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Uganda Country Profile

Africa Tax Centre: 2020 Fiscal Guide

July 2021

FY2020 - 2021 Key tax factors for efficient cross-border business and investment involving Uganda

EU Member State

No

Double Tax Treaties

With the following countries, territories and jurisdictions:

Denmark	India	Italy	Mauritius
Netherlands	Norway	South Africa	United Kingdom
Zambia			

Most common forms of doing business

Private Limited Liability Company (company limited by shares or by guarantee/NGO), Public Limited Liability Company, Foreign company (branch of a foreign company) and Partnership

Legal entity capital requirements

There is no minimum share capital requirement for company formation under the Companies Act 2012.
However, companies operating in certain sectors (for example financial institutions, insurance companies and companies operating in the lotteries, gaming and betting industry) may require minimum share capital before a regulatory license is granted.

Residence

A company is resident if it:

i. is incorporated or formed under the laws of Uganda; or
ii. has its management and control exercised in Uganda at any time during the year of income; or
iii. undertakes the majority of its operations in Uganda during the year of income.

Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Ugandan source income.

An individual is resident in Uganda if the individual has a permanent home in Uganda, and is present in Uganda for at least 183 days in a 12-month period, or is present in Uganda for an average of 122 days in the year of income and in each of the preceding years of income.

Compliance requirements for CIT purposes

Taxpayers are required to furnish a return of provisional tax estimate on or before the last day of the sixth and twelfth months of the year of income.
All taxpayers are required to submit final corporate income tax returns for each year of income not later than six months after the end of the year of income.
A taxpayer with an annual turnover above 500 million Ugandan shillings shall furnish with their income tax return, audited financial statements prepared by an accountant registered by the Institute of Certified Public Accountants of Uganda.
Submission of income tax returns is to Uganda Revenue Authority (URA) through the web portal.

Corporate income tax rate

The corporate income tax rate is 30 percent for subsidiaries and branch companies.

Registration duties

Upon incorporation, stamp duty of 0.5% and registration fees of 1% of the share capital is payable

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Withholding tax rates	Non-resident payments made to companies like dividends, interest, patent royalties and certain copyright royalties, technical services o 15 percent. Rate might be lower subject to existence of a DTA and meeting conditions set out in Section 88(5) of the Income Tax Act. Branch withholding tax o 15 percent on repatriated profits.
Holding rules	Dividend received from resident/non-resident subsidiaries The benefit of any exemption or reduction provided for in an international agreement (including a double tax treaty) shall not be available to any person who: i. receives the income in a capacity which is other than that of a beneficial owner and who does not have full and unrestricted ability to enjoy that income and to determine its future uses; and ii. does not possess economic substance in the country of residence. Capital gains obtained from resident/non-resident subsidiaries Capital gains arise on the disposal of a business asset and on the disposal of shares. Capital gains on disposal of shares in non-resident companies are taxed based on source. Non-residents are only liable to pay tax on income derived from sources in Uganda. Income is considered sourced in Uganda where it is derived from the direct or indirect change of ownership by 50 percent or more of a person other than an individual, government, political subdivision of a government or a listed institution located in Uganda. Capital gains are taxed at the standard corporate tax rate of 30 percent together with other income of the company for a year of income. Where capital gains are derived by an individual, they will be taxed at the individual tax rates which range from 0% to 40%.
Tax losses	Losses may be carried forward indefinitely. No carry-back is allowed. However, where, during a year of income, there has been a change of 50% or more in the underlying ownership of a company, as compared with its ownership one year previously, the company is not permitted to deduct an assessed loss in the year of income or in subsequent years, unless the company, for a period of two years after the change or until the assessed loss has been exhausted if that occurs within two years after the change: – (a) continues to carry on the same business after the change as it carried on before the change; and (b) does not engage in any new business or investment after the change, where the primary purpose of the company or the beneficial owners of the company is to utilise the assessed loss so as to reduce the tax payable on the income arising from the new business or investment.
Tax consolidation rules/ Group relief rules	No specific provisions that cover Group companies.
Transfer duties	On the transfer of shares Stamp duty due on every instrument that is executed in Uganda and relates to property situated in Uganda. Stamp duty of 1.5 percent imposed on the value of shares being transferred. On the transfer of land and buildings Stamp duty may be applicable on transfer of land and buildings. VAT may also apply at 18% on sale of land and buildings.

Transfer duties (cont.)	Stamp duties Yes, the stamp duty charged on instruments executed on transfer - rate depends on the type of contract used. Stamp Duty of 1.5 percent of the value applies on all transfers, including the transfer of property. Real estate taxes Property taxes are administered by the respective local authorities on an annual basis, usually between 0 and 12 percent of the ratable value of the property. These taxes are levied on the owner of the property and liability to pay the rate is transferrable to new owners.
Controlled Foreign Company rules	None.
Transfer pricing rules	General transfer pricing rules Transfer Pricing regulations came into effect on 1 July 2011. Entities entering a transaction or series of controlled transactions in Uganda are required to determine the income and expenditure resulting from such transactions, in accordance with the Arm's Length Principle (ALP). It applies to transactions between associated taxpayers or between taxpayers who are in an employment relationship. Failure to do so will mandate the Commissioner to effect necessary adjustments to ensure adherence with the ALP, which may be to the detriment of the taxpayer. Any taxpayer who asserts formally the application of arm's length pricing in his transactions with related-party transactions is required to record, in writing, sufficient information and an analysis to justify that the controlled transactions are consistent with the ALP. Such documentation should be put in place by the taxpayer prior to the due date for filing the income tax return for the year in question. Transfer pricing related party transactions apply to both local and multinational relationships. A person who, upon request by the Commissioner, fails to provide records in respect of transfer pricing within 30 days after the request, is liable to a penal tax equivalent to fifty (50) million Uganda shillings. Documentation requirement Local documentation requirements can be found within the URA Practice Note issued in 2012 which gives detail on documentation to be maintained by taxpayer. This includes company details, transaction details including contracts and agreements and methodology used in determination of arm's length price. A taxpayer who fails to comply with the Transfer Pricing regulations is liable on conviction to imprisonment for a term not exceeding six months or to a fine not exceeding 500,000 Uganda shillings.
Thin capitalization rules	Thin capitalization rules were repealed in 2018 and replaced with limitation on interest deductibility provisions. The amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, other than a financial institution or person carrying on insurance business, shall not exceed thirty percent of the Tax Earnings Before Interest, Tax, Depreciation and Amortisation. (EBITDA)
General Anti-Avoidance rules (GAAR)	Section 90 and 91 provide for the Anti-avoidance provisions of the Income Tax Act, Cap 340. These provisions require transactions between associates to be at arm's length. The provisions allow the Commissioner to make an adjustment of income in respect of transactions between associates in order to reflect the chargeable income realized by the taxpayer in an arm's length transaction. For the purposes of determining liability to tax, the Commissioner may: a) Re-characterize a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme; b) Disregard a transaction that does not have substantial economic effect; or c) Re-characterize a transaction the form of which does not reflect the substance.

Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules	Qualifying participations (at least 5 percent of the equity of the subsidiary) **Except for a public listed company**, where an international agreement concluded by the Government of Uganda with another contracting state provides that income derived **by a person resident in such other contracting state** from sources in Uganda is exempt from Ugandan tax or is subject to a reduction in the rate of, Ugandan tax, the benefit of that exemption or reduction **shall not be** available to any person who (a) receives the income in a capacity which is other than that of a beneficial owner, who does not have full and unrestricted ability to enjoy that income and to determine its future uses; and (b) does not possess economic substance in the country of residence. Deductible dividends of foreign subsidiaries **Except for a public listed company**, where an international agreement concluded by the Government of Uganda with another contracting state provides that income derived **by a person resident in such other contracting state** from sources in Uganda is exempt from Ugandan tax or is subject to a reduction in the rate of, Ugandan tax, the benefit of that exemption or reduction **shall not be** available to any person who: (a) receives the income in a capacity which is other than that of a beneficial owner, who does not have full and unrestricted ability to enjoy that income and to determine its future uses; and (b) does not possess economic substance in the country of residence. Restrictions on the deductibility of interest and royalties The amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, other than a financial institution or person carrying on insurance business, shall not exceed thirty percent of the tax earnings before interest, tax, depreciation and amortisation. Hybrid arrangements No specific provisions relating to hybrid arrangements. General provisions apply to hybrid arrangements.
Advance Ruling system	A Taxpayer might write to the Commissioner and enter into an Advance Ruling
IP / R&D incentives	Deduction of Scientific research expenditure for tax purposes for the year incurred (100% deduction)
Other incentives	The investment incentives in Uganda are currently as follows: o Investment capital allowances; o Start-up costs and initial Public Offering costs at the stock market allowed for tax purposes over a four-year period i.e. at 25% per annum; o Scientific research expenditure allowed for tax purposes, 100% in the year incurred; o Training expenditure allowed for tax purposes, 100% in the year incurred; o Mineral exploration expenditure allowed for tax purposes, 100% in the year incurred; o Allowable tax depreciation rates of 20-40% depending on the type of asset; and o Allowable tax depreciation rate for hotels, industrial buildings, hospitals and approved commercial buildings of 5% per annum. o Duty- and tax-free import of some specified plant and machinery; o First arrival privileges in the form of duty exemptions for personal effects and motor vehicle (previously owned for at least 12 months) to all investors and expatriates coming to Uganda; and o Manufacturers can claim input tax incurred on supplies or goods on hand, up to 12 months prior to VAT registration o Export Zones: • A 10-year corporation tax holiday • Duty exemption on raw materials, plant and machinery and other inputs; • VAT exemption on supplies made 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 employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill. These operators should however be operating to specified sectors.

Other incentives (cont.)

Export Zones (cont.):

- VAT exemption on supplies made 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 exemption on 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. These operators should however be operating to specified sectors.
- Stamp duty exemption:
  - Duty drawback to apply on input of goods from domestic tariff area;
  - No export tax;
  - Exemption of debentures, equitable mortgage, further charge on mortgaged property and any loan instrument from stamp duty.
  - Companies involved in strategic investment projects, who;
    - have 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;
    - Employ at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill.
  - Exemption of withholding tax on interest on external loans; and
  - Dividends repatriated to get relief from double taxation.

VAT

The standard rate is 18 percent. However, there are some services and goods which are either zero rated or exempt.

Other relevant points of attention

No.

Mandatory Disclosure Rules Updates	Not applicable
COVID-19 Resources	An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

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