

Tax Alert

Changes to valuation of employee motor vehicle and loan benefits

Motor vehicle benefits

The Income Tax (Amendment) Act 2017 introduced an amendment to the Fifth Schedule of the Income Tax Act (ITA) providing for a reduction in the valuation of motor vehicle benefits. The change is effective from 1 July 2017.

Previously, an employee enjoying private use of a company vehicle was taxed using a formula whose base was set at the market value of the vehicle when it was first provided. This meant that the taxable value was fixed at this initial amount regardless of how many years the car was provided or subsequent declines in market value.

The base value can now be depreciated on a reducing balance basis at a rate of 35%, for each subsequent year.

Specifically, Paragraph 3 of the Fifth Schedule has been amended to provide that where a benefit provided by an employer consists of the use, or availability for use, of a motor vehicle wholly or partly for the private purposes of the employee, the value of the benefit is calculated according to the following formula (amended part underlined): $(20\% \times A \times B/C) - D$

Where:

A is the market value of the motor vehicle at the time when it was first provided for the private use of the employee, depreciated on a reducing balance basis at a rate of 35% per annum for the subsequent years;

B is the number of days in the year of income



during which the motor vehicle was used or available for use for private purposes by the employee for all or a part of the day;

C is the number of days in the year of income; and

D is any payment made by the employee for the benefit.

Vehicle assigned prior to 1 July 2017

The amendment refers to the 35% depreciation reduction being applied “for the subsequent years” and we interpret this to mean the years following the year in which the vehicle was first assigned to the employee. The year of income for employees is that to 30 June. This means that vehicles provided prior to 1 July 2017 will be eligible for the depreciation reduction for each year following the year of first use, including those years falling prior to the amendment.

A motor vehicle provided to an employee which is available for private use will be depreciated on a reducing balance basis at the rate of 35% per annum for the subsequent years.

July 2017

Vehicle assigned from 1 July 2017

The depreciation reduction on a vehicle first assigned in the 2018 income year will not be available in that year but will apply in subsequent years.

We illustrate this further below (assuming the motor vehicle is available for private use every day)

Date MV first provided	Market value when provided	Income year to 30 June	Market value	Depreciated value (35% DV)	Taxable value	Monthly taxable benefit (*20%/12)
June-16	78,960,000	2016	78,960,000	N/A	78,960,000	1,316,000
		2017	N/A	51,324,000	78,960,000	1,316,000
		2018		33,360,600	33,360,600	556,010
March-17	204,000,000	2017	204,000,000	N/A	204,000,000	3,400,000
		2018		132,600,000	132,600,000	2,210,000
July-17	85,000,000	2018	85,000,000	N/A	85,000,000	1,416,667
		2019		55,250,000	55,250,000	920,833



We consider the new approach will apply equally to motor vehicles which are owned by the employer and those which are held under long term operating leases.

Loan benefits

The Bank of Uganda discount rate as at 1 July 2017, was 10% which means that this is the statutory rate for determining the taxable value of loans provided to employees in the income year to 30 June 2018. The rate for the prior year was 15%.

A loan granted to an employee by an employer exceeding UGX 1m and for a term exceeding three months results in a taxable benefit to the employee to the extent the interest charged on the loan is less than the statutory rate.

For example, if an employer granted a UGX 10 million loan to an employee at an interest rate of 7%, the monthly taxable

benefit for the current income year will be calculated as follows:

$$10,000,000 * (10\% - 7\%) / 12 = 25,000$$

Let's talk

For a deeper discussion on how this issue might affect your employees and business, please contact:

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