

# International Assignment Services Taxation of International Assignees

## Uganda



# Country: Uganda

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Additional Country Folios can be located at the following website: [www.pwc.com/ias/folios](http://www.pwc.com/ias/folios)

## Introduction: International assignees working in Uganda

This folio is intended to assist international assignees sent to work in Uganda with their tax planning. It gives a broad background to taxation in Uganda and other important aspects to be considered by an international assignee working in Uganda on a temporary basis.

This folio is not intended to be a comprehensive guide. It merely attempts to give an overview of the issues involved. Accordingly, professional advice should be sought before making important decisions.

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Exchange rate \$1 = Ugandan Shillings 1,875 (December 2009)

Last Updated: December 2009

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## Step 1: Understanding basic principles

### The scope of taxation in Uganda

- 1 Income tax is a tax levied on income and is charged for each year of income. Income of a resident person includes income derived from all geographical sources. Income of a non resident person includes only income derived from sources in Uganda.
- 2 Other taxes for which individuals may become liable are:

#### *Social security*

The National Social Security Fund (NSSF) Act requires employers and employees to register and contribute to the NSSF. The employee contributes 5% of his or her gross cash wages while the employer contributes, on behalf of the employee, 10% of the same.

Non-resident employees are exempted from contributing to the NSSF. The Act defines a non-resident employee to mean an employee not ordinarily resident in Uganda who is to be employed in Uganda for a continuous period of not more than three years.

There is a provision under the NSSF Act that requires employers, with non-resident employees who are not mandated to make NSSF contributions, to make a special contribution of 10 percent of the total wages payable to a reserve account operated by the NSSF. This requirement was suspended some years back and its imposition is arguably non-constitutional. However, it is important to bear in mind that though it was suspended, it still appears in the NSSF Act and the Fund may insist on implementing it at some point.

Where an application for exemption is not made, non-resident employees are required to make a special contribution of 10% of total wages to the NSSF Reserve Account. This contribution is not refundable.

Those working for more than 3 years are required to make contributions to the National Social Security Fund. Employers are required to contribute 15% of salaries to the NSSF. Employers may deduct the employee's share of 5% from the employee's salary. Employees are entitled to a refund of the total contributions upon retirement with interest.

NSSF contributions are required to be submitted within 15 days following the month in which the salary is paid.

#### *Value Added Tax (VAT)*

Value-added tax is charged at 18% on the supply of goods and services. The following supplies are among the zero-rated supplies:

- A supply of goods or services where the goods or services are exported from Uganda as part of the supply;
- The supply of international transport of goods or passengers and tickets for their transport;
- The supply of drugs and medicines;
- The supply of educational materials and the supply of printing services for educational materials;

- The supply of seeds, fertilisers, pesticides, and hoes;
- The supply of cereals, where the cereals are grown, milled or produced in Uganda;
- The supply of machinery, tools and implements suitable for use only in agriculture;
- The supply of milk, including milk treated in any way to preserve it;
- The supply and installation of Mobicet Toilets, Ekoloo Toilets, and components made from polythene with effect from July 1, 2004;
- The supply of sanitary towels and tampons and inputs for their manufacture; and
- The supply of leased aircraft, aircraft engines, spare engines, spare parts for aircraft and aircraft maintenance equipment.

Some supplies are exempt. The following are among the exempt supplies:

- Unprocessed foodstuffs, unprocessed agricultural products and livestock;
- Postage stamps;
- Financial services;
- Insurance services;
- Unimproved land;
- Education services;
- Veterinary, medical, dental, and nursing services;
- Social welfare services;
- Betting, lotteries, and games of chance;
- Goods as part of the transfer of a business as a going concern by one taxable person to another taxable person;
- Burial and cremation services;
- Precious metals and other valuables to the Bank of Uganda for the State Treasury;
- Machinery used for the processing of agricultural or dairy products;
- Photosensitive semiconductor devices, including photovoltaic devices, whether or not assembled in modules or made into panels; light emitting diodes; solar water heaters, solar refrigerators and solar cookers;
- Accommodation in tourist lodges and hotels outside Kampala District;
- Computers, desk top printers, computer parts and accessories;
- Computer software; and
- Lifejackets, life saving gear, headgear and speed governors.

### Graduated tax

Graduated tax was suspended with effect from July 1, 2005, and Local Service tax to be paid by individuals was introduced, with effect from July 1, 2008.

### The tax year

3 The tax year runs from July 1st to June 30th. A taxpayer may apply to the Uganda Revenue Authority to use a substituted year of income however; this is not common for individuals.

### Methods of calculating tax

4 Income tax for resident individuals is levied on a sliding scale at rates that vary between 0% and 30%. Non-residents are taxed at rates that vary between 10% and 30%. For a schedule of tax rates and personal relief amounts please refer to Appendix A.

5 Residents are required to file provisional tax returns and final returns, unless all income is taxed at source.

### Residence

6 An individual is resident for tax purposes in any particular year if:

- He or she has a permanent home in Uganda;
- He or she is present in Uganda for a period of, or periods amounting in aggregate to, 183 days or more in any twelve-month period that commences or ends during the year of income;
- He or she is present in Uganda during the year of income and in each of the two preceding years of income for periods averaging more than 122 days in each such year of income; or
- He or she is an employee or official of the Government of Uganda posted abroad during the year of income.

7 Residents are liable to tax on their worldwide income. However, foreign-source employment income of a resident individual is exempt from tax if the individual has paid foreign income tax in respect of the income.

8 Foreign-source income derived by a short-term resident of Uganda is exempt from tax. Short-term resident means a resident individual, other than a citizen of Uganda, present in Uganda for a period or periods not exceeding two years.

### Non-residents

9 Non-resident individuals are only liable to tax on income sourced in Uganda. Non-residents are also taxed on a sliding scale although the thresholds differ from those of residents.

### Tax administration

10 **Returns:** Resident individuals are required to submit provisional estimates and final returns, except individuals whose income consists exclusively of employment income and individuals whose total chargeable income for the year is subject to the zero rate of tax.

11 Provisional estimate is due within three months from the commencement of the tax year. A final return is due six months after the end of the tax year.

12 **Payment of tax:** Employers are required to deduct tax on a monthly basis from any taxable emoluments paid to an employee. The method used by employers to deduct tax from employee's wages on a monthly basis is called Pay As You Earn.

13 Tax, as per the provisional estimate, is payable in four equal installments which are due at the end of the third, sixth, ninth, and twelfth months after the commencement of the tax year. If the final tax charge exceeds the provisional estimate, the excess is payable within six months after the end of the tax year which is also the date for submitting the final returns.

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## Step 2: Understanding the Ugandan tax system

### Taxation of employment income

14 Taxable income includes salaries, wages, leave pay, payment in lieu of leave, overtime pay, fees, commissions, gratuity, bonuses, director's fees, compensation for the termination of a contract, all allowances, and any other income derived by an employee from employment. Generally, fringe benefits are valued at the fair market value of the benefits at the time they are provided by the employer to the employee reduced by any payment made by the employee for the benefits, with a few exceptions to this general rule. In the case of a car provided by an employer to an employee for the use or availability for use wholly or partly for the private purposes of the employee, the value of the benefit is calculated according to the following formula –

$$(20\% \times A \times B/C) - D$$

Where,

**A** is the market value of the motor vehicle at the time when it was first provided for the private use of the employee;

**B** is the number of days in the year of income on which the motor vehicle was used or available for use for private purposes by the employee for all or a part of the day;

**C** is the number of days in the year of income; and

**D** is any payment made by the employee for the benefit.

15 Where housing is provided, the benefit is calculated as the lower of the market rent reduced by any payment made by the employee for the benefit or 15% of employment income including the market rent. The value of any other benefit provided by the employer to the employee is the market value of the benefit, at the time the benefit is provided, reduced by any payment made by the employee for the benefit, for instance provision of furniture.

### Dividends

16 Dividend income is liable to a 15% withholding tax, which is a final tax for an individual, whether resident or non-resident. However, dividends paid by companies listed on the Uganda stock exchange to individuals are subject to a reduced rate of 10%. Further, dividends paid by companies resident in countries with which Uganda has a Double Tax Agreement may be subject to tax at a reduced rate. Uganda has Double Tax Agreements with South Africa, Zambia, United Kingdom, Mauritius, Netherlands, Norway, Denmark, Italy and India.

### Interest

17 Interest income earned by both resident and non-resident individuals is subject to withholding tax at 15%. Interest payments may be subject to a reduced rate where Uganda has a Double Tax Agreement with the resident country of the recipient. The person paying the interest is the withholding agent. Tax that is withheld from an interest payment made to a resident individual by a financial institution is a final tax.

### Personal allowance

18 There are no personal allowances except for the tax-free threshold for residents of Shs 1,560,000 p.a (Approximately USD 832).

## Non-taxable benefits

19 Excluded from taxable income is the following:

- The cost incurred by the employer of any passage to or from Uganda in respect of the employee's appointment or termination of employment where the employee:
  - (a) Was recruited or engaged outside Uganda;
  - (b) Is in Uganda solely for the purpose of serving the employer; and
  - (c) Is not a citizen of Uganda; or
- Any reimbursement or discharge of the employee's medical expenses including medical insurance premium;
- Any amount paid by a tax-paying employer as a premium for insurance on the life of the employee and which insurance is for the benefit of the employee or any of his or her dependents;
- Any allowance given for, and which does not exceed the cost actually or likely to be incurred, or a reimbursement or discharge of expenditure incurred by the employee on:
  - (a) Accommodation and travel expenses; or
  - (b) Meals and refreshment while undertaking travel in the course of performing duties of employment.
- The value of any meal or refreshment provided by the employer to the employee in premises operated by, or on behalf of the employer solely for the benefit of employees and which is available to all full-time employees on equal terms;
- Any benefit granted by the employer to the employee during a month, where the total value of the benefits provided by the employer to the employee for the month is less than ten thousand shillings (approximately USD 5); or
- Any contribution or similar payment by the employer made to a retirement fund for the benefit of the employee or any of his or her dependents.

## Tax rates

20 Tax rates for resident taxpayers differ from those of non-resident taxpayers. Please refer to Appendix A for the applicable tax rates.

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## Step 3: Tax planning opportunities

21 For tax planning purposes one may consider the following items that are tax exempt:

- Foreign-source income derived by a short-term resident of Uganda;
- The emoluments payable out of foreign sources in respect of duties performed in Uganda in connection with any technical assistance agreement to which the government of Uganda is a party to any non-resident person or to any resident person who is resident solely for the purposes of performing such duties, provided that:
  - (a) Such agreement provides for the exemption of such emoluments; and
  - (b) The Minister of Finance has ratified such agreement.
- Foreign-source employment income derived by a resident individual, if the individual has paid foreign income tax in respect of the income; and
- Contributions to pension funds - The employer making the contributions for the employee's benefit gets a tax deduction and the contribution made is not a fringe benefit. Pension funds are taxable on investment income if resident; and only on Ugandan sourced investment income if non-resident. As such, one could use a foreign pension fund. Pension annuity is tax-exempt and so is a lump sum from a Ugandan resident fund.

### Exchange control regulations

22 There are no exchange control regulations in place any more. Certain forms must be completed when funds are transferred, although this is purely for statistical purposes. Authorized banks are free to set exchange rates in all transactions with customers and between themselves. Foreign exchange (forex) bureaus are free to set exchange rates to apply exclusively in spot transactions and only to specific instruments approved in their license. Both authorized banks and forex bureaus have to prominently display the current buying and selling exchange rates of currency notes, traveler's cheques, and all commissions and charges associated with these transactions.

### Entry requirements

23 All visitors are required to have passports that are valid for three months after the period of intended stay. Visas are required for all visitors and paid as follows:

- Single Entry USD 50;
- Multiple Entry (6-12 months) USD 100;
- Multiple Entry (24 months) USD 150;
- Multiple Entry (36 months) USD 200;
- Student Entry (USD 100).

Multiple entry visas are only issued at the Immigration Headquarters in Kampala, The rest can be obtained at the point of entry at a cost of approximately USD 50.

Investors, workers, and technocrats employed are required to pay a security bond equivalent to a one-way airfare return ticket, which is refundable. Work permits are given for a minimum of one year and a maximum of three years

but are renewable for a longer period. The annual fee for a work permit varies depending on the foreign employee's country of residence.

24 Vaccination certificates against yellow fever and cholera are required for visitors above the age of one year. This requirement does not apply to transit passengers not leaving the airport. Anti-malarial tablets are recommended as malaria risks exist throughout the country.

25 Applications for work permits require the following documentation:

The Uganda Citizenship and Immigration Control Act (the Act) requires any person who is not a citizen of Uganda and who wishes to be employed in Uganda to be in possession of a valid entry permit or a special pass issued by the Immigration Department before entering Uganda. Applications for special passes, work or employment permits are required to be made to the Immigration Control Board of the Ministry of Internal Affairs.

The Act requires foreign employees intending to take on employment in Uganda to be in possession of a Class G (Employee) entry permit before entering the country. An employee will be issued with Class G entry permit on satisfying the Immigration Department that he or she has been offered and has accepted employment in Uganda and on presentation of the following documents to the Immigration Department:

- (i) A letter of application for the work permit addressed to the Commissioner, Immigration Control Board;
- (ii) A completed application form;
- (iii) A letter of appointment from the employer;
- (iv) Certificate of Incorporation/Registration of the employer;
- (v) A copy of an Investment Licence of the employer;
- (vi) A copy of the Trading Licence of the employer;
- (vii) Memorandum and Articles of Association, Charter or Constitution, etc. of the Company; or
- (viii) Curriculum vitae and copies of certificates supporting educational qualifications;
- (ix) Two passport photographs of the employee;
- (x) A photocopy of the particulars page of the employee's passport.

The fee for Class G entry permit fee is currently USD 600 per year payable to the Government of Uganda. The permit is usually issued for a period ranging from one year to three years. In addition to the fees for the work permit, a security bond payable in US dollars and equivalent to the cost of a one-way airfare ticket to the country of which the foreign employee is a resident has to be deposited with the Immigration Department. This amount is refundable when the foreign employee is leaving the country after the expiration of the contract of employment. Application for the extension of the work permit can be made at the expiry of the period of the permit.

26 The Uganda Immigration Department requires non-citizens who desire to work in Uganda to obtain work permits before entry into the country.

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## Appendix A: Tax tables

### Personal income tax rates

Tax rates applicable to non-resident individuals for tax year ending June 30, 2010 are as follows (in Uganda Shillings):

| Taxable income over | Not over  | Tax on Column 1 | Percentage on excess |
|---------------------|-----------|-----------------|----------------------|
| 0                   | 2,820,000 | –               | 10%                  |
| 2,820,000           | 4,920,000 | 282,000         | 20%                  |
| 4,920,000           | and above | 702,000         | 30%                  |

Tax rates applicable to resident individuals for tax year ending June 30, 2010 are as follows (in Uganda Shillings):

| Taxable income over | Not over  | Tax on Column 1 | Percentage on excess |
|---------------------|-----------|-----------------|----------------------|
| 1,560,000           | 2,820,000 | –               | 10%                  |
| 2,820,000           | 4,920,000 | 126,000         | 20%                  |
| 4,920,000           | and above | 546,000         | 30%                  |

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## Appendix B: Typical tax computation

Typical tax computation for tax year ending June 30, 2010 (resident)

| <b>Tax computation</b>          | UGX         | UGX                      |
|---------------------------------|-------------|--------------------------|
| Gross income                    |             |                          |
| Salary                          | 120,400,000 |                          |
| Interest                        | 2,000,000   |                          |
| Dividends                       | 1,000,000   |                          |
| Housing allowance               | 25,000,000  |                          |
| Total gross income              |             | <u>148,400,000</u>       |
| Less — specific deductions:     |             |                          |
| Dividends, interest             | (3,000,000) |                          |
| Charitable donations            | (500,000)   |                          |
| Local Service Tax               | (100,000)   |                          |
| Taxable income                  |             | <u>144,800,000</u>       |
| Tax payable:                    |             |                          |
| On first 4,920,000              | 546,000     |                          |
| On balance of 139,880,000 @ 30% | 41,964,000  |                          |
| <b>Total tax</b>                |             | <u><u>42,510,000</u></u> |

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## Appendix C: Double-taxation agreements

Countries with which Uganda currently has double-taxation agreements  
(other than for shipping and air transport):

| Country            | Date of Conclusion                            | Entry into Force        | Effective Date    |
|--------------------|---|-------------------------|-------------------|
| Denmark            | 14-Jan-2000                                   | 08-May-2001             | 01-Jan-2002       |
| Egypt              | Not yet concluded                             | Not yet in force        | Not yet effective |
| India              | 30-Apr-2004                                   | 27-Aug-2004             | 01-Jul-2005       |
| Italy              | 06-Oct-2000                                   | 25-Feb-2005             | 01-Jan-1998       |
| Mauritius          | 19-Sep-2003                                   | 21-Jul-2004             | 01-Jul-2005       |
| Netherlands        | 31-Aug-2004                                   | 10-Sep-06               | 01-Nov-06         |
| Norway             | 07-Sep-1999                                   | 16-May-2001             | 01-Jan-2002       |
| South Africa       | 27-May-1997                                   | 09-Apr-2001             | 01-Jan-2002       |
| United Kingdom     | 23-Dec-1992                                   | 21-Dec-1993             | 01-Jan-1994       |
| Zambia             | 24-Aug-1968                                   | In force (date unknown) | 01-Jan-1964       |
| Kenya and Tanzania | This is being renegotiated                    | Not yet in force        | Not yet effective |
| Belgium            | Finalized negotiations. Yet to sign agreement | Not yet in force        | Not yet effective |

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## Appendix D: Uganda contacts and offices

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