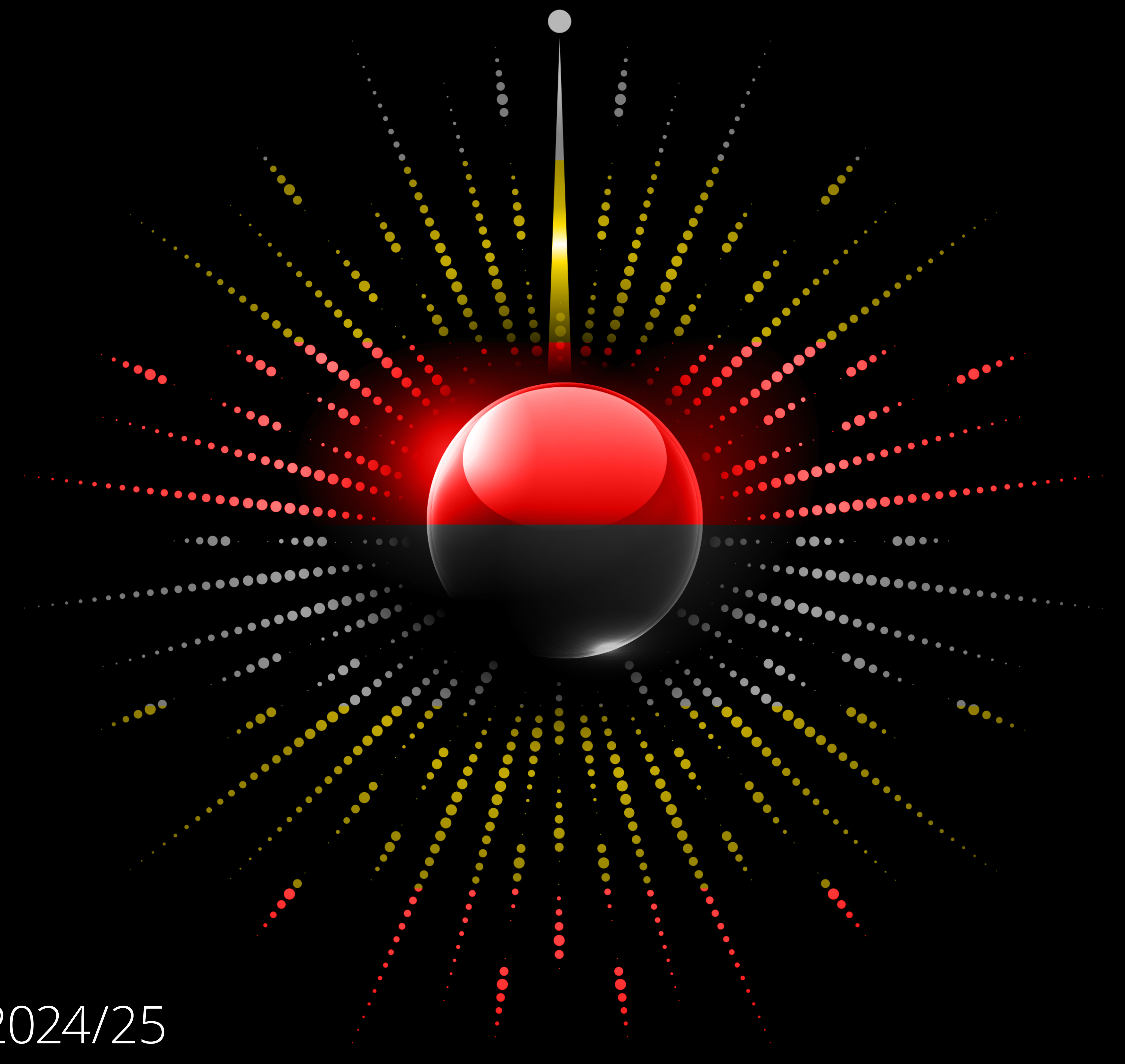
Deloitte.



Uganda Budget Highlights 2024/25

Fostering Inclusion for Sustainable Growth

June 2024

Message from the Managing Partner

"According to the World Bank statistics, Uganda's GDP grew by 5.3% during the first quarter of FY24, supported by an oil-related construction boom and robust growth of agriculture despite volatile weather conditions."

As we navigate through 2024/2025, it is my pleasure to present Deloitte Uganda's analysis of the National Budget.

Having weathered some of the long-term effects of COVID-19, Uganda's economic growth has accelerated slightly despite external shocks, including the impact of geopolitical tensions in the Middle East, supply chain disruptions and the Russia-Ukraine war. According to the World Bank statistics, Uganda's GDP grew by 5.3% during the first quarter of FY24, supported by an oil-related construction boom and robust growth of agriculture despite volatile weather conditions. An uptick in private investments and employment growth reinforced domestic demand deeper into the year, with sustained increases in output, new orders, and employment. According to the Central Bank, Uganda's GDP is expected to grow by an estimated 6.0% in FY24.

Our analysis delves into the sectoral view of government priorities, funding allocations, expenditures, and new tax measures. We aim to clearly understand how these components will influence Uganda's economic landscape, drive growth, and impact various sectors. We aim to offer insights that will aid our clients, businesses and investors in making informed decisions.

At Deloitte, we remain committed to supporting Uganda's economic vision through our advisory services, ensuring our clients can navigate the evolving financial environment confidently and quickly. Our tax subject matter experts stand ready to assist you in leveraging the opportunities presented by this budget. Enjoy our analysis and do not hesitate to contact our team for additional information.

Paul Ssali
Managing Partner
Deloitte Uganda

Foreword

“Economic growth for the financial year 2024/25 is projected to be between 6.0% and 6.5%, rising above 7% in later years.”

In 2023, global inflation receded significantly in most large economies, recession was mostly avoided, supply chain disruption eased considerably, and labour markets remained historically tight. Although the global economy has slowed, the outlook in 2024 is more favourable than anticipated, despite new problems emerging over the past year. The Russia-Ukraine conflict continues, there is a new war and crisis in the Middle East, tensions between the world’s two largest economies remain significant, and trade and cross-border investment patterns are shifting.

Uganda’s overall balance of payments remained resilient, with a projected surplus of $300 million by June 2024, according to the Bank of Uganda (BOU), supported by strong export growth and foreign direct investment (FDI) inflows. However, the outlook is fragile due to rising debt service costs, potential delays in budget support loans, and effects of climate change affecting agricultural production and infrastructure, regional and global geopolitical tensions, high interest, and fluctuations in global commodity prices.

Economic growth for the financial year 2024/25 is projected to be between 6.0% and 6.5%, rising above 7% in later years.

Uganda’s growth strategy for the next financial year and in the medium term is anchored on four key growth drivers: Agro-industrialization, tourism development, mineral development, oil and gas, and Science, technology, and innovation (STI).

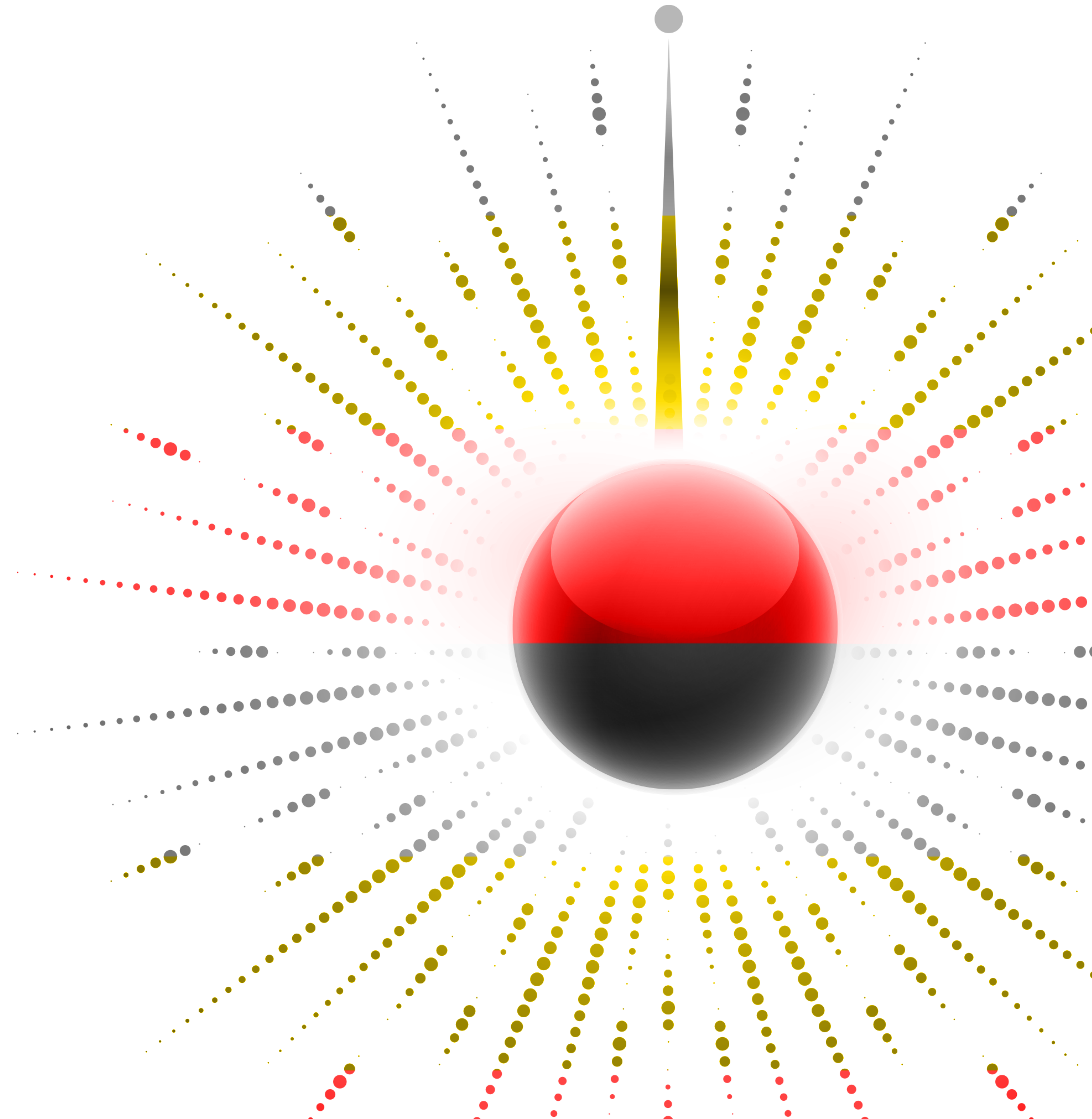
Several priorities in the 2024/25 budget are highlighted in support of the anchor sectors identified by the government to drive rapid expansion of the economy. These include investments in education, health and water, sanitation, and hygiene; enhancements to salaries of security personnel; investments in road and railway infrastructure; investments in wealth creation initiatives, energy projects, and contingency funds for natural disasters; and funding the country’s international commitments.

This publication deep dives into the specific priorities and sector-related investment plans for the financial year 2024/25.

Enjoy the read!

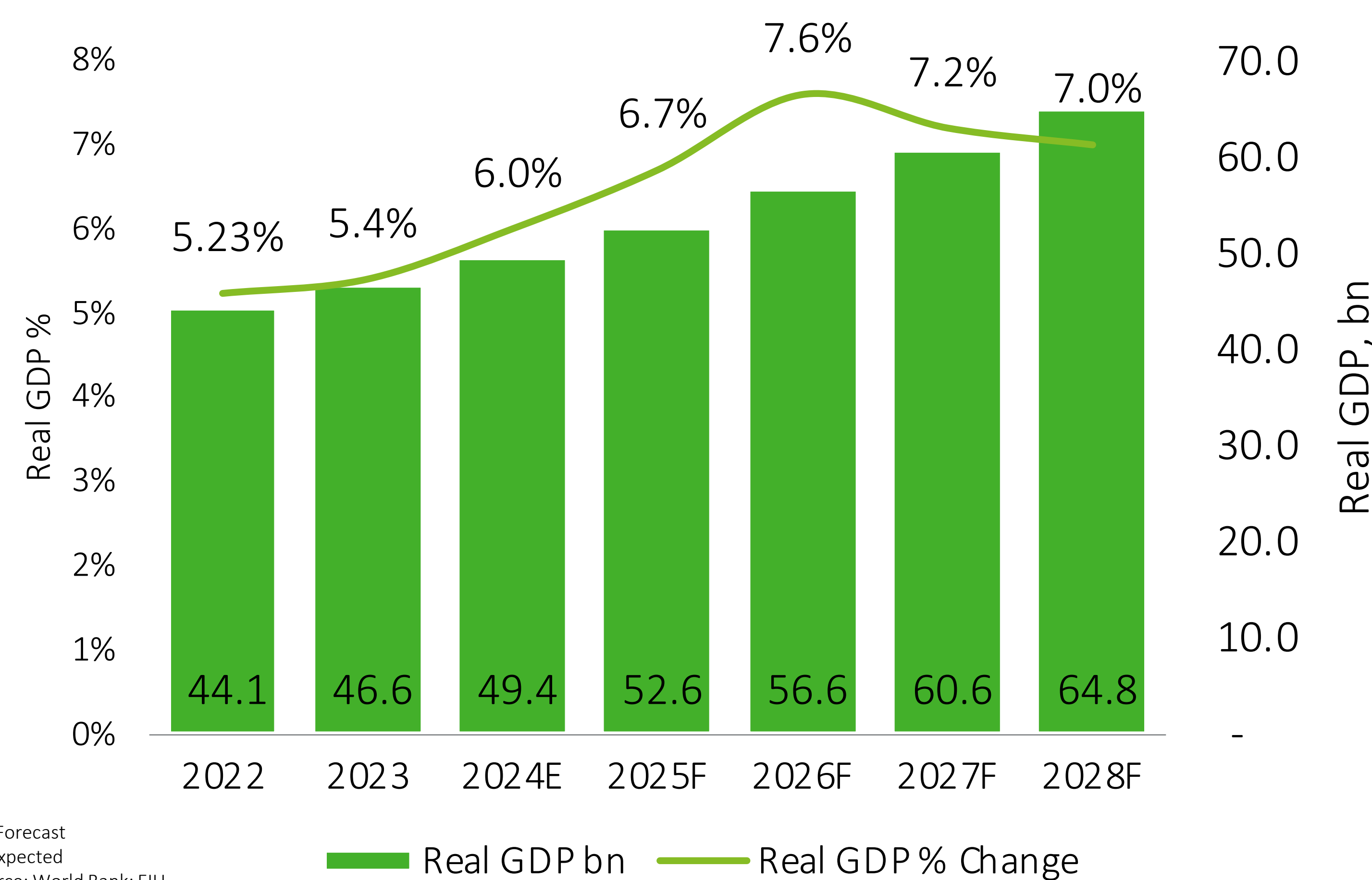
Mabel Ndawula
Director, Consulting
Deloitte East Africa

Economic Outlook



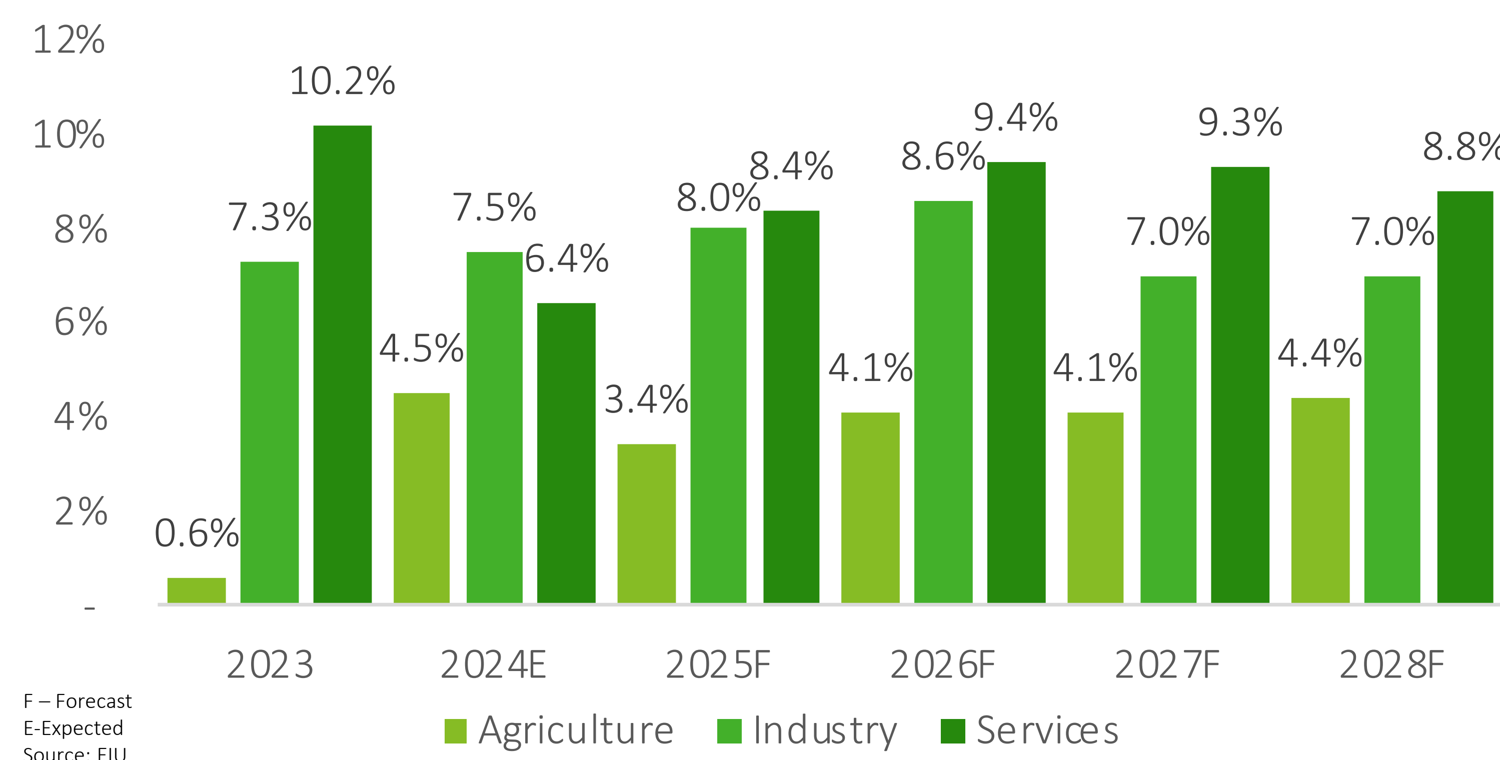
Economy at a Glance

GDP Growth



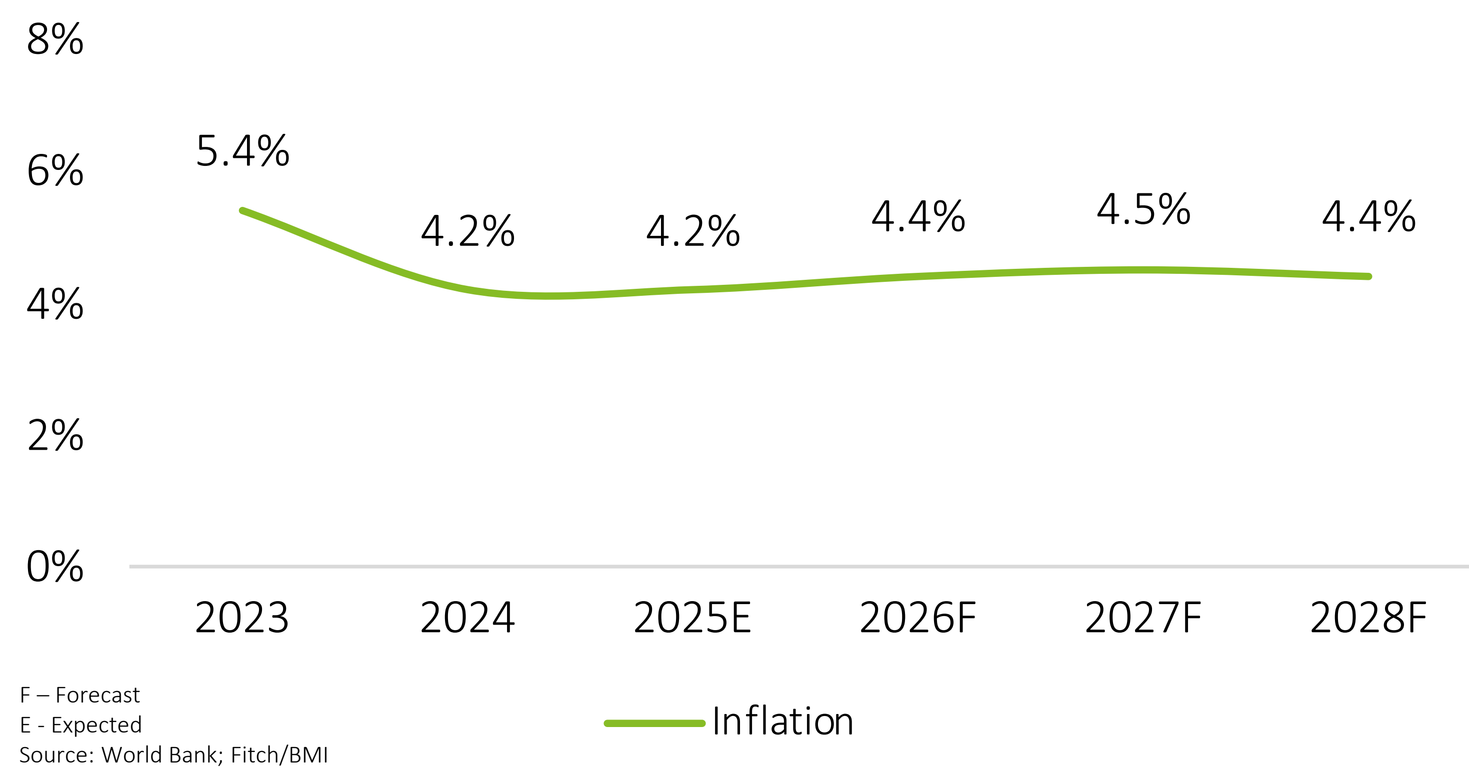
- Uganda's economy has shown a steady recovery driven by government initiatives to boost private sector activity and regional trade.
- Real GDP grew by 5.4% in 2023 from 5.2% in 2022, due to recovery in services, agriculture, forestry and fishing sectors.
- GDP is projected to further grow by 6.0% in 2024, driven by higher output in services, industry and agriculture.
- GDP growth is expected to average 7.1% between 2025 and 2028, fueled by reduced inflation, cheaper oil imports, growing digitalisation, and improved regional integration and trade.

Sectoral Growth



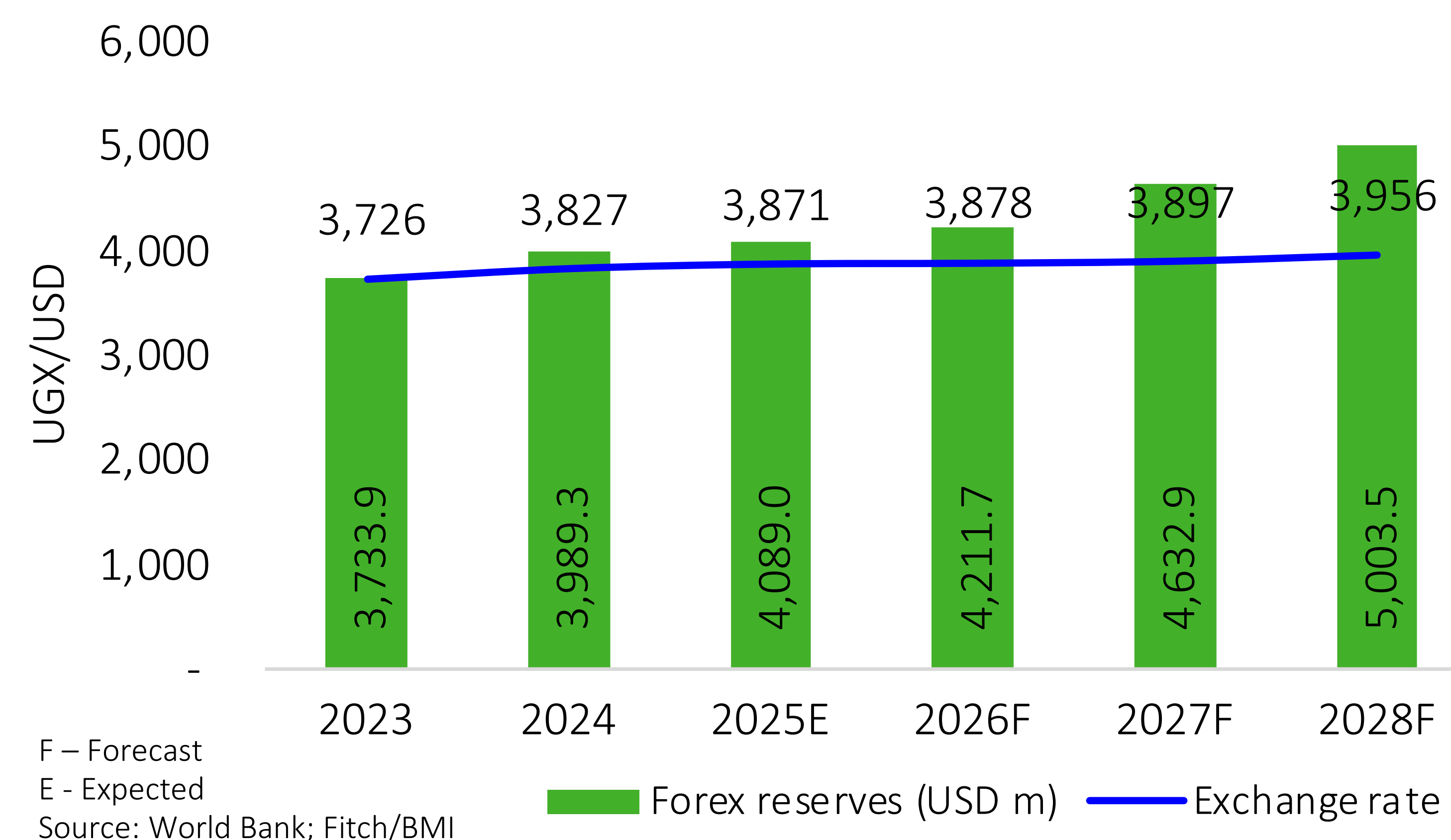
- **Agriculture:** Expected to grow by 4.5% in 2024, due to increased funding and government efforts to commercialise agriculture and boost exports. Growth in the sector is however forecasted to decline to 3.4% in 2025 mainly due to climate-related challenges such as, prolonged drought and financial vulnerabilities linked to external financial dependency.
- **Industry:** Growth is forecasted to rise by 0.2% in 2024, supported by the development of Kingfisher and Tilenga oil projects and the construction of the East African Crude Oil Pipeline. In 2025, industry growth is expected to average 8.0%, following the completion of some of the mega government projects.
- **Services:** The sector's growth is forecasted to decline by 3.8% in 2024 due to high commodity prices and import costs, which hindered growth. The sector is however expected to recover in 2025 due to reduced inflation.

Inflation



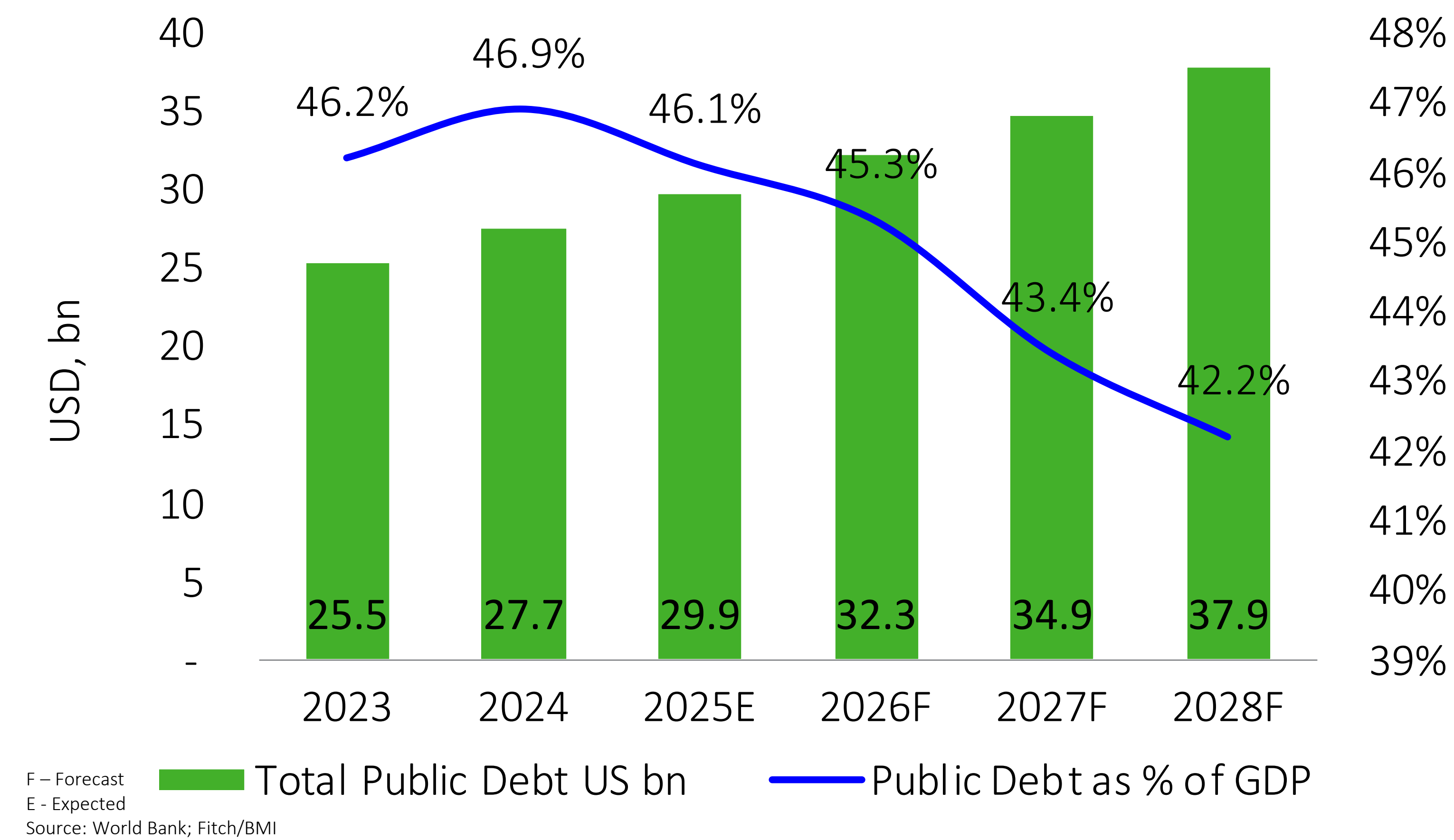
- Inflation is expected to decrease from 5.4% in 2023 to 4.2% in 2024 due to the implementation of coordinated and restrictive fiscal and monetary policies which lowered food, commodity, fuel and transport prices.
- Inflation is forecasted to persist at 4.2% in 2025, driven by the aggressive austerity measures implemented by the Bank of Uganda ("BoU").
- In addition to that, inflation is expected to average 4.4% between 2026 and 2028, due to the expected increase in the oil and gas sector prices which will drive demand-side price pressures.

Foreign Exchange



- The Ugandan Shilling (UGX) is expected to depreciate by 2.7% against the US Dollar, from UGX 3,726/USD in 2023 to UGX 3,827/USD in 2024 and, is forecast to depreciate further to UGX 3,871/USD in 2025. The weakening of the UGX is attributable to the demand for US dollars for the acquisition of capital goods used in the development of the oil sector and the widening balance of trade.
- Election-related uncertainty in 2026 is expected to further heighten currency volatility, with the shilling expected to weaken to UGX 3,878/USD by the end of 2026.
- In addition, Uganda's limited ability to secure new international debt and increase the demand for US Dollars to service debt repayments is expected to further exacerbate the depreciation of the shilling.
- The forecasted depreciation of the UGX is likely to erode the benefits of lower global oil prices on Uganda's economy.

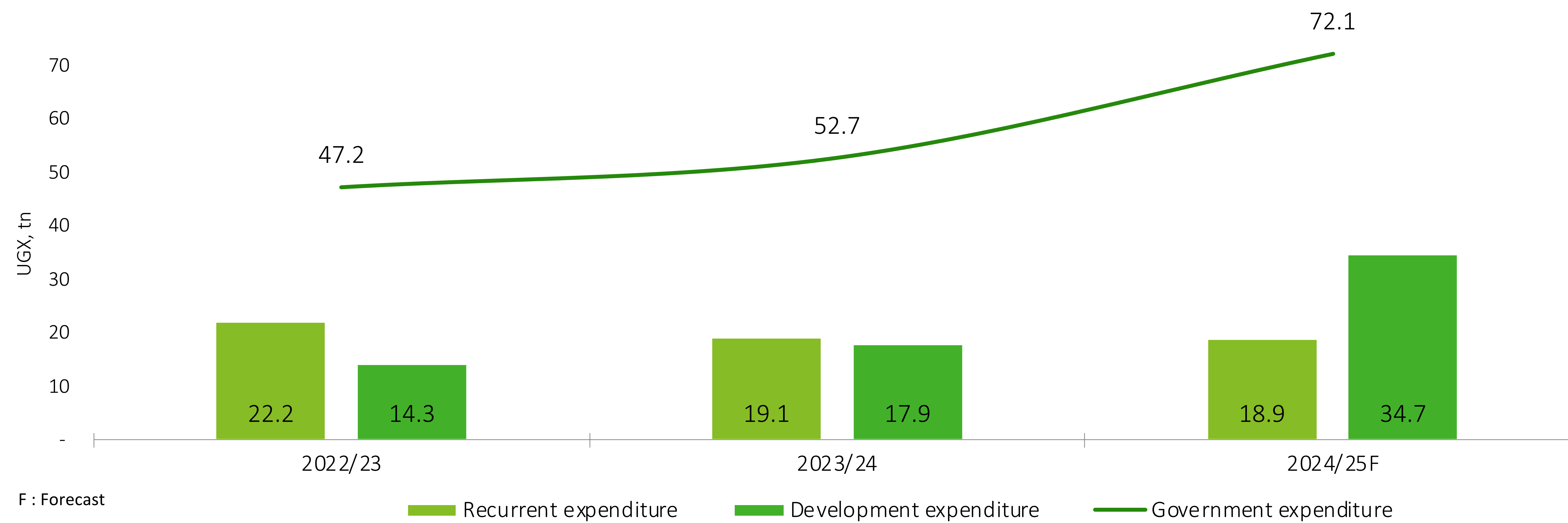
Debt



- External debt is projected to rise to USD 23.6bn in 2024, from USD 22.2bn in 2023 due to the government's shift in spending towards infrastructure and development of Kingfisher and Tilenga oil projects. As at 2024, Uganda's main creditors were the World Bank, IMF, and the Government of China.
- In the fiscal year 2023/24, the government implemented stringent fiscal directives for debt management, keeping public debt close to its self-imposed ceiling of 50.0% of GDP.
- Public debt is anticipated to peak at 46.9% of GDP in fiscal year 2023/24 and decline to 46.1% of GDP in fiscal year 2024/25, followed by a downward trend through to 2028.
- Modest fiscal consolidation efforts coupled with a strong nominal GDP growth, are expected to drive tax revenues which will progressively result in a reduction of public debt from 2024 through to 2028.

Budget Overview

Government Expenditure



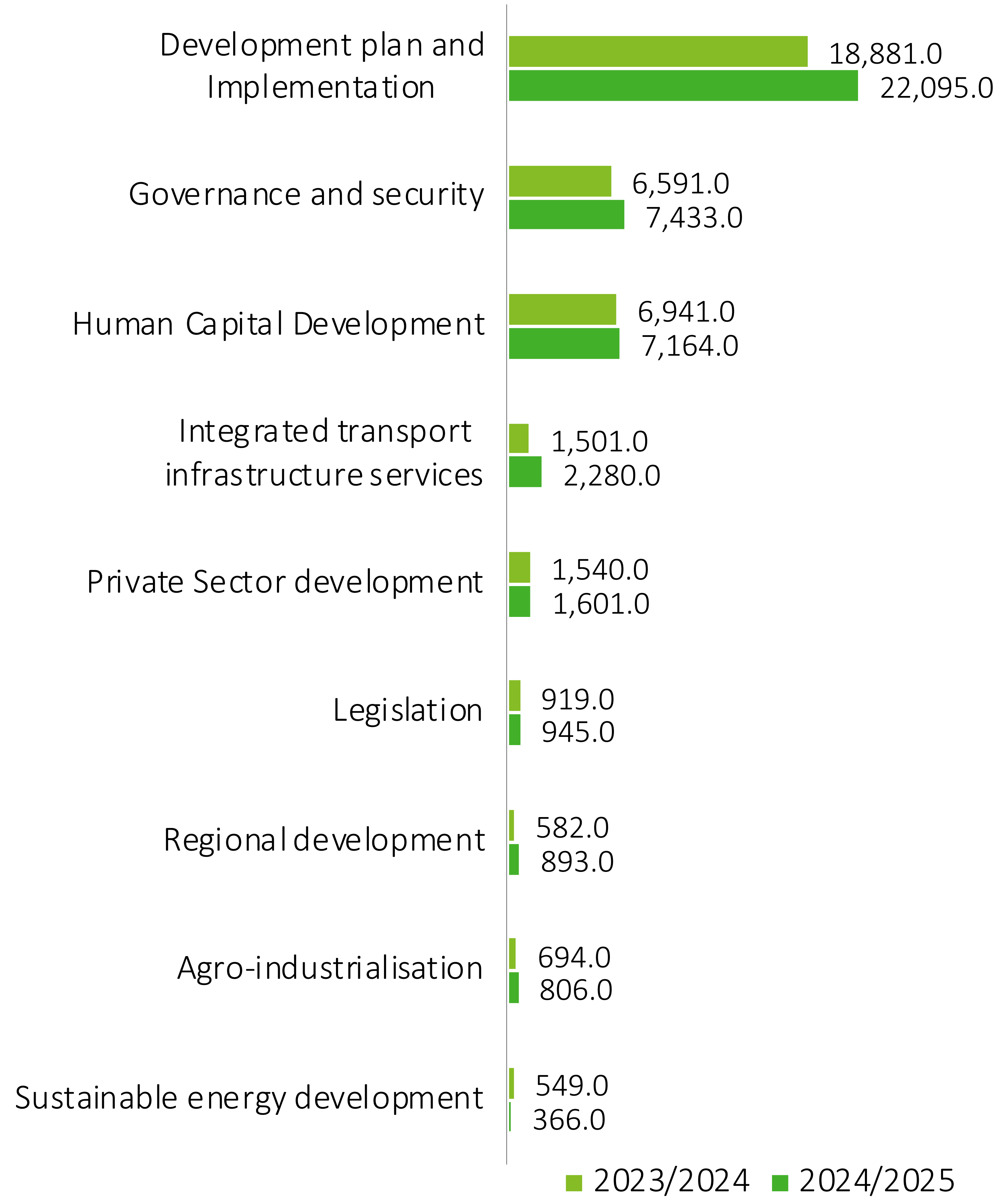
Source: National Budget Framework Paper

- Total expenditure in the 2024/25 fiscal year is projected at UGX 72.1tn, with recurrent expenditure and development expenditure accounting for UGX 18.9tn and UGX 34.7tn respectively. Government expenditure is expected to increase by UGX 19.4tn in 2024/25 underscoring the government's fiscal expansion programme aimed at propelling economic growth.
- The UGX 34.7tn allocated to development expenditure in 2024/25 is expected to be financed through a mix of external and domestic funding. Key infrastructure projects that are expected to benefit from this budget include The Kingfisher project, Tilenga oil project, Standard Gauge Railway, rehabilitation of the Meter Gauge Railway, road maintenance and water transport development.
- Recurrent expenditure has received an allocation of UGX 18.9tn in the 2024/25 fiscal year. Recurrent expenditure is expected to decline by 0.2tn in 2024/25 as the Government prioritises spending towards sectors with high investment multipliers and households in the subsistence economy, in line with the objective of full monetisation of the economy.

"The UGX 34.7tn allocated to development expenditure in 2024/25 is expected to be financed through a mix of external and domestic funding."

The largest winners in the 2023/2024 budgetary allocation include:

Summary of expenditure by programme (UGX bn)



*Note - these are exclusive of debt expenditures
Source: National Budget Framework Paper

01

Development Plan Implementation

Development plan implementation comprises 40.5% of the total budget and received an increase in the budgetary allocation by UGX 3,214bn following the Government's focus on programmes targeted at increasing efficiency in the realisation of the National Development Plan. Key priorities include addressing infrastructure challenges and promoting industrialisation.

02

Governance and Security

The second largest winner is the governance and security sector which had an allocation of UGX 7,433bn, equivalent to 13.6% of the total budget. The Government remains focused on improving security in the country to ensure economic prosperity. Key priorities include the strengthening of the intelligence unit, training personnel and investing in security infrastructure.

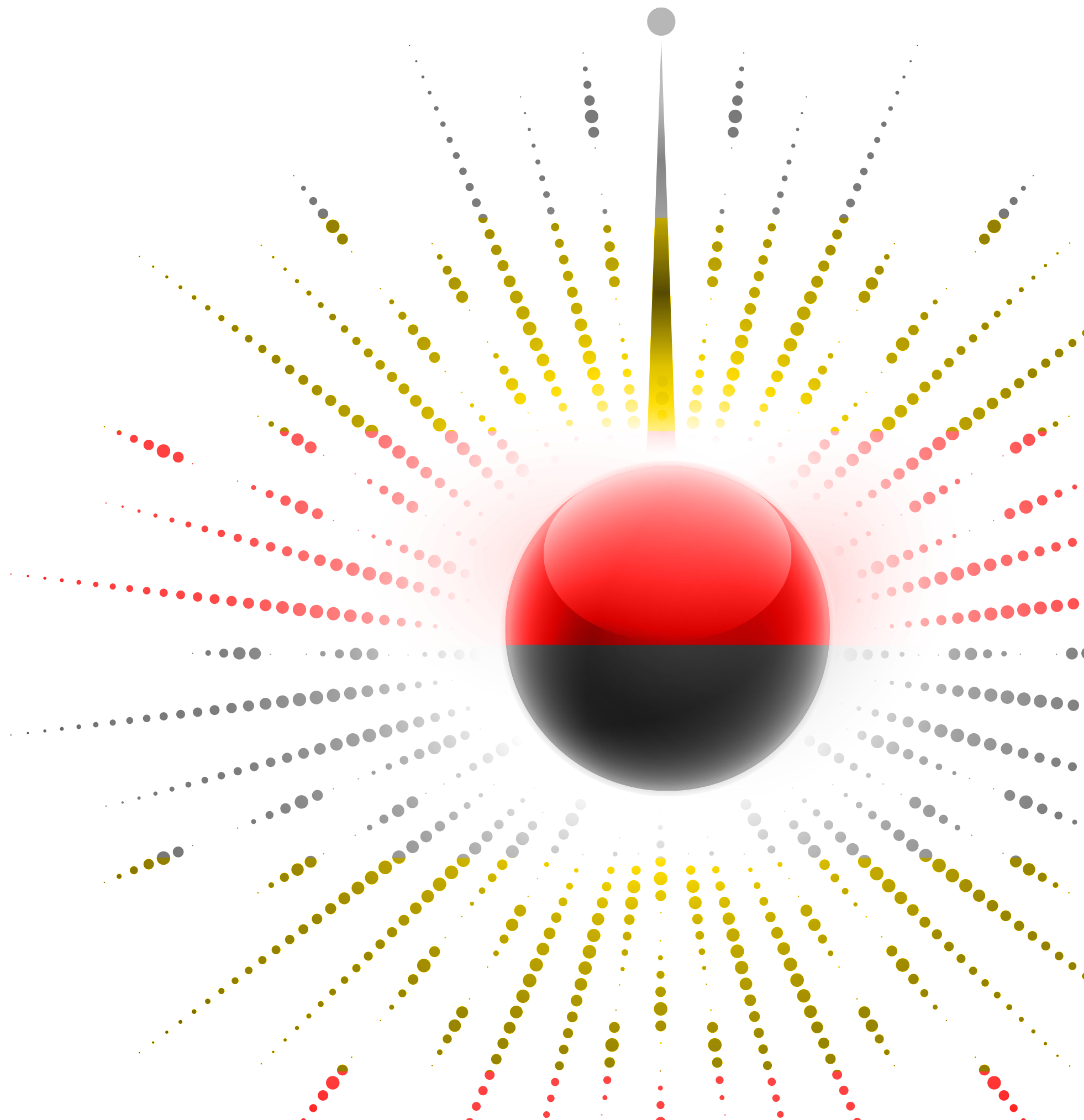
On the governance front, the Government intends to increase efforts to fight corruption and improve monitoring and evaluation of government projects.

03

Human Capital Development

Human capital development comprises of 13.1% of the total budget, equivalent to UGX 7,164bn. The key services included herein include healthcare, education and water for human consumption. The Government intends to implement various programmes aimed at migrating the population from a curative healthcare system to a preventive healthcare system. In education, the government aims at promoting Science, Technology, Engineering and Mathematics Programmes (STEM).

Tax Changes



Our View on Direct Taxes

"Direct taxes such as tax on employment (Pay as You Earn - PAYE), tax on business (Corporate Tax), and Withholding Tax, among others, have continued to contribute a large share of the Uganda Revenue Authority (URA)'s collection targets."

With the challenges faced in the implementation of compliance measures for VAT and excise duties, direct domestic taxes seem to be a low-hanging fruit and are expected to exceed FY23/24 targets at 103.6%

Direct taxes such as tax on employment (Pay as You Earn - PAYE), tax on business (Corporate Tax), and Withholding Tax, among others, have continued to contribute a large share of the Uganda Revenue Authority (URA)'s collection targets. The highest contributor to these is PAYE. This is driven by the fact that these taxes are more straightforward to collect, especially PAYE, which is collected at source.

Like the trend in previous years, the Government's focus has not been on the introduction of new taxes but more on clarifying and bringing more persons into the tax bracket. The most significant changes have aligned with Action 7 of the Organization for Economic Cooperation and Development (OECD)'s Inclusive Framework on Base Erosion and Profit Shifting. This action is meant to address strategies to avoid taxable presence in a country under tax treaties. Uganda has overhauled its definition of a branch for tax purposes (commonly referred to as a Permanent Establishment) to align it with the OECD's changed definition.

Other changes are also targeted at non-residents, specifically bringing their activities interacting with Uganda into the Ugandan tax ambit as income is sourced in Uganda.

Exemptions extended are limited to private equity funding, but only through a Ugandan registered fund and the incentivisation of manufacturers or those assembling Electric Vehicles in Uganda.

Repeated attempts to streamline the capital gains regime by introducing a fixed 5% rate on certain disposals, including shares, were thwarted once the proposal went to Parliament. However, we believe that the area of capital gains needs reform. The current provisions are onerous and, in some cases, confusing at best. They leave room for uncertainty, especially for corporate entities.

Taxpayers' willingness to comply with their tax payments is affected by the enforcement measures (agency notices, tax ledgers, excessive assessments) applied by the URA in an environment of dismal public service delivery, rampant corruption, and a lack of accountability.

Patronella Namubiru
Associate Director, Tax & Legal
Deloitte East Africa

Corporate Taxes

#	Proposed Changes	Details	Our comments
1	Amendment of the definition of a retirement fund	The amendment provides for a broader definition of the term "retirement fund" under section 2(III) of the Income Tax Act (ITA), expanding its meaning beyond traditional pensions to include funds that provide benefits to members upon termination of service or upon the occurrence of an event as specified in a written law, agreement, or arrangement.	Payments made by a resident retirement fund to its members, or their dependents are exempt from income tax. Therefore, widening the definition means broadening the scope of income enjoying this exemption, encouraging more participants. Currently, the definition is limited to death and retirement.
2	Addition to the category of exempt income (Section 21)	The amendment adds new tax-exempt categories of income as follows: • Income earned by private equity or venture capital funds regulated by the Capital Markets Authority. • Profits from selling government securities on the secondary market. • Income from electric vehicle manufacturing and related activities. • Income from operating specialised hospital facilities.	By exempting the income earned in particular sectors, the Government aims to incentivise investment in areas they deem crucial for economic growth (e.g., private equity, EVs,specialised healthcare). The exemption on profits from selling government bonds on the secondary market could make these bonds more attractive, potentially allowing the Government to borrow more funds at lower costs.
3	Inclusion of insurance premium payments associated with a risk in Uganda under the source rules	Amendment of the source rules (section 79 of the ITA) to include income derived from the payment of insurance premiums if the premium relates to insurance or reinsurance of risk in Uganda as being income sourced by non-residents in Uganda.	Under the current law, premiums for re-insurance services paid to non-residents are subject to a WHT rate of 10%. However, due to the lack of clear criteria for sourcing such income or payment, a potential area of controversy could arise regarding the circumstances under which such payments are sourced from Uganda. The proposed amendments aim to address and provide that clarity.

Corporate Taxes

#	Proposed Changes	Details	Our comments
4	Withholding tax on commissions paid to payment service providers.	The amendment introduces section 118I, which requires a person paying a commission to a banking agent or other agent offering financial services (payment service provider) to withhold tax on the commission paid at a rate of 10% of the gross payment.	This specific amendment follows a trend that has seen the imposition of withholding tax on commission payments to insurance agents, advertising agents, and, most recently, commissions from the provision of airtime distribution services and mobile money. This proposed amendment could be more about levelling the playing field with mobile money providers, who are considered competition with payment service providers.
5	Permanent Establishments	The Act has repealed sec. 78(a) of the ITA, which defines a branch or what is commonly termed a Permanent Establishment (PE). Instead, it has replaced that definition with language in line with International best practice and guided how the income of a PE is calculated. The amendment defines a PE as a fixed place of business through which the enterprise's business is wholly or partly carried on, including a branch, a place of management, and a dependent agent. The amendment also lays out what does not amount to a PE, which includes certain activities that are preparatory and auxiliary to the nonresident's main business. These include maintenance of facilities solely for storage and delivery, among other similar operations. The amendment also provides information on how the chargeable income of the PE is to be calculated.	The effects of the growth of multinational enterprises and globalisation have been profound. Many multinational enterprises now operate around the world in various forms, which leads to the creation of permanent establishments. By providing clear guidelines on when a foreign company has a PE, the government aims to ensure that taxes are collected on a broader range of business activities conducted in Uganda by foreign companies. Establishing clear rules on calculating taxable income should create greater transparency and consistency in how foreign companies with PEs are taxed in Uganda.

Corporate Taxes

#	Proposed Changes	Details	Our comments
6	Changes to capital gains tax treatment for venture capital funds	The Act has repealed provisions under section 54 of the ITA relating to the exemption of gains derived from the disposal of investment from venture capital funds if they are re-invested.	This affects startups and businesses that seek investment from venture capital funds. This amendment is consistent with the extension of the exemption from income tax on venture capital funds' income under Section 21 discussed previously. The key distinction, though, is that while the exemption that is being repealed for CGT purposes applies to a registered venture capital fund, the income exemption amendment requires that the venture capital/ private equity fund is registered with the Capital Markets Authority (CMA).

Our View on Indirect Taxes

"Ultimately, a well-designed indirect tax regime is critical in mobilising domestic revenue, supporting economic development, and achieving Uganda's long-term fiscal goals."

The indirect tax landscape has been dominated by trader concerns about implementing the EFRIS - Electronic Fiscal Receipting and Invoicing Solution.

As Uganda navigates the evolving landscape of indirect taxation and its attractiveness, given the number of people who can be reached, striking a balance between ensuring tax compliance and fostering a business-friendly environment will be paramount. Implementing clear and well-communicated regulations, exploring technological solutions, and streamlining administrative procedures can encourage voluntary compliance while minimising disruption for businesses. Ultimately, a well-designed indirect tax regime is critical in mobilising domestic revenue, supporting economic development, and achieving Uganda's long-term fiscal goals. Based on the trader strikes and pushback from the public on the introduction of EFRIS and the Digital Tax Stamps (DST), which were intended to create transparency and provide real-time data for URA, the Tax Authority has not been able to strike that balance.

But perhaps it is more complex than that, and the resistance to compliance is symptomatic of taxpayers who feel they are being taken for granted. While the Government expects everyone to perform their civic duty and give Caesar what belongs to Caesar, there are unmet expectations regarding providing a public service, whether it be efficient healthcare or good roads.

Aside from all these issues, the rise in the statistics of financial inclusion through more formal means, concentrated mainly around mobile money and other payment systems, has presented an opportunity for the URA to widen the tax base. This has resulted in introducing excise duty on withdrawals through such payment systems. With the advent of mobile phones and technological advancements, the convenience of different payment systems has resulted in more Ugandans entering the formal financial fold. This has not gone unnoticed by the Government, and although introducing Excise Duty adds a cost to the use of payment systems, it is unlikely to stop the number of players coming into payment services or using payment systems.

On the regional front, with the East African Community (EAC) pushing for regional integration, Uganda needs to consider the impact of its indirect tax regime in the future.

Patronella Namubiru
Associate Director, Tax & Legal
Deloitte East Africa

Value Added Tax (VAT)

#	Proposed Changes	Details	Our comments
1	Amendments related to goods purchased through auctions	1. Amendment of section 5, which identifies who is liable to pay VAT to the effect that VAT on a supply of goods through auction is to be paid by the recipient of the auction proceeds. 2. Amendment of section 10, which defines when there is a supply of goods to include that a supply of goods through auction by an auctioneer is treated as a supply of goods by the recipient of the auction proceeds.	In FY 2023/24, the VAT Law was amended to introduce VAT on auctioned goods. The responsibility to account for the VAT on the auctioned goods was placed on the auctioneer as an agent of the person seeking their services. This amendment seeks to place the burden of accounting for VAT on the principal, i.e. the person who seeks the auctioneer's services and, therefore, receives the auction proceeds.
2	Expansion of the definition of taxable supply	Amendment of section 18 of the VAT Act, which defines a taxable supply, to include the provision of goods or services to an employee for no consideration by an employer who is either VAT registered or required to be VAT registered as a supply for consideration as part of the employer's business activities.	The provision implies that when a VAT-registered business provides goods or services to its employees for free, the transaction is considered a taxable business activity (a sale). Therefore, the business ought to account for VAT. It is uncertain whether the law considers the provision of benefits such as housing or a car a taxable supply for VAT. If the latter is correct, it would be unreasonable since these benefits are already taxed for PAYE purposes or are disallowed for corporate tax purposes.
3	Increase in the threshold for an automatic request for a VAT Refund	Amendment of section 42(2) to increase the threshold for a taxpayer to request a VAT refund rather than carry forward excess input as an offset from UGX five (5) million to UGX ten (10) million.	With the growing pressure on URA to meet revenue collection targets, the sheer volume and quantum of VAT refunds have not aided this, even as businesses continue to recover from the almost two-year COVID-19 lockdown. The increase in the VAT refund threshold, coupled with other proposed measures like limiting who can voluntarily register for VAT, is likely intended to reduce the volume of refunds that need to be processed.

Value Added Tax (VAT)

#	Proposed Changes	Details	Our comments
4	Expansion of the list of Public International Organizations (Amendment of the First Schedule)	The following entities have been added to the list of Public International Organizations (under the 1st Schedule): • African Reinsurance Corporation (Africa Re), • International Regulatory Board of the East African Power Pool, and • Islamic Cooperation for the Development of the Private Sector.	The list of PIOs is updated regularly to cater for organisations that are Development Partners and Funding Agencies of foreign countries that support (technical or financial) priority initiatives/ sectors/Projects under the Government of Uganda's National Development Plan. Concerning the Islamic Cooperation for the Development of the Private Sector specifically, this aligns with all the changes introduced in the different tax laws affecting Islamic banking.
5	Amendments to the Second Schedule - Exempted goods and services	The following were added to the exempt schedule: • Supply of cooking stoves that use fuel ethanol, assembled in Uganda, up to 30th June 2028. • Supply of locally manufactured electric vehicles or locally fabricated frames and bodies of electric vehicles. • Supply of electric vehicle charging equipment or supply of charging services for an electric vehicle. The following are now standard rated: • Supply of postage stamps. • Supply of software and equipment installation services to manufacturers. The following was updated: • Amendment of Paragraph 1(dda), which exempts from VAT the supply of goods or services to the contractors and subcontractors of renewable energy projects to exclude supplies of a personal or domestic nature.	For goods that have been exempted, if the intention is to encourage the production or supply of these items, exempting them becomes counterproductive. A supplier of an exempt good or service must absorb the cost of the VAT charged on purchases by their suppliers. As such, the VAT they pay becomes a cost that impacts the final sale price, considering that it cannot be claimed as input VAT. Regarding the exemptions applicable to electric vehicles, our view is that this is meant to encourage local investment in electric vehicles, especially with a global focus on minimizing contributors to pollution such as fossil fuels used by ordinary cars. While this may be well intentioned, as previously highlighted, an exemption does not make goods or services less expensive.

Tax Procedure Code Act, 2014

#	Proposed Changes	Details	Our comments
1	Ability to claim a deduction or obtain credit for destroyed goods	Introduction of section 18A, which requires a taxpayer to have informed the Commissioner in writing before the destruction of goods as a pre-requisite to be able to claim a deduction or credit for goods destroyed based on; • Damage to trading stock, • Expiry of trading stock, • Damage to manufactured stock, • Expiry of manufactured stock, or • Obsolete stock.	Currently, URA has no specific requirements under the law for a taxpayer to claim a deduction or credit for goods destroyed. The provision has been introduced to establish criteria for claiming a deduction or credit on trading stock or manufactured goods destroyed. This proposal ensures that the tax authority has sight of the goods to be destroyed and that taxpayers are not unjustifiably claiming a deduction or credit on any destroyed stock.
2	Waiver of interest and penalty on payment of principal tax	Introduction of section 40E, which is similar to a provision introduced under the TPC Amendment Act of FY23/24 waiving any interest and penalty outstanding as of 30th June 2023. This amendment extends the deadline for payment of the principal tax for one to enjoy the waiver to 31st December 2024.	The URA initially provided a tax amnesty to taxpayers, allowing them to have their interest and penalties waived if they paid off any outstanding principal tax by 31 December 2023. Where part payment was made, the interest and penalty fees would be waived to the proportion of the principal tax paid off. This initiative came into place to encourage all taxpayers to pay off the outstanding tax to avoid accumulating further penalties and interest on the outstanding taxes. Therefore, this is an extension on the amnesty provision introduced last year especially given that there was little time given for the waiver to apply.

Tax proposals not passed by Parliament

Income Tax	Value Added Tax (VAT)
Introduction of a 5% Capital Gains Tax (CGT) on shares in a private company (not publicly traded), land in cities or municipalities (excluding one's primary residence) and rental properties (already subject to rental tax).	Repeal of section 7(4A)(c) of the VAT Act to remove commercial farming from the list of those who can voluntarily register for VAT, regardless of meeting the VAT registration threshold.
Repeal of non-recognition of gains or losses in instances involving a transfer of assets between spouses.	Introduction of section 66A under the offences to make a withholding agent who fails to withhold tax personally liable for the amount of VAT which has not been withheld, including being subjected to recovery provisions such as penal interest on unpaid tax
Amendment of section 83(1) of the ITA to add "annuity" to the scope of international payments subject to a 15% withholding tax	Amendments to the Third Schedule –Zero-rated goods and services: • Repeal of zero rating on the supply of seeds, fertilizers, pesticides and hoes. • The definition of 'pesticides' moved from the Third schedule to the Second Schedule.
Insertion of a new paragraph to section 90 of the ITA, requiring a person with related party transactions to submit transfer pricing information to the Commissioner at the time of filing returns.	
Introduction of a 2% withholding tax on interest paid by resident persons, other than the Government, to third party (nonrelated party) nonresident financial institutions providing loans other than under an arrangement involving a back-to-back loan or other arrangement that is economically equivalent and intended to have a similar effect to a back-to-back loan.	

Noteworthy caselaw

Uganda Revenue Authority v Mukwano Enterprises Limited (Civil Appeal 55 of 2019) (Judgement 30 December 2023)

Background

Mukwano Enterprises Limited, a property and real estate development business that buys leases on land, constructs or renovates commercial or residential buildings on the leased properties and rents them out for profit, was audited by the URA for which premium and rent payments treated as tax-deductible expenses were disallowed based on being capital in nature and therefore nondeductible. The company objected to the assessment and subsequently applied to the Tax Appeals Tribunal (TAT) for review. The TAT, in agreeing with the taxpayer, held that the rent and premiums paid were tax-deductible expenses. The URA appealed the TAT decision.

Issue

Whether the TAT erred in law in holding that the rent and premium paid by the Respondent was a revenue expenditure and, therefore, deductible as allowable expenses.

Court Ruling

The Commercial Court, in arriving at its judgement, considered what amounted to a capital and revenue expenditure. It concluded that capital expenditure is typically incurred in the acquisition, extension, or improvement of assets, whereas revenue expenditure is a routine business expenditure. Expenses captured under sec. 22(2) of the ITA (non-deductible) that are capital in nature are those that are a once-for-all payment intended to provide a long-term benefit to the business and not a recurrent expenditure.

The Court recognises that while, on the one hand, land acquisition was treated as a capital expenditure since land is a fixed asset; where a taxpayer deals in real estate, the interest in land is circulating capital for such a taxpayer because once acquired, the interest is sold for profit. As such, all money spent to acquire such interest in real estate is a revenue expenditure.

However, it went on to make a distinction based on the company's business i.e. they did not simply buy and sell the land but rather retained the same for the duration of the leases. They developed them and received rent from the developed properties till the lapse of the lease. This was reinforced by the company's financial statements, which disclosed these as 'noncurrent assets". The amortisation by the respondent of the premiums was indicative of their non-recurrent nature. The amortization of expenses automatically infers that such expenses are a one-time capital expense which needs to be spread out over the useful life of the fixed asset and written off gradually. The Court concluded that while the premiums were capital in nature, the rent payments were of a revenue nature and, therefore, tax deductible.

Our view

This decision confirms the ruling in Vivo Energy Uganda Ltd v URA (HCCA No.1 OF 2019), which also considered what amounts to a capital and revenue expenditure and the deductibility for tax purposes of amortisation of leases.

Uganda Revenue Authority Versus Agaba Henry, High Court Civil Appeal No. 32 of 2021 (Judgement 29 December 2023)

Background

This case involved the valuation method used by the URA in determining the taxes payable by an individual who purchased and imported a second-hand car. Instead of using the transaction value, the URA, on the basis that the East African Community (EAC) Administrative Ruling of Valuation of Used Goods of 13th December 2013, prescribed the fallback method as the applicable customs valuation method for all used cars imported into the EAC, uplifted the value.

The importer made an application to the TAT. In its ruling, the Tribunal agreed with the importer that URA was not justified in uplifting the vehicle's customs value. This was on the basis that in construing Section 122(5) and (6) of the East Africa Community Customs Management Act (EACCMA) and the Administrative Ruling, for customs to apply the fallback method, there must be actual as opposed to perceived complexities, in applying the initial five valuation methods.

URA appealed the TAT decision.

Noteworthy caselaw

Issues

- Whether the TAT erred in law in disregarding Section 122(6) of the East African Community Customs Management Act.
- Whether the TAT erred in law in not considering the Administrative Ruling of Valuation of Used Goods of 2013.
- Whether the TAT erred in law in holding that the importer's vehicle qualified for the transaction value method of valuation.

Court Ruling

Sec. 122 and the 4th Schedule of the EACCMA relegate the fallback method to the residuary method of customs valuation. The fallback method is a method of last resort only applicable when all others have failed. An ideal case in which the fallback method could apply is one in which the importer lacks any purchase documents for the import. Administrative rulings are made under delegated legislative power pursuant to Sec. 122(5) of the EACCMA, which expressly anticipates that administrative rulings of general application may be made and published to give effect to the Fourth Schedule.

Delegated legislation cannot exceed the purview of the Parent Act. When delegated legislative power is exercised beyond the scope prescribed by the Parent Act, the resultant subsidiary legislation is null and void to the extent of its inconsistency with that Parent Act.

In accordance with Para. 2 of the 4th Schedule of the EACCMA, the only criterion for the transaction value method to apply is the presentation of genuine proof of the actual price paid or payable for the good.

Our view

One of the most common issues in customs matters is that related to the valuation of goods. For used motor vehicles especially, it is known and begrudgingly accepted by importers that the value used for customs purposes is not the transaction value but rather values determined by customs based on the model of the car and year of manufacture. All we can hope for at this point is that with another court decision going against URA with respect to the priority of the valuation methods, there can be a reconsideration in terms of the application of the provisions of the EACCMA.

Absa Bank Uganda Limited v Uganda Revenue Authority (TAT Application 57 of 2021) [2023] UGTAT 8 (Judgement 22 November 2023)

Background

Following a tax audit, the URA raised assessments for non-declaration of WHT on charges paid to corresponding banks (Nostro charges) and non-declaration of VAT on initial customer deposits to suppliers for leased items. In addition, it was disallowed.

Interest expense under Section 47 of the Income Tax Act. The taxpayer applied for judicial review to TAT of the matters giving rise to these assessments.

Issue

Whether the Bank was liable to pay the taxes assessed by the URA Court Ruling

Court Ruling

Treatment of Nostro charges

The TAT agreed that the payments made by the Bank to corresponding banks were in respect of business decisions for transactions between the banks as they related to the provision of services and could be considered as management charges under section 78 of the ITA. Having considered the nexus between, the charges to the foreign banks and the liability to pay tax under the source rules (section 79), the TAT concluded that as the bank was the one effecting payment on its client's behalf, it had the obligation under section 120 to withhold the 15% tax.

Applicability of VAT on initial customer deposits

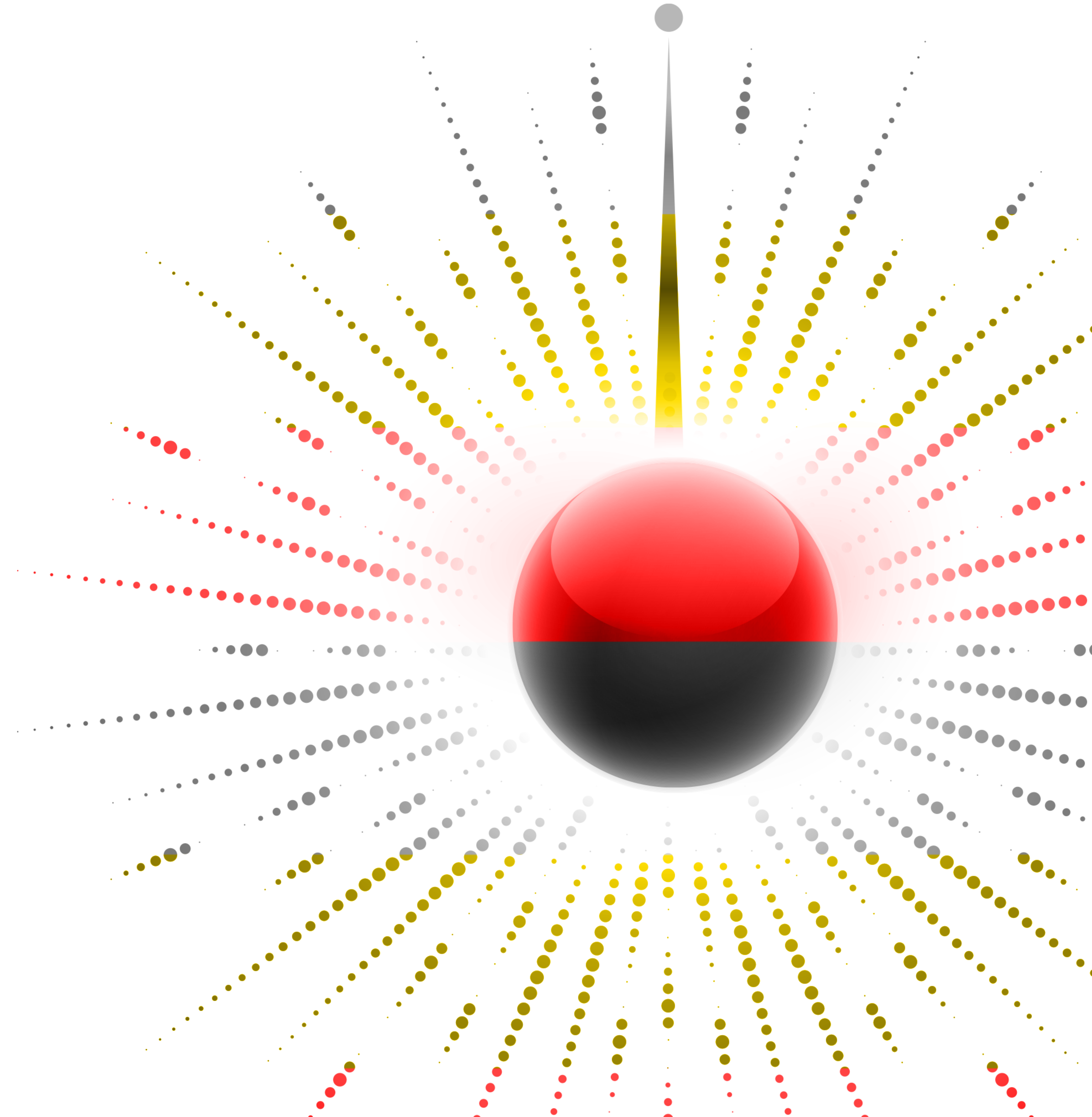
In determining whether VAT was applicable on the initial deposit made by a customer to the supplier under capital asset financing, consideration was made to the fact the supplier of the asset issues the bank with an invoice for 100% of the purchase value even though the bank finances only a portion of the same. The TAT concluded that because the bank was claiming 100% input VAT on the purchase invoice from the supplier, it should also account for VAT on the full payment made by the customer, including the initial deposit, which was not financed by the bank.

Noteworthy caselaw

Right to claim a deduction of an interest expense

- In considering whether interest expense accrued on customer accounts was tax deductible even though withholding tax was paid on maturity (when payment was made to the customer), the TAT considered section 42 dealing with accrual basis, section 47 dealing with deferred interest.
- Timing of deferred interest expense and section 2(xx) which defines payment.
- It concluded that when a taxpayer uses the accrual method, the law allows that taxpayer to incur expenditure when it is payable by the taxpayer. Therefore, a taxpayer can incur an interest expense when it is payable under the accrual accounting system.
- In this instance, however, the Court found that the bank, which was using an accrual accounting method, contradicted itself because it also allowed paid interest as allowable deductions using the cash-based accounting method.

Sectoral Highlights



Sectoral Analysis

Human Capital Development

The Ugandan government has unveiled its budget for the 2024-2025 financial year, with a significant focus on human capital development. The sector has been allocated UGX 9.9 trillion, representing a significant increase from the previous year's allocation. The sectors covered under here include education, health and social development with the following objectives.

- Improve access to quality education and healthcare
- Enhance the skills and productivity of the workforce
- Reduce poverty and inequality
- Promote social inclusion and protection

Education

The allocation to this sector is estimated to be UGX 4.6 trillion (47% of the sector's allocation) a slight increase of 8% from the previous fiscal year. This highlights the government's commitment to improving educational outcomes. The key priorities and initiatives under the education sub-program include:

- Establishment of the National Teachers' Council;
- Supporting the new curriculum for S1-S4 students;
- Commencing the construction of 60 secondary schools and expansion of 61 existing secondary schools under the Uganda Secondary Education Expansion Project;
- Full operationalisation of the redeveloped EMIS;
- Enhance the inspection function of the Directorate of Education standards to improve teacher time on task and effectiveness;
- Operationalization of the High-Altitude Training Center;
- Provision of Capitation grants for UPE, USE, UPOLET, other tertiary training institutions and Government take-over of Bunyoro and Busoga Universities for inclusive and equitable access to university education;
- Providing loans to 5,192 degree and 1,125 diploma students who are on the Government-funded loan scheme, both continuing students and new beneficiaries; and
- support research and innovation at Higher Education levels through promotion of STEM STEI.

The key priorities and budget allocation outlined for the education sector reflect a strategic commitment to improving educational outcomes, albeit within a constrained financial framework. This allocation aligns with the NDP III, which emphasises human capital development as a cornerstone for national growth and transformation. The modest increase in funding aims to address critical areas such as infrastructure development, teacher recruitment, and the expansion of higher education and vocational training. However, significant challenges remain, particularly in ensuring competitive teacher salaries and adequate educational materials.

Health Sector

The allocation to this sector is UGX 3.4 trillion (35% of the sector's allocation). Uganda's health sector aims to achieve Universal Health Coverage by 2030 through evidence-based policies and strategies. Its focus is on reducing the burden of communicable diseases, upgrading health infrastructure, and ensuring an adequate healthcare workforce. However, the health sector is facing challenges, with a reduction in resource allocation, budget releases and absorption. The Ministerial Policy Statement 2024/25 revealed that for FY 2023/24, a total of UGX 54.35 billion was provided as off-budget support to various Ministries, Departments and Agencies (MDAs) under the Heath sub-programme. This is expected to reduce to UGX 7.8 billion with UGX 4.7 billion to Uganda Virus Research Institute (UVRI) (60.3%) in FY 2024/25. We note that these resources remain obscure, posing a risk of duplication of efforts.

Further, we note that several critical priorities, including a non-functional Ambulance System, maintenance of Regional Equipment Workshops, allowances for Interns and Senior Health Officers, and decentralisation of dialysis services, remain unfunded and underfunded in the health sub-programme budget for FY2024/25. These priorities are critical to the quality of health service delivery and attainment of health outcomes. Specifically, the following interventions in FY2024/25 will be prioritized:

- Promotion and implementation of interventions for the disease prevention and health education initiatives against

communicable, non-communicable and neglected tropical diseases and injuries;
- Provision of essential medicines;
- Improvement of the welfare of the health workers including medical interns and doctors designated as senior house officers;
- Construction and rehabilitation of more health infrastructure and provision of medical equipment;
- Digitisation of the national health system;
- Construction, rehabilitation and equipping of dilapidated hospitals; and
- Establishment of a Pharmaceutical Industrial Park; and strengthening the National Drug Authority Regulatory Framework.

Social Development

The social development sector in Uganda's Budget 2025 is allocated Shs 1.3 trillion, which will be used to fund various programs and initiatives aimed at promoting social inclusion, protection, and empowerment. Some of the key areas of focus include:

Shs **444.8** billion

Social Protection
- Senior Citizens Grant (SCG): Shs 153.8 billion
- Expanding Social Protection Programmes: Shs 291 billion

Shs **114.8** billion

Gender and Women Affairs
- Gender-based violence prevention and response
- Women empowerment programs

Shs **70.8** billion

Youth Development
- Youth skills development and employment
- Youth empowerment programs

Shs **20.8** billion

Disability Affairs
- Support for persons with disabilities

Shs **50.8** billion

Community Development
- Community mobilization and empowerment

These programs aim to improve the well-being of vulnerable populations, promote social inclusion, and enhance the quality of life for all Ugandans.

This budget allocation demonstrates the government's commitment to investing in human capital development, recognizing the critical role it plays in driving economic growth and sustainable development. By prioritizing education, health, and social development, Uganda aims to build a more skilled, healthy, and productive population, capable of driving the country's economic transformation.

Financial Services

Uganda's financial services sector continues to play a crucial role in the country's economic development and provides a wide range of services to individuals, businesses, and the government. The sector comprises various institutions and activities that facilitate the flow of funds, manage risks, and promote economic growth; these include commercial banks, microfinance institutions (MFIs), insurance companies, capital markets, non-bank financial institutions and mobile money services.

Over the last few years, the country's economic growth has been on a steady recovery supported by the Government's initiatives to boost private sector activity and increase regional trade. . Reports from Ministry of Finance indicate that the GDP growth rate revamped to 5.2% in FY 2022/23 from 4.6% in FY 2021/22. Additionally, the FY 2023/24 period saw economic growth strengthened to 6%, driven by higher output in the economy's services, industry, and agriculture sectors. This was supported by a recovery in aggregate demand as inflation slowed down, efficient implementation of the Parish Development Model that increased production and productivity in agriculture and agro-processing, increased Oil & Gas sector activities, and growth in regional trade.

The annual headline inflation reduced significantly from 10.6% in November 2022 to 2.6% in November 2023. For FY 2024/25, annual headline inflation is projected to average 3.9%, with the expectation that it will remain around the 5% target over the medium term. Within the EAC region, except South Sudan, which has negative inflation, Uganda has the lowest inflation for November this year, which is 2.6%. This is followed by Tanzania at 3.2%, Kenya at 6.8%, Rwanda at 12.9%, Burundi at 26.47%

(October), DRC at 19.1% and South Sudan at minus 3.30%.

The country's exchange rate has remained relatively stable, appreciating to an average rate of Shs. 3,725.20/USD for the period July-October 2023, when compared to Shs. 3,806.37/USD in the same period in the previous financial year. This was due to higher FDI inflows related to the oil sector and increased export receipts during the period under review. Going forward, the shilling is expected to remain largely stable despite the global strengthening of the US Dollar following the increase in the policy rate by the Federal Reserve of the USA.

Lending rates have remained elevated, with an average rate of 18.55% for the period July – October 2023, compared to 17.37% for the same period in the previous financial year. The commercial banker's lending rates in October 2023 for both shillings and foreign currency-denominated credit increased to 18.95% and 9.00%, compared to 18.40% and 8.57%, respectively, on account of higher provisioning for bad debts. However, lending rates are estimated to start declining as inflationary pressure continues to decline.

Non-performing loans (NPLs) to total gross loans reduced to 5.34% from 5.7% in the same period, indicating further improvement in the financial soundness of the banking sector.

Interest rates (yield) for the 91-day and 364-day bills remained broadly unchanged, largely because the financial markets received a signal of the government's fiscal consolidation agenda, including the projected reduction in domestic borrowing.

Private sector credit grew by 3.4% between July and October 2023 compared to Zero (0)% growth in the same period in the previous year. This reflects a gradual recovery in aggregate demand and positive future economic prospects.

To support economic growth and reduce the cost of doing business for the private sector, the government will continue to reduce domestic borrowing to lower the private sector's money cost. Government borrowing from the domestic market for fiscal purposes in FY 2024/25 is projected at UGX 4,116.0 billion. Interest payments are projected to amount to UGX 7,623.4 billion. Of this, UGX 5,662.9 billion is projected for domestic interest payments, while UGX 1,960.5 billion will be foreign interest payments and commitment fees. In addition, the Government has also provided affordable capital through entities such as the Uganda Development Bank.

Integrated Transport Infrastructure and Services

The Integrated Transport Infrastructure and Services (ITIS) Programme has been allocated UGX 5.151 trillion for the year 2024/25. This is an increase of 7.6% from the 2023/2024 budget of UGX 4.656 trillion. The ITIS presents 7.14% of the total national budget of UGX 72,136.50 trillion.

Linkage between the Integrated Transport Infrastructure and Services (ITIS) programme and the National Development Plan III.

Sustainable transportation infrastructure and services play a crucial role in fostering economic growth, leading to an enhanced standard of living for the country. Infrastructure is key to integration into global and domestic trade and market systems. Therefore, access to and efficiency of transport infrastructure and services is critical to Uganda's competitiveness and ability to harness its regional potential. It has been based on the programme priority interventions in NDP III, with the expected outcomes including improvements to the accessibility of goods and services, effective transport management, and access to regional and international markets.

Specifically, the ITIS programme for FY 2024/25 will include:

Road transport

Maintenance of critical road infrastructure, including rehabilitation of District, Urban, and Community Access Roads (DUCAR), tarmacking of additional roads and construction of more than 20 bridges.

Railway transport

Acquisition of Right of Way for and commencement of construction of Standard Gauge Railway (SGR) as well as progressing with rehabilitation projects for Meter Gauge Railway (MGR).

Air transport

The completion and operationalization of Kabalega International Airport in Hoima are underway, with plans to acquire at least two mid-range aircraft and two cargo aircraft to facilitate exports in the medium term.

Water transport

Ferries development will focus on the completion of two Bukungu-Kagwara-Kaberamaido (BKK) ferries and their landing sites and the construction of two Lake Bunyonyi Ferries and their landing sites.

Industrial Development

Agro-Industrialization

In FY24/25, industrialization features as one of the key drivers of focus for economic growth, with particular emphasis on Agro-Industrialization. Given the dominance of agriculture as a source of livelihood, Agro-Industrialization offers a great opportunity for Uganda to embark on its long-term aspiration of increasing household incomes and improving the quality of life. Some of the key milestones achieved during FY23/24 in the area of agro-industrialization include the establishment of an afla-safe facility at Namulonge to help in the management of aflatoxins in cereals and nuts; Construction of a local anti-tick vaccine manufacturing facility; Increased coverage of large-scale farmer mechanization to 40% from 32% in FY 2022/23. A total of 240 tractors with all their accessories and additional 750 units of single-axle tractors were procured and distributed countrywide. Government also provided a number of policy/tax related support to the private sector to mechanize.

In FY24/25 UGX 1.878 trillion has been allocated to enhance agro-industrialization with increased focus on commercialization and value addition in agriculture, with a focus on support for pest, vector and disease control and prevention, investment in research and genetic development of selected value chains for animal, fish and crop varieties, de-risking agriculture through supporting increased production and productivity as well as value addition for all the priority value chains, among other priorities, such as additional credit support to large-scale commercial farmers to ensure food security and increased exports.

Petroleum and Mineral Development

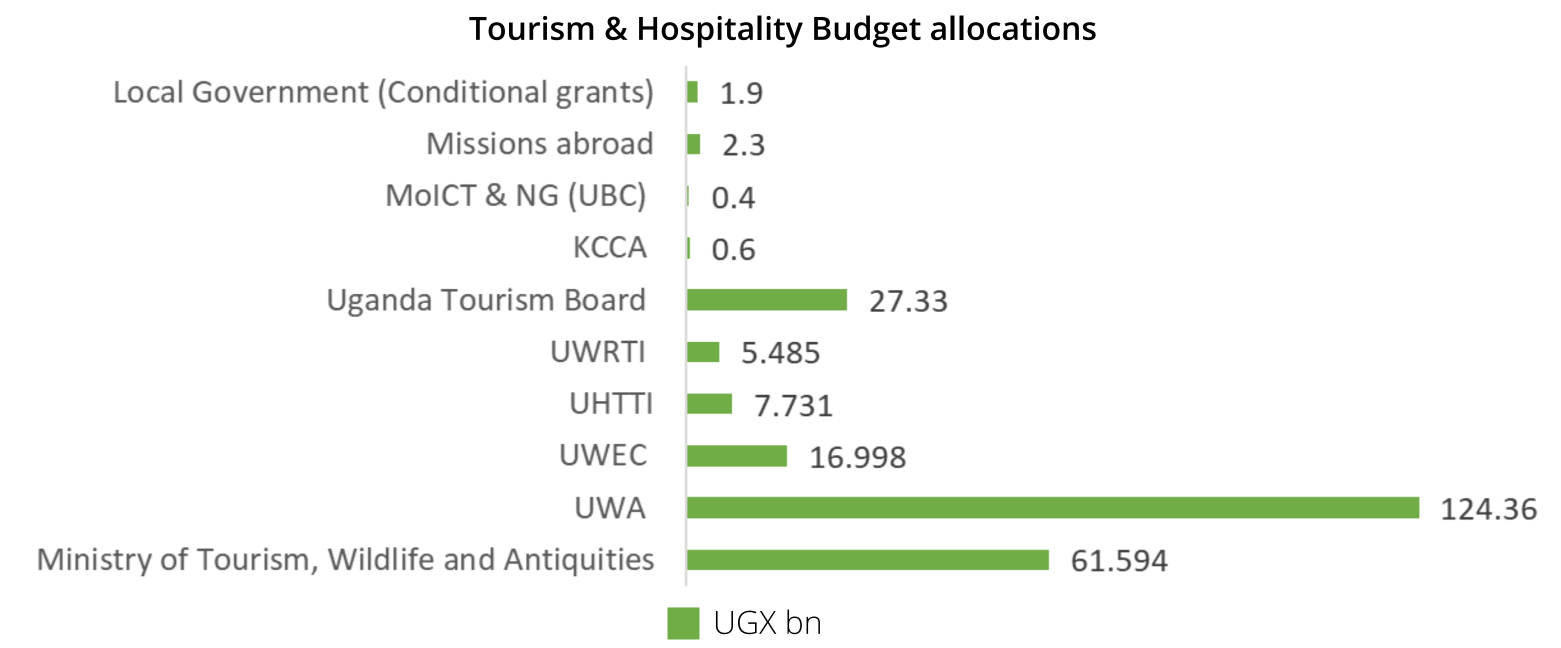
The government's strategic focus is to increase the exploitation and value addition to selected resources for job rich industrialisation, and the Uganda Vision 2040 aims to promote local beneficiation through value addition on the minerals. Mineral development is seen as a key growth accelerator for the expansion of Uganda's economy. It is expected to support resource-based industrialisation through light manufacturing and high-tech exports. Key mineral development projects and value addition centres have been developed with investments in gold, rare earth metals, graphite, limestone and tin. UGX 41.55 billion has been allocated in the FY2024/25 budget for: fast-tracking quantification and market studies for minerals for the purpose of investor promotion, operationalization of the National Mining Company, reviewing and strengthening the fiscal regime for minerals, developing the e-government mineral production system and data bank, construction of the Busia and Moroto beneficiation centres, strengthening the Ntungamo and Fort Portal centres, and facilitating private sector participation in exploration, mining and value addition to minerals.

With first oil anticipated in FY2025/26, the Upstream Petroleum Project has advanced with drilling works in preparation for production, the East African Crude Oil Pipeline (EACOP) is tracking as planned, with a target to lay 100 km per month. The thermal insulation plant for heating the EACOP in Tabora Tanzania was commissioned in March 2024, and the planned 60,000 barrels per day Refinery in Kabaale, Kikuube District, is progressing well, with ongoing engagements happening between the Government and Alpha MBM Investments from the United Arab Emirates (UAE) to build the Refinery. Oil & gas investments are projected at UGX 920.86 billion for FY 2024/25. Priorities for the next financial year include:

- Development of the East African Crude Oil Pipeline (EACOP) hub in Tanga;
- Continued construction of the EACOP including the necessary infrastructure to facilitate adherence to high quality environmental standards;
- Procurement and dissemination of the 57,000 Liquefied Petroleum Gas (LPG) cylinders to promote clean cooking;
- Establishment of the Petroleum Geoscience Laboratory; and
- Equity contribution for the Refinery Project.

Tourism and Hospitality

With a 9 percent increase in tourism flows experienced in FY2023/2024 in comparison to FY2022/2023, Government intends to garner even more inflows from the sector in FY2024/2025. In a bid to revamp and ensure the competitiveness of the Industry, Ushs 248.7 bn has been allocated and distributed as follows:



Upscaling Uganda's tourism industry will cater for:

a. Sustaining upstream investment in product development and diversification.

b. Intensifying domestic tourism and specialized tourism promotions and campaign.

c. Rolling out the Explore Uganda and Pearl of Africa Brand in key Source Markets.

d. Enhancing wildlife and cultural heritage conservation including management of Human wildlife conflicts in districts hosting / surrounding conservation areas.

e. Enforcing quality assurance of tourism actors through classification and grading of facilities and registration, inspection, capacity building and licensing of tour guides, agents among others.

f. Ensuring skills development through enrolment and training of students at Uganda Hotel &Tourism Training Institute (UHTTI) and Uganda Wildlife Research & Training Institute (UWRTI).

Science, Technology, and Innovation

The Uganda Vision 2040 identifies Science, Technology Engineering and Innovation (STEI) among the key fundamentals required to achieve the Vision aspirations. Government has earmarked Science, Technology, and Innovation (STI) as a key catalyst for the qualitative leap to achieve tenfold growth of the Ugandan economy. Building on investments made in prior years, the FY2024/25 budget will allocate funding to a few prioritised initiatives:

- Kiira Motors Corporation (KMC) which was supported to construct and equip a 2,500 vehicles per year manufacturing plant in Jinja Industrial Park will receive additional funding of UGX 32.5 billion to complete the plant and access working capital.
- The Presidential Initiative on Banana Industrial Development (PIBID) will receive additional funding of UGX 50 billion to complete the capitalization of the company to transition into a self-sustaining business.
- UGX 2.84 billion of investment is allocated to the pathogen economy supporting special initiatives, which include support to Dei Biopharma Limited which is establishing a pharmaceutical and vaccine manufacturing facility in Uganda, an anti-tick vaccine project at Makerere University, Jena Herbals which will be supported to undertake clinical trials of natural therapeutics and establish an internationally certified production facility to manufacture and commercialise them in Uganda, and investment in research in human vaccines.
- Coffee Value Chain Development: Government will invest UGX 75 billion in the completion and expansion of the Coffee Investment Consortium, Great Lakes Coffee, and Inspire Africa Coffee, particularly to support their operationalization and market penetration of coffee products on the local, regional and international markets. This investment is expected to earn Uganda USD 560 million from value added coffee in the next five years.
- Space Programme: UGX 3.3 billion of additional investment to the Space Programme will build on previous efforts to train Aerospace engineers, continue to refurbish the headquarters of the Space Programme (Mpoma Satellite Earth Station) to enhance weather prediction, and monitoring of landslides and the environment.

Information Communication Technology Sector

The digital transformation program has been allocated UGX 173.9 bn for the year 2024/25. This is a decrease of 1.6% from the 2023/24 budget of UGX 176.7 bn. ICT contribution to GDP is expected to rise from 3.5% in 2023/24 to 3.6% in 2024/25 and further to 3.8% in 2025/26. This growth is attributed to the increasing adoption of digital technologies, enhanced internet connectivity, and government initiatives aimed at promoting the ICT sector.

The National Development Plan III (NDP III) outlines specific objectives for the digital transformation sector to drive Uganda's socio-economic development through the adoption and integration of digital technologies, including: Increasing the National ICT Infrastructure Coverage, which will expand the physical ICT infrastructure across the country, including the installation of more broadband networks, mobile towers, and fiber optic cables; Enhancing the Usage of ICT in National Development; Enhancing ICT Research, Innovation, and Development; Increasing the ICT Human Resource Capital; and Improving the Legal and Regulatory Framework.

In the fiscal year 2024/25, Uganda is set to see significant advancements in its digital transformation sector, driven by the strategic objectives outlined in the NDP III. Highlighted below are the expected changes.

1. **Increase the National ICT Infrastructure Coverage:** The internet penetration rate is projected to rise significantly to 70% in 2024/25, up from 43% in 2023/24, indicating a substantial improvement in online accessibility across the country. The coverage for digital terrestrial TV signals is expected to decrease slightly to 80% in 2024/25 from 83% in 2023/24, reflecting adjustments in broadcast strategies. The population covered by broadband services is anticipated to increase from 83% in 2023 to 90% by 2024/25, highlighting efforts to extend high-speed internet access. Radio signal coverage is set to improve, reaching 95% in 2024/25, up from 90% in 2023/24, ensuring broader access to radio communication.
2. **Enhance the Usage of ICT in National Development:** The proportion of public services available online is expected to rise from 35% in 2023/24 to 50% in 2024/25. This increase aims to improve the accessibility and efficiency of government services. The national broadband coverage with a minimum speed of 8Mbps is projected to expand from 50% in 2023/24 to 60% in 2024/25, enhancing the quality of internet service available to the public.
3. **Enhance ICT Research, Innovation, and Development:** The unit cost of 1Mbps/month of internet is expected to reduce significantly from 100 UGX in 2023/24 to 70 UGX in 2024/25. This reduction is aimed at making internet access more affordable and stimulating digital innovation and usage.
4. **Increase the ICT Human Resource Capital:** The number of jobs directly created by the ICT sector is expected to rise to 40,000 in 2024/25, up from 30,000 in 2023/24. This growth reflects the sector's expanding role in employment generation and economic development.
5. **Improve the Legal and Regulatory Framework:** The number of legal and regulatory frameworks in place is anticipated to remain steady at three in 2024/25, as it was in 2023/24. This consistency underscores the ongoing efforts to maintain a robust regulatory environment that supports the ICT sector's growth.

Despite the potential that ICT has, utilization of its services across the country is still limited due to: Limited network coverage; Poor quality services; High cost of end user devices and services; Inadequate ICT knowledge and skills; and Limited innovation capacity.

The specific interventions for 2024/25 budget include further expansion of internet connectivity and digital infrastructure across the country; continuing the rollout of digital services across Government to improve efficiency of service delivery, transparency and accountability; leveraging Business Process Outsourcing (BPO) and ICT to create employment opportunities for the young people; digital skilling to increase adoption of the digital services; and cyber security, data protection and privacy.

The Role of Policy in Sustainability: Aligning Incentives for a Greener Future

Uganda's recent National Budget Framework Paper FY 2024/25 – FY 2028/29 (NBFP) reflects a strong commitment to Environmental, Social, and Governance (ESG) principles. Building on the National Development Plan III, the Charter for Fiscal Responsibility, and commitments to gender equity and balanced development, the NBFP outlines a comprehensive approach to sustainability. This focus on a greener future is commendable, and tax policy can be a powerful tool to support these goals.

Understanding Uganda's ESG landscape. The NBFP outlines a comprehensive approach to ESG, focusing on environmental sustainability, social equity, and good governance. Key areas of action include:

a. Environmental protection through combating climate change with initiatives like carbon neutrality certification and promoting sustainable land management practices.
b. Water resource management by improving water quality monitoring and wastewater management to ensure clean water for all Ugandans.
c. Social equity through ensuring equitable access to resources, particularly water and sanitation facilities, with a focus on empowering women.
d. Disaster preparedness by strengthening disaster risk management to protect communities from the effects of climate change.
e. Good governance through developing clear environmental regulations and promoting public awareness about sustainable practices.

Tax as a tool for ESG integration. Tax policy can be a powerful lever to incentivize or discourage certain behaviors. Uganda's recent tax amendments demonstrate a clear recognition of this potential, using tax breaks and exemptions to promote investment in the ESG sector.

Uganda's recent tax amendments provide a roadmap to a cleaner, more sustainable future, with electric vehicles (EVs) taking center stage. To spark investment in this clean technology sector, the government has introduced a suite of tax breaks targeting various aspects of the EV ecosystem. Income tax exemptions for EV manufacturing and related activities aim to attract businesses to this burgeoning field.

Additionally, VAT exemptions are being offered for both electric vehicles themselves and the essential charging infrastructure like batteries and other charging equipment, making these clean alternatives more affordable for consumers. Furthermore, to encourage domestic production and job creation, excise duty on construction materials used by EV manufacturers is being eliminated.

Finally, a stamp duty exemption for EV manufacturers helps streamline their operations and potentially reduce overall costs, paving the way for more competitive pricing of electric vehicles in Uganda. This comprehensive approach to tax incentives demonstrates Uganda's commitment to fostering a thriving EV industry, a key driver in the nation's transition to a cleaner and more sustainable future.

Aligning tax policy with sustainability goals. While the measures above speak to the intention to promote clean technologies for a sustainable future, as we have seen from discussions in the Eurozone arising from the increase in tariffs in EV from China as a way to protect the manufacturers in Europe, the development of this sector requires extensive resources which makes this longer term. There is, therefore, opportunity to expand the scope of tax-based ESG incentives that are more short to medium term and which Ugandans can take up as below:

Renewable energy - Consider giving tax breaks for companies investing in solar, wind, or other renewable energy sources. This could accelerate Uganda's transition away from fossil fuels and contribute to climate change mitigation.

Sustainable forestry - Tax incentives for sustainable forestry practices, such as tree planting and responsible logging, could combat deforestation and promote biodiversity conservation.

Green buildings - Offering tax breaks for constructing energy-efficient buildings can incentivize sustainable construction practices and reduce Uganda's carbon footprint.

Carbon credits - There is currently a huge global market for carbon credits as countries and multinational companies work towards meeting the targets set. Providing incentives to Ugandan companies or individuals who are involved in the carbon credit market would not only create alternative revenue streams in the private sector but contribute to netting off Uganda's own carbon footprint even as the Government invests in Oil & Gas projects that have raised concern globally.

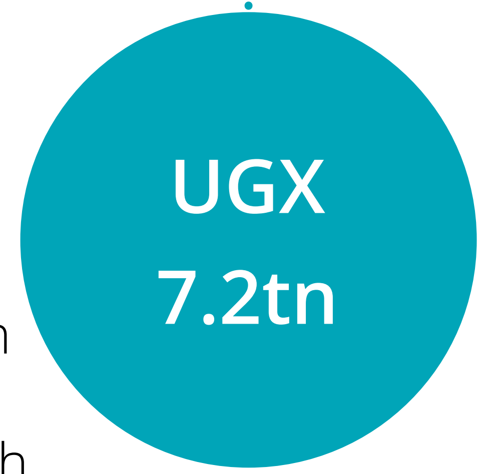
The road ahead: Regulation and transparency - The recently drafted "National Climate Change (Climate Change Mechanism) Regulations, 2024" is a positive step towards creating positive change for sustainability purposes. These regulations, expected to be finalized in June or July 2024, will provide a clearer framework for businesses and individuals to understand their sustainability obligations. Additionally, ensuring transparency in policy and its impact on ESG goals will be crucial. Regularly monitoring and evaluating the effectiveness of tax incentives can help ensure they are achieving their intended outcomes.

A call to action

For policymakers, this is an opportunity to refine policies including tax to further encourage responsible business practices. For professional service providers like accountants, lawyers, and consultants, understanding these policies is key to advising clients effectively. For potential investors, Uganda's commitment to ESG presents exciting opportunities in areas like clean energy and sustainable infrastructure. And for the general public, this focus on sustainability ensures a healthier environment and a greener future for all Ugandans.

Sectoral overview | Budgetary allocation

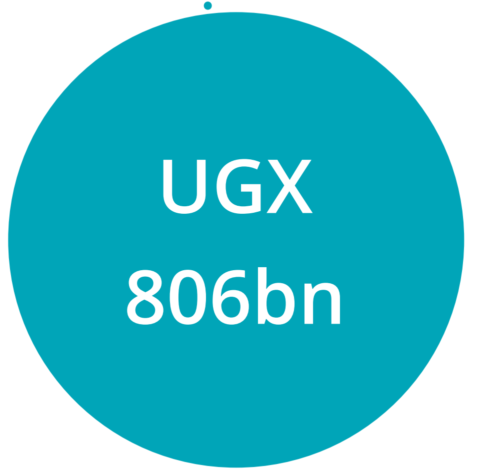
Water



The Government will continue to focus on further improving access to safe water and sanitation in both rural and urban areas. Key priorities for 2024/25 include:

- Construction, rehabilitation and expansion of large, medium and small piped water systems in all urban areas and rural growth centers with emphasis on the under-served areas of the country. This will also include boreholes, solar-powered pumps and public standpipes;
- Strengthening and integration of the water user committees and monitoring and reporting in the Parish Development Model across the country;
- Construction of public and community sanitation facilities such as fecal sludges and waterborne toilets;
- Promotion of motorized water supply systems through construction of solar-powered schemes;
- Integration of sanitation facilities in other projects especially under education and health in line with the programmatic approach to planning; and
- Development of a Water and Sanitation Information Management System under the Uganda Inter-Government Fiscal Transfer Programme (UGIFT) with support from the Word Bank to facilitate monitoring and reporting of access to safe water and sanitation.

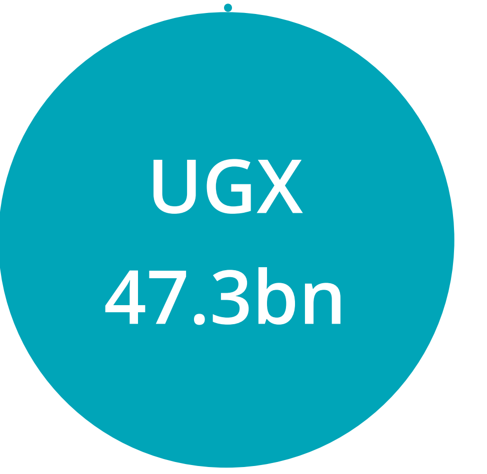
Agriculture



- The agricultural sector is projected to grow by 4.8% in 2024, supported by a budgetary allocation of UGX 806bn in 2024/25. The sector accounts for up to 50.0% of exports and employs circa 64.0% of the workforce.
- The budget allocation targets programmes that would improve food security, climate change adaptation and reduce cost of living.
- There is government emphasis on promoting climate friendly agriculture to address environmental degradation.
- Key priorities for 2024/2025 include;
  - Expediting the operationalisation of the National Seed Company;
  - Supporting the National Agricultural Research Organisation and National Research Institute in seed and vaccines development;
  - Investing and operationalisation of the fertiliser/phosphate plant in Sukulu (through a PPP) for the production and provision of fertilisers to farmers to improve and sustain soil fertility; and
  - Supporting the expansion of small and large-scale irrigation to bridge the rain seasons.

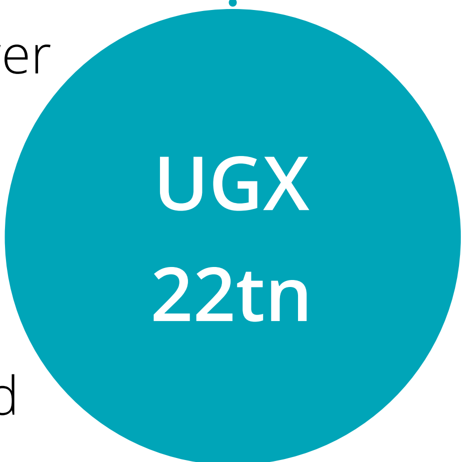
Source: Uganda Budget Policy Statement

Mining



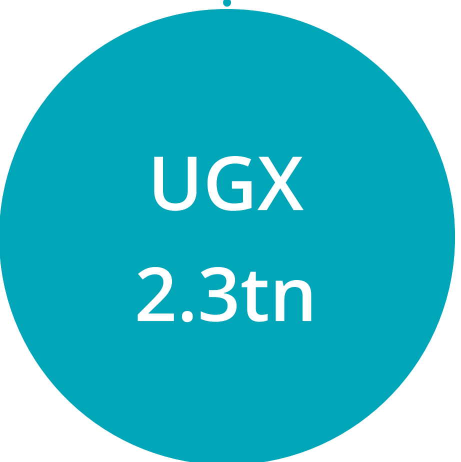
- The Government aims to take advantage of Uganda's substantial mineral potential and favourable geological conditions by investing UGX 47.3bn in 2024/25.
- With a surge in discovery of various minerals, there has been a rise in investment in the mineral sector, which is evident from the number of licenses granted by the Government.
- The Government aims to achieve the goals set forth by Uganda vision 2040 that envisions the mineral sector as a key catalyst for employment generation and GDP growth.
- The following will be prioritised in the financial year 2024/25:
- Expediting the mapping of mineral resources for the country and documenting the mineral potential for strategic investors;
- Establishing a governance framework for the exploration and development of the mineral sector;
- Ensuring transparency of mining activities and accountability for the revenue accruing to the Government through loyalties and taxes; and
- Developing additional mineral extraction facilities in the country and establishing a minerals-tracking system to ease exports.

Energy



- The energy sector mainly comprises of power generation and oil and gas sectors. The sector has been allocated UGX 22tn in the 2024/25 Budget.
- Uganda has set out a plan to ensure every person has access to secure, affordable and sustainable energy.
- The following will be prioritised in the financial year 2024/25;
  - Investments in the Kingfisher oilfield, which will be the first commercial oilfield in the country, followed by the Tilenga project, both of which are being developed jointly by Uganda National Oil Company, China National Offshore Oil Company and Total Energies;
  - Accelerating the construction of the East African Crude Oil Pipeline (EACOP);
  - Development of the refined oil facility in Bujuuko; and
  - Strengthening the Uganda Extractive Industries Transparency Initiative to improve the governance and management of extractive industries.

Infrastructure



- The Government aims to take advantage of Uganda's substantial mineral potential and favourable geological conditions by investing UGX 47.3bn in 2024/25.
- With a surge in discovery of various minerals, there has been a rise in investment in the mineral sector, which is evident from the number of licenses granted by the Government.
- The Government aims to achieve the goals set forth by Uganda vision 2040 that envisions the mineral sector as a key catalyst for employment generation and GDP growth.
- The following will be prioritised in the financial year 2024/25:
- Expediting the mapping of mineral resources for the country and documenting the mineral potential for strategic investors;
- Establishing a governance framework for the exploration and development of the mineral sector;
- Ensuring transparency of mining activities and accountability for the revenue accruing to the Government through loyalties and taxes; and
- Developing additional mineral extraction facilities in the country and establishing a minerals-tracking system to ease exports.

Source: Uganda Budget Policy Statement

Contacts

Publication team

Paul Ssali
Uganda Managing Partner
pssali@deloitte.co.ug

Mabel Ndawula
Director, Consulting
mndawula@deloitte.co.ug

Patronella Namubiru
Associate Director, Tax & Legal
pnamubiru@deloitte.co.ug

Martin Makumbi
Senior Manager, Tax & Legal
mmakumbi@deloitte.co.ug

Tina Mwesige
Manager, Audit & Assurance
tmwesige@deloitte.co.ug

Constance Mwebaza
Manager, Audit & Assurance
cmwebaza@deloitte.co.ug

John Mbure
Senior Manager, Audit & Assurance
jmbure@deloitte.co.ug

Prossy Nalubaale
Manager, Audit & Assurance
pnalubaale@deloitte.co.ug

Lillian Businge
Manager, Consulting
lbusinge@deloitte.co.ug

Jim Drani
Manager, Risk Advisory
jdrani@deloitte.co.ug

Pross Akanyijuka
Consultant, Consulting
pakanyijuka@deloitte.co.ug

Samson Kiyabwe
Manager, Tax & Legal
skiyabwe@deloitte.co.ug

Ernest Kalema
Senior Consultant, Risk Advisory
ekalema@deloitte.co.ug

Eunice Muwangala
Manager, Risk Advisory
emuwangala@deloitte.co.ug

Stuart Mulaabi
Manager, Tax & Legal
smulaabi@deloitte.co.ug

Innocent Mwanje
Manager, Financial Advisory
imwanja@deloitte.co.ug

Paula Anayo
Manager, People & Purpose
panayo@deloitte.co.ug

Jerry Gumisiriza
Senior Consultant, Tax & Legal
jgumisiriza@deloitte.co.ug

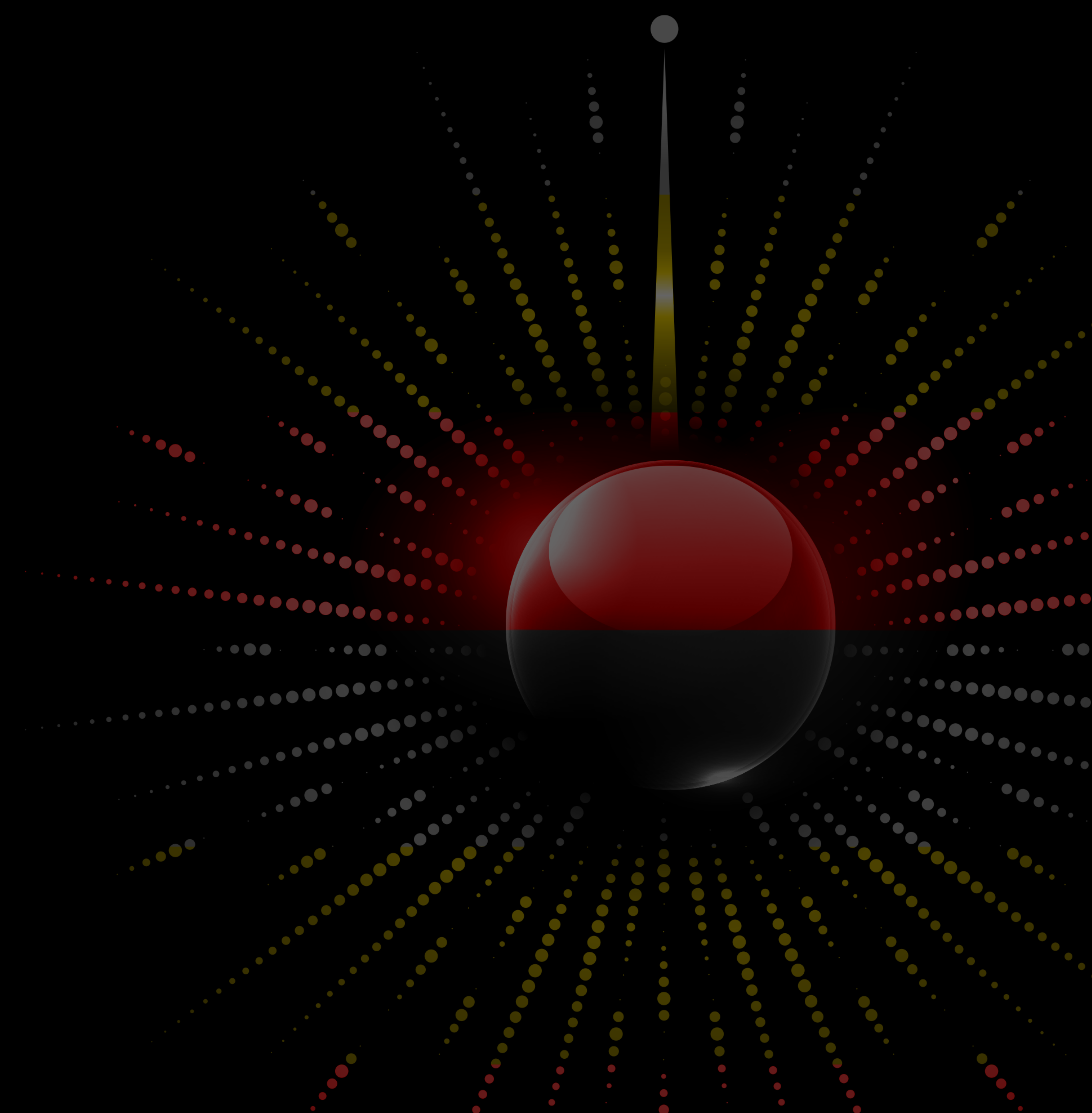
Rebecca Berre-Yeri
Manager, Growth Office
rberreyeri@deloitte.co.ke

Rashidah Nakaziya
Senior Consultant, Growth Office
rnakayiza@deloitte.co.ug

Joy Gitaka
Consultant, Growth Office
jgitaka@deloitte.co.ke

Creative & Design

Austin Kamande
Creative Design Analyst



Deloitte East Africa

Offices

Kenya
Deloitte Place
Waiyaki Way, Muthangari
Nairobi
Tel: +254 719 039 000

Uganda
Rwenzori House
3rd Floor, 1 Lumumba
Avenue, Kampala
Tel: +256 41 7 701000

Tanzania
Aris House
3rd Floor, Plot 152, Haile Selassie Road,
Oysterbay, Dar es Salaam
Tel: +255 22 2169000

Ethiopia
Minaye Corporate Office Park
2nd Floor
Addis Ababa, Ethiopia

Leadership

Anne Muraya
Deloitte East Africa CEO
amuraya@deloitte.co.ke

Fortunatus Kibiki
Tanzania Managing Partner
fkibiki@deloitte.co.tz

Paul Ssali
Uganda Managing Partner
pssali@deloitte.co.ug

Service line leaders

Fred Okwiri
Audit Leader
fokwiri@deloitte.co.ke

Pam Maharaj
Consulting Leader
pammaharaj@deloitte.co.ke

Gladys Makumi
Financial Advisory Leader
gmakumi@deloitte.co.ke

Fred Omondi
Tax & Legal Leader
fomondi@deloitte.co.ke

Urvi Patel
Risk Advisory Leader
ubpatel@deloitte.co.ke

Charles Luo
Growth Office Leader
cluo@deloitte.co.ke

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 456,800 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (DTTL), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2024 Deloitte and Touche LLP. All rights reserved. Member of Deloitte Touche Tohmatsu Limited.