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PRIVATE SECTOR POSITION ON THE ABRUPT TAXATION AND EXECUTION OF THE IMPORT DUTY OF 10% AND VAT 18% ON ANIMAL FEEDS AND PREMIXES BY THE UGANDA REVENUE AUTHORITY (URA)

SUBMITTED TO THE AGRICULTURE COMMITTEE OF PARLIAMENT OF THE REPUBLIC OF UGANDA

BY

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1. Introduction:

The Private Sector Foundation Uganda (PSFU) appreciates the Government through the Parliament of the Republic of Uganda for continuously supporting the private sector development in Uganda, through legislation, budgeting and resource appropriation.

The agriculture, Agribusiness and Forestry sector is one of the 12 sectors under the PSFU whose role is to drive the agro-industrialization agenda and create jobs for the youth in the economy. The members of this sector have been consulted in the development of this position paper.

2. KEY FACTS ABOUT THE LIVESTOCK SECTOR

- i. Uganda's livestock Industry is currently worth over **US\$ 310M** and has been growing at steadily ever since 2017. The sector contribution to GDP has increased from **3.0%** in 2017 to **3.9%** in 2021. To be specific in the poultry sector, the sector has been growing at nearly **8.5 % per annum** as of 2020. This is however is believed to have dropped significantly as nearly **34% of feed users** (farmers) have stopped/ abandoned Livestock farming due to increasing costs of production.
- ii. In the poultry sector alone, about **34%** of the poultry farms that have closed have led to loss of jobs of nearly **245,000** Ugandans thus far.
- iii. In the past **9 months** when the cost of feed has been high, smallholder farmers have lost income of almost about **231 billion shillings**. This is due to the unbearable cost of feed which has been free from the **10%** import duty and **18% VAT**. In most cases, traders normally transfer these taxes to consumers.
- iv. Uganda Investment Authority data indicates that over **4.5 million Ugandans** get their livelihood from the livestock sub-sector.
- v. The livestock industry consumes about **577,000MT** per year and among them, **72%** is poultry feed, **19.4%** is pig feed and **8.5%** is dairy feed. Among the feeds consumed annually, **23%** is commercial feed mills and **72%** concentrate and **5%** from others sources.
- vi. The livestock industry is employing over **100,000 farmers** and about **90,000 farmers** engaged in poultry and pig production use concentration.
- vii. The numerical impact of the taxes on the livestock sector in Ugx

	CALCULATIONS WITHOUT TAX			CALCULATIONS TAX		
	Producti on cost	Selling price	Gross margin (%)	Producti on cost	Selling price	Gross margin (%)
Eggs (1 tray)	9,500	10,500	9.5%	11,202	10,500	-6.7
Broiler meat (1 kg)	5,250	5800	6.5%	6,426	5,800	-10.7
Pork (1kg)	8,990	10,000	10.1%	10,762	10,000	-7.6%

The private sector actors in Uganda in the agriculture sector dealing in animal feeds and concentrates have been affected by the new tax developments being implemented by the Uganda Revenue Authority (URA).

Effective 1st July 2017, VAT on animal feed and premixes was scrapped by the parliament of Uganda through the Amendments of the Act in 2017. Consequently, URA stopped raising assessments for VAT for all importers and continued collecting withholding tax.

The tax tariff has been very clear, and the parliament of Uganda was very intentional about excepting animal feeds and premixes from paying VAT to spur the growth of the industry.

After all this time, **URA on 19th September 2022 instructed** its officials to start collecting **VAT (18%)** from all Animal Feed concentrate premixes' importers without first amending the VAT Act through the right channels (Parliament/Ministry Finance) and without informing the stakeholders who have cargo in transit. Moreover, URA instructed their officers to carry out assessments and collect the tax retrospectively.

That is, URA has asked all companies and individuals who have ever imported concentrates with **Import duty (10%)** on the past consignments that date as far back as 2017. The farmers already used these feeds, the traders already sold these feeds without incorporating the tax.

The impact of the 10% import Duty and 18% VAT on animal feeds and premixes by the Uganda Revenue Authority (URA)

- i. **Lack of feed for farmers**, as ingredients needed to make the feed will not be in supply, will lead to; **loss of productivity and death of farm stock**, hence the closure of farms and **loss of livelihoods** across the animal subsector.
- ii. **Over 1000 containers** for traders are already en-route between the high seas, the ports, and the Borders. These delays and disruptions being caused by URA are **increasing the costs of doing business** due to demurrage, penalties and expiry of goods and all that cargo will be a loss to farmers and/or traders.
- iii. **Increase in prices for feeds** by more than **28%** (10% Import duty, 18% VAT) and with the current economic situation in Uganda where the subsector is grappling with high **maize costs** and **low farm produce prices**, the livestock sector is likely to collapse.
- iv. **Low investment in the livestock** sector by Investors both domestic and foreign because of inconsistency in Uganda's tax policy. This paints a picture that in Uganda, anyone can just wake up and decide on the taxes to be paid depending on that person's interpretation of the published tax procedure.
- v. **High cost of doing business in Uganda**; with the current tax requirement on animal feeds and concentrates, doing business in the other East African countries will be seen to be cheaper and may thus **encourage the smuggling** of these products into Uganda. Further, we are likely to have a reduction in Foreign Direct investment as many investors will prefer investing in the neighboring countries as compared to Uganda.
- vi. **Loss of jobs**; as a result of the accumulated VAT and imported duty tax that has accumulated for the last five years, many sector players both manufacturers and players in the industry will stop producing because of the tax burden. This will lead to a loss of food sovereignty and most of many people will depend on imported chicken products.
- vii. **Production of poor-quality feed**; There is a likelihood of production of adulterated or poor-quality Feed as farmers struggle to make ends meet.
- viii. Impact on other sectors; these tax changes will span to other sectors like chapati and Rolex sellers, chicken stands (street food), bakeries and restaurants among others.

Recommendations;

1. Through the Ministry of Finance, Planning and Economic Development (MoFPED), we request that URA intentions to charge 10% import duty (on previous & future orders) and VAT on imports of animal feed concentrates be suspended.
2. We recommend that animal feeds and premixes be VAT zero-rated as it has been. Moreover, farmers are already struggling with increases in fuel prices which have increased the cost of production and consequently price hicks.
3. We recommend that the Parliament of Uganda investigates (through the Committee on Agriculture) into why these levies were introduced in the middle of a Financial Year and the impacts they are having on the sector and economy at large.
4. We recommend in case such taxes are deemed necessary, they should be announced upfront possibly in the financial year and should be brought through proper procedures as prescribed by the laws of Uganda.
5. We also recommend that the Animal Feeds and Nutrition Bill which has been in Parliament since 2010 be expedited.