

REF: 1355/2016/1/JM

13 June 2024

The Honourable Minister of Finance,
Planning and Economic Development,
Plot 2/8 Apollo Kaggwa Road,
P.O. Box 8147,
Kampala-UGANDA.

**RE: PREFERENTIAL TAX TREATMENT OF OPERATORS IN THE
TEXTILE INDUSTRY IN UGANDA**

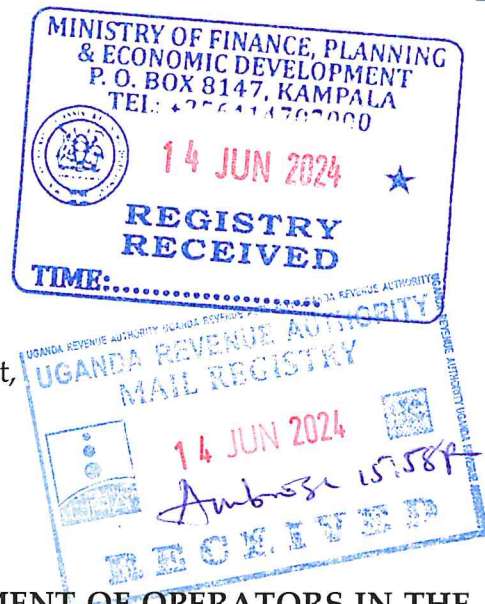
Dear Sir,

We act for Sunbelt Textiles Company Limited (our Client and hereinafter referred to as "Sunbelt") on whose instructions we address you as follows.

Sunbelt is a vertically integrated textile factory based in Jinja. It began its operations in Uganda in 2013 and has grown steadily over the years. The textile factory was officially launched in 2017 by His Excellency the President of the Republic of Uganda, shortly after Sunbelt installed a weaving section.

As a vertically integrated factory, Sunbelt manages production from start to finish which means the whole process of value addition of raw materials up to the production of fabrics is done at the factory. Sunbelt currently employs over 1200 Ugandan citizens directly and many more citizens indirectly.

Sunbelt is also in the final stages of setting up an industrial park that processes and adds value to Uganda's cotton which will positively impact the livelihood of Ugandan citizens and also help the country reduce its reliance on foreign sourced raw materials. This is because Sunbelt will be able to produce yarn from Uganda and therefore export finished cotton products. The industrial park will be



PARTNERS

DR. ELLY W KARUHANGA (Ph.D.)

LL.B (HONS) DIP. L.P.

OSCAR KAMBONA

LL.B (HONS) DIP. L.P. LL.M (TAX)

PETER CR KABATSI

LL.B (HONS) DIP. L.P. CHR (STRASBURG)

DR. KALLU C. KALUMIYA

LL.B (HONS) DIP. L.P. LL.M (CANTAB.)

LL.M & SJD (HARVARD)

JOSEPH MATSIKO

LL.B (HONS) DIP. L.P. CERT. MED. ARB

(WASHINGTON, DC)

JET J TUMWEBAZE

LL.B (HONS) DIP. L.P.

BRUCE MUSINGUZI

LL.B (HONS) DIP. L.P. LL.M (TAX)

AUGUSTINE OBILIL IDOOT

LL.B (HONS) DIP. L.P. LL.M (ICT LAW)

ELISON KARUHANGA

LL.B (HONS) (KENT) DIP. L.P.

LL.M (OIL & GAS LAW)

ZULAIKA M. KASAJJA

LL.B (HONS) DIP. L.P. JCSA (MEMBER)

MARTIN ERONE

LL.B (HONS) DIP. L.P. LL.M (LIVERPOOL)

ASSOCIATE PARTNERS

RAYMOND MWEBESA

LL.B (HONS) DIP. L.P.

JOAKIM KUNTA-KINTE

LL.B (HONS) DIP. L.P.

PATRICIA KAMUGISHA

LL.B (HONS) DIP. L.P.

SENIOR ASSOCIATES

RAYNER MUGYEZI

LL.B (HONS) DIP. L.P.

BARBARA MUSHIMENTA

LL.B (HONS) DIP. L.P. LL.M (QAMUL)

PATIENCE EVA AKAMPURIRA

LL.B (HONS) DIP. L.P.

CHARLOTTE AHABWE

LL.B (HONS) DIP. L.P. PGD (TAX)

MERCY CHEMUTAI MAKABAYI

LL.B (HONS) DIP. L.P.

FERDINAND TUMUHAISE

LL.B (HONS) DIP. L.P. LL.M (LIVERPOOL)

ASSOCIATES

HANNAT NABAGGALA

LL.B (HONS) DIP. L.P.

BONNY KOLOKOLO

LL.B (HONS) DIP. L.P.

established on 213 acres and the new textile factory will use only Uganda cotton which will go through all the stages of value addition. Despite Sunbelt's huge investment in the economy, its efforts are being crippled by contradicting government policies, one of which is the tax incentives (exemptions) given to companies that operate in industrial parks.

Industrial parks, in particular Mbale Industrial Park were allocated free land to build factories and attract investment. The proprietor of the park (*Tangshan Mbale Industrial Park Co. Limited*) instead mobilised existing companies which were already in operation and paying taxes in central Uganda, specifically Mukono and Kampala, to go and operate from Mbale since they would be carrying on the same business without having to pay taxes.

The proprietor of the industrial park, who obtained the land for free, also started selling the same land for exorbitant amounts ranging from USD 120,000 to USD 150,000 per acre.

The very textiles/fabrics being imported by Ugandans to make clothes attract 35% or \$3.5 per kilogram as import duty yet the companies at Mbale Industrial Park do not share in this burden as their import duty is paid by the Ministry of Finance.

The factory in Mbale imports finished textiles and only packages them for retail or wholesale and still benefits from tax incentives given by the government.

Sunbelt on the other hand, imports raw materials like yarn and adds value to them by weaving, printing and dyeing them, as well as using locally produced cassava starch to further process the yarn, and still pays taxes after incurring substantial operational costs.

It is important to note that the very products imported into Uganda and taken to Mbale Industrial Park are the same products being manufactured at Sunbelt's factory in Jinja. Government's policy of shouldering the tax burden for textiles imported for use in Mbale

Industrial Park is therefore discriminatory and contrary to the presidential initiative of Buy Uganda Build Uganda (BUBU).

As stated earlier, Sunbelt pays in excess of UGX 400,000,000 in electricity bills and over UGX. 600,000,000 in taxes every month, as well as consuming local raw materials like cassava starch, coffee and rice husks. It is disheartening that after investing substantial sums of money, some companies are given preferential treatment by having the government settle their tax obligations for importing finished products.

Sunbelt has invested substantial sums in high-technology factory equipment, it consumes local raw materials, pays taxes diligently and employs over 1200 Ugandans. The company in Mbale on the other hand, has undertaken very minimal investment by doing what is essentially international trade by importing finished fabrics and other goods; it employs less than 100 people and its taxes are paid for by the Government. This is unfair to other players in the market.

Sunbelt is not pursuing tax exemption as they are cognisant of the importance of tax collection to the development of the country. Rather they are advocating for a fair policy which will enable businesses in the textile industry to operate on a level playing field.

Such a policy of tax exemptions would serve the country better if it were extended to companies that produce goods for export as a way of strengthening the country's balance of trade position.

This letter therefore serves as a request for government intervention to extend the same treatment to all the players in the textile industry by doing away with the tax exemption enjoyed by Tangshan Mbale Industrial Park Co. Limited. If government is so inclined to retain the tax exemption, then it is proposed that all companies, whether in the industrial park or not, should enjoy the same incentives.

We note that the Government initiative to pay taxes for Mbale Industrial Park ends in June this year, and during one of the engagements at State House, there was indication that there would no extension of this unfair scheme. We are therefore instructed to implore you to not have this

scheme of paying taxes for the importers extended. Otherwise, our Client who does actual manufacture of textiles would find it impossible to compete with importers of finished textiles whose taxes are paid by the Government.

We trust that our Client's concerns will be ably addressed by your good office and are available to discuss the proposals herein at a time and date most convenient to you.

Yours faithfully,



Kampala Associated Advocates

Copies to: The Permanent Secretary, Ministry of Finance, Planning and Economic Development

The Director Economic Affairs, Ministry of Finance, Planning and Economic Development

The Commissioner General, Uganda Revenue Authority.

Client-Sunbelt Textiles Company Limited.