Budget Brief

Uganda 2018

June 2018

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Economic commentary

2017/18 Economic performance.

Uganda's GDP grew 5.8% in 2017/18, an increase from the 3.9% GDP growth the country recorded in 2016/17. This growth was supported by increased activity in manufacturing, construction and mining. The growth is expected to continue in 2018/19 as the economy reaps from an increase in cash crop yields, growth in financial services, impact of gains from public infrastructure investments and oil production.

Uganda's stock of public debt was US$ 10 billion in 2017/18 compared to US$ 8.7 billion in 2016/17. The public debt to GDP is 38% (2016/17: 37%). The ratio is lower than the Public Debt Management Framework threshold and the East African Community Monetary Union convergence criteria requirement of 50%.

Increased agricultural output helped to keep inflation levels low despite the rise in oil prices. This trend is expected to reverse due to rising import prices and weakening of the Uganda shilling.

The Uganda shilling depreciated by 4.6% during the year on account of increased demand from the energy, oil and manufacturing sectors. With exports lagging behind imports, the currency will continue to be under pressure in the coming year.

Budget commentary

Building on the East African shared theme, "'industrialisation for job creation and shared prosperity", the budget focused on the three strategic areas of commercialization of agriculture, industrialization and productivity enhancement and financing of private sector investment.

The resource envelope for 2018/19 is projected to be **UShs 32,702.8 billion** of which **UShs 16,352.85 billion** (50.02%) will be from domestic resources and **UShs 16,344 billion** (49.98%) from external assistance. Approximately 30% of the budget will be channelled towards the settlement of the national debt.

Key highlights

Commercialization and productivity in agriculture

While the agricultural sector is key to creating wealth and employment, the sector has faced prolonged droughts attributed to environmental changes. The situation has been aggravated by limited access to appropriate technologies, declining soil fertility and poor farming methods.

The government intends to transform the agricultural sector through mechanization, efficient access to inputs and appropriate technologies, increasing storage and market access and commercialization. Some of the proposed initiatives include employment of additional extension officers, development of irrigation schemes, completion of rural electrification programmes, facilitation of market access and enhancing access to insurance and financing for farmers.

Unlocking Uganda's tourism potential

The government will continue implementing the 2015-19 Tourism Development Plan which aims to grow the tourist numbers and revenues to 4 million and USD 2.7 billion, respectively, by 2020. The government has showcased Uganda as a tourist destination at five international expos including China Expo, the World Travel Market (WTM) in London, and the International Tourism Fair in Spain. The procurement of market destination representation firms has also started to yield results.

Recognizing the importance of tourism in employment creation, the government will focus on the redevelopment of tourist infrastructure, reducing human wildlife conflicts, and the registration and classification of tourism facilities.

Development and maintenance of strategic infrastructure

Funding strategic transport, energy and Information Communications Technology (ICT) infrastructure is a priority for the government with the sector getting over 33% of the total government expenditure. The government has allocated UShs 4,798.3 billion to finance ongoing road and bridge projects. Other investments will go towards the development of the Standard Gauge Railway with 8% right of way already acquired.

Government initiatives under the water transport sub-sector will focus on commissioning of new ferries and construction of inland water landing sites to increase connectivity and reduce the cost of transportation. Apart from the ongoing upgrade of the Entebbe International Airport, the government has commenced the construction of the Hoima Airport to support the Oil and Gas development.

Electricity generation capacity in Uganda has increased since 2010 from 596 MW to 930 MW in 2017/2018. An additional 783MW will be added to the national grid in the next two financial years upon completion of both Karuma and Isimba projects. In the coming year, the government will focus on the expansion of the transmission and distribution networks to industrial zones and rural growth centers to support industrialization.

The commercialization of oil and gas resources is one of the key objectives for the government. A number of initiatives are currently in progress including acquisition of land for the refinery, identification of refinery investors and commencement of feasibility studies and construction of the Hoima – Tanga pipeline.

Education and skill development

The education sector seeks to increase access to quality primary, secondary and tertiary education. During the financial year 2018/19, the government priorities will include infrastructure development for primary and technical institutions, provision of learning materials and advancing loans to undergraduate and diploma students.

Water, sanitation and environment

Clean and safe water continues to be a critical objective of the government. Water access in rural areas has improved with rural water coverage estimated at 71% compared to 68% in 2016/17. The government will target construction of gravity flow schemes, construction of water supply systems and upgrading of sewer lines.

Other major interventions under the water and environment sector will focus on protection of the environment and ecological systems across the country through protection of water catchment areas, forestry restoration, demarcation and protection of wetlands, lake shores and river banks, strengthening weather and climate information systems and integration of climate change mitigation measures in all government programmes and projects.

Improving good governance and service delivery

The justice system contributes significantly to the promotion of human rights, the fight against corruption and improvement of the business environment. In addition to the construction of justice centers, which provide a one stop center for operations of the Uganda Police, Directorate for Public Prosecutions and the Judiciary, the case back log was reduced from 24% to 16% in 2016/17.

In 2018/2019, the government will focus on the automation of the court administration systems, construction of courts, installation of CCTV cameras, construction of a forensic laboratory, automation of work-permits and issuance of e-Passports.

Tax Amendments

Introduction

The government has focused on two revenue enhancement objectives for FY 2018/19; attracting investment and widening the tax base. The proposed tax measures also aim at bringing clarity to the tax laws to minimize disputes, address tax avoidance, and also keep some tax rates in consonance with inflation.

The tax amendments are in respect of the Income Tax Act, VAT Act, Excise Duty Act, 2014, the Tax Procedure Code Act, 2014, Stamp Duty Act, Tax Appeals Tribunal Act, Traffic Road and Safety Act and the Lotteries and Gaming Act, 2016.

The proposed amendments come into effect on 01 July 2018. We highlight below the major proposed amendments for the financial year 2018/2019.

A. Value Added Tax

1. Withholding under VAT:

The Minister will designate taxpayers that will be required to withhold 50% of the VAT charged to them.

This withholding VAT will apply to VAT registered suppliers or suppliers who are not VAT registered but ought to have been registered for VAT.

For suppliers who are not registered for VAT, the withholding VAT will apply where the value of the taxable supply exclusive of VAT is at least UShs 37.5 million Uganda shillings.

This amendment is aimed at curbing tax revenue loss arising from suppliers that charge VAT but never remit it to URA. However, the procedure for accounting for this VAT is not clear. It is also not clear how the designated VAT agent will determine which suppliers ought to be registered for VAT in order to suffer the withholding VAT. URA is expected to issue more guidelines on how this amendment will be implemented.

2. Due date for filing returns and payment of tax assessed

The requirement to file VAT returns by the 15th day of the month following the end of the tax period is not provided for under the Tax Procedure Code Act. This has now been provided for.

Tax payable under an assessment remains due and payable and may be recovered, notwithstanding any objections or appeals made by the tax payer or the propriety of the assessment. This amendment is punitive as it allows URA to collect taxes even before the tax disputes are resolved.

In addition, the amendment is in conflict with the Tax Appeals Tribunal Act that requires a tax payer to pay only 30% of the tax assessed before appealing to the Tribunal.

3. Deemed VAT on entertainment and passenger automobiles

Licensees and aid funded projects will now pay VAT on the entertainment expenses, passenger automobiles and repair and maintenance of automobiles.

The VAT payable on entertainment, purchase of passenger automobiles and repair of passenger automobiles will no longer be deemed to have been paid.

4. Exempt supplies

The following supplies are now exempt from VAT:

- the supply of Bibles and Qur'ans
- the supply of services and construction materials to strategic investment projects such as free zone, industrial parks, tourism facilities and hospitals among others
- Movie production

Tax Amendments *(continued)*

5. Supply of education materials

For purposes of zero rating, the definition of educational materials has been amended to restrict it to locally produced materials that are suitable for use in public libraries or in the provision of educational services listed in paragraph 2(a) of the second schedule to the VAT Act.

The Minister will also be required to issue a list of education materials that are zero rated.

B. Income Tax

1. Income of a developer or operator in a Free Zone or industrial park

The income of a developer of an Industrial Park or Free Zone whose investment capital is at least USD 200 million will be exempt for a period of ten years from the date of commencement of construction.

In addition, the income of an operator in an Industrial Park or a Free Zone or other business outside the Industrial park or Free zone whose investment capital is at least USD 30 million in the case of a foreigner or USD 10 million in the case of a Ugandan citizen is exempt for five years from the date of commencement of business.

This amendment is aimed at attracting both investment into the Free Zones and Industrial Parks.

2. Mortgage interest deduction

Interest on a mortgage for the construction or purchase of rental properties will now be an allowable deduction for rental income earned by an individual.

Given that interest on mortgages was already an allowable expense for companies, this amendment is aimed at bringing consistency within the tax law as well as incentivise individuals to promote the mortgage market.

3. Capping of interest expense deductions for companies

Interest that can be claimed as deduction by a company that is part of a group will be restricted to 30% of the taxable earnings before interest, tax, depreciation and amortization.

A taxpayer whose interest exceeds thirty percent of the taxable earnings before interest, tax, depreciation and amortisation may carry forward the excess interest for not more than three years, and the excess interest shall be treated as incurred during the next year of income.

This amendment which replaces existing thin capitalization provisions introduces tighter restrictions on the use of debt to finance businesses for both local and multi-national group companies.

4. Scope of betting and lottery winnings subject to 15% Withholding Tax

The scope of betting and gaming types has been increased to include anything that can qualify as betting or gaming.

Current law only covered sports betting and pool betting.

5. Withholding Tax on agricultural supplies

Withholding tax rate on payment for agricultural supplies has been reduced from 6% to 1%.

This amendment is aimed at easing the tax burden on suppliers of agricultural produce.

6. Withholding tax on telecom commissions

As a way of widening the tax base, the Bill proposes that withholding tax at a rate of 10% imposed on payments of commissions by telecoms to agents for airtime distribution or provision of mobile money services.

Telecoms will be expected to withhold tax on payments for commission regardless of the amount or withholding tax exemption status of the agents.

7. Change of ownership

A new charge to tax will arise where the underlying ownership of an entity changes by more than 50 per cent.

The change in ownership of more than 50% will trigger a deemed disposal.

The amendment widens the scope of taxing non-residents on gains derived from disposal of shares or interests in a Ugandan company.

8. Returnable containers

100% of the cost of acquiring returnable containers will no longer be an allowable expense for tax purposes.

A diminution in value of the returnable containers will be allowable for tax purposes. It is not clear whether the URA will accept every tax payer's different determination of the diminution in value allowable for tax purposes. Further guidance will be required in order to implement this amendment and avoid disputes in future.

9. Tax accounting for Islamic financial institutions

The Minister now has the mandate to make regulations on the tax accounting of Islamic financial transactions. The regulations will provide certainty on taxation of Islamic financial products.

10. International agreements

The Inter-Governmental Agreement on the East African Crude Oil Pipe Line has been recognized as an international agreement under the Income Tax Act.

Any clauses under the agreement affecting income tax in Uganda will now be given a legal backing in Uganda.

11. Listed institutions

The African Trade Insurance Agency has been named as a listed institution under the First Schedule of the Income Tax Act. As such, the income of African Trade Insurance Agency will now be exempt from income tax.

C. Tax Procedures Code

1. Electronic receipting and invoicing

To curb under declaration of sales revenue, taxpayers designated by the Commissioner will be required to issue e- receipts or invoices or use electronic fiscal devices which shall be linked to the centralized invoicing and receipting system or a device authenticated by the URA.

Failure by a designated taxpayer to adhere to the above requirements will attract a penalty equivalent to the higher of the tax due or four hundred currency points.

2. Tax filing for gaming and lottery companies

A licensed gaming and lottery company will be required to furnish returns as follows:

- a weekly return, by Wednesday of the following week and
- a monthly return, by the fifteenth day of the following month

> "A licensed gaming and lottery company will be required to make weekly and monthly returns."

D. Stamp Duty Act

1. Stamp duty on Islamic financial transactions

The Minister has been mandated subject to approval from parliament to put in place a legal framework for imposing stamp duty on instruments used in Islamic financial transactions.

2. Stamp duty on instruments executed for strategic investment projects

Instruments executed in respect of strategic investment projects will be exempt from stamp duty.

Strategic investment projects include projects in Industrial Parks, Free Zones, agro-processing businesses, hotel or tourism facility whose minimum investment is USD 50 million or a hospital facility whose investment capital is at least USD 10 million.

3. Instruments with stamp duty of USh 10,000

The stamp duty on instruments such as affidavits, agreements, articles of association and administration bonds among others has been increased from USh 10,000 to USh 15,000.

E. Tax Appeals Tribunal Act

1. Provision for mediation

The Tax Appeals Tribunal will now have the power to refer a matter before it for mediation prior to hearing any application filed at the tribunal.

This is aimed at improving the efficiency of the Tax Appeals Tribunal in light of the recent Supreme Court decision in *Rabo Enterprises vs Uganda Revenue Authority,* confirming the Tax Appeals Tribunal as the court of first instance for all tax matters.

2. Awarding damages and interest

The Tax Appeals Tribunal can now make an order as to damages, interest or any other remedy against any party and the order shall be enforceable in the same manner as an order of the High Court.

3. Powers of the Registrar

The Registrar of the Tax Appeals Tribunal has been given the power to:

– hear and determine interlocutory applications arising from an application filed with a Tribunal

– tax a bill of costs and

– Mediate any matter referred to him or her by a tribunal

F. Traffic and Road Safety Act

1. Ban on importation of old vehicles

Importation of vehicles which are fifteen years old or more from the date of manufacture will be prohibited.

The proposed ban does not include heavy duty vehicles and motor vehicles in transit before the commencement of the Act which arrive in Uganda by 30th September 2018.

2. Environmental levy

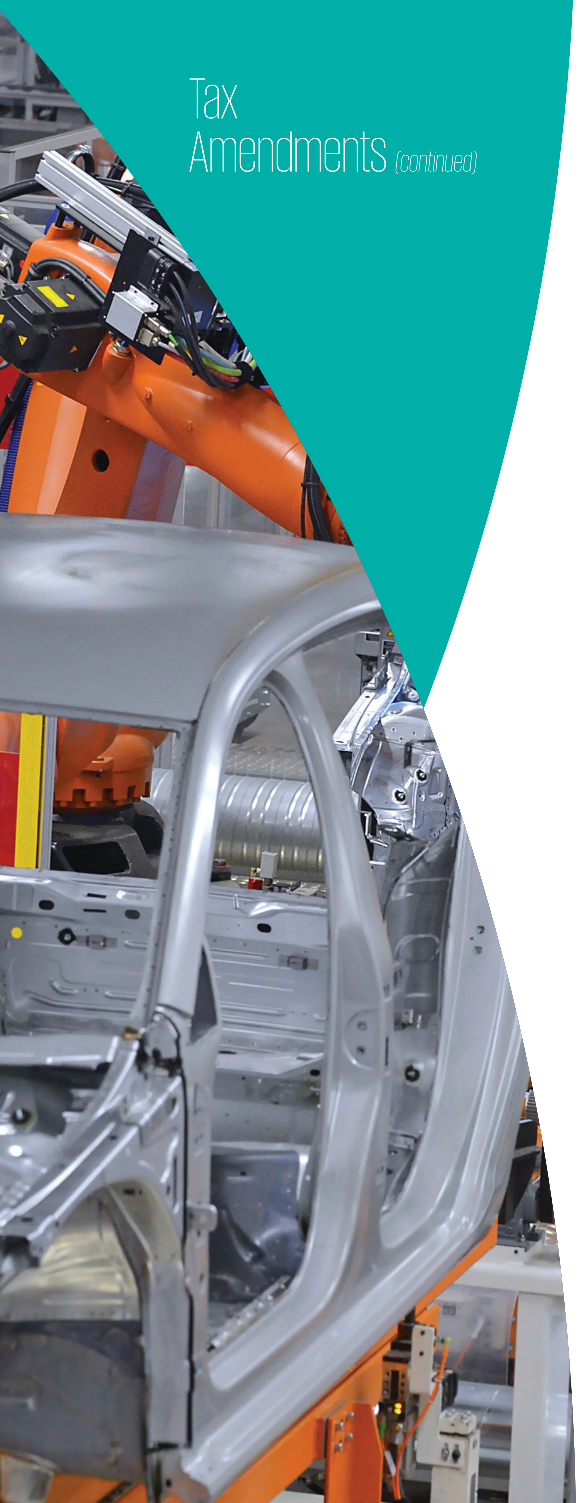
Environmental levy on vehicles has been amended as follows:

Motor vehicle	Levy payable
A motor vehicle which is 5 years old but does not exceed 8 years from the date of manufacture excluding goods vehicles	35% of the CIF Value
A motor vehicle which is 8 years old or more from the date of manufacture which was imported or is in transit before the commencement of this Act and which arrives in Uganda by 30 September 2018	50% of the CIF Value
A motor vehicle which is 5 years old or more and which is principally designed to carry goods	20% of the CIF Value

3. Registration fees

Registration fees have been amended as follows:

Motor vehicle	Registration fees
Sedan cars, saloon cars, estate car but excluding dual purpose goods passenger vehicles	1,500,000
Passenger vehicle including light omnibuses with a seating capacity not exceeding 28 passengers	1,500,000
Estate and station wagon vehicles with an engine capacity of 3500 cc or above	1,700,000
Medium omnibuses and heavy omnibuses with a seating capacity of more than 28 passengers	1,500,000



G. Excise Duty Act

1. Timing of accounting for excise duty

A person providing an excisable service becomes liable to pay excise duty on the service on the earlier of the following:

- the date on which the performance of the service is completed
- the date on which payment for the service is made or
- the date on which an invoice is issued

2. Remission of excise duty on manufactured goods that have been exported

The Commissioner may, if satisfied that excisable goods have been exported, remit the excise duty chargeable on those goods.

This implies that the manufacturer of these products has to provide proof to the Commissioner that the goods have been exported before a waiver/remission is granted.

It also implies that for exports to qualify for excise duty zero rating, the taxpayer must apply for duty remission.

3. Penalties for non-compliance

Offence	Penalty
Failure to apply for an excise license	An amount equal to the duty payable for the period commencing on the last day of the application period until the person files an application or until the Commissioner grants the license, whichever is earlier
Failure to furnish an excise return within the time specified	The greater of UShs 200,000 or 2% interest per month on the unpaid duty
Failure to pay excise duty on manufactured or imported excisable goods by the due date	2% per month compounded interest
Failure to maintain proper records for any period	An amount equal to the duty payable for that period or ten currency points per filing period, whichever is the higher
Willful or reckless declaration to an Officer of the URA which is false or misleading in a material particular in such a manner that the duty payable by the person exceeds the duty that was assessed as payable, based on the false or misleading information or the amount of the refund claimed was false	An amount equal to the amount of the excess duty, refund or claim

4. Excise duty on over the top services

Excise duty of UShs 200 per day of access per user will be charged on over the top services.

Over the top services include the transmission or receipt of voice or messages over internet protocol network including access to virtual private networks but does not include educational or research sites prescribed by the Minister.

5. Excise duty on mobile money transactions

Excise duty at a rate of 1% will be charged on the value of mobile money transactions on receipt, payment and withdrawal.

6. Mobile money transfers

The excise duty on mobile money transfer fees has been increased from 10% to 15%.

Tax Amendments *(continued)*

7. Reduction of excise duty on soft drinks.

Excise duty on soft drinks has been reduced from 13% to 12%.

8. Exemption of sugar confectionaries

Sugar confectionaries including chewing gum, sweets and chocolates have been exempted.

This is to enhance Uganda's competitiveness in the East African region where countries have exempted confectionaries.

Excise duty has been increased on some items as tabulated below:

Item	Old rate	New rate
Opaque beer	Nil	30% or Shs. 230 per litre, whichever is higher
Undenatured spirits made from locally produced raw materials	60%	60% or Shs 2,000 per litre, whichever is higher
Undenatured spirits made from imported raw materials	100% or UShs 2,500 per litre, whichever is higher	100% or UShs 2,500 per litre, whichever is higher
Ready to drink spirits	80%	80% or UShs 1,300 per litre, whichever is higher
Value added services	20%	20%
Motorcycles; at first registration	Nil	UShs 200,000
Wine made from locally produced raw materials	20%	20% or UShs 2,000, per litre, whichever is higher
Other wine	80%	80% or Shs 8,000, per litre, whichever is higher
Powder for reconstitution to make juice or dilute - to - taste drinks, excluding pulp;	Nil	15% of the value
Airtime on mobile cellular, landlines and public pay phones	5% for landlines 12% for cellular phones	12% of the fee charged
Internet data	Nil	Nil
Cooking oil	Nil	UShs 200 per litre
Money transfer or withdrawal services, but not including transfers and withdrawal services provided by banks	10% of the fees charged	15% of the fees charged
Incoming international calls, except calls from the Republic of Kenya, the Republic of Rwanda and the Republic of South Sudan	USD 0.09 per minute	USD 0.09 per minute

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