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Overview of the Transfer Pricing Landscape in Uganda

Transfer Pricing has become a key focus area for revenue authorities. To mitigate tax leakages, tax authorities are implementing a robust tax system and an effective tax administration that ensures compliance.

This article highlights a brief overview of the Transfer Pricing landscape in Uganda.

Uganda Revenue Authority (URA) recently commenced with plans to enhance revenue mobilization through the implementation of the Domestic Taxes Compliance Improvement plan (CIP).

One of the key compliance areas that is an area of interest is Transfer Pricing (TP).

Overview of Transfer Pricing

Transfer price is an intercompany price set by a company when transacting goods or services or sharing resources with a related party. In Uganda, Transfer Pricing covers both local (domestic) and cross-border transactions.

Related party entities, that have inter-company transactions, are required to document these transactions to confirm that the controlled transactions are consistent with the arm's length principle.

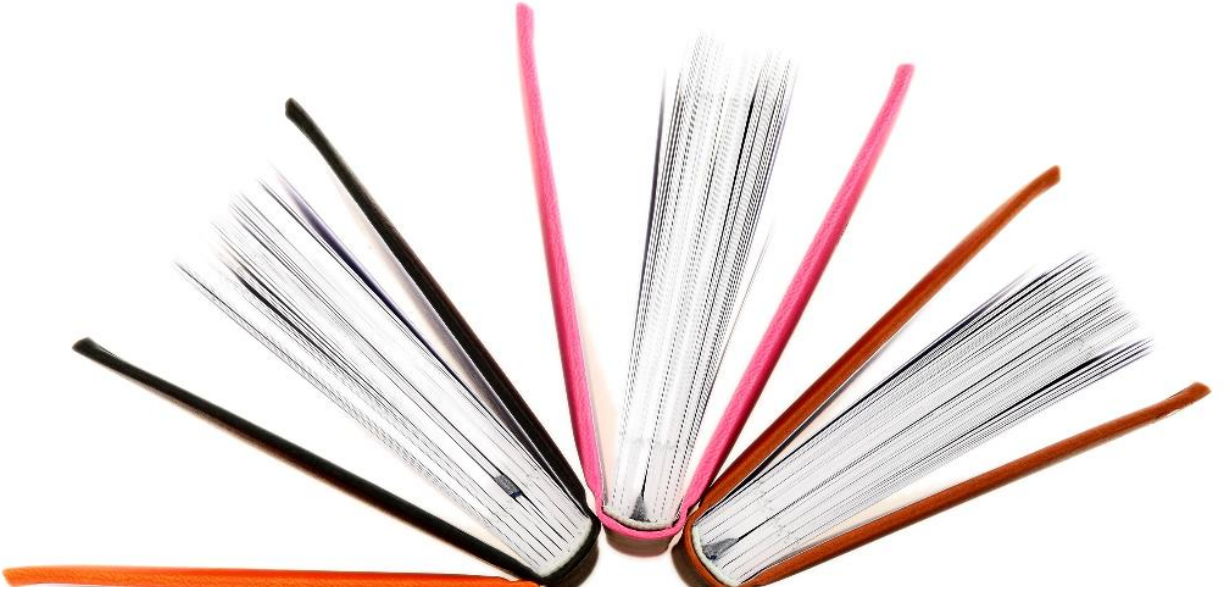
This principle states that the price agreed in a transaction between two related parties must be the same as the price agreed in a comparable transaction between two unrelated parties. TP poses a tax risk to revenue mobilization since transactions between related parties are normally considered by the Tax Administration to be structured in a way that leads to tax revenue leakage.

Entities are required to document domestic transactions whose total transactional value for the year exceeds Ugx 500,000,000.

Whereas the tax law does not provide for one to submit the transfer pricing documentation to the URA on an annual basis, the TP Regulations provide for one to have the documentation in place before the date of filing the income tax return for the year of income.

Penalties for Non- Compliance

Non-Compliance Issue	Penalty / Interest
Non-compliance with the arm's length Principle.	Liable on conviction to imprisonment for a term not exceeding six months or to a fine not exceeding five hundred thousand Uganda shillings ~USD130 or both.
TP documentation report not in place prior to the due date for filing the income tax return for that year.	Liable on conviction to imprisonment for a term not exceeding six months or to a fine not exceeding five hundred thousand Uganda shillings ~USD130 or both.
Failure to provide records in respect of transfer pricing within 30 days after the request.	A penal tax equivalent to fifty million Uganda shillings approximately USD13,000.
Back taxes from TP audit.	Simple interest of 2% per month.



Current TP Landscape

Several African Tax Administrators have joined the African Tax Administration Forum (ATAF) to address the issue of revenue leakages resulting from transfer pricing. Under this forum, the different jurisdictions have been able to jointly pool resources and form alliances to address the issue of tax avoidance through transfer pricing.

From a Ugandan perspective, the URA has over time built capacity and constituted an International Tax and Transfer Pricing team to handle TP audits. In the recent past, the team has embarked on carrying out TP compliance checks through the issuance of TP Disclosure Forms.

A TP disclosure form is a high-level document that summarizes an entity's related party transactions, related party entities, TP method used, and schedule of imported services received from 3rd party suppliers.

Once a company has completed and submitted the form, the URA has sight and a high-level understanding of the nature of the related party transactions that a taxpayer has concluded with related parties. In addition to the form, the URA normally requests taxpayers to submit supporting documentation like TP reports, and inter-company agreements among others.

Key focus areas by revenue authorities

i. Perpetual loss-making enterprises

ii. Significant intragroup recharges
   - Intra group services
   - Use or transfer of intangible property
   - Intragroup financing
   - Sale of tangible property

Key Considerations (What does this mean for you as a taxpayer?)

- Ensure that the TP report is put in place prior to the filing of the income tax returns.
- Develop in-house document retention processes including reports, email correspondences, invoices, third party contracts etc.
- For loss-making entities, put in place supporting documentation of the expenses to demonstrate that the losses reported were only attributable to the mainstream business line and not as a result of transfer pricing.
- Where the Group has documented the transactions in a Master File, ensure that a local file is prepared in line with the TP regulations in Uganda.

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