

# WHAT IS VALUE ADDED TAX (VAT)

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VAT is a tax on consumer expenditure. It is collected on business transactions and imports. Most business transactions involve supplies of goods or services. VAT is payable on supplies which are made:

- in Uganda;
- by a taxable person;
- in the course or furtherance of a business; and
- are not exempted

Supplies made in Uganda which are not exempt are called taxable supplies.

A Taxable person can be an individual, firm, or company, as long as such a person is required to be registered for VAT. (*See Registration Guide*)

Supplies are outside the scope of the tax if they are:

- Made by someone who is not a taxable person;
- Not made in the course or furtherance of business.

## 1.02 WHAT IS OUTPUT TAX?

This is the VAT charged to the customer by a taxable person in the course of effecting taxable supplies. When you are registered, you charge VAT on all the taxable supplies you make. This VAT is your output tax.

## 1.03 WHAT ARE TAXABLE SUPPLIES?

This is a supply of goods or services which are not exempt as part of business of a person. If you sell goods (supply of goods) or provide a service (supply of services) as part of your business, it is likely that you are making taxable supplies.

Anything you do by way of business can be a taxable supply in addition to the things you do in the ordinary course of your routine business.

## 1.04 WHAT ARE THE RATES OF VAT?

There are two rates of tax. The standard rate which is 18% and the zero rate which is 0%

## 1.05 ARE THERE OTHER KINDS OF SUPPLIES?

Yes. There are exempt supplies as specified in the VAT law. They include: financial services, insurance, medical, dental, nursing services, passenger transportation services (other than for tour and travel operators) and the supply of petroleum fuels, educational services, computers and Hotel accommodation outside Kampala and Entebbe.

### **1.06. HOW DO I KNOW IF MY SUPPLIES ARE EXEMPT OR ZERO RATED?**

Exempt and zero-rated supplies are listed in the second and third schedules (respectively) of the vat Act, Cap 349. In this guide, exempt good and services and ‘zero rated goods and services’ list the supplies which are exempt and those which are zero-rated.

If you are not sure about any of your supplies, ask your VAT office for advice. Remember any taxable supply, which is not Zero-rated is standard rated. It is very important to know whether you are making any exempt supplies because this affects the amount of VAT to be reclaimed.

### **1.07. WHAT IS THE DIFFERENCE BETWEEN EXEMPT AND ZERO-RATED SUPPLIES?**

Zero rated supplies are charged at 0% and Exempt supplies are not charged to tax at all. Therefore, Exempt supplies do not qualify for credit or refund of input tax.

### **1.08. WHAT OTHER TAXABLE SUPPLIES MAY BE LIABLE TO VAT**

You should not just account for VAT on your day-to-day sales; there may be other taxable supplies which you are making. Below are some examples:

- a) Sales to your staff (e.g. meals if you are in the business of selling food - even if supplied free of charge, or goods at reduced prices); or sales from vending machines;
- b) Sales of business assets (e.g. equipment, furniture, commercial vehicles);
- c) Hire or loan of goods to someone else for consideration;
- d) Gifts to friends or business representatives;
- e) Goods which you or your family have taken from the business for your own use;
- f) Commission received in return for selling something on behalf of someone else.

### **1.09 DO I STILL HAVE TO ACCOUNT FOR VAT IF NO MONEY IS PAID?**

You must account for VAT on any gift goods or services from the business based on the fair market value of the goods or service at the time the supply of goods or services is made.

Similarly you must account for VAT on the full value of anything you supply if you receive goods or service in return (e.g. in a barter trade).

If you do not charge VAT where you should, you still have to account for output tax. Whatever price you charge to your customer is treated as including VAT.

## **REGISTRATION GUIDE**

The information on Registration helps you to decide whether or not you should register for VAT. However, it does not exhaust everything you need to know about VAT registration. More<sub>2</sub>

information can be obtained from your nearest Uganda Revenue Authority Office responsible for Domestic Taxes.

**It is imperative to remember that if you are liable to register and you do not apply for registration at the proper time, you will have committed an offence under the VAT Law and you may be liable to a financial penalty. Your registration will also be backdated upon registration.**

## **2.01 WHO HAS TO BE REGISTERED FOR VAT?**

**Any person** conducting a **commercial enterprise** or intending to conduct a commercial enterprise may apply to be registered for VAT. However, if the taxable turnover of the enterprise, that is gross income for three consecutive calendar months, exceeds or is likely to exceed Shs12.5 million the person conducting the enterprise must register for VAT with Uganda Revenue Authority.

**1. The term **any person** for purposes of VAT registration includes:-**

- Sole Proprietor,
- Company
- Partnership
- Estate of the deceased
- Trust
- Incorporated body or
- Unincorporated body
- Club or Association

**2. A commercial enterprise:** - This refers to any business of whatever nature and it includes;

- (a) **Ordinary business / trade** e.g. Shops, Contractors, Manufacturers, Wholesalers etc.
- (b) **Professions** e.g. Builders, Architects, Engineers, Accountants, Lawyers, etc.
- (c) **Activities of non-profit making bodies** e.g. Societies, Associations, Sporting Clubs, etc.

Turnover related to exempt supplies as listed in the **EXEMPT GOODS AND SERVICES IS NOT** to be included in the total for deciding if VAT registration is compulsory.

## **2.02 HOW DO I ESTABLISH WHETHER I SHOULD REGISTER FOR VAT OR NOT?**

You are obliged by law to register if you are doing any business with effect from 1st July,

1996 that is likely to have taxable turnover in three consecutive calendar months exceeding Shs. 12.5 million.

### 2.03 WHAT YOU NEED TO CONSIDER TO REGISTER

Normally you only have to consider your business turnover over the past 3 months. If during the past 3 calendar months you made **taxable supplies** whose gross value exceeded Shs.12. 5 million then you have to register for VAT immediately.

Also if you reasonably expect that during the next 3 calendar months the total value of your **taxable supplies** is likely to exceed Shs.12. 5 million then you must register for VAT.

Remember that even if you don't have to register at present, and in future **your taxable turnover** increases to the level mentioned above, you must register as required by the law.

**Please note that** your taxable turnover is the total value of all your taxable supplies made in Uganda including zero-rated supplies and exports (**NOT THE PROFIT**).

### 2.04 HOW DO I CALCULATE MY TURNOVER?

Your turnover is calculated on an ongoing basis. Two periods should be considered - the past 3 calendar months and the next 3 calendar months, on a month by month basis.

You should ascertain at the end of each trading calendar month the total value of **taxable goods and services** supplied by all your businesses for the past 3 months. Where the total exceeds Shs12. 5 million you are required to register for VAT. **or**

If after estimating the total value of supplies for the next 3 months you expect to exceed Shs12. 5 million then you are required to register.

### 2.05 CAN I BE REGISTERED IF MY TURNOVER IS BELOW THE LIMIT?

If your taxable turnover is below the 12. 5 million limit in any 3 months of business activity you may apply for **voluntary registration**. You will, however, have to satisfy the Uganda Revenue Authority that your activities constitute a business for VAT purposes. Before applying, you should consider whether registration will be of benefit to you.

### 2.06 WHAT FACTORS DO I HAVE TO CONSIDER IN DECIDING WHETHER TO APPLY FOR REGISTRATION OR NOT?

In considering whether to register for VAT or not, you should address this question:

**(a) Is my creditable input tax likely to exceed the tax I have to charge on my sales?**

For example if you are a trader dealing in zero-rated supplies such as:- milk, maize flour, or seeds, fertilizers, pesticides and hoes or export of goods or services as the case may be, you should consider whether you wish to register voluntarily to claim refunds of VAT paid on purchases (input tax).

## **HOW DO I REGISTER FOR VAT?**

Applications for compulsory as well as voluntary registration must be made on form VAT 101, “**Application for VAT Registration**”, which is obtainable from your local Domestic Taxes Office. You should fill in this form and provide any extra information required, and take it to your nearest URA office. In the case of compulsory registration the application should be made by the 20th day of the month following the month you exceed the turnover limit required for registration.

**Please note that there are penalties for a delayed application.**

Uganda Revenue Authority will advise you of your VAT Registration number which will be in addition to your TIN (Tax Identification Number). A Certificate of Registration will be issued which you will have to display at your main business premises.

### **2.07 IF I WANT TO REGISTER VOLUNTARILY, CAN UGANDA REVENUE AUTHORITY REFUSE TO REGISTER ME?**

Voluntary registration is at the discretion of the Commissioner General. If registration is disallowed, you will be notified and the reasons for the refusal given. The Commissioner General can refuse to register any person who:-

- has no fixed place of abode or business;
- does not keep proper accounting records;
- has no bank account;
- has previously been registered for VAT purposes but failed to perform his duties under the VAT law;
- is not a fit and proper person to be registered

### **2.08 CAN I REGISTER BEFORE I COMMENCE BUSINESS?**

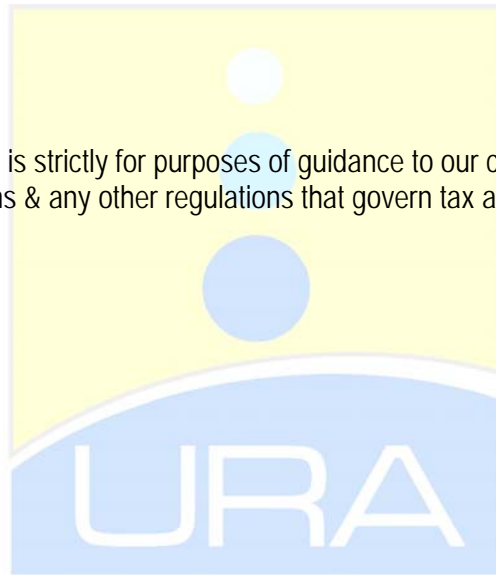
If you are not yet making taxable supplies, but have started a business activity in which you intend to make taxable supplies e.g. building a factory, you may apply to be registered as an Investment trader from a date before you start making such supplies.

You must produce to the Commissioner General satisfactory evidence of your firm’s intention to make taxable supplies by way of business e.g. investment license, feasibility study, proposed contracts, details of stock and capital asset purchases, patent application acknowledgement etc.

If your application is accepted, you will be able to provisionally re-claim Input tax that is

wholly attributable to your intended taxable supplies. Full details of the Input tax rules which appear in the VAT regulations will be given to you in writing.

**DISCLAIMER:** This Information is strictly for purposes of guidance to our clientele and is subject to change on amendment of tax legislations & any other regulations that govern tax administration.



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