



# **Mazars Uganda Tax Alert – National budget 2022/2023**

**15 June 2022**

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## In Brief

### Tax changes – National budget 2022/2023

- On June 14 2022, The Minister for Finance and Planning, Hon. Dr. Mwigulu Lameck Nchemba Madelu (MP), presented, to the National Assembly, the estimates of government revenue and expenditure for the financial year 2022/23.
  - In his speech, the minister proposed various tax and other legislative changes with various aims aligned to boost the national economy for the year of income 2022/23.
  - In this tax alert, we provide a summary of the tax changes proposed by the minister and the rationale behind the proposed changes.
- **The economy** - The minister highlighted key macro-economic targets and provided a highlight of the estimates of the Government budget for 2022/23 which have been prepared based on macroeconomic assumptions and targets as follows:
    - a) Real GDP growth rate of 4.7% in 2022 and 5.3% by 2023;
    - b) Containing inflation at single digit between an average of 3.0 - 7.0 % in the medium term;
    - c) Domestic revenue collection is estimated at 14.9% of GDP in 2022/23;
    - d) Tax revenue collection is projected at 11.7% of GDP in 2022/23; and
    - e) Maintaining foreign reserves sufficient to cover for at least four months (4) of imports of goods and services.



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**Tax changes - National budget 2022/23**

# Direct taxes

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Beneficial owner

- The amendment redefines "**beneficial owner**" to mean a natural person who ultimately owns or controls a customer or the natural person on whose behalf a transaction is conducted, including a person who exercises ultimate control over a legal person or arrangement.
- Introduction of the definition of "legal person" to include a natural person who either directly or indirectly has at least 10% shareholding or voting rights. A natural person is exercising control of the legal person through other means, including personal or financial superiority, or a natural person who has the power to make or influence a decision of the legal person.
- The amendment expands the definition to include a person who controls a customer and a legal person who directly impacts the intention of a beneficial owner. As a result, taxpayers will need details of the beneficial owners when transacting, especially in the case of disposal and benefiting from tax treaties.

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Income tax exemptions

- Inclusion of "research institutions" whose object is not for profit under exempt Organizations
- The exemption introduces research institutions as a new class of entities eligible for income tax exemption. This comes as the Government's direct initiative to support science and innovations.
- All institutions that are not for profit need to attain the income tax exemption status via this Section must apply on the URA portal, as it is not granted automatically. The entities that report profits or surpluses may face further scrutiny or fail to achieve the exemption.



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340 – Rental Tax Amendments

- Repeal of the deduction of interest expense incurred on a mortgage from financial institutions and applied towards the acquisition or construction of premises from which rental income was generated. used to establish the chargeable income for an individual's rental account.
- Expenditure and losses will be allowable for companies earning rental income, which shall be capped to 50% of their rental income in that year.
- Change in the computation of rental tax for individuals from 30% on chargeable income to 12% on gross rental income.
- The law has been amended to stop individuals from having deductible expenditures and losses. Previously, this was 75% of the rental income and was



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340 – Rental Tax Amendments

- The expenditure and losses of an individual or partnership are no longer tax-deductible or required to determine the chargeable income.
- The expenditure incurred or gross rent derived by a partnership will be apportioned among the various partners and the respective tax paid by the individual partners.
- Interest on a mortgage is no longer allowed as an allowable deduction for individuals. Individuals who booked this expense in the previous periods may have losses which can cushion them from the liability in the consequent years. All landlords/ladies are encouraged to revise and include these in their older returns.
- The expenditure and losses incurred by a company and trust should not exceed 50% of the rental income in the particular year. The critical point is that the expenses should have been incurred, unlike the previous concept applied to an individual, which meant one could compute the value of expenditure without incurring it.



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340 – Exempted Income



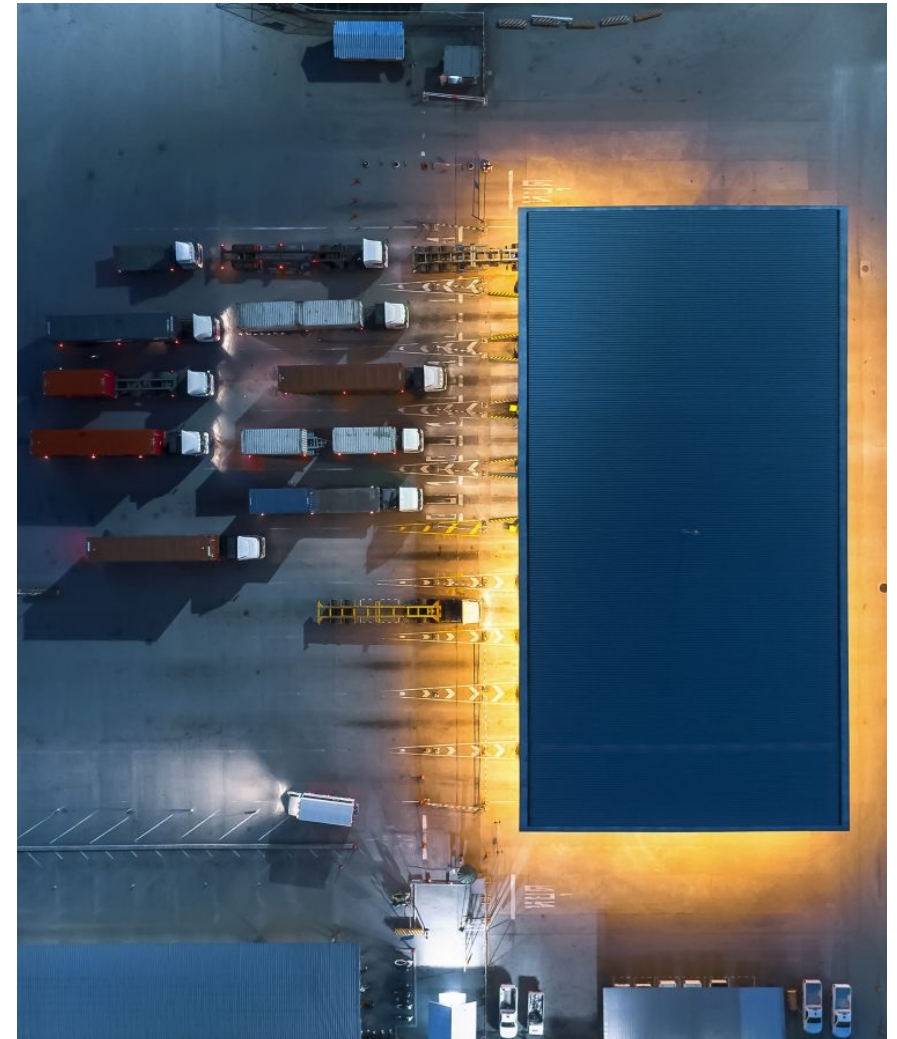
- Extension of income tax exemption for the Bujagali Hydro Power Project from 30th June 2022 to 30th June 2023;
- The amendment extends the Bujagali Hydro Power Project exemption from 2022 to 2023

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### International transport

- Income derived from the carriage of passengers, or cargo or mail not embarked in Uganda does not amount to income derived from Ugandan-source service contract.
- This amendment follows the court ruling on the Roche vs URA case in which transporters who loaded cargo out of Uganda are not considered to have a Uganda sourced contract and therefore not taxable.
- This amendment does erase the exposure to WHT on payments for international transportation not commencing in Uganda



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Imported Services

- The definition of imported services was revised to exclude the nexus to exempt supplies as a determinant of the taxability of the import.
- This takes away the relief several taxpayers enjoyed, especially those who consequently used the import to provide exempt supplies; these include financial institutions,
- We anticipate that the most affected sectors will consider an increase in the pricing of their services to accommodate the 18% increment.



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Cash Accounting

- The Act has been amended to clarify the persons who can apply the use of cash accounting; A taxable person whose annual turnover does not exceed UGX 500M or a person who supplies goods and services to Government.
- The impact of this amendment is that persons who are contracted by Government do not have their cashflows frustrated with the obligation to account for VAT before receiving payment from the Government.



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340 – Exemptions

Addition of taxpayers to the listed entities that enjoy certain tax benefits under the First Schedule i.e.

- International Development Law Organization
- Foreign Commonwealth and Development Office (formerly Department for International Development)

Addition of exempt supplies to the Second Schedule e.g.

- Oxygen cylinders or oxygen for medical use;
- The supply of assistive devices for persons with disability
- the supply of airport user services charged by the Civil Aviation Authority

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Zero-rated supplies

- Zero-rating the supplies of menstrual cups, sanitary towels, tampons and inputs for their manufacture.



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Tax changes - National budget 2022/23

# Indirect taxes

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Excise duty increases

- Introduction of the definitions of "fruit juice", "undenatured spirits", and "vegetable juice" as technical terms under Section 2
- Revision of excise duty rates and charges on items like locally produced alcoholic and non-alcoholic beverages ranging from 12% to 100% or Ushs 2,500 per litre, whichever is higher
- Inclusion of incoming international calls from Tanzania among the exempted calls on which no duty is charged.





# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Stampable transactions

- Removal of stamp duty on the execution of agreements relating to deposits of title deeds and pawn pledges.
- Removal of stamp duty on the execution of instruments relating to security bonds or mortgage deeds.
- Imposition of stamp duty on instruments executed in relation to Trusts concerning property made by any writing, including a transfer from a holder of letters of administration or Probate orders to a beneficiary.
- Reduction of the minimum investment capital thresholds from USD 50 million to USD 35 million for manufacturers to qualify for stamp duty exemption on instruments executed under strategic investment projects.



# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Tax Procedures Code Act

- Change of the effective date of expiry of all tax agents' registration to 31st December every calendar year irrespective of their registration commencement date.
- Tax Agent status is now tied to a calendar year and not from the date of registration.
- Extension of the penalty of Ushs 50 million or double the tax due (whichever is higher) to taxpayers who fail to activate a tax stamp on locally manufactured or imported goods as prescribed by the Minister
- Temporary closure of businesses that do not comply with the requirements of electronic receipting and invoicing or tax stamps.

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Tax Procedures Code Act

- Introduction of penalty for EFRIS compliance and digital stamps.
- Requirement for disclosure of information by persons engaged in the construction or extractive industry and introduction of a penalty of Ushs 20 million for failure to comply
- Introduction of a further disclosure requirement for persons in the business of extraction of natural resources.

# Tax changes - National budget 2022/23

## Income Tax Act, CAP 340

### Tax Procedures Code Act

- Introduction of penalties for offences relating to misuse of tax stamps for locally manufactured or imported goods as may be prescribed by the Minister
- Introduction of penalties on the misuse of digital stamps and EFRIS
- The amendment introduces a limit of 15 million for information leading to the identification of unassessed tax and a limit of Ushs 100 million for information leading to the recovery of tax.
- Initially, the payment to informers was 5% of the principal tax. Tax disclosure is now less more structured.

## Our contacts



**Robert Busuulwa**

Managing Partner

Mobile: +255 757 781578

[robert.busuulwa@mazars.ug](mailto:robert.busuulwa@mazars.ug)

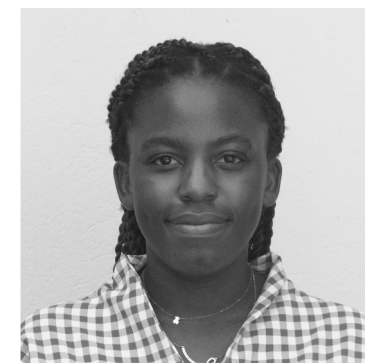


**Major Mutabaazi**

Manager Tax, Mazars

+256 776979807

[major.mutabaazi@mazars.ug](mailto:major.mutabaazi@mazars.ug)



**Patricia Namusoke**

Assistant Tax, Mazars

+256 756831167

[Patricia.namusoke@mazars.ug](mailto:Patricia.namusoke@mazars.ug)



**Thank you**

**Mazars Uganda**