



Value Added Tax Refunds

Introduction

An indirect tax is defined as a tax that is levied on transactions involving goods or services as opposed to profits. Under the Ugandan taxation regime, it can be argued that Value Added Tax (VAT) is the best model of what constitutes an indirect tax. World over, there exists mainly two methods of accounting VAT as follows;

The invoice credit method (Transaction-based method): each trader charges VAT at the rate specified for each supply and passes to the purchaser an invoice showing the amount of tax charged. The purchaser is, in turn, able to credit that input tax against the output tax charged on its sales, remitting the balance to the tax authorities, and receiving refunds when there are excess credits

The subtraction method: the tax is levied directly on an accounts-based measure of value-added, which is determined for each business by subtracting the VAT calculated on allowable purchases from the VAT calculated on taxable supplies.

Most tax regimes worldwide are inclined towards the transaction-based method, which is bound to give rise to tax refunds, though other scenarios not necessarily linked to purchase and sale transactions that could lead to a refund of tax to a business exist. As such, this write-up is designed to elaborate on the legislative guidelines governing VAT refunds, the practice of obtaining refunds as well as recent developments surrounding the administration/legislative provisions of VAT refunds.

Who qualifies for a refund?

Any VAT registered person in Uganda can qualify for a VAT refund at any one time; however, it is important to understand some of the factors that could occasion a VAT refund as follows;

a) Overpayment of Tax

Several scenarios could lead to businesses remitting excess tax to the Uganda Revenue Authority (URA). These range from;

- **numerical errors** – Generating a Payment registration for excess amounts as opposed to the actual tax payable in the filed VAT refund, or transposition errors while filing the VAT return leading to a higher VAT payables position;
- **errors in classification of the nature of supplies procured-** A business could be charged VAT on a service or goods on the premise that the same was a taxable supply (standard rated -18%), only to confirm later that the supply was exempt or zero-rated. It is important to note that before applying for refunds under this error, the VAT Act (VATA) contains guidance on how to deal with erroneously computed tax, such

as issuance of debit or credit notes. Such guidance is mainly applicable to transactions between taxable persons, who can adjust their input of output tax positions through credit and debit notes accordingly.

b) Nature of supplies

VAT is levied on transactions involving taxable supplies, on which two types of tax rates can be charged, that is, a standard rate of 18% or a zero rate (0%). Whereas businesses that are dealing in both these two types of supplies are susceptible to VAT refunds, businesses whose specialty is zero-rated commodities (such as exports) tend to register VAT refunds more often. This is because they charge VAT on sales at a zero rate while claiming an input tax credit for all creditable expenses as well purchases incurred. It is worth mentioning that businesses engaged in exempt supplies are restricted by legal construction under the VATA from claiming any input tax credit in relation to expenses incurred while making these supplies. A business that deals in both taxable and exempt supplies is required to apportion any input tax credit.

c) Incentives enshrined under the Law

In addition to the above, the VATA encompasses schemes under which specific persons are entitled to VAT refunds albeit not partaking in taxable supplies. Such persons include;

- Diplomats, diplomatic and consular missions: however, it crucial to note that refunds applicable here are **NOT** available to any citizens or permanent residents of Uganda
- Public International Organizations as provided under the first schedule of the VATA.

d) Involuntary disposal of trading stock

A business can claim a refund of tax paid in relation to stock on hand that is destroyed or lost through fire, theft, accident, or similar circumstances characteristic of “force majeure,” subject to the presentation of sufficient evidence concerning the destroyed stock.

e) Refund of tax for bad debts

As bad debts represent irrecoverable funds, the VATA accords a business the facility to claim a tax refund for the output tax that was remitted at the time of making sales. Bad debts represent a cost to a business, and tax laws take cognizance of the same by providing an alternative reprieve for taxpayers. It should be noted that if the debt written off is later recovered, the taxpayer ought to remit a portion of the refunded VAT proportion to the amounts recovered.

VAT refunds claim restrictions

The VATA prescribes some restrictions in relation to claim of VAT refunds as follows;

Type of refund	Type of restriction	Details
Refund for excess tax paid	Time scope	A refund for excess tax is to be claimed within three (3) years after the end of the month in which the tax was overpaid.
Transactional refunds	Qualifying amount	Where the refund in question is less than UGX 5 Million , except in the case of businesses dealing in zero-rated supplies or licensees, the commissioner shall offset the amount in question against the future liability.
	Interest limitation	The commissioner of URA is required to compute interest at a rate of 2% if the period of effecting the tax refund exceeds one month. However, no interest shall be payable if the audited refund by URA is less than the refund applied by UGX 50,000 .
Refunds attributable to incentives under the VATA- Diplomats and diplomatic missions and public international organizations	Qualifying amount	Individual transactions below the threshold of UGX 50,000 do not qualify for refunds The gross transaction for a particular period (month), should not be less than UGX 200,000
	Required Evidence	Diplomats should present an official card issued by the Ministry of Foreign Affairs at the time of application for the refund. Public international organizations MAY have to produce confirmation of reliefs by way of a valid agreement with the Republic of Uganda

Type of refund	Type of restriction	Details
Refunds attributable to incentives under the VATA- Diplomats and diplomatic missions and public international organizations	Citizenship	The refund in question does not apply to citizens or permanent residents of Uganda
	Time scope	Applying and processing refunds should not be less than one (1) month.
Refunds based on involuntary disposal of stock	Required evidence	Sufficient documentation such as police reports detailing incidents leading to the loss of stock, or insurance valuation reports for the lost stock.
Refund of tax on bad debts	Time scope	An application for a tax refund caused by an outstanding payment from a debtor is to be submitted to URA after two (2) years from the date of making the supply
	Required evidence	Documentation proving that all reasonable steps have been taken to recover the outstanding amounts such as formally written letters to the debtors, indicating the failure to recover the due amounts.



Recent developments in VAT refunds

With the advent of the Electronic Fiscal Reporting Integrated System (EFRIS), the process of application, processing, and verification of VAT refunds has been streamlined and it can be argued that this shall prove advantageous to the Ugandan taxpayer. One of the most significant barriers to processing VAT refunds (transactional refunds based on excess input tax credit) was grey areas regarding third-party verification of an input tax claim. With the introduction of EFRIS, once a business has claimed an input tax credit vide a fiscal document, the EFRIS system shall be able to match the same with tax declaration by the vendor alleviating any issues of the unverified input tax claim.

Case law in relation to VAT refunds

The URA has been involved in litigation battles against taxpayers,

dissatisfied with its denial to approve VAT refunds based on the lack of the corresponding declaration by suppliers of goods or services. Several cases have been presented before the Tax Appeals Tribunal, key among these being **Enviroserv Vs Uganda Revenue Authority and Target well Control (U) Ltd Vs Commissioner General Uganda Revenue Authority**. In both the above judgments, the tribunal noted that *“it is not the duty of taxpayers to follow up with the suppliers to declare input VAT”*

Whereas the above are landmark judgments, we await to see whether the URA shall affect the same. However, as mentioned earlier, the EFRIS system is bound to streamline the refund process by automating the matching of input tax claims of taxpayers against the output declaration by suppliers.

How can Grant Thornton assist you?

Grant Thornton Taxation services Limited is equipped with a team of professionals that can represent your company or organization at the URA at the time of refund application. We shall be able to act as a liaison with the URA, and as such, reviewing and providing documentation requested by URA, resolving any queries raised, up to the point of receipt of the refund.

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