A. H THAKKAR & SONS

TAXATION HIGHLIGHTS FROM THE 2015/16 GOU BUDGET

The government of Uganda budget for the financial year 2015/16 was approved by parliament on 30 May 2015 in accordance with section 14 of the recently enacted Public Finance Management Act 2015. The Act requires that the budget is approved by parliament prior to the beginning of the financial year.

To achieve its main objective of progressively enhancing revenue mobilization, government will seek to increase the tax to GDP ratio by at least 0.5% of GDP every year to eventually attain a target of 16% by 2018.

The following are the most prominent revenue measures in the 2015/16 GOU budget:

1. VALUE ADDED TAX

I. VAT Registration for Petroleum and Mining Sector Licensees

To spur growth of the petroleum and mining sector, licenses in the sector will be able to obtain VAT registration during the exploration and development stages of their operations. Normally, VAT registration is only allowed once a person commences supply of goods / services. With this measure, petroleum and mining sector licensees will be able to obtain input tax relief on goods and services procured.

II. VAT Registration Threshold

A person making, or reasonably expecting to make, cumulative taxable supplies in excess of UGX 50M over a period of 12 months was required to register for VAT. The threshold has been increased to UGX 150 million to take into factors such as inflation, exchange rate depreciation and general economic growth.

III. Cash Basis VAT Accounting

Businesses with gross annual turnover of less than UGX 200 million could apply to Uganda Revenue Authority to be allowed to use the cash basis of VAT accounting. The threshold has now been increased to UGX 500 million in recognition of the fact that small businesses generally transact in cash.

2. INCOME TAX

I. Presumptive Taxpayers

Businesses with gross turnover of less than UGX 50 million account for income tax based on the turnover itself, rather than taxable profit realized. The applicable rate was 3%. The threshold has now been increased to UGX 150 million so as to reduce tax compliance costs for small businesses. The presumptive tax regime in general has been simplified by categorizing businesses and fixing the tax rates applicable.

II. Thin Capitalization Rules

Thin capitalization rules have been revised to allow deductibility of interest on loans that do not exceed the relevant company's share capital by 150%. Previously, the applicable ratio was 100%. This measure is generally aimed at boosting foreign investment in Ugandan resident companies.

3. EXCISE DUTY

Modest adjustments have been made in excise duty rates on items such as fuel, beer, cigarettes, wine and ready to drink spirits.

Excise duty at 10% has been introduced on confectioneries and furniture, as well the introduction of a 5% excise duty on motor vehicle lubricants.

Excise duty (9%) on international calls from the "Northern Corridor" countries has been removed in implementation of the "One Area Network" for the East African

Community region. The measure should enhance communication and improve the business environment.

4. TAX ON RENEWAL OF MOTOR VEHICLE LICENSES

Tax has been introduced on renewals of motor vehicle licenses for public service vehicles and goods vehicles.

5. MOTOR VEHICLE ENVIRONMENTAL LEVY

The 20% environmental levy on used motor vehicles has been increased to 35% for motor vehicles 5-10 years old and 50% for motor vehicles more than 10 years old. Goods vehicles are exempted. The measure addresses increasing concerns about environmental degradation from motor vehicle emissions.

6. PASSPORT FEES

Passport fees have been increased by UGX 30,000 to UGX 150,000. A special passport fee at UGX 300,000 has been introduced for persons who wish to obtain a passport expressly within 24 hours.

7. EAST AFRICAN COMMUNITY (EAC) COMMON EXTERNAL TARIFF MEASURES

EAC finance ministers have agreed a number of measures with the regard to the common external tariff:

I. Reduction of import duty on road tractors for semi trailers from 10% to 0%

II. Reduction of import duty on motor vehicles for transportation of goods with gross weight of between 5-20 tonnes from 25% to 10%

III. Reduction of import duty on motor vehicles for transportation of goods with gross weight exceeding 20 tonnes from 25% to 0%

IV. Reduction of import duty on buses with a carrying capacity of more than 25 persons from 25% to 10%

This measure is valid for a period of only one year. Relevant details will be contained in a gazette to be issued by the EAC Secretariat.

8. GENERAL HIGHLIGHTS

I. A rebasing of the economy shows that the Ugandan economy is 17% larger than previously estimated, and is now valued at USD 24 Billion

II. The economy is projected to grow by 5.3% in real terms this year, with growth in manufacturing estimated at 4.1%. The construction sector is estimated to expand by 6.6% with the ICT sector at 10.2%. The economy is projected to grow by 5.8% next financial year (2015/16)

III. The rate of inflation has been marked at 2.7% this financial year

IV. The current account deficit for this year is expected to widen to 8.5% of GDP from 7.2% in 2013/14

V. The country's foreign exchange reserves stand at USD 2.972 billion, equivalent to 4 months worth of import of goods and services

VI. Total tax collections this year are projected at UGX 9,577 billion up from UGX 8,031 billion in 2013/14

VII. Government expenditure is estimated at UGX 13,988 billion this year, up from UGX 11,456 billion in 2013/14. Donor financing will be UGX 1,765 billion. Domestic resources will finance 76.4% of the budget

VIII. Domestic revenue to GDP ratio is estimated at 13% this year while total expenditure is estimated at 18.6% of GDP

IX. The overall fiscal deficit for this year is estimated at 4.5% of GDP, up from 3.9% in 2013/14. It is expected to increase to 7% in 2015/16

X. The stock of outstanding public debt is projected to reach USD 7.6 billion by the end of the financial year, up from USD 7.2 billion last year. Sixty percent of Uganda's debt stock is external.

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