Budget Brief & Tax Highlights for Uganda

14 June 2024

Background

On Thursday, 13th June 2024, the Honorable Minister of Finance presented Uganda's budget speech for the financial year 2023/2024.

The theme of the budget was "Full Monetization of Uganda's Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access".

In this brief, we provide you with insights on Uganda's economic performance, proposed budget and tax amendments.

Economic Outlook

World Economic Outlook

Global recovery from the COVID-19 pandemic and Russia's invasion of Ukraine remains slow and uneven. Global growth was 3.2% in 2023 and is expected to remain at that level both in 2024 and 2025.

For the case of advanced economies, growth is expected to rise from 1.6 % in 2023 to 1.7% in 2024 and 1.8% in 2025 with stronger activity expected in the U.S, China, and other large emerging markets, but weaker activity in the Euro Area below global growth was attributed to both near-term factors, such as high borrowing costs and withdrawal of fiscal support, and longer-term effects from the COVID-19 pandemic and Russia's invasion of Ukraine; weak growth in productivity; and increasing geo-economics fragmentation.

Africa & Regional Economic Outlook

The confluence of shocks notwithstanding, the resilience of the Africa's economies remains strong, with positive growth projected for the continent's five regions.

Growth is expected to accelerate from 3.3% in 2023 to 4% in 2024 in Sub-Saharan Africa East African economies are expected to grow by 5.1% in 2024 and 5.7% in 2025 buoyed by the service, tourism and transport sectors.

The region will also benefit from the African Continental Free Trade Area (AFCFTA) since trade growth is expected to spur demand for higher production capacity and investments in cross border infrastructure.

Uganda's Economic Performance

GDP: GDP is projected to grow by 6% this financial year 2023/24 compared to 5.3% in FY2022/23. This year's growth of 6% is even more impressive when compared to Sub-Saharan Africa's average of 3.8%, and the global average of 2.9% projected for the year 2024.

Size of the Economy: The size of the economy is now estimated at Shs 202 trillion (USD 53.3 billion) up from Shs 184.3 trillion (USD 48.8 billion) in nominal terms.

Inflation: Annual headline inflation has reduced from the peak of 10.7% in October 2022 to 3.6% last month.

Interest rates: The commercial bank lending interest rates for shilling- denominated credit reduced to 17.7% in April 2024 compared to 19.3% in April 2023. Interest rates in the domestic debt market have remained broadly stable averaging 11.2% on the one-year government treasury bills.

External Trade: Uganda's exports increased by USD 2.534 billion to USD 7.471 billion compared to USD 4.938 billion in April 2023, representing a 34% growth. In the financial year ending, Uganda imported goods worth USD 12.9 billion compared to USD 10.3 billion in the year ending April 2023.

Foreign Direct Investment, Remittances, and Tourism: The inflow of Foreign Direct Investment (FDI) to Uganda amounted to USD 2.46 billion in

FY2022/23 and by December 2023/24, additional FDI amounting to USD 1.27 billion had been attracted. Remittances by Ugandans living and working abroad increased to USD 1.43 billion in calendar year 2023 from USD 1.3 billion in 2022. Tourism revenues increased to USD 1.28 billion in calendar year 2023 from USD 1.07 billion in calendar year 2022.

Employment: The number of workers subscribing to the various pension schemes in the country increased to more than 3.14 million members in FY2023/24, an increase of 4.2% compared to 3.01 million members in FY2022/23.

Fiscal Performance: The Government's fiscal deficit has reduced to 4.5% of GDP this financial year from 5.5% of GDP last year.

The projected domestic revenue outturn for FY2023/24 is Shs 27.725 trillion against the target of Shs 29.672 trillion, leading to a revenue shortfall of over Shs 1.9 trillion.

The revenue to GDP ratio is estimated at 13.6% of GDP in FY2023/24. Domestic revenue for FY 2024/25 is projected to amount to Shs 31.982 trillion, equivalent to 14.2% of GDP.

Private Sector Credit: Private sector credit increased to Shs 21.54 trillion in April 2024 from Shs 20.47 trillion in April 2023, an increase of 5.2%.

Exchange Rate: The value of our currency has remained largely stable against key global currencies. Between May 2023 and May 2024, the official exchange rate against the US dollar has averaged Shs 3,771.

Uganda's Economic Growth Strategy and Outlook

Projected Economic Growth: Next financial year, the economy is projected to get back to Uganda's steady-state growth potential of between 6.4 and 7%, and double digit over the next five years.

GDP: It is projected that next Financial Year, 2024/25, Uganda's GDP will further expand to Shs 225.5 trillion (equivalent to USD 60 billion).

Drivers of Uganda's economic growth

The above growth will be driven by:

- Increased oil and gas activities as we move towards first oil production in FY2025/26;
- Growth in exports, supported by the increase in regional trade in the EAC and COMESA, intra-Africa trade, and harnessing existing and new trading partners in the Middle East and Asia;
- Increase in tourism activities.
- Agro-industrialization and light manufacturing supported by access to affordable credit;
- Private investment growth supported by Foreign Direct Investment, remittances and a stable macroeconomic environment;
- Continued investment in industrial parks, construction and maintenance of roads and bridges; and;
- Rehabilitation of the Metre Gauge Railway and commencement of the Standard Gauge Railway, expansion of ICT infrastructure, and provision of reliable and affordable electricity.

Risks to Uganda's economic growth strategy

Below are the risks to Uganda's growth strategy:

- Climate change affecting agricultural production and infrastructure,
- Regional and global geopolitical tensions,
- High interest rates which constrain access to affordable debt
- Fluctuations in global commodity prices.

Financing and Expenditure for FY 2024/5

Resource Envelope:

The total resource envelope for Financial Year 2024/25 amounts Shs. 72,136,504,253,466 of which total revenue is as detailed below:

(a) Domestic revenues: Shs 31.982 trillion, of which Shs 29.366 trillion will be tax revenue and Shs 2.616 trillion will be non-nax revenue;
(b) Budget Support: Shs 1.394 trillion;
(c) Domestic Borrowing: Shs 8.968 trillion;
(d) Treasury bonds for settlement of Government outstanding obligations to June 2024: Shs 7.779 trillion
(e) Domestic refinancing of maturing domestic debt: Shs 12.022 trillion;
(f) Petroleum Fund drawdown: Shs 115.4 billion;
(g) Project support (external financing): Shs 9.583 trillion; and
(h) Local Government revenue collections: Shs 293.9 billion.

The total government expenditure for FY 2024/2025 is projected at Shs. 72,136,504253,466/= trillion; of which the total appropriation is Shs 37.56 trillion and statutory expenditure is Shs 34.756 trillion.

Wages and salaries are projected to amount to Shs 7.926 trillion, non-wage recurrent expenditure to Shs 17.454 trillion, development expenditure from own resources to Shs 6.152 trillion, external project financing Shs 9.584 trillion, appropriation in aid to Shs 293.9 billion, while external debt repayment will amount to Shs 3.149 trillion.

Tax Administration Measures

URA compliance measures

The anticipated additional revenues will be generated from compliance measures undertaken by the Uganda Revenue Authority ('URA'). These include:

- Expanding the URA's presence and coverage by opening up 5 liaison offices;
- Strengthening the enforcement and use of Electronic Fiscal Receipting and Invoicing System ('EFRIS') and Digital Tax Stamps (DTS) and the rental tax solution;
- Strengthening the exchange of information with other tax authorities to combat illicit financial flows and under-declarations; and
- Strengthening enforcement interventions.

Tax Amendments and Reforms FY 2024/25

The key tax proposals are contained in the Income Tax (Amendment) Bill, 2024, the Value Added Tax (Amendment) Bill, 2024, the Excise Duty (Amendment) Bill 2024, the Tax Procedures Code (Amendment) Bill, 2024 and the Stamp Duty (Amendment) Bill, 2024. If passed (wholly or partly) into law by the Parliament and assented to by the President, the new tax changes will take effect on 1st July 2024.

Key Tax Proposals: Income Tax (Amendment) Bill, 2024

a) Definition of a retirement fund

The definition of a retirement fund will be expanded to include benefits in the event of termination or occurrence of an event specified in the written law, agreement, or arrangement.

b) Capital gains tax on disposal of non- business assets

The bill proposes to introduce a final tax at the rate of 5% on gains from the disposal of non-business assets i.e. shares of a private company, land in cities or municipalities (except the principal place of residence) and rental property that is subject to rental tax.

c) Expansion of exempt income

The bill proposes to expand Uganda's income tax exemption regime to include the following:

- Income derived from or by private equity or venture capital fund regulated under the Capital Markets Authority
- Income derived from the disposal of government securities on the secondary market;
- Income derived by a strategic investor who manufactures an electric vehicle, electricity battery or electric vehicle charging equipment or fabricates the frame and body of an electric vehicle
- Income derived by a strategic investor who operates a specialized hospital facility.

d) Taxation of branches of non-resident companies

The concept of a branch of a non-resident company will be overhauled and aligned with the concept of a permanent establishment in line with international tax best practice.

e) Income derived from sources in Uganda.

The following items of income will be considered as derived from sources in Uganda:

- An annuity paid by a non-resident person as an expenditure of the latter's permanent establishment in Uganda.
- Income derived from payment of reinsurance premium if the premium relates to the insurance or reinsurance of a risk in Uganda.

f) Withholding tax on interest paid to a non-resident person in respect of debentures

Interest in respect of debentures paid to non-residents (other than that paid by the government) that meets the following conditions will be subject to withholding tax at a rate of 2%:

- Paid by a resident person to a financial institution that is not related to the former
- Not paid as part of a back-to-back loan or economically equivalent loan.

g) Filing of transfer pricing information returns to URA

Introduction of the requirement to file transfer pricing information returns together with the annual income tax returns.

h) Withholding Tax on commission paid to a payment service provider

A person who pays a commission to a payment service provider (including the commission paid to banking agents or any other agent offering financial service) shall withhold a tax at the rate of 10%.

Key Tax Proposals: Value Added Tax (Amendment) Bill, 2024

a) Supply of goods through auction

The supply of goods through auction is to be treated as a supply by the recipient of the proceeds of the auction who will also be liable to pay the VAT due on the transaction.

b) Amendments to the voluntary VAT registration regime

Persons engaged in commercial farming shall only be required or permitted to register for VAT when they exceed or expect to exceed the quarterly (Ushs. 37,500,000) or annual (Ushs 150,000,000) VAT registration threshold in a three-month period.

c) Raising of the threshold for VAT offsets

The bill proposes to increase the VAT threshold for offsetting of overpaid in put tax or applying it against future liabilities of the taxable person from Ushs 5,000,0000 to Ushs.10,000,000.

d) VAT treatment of supplies by an employer to an employee for no consideration

The supply of goods or services by an employer who is VAT registered to an employee, for no consideration shall be treated as a taxable supply. The employer will be required to account for VAT on this supply.

e) Penalty for failure to withhold VAT

A VAT withholding tax agent who fails to withhold tax shall be liable to pay the amount of tax which has not been withheld but may recover this amount from the payee.

f) Expanding the list of Public International Organizations under the First Schedule to the VAT Act.

The bill proposes to include the following institutions as public international organization listed in the First Schedule to the VAT Act, thus entitling them to claim VAT refunds:

- African Reinsurance Corporation (Africa Re)
- International Regulatory Board of the East African Power Pool
- Islamic Cooperation for the Development of the Private Sector

g) Amendments of Second Schedule to the VAT Act

The following supplies will be included on the list of VAT exempted supplies:

- Hoes
- Locally manufactured electric vehicles or a locally fabricated frame and body of an electric vehicle
- Charging equipment for an electric vehicle or charging services of an electric vehicle
- Pesticides (which are defined to mean insecticides, rodenticides, fungicides and herbicides but do not include pesticides packaged for personal or domestic use)
- Fertilizers, seeds and seedlings
- Safety headgear
- Cooking stoves, that use fuel ethanol, assembled in Uganda, up to 30th June 2028.

The following supplies will be excluded from the list of VAT exempted supplies:

- Postage stamps
- Software and equipment installation services to manufacturers
- goods and services used for personal and domestic purposes supplied to contractors and subcontractors of hydro-electric power, solar power, geothermal power, or biogas and wind energy projects.

h) Amendments of the Third Schedule to the VAT Act

The following zero-rated supplies will be repealed:

- Seeds
- Fertilizers
- Pesticides
- Hoes

Key Tax: Tax Procedures Code (Amendment) Bill,2024

a) Notice prior destruction of goods as a prerequisite for claiming a credit or deduction

A tax payer who intends to claim a deduction or credit for goods destroyed as a result of damage or expiry of trading/manufactured stock or obsolete stock will be required to inform the Commissioner prior to being permitted to claim a deduction or credit for such stock.

b) Extension of the waiver of interest on payment of principal tax

There is a proposal to extend the deadline for waiver of interest on payment of principal tax from 31st December 2023 to 31st December 2024.

Key Tax Proposals: The Excise Duty (Amendment) Bill,2024

a) Amendments to the interpretation Section of the Excise Duty Act, 2014

The bill proposes to define the following terms as used in the Section 2 of the Act:

- "Fruit juice" is defined to mean unfermented liquid extracted from the edible part of a fresh fruit whether the extracted liquid is diluted or not.
- "Powder for reconstitution into beer" is defined to mean powder, crystal or any other dry substance which after being mixed with water or any other non-alcoholic beverage ferments to or otherwise becomes an alcoholic beverage.
- "Undenatured spirits" is defined to mean spirits that are not mixed with any substance to render the spirit unfit for human consumption or capable of being rendered unfit for human consumption including neutral spirits or alcoholic beverages made from neutral spirits that are fit for human consumption.
- "Vegetable juice" is defined to mean unfermented liquid extracted from the edible part of a vegetable whether the extracted liquid is diluted or not.

b) Introduction of new duty rates duty rates

The bill proposes to amend Schedule 2 to the Excise Duty Act as follows:

No.	Current item description	Proposed item description	Current duty rate	Proposed duty rate
2(d)	Opaque beer	Opaque beer	20% or Ushs. 230 per litre, whichever is higher	12% or Ushs. 150 per litre, whichever is higher
2 (e)	Any other alcoholic beverage locally produced	Any other alcoholic beverage locally produced	20% or Ushs. 230 per litre, whichever is higher	12% or Ushs. 150 per litre, whichever is higher
2(f)	N/A	Powder for reconstitution into beer	N/A	Ushs. 2,500 per kg
3(a)	Un-denatured spirits made from locally produced raw materials	Un-denatured spirits of alcoholic strength by volume of 80% or more made from locally produced raw materials;	60% or Ushs. 1,500 per litre, whichever is higher	60% or Ushs. 5,000 per litre whichever is higher
3(b)	Un-denatured spirits made from imported raw materials	Un-denatured spirits of alcoholic strength by volume of 80% or more made from imported raw materials	100% or Ushs. 2,500 per litre, whichever is higher	100% or Ushs. 5,000 per litre, whichever is higher

No.	Current item description	Proposed item description	Current duty rate	Proposed duty rate
3(c)	Ready to drink (other) spirits	Any other un-denatured spirits i) That are locally produced of alcoholic strength by volume of less than 80%; or	80% or Ushs. 1,700 per litre, whichever is higher	80% or Ushs. 1,700 per litre, whichever is higher
		ii) That are imported of alcoholic strength by volume of less than 80%.		100% or Ushs. 5,000 per litre, whichever is higher
4(b)	Other wines	Other wines	80% or Ushs. 8,000 per litre, whichever is higher	100% or Ushs 10,000 per litre whichever is higher
5(b)	Fruit Juice and vegetable juice (except juice made from at least 30% of pulp from fruit and vegetables grown in Uganda)	Fruit Juice and vegetable juice (except juice made from at least 30% pulp or at least 30% juice by weight or volume of the total composition of the drink from fruits and vegetables locally grown)	12% or Ushs 250 per litre, whichever is higher	12% or Ushs 250 per litre, whichever is higher
5(d)	Any other non -alcoholic beverage locally produced other than the beverage referred to in paragraph (a) made out of fermented sugary tea solution with a combination of yeast and bacteria	Any other non-alcoholic beverage locally produced other than the beverage referred to in paragraph (a) made out of fermented sugary tea solution with a combination of yeast and bacteria	12% or Ushs 250 per litre whichever is higher	12% or Ushs 150 per litre whichever is higher
6	Mineral water, bottled water and other water purposely for drinking	Mineral water, bottled water and other water purposely for drinking	10%	10% or Ushs 75 per litre whichever is higher
7	Cement	Cement, adhesives, grout, white cement or lime	Ushs 500 per 50kgs	Ushs 500 per 50kgs
8(a)	Motor spirit (gasoline)	Motor spirit (gasoline)	Ushs. 1,450 per litre	Ushs. 1,550 per litre
8(b)	Gas oil (automotive, light, amber for high-speed engine)	Gas oil (automotive, light, amber for high speed engine)	Ushs. 1,130 per litre	Ushs. 1,230 per litre
8(e)	Illuminating kerosene	Illuminating kerosene	Ushs. 200 per litre	Ushs. 500 per litre

No.	Current item description	Proposed item description	Current duty rate	Proposed duty rate
13A	N/A	Payment service of withdrawals of cash provided through a payment system but does not include withdrawal services provided by a financial institution or a microfinance deposit taking institution	N/A	0.5% of the value of the transaction
23	Furnishings and fittings or locally produced materials for construction of premises and other infrastructure to a hospital facility developer whose minimum investment capital is at least US$ 5,000,000 and who develops a hospital at the level of a national referral hospital with capacity to provide specialized medical care	Furnishings and fittings or locally produced materials for construction of premises and other infrastructure to a hospital facility developer whose minimum investment capital is at least US$ 5,000,000 and who develops a hospital with capacity to provide specialized medical care.	Nil	Nil
25(b)	Any other fermented beverages made from locally grown cider, perry, mead, spears or near beer	Any other fermented beverages including cider, perry, mead or near beer produced from locally grown or produced raw materials	30% or Ushs. 550 per litre, whichever is higher	30% or Ushs. 550 per litre whichever is higher
27		Construction materials of a manufacturer of an electric vehicle, electric battery or electric vehicle charging equipment or fabricator of the frame and body of an electric vehicle whose investment capital is, at least US$ 35M in case of a foreigner or US$ 5,000,000 in the case of a citizen		Nil

The Stamp Duty (Amendment) Bill,2024

a) Introduction of new duty rates duty rates

The bill proposes to amend Schedule 2 of the Stamp duty Act, 2014 as follows:

Item	Current item description	Proposed item description	Current duty rate	Proposed duty rate
18(a)	Capital duty on nominal share capital or any increase of it of any company incorporated in Uganda with limited liability— of the total value	Capital duty on nominal share capital or any increase of it of any company incorporated in Uganda with limited liability but does not include shares acquired by investors in a private equity or venture capital fund regulated under the Capital Markets Authority Act, Cap. 84 — of the total value	0.5%	0.5%
18 (e)	N/A	Capital duty on nominal share capital or any increase of share, acquired by an investor in a private equity or venture capital fund regulated under the Capital Markets Authority Act, Cap. 84	N/A	Nil
62 (f)	N/A	Transfer of shares or other securities, to or by an investor in a private equity or venture capital fund regulated under the Capital Markets Authority Act, Cap. 84	N/A	Nil

b) Amendments to the minimum eligibility criteria for the stamp duty exemption of strategic investors

The bill seeks to amend the eligibility criteria under Item 60A of the Stamp Duty Act, of 2014, by requiring the strategic investors to demonstrate the capacity to employ at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage and capacity to use at least 70% of locally produced raw materials, subject to availability.

c) Changes to the minimum eligibility criterial of requirements of a hospital facility developer.

The bill proposes that a hospital facility developer who fulfills the requirements for stamp duty exemption under Item 60A of the Stamp Duty Act, of 2014 need not develop a hospital "at the level of a national referral hospital" as stipulated under the current law.

d) Expansion of the list of strategic investors who are eligible for stamp duty exemption

The bill seeks to include manufacturers of electric vehicles, electric batteries or electric vehicle charging equipment or fabricators of the frame and body of an electric vehicle on the list of strategic investors who are eligible for stamp duty exemption Item 60A of the Stamp Duty Act, of 2014, if they satisfy the following requirements:

- a minimum investment capital of US$ 10,000,000 (in case of a foreigner), or US$ 300,000 (in case of a citizen) or US$ 150,000 in case (of a citizen who invests up country);
- capacity to use at least 70% of the locally produced raw materials, subject to availability;
- employs at least 70% of its employees being citizens earning an aggregate wage of at least 70% of the total wage bill; and
- provides for substitution of 30% of the value of imported products.

The exemption applies to debentures, instruments imposing a further charge on a mortgaged property, lease of land, increase of share capital and a transfer of land.

For additional information with respect to this Alert, please contact the following:

Belong together

Gilbert Rukiri Ariho
Head of Tax
PKF Taxation Services Limited
grukiri@ug.pkfea.com

Yvonne Tusiime
Tax Manager
PKF Taxation Services Limited
ytusiime@ug.pkfea.com

Rita L. Zabali
Tax Manager
PKF Taxation Services Limited
rzabali@ug.pkfea.com

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