



LOCAL GOVERNMENT FINANCE COMMISSION

**GUIDELINES FOR MANAGEMENT OF TRADING
LICENSES IN LOCAL GOVERNMENTS**

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THE REPUBLIC OF UGANDA

LOCAL GOVERNMENT FINANCE COMMISSION


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FOREWORD

Local revenues have assumed centre stage in our decentralization reform process and rightly so. The role and significance of locally raised revenues have not been appropriately highlighted in the past but such funds play very crucial role in our local economies by among other things: providing sustainability to local investments, calls for domestic savings, facilitating local governments to participate in the current calls for domestic savings, facilitating local governments to borrow, if need be and according to law, from the financial markets and above all, the autonomy of local governments in addressing their own priorities are best exercised via local revenues. It's is therefore vital that local governments are assisted to improve their capacities in local revenue generation and mobilization.

This guidelines is to enhance the capacity of local governments to enhance the performance of Trading License fees and to encourage the spread and use of best practices for Trading License fees mobilization by local governments. The Commission urges all local governments to implement interventions geared towards enhancing Trading License fees collection.



Mr. Sam Ogenrwoth

CHAIRPERSON LOCAL GOVERNMENT FINANCE COMMISSION

ACKNOWLEDGEMENT

The guideline has been prepared to enhance the capacity of local governments to enhance the performance of trading license fees and to encourage the spread and use of best practices for trading license fees mobilization by local governments.

The Commission extends its gratitude to all those who contributed to the development of this guideline. In particular Commission would like to thank staff from Local governments supported under Development Initiatives for Northern Uganda (DINU), Cities and Municipalities participating in Uganda Support to Municipal Infrastructure Development –Additional Financing (USMID-AF) Program, who provided information on the best practices in property rate administration and management, which input facilitated the development this guideline.

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The utilization of this guideline will provide good foundation for enhancing trading license fees for the local governments and improving the quality of service delivery provided to community.



Lawrence Banyoya
Commission Secretary

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GUIDELINE FOR MANAGEMENT OF TRADE LICENSING IN LOCAL GOVERNMENTS

1.0 Introduction

Over the past years there was too much uncertainty in collection of local revenues including trading license fees in the local governments, due to unprecedented political pronouncements, policy reforms in local revenue management and some administrative inadequacies in local governments. Subsequently the local governments over-depend on Central Government transfers for delivery of services. Trading licenses performance has been seriously affected by these challenges and constraints.

Therefore, Local Government Finance Commission (LGFC) through its role to advice on the potential sources of local revenue and tax rates for taxes and fees charged by local governments, strongly advises that local governments have to improve their efficiency to mobilize, collect and manage trading licenses. And has therefore come up with the trade licensing guide to assist the local governments on the matter.

1.1 Purpose of the guide

- a. Enhance the capacity of Local Governments in management of trading license
- b. Enhance the capacity of Local Governments to adequately plan for Trade license enhancement and service delivery; and
- c. Encourage the spread and use of best practices for local revenue mobilization by all relevant institutions through capacity building and improved administrative practices among others.

1.2 Users of the Guidelines

The principal users of this guidelines are members of the Planning Technical Committee (TPC) and in particular the Planners, Accountant and Revenue Officers from both the higher and lower local governments. The Accounting Officers will use the guidelines to make objective decision in managing trade licensing.

The local government political leadership will use the estimates from these guidelines to guide them during the approval of the local revenue budget estimates for the council.

1.3 What is Trade License?

A trade license is a document /certificate that gives permission to the applicant (person seeking to open a business and renewing) to commence a particular trade or business in a particular area/location. It ensured that the business or trade is carried by adhering to all standards of safety as issued by government. It protects the community from being affected by health hazards. However, the license does not allow the holder to carry out any other trade or business other than for it.

1.4 Legal Provision for Trade license

The Trade (Licensing) Act, 2000, regulates businesses such as retail, wholesale, hawkers, bar and restaurants in Uganda. Every business is issued with an annual licence upon payment of a fee. The licence is issued by the LGs, but most of them have privatised collection of licence fees and private contractors issue licences on behalf of the respective LGs. The licence is issued for a period of twelve months and the fee varies according to the different categories of business. Trade Licences contribute substantially to locally generated revenue, especially in urban areas.

1.5 Why pay trading License?

It is a legal requirement for any person selling goods and services as provided for by the Trade (Licensing) Act, 2000 to enable the city, Municipality, district and Town council regulate trade and order.

Besides the said above regulatory role, payment of trade licenses fees contribute towards financing of the Local governments service delivery to its communities, therefore two objectives (Regulatory and local revenue raising).

1.6 How is a Trading license acquired?

This is through a formal application to local governments for trading license to do business, conditions to satisfy before acquiring a trading license include;

- Appropriately located premises
- Appropriate hygiene and health standards of the premises
- Appropriate building standards of the premises
- A required personal specifications e.g medical fitness
- Payment of appropriate licenses fees.

1.7 What are the requirements for application of a license?

Nationals

- National Identification Number(NIN)/Registration number in case of a company
- Original Trading License for the previous year for already existing business
- Original certificate of incorporation of a company for the new company
- The client must be a least 18 years of age and if a minor should be in partner with a person above 18 year of age
- Tax identification number(TIN)
- Contact number
- Name of the business owner

Non Nationals

Additional requirement for Non- national

- Clearance from Ministry of Trade, industry and cooperatives(MTIC) for Non-nationals

1.8 Which businesses are issued trading license

These are categorized under agency and representative business, financial institution Business, professional and consultancy business, health and medical business, education Institution Business, Printing or Publishing House Business, construction business, Security, Investment and guard business, garage and Workshops, Hotel, Lodges and Guesthouses, Recreation/ Entertainment.

All these are contained in the Trade (Licensing) (Amendment of Schedule) Instrument, 2017, Statutory Instrument No.2.

1.9 Which business is exempted from paying Trading License?

Businesses exempted under section 8(2) includes;

- Any trading carried in a market
- The trade of a planter, farmer, gardener, daily person or agriculturist in respect of sale of his or her own dairy or agricultural product
- The trade of a person in respect of goods bonafide made by him or her by his or her handicraft in or any premises where he or she normally resides or by handicraft of persons normal: residing with him or her or who are his or her employees or members of his or her family.

1.10 Who issues trading licenses?

All businesses are required by the Trade Licensing Act to purchase a twelve month trade license from the City, Town, Municipal or District Council, and to comply with health and safety requirements during the conduct of their businesses.

1.11 Validity period for trading licenses

The Trade (Licensing) Act indicates the period of 365 days from the date of issue, it is an annual based fee. A Trading licenses is valid for a period of twelve months from the date of issue.

1.12 How is trading license assessed and paid?

The assessment is done based on the fees schedules issued by Ministry of Trade Industry and Cooperatives under statutory instrument number 2 of 2017 and the Trading (Licensing) (Grade of Business Area. Trading license fees are paid onto local government bank account or through URA accounts for local governments activated on Integrated Revenue Administration System (IRAS)

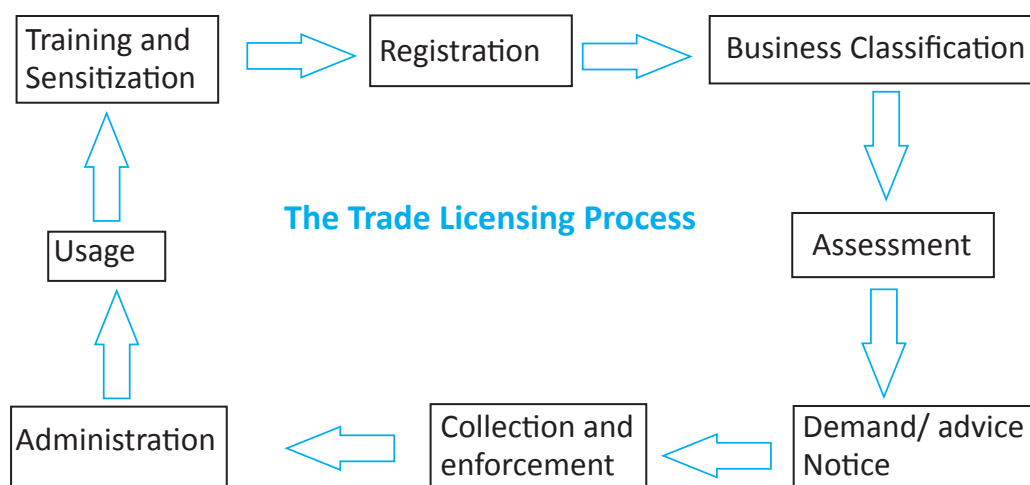
1.13 What happens if a business fails to pay trading license?.

Any person who fails to pay or obstructs or hinders an officer on duty, or knowingly makes a false declaration or gives any false information commits an offence and is liable on conviction to a fine or term of imprisonment not exceeding six months or both.

2.0 Trade licensing process

Trading process under goes a number of stages outlined below.

Diagram of Trade License Process



Step by step guidelines for Trade Licensing

Training and Sensitization

- Training should take place for all personnel involved in the trade licensing exercise, including but not limited to, the licensing officer, the trade development officer, and his/her support staff. Training should be developed based on a needs assessment of staff in areas of customer care and the technical aspects of licensing;
- Training should be held covering all aspects of tax administration to strengthen the LGs' capacity;
- As with other training requirements outlined in these guidelines, the design, costing, planning and implementation of the training will need to be taken into account by Human Resource Personnel of the LG, possibly with the assistance of external consultants;

- It is also essential that the LG's management capacity be strengthened in order to generate more local revenue from this valuable source.

Registration of businesses and awareness raising

- The LG officials that need to be involved in this exercise may include: licensing officers, trade development officers, health inspectors, building inspectors, and LC1 executive members;
- Every business must first be registered by being identified and having all relevant information collected, recorded and entered in the business register;
- Every business must receive information about health standards and their responsibilities and obligations:
- The following are suggested information required in a register: Business name/owner; street or LC1; parish; type of business; name of building; plot number; NIN, TIN, demand notice number; license number; amount payable; amount paid.

Business classification

- Businesses should be classified according to the volume, location, and type or nature;
- This exercise should be carried out before the beginning of the calendar year, period for which licenses are issued

Assessment

- Each business should be assessed according to its classification;
- The LG should fix the rates for each class of business within its jurisdiction;
- LG officials should determine the license fees, using the different categories of business and the rates fixed as above.

Demand/ Payment advice notice

- The demand notices should be prepared by the LG and delivered to the respective business owners, preferably by hand, as soon as the business is registered. This will mean that license fees are paid every twelve months;
- For digitalized Revenue administration demand notices are received electronically on phones or through an electronic machine.

(Note: 365 days after issuance the trade licensing to be valid for twelve months

The original copy of the notice should go to the taxpayer, the duplicate to the licensing officer, and the third copy remains in the book for accounting and accountability purposes.

Collection

- The assessed fee must be paid by the taxpayer, as follows:
- The applicant must purchase an application form at the LG office;
- The form should then be completed with the assistance of a licensing officer, if necessary;
- License fees must be paid at the LG cash office and receipt obtained;
- The licensing officer should then process and issue the trading license, which is signed by the CAO or Town Clerk, or his/her appointed agent;
- When the business has been licensed, information about the business should be added to systematically maintained manual or computerized register, as soon as possible.

Enforcement

- The LG officials must monitor collection by comparing the information on the business register with that of the businesses that have received a license, as shown on the register. Action taken against non-payment would then be based on the register and target only businesses that have not paid.
- Enforcement should be undertaken fairly and evenly to ensure that all businesses

- premises and activities within them received a license;
- Where businesses are found, after a period of notice, not to have a license, they should be closed immediately and remain closed until the license fee is paid.

Administration

- The LGs must follow strictly the established laws, regulations, and procedures, and issue licenses in a transparent, accountable and fair manner. This will earn them the necessary credibility to carry out the task;
- Requirements such as health and safety inspections should continue after the license is issued;
- These inspections should not only focus on checking the current compliance status of the business, but also educate businesses about health and safety issues;
- Licenses should be withdrawn where businesses pose a risk to the public because of poor health standards.
- The public needs to know that under the Trade Licensing Act 2000, Section 12 its illegal to operate a business with a trading license, except for activities listed under Section 7 of the Act.
- Businesses should comply with Standard Operating Procedures (SOPs) directed by Ministry of Health due to Covid- 19 pandemic

Usage

- To increase revenue form the source the taxpayers must be able to link the payment of taxes to improve the local services provided and be sure the license fees are being administered fairly;
- Therefore the priority must be given towards to improved service delivery, since the taxpayers are more willing to pay taxes when they receive some tangible benefits or services in return;
- Accountability by communicating publically how total revenue has been utilized is recommended for example through the use of posters and sensitizing programs
- Trade license fees should be budgeted for inspection

3.0 Estimation of Local Revenue Potential from Trading License

To estimate the potential revenue from trading or business licenses, the district should develop a district inventory of businesses. The business inventory is structured to have location particulars in which the business is being operated. This would include the plot number, plot location, business details and estimated turnover.

Table 1: PREM for Trading Licenses: District Business Inventory

No	Location Particulars	Plot Number and Location	Business Details	Business Turnover	TL Revenue Estimate
1					
2					

For business licences, the businesses carried out in the various Local government differ in size and turnover. Hence, to develop a useful PREM, specific aspects of the business should first be established. The following steps would, therefore, be necessary.

Step 1: Zoning the Business Centre

A business census is the most logical starting point in potential revenue assessment from business license. A comprehensive survey of all businesses would be undertaken to gather information on all licensable activities within the respective council's jurisdiction. Zoning of

the town for this purpose is crucial. A zoning exercise could be conducted every five or ten years.

Step 2: Conducting a Business Census

In order to conduct a business census, a team should be identified and trained on the use of the business census tool. The format should be standardized in all LGs to facilitate computerization of business registration. Depending on the size of the Local Government, it might be necessary to have more than one team to adequately cover the entire area.

The census should enumerate among other things, the number of businesses by type, physical location and the plot number. The information is useful in setting up business registers, as well as in determining the land-based revenues.

In case the business census has already been undertaken, the team should concentrate on updating the register, if necessary.

Step 3: Setting up a Business Register

Once the field survey is completed, the Treasurer should supervise the analysis of the information. Summary data by type of business should be produced. Maintaining these sequential registers will be essential in updating the revenue targets from time to time.

Step 4: Calculating the Revenue Potential

Using the information in Table 9, the next step is to determine the total revenue from the business license. For a small town, this will simply involve adding up the last column. However, for towns with many businesses, the team may have to summarize the information as illustrated in the said table. The format should be prepared to cover all businesses in each zone. Depending on the number of zones, it might be necessary to prepare a separate matrix for each of them.

Table 2: Sample Zonal Summary

Code No.	Number of businesses	Rate of license	Total license (number x rate of license)	Total license (TR Revenue)
1				
2				

From Table 1 above, the different business activities would be coded. For instance, wholesale – code 1, retail – code 2, etc. In the very busy areas, even one sub sector like wholesale can have different codes; Example: Large wholesalers – 1.0, medium wholesalers – 1.1, and small wholesalers 1.2. After preparing the summary tables covering all the zones, a summary of all zonal totals should be provided as illustrated in Table 3.

Table 3: Sample Zonal Totals

Zone Number	Categories businesses	Number of businesses	Total License (UGX)
1			x
2			y
3			z
			(x + y +z)

The revenue potential from this hypothetical town is UGX (x +y+z) per annum

4.0 Best Practices in Trade Licensing

- i. Establishment of computerized business registers
- ii. Automation/Digitalization of business license Administration
- iii. Sensitization of business community , taxpayers, /Tax Collectors/Administrators/ Politicians on trade licensing
- iv. Motivation of Tax collectors/Administrators/Taxpayer
- v. Formation Local Revenue Committees/Taskforces
- vi. Exchange visits to other local governments to benchmark best practices in local revenue mobilization and generation
- vii. Training of local revenue units in local revenue functions
- viii. Publication of local revenue performance on quarterly basis
- ix. Periodic review of trading license performance
- x. Spot visits to businesses by management
- xi. Direct banking of the trading licenses fees
- xii. Spot audit of trading license collection
- xiii. Linking services to trade license payment to increase compliance
- xiv. Involvement of community and elected leaders in mobilization local revenue from business
- xv. Local Revenue Help Centre
- xvi. Creation of call Toll- free
- xvii. Provision of brochures for trade licensing payment

5.0 Conclusion

The Local Government Finance Commission expects the local governments to effectively utilize the guidelines to enhance their business license performance. The enhanced trading license fee should then be utilized to provide the required services to the business community, this will enhance compliance in trading license payment.

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