Understanding Uganda's 2014/2015 National Budget

Indirect taxes

PwC insight and analysis

Value Added Tax

Performance and Trends

Revenue Performance for FY 2013/14

The projected VAT outturn for the fiscal year 2013/14 is Ushs 2,810 billion which represents 35% of the projected total tax revenue and 95% of the budgeted VAT revenue. VAT from domestic trade performed below budget by 11% whereas VAT on international trade performed above budget by 2%.

Projected VAT revenue for FY 2014/15

VAT revenues are projected at Ushs.3,285 billion (out of the total tax take of Ushs 9,835 billion). This represents a projected percentage growth of 17% in VAT revenue from FY 2013/2014.

Proposed Changes

VAT exemptions and zero rating have been cancelled for a range of goods and services, primarily with the aim of broadening the tax base and raising revenue, but also to reduce the complexity arising from such concessions. The underlying implication is that the reasons for which the concessions were originally granted are no longer valid.

Processed milk no longer zero rated

Processed milk will now be subject to VAT at 18% and as a result companies selling such milk will be required to add VAT at 18% on the selling price. Milk prices for consumers are likely to rise by the same amount.

Cancellation of exemption on new computers, desktop printers, computer parts and accessories, software and software licenses

The Government appears to be of the view that the IT sector has stabilized and that adequate penetration levels have been achieved in the country. Therefore tax incentives in this sector are no longer necessary.

Local suppliers of these items will now be required to add VAT of 18% on the selling price and importers will incur a similar charge.

The 18% VAT on imported software and licenses will be an additional cost for importers because VAT on imported services is not recoverable.

This measure has the potential to reduce the costs of local suppliers, as they can now register for VAT and claim input VAT paid on their expenses.

Removal of exemption for tourist lodges and hotels outside Kampala

This measure is aimed at increasing revenue from the tourism sector, but will also ensure that there is a level playing field in the taxation of lodges and hotels across the country with no preferential treatment for different locations.

Hotels and lodges outside Kampala will need to start charging VAT at 18% on their accommodation charges. This will have a corresponding increase in the price of such accommodation but there will be a compensating impact as the establishments will now be able to claim input VAT on purchases.

Removal of exemption for Liquefied Petroleum Gas (LPG)

This exemption was introduced in 2006 but is presumably seen as obsolete in the current energy situation. LPG, whether sold in bulk or as cylinders of gas at fuel stations and other retailers, will now be subject to VAT at 18%.

This will increase the ratio of VAT taxable supplies to total sales of petrol stations and other suppliers, which will result in a proportionate increase in their input tax claims.

Removal of exemption for poultry and livestock feed; agriculture and diary machinery; packing materials used in the diary and milling industries

This is particularly aimed at increasing revenue from the agriculture sector. Suppliers of these items will now be required to charge 18% VAT on the selling price, with a similar impact for importers.

The proposal will also affect leases of agriculture and diary machinery in relation to lease rentals payable from 1 July 2014.

Salt now subject to VAT at 18%

The exemption has been removed so that the supply of salt will now be subject to VAT at 18%.

Insurance services, except life and medical insurance, will now be subject to VAT

The existing exemption for insurance services will be removed, except in relation to life insurance and medical insurance.

Premiums for general insurance such as house, motor and loan repayment policies will now be subject to VAT at 18%.

This will increase the cost of insurance by a corresponding amount, with an anticipated adverse effect on the financial services sector. This will particularly affect the cost of premiums paid to foreign insurers and reinsurers (where the VAT on imported services is not recoverable). It is also likely to negatively affect the penetration of insurance services which is currently below 1% of Uganda's total population.

Removal of exemption for specialized vehicles, plant and machinery, consultancy services and civil works relating to agriculture, public water works, education and health

These items will now be liable to VAT at the standard rate of 18%. This will also affect the leasing of specialised vehicles and plant and machinery used in these sectors.

Removal of zero rating for printing services for educational materials; cereals, grown, milled or produced in Uganda; supply of machinery and tools for agriculture; supply of seeds, fertilizers, pesticides and hoes

This is another measure largely targeted at the agricultural sector, but will also have an impact on industries which rely on local raw materials (such as the milling and brewing sectors). The additional cost is likely to lead to increased retail prices.

Excise Duty

Performance and Trends

Excise duty on petrol and diesel by Ushs 50

Revenue Performance for FY2013/14

During the 2013/14 fiscal year, import and excise duty collections totalled Ushs 862 billion, representing 10% of the total tax revenue and a 6% shortfall below budgeted collections.

Reinstate excise duty of 200 Shillings on Kerosene

Proposed Changes

Increase for petrol and diesel

Increase of excise duty on Sugar by Ushs 25 to Ushs 50

duty on Set Top Boxes and food supplements and mineral premix

The excise duty on petrol and diesel is increased by 50 shillings per litre, from Ushs 850 to Ushs 900 per litre for petrol and from Ushs 530 to Ushs 580 per litre for diesel.
Consumers are likely to pay more at the fuel pump with the oil companies passing on the increase. This will lead to an increase in transport costs, with a flow on effect for prices in other sectors with heavy reliance on transport.

Reinstatement of excise duty on kerosene

The duty of Ushs 200 per litre on kerosene has been reinstated. This was removed in 2011 but the Minister noted that it had not resulted in a corresponding reduction in the pump price and therefore had largely benefited the suppliers rather than (rural) consumers. It remains to be seen whether the pump price will be similarly unaffected by the excise reinstatement.

Reinstatement of higher duty on sugar

The duty on sugar has been increased by 25 shillings per kilogram, to a new rate of 50 shillings per kilogram. This restores the duty to the position applying prior to the reduction in 2011, introduced when sugar went through a period of limited supply and high prices. Sugar manufacturers will be required to pay the additional duty, and this is likely to flow through to the retail price.

Introduction of 10% excise duty on mobile money withdrawal fees

Mobile money dealers will be required to pay an extra 10% on withdrawal fees. The burden will be borne by the final consumers, and thus will increase the cost of such transactions.

Introduction of excise duty of 10% on bank charges and money transfer fees

This will have a direct impact on the fees charged by banks and money transfer agents such as Moneygram and Western Union. The banks and transfer agents will be expected to pass the cost on and accordingly result in higher fees for users of these services.