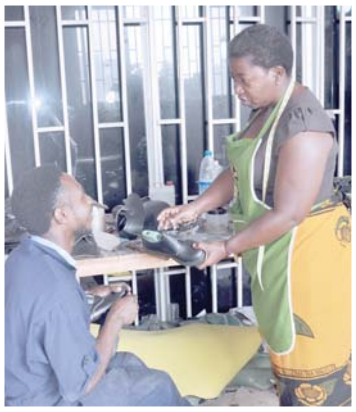

EDITOR'S NOTE

Last week, finance minister Matia Kasaija delivered the Shs40.487 trillion in which a raft of taxes were imposed on imports among other items, with the view to promote local production. Import substitution aims at reducing foreign dependency of a country's economy through local production of food and industrial products. Import substitution policies advocate for replacing imports with domestic production. It is based on the principle that a country should attempt to reduce its foreign dependency through the local production of goods, mainly industrial products. An import duty of 60 per cent has been levied on potato and other crisps, exercise books ball point pens, toothbrushes, toothpaste, peanut butter and bread spreads among others, up from 25 per cent levied previously. Our feature analyses whether the import substitution policy will boost local production.

Our main story also points how local Small and Medium Enterprises will benefit from a series of tax incentives.

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EDITOR'S PICK

For three years, the success rate of import substitution has increased from 71.7 per cent in 2016 to 91.6 per cent in 2018 albeit below intended target. In 2018, government imposed an even higher import levy on potatoes from 25 per cent to 35 per cent. Uganda Revenue Authority's annual trade report 2018 indicates only 44,534kg worth $30,448 (Shs114m) of the same product was imported. Government has nearly doubled the import duty on potatoes from 35 per cent to 60 per cent in 2019/20 financial year. The move, known as import substitution, is aimed at discouraging importation and increasing market and growth of inland industries especially for products that are manufactured locally.

regional news> property

Kenya's property sector hit with 12.5% tax

Kenya has more than doubled the tax rate on gains made from the sale of properties and securities trading off the Nairobi Securities Exchange in a bid to generate more revenue to finance the Ksh2.8 trillion ($28 billion) budget for the 2019/2020 fiscal year.

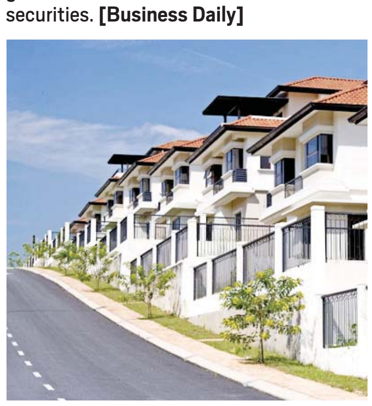
National Treasury Cabinet Secretary Henry Rotich increased the capital gains tax to 12.5 per cent from five per cent, arguing the move was meant to enhance equity and fairness as well as harmonise the rate with other jurisdictions including East African Community member states where the rate ranges between 20 per cent and 30 per cent

However, the transfer of properties informed by the restructuring of corporate entities has been exempted from the tax.

The properties targeted by this tax include land, buildings and marketable securities.

The increase in the CGT is part of tax policy measures by the Kenyan government to raise a total of Ksh37 billion ($3.7 billion) to finance part of the expanding budgetary spending for the 2019/2020 fiscal year.

The CGT is a final tax applied on the net gains arising from the sale of property and gains made from the transfer of non-listed securities. **[Business Daily]**



regional news> taxes

Tanzanians react to tax on wigs and hair extensions

Tanzanian women have reacted with surprise and anger at the news that Finance Minister Philip Mpango is introducing taxes on wigs.

During the 2019/2020 Budget reading on Thursday, Dr Mpango announced a 25 per cent tax on imported wigs and hair extensions, and a 10 per cent tax on locally made ones.

Many male and some female MPs applauded and thumped their desks in approval when Finance Minister Philip Mpango announced the tax in parliament.

Supporters of the levy say it will help women keep their hair natural.

But there has also been public outrage, with women saying they are being punished for wanting to look good in wigs and hair extensions.

The cheapest wigs currently costs around $4 (£3.4), but they can sell for up to $130.

Tanzanians tend to uphold traditional values, but society is changing and many women now wear wigs and extensions.

Well-known wig importer Anastasia Sigera said that the new tax could affect the market because people will start buying cheaper low quality wigs. **[BBC]**

regional news> Withholding VAT

Kenya's withholding VAT ropes in caterers and cleaners

The National Treasury has extended its tax net to an array of services in a bid to fairly distribute the weight of the Sh3 trillion budget on more shoulders.

Party-time services like security provision, cleaning and fumigation, catering outside hotel premises and transportation of goods (other than by air) will from July 1 be subjected to withholding taxes.

Also to be brought under the tax bracket are services such as sales promotion, marketing and advertising.

The move comes amid increased calls to Kenya Revenue Authority (KRA) to expand the tax base and enhance revenue.

"I therefore propose to expand the scope of application of withholding tax by subjecting additional services, other than management and professional fees, to withholding taxes," Treasury secretary Henry Rotich said in his Budget Statement.

"This measure will enhance tax compliance by persons offering these services."

In December, KRA promised to kick off an elaborate process of expanding the tax base this year. The process, expected to bring on board 500,000 new taxpayers, is set to net additional Ksh60 billion for 2019/20. **[Agencies]**

ECONOMIC INDICATORS >

MAY INFLATION %

3.3

APRIL CBR %

10

UGANDA SECURITIES EXCHANGE

JUNE

ALSI 1,692- -0.21	BATU 30,000 =0.00	BOBU 129 =0.00
CENT 1,286 +1.82	DFCU 670 =0.00	EABL 7,572-- 0.29
EBL 1,474- +0.51	JHL 15,108-- 0.28	KA 142.61 +0.15
KCB 1,462 +6.7	NIC 14 =0.00	NMG 1,953 -0.21
NVL 330 -0.00	SBU 30 =0.00	UCHM 22 +6.3
UCL 15.30 +0.11	UMEME 299 -0.16	NSE 140.83 -0.40
DSE 2,177.5 -17.96	RSE 131.61 =0.0%	

BANK INTEREST RATES 2018

STANBIC 17.5%	BARCLAYS 21%	STANCHART 21%
CENTENARY 20%	BARODA 24%	DFCU BANK 18%
BANK OF AFR 23%	DTB 22.5%	KCB BANK 23%

Stephen Kaboyo, Alpha Capital managing partner

CURRENCY MARKETS

The Uganda shilling gained ground supported by increased inflows amid low demand as corporates geared for mid-month tax payments. Trading range was 3,740/50 compared to week opening levels of 3,760/70. In the interbank money market, overnight funds traded at 6 per cent while one week traded at 9 per cent.

In the fixed income market, three-year and 10-year bonds were auctioned with Shs210 billion. With coupons of 11 per cent and 14.25 per cent, yield to maturity for the three-year bond was 13.8 per cent and 15.95 per cent for the 10-year. Both tenors were oversubscribed.

In the regional currency markets, the Kenya shilling weakened on elevated demand from oil and merchandise importers but also the disorganised launch of the new series of the local currency created anxiety in the market and resulted in low trading activity. Trading was in the range of 101.45/65. In the Tanzanian market, the shilling was seen strengthening as market players were unwinding long dollar positions. Trading was at Shs2,295 per US dollar.

In the global markets, the US dollar held steady and was set to show a weekly rise as investor's focus turned to the next Federal Reserve monetary policy meeting for cues on a possible interest rate cut in light of rising risks on trade conflicts and global growth.

Outlook indicates a flat shilling as demand remains at a low ebb due to higher than usual end of fiscal year corporate taxes. With the budget for fiscal year 2019/20 out of the way, the market will be keeping a watchful eye on Bank of Uganda's policy direction at the upcoming monetary policy meeting.