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TAXATION HIGHLIGHTS FROM THE 2014/15 GOU BUDGET

On Thursday 12th June 2014, the Minister of Finance and Economic Planning delivered her budget proposals for the financial year 2014/15. Below we highlight the main tax and revenue measures proposed by the Minister. The measures, which generally seek to enhance infrastructure development and economic productivity, come into effect on 1st July 2014.

1. INCOME TAX

I. Elimination of Initial Allowance on Eligible Property

Taxpayers have been entitled to a first time enhanced capital allowance of between 50% and 75% on expenditure on plant and machinery used in business, in addition to the normal wear and tear allowance. Government is moving to end this incentive altogether.

II. Increase of Presumptive Tax threshold

Businesses with an annual turnover of less than UGX 50M, and which normally operate informally, pay a 1% tax charge on their gross income, with no deductions allowed. This rate is being increased to 3%.

III. Imposition of Tax on Sports and Pool Betting Winnings

A 15% tax has been imposed on winnings from sports and pool betting. In addition, gambling houses have been designated as Withholding Tax agents to enable effective collection of the tax.

IV. Termination of Exemption on Interest on Agricultural Loans

Interest income on agricultural loans is exempted from income tax. This constitutes interest earned by a financial institution on a loan granted for purposes of farming, forestry, fish farming, bee keeping, animal and poultry husbandry. The exemption has now been terminated.

V. Capital Gains Tax on Sale of Commercial Property

Government is introducing a capital gains tax on the sale of commercial property.

VI Extension of Thin Capitalization Rules

An income tax deduction is normally disallowed for interest paid by a foreign controlled resident company to an associated company in respect of its foreign debt in excess of a 2:1 debt to capital ratio. This "thin capitalization" rule is now being extended to limit deductions for interest paid to non associated persons so as not to exceed 50% of earnings before interest and depreciation.

VII. Termination of Exemption on Income Derived from Educational Institutions

Income derived from running or managing an educational institution is exempted from income tax. This exemption is now being terminated.

VIII. Start up Costs

A tax deduction is available for pre-operating expenditure incurred by a business. Government is now moving to remove any ambiguities associated with this incentive by explicitly excluding any capital expenditures incurred in the start up phase of a business. Only non recurring preliminary costs will benefit from this deduction.

Details of the above proposals are contained in the Income Tax (Amendment) Bill 2014.

2. VALUE ADDED TAX (VAT)

I. Termination of VAT exemptions

VAT exemption on the following supplies is being terminated:

- New computers, desk top printers and computer parts & accessories, as well as computer software licenses
- Hotel accommodation in tourist lodges and hotels outside Kampala district
- Liquefied petroleum gas
- Feeds for poultry and livestock
- Agricultural and dairy processing machinery
- Packaging materials for the dairy and milling industries
- Salt
- Insurance services, except medical and life insurance
- Specialised vehicles, plant & machinery, services and civil works related to roads and bridges construction, agriculture, water, education and health

II. Termination of Zero rated Supplies

The following supplies will cease to be zero rated for VAT purposes:

- Printing services for educational materials
- Cereals grown, milled or produced in Uganda
- Processed milk and milk products
- Machinery, tools and implements suitable for use in agriculture
- Seeds, fertilizers, pesticides and hoes

Details on all VAT related changes are contained in the VAT (Amendment) Bill 2014.

3. EXCISE DUTY

I. Excise duty on petrol and diesel

Government is increasing excise duty on petrol and diesel by 50 shillings.

II. Excise duty on Kerosene

In 2010, government removed excise duty on kerosene with a view to reducing its retail price. Government thinks this objective has not been achieved and is, therefore, reinstating excise duty on kerosene at 200 shillings per litre.

III. Excise duty on sugar

Excise duty on sugar is being increased from 25 shillings to 50 shillings per kilogram.

IV. Excise duty on mobile money withdrawal fees

10% excise duty is being introduced on all mobile money withdrawal fees. This is in addition to the 10% excise duty introduced on mobile money transfers in FY 2013/14.

V. Excise duty on bank charges and money transfer fees

Excise duty is being introduced on bank charges and money transfer fees. The rate is 10%.

The relevant details relating to proposed changes in excise duty are contained in the Excise Duty (Amendment Bill) 2014.

4. OTHER TAX MEASURES

I. Government Procurements

Effective financial year 2014/15, all goods and services procured by government will be regarded as tax inclusive. Accordingly, the gross tax payment system under the Ministry of Finance will cease to exist. To aid a smooth transition to the new policy framework, government is writing off all outstanding taxes owed to URA by both the central and local governments, excluding PAYE, Withholding Tax and any other taxes withheld at source.

II. Revised Non Tax Revenue Rates

Government will continue its revision of non tax revenue rates, an exercise that commenced in the last financial year. Details will be contained in the Finance Bill 2014.

III. New Tax Laws

During financial year 2013/14, government tabled new Excise Duty, Stamps Duty, Lotteries & Gaming laws, all of which are expected to be enacted and implemented as part of the tax reforms and budget for financial year 2014/15, in addition to a Tax Procedures Code.

IV. Infrastructure Levy

East African Community Ministers of Finance have agreed on introduction of a 1.5% infrastructure levy on selected imports into the East African Community region, aimed at financing railway infrastructure development. Relevant details will be contained in the East African Community (EAC) Gazette.

GENERAL HIGHLIGHTS

1. Total public expenditure during the year is expected to amount 19.7% of GDP, compared to 18.8% in FY 2012/13
2. The revenue to GDP ratio stands at 13%
3. Inflation was recorded at 5.4% as at the end of May 2014
4. The Uganda Shilling exchange rate remained relatively stable, with the marginal appreciation of the Shilling at about 2% against the US dollar
5. Uganda's trade deficit is expected to widen from USD 2Bn to USD 2.46 Bn by close of FY 2013/14 while the value of Uganda's export goods and services is expected to be USD 5.4 Bn
6. Foreign exchange reserves improved slightly from USD 2.9 Bn to USD 3.1 Bn
7. URA revenue collections are estimated at UGX 8,104 Bn, representing 94 % of projected revenue, and an increase of 13.4% on FY 2012/13
8. External assistance to finance the budget was projected at UGX 1,028 Bn during the year. However, just above half was realized
9. The stock of public debt is projected to rise to USD 7 Bn by the end of FY 2013/14, up from USD 6.4 Bn in FY 2012/13
10. The Uganda Securities Exchange registered a record turnover of UGX 198 Bn up from UGX 31 Bn recorded in 2012/13

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