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YTJN Statement On EFRIS And Tax Compliance

KAMPALA, Uganda, April 26, 2024 - April in the Pearl of Africa has had one topic dominate the news cycle - the challenges faced by traders in the implementation of the Electronic Fiscal Receipting and Invoicing System (EFRIS). Several complaints have been raised by the traders in this regard which include:- the complexity of EFRIS which makes it difficult for them to understand and be compliant; high compliance costs with the purchase and installation of the electronic fiscal devices very expensive for the traders to afford and the need to hire tax consultants to run EFRIS and the high penalty of Ugx 6m to defaulting traders.

To better understand the traders' concerns, let us first unpack what EFRIS is and what mischief it intends to cure.

EFRIS entails the use of Electronic Fiscal Devices (EFDs), e-Invoicing, or direct communication with business transaction systems to manage the issuance of e-receipts and e-invoices in accordance with the Tax Procedures Code Act 2014. Once a transaction is initiated using any of the solution's components, transaction details are transmitted to URA in real time to generate e-receipts and e-invoices.

EFRIS was introduced by the Uganda Revenue Authority (URA) as a recommendation from the Domestic Revenue Mobilization Strategy (2019/20 - 2023/24)[1] to improve on Value Added Tax (VAT) compliance and to ultimately increase revenue collections using digital solutions. According to URA's Annual Revenue performance report for FY 2022/2023[2], Net VAT collections were UGX 3,516.16 billion against a target of UGX 3,882.00 billion registering a performance of 90.58 percent and a shortfall of UGX 365.84 billion. A growth of UGX 562.46 billion (20.14 percent) was registered compared to FY 2021/22 which was attributed to focused and timely enforcement of EFRIS. It has also been reported on 1st February 2024 that URA collected Ugx 6.8b in just one week of enforcing compliance of digital tax measures which include digital tracking solutions (DTS) and EFRIS with the bulk of the money coming from penalties imposed on non-compliant tax payers.[3]

Before the roll-out of EFRIS, the administration of VAT was hampered by quite a number of challenges which include suppression of sales, non-issuance of tax receipts/invoices, false refund and offset claims, fictitious purchases with no physical movement of goods, unverifiable claims by taxpayers due to loss of records, limited access to taxpayers' records since some taxpayers selectively provide records for tax

[1] Accessed on 24th April 2024 via https://archive.finance.go.ug/publication/domestic-revenue-mobilisation-strategy-uganda-201920-202324

[2] Accessed on 24th April 2024 via https://ura.go.ug/download-category/revenue-performance-reports/

[3] Accessed on 24th April 2024 via https://www.monitor.co.ug/uganda/business/finance/ura-collects-shs6-8b-in-one-week-of-enforcing-digital-tax-measures--4510314

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administration purposes, non- remittance of VAT collected, invoice Trading among others[4]. The roll-out and implementation of EFRIS is intended to solve these challenges.

The use of digital solutions in tax compliance is not a new phenomena. Italy was the first to adopt the use of Electronic Fiscal Devices (EFDs) in 1983. The Greek tax agency was the next to adopt fiscal devices in 1988. Kenya was the first adopter in Sub-Saharan Africa in 2005, and since then many others have followed suit including Tanzania, Ethiopia and most recently Rwanda and Malawi. Technology and digitalisation have great potential to boost taxpayer compliance and revenue collection in Africa (Hakizimana & Santoro, 2023). Tanzania Revenue Authority (TRA) has recorded an increase in VAT under the use of EFDs (Jean Bosco Harelimana et. al, 2018). Chenge (2010) conducted a study on the impact of (Electronic Tax Registry Systems (ETRs) on VAT compliance among classified hotels found in the capital, Nairobi. He found out that the introduction of these machines resulted in the VAT compliance level through increasing the level of declared VAT liability among the studied classified hotels (Chenge, 2010).

With the increased adoption of technology in tax administration and increase in revenue generation by EFRIS over the past year, we can all agree that EFRIS is here to stay! But how can we resolve some of the challenges presented by the traders to ensure the efficient administration of EFRIS?

As much as a lot of sensitization about EFRIS has been done by URA, the current protests by traders show that there is still a lot to be done. Sensitization of the young people operating in Micro, Small and Medium Enterprises (MSMEs) about tax compliance is at the core of YTJN’s mandate and it is something we shall continue doing to help traders with understanding EFRIS. In this vein, we undertake to simplify information about EFRIS by putting it into a format which is youth palatable (for example using graphic illustrations) and translating it into as many local languages as possible since we have a number of traders who don’t understand the English language in which most content about EFRIS has been developed.

We further call upon the government to distribute the electronic fiscal devices to traders free of charge to help them cut down on the compliance costs. These devices can always remain a property of the government and the traders should be penalized for misusing or destroying them.

Lastly, we urge the government to waive the penalties of non-compliance with EFRIS to give the traders time to adopt and learn the system better. Penalties should only be imposed after we are satisfied that we have gained the necessary knowledge and skills to implement the system without any significant challenges.

[4] Accessed on 24th April 2024 via https://businesstoday.co.ug/all-you-need-to-know-about-the-efris-system/