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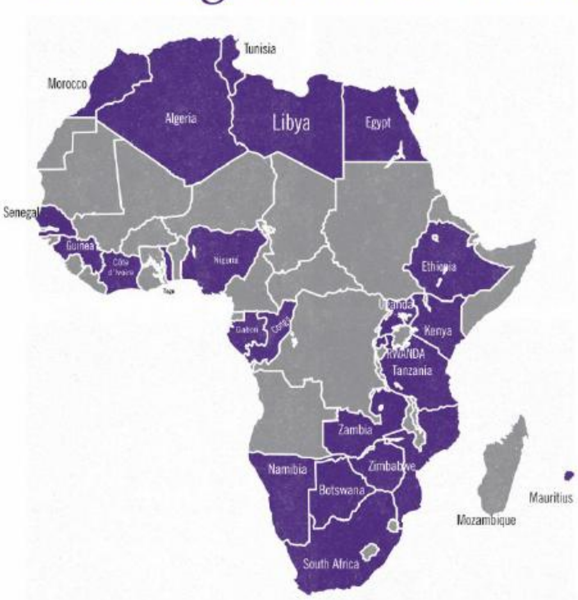

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Introduction
Uganda

The Ugandan Budget Statement was delivered by the Hon. Minister of Finance, Planning and Economic Development on 8th June 2016. The theme of this year's budget is *'Enhanced Productivity for Job Creation'*.

In accordance to the Public Finance Management Act 2015, and owing to it being an election year, the Budget was approved by the 9th Parliament on 3rd May 2016. The Tax Amendment Bills were circulated to the public in the month of March this year.

The budget for the FY 2016/17 was formulated with the overall objective of strengthening Uganda's competitiveness for sustainable wealth creation, employment and inclusive growth through the following development objectives:

i. Increase Sustainable Production, Productivity and Value Addition in Key Growth opportunities by prioritizing investment in the strategic sectors of the economy which include Agriculture, Tourism and high value Minerals; including Oil and Gas;
ii. Increase the Stock and Quality of Strategic Infrastructure to Accelerate the Country's Competitiveness with emphasis on transport, energy and ICT;
iii. Enhance Human Capital Development, and
iv. Strengthen Mechanisms for Quality, Effective and Efficient Service Delivery.

According to the International Monetary Fund (IMF) recent assessment, the global economy remains subdued and projected to grow by 3.3 per cent in 2015 before recovering slightly to 3.8 per cent in 2016 indicating a slight recovery from the 3.4 per cent in 2014.Global growth in 2015 is expected to increase marginally to 3.5% as a result of continued recovery in advanced economies and decline in world oil prices. Emerging markets are expected to continue having a decline in growth.

However, growth in most of the developing countries remains weak mainly due to infrastructure bottlenecks, capacity concerns, slower external demand growth, lower commodity prices, financial stability concerns and weak policy support in the respective countries. According to the 2015 African Economic Outlook report by the African Development Bank, the East African region is projected to slow down from 7% in 2014 to approximately 5.6% in 2015 and then accelerate to 6.7% in 2016.

Macroeconomic stability remains the bedrock for successful implementation of the National Development Plan and overall achievement of Uganda's economic growth and socio-economic transformation. It is also one of the key commitments and basic requirements agreed with our partner states under the formation of the EAC Monetary Union convergence.

The Medium Term Fiscal Strategy for the FY 2016/17, guiding principles and targets are as follows:

i. Accelerate the rate of economic growth to at-least 7% per annum;
ii. Maintain annual inflation within single digit levels;
iii. Ensure public debt remains within sustainable levels; and
iv. Maintain adequate foreign exchange reserves cover.

Accordingly, the budget for the FY 2016/17 will focus on the following areas:

i. Maintaining and sustaining National Security and Defence as a fundamental condition for economic growth and development;
ii. Promotion of Production, Productivity, Investment and Export of Goods and Services through Value addition to Strategic Commodities;

iii. Sustaining the Development and Maintenance of Strategic Infrastructure with emphasis on Energy and Transport to Accelerate the country's competitiveness;
iv. Enhancing Human Capital Development by improving Access to Quality Critical Social Services and Skills Development;
v. Enhancing Domestic Revenue Mobilization; and
vi. Strengthening the Quality of Public Service Delivery to Facilitate Private Sector Investment.

Following some last minute revisions to the Budget that were approved by parliament, the funding of the Budget will mostly come from domestic resources, according to Finance Minister. In tabling the motion to approve the expenditure, the Minister revealed that taxpayers would finance nearly 70 per cent of the Budget. Budget documents indicate that the Uganda Revenue Authority (URA) has been given a revenue collection target of Shs12.9 trillion in 2016/17. That means URA will be required to collect at least Shs2 trillion more from the current financial year. The URA in this financial year has a target of Shs11 trillion. By the end of the first nine months of the current financial year, URA was in a Shs242b deficit. URA described this as a temporary situation brought about the February 2016 general elections.

URA’s new target comes with a cocktail of new tax proposals that include tax hikes on some goods and exemptions on MPs allowances. However, those tax proposals alone cannot raise the additional Shs2 trillion URA will be required to collect.

All the new tax measures will become enforceable on July 1, 2016.

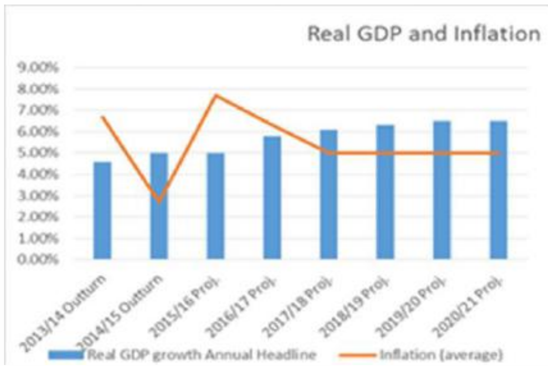
Some measures like an environmental levy on second hand clothes was thrown out by MPs on the basis that it is a source of livelihood for thousands of Ugandans.

The new tax measures are expected to raise about Shs300 billion, according to the Ministry of Finance. In 2015/16 the economy is expected to grow at a projected low of 5% as a result of several factors. The government insists that the only way to stimulate growth and collect more money is through increased expenditure.

Real GDP growth

The economy expanded by 5.0% in FY2015/16, less than the 5.3% projected. Drivers of growth include strong performance of the food crops sub sector; increased production in the manufacturing sector; enhanced value addition in the financial and insurance subsectors; the scale up of public investments which provide a boost to the construction and mining and quarrying sectors; and a continued recovery of the private sector supported by stronger credit growth.

Growth is expected to pick up to 5.5% in FY2016/17, mainly driven by a scale up in public infrastructure spending and a rebound in private sector activity following the general election. Private sector investment is expected to receive a boost as the monetary policy stance normalizes and FDI inflows linked to the planned issuance of oil production licenses come on board.



Economic Review
Uganda

Annual Inflation

During the first quarter of the financial year 2015/16, both annual headline and core inflation increased to an average of 5.4% and 5.9% respectively compared to 4.5% and 4.8% in the last quarter of FY2014/15. The inflation peaked at 8.5% in the December 2015. This increase was driven by the recent depreciation of the Ugandan Shilling which contributed to higher import costs and energy tariffs, and reduced food supplies during the end of the harvest season which translated into increased prices for food crops.
The growth of credit to the private sector declined to about 8% in March 2016 compared to about 17% during the same period a year before.

Domestic Revenues

Domestic revenues are expected to increase from 13.2% of GDP in FY2015/16 to 16.3% of GDP in FY2019/20. Tax revenue is projected to reach 15.8% of GDP by FY2020/21, whereas Non Tax Revenue (NTR) is projected to reach 0.4% of GDP. The increase in domestic revenue will help to offset the projected decline in external grants, both in the form of budget and project support.

Government's comprehensive tax policy package and Uganda Revenue Authority's compliance program for FY2014/15 yielded significant gains. In the medium term, tax administration will be a key driver for domestic revenue enhancement. In particular, measures will be introduced targeting sectors that currently contribute a large amount to GDP but little to tax effort (e.g. agriculture, construction, hotels, real estate and education).

Economic Growth in the year 2015

5%

Domestic and External Financing

In February 2016, government borrowed Shs195.6b through two-year and five-year bonds at rates of 23.59 per cent and 21.20 per cent, respectively. Six months prior to that, interest on the two-year bond was 16.9 per cent whereas the five-year bond averaged 16.8 per cent. This forced the government to revise borrowing to Shs1 trillion. The government has maintained a cautious approach on the domestic debt front. The largest lenders to government are the National Social Security Fund and commercial banks.

In 2016/17, the government will borrow Shs1 trillion by issuing treasury bonds down from Shs1.5 trillion in the current financial year.

Total external financing will amount to Shs. 6,524.5 billion in loans and grants (24.8% of the budget). Of the Shs. 26,361 billion budget, Shs. 18, 407.7 billion will be allocated to Ministries, Departments and Local Governments.
The fiscal deficit is estimated at 6.4% of GDP in financial year ending. The deficit was largely financed by external borrowing both concessional and non-concessional, and to a lesser extent by domestic borrowing equivalent to 1.6% of GDP, we understand.

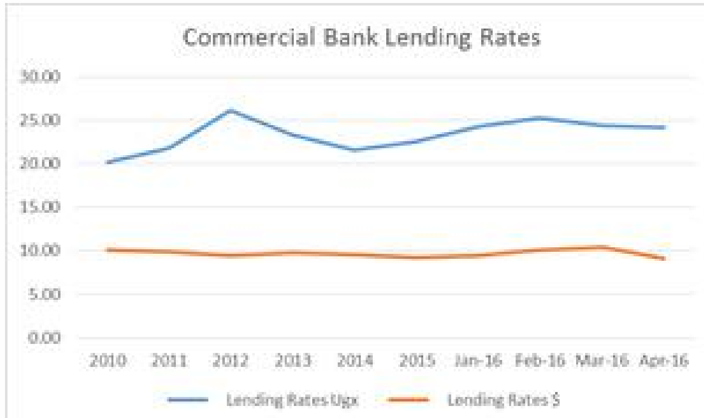
Expenditure and Net Lending

Total government expenditure and net lending is projected to rise by about 19% in nominal terms to Shs. 17,766 billion during FY2015/16, an equivalent of 21.2% of GDP. The bulk of the increase in spending will largely be driven by development spending, as Government scales up spending on infrastructure projects. Development related spending is projected to rise by 29% during FY2015/16 over this financial year projected outturn and will continue to increase strongly for the following two years.

Exchange rate

The depreciation pressures that started in FY2014/15 continued through to the first quarter of FY2015/16. The Shilling depreciated reaching an all-time low of Shs/US$ 3,695.25 on September 30th 2015. The depreciation of the currency was largely driven by the global strengthening of the US Dollar and speculative tendencies in the lead up to the general election.

The Shilling began to stabilize in October 2015. This was on account of an improvement in market sentiment following the Bank of Uganda and Government's more cautionary policy stance, and an increase in dollar inflows, particularly from offshore players attracted by high yields on Government securities linked to the increased CBR. The currency appreciated by 0.9% and 5.7% in October and November 2015 respectively. The outlook for the Ugandan Shilling for the remainder of the financial year remains uncertain. It will depend on when and how quickly the Federal Reserve decides to increase the Federal Funds Rate – this decision will be influenced by whether improvements in the US labour market continue and whether US inflation moves back towards the Central Bank's 2% medium term objective. The performance of the Shilling will also depend on market sentiment and associated speculative behavior in the lead up to the general election. In FY2016/17 and FY2017/18, however, the currency is expected to rebound owing to a pick-up in investor confidence and an increase in Foreign Direct Investments particularly in the Oil and Gas Sector.



Balance of Payments

The current account deficit (including grants) widened to 10.0% (US$ 2,357.8 million) in FY2014/15 compared to 8.6% (US$ 2,266.9 million) in FY2013/14. This was on account of deterioration in the foreign trade in services, largely due to increased outflows related to other business services. The primary income balance remained large compared to the years before FY2013/14 – largely due to an increase in repatriated profits, dividend and interest income on account of strong corporate profits.

The current account deficit (including grants) is projected to record 9.6% in FY2015/16 and is expected to temporarily deteriorate in the medium term due to higher imports associated with Governments public investment program. Increased deficits will be more than offset by higher external financing inflows so that reserve cover is expected to remain at adequate levels.

The large trade imbalance has been brought about because the export earnings are far less than the import expenditures. The country's foreign exchange reserves remain adequate, estimated at US$ 2,925 billion, representing 4.4 months of future imports of goods and services in April 2016 though the target recommended in the East African Community is 4.5 months of imports.

Works and Transport

An additional sh494 billion has been allocated to the works and transport sector increasing the allocation to the Works and Transport sector to Shs 3.827 trillion.

In the roads sub-sector, emphasis has been on upgrading of numerous gravel national roads to bitumen standard, and the rehabilitation and reconstruction as well as maintenance of national, district, urban and community access roads. The proportion of national paved roads in fair to good condition increased from 64 % in 2011 to 70 % in 2015.

To complement the road infrastructure, reduce damage to the roads network, lower cost of freight especially for bulky commodities and increase competitiveness of Ugandan economy, Government will fast track the construction of the Standard Gauge Railway (SGR) starting with the Eastern Route from Malaba to Kampala in FY 2016/17. To that effect, Shs118bn has been allocated for acquiring land for this.

Electricity sub-sector

The energy sector has been given sh2.4 trillion of the 2016/17 national budget. The use of electricity in Uganda's households increased from 7.8% to 20.4% and that the use of kerosene use dropped by 20% according to the Finance Minister.

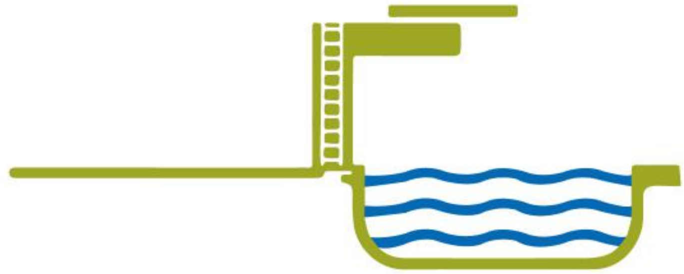
Emphasis will be on;

i. Accelerating the process for construction of the major projects such as Karuma, Isimba, Ayago hydropower projects, mini-hydro power projects such as Muzizi and Nyagak.
ii. Construction of transmission lines under the Rural Electrification Programme with specific focus on transmission of energy infrastructure to the prioritized activities to accelerate value addition for export.

Oil and Gas sub-sector

The budget for the FY 2016/17 will also continue to facilitate the following programmes:

i. Further exploration and production of oil and other valuable minerals such as Iron Ore and Phosphates through issuance of Production Licenses;
ii. Streamlining petroleum supply and distribution, development of the petroleum refining and pipeline transportation infrastructure by concretizing the development of the Oil Refinery, Crude Oil Pipeline to the Indian Ocean and petroleum products pipelines.
iii. Strengthening the institutional framework by operationalizing the National Petroleum Authority and, establishment of the National Oil Company;
iv. Implementation of the Local Content Policy and the Workforce Skills Development Strategy and Plan; and
v. Exploitation and value addition to other strategic minerals by reviewing the mineral rights and streamlining award of licenses and mining equipment and provision of electricity to mineral



Information and Communications Technology

The ICT sector has been allocated Shs. 93.8 billion in the national budget.

The sector, according to the Finance Minister, contributes 2.5% of GDP (2015), employs approximately 1.3 million Ugandans and raised sh484.4 billion in tax revenue collection in 2015. Telephone subscribers have increased from 19.5 million in 2013 to 23 million in 2015, while internet users grew from 8.5 million to 13 million in the same period.

Agriculture

The agriculture sector requires total overhaul and re-organisation, and as such reforms are necessary. This will involve reforming land ownership and use, farmer training, input delivery, extension service provision, irrigation financing and marketing according to the Finance Minister.

The agricultural sector's budget has been increased by sh343.46 billion to sh823.42 billion. Together with funding to rural development interventions including rural electrification and feeder roads, funding to Agriculture and Rural Development is now sh1, 985 billion, equivalent to 9.6% of the non-debt, non-discretionary budget.

The FY 2016/17, priority will be given to

i. Coffee and Coffee products,
ii. Tea and Tea Products,
iii. Fish and Fish Products,
iv. Livestock and livestock products (dairy and beef),
v. Grains products (maize and beans),
vi. Horticultural crops,
vii. Cotton and cotton products,

Priority will also be put on strengthening the institutions responsible for Investment and Export Promotion such as Uganda Investment Authority, Export Promotion Board, and Uganda Registration Services Bureau, among others. This will also include

Key specific priorities and measures will include:

i. Commodity based research for the strategic commodities;
ii. Continued provision of improved inputs like seedlings and breeding materials, promotion of fertilizer use, pests and disease control,
iii. Strengthening extension services through the single spine extension system,
iv. Improving post-harvest handling by supporting construction of storage facilities;
v. Supporting agricultural financing and value addition through the Agricultural Credit Facility;
vi. Strengthening the regulation and enforcement of standards for quality control, fishing and environmental protection; and
vii. Continued development of agricultural infrastructure such as rural feeder roads and markets and rural electrification to support agro-processing.

Average Inflation 2015

7.7%

Education

The priorities for implementation in the formal education sector as:

i. Recruitment of tutors for the 20 Technical Institutes started this financial year. I have provided 6.672 billion for this purpose
ii. Operationalising three Public Universities in Soroti, Kabale and Lira which are to offer Science related programmes which are critical to the Economic Development of the Country. For this, a total of sh14.09 billion has been allocated
iii. Expand the Student Loan Scheme to cater for the Second Cohort of 1,000 University students and 200 students of Diploma courses to improve access to higher education. An additional sh6 billion has been provided for this purpose
iv. Increase of salaries of Primary teachers by 15% which will be the last instalment in Government's commitment to increase teachers' salaries by 50% in a phased manner. For this, an additional sh122 billion has been provided.

Tourism

The sector has been allocated sh188.8 billion in the next financial year, up from sh158.5 billion in the previous one.

Tourism adds US$ 2.5 billion to the GDP and approximately USD 1.5 billion in foreign exchange earnings annually. This translates to 9% of national output and 26% of export earnings. In the recent past, Uganda has hosted several tourism promoting events including the visit of His Holiness Pope Francis last November, and the Barcelona Football Club legends to Bwindi Impenetrable Forest and Murchison Falls National Parks.

Income Tax
Uganda

The income tax bill has been debated and passed by the Parliament in May 2016. Our analysis on each of the major amendment of the Act is highlighted as follows:

1. Amendment to section 38(1) of the income tax act

The income tax Act (herein after referred to as the principal act) is amended in section 38(1) by inserting immediately after the words "this section" the words "and section 75".

Implication

The income tax Act is being amended in section 38(1) by making section 38 subject to section 75. By making section 38 subject to section 75, it means that section 75 takes precedence over section 38(1).

Both sections provide for carry forward losses. Section 38 permits immediate carry forward of losses whereas section 75 applies to carry forward losses where there has been a change in control of a company, and the losses can only be carried forward after expiry of two years after the change in control and only if certain conditions are fulfilled.

The amendment helps to clarify that where there has been a change in control of a company (for example by way of merger or an acquisition) any losses to be carried forward should be treated under section 75 and not section 38.

Previously there was lack of clarity in this area of the law since both sections were providing for carry forward losses and differently. There was ambiguity as to whether a tax payer who has had change of ownership, can claim a loss under section 38 without fulfilling the requirements in section 75.

The amendment of subjecting the application of section 38 to section 75 is intended to cure the ambiguity.

2. Amendment to section 83 of the income tax act

Section 83 of the principle act is amended by substituting for subsection (2) the following;

"(2) The tax payable by a non-resident person under this section is calculated by applying the rate prescribed in part IV of the Third schedule to this act to the gross amount of the dividend, interest, royalty, rent, natural resource payment or management charge derived by a non-resident person"

Implication

This amendment is intended to correct a gap in the law. Previously whereas section 83(1) imposes tax on any nonresident person who derives a dividend, interest, royalty, rent, natural resource payment or management charge from sources in Uganda.

Section 83(2) which prescribes the rate of tax payable on such income did not include rent. It only included dividend, interest, royalty, natural resource payment and management charge. This meant that whereas the tax was imposed on the rent derived by non-residents in Uganda, the rate to apply on such rent was not provided. This amendment came in to correct that error by including "rent" in the wording of subsection 2 of section 83.

3. Amendments to section 88(5):

Section 88 of the principal act is amended by substituting for sub-section (5) the following:
"(5) Except for a public listed company, where an international agreement concluded by the Government of Uganda with another contracting state provides that income derived by a person resident in such other contracting state from sources in Uganda is exempt from Ugandan tax or is subject

to a reduction in the rate of Ugandan tax, the benefit of that exemption or reduction shall not be available to any person who-

a) Receives the income in a capacity which is other than that of a beneficial owner, within the meaning accorded to that term by the relevant international agreement, and who does not have full and unrestricted ability to enjoy that income and to determine its future uses: and

b) Does not possess economic substance in the country of residence

Implication

The amendment of the principal Act that deals with international agreements concluded by the Government of Uganda. The above section provides that such agreements shall have effect as if the agreements were part and parcel of the income tax act. It further provides that where there is inconsistence between the agreements and the income tax act, the provisions of the agreements take precedence except in the case of section 88(5).

This means that what section 88(5) provides conditions for to the benefits available in the agreement. Previously section 88(5) provided that for any treaty benefits to accrue, the beneficial owners/individuals who control over 50% of the company had to be residents of the other contracting state (i.e. the state contracting with Uganda). If these beneficial owners were residents elsewhere, then there would be no benefit of exemption or reduced rate if their companies carried out any business or transactions in Uganda.

The provisions in the Act now amended this requirements as follows;

1. The amendments denies benefits to any person who receives the benefits in a capacity other than that of a beneficial owners.

2. The entity (not necessarily the beneficial owner) must be a resident of the contracting state and must be undertaking substantive economic activity in that country to benefit from the agreement.

A public listed company is excluded from the above requirements.

4. Amendments to Section 89A:

Section 89A of the principal Act is amended by
(a) substituting for the definition of licensee the following definition;

"Licensee" means a person who has been granted a mining right or a person with whom the Government has entered into a petroleum agreement as defined in the Petroleum(exploration Development and Production) Act, 2013 or a person licensed under the Petroleum(Refining, Conversion, Transmission and Midstream) Act 2013;
(b) repealing the definition of "petroleum exploration information"

Implications

Section 89A is a special section in the income tax Act covering taxation of petroleum and mining operation in Uganda. Section 89A is the definition subsection. Previously the definition of licensee included only persons licensed to do mining operations and petroleum explorations. The amendment now includes persons licensed to do the petroleum refinery.

This is intended to align the definition of a "licensee" to the meaning ascribed to the term under both the Petroleum (Exploration, Development and Production) Act 2013 (Upstream Act) and the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013 (Midstream Act).

The purpose of repealing the definition of "petroleum exploration information" is to remove a term that is not used in the Act.

5. Amendment to section 89GA

Section 89GA is amended by inserting immediately after subsection(5) the following;

"(6) In case of a licensee granted a petroleum exploration license after 31st December 2015, the allowable deductions shall be subject to the limitations on deductions specified in the production sharing Agreement"

Implications

Section 89GA is about limitations of deductions allowable for petroleum operations undertaken by the licensee in a contract area in a year of income. It mainly provides that deductions shall be allowed only against gross income derived by the licensee from the operations in the contract area for that year.

It is amended by inserting a new sub-section (6) which provides that deductions for all licensees who obtained the petroleum licensee after Dec 2015, will have their deductions subject to the limitations provided in the Production sharing agreement. The deductions will be subject to further limitations as prescribed in the petroleum agreement (PSA)

The PSAs put a cap on the amount of deductions that can be taken in a year.

The amendment is intended to streamline taxation with other sectors. The oil industry is however unique with lots of uncertainty on future cash flows, therefore doing away with a limit on deductions implies pushing into the unknown future government income from corporation tax. It is therefore recommended that the annual deductions are capped in line with the limits provided in the PSAs.

6. Amendment to Section 89GD

Section 89(D)(4) was of the principal Act is amended by repealing paragraph (b)

Implication;

Section 89GD talks about a decommissioning fund. (An amount put aside by the licensee for decommissioning is allowed as a deduction). However if the licensee withdraws any amount from such fund back to himself or for other purposes, the amount withdrawn becomes income.

Previously the law was requiring any surplus that remains after decommissioning to be returned to the licensee hence to be regarded as income, but this has now been repealed.

Allowing it back to the licensee contradicts section 113(5) of the Petroleum (Exploration Development and Production) Act 2013, which provides that any excess amount in the decommissioning fund after implementation of the decommissioning plan shall accrue to Government.

The amendment seeks to align the tax treatment of monies in the Decommissioning Fund with the provisions of the Petroleum (Exploration Development and Production) Act 2013.

7. Amendments to section 93:

Implications:

Section 93 provides for persons who are not required to file returns. Section 93(b) specifically provides that resident persons whose only source of income is employment income from a single employer, are not required to file returns.

The amendment provides an exclusion for resident persons who work for diplomatic missions. This exclusion means that resident persons who work for diplomatic missions should file their returns irrespective of whether or not their only source of income is employment income from a single employer. This amendment is intended to cure a gap arising out of the fact that Diplomatic missions are not under any obligation to withhold PAYE from their employees (by virtue of the Diplomatic Privileges Act) yet by virtue of the income tax act (section 4 (1) tax is imposed on income earned by such employees. The proposed amendment is intended to provide a mechanism for these employees to file returns and pay the tax due on their salaries

8. Amendment of section 120 of principal Act

Clause 9 seeks to amend Section 120(1) of the principal Act by including the words "section 83 or 85" the words "section 83, 85 or 86".

The amendment is intended to clarify that any person paying a non-resident providing shipping, air transport or telecommunication services should withhold the tax at the respective rates.

9 Amendment of First Schedule to principal Act

The First Schedule to the principal Act is amended by inserting the following institutions in their appropriate alphabetical order-
"International Centre for Research in Agroforestry (ICRAF)';
"International Potato Centre"

They are international bodies that entered into agreements with government to exempt their income from taxation. The provision serves to operationalize the agreements.

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Value Added Tax
Uganda

The Value Added Tax bill has been debated and passed by the Parliament in May 2016. Our analysis on each of the major amendment of the Act is highlighted as follows:

1. Amendment to section 7(4A)

The value added Tax Act, herein after called the principal Act, is amended in section 7(4A) by inserting immediately after paragraph(c), the following –

"(d) a person undertaking midstream operations as defined by the petroleum(refining, Conversion, transmission and Midstream storage) Act 2013"

Implications

Section 7 of the VAT Act, which specifies requirements for registration puts emphasis on "the making of taxable supplies" as the basis for registration. The decision to register will be based either on the immediate past (quarterly) turnover trend or the immediate future turnover trend. [Section 7(1)]. The section also provides voluntary registration where the turnover is below the required threshold.

Investments with long gestation periods would automatically not qualify for VAT registration under the above criteria since they are not yet making taxable supplies and they don't intend to make taxable supplies within the next quarter or the next year. It would take them more than five years to begin making taxable supplies. Sectors like the oil and gas sector, large scale commercial mining, etc under go long gestation periods before beginning to make taxable sales.

In 2015 section 7 was amended by inserting a new subsection (4A) which permits licensees undertaking mining or petroleum operations, persons undertaking the construction of a petroleum refinery or pipeline and persons engaged in commercial farming to be registered for VAT even before making any taxable supplies. This would permit them to benefit from input tax credit hence ease their cash flows in setting up these long term substantial investments.

The amendment of 2016, now inserts a new category (persons undertaking midstream operations as defined by the petroleum (refining, conversion, Transmission and Midstream Storage) Act 2013." This category will also be entitled to registration even before making taxable supplies and to credit of input tax incurred in setting up their long gestation period investments ease their cash flows in setting up these long term substantial investments.

The amendment of 2016, now inserts a new category (persons undertaking midstream operations as defined by the petroleum (refining, conversion, Transmission and Midstream Storage) Act 2013." This category will also be entitled to registration even before making taxable supplies and to credit of input tax incurred in setting up their long gestation period investments.

2. Amendment to section 20

Section 20 of the principal Act is amended by substituting for paragraph (a) the following;
" (a) are exempt from customs duty under the Fifth schedule of the East African Community Customs Management Act, 2004 except compact fluorescent bulbs with a power connecting cap at the end and lamps and bulbs made from Light Emitting Diodes (LED) technology for domestic and industrial use"

Implications

Fluorescent bulbs and LED bulbs are removed from exemption. They will now be taxed at standard rate on importation

3. Amendment to section 24

Section 24 of the principal act is amended by inserting immediately after subsection(5), the following;

"(6) For the purposes of this section, the tax payable on a taxable supply made by a supplier to a contractor executing an aid funded project is deemed to have been paid by the contractor provided the supply is for use by the contractor solely and exclusively for the aid funded project"

Implication

VAT on Aid funded projects will not be paid but instead will be "Deemed paid". Previously VAT on aid funded projects was payable by Government under counter funding arrangements (Donors provide the funds- Government provides the taxes payable where necessary, when such funds are used). The amendment means that now Government will not be providing the taxes but rather the taxes will just be deemed as paid.

It means that in respect of Aid funded project, suppliers will issue an invoice bearing VAT but the buyer will only pay for the amount excluding VAT. The effect of deeming a supply is similar to Zero rating it. The supplier does not account for output VAT on such supplies but enjoys full input tax credit.

URA has designed new VAT returns to recognize deemed VAT. A field was created in the return where such amounts are to be entered.

4. Amendment to section 25

Section 25 of the principal Act is amended by substituting for subsection (2) the following;-

"(2) For a contractor or supplier, component X of the formula in paragraph 1(b) of the fourth schedule for a tax period does not include the amount of tax that the licensee or supplier is deemed to have paid to the contractor or supplier under section 24(5) for the tax period.

Implication

According to paragraph 1(b) of the fourth schedule of the VAT Act, Component X refers to the output VAT. This means that for purposes of calculating the tax payable for deemed VAT the calculation will be X-Y where X is the Nil or Zero output VAT and Y is the input VAT.

It basically emphasizes that the treatment of deemed VAT is similar to the treatment of Zero rated supplies whereby the excess input tax over the nil output VAT becomes a credit or refund due to the Taxpayer involved in providing such supplies to licensees or to Aid funded projects.

5. Amendment to section 28

Section 28 of the principal Act is amended in subsection (1)(b) by inserting immediately after the words "or import of services" the words "or a person providing Business Process Outsourcing services"

Implication

Section 4 of the VAT Act imposes VAT on import of services (except import of exempt services). Section 28 (1)(b) which provides for credit of input tax incurred on imports, allows input tax credit on imported goods only but not on imported services. This means that VAT incurred on importation of services is not creditable and is hence a cost to the business.

The 2015 tax amendments made a special exception to this general rule by allowing credit of input tax on services to all licensees (in oil and mining sector). The 2016 amendment have now introduced another category where such VAT is creditable. This is the category of Business process outsourcing entities (BPO). Companies in Uganda who are carrying out BPO as a business will be allowed credit of input tax on importation of services if those services are used in the course or furtherance of their BPO services.

6. Amendment of the second schedule

The second schedule of the principal Act is amended by:-

(a) Repealing paragraph 1(ta).

Implication

Paragraph 1(ta) was in respect of power generated by solar. Repealing it means that power generated by solar is now standard rated. Hence, companies in the business of solar power generations will be able to claim input vat on the procurement of taxable supply.

(b) by substituting for paragraph 1(dda) the following;- "(dda) the supply of any goods and services to the contractors and subcontractors of hydroelectric power, solar power or geothermal power projects" and …

Implication

Previously supplies of goods and services to the contractors and subcontractors of hydro Power Projects were exempt. Other forms of power generation projects were not included in the exemption. This 2016 amendment has added solar power, geothermal power, bio gas and wind energy projects to the exempt category. It means that suppliers of goods and services to the contractors and subcontractors of solar power, geothermal power, bio gas and wind energy projects should also not charge VAT when making supplies to those projects *c) amendment is made in section (1)(s) by inserting immediately after paragraph (xxiii) the following;-*

"(xxiv) Hullers;

"(xxv) Oil press

"(xxvi) Tillers

"(xxvii) grain dryers

"(xxviii) manure spreaders

"(xxix) fertilizer distributor

"(xxx) Transplanters

"(xxxi) Juice presses and crushers

"(xxxii) Seed and grain shellers

"(xxxiii) Silage chopper machines

"(xxxiv) color sorters for coffee

"(xxxv) Coffee roasters"

Implication

All the above items have now been exempted from VAT

d) by substituting for paragraph (a) the following

(a) the supply of livestock. Unprocessed foodstuffs and unprocessed agricultural products.

Implication

Earlier wheat grain was specifically excluded from the exemption though it is unprocessed food stuff. However though this amendment supply of unprocessed wheat grain has been made exempt from VAT.

Customs & Excise
Uganda

Our analysis on each of the major amendment of the **Excise Act, 2016** is highlighted as follows:

1. Amendment of section 10

The excise Duty Act, 2014, herein after called the principal act, is amended in section 10 by inserting immediately after subsection (2) the following;-

"(3) Where excisable goods on which excise duty has been paid are converted into approved healthcare or medical products, a refund of the excise duty shall be provided to the manufacturer of the approved health care or medical products

"(4) In this section, "approved healthcare or medical product" means a product that has been approved by the Minister responsible for Finance in consultation with the Minister responsible for health, in accordance with regulations made under section 16"

Implications

The amendment have been made to allow manufacturers of medical or healthcare products (which are non-excisable) to seek a refund on excisable raw materials like alcohol which are used to make the products. This is to promote competitiveness by providing equal tax treatment with similar imported products.

The amendment in subsection (4) clarifies that for such refund to apply, the health care product should first be approved by the minster responsible for finance (on advice of the minister responsible for health), in accordance with regulations made under section 16. It is expected that the minister will make a regulation specifying the qualifying medical or heath care products.

2. Amendment of schedule 2

Schedule 2 of the principal Act is amended in part 1. The summary of the amendments is as follows;

Product	Previous Excise duty rate	Proposed excise duty rate
Cigarettes		
a) Soft Cup	UGX 45,000 per 1,000 sticks	UGX 50,000 per 1,000 sticks
b) Hinge lid	UGX 75,000 per 1,000 sticks	UGX 80,000 per 1,000 sticks
c) Cigars, cheroots and cigarillos containing tobacco	150%	200%
	160%	200%
d) Smoking Tobacco whether or not containing tobacco substitutes in any proportion	160%	200%
e) Homogeneous or reconstituted tobacco	160%	200%
f) Other		
Ready to drink spirits	70%	80%
Motor spirit (gasoline)	UGX 1,000 per litre	UGX 1,100 per litre
Gas oil (automotive, light, amber for high speed engine)	UGX 680 per litre	UGX 780 per litre
Cane or beet sugar and chemically pure sucrose in solid form	UGX 50 per 100 kg	UGX 100 per 100 kg
Motor vehicle lubricants	5%	10%
Sugar confectioneries(chewing gum, sweets and chocolates)	10%	20%
Specialized Hospital furniture	10%	Nil
Note: 1. Previously all furniture was subject to excise duty of 10%. The new Act has separated Hospital furniture and excluded it from the excise duty bracket. 2. The new bill has repealed the tax on international call services.		

Miscellaneous

Uganda

Our analysis on each of the major amendment of the **Finance Act**, 2016 is highlighted as follows:

- The Uganda Revenue Authority shall be responsible for issuing Certificates of Origin required by section 111(2) of the East African Customs Management Act, 2004
- Waiver of tax arrears for SACCOS up to 31st December, 2015
- Registration fees for personalized number plate for a motor vehicle has been increased from Shs.5,000,000 to Shs.20,000,000/-

Our analysis is on each of the major amendments of the **Stamp Duty Act** is highlighted as follows:

- The stamp duty rate has been increased to Shs 10,000 from Shs 5,000 while executing instruments.
- Exchange of property will attract stamp duty of 1.5 % instead of 1% of the total value

Budget Highlights
Kenya

BUDGET THEME – 'CONSOLIDATING GAINS FOR A PROSPEROUS KENYA'

The Kenya Budget Statement was delivered by the Cabinet Secretary for The National Treasury Hon. Mr. Henry Rotich on 8th June 2016.

Economic Indicators

- The Gross Domestic Product (GDP) grew by 5.6% in 2015 compared to 5.3% growth in 2014. Projections indicate a 6.0% long term growth and a 7.0% medium term growth in 2016.
- Inflation eased from 6.9% in 2014 to 6.6% in 2015, largely due to reduced cost of petroleum products, electricity and tight monetary policies.
- The current account deficit as a percentage of GDP narrowed from 14.5% in 2014 to 11.4% in 2015.
- Total exports rose by 8.2% to KES 581 billion in 2015, while total imports declined by 2.5% to KES 1,578 billion. This resulted to the balance of trade improving from a deficit of KES 1,081 billion in 2014 to a deficit of KES 997 billion. The volume of trade increased marginally from KES 2,156 billion in 2014 to KES 2,158 billion in 2015.

Changes in Tax Laws

INCOME TAX ACT

- An employer who now engages at least 10 graduates will be allowed an extra 50% cost on the apprentice emolu ments in addition to the normal allowable emoluments.
- To encourage investors to venture in to the development of low cost housing through the reduction of in the rate of corporate tax from 30% to 20% for developers who construct at least 1,000 units annually.
- The highly anticipated expansion of tax bands has finally seen the light of day! The Cabinet Secretary has proposed to expand the tax bands and increase personal relief by 10%.
- For the taxpayers with offshore investments, and are unwilling to reinvest it in Kenya can apply for tax amnesty provided they submit their returns and accounts for the year of income 2016 between 1 January 2017 and 31 December 2017. The principal tax, penalties and interest for the year of income 2016 and prior will be waived.
- The Cabinet Secretary proposes to exempt tax bonuses, overtime and retirement benefits paid to workers who fall under the lowest income tax band.

VAT ACT

- Garments and leather shoes sold locally from EPZ are exempt from VAT
- Entry fees to national parks and commissions earned by tour operators to be exempt from VAT
- Increase in Air Passenger Service charges from USD 40 to USD 50 for international travel and KES 500 to KES 600 for local travel
- VAT on Service charge within the hotel industry is now exempt.
- Liquefied Petroleum Gas is proposed to be exempt from VAT instead of being introduced in September 2016.
- All the raw materials used in manufacture of animal feeds to be exempt from VAT

EXCISE ACT

- Introducing 10% duty on cosmetics and beauty products.
- First time car buyers will pay advalorem rate of 20% on importation of motor vehicles.
- Excise duty to increase on all plastic bags. However, vacuum bags for packing foods, juices, tea and coffee are excluded from the excise duty.
- Ordinary water has been excluded from payment of excise duty.
- Excise duty on illuminating kerosene has been introduced at the rate of Ksh. 7,205 per 1000 litres at 20 degrees centigrade.
- Excise duty has been introduced for materials, equipment and motor vehicles imported or purchased locally for the implementation of the official aid funded projects.

CUSTOMS ACT

- Import duty on made up fishing nets has been increased from 10% to 25% .
- Import duty on smart cards and sim cards has increased from 10% to 25%.
- Specific duty on worn clothes and other worn articles has increased from USD 0.20 per kg to USD 0.40 per kg.
- Import duty on aluminum Cans has increased from 10% to 25%.
- Import duty on oil/petrol filters for engines has been increased from 10% to 25%
- Import duty on Energy Efficient Stoves has been reduced from 25% to 10%.
- Import duty on Nylon Yarn has been reduced to from 25% to 0% for gazetted manufacturers in the region, mainly those manufacturing socks.
- Import duty on Trigger Sprays and Lotion Pumps has been reduced from 25% to 10% for gazetted manufacturers in the region.
- Gazetted Motor Cycle Assemblers were granted to duty remission to import Motor Cycle Assemblers to import Motor Cycle CKD Kits at an import duty rate of 10% for a period of one year.
- Wheat Grain – Kenya has been granted a duty remission on import duty on wheat grain at a rate of 10% from 35% for gazetted millers for a period of one year.
- Under the duty remission scheme raw sugar will now be imported at a rate of 0% for a period of one year with a condition that the refined sugar will be sold only to manufacturers in the region except Tanzania.
- Duty remission has been removed Palm Stearin as partner states are now no longer requesting for duty remission on this product.

Revenue Budgets

Budget 2016 / 2017 *(figures in billions - KES)*	**Estimates 2016 /2017**	**Revised Estimates 2015/ 2016**
REVENUES		
Income Tax from Individuals (PAYE)	359.63	309.20
Income Tax from Corporations	311.50	268.80
Taxes on Property (Capital Gains Tax)	6.29	5.34
VAT	345.60	300.03
Excise	169.31	137.20
Customs	126.81	109.80
Other Taxes	13.10	11.60
Total Tax Revenue	**1,332.24**	**1,141.97**
Appropriation in Aid	124.20	111.01
International Grants	72.72	76.64
Domestic Borrowings	735.11	701.00
Others	44.40	42.50
Total Income	**2,308.67**	**2,073.12**

Budget Highlights
Tanzania

BUDGET THEME – 'INDUSTRIAL GROWTH FOR JOB CREATION'

Economic Indicators

GDP Growth – 7 % in 2015, GDP Per Capita USD 966.50 (2015), target GDP growth rate of 7.2 % in 2016;

Fiscal deficit is projected at 4.5 % of GDP in 2016/17 compared to an estimate of 4.2 % of GDP in 2015-16;

Tanzania scored 3.57 points out of 7 on the 2015-2016 Global Competitiveness Report published by the World Economic Forum;

Recorded Budget Deficit of 5.10 % of GDP in 2015;

Average Inflation rate in 2015 was to 5.6 % as compared to an average of 6.1 % in 2014;

51.42 % of budgeted expenditure for 2016-17 to be funded from internal revenue collections;

40 % of expenditure to be development expenditure;

Changes in Tax Laws

Value Added Tax Act

o Inclusion of items in the list of Exempted Items –
- Raw Soya Beans;
- All unprocessed vegetables and unprocessed edible animal products;
- Vitamins and food supplements;
- Water treatment chemicals;
- Bitumen (HS Code 27.13 and 27.15)
- Aviation Insurance

o VAT introduced on fee based financial services;
o VAT on Tourism Services introduced;

Excise (Management and Tariff) Act

o Inflation rate of 5 % adjusted upwards for items with specific excise duty rates on non-petroleum products such as soft drinks, locally produced fruit juices, imported fruit juices, local and imported beer, non-alcoholic beer, wine, spirits, cigarettes, lubricating oil, lubricating greases, natural gas;

o Excise duty on bottled water and cigar remains unaffected.

o Excise duty increased for imported furniture from 15% to 20 %;

o Excise duty introduced at 10 % on commission received from money services;

The Income Tax Act

o Final gratuity to members of parliament to be taxable;

o Gains on trading of shares of listed companies to be taxable;

o PAYE rate reduced from 11 % to 9 % for low income group resulting in reduction of TZS 3,800 per month in PAYE tax;

o Payment to retirement funds for leasing and lending to be subjected to withholding tax at the time of payment;

o Commissioner General of Tanzania Revenue Authority to be vested with powers to determine rental income based on minimum market value for the purposes of withholding tax;

o Administrative measures within TRA to be introduced with the aim to enhance tax collections;

o Country wide use of Electronic Fiscal Device propagated and stringent penalties introduced for noncompliance including forfeiture of business license for a period of two years;

Vocational Education and Training Act

o Skills and Development Levy rate reduced from 5 % to 4.5 %.

Motor Vehicles (Tax on Registration and Transfer) Act

- o Motor vehicle registration fee increased from TZS 150,000 to TZS 250,000 for motor vehicles and from TZS 45,000 to TZS 95,000 for motor cycle and tricycles;

- o Personalized registration number fee increased from TZS 5,000,000 to TZS 10,000,000 for every three years;

Tanzania Revenue Authority to be empowered to estimate tax and make valuation of properties, collect property tax, institute proper procedures for remittance of property tax, set procedure for dispute resolution arising from collection of property tax and review property tax exemptions;

Various changes introduced in East African Community Customs Management Act in line with similar taxes imposed in member states;

Various fees / levies charged by Tanzania Food and Drugs Authority (TFDA), Cotton Board, Tea Board, Coffee Board, Cashewnut Board, abolished.

Taxes on Petrol, Diesel, Kerosene remain status quo, no increase.

Tax Exemption granted to Armed forces withdrawn, allowances to be granted to armed personnel instead;

Stamp duty rates remain unchanged;

All changes proposed to become effective 1st July 2016, unless otherwise proposed.

Budget Highlights
Rwanda

Government to spend RWF 1949.4 billion in 2016-17 fiscal year

Kigali, June 8, 2016-The Minister of Finance and Economic Planning, Claver Gatete, today presented to a joint parliamentary session the budget statement for the year 2016-17. Minister Gatete told parliamentarians that Government will spend RWF 1949.4 billion in the 2016-17 fiscal year, RWF 140.6 billion higher than RWF 1808.8 billion spent in 2015/16.

Government will finance 62.4% of its budget through domestic revenues amounting to RWF 1216.4 billion. This represents a slight increase of RWF 40.9 billion compared to RWF 1175.5 billion spent in 2015/16.

"The slight increase of domestic revenues reflect the effects of slow economic growth brought about by external shocks such as low commodity prices," Minister Gatete said.

The remainder of the budget will be funded by external resources worth RWF 733 billion (37.6% of total budget). This represents RWF 99.7 billion increase compared to RWF 633.3 Billion in the 2015-16 revised budget. External resources will come from budgetary grants (RWF 219.3 Billion), project grants (RWF 146.0 Billion) and Foreign borrowing (RWF 367.7 Billion)

Allocations

Expenditure allocation in the 2016/17 budget and the medium term has been made according to the second Economic Development and Poverty Reduction Strategy (EDPRS2) objectives and a large share has been allocated to the EDPRS2 sectors as follows.

Thematic areas have been allocated RWF 1,071.8 Billion representing 55% of the total budget for 2016/17 fiscal year. Economic Transformation takes the lion's share with RWF 517.1 billion (27%), rural development will be allocated RWF 256.5 billion (13%), Productivity and Youth Employment gets RWF 106.0 billion (5%) and Accountable Governance takes RWF 192.2 billion (10%). The foundational Sector which comprises of health, education, justice, peace, stability, food security, macroeconomic stability and public finance management among others will be allocated RWF 877.6 Billion representing 45% of the entire budget.

The Government has enacted fiscal adjustments to curb the fiscal deficit from 5.4% of GDP in fiscal year 2015/16 to 3.9% in 2016/17. Minister Gatete noted that in the 2016/17 budget, adequate resources for priority programs and projects have been catered for. These include vital infrastructure projects that will reduce the cost of doing business, provisions for goods and services for smooth running of Government operations, as well as safeguarding social protection projects and programs to ensure a just society.

"High priority will be given to economic activities which will either increase export revenues or reduce import volumes. The identified key sectors for fostering economic activity include Textiles, garments and leather industry, agriculture export crops, agri-business, construction, livestock, wood industry, minerals, tourism and ICT and trade and investment facilitation," Minister Gatete said.

Regarding import substitution, Government has selected key sectors namely cement, sugar, rice and clothing where it believes local production can reduce current imports while on- going export promotion efforts will be supported by the export promotion fund.

Medium term macro-economic policy objectives

The 2016-17 Budget theme 'Fostering growth while increasing exports and boosting made in Rwanda goods and services' signals government's resolve to tackle diminishing commodity prices and rising import bill that have adversely affected export earnings and put pressure on foreign exchange reserves.

To this end, Government has put in place medium term policy adjustments to mitigate the effects of external pressures. It has requested financing from the International Monetary Fund's Standby Credit Facility amounting to US$ 203 million to help keep external reserves above the critical level of three months' worth of imports during this adjustment period. While the external financing from the IMF is only temporary, it will ensure that the implementation of all extensive medium term policies aimed at addressing the external imbalances as laid out in the latest national export strategy.

Budget Highlights
Burundi

Burundi Budget Review 2016

The general budget of the Republic of Burundi for the year 2016 was prepared in a context marked by a slowdown in economic activity. However, a recovery in activity is observed in the sectors of the economy that contribute to economic growth.

During the 2016 fiscal management, fiscal policy will consist of strengthening financial resources and capacity building for the staff of the Burundi Revenue Authority (OBR) in order to increase the level of recovery for internal and external resources.

These resources will be directed mainly in the priority areas of the Government while maintaining the level of achievement in the social sectors. As part of the operationalization of the decentralization policy, the Government will provide every municipality with a grant of 500 million Burundi francs in 2016 for the implementation of the activities contained in the Municipality Plan for Community Development (PCDC).

Given the delicate situation, the Government will pursue a careful policy of austerity and for that reason; some actions will be taken into account:

• Strict management of exemptions with no public procurement to be exempted of taxes;

• As part of the implementation of the harmonization of wages policy, an equity policy involving national solidarity will be introduced. Thus, all the annals will be frozen and a amount of 20 billion Burundian francs is part of the 2016 budget;

• The Charroi Zero policy will be reviewed to improve its implementation ;

• All organizations / associations and projects receiving external support in foreign currencies will have to open their accounts at the Central Bank (BRB) and all accounts already opened at commercial banks by such organizations will be closed, etc.

• And in order to increase revenues, the Burundi Revenue Authority (OBR) will broaden the tax base, fight against fraud and tax evasion and step up the collection of arrears.
With regard to spending, the main objective of the fiscal policy will be directed to priority sectors of the Government and the maintenance of achievements in the social sectors.

The overall deficit amounting to 129 billion Burundi francs will be addressed by domestic and external financing.

Budget Item	Billion FBU
Income	
Tax revenue excluding exemptions	613.00
Non-tax revenue	62.80
Donations Projects	382.20
Other sources	68.60
	1,126.60
Expenditure	
Current expenditure	736.50
Investment expenditure	519.10
	1,255.60
Deficit	**129.00**

Budget Highlights

East African Community

East African Community

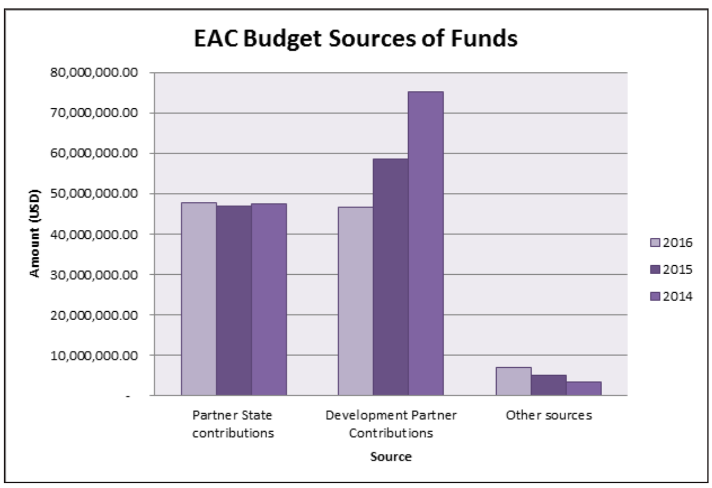
Economic Review 2016/17

The East African Community (EAC) registered a decline in real GDP by 3.4% in 2015 compared to 5.8% growth in 2014. GDP growth fell short of the Sub-Saharan Africa average at 3.8% and was higher than the global average of 3.1%.

GDP growth was negatively impacted by uncertainty in general elections in Uganda and Tanzania as well as political instability in Burundi. Inflation eased down further to 5.5% in 2015 from 5.6% in 2014.

Budget Highlights 2016/17

The EAC Budget estimates for 2016/17 stand at US$101,374,589. This is a significant drop from the 2015/16 budget which stood at US$110,660,098. Development partner contributions fell further from US$58.6 million in the 2015/16 financial year to US$46.7 million in 2016/17. Partner state contributions stand at US$47.6 Million.
The EAC has undertaken a raft of austerity measures which has reduced expenditure. The main reason for this has been a delay by development partners in releasing funds promised from the last financial year. Only 30% of funds promised were released from budgeted amount in 2015/16.



Priority areas in the EAC 2015/2016 budget are:

1. Implementation of the EAC Single Customs Territory
2. Implementation of the EAC Common Market Protocol (especially the additional commitments on interconnectivity of border immigration systems and procedures across partner states, and enhancement of productivity and value addition in key productive sectors).

Key priority programs for 2016/17

1. Full implementation of the EAC Single Customs Territory
2. Enhanced implementation of the EAC Common Market Protocol especially in regard to: negotiating additional commitments and interconnectivity of border immigration systems and procedures across the Partner States
3. Development of cross-border infrastructure and harmonization of laws, policies and standards in the respective sub-sectors; implementation of a liberalized EAC Air Space; enhanced implementation of computerized weather prediction models; implementation of a One Network areas in Telecommunications; and convene 4th Head of State Retreat on Infrastructure, Development and Financing
4. Enhancement of productivity value addition in key productive sectors including regional agricultural and industrial value chains, and strengthen capacity for food security, natural resources, tourism and wildlife management
5. Institutional strengthening
6. Development and harmonization of policies, legislation, regulations and standards to establish an EAC Energy, Common Market, including work on an EAC Energy Exchange and finalize remaining energy interconnectors across borders
7. Implementation of EAC Peace and Security initiatives

NOTES

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Source – Managing Partner's Forum

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