



Budget brief

Uganda 2020

June 2020

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Economic Overview

Uganda's GDP is projected to grow by 3.1% in the financial year ending 30th June 2020 compared to 6.1% growth recorded in 2018/19.

This deceleration is courtesy of the Covid-19 pandemic and the consequent contraction in economic activity due to a combination of global supply chain disruptions, travel restrictions, social distancing measures and decline in demand. The effects of the lockdown have mostly been felt in the services sector, informal trade sector, domestic transport, retailers amongst others.

Although GDP growth is projected to gradually recover in the second half of FY2020/21, the emerging output gap is projected to persist until 2022.

Uganda's debt to GDP ratio which had previously been estimated at 42.1% dropped to 37.2% after the rebasing of the GDP calculations to incorporate new sectors such as gold exports and oil activities whose output had grown in recent years. This ratio points to a low risk of external debt distress.

Budget Overview

In keeping with the regional ideals, the theme for the 2020/21 budget was "Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery."

This theme speaks to the government's focus on the fundamentals and foundations for economic take-off in light of the unprecedented economic environment. The total resource envelop for the financial year 2020/21 totals UGX 45,493 billion. With a budget allocation of UGX 19,787.8

billion and UGX 18,004.2 billion for recurrent and development expenditure; domestic refinancing of UGX 7,486 billion; and appropriation in AID of UGX 215 billion. The budget prioritized the following three strategic areas:

1. Improving wellbeing of Ugandans

The government will pursue the following priority actions in the FY 2020/21 for the wellbeing of Ugandans:

- a. Food security and good nutrition;
- b. Enhanced healthcare provision;
- c. Ensuring universal access to water and sanitation;
- d. Increasing social protection for the most vulnerable population; and
- e. Transforming education delivery.

2. Boosting economic transformation

To boost economic recovery and progress the Economic Transformation agenda, the government has committed to implement the Economic Stimulus and Growth Strategy to:

- a. Restore household incomes and safeguard jobs;
- b. Re-ignite business activity;
- c. Provide tax relief to businesses;
- d. Ensure financial sector stability; and
- e. Enhance economic infrastructure.



3. Improve good governance and maintain security law and order

Improving peace and security, the rule of law and good governance is aimed at creating a conducive environment to facilitate all aspects of societal development. This will be achieved through:

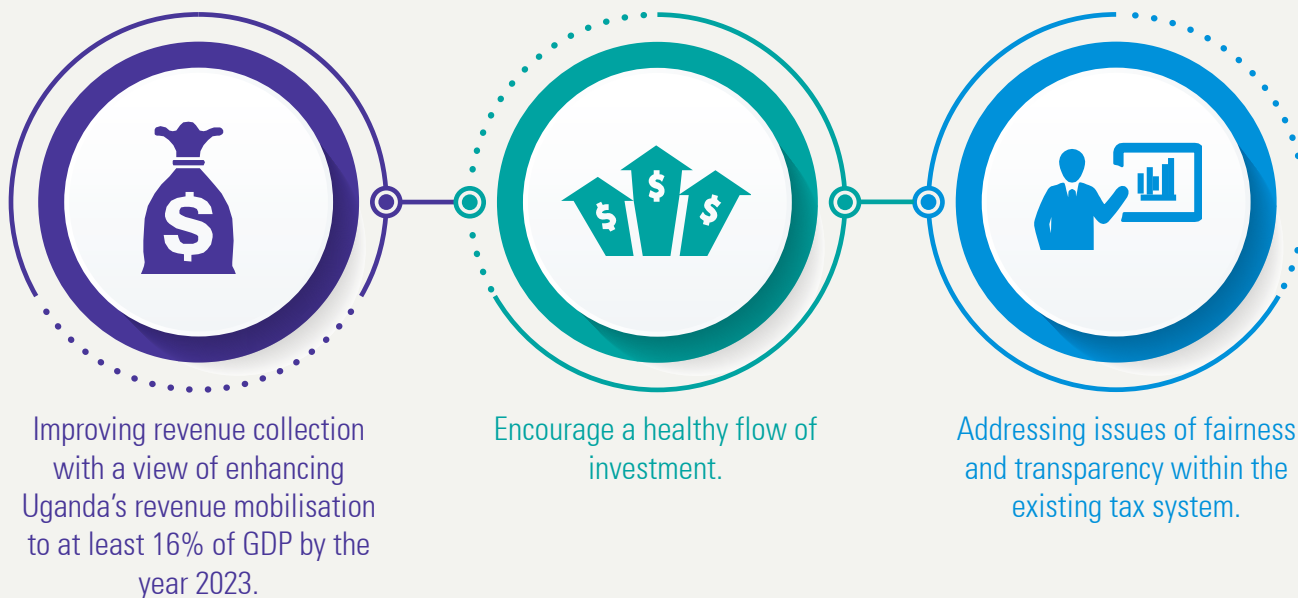
- a. The promotion of peace and security at the community and national level;
- b. Enhancing effectiveness in public service delivery;
- c. Increase access to justice;
- d. Intensify community vigilance by strengthening the Local Council system, promote community policing in coordination with Local Defence Units;
- e. Complete the rollout of the Safe City CCTV project in Jinja, Lugazi, Kayunga, Njeru, Gulu and Masaka and ensure its effective utilization in monitoring crime and responding to distress calls;
- f. Improve border control through phased implementation of border point automation to control illegal entry, improve compliance with immigration laws and regulations, and ensure national security;
- g. Strengthen the capacity of internal security;
- h. Fast track implementation of the convict transitional policy to integrate former convicts back into their communities;
- i. Construct an additional 5 one-stop Justice Law and Order Service Centres across the country;
- j. Implement the electronic case management system in the Judiciary to increase efficiency in case management;
- k. De-concentrate services for Government Analytical laboratories and business registration services to regional centers in Arua, Fort Portal, Gulu, Mbale, Mbarara and Moroto;
- l. Build capacity of Local Council courts in adjudication in order to decongest courts of petty cases and increase access to justice. As of May 2020, 38,000 Local Council Court officials had been trained and a further 78,000 are targeted for training in 2020/21; and
- m. Eliminate case backlog by implementing the case backlog reduction strategy, including the use of non-custodial sentences such as community service to reduce remand population.

In line with the theme of stimulating economic recovery, the Finance Minister outlined several tax measures as discussed below.

Tax amendments

Introduction

The Government Revenue Mobilization Strategy for FY 2020/21 is focused on three core objectives:



Through faithful implementation of the current Revenue Mobilization Strategy, the government hopes to improve collections, empower the Uganda Revenue Authority, enhance tax payer confidence and compliance as well as create a modern inclusive and transparent policy making process.

The tax amendments affect the Income Tax Act (Cap 340), Value Added Tax Act (Cap 349), Excise Duty Act 2014, and Stamp Duty Act.

The proposed amendment acts will come into effect on 01 July 2020. We highlight below the major proposals for the financial year 2020/2021.

Value Added Tax

“ A taxable person who purchases goods and services from a supplier who is designated to use the e-invoicing system, shall only be allowed to claim input VAT claims where the supplies are supported by e-invoices or e-receipts.

”

Pre-registration input VAT claims for manufacturers extended

The Finance Bill, 2020 (the Bill) proposes to amend the VAT Act to extend the time within which manufacturers can claim input tax incurred on supplies or goods on hand, to 12 months up from 6 months prior to VAT registration.

This incentive will encourage import substitution and value addition since local manufacturers will now be allowed to claim input tax they would otherwise not be able to claim within the current limitation of 6 months.

e-invoices required for input VAT claims on supplies made by designated suppliers

A taxable person who purchases goods and services from a supplier who is designated to use the e-invoicing system, shall only be allowed to claim input VAT claims where the supplies are supported by e-invoices or e-receipts.

This will assist URA enforce the use of e-invoices and e-receipts by designated suppliers, and also improve VAT compliance levels. Use of e-invoices will also help to fast-track refunds processing since URA will be in possession of all the input VAT information.

Islamic Development Bank now VAT Exempt

The Bill proposes to exempt the Islamic Development Bank (IDB) from VAT. IDB will be entitled to claim VAT incurred on purchases made in furtherance of its official business.

Some VAT breaks - Exemption of specified supplies

The Bill proposes to exempt from VAT:

- Trailer for agricultural purposes
- Combine harvesters
- Tractor mounted hay mowers, slashers, rakes & tedders; Crop sprayers; hay & straw Balers; Tractor mounted Hole diggers / borers; Tractor mounted scrapers, levelling blades & dam scoops; Root or tuber harvesting machinery; Tractor mounted loaders; Irrigation equipment; Drinkers & feeders for all farm animals; Tuber harvesting machinery
- Supply of services to conduct a feasibility study and design, 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 or equipment, to an operator within an industrial park, free zone or any other person carrying on business outside the industrial park or free zone whose minimum investment capital is USD 10 million in the case of a foreigner or USD 300,000 in case of a citizen; or USD 150,000 for a citizen whose investment is located up country; who uses at least 70% of the raw materials that are locally sourced, subject to their availability and at least 70% of the employees are citizens earning an aggregate wage of at least 70% of the total wage bill; and who:
- Processes agricultural goods;



- Manufactures or assembles medical appliances, medical sundries or pharmaceuticals, building materials, automobile, house hold appliances;
- Manufactures furniture, pulp, paper, printing and publishing of instructional materials;
- Establishes or operates vocational or technical institutes;
- Carries on business in logistics and ware housing, information technology or commercial farming; or
- Manufactures tyres, footwear, mattress or toothpaste (this amendment substitutes paragraph (pp) of the second schedule).
- Supply of cotton seed cake;
- Software and equipment installation services to manufactures;
- Services incidental to tele-medical services;
- Royalties paid in respect of agricultural technologies;
- The supply of accommodation in tourist hotels and lodges located up-country;
- The supply of liquefied petroleum gas;
- The supply of processed milk;
- The supply of locally developed computer software, its maintenance and software licenses.
- 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 USD 8 million with a room capacity exceeding 30 rooms; or to a meetings, incentives, conferences and exhibitions facility developer whose investment capital is not less than USD 1 million.

Income Tax

“ The Bill includes formulae for determining qualifying income and expenses which is a welcome move as it provides clarity on qualifying amounts.

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Income Tax Exemptions

The Bill proposes to exempt from income tax the income of the Deposit Protection Fund and Islamic Development Bank.

Further, the Bill seeks to exempt from income tax the income of an operator in an industrial park or free zone or any other person carrying on business outside the industrial park or free zone whose investment capital over a period of at least ten years from the date of commencement of business, is at least USD 10 million, in the case of a foreigner or USD 300,000, in the case of a citizen or USD 150,000, for a citizen whose investment is located up country, who, subject to availability, uses at least 70% of locally sourced raw materials and employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill and—

- i. Processes agricultural goods;
- ii. Manufactures or assembles medical appliances, medical sundries or pharmaceuticals, building materials, automobile, house hold appliances;
- iii. Manufactures furniture, pulp, paper, printing and publishing of instructional materials;
- iv. Establishes or operates vocational or technical Institutes;
- v. Carries on business in logistics and ware housing, information technology or commercial farming; or
- vi. Manufactures tyres, footwear, mattress or toothpaste.

The above provision also applies to an existing operator or investor, from the date on which

the operator or investor makes an additional investment equivalent to the above threshold and fulfils all the other conditions specified above.

Investors to declare qualifying income and expenses to access income tax exemption

An operator in an industrial park or free zone or any other investor who seeks to benefit from this income tax exemption will be required to declare in the tax return for a year of income the qualifying income and its related expenses.

The Bill includes formulae for determining qualifying income and expenses which is a welcome move as it provides clarity on qualifying amounts.

E-invoices and e-receipts for expense deductibility

A person who purchases goods or services from a supplier who is designated to use the e-invoicing system shall not be allowed to deduct such expenses unless the expenses are supported by e-invoices or e-receipts.

In our view, this restriction will no doubt encourage the use of the e-invoicing system which shall enhance tax compliance and bolster tax revenues.

Withholding tax (WHT) on commissions paid to insurance agents

An insurance service provider who pays commission to an insurance agent, whether resident or non-resident shall be required to withhold tax at 10% on the gross amount of the payment .



WHT on commissions paid to advertising agents

A person who pays commission to an advertising agent shall be required to withhold tax at 10% on the gross amount of the payment.

This amendment seeks to widen the WHT base.

Tax withheld by Telecoms from commission paid to resident individuals is final tax.

Section 122(ab), corrected to refer to section 118F instead of 118E. This clarifies that tax withheld (currently 10%) by Telecom Service providers on payment of commission for airtime distribution and provision of mobile money services to resident individuals is final tax.

Tax Clearance Certificates (TCC) for passenger and Freight transport providers

Providers of passenger transport or freight services shall be required to obtain TCCs from the Commissioner before renewal of operational licences.

Pegging renewal of operating licenses to a TCC is expected to rope into the tax net this previously hard to tax segment of the economy.

Withholding Tax Return Filings

A withholding agent shall no later than 15 days after the end of each month that he deducts WHT, file WHT.

This amendment anchors the common practice of filing monthly WHT returns in law.

Gross Turnover per annum (UGX)	Tax Rate per annum without records (UGX)	Tax Rate per annum with Records (UGX)
10,000,000 or less	NIL	NIL
10,000,001-30,000,000	80,000	0.4 % of the annual turnover in excess of 10 million
30,000,001-50,000,000	200,000	8,000 plus 0.5% of the annual turnover in excess of 30 million
50,000,001-80,000,000	400,000	180,000 plus 0.6% of the annual turnover in excess of 50 million
80,000,001-150,000,000	900,000	360,000 plus 0.7% of the annual turnover in excess of 80 million

The tax payable as indicated above can be reduced by any tax credits that have been paid either as provisional tax or creditable withholding tax.

Stamp Duty Act

“In our view, the proposal seeks to increase liquidity in the economy by making securitization cheaper and therefore credit more accessible and affordable.

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Exemption from Stamp Duty

The proposed amendment provides for exemption of debentures, equitable mortgage, further charge on mortgaged property and any loan instrument from stamp duty.

In our view, the proposal seeks to increase liquidity in the economy by making securitization cheaper and therefore credit more accessible and affordable.

As clear as daylight

In line with the tax and VAT exemption proposals for strategic investments, the proposed Stamp Duty Act exemptions amendment seeks to provide clarity on the requirements to be met by companies involved in strategic investment projects. The proposed requirements include:

- i. A minimum investment capital of USD 10 million in the case of a foreigner or USD 300,000 in case of a citizen; or USD 150,000, for a citizen whose investment is located up country;
- ii. Employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill.

Stamp Duty reprieve

Investors in the business of making tyres, footwear, mattress or toothpaste will be exempt from Stamp Duty. This exemption is designed to encourage local manufacturing and import substitution.

Widening the stamp duty net

The Bill seeks to impose stamp duty of UGX 100,000 upon obtaining professional licences or certificates. This stamp duty will be paid in addition to any other fees paid by the professionals in the various industries and sectors.



Excise Duty Act

“Employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill.

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Changes to Excise Duty rates

The bill proposes to vary excise duty as follows:

	Excisable good or services	New rate	Old rate
1	Spirits		
	Un denatured spirits made from locally produced raw materials	60% or UGX 1,500 per litre whichever is higher	60% or UGX 2,000 per litre, whichever is higher
	Non- Alcoholic		
	Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda	12% or UGX 250 per litre whichever is higher	13% or UGX 300 per litre, whichever is higher
6.	Fuel		
	Motor spirit (gasoline)	UGX 1,350 per litre	UGX 1,200 per litre
b)	Gas oil (automotive, light, amber for high speed engine)	UGX 1,030 per litre	UGX 880 per litre
7.	Sacks and bags of polymers of ethylene and other plastics under its HS codes 3923.21.00 and 3923.29.00 except vacuum packaging bags for food, juices, tea and coffee, sacks and bags for direct use in the manufacture of sanitary pads	120% or UGX 10,000 per kg of the plastic bags	120%

Changes in the conditions to be met for excise duty exemptions

To qualify for excise duty exemptions, suppliers of qualifying goods must meet the following requirements:

- Minimum investment capital of USD 10 million in the case of a foreigner or USD 300,000 in case of a citizen; or USD 150,000 for a citizen whose investment is located up country.
- Inclusion of tyres, footwear, mattress and toothpaste businesses to the list of businesses to be exempted from the excise duty if the other conditions are met.
- Employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill.



Other amendments:

The Tobacco Control Act, 2015, has proposed an amendment to provide for payment of a levy of US\$ 0.8 per Kg of unprocessed leaf tobacco, which is consigned out of Uganda.

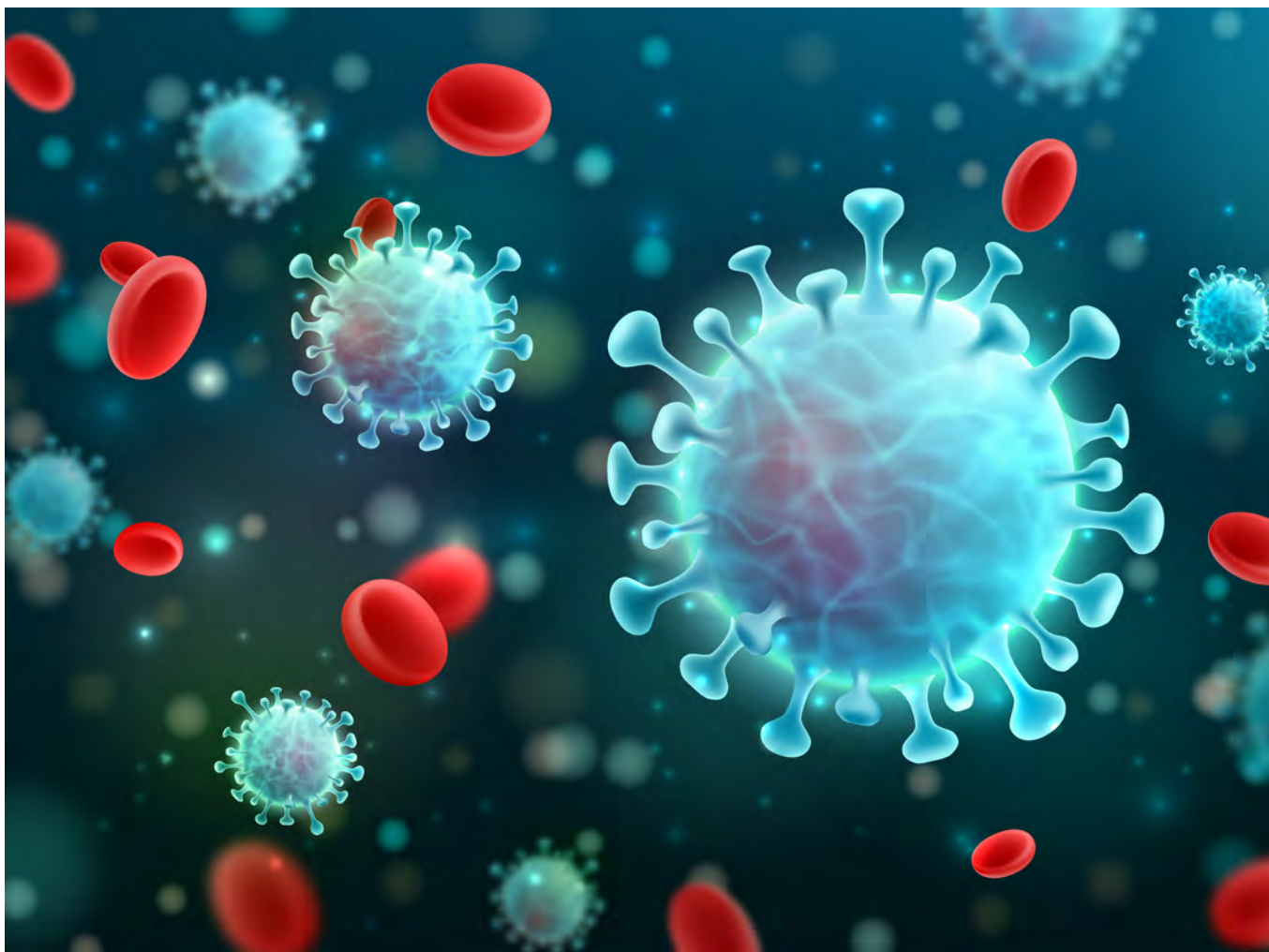
The levy shall be paid by the consigner to URA at the time the unprocessed leaf tobacco is consigned out of Uganda.



Amendments to cushion the economy against adverse effects of the Covid-19 pandemic

The Coronavirus disease (Covid-19) has had a devastating impact on people's health and livelihoods. With businesses grappling with uncertainties brought about by this pandemic, governments have been forced to take unprecedented measures to protect their citizens, businesses and economies.

Thus, on 4 June 2020, Uganda's Minister of Finance outlined measures under various Tax Bills for consideration. The expected effective date of these measures is 1 July 2020.



Tax Incentives

“To encourage local production of sanitizers, the Bill proposes to exempt from excise duty un-denatured spirits made from locally produced raw materials. These were previously subject to excise duty at 60% or UGX 2,000 per litre.



Deduction of charitable donations

The Bill seeks to amend the ITA to provide for tax allowability of charitable donations made to the government for purposes of facilitating the prevention, treatment and containment of the Covid-19 pandemic.

Excise duty exemptions on spirits for manufacturing sanitizers

To encourage local production of sanitizers, the Bill proposes to exempt from excise duty un-denatured spirits made from locally produced raw materials. These were previously subject to excise duty at 60% or UGX 2,000 per litre.

VAT – Exemption of specified medical supplies

The Bill proposes to exempt from VAT supplies of specified medical goods used in the prevention of the spread and the treatment of Covid-19. These goods include:

- Disposable medical face masks;
- Medical boots;
- Medical impermeable aprons/coverall suits;
- Cap, surgical, bouffant, non-woven;
- Goggles, protective, indirect side ventilation;
- Infra-red thermometers;
- Motorised fumigation pumps;
- Oxygen cylinders;
- Body bags;
- Biohazard bags;

- Container, used sharps, leak proof;
- Disinfectants;
- Medical plastics or rubber gloves;
- Gas masks with mechanical parts;
- Disposable hair nets; and
- Paper bed-sheets.

Further, the supply of raw materials and inputs for the manufacture of the above mentioned items shall also be exempt from VAT.

Tax Procedure Code Act amendment

The Bill proposes to defer tax payment dates to 30 September, 2020 for a taxpayer involved in the tourism, manufacturing, horticulture or floriculture businesses with a turnover of less than UGX 500 million; or one liable to a tax chargeable on employment income.

The proposed tax deferment affects the tax due on or after 1 April 2020 and before 30 June 2020.

The Bill also proposes to waive interest and penalties on the deferred tax payments during the period to September 2020.

Further, there is a proposal to waive interest and penalties on voluntary disclosure for tax arrears accumulated by 30 June 2020 to lessen the tax liability of the businesses.

These proposals are aimed at cushioning businesses and individuals who have been adversely impacted by the Covid-19 pandemic.

Other tax measures



Through the budget speech, the Finance Minister also put forth the following new interventions that it seeks to implement to achieve revenue targets:

- Increase of import duties on goods that are produced or can be produced locally. The import duty on agricultural products will be increased to 60 percent and other products to 35 percent;
- Roll out use of digital tax stamps and expand the range of products covered in order to deter under-declaration of production and importation;
- Widen the scope of the income tax withholding agents across all sectors in order to broaden the tax base;
- Implementing a digital collection solution, as well as gazette rental income tax chargeable in different geographical areas for taxpayers who do not voluntarily declare their rental income;
- Gazette VAT withholding agents with an applicable VAT rate of 6 percent and provide for penalties for failure to withhold; and
- Rollout the use of Electronic Fiscal Devices (EFDs), which are cash registers linked to the URA to improve record keeping and tax compliance.
- The rental tax proposal that was originally presented in the tax bill in March 2020 and was rejected by Parliament where each building was proposed to be taxed separately to be re-tabled for parliamentary approval.



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