

The BRJ Tax News

Budget Edition

Your quarterly tax update and guide to practical tax issues affecting you and your business

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PAYE | VAT | WHT | INCOME TAX | CUSTOMS & EXCISE | NSSF | LST

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1. Introduction by the editor



Welcome to the budget edition of The BRJ Tax News magazine. Our Tax News is a quarterly publication aimed at our clients and prospects as a practical tax newsletter and update on issues affecting you and your business. This year's budget comes at a time when business is struggling with the declines in economic activity brought on by the dollar rate that is gaining much more against the shilling which is buying and at selling at 3,275 and 3,300 as of June 30, 2015.

We try to air some of the tax issues coming from the budget which will be affecting our clients and prospects, and how we can step in to help, to guide and to discuss with them compliance issues, tax planning options and general tax house keeping that they have come to expect from BRJ as a leading tax expert.

Our commentary in this edition pays special attention to Excise duty, VAT ('Value Added Tax'), tourism, Income tax and Environmental levy on used motor vehicles. Additionally, this is an integrative medium of tax news, research and practice about tax management. Indeed, the primary purpose of the Tax News is to provide a forum for discussion with our clients on tax related matters. We expect this discourse to result in a better informed client base, updated with the latest issues, and guidance from our experts. We aim to feature regularly updates on court cases from the Tax Appeals Tribunal, the High Court, Court of Appeal and indeed decisions of the URA ('Uganda Revenue Authority').

1. About BRJ Partners

Brief history

BRJ Partners was set up in October 2013 by Mr Robert Busuulwa, a member of both the Institute of Certified Public Accountants of Uganda ('ICPAU') and the Institute of Chartered Accountants in England & Wales ('ICAEW') following his decision to stand down as a partner of BDO East Africa, Uganda. Robert had been with BDO principally as a partner since March 2009 and had helped launch the BDO brand in Uganda.

During November and December 2013, following regulatory approval by the ICPAU, Robert set out to establish leads which culminated in the firm opening its office at Plot 24 Henlon Close, Bugolobi in Kampala and recruiting its first staff member on January 6, 2014.

In tune with a vision of an organisation of international stature, our first client was an international NGO based in Switzerland but with a project operating in Uganda. For the 1 year and 5 months that BRJ has been trading, it has taken on at least 50 engagements of varying service lines with a staff contingent of now 11 people in different disciplines and is on course to realising its goal of joining an international brand in the Ugandan market, by partnering with Mazars' strong global brand.

Correspondence with Mazars

BRJ Partners has been collaborating with Mazars on audit and assurance assignments including both international group audits and regional referrals. These collaborative assignments are aimed at paving the way for BRJ Partners joining the Mazars group. In September 2014, BRJ was accepted as the correspondence firm for Mazars in Uganda bringing a quality accountancy brand servicing hundreds of clients in the world.

2. Our Tax Services

We are set up as a full service accounting and advisory firm with specialize professionals serving both individuals and businesses. We specialize in audit, accounting and tax services. Below is a brief description of our tax services;

Mazars is a Global Firm

Mazars is a global professional services firm with a unique integration model. Drawing on the knowledge and skills of more than 15,000 professionals in 73 countries, the firm builds relationships by providing services based on quality and integrity. Mazars is also a member of Praxity Alliance, which enables the firm to operate in 14 additional countries with additional 14,000 professionals.

(i) Tax Compliance and Advisory Services:

We are able to provide the full range of tax compliance, services including Value Added Tax, Withholding Tax, Excise Duty and Income Tax compliance services.

We are able to provide a varied range of tax advisory and consultancy services to clients. We provide consulting services by giving solutions to specific tax issues, prepare for discussion industry or company tax position papers and to perform tax due diligence investigations.

(ii) Payroll Services:

This involves the preparation of the monthly staff payroll in accordance with the applicable laws of Uganda, issuing payslips and advising on adhoc payroll related inquiries.

(iii) Tax Training:

We offer tax training sessions for clients on topics of interest to them, including VAT, National Social Security Fund ('NSSF') contributions and Income Tax among others. Our sessions are designed to show clients areas of tax compliance that can help their business to avoid unnecessary penalties, but also avenues for minimising tax exposure. We work on topics of likely maximum tax planning so that clients are able to actually use the advice we have imparted.

2. Our Tax Services Continued...

We are set up as a full service accounting and advisory firm with specialized professionals serving both individuals and businesses. We specialize in audit, accounting and tax services. Below is a brief description of our tax services;

(iv) Tax Health Check Services:

From our experience, we have noted that normally, after a period of operating, due to various unpredictable reasons, companies may be exposed to various tax risks arising from issues such as shortages in the payment of tax liabilities, accidental evasion of taxes (particularly arising from misinterpretation of the law or practice or failure to take note of recent amendments to tax legislation) and errors in the calculation of taxes.

These risks potentially expose the companies to audits by the relevant authorities (Uganda Revenue Authority (“URA”), the National Social Security Fund (“NSSF”) or the Kampala City Council Authority (“KCCA”). Our tax health check involves a high-level review of specific tax areas in order to highlight the key issues that need to be rectified in order to reduce tax risks. The main objective of a tax health check is to determine the past, present and future tax liabilities of a Company, including disclosed, undisclosed, realised and unrealised tax liabilities, in order to assist in the management of those risks.

(v) Company Secretarial Services

We are able to conduct the full range of company secretarial services including filing of annual returns and conducting of searches at the company registry in order to confirm compliance with the provisions of the Companies Act 2012.

(vi) Processing Refunds

We seek tax refunds from the URA to our clients. These include diplomats and overpayment of taxes.

(vii) Applying for Income Tax Exemptions

We apply for income tax exemptions to the URA on our clients’ behalf and also apply for the renewal of these exemptions basing on the provisions of the Income Tax Act.

3. Taxation and Revenue Mobilization Measures

1. Excise duty on fuel, cigarettes, wine, ready to drink spirits, confectioneries, furniture and motor vehicle lubricant

Whilst government calls out for the awareness of the main thrust of tax policy which is to progressively enhance revenue mobilization to fully finance this financial year's budget. Government pledges such an accomplishment ensuring that taxation is not a hindrance to private sector investment, savings, production and social welfare. Additionally, in pursuit of this goal, government's efforts are being geared towards increasing the tax to GDP ratio by at least 0.5 percentage points of GDP every Financial Year and to attain a target of 16 percent by 2018.

Following the above strategies of how government has to attain a target of 16 percent by 2018. Modest adjustments were approved in excise duty rates on some items such as fuel, beer, cigarettes, wine and ready to drink spirits.

Excise duty at the rate of 10 percent (10%) was introduced on confectioneries and furniture and 5 percent (5%) on motor vehicle lubricants.



2. Removal of Excise Duty on international calls- One Area Network for EAC region

The excise duty of 9 US cents on international calls from the Northern Corridor Countries was removed as a move to implement the One Area Network for the EAC region which was effective from January 1, 2015. This is intended to enhance communication and improve the business environment within the northern corridor countries.

Taxation and Revenue Mobilization Measures

(i) Annual VAT registration Threshold

The annual VAT threshold has been revised to Shs. 150 million to take into account these changes following its maintenance at Shs. 50 million since the inception of the VAT regime in 1997. Furthermore, this threshold has been overtaken by events such as the growth in the economy, exchange rate depreciation and inflation.



Industry players were of the view the VAT was going to economically cripple the companies in the face of weak international oil prices and increased costs of development and technology. These would squeeze the profit margins and make the venture unattractive to existing and potential investors.

“This is complex project. At \$80 or \$100 a barrel of crude oil, the economics was already challenging and adding VAT makes it even more difficult,” said a source in the industry. Already the companies are downsizing their human resources due to the economic challenges. Tullow has laid off more than 150 workers in Uganda alone. It is emerging that other companies will downsize anytime.

Value added tax (VAT) !

(ii) Taxation of the petroleum and mining sector

The VAT act has been amended to allow licensees to register for VAT during the exploration and development stages of their operations in order to enable them to obtain relief from VAT payable on goods and services supplied to them, thus unlocking investment in the particular sector.

Previously licensees were not allowed to register because they do not make taxable supplies during the exploration and development stages which is a requirement for refund of VAT on inputs.

Commentary Analysis

It has been the contention of the mining and oil and gas companies that charging VAT was premature at exploration and development stage because it amounts to taxing investment as opposed to profit. The companies also argued that charging VAT was against international principles and would make Uganda less attractive to new investors. Besides that, the companies argued that charging VAT was contrary to the provisions of the Production Sharing Agreement (PSA)- that provided that the companies invest until production begins before government can earn revenues from royalties, profit oil margins, share capital and income tax.

(iii) Cash basis accounting for VAT purposes

The threshold for persons that use a cash basis accounting system was increased from UGX 200 million to 500 million in recognition of the fact that businesses with a turnover of less than UGX 500 million transact mostly in cash.

Taxation and Revenue Mobilization Measures

(i) Threshold for the Presumptive Tax Regime

The threshold for the presumptive tax regime was increased from the gross turnover of UGX 50 million to UGX 150 million. The increment is intended to reduce the cost of compliance among small businesses and increase certainty of tax.

(ii) Thin capitalization rules

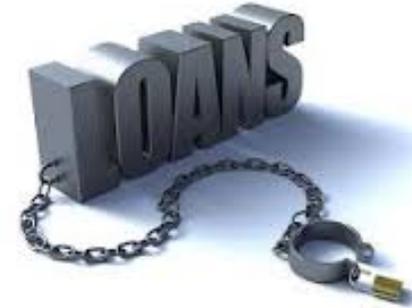
The thin capitalisation rules have been amended to allow firms to deduct interest on loans if the loans do not exceed their share capital by 150% in order to encourage firms to access financing from foreign sources for the expansion of their businesses.

(iii) Formalization of business

For the transport sector specifically, there will be a mandatory payment of tax for all Public Service Vehicles and Goods Motor-Vehicles at the time of renewal of annual licenses. This will only be on renewal and not at first registration.

The withholding tax system ,through designated agencies , will be used to collect taxes for the informal sector which is large and estimated to be about 49% of the GDP and contributes minimal revenue.

Income Tax



Commentary and analysis.....

Taxation and Revenue Mobilization Measures

D. Environmental levy

With the effects of global warming felt in the country and across the world with uncertainty of the future government has revised the environmental levy on used motor vehicles. The government has increased the levy from 20% to 35% for motor vehicles of 5-10 years old and to 50% for those above 10 years. Excluding goods vehicles. Additionally car importers are warning that the new measures will not only affect their business but will also make cars unaffordable.



E. Non-tax revenue

Passport fees have been increased by UGX 30,000 to UGX 150,000 and special passport fees at UGX 300,000 for any person who wishes to get a passport expressly within two days.



F. EAC Pre- Budget Consultations

Customs - Measures with respect to the Common External Tariff

Following the pre-budget consultative meetings held by the Ministers of Finance to discuss issues of common interest in the spirit of furthering regional integration, a number of measures were agreed with regard to the EAC Common External Tariff, details of which will be contained in the Gazette to be issued by the EAC Secretariat. Some of the significant decisions for Uganda include:

Authority to import road tractors for semitrailers at a duty rate of 0 percent (0%) instead of 10 percent (10%);

Motor vehicles for the transportation of goods with gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes at a rate of ten percent (10%) instead of twenty five percent (25%);

Motor vehicles for transport of goods with gross weight exceeding 20 tonnes at zero percent (0%) instead of twenty five percent (25%);

Buses for the transportation of more than 25 persons at a rate 10 percent (10%) instead 25 percent (25%);

Note: The benefits will be valid for a period of one year; therefore the Minister encouraged the private sector to take advantage of these benefits before the expiry of this period.

Taxation and Revenue Mobilization Measures

G. Tax Incentive Regime for Investment

Following petitions by existing and potential manufacturers and investors seeking improvements to the current tax incentives regime, the Minister promised to holistically address the issues of the stakeholders without distorting the overall taxation.

H. International Agreements

In order to curb tax evasion, particularly by companies that operate globally, the government has ratified the following agreements:

- (a) The East African Community Agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion in respect to Taxes;
- (b) The Agreement for the Establishment of the African Tax Administration Forum (ATAF) on Mutual Assistance in Tax Matters; and
- (c) The OECD Convention on Mutual Administrative Assistance

I. Tax Administration

As part of the strategy to enhance compliance and revenue collections, the Uganda Revenue Authority ('URA') will undertake the following measures;

Implement the joint compliance campaign for the fast growing priority sectors with revenue contribution such as wholesale, retail, real estate and manufacturing.

Undertake tax payer sensitization and education on tax policy changes.

Strengthen the international taxation function with respect to audit capacity of international transactions and exchange of information with other tax jurisdiction.

Expand Tax payer Registration and Expansion Program (TREP) outside greater Kampala, Mbarara, Wakiso, Mukono, Arua and Lira.

Automate the exchange of information and enforcement collaboration between the MDA's within greater Kampala.

Expand the implementation of the single customs clearance process.

Enhance information management systems to facilitate faster clearance of goods by rolling out the Electronic Cargo Tracking System (ECTS) to Mombasa, implementing centralized document processing and implementing an automated valuation database.

A summary of the tax changes

Income tax changes

- (i) The presumptive tax threshold from UGX 50m to UGX 150m
- (ii) Provision for the deduction of interest incurred on loans from foreign sources if the loan is less than 150% of a borrowing company's share capital.

VAT changes

The following changes were made to the VAT Act effective July 1, 2015;

- (i) Increment of the annual VAT registration threshold to UGX 150m
- (ii) Taxation of the petroleum and mining sector by allowing licensees to register for VAT
- (iii) Expansion of the threshold for persons allowed to use cash basis accounting for VAT purposes from UGX 200m to UGX 500m
- (iv) Inclusion of Global Fund to fight AIDS, malaria and tuberculosis and the Uganda Red Cross Society in the First Schedule for Public International organisations.
- (v) To levy tax on the supply of cereals grown and milled in Uganda at 0%
- (vi) To waive the exemption from tax of florescent bulbs from the Fifth Schedule of the East African Community Customs Management Act, 2004



Excise Duty changes

- (i) Excise duty on fuel, cigarettes, wine, ready to drink spirits, confectioneries, furniture and motor-vehicle lubricants
- (ii) Removal of Excise Duty on international calls- One Area Network for EAC region
- (iii) Introduction of tax on motor vehicle lubricants, chewing gum, sweets and furniture.

Finance changes

- (i) The environmental levy will be varied depending on the age of the car
- (ii) Increment of the application fees for passports by UGX 30,000
- (iii) Introduction of a non-refundable fee in respect of application for work permits of USD 1,500
- (iv) Imposition of annual operator license fees for vehicles and vessels

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