economic crisis in their own countries are increasingly watching how their aid money is used. They can no longer waste money when their own

citizens are suffering, while in the developing countries, people *“drive ferraris, wear ray bans and have apartments in paris”*

While some of them are “crude” and can be branded racist, as in the latest one about one calling us “bongo bongo” land ([see the story here](#)), there is some truth and a pattern emerging....

Western governments following the global economic crisis are increasingly looking to widen their tax base. The pattern is being repeated everywhere. They even go after the “big fish.”

Ask *Google*, Ask *Apple*, Ask *Starbucks*, Ask *Amazon*. All these are billion dollar multinational corporations that are being put to task about their tax affairs because the US taxman needs money! The US is even introducing a complex law called FATCA and countries around the world are scrambling either to comply with it, or to enter into deals with the US for compliance.

EVEN SWITZERLAND, which for hundreds of years has been known for its secretive banking laws is being made to “cough up” [money hidden in its accounts](#) and pay it over (to the US for example). It is even changing some aspects of its banking laws on account of these changes.

Once they finish dealing with the big fish, they will turn to the smaller fish including tax havens and this will trickle down to Uganda. And don’t think URA isn’t watching.

The message from all the above is this:

*“The Times they are a changing”*

[As made famous by Bob Dylan in a similarly titled song in 1964]

### **Is there any good that ever came out of tax compliance?**

This is not a message meant to preach *“fire and brimstone pouring out of the sky”* but rather it is show that in these tough times, the benefits of compliance outweigh the cost and headache.

The whole point of this article is to say, there is hope!

You can arm yourself with tools to succeed in business, even whilst complying.

#### *Benefits of compliance (including accounts and tax monitoring)*

- **Business intelligence.** Having proper records of accounts means that you can analyse how your business is performing and therefore develop quick strategies to succeed, including to assess why your business might be failing. You really cannot succeed in business without knowing how well you are performing (or why you are failing) and records are the lifeblood of business.
- **Access to cheap loans and financing for expansion.** You can get access to better loans and sources of finance with proper records and evidence of compliance.

You see all those guys with the big bucks (Venture capitalists, private lenders, private equity and other providers of finance) are themselves sponsored by large corporate investors, wealthy individuals, government money, pension funds etc and so it is critical that they show that the money has gone to companies that are “good corporate citizens”. Usually they want to see your historical records (and board minutes and tax certificates). Even the banks want to see this. Getting a loan from a bank at 22% interest per annum is certainly much cheaper than the money lenders who charge 15- 20% per month, that amounts to interest of at least 180% per annum!

- **Access to tax planning tools.** Once you start maintaining proper records, you can start seeing how much you are spending and start seeing how to save on your tax burden through various tax planning strategies including the following examples:

*PAYE (the real Pay As you Earn)*

- Instead of paying meals allowance, provide meals to all employees. This is tax deductible
- Instead of paying medical allowance, provide medical insurance. This is tax deductible
- Instead of paying some salary, why not pay it into a pension scheme. This is tax deductible.

*Corporation tax*

Consider assessing whether you qualify for certain deductions such as: first year allowances, start up allowances, bad debts allowance, training allowance, management charges paid.

All these are allowable deductions that can with proper planning reduce your tax liability.

Oh and by the way, assuming you are not as successful as my “annoying friend”, any losses you make in business are tax deductible.

This means you can “carry them forward” to the next year (or years) when hopefully you are profitable. This means, they offset any future profits you make until they are fully utilized/exhausted. There is a silver lining to making losses!

*Others?*

We have written on other tax tips that could save you millions. Read that article [here](#):

**So what’s next, brothers and sisters?**

First, please don’t call me early on a Saturday morning, unless you like hearing me speak “French”.

All joking aside, we really want to help businesses succeed including peace of mind in tax matters.

If you are worried about your tax affairs and need help. We can help you review your tax affairs.

Don’t worry, we are not agents of URA, who will suddenly turn around and “sell you out”.

We are a firm of ethical advisors who want to ensure you do it right and save yourself the hustle in the future, maybe 5 years from now when you are more successful and URA comes knocking (they have legal rights to review records as far back as 5 years by the way).

Our ethical principle on advice is this: We maintain your information confidential.

*P.S the story about my friend is partially “tongue in cheek” to emphasize the point(s).*

[Speak to me](#) to help.

If alternatively you believe you can do this on your own, the reputable firm *Deloitte* has summarized the East African income tax systems quite nicely.

Read a summary of Ugandan Income tax law included in a document (as at 2012) [here](#):

Otherwise best of luck and like I said, if you need help, speak to me:

<http://inachee.com/team/>

*P.S as I said, the story including about my friend is partially “[tongue in cheek](#)” to emphasize the point(s).*

### **About the Writer**

*D E Wasake (FCCA) is a principal at [inachee.com](http://inachee.com), an ethical thought leadership and advisory firm. He has over 9 years experience in advisory, from Uganda, the Bahamas and the UK and including in Ugandan tax matters.*

*With a combined experience of over 30 years, the Inachee team is passionate about helping Ugandan businesses to succeed, including through tax compliance which in the long run helps business succeed quicker.*