Uganda Budget Highlights 2019/20
Unravelling the Puzzle
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Preamble

This publication highlights the tax and related measures proposed as per the 2019/20 budget speech.

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Tax provisions

Income Tax (Corporate tax, PAYE, WHT)

- Definition of “beneficial owner” changed to mean a natural person who owns or has a controlling interest over a legal person and exercises control over the management and policies of that person or a legal arrangement, directly or indirectly through ownership, voting power or contract. At the same time, the Act repeals the part of the definition in section 88(5) which defines “beneficial owner” in accordance with International Agreements. This may imply that treaty benefit is limited to instances where the ultimate individual owner receives the payment.

- “Citizen” defined to mean a natural person who is a citizen of an EAC Partner state or a company or a body of persons incorporated under the laws of an EAC partner state in which at least 51% shares are held by a citizen. This comes in light of the decision by the EAC Court of Justice in the case of BAT Vs. URA, which reinforced the principle that domestic legislation must conform to the EAC treaty or otherwise be declared illegal. This change puts other EAC citizens and businesses on a similar footing as Ugandan ones.

- Income tax exemption for industrial parks or free zones expanded as follows:
  - 10 years for letting or leasing facilities or to an existing developer if capital is at least USD 50 million.
  - 10 years to an operator or other business with a capital of at least USD 10 million for a foreigner or USD 2 million for a citizen (new business or for existing business that makes a qualifying investment).

- Introduction of income tax exemption for businesses whose capital is at least USD 10 million for a foreigner or USD 2 million for a citizen who uses at least 50% of locally sourced raw materials and employs at least 60% citizens dealing in:
  - Processing agricultural goods.
  - Manufactures or assembles medical appliance, building materials, automobiles, house hold appliances.
  - Manufactures furniture.
  - Establishes or operates vocational or technical institutions.
  - Carries on business in logistics and ware housing, information technology or commercial farming.

- Introduction of income tax exemption for interest paid on infrastructure bond. “Infrastructure bond” to mean all listed bonds, notes or other similar securities used to raise funds for public infrastructure and other social services, if those bonds have a maturity period of at least ten years.

- Financial institutions and insurance now excluded as persons to whom the application of the 30% of EBITDA interest restriction for members of a group applies.

- Introduction of a 6% withholding tax on purchase of a business or business assets.

- Local authority, Government institution, or regulatory body not to issue a license or any form of authorization to conduct any business in Uganda, to any person without a Taxpayer Identification Number (TIN).

- Removal of 1% withholding on agricultural supplies and listing of the same as goods

- Withholding tax of 20% and 10% to apply on government securities with a maturity of up to 10 years and for longer than 10 years respectively for both resident and non-residents.
Value Added Tax (VAT)

- The Minister to designate persons to withhold tax on payment of taxable supplies at a rate of 6% of the taxable value. Regularly VAT compliant persons to be excluded.
- Amendment of the First schedule (Public International Organisations) to include United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) as a Public Institution. Public International Organisations are entitled to a refund of VAT paid on their purchases.
- Amendment of Second Schedule (Exempt supplies) to include in the exemption list:
  - Aircraft insurance services;
  - Rice mills;
  - Agricultural sprays;
  - Supply of services and goods to the given industries as listed above under income tax exemption with the same criteria including the threshold;
  - The supply of services and materials for technical or vocational institute operators whose investment capital is USD 10 Million for a foreigner or USD 2 Million for a Citizen;
  - Supply of imported drugs, medicines and medical sundries;
  - Supply of imported mathematical sets and geometry sets used in education services;
  - The supply of woodworking machines;
  - The supply of welding machines and sewing machines; and
  - The supply of imported crayons, colored pencils, lead pencils, rulers, erasers, stencils, technical drawing sets, educational computer tablets, educational computer applications or laboratory chemicals for teaching science subjects used in educational services.”
- Amendment of Third Schedule to restrict the zero rate to drugs, medicines and medical sundries manufactured in Uganda.

Tax Procedure Code

- The Minister to publish a list in the Gazette for write off of all unpaid taxes by Government as at 30th June 2019 arising from Government’s failure to meet its commitment on counterpart funding for aid-funded projects.
- Commissioner General empowered to compound offences prior to the commencement of court proceedings.
- An equivalent of 5% of the tax or duty recovered to be paid to informers who provide information leading to recovery of tax or duty.
- Tax returns to be filed with Commissioner General defined to include:
  - Value Added Tax return;
  - Income Tax return;
  - Withholding Tax return;
  - Excise Duty return;
  - Lotteries and Gaming tax return; and
  - Stamp duty return.
**Excise Duties**

- The Minister to provide revised regulations for registration of manufacturers, importers and providers of excisable goods and services under part III of the Excise Duty Act.
- 2% compounded interest extended to apply to all unpaid excise duty and not just duty on imported or manufactured goods.
- Reduction of the capital threshold for investment in given industries for developers and operators as listed above under income tax with the same criteria. The duty rate is still nil.

**Stamp duty**

- A uniform fixed stamp duty of UGX 100,000 payable on bank guarantees, insurance performance bonds, indemnity bonds and similar debt instruments.
- Second Schedule amended to reduce the capital threshold for investments to align these to the changes made under the different Acts. The duty rate is still nil.

**Customs**

- Import duty increased as follows:
  - Tomato paste and other preserved tomatoes from 25% to 35%.
  - Ready to drink juices from 25% to 60%.
  - Imported television sets from 25% to 35%.
  - Imported toys of heading 9503 from 25% to 35%.
  - Imported toothpaste and other mouth wash preparations from 25% to 35%.
  - Processed coffee from 25% to 60%.
  - Processed tea from 25% to 60%.
  - Ginger from 25% to 60%.
  - Jams, marmalades, jellies from 25% to 35%.
  - Shoe polish from 25% to 35%.
  - Semi-processed edible oils from 10% to 25%.
  - Frozen meats of chicken, bovine animals, meat of swine and meat of sheep from 25% to 60%.
  - Peanut butter and bread spreads from 25% to 60%.
  - Onions, shallots, garlic, leeks, fresh or chilled from 25% to 60%.
  - Refined cottonseed oil from 25% to 60%.
  - Refined sunflower seed or sunflower oil from 25% to 60%.
  - Cocoa powder and chocolate and other food preparations containing cocoa from 25% to 60%.
  - Wigs, false beards, eyebrows and eyelashes and human hair from 25% to 35%.
  - Doors, windows and their frames and thresholds for doors of iron and steel and plastic/polymers from 25% to 35%.
  - Butter and other fats and oils derived from milk; dairy spreads from 25% to 35%.
  - Mixes and doughs for the preparation of bakers' wares from 25% to 35%.
  - Tarpaulins from 25% to 35%.
– Buses for transportation of more than 25 persons from 10% to 25%
– New pneumatic tyres of rubber, of a kind used on motorcycles from 10% to 35%
– Chewing gum from 25% to 35%
– Other sugar confectionery (sweets) from 25% to 35%
– Chocolates from 25% to 35%
– Biscuits from 25% to 60%
– Tomato sauce from 25% to 60%
– Mineral water from 25% to 60%
– Partly refined base oil from 0% to 10%
– Lubricants in liquid form from 25% to 35%
– Lubricating greases from 25% to 35%
– Soap and organic surface active products for use as soap from 25% to 35%
– Cartons, boxes, cases, bags and other packing containers of paper from 25% to 35%
– Toilet paper from 25% to 60%
– Exercise books from 25% to 60%
– Trade advertising material from 25% to 35%
– Pictures, designs and photographs from 25% to 35%
– Instructional charts and diagrams from 25% to 35%
– Blankets from 25% to 35%
– Furniture and parts thereof from 25% to 35%
– Mattress supports and mattresses from 25% to 35%
– Toothbrushes from 25% to 60%
– Ball point pens from 25% to 60%
– Electric accumulators from 25% to 35%
– Odoriferous mixtures of a kind used as raw materials in the food or drink industries flavours from 0% to 10%.

– Uganda to stay application of the EAC CET rate and apply a duty rate of 35% for one year on iron or steel wool, pot scourers and scouring or polishing pads, gloves and the like.
– Uganda to stay application of the EAC CET rate and apply a duty rate of 35% for one year on coated electrodes of base metal, for electric arc-welding.
– Uganda to stay application of the EAC CET rate and apply a duty rate of 25% or USD 1.35/Kg whichever is higher for one year on safety matches.
– Introduction of a specific duty at a rate of USD 200/MT so that the applicable rate is 25% or USD 200/MT whichever is higher for 1 year on flat rolled products of iron or non-alloy steel products of iron or non-alloy steel.
– Import duty at a rate of 25% or USD 350/MT whichever is higher applicable to steel articles of chapters 72 and 73 comprising of corrugated iron sheets (galvanized and preprinted), pre-painted coils, galvanized coils, hoop iron, twisted bars, flat bars and mild steel plates.
– Uganda to stay application of EAC CET of 35% and apply a duty rate of 10% for one year on wheat (wheat grain).
Sectoral Highlights

**Agriculture**
- UGX 1 Trillion allocated to the Agriculture Sector in FY 2019/20 accounting for a 12% increase from prior year.
- Commissioning of agro-processing factories in Teso and Luwero.
- Acquisition of 32% stake by UDB in Atiak Sugar Factory (nucleus facility for an out-grower scheme in Atiak and Lamwo).
- Measures to be put in place to transform from an agro-based to an agro-industrialised economy related to:
  - Enactment of laws to fill policy gaps;
  - Promotion of aquaculture and increased surveillance on Lake Victoria to combat use of illegal fishing gear;
  - Increase in uptake of irrigation technologies including solar powered pumps;
  - Prioritisation of funding for agricultural research under NARO, NACORI and NAGRC&DB;
  - Enhancing Agricultural Credit Facility (ACF) and roll out the Agricultural Insurance Scheme to make lending to the sector less risky; and
  - Addressing current challenges of land wrangles in the country.

**Financial Services Industry**
- Further capitalisation of Uganda Development Bank by 103.5 billion.
- Enactment of Security Interest in Movable Property Act to facilitate use of movable assets as loan collateral.
- Operationalisation of electronic chattels register to ease access to credit.

**Technology**
- UGX 146.2 billion allocated to ICT sector.
- New national broadband policy to be implemented to compel telecom companies to provide services to people countrywide.
**Infrastructure**

**Transport**
- UGX 6.4 Trillion allocated to the works and transport sector up from UGX 4.8 trillion in FY 2018/19.

**Water and Sanitation**
- UGX 1.1 Trillion allocated to the Water and Environment sector down from UGX 1.3 Trillion in FY 2018/19.
- Set-up regional water treatment facilities to enable timely response to water contamination issues.
- Improvement in waste management in the Capital City through construction of a new landfill at Dundu to enable conversion into manure and renewable energy.
- Ministry of water and environment to develop a clear policy and financing stance on sanitation, which should underline proper coordination across water, health and educations sectors.

**Manufacturing**
- Focus on establishment of an industrial base by tackling the bottlenecks such as inadequate electricity and transportation infrastructure to move the manufacturing sector from where it is now i.e. meeting domestic demand for basic products like cement, tiles, light steel products etc, to production for export.
- Iron & Steel industry now with 24 industries with doubled capacity to 1.7 million tonnes p.a
- Establish the industrial skills production center at Namanve to provide skills development.
- Promote and expand the Industrial and Technological Incubation Center.
- UGX 10 billion allocated to Soroti Fruit Factory for raw materials.
- Support research and innovation initiatives, such as Banana Industrial Development, Science and Technology, and projects such as Kiira Electri Vehicle.
- Reduce investment threshold in order to get tax incentives, for industrial park developers from USD 100 million to USD 50 million for foreigners and to USD 10 million for locals.
- Reduce investment threshold in order to get tax incentives, for industrial park operators from USD 50 million to USD 10 million, for foreigners and from USD 5 million to 1 million for locals.
Energy and resources

- UGX 3 Trillion allocated to the Energy Sector up from UGX 2.438 Trillion in FY2018/19.
- Finalisation of the fiscal regime and the Final Investment Decision (FID) for the Oil and Gas Commercial Investments and financing of Uganda National Oil Company (UNOC) equity contribution to the development of the infrastructure.
- Prioritisation of the Supportive Infrastructure for early Oil Production.
- Disseminate and implement a detailed Physical Development Plan for the entire oil region and sensitization of the population.
- Implementation of local content.
- Divestiture of Kilembe Mines on fast track.

Public Sector and Government

Education and Sports

- UGX 3.4 trillion allocated to the education sector up from UGX 2.8 trillion in prior year.
- Prioritisation of vocational training by enforcing standards in the institutions to make them attractive.
- Operationalise the SEED secondary schools being constructed in sub-counties without government secondary schools.
- Harmonise the Government merit Scholarship with the Student Loan Scheme.
- Fund research in Public universities.
- Review policy on creation of public universities, secondary and primary schools, with the view of ensuring that existing ones are fully functional before embarking on new institutions.
- Enhance quality of education service delivery especially at primary level, through teacher training, supervision and inspection.
- Phased recruitment of 22,000 primary school teachers.
**Tourism**

- UGX 193.7 billion allocated to the tourism from UGX 32 billion in FY 2018/19.
- Enhance development of skills in the Tourism industry by increasing the capacity of the Crested Crane Hotel and Tourism Training Institute.
- Extending investment incentives to developers of hospitality infrastructure in underserved tourism destinations such as Kidepo and other conservation areas.
- Conservation of wildlife by prioritising the development of barriers in human-wildlife conflict prone communities and intensification of fight against poaching.
- Diversification of tourism products range such as development of waterways, cultural, religious and historical sites, including supporting Local Governments in identification and development of tourism products.
- Upgrade and renovation of key tourism infrastructure including airfields and priority roads, electricity and internet infrastructure, stopovers, water and sanitation facilities along the routes and sites in a bid to improve access and reliability.
- Set up tourism observatory center to support data collection to provide reliable planning and investment statistics for the sector.

**Health**

- UGX 2.6 trillion allocated to the health sector in FY 2019/20 up from, UGX 2.3 trillion in the previous year.
- Operationalize health facilities being upgraded from health centres IIs to health centres IIIs, by providing adequate staffing and operational funds.
- Operationalize the newly rehabilitated General and Referral Hospitals.
- Speed-up approval of National Health Insurance Bill to enable implementation of the scheme.
- Prioritize preventive measures in health service delivery, including scaling up campaigns on health lifestyles beyond the National Fitness Day.
- Fast-track implementation of community health extension workers.
- Streamline systems for drug ordering and distribution.
- Improve health service delivery, through health worker training, supervision and inspection, including training and supervision of Intern Doctors.
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