# Industrialisation for job creation and shared prosperity

## Uganda National Budget Bulletin 2019/20

June 2019

pwc

# In this bulletin…

# The Economy

## Global

### Global Economic Growth

According to the IMF's April 2019 World Economic Outlook (WEO), global growth momentum slackened in 2018 to 3.6% from 3.8% in 2017, showing greater than expected weaker performance in some economies, notably Europe and Asia.

The global economy is projected to grow at an even lower rate of 3.3% in 2019 compared to previous years. Global growth will start to level off in the second half of 2019 to achieve 3.6% in 2020 based on on-going build- up of policy stimulus in China, recent improvement in global financial market and, stabilization of conditions and declining pressures on growth in the Euro area and emerging markets.

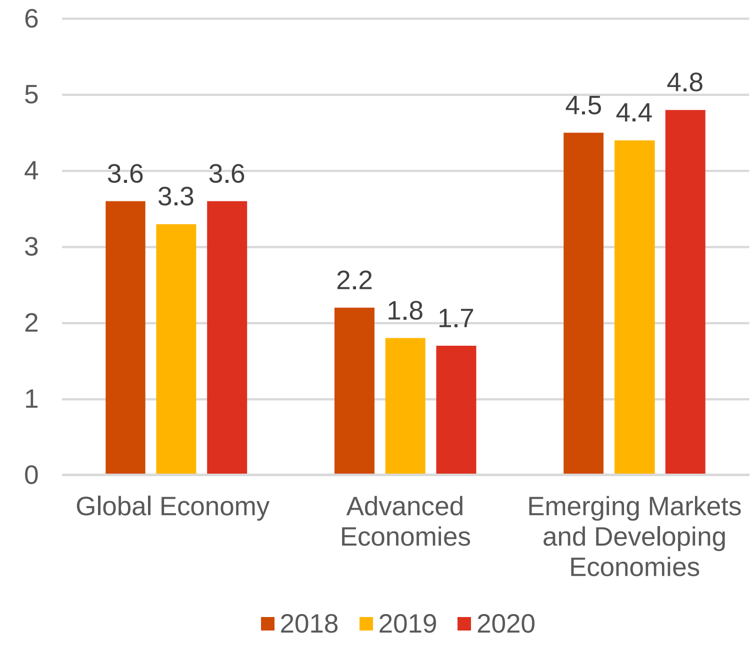
Beyond 2020, global growth is set to settle at about 3.6%

According to the IMF, growth across emerging markets and developing economies is projected to stabilize slightly below 5%.

For some regions, the outlook is convoluted by a combination of structural bottlenecks, slower advanced economy growth and, in some cases, high debt and tighter financial conditions.

These factors, alongside subdued commodity prices and civil strife or conflict in some cases, contribute to unresponsive medium-term prospects for Latin America; the Middle East, North Africa, and Pakistan region; and parts of Sub-Saharan Africa

*GDP for World Economies*




*Source: IMF 2019 World Economic Outlook*

# The Economy

## Africa

### Sub Saharan Africa (SSA)

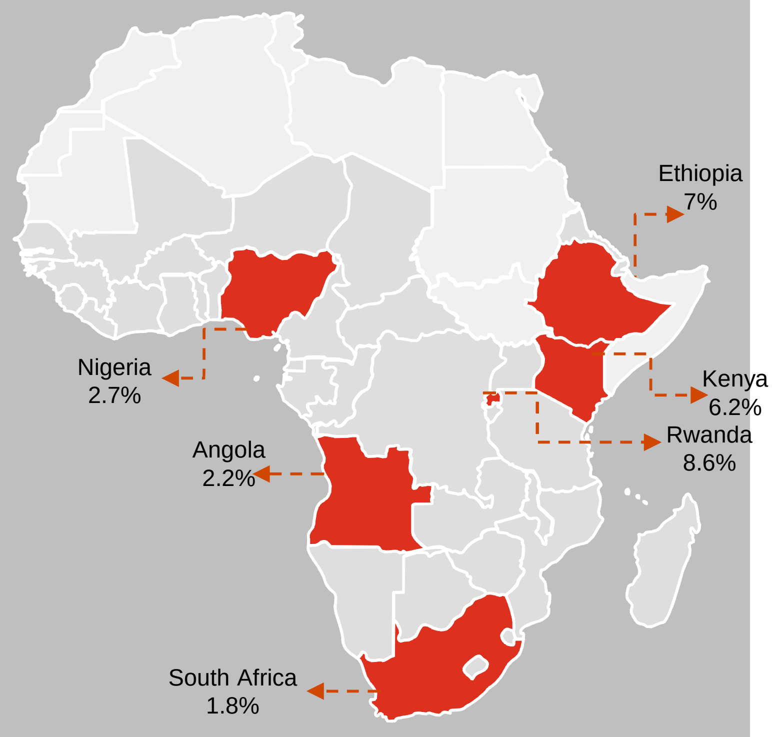
Sub-Saharan Africa's (SSA) economic recovery is set to continue, but along two tracks, after the region faced a decline in global commodities price between 2015 and 2016, tighter financial conditions and a strong US dollar in 2018.

GDP growth in SSA was 3% in 2018 compared to 2.9% in 2017 and is set to pick up to 3.5% in 2019 and stabilize at slightly below 4% over the medium term. This is projected on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries.

Some 21 countries are expected to sustain growth at 5% or more in 2019. The remaining countries, mostly other resource-dependent economies, including the largest - Nigeria and South Africa - are set to face slow growth in the near-term.

According to the IMF, addressing these growing challenges within these countries requires building fiscal space and enhancing resilience to shocks by stepping up actions to mobilize revenues, alongside policies to boost productivity and private investment

*2019 GDP growth forecast for selected Sub-Saharan African Economies*



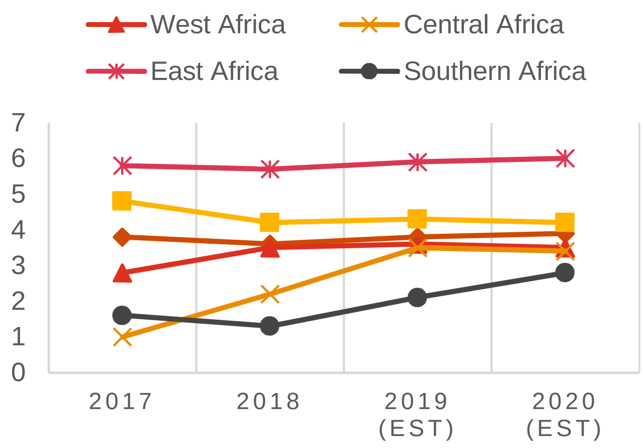
# The Economy

## East African Community

According to the African Development Bank's 2019 African Economic Outlook, East Africa is the fastest growing region of the continent with a robust GDP forecast of 5.9% from an estimated 5.7% in 2018. However, the regional average is disguised by substantial variation across countries.

The countries with the highest economic growth are Rwanda, Tanzania and Kenya. The region however continues to face various downside risks that could undermine economic growth and development prospects. Major risks are agriculture's susceptibility to the impulses of nature, heavy reliance on primary commodity exports, rising oil prices, persistent current account deficits and related increases in external indebtedness.

*GDP growth by region 2017 to 2020*




*Source: Africa development bank- East Africa Economic Outlook*

Whilst international trade within Africa remains low averaging at about 14.5% and roughly unchanged over the past five years, intra-EAC trade is the highest among all regional economic communities in Africa - above 20% of exports and significantly higher than the continental average.

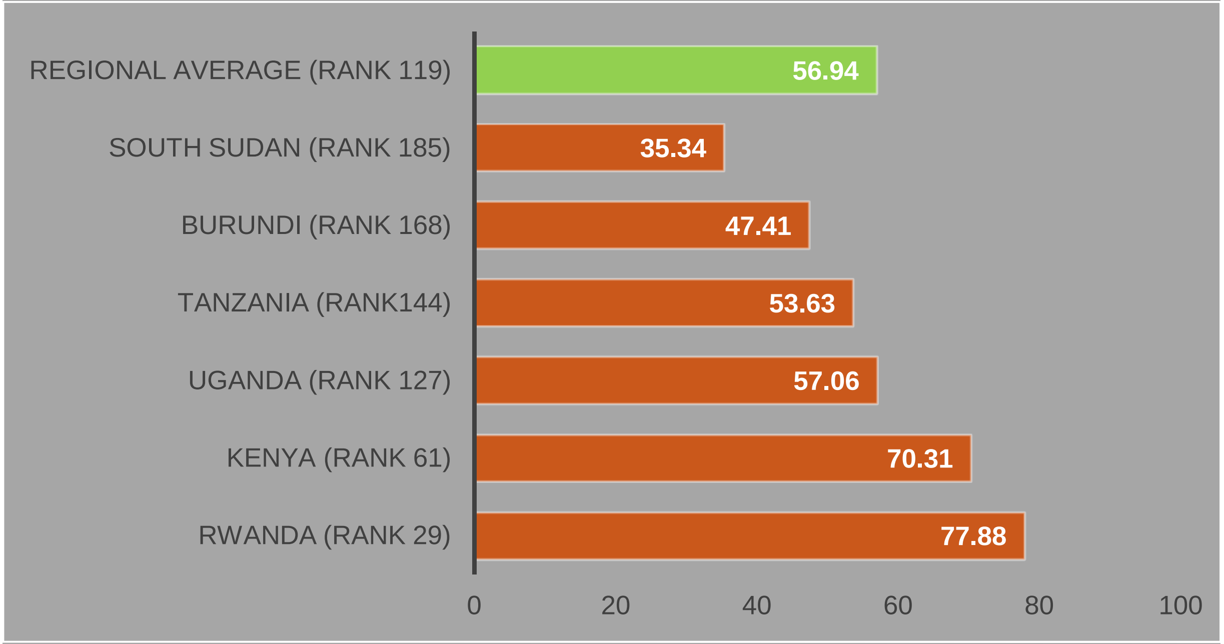
The Continental Free Trade Area (CFTA), launched in Kigali in March 2018, is the latest regional integration initiative. The tripartite free trade area involving COMESA, EAC, and the Southern African Development Community was an important motivation for the CFTA, especially in East and Southern Africa.

These initiatives are believed to be advancing regional integration in East Africa and will accelerate inter-regional trade.

# The Economy

## Ease of doing business in East Africa

*Ease of doing business score*




*Source: World Bank Doing Business Report, 2019*

*Note: An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The rank is out of 190 countries..*

EAC countries have continued to push the frontiers of reforms more broadly. The World Bank's 2019 Doing Business report showed the progress made by sub-Saharan Africa among reforming economies.

The 2019 report showed that the EAC has continued to excel, accounting for one-third of all business regulatory reforms. Uganda performed slightly above the regional average while South Sudan and Burundi were significantly below average. Rwanda continues to lead the way.

# The Economy

## Uganda

### Economic performance

The economy sustained its recovery in FY18/19, growing by 6.1%. The economy is projected to grow by 6.3% in FY19/20 and continues to bounce from the low growth of 3.9% in 2017, mainly driven by increased private and public sector activity across all sectors and improved weather conditions.

Inflation remained stable at 3.1% (10 months to April 2019), due to increased food supplies in the markets, relatively stable exchange rate and effective co–ordination of monetary and fiscal policies. Domestic revenue collection increased significantly with the  ratio of domestic revenue to GDP estimated at 15.2% compared to 14.4% achieved last year.

### Government priorities

The government's current priorities include:

- Expanding the industrial base of the economy;
- Exploiting natural resource endowments with environmental protection in mind; and
- Providing affordable financing for production and business.

### Economic drivers FY19/20

The government has identified the economic drivers to include:

- Peace, security, good governance and an efficient judicial system;
- Reliable, efficient and affordable electricity supply;
- Water transport and communications infrastructure;
- A healthy, well educated and skilled workforce; and
- An effective government machinery.

### Key economic indicators

| | FY 17/18 Actual | FY 18/19 Projected |
|---|---|---|
| GDP Growth | 6.2% | 6.1% |
| Domestic revenue as % of GDP (incl. oil) | 14.4% | 15.2% |
| Total Govt spending in UGX | 20.1 trillion | 24.3 trillion |
| Expenditure as % of GDP | 20.1% | 22.1% |
| Budget deficit as % of GDP (incl. grants) | -4.9% | -5.8% |
| Public debt in USD | USD 10.7b (June 18) | USD 12.1b (June 19) |
| Public debt as % of GDP (nominal) | 41.5% | 42.2% |
| Headline inflation | 3.4% | 3.1% (10 mths) |

*Source: Background to Budget Chapters 4 & 7*

# Fiscal performance

## Budget in total

### Outcome for FY18/19

The projected outcome for the current year shows a reduced fiscal deficit of UGX 6.4 trillion (5.8% of GDP) as compared to the budgeted figure of UGX 7.4 trillion (6.6 % GDP). This has been primarily driven by lower than expected execution of externally financed development projects, but also assisted by a modest surplus in revenue collections. Domestically funded development expenditure exceeded budget by UGX 865 billion, partly due to supplementary funding for the national airline and security measures. Recurring expenditure was adversely affected by public sector pay rises.

### Budget for FY19/20

The total resource envelope for FY19/20 totals UGX 40.5 trillion, representing a 24% increase on the current year. The projected budget deficit increased significantly to UGX 10.6 trillion (8.7% of GDP), with the cause of this being attributed to infrastructure projects such as roads, oil development, the national airline and power transmission. UGX 2.8 trillion of the deficit will be financed from domestic borrowing.

| *Budget summary* | FY18/19 Budget UGX b | FY18/19 Projected UGX b | FY19/20 Budget UGX b |
|---|---|---|---|
| **INCOMING** | | | |
| Domestic revenue | **16,359** | **16,711** | **20,646** |
| Grants | **1,688** | **1,194** | **1,900** |
| Budget support | 102 | 84 | 101 |
| Project | 1,586 | 1,110 | 1,799 |
| Borrowing (= fiscal deficit) | **7,427** | **6,401** | **10,564** |
| Domestic (net) | 1,785 | 2,680 | 2,830 |
| External (net) | 5,442 | 3,521 | 7,486 |
| Petroleum Fund withdrawal | 200 | 200 | 248 |
| TOTAL INCOMING | **25,474** | **24,306** | **33,110** |
| **OUTGOING** | | | |
| Sector allocations (excl interest) | **22,579** | **21,477** | **29,564** |
| Recurring | 9,615 | 10,092 | 12,415 |
| Development | 11,960 | 10,370 | 16,356 |
| Net lending/investment | 1,004 | 1,015 | 793 |
| Interest | **2,514** | **2,400** | **3,145** |
| Domestic arrears/other | **381** | **429** | **401** |
| TOTAL OUTGOING | **25,474** | **24,306** | **33,110** |
| Domestic debt refinancing | 5,271 | | 6,453 |
| External debt repayments | 894 | | 723 |
| Appropriation in aid | 1,063 | | 201 |
| **TOTAL RESOURCE ENVELOPE** | **32,702** | | **40,487** |

*Source: Background to Budget Table 7.3*

# Fiscal performance

## Domestic revenue

### Outcome for FY18/19

The URA is expecting to exceed its revenue target for the year, with a surplus UGX 353 billion (2.2%)

| | FY18/19 Target UGX b | FY18/19 Projected UGX b | Surplus UGX b | Surplus % |
|---|---|---|---|---|
| Tax revenue | 15,939 | 16,181 | 242 | 1.5% |
| Non tax revenue | 420 | 531 | 111 | 26.4% |
| **Total revenue** | 16,359 | 16,712 | 353 | 2.2% |

The surpluses mainly arise from corporate income tax, PAYE, and VAT (both domestic and imports). A component of the surplus arises from improved recoveries of tax arrears, with UGX 456 billion being recovered in the period to April 2019.

The main shortfall arose in local excise duty, largely attributed to a deficit in collection of the new OTT tax which is blamed on the use of virtual private networks. Collections of the new 0.5% excise duty on mobile money withdrawals are stated to be UGX 45 billion ahead of target (up to April 2019)

### Budget for FY19/20

The URA is charged with collecting total revenue of UGX 20.6 trillion in the coming year, representing an increase of 23.5%. The increase in tax revenue is expected to be largely driven by positive economic conditions and improved tax administration measures, rather than specific new taxes or increased tax rates. A large part of the increase in non tax revenue arises from appropriation in aid, which the URA will now be collecting directly on behalf of the respective government departments/agencies.

| | FY17/18 Actual UGX b | FY18/19 Projected UGX b | FY19/20 Budget UGX b | Increase FY19/20 v. prior year % |
|---|---|---|---|---|
| Tax revenue | 14,076 | 16,181 | 18,877 | 16.7% |
| Non tax revenue | 431 | 531 | 1,571 | 195.9% |
| Oil revenues | 0 | 0 | 198 | |
| **Total domestic revenue** | 14,507 | 16,712 | 20,646 | 23.5% |
| **% of GDP** | | | | |
| Tax revenue | 14.0% | 14.7% | 15.5% | 0.8% |
| Domestic rev. excl. oil | 14.4% | 15.2% | 16.8% | 1.6% |
| Domestic rev. incl. oil | 14.4% | 15.2% | 17.0% | 1.8% |

The revenue performance for the two years to FY19/20 meets the targeted annual improvement in the revenue to GDP ratio of 0.5%, with a medium-term target of 18% under the Domestic Revenue Mobilisation Plan.

# Fiscal performance

## Government spending

### Sector allocations for FY19/20

Total government spending inclusive of interest for the coming year is budgeted at UGX 32.7 trillion, being a 30.4% increase over the current year.

Of some concern is the 25.1% increase in the cost of debt servicing with interest budgeted at UGX 3.1 trillion (almost 10% of total expenditure). This increment is linked to the increased domestic and external borrowing required to fund the UGX 10.6 trillion deficit.

Other notable increases are in Security (which is stated to include an additional UGX 1.5 trillion in equipment and training for the UPDF) and Tourism.

Works and Transport continues to be the biggest recipient, with ongoing roading projects (900 km of paved roading planned to be completed, including for the oil and tourism sectors), infrastructure developments for air, rail and water transport and rebooting of the national airline.

*Sector allocations - FY19/20 vs. current year*

| | FY18/19 Budget UGX b | Share % | FY19/20 Budget UGX b | Share % | Increase from prior year % |
|---|---|---|---|---|---|
| Works and Transport | 4,787 | 19.1% | 6,460 | 19.7% | 34.9% |
| Education & Sports | 2,781 | 11.1% | 3,373 | 10.3% | 21.3% |
| Energy & Minerals | 2,438 | 9.7% | 3,007 | 9.2% | 23.3% |
| Health | 2,310 | 9.2% | 2,623 | 8.0% | 13.5% |
| Security | 2,068 | 8.2% | 3,621 | 11.1% | 75.1% |
| Justice/Law & Order | 1,296 | 5.2% | 1,732 | 5.3% | 33.6% |
| Water & Environment | 1,266 | 5.0% | 1,093 | 3.3% | -13.7% |
| Accountability | 1,124 | 4.5% | 1,543 | 4.7% | 37.3% |
| Local Govt Sector | 965 | 3.8% | 1,252 | 3.8% | 29.7% |
| Agriculture | 893 | 3.6% | 1,053 | 3.2% | 17.9% |
| Public Admin | 624 | 2.5% | 979 | 3.0% | 56.9% |
| Public Sector Mgmt | 613 | 2.4% | 857 | 2.6% | 39.8% |
| Legislature | 498 | 2.0% | 688 | 2.1% | 38.2% |
| Social Development | 215 | 0.9% | 219 | 0.7% | 1.9% |
| Lands, Housing & Urban Dvpmt | 202 | 0.8% | 227 | 0.7% | 12.4% |
| Science, Tech. & Innovation | 184 | 0.7% | 186 | 0.6% | 1.1% |
| ICT & National Guidance | 149 | 0.6% | 146 | 0.4% | -2.0% |
| Trade & Industry | 134 | 0.5% | 203 | 0.6% | 51.5% |
| Tourism | 32 | 0.1% | 194 | 0.6% | 506.3% |
| Reconciliation difference | 0 | 0.0% | 108 | 0.3% | |
| **Total (excluding interest)** | **22,579** | | **29,564** | | **30.9%** |
| Interest | 2,514 | 10.0% | 3,145 | 9.6% | 25.1% |
| **Total (including interest)** | **25,093** | **100.0%** | **32,709** | **100.0%** | **30.4%** |

*Source: Background to Budget Table 7.4*

# Tax amendments

## Corporate income tax

Our Tax Watch of April 2019 set out the expected tax changes as reflected in the 2019 Tax Bills. The final amendments have since been passed by Parliament and are awaiting Presidential assent. We summarise below the amendments that are expected to come into effect on 1 July 2019.

## *Corporate Income Tax*

### Ring fencing of rental income

The proposal for companies earning rental income from more than one rental property to account for the income and expenses on each property separately was rescinded.

Accordingly companies earning rental income from multiple properties will continue to be entitled to offset the profits and losses from each property.

### Tax Incentives for Investors

The 2018 exemptions linked to industrial parks and free zones have been amended or extended as follows:

- Ten year exemption for income of a developer from letting or leasing facilities in an industrial park or free zone with an investment of USD 50 million or more. The amendment increases the existing exemption period (from five years) and reduces the investment threshold (from USD 100 million).
- Ten year exemption for income of an operator within an industrial park or free zone, or other person carrying on business outside the industrial park or free zone, whose investment capital is at least USD 10 million for a foreigner or USD 2 million for citizens. The amendment increases the existing exemption period (from five to ten years), and reduces the investment threshold (from USD 15 million to USD 10 million for foreigners and from USD 5 million to USD 2 million for citizens).
- Introduction of an exemption for income of an operator within an industrial park or free zone, or an operator who owns a single factory or other business outside the industrial park of free zone, whose investment capital is at least USD 10 million for a foreigner or USD 2 million for a citizen. The exemption is limited to the following activities:
  - Processing of agricultural goods;
  - manufacture or assembly medical appliances, building materials, automobiles, household appliances;
  - manufacture of furniture;
  - vocational or technical institutes;
  - logistics and warehousing, information technology or commercial farming.

# Tax amendments

## Corporate income tax

- Other requirements are that 50% of raw materials should be locally sourced, subject to availability, and the operator should employ at least 60% citizens. This new exemption favours industrialisation using local materials.

### Definition of citizen

Linked to the tax incentives above, there is a new definition of the term "citizen" to mean:

a) a natural person who is a citizen of a Partner State of the East African Community (EAC);

b) a company or body incorporated under the laws of a Partner State of the EAC in which at least 51% of the shares are held by a person who is a citizen.

A citizen was not defined before, and therefore was only expected to capture Ugandan nationals and businesses.

The proposed definition is also included in the Amendment Acts for VAT, excise duty and stamp duty.

EAC citizens and entities will therefore also benefit from preferential benefits such as lower capital investment requirements and duty exemptions on specified items under the respective Acts. The inclusion is linked to the commitments in the EAC treaty on equal treatment of goods, services and persons from partner states.

### TIN requirement for government licences

Every local authority, government institution or regulatory body will now require to see a Tax Identification Number (TIN) before issuing a licence or any form of authorisation to any person for purposes of conducting a business in Uganda. This is intended to catch persons carrying on trading activity without tax registration, and will apply for both start-ups and annual renewals

### Definition of beneficial owner to restrict tax treaty benefits?

A new provision defines a "beneficial owner" to mean a natural person (i.e. an individual). Coupled with a related amendment to section 88(5), this appears to mean that tax treaty benefits will only be available to foreign individuals (and consequently will not be available to foreign entities). The intention behind this change is unclear and we await to see how it will be applied in practice.

### Exemption for interest paid on "infrastructure bonds"

This new exemption applies to listed bonds, notes or other similar securities used to fund public infrastructure or social services with a maturity period of at least ten years. This is designed to encourage infrastructure development

# Tax amendments

## Corporate income tax

### Exclusion of financial sector from interest restriction

Financial institutions and insurance companies will be excluded from the interest deduction limitation in section 25 (whereby interest deductibility is limited to 30% of Tax EBITDA). This is a welcome amendment as the financial services sector has been advocating for the pre-July 2018 position to be restored. The previous exclusion appears to have been an oversight when the new rules were introduced last year, this change restores the previous status quo.

### Turnover tax on loss-makers

A proposed amendment seeking to introduce a 0.5% turnover tax on taxpayers returning assessed losses for a period exceeding seven years was rescinded. A similar measure was rejected in 2018.

### WHT on purchase of a business or business asset

A resident person who purchases a business or business asset will be required to withhold tax at a rate of 6% on the gross payment.

This change will impact on business and property acquisitions by businesses. The term "business asset" is defined to include any asset for use in a business but it is not clear if this is to be determined from the point of view of the vendor or purchaser (we would expect the latter).

Such transactions will not be eligible for exemption under the existing WHT exemption list. This new withholding tax will apply to all resident purchasers notwithstanding that many taxpayers are already required to deduct 6% WHT on purchases of goods and services.

### Reduced 10% WHT on long term government securities

Government securities will now be subject to a reduced 10% WHT rate on government securities with a maturity period of at least 10 years. This incentive will apply to both local and foreign investors and is aimed at encouraging investors to lend to the government on a long term basis.

Short term (less than 10 year) government securities will continue to be subject to the existing WHT rate of 20%.

### Repeal of 1% WHT on agricultural supplies

The 1% WHT on agricultural supplies introduced in 2018 has been repealed, and such supplies are now also specifically exempted from the general 6% WHT on goods and services.

# Tax amendments

## Value Added Tax

### Re-introduction of VAT withholding

Following the suspension of last year's VAT withholding provisions, the requirement has been re-introduced but this time at a lower rate of 6% of the taxable value (previously the full 18% was required to be withheld). The new provision also now allows compliant taxpayers to be exempted.

The exemption is expected to apply to the supplier and operate in a similar manner to the current WHT exemption list (i.e. 6 monthly renewal conditional on good VAT compliance).

The withholdee will recognise the tax withheld as a payment in their subsequent VAT return (we take this to mean the return filed for the period in which the tax was withheld).

### Regulations for Islamic financial transactions

Similar to last year, the proposed amendment requiring the Minister to make regulations for the VAT treatment of supplies made in the course of Islamic financial transactions was rescinded.

### Zero-rating of drugs and medicines manufactured in Uganda

The supply of drugs and medicines manufactured in Uganda will be zero rated while the supply of imported drugs and medicines will now be exempt. This distinction in the tax treatment is aimed at benefitting local manufacturers as they will be able to claim input tax credits on their local purchases and imports

**6%**

Effective rate of VAT withholding that designated agents will be required to deduct on payments to suppliers from 1 July.

# Tax amendments

## Value Added Tax

### Exempt supplies

The list of exempt supplies in the Second Schedule has been expanded to include the following:

- aircraft insurance services;
- rice mills;
- agricultural sprayers;
- drugs and medicines not manufactured in Uganda;
- imported mathematical sets and geometry sets used for technical and vocational education;
- woodworking machines;
- welding machines and sewing machines.
- Imported crayons, coloured pencils, lead pencils, rulers, erasers, serials, technical drawing sets, educational computer tablets, educational computer applications or lab chemicals for teaching science subjects used in educational services.

### Tax incentives for investors

The Act introduces a new tax incentive that exempts services for feasibility studies, design and construction, locally produced materials for construction of premises or infrastructure and furniture or fittings for technical or vocational institute operators whose investment capital is at least USD 10 million in case of foreigners or USD 2 million in case of citizens.

In addition the thresholds for the existing VAT exemption introduced last year have been reduced from USD 15 million to USD 10 million (for foreigners) and from USD 5 million to USD 2 million (for citizens) to match the thresholds for income tax and other incentives. Specifically this applies to the supply of services to conduct a feasibility study and design, the supply of locally produced materials for the construction of a factory or a warehouse and the supply of locally produced raw materials and inputs or machinery and equipment to an operator within an industrial park or free zone, or to an operator who owns a single factory or other business outside the industrial park or free zone, for investment in a range of specific manufacturing or service sectors.

# Tax amendments

## Value Added Tax

### Public International Organisations

The United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) has been added to the list of Public International Organisations in the First Schedule to the VAT Act. This means that the entity will  be entitled to exemption or refund of VAT on imports and local purchases.

# Tax amendments

## Excise duty

### Regulations for Islamic banking

The proposal for the Minister to make Regulations prescribing the equivalent excise duty treatment of supplies made in the course of Islamic financial transactions was rescinded.

### Registration requirement

The current licensing requirements under the Excise Duty Act have been replaced with a new process for annual registration of the premises of manufacturers, importers, and providers of excisable goods and services.

The general registration approach is similar to the current licensing process but reflects the following changes:

- removal of application and renewal fees for a license;
- exclusion of retailers and retailing activity;
- provides a timeframe within which a registered person should apply for renewal of the certificate of registration, being 30 days before the expiry of the existing certificate;
- imposition of a fine of UGX 400,000 for each day that a person operates without a certificate of registration.

### Interest on unpaid duty

The Act introduces a uniform interest penalty of 2% per month, compounded, on late payment of all excise duty. Currently there is an interest penalty on unpaid duty in relation to manufactured or imported goods, but no penalty applies to excisable services.

### Duty rates

Contrary to normal expectation, there have been no adjustments to the duty rates. The proposed rate reduction for non-alcoholic beverages (from 12% to 11%) was rescinded.

### Incentives for Investors

There is new exemption for materials used in the construction of premises and other infrastructure, machinery and equipment or furnishings and fittings for technical or vocational institute operators whose investment capital is at least USD 10 million (foreigners) or USD 1 million (citizens).

There are also amendments to align the capital investment thresholds for the existing duty exemptions on construction materials for developers of industrial parks and free zones (reduced from USD 100 million to USD 50 million) and for investors in certain sectors (reduced to USD 10 million and USD 1 million for foreigners and citizens respectively).

# Tax amendments

## Customs duty

### Protective rate increases

To support local manufacturers, import duties have been increased on the following products for a period of one year.

**Duty rate of 35% instead of 25%**

- Imported television sets
- Imported toys
- Granite, marble and clay (ceramic) tiles
- Tomato paste and other preserved tomatoes
- Imported toothpaste and other mouth wash preparations
- Shoe polish
- Wigs, false beards, eyebrows, and eyelashes, etc, human hair
- Doors, windows, and their frames and thresholds for doors of iron and steel and plastic polymers, furniture and its parts;
- Chewing gum, chocolates, sweets
- Mixes and doughs for the preparation of bakers' wares
- Tarpaulins
- Cartons, boxes, cases, bags and other packing containers of paper
- Trade advertising material, Pictures, designs, and photographs, Instructional charts and diagrams
- Lubricants in liquid form and lubricating greases
- Blankets, mattress supports and mattresses
- Electric accumulators

**Duty rate of 60% instead of 25%**

- Cooked potatoes, fresh or chilled other than seed, potato and other crisps
- Mineral water and imported ready to drink juices
- Honey
- Processed coffee and tea
- Imported ginger, jams, marmalades, jellies and similar products
- Frozen meats of chicken, bovine animals, meat of swine, meat of sheep
- Onions, shallots, garlic, leeks, etc, fresh or chilled
- Peanut butter, bread spreads, butter and other fats and oils derived from milk, dairy spreads
- Refined cottonseed oil, refined sunflower seed or safflower oil
- Cocoa powder in packing with a net content exceeding, and chocolate and other food preparations containing cocoa
- Biscuits
- Tomato sauce
- Toilet paper, toothbrushes
- Exercise books, ball point pens

**Duty rate of 10% instead of 0%**

- Partly refined base oil

# Tax amendments

## Customs duty

### Specific duty rates for the steel sector

- Flat rolled products of iron or non-alloy steel products of iron or non-alloy steel - 25% or USD 200/MT whichever is higher.
- Flat rolled products of iron or non-alloy steel – 25% or USD 250/MT, whichever is higher.
- Steel articles comprising of corrugated iron sheets, pre-painted coils, Hoop iron, twisted bars, flat bars and mild steel plates - 25% or USD 350MT whichever is higher.

### Other customs duty changes

Duty has been remitted on the following:

- Buses for transportation with seating capacity of 25 persons subject to duty of 25% instead of 10%.
- New pneumatic tyres of rubber used on motorcycles - from 10% to 35% to support the motor cycle tyres production in Uganda.
- Raw materials and industrial inputs - Odoriferous mixtures of a kind used as raw materials in the food or drink industries and flavours – import duty of 10% instead of 0%.

Stay of execution of EAC CET rate on the following:

- Iron or steel wool, not scourers and scouring or polishing pads, gloves and similar products – duty of 25%.
- Coated electrodes of base metal, for electric arc-welding – duty of 35%
- Safety matches - 25% or USD 1.35 per kg whichever is higher;
- Wheat – 35% instead of 10%.

# Tax amendments

## Stamp duty

### Revision of stamp duty rate on bank guarantees, insurance performance bonds and indemnity bonds

The Amendment Act sets a new fixed stamp duty rate of UGX 100,000 for the following instruments:

- bank guarantees;
- insurance performance bonds;
- indemnity bonds;
- similar debt instruments.

Bank guarantees are currently not listed separately and have been subject to duty of UGX 15,000 (which is the duty applicable to bonds) while insurance performance bonds have been subject to a fixed rate of UGX 50,000. For these instruments the duty rate has been increased

However, indemnity bonds are currently subject to duty at the rate of 1% of the total value, so the new rate will provide a fixed cap.

This will provide a uniform duty rate for transactional documents issued by banks and insurance companies.

However, it does not address the uncertainty between a “bond” and an “indemnity bond”, which has been a contentious issue for banks that issue bonds to their customers. The rate of stamp duty applicable to a “bond” remains at UGX 15,000 while certain security bonds remain subject to a rate of 1%.

### Incentives for investors

In line with the changes for other tax incentives, the investment thresholds for the Strategic Investment Project exemptions have been reduced to USD 50 million for developers of industrial parks or free zones, and to USD 10 million and USD 2 million for foreigners and citizens respectively in relation to specific sectors. In addition, there is a new exemption for certain instruments executed by a vocational institute operator meeting the USD 10 million (foreigner) or USD 2 million (citizen) investment thresholds.

# Tax amendments

## Tax Procedures Code

### Definition of Tax Return

The definition of “tax return” has been amended to mean a return or other document listed under Schedule 4.

The new Schedule 4 lists VAT, income tax, withholding tax, excise duty, lotteries and gaming tax and stamp duty returns. The stamp duty return has been added despite the Stamp Duty Act not being a tax law to which the Tax Procedures Code Act applies. The Schedule 4 list is also different from the list of tax returns already provided in section 16(7) of the Act.

### Payments to informers

The payment made to tax-informers who provide information to URA that results in a recovery of  tax or duty, is reduced from 10% to 5% of the amount recovered.

### Government payment of tax on behalf of taxpayers

A new section 40A imposes a specific requirement for the Minister to pay any tax arising from a commitment made by the Government to pay tax on behalf of a person or owed from Government for aid funded projects. This section provides statutory support to situations where the Government has entered into an agreement to  pay tax on behalf of a taxpayer, for example under an investment incentive arrangement.

Furthermore, all outstanding taxes not paid by Government as at 30 June 2019 will be written off. This will ensure that the back log of accumulated taxes not paid in the past is waived and Government starts the next fiscal year with a clean slate.

### Voluntary disclosure of offences

The new section 66(1a) allows compounding of an offence with waiver of interest or fines when a taxpayer voluntarily discloses the offence to URA prior to commencement of court proceedings and makes full payment of the outstanding tax. This will encourage voluntary disclosure of past tax omissions with reduced fiscal consequences.

# East Africa highlights

## Kenya

### Summary of growth in 2019

Kenya registered economic growth of 6.3% in 2018 compared to 4.9% in 2017. This growth is the highest recorded for the past 8 years.

The growth was anchored on relatively stable macroeconomics and was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities.

Inflation remained low at 4.8% in 2018 compared to 8% in 2017 majorly as a result of considerable decline in prices of food.

Growth of economy is projected to remain strong in 2019 at almost same level as in 2018, with 7% growth expected over the medium term.

### Economic drivers in 2018

- Increased agro-processing activities during the year;
- Favorable weather conditions for both crops and livestock production due to long rains in 2018; and
- Stable political environment, withdrawal of travel advisories, improved security and investor confidence in the country.

### Government priorities for the year

The government plans to prioritize its spending towards laying the foundation for the Big Four agenda.

The identified key initiatives to achieve the agenda and accelerate economic growth are:

- Creating an enabling environment for business;
- Prudent and efficient spending;
- Mobilization of domestic resources to fund priority projects/programmes;
- Stabilizing and reducing debt; and
- Implementing reforms that will enhance efficiency and competitive advantage

# East Africa highlights

## Kenya

### Key tax changes

### Income Tax

- Increase of Capital Gains Tax rate from 5% to 12.5%;
- Exemption of CGT on gains arising from group re-organizations;
- Expansion of the scope of services attracting withholding taxes other than management and professional fees;
- Reduced corporate tax rate to 15% in the first five years for companies engaged in recycling plastics;
- Tax exemption on the income earned from housing funds; and
- Tax exemption on income earned by individuals under the Ajira Digital program.

### VAT

- Adjustment of the VAT refund formula to ensure that inputs relating to zero-rated supplies are factored in the refund process;
- Reduction of the Withholding VAT rate from 6% to 2%;
- Introduction of VAT exemption for locally manufactured motherboards and all inputs used in their manufacture;
- VAT exemption on all services offered to plastic recycling plants and supply of machinery and equipment used in the construction of the plants.

### Customs

- Retention of the import duty rate on iron and steel products at 35% with the corresponding specific duty rate for the products produced in Kenya; and
- Reduction of import duty on raw timber from 10% to 0%.

### Excise Duty

- Introduction of Excise duty on betting activities at a rate of 10% of the staked amount;
- Reduction of the excise duty rate on motor vehicles which are purely electric from 20% to 10%; and
- Increase of excise duty on tobacco products, wines and spirits by 15%.

# East Africa highlights

## Tanzania

### Summary of growth

Tanzania recorded real GDP growth rate in 2018 of 7.0% compared to 6.8% in 2017. The GDP growth was driven by increased investment especially in infrastructure, stable supply of electricity, improvement in transport services and favourable weather conditions that resulted in an increased food harvest and other crops.

### Government priorities

The priority for 2018/19 will be on flagship infrastructure projects and in creating a conducive environment for investment and business by implementing the Blueprint for Regulatory Reforms to improve the business environment.

The focus will be on the following priority areas:

- Agriculture:
- Industries:
- Livestock and fisheries:
- Economic growth and human development
- Improvement of enabling business environment and investment climate

### Revenue policies

The Government is committed to increasing and strengthening domestic revenue collections by pursuing the following policies:

- Increase efficiency in administration and collection of domestic revenue;
- Widen the tax base through identification and registration of new tax payers and formalization of the informal sector;
- Strengthen capacity for monitoring and controlling of transfer pricing;
- Enhance administration of tax exemptions; and
- Improve efficiency in domestic revenue collection;

# East Africa highlights

## Tanzania

### Key tax changes

### Value added tax

Exemptions proposed include:

- Imported refrigeration boxes, grain drying equipment, aircraft lubricants by domestic operators, National Air Force and Airlines recognised under bilateral air service agreement.

Zero rating proposed:

- Supply of electricity from Tanzania mainland to Zanzibar

Exemptions abolished: Sanitary pads

### Income tax

- Reduction of the CIT rate for new investors in the production of sanitary pads from 30% to 25%.
- Increase in minimum turnover required for a taxpayer to prepare audited financial statements to TZS 100m.
- Changes in presumptive tax rates and now applies to taxpayers with annual turnover up to TZS 100m.

### Withholding tax

Proposed changes includes:

- Exemptions on fees charged to Government on loans received from non residential banks and other international financial institutions.

### Excise duty

Proposed impositions

- 10% on locally made artificial hair and 25% on imported ones.
- 10% on pipes and plastics materials
- Exemptions-Aircraft lubricants by domestic operators, National Air Force and airlines.

### Customs

- To protect local industries, duties have been increased on the following imported products: roasted coffee, flat-rolled products of iron or non-alloy steel ,flat-rolled products of iron or non-alloy steels, reinforcement bars and hollow profiles, horticultural products and monofilament.
- Duties have been decreased/remitted on the following products: baby diapers, equipment and appurtenant used for polishing and heat treatment of gemstones, papers used as raw materials for manufacturing of packaging materials for export of horticulture products, agricultural seeds packaging materials and aluminium alloys used as raw materials to manufacture aluminium pots.

# East Africa highlights

## Rwanda

### Summary of growth in 2019

Rwanda's economy is estimated to grow by 8.6% by the end of the fiscal year FY18/19 which is 1.4% above the government's initial projected target of 7.2%. Industry and services sectors are the main contributors to this growth

### Economic drivers 2019

- Industry sector -This grew by 10%, much higher than its 5 years' average, and accounted for 16% of the total GDP. The industry was boosted by the recovery of the construction sector, which grew by 14%, as well as recovery in beverages and tobacco industries.
- Continuing good performance in textile production also contributed to the positive growth of the sector.
- Services sector - The service sector grew by 9%, mainly driven by a recovery in wholesale and retail trade and continuing expansion of the air transport segment
- Agriculture sector - This grew by 6% following favourable weather conditions and various government measures to increase food and other agricultural production.

### Government priorities

Economic Transformation Pillar**:**

- Accelerate inclusive economic growth and development founded on the private sector, knowledge based economy and Rwanda's natural resources.

Social Transformation Pillar:

- Develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society.

Transformational Governance Pillar:

- Consolidate good governance and justice as, building blocks for equitable and sustainable National Development.

### Key tax changes

No major changes were proposed, except for a reiteration that increased tax collection will mainly be supported by continued improvement in tax administrative measures including:

- Revision of the law on tax procedures requiring every person carrying out commercial activities to use the new "EBM for all" expanding coverage to non-VAT registered persons;
- Revision of the consumption tax law aimed at increasing tax collection while at the same time discouraging consumption of some unhealthy products; and
- Fiscal incentives will be granted to some strategic sectors in a bid to support "Made in Rwanda" initiative and the development of a cashless economy.

# Contacts

## *Uganda*

Pamela N Bahumwire
Partner
+256 (0) 312 354400
pamela.natamba@pwc.com

Trevor Lukanga
Senior Manager
+256 (0) 312 354400
trevor.b.lukanga@pwc.com

## *Rwanda*

Moses Nyabanda
Partner
+250 (252) 588203/4/5/6
moses.o.nyabanda@pwc.com

Frobisher Mugambwa
Associate Director
+250 (252) 588203/4/5/6
frobisher.mugambwa@pwc.com

## *Kenya*

Nelson Ogara
Associate Director
+254 (20) 285 5000
nelson.ogara@pwc.com

Tom Kavoi
Senior Manager
+254 (20) 285 5102
tom.kavoi@pwc.com

## *Tanzania*

David Tarimo
Partner
+255 (0) 22 219 2600
david.tarimo@pwc.com

Rishit Shah
Partner
+255 (0) 22 219 2601
rishit.shah@pwc.com

www.pwc.com/ug