

**HIGHLIGHTS
OF THE TAX (AMENDMENT) ACTS, 2020**

APRIL 2020



Background

The Hon. Minister of Finance, Planning and Economic Development tabled the Tax Amendment Bills, 2020 before Parliament on 31st March 2020. Parliament passed the new tax measures including: The Income Tax (Amendment) Act, The Value Added Tax (Amendment) Act, The Excise Duty (Amendment) Act, and Stamps Duty (Amendment) Act, 2020. The tax measures, once assented to by the President, will become law effective 1st July 2020.

Below we highlight some of the changes that have been passed and those proposals that were dropped;

Income Tax (Amendment) Act, 2020

The new tax measures that have been passed under the Income Tax (Amendment) Act, 2020 include:

- 1. Income exemption for the Deposit Protection Fund.** The Income of the Deposit Protection Fund (established under section 108 of the Financial Institutions Act, 2016), will be exempted from income tax.
- 2. Income tax exemptions for investors.** Amendments were made to exempt income of manufacturers of tyres, footwear,

mattresses or toothpaste, whose investment capital is US\$10 million for a foreigner or US\$1 million for a citizen, for 10 years. The amendments also introduce a requirement to disclose the qualifying income and its related expenses.

- 3. Allowable deduction of purchase expense from a supplier designated to use e-invoicing system.** Section 22 has been amended to provide for an allowable deduction where a person purchases goods or services from a supplier designated to use the e-invoicing system. These suppliers will be gazetted and the expenses should be supported by e-invoices or e-receipts.
- 4. Withholding tax on commissions to Insurance and Advertising agents.** The Act will be amended to include new sections 118G and 118H to provide for withholding of tax on commissions paid to insurance and advertising agents at a rate of 10%.
- 5. Tax clearance certificate for transport services.** Section 123A has been amended to require taxpayers providing passenger transport or freight transport services where the goods used have a loading capacity of at least two tonnes, to obtain a tax clearance certificate before renewal of their operational

licenses.

- 6. Filing of withholding tax returns by withholding tax agents.** Section 130 of the principal act has been amended to require a withholding agent who makes payments that are subject to withholding tax under sections 83 to 86 and 117 to 119, to furnish a return of withholding tax no later than 15 days after the end of every month to which the tax relates.
- 7. Income exemption of the Islamic Development Bank.** The First Schedule has been amended to include the Islamic Development Bank as a listed institution, which will be exempted from income tax.
- 8. Introduction of a new tax regime for small business taxpayers.** The Second Schedule to the principal Act has been amended to introduce new tax rates for small business taxpayers as follows;

Gross turnover	Tax rate per annum without records ' Ushs	Tax rate per annum with records 'Ushs
Where the gross turnover of the taxpayer does not exceed ten million shillings per annum	NIL	NIL
Where the gross turnover of the taxpayer exceeds ten million shillings but does not exceed thirty million shillings per annum	80,000	0.4 % of the annual turnover in excess of ten million shillings
Where the gross turnover of the taxpayer exceeds thirty million shillings but does not exceed fifty million shillings per annum	200,000	Shs 80,000 plus 0.5% of the annual turnover in excess of thirty million shillings
Where the gross turnover of the taxpayer exceeds fifty million shillings but does not exceed eighty million shillings per annum	400,000	Shs 180,000 plus 0.6% of the annual turnover in excess of fifty million shillings
Where the gross turnover of the taxpayer exceeds Eighty million shillings but does not exceed one hundred and fifty million shillings per annum	900,000	Shs 360,000 plus 0.7% of the annual a turnover in excess of eighty million shillings.

The Value Added Tax (Amendment) Act, 2020

The new tax measures that have been passed include:

- 1. Amendment to Section 28 (3): Extension of timelines for manufacturers to claim input tax credit prior to obtaining VAT registration.** The amendment will allow manufacturers to claim for input VAT incurred not more than 12 months prior to registration for VAT. Section 28(3) of the Principal Act currently provides for not more than six months prior to registration for VAT. The 12-month period provides a benefit for manufacturers as they will be

given a longer retrospective period to claim input VAT. This will help in reduction of costs in the manufacturing sector.

- 2. Tax credit on purchases from suppliers designated to use the e-invoices or e-receipts.** A taxable person will be allowed a tax credit on purchase of goods and services from suppliers designated to use the e-invoicing system, only if they are supported by e-invoices or e-receipts. This restriction will encourage the use of the e-invoicing system which is meant to reduce tax leakages. However, the Minister is yet to

issue a list of designated suppliers who will be using electronic fiscal devices, which generate these kinds of invoices.

3. **Insertion of subsection 42(2b): Restriction of offsets to be carried forward for taxable supplies in stock or stock in transit.** The amendment here is that the amount of offsets under subsection 2(a) of the VAT Act shall be for a maximum period of three months after which the taxable person shall claim a refund in accordance with subsection (1). The change will allow that in cases where stock or stock in transit is lost due to theft, fire, accident or force majeure and input has been paid, the maximum period for offsets will be three months after which the taxable person can claim a refund.
4. **Amendment in the First Schedule of the VAT Act.** The Islamic Development Bank will now be listed in the First Schedule of the VAT Act, which provides for Public International Organizations. This will allow it to claim for a refund of tax paid in Uganda.
5. **VAT exempt Supplies.** The Second Schedule to the principal Act amended to widen the list of exempt supplies to include among others, the supply of accommodation in tourist hotels and lodges located up-country; liquefied gas; processed milk; imported services specifically software and equipment installation services to manufactures, services incidental to tele-medical services and royalties paid in respect of agricultural technologies.

The following Tax Proposal was Dropped:

- **The 18% VAT on separate commercial buildings.** The bill was proposing that an owner of more than one commercial building shall account for VAT for each commercial building separately and shall not claim tax credits on inputs used in the construction of an incomplete building against the tax collected from a completed commercial building.

The Excise Duty (Amendment) Act, 2020

The following tax proposals were passed;

1. **New excise duty/ rate of exercise duty on:**

- Un-denatured spirits made from locally produced raw materials – 60% or Shs 1500 per litre whichever is higher.
- Fruit juice and vegetable juice, except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda - 12% or Shs 250 per litre whichever is higher.

- Fuel
 - a) Motor spirit (gasoline) - Ugx. 1350 per litre.
 - b) Gas oil (automotive, light, amber for high speed engine) - Ugx 1030 per litre.
- Sacks and bags of polymers of ethylene and other plastics under its HS codes 3923.21.00 and 3923.29.00

except vacuum packaging bags for food, juices, tea and coffee, sacks and bags for direct use in the manufacture of sanitary pads - 120% or Shs. 10,000 per kilogram of the plastic bags.

- 2. Reduced thresholds to qualify for nil excise duty by strategic investors:** Minimum capital requirements for local investors have been relaxed to \$300,000 or \$150,000 (for those investing upcountry), while that for foreigners is maintained at \$10m. However, all investors will be required to meet an additional employment requirement of 70% citizens earning an aggregate wage bill of at least 70% of the total wage bill. Justification was to ensure that this benefits a larger proportion of the local economy and encourage investment in the rural areas as opposed to concentration of investments in the towns.

The Stamp Duty (Amendment) Bill, 2020

The following tax proposal was passed;

- 1. Amendment of Schedule 2 of the Principal Act.** The proposal to amend Schedule 2 of the Principal Act, to impose stamp duty of UGX100,000 on professional licenses or certificates was adopted on grounds of widening the tax net. This will affect professionals in various industries including the accounting and auditing profession, legal profession, medical practitioners, insurance, among others. Whereas the professions have protested to the President requesting him not to assent to this particular Bill, the matter still remains as decided and approved by Parliament.

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