



# Budget brief



**2019**  
**Uganda**

June 2019

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# Economic Overview



Uganda's GDP grew from 5.7% to 6.1% in 2018/19. The key drivers of this growth include private consumption and government expenditure on infrastructure aimed at transforming the country into an oil exporter, with pipeline projects expected to be completed before 2022.

The stock of public debt increased to USD 11.5 Billion at the end of December 2018. Most of the debt is contracted on concessional terms and is financing priority and productive sectors which are expected to generate positive economic returns.

The Bank of Uganda CBR averaged 10% in the last quarter of 2018/19 with projections of an increase to 11% in 2019/20. The planned issuance of a USD 1 Billion Eurobond was postponed, shielding the money market from high currency risk and increased borrowing costs.

## Key highlights

6.1%

GDP growth

11.5b

Public debt

# Budget Overview



The theme for the 2019/20 Budget was "Industrialization for Job Creation and Shared Prosperity." The budget prioritized the following four strategic areas:

- Enhancing key primary growth sectors
- Increasing infrastructure access and reliability
- Human capital development
- Maintaining peace, security and improving governance

Budget Allocations for the year are as follows:

Details	Amount (UGX Bn)
Development expenditure	17,344
Non-wage expenditure	11,816
Domestic debt re-financing	6,453
Wages and salaries	4,675
Appropriations in Aid	201
Total	40,489



# Focus on Industrialisation

The government has committed to support the establishment of an industrial base through investment in iron and steel, agro-processing factories and expansion of Industrial Business Parks. Developers of free zones and industrial parks are eligible for tax incentives with a minimum investment of USD 50 Million and USD 1 Million for foreign and local investors, respectively.

On agriculture, the government has provided an additional UGX 10 Billion for the purchase of raw materials for the Soroti Fruit Factory and applied research, innovation and industrial development at the Presidential Initiative on Banana Industrial Development, among others.



## Tourism Development and Promotion

The government is applying aggressive and targeted destination marketing strategies to invest in the tourism sector. Some of the proposed initiatives include tourist product development and extending investment incentives to encourage more investment in the sector. Further, there are proposals to lower the minimum investment threshold for development of hotels and tourist facilities from USD 15 Million to USD 10 Million.

Additionally, government has set aside funds for the upgrade and renovation of key tourism infrastructure including airfields, roads, electricity and internet infrastructure, along tourist routes and sites to improve access and reliability.



## Dipping into the Oil Well

Following the transition from exploration to production phase in the country's Oil and Gas industry in FY 2017/18, the requisite infrastructure is being developed in preparation for oil production by 2022.

Headline infrastructure projects include the construction of the East African crude oil pipeline, the oil refinery, the Kabaale international airport, oil roads and further exploration activities along the Kingfisher and Tilenga areas.

Other priority projects in the mineral sector include:

- Airborne geographical survey in Karamoja region
- Divestiture of Kilembe mines and exploration of 18 priority mineral targets
- Review of licensing rules and regulations
- Establishment of a certified mineral laboratory and the development of a mineral sector strategy on marketing of Uganda's mineral potential to prospective investors.

## Locking the Grid

The national electrification rate rose 2 percentage points to reach 25% of the total population. Rural electrification stood at 10.3% and is set to increase upon implementation of the Electricity Connection Policy.

The commissioning of the Isimba HPP in March 2019 increased the country's installed generation capacity to 1,200 MW with the expected completion of the Karuma HPP and the Agago-Achwa HPP and other GET Fit projects expected to pump an additional 156MW into the national grid.

The electric grid is set to achieve a lock down with the completion of transmission projects as part of the National Development Plan II.

The government continues to increase efforts to promote clean energy for environmental conservation and economic sustainability.

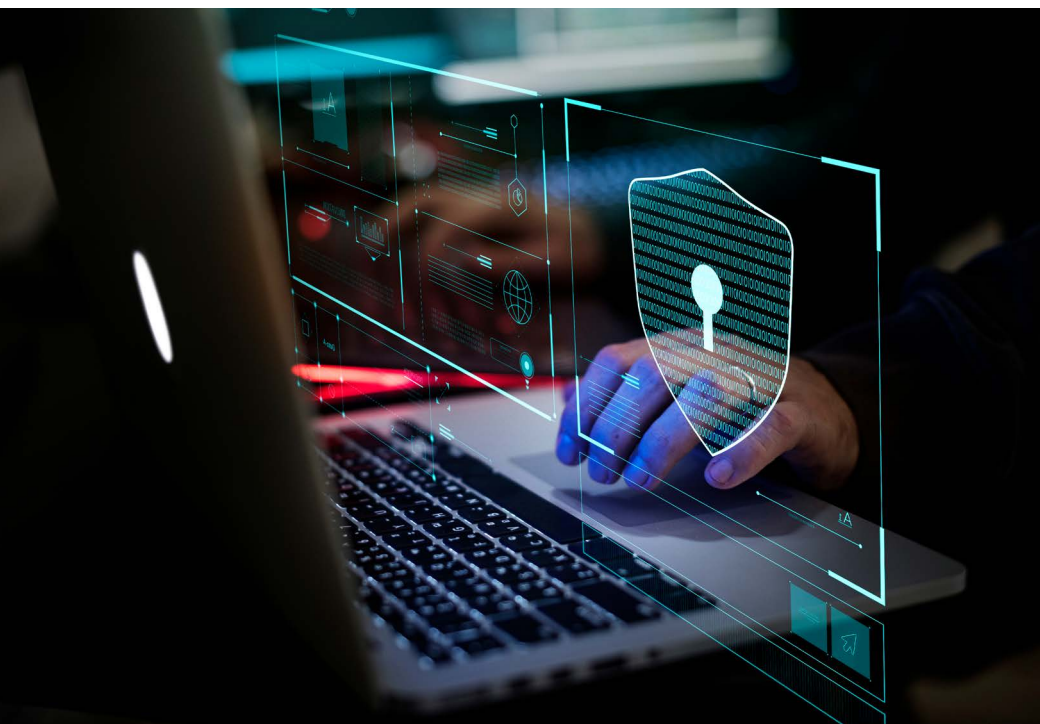




# Improving the Cyber Space

Uganda's cyber space was ranked as the most secure in Africa and the 40th, globally, in 2018. The government plans to boost the ICT Sector by:

- Extending National Backbone Infrastructure for ICT to cover all districts; and
- Reducing internet costs through the implementation of the new national broad band policy compelling telecommunication companies to provide services to Ugandan citizens countrywide



## Human Capital Reforms

Some of the proposals are aimed at promoting:

- Equitable access to education and training and efficient & effective delivery;
- A streamlined health referral system and improvement in the supply of medicine and other health supplies;
- Proper nutrition through food fortification and training especially for Ugandan children; and
- Safe water provision and access to sanitation.



# A Safer Uganda



In order to maintain peace and security and good governance, the government has purposed to implement the following strategies:

- Allocation of funds for equipment and training for the Uganda People's Defence Force;
- Strengthening of anti-corruption institutions, policies and systems in order to crackdown on corruption in public service;
- Enhancing efficiency in justice system by addressing case backlog and commencement of construction of the supreme court; and
- Fast tracking implementation of safe city infrastructure by rolling out installation of CCTV cameras to municipalities and urban centres.



# Tax amendments



## Introduction

The government revenue mobilization strategy for 2019/20 is focused on three core objectives:

- Improving revenue collection with a view of lifting Uganda's revenue mobilisation to at least 18% of GDP in 5 years;
- encouraging a healthy flow of investment; and
- addressing issues of fairness and transparency within the existing tax system.

Through faithful implementation of the current revenue mobilization strategy, the government hopes to improve collections, enhance taxpayer 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), VAT Act (Cap 349), Excise Duty Act 2014, the Tax Procedure Code Act, 2014 and Stamp Duty Act.

The proposed amendments will come into effect on 1 July 2019. We highlight below, the major proposals for 2019/20.

## Value Added Tax

### ■ Withholding VAT

In 2018, the Minister was given power to designate taxpayers as VAT withholding agents to withhold 100% of the VAT charged on a supply. However, the proposal was administratively difficult to



implement and it was withdrawn shortly after it was introduced.

An amendment has now been introduced to reduce the withholding VAT rate to 6% of the taxable value.

This amendment will not apply to taxpayers whom the Commissioner is satisfied, have regularly complied with the obligations imposed on a taxable person under the VAT Act.

The withholding VAT compliance requirement will result in an increased VAT administration burden on entities

designated as withholding agents. It might also result in huge refunds due from URA as has been the case in Kenya, where a similar provision is in place.

### ■ Public International Organisations

United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) has been added to the list of Public International Organisations.

UN Women will be able to benefit from tax reliefs and benefits as a Public International Organisation.

## ■ Meaning of “Citizen”

A citizen for Ugandan tax purposes is a natural person who is a citizen of an East African Community (EAC) partner state.

A citizen is a company or body of persons incorporated under the laws of a partner state, in which at least 51 % of shares are held by a person, who is a citizen of a Partner state.

This is likely to increase cross border investments across the region, consequently widening the tax base.

## ■ Some VAT breathers - Amendments to Second Schedule

The following supplies are now exempt from VAT:

- Aircraft insurance services
- Rice mills and agricultural sprayers
- The supply of drugs, medicines and medical sundries. (The supply of drugs, medicines and medical sundries manufactured in Uganda will remain zero rated)
- Imported mathematical sets and geometry sets used in educational services
- Woodworking machines
- Welding machines and sewing machines
- Supply of imported crayons, colored pencils, lead pencils, rulers, erasers, stencils, technical drawing sets, educational computer tablets, educational computer applications or laboratory chemicals for teaching science subjects used in educational services

- The supply of services to conduct a feasibility study, design and construction to a developer of an industrial park or free zone where the investment is at least USD 50m
- The supply of earth moving equipment and machinery for development of an industrial park or free zone and supply of construction materials for development of an industrial park or free zone where the investment is at least USD 50m
- The supply of services to conduct a feasibility study and design, the 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 and equipment to an operator within an industrial park/free zone or an operator with a single factory or other business outside the free zone, with a minimum investment of USD 10m for foreigners and USD 1m for citizens and who use at least 70% of locally sourced raw materials subject to their availability, directly employing a minimum of 60% of citizens and who processes agricultural goods or manufactures or assembles medical appliances, etc.
- The supply of services to conduct a feasibility study, design and construction of premises, the supply of locally produced materials for the construction of premises, infrastructure, machinery and equipment or furnishings and fittings which are not manufactured in the local market to a hotel or tourism

facility developer, whose investment capital is USD 10m with a room capacity exceeding 100 guests.

- The supply of services to conduct a feasibility study and design and construction, the supply of locally produced materials for the construction of premises and other infrastructure, machinery and equipment or furnishings or fittings for technical or vocational institute operators whose investment capital is at least USD 10m for foreigners and USD 1m for citizens.

## Income Tax

### ■ Double tax relief- meaning of “beneficial owner”

With respect to double taxation, the term ‘Beneficial owner’ includes:

- a natural person who owns or has a controlling interest over a legal person other than an individual; and
- one who exercises control over management and policies of a legal person or legal arrangement, directly or indirectly whether through ownership or voting securities, by contract or otherwise.

This amendment limits access to the reduced tax rates under the Double Tax Agreements to entities that are ultimately owned by individuals who are residents of the treaty states by excluding intermediate companies for which the underlying owners are not resident in the treaty states.





### ■ The meaning of “citizen”

The meaning of “citizen” has been amended similar to the one under the VAT Act.

### ■ Tax holiday - Income of a developer of an industrial park or free zone

Exemption of income derived by a person letting or leasing facilities whose investment is at least USD 50M in the case of a foreigner; or USD 10M for a citizen, in an industrial park or free zone for a period of 10 years from the date of commencement of construction.

For existing investors, the exemption begins on the date the additional investment is made as prescribed above.

This amendment may increase investment in industrial parks and free zones by extending the tax incentives to taxpayers involved in letting or leasing facilities as well as extending the exemption period for existing developers who make additional investments.

### ■ Tax Holiday - Income of an operator in an industrial park or free zone

Income of an operator in an industrial park or free zone or other business outside the industrial park or free zone whose investment capital is at least USD 10M for a foreigner or USD 1M in case of a Ugandan citizen will be exempt from income tax for 10 years from the date of commencement of business.

In case of an existing operator, from the date which the operator makes an additional investment equivalent to USD 10M for a foreigner or USD 1M for a citizen.

The proposed amendment provides for exemption of the income of an operator as defined above, subject to meeting specific criteria including use of at least 50% of locally sourced materials subject to their availability and employs at least 60% citizens, and who processes goods and assembles medical supplies.

However, the period for this holiday has not been specified and appears to apply indefinitely.

### ■ Interest paid on infrastructure bond

Interest income received from investing in infrastructure bond with a maturity of at least 10 years is exempt from income tax.

This is to encourage tax payers to invest in infrastructure bonds which are used to raise funds by government to invest in infrastructure and social services.

### ■ Deductibility of interest for members of a group

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 a person carrying on insurance business shall not exceed 30% of tax Earnings Before Interest Tax Depreciation and Amortization (EBITDA).

This amendment clarifies the 2017/18 amendment, which was silent on whether, the interest deductibility provisions applied to financial institutions and insurance companies.

### ■ Withholding tax on purchase of assets

The amendment to the ITA adds a provision that requires a resident person to withhold tax at 6% on gross payment for the purchase of a business or a business asset.

Assets excluded from this provision are trading stock and depreciable assets.

Currently, the law provides for withholding tax of 10% upon purchase of an asset from a non-resident. This provision clearly expands the tax net to include purchase of business assets from residents as well.

### ■ Withholding tax on interest on government securities

The WHT rate on interest on government securities shall be as follows:

- 20% WHT on government securities with a maturity period of less than 10 years; and
- 10% WHT on government securities with a maturity period of at least 10 years.

This amendment aims to boost domestic borrowing by encouraging investment in longer term government securities which will enjoy lower rates of WHT on the interest income.

### ■ TIN requirement in Uganda

A local authority, government institution or regulatory body shall not issue a license or any form of authorization to conduct business in Uganda to any person without a TIN.

This amendment is aimed at aiding URA track non-compliant taxpayers.

The government is also proposing penalties for lack of TINs, however, these have not been specified.

### Tax Procedures Code

#### ■ Tax due and payable by the Government

There is a proposal requiring the Minister to pay any tax due and payable by the government arising from any commitment made by the government to pay tax on behalf of a person or owing from the government as counterpart funding for aid funded projects.

In addition, all unpaid taxes by government as at 30 June 2019 will be written off and the Minister shall publish in the Gazette, a list of all taxes waived and it will focus on paying of taxes that will accrue after 1 July 2019.

#### ■ Clemency for voluntary disclosure

The Commissioner will be empowered to enter into an agreement for waiver of penalties and interest accruing where a taxpayer makes a voluntary disclosure and agrees to settle the principal tax.

#### ■ Whistle blower reward halved

The reward payable to a person who provides information leading to recovery of a tax or duty has been reduced from 10% to 5% of the principal tax recovered.

### ■ Filing of WHT and Stamp Duty returns

This amendment provides for the filing of WHT return, VAT return, Tax return under section 50 of the Lotteries and Gaming Act, 2016 and Stamp Duty return to the Commissioner General.

This filing requirement although prevalent in practice, has been conspicuously missing within existing law.

### ■ Stamp Duty Act

#### ■ Meaning of “citizen”

The meaning of citizen has been amended in a similar manner as in the VAT Act.

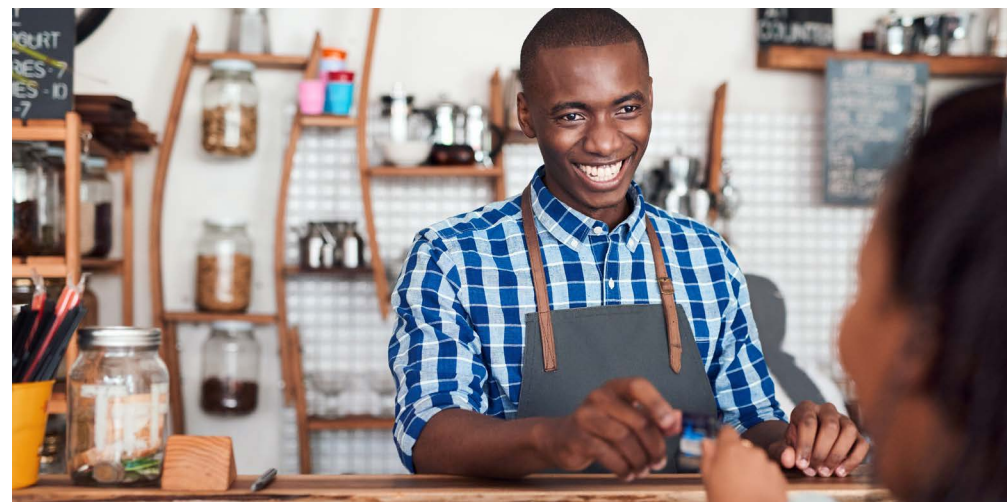
#### ■ Stamp Duty on bank guarantees, insurance performance bonds, indemnity bonds and similar debt instruments

The Stamp Duty applicable on the execution of these instruments is now UGX 100,000.

This amendment resolves the dispute between banks and URA where banks argued that 1% Stamp Duty was too high.

#### ■ Stamp Duty for strategic investment projects

Instruments executed in respect of strategic investment projects carried out by operators in industrial park/free zone or of a single factory or other business outside industrial park whose minimum investment is USD10M for a foreigner or USD 1M for a citizen will be exempt from Stamp Duty.



The reduction of the amount of investment from USD15M for a foreigner or USD 10M for a citizen is aimed at boosting investment in industrial parks and free zones by foreigners and citizens.

#### ■ Stamp Duty for Developers of an industrial park or free zone

There shall be no Stamp Duty for Developers of an industrial park or free zone whose investment is at least USD 50m. The investment amount has reduced from the USD 100M set last year.

### Excise Duty Act

#### ■ Meaning of “citizen”

The meaning of “citizen” has been amended in a similar way to that under the VAT Act.

#### ■ Certificate of registration

A certificate of registration will be issued to importers, manufacturers or providers of excisable goods and services other than retailers.

A penalty of UGX 400,000 per day shall be levied for operating without the certificate of registration.

#### ■ Excise Duty penalty to cover services as well

The penalty of 2% per month for failure to pay excise duty by the due date has been extended to cover excisable services as well. The penalty previously covered excise duty on goods only.

## Other Excise Duty changes

Item	Old rate	New rate
Construction materials for development of industrial parks or free zones	Nil excise duty for a developer whose investment is at least USD 100M	Nil excise duty for a developer whose investment is at least USD 50M for a foreigner and 10M in case of a citizen.
Operators in industrial park/ free zone or single factory or other business outside the industrial park/free zone	Nil excise duty on operators with minimum capital investment of USD 15M for foreigners and USD 10M for citizens who carry on business in agro processing, food processing, medical appliances, building materials, light industry, automobile manufacturing and assembly, household appliances, furniture; logistics and ware-housing, information technology or commercial farming.	Nil excise duty on operators with minimum capital investment of USD 10M for foreigners and USD 1M for citizens who process agricultural goods, manufactures or assembles medical appliances, medical sundries or pharmaceuticals, building materials, automobiles, household appliances or manufactures furniture, pulp, paper, printing and publishing of instructional materials; carries on business in logistics and warehousing, information technology or commercial farming.
Construction materials for the construction of premises and other infrastructure, machinery and equipment or furnishings for technical or vocational institute technical or vocational institute operator whose investment capital USD 10M for a foreigner or USD 1M for a citizen	Nil	Nil

## Customs Duty

Tax policy changes in customs following amendments in the customs laws for the financial year 2019/20.

HS Code	Item description	Old rate	New rate
0701.90.00, 0710.10.00, 2004.10.00, 2005.20.00	Cooked Potatoes fresh or chilled, other than seed	25%	60% for one year
0409.00.0017.02	Honey	25%	60% for one year
6907.21.00, 6907.22.00, 6907.23.00, 6907.30.00, 6907.40.00	Granite, marble, and clay (ceramic) tiles	25%	35% for one year
2002.90.00	Tomato paste and other preserved tomatoes of heading 20.02 from 25% to 35%	25%	35% for one year
22.02	Imported ready to drink juices of heading 2202 from 25% to 60%	25%	60% for one year
8528.72.90	Increase import duty on imported television sets from 25% to 35%.	25%	35% for one year

HS Code	Item description	Old rate	New rate
9503.00.00	Increase import duty on imported toys of heading 9503 from 25% to 35%.	25%	35% for one year
3306.10.00, 3306.90.00	Increase import duty on imported toothpaste and other mouth wash preparations of subheadings 306.10.00 and 3306.90.00 from 25% to 35%.	25%	35% for one year
0901, 2101.11.00, 2102.12.00	Increase import duty of processed coffee of heading 09.01 and Subheadings 2101.11.00, and 2101.12.00 from 25% to 60%.	25%	60% for one year
09.02, 2101.20.00	Increase import duty of processed tea of heading 09.02 and Subheadings 101.20.00, from 25% to 60%	25%	60% for one year
0910.11.00, 0910.12.00	Increase import duty on ginger of subheadings 0910.11.00 and 0910.12.00 from 25% to 60%.	25%	60% for one year
20.07	Increase import duty on jams, marmalades, jellies and the like of heading 20.07 of the CET from 25% to 35%.	25%	60% for one year
Chapter 33	Shoe polish.	25%	35%
Chapter 15	Semi processed edible oils.	10%	25%
02.01, 02.02, 02.03, 02.04, 02.05, 02.06, 02.07, 16.02	Frozen meats of; chicken, bovine animals, meat of swine, meat of sheep.	25%	60%
2008.11000	Peanut butter	25%	60% for one year
1806.90.00	Bread spreads	25%	60% for one year
2005.20.00	Potato and other crisps	25%	60% for one year
07.03	Onions, shallots, garlic, leeks etc., fresh or chilled	25%	60% for one year
1512.29.00	Refined cotton seed oil	25%	60% for one year
1512.19.00	Refined sunflower seed or safflower oil	25%	60% for one year
18.05, 18.06	Cocoa powder in packing with a net content exceeding chocolate and other food preparations containing cocoa	25%	60% for one year
67.04	Wigs, false beards, eyebrows and eyelashes, etc. human hair	25%	35%
7308.30.00, 3926.90	Doors, windows and their frames and thresholds for doors of iron and steel and Plastic/polymers	25%	35%
04.05	Butter and other fats and oils derived from milk; dairy spreads	25%	60% for one year
1901.20.90	Mixes and doughs for the preparation of bakers' wares of heading 19.05:	25%	35% for one year
63.06	Tarpaulins	25%	35% for one year

HS Code	Item description	Old rate	New rate
<b>GAZETTE ISSUES FOR ONE YEAR RENEWAL</b>			
8702.10.99	Buses for transportation of more than 25 persons	10%	25%
4011.40.00	New pneumatic tyres of rubber, of a kind used on motorcycles.	10%	35%
7210.11.00, 7210.20.00, 7216.50.00	Flat rolled products of iron or non-alloy steel products of iron or non alloy steel	0%/25%/0%	25% or USD 200/MT whichever is higher for one year
7210.41.00, 7210.49.00, 7210.61.00, 7210.69.00, 7210.70.00, 7210.90.00, 7212.30.00, 7212.40.00	Flat rolled products of iron or non-alloy steel	25% and 10% where applicable	25% or USD 250/MT whichever is higher for one year
7212.60.00	Flat rolled products of iron or non-alloy steel	10%	25% or USD 250/MT whichever is higher for one year
1704.10.00	Chewing gum	25%	35% for one year
1704.90.00	Other sugar confectionery (sweets)	25%	35% for one year
18.06, 17.04	Chocolates	25%	35% for one year
19.05	Biscuits	25%	60%
2103.20.00	Tomato sauce	25%	60% for one year
2201.10.00	Mineral water	25%	60% for one year
2710.19.10	Partly refined base oil	0%	10%
2710.19.51	Lubricants in liquid form	25%	35%
2710.19.50	Lubricating greases	25%	35%
34.01	Soap and organic surface active products for use as soap	25%	35%
48.19	Cartons, boxes, cases, bags and other packing containers of paper	25%	35%
4818.10.00	Toilet paper	25%	60%
8420.20.00	Exercise books	25%	60%
4911.10.00	Trade advertising material	25%	35%
4911.91.00	Pictures, designs and photographs	25%	35%
4911.99.10	Instructional charts and diagrams	25%	35%

HS Code	Item description	Old rate	New rate
94.03, 94.01, 9402.90.90	Furniture and parts thereof	25%	35%
63.01	Blankets	25%	35%
7210.20.00, 7210.30.00, 7210.41.00, 7210.61.00 7210.69.00, 7210.90.00, 7212.30.00, 7212.40.00 7212.50.00, 7212.60.00, 7213.10.00, 7213.20.00 7213.99.00, 7214.10.00, 7214.20.00, 7214.30.00 7214.91.00, 7214.99.00, 7215.10.00, 7215.50.00 7215.90.00, 7216.10.00, 7216.21.00, 7216.22.00 7216.50.00, 7216.61.00, 7216.69.00, 7216.91.00 7216.99.00, 7228.10.00, 7228.20.00, 7228.30.00 7228.40.00, 7228.50.00, 7228.60.00, 7228.70.00 7228.80.00,	Steel articles of chapters 72 and 73 comprising of; corrugated iron sheets (galvanized and pre-printed), pre painted coils, galvanized coils, hoop iron, twisted bars, flat bars, mild steel plates	10% and 25% where applicable	25% or USD 350MT whichever is higher.
94.04	Mattress supports and mattresses	25%	35%
9603.21.00	Toothbrushes	25%	60%
9608.10.00	Ball point pens	25%	60%
85.07	Electric accumulators	25%	35%
1001.99.10, 1001.99.90	Wheat (wheat grain)	35%	10% for one year
7323.10.00	Iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like	25%	35% for one year
8311.10.00	Coated electrodes of base metal, for electric arc-welding	10%	35% for one year
3605.00.00	Safety matches	25%	25% or USD 1.35/Kg whichever is higher for one year
<b>RAW MATERIALS AND INDUSTRIAL INPUTS TO BE CONSIDERED FOR DUTY REMISSION FOR A PERIOD OF ONE YEAR</b>			
3302.10.00	Odoriferous mixtures of a kind used as raw materials in the food or drink industries flavours	0%	10%



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