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Uganda Budget 2018

14 June 2018

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Contents

We take our "An instinct for growth" brand promise seriously

"This Grant Thornton Budget analysis provides commentary designed to assist you in navigating the increasing complexities of the tax environment.

Across the world it is clear that tax authorities are increasingly learning from, and working with, each other in their quest for higher tax yields. This places more onus on taxpayers to report and be accountable for tax liabilities. Grant Thornton's global network of tax specialists work together to ease the burden on you and your business and to provide practical solutions in support of your growth ambitions."

Introduction

The Ugandan Budget Statement was delivered by the Hon. Minister of Finance, Planning and Economic Development on 14th June, 2018. The theme of this year's Budget is **"Industrialization for Job Creation and Shared Prosperity"** which is in line with that of the East Africa Community (EAC). It also corresponds directly with the second National Development Plan (NDPII) 2015/16 to 2019/20: **"Strengthening Uganda's competitiveness for sustainable wealth creation, Employment and inclusive growth".**

Anil Patel
Managing Partner
Grant Thornton Uganda

Budget 2018 / 2019

In line with the Public Finance Management Act 2015, as amended, the budget was approved by Parliament on 1st June, 2018.

The overall budget for FY 2018/19 has increased by approximately **13% compared to last year from Ushs 29 trillion to Ushs 32.7 trillion in line with the projected growth of the country**.

Economic Growth Strategy

The Budget Strategy for FY 2018/19 elaborates governments continued commitment to achieve middle income status. Its focus is aimed to improve production and productivity in the primary growth sectors – agriculture, manufacturing minerals and tourism to drive faster growth of the economy whilst addressing the infrastructure gaps and other constraints to private sector development. The government's strategy is also aimed to improve the overall delivery of public services to the population while taking into consideration the need to address emerging issues such as efficient management of urbanization and hastening demographic transition to reap the demographic dividend.

The Budget Strategy seeks to address the development challenges and developmental plans in the following key result areas:-

- Commercialization of Agriculture
- Industrialization and Productivity enhancement
- Financing Private Sector Investment

However, it is important to note that the budget strategy may face other challenges which may hinder the implementation of these plans thus slowing the overall developmental progress. These factors revolve around the **country's public debt which now stands at 38.1% drawing closer to the 50%** threshold beyond which the public debt will become unsustainable.

Macroeconomic Outlook

The ministry of finance asserts that economic activity is projected to expand by **at least 6% over the next financial year and increase to 7% per annum in the medium term.** This higher growth will be supported by stronger cash crop yields (especially coffee and tea), greater commercialization of agriculture, ICT, financial services and efficiency gains from public infrastructure investments. In addition to this, oil production, regional integration and the completion of many infrastructure projects will further support this higher growth.

Government will pursue fiscal and monetary policies that maintain macroeconomic stability and support inclusive growth, while safeguarding debt sustainability.

Fiscal policy will continue to support ongoing infrastructure investment and social service delivery. To achieve this, the Domestic Revenue Mobilization Strategy (DRMS) **targets a revenue-to-GDP ratio of 16% over the medium term** in line with the long-term desired revenue-to-GDP ratio of 18-20%. Structural reforms will focus on enhancing the budget process, public investment management preparing for oil production including putting in place a strong governance framework for the sector and strengthening the financial sector.

Economic Review

Real GDP Growth

The country's output is now estimated to have grown by 5.8% **during the last quarters of FY 2017/18** which is significantly higher than the performance of 3.9% in the previous year. The GDP of the economy now **stands at approximately USD 27.9 Billion**. This growth has been as result of the following;

- The Services sector grew by 7.3% compared to 5.4% from last financial year. This performance was mainly as a result of improvement in the financial, information and communications and trade subsectors.
- The Industrial sector expanded by 6.2% compared to 3.4% from last financial year due to good performance in construction and agro processing as well as 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 and provision of better extension services.

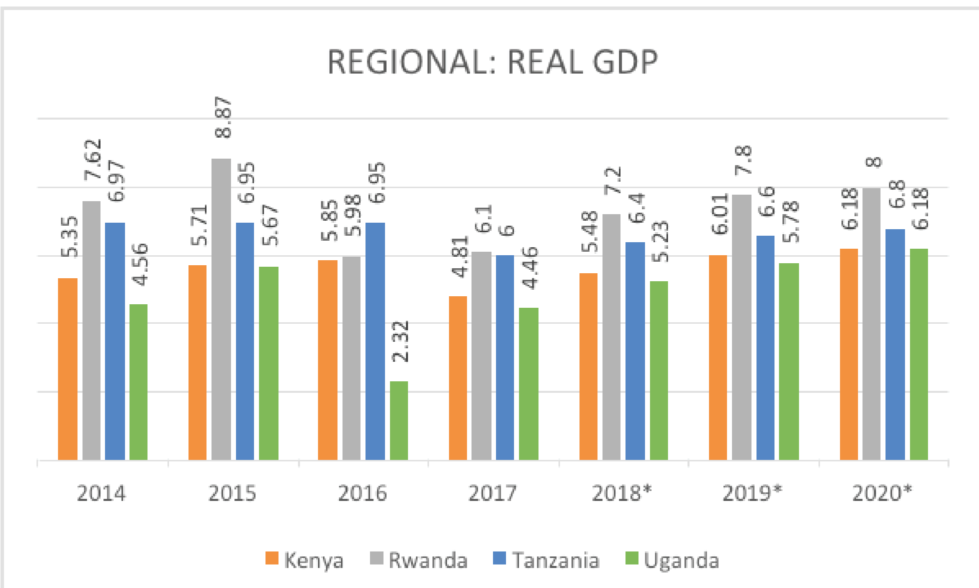
Monetary Policy

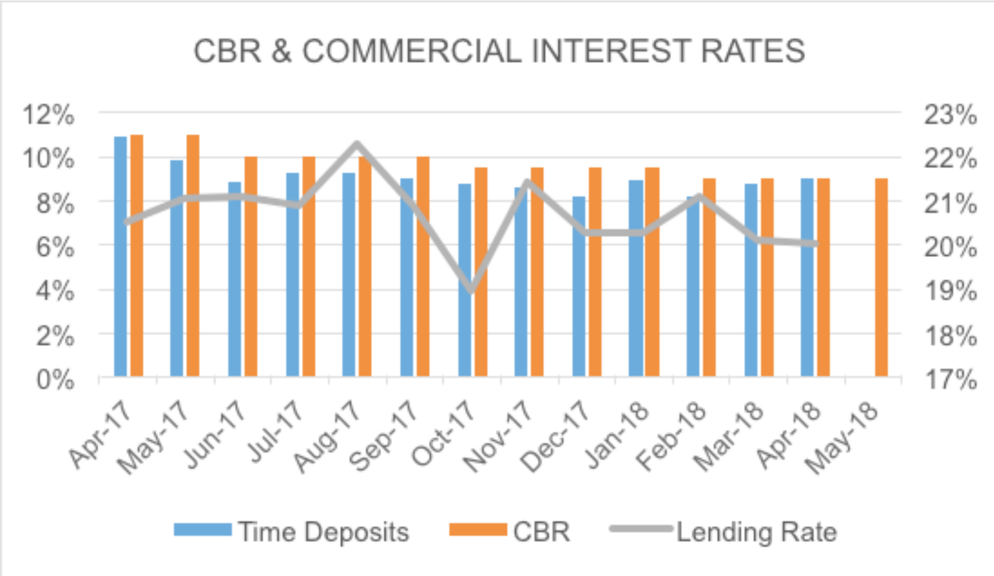
Bank of Uganda (BoU) worked towards achieving an accommodative monetary policy stance in FY 2017/2018. The CBR progressively decreased from 11% in May 2017, to 9% by April 2018. The Inflation Targeting 'Lite' (ITL) monetary policy framework was used by the BoU to maintain price stability by aiming for a core inflation target of 5%, in the medium term.

In order to achieve a stable inflation close to the medium-term target of 5%, BoU will conform to a more suitable monetary policy stance that will support economic growth and change the country's economic, domestic and external developments.

Interest Rates

During the FY 2017/2018, the operational target of monetary policy shifted downwards and closer to the Central Bank Rate (CBR). The modified monetary policy stance, approved by Bank of Uganda (BoU), achieved the inflation target over the medium term to elevate the private sector credit growth and the economic growth rate.





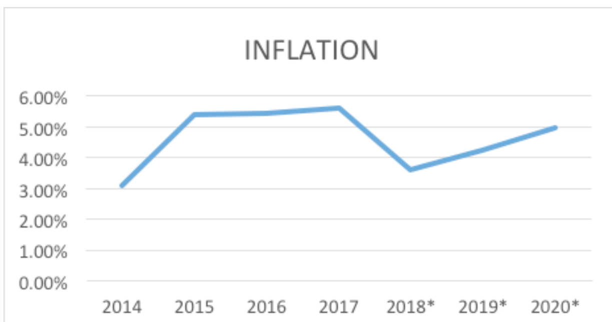
Correspondingly, interest rates reflected expectations of lower domestic inflation as Government securities moderately declined during FY 2017/2018. The 91-day, 182-day and 364-day Treasury bill annualized yields fell from 10.7%, 11.8%, and 13.6% respectively in June 2017 to 8.7%, 9.0% and 9.6% percent in March 2018. Treasury bonds followed a resembling pattern for FY 2017/2018.The yields for the 2-year, 5-year, 10-year and 15-year Treasury Bonds dropped from 12.8%, 14.2%, 16.0% and 16.4% respectively in July 2017 to 11.2%, 12.6%, 14.4% and 14.4% in April 2018.

As the interest rates mirrored the effect of monetary policy, the average lending rates remained high at about 20% in FY 2017/2018. The largest driver of lending rates was operating costs, averaging at about 53% of the intermediation margin during the last 5 years. Banks experience higher operating costs because of the transaction costs associated with monitoring and recovering large numbers of small-sized loans awarded to clients in areas with poor infrastructure and security conditions. Other main drivers of lending rates in Uganda are provisioning for loan losses, the cost of holding statutory reserves and the profit.

Going forward, lending rates are predicted to decrease further as loan quality improves as the government's initiatives reduce the cost of lending.

Inflation

The annual headline and core inflation decreased from 6.4% and 5.0% in June 2017 to 1.8% and 1.6%, respectively in April 2018. The main reasons inflation remained relatively low in FY 2017/2018 was because of the good weather conditions that attributed to a fall in food corps inflation from 23.1% in May 2017 to -2.1% in April 2018. June 2017 to December 2017 faced an increase in international oil prices causing inflationary pressure from Electricity, Fuel and Utilities (EFU). EFU inflation declined to 10.4% in April 2018 from 14.1% in October 2017.



Exchange Rate

With external and domestic market forces as the main determinants of the Uganda exchange rate, the Shilling remained weak against the US Dollar during FY 2017/2018. The Shilling depreciated by

6.6% in July 2017 before decreasing further by 2.2% and 0.7% in November 2017 and December 2017, respectively. The increased demand from oil, manufacturing and telecom sectors were results of the Shilling depreciating to Ushs 3,713.8 per dollar in May 2018.

In the near term, the shilling is expected to weaken further as the US interest rates rise. As a way of maintaining a stable floating exchange rate, purchases of foreign exchange by Bank of Uganda (BoU) will be carried out to build up reserves as was done in the first ten months of FY 2017/18 where net purchases amounted to USD 291.6 million. BoU intervening in the Interbank Foreign Exchange Market will not distort the demand and supply in the economy but rather allow the Shilling to appreciate and depreciate as volatile changes occur in the domestic and global economy.

Fiscal Framework

Tax revenue has been growing at an average of 17% in the last 10 years, increasing from Ushs 3,117 billion to Ushs 12,463 billion in FY 2007/2008 and FY 2016/2017 respectively. **The overall tax revenue target for FY 2017/2018 was Ushs 15,062.4 billion, with Ushs 10,507.25 billion as the actual cumulative net revenue collection for the period July 2017 to March 2018.**

The net revenue target for FY 2018/2019 increased to Ushs 16,211 billion compared to the FY 2017/2018 target of Ushs 14,404. The tax to GDP ratio failed to achieve the Secondary National Development Plan (NDP II) target of 16% and may not be able to hit their target by FY 2019/2020.

The Government's fiscal policy is commencing its 3rd financial year underpinned by the Charter for Fiscal Responsibility (CFR) in FY 2018/2019. The fiscal objectives to be achieved by the Government and the CFR are to:

- Raise the tax to GDP ratio per annum by 0.5%.
- Guarantee a fiscal balance that includes grants of no greater than 3% of GDP by FY 2020/2021
- Maintain a gross public debt in net present value terms below 50% of GDP.

Achieving these objectives will require the Government's fiscal strategy to continue investing in public infrastructure to expedite inclusive growth and to keep the debt at viable levels through increased domestic revenue. **Government expenditure has a total estimate of Ushs 25,474 billion in FY 2018/2019, which is equivalent to 22.7% of GDP.** Investments in infrastructure projects and increases in wages and salaries have immensely increased the country's spending.
Upon completion of the large infrastructure projects like Karuma and Isimba Hydro Power plants, development related spending is expected to average at 8.7% of GDP over the medium term, and 10.7% of GDP in FY 2018/2019.

Domestic and External Financing

Investment inflows and foreign direct investments inflows financed the trade deficits Uganda experienced in the last five years. **The current account deficit rose from 3.4% in FY2016/2017 to 4.8% of GDP in FY 2017/2018.** The overall balance of payments position had a lower surplus of USD 307.6 million for the 12-month period ending February 2018 compared to the USD 387.3 million surplus that was recorded in the 12-month period ending February 2017.

External resources are projected to support the budget in FY 2018/2019 by Ushs 8,023.5 billion. 96.4% (Ushs 7,734.5) of this amount will contribute to project support and the remaining 3.6% (Ushs 289 billion) will be the budget support. Over the medium term, project support will decline as large infrastructure projects approach their completion dates.

As a way of controlling domestic borrowing to within 1% of GDP, part of the government's strategy is to reduce the projected amount for borrowing from the domestic market by issuing securities, from Ushs 1,783.4 billion to Ushs 989.0 billion by FY 2022/2023. Finances and funding for the ongoing projects in the oil and gas infrastructure will increase the projected petroleum fund to Ushs 200 billion in FY 2018/2019 compared to the FY 2017/2018 amount of Ushs 123.28 billion.

Sectorial Analysis

Works and Transport

Improving the quality of the transport network is part of the effort to improve market accessibility, reduce costs of transport, creation of jobs and industrial growth. In FY 2018/19, **Ushs 4,786 billion has been allocated to this sector representing 19.1% of the total budget** in comparison with Ushs 4,587 billion (20.8%) in FY 2017/18.

The Government in FY 2017/18 **rehabilitated 185km of roads, upgraded 400km of roads to bitumen standard, and completed 9 major bridges.** Furthermore, physical works for the first phase of Kabaale International Airport commenced and were at 20% complete as of end March, 2018. In addition to this, government also plans to turn Entebbe into a regional hub thus efforts have been directed towards its renovation which were at 20% as of March 2018

By March 2018, all projects had registered both financial (securing finances) and physical works with major projects noted as follows:

- Karuma Hydro Power Plant (600MW) – 76% overall progress of physical works
- Isimba Hydro Power Plant (188MW) – 79% overall progress of physical works
- Progress on Tororo – Lira transmission line – 74% progress
- Ayago hydro power plant (600MW); ongoing discussions with potential private developer.

In FY 2018/19, the Government plans to;

- Upgrade 400 km roads to paved bituminous standard.
- Completion of repair works on the Kampala – Port Bell Railway line with 42 railway wagons
- Procure a total of 570 hectares of land on the eastern route to facilitate the Standard Gauge Railway (SGR) right of way. This project's implementation will be fast tracked to ensure completion so as to realize its benefits.
- Initiate 460km of road upgrading projects and undertake detailed designs of 407km of road upgrading projects.

Information, Communication and Technology

The sector has been increasing rapidly with a massive socio-economic contribution in the economy. There 22.4 million active telephone subscribers with mobile money subscribers increasing by 20.2 million between 2011 and 2017. Furthermore, the introduction of NBI (National Backbone of Infrastructure) and investments by private telecoms have also played a massive role in the growth of the sector.

Internet subscriptions have increased by 1,817,941 from 2016 to September 2017 following a reduction in cost of bandwidth for the government has reduced by 76% and for the private sector by 37% from FY2016/17 to FY2017/18. Other initiatives such as automation of Government services report that at present 297 online services has improved efficiency in public service delivery.

During FY 2017/18, Government provided resources worth Ushs 13 billion for ICT innovations. These resources have been used to fund the following projects:

1. Construction of a 500 seater state-of-art Innovation Hub which will be ready by August 2018.

2. Academic Information Management System (AIMS) designed to full fill the needs of the educational institutions.
3. Electronic Recruitment System (ERS) to reduce the costs of hiring civil servants.

For the FY 2018/17, the government has allocated Ushs 149.1 billion to the ICT sector as a whole. This is an increase from Ushs 104.3 billion in FY 2017/18.

Energy, Oil and Gas

Uganda's oil discovery is one of the front liners in driving the country's economy to a desired middle income status by 2020 as the projected year for Uganda's first crude oil production. The main projects in the oil and gas industry include; the Tilenga upstream project, Kingfisher oilfield project, the East African Crude Oil Project (EACOP) and the Oil Refinery. In November 2017, the Government of Uganda and the Tanzanian Government entered an Intergovernmental Agreement (IGA) to pave way for the USD 3.4 billion, 1,443km crude oil pipeline from Hoima in Uganda to Tanga in Tanzania. Construction is expected to run for a period of three years to 2020 and once in operation, it **will transport 216,000 barrels of oil per day**. Furthermore, the government is fast-tracking the construction of key oil roads and the Hoima International Airport required for the sector to operate efficiently.

The key players in oil exploration and production are Tullow Oil, Total, and CNOOC. The Ministry of Energy and Mineral Development in November 2017 awarded licenses of additional oil exploration blocks to Oranto Petroleum International and Armour Energy. In the years to come, the Lake Kyoga central basin and the Moroto-Kadama basin in the Karamoja sub-region will be opened up for exploration, increasing the country's production and products distribution opportunities in the Oil and Gas infrastructure.

The Uganda Vision 2040 and National Development Plan (NPD) II hydropower projects Isimba (188MW) and Karuma (600MW) are set to be launched by the government in August 2018 and December 2018, respectively having reported over 75% physical works complete by March 2018. With the country's current electricity generation capacity of approximately 850 MW, both dams are expected to **increase Uganda's generation installed capacity for power to 1,686 MW by 2020.** During the second quarter covering the period April to June 2018, end user retail tariff rates for domestic consumers increased by 3.2%, rising from Ushs 696 to Ushs 718.9 per kilowatt hour.

Investments in the energy sector have resulted into an increase in both energy access and the energy alternatives used for household lighting. The increased access to grid electricity has been accompanied by changes in the demand mix for electricity in favor of domestic consumption. In June 2017, the share of industrial consumption of electricity accounted for 60% and remained unchanged through FY 2017/18 whereas commercial consumption reduced from 20% to 15% as opposed to domestic consumption increasing from 15% to 20% over the same period.

The energy, oil and gas sector still presents investment opportunities in Oil and gas infrastructure (pipelines and refineries) and other required logistics for oil production and products distribution. The prospects of new indigenous resources have also formed potential opportunities of thermal power generation projects among others. To this end, the government has allocated **Ushs 2,438.2 billion which represents**

9.7% of the national budget for FY 2018/19. This is an increase from the previous financial year's allocation which stood at Ushs 2,319.8 billion.

Agriculture

Being a key sector of the economy, the **agricultural sector employs over 72% of the population** and has had an average **contribution of approximately 23.5% to the GDP** over the past years. The Gross value added by the agriculture, forestry and fishing sector grew by 3.2% as compared to the 1.6% registered in the FY 2016/17 and accounted for 24.2% of the total output in FY 2017/18. This increase was largely driven by food crop growing activities whose value added grew by 3.7% compared to the growth of 2.0 % in 2016/17 due to favorable weather conditions, increased harvests from food and firm control on pests and diseases.

Export revenue from **agricultural products representing 46% of Uganda's export earnings** increased from USD 1.2 trillion in 2016 to USD 1.5 trillion in 2017. The increase was mainly attributed to an increase in the export revenue from coffee which posted as 49.4% rise in proceeds.

The Agriculture sector strategic plan (ASSP) 2015/16 -2019/20 aims to transform the farmers from subsistence farming to commercial agriculture by increasing production and productivity of agricultural commodities and enterprises, access to critical farm inputs, access to markets and value addition as well as strengthen the quality of agricultural commodities and agricultural services.

For the FY 2018/19, government will focus on the following:

- Control, contain and reduce the animal disease and vector outbreaks by 8% from the current 5% and increase the number of animals produced for marketing from 5 % to 7%.
- Increase coffee production volumes per year in 60 kilo bags from 5.5 million in FY 2017/18 to 7.3 million as well as distribution of 59 million tea Seedlings to farmers in tea growing regions
- Distribute 2,800 Mt of high quality cotton seedlings to farmers in cotton growing districts in Eastern, Northern, Karamoja, West Nile, Mid-West & Central and Western Regions
- Produce and extend 108,000 doses of semen by training 1,300 artificial insemination technicians for both dairy and beef cattle to farmers to improve their herds
- Set up 6 mini laboratories to analyze milk and milk product samples to further enhance the quality and safety of milk and dairy products.

Tourism and Hospitality

The sector contributed about US$1.4 billion in FY 2016/17 and **approximately 9.9% of the GDP**. In FY 2017/18, the country is projected have attracted 1,459,000 international tourist arrivals up from 1,322,522 arrivals in 2016 representing an overall **growth of 10%.** Furthermore, in partnership with the private sector, the government has also increased focus on the quantity and quality of accommodation facilities and services through training the staff in the hospitality industry. The growth in tourist arrival in the country needs to be matched by the establishment of hotels which contribute to enhancing accommodation capacity and improving the living quality of guests.

The government also made initiatives such as the reconstruction of a number of tourist locations such as the Soroti Museum, Pakwach Tourism Information Centre and the Visitor Information Centre. In addition to this, there are several ongoing projects like the construction of Education Centres at Paraa, the Nyero Interpretation Centre and renovation of the infrastructure in the Rwenzori mountain ranges to increase accommodation facilities, improve the existing trails as well as the car cable system. To this end, the government has **allocated a total of Ushs 32.6 billion to the sector** which represents 0.1% of the total national budget for the year. This is a 20% rise from the previous allocation of Ushs 27.1 billion in FY 2017/18.

In FY2017/18, Government's major achievements included the following:

a) Expansion of the Entebbe airport which will be ready to use by October 2018

b) Licensed Jambojet airlines with daily flights to and from Kenya with an expected market of 100 million

c) Revival the railway transport in partnership with other East African States

d) Improved navigation system to help in navigation within the city

To further boost tourism travels to and within the country, Government plans to undertake the following in FY 2018/19:

- Finalize revival of the National airline
- Upgrade five tourism aerodromes (Soroti, Kidepo, Pakuba, Jinja and Mbarara)
- Develop a modern water transport system forming a tourism circuit on Lake Victoria

- Capacity enhancement of KCCA to manage traffic flow within the city

Industrialization

Through promotion of industrialization the government aims to increase the volume of manufactured goods in Uganda's exports as well as value addition of minerals and agricultural products available across the country.

Industrial development however remains functionally inefficient with high costs of production, wastage of resources and potential synergies which could lead to increased output not being realized. Under the Rural industrialization Development Project, Government has supported 53 projects across the country and out of these projects, 45 enterprises (85%) have been implemented with value addition equipment and 8 enterprises to support capacity building in the areas of business management, value addition skills and product quality.

In FY2018/19, Government plans to achieve the following:

- Establish a Fruit Factory in Isingiro
- Establish Zonal agro-processing facilities and a Food City Complex specifically to add value to cereals;
- Strengthen Mineral Processing through the Lake Katwe Salt Project, Sponge Iron Ore Project, Cement Manufacturing and Sheet Glass Manufacturing; and
- Establish Tea Factories in Zombo, Nebbi, Mabaale and Kayonza

As a way to create jobs and increase value addition to locally available raw materials, Government also set out to establish 22 industrial parks across the country.

The government has **allocated Ushs 134.1 billion to the Trade and Industry** which represents 0.5% of the FY 2018/19 national budget.

Trade

The overall initiative of the sector is to: increase the share of manufactured goods and services in total exports, increase market access to goods and services, promotion of formation and growth of cooperatives as well as boost the private sector's competitiveness. In July 2017, the National Policy on Services Trade was approved by Cabinet whose successful implementation is expected to have a significant contribution to **achieving the targeted USD 5 billion value in exports by 2020,** incrementally growing by USD 500 annually over the next five years.

Following the government's aim to competitively expand the quantity and quality of goods and services it exports to world markets, the following are the key achievements in FY2017/18:

a) Launching of the One Stop Boarder Posts (OSBP) along different boarder markets between DRC, Tanzania and Kenya

b) Launch of the "Growth Accelerator" project to support innovation in MSMEs aimed to identify and support the commercialization of technological innovations that provide solutions to challenges in agriculture and Industrial sectors;

c) Implementation of the Electronic Single Window to handle electronic transactions for 16 border intervening agencies and economic operators; a system which has integrated 8 trade regulatory agencies with plans to have a total of 22 agencies interconnected by end of 2018 aimed to cut clearance time for imports and exports by over 25%

In FY2018/19 Government plans to achieve to the following:

- Discourage the export of raw coffee following a USD 500m (Ushs 1.8 trillion) investment from Italian coffee roasters, Euro Techno Group at Kampala Industrial Business Park
- Start exporting power to Democratic Republic of Congo for the next three years through a Memorandum of Understanding that was signed between the two countries in August 2017.

Financial Sector

Throughout FY 2017/18, the banking sector remained stable and resilient with banks maintaining adequate liquidity and capital buffers. The **ratio of liquid assets to total deposits stood at 49.8% in March 2018**, well above the required regulatory minimum of 20%. The **total assets of commercial banks grew by 4.7%** between June 2017 and March 2018 mainly driven by increase in balances with banks abroad, Bank of Uganda securities, Net loans and advances as well as Government securities. Furthermore, the **NPLs ratio also reflected an improvement from 6.2% in June 2017 to 5.3% in March 2018**.

Private sector credit's growth was slow in FY 2017/18 due to a lagged impact of high loan default rates, slowdown of the real estate market and risks associated with unfavorable weather conditions from FY 2016/17. This growth was majorly attributed to by lending to the agriculture, trade and personal and household loans sectors whereas credit to the building, mortgage, construction and real estate and manufacturing was dismal. **Lending to the agriculture, trade and personal & household loans sectors had an average growth of 23.7%, 10.7% and 14.7% respectively** whereas lending to the manufacturing and construction sectors averaged at (0.2%) and (1.9%) respectively. A shift towards the use of internally sourced funds by companies also played a role in the slowdown in credit demand during FY 2017/18.

In a bid to support Financial Inclusion, the government developed and launched the National Financial Inclusion Strategy (NFIS) 2017-2022 in October 2017, aimed to increase access and usage of appropriate financial services which play an integral role in the realization of inclusive and sustainable growth.

Furthermore, the Insurance Act, 2017 (Commencement) Instrument, 2018 was enacted in March 2018 providing for the regulation of insurance industry as well as the continued participation of the Insurance Regulatory Authority (IRA) as the body responsible for the regulation of insurance business. It is against this Act that the IRA, in July 2017, issued Insurance (Bancassurance) Regulations, 2017 which detailed the provisions for the bancassurance agency services to offer a more efficient distribution channel of insurance services with higher productivity and lower costs in service over traditional sales channels.

Income Tax

In the budget speech, the Hon. Minister of Finance highlighted that out of the total resource envelop of Ushs 32,702.8 Billion for the financial year 2018/19, domestic revenue collection will contribute Ushs 16,358.8 Billion.

In order to be able to generate the projected revenue he noted that it was important to strengthen tax administration efficiencies as well as introduce new tax policy measures.

Revenue Administration measures

URA will continue to implement the following measures:-

i. Strengthen business intelligence and risk management functions to detect non-compliance;

ii. Expand the revenue management system to other revenue geographical areas beyond Kampala;

iii. Enhance tax arrears management;

iv. Increase tax intelligence operations to curb smuggling;

v. Deployment of container scanners at the major entry stations to facilitate faster clearance of goods;

vi. Increase of risk based post clearance audits targeting specific sectors;

vii. Implement strict procedures for collection of rental tax;

viii. Implement use of digital tax stamps to enhance compliance in payment of duties on excisable goods and others.

Tax Policy measures

The purpose of the amendments is to seal various tax gaps identified over time and to widen the tax base. These were discussed by Parliament and duly approved. They are contained in the draft bills yet to be assented to by His Excellency the President of Uganda.

Various amendments were made to the Income Tax Act as follows;

1. Exemption for industrial park or free zones

Section 21 of the Income Tax Act covers Exempt income. It lists incomes that are exempt from Income Tax in Uganda. This section was amended by adding the following to the list of exempt items in that section;

a) Income of a developer of an industrial park or free zone provided the investment capital is at least two hundred million US dollars.

   This exemption will be for a period of ten years from the date of commencement of construction.

   "Commencement of construction" suggests that the exemption is assumed to start irrespective of whether commercial trading or business has started or not.

b) Income of an operator in an industrial park or free zone provided the investment capital is at least 30 million US Dollars in case of foreigners or 10 million US Dollars in case of local investors

   The exemption will be for a period of five years from the date of commencement of business.

   "Commencement of business" suggests the date when trading begins and does not necessarily cover the period when investment is being set up.

c) Income of any other business outside the industrial park or free zone provided the investment capital is at least 30 million US Dollars in case of foreigners or 10 million US Dollars in case of local investors

The exemption will be for a period of five years from the date of commencement of business.

2. Calculation of Tax payable by Individual rental taxpayers

Section 22 of the act was amended to allow individual rental tax payers a deduction of the interest expense incurred on a mortgage from a financial institution as long as the mortgage was taken for acquiring or constructing premises that generate the respective rental income.

It should be noted that previously, a flat 20% of the rental income was allowed as deduction in arriving at chargeable income upon which the rental rate of tax was applied.

The amendment means that the interest expense will also be allowed as a deduction to arrive at the chargeable income upon which the tax rate will be applied.

3. Capping of interest allowable in respect of group company transactions

Section 25 of the Income Tax Act was amended to provide a cap on interest that can be taken as a deduction in respect of intragroup transactions/ loans. Interest deducted by such member on all debts should never exceed 30% of the amount of gross income less allowable deductions (other than interest).

This is an anti-avoidance measure and is in line with recommendations made by OECD (Organization of Economic Co-operation and Development) BEPS working committees.

Please note further that Section 89 on Thin Capitalization has now been repealed in favor of this new amendment.

4. Capitalization of returnable containers

Returnable containers have previously been treated as minor capital equipment, in which case any expenditure on them would be expensed wholly in the year it is incurred. In particular, Section 26 allows a deduction on expenditure incurred on acquiring minor capital equipment (of value that is not more than Ushs 1,000,000). The section has now been amended to exclude expenditure on returnable containers from qualifying for a full deduction. Instead their treatment will be like other capital assets (i.e. by allowing only their depreciation / wear & tear per year).

5. Change of underlying ownership in a resident company

Section 79 was amended to provide a new sourcing rule relating to non-residents who either directly or indirectly acquires or sells ownership in resident companies.

Determining whether income is sourced in Uganda or not is important because non-residents are only taxable on the incomes they source from Uganda.

The amendment also brings non-residents into the tax bracket, who acquire ownership of resident companies indirectly (eg. by purchasing shares in a non-resident parent of the resident company).

It provides that income will be deemed as sourced in Uganda if there has been a change of ownership by 50% or more (whether directly or indirectly) in a resident company (other than a listed company, a government entity or a political subdivision).

Please note, that prior to this amendment, a number of non-resident companies acquired resident companies at international level (i.e indirectly) and no tax was collectable on any gains from such indirect transfers of ownership.

The amendment now means that non-residents will be deemed to have sourced income from Uganda if there is change of over 50% of shareholding in a resident company in Uganda (whether directly or indirectly).

6. Determination of gain arising from change of underlying ownership in a company

Subsequent to changes in Section 79 as underlined in 5 above, amendments were made to Section 75 to clarify how the gain on change of ownership will be determined.

7. Widening of definition of Immovable property

The definition of immovable property has been widened to include any intangible asset which is a business asset or any part of the business.

8. Recognition of an additional international agreement "East African Crude Oil Pipeline" for purposes of the Income Tax Act

The above agreement has been recognized as an international agreement for purposes of the Income Tax Act.

9. Change in the definition of "mining exploration" and repealing the definition of "petroleum exploration right"

Amendments made to section 89A, 89G and 89GE largely intended to clean up and align the law relating to taxation of petroleum and mining operations. It includes polishing some definitions and removing repetitions.

The amendment in section 89GE particularly is intended to correct an initial omission where the law on Farm Outs had provided for only partial transfer of interest. The amendment now has been helped to broaden the law to cover the transfer of an interest whether in part or as a whole.

10. Tax on games of chance (section 118C)

Previously there was WHT of 15% on winnings from sports betting and pool betting.

The amendment has widened the scope so that the WHT is not just limited to sports and pool betting but rather to betting or gaming of whatever manner.

11. Imposition of withholding tax on payment for agricultural supplies and telecom service providers

The amendment introduces WHT of 1% on agricultural supplies. Previously agricultural supplies were falling under category of goods and services and were chargeable at 6%. The amendment has reduced the rate to 1%.

WHT at 10% has been introduced on commissions earned from airtime distribution and from mobile money services.

Please note, that the WHT incurred on airtime and mobile money commissions is a final tax and cannot be taken as credit against the end of year future income tax payable. (see amendment of section 122 of the Income Tax Act)

12. African Trade Agency

African Trade Agency has been included among the listed Institutions. It will enjoy exemption on its income and other privileged positions that such organizations enjoy.

Value Added Tax

VAT policy measures

1. Introduction Withholding of VAT on payments

VAT withholding has been introduced into the law. The Minister of Finance shall issue a notice that gazettes the persons who are required to withhold and will apply as follows;

a) The designated withholder shall withhold VAT from a registered person or from any person who is not VAT registered but is required to be registered on any transactions/or supply in excess of Shs. 37.5m per quarter.
b) The registered withholder will withhold 50% of output tax charged by the supplier and remit it to URA.
c) The balance will be paid to the supplier who will have to account for it in his returns.

Based on the proposed mechanism there remains unanswered questions as to how and when the credit of the withheld VAT can effectively claimed by the supplier.

2. Broadening the definition of telecommunication services.

A new definition of telecommunication services was introduced. It expands the definition to include the ordinary meaning of the term and at the same time bring into the tax bracket the various e-platforms that were hitherto not included. It is a step in the direction of overcoming hindrances in taxation of E-commerce.

3. Limitations of inputs for which VAT credit is available to aid funded projects.

Licensees and contractors of aid funded projects have a facility called Deeming VAT whereby they are not charged VAT (but rather the VAT they should incur is assumed as paid). The purpose was to ease the VAT burden on such projects.

The amendment however proposes to exclude supplies of passenger automobiles and their repair, and entertainment from the deeming provisions. It means the licensees/aid funded projects will have to be charged VAT on these items by their suppliers. They will then have to pay the VAT charged.

This is to harmonize VAT deeming with main stream VAT legislations.

4. Capping of interest payable by URA on late refunds.

An amendment was made to Section 44 of the VAT Act to introduce a cap on the interest payable by URA on a Taxpayers over payments and late refunds. This follows a similar amendment last year where interest payable by a taxpayer for late payment of tax was also capped in a similar manner.

5. Ratification of international agreements.

Section 76 was amended to provide for ratification of international agreements. The above amendment is not new in the VAT law. Its exact wording was what constituted in Section 81 of the VAT Act. This amendment has now repealed section 81 of the VAT act and moved the content into section 76 which covers international agreements.

The law was intended to reduce revenue risk that potentially exists when individuals or ministries sign agreements on behalf of Government. Such agreements may for example be providing tax reliefs/ exemptions etc. By signing, they commit the whole country to those terms. This is why the amendment seeks to rectify that exposure by requiring that any such international agreement must be ratified by cabinet and approved by Parliament.

6. African Trade Insurance Agency.

The African Trade Insurance Agency has now been included in the first schedule of the VAT Act which lists International Public Organisations, who enjoy certain VAT privileges.

7. Amendment to the Exempt Schedule.

The following supplies have been added to the second schedule. It means that they are now exempt from VAT.

a) the supply of Bibles and Qurans;

b) the supply of services to conduct a feasibility study, design and construction to a developer of an industrial park or free zone whose investment is at least two hundred million United States Dollars;

c) the supply of earth moving equipment and machinery for development of an industrial park or free zone to a developer of an industrial park or free zone whose investment is at least two hundred million United States Dollars;

d) the supply of construction materials for development of an industrial park or free zone to a developer of an industrial park or free zone whose investment is at least two hundred million United States Dollars;

e) the supply of services to conduct a feasibility study and design; the supply of locally produced materials for the construction of a factory or a warehouse and the supply of locally produced raw materials and inputs or machinery and equipment to an operator within an industrial park, free zone or an operator with a single factory or other business outside the industrial park or free zone who meets the following requirements—

i. a minimum investment capital of thirty million United States Dollars in the case of a foreigner or ten million United States Dollars in the case of a citizen;

ii. carries on business in agro processing, food processing, medical appliances, building materials, light industry, automobile manufacturing and assembly, household appliances, furniture, logistics and ware-housing, information technology or commercial farming;

iii. seventy percent of the raw materials used are sourced locally, subject to their availability;

iv. directly employs a minimum of one hundred citizens; and

v. provides for substitution of thirty percent of the value of imported products;

f) the supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings which are not available on the local market to a hotel or tourism facility developer whose investment capital is fifteen million United States Dollars with a room capacity exceeding one hundred guests;

g) the supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for the construction of premises and other infrastructure, machinery and equipment or furnishings and fittings to a hospital facility developer whose investment capital is at least ten million United States Dollars and who develops a hospital at the level of a national referral hospital with capacity to provide specialized medical care;

h) The supply of movie production.

i) The supply of all production inputs into iron ore smelting into billets and the supply of billets for further value addition in Uganda;

j) The supply of all production inputs into limestone mining and processing into clinker in Uganda and the supply of clinker for further value addition in Uganda.

k) The supply of all production inputs necessary for processing of hides and skins into finished leather products in Uganda and the supply of leather products wholly made in Uganda;"

It is important to note that the bulk of VAT exemptions have gone towards providing incentives and reliefs in respect of free zones.

8. Amendment of Zero Rated Schedule.

The amendment introduced a new definition for educational materials. The previous definition had posed challenges in interpretation/ implementation. The new definition limits education materials to locally produced materials that are suitable for use in educational institutions and public libraries, and will be subject to further defined by the Minister.

Tax Procedures Code

Amendments and comments:

1. Due date for furnishing of Gaming and Pool Betting Tax Returns and Withholding Tax Returns on winnings [Paragraph (g) of Section 16(8)]

The amendment clarifies the due dates for filing returns for taxpayers that are regulated by the Lotteries and Gaming Act, 2016. Taxpayers shall furnish a gaming tax return {Stake Amount – Winnings (payouts) [x 35%]} by Wednesday of the following week and withholding tax returns (15% of winnings collected) by the fifteenth of the next month. Prior to this proposal the TPC was silent as to the exact due dates and it was not clearly legislated for in the Lotteries and Gaming Act (Section48).

2. Digital invoicing and receipting [Section 73A and 73B]

The Act seeks to recognise electronic invoicing and receipting in general and to impose mandatory E-invoicing and E-receipting for taxpayers of specified industries (to be announced in the Gazette).

This amendment recognizes the growth of E-commerce in Uganda and seeks to legislate for the same. It goes further to attempt to capture transactions/services that are provided from digital platforms from outside Uganda by imposing the requirement for the invoicing and receipting to come from a Uganda Revenue Authority authenticated "fiscal device".
Industries that are identified by The Ministry to provide E-invoices and E-receipts, and do not comply with the regulations, shall be liable for a penalty as follows:

a) Failure to use a fiscal device – Four Hundred (400) Currency Points
b) Tampering with a fiscal device – Three Hundred (300) Currency Points
c) Failure to link the electronic invoicing device to a centralized invoicing and receipting system – 3 years imprisonment and/or three hundred currency points.

The amendment however does not specifically provide for the format as to what constitutes an E-invoice and/or receipt, it may be assumed that it shares the same criteria of a paper invoice.

3. Interest on assessments raised.

A new proposal (not part of the original bills) was inserted at the time the bills were being discussed. It states as follows:

"Where a tax payer files returns with the Authority and an assessment is done by the Authority within a year, interest on the monies due from the period of assessment shall accrue from the date on which the assessment was conducted".

It is yet to be known whether His Excellency the President, will assent to this proposal.

Excise Duty

Amendments and comments:

1. **Definition of over the top services**

   The additional definition seeks to separate data services provision from voice calls and Short Messaging Services (SMS) in a bid to charge excise duty on the individual services.

2. **When is Excise Duty payable?**

   Whereas the prior legislation allowed for payment of Excise Duty to occur on the date the service is provided, the amendment employs the same approach as the VAT Act where, from now onwards, if the invoices are raised earlier or advances are received from the customer, the excise duty will become due and payable irrespective of whether goods are manufactured or services are provided.

   As mentioned in the definition, the Act now imposes a tax on the provision of "over the top services" made available to the public.

3. **Refund on excise duty on exports of approved medical and healthcare products**

   Whereas this section of the Act initially only allowed for a refund of Excise Duty on excisable raw materials used in the manufacturing of approved medical and healthcare products, the Act now goes further to extend excise duty refunds for approved medical and healthcare products that are being exported. This is subject to the satisfaction of The Commissioner that the goods have actually been exported.

4. **Penal tax on Excise Duty.**

   Prior to this amendment, most tax legislation regarding the imposition of penalties was codified in the Tax Procedures Code (Part 14). The Government has moved such penal provisions back to the parent Act.

5. **Proposed Amendment to Schedule 2**

   Schedule 2 of the principal Act is amended in part

   1. The summary of the amendments is as follows;

(a) by inserting immediately after item 2 (c) the following—			
Par.	**Product**	**Previous Excise duty rate**	**Proposed Excise duty rate**
"2	Beers		
"(d)	Opaque Beer	N/A	30% or Shs.650 per litre, whichever is higher
(b) By substituting for item 3 the following -			
"3	Spirits		
A.	Un denatured Spirits Made from locally produced raw materials	60%	60% or Shs 2,000 per litre, whichever is higher;

B.	Un denatured spirits made from imported raw materials	Shs. 2,500 per litre or 100% (whichever is higher)	Shs.2,500 per litre or 100%, whichever is higher
C.	Ready to drink sprits		80% or Shs 1,500 per litre, whichever is higher
(c) By substituting for item 4 the following -			
"4	Wine		
(a)	Wine made from locally produced raw materials	20%	20% or Shs 2,000, per litre, whichever is higher
(b)	Other Wines	60% or Shs 6,000 per litre, whichever is higher.	80% or Shs 8,000, per litre, whichever is higher."
(d) By substituting for item 5 the following -			
"(C)	Non – Alcoholic		
	Powder for reconstitution to make juice or dilute- to taste drinks, excluding pulp	N/A	15% of the value"
(e) By substituting for item 13 the following -			
''13	Telecommunications		
(a)	Airtime on mobile cellular, landlines and public pay phone	12% of the fee charged	12% of the fee charged
(b)	Over the top services	N/A	Ushs 200 per user per day of access
(c)	Internet data	N/A	Nil
(d)	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	10%	15%
(e)	Value added services	20%	20%
(f)	Mobile money transactions on receiving, payments and withdrawal	N/A	1% of the value of the transaction
(g)	Incoming international calls, except calls from the Republic of Kenya, the Republic of Rwanda and the Republic of South Sudan	USD 0.09 per minute.	USD 0.09 per minute.
(f) By substituting for item 14 the following -			
(f)	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.	10%	15%
(g) by inserting immediately after item 17 the following—			
"18	Cooking oil	Nil	Ushs 200 per litre;"
"19	Motorcycles; at first registration	N/A	Ushs 200,000;

“20	Construction materials for development of industrial parks or free zones by a developer whose investment is at least two hundred million United States Dollars	N/A	Nil
“21	Construction materials for factory or warehouse exclusive of those available on the local market, locally produced raw materials and inputs to an operator within the industrial park, free zone, single factory or other business outside the industrial park or free zone who meets the following requirements— (a) a minimum investment capital of thirty million United States Dollars in the case of a foreigner or ten million United States Dollars in case of a citizen of a Partner State of the East African Community; (b) carries on business in— (i) agro processing; (ii) food processing; (iii) medical appliances; (iv) building materials; (v) light industry; (vi) automobile manufacturing and assembly; (vii) household appliances; (viii) furniture; (ix) logistics and ware- housing, (x) information technology; or (xi) commercial farming; (c) Seventy percent of the raw materials used are sourced locally, subject to their availability; (d) Directly employs a minimum of one hundred Ugandans; and (e) Provides for substitution of thirty percent of the value of imported products;	N/A	Nil
“22	Locally produced materials for construction of premises and other infrastructure to a hotel or tourism developer whose investment capital is at least fifteen million United States Dollars of a room capacity exceeding one hundred guests	N/A	Nil
“23	Furnishings and fittings or locally produced materials for construction of premises and other infrastructure to a hospital facility developer whose minimum investment capital is at least ten million United States Dollars and who develops a hospital at the level of a national referral hospital with capacity to provide specialised medical care.	N/A	Nil

Miscellaneous

The Traffic And Road Safety Act

Amendments and comments:

1. **Limitations on the import of used motor vehicles and variations of environmental levy**

   The amendment seeks to limit the import of only passenger motor vehicle according to the year of manufacture. This proposed limit is a maximum of fifteen years. This means that one will not be able to import a passenger motor vehicle which is older than fifteen years from the date of manufacture.

   Earlier the environmental levy was imposed on import of motor vehicles which were eight years or older from the date of manufacture however, this amendment changes the age bracket to the following:

   0 – 8 years (Nil)

   9 – 14 years (50%).

   These changes will be reflected in the appropriate schedules.

2. **Inclusion of motor vehicle registration fees.**

   This amendment has repealed the registration fees on motor vehicles from the Finance Act 18 of 2013 which has now been catered for under the Third Schedule of The Traffic And Road Safety Act

3. **Addition of Third Schedule**

   The principal Act is amended by adding immediately after the Second Schedule the following—

THIRD SCHEDULE REGISTRATION FEES

Item	Motor Vehicle	Fees (Shs.)
(a)	Sedan cars, saloon cars, estate car but excluding dual purpose goods passenger vehicles.	1,500,000/=
(b)	Passenger vehicles, including light omnibuses with a seating capacity not exceeding 28 passengers.	1,500,000/=
(c)	Estate and station wagon vehicles with an engine capacity of 3500 cc or above.	1,500,000/=
(d)	Medium omnibuses and heavy omnibuses with a seating capacity of more than 28 passengers.	1,500,000/=

Stamp Duty (Amendment) Act, 2018

Amendments and comments:

1. Introduction of Nil Rates on instruments executed by strategic investment projects

The Stamp Duty chargeable in respect of an instrument executed by, or on behalf of a company or Government for the sole purpose of implementing the following strategic investment projects has been proposed to nil in respect of the following:

(a) Developers of an industrial park or free zone whose investment capital is at least two hundred million United States Dollars.

(b) An operator within an industrial park or free zone or an operator of a single factory or other business outside the industrial park who has a minimum investment capital of thirty million United States Dollars, in the case of a foreigner, or ten million United States Dollars, in the case of a citizen of a Partner State of the East African Community who carries on business in agro processing, food processing, medical appliances, building materials light industry, automobile manufacturing and assembly, household appliances, furniture, logistics and ware- housing, information technology or commercial farming; seventy percent of the raw materials used are sourced locally, subject to their availability; directly employs a minimum of one hundred citizens.

(c) Hotel or tourism facility whose investment capital is fifteen million United States Dollars with a room capacity exceeding one hundred guests.

(d) Hospital facility developer whose investment capital is at least ten million United States Dollars and who develops a hospital at the level of a national referral hospital with capacity to provide specialized medical care.

Budget Highlights Kenya

The Cabinet Secretary presented the budget for period 2018/19 in the National Assembly of Kenya on 14th June 2018.

A. Income Tax Act

Capital Gains Tax:

The income tax bill 2018 sought to increase the rate of CGT from 5% to 20%, in a move that seems to target the booming real estate market. In the budget statement however, the cabinet secretary announced the intention to reverse this proposal citing bad timing for its implementation.

Transfers by insurance Companies:

Gains from transfer of property by an insurance company shall now be subject to capital gains tax under Schedule 8 of the Income Tax Act w.e.f 1st July 2018.

High Net worth Individuals:

The Income Tax Bill, 2018 proposed a higher tax band of 35% on incomes above Kshs 750,000 per month. In its budget statement, the government has reversed this position to retain the current tax bands at an upper limit of 30% citing wrong timing for implementation of the 35% rate.

Corporation Tax:

Housing:

In the budget statement, the cabinet secretary proposed a reduced corporation tax rate of 15% for developers who construct at least 100 units per year.

Further, to drive the public private partnerships, the government has established the Kenya Mortgage Refinance Company (KMRC) which will extend long term loans to financial institutions secured against mortgages. The KMRC will be jointly owned by the government, private sector and select development partners.

Special Operating Framework:

The finance bill proposes an introduction of a special operating framework aimed at incentivizing investment. Under the framework targeted to take effect in January 2019, businesses will be taxed at a special rate agreed upon under the special arrangement.

Presumptive Tax

The finance bill proposes to amend the Income Tax Act and replace turnover tax with presumptive tax based on the business permit or trading license fees at a rate of 15% which shall be final.

Compensating Tax

Companies which distribute dividends out of gains or profits on which have not been taxed shall be charged to tax at 30% in the year of income in which the dividends are distributed.

Withholding Tax

- Withholding tax on insurance premium - Withholding tax at 5% has been introduced on insurance premium paid to non-residents excluding insurance premium paid for insurance of aircraft
- Withholding tax on demurrage charges - Withholding tax at 20% has been introduced on demurrage charges made to non-resident persons.

B. Tax Procedures Act (TPA) Amendments

Extension of time to file returns: A time limit of 15 days (before due date) has been introduced for persons seeking to apply for extension of time to file monthly returns. The time limit of 30days (before due date has been set in case of annual returns.

Betting and gaming: A 20% penalty and 2% interest on late payment of tax in the Betting, Lotteries and Gaming Act shall be applicable w.e.f 1st July 2018.

Late submission penalty: Penalty for late submission of individual returns has been reduced from Kshs 20,000 to Kshs 2,000 or 5% of taxable payable under the return whichever is higher and non-individual returns has been increased from Kshs 10,000 to 20,000 w.e.f 1st July 2018

Foreign Income Amnesty: The government has extended the tax amnesty filing deadline from 30th June 2018 to 30th June 2019. Similarly, the declaration period has been extended to allow individuals to repatriate income earned up to 31st December 2017.

Cyber Crimes: Unauthorized access to computer tax systems is an offence and will attract a fine of Kshs 400,000 for individuals or two years' imprisonment and Kshs 1,000,000 for companies. Interference with computerized tax systems will attract a fine not exceeding Kshs 800,000 or imprisonment of a term not exceeding three years.

130% Tax Deduction for Manufacturing Companies: The Cabinet Secretary has proposed to amend the Income Tax Act to provide a deduction of 30% of the total electricity bill by manufacturers from corporate profit in addition to normal deduction subject to the conditions to be set by the Ministry of Energy

C. Value Added Tax

Issuance of Credit notes and debit notes: The Finance Bill clarifies that credit notes or debit note issued shall be in the prescribed format.

Exemption to Standard Rated

The following supplies that were previously exempt have now been made standard rated;

i) Raw materials used in the manufacture of garments and leather footwear (by EPZs)

ii) Medicaments (containing alkaloids or derivatives thereof but not containing hormones or antibiotics)

VAT Exemption

The following supplies have been made exempt;

i) Plant and Machinery used in the manufacturing of goods (as captured under section 84 and 85 of the common external tariff)

ii) Specialized equipment for the generation of solar and wind energy

iii) Parts Imported or purchased locally for the assembly of computers.

iv) raw materials used in the manufacture Animal feeds

v) materials and equipment used in the construction of grain storage facilities

vi) Alcoholic or non-alcoholic beverages supplied to the Kenya Defense Forces Canteen

Organization; and

vii) Goods and services imported or purchased locally for direct and exclusive use in the

Implementation of projects under a special operating framework arrangement with the Government.

viii) Postal services provided through the supply of postage stamps, including rental of post boxes or mail bags and any subsidiary services thereto.

Zero rating

The Finance Bill affirmatively zero-rates the medicaments;

- Containing ephedrine or its salts
- Containing pseudoephedrine (INN) or its salts
- Containing nor-ephedrine or its salts

D. Customs and Excise

Customs Duty

Iron Ore and Steel Industry: Import duty increased from 25% to 35% on a wide range of steel and iron products which are available in the region.

Paper and Paper products: Import duty increased from 25% to 35% on some paper and paperboard produced in the region.

Timber and furniture: following rates have been introduced

	Rate of duty
Particle board	USD 110 per metric tone
Medium density fibre board	USD 120 per metric tone
Plywood	USD 230 per cubic board
Block boards	USD 200 per metric tone

Textile and Footwear: the National Treasury proposes to introduce a specific rate of import duty of USD 5 per unit or 35% whichever is higher, on imported textiles and footwear as well as second hand clothing and footwear.

Duty Exemption on tourist vehicles: The National Treasury has further extended the exemption from customs duty to include sightseeing buses and overland trucks imported by licensed tour operators

Pests and Pesticides: There is a proposed EAC duty remission on importation of raw materials used for the manufacture of pesticides

Clean energy cooking stoves: The CS to the National Treasury proposes to give a 100 percent remission inputs and raw materials for assembly of clean energy cooking stoves imported by local manufacturers

Excise Duty

Private Passenger Motor Vehicles: excise duty increased from 20% to 30% (the 30% will now be applicable to private passenger motor vehicles whose engine capacity exceeds 2500cc for diesel and 3000cc for petrol-powered vehicles)

Excise Duty on Cellular phone Money Transfers: Excise duty increased from 10% to 12%

Illuminating kerosene: The Bill seeks to harmonize the excise duty rate applicable to illuminating kerosene and gas oil to a standard rate of Kshs 10,305 per 1000 litres

Excise Duty Exemption: The Finance Bill 2018 has clarified that exemption from excise duty will be granted if the Commissioner is satisfied that exempt goods are received and consumed by the exempt person and that goods and services exported shall be consumed outside Kenya

Inflationary Adjustment: Effective 1st July 2018, the Finance Bill provides that excise rates will be adjusted for inflation annually.

E. Betting, Lotteries and Gaming Act

Proposal to introduce late payment penalty at 20%

Retirement Benefit Schemes: The Bill proposes to introduce penalty of 5% of unremitted contributions or Kshs 20, 000 - whichever is higher-to payable to the Retirement Benefit Authority.

Budget Highlights: Tanzania

The Minister for finance and planning presented the budget for period 2018/19 in the National Assembly of Tanzania on 14th June 2018.

Key Highlights

- Domestic revenue collections to GDP remains at 15 %
- Domestic collection at 74.3% (Shs 14.84 Trillion) of the yearly target for the first 10 months.
- GDP grew by 7.1 % in 2017 and the forecast for 2018 is 7.2 %
- TRA given strict instruction to clear misconception that TRA uses forces and threats in collecting taxes.
- Strict disciplinary action against those who contravene laws and regulations governing their institutions.
- Agriculture, Industries, Water, Education, Health and infrastructure earmarked as priority areas.
- TRA expected to collect Shs 18 Trillion in 2018-19 (against the expected collection of Shs 15 Trillion in 2017-18) , total expenditure to be Shs 32.4 Trillion
- Budget deficit not to exceed 3.2 % of GDP
- VAT on packaging materials for use by local manufacturers of pharmaceutical company, imported animal and poultry fed additives, sanitary pads (HS Code 9619.00.10) to be exempt
- Minister for Finance to have powers to grant VAT exemption on Government projects funded through non-concessional loans and also on government projects funded by another Government through Financial Institutions.
- Corporate tax rate reduced to 20% for new investors in Pharmaceutical and leather industries for 5 years.
- Sec 10 A of The Income Tax Act 2014 to be amended giving the Minister for Finance to grant exemption from Income Tax exemption on Government projects funded through non-concessional loans
- Withholding tax on interest on Government Loans provided through Financial Institutions for Government projects to be exempt.
- Excise Duty on imported, water, fruit juice, beers, non-alcoholic beers, wines, increased, while the excise duty on most of the locally produced items remains constant.
- Electronic Tax Stamp to replace Paper Tax Stamp by 1st September 2018.
- 100 % amnesty on interest and penalties for 6 months upto 31st December 2018.
- Major increase in Import Duty rates on items which are available locally, with rates upto 60 % (mineral water)
- Tax on sports betting increased to 10 % from 6 %, tax on slot machines increased to 100,000 from 32,000 per machine per month.
- Gaming tax increased from 15% to 18% on land based casino.
- Gaming tax on forty machines increased to 20 % from 15 %
- Produce-cess, inspection and clearance fee, Mangrove Levy, solar salt panel fee, supervision fee, registration fee, environmental impact assessment fee, all abolished on production of salt.
- Most of the fee charged by OSHA abolished. (application fee and levy for registration of working place, fines related to fire and rescue equipments, OSHA compliance license fee, consultancy fee all abolished)

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Our Review highlights the main aspects of the Budget, read by the Honorable Finance Minister on 14th June 2018. The information contained in this review has been compiled from the Budget speech and the economic review. While all reasonable attempts have been made to ensure that the information contained herein is accurate, Grant Thornton accepts no responsibility for any errors or omissions it may contain whether caused by negligence or otherwise. The review contains general information only and is neither intended to be a comprehensive publication nor provide specific advice. This review should not be relied on solely, and we advise you to seek appropriate professional advice before making any decision.