

# Tax Amendment Acts 2014/15

## Background

On 12 June 2014 in her budget speech, the Hon. Minister of Finance proposed several avenues for raising domestic revenues. This was amidst the huge revenue deficit of about UGX 400 billion recorded in the financial year 2013/2014. **The tax amendment bills have now been passed by parliament and assented to by the president of the Republic Uganda.**

### Amendments to the Income Tax Act (ITA)

#### **1. Commencement**

This Act shall be deemed to have come into force on 1st July, 2014.

#### **2. Rental income to be taxed separately**

Rental tax imposed on any person shall be separate from the normal income tax. This means that the rent derived by a person shall no longer be included in the gross income of the person BUT shall instead be taxed separately.

“Rental income” for a year of income means the total amount of rent derived by the person for the year of income from lease of immovable property in Uganda with the deduction of any expenditures and losses incurred in respect of the property. The tax rates for rental income will be as follows;

No	Nature of person	Tax rate
1.	Individual	20% of chargeable income in excess of UGX 2,820,000
2.	Company	30% of chargeable income
3.	Retirement fund	30% of chargeable income
4.	Trustee or Partnership	20% of chargeable income in excess of UGX 2,820,000 applied to individual partners

#### **3. Capital gains tax on sale of commercial property**

Sale of commercial property will now attract capital gains tax at the normal rate of 30%.

#### **4. Interest income on agricultural loans now taxable**

Interest income earned by a financial institution on loans granted to any person for the purpose of farming, forestry, fish farming, bee keeping, animal and poultry husbandry or similar operations is now taxable.

#### **5. Private schools taxed**

Exemption for educational institutions has been repealed. As such, Income derived from managing or running an educational institution is taxable. However, under Section 2(bb), educational institutions of a

public character are still defined as exempt organizations for income tax purposes.

#### **6. No more Initial Allowance deduction**

Section 28 has been repealed hence eliminating initial allowance deduction previously granted to any person who put an item of eligible property in use for the first time.

#### **7. Start-up costs re-defined**

Section 30 has been expounded to define expenditure in starting up a business to mean:-

- a) In case of initial public offering, costs incurred in listing the business with the Uganda Stock Exchange; and
- b) In any other case, non-recurring preliminary or pre-opening costs, which are associated, with setting up a business such as fees of an accountant, registration charges, legal fees, costs for promotional and advertising activities, as well as costs for employee training

#### **8. Thin capitalization rules**

The thin capitalization foreign debt to foreign equity ratio for foreign-controlled resident entities has been amended from 2:1 to 1:1. As such, any interest in excess of the 1:1 ratio will not be allowable for tax purposes.

#### **9. Withholding tax on winnings of sports and pool betting**

A person who makes payments for winnings of sports betting or pool betting shall withhold tax on gross amount of the payment, at a rate of 15%.

#### **10. Withholding tax on payments of re-insurance premiums**

A resident person who makes payments of premium for reinsurance services to a non-resident person shall withhold tax on the gross amount of the payment at a rate of 15% but does not apply to reinsurance

services provided by Uganda Reinsurance Company Limited, African Reinsurance Corporation or PTA Reinsurance Company.

#### **11. Compliance with obligations of the Income Tax Act**

- a) A person who without good cause fails to notify the commissioner in writing upon entering into an agreement with a non-resident for provision of services by the non-resident which services give rise to income sourced in Uganda commits an offence and is liable on conviction to pay a fine of Ushs 2Million; or
- b) A taxpayer who fails to maintain records in Uganda that may be necessary to explain the information provided in a return or in any other document furnished to enable an accurate determination of tax payable commits an offence and is liable on conviction to pay a fine of Ushs 2Million; or
- c) Every person carrying on business in Uganda who makes a payment of income sourced in Uganda, being services income, interest, royalties, management fees or other income specified by the commissioner and fails to furnish a business information return to the commissioner within sixty days after the end of the year of income in which the payment was made commits an offence and is liable on conviction to pay a fine of Ushs 2Million; or
- d) A person who denies any authorized officer of URA full and free access to any premises, place, book record or computer commits an offence and is liable on conviction to pay a fine of Ushs 2Million; or
- e) A person who fails to comply with a notice to obtain information or evidence or fails to maintain any book or record or computer-stored information in English

commits an offence and is liable on conviction to pay a fine of Ushs 2Million.

## 12. Increased presumptive tax rates

The Small Business Taxpayers Tax Rates have been adjusted as below;

Gross Turnover	Tax
>5M, ≤ 10M per annum	NIL
>10M, ≤ 20M per annum	Shs. 450,000 or 3% whichever is lower
>20M, ≤ 30M per annum	Shs. 750,000 or 3% of the turnover, whichever is lower
>30M, ≤ 40M per annum	Shs. 1,050,000 or 3% of the turnover, whichever is lower
>40M, ≤ 50M per annum	Shs. 1,350,000 or 3% of the turnover, whichever is lower

## Amendments to the VAT Act

### 1. Commencement

a) This Act shall be deemed to have come into force on 1<sup>st</sup> July, 2014 except for items 4(a) (iii), 4(a) (iv), 4(c), 4(d), 4(e), 4(f), 4(g), 4(h), 4(i), 4(j) and 4(k) below, which came into force on 24<sup>th</sup> October 2014.

b) VAT exemption on item 4(k) below shall continue to apply to contracts that were entered into prior to its repeal until the contracts are completed or are terminated.

### 2. Persons required or permitted to register

A person who is not already a registered person but for purposes of accessing terms and conditions of payment of tax on plant and machinery shall apply for registration at the beginning of any tax

period of more than three calendar months where there are reasonable grounds to expect that the total value exclusive of any tax of taxable supplies to be made by the person will exceed the annual threshold of Ushs 50Million.

### 3. Machinery, tools and implements suitable for use only in agriculture

The amendment act has now expounded on this list to include; knapsack sprayers; ox ploughs; drinkers and feeders for chicken; agricultural tractors (including walking tractors); disk harrows; cultivators; ploughs; weeders; seeders; planters; subsoilers; seed drills; threshers; bale wrappers; milking machinery; milk coolers; maize mills; wheat flour mills; homogenisers; dairy machinery; grain cleaners and sorters; feed grinders hatcheries; and implements used for artificial insemination in animals.

### 4. Removal from exempt supplies under Schedule 2 the supply of;

- a) insurance services except;
  - i. health insurance services;
  - ii. life insurance services;
  - iii. micro insurance services; and
  - iv. re-insurance services.
- b) feeds for poultry and livestock;
- c) machinery used for processing of agricultural or dairy products;
- d) accommodation in tourist lodges and hotels;
- e) new computers, desktop printers, computer parts and accessories;
- f) computer software and software licenses;
- g) Liquefied petroleum gas;
- h) salt;
- i) packaging materials exclusively used by the milling industry for packing milled products;
- j) packing materials exclusively used by the dairy industry for packing milk; and

- k) specialised vehicles, plant and machinery, feasibility studies, engineering designs, consultancy services and civil works related to hydro-electric power, roads and bridges construction, public water works, agriculture, education and health sectors.

The above supplies will no longer be exempted from VAT and will now attract VAT at a standard rate of 18%.

**5. Application of VAT on the supply of;**

- a) printing services for educational materials,
- b) cereals, where the cereals are grown, milled or produced in Uganda; and
- c) machinery, tools and implements suitable for use only in agriculture,
- d) the supply of milk, including milk treated in any way to preserve it.

The above supplies that have always been zero rated will now attract VAT at 18%.

## Amendments to the Excise Tariff Act

### 1. Commencement

This Act shall be deemed to have come into force on 1<sup>st</sup> July 2014.

### 2. Changes in excise duty rates

No	Item	Excise Duty rate
<b>1.</b>	<b>Cigarettes</b>	
a)	Soft cap	UShs 35,000 per 1000 sticks
b)	Hinge lid	Ushs. 69,000 per 1000 sticks
c)	Cigars, cheroots, cigarillos containing tobacco	160%
d)	Smoking tobacco, whether or not containing tobacco substitutes in any proportion	160%
e)	Homogenised or reconstituted tobacco	160%
f)	Other	160%
<b>2.</b>	<b>Beer</b>	
a)	Malt beer 60%	60%
b)	Whose local raw material content, excluding	20%
c)	water, is at least 75% by weight of its constituent	40%
<b>3.</b>	<b>Spirits</b>	
a)	Made from locally produced raw materials	60%
b)	Undenatured spirits	UShs. 4000 per litre or 140% whichever is higher
c)	Other	70%
<b>4.</b>	<b>Wine</b>	
a)	Made from locally produced raw materials	20%
b)	Other wines	70%
<b>5.</b>	Non-alcoholic beverages, excluding natural fruit juice drinks and/or vegetable juice drinks containing not less than 10% by mass of standardized fruit and/or vegetable juice	13%
<b>6.</b>	Mineral water, bottled water and other processed water purposely for drinking	10%
<b>7.</b>	Cement	Ushs. 500 per 50 kgs
<b>8.</b>	<b>Fuel</b>	

a)	Motor Spirit (gasoline)	UShs. 950/= per litre
b)	Gas oil (automotive, light, amber for high speed engine)	UShs. 630/= per litre
c)	Other gas oils	UShs. 630/= per litre
d)	Gas oil for thermal power generation to national grid	Nil
e)	Illuminating kerosene	UShs. 200/= per litre
f)	Jet A1 and aviation fuel	UShs. 630/= per litre
g)	Jet A1 and aviation fuel imported by registered airlines, companies with designated storage facilities or with contracts to supply airlines	Nil
<b>9.</b>	Cane or beet sugar and chemically pure sucrose in solid form	UShs. 50 per kg
<b>10.</b>	Cane or beet sugar for industrial use	0%
<b>11.</b>	Sacks and bags of polymers of ethylene and other plastics under HS Code 3923.21.00 and 3923.29.00 except vacuum packaging bags for food, juice, tea and coffee	120%
<b>12.</b>	Cosmetics and perfumes	10%
<b>13.</b>	<b>Telecommunication services</b>	
a)	Value added services	20%
b)	Incoming international call services	USD \$0.09 per minute
c)	Money transfer or withdrawal services including transfers and withdraw services by the operators licensed or permitted to provide communications or money transfer or withdrawal but not including transfer and withdraw services provided by Banks	10% of the fees charged
d)	Airtime or talktime	
	i. Mobile cellular devices	12%
	ii. Landlines and public pay phones	5%
<b>14.</b>	Ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and nontransaction charges excluding loan related charges periodically charged by financial institutions	<b>10% of the fees charged</b>

## **Amendments to Stamps Act**

The schedule to the stamps Act has been amended in the first part as follows;

No	Policy	Stamp duty
a)	Policy of Insurance	UShs 35,000
b)	Life insurance	NIL
c)	Insurance performance bond	UShs 50,000

## **Some of the amendments in The Finance Act, 2014**

### **1. Commencement**

This Act shall be deemed to have come into force on 1<sup>st</sup> July 2014.

## **2. Tariff treatment of goods from COMESA.**

Import duty shall not be charged on goods produced or manufactured in the territory of a COMESA member State, where the goods comply with the requirements of Article 48 of the COMESA Treaty and the rules of origin in ANNEXIV of the COMESA Treaty.

## **3. Environmental levy on used clothing, shoes and other articles**

The levy is now 15% of the CIF value.

## **4. Remission of Government arrears of taxes**

All tax arrears owed by the Government of Uganda to URA (excluding PAYE and Withholding tax) as at 30 June 2014 are remitted.

## **5. Levy on export of unprocessed tobacco leaf**

A levy at the rate of US \$ 0.2 per Kilogramme shall be charged on unprocessed tobacco leaf which is consigned out of Uganda. This shall be paid by the exporter to URA at the time the tobacco leaf is being exported.

## **6. Payment to informers**

The Commissioner General shall pay to a person who provides information leading to the recovery of a tax or duty, the equivalent of 10% of the principal tax or duty recovered.

### **1. Work permit fees increased**

	<b>Work permits</b>	<b>Rate in US Dollars</b>
1.	6 months	800
2.	12 months	2,500
3.	24 months	4,000
4.	36 months	5,000

### **Disclaimer:**

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*For more information or assistance, please contact us.*

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