Doing business in Africa
Focus on Tanzania and Uganda
Why this seminar?
Seminars so far

Angola (2x)
Botswana
Cameroon
Ethiopia (2x)
Ghana
Kenya
Mauritius
Mozambique (2x)
Namibia
Nigeria
Rwanda
Republic of Congo
Seychelles
South Africa
Uganda
Tanzania (2x)
Zambia (2x)
The PwC presence in Africa

In Africa...

- Member firms in 33 countries with over 8,500 professional staff.
- We have the largest footprint of professional services on the African continent.
- All our African firms are locally-owned.
- Provide a range of professional business advisory services to the public and private sectors throughout the continent.
- Committed to the development and prosperity of the African people and economies.
The ACC acts as a one-stop shop for clients engaging in cross-border transactions across Africa, ensuring the smooth delivery of tax services.

The Centre is staffed by analysts with multi-country experience, who speak 4+ languages fluently, including English, French, German, and Malay.
Thought leadership

AfriTax newsletter

Staying informed

AfriTax
Quarter ended 31 March 2018
Issue 36

Greetings

At the PwC Africa Desk in Johannesburg, we are committed to helping our clients access information about the African tax and regulatory landscape and keep up with the constant changes taking place. AfriTax, our quarterly newsletter, provides a snapshot of the most significant recent tax and regulatory changes in Africa.

We trust you will find this publication useful, and look forward to receiving your comments.

Recent budgets / Finance Act / Finance Legislation
1. Algeria
2. Democratic Republic of Congo
3. Madagascar
4. Republic of Congo
5. Namibia
6. South Africa

Tax treaties
1. Angola and UAE

Recent and upcoming events
Doing Business in Africa seminar:
• Recent event – Focus on Cameroon and Congo
• Upcoming event – Focus on Tanzania and Uganda
Doing Business in Tanzania
3.1. General Information
3.2. How to do business in Tanzania
3.3. Tax framework
3.4. Five things every investor should note
3.5. PwC Tanzania contacts
3.6. Q/A mini-session
3.1. General Information

- Country context
- Living and working in Tanzania
- Politics
- Economy
- Risk factors
Country context
General

Where is Tanzania?

- Tanzania - officially the United Republic of Tanzania – is bordered by:
  - Kenya and Uganda to the north;
  - Rwanda, Burundi, and DRC to the west;
  - Zambia, Malawi, and Mozambique to the south;
  - the Indian Ocean to the east.
- It is a gateway to the Africa Great Lakes region
- Population: >56 m ...........projected to be 138m by 2050!
Country context

General

History

- Tanganyika was a German and British colony
- 1961 - Independence
- 1962 - Julius Nyerere became president
- 1964 - Union with Zanzibar, and change of country name to Tanzania
- 1992 - Constitution amended to allow multiple political parties
- 1995 - First multi-party elections
**Country context**

- Official languages: English and Swahili
- More than 120 tribes
- Climate:
  - Coastal areas - hot and humid
  - North western highlands - cool and temperate.
  - Central plateau - tends to be dry and arid
  - Long rains last from March to June.
- Cities - capital is Dodoma; largest city is Dar es Salaam
- Transport - 8 ports, three international airports
Living and working in Tanzania
Living and working in Tanzania

Overview

Travel Info
- Regular flight connections to J’burg, Amsterdam, Middle East, Nairobi, Istanbul.

Visa requirements
- Visa required for most countries in Europe, the Americas and Asia.

Cost of Living
- Dar es salaam is an expensive city compared to other cities in Tanzania.

Expatriate community
- Expatriate community is diverse but with a strong European influence and an increased Chinese presence in recent years.

Entertainment
- Tourism (wildlife, nature (this includes hiking and ocean))
- Good network of hotels

Security
- Generally peaceful and low security risk
Living and working in Tanzania
Visa-required countries to Tanzania
Political environment
Political environment

2015 ............#WhatWouldMagufuliDo

- CCM is the longest reigning ruling party in Africa

- Dr. John Pombe Magufuli is the current President of Tanzania (5th President) - since election in 2015 has introduced radical changes to the political, economic and regulatory environment.
Economy
**Highlights of key recent economic developments**

- **GDP growth:**
  - 6% to 7% for more than a decade
  - Growth rate now weakening?

- **Inflation** – around 5%

- **Shilling** – relatively stable since mid 2015

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*Figure 2: Tanzania’s Growth Continues to Outpace EAC Peers*

Economic activity
% share of GDP (2015)

Agriculture and fishing
Trade and repairs
Construction
Manufacturing
Hotels and restaurants
Public administration and…
Communication
Financial intermediation
Real estate
Mining and quarrying

Economic activity
National Five Year Development Plan (2016/2017 to 2020/2021)

• “Nurturing Industrialization for Economic Transformation and Human Development”

• Tanzania Development Vision 2025: semi-industrialized middle income country

• Industrialization imperative supported by
  • Comparative advantages: natural resource endowments, young growing population, rapid urbanization, country-wide ICT backbone infrastructure
  • Geographic location
  • Demographics
  • State role in empowering private sector to lead industrialization process

• Focus on inclusive growth

• Commitment to conducive business environment
Agriculture involves 65% of Tanzanians and in 2016 represented 29.1% of GDP.

Agro-processing is a key focus area for the industrialisation drive.

Commodities in high demand include: maize, tobacco, cashew nuts, sugar, tea, pyrethrum, coffee and sisal.

Incentives include Customs and VAT exemptions / reliefs on capital goods, farm implements, fertilizers and pesticides.

Government initiatives include:
- Planned TZS 150.2bn finance for agricultural development projects
- Establishment of agriculture bank – Tanzania Agriculture Development Bank (TADB) - to give soft loans to farmers.

Investment opportunities
- Financing opportunities
- Investment - Significant tax incentives for agro-industrial companies
Economy
Manufacturing

FYDP - key targets by 2020 (manufacturing subsector):

- Real growth rate 10.5%
- GDP share 12.5%
- Share in total exports 5.4%

Key interventions:

- Enabling environment – including: SEZs, EPZs; creation of logistics centre; industrial parks, strengthening R&D institutions
- Promoting MSMEs and local content
- Developing productive capacities in identified industries (petro and chemicals, pharmaceutical, building and construction, agro and agro-processing (textile, clothing, leather, sugar, edible oil, food and beverages), coal, iron and steel)

Investment opportunities

- Matching the 2025 vision
- Incentives to investors

Doing business in Africa - Tanzania and Uganda
PwC

May 2018
Economy

Mining

- Mining sector, dominated by gold sector, has seen a growth of 8.5% growth in 2017 with a value of USD $960m compared to 2016 US$880m.

- Significant recent tax and regulatory change will impact growth of sector:
  - Fiscal changes include higher royalties, free carry, 1% clearing fee.
  - Regulatory changes include local content, mandatory listing, mineral ore export ban.

- Closure / reduced operations of some major mines (Bulyanhulu and Buzwagi) expected to affect growth projections in the short term.

- Longer term – mining sector likely to become diverse (prospects include helium, graphite, niobium).

Investment opportunities in non traditional mining sectors
Economy
Oil and Gas

- Significant recent regulatory change including Petroleum Act 2015 and local content requirements

- Downstream:
  - Uganda - Tanzania oil pipeline: a major current focus area

- Upstream:
  - Offshore: Significant gas discoveries in the deep water offshore blocks (57 trillion cubic feet)
  - Onshore / near offshore: two small producing gas fields (Songo Songo and Mnazi Bay)

- Final Investment Decision on LNG project likely to be a number of years way; immediate focus is negotiations in relation to Host Government Agreement and regulatory framework

Investment opportunities
- Uganda – Tanzania pipeline
- LNG?
Economy
Technology, Media and Telecommunication

- Second largest market in East Africa
- Penetration rate of 80%
- FinTech is booming (from mobile money services to others)
- Mobile Number Portability (MNP) introduced in March 2017 aims at boosting competition and improving the cellular packages offered by telecommunication companies.
- Emerging of digitals business i.e Uber and Taxify
- Regulatory challenges:
  - Mandatory listing
  - Very high turnover taxes on telecoms sector

Investment opportunities
Investing in FinTech and other digital business
Economy
Banking

- 54 operating banks
- Increase in non-performing loans
- Tighter liquidity – reduction in credit growth to the private sector
- Increased use of mobile money transactions compared to banking
- Regulatory challenges include:
  - Indirect tax costs (VAT and excise) on bank charges
  - Difficulty in claiming relief for bad debts

Investment opportunities

- Micro finance
- VC/PE
World Bank funded projects include:

- US$ 130m funding (announced in Feb 2017) for the Tanzania Strategic Cities Project (TSCP), to benefit 8 cities (Tanga, Arusha, Kigoma, Dodoma, Mwanza, Mbeya, Mtwara)
- US$ 345 million funding for Dar es Salaam port

Potential new port and industrial zone at Bagamoyo

Standard Gauge Railway – currently under construction

Ongoing investment in road construction projects, flyovers

Other developments - BRT (phase 2), Air Tanzania

Investment opportunities

- Construction
- Planning
- Transfer of government from Dar-es-Salaam to Dodoma
In 2017 the revenues from the tourism industry are projected to be at US$ 2.69bn which would be an 8.6% increase from the revenues in 2016 at US$ 2.48bn, and contributed 13.3% of GDP in 2016.

Development of JNKIA, TAZARA, VOI, C2C road will increase tourists access.

Government focused on the development of the Southern tourist circuit but business hotels are struggling.

Commencement of hotel concession fees collection.
Risk Factors
Climate of distrust of private sector and foreign business ...
Recent Government actions have had a mixed impact on the business climate and on investor confidence.

Private sector has cited several specific areas of concern, including:

- Overzealousness in tax collection
- Delays in: VAT and other tax refunds; payments to contractors & other suppliers
- Proliferation of regulatory authorities, licenses, taxes and charges

The Government has recognized these concerns and begun to take actions to address them, thus aiming to improve the overall business environment and investment climate.
IMF – January 2018

- Relatively strong macroeconomic performance, but uneven implementation of structural reforms.

- Recent economic performance has been mixed:
  - Although GDP data point to continued strong growth, other high frequency data indicate a weakening of economic activity.
  - Tax revenue collections are lower than expected and credit growth has stagnated reflecting in part banks’ rising nonperforming loans (NPLs).
  - Inflation remains moderate, and international reserves have increased substantially.

- There are downside risks to economic growth in the short term stemming from slow budget implementation, a challenging business environment, and private sector concerns about authorities’ enforcement of rules.
WEF 2017/2018 Global Competitiveness Index

Most problematic factors for doing business


<table>
<thead>
<tr>
<th>Factor</th>
<th>2016/17</th>
<th>2017/18</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Overall</td>
<td>116</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>138</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>Access to financing</td>
<td>18.7</td>
<td>19.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Tax rates</td>
<td>14.8</td>
<td>16.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Inadequate supply of infrastructure</td>
<td>14.5</td>
<td>11.5</td>
<td>-3</td>
</tr>
<tr>
<td>Inflation</td>
<td>5.4</td>
<td>8.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Corruption</td>
<td>11.8</td>
<td>8.2</td>
<td>-3.6</td>
</tr>
<tr>
<td>Tax regulations</td>
<td>5.9</td>
<td>5.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Inefficient capacity to innovate</td>
<td>6.5</td>
<td>5.2</td>
<td>-1.3</td>
</tr>
<tr>
<td>Policy instability</td>
<td>1.4</td>
<td>4.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Poor work ethic in national labour force</td>
<td>3.1</td>
<td>4.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Insufficient capacity to innovate</td>
<td>3.9</td>
<td>3.5</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

May 2018

Doing business in Africa - Tanzania and Uganda
PwC
Areas of particular challenge include:

- Trading across borders
- Starting a business
- Dealing with construction permits
- Paying Taxes
PwC Africa Tax Survey – October 2016:
Most difficult business and regulatory challenges

Fig. 4 Countries that present the most difficult business and regulatory challenges

Q: Please rank the three African countries that present the most difficult business and regulatory challenges for your company.

<table>
<thead>
<tr>
<th>Country</th>
<th>Second-most difficult</th>
<th>Third-most difficult</th>
<th>Most difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>23%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Angola</td>
<td>4%</td>
<td>6%</td>
<td>25%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>13%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>DR Congo</td>
<td>6%</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>4%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>10%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Kenya</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Ghana</td>
<td>10%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Botswana</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Zambia</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Uganda</td>
<td>4%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Congo</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>2%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PwC Africa Tax Survey – October 2016: Countries posing the greatest tax challenges

Fig. 2 Countries posing the greatest tax challenges

Q: Please rank the three African countries that present the most difficult tax challenges for your company.

- **Nigeria**: 8% Third-most difficult, 21% Most difficult, 29% Second-most difficult
- **Angola**: 6% Third-most difficult, 10% Most difficult, 17% Second-most difficult
- **South Africa**: 13% Third-most difficult, 10% Most difficult, 10% Second-most difficult
- **DR Congo**: 8% Third-most difficult, 6% Most difficult, 13% Second-most difficult
- **Tanzania**: 10% Third-most difficult, 6% Most difficult, 6% Second-most difficult
- **Kenya**: 10% Third-most difficult, 10% Most difficult, 4% Second-most difficult
- **Mozambique**: 10% Third-most difficult, 4% Most difficult, 6% Second-most difficult
- **Zambia**: 8% Third-most difficult, 2% Most difficult, 1% Second-most difficult
- **Uganda**: 4% Third-most difficult, 8% Most difficult, 2% Second-most difficult
- **Ghana**: 4% Third-most difficult, 6% Most difficult, 2% Second-most difficult
- **Zimbabwe**: 4% Third-most difficult, 4% Most difficult, 3% Second-most difficult
- **Cameroon**: 4% Third-most difficult, 4% Most difficult, 1% Second-most difficult
- **Mauritius**: 4% Third-most difficult, 4% Most difficult, 1% Second-most difficult
- **Congo**: 2% Third-most difficult, 4% Most difficult, 1% Second-most difficult
- **Namibia**: 2% Third-most difficult, 2% Most difficult, 1% Second-most difficult
- **Botswana**: 2% Third-most difficult, 2% Most difficult, 1% Second-most difficult
3.2. How to do business in Tanzania

- Business vehicles
- Labour and immigration issues
How to do Business in Tanzania

Setting up a business vehicle

- Filing of legal documents with BRELA
- Tax registration
- Business licence
- VAT registration
- Specific trade/professional registration
**Business Vehicles**

Set-up process and timeframe

- Registration with Companies Registrar (1 day)
- Taxpayer Identification Number (TIN) registration with TRA (1 day)
- Specific trade/profession registrations (timing varies)
- Tanzania Investment Centre (TIC) Registration (timing varies – may take up to 1 month)
- Business licence (1 week)
- Residence/work permits (2-3 months)
- VAT registration with TRA (1-2 weeks)
- NSSF registration (1 day)
## How to do Business in Tanzania
### Business Vehicles – company or branch?

<table>
<thead>
<tr>
<th></th>
<th><strong>Company</strong></th>
<th><strong>Branch</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legal personality</td>
<td>Yes</td>
<td>That of parent</td>
</tr>
<tr>
<td>2. Tax personality</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Liability</td>
<td>Limited to shareholding</td>
<td>Head office</td>
</tr>
<tr>
<td>4. No. of Shareholders</td>
<td>2 to 50</td>
<td>Head office</td>
</tr>
<tr>
<td>5. Board of Directors</td>
<td>Mandatory</td>
<td>N/A</td>
</tr>
<tr>
<td>6. Accounting records</td>
<td>Yes</td>
<td>Yes (for tax purposes)</td>
</tr>
<tr>
<td>7. Incorporation costs</td>
<td>Same</td>
<td>Same</td>
</tr>
<tr>
<td>8. Stakeholder’s perception</td>
<td>Long-term presence</td>
<td>Short-term presence</td>
</tr>
</tbody>
</table>
Labour and immigration issues
Labour and Immigration issues

The recruitment of foreign employees by companies in Tanzania is treated as exceptional

Immigration documents:

- Business Visa valid for up to 3 months
- Work Permit valid for up to 2 years
- Residence Permit valid for up to 2 years
Labour and Immigration issues
Investor considerations

• Abundant supply of unskilled labour and shortage of skilled labour in some industries
• Work permit for expatriate employees must respect quota requirement
• Training of Tanzanian employees mandatory and succession planning documentation required
• Pension payment in a local fund is mandatory
3.3. **Tax Framework**

- General information
- Tax overview
- Tax structuring
- Key tax issues
General information
General information
Total tax rate (%) (per Paying Taxes 2018 publication)

- Tanzania
- Africa
- World Average
- South Africa

- Profit taxes
- Labour taxes
- Other taxes
General information
Number of payments (per Paying Taxes 2018 publication)

- Tanzania: 60.0 payments
  - Profit tax: 7.0
  - Labour taxes: 35.4
  - Other taxes: 17.6
- Africa: 35.4 payments
- World Average: 24.0 payments
- South Africa: 7.0 payments

Number of payments

- Profit tax
- Labour taxes
- Other taxes
**General information**

Time to comply (hours) (per Paying Taxes 2018 publication)

![Bar chart showing time to comply for different regions and types of taxes](chart.png)

- **Tanzania**: 207 hours
  - Corporate income taxes: 100 hours
  - Labour taxes: 50 hours
  - Consumption taxes: 57 hours
- **Africa**: 285 hours
  - Corporate income taxes: 120 hours
  - Labour taxes: 60 hours
  - Consumption taxes: 105 hours
- **World Average**: 240 hours
  - Corporate income taxes: 100 hours
  - Labour taxes: 60 hours
  - Consumption taxes: 80 hours
- **South Africa**: 210 hours
  - Corporate income taxes: 80 hours
  - Labour taxes: 70 hours
  - Consumption taxes: 60 hours
**Tax overview**

- **Main taxes**
  - Direct taxes
    - Corporate Income Tax
    - Alternative minimum tax
    - Payroll contributions
  - Indirect taxes
    - VAT
    - Stamp Duty
    - Custom Duties
  - Withholding taxes
    - To resident person
    - To non-resident person
  - Others
    - Social security contributions
**Tax Overview**

**Taxes on profits**
- Taxation of entity and shareholders (effective overall rate 37%):
  - 30% income tax on taxable profits of entity
  - 10% tax on distributed profits (dividends)

**Loan funding:**
- 10% withholding tax on interest
- Thin capitalisation – 70:30 debt to equity ratio

**Exit (disposal of shares in Tanzania company):**
- Income tax: 30% on gain
- Indirect disposals captured

**Other Taxes:**

**Customs Duty:**
- 0% - Capital goods, raw materials, agric. inputs
- 10% - Semi finished goods
- 25% - Finished final consumer goods

**VAT:** 18% (standard rate); 0% (exports)

**Payroll:** Top marginal personal rate 30%, SDL 4.5%, WCL 1%, NSSF/PPF 20%

**Withholding Tax:** various rates; 15% rate applies to many payments to non-residents.

**Local Government:** 0.3% Service Levy

**Excise Duty:** various rates

**Stamp Duty:** on specified legal instruments
Mining

Income Tax – 2016 changes:

- **Exploration and development expenditure** - 20% straight line (i.e. over 5 years)
- **Ring fencing** - to “each separate mineral operation”, and each mineral right is a separate mineral operation
- **Tax Losses** – Offset limit of 70% of current year profits, with any balance c/f.
- **Rehabilitation expenditure** – Much more limited scope for relief
- **Disposal of mineral rights** - Treated separately from normal income; classified as “investment asset” not “business asset”

Other taxes:

- **VAT** – challenge with non-payment of refunds
- **Recent fiscal changes**:
  - Royalties (general rate 3% but 6% for diamonds, gemstones and metallic minerals)
  - 1% inspection fee
  - Minimum 16% Government free carry
  - No VAT input claim in relation to export of unprocessed ore
Investment incentives
**Tax incentives – Tanzania Investment Centre**

- Investment threshold for foreign investors: US$ 500,000
- “Strategic Investor” threshold – US$ 50 million
- No specific tax incentives, but:
  - TIC registered investor can be eligible for extended list of capital goods for customs duty purposes (“deemed capital goods”) – 75% relief
  - TIC registered investor that is a “strategic investor” entitled to (i) relief from withholding tax on interest from loans from foreign financial institutions, and (ii) other exemptions subject to negotiation
- Other benefits include: guarantee of minimum number of work permits (5) at the initial stage
“Special Strategic Investor Status” category

Minimum requirements for qualification include:

• US$ 500m capital investment brought in by local financial institution;

• Should create employment for at least 1,500 Tanzanians including a satisfactory percentage in a managerial role in the company; and

• Be able to generate foreign exchange or produce alternative products to those imported.

Benefits / incentives:

• Additional fiscal incentives to be decided by National Investment Steering Committee
### Tax incentives - other

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Agriculture</th>
<th>SEZ (export) / EPZ</th>
<th>Mining</th>
<th>Oil &amp; Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax holiday</td>
<td>N/A</td>
<td>N/A</td>
<td>10 years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Tax depreciation</td>
<td>Equipment 12.5% / 25% / 37.5% RB; Buildings 5% SL.</td>
<td>100%</td>
<td>See “General” column</td>
<td>20% straight line</td>
<td>20% straight line</td>
</tr>
<tr>
<td>Customs Duty exemptions</td>
<td>Capital goods</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>VAT deferral / exemption</td>
<td>Imported capital goods</td>
<td>Imported processing / machinery implements</td>
<td>Capital goods, Raw Materials</td>
<td>Imports (exploration &amp; prospecting)</td>
<td>Imports (exploration &amp; prospecting)</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>Normal rates</td>
<td>Normal rates</td>
<td>10 year tax holiday</td>
<td>Normal rates</td>
<td>Normal rates</td>
</tr>
</tbody>
</table>

**NB:** Finance Act 2017 introduced various incentives for motor-vehicle assembly, including reducing corporate tax (CIT) rate for assemblers of vehicles, tractors and fishing boats from 30% to 10% for the first five years from commencement of operations.
Regional Economic Communities

• East African Community (population – 160m+ ‘2015 estimates’):
  • 2005: Customs Union (fully fledged in 2010)
  • 2009: Signature of Common Market Protocol
  • 2010: Common market protocol came into force
  • Ongoing initiatives in relation to tax harmonisation

• Southern African Development Community:
  • Free Trade Area
  • 2000: Trade Protocol → phased elimination of tariffs

• Initiative for a tripartite FTA (COMESA, EAC and SADC)
Tax Structuring
Key tax issues
Several tax administrative improvements, but still a tax environment with challenges

- Tax treatment of cross border transactions
  - Transfer pricing
  - Withholding tax and source rules
  - VAT
- Exporters – timing of VAT refunds
- Occasional inconsistency between tax legislation and agreements
- A need for more consultation on drafting of legislation before enacted
- Time taken to finalise tax matters but some recent improvement
- Pressure to collect revenue
3.4. *Five things every investor should note*
Key tax issues

1. Relationships matter a lot
2. Do your research regarding incentives
3. Compliance requirements
4. Current economic/political environment
5. Beware of taxes on exit
3.5. Contacts
PwC Tanzania tax team

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3.6. Questions?
Doing business in Uganda
4.1 Country Context
4.2 Business vehicles
4.3 Legal and labour
4.4 Tax framework
4.5 Key issues
4.6 Contacts
4.7 Q & A
4.1. Country context

- General
- Living and working in Uganda
- Economy
- Risk factors
**Country context**

**General**

**Where is Uganda?**

The Republic of Uganda, is a landlocked country that lies on the equator, bordered by Kenya to the East, Democratic Republic of Congo to the west, South Sudan to the north, Tanzania to the south and Rwanda to the south-west.

The capital city of Uganda is Kampala.

Population: estimated at **42 million**
Country context
General

History

• Uganda was a British colony
• Uganda became independent on 9 October 1962
• In 1963, Sir Edward Muteesa II became the 1st president and Uganda joined the Commonwealth
• Yoweri Museveni is the current president of Uganda (6th president, in power since 1986)
• Scheduled to hold the next general election in 2021 (5 year term)
Country context

- General
- Living and working in Uganda
- Economy
- Risk factors
Country context
Culture and nature in Uganda

Tourism 12% of world’s bird species, Mountain Gorillas

Cuisine
Country context
Living and working in Uganda

- Majority of the companies in Uganda have offices in Kampala
- The city has tropical climate and is located south of Lake Victoria
- Uganda’s largest airport is located in Entebbe which is 40km from Kampala
- Multiple modern office complexes and malls
- 5 star hotels
- International schools
- A large expatriate community
Country context

- General
- Living and working in Uganda
- Economy
- Risk factors
Economy Overview

- Economic growth in 2017 was 4.0 % (2016 = 4.7%) and GDP per capita USD 580 in 2016 as per World Bank national accounts data.

- Ranked 122 out of 190 according to World Bank ease of doing business indicator for 2018 (2017 = 115)

- Reasons for decline in ranking include:
  - getting electricity – this is attributable to the increased procedure, time and cost
  - difficulties in obtaining construction permits
  - procedure to start a business is relatively lengthy compared to other countries
  - trading across borders is challenging especially with regards to the cost of importation
### Economy

**Sector contribution to nominal GDP in 2017**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution to GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and Fishing</td>
<td>24.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.2</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>3</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>4.5</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>12</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>3.1</td>
</tr>
<tr>
<td>Construction</td>
<td>7.4</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>2.7</td>
</tr>
</tbody>
</table>

*Source: Uganda National Bureau of Statistics*
Agriculture

- Agriculture is the mainstay of the vast majority of Ugandans
- Farming is largely rain-fed which presents several risks to the agricultural sector and also adds to inflationary pressure
- Some government interventions to improve the sector are:
  - Increased research funding, insurance schemes, better supply of inputs and extension services as well as agro-processing and value addition
  - Expedite finalisation of the irrigation policy and strategy
  - Continue promoting agriculture mechanisation in the different agricultural zones
  - Tax concessions on agro-processing
Banking sector comprises of 33 financial institutions – 24 banks, 5 microfinance deposit taking institutions and 4 credit institutions

Top 7 banks (via assets) controlled over 72% of the market share in 2016

The minimum capital requirement for banks is US$ 7m

The Banking Amendment Act 2016 was amended to provide for Islamic banking, bancassurance, agency banking etc

In 2011, the Bank of Uganda introduced the Central Bank Rate (CBR) as part of a reform of its Monetary Policy Framework

  - The CBR is released every 2 months and is currently 9%
  - The CBR is meant to control inflation and also spur credit growth
• Total installed electricity capacity was 897 MW in 2016 against peak demand 573 MW as reported by ERA

• 10% of Uganda's population currently have access to electricity however, rural electrification programmes are ongoing

• Contribution to the installed capacity in 2016 as per ERA was as follows:
  - **Hydro** - 78%
  - **Thermal** - 15%
  - **Others (cogeneration)** - 7%
The oil and gas industry is in a nascent stage. Development activities are underway in the Albertine Graben following production licenses of 2017.

The region has approximately 6.5 billion barrels of oil reserves with at least 1.4 billion barrels estimated to be economically recoverable.

The infrastructure required to develop Uganda’s oil reserves is estimated to cost $10 billion with first oil expected in 2020.

Current opportunities include: housing, road infrastructure design and construction, environmental controls, vocational training etc (subject to local content).
Examples of some significant infrastructure projects:

- Standard Gauge Railway, entire country network – 1,724km at a cost of US$ 12.8 billion
- Hoima oil refinery – US$ 4 billion contract signed in April 2018
- The East African Crude Oil pipeline – from Hoima to Tanga in Tanzania US$ 3.5 billion. FEED completed, starting EPC
- Construction of Kabaale Airport for oil and gas logistics – US$ 318m

All the contracts above have been awarded. Public Private Partnerships Act came into force in 2015 and allows government to enter into agreements with private entities to perform public functions.
# Economy

## Ease of Doing Business ranking

<table>
<thead>
<tr>
<th>Economy</th>
<th>South Africa</th>
<th>Uganda</th>
<th>Kenya</th>
<th>Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ranking</strong></td>
<td>82</td>
<td>122</td>
<td>80</td>
<td>137</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>136</td>
<td>165</td>
<td>117</td>
<td>162</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>112</td>
<td>173</td>
<td>71</td>
<td>82</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>68</td>
<td>55</td>
<td>29</td>
<td>55</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>46</td>
<td>84</td>
<td>92</td>
<td>154</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>147</td>
<td>127</td>
<td>106</td>
<td>182</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>115</td>
<td>64</td>
<td>90</td>
<td>58</td>
</tr>
</tbody>
</table>
Country context

- General
- Living and working in Uganda
- Economy
- Risk factors
Risk factors
External

• Volatility in international market oil prices and other commodity prices like tea, coffee and horticultural products

• Uncertainty surrounding the inward-looking United States foreign policy, Brexit and European Union

• Exchange rate risks impacted by FDI inflows and tight US monetary policy further depreciating the Shilling

• Regional insecurity and instability especially in South Sudan

• Decisions of international financial institutions and creditor countries regarding the amount, and terms of their financial assistance to Uganda
Risk factors

Internal

• Long drought spells that negatively impact the agriculture sector and electricity generation
• Increased level of domestic and external public debt
• Domestic inflation driven by increased food prices
• Rising infrastructure spend on capital intensive projects
• The levels of foreign direct and portfolio investment
• Stagnant tax base
• Risk of social unrest following the lifting of presidential term limits
4.2. Business Vehicles

- Types of entities
- Company vs Branch
Business Vehicles

- Types of entities
- Company vs Branch
Business Vehicles
Types of entities

Business may be conducted in a variety of forms in Uganda, such as:

- Public or private company
- Branch of a Foreign Company
- Limited liability partnership
- Partnership, including joint venture
- Sole proprietor
**Business Vehicles**
Doing Business in Uganda – setting up a business vehicle

**Incorporated Company or Branch**

1. Name reservation through the Registrar of companies
2. Preparation of the Memorandum & Articles of Association
3. Registration of the company, particulars of directors and company secretary
4. Certificate of incorporation/ registration
5. Registration for tax – with the Uganda Revenue Authority
6. Obtaining of trading license
Business Vehicles

- Types of entities
- Company vs Branch
# Business vehicles

## Company vs branch

<table>
<thead>
<tr>
<th>Item Distinction factor</th>
<th>Company</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legal personality</td>
<td>Yes</td>
<td>That of the head office</td>
</tr>
<tr>
<td>2. Tax personality</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Liability</td>
<td>Limited to shareholding</td>
<td>Head office</td>
</tr>
<tr>
<td>4. No. of shareholders</td>
<td>1 plus a company secretary</td>
<td>Head office</td>
</tr>
<tr>
<td>5. Incorporation / Registration costs</td>
<td>US$ 3,500 (exclusive of government fees)</td>
<td>US$ 2,800 (exclusive of government fees)</td>
</tr>
<tr>
<td>6. Stakeholder’s perception</td>
<td>Long-term presence</td>
<td>Short-term presence</td>
</tr>
<tr>
<td>7. Audited Accounts</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>8. Taxation of dividends</td>
<td>15% WHT (subject to tax treaty)</td>
<td>15% branch repatriation tax</td>
</tr>
</tbody>
</table>

*May 2018*  
Doing business in Africa - Tanzania and Uganda
4.3. Legal and Labour

- Legal System at a glance
- Labour
Legal and Labour

- Legal System at a glance
- Labour
Legal System at a glance

- A Constitution (supreme law of the land) was promulgated in 1995 which provides for the executive, legislative and judicial arms of government.
- The judiciary is separate and independent from both the executive and legislative arms of government.
- The legal system is based on English common law and customary law.
- The Supreme Court is the highest level of authority followed by Court of Appeal, High Court and the Magistrate courts.
Legal and Labour

- Legal System at a glance
- Labour
Labour

Labour at a glance

- The Employment Act prescribes the fundamental rights of employees - basic conditions of employment and regulates employment of children.

Basic rights of employees under the Act include:
- maternity and paternity – 3 months and 4 working days with full pay respectively
- annual leave – 21 working days for every 12 months worked
- sick pay
- payment of wages earned
- payment in lieu of notice
- statutory contributions by employer
Labour
Immigration

- Foreigners working in Uganda must have a work permit or a special pass
- Work permits are based on merit (no quotas)
- Certain sectors like oil & gas, require applicants to submit a recommendation from the relevant authority
- All applications are submitted online.

- Special Passes are issued for a maximum of 5 months (non-renewable)
- Work permits granted for 1 to 3 years (renewable)
- Renewal of work permits is influenced by Employment Report and proof that there is no suitable Ugandan employee
- Special Passes can be applied for in Uganda or from outside the country
- Work permits are used for URA tax registration
**Labour**

**Immigration tips**

- Easier to get work permits for specialised skills for projects like ICT and E&P sectors
- Human resource and marketing professionals are not given priority
- Impromptu checks happen
- Have detailed CVs & certificates
- Match job description with job title and have clear contract
- Start the process early
Labour
Investor considerations

- Abundant supply of unskilled labour
- Shortage of skilled labour
- Compulsory social security costs include workers’ compensation, maternity leave, sick leave and redundancy rules
- Judiciary fully operationalised the Industrial Court
- Training of Ugandan employees mandatory

✓ There is no legislation setting minimum wages
4.4. Tax framework

- Tax overview
- Tax incentives
Tax framework

- Tax overview
- Tax incentives
Tax framework

Total tax rate

Source: PwC Paying Taxes 2018 analysis
Tax framework

Time to comply (hrs)

- Kenya: 186 hours
- Uganda: 195 hours
- World Average: 240 hours
- Africa: 285 hours

Legend:
- Orange: Corporate income tax time
- Grey: Labour tax time
- Red: Consumption tax time
**Tax framework**

**Number of payments**

- **World Average**: 24
- **Kenya**: 26
- **Uganda**: 31
- **Africa**: 36

Legend:
- Orange: Profit tax payments
- Dark grey: Labour tax payments
- Red: Other taxes payments
Applicable taxes

Residents are taxed on worldwide income, Non residents are taxed on source

CIT – 30%

WHT – 6% (residents) 15%, 2% and 5% - non residents

PAYE – 10% - 40%

VAT 18% and excise duty applies

Customs 0%-60% infrastructure levy 1.5%
**Tax framework**

**Tax overview**

<table>
<thead>
<tr>
<th>PAYE</th>
<th>WHT</th>
<th>VAT</th>
<th>Excise</th>
<th>NSSF</th>
<th>CIT – 1st Provisional</th>
<th>CIT – 2nd Provisional</th>
<th>CIT – Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>15th day</td>
<td>1 January 2017</td>
<td>31 December 2017</td>
<td>30 June 2018</td>
<td>15th day of the month following the month in which the payment was made</td>
<td>6 months</td>
<td>6 months</td>
<td>6 months</td>
</tr>
</tbody>
</table>
Some key tax considerations

- Self assessment regime
- Treaty network - Unilateral limitation on benefits provision
- Transfer pricing requirements
- Thin capitalization provisions (1.5:1)
- No time limit to loss carry forward
- Capital gains tax levied as part of CIT
- Tax implications of imported services
- Employment taxes (incl. social security)
**Treaty network – subject to unilateral LoB provision**

<table>
<thead>
<tr>
<th>Description</th>
<th>Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In force</strong></td>
<td>Denmark, India, Italy, Norway, Mauritius, Netherlands, South Africa, UK, Zambia</td>
</tr>
<tr>
<td><strong>Awaiting conclusion and/or ratification</strong></td>
<td>Belgium, China, East African Community, UAE</td>
</tr>
</tbody>
</table>
An out of court settlement can also be initiated
Recent significant tax amendments..

2015
- Re-organisation defined in terms of roll over relief.
- Definition of a branch was amended to include a service PE.
- Various changes to source rules.
- Thin capitalisation ratio changed from 1:1 to 1.5:1 and the arm’s length debt concept was introduced.

2016
- Clarification of the Limitation on Benefits clause to include beneficial ownership and economic substance requirements.

2017
- Introduction of penalty of Ushs 50 million for failure to provide TP related information within 30 days of request.
- Interest on late payment of tax is capped to the principal tax.
Proposed tax legislation

Direct tax legislation

• Taxation of an indirect change in ownership of 50% or more
• Interest limitation rules – 30% EBITDA
• Alternative minimum tax for carry forward of losses – 0.5%
• Limit deductibility of expenditure on returnable containers
• 10% WHT on commissions paid by telecom service providers

Indirect tax

• VAT withholding
• Excise duty on over the top (“OTT”) services – US$ 0.05 per user per day
• Excise duty of 1% on the transaction value of mobile money transactions
• Exemptions for developers and operators of industrial parks and free zones
• Electronic invoicing and receipting
Tax incentives

Available incentives include:

• Initial Allowance – 50%
• Wear and tear allowance – 20% to 40%
• Start up costs – 25% of initial expenditure
• VAT on supplies to aid funded projects and petroleum and mining licensees is deemed to be paid by the supplier, i.e. no cash outflow
• Tax holidays for exported consumer goods and agro-processing
4.5. Key issues
Key issues

• VAT on imported services
• Punitive penalties and interest for non compliance
• TP audits are very much on the tax authority radar (important to have up-to-date TP documentation)
• Aggressive tax authority
• Obtaining tax refunds can be challenging
Structuring considerations

- DTT network is limited

- Use the difference in withholding tax rate versus corporate tax rate (30%)

- Debt push down when acquiring new business, effectively ‘pushing’ interest on acquisition loan down to businesses

- Exit strategy regarding capital gains taxation

- Uganda specific: Redeemable preference shares can help return capital for ventures that are expected to profitable
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PwC Uganda tax practice

**Tax Reporting & Strategy (“TRS”)**
- Tax compliance and filing of returns
- Tax accounting and deferred tax
- Audit of tax
- Tax risk assurance
- Technology based solutions

**People and Organisation (P&O)**
- Preparation of monthly payroll and returns
- Remuneration and benefits planning
- Preparation and filing of self-assessment tax returns Social Security advice
- Review of employment contracts

**Tax Consulting Solutions (“TCS”)**
- Corporate reorganizations
- Mergers & acquisitions
- Tax exemptions
- Investment financing
- Withholding tax on Inter-company arrangements
- Revenue Authority controversy resolution
- Inbound and Outbound investment

**Legal Services**
- Advice on work permit and immigration visa requirements
- Preparation and submission of applications or renewals
- Review of immigration records for expatriate staff
- Entity governance and compliance

**Indirect Taxes (“ITX”)**
- Optimising recovery of input VAT
- Refund of VAT
- Tariff Classification
- Customs and Excise duty advisor
- VAT & Duty exemptions and refunds on capital investments
- International Trade support

**Transfer Pricing Services (“TP”)**
- Preparation of transfer pricing documentation;
- Revenue Authority controversy resolution;
- Transfer pricing and structuring models
- Ongoing support and updates on legislative and regulatory developments
The Africa Desk team
Cape Town

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We are here to help you prosper in Africa!

Thank you!