



# **Industrialisation for job creation and shared prosperity (continued)**

## **Uganda's 2018/19 National Budget June 2018**

### **Welcome**

*Please find enclosed summarised highlights based on the speech by the Minister of Finance and Economic Planning on 14 June 2018 and insights from the Tax (Amendment) Acts for FY18/19*

*We hope that you will find this publication helpful, and look forward to your comments.*

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# The Economy

## Global economic growth

According to IMF's World Economic Outlook, April 2018, global economic growth is expected to rise from 3.8 percent in 2017 to 3.9 percent in 2018 and 2019. This is driven by a projected pickup in growth in emerging market and developing economies and resilient growth in advanced economies. The global effects of United States fiscal policy changes account for almost half of the global growth upgrade for 2018–19 compared with October 2017.

Other key drivers of growth that were identified by the Outlook include stronger prospects for the Euro area and Japan. In the United States, growth is expected to rise from 2.3 percent in 2017 to 2.9 percent in 2018, before moderating slightly to 2.7 percent in 2019. The upward revision reflects stronger than expected activity in 2017, firmer external demand, and the expected macroeconomic impact of the December 2017 tax reform.

The Outlook predicts that recovery in the Euro area is projected to pick up slightly from 2.3 percent in 2017 to 2.4 percent this year, before moderating to 2.0 percent in 2019. Medium-term growth in the Euro area is projected at 1.4 percent, held back by low productivity amid weak reform efforts and unfavourable demographics.

With regard to Asia, the Outlook forecasts continued growth at about 6.5 percent during 2018–19, and this remains the most important engine of global growth.

In China, growth is projected to soften slightly from

6.9 percent in 2017 to 6.6 percent in 2018 and 6.4 percent in 2019.

## Sub Saharan Africa (SSA)

Economic growth in SSA is projected to rise to 3.4 percent in 2018 (from 2.8 percent in 2017) and improve slightly thereafter through the medium term to about 4.0 percent. Growth in South Africa is expected to strengthen from 1.3 percent in 2017 to 1.5 percent in 2018 and 1.7 percent in 2019. Business confidence is likely to gradually firm up with the change in the political leadership, but growth prospects remain weighed down by structural bottlenecks.

## East African Community

As shown below, economic growth in East Africa remained strong.

### EAC: Key economic indicators (prior year in brackets)

	UG	KE	TZ	RW
GDP Growth	5.8% (3.9)	4.9% (5.8)	7.2% (7.0)	6.1% (5.9)
Overall inflation	3.6% (5.7)	7.9% (6.3)	5.3% (5.2)	4.9% (5.7)
91 day TB rates	8.8% (10.4)	7.8% (8.5)	8.19%* (7.0)	5.3% (8.9)

Source: Budget Speech, Background to the budget FY 18/19 Table 4.2

\*Treasury bill rate based on Tanzania Government Securities Interest rate

The EAC region maintained its position as the fastest-growing subregion in Africa, with estimated growth of 4.6 percent in 2017, up from 4.4 percent in 2016.

Strong growth was widespread in the region, with Kenya, Rwanda, Tanzania and Uganda growing at more 5 percent and is expected to remain strong, mainly due to public investment in infrastructure, construction and manufacturing activities, and improved agricultural productivity.

Economic growth in Burundi and South Sudan remained subdued at less than 3.6% in 2017 due to ongoing political challenges. Headline inflation in the region remained in single digits, with Uganda registering the lowest inflation rate at 3.6%

## EAC: Ease of doing business

Uganda's ranking declined slightly in 2018 but it remains in the middle of the pack amongst its EAC neighbours.

### 2018 Doing Business Rankings - EAC

Country	Ranking 2017	Ranking 2018	Change in rank
Rwanda	56	41	+15
Kenya	92	80	+12
Uganda	115	122	-7
Tanzania	132	137	-5
Burundi	157	164	-7

Source: World Bank Doing Business Report, 2018

Rwanda continues to lead the way, doing particularly well in certain indicators such as availability of credit where it was ranked 6th globally and registering property where it ranked 2nd.

## Uganda's economic performance

Uganda's economy is estimated to grow by 5.8% by the end of the fiscal year FY17/18. This shows a significant recovery compared to the growth of 3.9% in FY16/17, and is 0.8% above the government's initial projected target of 5.0%. However the growth rate is still less than that required to attain middle income status by 2020.

The increased growth rate has been attributed to number of factors, including the growth in the service sector by 7.3%; private sector credit growth of 7.8% boosted by BOU's monetary policy; favourable weather conditions; increase in foreign direct investment; and increased government investment in infrastructure. All factors remaining constant, the economy is expected to grow at a rate of 6% in FY18/19.

Uganda's annual headline inflation for FY17/18 is projected to average 3.6%, lower than the 5.7% recorded in FY16/17. The decline in headline inflation is a result of the slow down in annual food crops inflation due to increased agricultural production during the year.

In FY 17/18, commercial bank lending rates remained relatively high, although dropping from 21.1% in June 2017 to 20.1% in March 2018 for UGX denominated loans. For foreign denominated loans the rate reduced from 8.2% in June 2017 to 7.3% in March 2018. The main drivers of lending rates in Uganda are operational costs, provisioning for loan losses, the cost of holding statutory reserves and the Central Bank Rate (currently 9%).

Uganda's nominal public debt stock was USD 10.5 billion as at 31 March 2018. Of this, external debt was US\$ 7.2 billion while domestic debt was US\$ 3.3 billion equating to 38.1% of GDP.

The government states it committed to a medium term debt strategy of securing concessional loans while restricting commercial loans to the financing of infrastructure and self - financing projects. This will help to reduce the cost of finance and ensure long term debt sustainability.

### Key economic indicators

	FY16/17	FY17/18 (Projected)
GDP Growth	3.9%	5.8%
Total budget in UGX	26.3 trillion	29 trillion
Domestic revenue % of GDP (incl. oil)	14.1%	14.2%
Expenditure as % of GDP	19.0%	20.1%
Headline inflation	5.7%	3.6% (year to Mar 18)
Public debt in USD	USD 10.3 billion (Dec 17)	USD 10.5 billion (Mar 18)
Domestic borrowing as % GDP	0.7%	2.1%
Fiscal deficit as a % of GDP (incl. grants)	-3.9%	-4.7%

Source: Budget speech- Annex 1, Background to the budget FY 18/19 Table 7.3

The government is optimistic about the country's economic growth, projecting the economy to grow by 6% in financial year 2018/2019. Investment in public sector infrastructure projects and construction of oil-related infrastructure will continue.

It is essential that the real GDP grows at a rate higher than the average real interest rate on government debt in order for debt to remain sustainable.





# Fiscal Performance

## Budget in total

### Projected outcome for FY17/18

The projected outturn for FY17/18 shows a reduction in the expected fiscal deficit, from the budgeted UGX 5,606 billion (5.6% of GDP) to UGX 4,920 billion (4.7 % of GDP).

This is primarily due to lower than programmed expenditure on externally financed development activities and lower total external loan disbursements attributed to delays in procurement for the oil road project (Hoima-Wanseko) which was extended to FY18/19.

Domestic revenue is below budget as a result of a shortfall in URA collections (see following page). This gap was filled by increased domestic borrowing (exceeding budget by UGX 1,179 billion).

### Budget for FY18/19

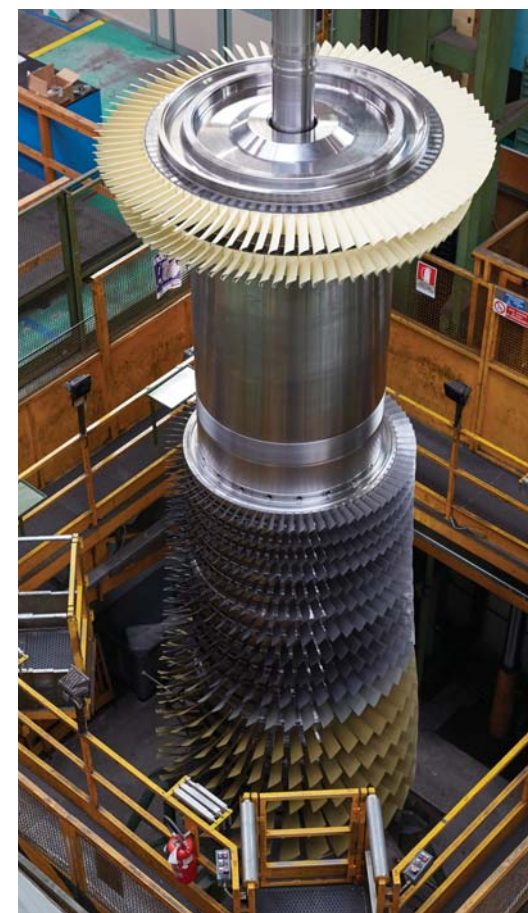
The total budget value is UGX 32.7 trillion which is 13% up on FY17/18. Domestic revenue will fund 64% of the total outgoings, down from 67% budgeted in the prior year. The planned deficit is UGX 7,428 billion (6.6% of projected GDP), which will be funded by increased domestic borrowing of UGX 1,785 billion along with external borrowing.

Budget support grants will increase to UGX 102 billion in FY18/19 from UGX 35 billion in FY17/18, while project grants have decreased by UGX 14 billion (from UGX 1,599 billion in FY17/18 to 1,585 billion in FY18/19). The Petroleum Fund will be drawn upon to the extent of UGX 200 billion to finance oil related infrastructure.

### Budget summary

	FY17/18 Budget UGX b	FY17/18 Projected UGX b	FY18/19 Budget UGX b
<b>INCOMING</b>			
Domestic revenue	15,062	14,454	16,359
Grants	1,634	1,094	1,687
Budget support	35	35	102
Project	1,599	1,059	1,585
<b>Borrowing (= fiscal deficit)</b>	<b>5,606</b>	<b>4,920</b>	<b>7,428</b>
Domestic (net)	954	2,133	1,785
External (net)	4,527	2,787	5,443
Petroleum Fund	125		200
<b>TOTAL INCOMING</b>	<b>22,302</b>	<b>20,468</b>	<b>25,474</b>
<b>OUTGOING</b>			
Sector allocations	19,325	17,517	22,579
Recurring (excl interest)	7,883	8,594	9,615
Development	10,167	7,645	11,960
Net lending/repayment	1,275	1,278	1,004
Interest	2,676	2,586	2,514
Domestic arrears/others	301	365	381
<b>TOTAL OUTGOING</b>	<b>22,302</b>	<b>20,468</b>	<b>25,474</b>
Domestic debt refinancing	4,998		5,271
External debt repayment	949		894
Appropriation in aid	757		1,063
<b>TOTAL RESOURCE ENVELOPE</b>	<b>29,006</b>		<b>32,702</b>

Source: Budget speech – Annex 1 and 3, Background to Budget Table 7.3



## Projected revenue outcome for FY17/18

As has been the pattern in recent years the domestic revenue target for the current year will not be met. The Uganda Revenue Authority ("URA") tax collection targets are projected to result in a UGX 659 billion (FY 16/17 UGX 377 billion) shortfall as follows:

	FY17/18 Target UGX b	FY17/18 Projected UGX b	Shortfall UGX b	Shortfall %
Tax revenue	14,682	14,023	-659	-4.5%
Non tax revenue	380	430*	50	13.2%
<b>Total revenue</b>	<b>15,062</b>	<b>14,453</b>	<b>-609</b>	<b>4.0%</b>

\*Includes UGX 50 billion receipts from privatisation.

The shortfall arises from all tax heads save for PAYE which registered a small surplus. Corporate income tax was affected by higher expenditures on expansion of production facilities and lower imports of fuel.

Under performance in indirect domestic taxes (VAT and excise duty) is attributed to declines in sugar sales as a result of shortage of sugar cane, expansion of cement production lines and in the telecom sector a shift from talk time to data usage.

The domestic revenue to GDP percentage increased from 14.1% to 14.2%, which means that the Government did not meet its target of increasing this ratio by 0.5% per annum until FY21/22.

## Budgeted revenues for 2018/19

The URA tax collection target for the coming year is UGX 16.4 trillion, representing a UGX 1.9 trillion or 13% increase over the projected outcome for the current year.

The additional UGX 1.9 trillion is expected to come from upward adjustments in tax rates, new taxes (e.g. the excise duties on internet and

## Domestic revenues summary

	FY16/17 Actual UGX b	FY17/18 Budget UGX b	FY17/18 Projected UGX b	FY18/19 Budget UGX b	Increase FY18/19 v. FY17/18 %
Tax revenue	12,463	14,682	14,023	15,939	14%
Non tax revenue	354	380	430	420.0	-2%
Oil revenues	130	0	0	0	-
Total domestic revenue	<b>12,947</b>	<b>15,062</b>	<b>14,453</b>	<b>16,359</b>	13%
Domestic revenue % of GDP	14.1%		14.2%	14.6%	0.4%

Source: Background to the Budget, Tables 7.3, 20 and 21

mobile money transactions) and the specific tax policy measures introduced for FY18/19, including technical amendments aimed at bringing more clarity to the laws to minimize taxpayer disputes.

In order to strengthen tax administration, the URA will continue to implement the following measures:

- Strengthen business intelligence and risk management functions to detect non-compliance;
- Expand the revenue management system to other revenue geographical areas beyond Kampala;
- Enhance tax arrears management;
- Increase tax intelligence operations to curb smuggling;
- Deployment of container scanners at the major entry stations to facilitate faster clearance of goods;
- Increase of risk based post-clearance audits targeting specific sectors;
- Implement strict procedures for collection of rental tax; and
- Implement use of digital tax stamps to enhance compliance in payment of duties on excisable goods.

## Government spending

### Sector allocations for FY18/19

Government planned expenditure for the coming year, including interest, is UGX 25,093 billion. This represents an increase of 14% compared to the current year.

Once again, Works and Transport has taken the biggest piece of the pie as the Government continues to expand and transform the infrastructural network for road, railway, air and water. Although the largest portion within this sector will remain with the Uganda National Roads Authority (UNRA), there is a 120% budget increase in Kampala Capital City Authority's (KCCA) Road Rehabilitation Grant.

Under the National Development Plan (NDP), the Government adopted six priority areas to move the country to a lower middle income country by 2040. Under Phase 2 of the NDP, Government identified three key growth opportunities in the sectors of Agriculture, Tourism and Minerals and Petroleum and two fundamental opportunities in infrastructure and human capital development to achieve middle income status by 2020.

As can be seen from the sector allocations, there are only modest increases in these areas and their relative share of the total pot has generally declined. Included in the Energy and Minerals rate is a new allocation of UGX 15.2 billion to the Uganda National Oil Company as a boost to the oil and gas sector.

There are increased allocations in other areas such as security in a bid to enhance both national and regional security, improvement in access to safe water, health, and ICT/innovation.

Government's efforts to harness the cost of borrowing is indicated by the reduction in expenditure on interest down by 5% from the current year.

### Sector allocations

	FY17/18 Budget UGX bn	Share %	FY18/19 Budget UGX bn	Share %	Increase from prior year %
Works and Transport	4,587	20.8%	4,787	19.1%	4%
Education	2,501	11.4%	2,783	11.1%	11%
Energy & Minerals	2,320	10.5%	2,438	9.7%	5%
Health	1,824	8.3%	2,308	9.2%	27%
Security	1,473	6.7%	2,068	8.2%	40%
Public Sector Mgmt	1,450	6.6%	1,578	6.3%	9%
Justice/Law & Order	1,120	5.1%	1,296	5.2%	16%
Accountability	976	4.4%	1,124	4.5%	15%
Agriculture	829	3.8%	893	3.6%	8%
Water & Environment	632	2.9%	1,266	5.0%	100%
Public Admin	563	2.6%	624	2.5%	11%
Legislature	484	2.2%	498	2.0%	3%
Social Development	176	0.8%	215	0.9%	22%
Lands, Housing & Urban Dvpmt	140	0.6%	202	0.8%	45%
Trade & Industry	89	0.4%	134	0.5%	50%
Tourism	27	0.1%	33	0.1%	20%
ICT & National Guidance	104	0.5%	149	0.6%	43%
Science, Tech. & Innovation	72	0.3%	184	0.7%	156%
<b>Total (excluding interest)</b>	<b>19,325</b>		<b>22,579</b>		<b>17%</b>
Interest	2,676	12.0%	2,514	10.0%	-5%
<b>Total (including interest)</b>	<b>22,001</b>	<b>100.0%</b>	<b>25,093</b>	<b>100.0%</b>	<b>14%</b>

Source: Budget Speech Annex 4

# Tax Amendments

## Background

Our Tax Watch of April 2018 outlined the tax changes in the 2018 Tax Bills. The amendments have since been assented to by the President and are now law. We summarise below the amendments that came into effect on 1 July 2018 as well as the proposals that were rescinded.

## Income Tax

### *Taxation of SACCO's*

The proposal to repeal the 10 year income tax exemption introduced in 2017 for Savings and Credit Cooperative Societies (SACCOs) has been rescinded. The exemption on income of SACCOs shall therefore continue to apply.

### *Exemption for industrial parks and free zones*

There is a new 5 year income tax exemption for developers and operators in industrial parks or free zones. The minimum capital investment is USD 100 million (the initial proposed amount was USD 200 million) for developers. The investment capital requirement for operators is USD 15 million for foreign operators and USD 5 million for Ugandan

citizens (initially proposed as USD 30 and 10 million respectively).

### *Limitation on interest deductibility for group companies*

The previous thin capitalisation rules have been repealed and replaced by a provision which limits the deductibility of interest by a taxpayer who is a member of a group to thirty percent of the tax earnings before interest, tax, depreciation and amortisation (EBITDA). The excess can be carried forward for a maximum of three years.

### *Carry forward of tax losses*

The proposed new tax of 0.5% on the gross income of a taxpayer who has carried forward tax losses for seven consecutive years has been rescinded. Taxpayers in tax loss positions will therefore continue to carry forward their assessed losses indefinitely without penalty.

### *Deductions for returnable containers*

Returnable containers will no longer be entitled to the 100% deduction for minor capital items under Section 26 of the ITA and will instead only be allowed a tax deduction in respect of diminution in value.





### ***Interest incurred by individuals***

Individuals are now allowed a deduction in respect of interest incurred on mortgages obtained from financial institutions to acquire or construct premises that generate rental income.

### ***Taxation of an indirect change in ownership and expansion of source rules***

Section 75 of the ITA has been amended to treat a change in ownership by 50% or more in an entity as triggering a deemed realisation of all assets and liabilities for market value. Under a related change to Section 79, the gain on the deemed disposal will be sourced in Uganda.

### ***Widening the definition of immovable property***

The definition of immovable property is expanded to include “any intangible asset which is a business asset or any part of the business”.

### ***Tax accounting for Islamic financial transactions***

The proposal to regulate tax accounting of Islamic financial transactions in line with the Financial Institutions Act 2004 has been rescinded.

### ***10% WHT on commission paid by telecom providers***

A new 10% withholding tax (WHT) will apply on all commissions paid by telecom service providers on airtime distribution and mobile money services. This will replace the current WHT rate of 6% and is levied as a final tax on resident individuals.

### ***1% WHT on payments for agricultural supplies***

There is a new 1% WHT applicable on gross payments exceeding UGX 1 million for agricultural supplies by designated payers. It is not clear if designated payers are those on the current WHT agents list or if the Minister will need to issue a separate list.

### ***Taxation of petroleum operations***

The meaning of an “international agreement” has been widened to include the Inter-Government Agreement on the East African Crude Oil Pipeline.

The definition of a mining exploration right has been clarified to mean “a prospecting exploration or retention licence granted under the Mining Act.”

## **Value Added Tax Act**

### ***Introduction of withholding VAT***

There is a new requirement for designated persons to withhold 100% (initially proposed as 50%) of the VAT on payments for taxable supplies. Designated persons will be those as listed by the Minister (yet to be issued).

### ***Exclusion of blocked items from deemed payment of VAT***

VAT payable on passenger automobiles, repairs and maintenance of such automobiles and entertainment will no longer be eligible for deemed payment of VAT on payments by mining or petroleum licensees.

### ***Due date for payment of VAT***

Section 34A has been introduced which reinstates the tax payment provisions that were previously included in section 34 of the VAT Act (repealed from 1 July 2016 on the coming into force of the Tax Procedures Code Act 2014). Unlike the prior proposal, however it is no longer required for tax payers to pay the full tax on disputed assessments under objection or appeal.

### ***Amendment of the definition of electronic services***

The definition of electronic services has been widened so that it is no longer restricted to services provided on or through a telecom network.



### **Capping of interest on over payments and late refunds**

Section 44 of the VAT Act which relates to interest on over payments and late refunds from the URA has been amended to cap the interest charge to the amount of principal tax.

### **Exemptions for investors**

A VAT exemption will apply on supplies of various construction materials, services, machinery and equipment for developers of a) industrial parks or free zones b) hotels or tourism facilities c) hospitals who meet specified criteria.

This is linked to the income tax exemption outlined above. There is a similar exemption for operators within or outside an industrial park or free zone.

Exemptions are also introduced for :

- the supply of movie production
- certain supplies in connection with textile manufacturing
- the supply of fabrics and garments by vertically integrated textile mills
- production inputs for iron ore smelting and the supply of billets
- production inputs for limestone mining and the supply of clinker
- production inputs for processing of hides and skins and the supply of locally made leather products.

## **Excise Duty Act**

### **Due date for payment of excise duty**

The time of supply rules for excise duty have been amended to match those that apply for VAT. A person providing an excisable service becomes liable to pay excise duty on that service on the earlier of the date on which:

- the performance of the service is completed;
- payment for the service is made; or
- an invoice is issued.

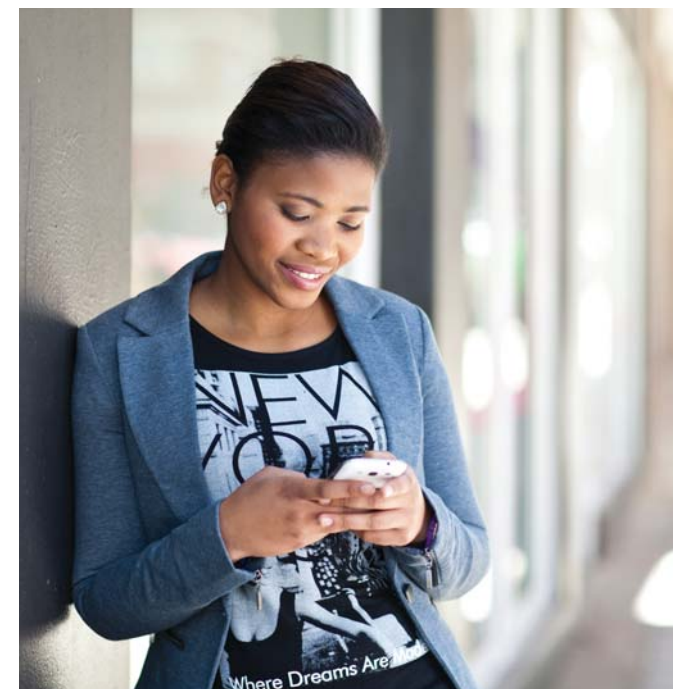
### **Remission of excise duty on exports**

The Commissioner has been given powers to remit excise duty payable on goods if satisfied that the excisable goods have been exported.

### **Introduction of penalties and interest**

New penalties and interest that have been introduced as follows:

- Failure to apply for a licence - A penalty equal to the duty payable for the period that the person produces excisable goods or services without a valid license.
- Failure to furnish a return in time - A penalty amounting to the higher of UGX 200,000 or 2% compounded interest for the period for which the return remains outstanding.
- Failure to pay excise duty in time - Interest on the unpaid duty at a rate of 2% per month, compounded.
- Failure to maintain proper records - A penalty equal to the higher of the amount of duty payable for that period or UGX 2 million.



### **Airtime on landlines and public pay phones**

The excise duty rate on land lines and public pay phones has been increased from 5% to 12%.

### **Introduction of excise duty on Over the Top services**

Excise duty at a rate of UGX 200 per user per day has been introduced on over the top services ("OTT") supplied by telecom providers. This catches voice or messages over the internet and is targeted specifically at social media.

### ***Excise duty on mobile money***

The Act introduces a new excise duty on mobile money transactions comprising receipts, payments and withdrawals at a rate of 1% of the transaction value.

The excise duty rate on mobile money services is also increased from 10% to 15%.

### ***Excise duty on bank fees***

The duty rate has been increased from 10% to 15%.

### ***Other rate changes***

Various other rates have been amended, as summarised in the table on page 12.

### ***Exemptions from excise duty***

Exemptions from excise duty are introduced for the following:

- Construction materials for development of industrial parks or free zones by a developer whose investment is at least USD 100 million.
- Construction materials of a factory or warehouse available on the local market, locally produced raw materials and inputs to an operator within the industrial park, free zone, single factory or other business outside

the industrial park or free zone upon meeting of specific criteria.

- Locally produced materials for construction of premises and other infrastructure of a hotel or tourism developer whose investment capital is at least USD 8 million with a room capacity exceeding 100 guests.
- Furnishings and fittings or locally produced materials for construction of premises and other infrastructure of a hospital facility developer whose minimum investment capital is at least USD 5 million, and who develops a hospital at the level of a national referral hospital with capacity to provide specialised medical care.

## **Tax Procedures Code Act**

### ***Filing of tax returns under the Lotteries and Gaming Act***

Liable persons are now required to furnish a weekly return by Wednesday of the following week and a monthly return by the fifteenth day of the following month.

### ***Commitment by government to pay tax on behalf of taxpayers***

Section 40(2a) imposes a specific requirement for the Minister to pay any tax due arising from commitments made by the Government to pay tax on behalf of a person.





### **Waiver of taxes due by government**

All taxes due and unpaid by the Government (except withholding tax) as at 30 June 2018 will be waived. In addition, there is a proposal that requires the Minister to publish in the Gazette and in a newspaper of national circulation a list of all taxes waived.

### **Electronic receipting and invoicing**

An electronic receipting and invoicing system will be introduced. A taxpayer may issue an e-invoice or e-receipt, or employ an electronic fiscal device which shall be linked to a centralised invoicing and receipting system or a device authenticated by the URA.

## **Stamp Duty Act**

### **Increase in stamp duty rate**

The default fixed stamp duty rate of US\$ 10,000 is increased to US\$ 15,000.

### **Stamp duty exemptions**

Stamp duty exemptions are introduced for certain instruments in respect of the following strategic investment projects:

- Developers of industrial parks or free zones whose investment capital is at least USD 100 million;
- An operator within an industrial park or free zone or an operator of a single factory or other business outside the industrial park with a minimum investment of USD 15 (foreigners) or USD 10 million (citizen of EAC country);
- Hotel or tourism facilities whose investment capital is USD 8 million with a room capacity exceeding one hundred guests; and
- Hospital facility developer whose investment capital is at least US\$ 5 million and who develops a hospital at the level of a national referral hospital with capacity to provide specialised medical care.

### **The Traffic and Road Safety Act**

The importation of motor vehicles which are older than 15 years is banned.



## Summary of amendment to Schedule 2 of the Excise Duty Act

Paragraph	Dutiable good or service	FY18	FY19
	<b>Beer</b>		
2(d)	Opaque beer	N/A	30% or UShs 650 per litre, whichever is higher
	<b>Spirits</b>		
3(a)	Undenatured spirits made from locally produced raw materials	60%	60% or UShs 2,000 per litre, whichever is higher
3(b)	Undenatured spirits made from imported raw materials	UShs 100% or UShs 2,500 per litre, whichever is higher	100% or UShs 2,500 per litre, whichever is higher
3(c)	Ready to drink spirits	N/A	80% or UShs 1,500 per litre, whichever is higher
	<b>Wine</b>		
4(a)	Wine made from locally produced raw materials	20%	20% or UShs 2,000 per litre, whichever is higher
4(b)	Other wine	60% or UShs 6,000 per litre, whichever is higher	80% or UShs 8,000 per litre, whichever is higher
	<b>Non- alcoholic beverages</b>		
5(a)	Non-alcoholic beverages not including fruit or vegetable juices	13% or UShs 240 per litre, whichever is higher	12% or UShs 200 per litre, whichever is higher
5(c)	Powder for reconstitution to make juice or dilute- to -taste drinks, excluding pulp;	N/A	15% of the value
	<b>Fuel</b>		
8(a)	Motor spirit (gasoline)	UShs 1,100 per litre	UShs 1,200 per litre
8(b)	Gas oil (automotive, light, amber for high speed engine)	UShs 780 per litre	UShs 880 per litre

Paragraph	Dutiable good or service	FY18	FY19
	<b>Telecom services</b>		
<b>13(a)</b>	Airtime on mobile cellular, landlines and public pay phones	Mobile 12% Landlines and public pay phones 5%	12% of the fee charged
<b>13(b)</b>	Over the top services	N/A	Ushs 200 per user per day of access
<b>13(c)</b>	Internet data	N/A	Nil
<b>13(d)</b>	Money transfer or withdrawal services, including transfers and withdrawal services by operators licensed or permitted to provide communications or money transfers or withdrawals but not including transfers and withdrawal services provided by banks.	10% of the fees charged	15% of the fees charged
<b>13(f)</b>	Mobile money transactions on receiving, payments and withdrawals	N/A	1% of the value of the transaction
<b>14</b>	Ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges, excluding loan related charges periodically charged by financial institutions	10% of the fees charged	15% of fees charged
	<b>Others</b>		
<b>16</b>	Sugar confectionaries; chewing gum, sweets and chocolates	20%	Nil
<b>18</b>	Cooking oil	N/A	Ushs 200 per litre
<b>19</b>	Motorcycles, at first registration	N/A	Ushs 200,000

## Customs duties

*To assist local industries, duties have been decreased/remitted on the following products*

**Import duty rate of 0% instead of 10% for:**

- Road tractors for semi trailers
- Polyvinyl alcohol

**Import duty rate of 0% instead of 25% for:**

- Goods vehicles with a capacity exceeding twenty tons
- Maternity kits

**Import duty rate of 10% instead of 25% for:**

- Petroleum jelly
- Buses for transportation of more than 25 persons and goods vehicles with a capacity exceeding five tons but not exceeding twenty tons
- Barley, active yeasts, apple juice and other orange juice
- Gum base for manufacture of chewing gum
- Umbrella heads for roofing nails
- Unbleached kraft paper, kraft liner and paper boards

**Import duty rate of 10% instead of 35% for:**

- Barley

*To protect local industries, duties have been increased on the following imported products*

**Import duty rate of 35% instead of 25% for:**

- Crude, semi refined and double refined edible oil and crude palm oil;

- Potatoes
- Chewing gum, sweets, chocolates, biscuits
- Tomato sauce
- Meat, edible offals and sausages
- Exercise books, trade advertising materials, pictures, designs, photographs, instructional charts and diagrams
- Blankets
- Soap, lubricating grease and liquid lubricants
- Doors, windows and their frames
- Furniture and parts there of
- Mattresses and mattress supports
- Cartons, boxes, cases, bags and other packaging containers of paper
- Steel articles comprising corrugated iron sheets, pre painted coils, galvanised coils, hoop iron, twisted bars, flat bars and mild steel plates

**Import duty rate of 60% instead of 25% for:**

- Mineral water
- Toilet paper
- Tooth brushes and ballpoint pens

### Other customs duty changes

Introduction of an import declaration fee on imports at rate of 0.1% of the cost, insurance and freight (CIF) subject to a minimum of Uganda shillings 180,000.





## East Africa highlights

### Kenya tax highlights

#### Customs

- Import duty on iron and steel products and on paper and paper board increased from 25% to 35%
- Introduction of import duty of USD 5 per unit or 35%, whichever is higher, on textiles and footwear;
- Introduction of a specific rate duty of USD 110/MT on particle board, USD 120/MT on medium density fiber board, USD 230/M3 on plywood and USD 200/MT on block boards, or 35% whichever is higher;
- Introduction of a specific rate of USD 500/MT or 35% whichever is higher on vegetable oils;
- Remission of duty on inputs and raw materials for the manufacture of pesticides and acaricides;
- Remission of import duty on importation of sightseeing buses and overland trucks imported by licensed tour operators;
- Remission of duty on taxable inputs and raw materials for assembly of clean energy cooking stoves imported by local manufacturers.

#### Excise

- Excise duty of KES 20 per Kg on sugar confectionaries and chocolates;
- Increase of excise duty on mobile money transfer fees from 10% to 12%;
- Increase of excise duty from 20% to 30% on private passenger motor vehicles exceeding 2,500cc (diesel) and 3,000cc (petrol);
- Introduction of 0.05% excise duty on transfer of KES 500,000 or more by banks/ financial providers.
- Introduction of an export levy of 20% on copper waste and scrap.

#### VAT

- VAT exemptions are introduced on the following:
- Importation or local purchase of parts for computer assembly;
- Purchase of equipment for construction of grain storage facilities;
- Purchase of raw materials for animal feeds production.

#### Income Tax

- Introduction of presumptive income tax based on the business permit or trading license fees at 15% to replace turnover tax;
- Withholding tax on payments for demurrage charges made to non-resident persons at 20%;
- Introduction of capital gains tax on sale of property by general insurance companies at 5%;
- Withholding tax of 5% on insurance premium paid to non-residents excluding insurance for aircraft;
- Tax amnesty for foreign income declaration extended to 30 June 2019 and exempted from Proceeds of Crime Act, subject to exemptions;
- 30% rebate on total electricity bill incurred by manufacturers;
- 20% penalty and 2% interest on late payment of tax on betting, gaming and lotteries;
- Late payment interest increased from 1% to 2% and reintroduction of 20% penalty on late payment of income tax;
- A limit has been set for application for and extension of time for filing tax returns and to also allow taxpayers to amend filed returns. The time limits are yet to be made available.

## Tanzania tax highlights

### Tax amnesty

A tax amnesty will run for a six month period from July to December 2018. Taxes declared under the amnesty will have full remission of interest and penalties.

### Excise

The fixed tariffs on locally produced non-petroleum excisable products including alcohol, soft drinks and tobacco have not been changed but excise duty rates relating to imported non petroleum products will increase by 5%.

An Electronic Tax Stamp will replace the Paper Tax Stamp with effect from 1 September 2018. This is to enable the Government obtain production data from the manufacturers in real time.

### Local Taxes (agriculture)

The Minister is also proposing to amend the Local Government Finance Act, to require any corporate entity which produces agricultural crops without processing them for the purpose of adding value to pay Produce Cess.

### Customs

- To assist local industries, duties have been decreased remitted on the following products:
- Paper used to manufacture exercise books, text books and gypsum boards;



- Self adhesive labels;
  - Printed aluminium barrier laminates;
  - Polyvinyl alcohol;
  - Inputs used to manufacture pesticides, fungicides, insecticides and acaricides;
  - RBD palm stearin
- To protect local industries, duties have been increased on the following imported products:
- Crude, semi refined and double refined edible oil and crude palm oil;
  - Potatoes, chewing gum, sweets, chocolates, biscuits, tomato sauce, water, meat and edible offal and sausages.
  - Increased duty of 35% on imported sugar

### Value Added Tax

Exemption from VAT proposed on:

- Packaging material used by local manufacturer of pharmaceutical products;
- Imported animal and poultry feed additives; and
- Sanitary pads.

Additional powers are given to the Minister to exempt imports by a government entity or supply to a government entity of goods or services to be used solely for implementation of government projects funded by a non – concessional loan.

### Income tax

- Reduction of the CIT rate for new investors in the pharmaceutical and leather industries from 30% to 20% for 5 years from 2018/19 to 2022/23. However, it is unclear whether the intention is to apply a reduced rate for a period of 5 years to 2022/23 or apply the reduced rate for new entrants investing between 2018/19 and 2022/23 for an indefinite period.
- Withholding tax exemption to apply to interest on Government borrowings from non-resident financial institutions.

## Rwanda tax highlights

### Tax reforms

There has been a deliberate move over the last five years to modernise the major tax laws in Rwanda. These include the following new laws: VAT law, Investment Promotion and Facilitation law, Mineral Tax law, Gaming law and Income Tax law which was recently gazetted on 16 April 2018.

### Tax changes

The minister announced the amendment, during the year, of other tax laws governing tax procedures, use of electronic billing machines, property taxes and consumption/excise duty taxes.



### Corporate taxes

- Reduction of the taxing threshold for small businesses from Rwf 50 million to Rwf 20 million.
- Tightening of restrictions on expense deduction for the determination of taxable income e.g. management, technical and royalty fees are now capped to 2% of the company's turnover.
- Broadening of the provision that deems income to be derived in Rwanda by non-resident e.g. the direct and indirect sale of shares in a Rwandan company is now considered to be income sourced from Rwanda, and services performed abroad by a non-resident for the benefit of a Rwandan company is also now considered to be income sourced from Rwanda.
- Exclusion of liberal professionals (professionals with special skills, working in an independent manner) from the lump sum/flat tax regime.

### Customs Duty

#### Transportation sector

- Import duty rate of 0% instead of 10% or 25% for road tractors for semi trailers, motor vehicles for transport of goods with gross weight exceeding 20 tons and buses for transportation of 50 persons and above.
- Import duty of 10% instead of 25% for motor vehicles for transport of goods with gross weight exceeding 5 tons but not exceeding 20 tons.
- Import duty of 10% instead of 25% on buses for transportation of more than 25 persons.

### Promotion of "Made in Rwanda" initiative

- All capital machinery used in textile and leather industry will continue attracting import duty of 0% instead of 25%.
- Certain raw materials used in industry will continue to be taxed at a rate of 0% instead of 10% or 25%.
- Import duty rates of US\$ 4/Kg for second hand clothes and US \$5/kg for second hand shoes.

### Information Technology

- Telecommunication equipment will continue to attract import duty at a rate of 0% instead of 25%.

### Financial sector

- As support towards a cashless economy, electronic transaction devices (smart cards, ATM cards, Point of sale cards and their operating machines) will attract import duty at 0% instead of 25%.

### Basic goods

- Rice will continue to be taxed at the rate of 45% or US\$ 345/MT instead of 75% or US\$ 345/MT.
- Sugar will continue to be taxed at a rate of 25% instead of 100% or US\$ 460/MT whichever is higher.
- Goods imported for use by Armed Forces Shop (AFOS) will continue to attract duty at 0% instead of 10% and 25%.



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