UGANDA BUDGET HIGHLIGHTS 2018/2019

Theme: Industrialization for Job Creation and Shared Prosperity.

June 2018

UGANDA ECONOMIC OUTLOOK

Economic Growth

In the Financial Year 2017/18 the economy has been influenced by both global and domestic developments. Growth of the global economy is estimated at 3.9% in 2017, up from 3.2% in 2016

The size of the economy is now Shs 101.8 trillion equivalent to USD 27.9 billion. This growth is as a result of the Services sector which grew at 7.3% compared to 5.4% last financial year. The Industrial sector which expanded by 6.2% compared to 3.4% last financial year due to good performance in construction and agro-processing, and recovery in the mining and quarrying sub-sectors.

The Agriculture sector whose growth doubled during the year to 3.2% compared to 1.6% last year. The improved performance was mainly due to better weather conditions, control of pests and diseases and targeted Government interventions, particularly seed distribution.

Despite the increase in the global price of oil this year, inflation has remained stable and in single digit. Annual headline inflation is projected to average 3.6%. This is mainly due to the increased supply of agricultural output, coupled with sound economic policy management.

Private sector credit and interest rates

The stock of outstanding Private Sector Credit increased from Shs 11.9 trillion in March 2017 to Shs 12.8 trillion recording an annual growth of 7.8%, which is higher than 6.1% a year earlier. The Central Bank Rate (CBR) was reduced from 11.5% in March 2017 to 9% in March 2018, with lending rates falling from 22.5% to 20.1% over the same period. Non-performing loans nearly halved from 10.5% of gross loans in December 2016 to 5.6% in December 2017.

International Trade

Export earnings rose by 9.6% to USD 3.93 billion in the period July 2017 to March 2018 from USD 3.59 billion a year earlier. Over the same period, exports to the rest of the EAC grew from USD 792.3 million to USD 943.5 million; while exports to Europe grew from USD 415.8 million to USD 466.1 million

Imports increased by 16.4% valued at USD 5.7 billion in the period July 2017 to March 2018 from USD 4.9 billion over the same period the previous year. International reserves continue to accumulate. By March 2018, Uganda reserves were USD 3.6 billion which could finance 5 months of our future imports.

The Ugandan Shilling was relatively stable against the US dollar during the first half of 2017/18. The Shilling marginally weakened against the US dollar by only 0.6% having moved from a monthly average of Shs 3,601 in July 2017 to Shs 3,623 in December 2017. However, since March 2018, the shilling has lost ground against the US Dollar on account of increased demand from the energy, oil and manufacturing sectors.

UGANDA ECONOMIC OUTLOOK……CONTINUED

Domestic Revenue

Despite the revenue shortfall this year, domestic revenues have improved on an annual basis on account of increased capacity to collect taxes. During the financial year 2017/18, tax and non-tax revenue is estimated at Shs. 14.5 trillion, equivalent to14.2% of GDP. Transferring the administration of non-tax revenue to Uganda Revenue Authority has significantly improved revenue collection from this source, estimated at Shs 430 billion this year compared to Shs 354 billion last year.

Total government expenditure during this financial year is estimated to amount to Shs. 27 trillion equivalent to 26.5% of GDP. Excluding domestic refinancing, development expenditure this year amounted to 44% of the budget. The absorption of externally borrowed funds doubled to about 75%, although disbursements were less than programmed. This improvement is attributed to the continuous implementation of reforms in public investment management and strengthened supervision of

The fiscal deficit this year is estimated at 4.8% of GDP, a 0.9% increase over last year's level. This is a result of an increase in development expenditure and other investments, which rose to 8.8% of GDP, up from 7.9% last year. The deficit was financed largely by both concessional and non-concessional loans, and to a lesser extent through domestic borrowing, which increased from Ushs 612 billion last year to Ushs 1,690 billion this year.

Public Debt

As at March 2018, public debt stood at USD 10.53 billion of which USD 7.18 billion is external and USD 3.35 billion is domestic. The ratio of public debt to GDP now stands at 38.1 percent in nominal terms. This is much lower than the threshold of 50% beyond which public debt becomes unsustainable. The Uganda public debt is therefore considered sustainable over the short to medium term.

BUDGET STRATEGY AND RESOURCE ENVELOPE

Budget strategy

The budget strategy for the financial year 2018/2019 seeks to address the development challenges and deliver the aspirations of Ugandans in the following key result areas:-

i. Commercialization of Agriculture

ii. Industrialization and Productivity enhancement; and

iii. Financing Private Sector Investment

Resource envelope

The resource envelope for financial year 2018/19 is as follows:-

i. Domestic revenue amounting to Shs 16,359 billion of which Shs 15,939 billion will be collected by URA as tax revenue and Shs 420 billion as Non-tax revenue;

ii. Domestic borrowing amount to Shs 1,783 billion;

iii. Budget Support amounting to Shs 289 billion;

iv. External financing for projects amounting to Shs. 7,734 billion of which Shs 6,149 billion is in loans, and Shs 1,586 billion is grants; appropriation in aid, collected by Government departments amounting to Shs 1,064 Billion; and

v. Domestic debt re-financing will amount to Shs. 5,271.5 Billion.

The total resource envelope has been allocated to budget expenditure and amounts to Shs. 32,703 billion.

AMENDMENTS TO TAX LAWS

Income Tax

❑ Income tax holiday for operators and investors of an industrial park or free zone

- Ten (10) years holiday for capital investment of least USD 200 million from the date of commencement of construction
- Five (5) years holiday for investment capital of at least USD 30 million in the case of a foreigner or USD 10 million in case of a Ugandan citizen from the date of commencement of business.

❑ Introduction of interest deduction on mortgage from a financial institution incurred by an individual to acquire or construct premises that generate rental income

Interest incurred on a mortgage from a financial institution will be treated as a deductible expense by an individual who acquires or constructs premises that generate rental income.

❑ Interest deductibility capping for loans from "Group entities"

- Amount of deductible interest in respect of all debts shall not exceed 30% of the tax Earnings Before Interest, Tax Depreciation and Amortization (EBITDA).
- interest in excess of 30% may be carried forward for not more than three (3) years, and shall be treated as incurred during the next year of income.

❑ Exclusion of returnable containers from minor capital equipment.

- The amendment to exclude a deduction for returnable container as minor capital assets but rather provides for a deduction of an amount representing the diminution in value of returnable containers for a year of income.
- Amount representing diminution of value of returnable containers not prescribed.

❑ Minimum tax of 0.5% of turnover by loss making companies.

- Imposition of a tax of 0.5% of the gross turnover of a tax payer after the seventh year of income and onwards, where the taxpayer has had consecutive tax losses for a period of seven (7) years.
- It does not limit the number of years a tax payer who has an assessed tax loss can carry forward assessed tax loss.

❑ Tax accounting for Islamic financial transactions.

Minister to enact regulations for tax accounting of Islamic financial transactions.

❑ Expansion of Immovable property definition.

Definition to include any tangible asset which is a business asset or any part of the business. Meaning that non depreciable intangible assets as well as parts of business would be immovable property for income tax purposes.

Income Tax….. Continued

❑ **Provisions regarding change in control of companies.**

Income derived from the direct or indirect change in ownership by 50% or more for an entity located in Uganda. The entity whose ownership has changed by 50% or more with in a three (3) year period is treated as:-

(a) realizing all its assets and liabilities immediately before the change;

(b) Having parted with ownership of each asset and deriving an amount in respect of the realization equal to the market value of the asset at the time of the realization;

(c) re-acquiring the asset and incurring expenditure of the amount referred to in paragraph (b) for the acquisition;

(d) realizing each liability; and is deemed to have spent the amount equal to the market value of that liability at the time of the realization; and

(e) re-stating the liability for the amount referred to in paragraph (d)."

This provision is likely to trigger capital gains tax on the entity following a direct or indirect change of 50% or more of its ownership.

❑ **Sourcing of income from a direct or indirect change of ownership of 50%.**

An indirect as well as direct change of ownership of an entity located in Uganda would now give rise to income sourced in Uganda.

❑ **Introduction of an additional provision regarding the meaning of an international agreement**

The Inter-Government Agreement on the East African Crude Oil Pipe Line to have similar status as Double Taxation Agreement (DTA)

❑ **Repealing of thin capitalization provisions and rules.**

❑ **Amendment regarding the specific provisions for the taxation of Mining and petroleum operations.**

Mining and exploration right definition expanded to include prospecting.

❑ **Re-introduction of Section 92 into the principle Act from the Tax Procedural Code Act regarding furnishing of a return of income.**

❑ **Introduction of withholding tax of 1% on agricultural supplies, made by designated agencies.**

❑ **Introduction of withholding tax of 10% on commissions paid by Telecom Companies for airtime distribution as a final tax.**

❑ **Insertion of an additional entity in the First Schedule of the ITA Cap 340.**

African Trade Insurance Agency (ATIA) included on list of entities exempt from Income Tax.

AMENDMENTS TO TAX LAWS….CONTINUED

VAT

❑ Specifying of operations under which VAT is not deemed to have been paid.

- The repair and maintenance of automobile; or entertainment shall not be deemed as paid by the ministry, department or agency.
- Ministries, departments or agencies will therefore be required to pay the VAT on passenger automobiles, repairs and maintenances of the same as well as entertainment.

❑ Amending the definition of "Electronic services"

Electronic services now include websites, web-hosting or remote maintenance of programs and equipment, software, images, texts & information, access to database, self-education packages, music, films, games of chances, political, cultural, artistic, sporting, scientific and other broadcast.

❑ Filing of a return

A taxable person shall lodge a tax return with the Commissioner General for each tax period within fifteen days after the end of the tax period. In addition, the Commissioner General may require any person to lodge further or other returns in the prescribed form.

❑ Payment of Tax.

Where an objection against an assessment has been lodged, tax payable under the assessment remains due and payable and may be recovered, notwithstanding that objection or appeal.

❑ Amending Definition of "Educational Materials".

Education materials mean locally produced materials which are suitable for use in public libraries or for educational services which shall be prescribed by the Minister by regulations.

❑ Introduction of Withholding VAT

The Minister by notice in the Gazette shall designate persons who shall withhold VAT of 50% before making a payment for a taxable supply and the persons designated shall remit the 50% of the VAT invoiced to the Uganda Revenue Authority.

❑ African Trade Insurance Agency shall be included on the list of Public International Organisation.

❑ Exempt supplies amended to include:

- Bibles and Qur'ans;
- The supply of services to conduct a feasibility study, design, construction; earth moving equipment and machinery; and construction materials to Developer of an industrial park or Free Zone whose investment is at least USD 200.
- Operator of an industrial Park, Free Zone, Single factory or other business outside the industrial park or free zone: the supply of; services to conduct a feasibility study and design; locally produced materials for the construction of a factory or a warehouse.
- Hotel or tourism facility developer with an investment of USD 15 million and a room capacity exceeding one hundred guests: The supply of services to conduct a feasibility study, design and construction; locally produced materials, infrastructure, machinery and equipment or furnishings and fittings which are not available on the local market.
- Supply of movie production
- Hospital facility developer whose investment capital is at least USD10 million The supply of services to conduct a feasibility study, design and construction; locally produced materials for the construction of premises.

AMENDMENTS TO TAX LAWS….CONTINUED

Lotteries and Gaming Act

❑ Amending the definition of a minor

The definition of a minor has been amended to mean a person below eighteen years. With this amendment, the restrictions on minors shall apply to individuals below eighteen years and not twenty five years as is currently.

❑ Providing for the definition of betting intermediary and public lottery

A betting intermediary means a person who provides a service designed to enable any other person to make or accept bets.

A public lottery is a lottery conducted in the public interest and for no private gain for a period determined by the Board.

❑ Providing for additional powers of the Board

- To seize and destroy confiscated equipment or devices without recourse to courts of law;
- Enter and search any premises where gaming and betting is taking place, with or without a warrant;
- Direct the closure of any non- compliant gaming or betting premises;
- Levy and collect express fines; and
- Designate any person as an inspector of the Board.

❑ The Funds of the Board

The Board will no longer collect 1% of the annual turnover of every lottery, gaming or betting business licensed under this Act.

❑ The issuing of licenses

- The Board may issue a certificate of suitability of premises to be used as a casino or for other gaming and betting operations.
- The Board shall approve a Franchisee or an Agent of a Licensee before the Licensee appoints the Franchisee or Agent.
- An applicant for a licence will bear the cost of conducting a due diligence.

❑ Amendment of the time period for responding to an application for a license.

After investigating and inquiring into the matters stated in the application, the Board shall within sixty (60) days after receiving an application –

(a) Approve the application and issue a licence;

(b) Reject the application; or

(c) Approve the application and issue a licence in respect of one or more of the activities specified in the application and reject it in respect of the others.

The response to an application shall be within 60 days and not 21 days as is currently.

❑ Limitation on the interest payable on unpaid tax

Interest that is due and payable as a result of any unpaid tax which exceeds the aggregate of the principal tax and the penal tax shall be waived.

❑ Amendment of the time period within which the Minister may make regulations to give effect to the Act.

The period within which the Minister makes regulations has been amended from 6 months from the date of the assent' of the Act by the President.

Excise Duty Act

- **Defining "over the top services"**

"over the top services" are defined to mean the transmission or receipt of voice or messages over the internet protocol network and includes access to virtual private networks but does not include educational or research sites prescribed by the Minister by notice in the Gazette.

- **Tax point on excisable services and imposition of excise duty on "over the top services"**

A person providing an excisable service becomes liable to pay excise duty on that service on the earlier of the date on which the performance of the service is completed; the date on which payment for the service is made; or the date on which an invoice is issued.

A telecommunications service operator providing data used for accessing over the top services is liable to account for and pay excise duty on the access to the over the top services.

- **Remission of Excise duty on manufactured goods that have been exported**

The Commissioner may, if satisfied that excisable goods have been exported, remit the excise duty chargeable on those goods. This implies that the manufacturer of these products has to provide proof to the commissioner that the goods have been exported before a waiver/remission is granted. It also implies that for goods for export to qualify for zero rating of excise duty, there must be an application for duty remission to the Commissioner of Domestic Taxes.

- **Penal tax for failure to comply with various excise duty regulations**

- **Capping of interest on unpaid tax**

Interest that is due and payable as a result of any unpaid excise duty and which exceeds the aggregate of the principal tax shall be waived. This amendment means that the maximum Interest that a taxpayer will incur shall not be more than the total of principal tax.

- **Excise Duty amendment as shown below:**

AMENDMENTS TO TAX LAWS….CONTINUED

Excise Duty Act…Continued

Excise duty rates for the following products have been revised as indicated below

Description	Item	Duty Rates
Opaque beer (partially brewed i.e. Kibuku).	Beer	30% or UGX 230 per liter, whichever is higher
Undenatured spirits made from locally produced raw materials.	Sprits	60% or UGX2,000 per liter, whichever is higher
Ready to drink spirits (i.e. Smirnoff ice).	Sprits	80% or UGX1,300 per liter, whichever is higher
Wine made from locally produced raw materials.	Wine	20% or UGX2,000 per liter, whichever is higher
Other wine	Wine	80% or UGX8,000 per liter, whichever is higher
Powder for reconstitution to make juice or dilute-to-taste drinks, excluding pulp.	Non-alcoholic beverage	15% of the value
Over the top services	Telecommunication	UGX200 per user per day of access
Money transfer or withdrawal services, including transfers and withdrawal services by operators licensed or permitted to provide communications or money transfers or withdrawals but not including transfers and withdrawal services provided by banks.		15% of the fees charged
Mobile money transactions on receiving, payments and withdrawals.		1% of the value of the transaction
Ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges, excluding loan related charges periodically charged by Financial institutions.		15% of the fees charged
Cooking oil.	Cooking oil	UGX200 per litre
Motorcycles; at first registration.	Motorcycles	UGX200,000.

The Stamp Duty Act

- **Imposition of stamp duty on instruments used in Islamic financial transactions**

Any instruments used to execute Islamic financial transactions shall be chargeable with a stamp duty prescribed by the Minister by statutory instrument, with the approval of Parliament.

- **Amendments to Schedule 2 of the Stamp duty Act 2014**

Schedule 2 to the Principal Act, is amended as follows:

a. by substituting for the stamp duty of Ushs 10,000 wherever it appears, Ushs 15,000;

Some examples of affected instruments include the following;

i. Agreement or Memorandum of Agreement

ii. Affidavit including an affirmation or declaration

iii. Award by Arbitrator

iv. Bill of exchange

v. Bond (not being a debenture)

vi. Articles of association of a company

vii. Memorandum of association of a company.

- **Imposition of ban on the importation of motor vehicles which are 8 years old or more.**
- **Motor vehicles exempted from the ban on the importation as specified in Section 14A are;**

- Road tractors for semitrailers;
- motor vehicles for the transport of goods with a gross vehicle weight of at least six tonnes
- special purpose motor vehicles including; breakdown lorries, crane lorries, firefighting vehicles, concrete mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, forklifts, mobile drilling rigs, mobile radiological units, works trucks, tanks, and other armoured fighting vehicles, cesspool emptiers, waterbowser, bullion spreaders, bitumen spreaders, bucket trucks, aircraft refuellers, spraying trucks, workshop vans and mobile banks
- agricultural or forestry tractors; and
- earth moving motor vehicles, tamping machines and road rollers
- Motor vehicles which are in transit before the commencement of this Act and arrive in Uganda by 30th September, 2018.

The Stamp Duty Act …….Continued

- **Amendment of Section 14B - Imposition of Environmental levy on motor vehicles**

A person who imports a motor vehicle which is five years old or more from the date of manufacture shall pay an environmental levy on that vehicle payable at the rates prescribed in the Fourth Schedule which will be collected by the Uganda Revenue Authority before clearance of the motor vehicle. Currently environmental levy is being charged on imported used motor vehicles but at different rates per band.

- **Variation of Motor vehicle registration fees**

Registration fees for motor vehicles as per the Finance Act 2013 have been re-pealed and substituted with the Third schedule as below;

- Sedan cars, saloon cars, estate car but excluding dual purpose goods passenger vehicles: UGX 1,500,000.
- Passenger vehicles, including light omnibuses with a seating capacity not exceeding 28 passengers: UGX 1,500,000.
- Estate and station wagon vehicles with an engine capacity of 3500 cc or above: UGX 1,700,000.
- Medium omnibuses and heavy omnibuses with a seating capacity of more than 28 passengers: UGX 1,500,000

- **Addition to the Fourth Schedule to specify the environmental levy on motor vehicles**

- A motor vehicle which is 5 to 8 years old from the date of manufacture; excluding goods: 35% of the CIF value
- A motor vehicle which is eight years old or more from the date of manufacture which is imported or is in transit before the commencement of the Act, and which arrives in Uganda by 30th September, 2018: 50% of the CIF value.
- A motor vehicle which is five years old or more and is principally designed to carry goods: 20% of the CIF value

AMENDMENTS TO TAX LAWS….CONTINUED

The Tax Appeals Tribunal Act

- **Power of the Tax Appeals Tribunal to refer a matter to a Registrar or a mediator for mediation**

Prior to hearing any filed application, the Tax Appeals Tribunal may refer the matter for mediation to a Registrar or to a mediator in accordance with Judicature (Mediation) Rules, 2013.

The Judicature (Mediation) Rules, 2013 shall apply, with necessary modifications, to mediation under the Tax Appeals Tribunal Act.

- **Power of the Tax Appeals Tribunal to make an order as to damages, interest or any other remedy against any party**

The tribunal may make an order as to damages, interest or any other remedy against any party, and the order shall be enforceable in the same manner as an order of the High Court of Uganda.

- **Power of the registrar to handle interlocutory applications, taxation of Bills of Costs and mediation.**

A registrar shall have power to:

a) hear and determine interlocutory applications arising from an application filed with the tribunal;

b) tax a bill of costs; and

c) mediate any matter referred to him or her by a tribunal.

Interlocutory applications generally deal with some point or matter affecting the rights of the parties in the interval between the commencement of the application and its final determination.

Interlocutory decisions are usually provisional in nature pending the final determination of the controversy.

The Tax Procedures Code Act

- **Provisions in respect of due dates to furnish returns under the Lotteries and Gaming Act, 2016**

A licensed person shall be required to furnish a weekly in addition to a monthly return with the Commissioner.

- The Minister to pay taxes on behalf of a person from commitment made by Government to pay tax on behalf of person.

- To waive all taxes due and unpaid by Government as at 30 June 2018.

- Introduction of electronic receipting and invoicing and penal tax relating to electronic receipting and invoicing.

DISCLAIMER

The information contained in this document is based on the Budget Address presented by the Minister of Finance, Planning and Economic Development. This document provides an overview of the announcements made in the speech and other sources of information.

This is a brief guide giving the highlights and analysis but not and is a comprehensive summary of the tax law and practice.

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