UGANDA BUDGET HIGHLIGHTS

2019 – 2020

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CONTENTS

ECONOMIC PERFORMANCE IN 2018

GLOBAL ECONOMIC HIGHLIGHTS 2018

- In 2018, the global economy expanded by 3.6%, down from 4.0% in 2017. Growth is expected to decline to 3.6% in 2019 due to the escalation of US-China trade tensions, macroeconomic stress in developing economies and tighter credit policies in China. Global growth is projected to decline for 70% of the global economy in 2019.
- The Euro Zone lost more momentum than expected as consumer and business confidence weakened and car production in Germany was disrupted by the introduction of new emission standards. Investment dropped in Italy as sovereign spreads widened and external demand from Asia softened.
- China's growth declined to 6.6% in 2018 following a combination of regulatory tightening to rein in shadow banking and an increase in trade tensions with the USA. Growth is expected to slow to 6.1% in 2020.
- In the USA, growth is expected to decline to 2.3% in 2019 and soften further in the medium term, with the unwinding of financial stimulus. The downward revision on 2019 growth reflects the impact of the government shutdown and lower fiscal spending. Strong domestic demand growth is expected to support higher imports and contribute to the widening of the current account deficit.
- Current forecasts predict that global growth will pick up in the second half of 2019. This is based on an ongoing stimulus build-up in China, recent improvements in global financial market sentiment, the waning of some temporary drags on growth in the Euro area and a gradual stabilisation of stressed emerging market economies including Argentina and Turkey.
- Beyond 2020, global growth is expected to plateau at 3.6% over the medium term, sustained by the increase in the relative size of economies, such as those in China and India, which are projected to have robust growth by comparison to slower-growing advanced and emerging market economies.

Real GDP growth in %	2015	2016	2017	2018	2019*	2020*
Japan	1.4	0.9	1.7	0.8	1.0	0.5
UK	2.3	1.9	1.8	1.4	1.2	1.4
USA	2.9	1.5	2.3	2.9	2.3	1.9
Euro Area	2.1	1.8	2.3	1.8	1.5	1.5
China	6.9	6.7	6.9	6.6	6.3	6.1
India	8.2	7.1	6.7	7.1	7.3	7.5
World	3.5	3.2	4.0	3.6	3.3	3.6

Source: World Economic Outlook, IMF, April 2019, national treasury (Kenya)

SUB-SAHARAN & MIDDLE EAST ECONOMIC HIGHLIGHTS

- Growth in the Middle-East, North Africa, Afghanistan and Pakistan region is expected to decline to 1.5% in 2019 before recovering to 3.2% in 2020. The outlook for the region is weighed down by multiple factors, including slower oil GDP growth in Saudi Arabia, ongoing macroeconomic adjustment challenges in Pakistan, US sanctions in Iran and civil tensions and conflicts in several economies.
- Economic growth momentum for most Sub-Saharan Africa countries is expected to pick up to 3.5% in 2019 and 3.7% in 2020 (from 3.8% in 2018).
- Downward projections reflect revisions for Angola and Nigeria due to softening oil prices. Growth in South Africa is expected to marginally improve from 0.8% in 2018 to 1.2% in 2019.
- In Nigeria growth reached 1.9% in 2018, up from 0.8% in 2017 reflecting a modest pick-up in the non-oil economy. Angola, the region's third largest economy, remained in recession, with growth falling sharply as oil production stayed weak.
- The slower than expected growth in the region reflects ongoing global uncertainty, but increasingly comes from domestic macroeconomic instability including poorly managed debt, inflation and deficits. Research by the World Bank found that fragility in a handful of countries is costing sub-Saharan Africa over half a percentage point of growth per year. This adds up to 2.6 percentage points over 5 years.

Real GDP growth in %						
	2015	2016	2017	2018*	2019*	2020
Sub-Saharan Africa	**3.4**	**1.4**	**2.8**	**3.0**	**3.5**	**3.7**
Nigeria	2.7	-1.6	0.8	1.9	2.1	2.5
South Africa	1.3	0.6	1.3	0.8	1.2	1.5
Kenya	5.7	5.9	4.9	6.0	6.2	6.4
Tanzania	7.0	7.0	6.0	6.6	4.0	4.2
Ethiopia	9.6	6.6	107	13.8	9.3	8.0
Uganda	**5.7**	**2.3**	**4.5**	**6.2**	**6.3**	**6.2**

Source: World Economic Outlook, IMF, April 2019

UGANDA ECONOMIC HIGHLIGHTS 2019

- The economy is estimated to have grown by 6.2% in the financial year 2018/19.
- The size of the economy is now Shs.109 trillion and this is attributed to increased private and public sector activity, improved weather conditions and a relatively stable economy.
- The agriculture sector grew by 3.8% due to enforcement of fishing activity that resulted in recovery of fish captures and provision of extension services and control of pests and diseases.
- The services sector grew by 7.2%, the highest of all sectors. The manufacturing sector grew by 2.8%, attributed to several newly commissioned factories.
- The share of the industry and services sectors in the economy is now 21% and 48.7% compared to 11.3% and 32% respectively in 1986.
- Inflation has remained stable and in single digit whereby, the annual headline inflation is projected to average 3.4%. This is mainly attributed to the increased supply of agricultural output.
- The Ugandan shilling was largely stable against major currencies throughout the year. For example, the shilling appreciated against the dollar by an average of 0.6% for the period July 2018 and April 2019. The strengthening of the shilling against the US dollar is attributed to higher export performance, improved disbursement of external support for government programmes, continued foreign direct investment inflows and remittances from Ugandans abroad.
- Non-performing loans reduced from 5.6% in December 2017 to 3.4% in December 2018. Private sector credit grew by 6.1% between July and December 2018. The largest share of credit was received by the trade sector (20.1%) and the construction sector (19.8%). The agriculture sector received 12.9% of total credit extended as at December 2018.
- Revenue collection increased tremendously and is projected to be Shs. 16.7 trillion for the year 2018/19. Of this, Shs. 16.1 trillion is attributed to tax revenue whereas Shs. 530 billion is attributed to non-tax revenue. There is therefore, there is a surplus of Shs. 352.6 billion over the target of Shs. 16.3 trillion for the year.
- GDP increased by 0.6% from 14.6% in 2017/18 to 15.2% in 2018/19.
- Government spending excluding domestic debt refinancing is projected to be Shs 24.2 trillion; about 22.1% of GDP.
- Exports in the form of non-traditional cash crops and traditional cash crops earned Uganda $2.84 billion and $ 0.79 billion respectively last financial year.
- Average incomes of Ugandans increased to $825 in 2018/19 compared to $800 in 2017/18, notwithstanding increase in the population size to 39 million.
- National grid electricity connections increased to 1.3 million customers. The rural electrification access rate rose from 1% in 2001 to over 13% in 2019.
- The proportion of Ugandan products in supermarkets has increased from 15% to 45% as a result of a number of new factories being opened during the year 2018/19.
- A surplus of $557 million was reported from trade with the East African Community. The composition of the exports has changed for the better with exports of light manufacturing products exceeding traditional merchandise.

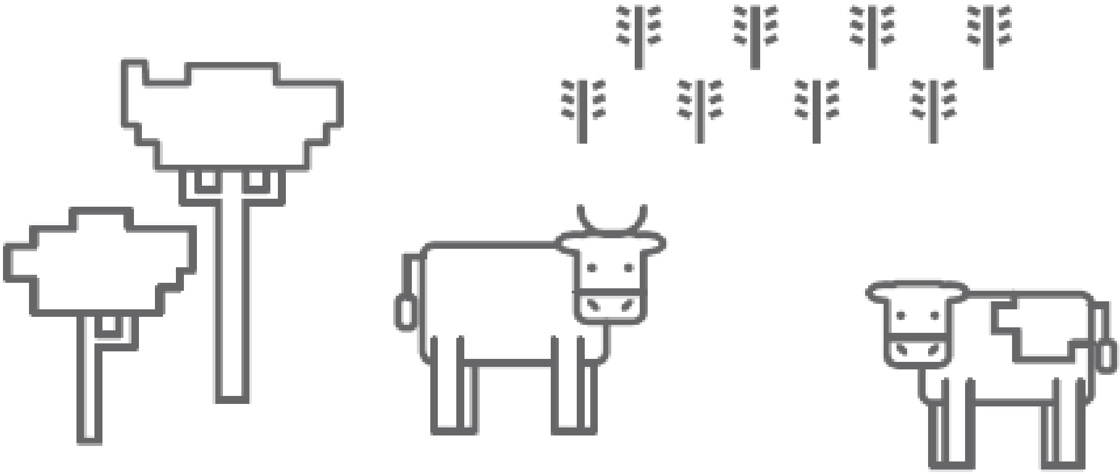
SECTOR PERFORMANCE

Tourism

- The tourism sector now ranks as the highest foreign exchange earner sector.
- Foreign receipts from tourism reached US$1.02 billion, with 1.6 million international tourist arrivals being recorded.
- Uganda is now an international tourist destination of choice.

Agriculture

- Coffee export volumes increased by 7.1% to 4.5 million bags valued at US$492 million compared to 4.2 million valued at US$490 million in 2017
- Kalangala oil palm production in 2018 increased by 55% to 37,800 tonnes valued at Shs. 21.4 billion compared to the 2016 production of 24,300 tonnes valued at Shs 13.4 billion.
- Milk production increased by 19% from 2.1 billion litres in 2015 to 2.5billion litres in 2018/2019.
- The volume of fish exports increased by 27%.



Education

- Literacy rates of persons aged 10 years and above now stands at 74%.
- Scholastic materials have been distributed to all public primary schools, improving pupil to book ratio from 14:1 to 2:1.
- Teacher absenteeism at UPE schools in 20 pilot districts has reduced from 15% in 2015 to 4% in 2019 with the introduction and use of biometric finger print readers.
- The sector now boasts of 55% of all districts with technical and vocational institutions, with enrolment at 129,000.

Health

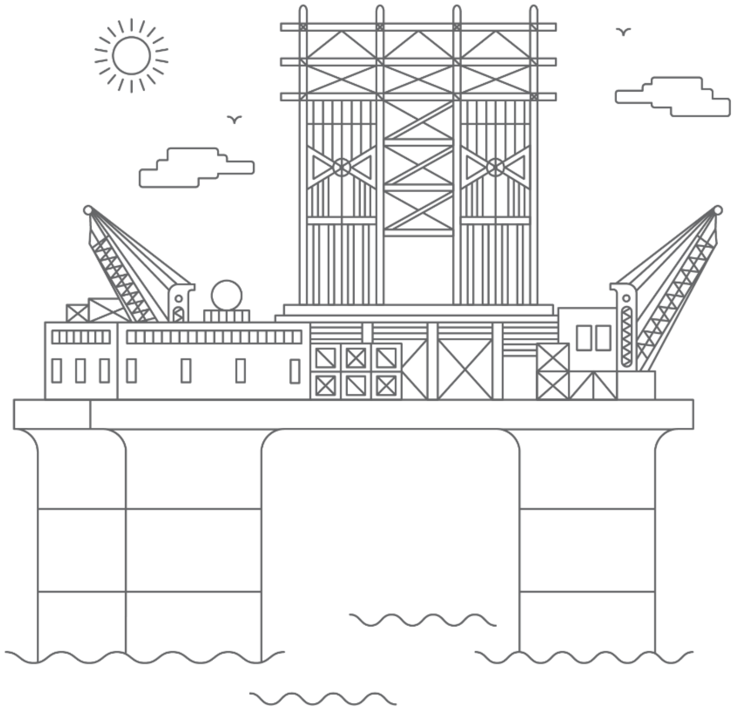
- Malaria prevalence among children under five years has reduced significantly from 30% in 2015 to 17% in 2018.
- Distribution of 26.5 million long lasting insecticide nets and indoor residual spraying was undertaken in 26 districts in east and northern regions.
- Therapy coverage has improved from 73% in 2016/17 to 86% this year, contributing significantly to treatment of HIV and reduced mother to child transmission.
- 81 Health Centre IVs now offer Caesarean Section and blood transfusion out of a total of 186 centres
- The number of maternal deaths recorded at health facilities has also reduced by 30% from 148 per 100,000 in financial year 2016/17, to 104 per 100,000 deliveries.

Transport infrastructure

- The paved road network is now 5,111 kilometres equivalent to 25% of the national road network.

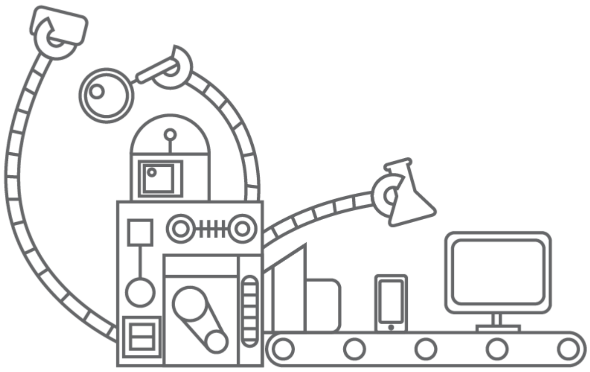
Energy infrastructure

- The total installed electricity generation capacity is now 1,200MW, with the completion of several hydropower generation projects.
- High voltage electricity transmission grid infrastructure now totals 2,258km.
- Sub-stations in Iganga, Luzira, Mukono and Namanve have been completed.
    - A total of 40MW of solar power has been installed nationwide and feeds into the national grid.



Information and communication technology

- The total optical fibre network covers 49% of all districts, 24% of sub-counties and all the border points.
- The number of internet users has increased from 13 million in 2015 to 18.8 million in 2017.
- Government services have been automated, 71 of these being provided online leading to a reduction in processing times and improvement in service delivery.



Safe water and sanitation

- Rural water coverage is at 71% while the urban water coverage stands at 80%.
- 38,200 villages representing 66% of the total villages in the country have been served with clean water.
- Rural sanitation coverage stands at 79% and sanitation coverage in urban areas is at 87.4%.

Peace security and improving governance

- There has been improved governance and public administration management.

BUDGET HIGHLIGHTS

The theme for the FY 2019/2020 budget is "Industrialisation for job creation and shared prosperity".

The Minister of Finance, Planning and Economic Development announced that the economic growth strategy for the year 2019/20 seeks to consolidate interventions made towards the attainment of shared prosperity. The economic growth strategy consists of three interlinked parts:

1. Expanding the industrial base of the economy
2. Exploiting natural resource endowments with environmental protection in mind.
3. Providing affordable financing for production and business

Expanding the industrial base of the economy

- Key bottle necks such as inadequate electricity and transportation infrastructure, the lack of basic education and health have to a large extent been addressed.
- Building fully planned and serviced industrial parks in 22 locations across the country.
- Development of product value chains which link nucleus entrepreneurs to out-grower farmers such as those already established in citrus fruit, vegetable oil and dairy industries.

Exploiting natural resource endowments with environmental protection in mind

Uganda has three natural resource endowments, that is, vast arable land and fresh water resources, abundant wildlife and diverse environment, and plentiful minerals (oil and gas deposits).

Exploiting these natural resource endowments appropriately will be done in such a way that climate change is addressed aggressively.

This exploitation will take the following forms:

- Commercializing agriculture – this will require the use of modern farming practices, advanced agricultural inputs and technology, post-harvest storage and improved market access.
- Re-forestation and restoration of wetlands and penalization of the destruction of wetlands and forest cover.
- The ban of use of harmful materials such as destructive polythene bags will be unequivocally enforced.
- To avoid wasting and leakage of the benefits from minerals, oil and gas resources, proceeds of extraction will be invested for both the current and future generations. This will be guided by the Petroleum Revenue Investment Advisory Committee.

Providing affordable financing for production and business

- Shs. 103.5 billion has been allocated for further capitalisation of Uganda Development Bank.
- Shs. 40 billion has been allocated to the microfinance support centre for on-lending at affordable interest rates not exceeding 12% per annum.
- The capital markets authority will establish a centre to facilitate access to long term domestic and foreign capital on the stock exchange.
- Financial sector reforms including agency banking, bancassurance, islamic banking and enhanced access to credit reference bureau services will reduce operational costs of commercial banks.
- The use of movable assets as collateral for loans has also been facilitated with the enactment of the Security Interest in Movable Property Act, 2019.

UPCOMING DEVELOPMENTS

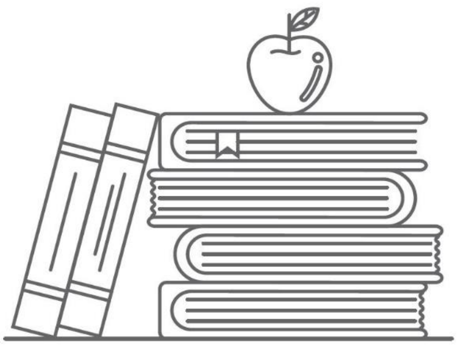
Tourism

- Tourist hubs and circuits will be developed for product development.
- Marketing of Uganda as a touristic destination of choice based on religious, natural and cultural heritage.
- Development of infrastructure including road and air transport, electricity and hospital facilities.
- Building of world class skills in hospitality and tourist handling, wildlife conservation, tour and travel management, food and beverage services

Agriculture

- The sector has been allocated Shs 1.05 trillion next financial year 2019/2020.
- Provision of storage facilities and linking farmers to agro-processing facilities to support agro-industralisation.
- Provision of irrigation infrastructure, on a small scale such as the Wadelai, Torchi, Mobuku II, Doho II and Ngenge projects.
- Delivery of quality inputs and services including seed and planting materials, mechanisation, fertiliser, agricultural credit and extension services.
- Providing small-scale solar powered irrigation systems for the last mile irrigation.
- Construct five micro-irrigation schemes in Alebtong, Kabarole, Katwi among others

Education



- Shs. 3.4 trillion has been allocated to the education sector for the next financial year 2019/2020
- Establishment and enforcement of minimum standards on teacher numbers, instructional materials, classrooms and sanitary facilities across schools.
- Operationalise seed secondary schools currently under construction with adequate staffing and other necessities.
- Improve instructional practice, especially for early grades, in the use of reading materials, to enhance early grade numeracy and literacy.
- Enhance school management, accountability and learning conditions including school classrooms, offices, water and sanitation facilities, and teacher housing.
- Provide technical institutions with adequate instructors and instructional materials and guided curriculum to meet market demands.

Health and nutrition

- Shs. 2.6 trillion has been provided to the health sector next financial year.
- Streamlining the health referral system to reduce pressure on the super specialised Mulago National Referral Hospital.
- Improve the functionality of lower level health facilities by providing additional resources for operations and upgrading 124 Health Centre Twos (HC IIs) to Health Centre Three (HCIIIs) in 99 local governments.
- Construct staff houses and maternity wards in 81 health centers supported by the World Bank Reproductive Maternal Child Health Services Improvement Programme.
- Improve human resources for health by training local health professionals, and strengthening Village Health Teams (VHT).
- Revitalising nutritional education conducted by village health teams; community development workers and the public and private media.
- Training and supporting small-scale millers with appropriate technologies to enable food fortification; as well as enforce regulatory food fortification standards.

Transport infrastructure

- Shs. 6.4 trillion has been allocated to works and transport sector.
- The target for completed national paved roads is 6,000km of roads.
- Rural roads connectivity and low cost sealing of district roads to be prioritised.
- The rehabilitation of the national airport, the meter gauge railway in the short-term and the revamping of water transport facilities will be undertaken.
- The construction of an international airport in Hoima district and the operationalisation of the Uganda National Airline.
- The acquisition of two more Bombardier regional aircrafts.
- Land acquisition and counterpart funding particularly for the new Kampala Port at Bukasa, the completion of Katuna One Stop Border Post (OSBP) and development of upcountry aerodromes.
- UNRA to embark on the South West tourism circuit tourism.
- Support will be provided for rehabilitation of aerodromes to facilitate domestic flights.

Energy infrastructure

- Shs. 3 trillion has been allocated for the energy sector.
- The distribution concession with Umeme Limited to be renegotiated and extended to ensure further investment, and also lower electricity tariffs.
- The Ayago, Oriang, Kiba and Uhuru hydropower projects to be developed in the medium to long term, in partnership with the private sector.
- Implementation of the use of renewable energy such as solar for lighting rural homes and for the national grid.
- Over 300,000 electricity connections to be made in order to realise growth in access to electricity.

Information and communication technology

- Shs. 146.2 billion has been allocated to the ICT sector.
- The implementation of the new national broad band policy will lead to a reduction of internet costs and enhance service delivery both in the government and private sector.

Safe water and sanitation

- Shs. 1.1 trillion has been provided to the water and environment sector.
- Extension of piped water systems and environmentally friendly waterborne toilet facilities.
- Construction of sewerage treatment plants and eco-friendly toilet facilities in rural growth centers.
- Undertaking of countrywide rehabilitation of water facilities including wells, valley tanks/dams, shallow wells and boreholes.
- Strengthening the operation and maintenance of water facilities in collaboration with water user committees.

Peace security and improving governance

- Shs. 1.7 trillion has been allocated for the maintenance of peace, security and improving governance.
- Continued professionalisation of the UPDF through provision of equipment and training.
- Commencement of the implementation of the electoral roadmap for the 2021 general elections in pursuit of democracy and good governance.
- Continuation of the strengthening of anti-corruption institutions, policies and systems in order to crackdown on corruption in public service and minimise fraud, money laundering and financing of terrorism in the country.
- Enhancement of efficiency in justice system by addressing case backlog by automation of case management, roll-out plea-bargaining, mediation, and small claim procedures.
- The commencement of the construction of the Supreme Court
- Enhancement of pay for judicial officers, state attorneys and prosecutors.
- Implementation of safe city infrastructure by installation of CCTV in municipalities and urban centers.
- Reduction in prison congestion by operationalising Kitalya mini-max prison and five other reception centers.
- Installation of electronic gates and kiosks at major border points, including Malaba, Busia, Katuna, Mutukula, Atiak and Mirama Hills.

RESOURCE ENVELOPE (SHS "BILLIONS")

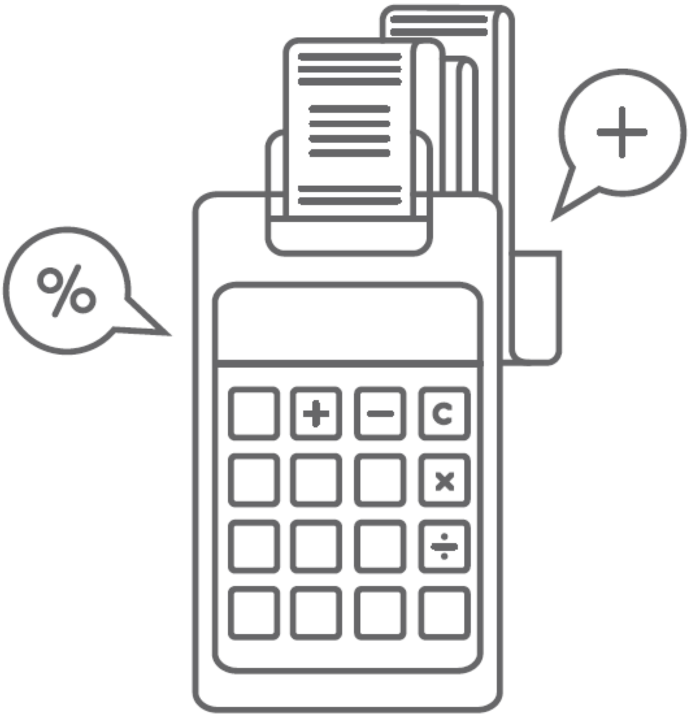
	Budget	Budget	Budget
	FY 2017/18	FY 2018/19	FY 2019/20
Resources (inflows)			
Domestic Resources	16,899.49	19,407.77	23,926.50
URA Tax Revenue	14,686.17	15,938.82	19,324.60
Non-Tax Revenue	376.32	419.98	1,571.00
Petroleum fund	125.28	200.00	-
Domestic Financing	954.20	1,785.43	2,829.80
Appropriation in Aid (AIA)	757.50	1,063.50	201.10
External Resources	7,110.35	8,023.54	10,108.80
Budget Support	34.95	289.00	675.20
Project Support	7,075.40	7,734.54	9,433.60
Total domestic and external resources	24,009.84	27,431.31	34,035.30
Domestic Debt Re-financing	4,998.70	5,271.50	6,452.60
Total resource envelope	29,008.54	32,702.82	40,487.90

INCOME TAX (AMENDMENT) BILL 2019

Highlights

The definition of beneficial owner / Taxation of related income from more than one property reduced threshold for income tax exemption / Withholding tax on the sale of a business or a business asset / Offence and penalty for failure to obtain a Taxpayer Identification Number for an operator of a business

a) Definition of beneficial owner



Paragraph *"ea"* in Section 2 has been introduced to define the term *"beneficial owner"* to mean an individual who owns or has a controlling interest over a private or public organisation, except one who has control over the management and policies of a private or public organisation or a legal arrangement such as a trust, either directly or indirectly through ownership or voting securities, by contract or otherwise;

Previously, the meaning associated with the term "beneficial owner" in Uganda has been restricted to that accorded to it in the various tax treaties the Government of Uganda has with other tax jurisdictions. For example, there has been general uncertainty on whether or not a company or business entity can be considered a beneficial owner, and thus benefit from tax exemptions and other incentives extended to resident persons of the various contracting states with which Uganda has tax treaties.

This amendment limits the scope of the term to particular individuals and, essentially means legal entities would not necessarily be entitled to any tax benefits available to beneficial owners.

b) Definition of a citizen

Section 2 is further amended with the introduction of the term "citizen" as a technical term in paragraph "la" to mean;

a. An individual who is a citizen of a Partner State of the East African Community i.e. Uganda, Kenya, Rwanda, Burundi, Tanzania and South Sudan or;
b. An entity incorporated under the laws of a Partner State of the East African Community, in which at least 51% of its shares are held by a person who is a citizen of a Partner State of the East African Community;

This provision further advances the element of regional economic integration by ensuring that investors from countries within the East African Community enjoy the same tax benefits extended to those from within Uganda. A case in point would be the proposed requirement of a minimum capital investment threshold of USD 2 million for the exemption from income tax, the income of "Citizens" that conduct business in or outside an industrial park or free zone for a period of 10 years in Uganda.

c) Taxation of rental income from more than one property

Section 5 is amended with the introduction of sub-section *"2a"* which requires any person that earns rental income from more than one source to account for both income and expenses and remit the respective rental income tax separately to the URA, for each of their rental properties;

Up until 30th June 2014, companies were required to account for their rental income as part of their gross income, claim all the respective deductible expenses and tax the combined net profit at 30%. Effective 1st July 2014, Section 5 of the ITA was amended and henceforth required companies to separate rental income from their business income during declaration to the URA. This bill requires companies with different rental properties to further account for and pay taxes separately for each of these properties.

As the URA is set to introduce geo-mapping of properties and intensifying door-to-door operations, this move may enable the Rental Unit Department acquire more information on property owners, create more transparency between the tax authorities and the taxpayers, and ultimately boost the rental income tax numbers for the forthcoming financial year.

d) Income tax exemption for developers and operators of / in industrial parks and free zone

i. There is a reduction in the minimum threshold required for the exemption of income generated by developers of industrial parks or free zones from USD 100 million to USD 50 million. The same threshold will apply for the already existing developers starting from the date they make the additional investment that aggregates the total value of their investment to USD 50 million.

   This amendment also revises the duration of the income tax exemption from the 5 years as stipulated in *Section 21 (1) (ae) of the Income Tax (Amendment) Act 2018* to 10 years as proposed in this bill.

   Despite Government's commitment to International Monetary Fund to reduce exemptions with the aim of boosting tax revenue collections, there is still need to promote both foreign and domestic investment on a larger scale to accelerate economic growth.

ii. Section 21 (1) (af) of the Income Tax (Amendment) Act 2018, exempted from income tax the income of a person operating or conducting business in or outside an industrial park or free zone for a period of 5 years, if their investment capital was at least USD 15 million, for a foreigner or USD 5 million for a citizen, from the date of start of business;

   There is an amendment of the threshold stipulated in Section 21 (1) (af) from USD 15 million to USD 10 million for a foreigner and, from USD 5 million to USD 2 million for a citizen from the date of start of business.

   Note that the previous provision limited the USD 5 million threshold to Ugandan citizens as opposed to this bill which makes available the USD 2 million threshold requirement to any citizen of a Partner State of the East African Community;

   Similar to the proposed amendment in Section 21 (1) (ae) above, this provision aims at promoting foreign and domestic investment to stimulate economic growth.

iii. Section 21 (1) is amended with the insertion of paragraph "ag" which exempts from income tax, the income of an operator in an industrial park or free zone or one who owns a single factory or other business outside the industrial park or free zone whose investment capital is at least USD 10 million (for a foreigner) or USD 2 million (for a citizen) and who uses at least 70% of his raw materials locally sourced in Uganda (if available) and at least 60% of his employees are citizens of a Partner States of the East African Community;

   This operator will have to be engaged in the processing of agricultural goods, and the manufacture and assembly of a variety of other non-consumables such as medical appliances, building materials, automobile, or house hold appliances, furniture etc.;

Similar to the amendment in Section 21 (1) (af) of the Income Tax (Amendment) Bill, 2019, this provision makes available the USD 2 million threshold to any citizen of a Partner States of the East African Community;

This provision will help improve the country's balance of trade because it encourages domestic spending on local raw materials especially in the production stage for would be manufacturers. It will further create more job opportunities for the masses in the region since investors would still get the income tax exemption by employing citizens from any of the countries in East Africa.

iv. The exemption of interest paid on infrastructure bonds from income tax;

Infrastructure bonds are defined in the proposed amendment of sub-section 2 of Section 21 to mean all listed bonds, notes or other similar securities used to raise funds for public infrastructure and other social services, only if they have a maturity period of minimum 5 years;

This amendment encourages investment in infrastructure such as roads, water and power plants etc.

e) Limitation rules on interest deductibility for group companies

There is a restriction on the amount of interest allowed as a business expense on debts owed by a taxpayer who is a member of a group to 30% of the tax earnings before interest, tax, depreciation and amortization *(EBITDA)*, except if that taxpayer is a financial institution or a person carrying on insurance business.

Note that the previous amendment of Section 25 (3) of the Income Tax (Amendment) Act, 2018 did not exempt financial institutions or persons carrying on insurance business. Therefore this provision seeks to shield financial and insurance business operators since related party borrowing is an inherent requirement in the most basic nature of their operations.

f) Carry forward of tax losses

In cases where a taxpayer has been loss making for a consecutive period of seven years, they will be required to pay a tax of 0.5%.

The 0.5% income tax charge on a taxpayer's gross revenue may be very high for taxpayers operating in certain industries e.g. telecommunication and manufacturing.

g) Understanding of beneficial owner in accordance with international agreements

The bill proposes to amend Section 88 by limiting the meaning of the term beneficial owner to that stipulated under Section 2 whereby;

A resident person of a contracting state with which Uganda has a tax treaty shall not benefit from any tax exemptions or benefits in regards to their income sourced in Uganda unless that resident person receives that income in the capacity of an individual who owns or has a controlling interest over a private or public organisation, except one who has control over the management and policies of a private or public organisation or a legal arrangement such as a trust, either directly or indirectly through ownership or voting securities, by contract or otherwise;

This provision will minimise the possibilities of treaty shopping where multinational entities attempt to take advantage of more favourable tax exemptions and benefits available in certain tax jurisdictions with tax treaties with source countries (countries from which the multinational entities generate income, but whose home country does not have tax treaty with).

h) Withholding tax on the purchase of a business or a business asset

Section 118B of the ITA currently requires a resident person who buys an asset from a non-resident person to withhold tax from the gross amount of the payment at 10%.

However, this has been amended to harmonise the obligation to withhold tax on a payment in respect of a purchase of a business or a business asset by a resident person from another resident person (with that on the purchase from a non-resident person), except the applicable WHT rate is 6% and not 10%. *(This is stipulated in the proposed amendment of paragraph 3 of Part VIII of the Third Schedule).*

It will be difficult to enforce this provision particularly in an environment that has a large informal sector.

i) Restriction on local authorities and government institutions from the issuance of licenses and operational clearances to unregistered persons;

Local authorities, government institutions and regulatory bodies have been restricted from the issuance of operating licenses and any kind of clearance for purposes of conducting business to taxpayers that are not registered with the Uganda Revenue Authority.

This will inevitably widen the tax base, and it might be the point that creates the opportunity for the tax authorities to finally bring the informal sector into the tax net.

j) Withholding tax on interest payments to non-resident persons from government securities in accordance with Section 83

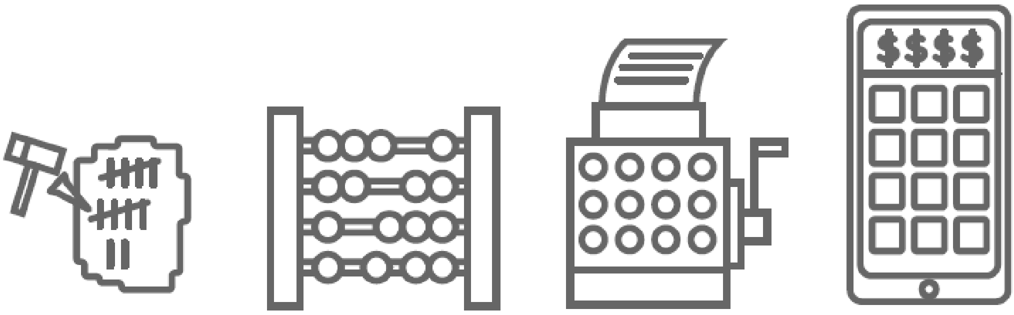
Differential withholding tax rates applicable for interest payments on government securities to non-resident persons depending on duration of maturity have been introduced i.e. 20% for those government securities whose period of maturity is less than 10 years, and 10% for those government securities whose period of maturity is more than 10 years.

The reduced tax rates for the long term investment in government securities by non-residents is aimed at attracting foreigners to invest in long term these securities.

k) Withholding tax on interest payments to resident persons from government securities in accordance with Section 117

Similarly, Part V of the Third Schedule has been amended to harmonise the withholding tax rates applicable for interest payments on government securities to resident persons with those applicable on similar payments to non-resident persons i.e. 20% for those government securities whose period of maturity is less than 10 years, and 10% for the government securities whose period of maturity is more than 10 years.

As, much as this provision is intended to incentivise investment in government securities, the reduced withholding tax rates for with longer maturity durations does not necessarily guarantee increased long-term investment in these securities.



Highlights

Definition of Citizen / Tax payable on bank guarantees, insurance performance bonds, indemnity bonds, and similar debt instruments / reduced capital thresholds for developers and operators of industrial parks and free zone

a) Definition of citizen

Similar to the Income Tax (Amendment) Bill 2019 and Value Added Tax (Amendment) Bill 2019, the term "*citizen*" is hereby defined to mean;

i. An individual who is a citizen of a Partner State of the East African Community i.e. Uganda, Kenya, Rwanda, Burundi, Tanzania and South Sudan or;
ii. An entity incorporated under the laws of a Partner State of the East African Community, in which at least 51% of its shares are held by a person who is a citizen of a Partner State of the East African Community;

b) Amendments in Schedule 2

Schedule 2 of the Stamp Duty Act has been amended by substituting the Stamp Duty rate of 1%, on the execution of an Indemnity bond, to a Stamp Duty charge of Ushs 100,000 on the execution of bank guarantees, insurance performance bonds, indemnity bonds and all similar debt instruments.

Item 48 (c) of Schedule 2 of the Stamp Duty that previously stipulated a Stamp Duty charge of Ushs 35,000, Ushs 0 and Ushs 50,000 on the execution of a Policy of insurance, Life Insurance and an Insurance Performance Bond respectively, has been replaced.

In the Stamp Duty (Amendment) Bill 2018, exemptions from Stamp Duty were extended to instruments executed by or on behalf of Government or Company, for the purposes of implementing investment projects in industrial parks and free zones, whose investors had an investment capital of at least USD 100 million. This bill now proposes to reduce this threshold to USD 50 million.

Similarly, there are new proposed Stamp Duty exemption thresholds for instruments executed in the implementation of investment projects in industrial parks or free zones, whose operators have a minimum investment capital of at least USD 10 million *(for foreigners)* and USD 2 million *(for Citizens)*, use at least 70% of their raw materials locally sourced from Uganda *(subject to availability)*, directly employ at least 100 citizens and provide for substitution of 30% of the value of imported products.

The same investment capital thresholds apply for exemption from stamp duty on instruments executed by or on behalf of Government or Company, for the purposes of operating technical or vocational institutes i.e. the aggregate value of the investment capital of these operators should be a minimum of USD 10 million (for a foreigner) or USD 2 million for a citizen.

VALUE ADDED TAX (AMENDMENT) BILL 2019

Highlights

The definition of citizen / Percentage of VAT to be withheld and remitted / power of the minister to make regulations on tax treatment in regards to Islamic financial transactions / tax incentives to investors in terms of exemptions

a) Definition of citizen

In attempt to harmonise the definition of the term *"citizen"* with that in the proposed Income Tax (Amendment) Bill 2019, a *citizen* is hereby defined to mean;

i. An individual who is a citizen of a Partner State of the East African Community i.e. Uganda, Kenya, Rwanda, Burundi, Tanzania and South Sudan or;
ii. An entity incorporated under the laws of a Partner State of the East African Community, in which at least 51% of its shares are held by a person who is a citizen of a Partner State of the East African Community;

Like in income tax, this all-inclusive approach helps foster regional economic development as investors from other countries within the East African Community enjoy the same Value Added Tax exemptions like those from Uganda, as long as they meet the stipulated capital investment criteria i.e. the exemption of supplies made to an operator in an industrial park or free zone whose net investment capital is at least of USD 2 million.

b) Re-enactment of withholding Value Added Tax

Previously passed into law effectively 1st July 2018 under Section 5 (2) of the VAT (Amendment) Act 2018, and thereon invalidated with the revocation of Legal Notice No. 12 of 2018 (*The VAT Designation of Tax Withholding Agents) Notice 2018* on 20th September 2018, *Withholding VAT* has been re-introduced.

The designated VAT withholding agent would be required to withhold only 6% of the taxable value of the taxable supply for which the payment is being made. Note that the previous provision required the designated VAT withholding agent to withhold 100% of the VAT payable on a taxable supply, and consequently remit it to the URA.

This, however, under the proposed Section 5 (2b), sees the provision for exemption of withholding VAT on those taxpayers whom the Commissioner is satisfied have been compliant with their tax obligations.

c) Taxation of Islamic financial transactions

There is an amendment granting power to make rules and directives in regard to the tax treatment of supplies made in the course of executing Islamic Financial transactions to the Minister of Finance.

This provision leaves a few questions unanswered for example; will a taxpayer engaged in operations that involve the performance of Islamic financial transactions be required to notify the Minister, and in any case inquire on what the applicable tax rates to these transactions are? If this taxpayer does not do so, will they be liable to a penalty / punishment? If yes, what will the punishment be?

d) Addition of UN Women to the Public International Organisations

The United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) has been added onto the list of organisations under the First Schedule which enjoy certain tax reliefs and benefits stipulated in the terms of the agreement between the Government and this organisation.

This amendment will minimise costs for UN Women in terms of taxes, as it engages in its various social campaigns advocating for gender equality and women empowerment.

e) Tax incentives to investors

1) The provision of tax incentives in form of exemption from VAT for the following supplies have been proposed.

   - The supply of aircraft insurance services;
   - The supply of rice mills, and agricultural sprayers;
   - The supply of drugs and medicines;
   - The supply of imported mathematical sets and geometry sets used for technical and vocational education;
   - The supply of woodworking machines;
   - The supply of welding machines and sewing machines.

2) Effective 1st July 2018, in order for the following supplies to be exempted from VAT, the required minimum aggregate value of the investment by the person receiving this supply was USD 100 million;

   - The supply of feasibility study, design and construction services to developers of industrial parks or free zones;
   - The supply of earth moving equipment and machinery to be used in the development of industrial parks or free zones;
   - The supply of construction materials to a developer of an industrial park or free zone;

   There has been an amendment to reduce the requirement of minimum aggregate value of the investment by the person receiving the above mentioned supplies from USD 100 million to USD 50 million. This incentive is aimed at boosting industrial growth in Uganda.

3) Furthermore, VAT exemption has been provided for supplies made in respect of feasibility studies, designs, or the supply of locally produced construction material and any locally produced raw materials supplied to an operator in an industrial park or free zone or one who owns a single factory or other business outside an industrial park or free zone whose investment capital is at least USD 10 million (for a foreigner) or USD 2 million (for a citizen) and who uses at least 70% of his raw materials locally sourced in Uganda (if available) and at least 60% of his employees are citizens in one of the a Partner States of the East African Community.

   Similar to the exemptions under the Income Tax (Amendment) Bill 2019, this operator ought to be engaged in the processing of agricultural goods, or the manufacture and assembly of a variety of other non-consumables such as medical appliances, building materials, automobile, or house hold appliances, furniture etc. for this exemption to take effect. This harmonises exemptions from both income tax and VAT, with the primary objective of driving industrialization in the country.

   There is a further amendment of the Third Schedule of the VAT Act with the inclusion of supplies of drugs and medicines locally manufactured in Uganda under the zero-rated category for purposes of VAT. This means that local drug companies like Kampala Pharmaceutical Industries Ltd, MTK Uganda Limited, Escorts Pharmaceuticals Limited, Surgipham Uganda Limited, Cipla Quality Chemical Industries Limited etc. will no longer have to charge VAT on the supply of their locally manufactured drugs and medicines, hence eliminating the tax burden from their customers.

Highlights

Tax treatment of supplies made in the course of Islamic financial transactions / Registration of manufacturers, importers and providers of excisable / Interest on unpaid excise duty / excise duty payable on non-alcoholic beverages

a) Definition of Citizen

The term *'Citizen'* is defined as a technical term to mean;

i. An individual who is a citizen of a Partner State of the East African Community i.e. Uganda, Kenya, Rwanda, Burundi, Tanzania and South Sudan or;
ii. An entity incorporated under the laws of a Partner State of the East African Community, in which at least 51% of its shares are held by a person who is a citizen of a Partner State of the East African Community;

b) Taxation of Islamic financial transactions

Similar to the VAT (Amendment) Bill 2019, there has been an amendment to grant the Minister powers to prescribe the applicable tax treatment when dealing with supplies made, in the course of executing Islamic financial transactions. Unlike in last year's Stamp Duty (Amendment) Bill 2018, the Minister's power is not subject to Parliament's approval under this bill.

c) Registration of manufacturers, importers and providers of excisable supplies

There is a registration requirement for all manufacturers, importers and providers of excisable goods and services except retailers. These taxpayers will also be required to register the premises from which the excisable goods or services will be supplied.

This registration will be subject to the Commissioner's approval based on certain criteria being met by the applicant, and a certificate of registration will be issued to this effect. This will be valid for 12 months from the date of registration and open to renewal the following year. Application for renewal of certificate of registration is to be submitted 30 days before expiry of the current one.

A taxpayer who defaults on this requirement for registration is liable to a fine of Ushs 400,000 for each day they have operated in default from the date they commenced their dealings in excisable supplies.

d) Interest on unpaid excise duty

The Excise Duty (Amendment) Act 2018 previously imposed interest only on unpaid excise duty arising from the manufacture or importation of excisable goods. This amendment widens the scope further by imposing this interest on any unpaid excise duty arising from the provision of excisable services. The interest rate applicable in this case is 2% per month compounded.

e) Amendment of Schedule 2

i. There has been a reduction in the excise duty rate applicable on the supply of non-alcoholic beverages excluding fruit or vegetable juice from 13% to 11% or Ushs 185 per litre, whichever is higher.

ii. Previously, the Excise Duty (Amendment) Act 2018 exempted from tax the supply of construction material for development of industrial parks and free zones, only if the total value of the investments amounted to at least USD 100 million. This bill proposes to reduce this threshold for exemption from USD 100 million to USD 50m.

iii. Similarly, the aggregate investment capital thresholds of USD 15 million (foreigners) and USD 10 million (citizens) for the exemption on supplies of foreign sourced construction material *(unavailable on the local market)*, which is to be used in the construction of a factories or warehouses for operators within or outside an industrial park or free zone is being reduced to USD 10 million for the foreigners and USD 5 million for the citizens.

iv. The supply of construction material to be used in the construction of technical or vocational institutes will be exempted from excise duty, only if the aggregate investment capital of the operator of such a project is at least USD 10 million *(in the case of a foreigner)* or USD 2 million *(in the case of a citizen)*.

TAX PROCEDURES CODE (AMENDMENT) BILL 2019

Highlights

Waiver of tax due by the Government / Waiver of interest or fine due on self-declaration / Compensation for whistle-blowers / tax returns to be filled with the Commissioner General

a) Definition of tax return

Section 3 of the Tax Procedures Code (Amendment) Bill 2019, proposes the introduction of Schedule 4 listing all tax returns to be furnished with the Commissioner General. These include; the Value Added Tax return, the Income Tax return, the Withholding tax return, the Excise Duty return and the Stamp Duty return, return as prescribed by the Minister under Section 48 of the Lotteries and Gaming Act 2016 for those licensed taxpayers operating a casino, gaming or betting activity.

b) Waiver of tax due and payable by Government

As previously proposed in the Tax Procedures Code (Amendment) Bill 2018, we see the return of the waiver on all taxes owed by Government to the tax authorities, either as a result of commitment by Government to pay taxes on behalf of a person, or arising as a result of counterpart funding for aid-funded projects, or *any other unpaid taxes* as at 30th June 2019. This amendment further provides that the Minister will publish in the gazette all taxes waived.

c) Waiver of interest or fine due on self-declaration

The Commissioner may enter into an agreement to compound an offence with a taxpayer who commits an offence under tax law, and voluntarily discloses this offence before the start of any court proceedings, if the taxpayer agrees to pay the outstanding tax. Note that all corresponding interest and fines shall be waived by the Commissioner.

We anticipate many taxpayers coming forward and declaring all their outstanding liabilities. The waiver of all interest and penalties is a welcome incentive for self-declaration as these have for years greatly inhibited taxpayers from doing so. This move is expected to see the country's domestic tax revenue for the forth-coming year increase significantly.

d) Reward to whistle-blowers

A settlement of 5% of the tax or duty recovered from non-compliant taxpayers will be paid to the informants that provide the information that leads to the recovery of tax.

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