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Uganda Budget  
Highlights 2016  
The Story Behind  
the Numbers

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## NAVIGATION

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# Preamble

Our publication incorporates changes based on the 2016 Budget speech. It also includes anticipated changes to the tax legislation. Some changes may arise once the final tax bills have been passed by Parliament.

This publication constitutes only a brief guide and is not intended to be a comprehensive summary of the tax law and practice. While all reasonable care has been taken in the preparation of this guide, Deloitte and its associates accept no responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, however caused, or sustained by any person that relies on it.

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# Budget highlights

## Tax provisions

### Individual Income Tax

- Ugandan-resident individuals employed by (foreign) diplomatic missions are now required to submit individual Income Tax returns.

### Corporate Tax

- Clarification on carry forward of tax losses to make it clear that the ability to carry forward tax losses will be affected by a change in control provisions.
- International payments subject to Withholding Tax (WHT) expanded to include rent payments to a non-resident.
- The anti-treaty abuse provisions restricting treaty benefit claims have been amended to exclude public listed companies and now considers the beneficial ownership and economic substance principles.
- International payments for shipping and air-transport which begins in Uganda is now subject to Withholding Tax at 2%.
- International payments for qualifying telecommunication services is now subject to Withholding Tax at 5%.
- Clinics are no longer included in the list of trades that could qualify as presumptive taxpayers.
- Presumptive tax payable by drugs shop with turnover of between UGX 10 million and UGX 20 million will increase from UGX 100,000 to UGX 250,000.
- The definition of licensee under petroleum operations has been expanded to include petroleum exploration and production activities (both upstream and midstream).

- Limitation on deductions relating to petroleum operations has been expanded to include limitations specified in a Production Sharing Agreement (PSA) signed after 31 December 2015.

### Value Added Tax

- Those involved in petroleum midstream activities (i.e. a refinery including related storage and transportation) are permitted to voluntarily register for VAT.
- Fluorescent and LED bulbs are now subject to VAT at the standard rate.
- A new mechanism of eliminating VAT on Donor-funded projects has been introduced.
- Persons involved in business process outsourcing (BPO) services are now permitted to claim input VAT on imported services.
- Electricity generated by solar is now a standard rated supply.
- Supplies of goods and services to contractors and subcontractors of geothermal and solar power projects is now exempt from VAT.
- The list of agricultural processing tools and implements exempt from VAT has been expanded to include among others hullers, oil press, tillers, grain dryers, manure spreaders, fertilizer distributor, trans planters, coffee roasters and juice presses and crushers, seed and grain shellers, silage chopper machines, and color sorters for coffee.

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### ***Excise Duties***

- Excise duty paid on the goods used in the manufacture of healthcare and medical products is now refundable.
- As usual duty on cigarettes has been increased from UGX 45,000 to UGX 50,000 and from UGX 75,000 to UGX 80,000 for soft cap and hinge lid, respectively, per 1000 sticks.
- Duty on other tobacco products including cigars, cheroots, and cigarillos increased from 160% to 200%.
- Duty on ready to drink spirits is now 80%.
- Duty has been doubled on cement from UGX 500 to UGX 1,000 per 50kgs and on cane or beet sugar and pure sucrose from UGX 50 to UGX 100 per kg.
- Increase of duty on petrol from UGX 1,000 to UGX 1,100 and diesel from UGX 680 to UGX 780 per litre.
- Duty on all incoming international calls has been abolished.
- Increase of duty from 5% to 10% on motor vehicle lubricants and from 10% to 20% on sugar confectionaries (chewing gum, sweets and chocolate).
- Specialised hospital furniture now duty-exempt but other furniture still subject to 10% duty.

### ***Stamp duty***

- Increase in general stamp duty charge from UGX 5,000 to UGX 10,000.
- Stamp duty increase from 1% to 1.5% on transfer and exchange of property.

### ***Other measures***

- The tax procedure code enacted in 2014 now comes into effect on 1 July 2016. It is meant to harmonize and consolidate the administrative tax procedures.
- The Uganda Revenue Authority is now mandated to issue certificates of origin to enable exports preferential treatment under existing trade agreements.
- Tax arrears for the period to 31 December 2015 of SACCOS are waived.
- Registration of personalized vehicle number plates increased from UGX 6 million to UGX 20 million.
- Increase in driving license fees and introduction of a five year driving license in addition to the existing one and three year licenses.
- More items are excluded from preferential treatment under the COMESA treaty, the additional items include electronics, lubricants, un-denatured alcohol, steel and steel products, paper and paper products and diapers

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### *Financial sector*

- Inflation remained relatively stable during the fiscal year with December 2015 experiencing the highest rate at 8.5% attributed to the sharp weakening of the Uganda Shilling against the US Dollar.
- Commercial bank lending rates remain high due to the limited availability of long term capital.
- Constraints in private sector cash flows due to high debt service payments arising from the effect of increased inflation have led to a decline in the growth of credit in the private sector.
- The risk of higher interest rates has reduced as inflation is now around the policy target of 5%, following the Bank of Uganda's implementation of a revised monetary policy.
- Government plans to institute appropriate fiscal and monetary policies to prevent a significant rise in interest rates.
- Government will strengthen consumer protection measures to address any misconduct by some financial institutions, such as the process of selling collateral in case of loan default.

### *Water, sanitation and environment*

- 33 town water supply schemes and 147 sewerage and sanitation facilities (public and household) in various towns are to be constructed.
- To restore and maintain the integrity of the increasingly fragile ecosystem, government will protect 20 km of banks of the River Nile, restore 50 hectares of the degraded section of River Nile protection zone, and complete the demarcation of 150 km of wetland boundaries of five districts in Eastern Western and Southern Uganda.

- Government will also strengthen compliance with environmental standards and improve enforcement.

### *Education*

- The Government has allocated UGX 2.7 trillion (10% of the budget) to Education and Skills development.
- After Works and Transport, this is this year's biggest-financed sector.
- UGX 78 billion set aside to improve salaries of teaching and non-teaching staff in public universities.
- Salaries of Primary School teachers to be increased by 15%.
- Hiring of tutors to teach in the new Technical Institutes; UGX 6.672 billion allocated towards this cause.
- Three public universities in Soroti, Kabala and Lira to start operating.
- Student Loan Scheme to be supported with UGX 6 billion, thereby increasing access to tertiary education.
- Business and Technical and Vocational and Education and Training (BTVET) institutions to be strengthened through updating the curriculum, completing vocational certificate guides and programme manuals, and training of 237 instructors.

### *Retirement benefits (Pension)*

- No main proclamation on this and no direct allocation of money in this year's budget to Pension, save for improving efficiency of government bodies through better handling of their staff's payroll and pension.

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### Agriculture

- Agriculture has expanded by 3.2% in real terms compared to a growth rate of 2.3% the previous year.
- Growth projections indicate that if agriculture continues to grow at the recent average of 2.3%, Uganda will exceed the Millennium Development Goal (MDG) of halving poverty.
- Agricultural Sector's budget for FY 2016/2017 has increased by UGX 343.46 billion to UGX 823.42 Billion, an increase of 65% compared to the Financial Year 2015/16. The aim is to transform the agriculture sector by facilitating mechanization, efficient access to inputs and appropriate technologies, increased storage and market access. Specifically, Government will continue to implement the following:
  - Provision of improved breeding and planting materials, and pesticides.
  - Intensification of regulation through increased disease surveillance, improved disease diagnostics and enforcement of animal laws and regulations at both central and local government levels.
  - Conducting agricultural research and development.
  - Construction of irrigation infrastructure including on-farm valley tanks, valley dams, and medium to large scale irrigation schemes for communities. The cumulative water storage will be increased from the current 29.1 million cubic metres to 55 million cubic meters.
  - Financing post-harvest handling facilities for commodity storage through the Agricultural

### Credit Facility.

- Developing and implementing a comprehensive National Agriculture Finance Policy and Strategy to support private sector investment in agriculture; and
- Establishing an Agriculture Insurance Scheme to reduce farm risks and attract investment in agriculture.

### Tourism

- The Government has allocated UGX 188.8 billion to the tourism industry, an increase from UGX158.5 Billion in Financial Year 2015/16.
- The industry contributes USD 2.5 billion to the GDP and approximately USD 1.5 billion in foreign exchange earnings annually which potentially translates to 9% of national output and 26% of export earnings.
- The direct contribution of Travel & Tourism to GDP is expected to grow by 6.4% pa to UGX 5,548.1 billion (4.3% of GDP) by 2025.
- Despite the increase in visitations to National Parks from about 203,000 visitors in 2014 to 216,000 visitors in 2015, there has been a 13% decline in the number of foreign non-residents over the same period.
- The government has continued to implement the 2015-19 Tourism Development Plan which aims to diversify tourism products, aggressive promotion, nature conservation, skills development, infrastructure development and the regulation of the sector. Key interventions will include the following:
  - Participating in international tourism fairs and expos, and implementing the single East Africa Tourist visa;

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- Upgrading heritage sites such as the Namugongo Martyrs Shrine; promoting cultural theme events, and developing regional tourists circuits in Buganda, Bunyoro, Toro, Ankole and Kigezi, Busoga, West Nile, Acholi, Rwenzori, Ssesse Islands, Teso and Karamoja;
- Skilling tour operators, hoteliers and tourism industry workers to deliver world class hospitality services;
- Grading of an additional 200 hotels and restaurants, and increasing inspection of tourism enterprises in Wakiso, Kabarole, Jinja, Mbale, Kabale, Mbarara, Masindi, Jinja, Gulu and Lira; and
- Developing strategic tourism infrastructure with emphasis on tourism roads to improve visitor experience, and attract private investment in tourism.
- operationalize the National Petroleum Authority and the National Oil Company; and
- Develop institutions and skills.
- New exploration for various minerals has been undertaken in various parts of the country.
- The Sukulu plant which is expected to produce fertilizers and steel is under construction and is projected to start production by 2020.

### *Technology, Media & Telecommunications (TMT)*

### *Petroleum and Mineral sector*

- The government recognised the important role of Information and Telecommunications Technology (ICT) in the growth of the economy.
- In 2015, the ICT sector contributed 2.5% of the GDP, provided employment of approximately 1.3 million Ugandans and raised UGX 484.4 billion in tax revenues.
- Development in ICT sector has seen the telephone subscribers increase from 19.5 million in 2013 to 23 million in 2015; likewise internet users grew from 8.5 million to 13 million in the same period.
- To further support the ICT sector, the government acquired construction land at Namanve Industrial Park and more space has been acquired at Entebbe for a Mega ICT park to be set up from 2017/18 fiscal year.
- From 2017/18 fiscal year, the government intends to increase broadband speed from the current 512KB per second to 4MB per second for rural areas and 30Mbps urban households.
- The National Backbone Infrastructure (NBI) will be extended to West Nile and Karamoja areas under the Regional Communication Infrastructure project funded by the World Bank.
- Asset transfers and other transactions related to The President mentioned that oil production is expected to start by 2020.
- Negotiations with the lead investor in the refinery is expected to be finalized by September 2016. Land acquisition for the refinery and for resettlement of displaced communities has been largely completed.
- Plans are underway to develop an oil pipeline from Hoima to Tanga port in Tanzania as a private venture.
- UGX 188.2 billion (approximately USD 55 million) has been allocated to the Oil and Gas sector, which is to be used to:

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- The government intends to extend the NBI to the neighbouring countries to improve regional interconnectivity.

### Infrastructure

#### Transport

- UGX 3,827 billion (increase of UGX 494 billion from FY2015/16) allocated to the works and transport sector, representing 15% of budget allocation and approximately 48% of allocation to infrastructure, in line with previous years.
- 274km of roads substantially completed in FY 2015/16; to commence construction of Easter Standard Gauge Rail with allocation of UGX. 118 billion for acquiring land for the construction of the Malaba – Kampala Eastern Standard Gauge Railway. Design of Kampala Light Rail train (LRT) with construction proposed for 2019.
- The upgrade of Entebbe International Airport has commenced with works for improvement of regional airports or aerodromes completed or are on-going. Construction of Kabaale airport in Hoima to support Oil Refinery development to commence.
- Government will also improve existing marine infrastructure so as to reduce the cost of transportation and increase connectivity.

#### Energy and Resources

- Government continuing to develop energy infrastructure to reduce the cost of electricity in the medium term to facilitate manufacturing and value addition. Government’s objective is to increase the availability of reliable and affordable electricity for both domestic and industrial use, in order for access to double to 40% by 2040.
- Hydro power generation capacity increased from 596MW (2010) to 830 MW (2016). Karuma HEP and Isimba HEP at 27% and 25% complete with project completion scheduled for 2019 for Karuma HEP while Isimba HEP scheduled for commissioning by August 2018.
- Construction of about 1,900 Km of Medium Voltage lines and 1,600 Km of Low Voltage distribution lines completed in FY2015/16. A total of 108 of the 112 of district headquarters are now connected to the national grid. Works to continue on over 14,000 Km of transmission lines.

#### Water sanitation

- 71% of the population has access to an improved water source (85% urban population, 67% rural population).
- In FY2016/17, the target is to increase access to safe water to 79% in rural areas and 100% coverage in urban areas. Construction of 33 town water supply schemes and 147 sewerage and sanitation facilities (public and household) in various towns will also be started.
- Government shall protect 20 Km of banks of the River Nile, restore 50 Hectares of the degraded section of River Nile protection zone, and complete the demarcation of 150 Km of wetland boundaries.

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### Other measures

- Specific interventions in ensuring security will include acquisition and maintenance of modern equipment, welfare improvement and human capital development to enable the security agencies to maintain peace and stability, participation in community service and implementation of national development projects.
- UGX 1,588.023 billion has been allocated to security in the next year’s budget to continue with the on-going interventions.
- In the implementation of the third Justice Law and Order Sector (JLOS) Strategic Investment Plan (SIP III), the sector will focus on the following outcomes;
  - Improving the legal, policy and regulatory environment that is conducive for doing business to create wealth and employment;
  - Enhancing access to JLOS services particularly for vulnerable persons;
  - Rights promotion in order to ensure accountability, inclusive growth and competitiveness in Uganda; and
  - Fighting corruption in order to strengthen Uganda’s competitiveness for wealth creation and inclusive growth.
- UGX 1,159.77 billion has been allocated to JLOS for the FY 2016/2017.
- Implementation of legal, institutional and administrative reforms to increase efficiency in Government operations through fiscal decentralization, financial management, budget transparency and accountability to fight corruption.
- Government has committed to combating corruption in all its forms through implementing institutional, administrative and legal measures to enhance its prevention, detection, investigation and deterrence.

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