

5 TAXATION IN UGANDA

6.1 Introduction

Uganda's tax system is divided into Central Government and Local Government Tax structures. The principal taxes levied by the Central Government are income tax both on individuals and companies; Value Added Tax; Import Duty and Excise Duty, all administered by the Uganda Revenue Authority, URA.

All registered business organizations are under obligation to send a provisional return of income to the URA for any year of income as follows:

- Individuals: within 3 months of the end of the year of income for which such individual makes up his or her accounts and in any other case of an individual, not later than March 31 of such year of income;
- Corporate bodies: within 6 months after the end of the year of income for which the body prepares the accounts and in any case not later than June 30 in such year of income.

The returns are based on income of the year immediately preceding the year of income in respect of which the provisional return is made or on the last assessment which has by then become final and conclusive, whichever is greater.

Meaning of “Resident” and “Non-Resident”

A person qualifies as a “resident” of Uganda for tax purposes if:

- The individual has a permanent home in Uganda
- The individual is present in Uganda
 - For a period amounting 183 days or more in any 12 month period in any year of income,
 - During the current and in each of the 2 preceding years of income for periods averaging 122 days in each of those years of income.
- The individual is an employee or official of the Government of Uganda posted abroad.

Table 7: Income Tax Rates

Taxable Income (Shs/Annum)	Rate of Tax (Residents)	Rate of Tax (Non-Residents)
0 – 1,560,000	Nil	10%
1,560,001–2,820,000	10% of the amount by which chargeable income exceeds Shs. 1,560,000	
2,820,001–4,920,000	Shs 126,000 plus 20% of the amount by which chargeable income exceeds Shs. 2,820,000	Shs 282,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000
4,920,001+	Shs 546,000 plus 30% of the amount by which chargeable income exceeds Shs. 4,920,000	Shs 702,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000

6.2.1 Pay as You Earn (PAYE) Tax

PAYE is an instalment income tax system under which employers are required to deduct tax instalments from their employees' salary or other employment income.

Computation of PAYE

PAYE is calculated and remitted to the URA on a monthly basis. Computation is as follows:

Table 8: Computation of PAYE

Monthly Pay	PAYE Monthly Deduction
Less or equal to 130,000	NIL
More than Shs. 130,000 but less than Shs. 235,000	10% of the amount exceeding Shs.130,000
More than Shs. 235,000 but less than Shs. 410,000	Shs. 10,500 + 20% of the amount exceeding Shs. 235,000
More than Shs. 410,000	Shs.45,500 + 30% of the amount exceeding Shs. 410,000

6.2.2 Taxation of Employment Benefits

Benefits provided by an employer to employees are taxable. These include motorcars, housing, domestic servants, meals, refreshment, entertainment, and utilities in the place of residence of the employee.

6.2.3 Taxation of Companies

A company is liable to pay tax separate from its shareholders, where a company is incorporated or registered in Uganda and its management and control is exercised in Uganda in a particular year of income, then such a company qualifying as a resident company is liable for taxation purposes.

The sources of income of a company on which the tax can be levied include profits and gains from any business carried on for whatever period of time. Other sources include dividends from shares in other companies, and interest from use of the company's property.

Income Tax Rate of Companies

The income tax rate applicable to companies other than mining companies is 30%. The income tax rate applicable to mining companies ranges between 25% and 45%.

6.2.5 Taxation of Partnerships

Income tax assessments for a partnership can be made either in respect of individual partners or in the partnership's name. The profits of a partnership, including a firm carrying on a trade or profession are taxable.

6.2.6 Taxation of Small Business Taxpayers

A small business taxpayer is defined, as a resident person whose gross turnover for a year of income derived upon carrying a trade or business is less than Ushs 50 million. The income tax payable by the taxpayer for a year of income is as follows:

Table 9: Computation of Tax for a small business

Gross Turnover	Tax
Up to Shs 20,000,000	Shs 100,000
More than Shs 20,000,000 but less than Shs 30,000,000	Shs 250,000 or 1% of gross turnover which ever is lower
More than Shs 30,000,000 but less than Shs 40,000,000	Shs 350,000 or 1% of the gross turnover whichever is lower
More than Shs 40,000,000 but less than Shs 50,000,000	Shs 450,000 or 1% of the gross turnover whichever is lower

6.2.7 Taxation of Trusts

The income tax rate applicable to trusts is 30% of the chargeable trust income for the year of income. A trust is exempt from income tax:

- Where income of the trust is paid directly to the beneficiary without passing through the hands of the trustee
- Where a trustee relies on the ground that a share or part of income to be assessed accrues or arises for the benefit of the beneficiary.

6.2.8 Provisional Tax

All persons operating businesses are required to pay provisional tax based on past trends and future projections. In the case of companies, the tax should be paid in two equal instalments, at 6 months and 12 months from the start of the accounting period. For the final payment of corporation tax, Form IR2C called the final return must be completed. In the case of an individual, the tax is paid.

6.2.9 Taxation of Branch Profits of Foreign Companies

In general, the taxable profits of a Ugandan branch of a foreign company are computed in the same way as those of a resident company. However, no deduction is allowed for interest, royalties, management charges, or professional fees paid by a Ugandan branch to its foreign head office. Such payments by a Ugandan subsidiary to its foreign parent company are deductible in principle, although the provision relating to transactions between related persons may be invoked to restrict tax avoidance through artificial inter-company pricing practices. Expenditure incurred by a branch outside Uganda is deductible only if adequate consideration is given. This rule applies particularly to executive and general administrative expenses, which are disallowed except to the extent that the Commissioner considers the expenditure just and reasonable. Restrictions apply also where a branch pays for services rendered by non-resident directors of a foreign company.

Sales abroad by a branch of items that it manufactures, produces or grows in Uganda are deemed to generate income arising in Uganda. Such income is, therefore, taxable in Uganda.

Although a branch does not suffer any withholding tax on remittances of profits to its head office, in contrast with a subsidiary, whose dividends to its foreign parent are subject to withholding tax), a branch pays corporate income tax at a higher rate than a locally incorporated subsidiary. In practice, most foreign investors prefer to set up a company in Uganda rather than a branch.

6.2.10 Double Taxation Relief Agreement between Uganda and Denmark

The objective of this agreement signed in January 2000 was to create a bridge between the tax laws of the two countries and alleviate a situation where citizens were being burdened with taxes from both countries. It deals with income tax levied on international payments. It is based on the resident person taxation principle. The agreement provides that where a person is considered resident in Uganda for tax purposes, and his income is taxed both in Uganda and Denmark, then at the end of the year the person will receive a tax credit in Uganda equivalent to the amount deducted in Denmark. The tax liability is decreased according to the proportions stated in the agreement. The same principle would be applied if the person were considered resident in Denmark. However either country must issue a receipt of acknowledgement to the relevant tax authority. It automatically applies to all persons belonging to signatory countries.

Investors are advised to contact the URA through their audit / legal firm to ensure they benefit from this relief from Double Taxation.

6.3 Value Added Tax (VAT)

VAT is a consumer expenditure tax. It is payable by individuals and firms. The business sales turnover threshold for VAT is Shs 50,000,000 per year. It does not matter whether the business is profitable or not. Even firms with less turnovers can voluntarily register for VAT. Registration for VAT is straightforward and free of charge. An applicant fills in a special VAT form, attaches company registration documents, and is allocated a VAT number within 2-4 days.

6.3.1 VAT Exemptions

Certain goods and services are exempt from VAT. A person registered for VAT cannot claim an input tax on exempt goods and services. Similarly, such person cannot charge

VAT (as an output tax) on goods and services exempt from VAT. Goods and services that are exempt from VAT appear in **Annex 2A**.

6.3.2 Zero Rated Supplies

Zero rated supplies are goods and services which are exempt from VAT but in respect of which a VAT (output tax) is claimable. Zero rated supplies are also summarised in **Annex 2B**.

All imported goods attract VAT of 17% or the Zero rate except if they fall in the exempt category. VAT on imports is paid at the time of clearing the goods and is calculated on the CIF (Cost Insurance, Freight) value of the imports.

6.3.3 VAT on Exports

VAT on exports is Zero-rated. Investors interested in export trade are however advised to register for VAT. This is helpful in that the raw materials used to produce the exports, might attract VAT.

6.4 Stamp Duty

This is an indirect tax levied on the commercial transactions listed below:

Table 10: Schedule of Stamp Duty

Transaction	Stamp Duty
Company Incorporation or increase of share capital	0.5% of share capital
Transfer of stock or marketable securities	1% of the value of stock or securities
Transfer of immovable property	1% of property value
Lease	1% of value of lease
Debenture or mortgage	0.5% of amount of the debenture or mortgage

The government of Uganda is trying modernising the tax laws including those covering the stamp duty. The bill of amendments is to be tabled in parliament to review tax laws and enable them to suit international best practices. The changes will be effected in the next financial budget of 2004/05.

6.5 Taxation of Rental Income

Rental Income of an individual is segregated from other income and is taxed at a rate of 20% of gross rental income in excess of Shs. 1,560,000 per year.

6.6 Withholding Tax

Withholding taxes are a form of income tax deducted at source by one entity upon making a payment to another entity. In Uganda, there are three categories of withholding tax, the most significant of which is PAYE; the others are withholding tax on payments and earnings other than employment earnings and withholding tax on imports. This tax is deducted by receivers of services provided by contractors together with suppliers of goods and on goods imported at CIF. It is reimbursable at the end of the financial year on the presentation of the customs receipt. A summary of with holding taxes payable appears below:

Table 11: Summary of Withholding Taxes in Uganda

Payment	Resident (%)	Non-resident (%)
Management and Professional Fees	6	15
Royalties	0	15
Rent or use of property	15	15
Dividends	15	15
Interest	15	15
Imported goods	6	6
Domestic local works	6	6
Natural resources payments	0	15
Pension/ Annuity	15	0

A limited number of companies, which have established a track record of payment, are now exempted from withholding tax.

6.7 Excise Duty and Import Duty

Excise duty and import duty are levied on different categories of products. The applicable rates of duty per product are spelt out in the Finance Bill Harmonized Tariff Code. Investors are advised to buy a copy of the latest version of the Tariff Code, updated every year, to be able to get the applicable rates of Duty. It should be noted that with the advent of the East African Customs Union, EACU (expected to come into force towards the beginning of 2005), imports into Uganda from outside of the East African Customs Union will attract a higher import duty typically 5-10% more than those imported from within. Over a 5-year period, the idea is to phase out completely tariffs on imports and exports within the Union, hence an incentive for investors to invest in Uganda and be able to access the markets of Uganda, Tanzania and Kenya.

6.8 URA Registration Requirements

Investors need to familiarize themselves with Uganda Revenue Authority (URA) registration requirements. U.R.A. registration prior to the commencement of business operations is mandatory. Unincorporated bodies and individuals are expected to file a Preliminary Enquiry Form with the nearest URA office. For companies, the following are required in addition:

- Completed Internal Revenue Company application Form, IR (CO);
- Memorandum and Articles of Association;
- Names and addresses of Directors and Shareholders; and
- Copies of vending agreement (if an already established business has been purchased).

Once the above process has been completed, and upon receipt of a file number, the investor can apply for a Tax Identification Number (TIN) by completing TIN application forms. Both businesses and individuals including foreign investors, for purposes of identification of taxpayers, fill TIN request forms.

6.9 Tax Objections and Appeals

A taxpayer that is dissatisfied with a tax assessment can lodge an objection with the Commissioner of Income Tax who is required to review the assessment. If the taxpayer is not satisfied with the review, the investor can appeal to the Tax Appeals Tribunal. The Tribunal is a specialist tax tribunal that deals with disputes between the URA and taxpayers. Appeals lie to the High court from the Tribunal on points of law. More details can be obtained by visiting www.ugrevenue.com.