Tax Alert

November 2025

The Tax Appeals Tribunal (TAT / the Tribunal) has ruled that employee meals provided through third parties on a partial basis should be subject to Pay As You Earn (PAYE)

The main issue for determination was whether the taxpayer is liable to pay PAYE on meals provided to some of its security guard employees through third-party client arrangements

Introduction and Background

The taxpayer, a provider of security services in Uganda filed an appeal against the URA following an audit in which URA raised PAYE assessments on meals provided to some of the security guard employees deployed at different client locations. The URA treated the meals as taxable employment benefits which the taxpayer did not agree with.

The main issue for determination was whether the taxpayer is liable to pay PAYE on meals provided to some of its security guard employees through third-party client arrangements.

Submission by Parties

Taxpayer's Submissions

The taxpayer argued that meals do not form part of the employees' employment income because the taxpayer generally does not provide meals to any of its staff.

However, there are cases where some of the taxpayer's clients require that guards deployed at their respective premises also be provided with meals. The taxpayer then sources third party caterers, invoices the clients for the cost and thereafter remits payment to the caterers.

The Tribunal adopted the ordinary meaning of "benefit" (advantage/ privilege) and ruled that the meals were employee benefits within Section 19(6) of the ITA

The taxpayer thus contended that it was merely a middleman connecting suppliers to clients.

The taxpayer further argued that the meals were provided equally due to the rotational deployment of its security guards where any guard could be equally assigned to a site with meals provided.

The taxpayer also argued that the PAYE rates applied by the URA did not reflect the guards' actual earnings because the security personnel earn between UGX 120,000 to UGX 150,000 monthly, which places them in the 10% PAYE tax band and not 30% as imposed by the URA.

The taxpayer primarily relied on the tax law provision that exempts employee meals from being taxed, provided the employer provides the meals equally to all full-time employees.

The URA's Submissions

On the other hand, the URA maintained that the meals constituted taxable benefits under Section 19(6) of the Income Tax Act, as they were provided under an arrangement with the employer. The taxpayer arranged and paid for the meals, making them liable to withhold PAYE.

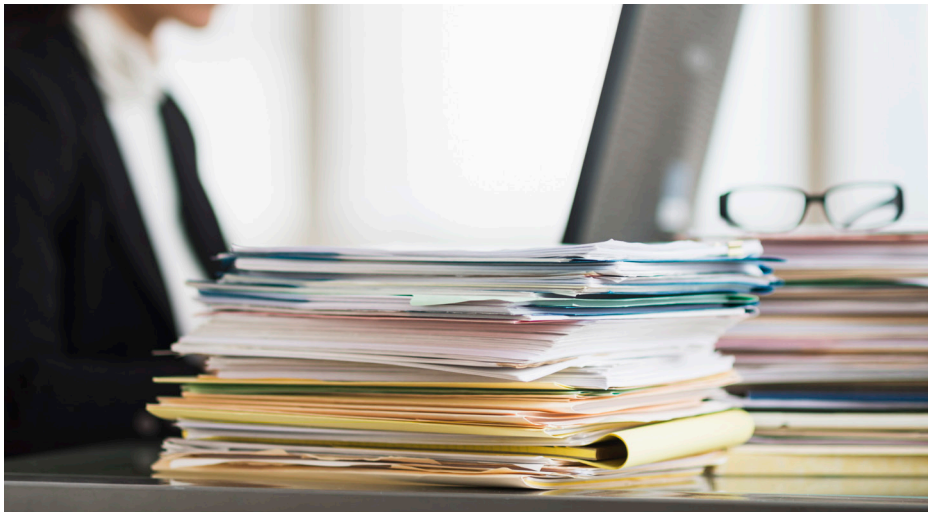
The URA further argued that the meals were not available at all client sites, but only at select sites, so the "equal terms to all full-time employees" criteria test for the meals PAYE exemption was not satisfied.

On the 30% rate applied, the URA contended that the monthly value of the meals, when added to the guards' salaries, pushed the security guards' total taxable income into the 30% PAYE bracket.

Ruling of the Tribunal

The Tribunal adopted the ordinary meaning of "benefit" (advantage/ privilege) and ruled that the meals were employee benefits within Section 19(6) of the ITA. This was on the basis that the meals were arranged and facilitated by the taxpayer for its employees, even though third-party caterers delivered the meals and clients ultimately funded it.

The tribunal explained that the law looks at the employer's arrangement and the employment nexus and not who bears the cost. The tribunal further ruled that the reimbursement by clients or pass-through invoicing does not extinguish the employer's PAYE obligation, if deemed subject to PAYE.



Unequal provision of meals disqualifies such meals from the PAYE exemption criteria in Section 19(2)(e) of the Income Tax Act

The Tribunal also ruled that the PAYE exemption was not applicable. This was on the basis that the meals were not available on equal terms to all full-time employees as the availability depended on deployment to certain client sites and only guards deployed to certain client sites received the meals. It also meant that administrative and operational staff never received meals.

The Tribunal also explained that the rotational deployment did not amount to equal terms since it was by chance as opposed to being an entitlement for all.

The Tribunal further ruled that the URA's application of a flat 30% tax rate was arbitrary and overly indiscriminate. The tribunal stated that the PAYE tax brackets should be based on actual employee earnings including meal benefits and as such, should be recomputed on a per employee basis.

Key Takeaways

1. Employers must account for and withhold PAYE on taxable benefits provided to employees, even if facilitated through, and/or reimbursed by, third parties.
2. Unequal provision of meals disqualifies such meals from the PAYE exemption criteria in Section 19(2)(e) of the Income Tax Act.
3. PAYE must be computed based on actual income levels, including the value of benefits received per employee.

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