Tax Alert

TAT guides on URA audits based on bank statements and the tax procedures for issuing Agency Notices





On 7 September 2026, the Tax Appeals Tribunal set aside URA's additional income tax assessments of UGX 2,184,915,725 against GH Family General Trading Company Limited and the related Third-Party Agency Notices used to collect the liability. The Tribunal found that URA's estimated cost-to-profit methodology was irrational and that the assessments and agency notices were unlawfully issued. Accordingly, the TAT ordered URA to refund the recovered amount with statutory interest.

Introduction

GH Family General Trading Company Limited ("the taxpayer") carries on business in general merchandise, including importation, exportation, wholesale and retail trade, and foodstuffs. Following a referral from the Financial Intelligence Authority, URA investigated the taxpayer's affairs for the period November 2021 to June 2024. The taxpayer operated a USD account with Equity Bank (U) Limited, opened on 6 October 2022, through which credits of approximately USD 11,747,775 (approximately UGX 42,879,378,750) passed between 6 October 2022 and 18 March 2025 against declared gross

income of only UGX 118,000,000 under the presumptive tax regime. Lacking supporting records, URA allowed 75% of deposits as cost of sales and taxed the remaining 25% at the 30% corporate income tax rate, resulting in an assessment of UGX 2,184,915,725 issued on 2 and 3 April 2025. URA issued a Third-Party Agency Notice on 4 April 2025 to Equity Bank and enforced it on 10 April 2025.

Submissions by the parties

The taxpayer's submissions

The taxpayer argued that the agency notice was issued before the statutory 45-day objection period under section 26 of the Tax Procedures Code Act (TPCA) had expired, contrary to section 34 of the TPCA. It further argued that the October 2025 objection decisions, issued after the tax had been recovered, amounted to retrospective justification. On the merits, the taxpayer explained that it acted partly as a procurement agent for related businesses in South Sudan, meaning some bank credits were not its own trading income.

URA's submissions

URA argued that the disparity between declared income of UGX 118,000,000 and bank credits of approximately UGX 42,879,378,750 justified investigation and, absent books or records, its 75%/25% methodology was reasonable. URA further contended that section 34(1)(b) of the TPCA is "anticipatory" and permits an agency notice before tax is due where there are reasonable grounds to believe the taxpayer will not pay by the due date.



Decision of the Tribunal

Legitimacy of the investigation: The Tribunal agreed that URA had legitimate grounds to investigate given the striking income and banking disparity, but it held that a disparity alone does not establish the entire amount as undeclared taxable income.

Assessment methodology unsupported: URA's 75%/25% cost-to-profit split was unsupported. URA did not explain the ratio's basis, did not examine historical margins or comparable data, and did not distinguish between the taxpayer's own receipts and funds received on behalf of the South Sudan businesses.

Procurement-agent role: A cost-to-sales ratio may estimate profit once a receipt is established as the taxpayers, however it cannot determine whether a receipt was the taxpayer's income in the first place. The taxpayer discharged its burden by showing the assessment could not be traced to a reasoned determination of its actual chargeable income.

Agency notices issued unlawfully: Section 34(1)(b) of the TPCA allows anticipatory action but requires objective, reasonable grounds and not mere suspicion. URA produced no contemporaneous risk assessment establishing that the taxpayer would not pay by the due date.

Non-compliance with the 45-day payment period: The assessment notices did not comply with section 25(6) of the TPCA, which gives a taxpayer at least 45 days from the issue date of the assessment before which payment can be made. The notices specified 30 April 2025 which is less than 45 days from the 2 and 3 April 2025 issue dates.

Agency notice falls with the assessment: An agency notice is a collection mechanism and cannot stand once the underlying assessment is set aside. The Tribunal set aside the assessments, objection decisions, and agency notices, ordered URA to refund the recovered amount with statutory interest under section 28(2) of the Tax Appeals Tribunals Act, and directed that the refund was not conditional on any further audit. However, the URA was not barred from issuing a new assessment following due process and supported by relevant evidence. Costs were awarded to the taxpayer.

Key takeaways

A significant disparity between a taxpayer's declared income and its bank account credits gives URA legitimate grounds to investigate, but is not, by itself, sufficient evidence to tax the entire disparity as undeclared income.

Any assessment based on an estimated cost-to-profit ratio must be supported by comparable data, historical analysis, or another rational basis of computation.

Where a taxpayer claims to act as an agent for third parties, URA must properly investigate that role before treating all related bank credits as the taxpayer's own trading receipts.

A Third-Party Agency Notice can only be issued before a taxpayer's statutory objection period expires where URA has objective, reasonable grounds and not merely suspicion to believe that the taxpayer will not pay by the due date. Therefore, assessment notices must also allow at least 45 days for payment.

Once an underlying tax assessment is set aside, any agency notice used to collect under it falls with it, and any amount recovered must be refunded with statutory interest, regardless of whether URA later wishes to conduct a fresh audit.



Get in touch with us



Trevor Lukanga
Associate Director, Tax
trevor.b.lukanga@pwc.com



Hilda Kamugisha
Senior Manager, Tax and Legal Business Solutions
hilda.kamugisha@pwc.com



Lorna Atim
Associate, Tax and Legal Business Solutions
lorna.atim@pwc.com

At PwC, we help clients build trust and reinvent so they can turn complexity into competitive advantage. We're a tech-forward, people-empowered network with more than 364,000 people in 136 countries and 137 territories. Across audit and assurance, tax and legal, deals and consulting, we help clients build, accelerate, and sustain momentum.
Find out more at https://www.pwc.com/ug/en.html.

© 2026 PwC. All rights reserved. (2026-650-05)