Rental and Property Tax Webinar

Presentation by PwC & URA
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Lead Panelists

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By the end of this session, you should be able to know……

- ✓ Your property tax obligations
- ✓ How your rental income is going to be taxed effective 1 July 2021
- ✓ When you are required to charge VAT on your rental income
- ✓ Your rental tax compliance obligations

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Property Rates

Hilda Kamugisha
Manager – Tax & Legal
Services

What to Expect

1. Introduction
2. Key definitions
3. Who is liable to pay?
4. The process of valuation of properties
5. How payments of the property rates are effected
6. Consequences of failure to pay on time
7. Exempted properties

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Introduction

Law Applicable

- the Local Governments (Rating) Act 2005 as amended
- the Local Governments (Rating) Regulations 2006
- the Condominium Properties Act 2001
- the Kampala Capital City Act 2010

Property Rates

- Property rates are levied on property or hereditament, i.e. any physical attachment to land or building (industrial or non-industrial) or structure of any kind excluding vacant sites.

Application

- Levied on all immovable property or buildings, commercially managed, like schools, rented houses, rented shops, factories, hotels, private and public universities and any part which is used for the purpose of business even if it is owner occupied.

Key definitions

Property is defined as immovable property and includes a building (industrial or non-industrial) or structure of any kind, but does not include a vacant site.

Owner means a proprietor whose interest in a particular piece of land is registered under the laws of Uganda or any person who has a right to or concession over that particular land for an indefinite period.

Rateable Value is the net annual rental value of a property ascertained in accordance with the Local Government (Rating) Act 2005. It is the gross value less a conservancy allowance of 22%.

Rate per annum is the amount levied annually on a property, between 0 and 12% of the rateable value with a minimum charge of two thousand shillings. KCCA charges 6% of the rateable value.

Gross-value is the rent at which the property might reasonably be expected to let, from year to year, if the tenant undertook to pay conservancy fees, water rates and all other usual tenants' rates and taxes and the landlord undertook to bear the cost of repairs and any other expenses necessary to maintain the premises in a state to command that rent.

Who is liable to pay?

- The owner of the property.
- The transferee in the event of a transfer of the property (notice must be given to the Authority).
- Where the name of the owner of the property is not known to the local government, the assessment is made by describing the occupier of the property at that particular time.

The process of valuation of properties

- Every local government is mandated to appoint persons qualified and registered as valuation surveyors under the Surveyors' Registration Act.
- The valuers carry out valuation to ascertain the rateable value of the properties in an area.
- Local governments may adopt the mass valuation method of valuation which is valuation based on the general features of properties in any part of an area or the general features of particular categories in the area.
- The valuers come up with a draft valuation list which contains particulars of any property.
- A notice is published in the Uganda Gazette and a newspaper informing the public that a copy of the draft valuation list is complete and open for inspection at the office of the local government and the right of objection of any aggrieved person.

Objections to valuation of properties

- Lodge a written notice of objection on a local government within 30 days from the date of publication.
- State the grounds on which the objection is made and the amendments desired.
- On expiry of the 30 days, the local government sends a copy of the draft valuation list and all the notices of objection to the valuation court which summons all the objectors and the valuer and hears their cases within six months.
- On completion of the hearing of all the objections, the valuation court makes necessary alterations to the draft valuation list after which the chairperson certifies the draft valuation list which becomes the final valuation list on the area.

How payment of the property rates are effected

- Payment is effected in two equal instalments on dates appointed by the local governments within the financial year (i.e. 1 July to 30 June).
- Local authorities like KCCA issue demand notes to the property owners indicating the amounts payable for the property and payment is done through the known bank accounts of KCCA, such as Diamond Trust Bank, DFCU, Stanbic Bank and Equity Bank.
- The local government may charge and collect interest on any rate which remains in arrears for more than 30 days from the day it becomes payable at the rate of 2 percent per month for the period the rate remains unpaid.
- Where the owner of the property, upon approval by the local government spends money on any infrastructural work otherwise meant to be done by the local government, this expenditure is offset against his or her pending rate.

Consequences of failure to pay in time

- Recovery by warrant
- Recovery by action
- Recovery from tenants and current occupiers

Exempted Properties

- Any official residence of the President, a traditional or cultural leader or a religious leader
- Any property used exclusively for public worship
- Any property used exclusively as a cemetery or as a crematorium
- Any property used exclusively for the purposes of any charitable or educational institution of a public character supported only by endowments or voluntary contributions
- Any property laid out and used exclusively for the purpose of outdoor sport or recreation, i.e. MTN Sports Arena Lugogo, Lugogo Cricket Oval, Mandela National Stadium
- Any property belonging to a local council
- Any property belonging to a mission/organisation entitled to privileges under the Diplomatic Privileges Act or with a contractual waiver of taxes by the Government
- Owner-occupied properties (exclusively being used for residential purposes)

Rental Tax

John Kagiri
Manager – Tax
Reporting & Strategy

Agenda

1

Introduction to Rental Income Tax

What is rental income tax?

- Imposed under section 5 of the Income Tax Act (“ITA”) on every person (individual or entity) who has rental income for the year of income
- Rental income is the total rent derived from the lease of immovable property (i.e. land and buildings) in Uganda with the deduction of any expenditures/ losses incurred in respect of the property
- Standard tax rate = 30% of the rental income.
- A year of income is defined as the period of 12 months ending on 30 June, but the Commissioner can approve a substituted year of income
- Landlords are allowed to offset tax credits against rental tax liability (e.g. WHT deducted from person’s rent and provisional rental tax paid)
- Rental income is taxed separately from the rest of a person’s income (effective July 2014 for entities)

Changes in tax rates and allowable deductions

Prior to 1 July 2021

- For individuals, rental tax was computed at a rate of 20% of chargeable income after deducting a tax free allowance of UGX 2,820,000, interest on mortgages and standard expenses amounting to 20% of the rental income.
- Effectively, individuals paid rental tax at a rate of about 16% of their gross rental income.
- The rental tax for entities was computed at a rate of 30% of the rental income after allowing for actual expenses or losses incurred on the property. The effective tax rate varied per entity.

Effective 1 July 2021

- ✓ Both individuals and entities are now allowed a standard deduction equal to 75% of the gross rental income*
- ✓ The rate of tax applied to rental income is now 30% for both individuals and entities.
- ✓ Effectively, individuals and entities now pay rental tax at a rate of 7.5% of their gross rent

* Subject to verification by the URA

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Rental tax computations
- Practical examples

Example 1: Rental tax calculation - Entities

ABC Limited owns a building in Kikuubo from which it earns annual rent of UGX 100m. Assuming that ABC incurred expenses amounting to UGX 30m to renovate the building during the year. What would the company's rental tax liability be prior to and after the change in the rental tax law?

(i) Rental tax based on new law

Rental income tax = [(Total rent) – (75% of rent)] x 30%

= [(100,000,000) – (75%*100,000,000)] x 30%

= (100,000,000 – 75,000,000) x 30%

= UGX 7,500,000

(ii) Rental tax based on previous law

Rental income tax = (Total rent – actual expenses) x 30%

= (100,000,000 – 30,000,000) x 30%

= UGX 21,000,000

Rental tax calculation - Individuals

Mr. Mukasa owns a residential apartment complex in Nansana from which he earns rent of UGX 100m every year. Assuming that Mr Mukasa incurred UGX 10m as property maintenance and security expenses. Compute Mr. Mukasa's rental tax liability based on the previous and current tax law.

(i) Rental tax based on new law

Rental income tax = [(Total rent) – (75% of rent)] x 30%

= [(100,000,000) – (75%*100,000,000)] x 30% = **7,500,000**

(ii) Rental tax based on previous law

Gross rental income (A)	100,000,000
Less deduction per s.22 of ITA (20% of rental income) (B)	(20,000,000)
Less mortgage interest deduction (C)	0
Less annual threshold (D)	(2,820,000)
Chargeable rental income (E)= (A-B-C-D)	77,180,000
Rental income tax (F) = E*20%	**15,436,000**

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VAT on immovable property

VAT on immovable property

- Section 4 of the VAT Act imposes 18% VAT on taxable supplies (including immovable property)
- However, paragraph 1(f) exempts from VAT a supply by way of sale, leasing or letting of immovable property, other than a sale, lease or letting:
  - of commercial premises
  - for parking or storing cars or other vehicles
  - of hotel or holiday accommodation
  - for periods not exceeding three months
  - of service apartments
- The annual VAT registration threshold is UGX 150m. Therefore, landlords who own and earn rental income of UGX 150m or more from the above listed property types are required to register for VAT. After registration, the landlords are required to charge their tenants VAT at a rate of 18% (of rental income).
- The VAT charged is remitted to the URA but it is not a cost to the landlord.
- The tenant would also be able to claim the VAT expense from the URA if they are registered for VAT.

Uganda Revenue Authority

DEVELOPING UGANDA TOGETHER

Income Tax Rental Presentation 2021-2022

By Timothy Kagoro


Expectations

OUTLINE

- Background.
- Administration of Rental Tax
- The role of the rental Team
- Rights, Obligations and Cost of Non compliance
- The rental Tax Compliance System
- Conclusion

Background

In his budget speech of the year 2013/2014, the minister of Finance Planning and Economic Development separated Rental Income from Business and Property Income under Sec 5 of the ITA.

Administration of Rental Tax

- Rental tax is administered by a unit headed by a manager, six supervisors and 26 Officers under the Service management division in the Domestic Taxes Department.

Role of the Rental Team

The unit's mandate is to conduct all rental activities for all DT stations (countrywide) by carrying out the following roles:

- ❖ Registration of landlords
- ❖ Ensure and monitor on time returns and payments are made by the taxpayers for rental tax
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- ❖ Return vetting for rental income tax declarations
- ❖ Assessment of non-filers and nil-filers
- ❖ Collection of rental tax
- ❖ Conduct Rental-related Returns Examinations, Issue Audits and Desk Audits cascaded from the Risk Assessment Centre

Income Tax Rental Returns

Prescribed forms

- Provisional Returns
- Final Returns

Due Dates

Acc date: 30Th June

- Provisional Returns within 3 months of the year of Income(by 30th Sept)
- Final Returns within 6 moths after year of income (by 31st Dec)

Filing of returns

- Open the ura portal on

www.ura.go.ug

- Log in

Log in Id: TIN

Password: ###$##

Note: Password is secrete.

Under E-Returns, Find income Tax rental and follow the prompts

- Attached is a detailed return filling process

Adobe Acrobat Document

Taxpayers' Obligation

- Registration with URA;
- Charging VAT where the Taxpayer is registered for VAT;
- Accurate, complete and timely return filing (i.e. Provisional and final);
- Records for income received and expenses incurred should be kept;
- Timely payment of tax liability;
- Provide information as requested.

Taxpayer

- Fair and justified tax based on income earned
- Objection
- Equal Treatment e.g. registration, returning and payment
- Grace period to file and pay tax
- Rights to sue on unfair tax

Costs of Non Compliance

- Forced Registration or amendment
- Interest and penalties
- Estimated assessments
- Collection of rental tax from third parties such as the tenants
- Warrant of Distress
- Delayed processing of your service applications such as change of ownership, transfer of land, registration of motor vehicles
- Delayed clearance of goods in case of importation.

Rental Tax Compliance System (Rtcs)

- RippleNami Inc is a private contractor that has signed an agreement with Government of Uganda Represented by Ministry of Finance Planning and Economic development to use data from the different Ministries, Departments and Agencies (MDAs) to improve on the administration of rental tax.

- The project is under way with the first results expected at the end of year 2021 to 2022.

Questions?

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Thank you...

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