KPMG

# Budget Brief

## Uganda 2016

Enhanced Productivity
for Job Creation

# Economic Commentary

**The overall performance of the Uganda economy as measured by the real GDP at market prices is estimated to have expanded by 4.6% for the financial year 2015/16 which is lower than the growth of 5.3% recorded the prior year 2014/15.**

### The slowdown is attributed to:

a. The sharp fall in international commodity prices such as coffee, tea, minerals, which form the bulk of the country's exports.

b. The decline in private sector credit growth as a result of high interest rates, which constrained domestic activity; and

c. The strengthening of the US Dollar as a result of the recovery in the US economy and increase on Federal Reserve interest rates. The strong Dollar increased the cost of imports, constraining business cash flows.

The IMF projects that Uganda's GDP will grow 5.5% in 2016/17 and at an average of 6.3% per annum over the medium term, mainly supported by public investment to improve public welfare and use of sound fiscal and monetary interventions to facilitate private investment and growth.

Uganda continues to trail other East Africa countries, in particular, Rwanda and Tanzania which grew at 7%, while Kenya grew at 5.6% during this year.

Despite external shocks, and election-related uncertainty, Uganda's economy demonstrated resilience, with robust growth, relatively low inflation, and strong international reserves (4.4 months of imports). However, structural reforms have lagged and need to be revitalized to enhance competitiveness, promote economic diversification, and foster sustained and inclusive economic growth.

The stock of public debt is projected to reach US$ 8.6 billion in 2015/16 compared to US$ 7.6 billion in 2014/15. The increase in public debt reflects the increased borrowing to finance infrastructure projects. The public debt has increased faster compared to past trends, but remains sustainable given the size of the economy. The debt to GDP ratio is estimated at 34%, which is far below the Public Debt Management Framework threshold and the East African Community Monetary Union convergence criteria requirement of 50%.

## Macro-Economic indicators

### Inflation

Inflationary pressures remained relatively stable in 2015/16 with annual headline rate of 5.4% in May 2016 (4.9% in May 2015) and an annual average inflation rate of 6.4%.

The trend in annual inflation progressively increased in the first half of the year to a high of 8.5% in December 2015. The falling international commodity and energy prices, and a forward-looking monetary policy helped to hold back inflation despite the lagged impact of exchange rate depreciation.

**International Commodity Prices e.g. Coffee prices fell significantly in 2015**



### Interest rate

Bank of Uganda raised the Central Bank Rate (CBR) from 13% in June 2015 to 17 percent in October 2015, a level that was maintained until April 2016. The increase in the CBR was to curb the increased inflationary pressures. The CBR is the primary instrument for the control of inflation by the Central Bank. As inflationary pressures increased, margins on the bank rate and rediscount rate were widened to mop up excess liquidity in the market.

Nominal weighted average lending interest rates had a slow but steady rise over the 12 months, increasing to 24.23% per annum in April 2016.

Overall, the lending rates have remained high, reflecting in part the high cost of doing business; a heightened risk aversion by commercial banks and the impact of the continued tight monetary policy stance.

The deposit rates also rose in line with the increase in other interest rates in the economy.

The yields on government securities increased sharply during the year to peak at 18.70%, 20.05% and 19.15% in February 2016 for the 91-days, 182 days and 364 days treasury Bills respectively. The increase resulted in a strengthening of Ugandan currency by attracting inward portfolio flows as a result of increased investor appetite for government securities.

### Exchange rate

The shilling opened trading at Ushs. 3,306 against the US dollar at the beginning of July 2015 and closed at Ushs. 3,364 at the end of May 2016, representing depreciation of 2 % in the first eleven months of the fiscal year. The depreciation of the exchange rate during the year is largely attributed to the United States Dollar which has continued to gain strength against other major international currencies with which Uganda conducts trade. In addition, the stagnation in export receipts, and speculative tendencies in the run up to the 2016 General Elections led to rapid weakening of the Uganda Shilling.



# Budget Commentary

**The theme for this year's budget is "Enhanced Productivity for Job Creation" The budget focuses on the following strategic areas:**

- Enhanced Production and Productivity;
- Development and Maintenance of Strategic Infrastructure;
- Human Capital and Skills Development; and
- Improving Good Governance.

# Tax Highlights

## Some of the tax measures proposed by the Uganda Government focus on oil and gas industry.

## Income Tax

### Carry forward of losses restriction
Uganda has proposed to introduce a law that limits carry forward of tax losses where there is a change in ownership of a company by 50% or more of the underlying ownership unless the company continues to carry on the same business as it did before the change and does not engage in any new business or investment after the change.

### Taxation of Non-resident rental earnings
The legislation currently imposes WHT on rent but does not specify the rate of WHT on rent paid to non-residents. The Finance Bill 2016 now proposes to introduce a WHT rate of 15% on rent paid to non-residents.

### Anti-Treaty Shopping provisions
The proposed law is to the effect that for the Double Taxation treaty benefit to apply, the ultimate beneficiary should be a resident of a country which has a DTA with Uganda. This is an emphasis to the existing legislation.

In addition, the law has been amended to exclude public companies from the anti-treaty shopping provisions.

### Imposition of WHT obligations
The Finance Bill proposes to impose a Withholding Tax obligation on a resident person making payments to a non-resident person(s) for telecommunications, Air transport and shipping services, as opposed to an Income Tax obligation, currently provided for under the Income Tax Act.

### Allowances for Members of Parliament
Allowances paid Members of Parliament will now be exempt from Income Tax.

### Oil and Gas changes
The Finance Bill proposes to expand the definition of a licensee to include a person undertaking petroleum exploration and that for petroleum exploration licenses granted after 31 December 2015, allowable deductions shall be subject to the limitations on deductions specified in the Production Sharing Agreement.

### Filing of returns by persons in Diplomatic missions and prescribed organisations
Individuals employed by the Diplomatic missions and prescribed organisations who are not exempt from income tax will be required to file income tax returns and remit the tax to URA.

### Income tax exemption
The First Schedule of the Act has been amended to include International Centre for Research in Agroforestry (ICRAF) and International Potato Centre on the listed organisations exempt from income tax.

### Amendment of presumptive tax

a. Clinics with turnover less than 50 million will now be taxed based on profit.

b. Substituting the word "between" with the words "does not exceed" under paragraph I of Part II of the Second Schedule of the Act. This amendment provided clarity on the range of presumptive tax brackets.

c. Increasing the amount drug shops pay in Kampala City and Divisions of Kampala from Ushs 100,000 to Ushs 250,000.



## VAT

### Reprieve for Oil and Gas midstream operators
In a bid to relieve persons undertaking midstream operations from VAT costs at the investment stage, the Minister has proposed a requirement for midstream operators to register for VAT even if they are not making taxable supplies.

### Plunging into Darkness?
In a move that will adversely affect users of fluorescent and LED bulbs, the Minister proposes to scrap VAT exemption on importation of Compact fluorescent bulbs and bulbs made from Light Emitting Diodes (LED) technology.

### VAT on aid funded projects
In a bid to ensure that VAT on aid funded projects does not become a cost for the contractors, the Finance Bill proposes to exclude taxable supplies made to such contractors from VAT by deeming that such VAT shall have been paid by the contractor. However, this is only applicable where the supplies are exclusively used by the contractor for the aid funded projects.

### Business process outsourcing services
Person(s) providing business process outsourcing services can now claim input VAT on imported services.

### Zero sum game?
In a move that is bound to increase the cost of power in Uganda, the supply of power generated by solar is no longer an exempt supply and is now taxable at 18%.

On the other hand, the supply of any goods and services to the contractors and subcontractors of solar power or geothermal power projects shall now be exempt from VAT.

### Reprieve for Agriculture
The Finance Bill proposes to add to the number of agricultural machinery and tools exempt from VAT.

The Schedule to the 2014 Act has been amended to include the following goods from COMESA member states as goods that attract import duty.

a. Lubricants

b. Un-denatured alcohol

c. Steel and steel products

d. Electronics, including fridges, washing machines, radios, DVD players and television sets.

e. Papers and paper products

f. Diapers

**VAT exemption on agriculture machinery**

Previously, the above items were exempt from import duty if they were imported from COMESA member states.

### Environmental levy on used clothes
The Finance Bill proposes to increase the Environmental levy on used clothes, shoes and other articles from 15% of the CIF value to 20%

### Transfer of Motor Vehicle
The amendment seeks to increase the time limit to transfer motor vehicles from fourteen days to three months and creates an offense where one fails to notify the URA of the change in ownership within 3 months.

The penalty for the offense is Ushs 300,000 or imprisonment not exceeding 6 months or both.

## Non-tax revenue fees

| Item | New Fee (Ushs) | Old fee (Ushs) |
|---|---|---|
| Registration fee for personalised number plates for vehicles | 20,000,000 | 6,000,000 |
| Driving permit (original) | | |
| a) One year | 55,000 | 50,000 |
| b) Three years | 150,000 | 60,000 |
| c) Five years | 250,000 | N/A |
| Driving permit (renewal) | | |
| a) One year | 50,000 | 40,000 |
| b) Three years | 130,000 | 50,000 |
| c) Five years | 200,000 | N/A |
| Driving permit (exchange) | | |
| a) One year | 55,000 | 50,000 |
| b) Three years | 150,000 | 60,000 |
| c) Five years | 250,000 | N/A |
| Driving permit (provisional) | 30,000 | 18,000 |

### Certificates of origin
URA has been given the responsibility to issue Certificates of Origin. Currently, they are issued by the Uganda Chamber of Commerce.

### Waiver of arrears for SACCOS
All arrears owed by a SACCO as at 31st December, 2015 are waived.

### Repealing of mining fees
Fees in respect of Mining Act are repealed to encourage investment in the mining sector

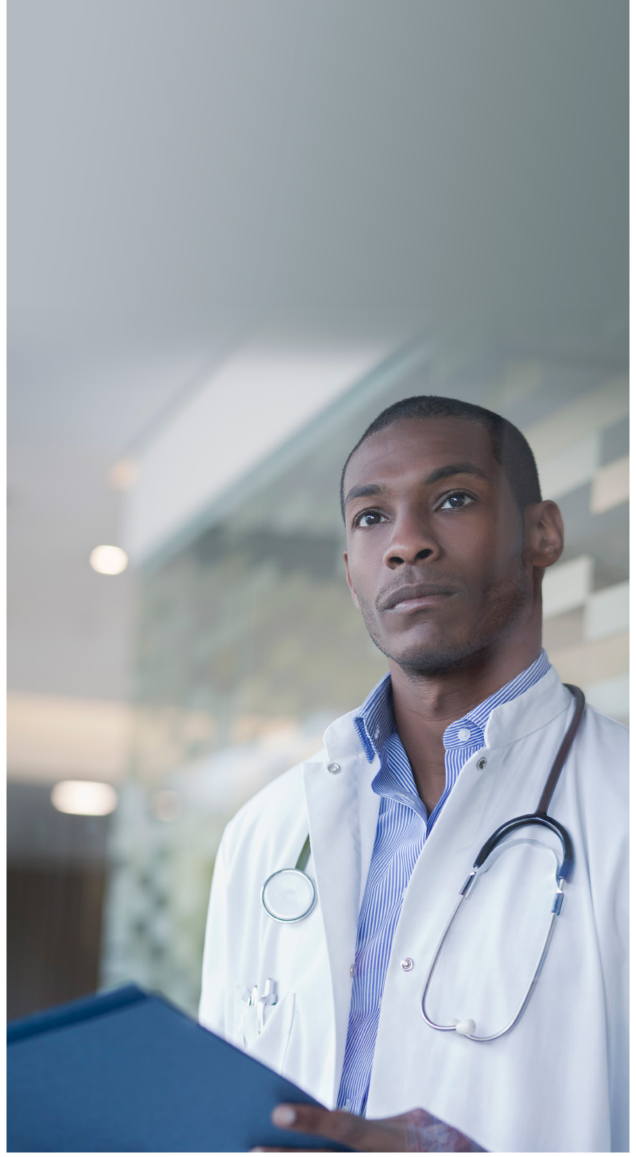
### Stamp Duty
The stamps bill seeks to vary the duty chargeable on certain instruments as follows:

a. Substituting duty of Ushs 5,000 wherever it appears to Ushs 10,000.

b. Increasing stamp duty on exchange of property, or transfer of property from 1% to 1.5%

### Validity period for Driving permits
The driving permit validity period category has been 1 and 3 years. The law proposes to add a tenure of 5 years.





Healthcare boost with refund of excise duty on medical products

## Excise Duty 2016

### Refund of excise duty on health care or medical products
Where goods on which excise duty was paid are converted into approved healthcare or medical products, a refund of the excise duty shall be provided to the manufacturer of the products.

Approved healthcare or medical products means a product that has been approved by the Minister of Finance in consultation with the Minister of Health.

### Incoming International calls
The excise duty on incoming international calls is proposed to be scrapped. It was previously at US$ 0.09 per minute (the rate has been zero for calls originating from Kenya, Rwanda and South Sudan).

### Revised excise duty rates
The revised rates are as below:

| Item | New rate | Old rate |
|---|---|---|
| Soft cap | Ushs 50,000 per 1000 sticks | Ushs 45,000 per 1000 sticks |
| Hinge lid | Ushs 80,000 per 1000 sticks | Ushs 75,000 per 1000 sticks |
| Cigars, cheroots, cigarillos containing tobacco | 200% | 160% |
| Smoking tobacco whether containing tobacco substitutes or not in any proportion | 200% | 160% |
| Homogenised or reconstituted tobacco | 200% | 160% |
| Other | 200% | 160% |
| Ready to drink spirits | 80% | N/A |
| Cement | Ushs 1,000 per 50Kgs | Ushs 500 per 50 Kgs |
| Motor spirit (gasoline) | Ushs 1,100 per litre | Ushs 1,000 per litre |
| Gas oil (automotive, light, amber for high speed engine | Ushs 780 per litre | Ushs 680 per litre |
| Cane or beet sugar and chemically pure sucrose in solid form | Ushs 100 per Kg | Ushs 50 per Kg |
| Motor vehicle lubricants | 10% | 5% |
| Sugar confectionaries (chewing gum, sweets, chocolates) | 20% | 10% |
| **Furniture** | | |
| Specialised hospital furniture | NIL | 10% |

## Contact us

**KPMG Uganda**
Rwenzori Courts, 3rd Floor
Nakasero Road, Plot 2 & 4A
PO Box 3509 Kampala, Uganda

T: + 254 (0) 41 4340315/6
F: + 256 (0) 41 4340318
E: info@kpmg.co.ug