GOVERNMENT OF UGANDA
UGANDA REVENUE AUTHORITY

TAXATION AND INVESTMENT IN UGANDA
STRUCTURE AND TREND

A PRESENTATION TO THE BUSINESS FORUM IN LONDON, UK FOR
INVESTMENT OPPORTUNITIES IN UGANDA

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TAXATION IN UGANDA: STRUCTURE AND TREND

1 BACKGROUND

1.1 Historical Review

While taxation in Uganda traces its roots in the hut tax that was introduced way back in 1900, the first tax legislation was introduced in 1919 under the Local Authorities Ordinance. Since then a series of taxation laws were introduced which included;

b) The East African Customs Act of 1970
c) The Excise Management Act of 1970
d) The Sales Tax Act of 1970
e) The Stamp Duties Act of 1970
f) The Traffic and Road Safety Act of 1970
g) The Finance Decree of 1972

As time went by all the above laws were rendered obsolete and were either repealed or subjected to substantial amendments to cope with the contemporary situation.

1.2 Uganda’s Central Government Tax Structure and Trend (1990-2004)

Uganda’s tax system has undergone dynamic reforms over the past thirteen years both in terms of policy and administration. Prior to 1991, administration of Central Government taxes was a direct function of the Ministry responsible for finance. Central Government taxes included:

- **Domestic trade/consumption taxes** - Sales tax, Commercial Transaction Levy (CTL) and Local Excise Duty.
- **Direct taxes** - basically categories of Income Tax; Corporate and Individual Income Tax, Pay As You Earn (PAYE) and withholding taxes
- **Other taxes, Duties and Transactional Charges** - Road users charges e.g. Road toll and Motor Vehicle Registration and Licensing fees/Drivers’ permits and Stamp Duty.
2 Historical Characteristics of the Tax System

2.1 Tax Policy

Uganda’s tax base has remained significantly narrow since independence leading to inadequate tax revenue. To date the ratio of tax revenue to GDP is just about 13 percent compared to the sub-Saharan average of 18-20 percent. By 1989 the ratio of tax revenue to GDP was a miserable 4 percent. Also the composition of tax revenue was predominantly import-dependent. Over 60 percent of the total tax revenue was raised from taxes on imports with less than 40 percent contribution from Domestic taxes. This scenario was attributed to a number of factors:

(i) **A small taxable component of GDP**

The public sector was much bigger than the private sector and yet contributed very little to the tax base. The private sector, which was dominated by subsistent agriculture (about 60 percent of GDP), had low revenue productivity. In addition, the commercial sector was largely informal and difficult to tax.

(ii) **Tax exemptions and discretionary powers**

Tax laws were characterized by wide-ranging exemptions, which eroded further the tax base. The laws also provided extensive discretionary powers to the Minister to grant specific exemptions, rendering the system highly vulnerable to tax avoidance schemes.

(iii) **Opaqueness and inconsistencies in the laws**

Some taxation provisions were inconsistent with the framework of tax administration rendering tax administration both difficult and costly.

(iv) **Tax rates and tariffs**

Generally the tax rates and tariffs were high and prohibitive as indicated in table 1.
(v) **Subjectivity in provisions regarding tax administration**
Quite a number of provisions in various laws gave a lot of discretionary powers to the tax authority in decision-making leading to many arbitrary tax assessments. This weakness in the laws fuelled corruption in tax administration.

(vi) **Dispute resolution.**
The system lacked transparency due to absence of a mechanism for independent arbitration in event of tax disputes between the taxpayer and the tax authority.

In a nutshell, the tax system was not comprehensive and economical, and lacked equity and fairness.

2.2 **Tax Administration**
Low tax effort even within the existing tax base was very evident (a ratio of only 4% tax revenue to GPD). The administration also had several shortcomings which included:

(i) Red-tape bureaucracy, typical of the formal Civil Service
(ii) Poor tax administration infrastructure and inadequacy of logistics
(iii) Little political will and support, rendering the environment for tax administration insecure
(iv) Low work morale leading to declining professionalism amongst tax collectors
(v) High degree of tax evasion through smuggling, forgeries, under-declarations and other forms of indiscipline
(vi) Rampant corruption
(vii) Inappropriate technology
(viii) Very poor standard of business management and record keeping amongst the business community
3 Reforms in Uganda’s Tax System.
The Government of Uganda has particularly made effort to rebuild the economy from three major fronts:

- Fostering development of a private sector-led self-sustaining economy.
- Rehabilitating and developing the necessary economic infrastructure to facilitate investment and production
- Mobilizing internal resources to minimize economic over-dependency (deficit finance).

These fronts are enabling Government to build a strong economy that will not only increase the levels of income but also strengthen the country’s resource base. With a strong economy it is certain that Uganda is moving towards developing an adequate and sustainable tax revenue base.

3.1 Broad objectives of the policy reforms

- Broadening the tax base by bringing the hitherto difficult-to-tax areas of the economy under the tax net (comprehensiveness)
- Maximizing tax revenue by harmonizing the tax laws and rationalizing tax rates to increase the effectiveness of tax administration (productivity)
- Minimizing the cost of tax administration and increasing efficiency (efficiency/economy)
- Increasing the level of tax compliance by reducing the tax burden (fairness/equity).
- Promoting FDI and local investors for both local and foreign markets.

3.2 Tax Policy reforms

(i) General rationalization and harmonization of tax rates and tariffs

The objectives were to attract and promote investment in Uganda, increase the revenue yield and simplify tax administration. Table 1 gives the comparative rates of tax before and after the reform:
Table 1

<table>
<thead>
<tr>
<th>Tax Head</th>
<th>Previously</th>
<th>Currently</th>
<th>since</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Income Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Company</td>
<td>60%</td>
<td>30%</td>
<td>1994</td>
</tr>
<tr>
<td>- Mining Corporations</td>
<td>60%</td>
<td>25%-45%</td>
<td>1997</td>
</tr>
<tr>
<td>- Individual</td>
<td>10%-70</td>
<td>10%-30%</td>
<td>1994</td>
</tr>
<tr>
<td>(b) Import Duty</td>
<td>Maximum 200%</td>
<td>0%, 7%, 15%</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Comesa 0%,4%, 6%)</td>
<td>1998</td>
</tr>
<tr>
<td>(c) Excise Duty</td>
<td>Maximum 50%</td>
<td>0%, 10%,</td>
<td>1999</td>
</tr>
<tr>
<td>(Generally)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Sales Tax</td>
<td>Maximum 50%</td>
<td>Abolished</td>
<td>1996</td>
</tr>
<tr>
<td>(e) CTL</td>
<td>Maximum 15%</td>
<td>Abolished</td>
<td>1996</td>
</tr>
<tr>
<td>(f) Value Added Tax</td>
<td>0%, 17%</td>
<td>Abolished</td>
<td>1996</td>
</tr>
<tr>
<td>(g) Export Tax (Coffee Stabilization Tax)</td>
<td>30%</td>
<td>Abolished</td>
<td>1993</td>
</tr>
</tbody>
</table>

(ii) Abolition of wide-ranging exemptions
Over the years practically all exemptions including a number of Minister’s powers to exempt have been abolished. They include:

- A provision in the Customs Management Act empowering the Minister to grant specific waiver of taxes and duties on imports repealed in 2001

(iii) New Tax Incentives – Special Allowances and Deductions
- A scheme of capital deductions and allowances was introduced in 1997 through the Income Tax Act of 1997 to replace the abolished tax holidays (see table 2).
Table 2
SPECIAL ALLOWANCES, DEDUCTIONS AND TAX INCENTIVES

<table>
<thead>
<tr>
<th>TYPE OF ALLOWANCE</th>
<th>RATE</th>
<th>GRANTED ON</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Allowance granted in the first year of production.</td>
<td>50% of cost base</td>
<td>Plant and Machinery</td>
<td>Industries located in Prescribed Areas:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Kampala, Entebbe, Namanve Jinja, Njeru</td>
</tr>
<tr>
<td>Initial allowance granted in the first year of production</td>
<td>75%</td>
<td>Cost base of Plant and Machinery</td>
<td>Industries located outside Prescribed Areas (Elsewhere in Uganda)</td>
</tr>
<tr>
<td>Initial Deduction granted in first year of use of an Industrial Building</td>
<td>20%</td>
<td>Cost base of the Industrial Building</td>
<td>Granted on industrial Buildings (a building wholly or partly used) for;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Research and Development into improved/new methods of manufacture</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Mining operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Approved hotel business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Approved hospital</td>
</tr>
<tr>
<td>Scientific Research Expenditure</td>
<td>100%</td>
<td>Actual cost of scientific research incurred during a year of income</td>
<td>Undertaken for the development of a person’s business.</td>
</tr>
<tr>
<td>Training expenditure</td>
<td>100%</td>
<td>Actual cost of training incurred during a year of income</td>
<td>Training or tertiary education of a citizen or permanent resident of Uganda employed in the business by the employer</td>
</tr>
<tr>
<td>Mineral Exploration Expenditure</td>
<td>100%</td>
<td>Actual Cost incurred on Mineral Exploration</td>
<td>Expenditure of a capital nature incurred on searching for, discovering and testing, winning access to deposits</td>
</tr>
<tr>
<td>Deductible annual allowances</td>
<td></td>
<td>of minerals in Uganda.</td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>---</td>
<td>------------------------</td>
<td></td>
</tr>
<tr>
<td>Industrial buildings 5%</td>
<td>Cost base net of initial deduction on straight line basis per annum</td>
<td>Qualifying industrial building (includes approved commercial building for purposes of this allowance)</td>
<td></td>
</tr>
<tr>
<td>Start-up Costs 25%</td>
<td>Actual cost per annum</td>
<td>Granted over the first four years in four equal installments</td>
<td></td>
</tr>
<tr>
<td>Depreciation:</td>
<td>(On reducing balance basis per annum) on Cost base incurred on the asset</td>
<td>Depreciable Assets only</td>
<td></td>
</tr>
<tr>
<td>Class 1 40%</td>
<td></td>
<td>Computers and Data Handling Equipment</td>
<td></td>
</tr>
<tr>
<td>Class 2 35%</td>
<td></td>
<td>• Light automobiles (less than 30 seater, less than 7 tons)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Construction and Earthmoving equipment</td>
<td></td>
</tr>
<tr>
<td>Class 3 30%</td>
<td></td>
<td>• Heavy Automobiles (30 or more seater, 7 or more tons)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Specialized trucks, tractors, trailers, plant and machinery used in farming, manufacturing and mining operations.</td>
<td></td>
</tr>
<tr>
<td>Class 4 20%</td>
<td></td>
<td>• All other depreciable assets</td>
<td></td>
</tr>
<tr>
<td>Farming costs 20%</td>
<td></td>
<td>• Farm works (i.e. labor quarters, immovable</td>
<td></td>
</tr>
<tr>
<td>Horticulture</td>
<td>20%</td>
<td>Actual cost over in four equal annual installments</td>
<td>buildings, other works necessary for the farm</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------</td>
<td>---------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>Varies</td>
<td>Cost of asset in equal annual installments over its useful life</td>
<td>Cost incurred on</td>
</tr>
<tr>
<td>Repairs and Minor Capital Equipment</td>
<td>100%</td>
<td>Actual cost incurred in a year of income</td>
<td>- Acquisition or establishment of a horticultural plant</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Construction of a greenhouse</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Asset with ascertainable useful life and value, e.g. leasehold, patents, royalties</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Expenditure on repair of property occupied or used for the business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Cost of a minor capital equipment (a depreciable asset costing less than U shs. 1,000,000 and functions in its own right)</td>
</tr>
<tr>
<td>Other allowances include;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ordinary business expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Meals, Refreshment and Entertainment expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Bad debts incurred in respect of business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest on business debt obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Carry forward losses</strong>- An assessed loss arising out of company operations including the losses legally resulting from investment incentives is allowed as a deduction in determining the taxpayer’s chargeable income in the subsequent year(s) of income. In practice, therefore, investment profits are not taxable until prior year losses have been offset in full.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(iv) **Conditional Exemptions**

Government offers a wide range of conditional exemptions for the support of investment in various sectors in Uganda and travel to Uganda.

- There are conditional exemptions for returning residents and persons bona fide changing residence whether for investment purposes or simply coming/returning to Uganda as well as temporary visitors (e.g. tourists) and returning residents. Exempt items generally include personal effects, one unit of motor vehicle, passengers baggage, wearing apparel, and tools and instruments used in profession or trade.

- There are also conditional exemptions granted in respect of particular imports for the promotion of investment in and development of specified industries. Below is a list of some of them. The conditions are contained in the Finance Act 2003 which can be accessed on the URA website.
  - Inputs for the manufacture of agricultural equipment
  - Packaging materials for selected industries
  - Samples and miscellaneous articles
  - Materials for making mosquito nets
  - Sowing seeds
  - Tourism vehicles
  - Inputs for Horticulture
  - Batteries for use in solar equipment
  - Raw materials for pharmaceutical products
  - Material and equipment designed for processing honey
  - Hotel equipment/materials
  - Plant and machinery, raw materials and other inputs imported for use in processing or manufacturing of goods for export and generally not readily available locally.

(v) **Establishment of a mechanism for arbitration/justice**

For a long time the tax system lacked a mechanism for redress in event of tax disputes since it was inadequately provided for in tax laws. In 1997, Government
established the Tax Appeals Tribunal under the Tax Appeals Tribunal Act of 1997. A taxpayer aggrieved by the decision of the Commissioner General is provided with a mechanism of objecting to the decision. Where again dissatisfied with the objection decision, the taxpayer may appeal to the Tribunal. This premise is available in the three principle laws for Income Tax, Customs and Value Added Tax administration.

(vi) **Tax Exemptions on Industrial Inputs and specialized industries**
Government extends tax exemptions to imports of industrial inputs such as plant and machinery and raw materials indiscriminately. This includes industrial machinery, computers, printers and accessories; machinery used for processing agricultural or dairy products, dental, medical and veterinary equipment, industrial chemicals (generally) and fertilizers.

(vii) **Export promotion**
Uganda offers a tax-free export policy to promote production for export. All exports are tax free and zero-rated while at the same time a duty drawback system is in place under which a producer or exporter can claim back the taxes paid on certain inputs during the production of the goods declared for or being exported.

(viii) **Reform in the tax structure**
Government abolished the relatively archaic single-stage taxes (CTL and Sales Tax) replacing them with a more comprehensive and modern Value Added Tax. There are also several out-dated provisions in the laws governing Income Tax, Customs & Excise, which were deleted and replaced with provisions that match with current economic and technological trends.
3.3 Tax Administration Reforms (Revenue Collecting Agency)

The most important reforms arose from the establishment of Uganda Revenue Authority (URA) in 1991. URA was set up as an agency of the Central Government for the administration and collection of specified taxes and revenues in accordance with various taxation statutes.

URA took over the revenue collection functions of the former tax departments under the Ministry of Finance. The vision was to collect revenue competitively, contractually and in a business-like manner.

3.4 Broad Objectives of the Reforms in Tax Administration

- To address weaknesses characterizing the system at the time namely;
  - Corruption and tax evasion,
  - Poor and ineffective tax administration structure
  - Poor tax paying culture and high level of ignorance about tax issues amongst the public
- To improve on the national budget through maximization of revenue collection
- To simplify compliance procedures for tax payment

3.5 Performance review under Uganda Revenue Authority

(i). Investor Support Systems/Procedures

Under the URA administration, Government has developed systems and procedures for investor support.

- Investment Trader.

Under the VAT law, an investment trader (in possession of an investment license) can register for VAT and claim refund of input tax paid on capital equipment at construction and installation stage of the investment. This enables the investor recover the funds spent in tax for reinvestment on a monthly basis. Refund is made within 30 days from the date of the claim.
- **Fast Track Clearance**
The system was established and is administered by URA in order to facilitate the clearance of plant, machinery and equipment for industrial development in Uganda.

- **Duty drawback Desk**
Specialized services are offered by URA to ensure fast refund of duty paid on industrial inputs on goods declared for export under the duty drawback system.

- **Export Promotion Desk**
A special unit is in place within URA, which provides services and procedural advice to exporters. A special arrangement is also available to facilitate exports under AGOA

- **VAT Deferment Desk**
Where some capital inputs still attract VAT, there is a procedure for deferring the VAT, which is otherwise assessed, and payable, until production commences. Essentially VAT remains not paid, giving room for ease of cash flows

- **Registration Process**
The registration system was modernized by introducing a single taxpayer identifier for all tax purposes known as the **Tax Identification Number (TIN)**. While the allocation of TIN is centralized at Head Office, application for registration can be made from any revenue office countrywide. The processing would then be done internally and allocation communicated back thought he same office where the application was made. Allocation of TIN together with any income tax and VAT reference numbers is done at no extra cost and may take between one and fourteen day depending on where the application was made.
It requires only the ordinary documents like certificates of registration or incorporation, memorandum and articles of association, partnership deed, or any other form of official information. For approved investments it is necessary to attach a copy of the Investment License from Uganda Investment Authority.

(ii) **Revenue Performance**

By the time URA was established, the total tax revenue collection was barely U Shs. 134 Billion per annum (11 Billion per month) equivalent of 5.5 percent of GDP in 1990/91. By 2003, total revenue had risen to U shs1, 410 Billion per annum (116.8 Billion per month) equivalent of 13 percent of GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>90/91</th>
<th>91/92</th>
<th>92/93</th>
<th>93/94</th>
<th>94/95</th>
<th>95/96</th>
<th>96/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue U shs billion</td>
<td>134</td>
<td>181</td>
<td>283</td>
<td>373</td>
<td>507</td>
<td>612</td>
<td>728</td>
</tr>
<tr>
<td>Year</td>
<td>97/98</td>
<td>98/99</td>
<td>99/00</td>
<td>00/01</td>
<td>01/02</td>
<td>02/03</td>
<td></td>
</tr>
<tr>
<td>Revenue U shs billion</td>
<td>797</td>
<td>936</td>
<td>978</td>
<td>1,075</td>
<td>1,212</td>
<td>1,410</td>
<td></td>
</tr>
</tbody>
</table>

(iii) **Tax paying culture**

URA has created an impact in increasing tax compliance and the level of awareness through intensive taxpayer education programs such as proactive information dissemination. Various strategies have been adopted such as seminars, workshops, tax-clinics, live radio talk shows, tax literature and URA website. More professional tax administration techniques have been imparted onto staff to ensure efficiency and effectiveness in revenue collection. The Authority has further adopted modern systems to ease tax compliance, reduce compliance costs and minimize the cost of tax administration. It is evident that the taxpayers’ attitude is gradually changing.
(iv) Modernization of administration systems
A number of modern systems have been developed to curb tax evasion, reduce revenue leakage and simplify compliance:

- **Liberalization of revenue collection (improved taxpayer services)**
  Previously tax payment was being made only through Uganda Commercial Bank. The monopoly position of UCB caused operational problems, which could only be overcome by liberalizing. Subsequently other Commercial banks were invited to participate in revenue collection together with UCB. Currently ten commercial banks collect revenue through their branches countrywide. A taxpayer is at liberty to bank the revenue at the bank of his/her choice amongst the authorized.

- **Direct banking**
  The facility of Direct Banking was introduced and is operational for VAT, Income Tax and Customs Taxes. A taxpayer completes a return, determines his/her own liability, proceeds to the bank, lodges the return at the bank and pays the relevant tax. The bank then submits the return and evidence of tax payment to URA on behalf of the taxpayer.

- **IT Supported Revenue Management**
  This is mainly for monitoring and control. Systems introduced include, automatic Master Register, Direct Trader Input, Cargo Scanning, Electronic Transit Cargo Tracking and Fast Track Clearance and Integrated Database Management. Automatic Motor Vehicle Registration and Licensing is also being developed.

- **Self-Assessment**
  Under the Income Tax law, all corporate taxpayers can make a self-assessment of their taxable income of a given year of income, determine own liability and file and pay accordingly. In essence a taxpayer’s declaration is regarded true unless proved otherwise.
• **Withholding Tax Exemptions**
  Taxpayers who have regularly complied with the income tax requirements as well as importing for industrial production are specifically exempted from withholding tax. For practical purposes, all audit and accounting professionals and large corporations are automatically exempt from withholding tax.

• **Double Taxation Relief Agreements**
  The Government has endeavored to enter Double Taxation Relief Agreements with anumber of countries. These so far include UK, South Africa, Denmark, Norway, Kenya and India. These are major partners in commerce, trade and investment.

(v) **Customer Care and Public Relations**
  To work towards creating a sustainable positive corporate image, URA has employed a multi-strategic approach to improve URA-taxpayer relationships.

  • The Authority has introduced the customer care and taxpayer services functions in which taxpayers’ needs, queries or concerns are promptly addressed. In particular, Customer Care and Complaints desks administered through the Tax Education Division have been established initially at the Kampala long room in Customs and at the Tax Education Offices. Many complaints are now being handled expeditiously using this strategy.

  • The strategy has also enabled government establish and strengthen partnerships with various stakeholders such as Government institutions, Parliament, business community, the professionals (Taxpayer Agents), the Media, etc.

  • Permanent forums have been established for dialogue with trading communities through their associations such as Kampala City Traders Association (KACITA), Uganda National Chamber of Commerce and Industry (UNCCI), Uganda Freight Forwarders Association (UFFA),
Uganda Clearing Industry and Forwarding Association (UCIFA), Uganda Commercial Trucks Operators Association (UCTOA), Uganda Manufacturers Association (UMA). We have embarked on establishing permanent call centers in the proximity of the stakeholders, beginning with Parliament, Kampala and Entebbe to ease and quicken the flow and exchange of tax information.

The overall effect is that the measure has helped to foster the development of confidence and business ethics especially amongst the ordinary business community and increase the level of ethics and integrity in tax administration.

(vi) Human Resource capacity building
Particular emphasis has been laid on staff development and training. Also staff is encouraged to undertake private courses to enhance their professional skills to become more competent and competitive in the job market.

(viii) Simplification of tax administration procedures
The authority has overhauled most of the tax administration procedures relating to the various laws to make them simple to administer, easy for taxpayers to comply and cope with the development trends.

(ix) Regional impact
URA was the first Authority to be established in the East African region. To date, similar Authorities have been established south of Sahara, in Kenya, Tanzania, Rwanda, Zambia, etc basing on URA’s success story. Thus URA has become a hub of sharing experiences in modern tax revenue management in the region and is conceptually in the lead.
4. Uganda’s Tax Portfolio

Uganda’s tax portfolio is very attractive in comparative terms in the region. Below is tax structure.

4.1 Taxes on International Trade

Table 4

- Duty on dry cargo: Type of rate is Ad valorem (i.e. based on value)

<table>
<thead>
<tr>
<th>Import duty structure</th>
<th>Excise duty structure</th>
<th>VAT structure</th>
<th>Withholding tax</th>
<th>Import commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non comea</td>
<td>0%, 7%, 15%</td>
<td>0%, 10%, 15%, 20%</td>
<td>Ex, 0%, 17%</td>
<td>4%</td>
</tr>
<tr>
<td>Comesa</td>
<td>0%, 4%, 6%</td>
<td>0%, 10%, 15%, 20%</td>
<td>Ex, 0%, 17%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Duty on wet cargo: type of rate is specific (i.e. based on quantity)

Table 5

<table>
<thead>
<tr>
<th>Petroleum product</th>
<th>Petrol: tax Per litre</th>
<th>Diesel: tax Per litre</th>
<th>Paraffin: tax per litre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of duty</td>
<td>U shs. 660</td>
<td>U shs. 400</td>
<td>U shs. 200</td>
</tr>
</tbody>
</table>

4.2 Domestic Taxes

- Value added Tax:
  The structure of VAT revolves around the principles of output tax and input tax. Output tax is the VAT charged to customers. Only taxable persons can charge VAT in the course of their businesses. Input tax is the VAT that a taxable person pays on his purchase of taxable goods and services.

Rates of Tax:
There are two rates of tax in Uganda today:

a) The Standard Rate:
This is the rate that applies to all goods and services unless otherwise specified in the VAT law. In Uganda today the Standard rate is 17%.

b) The Zero Rate:
This is a privileged rate that is applicable to a few, selected items (goods and services) as indicated in schedule III of the VAT Statute.

c) Exempt supplies.
Exempt supplies of goods and services are specified in schedule II of the VAT statute.

d) Threshold
The threshold for compulsory registration is Ushs 50,000,000 in terms of annual turnover.
In the case of professionals there they are required to register regardless of the turnover.

- Income Tax:
Income tax categories in Uganda

1. Individual Income Tax
   This is income tax charged on incomes of individuals (non-corporate Persons). These are mainly individual business people and professionals.

2. Corporation Income
   Income tax charged on incomes of corporate persons such as Limited Companies

3. Rental Income Tax for Individuals
   Income tax charged on rent earned by individuals (Land lords/ladies) by way of letting property. This is levied separately from other income tax.

4. Pay As You Earn – PAYE
   A form of individual income tax charged incomes of employed individuals. It is taxed at source, collected and remitted by the employer on behalf of the employee.
5. **Withholding Taxes**
A form of income tax collected at source by a withholding agent (a person holding money payable to another in respect of some transaction). It may be a final tax such as in the case of non-resident payments or an advance payment such as in the case of payments in respect of professional services or Government contracts.

6. **Taxes for small business/ Presumptive Tax**
A tax regime introduced to tap revenue from the informal businesses in a more scientific manner and to cultivate a culture of simplified business records keeping.

- **Rates of tax under income tax**

**A. Resident Individual**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs</td>
<td>Shs</td>
</tr>
<tr>
<td>0-1,560,000.00</td>
<td>0</td>
</tr>
<tr>
<td>1,560,000.00 - 2,820,000.00</td>
<td>10% of excess</td>
</tr>
<tr>
<td>2,860,001.00 - 4,920,000.00</td>
<td>Sh. 126,000.00 + 20% of excess</td>
</tr>
<tr>
<td>4,920,001.00 and over</td>
<td>Sh. 546,000 + 30% of excess</td>
</tr>
</tbody>
</table>

**B. Non Resident Individual**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs</td>
<td>Shs</td>
</tr>
<tr>
<td>0 – 2,820,000.00</td>
<td>10%</td>
</tr>
<tr>
<td>2,820,001.00 - 4,920,000.00</td>
<td>Shs. 282,000.00 + 20% of excess</td>
</tr>
<tr>
<td>4,920,001 and over</td>
<td>Shs. 702,000.00 + 30% of excess</td>
</tr>
</tbody>
</table>
C. Pay As You Earn (PAYE):

<table>
<thead>
<tr>
<th>Total monthly employment income</th>
<th>Monthly PAYE Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-Shs 0 – 130,000.00</td>
<td>Shs 0</td>
</tr>
<tr>
<td>130,001.00 - 235,000.00</td>
<td>10% excess</td>
</tr>
<tr>
<td>35,001.00 – 410,000.00</td>
<td>Shs. 10,500 + 20% of excess</td>
</tr>
<tr>
<td>410,001 and over</td>
<td>Shs. 45,500 + 30% of excess</td>
</tr>
</tbody>
</table>

D. Tax on Rental Income

1.1 Individual Rental Income Tax

20% Computed at 80% of Gross rent after allowing threshold of Shs 1,560,000.00

E. Tax on Corporate Income

Corporate Income Tax Rate

- 30% Resident Companies
- 30% Non-Resident Companies
- 20% - 45% For Mining Companies
F. Tax for Small Business Taxpayers (Turnover not exceeding Ushs 50,000,000)

<table>
<thead>
<tr>
<th>Gross Turnover Bracket</th>
<th>Annual Tax Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs</td>
<td>Shs</td>
</tr>
<tr>
<td>1. (5 -20 Million)</td>
<td>100,000</td>
</tr>
</tbody>
</table>
| 2. (20 – 30 Million)   | 1% of gross turnover up to a maximum of Shs 250,000/=.
| 3. (30 –40 Million)    | 1% of the gross turnover up to a maximum of Shs 350,000/=.
| 4. (40 – 50 Million)   | 1% of the gross turnover up to a maximum of Shs 450,000/=.

G. Withholding Tax Structure:

- **Commercial Transaction**: 4% Of Gross Payment
- **Professionals**: 4% Of gross payment
- **Imports**: 4% Of Gross Customs Value of goods imported
- **Dividends/Interest**: 15% Of Gross payment
- **Non residents**: 15% Of Gross payment
- **Shipping & Aircraft**: 2% Of Gross payment
- **Trustee Income**: 30% Of Income
- **Retirement Fund**: 30% Of Income

- **Excise Duty**

Excise duty is levied on a selected list of imports generally as a way of protecting local industries, which produce similar goods or import substitutes or on imports
which are luxurious in the eyes of Government mainly to raise revenue. Examples are:

Sugar, certain confectionaries, beverages, cosmetics, certain wood products, certain textiles and garments, certain motor vehicles, etc

Excise Duty is also levied on a small list of locally manufactured goods namely:

- Cigarettes
- Beer
- Spirits/Waragi
- Soft Drinks
- Phone Talk Time

- Non tax revenues

These are small transactional levies mainly

- Charges on motor vehicle related transactions and traffic offences
- Stamp duty
- Other revenues collectively referred to as appropriation in aid traditionally collected by various government departments/ministries.

5. Conclusion

The Government of Uganda is pursuing a policy of private sector-led economic development. Government has therefore instituted policies geared towards creating an environment, which is conducive for private investment. The tax policies adopted by Uganda make the country fairly competitive in the region for investment opportunities. The tax administration is also rapidly improving to continually ease tax compliance while enhancing revenue collection. It is certain that an investor is taken in very high regard and is assured of maximum protection in terms of tax policies as many policies are generated through round table discussions.