



# **A.H. THAKKAR & SONS**

## **Taxation Highlights from the 2013/14 GOU Budget**

On Thursday 13<sup>th</sup> June 2013, the Minister of Finance and Economic Planning delivered her budget proposals for the financial year 2013/14. Below we highlight the main tax and revenue measures proposed by the Minister. The measures, which generally seek to raise revenues, enhance transparency in collection and enforcement, improve compliance and encourage investment, come into effect on 1<sup>st</sup> July 2013.

### **1. Income Tax**

#### **I. Expansion of Withholding Tax agents list**

The government is widening the scope of withholding agents with a view to capturing non-compliant tax persons engaged in economic activities but not registered for income tax purposes. Taxpayers in the Large and Medium Taxpayers Offices are likely to be targeted for designation as Withholding Tax agents.

#### **II. Collaboration between URA, KCCA and Local Governments in tax collection**

Government is establishing a legal framework through which URA will collaborate with Uganda Registration Services Bureau, Local governments and KCCA to identify taxpayers and collect taxes on small businesses which are hard to reach by URA. Government hopes this measure will help increase the tax register.

### **2. Value Added tax (VAT)**

#### **I. VAT exemption on Hotel accommodation**

Government is scrapping the VAT exemption on hotel accommodation in its entirety. The supply of hotel accommodation outside Kampala has, hitherto, been VAT exempt.

#### **II. VAT exemption on supply of water for domestic use**

VAT on the supply of water that was scrapped by Parliament in the last financial year is to be reinstated. Even though this is likely to increase prices of piped water, government insists that water remains favorably priced.

#### **II. VAT exemption on the supply of wheat and flour**

Government is introducing VAT on the supply of wheat and wheat flour. This measure is only intended to improve government revenue.

### **3. Excise Duty**

#### **I. Excise duty on petrol and diesel**

Government is increasing excise duty on petrol and diesel by 50 shillings. In addition, excise duty is to be restored on kerosene at 200 shillings a litre. Government hopes the measure will discourage the adulteration of diesel by unscrupulous suppliers who mix it with kerosene. However, given the big multiplier effect of an increase in tax on fuel, increased pump prices are likely to affect the competitiveness of Ugandan products.

#### **II. Excise duty on cigarettes**

Excise duty on cigarettes is to be increased as well. The duty for Soft cup (whose local content is more than 70% of its constituents) will move from Shs 22,000 to Shs 32,000 while that for other soft cup will be Shs 35,000 up from Shs 25,000. Excise duty on Hinge lid will increase to Shs 69,000 from Shs 55,000.

#### **III. Excise duty on undenatured spirits**

Excise duty on importation of undenatured spirits is being increased from 70% to 140%.

#### **III. Excise duty on promotional activities**

Government is imposing excise duty at 20% on revenue from activities in the nature of gambling. This is a result of the significant growth rates enjoyed by the sector over the last few years.

#### **IV. Excise duty on money transfers**

Excise duty of 10% is being imposed on fees charged on transfer of money by mobile network operators and other money transfer operators. Again, government is targeting the increasing attractiveness of mobile money transfers. Other transferors are being included to balance out the effect.

The relevant details relating to proposed changes in excised duty are contained in the Excise Tax (Amendment Bill) 2013.

### **4. Stamps duty**

#### **I. Third Party insurance policies for motor vehicles**

An extra 30,000 shillings in stamp duty is being imposed on Third Party insurance policies for motor vehicles.

The relevant details are contained in the Stamps Duty (Amendments Bill) 2013.

## **5. Fees and Licenses**

### **I. Motorcycle registration fees**

Government is increasing motorcycle registration fees by Shs.70,000 from Shs.130,000 to Shs.200,000.

### **II. Motor Vehicle registration fee by Shs.200,000**

Motor vehicle registration fees will also see an increase of Shs 200,000 from Shs 1,000,000.

The relevant details on changes in fees and licenses are contained in the Finance Bill 2013.

## **6. Non Tax Revenue**

### **I. International Calls Levy**

Government is introducing an International Calls Levy on international incoming calls. The measure will not affect outgoing international calls. However, it's likely to isolate the country from the outside world by increasing communication barriers.

### **II. Revision of Non Tax Revenue rates by government Ministries, Departments and Agencies (MDAs)**

Government is making a comprehensive revision of these rates. Full details are contained in the Finance Bill 2013. In addition, the public will now be allowed to pay fees and other charges for services performed by MDAs online as well as using mobile phones. The intention is to improve service delivery and expedite the payment process.

### **III. Collection of Non-Tax Revenues**

Government is extending the mandate of the Uganda Revenue Authority to collect all fees and other charges under the Uganda Registration Services Bureau, the Directorate of Citizenship and Immigration and the Ministry of Energy and Mineral Development collection. However, the assessment will remain under the MDAs. In addition, some of the MDAs will be allowed to retain the revenue at source.

## **7. Taxation of the Petroleum value chain**

During the coming financial year, government intends to review taxation of the value chain for the petroleum and minerals sector with a view to ensuring that it maximizes its revenues from the sector.

## **8. New Tax laws and other reforms**

Government also intends to introduce new legislation and regulations relating to Excise duty, Stamps duty, lotteries, gaming and pool betting as well as a Tax Procedures Code. In addition,

government will comprehensively review the exemptions in the VAT Act and the Income Tax Act with the aim of eliminating them to increase revenue and improve administration.

## **9. Tax Administration**

Government has revealed that tax revenue performance increased year on year by about 17%. To build on this progress, Uganda Revenue Authority intends to intensify its efforts to enforce tax compliance across all levels of taxpayers. URA hopes to continue expansion of its audit coverage to include the bulk of the largest traders and conduct joint audits in the domestic tax and customs departments to detect and sanction non-compliance and tax fraud.

URA also intends to enforce the use of the Tax Identification Numbers (TIN) for all traders applying for trading and other licenses and permits from Kampala Capital City Authority and local governments. URA will also be moving to deregister from VAT all taxpayers whom it considers incapable of filing monthly returns. In addition, government intends to introduce an amendment to the Financial Institutions Act to allow URA unfettered access to taxpayer financial records, where a bona fide tax audit or investigation has been initiated.

Overall, changes proposed under the 2013/14 budget are aimed at bridging the revenue shortfall created by governments' development partners who are cutting their budget support for the country due to increasing incidences of misuse of donor funds.

### **General Highlights**

1. Total resource inflows are projected to amount to US\$ 13,169 billion in FY 2013/14 of which 81% will be domestic
2. The economy grew by 5.1% in financial year 2012/13 up from 3.4% in FY 2011/12. Targeted economic growth in FY 2013/14 is 6%. The manufacturing sector grew by 4.2% up from a decline of 0.3% in FY 2011/12 while the agricultural sector grew by 1.4% from 0.8% in FY 2011/12
3. Inflation was recorded at 3.6% as at the end of May 2013 down from 18% at the start of the year. It's projected to average around 6% in FY 2013/14 and 5% over the medium term
4. The Uganda Shilling exchange rate volatility subsided in 2012/13 and now averages around US\$ 2575.
5. Commercial bank lending rates reduced from nearly 30% in August 2011 to an average of 24% by end of March 2013
6. Private sector credit expanded by about 15% during the year up from 11% in FY 2011/12. However, there was stagnation in domestic currency lending
7. The investment rate rose to 25.2% of GDP up from 24.5% in FY 2011/12. However, the Investor Survey Report (2012) estimates survival rates of investments in Uganda at 46%
8. Uganda foreign exchange reserves grew to USD 3.3 billion (4.5 months of future import demand of goods and services) from USD 2.6 billion a year ago
9. Uganda regained her credit rating by Standard and Poors' of B+ with a stable outlook. Government hopes to increase external borrowing to finance infrastructure projects
10. Remittances from Ugandans working abroad amounted to USD 676 million while Uganda's balance of payments recorded a surplus of USD 417 million

11. Hydro electric power projects delivering a total of 318.5 MW to the national grid were commissioned
12. An e-licensing business registry was launched in June 2013 and government hopes total savings of US\$ 32.1 will be achieved in implementation of this project
13. Computerization of the land registry was completed during FY 2012/13 to improve the security, retrieval and time for land transactions
14. Government increased primary school teachers' salaries by 15% in FY 2012/13 and secondary school science teachers salaries by 30%
15. 6172 government health workers were recruited in FY 2012/13
16. 845 KM of national roads were fully or substantially completed in FY 2012/13
17. The Financial Institutions Act will be amended to allow new products including agent banking, Islamic banking, micro insurance and mobile money
18. Hotel grading and classification is to be undertaken in FY 2013/14 having completed training of assessors and inspection of hotels accommodation

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