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Uganda Budget Highlights
Navigating new realities
June 2021

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Content

Foreword

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Country Managing Partner
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As expected, the 2021 Budget Statement's policy proposals included significant focus on mobilising revenue to support Government's increasing expenditure and supporting sectors mostly affected by the pandemic through reliefs and government interventions.

In the last year, we have witnessed significant shift in businesses operations across all spectrums. From private to government institutions, multinationals to local enterprises, the call for agility and the role of technology for the future can not be overlooked.

We at Deloitte, through our shared values, endeavour to lead the way towards recovery, take care of our clients and stakeholders and collaborate for measurable impact as we forge ahead to build a strong new world of business post the pandemic.

This Budget Highlights document provides summary of key policies of the 2021 Budget Statement and our analysis of how the policies could affect businesses, the economy and society at large. We hope this document provides sufficient insights into the various policy measures set out in the 2021 Budget Statement and help kick start conversations around how we navigate challenges to thrive.

Patronella Namubiru
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The Budgeting process is almost as important as the final budget approved by Parliament and this is even more so in light of the prevailing economic environment that has hugely been impacted by Covid-19 pandemic. There is a reduction in the resource envelope as a recognition of the reduction in external project support financing. This will likely translate in a greater focus on domestic revenue mobilisation. The Domestic Revenue Mobilisation for Development (DRM4D) has been one the critical underpinning factors that has seen the Uganda Revenue Authority (URA) place emphasis on compliance and the need to widen the tax base.

Areas such as Electronic Receipting and Invoicing System (EFRIS), digital tax stamps are some of the outcomes of this focus. A number of tax amendments have been introduced that aim to boost tax collections. Some of these include changes to the rental tax regime for individuals which are to be coupled with the expected rollout of the Rental Tax Compliance System (rTCS) in the near future, mandatory Tax Identification Number (TIN) requirement for licensing, removal of requirement for intent with respect to declarations and statements made to the URA for VAT purposes and the introduction of a twelve percent (12%) excise duty on internet data.

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Introduction

- Following the recently concluded elections and the dissolution of cabinet, the FY2021/22 budget was presented by the Ntengeru North Member of Parliament Hon. Amos Lugolobi pending the vetting of the proposed Minister of Finance elect.
- This is the second year of implementation of the National Development Plan (NDPIII), whose overall goal is to increase household incomes and improve the quality of life of Ugandans while taking into account the impact of the Covid-19 pandemic. The budget theme has therefore not changed from prior year and was presented under the theme – Industrialisation for Inclusive growth, Employment and Wealth Creation and seeks to achieve the following development outcomes:
    - Increased investment in the real economy to generate employment and increase products for import substitution and exports.
    - Enhanced quality of social services to build human capital especially among the youth, who constitute majority of the population.
    - Enhance efficiency of physical infrastructure to enhance productivity; and
    - Provision of affordable financing to unlock entrepreneurial potential and improve competitiveness. `

Economic overview

Uganda's economy at a glance

Trend in GDP growth

Source: IMF

- The Ugandan economy is projected to grow by 6.3% in 2021 from a 2.6% decline in 2020, a consequence of a slowdown in economic activity due to the COVID-19 pandemic.
- The forecasted recovery in Uganda's economy in 2021 is mainly attributable to;
  - The removal of most domestic lockdown restrictions which resulted in the reopening of schools, nonessential business and the transport businesses;
  - Increase in external demand for gold, coffee and other agricultural products. primarily as a result of the projected recovery of the economy of most of its trading partners such as the UAE, Sudan and Kenya;
  - Increase in tourist numbers and lifting of remaining restrictions due to increased vaccination levels; and
  - The expected onset of oil production in 2024 will also attribute to growth of the economy.
- The projected increase in Uganda's GDP is in line with the 1.7% increase in the country's 2021-2022 budget.

Inflation

F - Forecasted

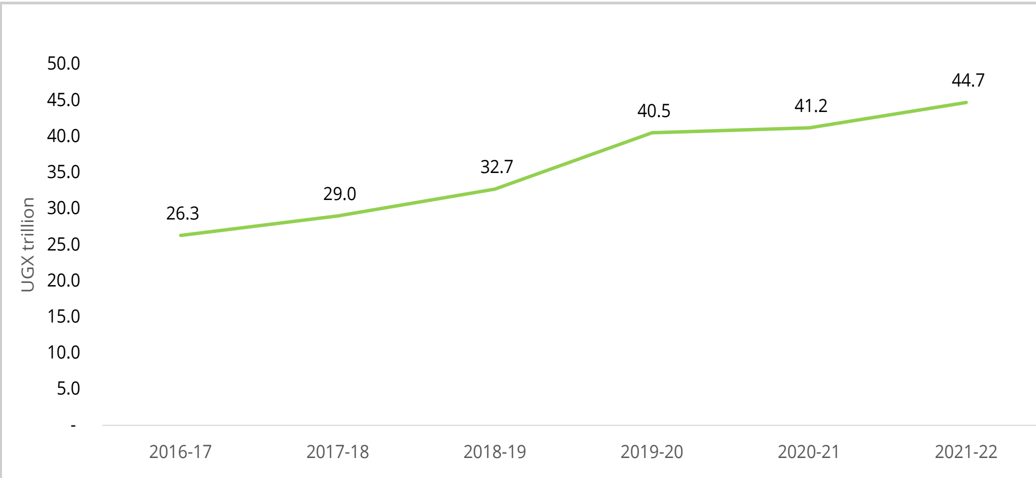
Source: IMF

Inflation is expected to average 5.2% in 2021 as compared to 3.8% in 2020 owing to;

- The expected economic recovery which will support demand for imports as well as an increase in oil prices; and
- Fiscal challenges, a more depreciated exchange rate, gains in international commodity prices and a faster than anticipated global recovery.

The projected increase in inflation may negatively impact the country's budget due to higher than budgeted prices for government expenditure.

Uganda's Budget



Source: 2021-22 budget is based on the Budget Policy statement from the Ministry of Finance and Planning

The 2020-21 budget is expected to be financed by;

- Increased tax revenues following the implementation of the Domestic Revenue Mobilization Strategy (DRMS) aimed at increasing domestic revenue by 0.5% points of GDP each year;
- Non- tax revenue of approximately UGX 1.5trn;
- Domestic financing of approximately UGX 2.3trn;
- Local revenue of approximately UGX 215.5b; and
- Transfer of approximately UGX 200b from the petroleum fund to support the budget.

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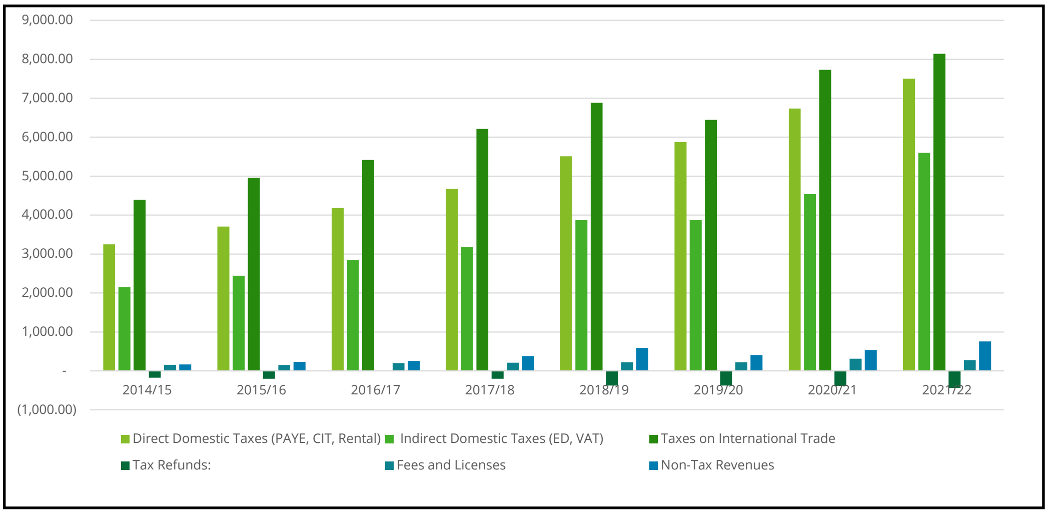
Tax Collections (billions)

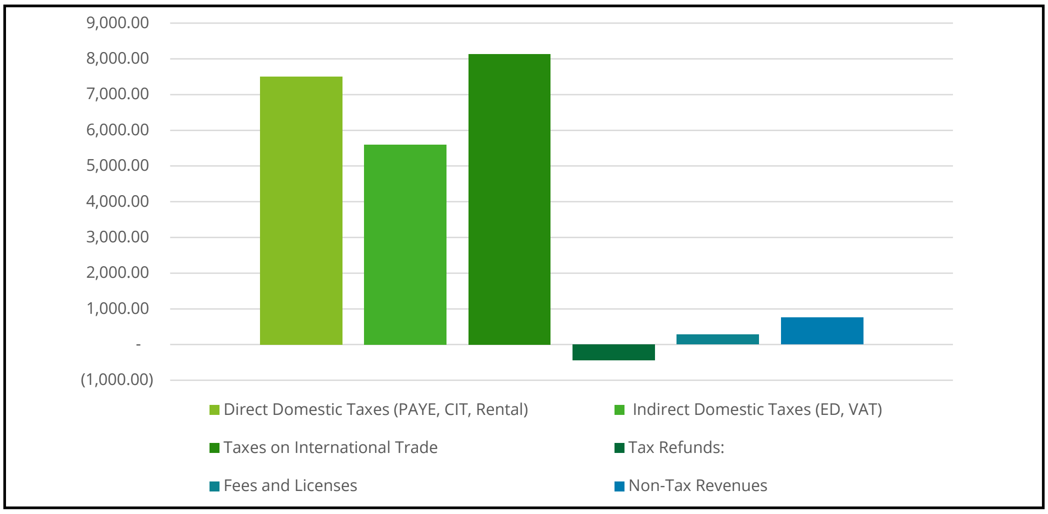


Source: Uganda Revenue Authority

Over the years there has been a steady growth in tax revenue collections across all tax heads. This has been mainly supported by implementation of the Domestic Revenue Mobilization Strategy (DRMS). The Strategy aims to guarantee a reasonable, realistic, and practical approach to sustainable resource mobilization through the implementation of reforms in the tax system over the medium term.

Although there has been a year on year growth in revenue collection for all tax heads, the budget target has not been met and in the current financial year this is not surprising given the Covid-19 pandemic. The strongest performers for the financial year were taxes collected on international trade (customs duties) and direct domestic taxes which posted approx. 19.9% and 14.6% growth respectively.

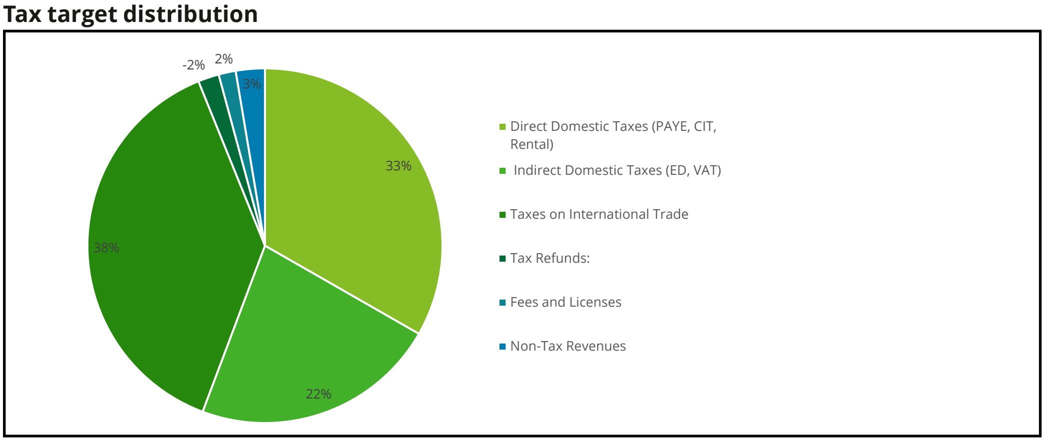
Collections per tax head 2021/22



Source: Uganda Revenue Authority

The collections per tax head have the same trends as the previous years. Parliament already passed the 2021/22 budget and according to this budget government will be spending UGX 44.7 trillion. 76.7% will come from domestic and 23.3% from external sources. Out of the domestic sources UGX 22.425 is expected to come from domestic tax revenue equivalent to 13.8% of GDP, compared to a projected outturn of UGX 19. 432 trillion, equivalent to 13.1% of GDP in FY 2020/21. This target revenue is an increase of 0.7% age point of GDP. The external source is borrowing and at this rate there is a worry of the debt going beyond 50% of the GDP. The domestic collection sare still low. There is a cry for the government to reduce on the very high public expenditure in order not to worsen our debt burden which is compounded by poor management and utilization of the borrowed funds a situation which has been worsened by the Covid - 19 pandemic

Tax target distribution

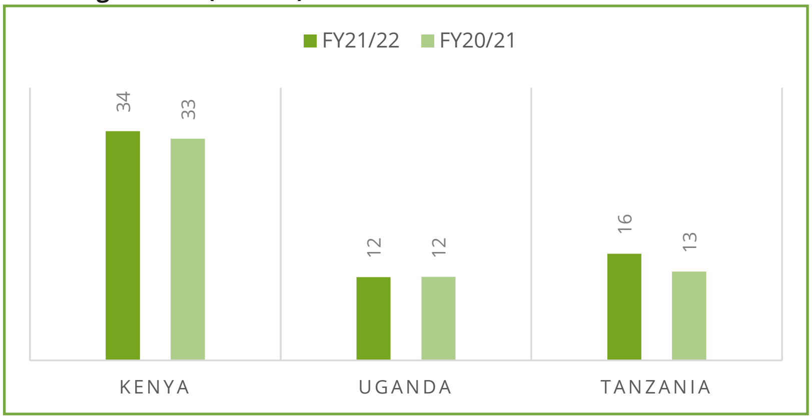


Source: Uganda Revenue Authority

Individually international taxes which comprises of mainly import taxes seems to contribute the biggest portion with 40% however, the combined contribution of Income tax and valued added tax which are considered domestic have continued to make the biggest contibution to the governement revenue target with a combined percentage of 58%

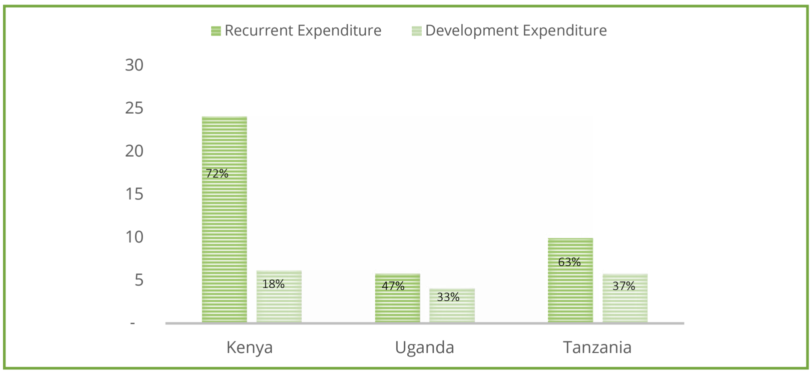
East Africa Budget Overview

EAC Budget trend (USD Bn)



Source: National Treasury, Parliament of Kenya
2021-22 budget is based on the Budget Policy statement from the National Treasury

EAC Expenditure Allocation (USD Bn)



Source: National Treasury, Parliament of Kenya
2021-22 budget is based on the Budget Policy statement from the National Treasury

Commentary

The East Africa Community (EAC), primarily comprising Kenya, Uganda and Tanzania, announced their budgets for the 2021/22 financial period on 10 June 2021. Per the announced budgets, Kenya, Uganda and Tanzania estimate a combined resource purse for the upcoming financial period of USD 61 Billion. Kenya leads the pack at USD 34 Billion, with Tanzania and Uganda at USD 16 Billion and USD 12 Billion, respectively.

This represents a marginal growth in the region's resource purse by USD 4 Billion representing a 6.4% increase, largely driven by Tanzania and Kenya.

Tax Measures

Corporation Tax

Beneficial owner redefined

"Beneficial owner" has been redefined to mean a natural person who has control or ownership of another person or on whose behalf a transaction is conducted, including one who exercises absolute control over a legal person.

With regard to trusts, a beneficial owner includes:

- Settlor;
- Trustees;
- Protector;
- Beneficiaries; and
- Any natural person with absolute control of the trust.

In respect to other legal persons, a natural person holding a position similar to the ones indicated above.

Who will be affected

Non-residents with income sourced in Uganda.

> *This affects the determination of who can benefit from exemptions and reduced rates of tax under the Double Tax Treaties (DTTs).*
> *This is an expansion to the change in definition of a beneficial owner introduced in 2019. This creates an absurdity in respect to applicability of the DTT, where the common occurrence is for a legal rather than a natural person to be the recipient of payments or involved in a transaction to which the DTT provisions are applied.*
> *A strict application of this provision would result in DTTs becoming inapplicable to instances involving legal persons.*

Consideration defined

Consideration has been defined to include the total amount in money or payment in kind, paid or payable for the supply of goods, services or sale of land by any person, directly or indirectly, including any duties, levies, fees, and charges other than tax paid or payable on, or by reason of, the supply, reduced by any discounts or rebates allowed and accounted for at the time of the supply or sale.

Who will be affected

All taxpayers, whether making or receiving payment.

> *While the term consideration is widely used in the income tax act especially under Part VI on gains and losses on disposal of assets, no definition was attached to it, creating varied interpretations by tax practitioners and administrators. Previously, some tax practitioners and administrators have often applied the Value Added Tax ("VAT") Act definition of this term for income tax purposes. This amendment will therefore create a uniform interpretation and application.*

Exempt organisation redefined

The definition of an exempt organisation which is of a religious, charitable or educational institution "of a public character" has been revised to become " a religious, charitable or educational institution whose object is not for profit".

Who will be affected

Religious, charitable or educational institutions.

This measure is meant to eliminate the ambiguity created by the phrase "of a public character" thereby limiting exempt organisations within the category of religious, charitable or educational institutions to only those that are not for profit.
This ultimately implies that any institution of a religious, charitable or educational nature is an exempt organisation, only if its objective is not to make a profit. However, this is likely to create more confusion especially with respect to religious and charitable institutions which by their nature are not intended to be profit generating even though they may involve themselves in activities meant to generate income to be used for the objective for which they have been set-up.

Income Tax Exemption for specific categories of persons

Repeal of the exemption provided to agro-processors and extension of exemption provided to persons making new or additional investment meeting the thresholds for capital, use of locally sourced raw materials and employment of citizens operating in or outside an industrial park or free zone to manufacturers of chemicals for agricultural or industrial use, textiles, glassware, leather products, industrial machinery, electrical equipment, sanitary pads and for diapers.

Who will be affected

Investors meeting the investment thresholds.

This measure aligns to the Government's focus of enhancing industrialization and private sector development. At the heart of this is Government's promotion of the Buy Uganda Build Uganda "BUBU" policy through encouraging local manufacture of specific products while utilizing local inputs and creating jobs.
It is hoped that additional tax holidays will attract investments even though for industries except those that are capital intensive such as manufacturing, USD 300,000 & USD 150,000 capital investment threshold especially in current economic times is quite high and may lock out many Ugandan investors.

Changes to determination of cost base and recognition of capital loss/gains

a. The cost base of assets sold after twelve (12) months from the date of purchase is to be adjusted for inflation using published consumer price indices.

b. With respect to registered venture capitalists:

I. No capital gain is to be recognised from the sale of an investment interest if at least fifty percent (50%) of the proceeds of the sale are reinvested within that year of income; and

II. Even where the above threshold is not met, the non-recognition of a gain or loss is available to the extent of the percentage of the re-invested proceeds.

Who will be affected

Persons disposing of non-depreciable business assets and venture capitalists.

Inflation generally impacts the prices of assets. While inflationary adjustments on the cost base of immoveable property currently applies to assets acquired before 31 March 1998, this measure allows for the adjustment of the cost base of all assets disposed of using recent consumer price indices.

The current use of unadjusted cost bases to determine a gain or loss on disposal of an asset disadvantages taxpayers and as such this is a very welcome measure.

Indexation counters the effect of inflation and keeps the rate of taxation relatively constant.

The amendment takes into consideration the passage of time and the impact on the value of an asset from acquisition and therefore considers the time value of money which is a critical aspect for any investment.

With respect to concessions for venture capitalists, this is a way of encouraging alternative means of financing for businesses especially through private equity.

What remains unclear is what the Tax Authority will consider in determining that the funds have been re-invested. As an example, if a foreign equity firm provides funding through the acquisition of a stake in a company in Uganda and after five (5) years disposes of that stake and re-invests the funds in another company, whether in Uganda or outside Uganda, the question becomes one of what criteria will be applied by URA to determine qualifying reinvestments for purposes of non-recognition of a gain.

It is therefore important that clear guidelines are provided as to how this will be implemented so that it doesnot remain a provision in the Income Tax Law without real applicability.

Modification to tax depreciable classes and rates

Asset depreciation classes have been reduced from four to three with depreciation rates adjusted for some classes as follows;

- Computers and data handling at 40%;
- Plant and machinery used in farming, manufacturing and mining at 30%;
- Automobiles, buses, specialised trucks, furniture, fixtures and equipment and assets not included in another class at 20%.and
- At the same time, a deduction for depreciation for an asset or industrial building that qualifies for initial allowance is to be deferred to the subsequent year.

Who will be affected

All taxpayers with property plant and equipment (PPE).

> *This is likely aimed at accelerating tax collection from investments as a result of reduced capital allowances due to the reduction of depreciation rates and the deferral of when one can take a deduction as a result of grant of initial allowance. This means that most qualifying PPE a person acquires will have the tax deduction spread over a longer period. Investors may therefore take longer to realise the expected return on their investments as some businesses take a long time to break-even and achieve profitability. The industries most likely to be affected include transport with respect to change in depreciation rate for automobiles and both manufacturing and farming with respect to deferral of tax depreciation for additions to both industrial buildings and plant & machinery.*

Extension of list of listed institutions

The African Export – Import Bank and International Union for Conservation of Nature have both been added to listed institutions under the First Schedule to the Income Tax Act.

The significance of this is that income of organisations that are listed institution is exempt from income tax. This list is comprised mainly of development partners and funding agencies of different states that support or provide funding for priority initiatives under the National Development Plan, whether directly or indirectly.

Corporation Tax - Other Measures

Exchange of information

Where an International Agreement provides for the automatic exchange of information, this is to be facilitated by the Commissioner General.

In furtherance of this, the Minister for Finance, Planning and Economic Development is to issue regulations providing for the automatic exchange of information.

Who will be affected

Multinational corporations and other taxpayers.

This measure is intended to facilitate ease of exchange information among tax authorities globally on either their nationals or foreign nationals with links to their countries as well as operations of multinational companies. This measure is reciprocal especially considering the number of Information Sharing Agreements the URA has entered into and the multijurisdictional co-operation. It is part of the global trend to enhance transparency as a means to combating tax evasion.

Tax administration measures

Due date for payment of tax under self-assessment is by the return filing due date and in any other case, within 45 days from the date of service of the notice of assessment.

A tax refund application to the Commissioner is deemed to have been submitted on the date on which the application is received by the Commissioner, but where the Commissioner requests for additional information, the application is deemed to have been submitted on the date on which the additional information is received by the Commissioner.

With regard specifically to refunds, by shifting the date when an application is made to when information is received based on subsequent information requests from the URA, the Tax Authority reduces any simple interest payable on the refund which is meant to be computed from the date when the application was made to the date when the refund is paid.
That said, some certainty is provided by the requirement that the refund has to be paid within six (6) months from date of receipt of the application.

Rental Income

Rental income tax

Change in the definition of a "tax decision" to exclude certain actions from being regarded as tax decisions. These include:

- Issuance, refusal or revocation of a private ruling or practice notice;
- Omission affecting tax officers, employees or agents of URA.

Who will be affected

Taxpayers.

In light of the rollout of the Rental Tax Compliance System (rTCS) expected in the near future, the amendment that has been approved by Parliament should give some reprieve to landlords than the amendment that was submitted for Parliamentary discussion and approval. For another year running, it had been proposed to ring fence rent received from each individual building. Fortunately, this amendment was not passed.
Additionally, the previous amendment was for deductible expenses to be allowed upto 60% of the rent received. The Act passed by Parliament increased that to 75%.

In respect to rental taxation of individuals, under the current law, expenses incurred by an individual to earn rental income are capped at 20% of the rental income earned.
While on the one hand the move to increase that threshold to 75% is a welcome one overall, the amendment to change the rate and how the tax is computed creates a burden for landlords who are not earning significant rental revenues. An illustration is provided below:

Individual		
Current		
Rental Income	6,000,000	100,000,000
Expenses (20% X 6,000,000/100,000,000)	1,200,000	20,000,000
	4,800,000	80,000,000
Less: Threshold	2,820,000	2,820,000
	1,980,000	77,180,000
Rental Tax (20% X 1,980,000/77,189,000)	396,000	15,436,000
New provisions		
Rental Income	6,000,000	100,000,000
Expenses (75% X 6,000,000/100,000,000)	4,500,000	75,000,000
	1,500,000	25,000,000
Tax (30% X 1,500,000/25,000,000)	450,000	7,500,000
Additional tax	54,000	(7,936,000)

Tax Procedure Code

Definition of a "Tax decision"

Change in the definition of a "tax decision" to exclude certain actions from being regarded as tax decisions. These include:

- Issuance, refusal or revocation of a private ruling or practice notice;
- Omission affecting tax officers, employees or agents of URA.

Who will be affected

Taxpayers.

Tax decision" currently covers a tax assessment or a decision left to the discretion of the Commissioner other than a decision made in relation to a tax assessment. It introduces specific exclusion for the use of this discretion and actions of persons acting on behalf of the Commissioner and the URA as a whole.
This change takes away a taxpayer's ability to object or even appeal against the outcome of any actions taken by the URA that are indicated as exclusions especially with respect to representations made in written communications, including but not limited to letters and e-mail correspondence, contained in private rulings issued to a taxpayer and to Practice Notices as a whole.
Taxpayers rely on Practice Notes and private rulings issued by the URA to determine tax positions taken which are then relied upon during tax audits. This change has most likely been prompted by a recent case of Kansai Plascon v URA in which the High Court ruled that the Commissioner does not reserve the right to revoke a private ruling at their discretion.

Mandatory TIN requirement

All local regulatory bodies will not issue a license to operate a business in Uganda to anyone who does not have a Taxpayer Identification Number (TIN) including a TIN issued by a foreign authority with whom Uganda has a Tax Treaty or Agreement for the exchange of information.

Who will be affected

Business operators.

This has already been the practice for some authorities such as Kampala Capital City Authority (KCCA) as well as the Uganda Investment Authority where one cannot obtain a trade license nor an investment license without a TIN.
The success of this initiative relies heavily on the co-operation among the different Ministries Departments & Agencies (MDA) that are responsible for licensing.
However, this requirement will now legally apply to all local authorities, regulatory bodies or Government institutions which provide any form of authorization necessary to conduct a business in Uganda.
The purposes of this is to widen the tax base by bringing businesses into the tax database.
However, URA in turn needs to re-look at it process and the ease of persons to obtain a TIN was they have applied for one. Under current practice, URA expects a person to make a payment for a tax, inspite of the fact that the person has not yet started generating income, before the TIN is approved.

Enforcing the requirement to register as tax agents

The amendment prohibits a person who is not registered as a tax agent from acting as a tax agent.

However, the above requirement does not apply to an advocate acting in that capacity for a taxpayer in respect of all the taxpayers' matters with exception of preparation and filing of tax returns or other statements and reports required by the URA.

Who will be affected

Tax agents and advocates.

> *The purpose of this change is to reinforce the requirement for tax agents to register. However, it is interesting that advocates even though among the categories of people who can register as tax agents are excluded from application of this provision. This would imply that where a taxpayer retains the services of an advocate to assist in tax matters, except with respect to tax filings, there is no need for registration as a tax agent.*

Liabilities and obligations of a tax agent and representative

The amendment replaces the word "agents" with the word "representatives" under sub-Sections 14(2) and (5).

Who will be affected

Tax agents and representatives.

> *While the Tax Procedure Code Act has clearly distinguished between who a tax agent and a tax representative is, subsequent provisions in the TPCA, use the terms interchangeably. The effect of this in the past has been to place a much higher responsibility on tax agents who are simply intended to assist in the tax process, where the intention was to place this responsibility on tax representatives who are the personification of the taxpayer. This amendment therefore most likely seeks to correct this interchange of responsibilities.*

Return amendments

A taxpayer can amend a tax return within three (3) years from when the return was submitted.

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Who will be affected

All taxpayers.

> *Currently, the return amendment window is twelve (12) months from the submission date. Where a taxpayer needs to make an amendment to a return outside of the 12-month window, they ordinarily need to request URA to make the amendment from their end.*
> *This is a positive move given that the 12-month window is too short; in practice errors are usually discovered after a longer period which could then result in non-compliance. This is also viewed as an alignment to the three (3) year statute of limitation from the date of the assessment, although this provision has not yet been implemented in practice.*

Offences on tax stamps

Penal tax relating to tax stamps as follows:

- Five-year prison term and/or Shs. 10m fine for acquiring or selling a tax stamp without goods; and
- The higher of Shs. 10m or double the tax due for affixing tax stamps on goods that have not been approved by the Commissioner.

Who will be affected

Importers and manufacturers of excisable goods.

With the roll out of digital tax stamps in 2019, these offences have been introduced to encourage compliance with the obligations relating to tax stamps while hopefully addressing the widespread issue of counterfeit "fake" goods, the sale of which doesnot generate revenue for the URA from the importers or producers.

Alternative dispute resolution

A taxpayer who is dissatisfied with a decision may apply to the Commissioner to resolve the dispute using alternative dispute resolution procedure, as may be prescribed.

The Minister will issue regulations in respect to this process.

Who will be affected

Taxpayers.

Currently, from a legal standpoint, an aggrieved taxpayer wanting to dispute an objection decision, is mandated to apply to the Tax Appeals Tribunal (TAT) within 30 days after the decision and pay at least 30% of the tax in dispute, subject to some exceptions, as part of the application process and before one's case is heard. This dispute resolution path is costly for most taxpayers and is not always taken even where a taxpayer is not in agreement with a tax assessment or decision.

This amendment for ADR provides a useful alternative to tax dispute resolution that has worked well in other jurisdictions to speed up resolution of cases. This works well especially for disputes which are not purely technical in nature where both parties can review their positions and possibly reach an amicable settlement.

We hope that the ADR process will be clearly spelt out and an independent unit established to facilitate ADR discussions. We further believe that the law should be amended to remove the 30% deposit when a taxpayer opts to pursue ADR and for the TAT hearings to be put on hold for a specific period as the ADR process is underway.

Increase in penalties for offences under the tax laws

Increased punishment for offences. As indicated below:

Who will be affected

All taxpayers.

Offence – upon conviction	Current Fine/ Penalty	New Fine/ Penalty
Failure to furnish a tax return	Ushs. 500,000	Ushs. 1m
Failure to furnish a tax return within prescribed time even upon conviction	Ushs. 1m	Ushs. 2m
Failure to comply with TPC obligations	Ushs. 500,000	Ushs.. 2m
Failure to maintain proper records	1-year prison term and/or Ushs. 960,000	6-year prison term and/or Ushs. 3m
Using a false TIN	1-year prison term and/or Ushs. 480,000	6-year prison term and/or Ushs. 3m
Making false or misleading statements	2-year prison term and/or Ushs. 960,000	10-year prison term and/or Ushs. 5m
Tax agent who aids, abets, counsels or induces another person to commit an offence	Same punishment as the principal offender	5-year prison term and/or the higher of double the tax evaded or Ushs. 5m
Relating to the recovery of tax	2-year prison term and/or Ushs. 960,000	10-year prison term and/or Ushs. 5m
Relating to registration a) Failure or act is done knowingly or recklessly b) In any other case	a) 2-year prison term and/or Ushs. 1m b) 1-year prison term and/or Ushs. 500,000	a) 6-year prison term and/or Ushs. 3m b) 2-year prison term and/or Ushs. 1m
Acting as a tax agent without registration	None	1-year prison term and/or Ushs. 480,000
Where a tax officer takes a "bribe" or commits any acts that result in defrauding of tax revenue	2-year prison term and/or Ushs. 960,000	6-year prison term and/or Ushs. 3m
Where a person offers a tax officer a "bribe" or proposes an agreement to the tax officer to commit any acts that result in defrauding of tax revenue	2-year prison term and/or Ushs. 960,000	6-year prison term and/or Ushs. 3m
Impersonating a tax officer	2-year prison term and/or Ushs. 1m	6-year prison term and/or Ushs. 2m

Value Added Tax

Limitation of time within which input VAT credit is claimable

Limitation of the period in which to claim credit for input tax to six (6) months from the invoice date.

Who will be affected

All VAT registered taxpayers.

Previously, the VAT law did not have a specific limitation of the period within which one could claim an input tax credit.
The new restriction on claiming input tax within 6 months, when looked at against the provision that tax returns can be amended going back three years does not seem to be aligned.
The above notwithstanding, this may now be a moot point in light of the obligations related to compliance with EFRIS which require that VAT registered taxpayers' issue EFRIS invoices to their customers, which in turn means that no input VAT credit can be utilised if not supported with an EFRIS invoice. Effective January 2021 return period, the VAT returns were amended such that one can only claim input VAT in the month when a compliant e-invoice is issued.
The overall effectiveness of the above measure will depend on the level of compliance of VAT registered taxpayers in terms of issuing e-invoices in a timely manner coupled with the timing of claim of input with an e-invoice.

Quarterly return filing for persons providing services to non-taxable persons

Introduction of the requirement for quarterly returns by VAT registered taxpayers who provide services to non-taxable persons i.e. people who are not VAT registered. The returns will be due within fifteen days after the end of three consecutive calendar months.

Who will be affected

- Registered VAT taxpayers providing services to persons who are not VAT registered; and
- Non-residents providing qualifying taxable services in Uganda including electronic services.

This is aimed mainly at services provided remotely by foreign service providers such as providers of electronic services which could include gaming, advertisement, digital purchases of e-books, music, movies etc. The URA has continued to grapple with not only getting such persons to register, but also how to get them to account for the VAT on the services they provide.

Tax refund on e-receipt/invoice supported purchases

A tax refund of 5% is granted to a non-taxable person, who purchases goods or services from a taxable person and is issued with either a single or several electronic receipt(s) or invoice(s) worth five million shillings within a period of thirty (30) consecutive days.

Who will be affected

Non-taxable persons i.e., taxpayers who are not required to register for VAT.

The amendment is meant to encourage non-taxable persons to transact with VAT registered persons who are compliant with the EFRIS system. This is very much a carrot (by rewarding non-VAT persons to transact with only compliant persons) and stick (by penalising non-compliance for VAT registered persons through the limitation on deductibility of input VAT which is not supported by e-invoices or receipts) approach that URA has taken to drive EFRIS compliance. What remains to be seen is how the refund applications will work and the timing of such refunds. Otherwise, it is a very positive move to reward compliance.

Removal of requirement for intent with respect to declarations and statements made to the URA

The removal of the words "knowingly or recklessly" in respect to applicability of penal tax where a taxpayer makes a statement, declaration or makes an omission in a statement to the URA resulting in an understatement of tax payable or paid or overestimation of a refund or claim.

Who will be affected

VAT registered persons.

Although the terms "knowingly or recklessly" are not defined in the VAT Act, from a reasonability perspective they connote knowledge and intention on the part of the taxpayer without regard to the requirements under the law.
The elimination of these words under that section of the law places the burden firmly at the taxpayer's door to ensure that there are no errors or that they could be ignorant of the law or its applicability.
This creates a zero margin of error expected and any non-compliance does not have to be as a result of mischief to attract severe penalties i.e., double the amount of excess tax, refund or claim. It just has to have occurred.
We believe this measure is too harsh given the complexities of tax legislation and varying interpretations thereon that could lead to misdeclarations or omissions.

Changes to the list of exempt supplies

The second schedule (exempt supplies) is amended to:

I. Include the following as exempt:

- the supply of liquefied gas and denatured fuel ethanol from cassava;
- the supply of services to a manufacturer, other than one already provided for under existing exemptions, whose investment capital is at least USD 30 million or USD 5 million for a foreign or local investor respectively to conduct a feasibility study or to undertake design and construction, or in the case of any other manufacturer,:
- who has capacity to use at least seventy percent (70%) of the raw materials that are locally sourced, subject to their availability; and
- who has capacity to employ at least seventy percent (70%) of the employees that are citizens earning an aggregate wage of at least seventy percent of the total wage Act."

II. On the other hand, the second schedule has repealed the exemption extended to the following supplies below which makes them taxable supplies:

- 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 manufactured on the local market to a hotel or tourism facility developer whose investment capital is USD 10 million with a room capacity exceeding one hundred (100) guests;
- Supply of production inputs into limestone mining and processing into clinker and supply of clinker for further value addition.

Who will be affected

Persons providing the specified supplies and the recipients.

The provisions on investment incentives are meant to align to provisions under the Income Tax, Stamp Duty, and Excise duty Acts with respect to qualifying for investment incentives. Whereas the exemption may be intended to reduce the costs to the investors and consumers, it may in some cases increase the cost if the supplier has significant input VAT that they are unable to claim due to the exemption and therefore have to pass on the same to the consumer by increasing the price of the supply.

Repeal of definition of biodegradable packaging material

The second schedule The The definition of "biodegradable packaging material" under section 1 of the VAT Law is repealed.

Zero-rating of aircraft repair services

The aircraft repair services have been included on the list of Zero-Rated Supplies in the Third Schedule of the VAT Act.

Who will be affected

Aircraft operators and companies that provide maintenance equipment and repair services.

> *This is most likely intended to support and boost the operations of Uganda Airlines by reducing operational costs that would impact the national carrier.*

Extension of persons listed as Public International Organisations

The Act has added to the list of Public International organisations in the First Schedule of the VAT Act to include:

- African Export – Import Bank; and
- International Union for Conservation of Nature.

This matches the exempt status granted to the above organisations for income tax purposes.

Excise Duty

Certificate of registration

The Act has repealed subsections relating to the renewal of certificate of registration and the duration for which the certificate of registration is issued.

Who will be affected

Manufacturers, importers and providers of excisable goods and services.

Taxpayers dealing in excisable products had to apply for a license which was valid for one year within a given time or further time as determined by the commissioner and payment of prescribed fees for renewal. By repealing the above subsections, it leaves it open to have a certificate of registration without the previous requirements including not having to pay renewal fees.

Refund on excise duty paid on plastic packaging

Rebate of excise duty paid on plastic packaging for export products & medicaments as well as plastic product manufactured from recycled plastics which is atleast twenty five percent (25%) of the raw material used.

Who will be affected

Persons utilizing qualifying plastics.

This is intended to reduce the cost of medicaments manufactured in Uganda and goods for export while at the same time encouraging recycling and use of recycled plastics especially in light of the high usage of plastic for packaging for a wide-ranging assortment of goods.

Amendment of the excise duty tax schedule

The Act amends Part 1 of Schedule 2 to the Excise Duty Act to change tax rates for specific excisable goods as follows.

Who will be affected

Manufacturers and importers of excisable goods as well as consumer.

Item	Current rate	New rate
Opaque beer	30% or Ushs..650 per litre, whichever is higher	20% or Ushs. 230 per litre; hichever is higher
Any other alcoholic beverage locally produced	Nil	20% or Ushs. 230 per litre; whichever is higher
Any other non-alcoholic beverage locally produced made out of fermented sugary tea solution with a combination of yeast and bacteria other than fruit or vegetable juice.	Nil	12% or Ushs. 230 per litre whichever is higher
Motor spirit (gasoline)	Ushs.1,350 per litre	Ushs. 1,450 per litre
Gas oil (automotive, light, amber for high speed engine)	Ushs.1,030 per litre	Ushs. 1,130 per litre
Plastic product and granules	Nil	2.5% or USD 70 per ton, whichever is higher
Over The Top (OTT) services	Ushs..200 per user per day of access;	N/A
Internet data, except data for provision of medical services and education services	Nil	12% of the fee charged
Value added services	20%	12% of the fee charged
Any other fermented beverages including cider, perry, mead, spears or near beer	N/A	60% or Ushs. 950 per litre; whichever is higher
Any other fermented beverages made from locally grown cider, perry, mead, spears or near beer	N/A	30% or Ushs. 550 per litre; whichever is higher
Cconstruction materials of a manufacturer, other than a manufacturer already catered for under the current exemption, whose investment capital is atleast USD 50 million or, in the case of any other manufacturer, who makes an additional investment USD 50 million	N/A	Nil

With businesses struggling in the current economic environment, the continued increase and in some instances introduction of new duty rates seems almost counter productive with manufacturers and importers of some of these products already experiencing a decline in sales. What is surprising is that unlike its neighbours who introduced bans on plastics of certain micros, Uganda has instead introduced a tax on the same. Which signals a continued use of plastics in the country from a policy perspective.

Whereas the tax on access to social media platforms has been repealed, the cost of access to the internet shall significantly increase due to the new tax on purchase of data. This is against the drive of making access to affordable internet.

This will have significant impact on internet users in light of the current shift in use of e-commerce such as use of social media to advertise and market goods and services, use of online marketplaces, e-banking, remote working and online classes all of which rely on reasonable priced data which even at the prevailing cost, before implementation of the changes is expensive for the average Ugandan.

Stamp Duty

Amendment of Second Schedule

This has been amended to align with the changes under the Income tax, VAT, and Excise duty Acts with respect to qualifying for investment incentives such as:

- Capacity to use at least fifty percent (50%) of locally produced raw materials, subject to availability; and
- Capacity to employ a minimum of one hundred (100) citizens.

In addition, alignment has also been done in respect to additional category of manufacturers that have been granted exemptions under the different tax laws.

Exemption of instruments for strategic investments

- debenture; whether a mortgage debenture or not, being of a marketable security – of total value
- any instrument imposing a further charge on a mortgaged property – of total value;
- lease of land – of total value;
- increase of share capital;
- transfer of land;
- an agreement to provide services on conducting a feasibility study or developing a design for construction.

Who will be affected

Investors meeting the criteria in respect of qualifying investments.

Similar to a lot of the measures on investment, this is intended to lower the cost related to significant capital investment and as a result encourage investment.

Other measures

International Trade

- Introduction of an export levy on wheat bran, cotton cake, maize bran or other by products of milling industry at a rate of USD 0.4 per Kg.
- Introduction of export levy of five percent (5%) of the value of processed gold exported out of Uganda.
- Introduction of export levy of ten percent (10%) of the value of unprocessed minerals exported out of Uganda.
- Export levy on leaf tobacco (including cutrag, threshed stem, threshed strips, threshed loose leaves or threshed lamina) at the rate of USD 0.8 per kilogramme of leaf tobacco
- Imposition of an eight percent (8%) export levy of the total value on fish maw.

Who will be affected

Taxpayers dealing in the export of the above products.

The introduction of the export levies is to restrict the export of the named goods from Uganda especially in their unprocessed form with no value added.

Fish maw also known as swim bladder is sought after especially for its medicinal value such as treatment of failing lungs and kidney, anaemia among others. In Uganda this is mainly obtained from Nile Perch. The introduction of the export levy is most likely intended to regulate the fish maw trade which has in the last couple of years become quite lucrative especially for exporters to China, which is the main country of export.

Further appeals to Courts of justice

Appeals to Court of Appeal and Supreme Court from decisions of a lower Cour

- A party to proceedings before the High Court may, within thirty (30) days or further time as allowed, of notification of a decision lodge a notice of appeal with the Registrar of the Court of Appeal.
- A party to proceedings before the Court of Appeal may, with leave of court, lodge a notice of appeal with the Registrar of the Supreme Court, which may be lodged with a certificate of the Court of Appeal that the matter raises questions of law of great public importance or if the Supreme Court in its overall duty to see that justice is done, considers that the appeal should be heard.
- The Court of Appeal and Supreme Court shall determine the appeal expeditiously and shall declare their findings not later than sixty (60) and thirty (30) days respectively from the date of filing the appeal.

Who will be affected

Persons seeking to appeal decisions from the High Court and Court of Appeal.

The inclusion of a time period within which appeals from a High Court's decision may be made, gives clarity to taxpayers seeking remedies in the Courts in regard to tax decisions. The 30-day period mirrors the time period currently provided for in the Tax Appeals Tribunal Act, Cap. 345 from a decision of the Tax Appeals Tribunal (TAT) to the High Court.

Additionally, this amendments makes it clear that an aggrieved party to a tax decision can make a further appeal to the Court of Appeal and where applicable to the Supreme Court in much the same way as other legal matters are handled.

It is a long-established legal principle that justice delayed is justice denied.
The inclusion of a time period by which the Courts need to render their decisions enables taxpayers have certainty on taxpayers being able to close out tax matters related to uncertain tax positions that have significant impact on the taxpayer's business.

Expansion of definition of meaning of a reviewing authority

The definition of a "reviewing body" for purposes of section 28 of the TAT Act has been expanded to means a tribunal, the High Court, Court of Appeal or Supreme Court, as the case may be.

Who will be affected

Parties involved in appeals from a tax decision.

> *The previous meaning of the word limited this to TAT and the High Court. This expansion is in line with the recognition that the Court of Appeal and Supreme Court are avenues available to parties in seeking remedies flowing out of a tax decision.*

Sectoral Highlights

Agriculture and food security

- 1.67trn has been allocated to support agro-industrilization initiatives in the 2021-22 budget, an increase from UGX 0.95trn in 2020-21.
- The finance bill also includes proposed income tax exemptions for manufacturers of chemicals for agricultural products.
- The increased budgetary allocation in combination with the proposed tax exemptions are expected to drive the performance of the Agricultural sector in 2021 as well as boost the country's employment rates.

Measures

- To promote agro-industrialisation to boost agricultural production and productivity
- To establish a Parish-Development Model approach through which to channel developments of various sectors at the parish level, including the agricultural sector
- To develop commodity value chains to link 14 key commodity off-takers to farmers
- To multiply fish, poultry, and crop technologies under National Agricultural Research organisation (NARO) and improve breeding stock under National Animal Resources Centre and Databank (NAGRC&DB)
- To build warehouse storage capacity at the parish, sub-county, district and regional levels
- To provide affordable long-term agricultural financing and insurance
- To license digitalised commodity markets that are linked to the country-wide warehouse infrastructure.
- To develop and boost market infrastructure and export market opportunities such as those in the African Continental Free Trade Area (AfCFTA)
- To develop agro-industries such as the Luweero Fruit Factory and the Zombo Fruit Factory
- To complete construction of storage facilities, collecting centres, processing plants, Regional Value Addition Incubation Centres (RVAICs),

Construction, Energy and Infrastructure

- UGX 5.1 trillion allocated for the development of the integrated transport infrastructure and related services while UGX 1.1 trillion has been allocated for the development of energy infrastructure and services.

Measures - Transport infrastructure

- To upgrade 400 kilometres equivalent of national roads from gravel to tarmac and to construct 37 new bridges on national roads;
- To rehabilitate and maintain 200km equivalent of national roads and 400km of community access roads;
- Procurement of ferries and construction of selected landing sites;
- Continue to support the revival of the National Airline and the maintenance of upcountry aerodromes; and
- To acquire right-of-way for the Standard Gauge Railway.

Measures - Power infrastructure

- To commission solar mini-grid plants in Rubirizi and Kasese districts including the Kasenyi 37 kilowatts, Kashaka 28 Kilo Watts, Kazinga 26 KiloWatts, Kihuramu 18 KiloWatts, Kisebere 16 KiloWatts, and Kisenyi 32 KiloWatts;
- To further develop generation, transmission and distribution capacity;
- To implement a free electricity connection policy to increase electricity access;
- To provide affordable electricity tariffs including a power subsidy of US $ 5 cents for manufacturers who qualify as extra-large industrial consumers; and
- To promote renewable energy, energy efficiency and conservation.

Education

- UGX 7.7 Trillion has been allocated to 3 sectors of Education, Health and water sanitation, which together enhance human capital development and improve well-being.

Measures

- To recruit 4,200 primary school teachers, 1,055 secondary school and 440 inspectors across all local governments;
- To roll out the Integrated Inspection System (an electronic system) to help with learner, teacher, and school management absenteeism;
- To rehabilitate 74 primary and 13 traditional secondary schools e.g. Nabisunsa Girls;
- To complete construction of 36 schools that are now partially completed e.g. Morungatunyi secondary school; and
- To construct 7 skills development institutions e.g. the Arua School of Nursing.

Manufacturing

Manufacturing has continued to grow and significantly diversified into many new products and in addition, Uganda's products now have a widespread regional presence.

Manufacturing is critical in building a resilient, integrated, independent and self-sufficient economy. The aspiration of Agenda 2030, among other things, is to promote inclusive and sustainable industrialization and foster innovation (Sustainable Development Goal (SDG) 9 - Industry, Innovation and Infrastructure) and promote full and productive employment and decent work for all (SDG 8 - Decent Work and Economic Growth).

Through the manufacturing programme, the government aims to increase the range and scale of locally manufactured products for import substitution and increased exports through high value manufactured products as well as increasing job opportunities within the economy.

Some of the interventions include Development of economic free zones and the industrial parks, strengthening electronic infrastructure, establishment of export logistics centres and a comprehensive review of the tax code.

Oil and Gas

The exploitation of Uganda's mineral and oil resources is viewed as one that will be a major source of growth in the medium term with commercialisation of oil and gas endowments expected to generate investments of between US$ 15 – 20 billion over the next five years. This will not only mean an inflow of foreign direct investment but also the creation of both direct and indirect jobs as well as growth in local enterprise through backward linkages.

The expected onset of oil production in 2025 is predicted to be one of the contributors to Uganda's forecast GDP growth of 6.3%.

The FY2020/21 year has seen a reawakening in the Oil & Gas sector with the signing of agreements between Uganda and Tanzania meant to facilitate the undertaking of the Final Investment Decision by the International Oil Companies for the East African Crude Oil Pipeline (EACOP).

Measures

Expected interventions in the coming year include:
- commencement of the second licensing round of exploration areas;
- continued construction of oil roads;
- implementation of the National Content Policy;
- construction of facilities for production and transportation of the crude oil; and
- development of the required regulations including those related to tariff, metering, and decommissioning.

Tourism and Hospitality Sector

Allocation: UGX 181 Billion

- The tourism sector was significantly affected by the COVID-19 pandemic in 2020.
- Despite the persistence of the pandemic in 2021, the sector is expected to leverage off the proposed Value Added Tax ("VAT") exemptions for hotel service suppliers as well as aircraft repair services.

These exemptions, if implemented, could result in lower operational costs and subsequently boost the sector's performance in 2021.

Measures

- No specific interventions were mentioned in the budget to boost tourism;
- The sector was immensely and negatively affected by the COVID-19 pandemic
- The sector will indirectly benefit from measures to curb COVID-19, as well as developments in the oil and infrastructure sectors.

Innovation and Technological Development

- The Covid-19 pandemic has generated an increased need for the digital transformation of the economy, to lessen physical contacts as well as improve efficiency in operations – trade, service delivery and governance.
- This sector has been allocated UGX 358.5 billion in FY2021/22 budget.

Commentary

- The development of a well-coordinated science and innovation ecosystem
- Establishment of Technology and Business Incubators
- Conduct feasibility studies for the development of science and technology parks.

In light of the dealing with the COVID19 pandemic, the use of digital technology will play a key part in not only delivering health skills training, but also in improving systems for greater efficiency.

Financial services (FSI)

- In FY2020/21, annual headline inflation was projected to increase to 5.6 percent, mainly due to the impact of measures introduced to mitigate the spread of the corona-virus pandemic on prices of goods and services. The increase in transportation charges also attributed to the higher prices of goods and services.
- Headline inflation slightly increased to 4.1 percent in March 2021 from 3.8 percent in February 2021. However, Core inflation declined to 5.3 percent from 5.6 percent in the same period driven by lower services inflation that declined to 10.2 percent from 10.6 mainly due to lower transport fares.
- The annual inflation over the medium term is projected to remain within the Government's target range of 5(+/-3) percentage points, supported by prudent fiscal and monetary policy measures.

Commentary

- The performance of the FSI sector was adversely impacted by the pandemic in 2020.
- The finance bill proposes a nil capital gain recognition by venture capitalists that would arise from the sale of an investment interest if at least fifty percent (50%) of the proceeds of the sale are reinvested within the same year of income.
- Venture capitalists would also be allowed the non recognition of a gain or loss from the sale of an investment interest to the extent of the percentage of the re-invested proceeds
- The above incentives would promote foreign direct investments as well as private sector development

Health

- UGX 7.7 Trillion has been allocated to 3 sectors of Education, Health and Water Sanitation, which together enhance human capital development and improve well-being.

Measures

- To prevent against COVID-19 through widespread vaccination and enforcement of Standard Operating Procedures (SOPs);
- UGX 560 billion set aside towards the vaccination of 6 million vulnerable persons, that is, teachers, health workers, the elderly and those with chronic ailments;
- To prioritise measures to improve health workers' skills and work environment;
- To maintain health infrastructure and systems in order to ensure increased efficiency and effectiveness in health care delivery ;
- To employ digital technology in delivering health skills training and health systems ;
- To upgrade 43 health facilities and construct new Health Centre IIIs in 60 sub-counties;
- To recruit additional staff for each of the upgraded health facilities;
- To complete construction and equipment of the Uganda Heart Institute at Mulago;
- To establish the Regional Oncology and Diagnostic Centre in Gulu by the Uganda Cancer Institute; and
- UGX 600 Billion has been allocated to National Medical Stores to ensure adequate supply and delivery of essential medicines and health supplies.

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Our insights can help you navigate the new realities of this year. If you're looking for fresh ideas to address your challenges, we should talk.

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