

Uganda issues Tax Amendment Bills 2019

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Executive summary

On 28 March 2019, Uganda's Minister of Finance Planning and Economic Development tabled Tax Amendment Bills, 2019 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 2019.

This Alert summarizes the key proposals in each Bill.

Detailed discussion

In general, the Amendment Bills (except the Tax Procedures Code (Amendment) Bill, 2019) have proposed to define the term "citizen" to cover a natural person who is a citizen of any East African Community (EAC) state or an East African company or a body of persons in which at least 51% of the shares are held by a citizen of any EAC state. This proposal is likely to promote cross-border trade and business across the EAC by ensuring that any tax benefits available to Uganda citizens will be available to all EAC individuals and companies.

A. The Income Tax (Amendment) Bill, 2019: Key reforms

Definition of a beneficial owner

The bill seeks to define a "beneficial owner" as a natural person who owns or has a controlling interest over a legal person other than an individual, and who exercises control over the management and policies of a legal person or legal arrangement directly or indirectly whether through ownership or voting securities, by contract or otherwise. The proposal seems intended to limit the tax benefits (tax exemptions and reductions) under Uganda's tax treaties to natural persons that are tax resident in the treaty countries.

Ring fencing of rental income

The bill proposes that a person who earns rental income from more than one rental property accounts for the income, expenses and tax for each of the properties separately. The proposals will work to ensure that a taxpayer with several rental properties does not offset tax losses in one building from other buildings.

Income tax exemptions for investors

The bill has proposes to alter the exemptions that were made in 2018 by exempting, for 10 years, income from letting or leasing facilities derived by developers of free zones whose investment capital is US\$50 million as well as any other person carrying on business whose investment capital is US\$10 million for a foreigner and US\$2 million in for a citizen.

Exclusion of financial institutions and insurance companies from interest capping provisions

The bill proposes to exclude financial institutions and insurance companies from the interest capping provisions on group companies. Currently, the interest deducted by a member of the group of companies should not to exceed 30% of the tax EBITDA.¹

Introduction of tax payable by a lossmaking person

Where a person has carried forward tax losses for a consecutive period of seven years, it is proposed that said person pays tax at a rate of 0.5% on the gross turnover for every subsequent year it continues to carry forward tax losses.

Withholding tax (WHT) on the purchase of a business or business asset by a resident person

The amendment proposes withholding tax of 6% on the purchase of a business or business asset by a resident person.

TIN requirement for issuance of a license by Government

The bill proposes non-issuance of a license by any government body to a person without a Taxpayer Identification Number (TIN).

Reduction of WHT tax rate for long-term government securities

The bill proposes a reduced tax rate of 10% on government securities whose maturity period is at least 10 years.

B. Value Added Tax (Amendment) Bill, 2019

Reduction of withholding VAT rate to 6%

The bill proposes to reduce the advance withholding VAT rate from 18% to 6% of the taxable value. The bill also proposes to exempt compliant taxable persons from withholding VAT.

Regulations for Islamic financial transactions

These Regulations are to be formulated and gazetted by the Minister of Finance.

Proposed supplies to be exempt from VAT

- ▶ Aircraft insurance services
- ▶ Rice mills and agricultural sprayers
- ▶ The supply of services to conduct a feasibility study and design
- ▶ The supply of certain services and locally produced to technical or vocational institute operators whose investment capital is at least US\$10m in the case of a foreigner or US\$2m in the case of a citizen
- ▶ The supply of drugs and medicines
- ▶ The supply of imported mathematical sets and geometrical sets used from technical and vocational education
- ▶ The supply of wood working machines
- ▶ The supply of welding machines and sewing machines

Exclusion of drugs and medicines not manufactured in Uganda from the zero-rate regime

The supply of drugs and medicines manufactured in Uganda is zero rated.

C. Excise Duty (Amendment) Bill, 2019

Excise Duty Regulations for Islamic financial transactions

These are to be made in the course of Islamic financial transactions.

Registration of importers and providers of excisable supplies

The bill proposes registration of importers, manufacturers and providers of excisable goods and services and their corresponding premises, failure of which will attract a fine of UGX400,000 (US\$110) for each day of default.

Reduced excise duty rates for certain items

- ▶ Non-alcoholic beverages, not including fruit or vegetable juice, from the current 12% or UGX200 per liter whichever is higher to 11% or UGX185 per liter whichever is higher.
- ▶ NIL excise duty on materials for technical or vocational institute operators whose investment capital is at least US\$10 million for a foreigner or US\$2 million for a foreigner.

D. The Stamp Duty (Amendment) Bill, 2019

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

- ▶ To impose stamp duty of UGX100,000 on bank guarantees, insurance performance bonds, indemnity bonds and similar debt instruments
- ▶ To repeal stamp duty on insurance performance bonds
- ▶ To exempt from stamp duty various instruments by a technical or vocational institute operator whose investment capital is at least US\$10 million in the case of a foreigner or US\$2 million in the case of a citizen

E. The Tax Procedures Code (Amendment) Bill, 2019

Ministry of Finance to pay taxes due and payable by Government

- ▶ The Minister shall pay any tax due and payable by the Government arising from any commitment made by the Government to pay tax on behalf of a person or owing from the Government as counterpart funding for aid-funded projects.
- ▶ All taxes due and unpaid by the Government as at 30 June 2019 shall be waived.

Waiver of penalty for a taxpayer who voluntarily discloses the commission of an offence

The bill proposes removal of any interest or fine due from a person who has committed an offense under a tax law and voluntarily discloses the commission of the offense to the Commissioner, and agrees to pay the outstanding taxes.

Payment of informers

The bill proposes payment of 5% of the principal tax or duty recovered to a person who provides information leading to the recovery of a tax or duty of 5%. This is a reduction from the current 10%.

Specifying tax returns to be filed

For clarity, the bill stipulates the tax returns to be filed with the Commissioner General. These are: Valued Added Tax; Income Tax; Withholding tax; Excise Duty; Tax returns under section 50 of the *Lotteries and Gaming Act, 2016*; and Stamp duty.

Endnote

1. Earnings before interest, taxes, depreciation and amortization.

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