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Uganda Budget Highlights 2018

Understand. Reflect. Respond.

Preamble

This publication highlights the tax and related measures proposed as per the 2018/19 budget speech.

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Tax Measures

Income Tax

- SACCOs 10 year Income Tax exemption / Holiday which was granted in 2017 has been repealed and they will now be required to pay tax.
- Income tax holiday granted to industrial park or free zone developer as follows:
  - 10 years holiday if capital is USD 200 million or more.
  - 5 years holiday if capital is USD 30 million or in the case of a Ugandan citizen investor, USD 10 million.
- Individuals to be granted a deduction for interest paid on a mortgage from a financial institution to buy or construct rental property removing the 20% limit on deductions against rental income.
- "Group" entities interest deduction capped to 30% of tax earnings before Interest, Tax, Depreciation and Amortization (EBITDA) with excess allowed for carry forward for upto 3 years.
- 100% minor capital deduction no longer applicable to returnable containers.
- Entities with successive tax losses for seven years to pay turnover tax of 0.5%.
- The Minister to make regulations for tax accounting for Islamic financial transactions.
- A direct or indirect change of 50% or more within a 3 year period for an entity to be considered a sale subject to Income Tax in Uganda.
- "Immovable property" definition expanded to include "any intangible asset which is a business asset or any part of the business" which would make it applicable for purposes of capital gains.
- The Inter-Governmental Agreement on the East African Crude Oil Pipe Line to have the same status as a Double Taxation Agreement (DTA).
- Thin capitalization rules scrapped.
- "Mining exploration right" definition expanded to include prospecting.
- Definition of "petroleum exploration right" redefined.
- Definition of "Farm-outs expanded to cover a part or entire transfer of all interests in a mining right or petroleum agreement.
- Introducing a different withholding tax rate of 1% for agricultural supplies above UGX 1 million made to designated agents instead of the 6% withholding tax that was previously applicable.
- Introducing a 10% final withholding tax on all commissions paid by telecom companies for airtime distribution or provision of mobile money services.
- African Trade Insurance Agency exempted from Income Tax.

VAT

- Introduction of designated Withholding VAT agents for Vatable payments of UGX 37,500,000 and above for upto 50% of the VAT payable by the agent to the supplier;
- "Electronic services" redefined to include services provided or delivered remotely;
- Payments for passenger MV with carrying capacity of less than 9 persons and entertainment have been excluded from VAT provisions that deem VAT to have been paid by contractors of Aid Funded Projects or licensees engaged in mining and petroleum operations;
- Tax payable on an assessment remains due and payable notwithstanding an objection or appeal;
- Interest due and payable on overpayments and late refunds from the URA capped to the principal tax;
- Tax relief provisions arising from International Agreements to only take effect after both Cabinet ratification and Parliamentary approval;
- African Trade Insurance Agency to be a listed institution under Schedule I of the VAT law enabling it to apply for VAT refunds;
- Exemption status to be applied to:
  - Bibles and Qur'ans
  - Feasibility study, design and construction for a developer of an industrial park or free zone whose investment is at least USD 200 million
  - Earth moving equipment and machinery for a developer of an industrial park or free zone whose investment is at least USD 200 million
  - Construction materials for a developer of an industrial park or free zone whose investment is at least USD 200 million
  - the supply of services to conduct a feasibility study and design; the supply of locally produced materials for the construction of a factory or a warehouse and the supply of locally produced raw materials and inputs or machinery and equipment to an operator within an industrial park, free zone or an operator with a single factory or other business outside the industrial park or free zone who meets the following requirements —
    - a minimum investment capital of USD 30 million in the case of a foreigner or USD 10 million in the case of a citizen;
    - carries on business in agro processing, food processing, medical appliances, building materials, light industry, automobile manufacturing and assembly, household appliances, furniture, logistics and ware-housing, information technology or commercial farming;
    - 70% of the raw materials used are sourced locally, subject to their availability;
    - directly employs a minimum of 100 citizens; and
    - provides for substitution of 30% of the value of imported products;
  - the supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings which are not available on the local market to a hotel or tourism facility developer whose investment capital is USD 15 million with a room capacity exceeding 100 guests.

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- the supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for the construction of premises and other infrastructure, machinery and equipment or furnishings and fittings to a hospital facility developer whose investment capital is at least USD 10 million and who develops a hospital at the level of a national referral hospital with capacity to provide specialized medical care.

- Zero rating of education materials limited to locally produced materials

Excise Duties

- Tax introduced on use of internet at UGX 200 per user per day of access to be collected by the telecommunication service operator providing data to users;

- Alignment of tax point for excise duty on services with the VAT point i.e. the earlier of:
  - Performance of service;
  - Payment; or
  - Issuance of invoice

- Excise duty paid on goods that are later exported to be refunded.

- Introduction of penalties for:
  - Failure to apply for a license (penalty equal to the tax payable).
  - Failure to furnish a return (penalty is greater of UGX 200,000 or 2% per month compound interest).
  - Late payment (interest of 2% per month compounded until payment).
  - Refunds for overpayment to earn interest of 2% per month compounded.
  - Failure to maintain records (penalty is higher of UGX 200,000 per month or tax due in that period).
  - Making false or misleading statements resulting into lower tax payment or higher refund (penalty equal to tax underpayment or refund in case of tax claims) .
  - Where the interest due and payable exceeds the aggregate of the principal tax, any interest in excess of the principal tax shall be waived.

*All interest is capped to the principal tax

- Application of variable rate based on higher of specific and ad-valorem rate for some excisable goods as follows:
  - Opaque beer (made from millet, sorghum) - higher of 30% or UGX 230 per litre.
  - Undenatured spirits from local raw materials - higher of 60% or UGX 2500 per litre.
  - Undenatured spirits from imported raw materials - higher of 100% or UGX 2500 per litre.
  - Ready to drink spirits - higher of 80% or UGX 1300 per litre.
  - Wine made from local raw materials- higher of 20% or UGX 2000 per litre.
  - Other wine - higher of 80% or UGX 8000 per litre
  - Powder for making juice or taste drinks (except pulp) - 15% of value.

- Exclusion of application of excise due of USD 0.09 per minute to incoming calls from Kenya, Rwanda and South Sudan.
- Change in excise duty rates for the following:
  - Airtime on mobile cellular, landlines and public pay phones from two different rates of 5% and 12% for landlines and mobile phones respectively to a single rate of 12% of the fee charged;
  - Increase from 10% to 15% of the fee charged on money transfers and withdraws (except by banks); and
  - All bank transaction charges except loan related fees from 10% to 15% of the fee charged.
- Introduction of excise duty on the following:
  - Cooking oil at UGX 200 per liter
  - Mobile money transactions (receipt, payments and withdrawals) at 1% of the value of the transaction
  - Value added services by telecoms - 20%
  - Motor cycle (at first registration)- UGX 200,000.
- No excise duty applicable to the following:
  - Construction materials for a developer of in an industrial park or free zone investing USD 200 million or more.
  - Construction materials of factory or warehouse (exclusive of local materials) by investor of:
    - USD 30 million, or USD 10 million by E. African citizen;
    - Carries selected business;
    - Uses 70% local raw materials;
    - Employs >100 Ugandans; and
    - Provides substitution of 30% value of imported products.
  - Local raw materials for construction of a hotel or tourist infrastructure of USD 15m and >100 guest rooms.
  - Furniture and fittings or locally produced materials for a hospital facility of USD 10m and status of national referral hospital with capacity to provide specialised care.

Tax Procedure Code

- The Minister shall pay any tax due either from a commitment made by Government to pay tax on a person's behalf or from acquisition of goods and services.
- Taxes due and unpaid by Government as at 30 June 2018 to be waived.
- Introduction of mandatory Electronic receipting and invoicing using an electronic fiscal device (EFD) linked to the Uganda Revenue Authority.
- Introduction of penalties in relation to electronic receipting and invoicing:
  - Failure to use EFD (Penalty is higher of tax due or UGX 8 Million).
  - Not issuing e-receipt or tampering with device (penalty higher of tax due or UGX 6 Million).
  - Acquiring a device not linked to the URA system (On conviction, imprisonment not exceeding 3 years, or fine not exceeding UGX 6 Million or both).
- Mediation introduced as one of the mechanisms for resolving tax disputes brought before the Tax Appeals Tribunal (TAT).
- TAT given powers similar to the High Court to award damages, interest or any other remedy against any party.
- Inclusion of the weekly and monthly return filling requirements for persons in the Gaming and Betting industry.

Sectoral Highlights

Transport

- Approximately UGX 4.8 trillion allocated to the Works and Transport sector for FY2018/19.
- Priority areas include: construction of 600km oil roads, upgrading 400km of roads to tarmac and rehabilitating 200km of existing tourism roads.
- Development of Mbale and Kapeeka industrial park road network.
- Commencement of construction of 15 bridges and Sigulu Island ferry on Lake Victoria.
- Re-development of Entebbe International Airport now at 30% completion.
- Plan to revive the national airline.

Tourism

- Allocation of UGX 32 billion to the sector.
- Earnings of USD 2.7 billion annually targeted by 2020.
- Planned increase in procurement of market destination representation firms to leverage on gains already seen and showcase Uganda as a tourist destination.
- Government strategy to promote domestic tourism through targeted marketing campaigns and interventions dubbed 'Tulambule'.
- Developing Uganda as a regional hub for biodiversity and cultural tourism.
- Re-development of tourism infrastructure such as renovation of the Uganda Museum, expansion of the Namugongo Martyrs Shrine and building of walkways at various sites on Mt.Rwenzori.

Financial sector

- The Government is to continue capitalizing Uganda Development Bank.
- Mobilisation of long term financing by listing of entities in which the Government has an interest at the Uganda Securities Exchange.
- Strengthening the Uganda Microfinance Regulatory Authority (UMRA) to eliminate fraud in SACCOs and deal with unethical practices by some money lenders.
- Remove deficiencies in Uganda's Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) Regime in order to ease correspondent banking; foreign direct investment and other investments and financial flows between Uganda and the rest of the world.

Agriculture

- Various measures to be put in place to commercialize and increase productivity in the sector, including:
  - Continue distribution of disease resistant seeds;
  - Construction of irrigation schemes and water harvesting sites;
  - Enhancing of extension services;
  - Improve storage / post-harvest handling services and market access;
  - Implement the agriculture zoning strategy, specialisation and value chain cluster;
  - Continue promoting mechanization;
  - Improving agricultural financing; and
  - Enforcing laws and regulations to address the challenges of crop and livestock diseases.

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Energy and Resources

- Allocation of UGX 2.438 trillion which is an increase from UGX 2.3198 trillion last year.

Oil and Gas

- Commencement of construction of the Kabaale (Hoima) Airport and the East Africa Crude Oil Pipeline and Refinery in current financial year.
- The lead investor, the Albertine Graben Refinery Consortium (AGRC) to undertake engineering designs for the Oil refinery.

Minerals

- Enactment of a new legal, fiscal and regulatory framework.
- Establish and operate a mineral certification system in Entebbe.
- Extend National Seismological Network and strengthen earthquake research facility in Entebbe.
- Fully operationalise the Mineral Protection Police Unit to curb illegal mining.

Electricity

- Rural Electrification Agency allocated UGX 636.54 billion.
- Completion of major hydro power plants, including 600MW Karuma and 183MW Isimba projects.
- Replacing dilapidated network to counter current 30% power losses.

Public sector

Water and Sanitation

- The budget allocation for the water and environment sector has increased to UGX 1.3 Trillion (represents 3.98% of the total budget) in FY 2018/19 from UGX 595.84 Billion in FY 2017/18.
- Government's objective for FY 2018/19 is to increase access to safe water in rural areas from 71% to 79%. Urban water access is targeted to increase to 100%, while access to sanitation is targeted to reach 86%.
- This shall be achieved through development of water and sanitation infrastructure and protection of environmental and ecological systems.

Education

- In FY 2018/2019, UGX 2.8 Trillion has been allocated to the Education sector, an increase of UGX 400 Billion from FY 2017/18.
- Planned improvement in access to education with some of the funds allocated to the education sector going towards completion of civil works in selected primary schools and secondary schools at sub-counties.

Technology, Media and Telecommunication

- UGX 149 Billion allocated to the ICT sector representing 0.45% of total budget. This includes allocation for extension of National Backbone Infrastructure (NBI); extension of ICT infrastructure to the four industrial parks of Namanve, Luzira, Mukono and Iganga; development of ICT regional innovation hubs; complete restructuring of Uganda Telecoms.

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