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Uganda Budget Insight 2016

The Story Behind the Numbers

Introduction

The Public Finance Management Act 2015, requires that Parliament shall, by 31 May of each year, consider and approve the budget for the next financial year before it is read to the public. This being a year when general elections were held, the budget for Financial Year 2016/17 was approved by the 9th Parliament on 3 May 2016.

This is the second year when this budgetary process has been applied. It is evident that this process saves time and reduces distortions, especially in the first quarter of the fiscal year that was experienced when the budget was approved after the beginning of the fiscal year. In the Global Open Budget Index report last year, the international budget partnership ranked Uganda the best country in East Africa in regard to budget transparency and accountability due to this process.

This year's total approved budget is UGX 26.3 trillion which is an increase of UGX 3.6 trillion. This is the second speech by the Minister of Finance Matia Kasaija days after his reappointment to the same post. Building on the re-election of the NRM government platform, with a focus on economic growth, job creation and creating a middle class economy, the Minister outlined the government plans to make investments in agriculture, acceleration of industrialisation and increased productivity in all sectors. Accordingly, the theme for the financial Year 2016/17 Budget is 'Enhanced Productivity for Job Creation'.

The key sector priorities for the next financial year include:

- Enhanced Production and Productivity
- Development and Maintenance of Strategic Infrastructure
- Human Capital and Skills Development
- Improving Good Governance

It has been reported that by 2040, Uganda expects to have realised its vision of a transformed economy with the early milestone of reaching middle income status by 2020. The target is to achieve a tax to GDP ratio of 16% from the current 13%. This ambitious target is, among others, dependent on how the government will mobilise revenue especially from domestic sources (expected to be 75.2%) and from external sources. It will also depend on how Uganda will manage its public investment programmes for the key objectives listed above.

Listening to small traders operating from downtown, the reading of the budget does not create any more excitement as they are resigned to the expectation of no change from the status quo. Comments on Government performance among others include poor roads, lack of medicine in hospitals, poor transport, low financing of agriculture, and the increase in inflation causing a rise in food prices and other essential items.

With the government expecting the construction of the pipeline and the oil refinery to begin in the immediate future, we had expected more money to be allocated to infrastructure development, especially where these facilities will be located.

In his opening speech the President indicated that this time round he will not tolerate any inefficiencies from all those concerned with service delivery. This is a strong commitment and we shall wait to see how this will manifest itself with these ambitious targets.

Tax Measures

Income Tax

International Agreements

Treaty benefit entitlement.

The measure

The Income Tax Bill 2016 amends section 88(5) of the Income Tax Act ("ITA") to clarify when a non-resident person can claim a treaty benefit under a Double Taxation Agreement (DTA).

Who will be affected

Non-resident entities in Uganda.

When

1 July 2016

Our view

Section 88(5) is an anti-abuse provision aimed at preventing use of conduit companies to gain treaty advantage without economic substance in the offshore jurisdiction. It has attempted to restrict the application of DTA benefits to entities with underlying ownership of 50% or more being held by individuals who are tax resident in the same treaty country.

The application of this provision as currently structured had some practical challenges as it conflicted with the concept of "beneficial ownership" as used in the tax treaties. Further, it was near impossible after the fact to establish the underlying ownership of listed companies and/or third-party suppliers.

The amendment makes it clear when a non-resident person can enjoy treaty benefits. The amendments introduce the conditions that the non-resident person must be the beneficial owner of the income, must have full and unrestricted ability to enjoy the income and determine its future use, and must have economic substance in the treaty country. Publicly listed companies are excluded from this restriction.

It is our view that the proposed amendment reflects Uganda's commitment to applying best international tax practices enabling it to honour its tax treaty obligations. This is a change in the right direction and it embraces the developments in international tax principles under Action 6 of the OECD Base Erosion and Profit Shifting (BEPS) Action Plan and the key tax concepts under UN and OCED model tax conventions.

We believe the amendment is a positive development that will enable the URA to effectively administer the DTA benefit claims by recognizing genuine economic arrangements while preventing fiscal avoidance and tax evasion. It will also provide greater certainty to investors and those making payments to foreign suppliers in treaty countries.

The above notwithstanding, since most DTAs and the domestic tax legislation are silent on the definition of a "beneficial owner", there could be differing interpretation of this term which may pose a challenge to the taxpayers should the URA's understanding of a beneficial owner differ from the DTAs.

Tax on International Payments

Withholding Tax on rent paid to a non-resident person

The measure

The Income Tax Bill 2016 has amended section 83(2), the taxation of international payments provisions by adding rent earned by non-residents from sources in Uganda on the list of payments that are subject to Withholding Tax.

Who will be affected

Non-residents who derive rental income from commercial and residential buildings in Uganda.

When

1 July 2016

Our view

Whilst rent paid to a non-resident person from a source in Uganda is included on the list of payments that are subject to Withholding Tax, the Act did not impose a specific tax rate.

The amendment is intended to remedy this omission by including rent on the payments to non-residents (such as dividends, interest and royalties) that are subject to 15% Withholding Tax.

This implies that a tenant paying rent to a non-resident landlord in respect of land and buildings in Uganda will now be required to deduct Withholding Tax at a rate of 15%. We are likely to see the non-residents pass on the tax to tenants by increasing the rental charges to maintain their margins.

Tax losses carried forward

Carry Forward Losses.

The measure

The Income Tax Bill 2016 has amended the provisions dealing with tax losses to make it clear that the ability to carry forward tax losses is subject to the change in control provisions.

Who will be affected

Companies planning to reorganize through merger or acquisition process.

When

1 July 2016

Our view

Generally, tax losses can be carried forward indefinitely except where there has been a significant change in control.

This amendment confirms the normal practice rather than a significant change by clarifying that the change in control restriction takes precedence over the general loss carry forward provisions.

Value Added Tax

VAT registration

Voluntary VAT registration for petroleum operators

The measure

The amendment provides for those engaged in midstream petroleum operations to apply for voluntary VAT registration.

Who will be affected

Entities involved in midstream petroleum operations such as construction of the oil pipeline and the refinery.

When

1 July 2016

Our view

This proposal allows players in the midstream petroleum industry to register as taxable persons regardless of whether or not they are making taxable supplies. Voluntary registration will enable them to claim input tax credit on vatable expenses during the construction phase. This should lower their operational costs. However, we shall wait for the interpretation of the tax authority which tags refunds to generating output tax.

Imported goods

Imported lamps and bulbs with light emitting diodes now subject to VAT.

The measure

The amendment removes from the list of exempt goods compact fluorescent bulbs with a power connecting cap at the end and lamps and bulbs made from Light Emitting Diodes (LED) technology for domestic and industrial use.

Who will be affected

Final consumers.

When

1 July 2016

Our view

LED lamps and bulbs qualified for a VAT exemption on the basis that they were exempt from import duty under the Fifth schedule of the East African Community Customs Management Act. The amendment removes these items from the list and going forward they will be subject to VAT at 18%.

Taxpayers supplying light emitting diode technology who meet the registration threshold can now register for VAT and claim VAT on both purchases and expenses. The prices of such items is likely to go up given the consumer will bear the final tax.

Donor-funded projects

VAT input tax claims for aid-funded projects

The measure

The amendment introduces a special provision for donor-funded projects. Where taxable supplies are made by a supplier to a contractor working on an donor-funded project, the VAT on the supply is deemed to have been paid by the contractor to the supplier but the supplier does not account for the deemed VAT payment as output tax.

Who will be affected

Suppliers, contractors and donor agencies and institutions

When

1 July 2016

Our view

The measure is aimed at preventing VAT charged by suppliers to contractors undertaking donor funded projects from being an extra cost to the project. We believe this is consistent with general aim of projects supported by foreign donors that the funds should be wholly used on the specific projects without being diverted elsewhere through the tax system.

A supplier selling taxable supplies to a contractor of a donor-funded project would not charge VAT to the contractor so that the contractor does not in turn charge VAT to the donor and the VAT is not an additional cost to the project.

Business process outsourcing services

VAT input tax credit on business process outsourcing services

The measure

To enable businesses supplying business process outsourcing (BPO) services to claim VAT input tax credit

Who will be affected

Persons providing business process outsourcing services

When

1 July 2016

Our view

Business Process Outsourcing (BPO) service providers are now able cliam input tax and this will reduce their cost of operation. Although the ITA and the VAT amendment do not define what constitutes a BPO, our view is that it covers contracting of the operations and responsibilities of a specific business process to a third-party service provider.

Power generated by solar

Supply of electrical power generated by solar now a standard rated supply

The measure

The amendment removes supply of solar power-generated electricity from the list of exempt supplies

Who will be affected

Generators and consumers of solar power

When

1 July 2016

Our view

The supply of solar power electricity will attract an 18% VAT charge like other sources of electrical power such as hydro. This is a welcome change for the solar power producers as it now enables them to claim VAT input tax credit on their operating expenses.

We believe the amendment is aimed at encouraging investment in this sector as we have seen a lot of interest from foreign investors.

Solar power and geothermal power projects

VAT exemption for solar power and geothermal power projects

The measure

To exempt from VAT the supply of any goods and services to the contractors and subcontractors of solar power and geothermal power projects

Who will be affected

Contractors and suppliers to solar power and geothermal power projects

When

1 July 2016

Our view

Previously solar and geothermal power projects were not allowed to register for VAT during the construction stage, which meant the VAT incurred was an additional cost to the project. The amendment means no VAT will be charged on construction and other pre-commencement costs until the production stage.

This amendment together with that making solar power electricity a standard rated supply bring geothermal and solar energy supplies in line with the rest of power projects. However, it is not clear whether other renewable energy projects such as wind will enjoy the same tax treatment.

Agricultural processing machinery

To add agricultural machinery, tools and implements to the VAT exemption list

The measure

Manufacturers, importers, wholesalers, retailers and farmers

Who will be affected

Generators and consumers of solar power

When

1 July 2016

Our view

Farmers can now acquire farm implements at an affordable price (less the 18% VAT) to mechanise agriculture. This is a welcome exemption given Uganda is an agriculture based economy.

The new list includes: hullers; oil presses; grain dryers; manure spreaders; fertiliser distributors; transplanters; juice presses and crushers; seed and grain shellers; silage chopper machines; colour sorters for coffee; coffee roasters.

Excise Duty

Petroleum products

Excise duty on petrol and diesel.

The measure

Duty on petrol has increased from UGX 1,000 to UGX 1,100 and diesel from UGX 680 to UGX 780 per litre.

Who will be affected

Everyone within the economy

When

1 July 2016

Our view

It may appear as if the increment in excise duty may have a negligible impact on the price of fuel given the low global oil prices. However, the impact will be felt as the oil prices begin to increase and the effect will flow throughout all the sectors of the economy. Increases in fuel prices leave the taxpayers with less income to spend on other goods and services and this effect has a multiplier effect on the rest of the economy.

Sugar and other confectionaries

Increase in excise duty on sugar confectionaries

The measure

Excise duty on sugar confectionaries (chewing gum, sweets and chocolate) will increase from 10% to 20%

Who will be affected

Consumers of chocolate, sweets and chewing gum

When

1 July 2016

Our view

The increase is aimed at raising more revenue for the government. We are likely to see many traders or individuals crossing the border to Kenya to buy items, such as chewing gum, and smuggling them into Uganda. The result is lost revenues for the government, and the legally appointed traders will face unfair competition from the unlicensed distributors thus putting them out business leading to further loss of government revenue and employment.

Cement

Excise duty on cement

The measure

Duty has been doubled on cement from UGX 500 to UGX 1,000

Who will be affected

Construction industry

When

1 July 2016

Our view

The price of cement and overall construction cost will increase. Again, given the high demand for housing in urban centers in Uganda, the increase in cement prices is likely to dampen the construction industry. The house prices and generally property is likely to increase making it difficult for Ugandans to climb up the property ladder.

Stamp Duty

Increase in general Stamp Duty Charges

The measure
Increase in general stamp duty charge from UGX 5,000 to UGX 10,000

Who will be affected
Anyone who executes a stampable instrument

When
1 July 2016

Our view
While the government intention is to raise more revenue, entities that have many stampable instruments like Financial Institutions and Insurance companies are likely to see an increase in their administration costs. In the intervening period we may see a rush by institutions to conclude contracts that require stamp duty to be paid.

Stamp duty on the transfer of property

The measure
Stamp duty increase from 1% to 1.5% on transfer and exchange of property

Who will be affected
Any person buying or selling stampable assets for example land, buildings, shares among others

When
1 July 2016

Our view
Although government will collect more from stamp duty, purchase of property will become expensive. It is surprising that the government has increased the stamp duty on transfer at a time when many people are struggling to buy residential property. The extra 0.5% increase is an extra burden to buyers of property and will dampen the growth of sale of property especially in urban areas like Kampala.

Miscellaneous

Miscellaneous

Motor Vehicles registration

Increased fees for personalised vehicle number plates.

The measure

Registration fees of personalized vehicle number plates have increased from UGX 5 million to UGX 20 million

Who will be affected

All employers except in respect of sectors with exemptions e.g. employment in farms etc.

When

1 July 2016

Our view

The boom in the demand personalised plates may have forced the government to increase the registration fees to collect more revenue. The socialite or individuals wishing to obtain the personalised number plates will have to dig deeper to obtain them.

Driving licences

Driving license fees

The measure

Driving license fees for new permits have changed as follows:

- A one-year permit fee has reduced from UGX 56,000 to UGX 55,000;
- A three-year permit fee has increased from UGX 66,000 to UGX 150,000; and
- the newly introduced five-year permit will attract a fee of UGX 250,000.

Who will be affected

Motor vehicle drivers wishing to obtain Ugandan driving permit.

When

1 July 2016

Our view

This increases the cost of acquiring a driver's license for individuals wishing to obtain Uganda driving permits. The introduction of the five-year permit is a welcome change for many drivers as it is more affordable and administratively efficient.

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