

KTA COMMERCIAL TRANSACTIONS - TAX ALERT

Highlights of the Tax Amendment
Bills 2020

By Hillary Ahimbisibwe

The Tax Amendment Bills, 2020 to wit the Excise Duty (Amendment) Act, Income Tax (Amendment) Act, Tax Procedures Code (Amendment) Act and the Value Added Tax (Amendment) (No.2) Act 2020 were presented to the Parliament of the Republic of Uganda on 31 March 2020 by the Hon. Minister of Finance, Planning and Economic Development. The Tax Amendment Bills were passed into law by the Parliament and they were assented to by the President on 24th November, 2020. Previously, on 30th June, 2020, the President assented to the Stamp Duty (Amendment) Act, 2020 and the Value Added Tax (Amendment) Act, 2020.

The tax changes introduced under most of these Acts took effect on 1 July 2020 save for the Tax Procedure Code (Amendment) Act 2020 which commenced on 1st April, 2020 and the Excise Duty (Amendment) Act, 2020 which shall take effect on the date of its publication in the Gazette. Some of the amendments were steered by the Covid-19 pandemic, we highlight key changes contained in the Amendment Acts in this alert.

Background

Income Tax (Amendment) Act, 2020

The latest tax changes that have been passed into Law under the Income Tax (Amendment) Act, 2020 include:

1. Exemption for the Deposit Protection Fund.

The Deposit Protection Fund as stipulated in the Financial Institutional Act will be excepted from Income tax.

2. Modification to 2018 investment incentives for specific sectors

Changes were made to exempt income of a manufacturer of tyres, footwear, mattresses or toothpaste whose investment capital is US\$10 million for a foreigner or US\$1 million for a citizen from income tax. The changes present a requirement to disclose the qualifying income and its related expenses.

3. Purchase expense from a supplier designated to use e-invoicing system

The law in Section 22 was amended to provide for an allowable tax credit of a tax payer who purchases goods or services from a supplier selected to use the e-invoicing system by adducing those receipts.

4. Withholding tax on gross pay of Insurance and Advertising agents

There are new provisions; Sections 118G and 118H that require insurance service providers that pay commission to an insurance agent to withhold 10% tax on the gross payment. Implying therefore that all commission payments by insurance or advertisement firms is subject to 10% withholding tax.

5. Income exemption of the Islamic Development Bank

The following are the amendments in part 1 of Schedule 2 to the Excise Duty Act to vary excise duty in respect of excisable goods. The amendments geared to improve revenue collection from goods saw an increase in the excise duty rates payable on several items such as alcoholic and non-alcoholic beverages, cigarettes, fuel and motorcycles at first registration.

Excise Duty (Amendment) Act, 2020

1. Increase in excise duty

The following are the amendments in part 1 of Schedule 2 to the Excise Duty Act to vary excise duty in respect of excisable goods. The amendments geared to improve revenue collection from goods saw an increase in the excise duty rates payable on several items such as alcoholic and non-alcoholic beverages, cigarettes, fuel and motorcycles at first registration.

2. Reduced thresholds to qualify for nil excise duty by strategic investors

The amendments have allowed reduction in minimum capital requirements for local investors to at least US\$150,000 for investments upcountry and US\$300,000 within the city. While that for foreigners remained at \$10m. 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.

Tax Procedures code (Amendment) Act 2020

1. Deferment of payment of tax

The Amendment introduces deferred payment of income tax for companies and other persons involved in the business of manufacturing, education, tourism, horticulture and floricultural sectors with a turnover that is less than UGX 500,000,000 and to waive interest and penalty on unpaid principal tax.

This Amendment seeks to offer some relief to persons involved in the business of manufacturing, education, tourism, horticulture and floricultural sectors given the significant economic slowdown arising from the impact of Covid-19

Value Added Tax (Amendment) (No.2) Act 2020

The tax amendments include:

1. Amendment to Section 28 (3): Extension of timelines for manufacturers to claim input tax credit prior to obtaining VAT registration

The Amendment allows manufacturers to claim for input VAT incurred not more than 12 months prior to registration for VAT. Before amendment section 28(3) of the Act provided for not more than six months prior to registration for VAT. The 12-month period will give the manufacturers a longer retrospective period to claim input VAT.

2. Tax credit on purchases from suppliers designated to use the e-invoices ore-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 thee-invoicing system which is meant to reduce tax leakages. However, a list of selected suppliers who will have devices that generate e-invoices has not been issued by the Minister.

3. 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.

4. VAT exempt Supplies.

The Second Schedule to the principal Act has been 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.

TMT & IP Team



Kenneth Muhangi
Managing Partner



Dorothy N Nankunda
Senior Associate



Hilary Ahimbisiwe
Junior Associate



Bonita Mulelengi
Senior Associate



Margaret Nyakusemera Kabanyoro
Junior Associate



Judith Kagere
Junior Associate



Shamila Nakanwagi
Junior Associate

Contact Us

 Floor 3, Plot 4 Hannington Road
Kampala, Uganda, P.O. Box 37366,

 +256 414 530 114 / +256 414 531 078

 partners@ktaadvocates.com