

Uganda issues Tax Amendment Bills 2020

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Executive summary

On 31 March 2020, Uganda's Minister of Finance Planning and Economic Development tabled Tax Amendment Bills, 2020 before Parliament for debate. Once passed into law by the Parliament and assented to by the President of the Republic of Uganda, the Bills will take effect from 1 July 2020.

This Alert highlights the key proposals with respect to:

- ▶ Income Tax (Amendment) Bill, 2020
- ▶ Value-Added Tax (Amendment) Bill, 2020
- ▶ Excise Duty (Amendment) Bill, 2020
- ▶ Stamp Duty (Amendment) Bill, 2020

Detailed discussion

The Income Tax (Amendment) Bill, 2020

Introduction of tax payable by a loss-making person

Where a person's declared tax liability for a consecutive period of five years of income is an arithmetic average of less than 0.5% of gross income, it is proposed that said person pay tax at a rate of 0.5% on the gross turnover after the sixth year.

Rental tax rate for individuals increased to 30% from 20%

The bill proposes that a tax rate of 30% will now be applicable to individual persons earning rental income. The rate for other persons remains 30%. In the case of a partnership, the bill proposes that the tax be imposed on the individual partners.

Allowable deductions for rental income increased to 50% from 20%

The bill proposes that 50% of rental income be allowed as expenditures and losses incurred in the production of such income. This is applicable for all persons.

Reporting rental income for each building separately

The bill proposes that a person who earns rental income from more than one building account for the income, expenses and tax for each of the buildings separately.

The proposals will work to ensure that a taxpayer with several rental properties does not offset tax losses and credits in one building against other buildings' liabilities.

Income exemption for the Deposit Protection Fund

The bill proposes to exempt from income tax the income of the Deposit Protection Fund established under section 108 of the *Financial Institutions Act, 2016*.

Income tax exemptions for investors

The bill proposes to increase the exemptions made in 2019 by exempting, for 10 years, income of a manufacturer of tires, footwear, mattresses or toothpaste whose investment capital is US\$10 million for a foreigner or US\$1 million for a citizen. It also proposes a requirement to disclose the qualifying income and its related expenses.

Interest on mortgages from financial institutions

The bill proposes to repeal the provision that allowed interest on mortgages for construction of rental property as an allowable deduction. This is to take into consideration the new 50% deduction on the gross rental income allowed for persons deriving rental income.

Allowable deduction of purchase expense from a supplier designated to use e-invoicing system

This provision proposes an allowable deduction where a person purchases goods or services from a supplier designated to use an e-invoicing system. These suppliers will be gazetted and these expenses should be supported by e-invoices or e-receipts.

Withholding tax on the purchase of land

The bill proposes to introduce withholding tax on the purchase of land other than land which is a business asset from a resident person at a tax rate of 0.5% of the purchase price. This implies that every resident who purchases land must withhold 0.5% of the purchase price.

Withholding tax on commission to an insurance agent

An insurance service provider who pays commission to an insurance agent shall withhold 10% of the payment.

Withholding tax on agricultural supplies

The bill proposes the repeal of the provision that exempted agricultural supplies from withholding tax. This implies that withholding tax on agricultural supplies at 1% that had been repealed in FY 2019/20 will be reinstated.

Withholding tax on commissions to an advertising agent

Under the bill, a person who makes a commission payment to an advertising agent shall withhold tax on the gross amount of the payment at a proposed rate of 10%.

Tax clearance certificate for transport services

The bill proposes that a taxpayer who provides a passenger or freight transport service where the goods vehicle used has a loading capacity of at least two tons, shall be required to obtain a tax clearance certificate from the Commissioner before renewal of the operational licenses.

Filing of withholding tax returns by withholding tax agents

The bill proposes an obligation on a withholding agent who makes payment, to furnish a return of withholding tax no later than 15 days after the end of every month to which the tax relates.

Income exemption of the Islamic Development Bank

The bill proposes to include the Islamic Development Bank as a listed institution which will be exempted from income tax.

Introduction of new tax regimes for small business taxpayers

- a) Where the gross turnover of the taxpayer does not exceed UGX10 million per annum:
 - Without Records - NIL
 - With records - NIL

- b) Where gross turnover exceeds UGX10 million but does not exceed UGX30 million per annum:
 - Without Records - UGX80,000
 - With records - 0.4% of the annual turnover in excess of UGX10 million
- c) Where gross turnover exceeds UGX30 million but does not exceed UGX50 million per annum:
 - Without Records - UGX200,000
 - With records - UGX80,000 plus 0.5% in excess of UGX30 million
- d) Where gross turnover exceeds UGX50 million but does not exceed UGX80 million per annum:
 - Without Records - UGX400,000
 - With records - UGX180,000 plus 0.6% plus of the annual turnover in excess of UGX50 million
- e) Where gross turnover exceeds UGX80 million but does not exceed UGX150 million per annum:
 - Without Records - UGX900,000
 - With records - UGX360,000 plus 0.7% of the annual turnover in excess of UGX80 million

Value Added Tax (Amendment) Bill, 2020

Claim of input VAT for manufacturers

The bill proposes that manufacturers will be allowed to claim for input VAT incurred not more than 12 months prior to registration for VAT. Currently the law limits claiming input VAT to 6 months prior to registration, the 12-month period provides a benefit for manufacturers.

Accounting for VAT on each commercial building

The bill proposes that an owner of more than one commercial building shall account for tax (VAT) for each commercial building separately and shall not claim tax credits on inputs used in the construction of an incomplete building against the tax collected from a completed commercial building.

Tax credit on purchases from suppliers designated to use the e-invoices or e-receipts

A taxable person will be allowed a tax credit and can claim for these expenses only if they are supported by e-invoices or e-receipts. The Minister is yet to issue a list of designated suppliers who will be using electronic fiscal devices which generate these kinds of invoices.

Refunds and offsets

The bill proposes that in cases where stock or stock in transit is lost due to theft, fire, accident or force majeure and input has been paid, the maximum period for offsets will be three months after which the taxable person can claim a refund.

Islamic Development Bank listed among Public International Organizations

The bill proposes to include Islamic Development Bank in the first schedule of the VAT Act which will allow it to claim for a refund of tax paid in Uganda.

Proposed supplies to be exempt from VAT

- ▶ Trailers for agricultural purposes
- ▶ Combine harvesters
- ▶ The supply of services to conduct a feasibility study and design; supply of locally produced raw materials for construction of a factory or warehouse and the supply of locally produced raw materials and inputs or machinery or equipment to an operator carrying on the listed businesses
- ▶ The supply of digital stamps for purposes of implementing tax verification, quality, and safety system
- ▶ Supply of cotton seed cake
- ▶ Supply of the following imported services:
 - Software and equipment installation services to manufactures
 - Services incidental to tele-medical services
 - Royalties paid in respect of agricultural technologies
- ▶ The supply of accommodation in tourist hotels and lodges located up-country
- ▶ supply of liquefied gas
- ▶ The supply of processed milk

Excise Duty (Amendment) Bill, 2020

The bill proposes to amend part 1 of Schedule 2 to the Excise Duty Act to vary excise duty as follows:

- a) Increased duty rates for cigarettes:
 - Soft cap; UGX75,000 per 1,000 sticks from UGX55,000
 - Hinge lid; UGX120,000 per 1,000 sticks from 80,000
- b) Duty rates for beer:
 - Malt beer: 60% or UGX2,050 per liter whichever is higher increased from 60% or UGX860

- Beer whose local raw materials content, excluding water, is at least 75% by weight of its constituent: 30% or UGX790 per liter whichever is higher from UGX650
 - Beer produced from barely grown and malted in Uganda: 30% or UGX1,115 per liter whichever is higher from UGX950
- c) Duty rates for spirits:
- Introduction of ready to drink spirits taxed at 80% or UGX1,700 whichever is higher increased from UGX1500
 - Undenatured spirits made from locally produced raw materials proposed duty of 60% or UGX1,500 per liter whichever is higher reduced from UGX2,000
- d) Duty on wine made from locally produced raw materials taxed at 20% or UGX2,300 whichever is higher from UGX2,000
- e) Nonalcoholic beverages not including fruits and vegetables juice are now proposed to be taxed at 12% or UGX250 per liter whichever is higher from UGX250
- f) Reduced duty rates for fruit and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda from 13% or UGX300 to 12% or UGX250 per liter whichever is higher
- g) Increased excise duty on fuel:
- Motor spirit (gasoline): UGX1,350 per liter from UGX1200
 - Gas Oil UGX1,030 per liter from UGX880
 - Illuminating kerosene: UGX300 per liter from UGX200
- h) Sacks and bags of polymers of ethylene and other plastics under its Harmonized Schedule (HS) codes 3923.21.00 and 3923.29.00: 120% or UGX10,000 per kilogram of the plastic bags
- i) Lubricants HS codes 2710.19.51, 2710.19.52, 3403.19.00, 3403.99 including motor vehicle lubricants except aircraft Lubricant taxed at 15%
- j) Higher rates for Motorcycles at first registration from UGX200,000 now at UGX300,000
- k) Other fermented beverages including cider, Perry, mead, spears, near beer at 60% or UGX950 per liter whichever is higher

The Stamp Duty (Amendment) Bill, 2020

Schedule 2 to the *Principal Act*, is amended as follows:

- ▶ To impose stamp duty of UGX100,000 on any professional license or certificate.
- ▶ To exempt from stamp duty various instruments by investors in free zones and industrial areas who locally source raw materials and have capacity to employ at least 100 citizens.

Note: approximate exchange rate of US dollar to Uganda shilling (UGX) is 3,750.

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