

INCOME TAX GUIDE - UGANDA

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INTRODUCTION TO INCOME TAX IN UGANDA

- The current Income Tax Act 1997 came into force on 1st July 1997, and replaced the Income Tax Decree of 1974. Prior to that, Kenya, Uganda and Tanzania had common tax legislation known as the East African Management Act 1954.
- In an attempt to improve the Tax administration in the country, Uganda Revenue Authority was formed by an act of Parliament. Later on a Large Taxpayers unit was formed to cater for the interests of the large taxpayers. A quality assurance, inspectorate and appeal department was also created and a Tax Appeal Tribunal (TAT) was also constituted.

CHARGEABLE INCOME

Definition

- The chargeable income of a person for a year of income is the gross income of the person for the year less total deductions allowed under the act for the year.

The following are the main categories of income chargeable to income tax:

- a) Employment income.
 - b) Profits from business or profession.
 - c) Profits from the use of property
 - d) Income from dividends and interest
 - e) Income from pensions
 - f) Income from management or professional fees and royalties.
 - g) Trust income and pension income.
 - h) Income of non-residents deemed to be derived in Uganda.
- Income tax is a tax on income and is charged for each year of income upon all the income of a person whether resident or non-resident which accrued in or was derived from Uganda. Where a business is carried on by a resident person partly within and partly outside Uganda the whole of the profit of that business is deemed to have accrued in or be derived from Uganda.
 - The gross income of a resident person includes income derived from all geographical sources

CHARGEABLE PERSONS

An individual is resident for tax purposes if:

- He has a permanent home in Uganda, or
- He has no permanent home in Uganda but
 - Was present in Uganda for a period or periods amounting in aggregate to 183 days or more in that year of income; or
 - Was present in Uganda in that year of income and in each of the two preceding years of income for periods averaging more than 122 in each year of income or.

- Is an employee or official of the Uganda Government posted abroad during the year of income.

A body of persons is resident for tax purposes if;

- The body is a company incorporated under the laws of Uganda; or
- Has its management and control exercised in Uganda at any time during the year of income ;or
- Undertakes the majority of its operations in Uganda during the year of income.

Resident Partnership

- A Partnership is a resident partnership for a year of income if at any time during that year; a partner in the partnership was a resident person.

Resident trust

A trust is a resident trust for the year of income if:

- The trust was established in Uganda,
- At any time during the year of income a trustee of the trustee was a resident person in Uganda; or
- The trust has its management and control exercised in Uganda at any time during the year of income.

A. TAXATION OF INCOME

Employment Income

Taxable income from employment is widely defined to mean any income derived by an employee from any employment. Traveling, entertainment and other allowances are taxable unless representing solely the reimbursement of expenses incurred in the production of income.

Benefits in kind from employment are taxable, unless their aggregate value does not exceed Ushs. 10,000/- per month.

Rental Income

Under the Income Tax Act, 1997 rental income earned by an owner of property, other than an individual, is part of income and is taxed under corporate income tax rate? Rental income earned by an individual is separated from income earned from other sources and taxed separately under rental tax rates (20% of 80% of gross rent in excess of 1,560,000).

Dividend Income

The following dividends are not chargeable to tax:

- Dividends received by a resident company from another resident company of which it controls 25% or more of the voting power.
- Taxation on the dividend income of Uganda residents is limited to the withholding tax deducted from payments of such dividends.
- Dividends received from sources outside Uganda are not chargeable to tax in Uganda.
- Dividends paid by Uganda resident companies are deemed to be income of the year in which they are payable.
- Dividends include any distribution by a company to its shareholders, including in winding-up, except for reimbursement of sums paid in as share capital.
- Payment of dividend to residents and non-residents is subject to withholding tax at 15%.

Interest Income

Tax on interest received from financial institutions and government bearer bonds earned by individuals is limited to the withholding tax deductible.

Interest income accruing to non-individuals is taxed at the corporate tax rate, with credit for the tax withheld at source.

Payment of interest to non-residents is subject to withholding tax at 15%.

B. SMALL BUSINESS TAX PAYERS

A taxpayer whose gross turnover does not exceed Fifty million shillings a year may pay tax at presumptive rates. This is not applicable to a person providing professional services.

The presumptive tax rate structure is as follows:

GROSS TURNOVER (per annum)	TAX PAYABLE
(a) Upto 5 million	Nil
(b) From 5 million to 20 million	100,000/-
(c) From 20 million to 30 million	1% of gross turnover up to a maximum of Shs 250,000
(d) From 30 million to 40 million	1% of gross turnover up to a maximum of Shs 350,000.
(e) From 40 million to 50 million	1% of gross turnover up to a maximum of Shs 450,000.

C. ALLOWABLE EXPENSES

In arriving at the income chargeable to tax, expenditure incurred wholly and exclusively in the production of that income is deductible. Expenditure, which does not meet this criteria, is disallowed. Therefore, to ascertain income chargeable to tax, a computation of assessable income needs to be prepared.

Expenses specifically allowed:

- Bad debts written off and specific provision for bad debts.
- Capital Allowances as specified in the Sixth Schedule of the Act
- Legal costs and stamp duties incurred in acquiring leases of less than 99 years for business premises and for floating shares to the public
- Start up costs incurred prior to the commencement of business are allowable only if the expenditure is of a nature normally allowable. These are deducted in four equal instalments of the amount incurred.
- Structural alterations to premises to maintain existing rental income.
- Entrance fees and subscriptions paid to a trade association.
- Special rules exist for agriculture, forestry, mining and oil industries.
- Expenditure on scientific research for the purpose of the business, including payments made to scientific research organizations.
- Housing benefit for the employees provided the benefit was taxed under pay as you earn with effect from 1st July 2001.
- Special rules exist for expatriate employees of non-resident companies.
- Interest paid on money borrowed and utilized wholly and exclusively for the purpose of business.
- Training expenses.
- Realized foreign exchange losses. The Income Tax Act 1997, requires a taxpayer to notify the Commissioner General in writing of the existence of a debt which will give rise to an exchange loss by the due date of furnishing the return or by such a later date as the Commissioner may allow.

D. TREATMENT OF LOSSES IN ASCERTAINING CHARGEABLE INCOME

- “Assessed Losses” for one year of income shall be carried forward and allowed as a deduction in determining the taxpayer’s chargeable income in the following year of income.
- “Assessed Farming Loss” may not be deducted against any other income of the taxpayer for the year of income but shall be carried forward and allowed as a deduction in determining the chargeable farming income of the taxpayer in the following year.

- “Assessed Losses” taken over from one company by another are not allowable on the acquiring company in the year of income or in subsequent years, unless the company, for the period of 2 years after the change or until the assessed loss has been exhausted;
 - Continues to carry on the same business and;
 - Does not engage in any new business or investment.
- However, losses taken over as inheritance of partnership or sole proprietor are allowable on the beneficiaries.

E. NON-ALLOWABLE EXPENSES

The criteria for ascertaining non-deductible expenditure is that any expenditure ***not wholly and exclusively*** incurred in the production of income is not allowable or if expressly disallowed under the Act.

Specific examples are as follows:

- Capital expenditure
- Expenditure of a personal nature. It is important to distinguish expenditure, which is allowable but taxed as benefits in the hands of the employees and /or directors.
- Expenditure or loss recoverable under any insurance contract or indemnity.
- Income tax or tax of a similar nature.
- Any contributions to un-registered pension or provident fund schemes.
- Premium payable under annuity contracts.
- Expenditure incurred by non-residents on certain types of income derived in Uganda. For example, a non-resident is taxed on gross rents received.
- In some cases the allowable loss can be restricted if the Commissioner considers that a business is not being carried on with a view to making profits i.e. hobby losses.

F. CAPITAL ALLOWANCES

- Industrial Building Allowance:
-

“Industrial Building” means any building which is wholly or partly used, or held ready for use, by a person in;

Manufacturing operations;
 Research and development into improved or new methods of manufacture;
 Mining operations;
 An approved hotel business;
 An approved commercial buildings.

Industrial building allowance is claimable on expenditure incurred on the construction of an industrial building (as defined by Act) and the building is used by a person during the year of income. The annual allowance calculated on a straight line method as:-

$$A \times B \times \frac{C}{D}$$

Where: A is the depreciation rate (i.e. 5%).
 B is the capital expenditure incurred in the construction of the building.
 C is the number of days the asset was used.
 D is the number of days in the year of income.

- Initial allowance
-
- This is an allowance granted to a person who places an item of eligible property into service for the first time during the year of income (i.e. first time in taxpayer's business). It is granted to manufacturing concerns and hotels and is based on cost of buildings and machinery installed therein. The Finance Act 2001 amended this section by allowing the initial allowance to be claimed by a taxpayer who acquires second hand machinery even if it had been granted initial allowance to the previous owner. The cost base is the cost price to the new investor.

Industrial building placed in service during the year (construction commenced on or after 1st July 2001) is also eligible for this allowance.

The rate of deduction is based on the location as under:

Designated Area	Rate
Entebbe/Kampala	50%
Jinja/Namanve	50%
Njeru	50%
Other areas outside those above	70%

•
Farms Works Allowance

On straight line method on structures (excluding machines) necessary for proper operation of a farm – 20%.

Horticulture business

•
 On straight line basis at 20%

- Mining Allowance

A person carrying on mining operations is allowed a deduction for any expenditure of a capital nature incurred in searching for discovering and testing or winning access to deposits of minerals in Uganda at 100%.

Wear and Tear allowance

Deductions in respect of capital expenditure on property, plant and equipment.

- (i) During any year of income any asset owned by a person and used by him for the purposes of his business shall be eligible for a wear and tear deduction.
- (ii) The deduction is calculated as the appropriate percentage of the tax written down value at the end of such year. The investment deduction is taken into consideration in determining the written down value for wear and tear and industrial building allowances.
- (iii) The rates of allowances are:

<u>Class</u>	<u>Assets Included</u>	<u>Depreciation rate</u>
Class 1	Computers and data handling equipments	40%.
Class 2	Auto-mobiles: buses and minibuses with a seating capacity of less than 30 passengers; good vehicles with a load capacity of less than 7 tones; construction and earth- moving equipment	35%
Class 3	Buses with a seating capacity of 30 or more passengers; goods vehicles designed to carry or pull loads of more than 7 tonnes; tractors; trailers and trailer-mounted containers; plant and machinery used in farming, manufacturing, or mining operations	30%
Class 4	Railroad cars, locomotives and equipments vessels, barges, tugs and similar water transportation equipments aircraft public utility, office furniture, and any depreciable asset not included in another class	20%

Restriction on Saloon Vehicles

Capital expenditure for allowances on vehicles (other than a commercial vehicle or vehicles, whose purchaser is a person whose main business is the transport of goods or persons or the hire or sale of vehicles) will qualify for wear and tear allowances up to Shs. 30,000,000 only.

Where any such vehicles are sold the sale price shall be similarly restricted as follows:-

$$\frac{\text{Specified limit}}{\text{Original cost}} \times \text{Sales proceeds} = \text{Sale proceeds for wear and tear purposes}$$

G. TAX RATES

Corporation Tax Rates

	2000	2001	2002
Resident companies	30%	30%	30%
Non-Resident companies	30%	30%	30%

- Individual Tax Rates

Unlike corporate taxpayers where a single tax rate is applicable for both Residents and non-residents, individual taxpayers are assessed using graduated scale rates. These rates have been stable over time. The income tax rates applicable to individuals are:

i) Resident Individuals (For years of income 2001, 2002 and 2003)

	2000	2001	2002
Taxable Income Ug Shs p.a	Rate of tax	Rate of tax	Rate of tax
1,560,000 and below	Nil	Nil	Nil
Exceeding 1,560,000 but not exceeding 2,820,000	10% of the amount by which chargeable income exceeds shs. 1,560,000	10% of the amount by which chargeable income exceeds shs. 1,560,000	10% of the amount by which chargeable income exceeds shs. 1,560,000
Exceeding 2,820,000 but not exceeding 4,920,000	Shs. 126,000 of the amount by which chargeable income exceeds shs. 2,820,000	Shs. 126,000 plus 20% of the amount by which chargeable income exceeds shs. 2,820,000	Shs. 126,000 plus 20% of the amount by which chargeable income exceeds shs. 2,820,000
Exceeding Shs. 4,920,000	Shs. 546,000 plus 30% of the amount by which chargeable income exceeds Shs. 4,920,000	Shs. 546,000 plus 30% of the amount by which chargeable income exceeds Shs. 4,920,000 as 2001.	Shs. 546,000 plus 30% of the amount by which chargeable income exceeds Shs. 4,920,000 as 2001.

