

Uganda Budget Highlights 2020/21

Resilience in extraordinary times

June 2020

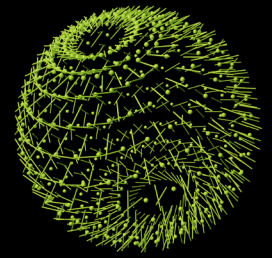


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Preamble

Uganda's budget for the Financial Year 2020/21 under the theme, Stimulating the economy to safeguard livelihoods, jobs, business and industrial recovery, was delivered by the Minister of Finance Planning and Economic Development Honourable Matia Kasajja at Parliament. In his speech, the Minister recognised the impact that the COVID-19 pandemic has had on the economy resulting in a projected growth of 3.1% in the financial year ending 30th June 2020, compared to an average growth rate of 5.4% in the previous four years.

However, the Minister also pointed out the need for the budget to be forward looking and not allow the current situation to distract from the long-term development strategy. If anything the crisis has provided lessons and revealed opportunities such as:

- Acceleration of import substitution and export promotion strategy;
- Digitalization of numerous aspects of socio-economic activity to improve efficiency and reduce costs;
- Strengthening contingency planning to mitigate the impact of disasters, and protect the most vulnerable persons;
- Transforming business from informal to formal;
- Reform of urban transport to reduce congestion

The Minister then laid out a National Budget for FY2020/21 of Shs.45.5 Trillion representing a 12.36% increase from FY2019/20. This is to be financed from both internal and external sources with domestic revenues accounting for about 48% of the resource envelope. The FY2020/21 revenue target of Shs. 21.810 Trillion is to be split between tax revenue of Shs. 20.219 Trillion and non-tax revenue of Shs. 1.591 Trillion. The tax to Gross Domestic Product (GDP) ratio is projected to increase marginally from 13.4% in FY 2019/2020 to 13.9% in FY 2020/21.

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental
conservation

Telecommunications and
technology

Health sector

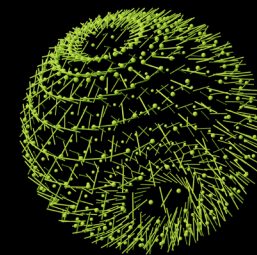
Financial sector

Infrastructure

Education

Administration

Contacts



Tax provisions

General

- Waiver of interest upon voluntary disclosure of any tax liabilities due by 30 June 2020.

Income Tax (PAYE, NSSF, NHIF)

- Deferment of Pay As You Earn (PAYE) liability falling due between 1st April – 30 June 2020 to 30th September 2020 with no penalties or interest accruing for tax compliant businesses facing hardships arising from COVID-19 pandemic;
- Introduction of a new presumptive tax regime for small business distinguishing between businesses that have records and those that do not have records;
- Introduction of withholding tax of 10% on commissions paid to insurance and advertising agents.

Corporate Tax

- Tax deduction is to be allowed for charitable donations made to the Government towards the fight against COVID-19 pandemic;
- Taxpayers in the tourism, manufacturing, horticulture or floriculture sector with an annual turnover of less than Shs. 500m allowed to defer corporation tax to 30th September 2020 with no penalty or interest accruing;
- Consolidation of provisions on investment incentives to provide for the following investment criteria:
 - Investment capital of at least USD 10m for a foreigner or USD 300k (citizen) or USD 150k (citizen that places their investment upcountry)
 - Use of at least 70% of locally sourced raw materials subject to availability; and

- Employment of at least 70% citizens earning an aggregate wage of at least 70% of the total wage bill.
- Expansion of industries that qualify for investment incentive to include:
 - Processing of agricultural goods;
 - Manufacture or assembly of medical appliances, medical sundries or pharmaceuticals, building materials, automobile, household appliances;
 - Manufacture of furniture, pulp, paper, printing and publishing of instructional materials;
 - Establishment or operation of vocational or technical institutions; or
 - Carrying on business in logistics and warehousing, ICT or commercial farming; or
 - Manufacture of tyres, footwear, mattress or toothpaste.
- Clarification on procedure for accessing investment incentive:
 - Declaration of qualifying income and related expenses in tax return determined using formulae to attribute qualifying income to qualifying investment;
 - Prescribing date of commencement of the business of the investor as the latter of:
 - 1st day of the year of income; or
 - 1st day during the year of income in which the qualifying investment generates income;
 - Where qualifying investment is under construction or assembly, qualifying investment is cumulative to the year when the investment starts to generate income.
- No deduction to be allowed for expenses incurred by a person who purchases goods or services from a supplier who is designated to use the e-invoicing system unless the expenses are supported by e-invoices or e-receipts;

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

Financial sector

Infrastructure

Education

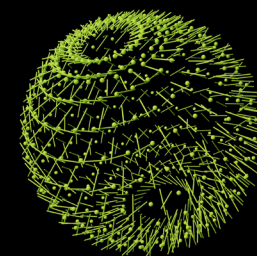
Administration

Contacts

- Exemption of income of:
 - The Deposit Protection Fund (DPF) established under section 108 of the Financial Institutions Act, 2016;
 - The Islamic Development Bank as a listed institution
- Requirement for Tax Clearance Certificate (TCC) for renewal of an operational licence for persons providing passenger transport or freight transport services with capacity of at least 2 tonnes.

Value Added Tax (VAT)

- Manufacturers registering for VAT for the first time will be allowed to claim input VAT incurred on goods purchased up to 12 months prior to their VAT registration instead of 6 months applicable to all other persons registering for the first time;
- The Act introduces the requirement that a person is not allowed a tax credit for any purchase from a designated e-invoicing supplier, if that credit is not supported by an e-invoice/ receipt
- The Second Schedule to the VAT Act has been expanded to include the following supplies on the exemption list:
 - Trailer for agricultural purposes;
 - Combine harvesters and agricultural sprays;
 - Tractor mounted: hay mowers, slashers, rakes & tedders, hole diggers / borers, loaders; irrigation equipment, crop sprayers; hay & straw Balers, scrapers, levelling blades & dam scoops, root or tuber harvesting machinery, drinkers & feeders for all farm animals and tuber harvesting machinery
 - Cotton seed cake;
 - Accommodation in tourist hotels and lodges located up country;
 - Liquefied gas;
 - Processed milk;
 - Locally developed computer software, its maintenance and software licenses;
 - supply of the following services
 - software and equipment installation services to manufactures;
 - services incidental to tele medical services; and
 - royalties paid in respect of agricultural technologies
 - 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 available in the local market to a hotel or tourism facility developer whose investment capital is eight million United States Dollars with a room capacity exceeding 30 rooms; or to a meetings, incentives, conferences and exhibitions facility developer whose investment capital is not less than one million United States Dollars;
 - supply of specified medical goods used in the prevention and treatment of COVID-19 and raw materials/ inputs for making the same (e.g. face masks, boots, infra-red thermometers, disinfectants etc).
- Alignment of investment incentive criteria to that under the Income and Excise Duty Acts;
- Listing of the Islamic Development Bank as a Public International Organisation which matches the exempt status granted for income tax;
- Expediting payment of outstanding VAT refunds.



Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

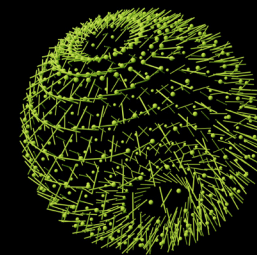
Financial sector

Infrastructure

Education

Administration

Contacts



Customs Duties

- Supplies for diagnosis, prevention, treatment, and management of the epidemics, pandemics and health hazards, will be exempt from customs duties.

Excise Duties

- Amendment of Schedule 2 to the Excise Duty Act to change excise duty rates for certain goods as follows: duty on some products as follows:

| Excisable supply | Previous rate | New rate |
|--|---|--|
| Undenatured spirits made from locally produced raw materials | 60% or Shs 2,000 per litre, whichever is higher | NIL |
| Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda | 13% or Shs. 300 per liter, whichever is higher | 12% or Shs. 250 per litre whichever is higher |
| Motor spirit (gasoline) | Shs. 1,200 per litre | Shs. 1,350 per litre |
| Gas oil (automotive, light, amber for high speed engine) | Shs. 880 per litre | Shs. 1,030 per litre |
| Sacks and bags of polymers of ethylene and other plastics under its HS codes 3923.21.00 and 3923.29.00 except vacuum packaging bags for food, juices, tea and coffee, Sacks and bags for direct use in the manufacture of sanitary | 120% | 120% or Shs. 10,000 per kilogram of the plastic bags |

- Alignment of investment incentive criteria to that under the Income and VAT Act with respect to:
 - Investment threshold for citizens;
 - Qualifying industries; and
 - Local content requirement.

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

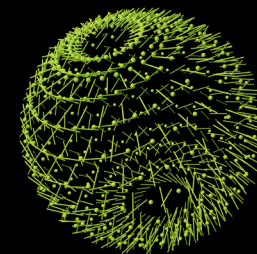
Financial sector

Infrastructure

Education

Administration

Contacts



Stamp Duty

- Amendment of Schedule 2 of the Stamp Duty Act as follows:

| No. | Instrument | Previous rate | New rate |
|-----|--|---------------|----------|
| 27 | DEBENTURE - of the total value | 0.5% | NIL |
| 30 | EQUITABLE MORTGAGE - of the total value | 0.5% | NIL |
| 33 | FURTHER CHARGE - any instrument imposing a further charge on mortgaged property - of the total value | 0.5% | NIL |
| 37 | INSTRUMENT- for any loan | 0.5% | NIL |

- Introduction of a fixed tax of Shs. 100,000 payable by professionals who belong to and are governed by a professional body which gives a licence or certificate to its members in order to practice.
- Alignment of investment incentive criteria to incentives under the other Tax Laws.

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

Financial sector

Infrastructure

Education

Administration

Contacts

Sectoral Highlights

Poverty and inequality

- Specific interventions identified to address the wellbeing of Ugandans are as follows:-
 - Food Security and Good Nutrition
 - Commercial development of maize, cassava, banana, beans, Irish potato, sweet potato, millet, sugar cane, cattle (beef), dairy, coffee, tea, cocoa and fish
 - Continued construction of storage facilities of 42,000 Metric Tonnes capacity
 - Enhanced Healthcare provision
 - Ensuring Universal access to Water and Sanitation;
 - Increasing Social Protection for the most vulnerable population through:
 - Continued provision of relief aid in response to the Coronavirus crisis, and natural disasters such as the locust invasion and climate change crisis – floods and landslides;
 - Roll out of the Social Assistance Grant for the Elderly (SAGE) nationwide to persons aged 80 years and above, including the elderly aged 65 years in 15 piloted districts
 - Transforming education delivery.

Agriculture and environmental conservation

- Enhance provision of improved agricultural inputs using NAADS e-Voucher Scheme to farmers;
- Upscaling agriculture extension services to boost production of key agricultural commodities, for which an allocation of Shs. 300 billion has been made;

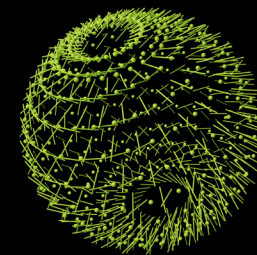
- Provision of rainwater harvesting technologies in rural communities; implementation of solar irrigation schemes and investment in the construction of multi-purpose water reservoirs;
- Roll-out of regional and community based storage facilities to store increased agricultural products and reduce post-harvest losses.

Telecommunications and technology

- Encouraging the reduction of charges for mobile banking and mobile money transactions charged by telecom companies and banks.

Health sector

- Prioritisation of purchase of Personal Protective Equipment (PPE);
- Increase in Intensive Care beds at National and Regional Referral Hospitals;
- Availing of funding to procure Coronavirus test kits and other materials in order to curb the spread of the virus and ensure readiness for possible secondary waves of infections;
- Strengthening the supply chain for medicines and medical supplies to improve the availability of medicines and ensure accountability thereof;
- Development of Centres of Excellence for delivery of specialized medical care through the construction of the Uganda Heart Institute, establishing centres for cancer treatment at Regional Referral Hospitals.



Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

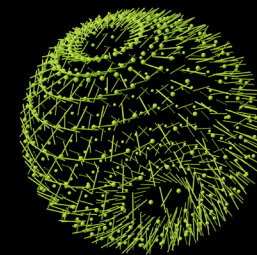
Financial sector

Infrastructure

Education

Administration

Contacts



Financial sector

Banking

- Provision of credit through SACCOs and microfinance institutions to support micro and small-scale enterprises: allocation of Shs. 94 billion for FY2020/21;
- Increased access to credit at Uganda Development Bank to offer low interest financing to manufacturing, agribusiness and other private sector firms: allocation of Shs. 1,045 billion over the medium term;
- Funding to Uganda Development Corporation for public-private partnership investments to facilitate import substitution and export promotion. Shs. 138 billion allocated;
- Guidance provided by Bank of Uganda for Banks to restructure loans for their borrowers who are facing liquidity constraints and provide additional liquidity on a case by case basis;
- Providing for adequate capital buffers for supervised financial institutions to ensure effective operation by deferring payments of all discretionary dividends and bonus payments for at least 90 days effective March 24, 2020;

- Smoothing out volatility in the foreign exchange market arising from global financial markets;
- Providing exceptional liquidity assistance for a period of up to one year to Supervised Financial Institutions that may need it;
- Waiving limitations on restructuring of credit facilities.

Infrastructure

- Works and transport allocated Shs. 5.8 trillion which represents 12.5% of the budget;
- Expediting construction of priority industrial parks and special economic zones;
- Rehabilitating the Meter Gauge railway.

Education

- Government to roll out the new education curriculum including Early Childhood Development (ECD) curriculum;
- Expansion of access to vocational education;
- Focus on enhancing education through digital platforms in schools to ensure continuous learning and implement electronic delivery mode e.g. radios, TVs and internet.

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

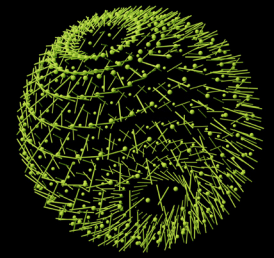
Financial sector

Infrastructure

Education

Administration

Contacts



Administration

- Expediting payment of arrears owed by Government to private sector firms commencing July 2020 with priority to be given to Small and Medium Enterprises, cooperative societies and contractors;
- Various measures to combat corruption and illicit financial flows:
 - Enhancing efficiency and effectiveness of oversight and anti-corruption institutions in identifying areas of risk
 - Strengthening implementation and follow-up on audit recommendations;
 - Strengthening implementation of Public Finance Management rules and regulations and the role of Internal Audit
- Enhancing the capacity of the Financial Intelligence Authority (FIA) and related security agencies to intensify surveillance and gathering of vital information to curb anti-money laundering and terrorism financing.
- Government developing an Integrated Financing Strategy to guide and monitor appropriate raising of domestic revenues as well as domestic and external debt financing over the NDP III period;
- Domestic revenue measures for next financial year to be anchored on the Domestic Revenue Mobilization Strategy (DRMS), which aims to mobilise sufficient revenue to support infrastructure development and social welfare.

Preamble

General

Income Tax (PAYE, NSSF, NHIF)

Corporate Tax

Value Added Tax (VAT)

Customs Duties

Excise Duties

Stamp Duty

Poverty and inequality

Agriculture and environmental conservation

Telecommunications and technology

Health sector

Financial sector

Infrastructure

Education

Administration

Contacts

Contacts



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