

# Understanding Uganda's 2014/2015 National Budget

## Direct taxes

*PwC insight and analysis*

### Revenue Performance

The expected outturn from domestic direct taxes, namely PAYE, corporate income tax and withholding tax, for FY2013/2014 is Ushs 2,750 billion against a budget estimate of Ushs 2,874 billion, registering a deficit of Ushs 124 billion.

The underperformance of revenue collections is mainly due to the lower than projected growth in the economy, which affected particularly corporate income tax and withholding tax. However, in comparison to last financial year, URA revenue collections have increased by 13.4%.

This increase is attributed to further improvements in the tax administrative system, particularly the expansion of the electronic filing, improvements in public service delivery and tax audits by the URA.

### Income Tax - Proposed Changes

#### ***Termination of initial allowance on eligible property***

Currently, a person who places an item of eligible property into service for the first time during the year of income is allowed a special "initial allowance" deduction in that year. The rates are 50% or 75% depending on location, and the allowance is in addition to the normal wear and tear deduction. The Minister's proposal is that this initial allowance be cancelled.

In her speech, the Minister said that this measure is to eliminate the double allowance of both accelerated depreciation and ordinary depreciation. The initial allowance

has been a positive incentive to taxpayers since its introduction in 1997 and the removal is likely to discourage capital investment in the short term to medium term.

#### ***Removal of exemption for interest income on agricultural loans***

Currently, interest earned by a financial institution on loans granted for agricultural purposes is exempt from income tax. This amendment was introduced in 2005, with the intention of improving the availability and affordability of finance in the agriculture sector (which was seen as being poorly serviced at the time).

It appears that the Government considers that the credit position has improved sufficiently such that the incentive is no longer necessary.

#### ***Limit on deduction of interest***

Currently the thin capitalization rules restrict the deduction of interest where a foreign controlled resident company pays interest to its foreign controller in excess of a prescribed debt: equity ratio.

The Minister has proposed a revision of the thin capitalisation rules to restrict the deduction of interest paid to non-associated persons to 50% of earnings before interest, tax and depreciation (EBITDA). The Minister stated that the new measure is aimed at limiting the avoidance of tax through low-taxed interest payments, and is in line with the Government's intention to follow The Organisation of Economic Co-operation and Development's (OECD) initiatives on base erosion and profit shifting.

### ***Termination of exemption for educational institutions***

Currently, business income derived from managing or running an educational institution is exempt from income tax. This exemption will be removed in respect of private institutions run for commercial gain.

This measure is aimed at increasing equity and transparency in the tax regime and broadening the tax base. Income generated by such educational institutions will now be subject to tax in the same way as other private enterprises, which might lead to increases in tuition fees.

### ***New 15% tax on sports and pool betting winnings***

The current tax regime applies to promoters of gaming and pools, with a tax rate of 20% applied to the total amount staked less pay-outs. There is no provision for taxing winnings.

The new measure imposes a new tax of 15% on winnings, to be withheld at source by the gambling house. We expect the amendment bill to provide more clarification on how this will be implemented.

### ***Increase in the presumptive tax rate***

The current presumptive tax rate is 1% of gross turnover for businesses whose annual gross income does not exceed Ushs 50 million. The tax rate will be increased to 3%.

The rates have not changed since 1997 and yet the informal/small business sector has been growing. The measure is meant to increase revenue collections from this sector.

### ***Introduction of Capital gains on sale of commercial property***

The Minister proposed the introduction of Capital gains tax on the sale of commercial property. Given that the existing legislation already captures such gains for companies or businesses, we assume that the new measure is intended to apply to individuals. Further details will be known once the amendment bill is released.

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