

# VAT GUIDE

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## I. INTRODUCTION

### 1. What is VAT?

- VAT is a tax on consumption. It is collected on business transactions and imports. Most business transactions involve supply of goods and services.
- These supplies should be made –
  - ❑ In Uganda;
  - ❑ By a taxable person;
  - ❑ In the course or furtherance of a business;
  - ❑ Are not exempted.

### 2. Who is a taxable person?

- Can be an individual, firm or company as long as such a person is registered for VAT
- A person who is not registered, but who is required to be registered is a taxable person from the beginning of the tax period immediately following the period in which the duty to apply for registration arose.

### 3. Rates of VAT

- There are two rates –
  - ❑ Standard rate – 17%
  - ❑ Zero rate – 0%

## II. REGISTRATION

### 1. Who has to be registered for VAT?

Any person conducting a **commercial enterprise or** intending to conduct a commercial enterprise may apply to be registered for VAT. However, if the taxable turnover of the enterprise, exceeds or is likely to exceed Shs. 50 million per annum or Shs. 12.5 million in three consecutive calendar months, the person conducting the enterprise must register for VAT.

- Turnover related to exempt supplies **should not** be included in the total for deciding if VAT registration is required.
- All professionals except/other than **Medical and Veterinary Practitioners** are compulsorily required to register irrespective of their annual turnover.

The term '**any person**' for purposes of VAT registration includes:-

- ❑ Sole proprietor
- ❑ Company
- ❑ Partnership
- ❑ Estate of the deceased
- ❑ Trust
  
- ❑ Unincorporated body
- ❑ Club or Association

**A Commercial Enterprise:** This refers to any business of whatever nature and it includes:-

- Ordinary business e.g. Shops, Contractors, Manufacturers, Wholesalers etc.
- Professional e.g. Builders, Engineers, Accountants, Lawyers etc.
- **Activities of non-profit making bodies** e.g. Societies, Associations and Sporting Clubs,

## 2. When liable for registration

You are obliged by law to register if you are doing any business, which is likely to have taxable turnover in three consecutive calendar months exceeding Shs. 12.5 million or Shs. 50 million per annum.

You are obliged by law to register if you are a professional i.e. Engineer, Lawyer, Economist, Architect, Publisher, Auctioneer, Estate Agent, Valuer, Accountant, Auditor, Clearing and Forwarding Agent or other professional **irrespective** of your turnover (except Medical and Veterinary Practitioners).

Remember that even if you don't have to register at present, but in future your **taxable** turnover increases to the level mentioned above you must register as required by the law.

## 3. Voluntary Registration

If your taxable turnover is below the registration threshold you may apply for **voluntary registration**. You will however, have to satisfy the Uganda Revenue Authority that your activities constitute a business for VAT purposes. Before applying you should consider whether registration will really be of benefit to you.

**Note:** Voluntary registration is at the discretion of the Commissioner General. He/She can refuse to register any person who:

- Has no fixed place of abode or business;
- Does not keep proper accounting records;
- Has no bank account;
- Has previously been registered for VAT purposes but failed to perform his duties under the VAT law;

## 4. Factors to consider in deciding whether to apply for voluntary registration or not

Ask yourself these questions:

- **Is my creditable input tax likely to exceed the tax I have to charge on my sales?**

For example if you are a trader dealing in zero-rated supplies such as drugs, medicines, educational materials or seeds, fertilizers, pesticides and provided that such VAT was incurred not earlier than 4 months prior to the date of registration in the case of general goods and 6 months in the case of capital goods.

*How to register for VAT*

Applications for compulsory as well as voluntary registration must be made on form VAT 101, “**Application for VAT Registration**”, which is obtainable from your local VAT Office. You should fill in this form and provide any extra information required and take it to your nearest VAT office by the **20<sup>th</sup> day** of the month following the month you exceed the turnover limit requiring registration.

➤ **Please note that there are penalties for a delayed application**

Once the application for registration has been made, Uganda Revenue Authority will advise you of your VAT Registration number, which will be in addition to your TIN (Tax Identification Number). A Certificate of Registration will be issued to you, which you will have to display at your main business premises.

If registration is disallowed, you will be notified and the reasons for the refusal explained.

### **5. Can one register before commencing business?**

If you are not yet making taxable supplies, but have started a business activity in which you intend to make taxable supplies e.g. building a factory, you may apply to be registered **AS AN INVESTMENT TRADER** before you start making such supplies. **(Refer to VIII for details).**

### **6. When can one start to charge VAT?**

You should start keeping VAT records and charging VAT to your customers from the date shown on your Certificate of registration. You will have to account for VAT from the date on which you were registered, which will be noted on your Certificate of Registration.

## **III. CANCELLATION OF REGISTRATION**

### **You must cancel your registration if:**

You close down or sell your business. If you have more than one business and are not closing down or selling them all, you should not cancel, depending on the level of taxable turnover of your remaining businesses.

You cease to make taxable supplies of goods or services as part of a business activity. This may be as a result of -

□ Change of legal status, for example:

- a) You are a sole proprietor and from a partnership;
- b) You dissolve a partnership and run the business as a sole proprietor;
- c) Your sole proprietorship or partnership is replaced by an incorporated company;
- d) Your company is wound up and replaced by a partnership or sole proprietorship;

- You were allowed registration as an investment trader because you intended to make taxable supplies and you no longer do so, **OR** you have been registered for 4 years and do not make any

taxable supplies. In this case you will have to repay any refunds you have received to the Uganda Revenue Authority.

- You stop making taxable supplies for any other reason, (e.g. if a VAT registered sole proprietor dies, his executors have the responsibility of canceling his registration).

In any of the above cases, you must inform your VAT office **WITHIN 14 DAYS**, of the change. An application for cancellation of registration can be obtained from any VAT office.

Failure to apply for cancellation of the VAT registration at the proper time may render you liable to a financial penalty. If you are not sure about your legal responsibility to cancel your registration, you should consult your tax consultants or the VAT office for advice.

## 1. When to apply for cancellation for registration.

You can ask for cancellation if:

- You can satisfy the Commissioner-General that for the most recent period of **3 calendar months**, the value of your taxable supplies exclusive of VAT did not exceed 12.5 million shillings **AND** the value of your taxable supplies exclusive of VAT did not exceed 50 million shillings for the previous **12 calendar months**. You may only apply for cancellation under these provisions after 2 years from the date of registration **if** you registered voluntarily [i.e. your taxable turnover at the time of registration did not exceed the registration threshold].
- You registered voluntarily, and **after two years** the value of your taxable supplies is below the limits defined above.
- Change of business to Exempt Supplies.

## 2. Disadvantages of cancellation

It depends on your type of business. The possible disadvantages you should consider are:

- You will no longer be able to reclaim the VAT paid on your standard rated purchases;
- If you make standard – rated supplies to other VAT registered taxpayers, you will be unable to issue tax invoices on which your registered customer can claim a credit for the tax you may have included in your cost. Your customer will therefore have to charge a higher price for his supplies since he cannot recover the VAT (the entire invoice amount is a cost to him). In this case he might chose to trade with another VAT registered supplier and you may possibly lose business;
- If you have stock and assets at hand on which you have received a credit for VAT, you will have to account for this VAT to the Uganda Revenue Authority before your registration is cancelled. The exception to this requirement is where you are transferring all the goods remaining in your business as part of the transfer of your business as a going concern to another VAT registered person. In these circumstances the supply of these goods is exempt.

- **Can one still use tax invoices ?**

**NO.** From the date your registration is cancelled you must not charge VAT or issue tax invoices for any supplies you make. **You must not show your cancelled registration number on invoices you issue, as it no longer exists.**

**Remember if you issue a tax invoice after your cancellation of registration you will be rendering yourself liable to a financial penalty because this is fraud.**

### **3. Can one reclaim any VAT charged after cancellation of registration?**

**NO.** After your registration is cancelled you cannot claim a refund of VAT incurred on any goods or services you purchase because you have ceased to be VAT registered.

#### **What about stock and assets at hand at the time of cancellation of my registration?**

**NO.** After your registration is cancelled you cannot claim a refund of VAT incurred on any goods in stock because you have ceased to be VAT registered.

The VAT treatment of your business stock and assets would depend on why your registration was cancelled.

- If you are closing the business, or continuing to trade below the registration limits, you must account for VAT on all stock and assets at hand at the close of business on the day your registration is cancelled.
- You should value goods on which tax is due at fair current market price in their present condition and account for the VAT on your final return, which will be issued by the VAT office.
- This means that you will have no tax liability in respect of -
- Goods bought from unregistered persons:
- Passenger automobile including spare parts unless you are in the business of dealing in or hiring such vehicles;
- Goods purchased for entertainment unless you are in the business of providing entertainment;
- Goods that have been directly attributed to an exempt business activity;
- Goods not bought for business purposes;
- Goods bought before 6 months to the date of registration whose VAT was not offset or refunded.
- Transferring stocks and assets as part of a transfer of a business as a going concern:

- ❑ To another VAT registered person, you and the person taking over the business must notify the Commissioner-General in writing the details of the transfer within 21 days from the date of the transfer.

In these circumstances you **MUST NOT CHARGE VAT** as the supply is **EXEMPT** from VAT. However, you do not have to take account of the value of this exempt supply in calculating the input tax you can reclaim.

- ❑ To someone who is not registered for VAT, you must account for VAT on them in the normal way.

**NOTE:** You must keep all the business records related to your VAT registration for a period of at least 6 years.

#### **What if I make exempt and taxable supplies?**

You must make an annual adjustment of your deductible input tax on your final return. The period of this final adjustment will be from the beginning of the financial year to the effective date of cancellation. You must include the adjustment on your final return.

#### **4. What happens after applying for cancellation?**

- The VAT office will notify you if the application is acceptable and the date from which your registration is to be cancelled.

If it is not acceptable you will have to continue to account for VAT in the normal way. If it is accepted you will be issued with a final VAT return for the period up to the date of cancellation of your registration. You must complete the return in the normal way and include any tax due on stock and assets.

Your VAT Registration Certificate must be surrendered to the VAT office with the final return within 15 days of the date of cancellation. You must pay any tax due on the return within the same 15 days period.

The VAT office will confirm a final cancellation of your registration when they are satisfied with your final return.

**REMINDER: If you start up a business whose taxable turnover exceeds the registration threshold or your existing business exceeds the limits, you need to apply for registration again.**

#### **IV. The Scope of VAT**

- Taxable supplies – this means a supply of goods (sale of goods) or services (providing services) as part of your business other than an exempt supply made by a taxable person for consideration.
- A supply is made as part of a person's business activities if the supply is made as part of, or incidental to any independent economic activity he conducts, whatever the purposes or results of that activity.

- The business activities of an individual **do not** include activities carried on by him only as part of his hobby or leisure activities.

## 1. Exempt supplies

- These are exempt supplies as specified under Schedule II of the VAT Statute. They include supply of;
  - ❑ Financial services
  - ❑ Insurance
  - ❑ Medical
  - ❑ Dental and nursing services
  - ❑ Unimproved land
  - ❑ Unprocessed agricultural products and livestock
  - ❑ Education services
  - ❑ Social welfare services
  - ❑ Petroleum fuels, motor spirit, kerosene and gas oil
  - ❑ Passenger transportation other than tours and travel operators.
  - ❑ Goods as part of the transfer of a business as a going concern by one taxable person to another taxable person.
  - ❑ Betting, lotteries and games of chance.
  - ❑ Accommodation in hotels and tourist lodges
  - ❑ Computers

## 2. Exempt import

- An import of goods is an exempt import if the goods;
  - ❑ Are exempt from customs duty under the 2<sup>nd</sup> Schedule of 1994 Fin. Statute No. 9 unless the Minister provides otherwise by regulations; or
  - ❑ Would be exempt had they been supplied in Uganda.

## 3. Zero-rated supplies

- Specified under Schedule III of the VAT statute.
- Zero rated supplies are supplies where value forms part of your taxable turnover for registration purposes.
- Supplies of zero-rated goods or services are business transactions on which VAT is chargeable at 0% (in effect no VAT is charged).
- You can claim **full input tax** (tax on purchases) credit related to your zero rated supplies.
- If you make only zero rated supplies, you should be able to claim refunds from Uganda Revenue Authority.

- Examples of zero rated supplies include;
  - a) The supply of exports of goods and services;
    - ❑ Goods are treated as exported from Uganda if the goods are delivered to or made available at an address outside Uganda as evidenced by documentary proof acceptable to the Commissioner-General.
    - ❑ Services are treated as exported if the services are supplied for use or consumption outside Uganda as evidenced by documentary proof acceptable to the Commissioner-General
  - b) The supply of international transport of goods or passengers and tickets for their transport (where transport is by road, rail, water or air).
    - ❑ From a place outside Uganda to another place outside Uganda or
    - ❑ From a place outside Uganda to a place in Uganda or
    - ❑ Form a place in Uganda to a place outside Uganda.
  - c) The supply of **Educational Materials** and printing services for Educational Materials.
  - d) The supply of **drugs** and **medicine**. This applies to both **human** and **animal drugs**.
  - e) The supply of seeds, fertilizers, pesticides and hoes.
  - f) The supply of machinery, tools and implements suitable for use only in agriculture.
  - g) The supply of milk, including treated in any way to preserve it.
  - h) Supply of cereals – where the cereals are grown, milled or produced in Uganda.

#### 4. Other taxable supplies

You should not **just** account for VAT on your day-to-day sales, there may be other taxable supplies, which you are making. Below are some examples:

- Sales to your staff (e.g. meals if you are in the business of selling food- even if supplies free of charge, or goods at reduced prices); or sales from **vending** machine.
- Sales of business assets (e.g. equipment, furniture, commercial vehicles).
- Hire or loan of goods to someone else for consideration.
- Gifts to friends or business representatives.
- Goods, which you or your family has taken from the business for own use.

- Commission received in return for selling something on behalf of someone else.
  - ❑ Remember any taxable supply, which is not **zero-rated** is standard rated.
  - Note:** The difference between **exempt** and **zero-rated** supplies.

Zero rated supplies are charged at 0% and exempt supplies are not charged to tax at all. Therefore, for exempt supplies you cannot claim input credit/refund.

## V. ACCOUNTING FOR VAT

### 1. What to credit as input tax

- Input tax is the tax you are charged by your supplier on your business purchases and expenses both in Uganda and imported.
- It includes not only the VAT on raw materials or on goods you buy for re-sale but also the VAT charged on your overheads like;
  - ❑ Office equipment / rent
  - ❑ Electricity
  - ❑ Telephone charges for business use
  - ❑ Commercial vehicles (but **not passenger** cars on which VAT cannot be re-claimed)
  - ❑ Charges for services to do with your business (such as accountancy, legal fees, etc.)
- Input tax credit arises -
  - ❑ On the date **the goods or services are supplied** to, or imported by, the taxable person; or
  - ❑ On the date the tax is paid; or
  - ❑ On the date of registration.

It does not include VAT paid on goods and services for **someone else's** business nor VAT paid on **private** purchases, such as furniture or goods for your home. VAT charged in these circumstances is not input tax for your business.

### 2. Cash basis accounting

- This applies to a taxable person, where the annual value of taxable supplies does not exceed shs. 200 m (Shs. Two hundred million).
- A taxable person to whom the above applies may elect to account for VAT purposes on cash basis.
- An election should be made in writing to the Commissioner-General by the due date for the first return in which the taxable person seeks to use this method of accounting.
- Where the taxable person makes an election, that person must account for both the output tax payable and input tax credit on a cash basis.

- A taxable person who has made an election shall determine the tax payable for a tax period according to the following formula -

$$S - T$$

Where  $S =$  is the total output tax received by the taxable person during the tax period in respect of taxable supplies made by the person.

$T =$  is the total input tax credit allowed to the taxable person and paid in the tax period under the statute.

- An election made remains in force until -
  - ❑ Withdrawn by the taxable person by notice in writing to the Commissioner-General; or
  - ❑ The Commissioner-General, by notice in writing to the taxable person, requires the person to determine the tax payable.
- A taxable person who has made an election may not withdraw the election within two years after making the election unless the person is no longer a person to whom this section applies.

### 3. Advantages and disadvantages of cash based accounting

The main **advantage** is that you do not have to account for VAT due to the Uganda Revenue Authority until your customer has paid you.

The **disadvantage** is that if you are principally making cash sales and you adopt cash accounting, you gain no advantage related to your sales while you cannot claim a VAT credit on purchases until you have paid for them. Whereas, if you remain on the basis of invoice accounting and you make cash sales your sales will not be affected but you will be able to claim input tax on receipt of an invoice from your supplier regardless of whether you have paid for your supplies or not.

### 4. Change in accounting basis

- Where a taxable person changes from one method of accounting (referred to as the invoice basis) to another method (referred to as cash basis), the tax payable is determined in accordance with the following formula  $M - N$

Where;  $M =$  is the total amount of input tax credited **in relation to** amount due by the taxable person at the time of change in the accounting basis.

$N =$  is the total amount of **output tax** accounted for in relation to amounts due to the taxable person at the time of change in accounting basis.

- Where a taxable person changes from cash basis to an invoice basis of accounting, the tax payable is determined in accordance with the formula specified in Section 1(e) of schedule IV of the VAT Statute i.e.  $O - P$

Where; **O** = the total amount of **output tax** that would have been accounted for on amounts due to taxable person at the time of change in accounting basis if the taxable person had been accounting for tax on an invoice basis.

**P** = is the total amount of **input tax** that would have been credited on amounts due by a taxable person at the time of change in accounting basis if the taxable person had been accounting for tax on an invoice basis.

## 5. Does one still have to account for VAT if no money is paid?

- You must account for VAT on any gift of goods or services from the business based on the fair market value of the goods or services at the time the supply is made.
- Similarly you must account for VAT on the full value of anything you supply if you receive goods or services in return (e.g. in a barter situation).
- If you do not charge VAT where you should, you will still have to account for output tax. Whatever price you charge to your customer, is treated as inclusive of VAT.

## 6. Where one makes both taxable and exempt supplies

If you make exempt supplies, together with taxable supplies you may not be able to claim a credit for all your input tax. However, where the value of your taxable supplies **exclusive** of the VAT **exceeds 95%** of the total value of all your supplies, in any tax period you can continue to claim credit for all your input tax.

Where the value of your exempt supplies exceeds 5% of the value of your total supplies, the procedure of calculating input tax is as below:

- **Firstly**, if the value of **your exempt sales exceeds 95%** of the value of your total sales exclusive of VAT in any period, you **cannot** claim a credit for any **input tax** because you are deemed to be making exempt supplies.
- If this is not the case you calculate the amount of input tax you can claim using the following formula;  $A \times \frac{B}{C}$

Where; **A** = is the total amount of **input tax** for the tax period

**B** = is the total value of **taxable** supplies for the tax period, (including zero-rated supplies) but **excluding any VAT**.

**C** = is the total value of **all** supplies made during the tax

period including all exempt supplies, (except any exempt supplies resulting from the transfer of a taxable business) but **excluding** any VAT.

- The result of this calculation is the amount of input tax you can claim in your **VAT return**.

**NOTE: If you import goods you must apply the above calculation separately to the VAT you have paid on both local purchases and imports.**

- The above is the normal method for calculating creditable input tax if you make both taxable and exempt supplies.
- There is an alternative method, which you may adopt **only** through a written application to the Commissioner-General. This method requires you to keep 3 separate purchase records;
  - ❑ One record is of purchases of taxable goods and services, which are for taxable sales.
  - ❑ One record is of purchases of taxable goods and services, which are for exempt sales.
  - ❑ One record is for purchases of taxable goods and services where the purchases cannot be attributed to either taxable or exempt sales as in the case of overheads, general business expenses, etc.

**With this method:-**

- **All** the input tax you have been charged under (a) can be claimed as creditable input tax.
- **None** of the input tax you have been charged under (b) can be claimed as creditable input tax.
- **The** calculation described in the normal method above is applied to tax you have been charged under (c).

**The above method is known as the standard alternative method of calculating creditable input tax, and it should be considered carefully whether it will be to your benefit.**

Finally with both methods you are required at the end of the calendar year to perform the same calculation based on your:-

- **Total value of input tax for the year**
- **Total value of taxable supplies for the year (excluding VAT).**

**The result of this calculation is the total input tax credit, which you are entitled to claim for the year.**

You need to total the monthly **input** credits you have claimed in each tax period in the year. If you have claimed a credit for a sum larger than the annual figure calculated, the excess amount has to be paid to the Uganda Revenue Authority by adding this sum to the amount due in Box 13 of your January VAT Return. If on the other hand you have claimed a credit for a sum less

than the annual calculation, you are entitled to claim a credit for the balance underclaimed in Box 6 of your January VAT return.

This calculation is known as your annual adjustment and must be carried out by any registered person who makes an entry in Box 10 of the VAT return in any tax period during the year.

## 7. Requirements for claiming a credit for input tax

- You must have an original Tax Invoice, or a simplified tax invoice, or a Certified Customs Bill of entry to substantiate a claim for input tax credit.
- Without these documents you will not be in position to claim a credit.

## 8. How to claim input tax credit

- You should complete your VAT return each month. The amounts you enter in Box 6 or Box 8 is your claim for credit. If the total in Box 9 exceeds the amount in Box 13 of the return, the Uganda Revenue Authority will refund the balance to you.

## 9. Restriction on claiming tax charged

- The purchases on which you **cannot** claim a credit for your input tax are:
  - ❑ Passenger automobiles except where your business is dealing in hiring automobiles.
  - ❑ The repair and maintenance of passenger automobiles.
  - ❑ Entertainment

“Passenger automobiles” are defined as road vehicles designed solely for the transport of sitting persons.

“Entertainment” is defined as the provision of goods, beverages, tobacco, accommodation, amusement, recreation, or hospitality of any kind.

The tax you are charged on these purchases **cannot** be reclaimed and is **not** your **input tax**, unless you are in the business of dealing in or hiring passenger automobiles or providing entertainment or providing meals and refreshments for one’s employees.

## VI. VAT accounts and record

- The VAT regulations require a VAT registered person to display his VAT registration certificate at his principal place of business.
- All VAT registered persons are required to keep the following:

### 1. A VAT account

This is the information, which is entered on your VAT return. The information can be retained in an account book, or on a computer, but many people prefer to retain a copy of each VAT return and maintain these copies in a file as a permanent record.

## 2. Purchases record

This should be divided into three separate accounts:

- Local purchases, and the VAT thereon;
- Imports and the VAT thereon;
- All other purchases, including **exempt, zero-rated** purchases and purchases from suppliers who are not registered for VAT – where you will **not have been charged** any VAT.
- You should also retain and file separately the following in order of date;
  - ❑ Original tax invoices including simplified invoices, received from your local suppliers, and original debit and credit notes received from your suppliers.
  - ❑ Certified copies of Customs Bills of Entry.
  - ❑ Purchase invoices received for all other purchases.

**Remember if you are unable to produce an original tax invoice or a certified customs Bill of Entry, the Uganda Revenue Authority will disallow your claim for credit of input tax.**

## 3. Sales Records

This should be divided into three separate accounts;

- ❑ Taxable sales at the standard rate and the VAT thereon, or VAT charged therefrom;
- ❑ Taxable sales at the zero-rate.
- ❑ Exempt sales.
- **You must also retain and separately file the following in order of date:-**
  - ❑ Copies of tax invoices, including simplified invoices related to your taxable sales, and copies of any debit or credit notes issued to your customers. If you use cash accounting or a small trader scheme you must keep a daily record of your gross takings at the standard rate.
  - ❑ Copies of invoices of exempt goods sold or a daily record of the value of your exempt sales if you use cash accounting or a small trader scheme.

## 4. Debit and Credit Notes

Copies of Debit and Credit Notes issued should be separately filed from Debit and Credit Notes received. They should all be filed in order of date.

**If you export** – Then you must retain the following:

- A certified copy of the Customs Export entry.
- A purchase order form or contract with the foreign customer
- A copy of the invoice issued to the foreign customer.
- Evidence of transportation from Uganda in the form of copies of transit documents, such as airway bills, shipping bills or road or rail transit documents.

## 5. Cash Records

All records of your cash transactions must be retained including cashbooks, petty cash vouchers, all account books, records of daily takings including till rolls, copy receipts, or daily takings records.

## 6. Stock and Manufacturing Records

These records must be maintained where applicable.

## 7. If you use a computer in your business

You must retain your computer records to tally with the manual records.

## 8. If you are registered and make exempt sales

In these circumstances you must retain records of all your calculations to credit **input tax**.

### Note:

**If you make a claim for VAT you paid on purchases you made (opening stock) before your registration for VAT, make sure you have the documents and records related to your claim.**

## 9. Additional records

**VAT Registered persons whose taxable turnover exceeds shs. 200 Million per annum must retain the following in addition:**

- Orders and delivery notes
- All business correspondence.
- Appointment and job books.
- Annual accounts – including trading accounts, profit and loss accounts and balance sheet.
- Bank statements and paying in records.

### Tax Invoices

- ❑ A taxable person making a taxable supply to any person shall provide that person, at the time of supply with an original tax invoice for supply.
- ❑ A taxable person shall retain one copy of the tax invoice.
- ❑ Where a supplied person loses the original tax invoice the supplier may provide a duplicate copy clearly marked “**copy**”.

### REMEMBER

- **The law requires that all the specified accounts and records be retained for at least 6 years and made available to authorised officers of the Uganda Revenue Authority on official duty.**

**There are severe penalties for failing to maintain the specified records.**

## **VII. THE VALUATION OF SUPPLIES**

### **1. Supply of goods**

- Except as otherwise provided in the statute, a supply of goods means any arrangement under which the owner of the goods parts or will part with possession of the goods, including an agreement of sale and purchase.
- A supply of electrical or thermal energy, heating gas, refrigeration, air conditioning or water is a supply of goods.
- The application of goods to own use is a supply of goods.

### **2. Supply of services**

- Means any supply which is not a supply of goods or money including:
  - ❑ The performance of services for another person, or
  - ❑ The making available of any facility or advantage; or
  - ❑ The toleration of any situation or the refraining from the doing of any activity.
- A supply of services made by an Employee by reason of employment is not a supply made by the employee.

## **VIII. Investment trader**

### **1. Who is an Investment Trader under VAT**

An Investment Trader for the purposes of VAT is a trader who has been approved or certified by the UGANDA INVESTMENT AUTHORITY as an investor in Uganda. The investor has to fulfill the conditions prescribed by the Authority in order to receive certain tax advantages.

### **2. What has this to do with VAT?**

If you are starting a business in Uganda you may incur significant business expenses before you commence trade. These expenses will generally be liable to VAT, which you will have to pay. So you will need to register for VAT.

The VAT Regulations make provisions for you to apply for VAT registration prior to making taxable supplies so that you can claim a refund of the VAT you have been charged. This is to ensure that VAT is not a burden in setting up your business.

#### **Action to be taken:**

You must obtain an application for VAT Registration (Form VAT 101) from your local VAT office and an Application for VAT Registration as an Investment Trader (Form VAT 104). Complete both forms and return them to the VAT office.

### Conditions to be satisfied

- You must be able to produce evidence from the Uganda Investment Authority in form of a license certificate or letter of approval.
- You must satisfy the Commissioner General that your investment business will eventually make taxable supplies and that significant VAT expenses will be incurred. **An investment licence, which will only make exempt supplies, will not be registered.**

The evidence required to satisfy the Commissioner General can be in the form of business plan, a feasibility study, proposed contracts or a patent application, together with details of capital assets and stock purchases.

- You must undertake to keep the prescribed books and records required in the VAT Statute and file VAT returns by the due date.
- You must understand that you can only remain registered as an investment trader for a maximum period of **four** years and give an undertaking to repay all refunds of VAT received within this period if you fail to make taxable supplies.
- The Commissioner-General of the Uganda Revenue Authority may require you to provide security for repayment of the tax refunded should you not make taxable suppliers within the two-year period from the date of registration as an Investment Trader.

### 3. Ceasing to be an investment trader

As soon as you make taxable supplies and declare them on your VAT return you will cease to be an investment trader. Your VAT office will notify you that you have met the conditions of your investment trader registration and that you are now registered as a normal VAT payer.

If after two years you have not made any taxable supplies, you will receive a notice cancelling your registration, and an assessment for repayment of the total amount of the refunds you have received. You will have 15 days to make the payment to the Uganda Revenue Authority.

## IX. Agent and Principal situation

### 1. Registration of an agent

The same rules for registration apply to an agent, but in considering the Shs. 50 million taxable turnover level, he has only to consider his gross income of the agency business, **not the income collected as a disbursement on behalf of his principals.**

### 2. How are agents affected by VAT?

The VAT Statute prescribes that – ‘a supply of goods or services made by a person as agent for another person being the principal is a supply by the principal’. This means that where an agency agreement exists between an agent and his principal, the agent should act on behalf of his principal and issue and receive tax documents on his behalf if the principal is registered for

VAT. It should be understood that in acting as an agent the monies handled by the agent for the principal are disbursements, that is monies passed to the principal. The only VAT supplies by the agent are the supplies made to the principal which will be paid in the form of a commission, discount, or direct payment from the principal, if the agent is registered for VAT.

### 3. Issue of invoices in a VAT system

#### By a Principal

Only a VAT registered principal can issue tax invoices and tax invoices should also be issued to a non-VAT registered customer. If the principal is VAT registered he must charge VAT on all his taxable supplies.

Tax invoices and commercial invoices issued by principals can be prepared by the principal and passed to the agent for issue. Alternatively the principal can authorize the agent to issue tax invoices on his behalf. This authorization must be in writing and must be held by the agent as authority for issuing the invoices on behalf of the principal. In these circumstances the authorization commits the principal to meet the VAT obligations resulting from the agent's actions.

#### By an Agent

Again only a VAT registered agent can issue tax invoices, and tax invoices should also be issued to a non-VAT registered customers.

If the agent receives payment by discounting the sums he collected on behalf of a principal, he must issue the principal with a VAT invoice and charge VAT if both are registered. If the agent is registered and the principal is not he must still issue a tax invoice and charge VAT.

### 4. How to calculate the value for tax

#### By a Principal

Where the principal is registered for VAT and the supply is liable to VAT, **the value of taxable supplies for output tax is the gross amount charged to the customer** excluding VAT. Deductions cannot be made to the value for agents charges, commissions or discounts or for any other expenses in connection with the supply for example charges for electricity, property maintenance, water, ground rent, etc, regardless of whether those charges are liable to VAT. These charges are expenses to the business of the principal.

#### By an Agent

Where the agent is registered for VAT and the supply of services (or goods) made by the agent is liable to VAT the base for tax is the gross charge made by the agent for the supply of his own services (or goods). The income of the agent can be in the form of a commission, discount on monies collected for the principal or any other form of payment from the principal. The agent if registered should issue a tax invoice to the principal. VAT has to be charged on the gross value base of the monies received by the agent for his services.

## 5. Claiming for credit or input tax

### By a Principal

If the principal is registered then any VAT charges he pays for his business activities can be claimed as a credit on the VAT return provided he holds a VAT invoice or a certified Customs Bill of Entry document. The principal can claim this credit even if the payment is made by the agent from receipts collected, provided the tax invoice is prepared for the principal, or the principal can claim this credit even if the payment is made by the agent from receipts collected, provided the tax invoice is prepared for the principal, or the principal is shown as the importer on the customs entry. If the agent acting for the principal is VAT registered, the VAT charged by the agent to the principal can be claimed as a credit as well.

### By an Agent

If the agent is registered for VAT, then any VAT charges he pays directly for his agency business activities on which VAT is charged can be claimed as a credit on the VAT return provided he holds a VAT invoice or a certified customs Bill of Entry. Charges paid on behalf of the principal where the tax invoice is prepared for the principal or the principal is shown as the importer on the customs entry **CANNOT be claimed as a credit by the agent**. If the agent, as part of the agency agreement, is charged for goods or services resulting from the agreement he can claim a VAT credit if the VAT invoice shows him as the purchaser. The agent should then charge the principal for these supplies and add VAT to the charge in the normal way.

## 6. What happens when a tenant does not pay the rent due?

If the supply is liable to VAT, then VAT is due on the dates the rent is due in the tenancy agreement regardless of whether the tenant makes a payment, provided the principal is registered for VAT.

The only exception is where the taxable turnover of the VAT registered principal does not exceed Shs. 200 million. The principal can then apply to the Commissioner General to account for VAT on cash basis.

NB: Although the agent is responsible for remitting taxes on behalf of the principal the latter shall remain accountable for any taxes remitted by the former.

## 7. Illustration

### Principal and Agent situation

Queen Elizabeth Lodge (regd vat) - supplies safari

Delmira (regd vat) - acts as travel agent

John Mukasa (not VAT regd.) - buys safari

Charge for safari 10,000/-

+ VAT 17% 1,700/-

**11,700/-**

John Mukasa pays Shs. 11,700 to Delmira (which Delmira collects for Queen Elizabeth Lodge).

Queen Elizabeth Lodge pay Delmira 10% commission for the agency service.

### **VAT situation**

John Mukasa pays Shs. 1,700 VAT.

Delmira collects on behalf of Queen Elizabeth

### **Output tax to Queen Elizabeth Lodge**

Delmira deduct 10% from VAT exclusive price = Shs. 1,000.

➤ Issue Queen Elizabeth Lodge with tax invoice of Shs. 1,000 + Shs. 170 VAT.

**Shs. 170 VAT**

- output tax to Delmira
- input tax to Queen Elizabeth Lodge.

### **Cashflows**

John Mukasa (consumer) pays		11,700 shs inc. 1,700 vat
Delmira collects		11,700 shs.
Passes to Queen Elizabeth		10,530 shs
Delmira accounts Output to URA		170 shs
Queen Elizabeth Lodge accounts for output tax		1,700 shs
(Collected by Delmira as agent for Queen Elizabeth)		
Deducts as input tax VAT charged by Delmira		170 shs
To URA		1,530 shs
Output tax	<u>1,700</u> shs	paid by John Mukasa
	170 shs	to URA by Delmira
	<u>1,530</u> shs	to URA by Queen Elizabeth Lodge
	1,700 shs	

## **X. Filling of returns**

### **1. Check list**

**Box 1:** Fill in your TIN and VAT REGISTRATION NUMBER from your

Certificate of Registration.

**Box 2:** Complete the dates as appropriate.

**Box 3:** Make sure the name and address entered are the same as those on the Certificate of Registration.

**Box 4:** Remember to include the value of all purchases on which a VAT credit cannot be claimed. This should include:-

- Zero-rated purchases.
- Purchases exempt from VAT.
- Purchases from a person not registered for VAT or for which you do not possess an original Tax Invoice.
- Purchases of a passenger automobile and the repair and maintenance cost thereof.
- Purchases of entertainment.
- Imports for which you have not paid VAT or do not possess a certified Customs Bill of Entry.
- Purchases related to exempt sales.

**Box 5:** Enter the value of all goods and services you have locally purchased on which you have been charged VAT.

**Box 6:** Enter the amount of VAT, which you are claiming as INPUT TAX. If you have made no **EXEMPT** supplies and the entry in BOX 10 is nil you should enter all the VAT you have been charged in your business in the month EXCEPT VAT on the exempt supplies. This should also include VAT you have self-assessed on any imported services.

If you have declared a value for **EXEMPT** supplies in BOX 10 you will have to calculate the amount of input tax you can claim in BOX 6.

**Box 7:** Enter the value of all your imports during the month, on which you have paid VAT and for which you hold a certified Customs Bill of Entry. **Only** the Customs entry value (CIF) should be included, not the VAT.

**Box 8:** Enter the amount of VAT paid at importation, which you are claiming as INPUT Tax. If you have made no **EXEMPT SUPPLIES SUCH THAT THE ENTRY IN Box 10 is nil**, you should enter all the VAT you have paid on your imports in the month.

**If you** have declared a value for **EXEMPT** supplies in BOX 10 you will have to calculate the amount of input tax you can claim in BOX 8.

**Box 9:** Enter the total of boxes 6 and 8. This is your total INPUT TAX for the month.

**Box 10:** Enter the total value of all **EXEMPT** supplies made during the month.

**Box 11:** Enter the total value of all goods and services that you have supplied during the month at the zero-rate.

**Box 12:** Enter the value of goods and services that you have supplied during the month at the standard rate of tax. Do not include the **VAT, or the value of Zero-Rate sales which should be entered in BOX 11.**

If the value of your sales is inclusive of VAT you must separate the VAT by the use of the VAT fraction. The tax element must be included in **BOX 13.** You should also include the value of any imported services you have received on which you have self assessed the VAT due.

**Box 13:** Enter the total amount of VAT on your taxable supplies at the standard rate during the month. Make sure you include all the VAT due on your sales and, the VAT you have self assessed on imported services and the tax due on goods you have taken from the business for your own use including gifts. This is your **OUTPUT TAX.**

**Box 14:** Should be completed if your **OUTPUT TAX** exceeds the **INPUT TAX**, if not insert Nil. Otherwise deduct the amount in Box 9 from the amount in Box 13 i.e  $\text{Box 13} - \text{Box 9} = \text{Box 14}$  to get the VAT which should be remitted to URA.

**Box 15:** **Must be completed if your INPUT TAX** exceeds your **OUTPUT TAX**, if not insert NIL. Otherwise deduct the amount in Box 13 from the amount in Box 9 to get the VAT refund that should be claimed from URA i.e  $\text{Box 9} - \text{Box 13} = \text{Box 15}$ .

**Box 16:** Must be completed if you had previously submitted a return and in the last return you submitted you had a VAT claim – **INPUT TAX EXCEEDED OUTPUT TAX.** Enter or bring forward the amount of VAT in Box 15 of last month's return into Box 16 of the return you are now due to submit.

Otherwise insert NIL if you had no VAT claim in last month's return.

**Box 17:** Must be completed if in the return you are now due to submit you have a VAT payment to make (**OUTPUT TAX EXCEEDS INPUT TAX**) and the payment you are to make exceeds the VAT claim or VAT offset brought forward from last month's return. Deduct the **VAT** amount in Box 16 from the VAT amount in Box 14 to get the VAT you are to pay i.e.  $\text{Box 14} - \text{Box 16} = \text{Box 17}$ .

**Box 18:** Must be completed if:-

- You have a VAT claim or VAT offset brought forward from last month's return and in the return you are now due to submit you also have a VAT claim. Add the VAT amount in Box 15 and VAT amount in Box 16 to get the outstanding VAT claim i.e  $\text{Box 15} + \text{Box 16} = \text{Box 18}$ .
- **OR** you have a VAT claim or VAT offset brought forward from last month's return but you have a payment to make in the return you are now due to submit which is less than the VAT claim or VAT offset brought forward.

**Deduct** the VAT amount in Box 14 from the VAT amount in Box 16 to get the outstanding VAT claim i.e  $\text{Box 16} - \text{Box 14} = \text{Box 18}$ .

**Box 19:** Otherwise insert NIL if you have no outstanding claim. Indicate by a tick your option in what form you would like your VAT claim either as an offset or a refund in cash.

**NOTE:** You can only opt for a cash refund if your VAT claim is 5 million shillings and above.

**If you are an investment trader or you are making zero rated supplies, you can opt for a cash refund if your VAT claim is below 5 million shillings.**

**Box 20:** Enter the name of the person who has prepared the VAT Return. This same person must endorse this return with his/her signature and the date of signing the return. Please note that this box **must** be completed. The VAT return is a legal declaration and so care has to be exercised.

### **Finally**

- Check that every box is completed/filled.
- Ensure you have signed and dated the return.
- If you make a mistake cross the figure out, sign it with your initials and insert the correct figure.
- If anything on the return requires an explanation, write a separate letter and send it to the VAT office with the return.

### **Remember**

To visit the VAT office and collect bank payment advice form where tax is due, so that the tax can be paid at the authorized bank and the VAT return filed at the VAT office by the 15<sup>th</sup> day of the month following the month for which the return has been completed.

## **2. Penalties**

**You will be penalized on top of incurring interest, for failing to submit the VAT returns (even if it is a nil return) on time i.e by the 15<sup>th</sup> day of the following month. Failure to pay the due tax at the bank by the same due date will similarly attract penalty and interest. Also note that where false declarations are made, the penalties are very severe.**

## **XI. Simplified example of calculating VAT**

### **Assumption**

- A1. A trader takes delivery of goods after all taxes from customs or local supplier.
- A2. The goods including taxes and VAT are worth Shs. 100,000/-.
- A3. The trader adds a mark-up (profit) to cover all expenses, profits and VAT of 17% to arrive at the selling price.
- A4. It is assumed that BUSINESS INPUTS such as telephone, water, electricity and consumables are included in the mark-up in A3 above.

- A5. The VAT rate is 17%.
- B1. The total value of the goods (in general) if inclusive of VAT has three elements, namely:
- The cost element before VAT which is 90%;
  - Value added of say 10%;
  - The VAT element of 17%.
- B2. The total value is made up of COST plus Value Added plus VAT which is  $(90\% + 10\% + 17\%) = 117\%$ .
- B3. In order to identify the VAT element in the total value, the VAT fraction is used. This VAT fraction is as follows:
- The VAT RATE divided by COST plus Value Added plus VAT RATE which is:
    - ☐  $\frac{17\%}{(90\% + 10\% + 17\%)}$  or  $\frac{17}{117}$

**C. Using the example in (a) to calculate VAT:**

- C1. The objective is to get the net VAT payable to URA or refundable to the trader by URA.
- C2. The net VAT payable is the difference between the VAT calculated on SALES, and that on PURCHASES.
- C3. If the VAT on SALES is greater than the VAT on PURCHASES, then the TRADER pays Uganda Revenue Authority the VAT on sales in excess of the VAT on purchases.
- C4. If the VAT on SALES is less than the VAT on PURCHASES, then URA refunds or grants an offset to the trader equal to the excess of VAT on purchases over VAT on sales.
- C5. If the trader buys goods at Shs. 100,000/- inclusive of VAT, with a 10% mark-up the selling price becomes Shs. 110,000/-.
- C6. The VAT on SALES and that PAYABLE to Uganda Revenue Authority can be computed as follows:

	<b>Total Value With VAT</b>	<b>VAT Fraction</b>	<b>VAT Calculated</b>
	<b>Shs.</b>		<b>Shs.</b>
Selling Price	110,000/-	17/117	15,983/-

Purchase Cost	100,000/-	17/117	14,530/-
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**VAT payable to URA**

C7. Checking the computation in C6

	Value Without VAT (Shs)	VAT Rate	VAT (Shs)	VAT Burden %	Value with VAT (Shs)
Purchase cost	85,470	17%	14,530	91%	100,000
Value Added (10%)	8,547	17%	1,453	9%	10,000

Selling Price

**Purchase Cost**

<b>Plus Value Added</b>	94,017	17%	15,983	100%	110,000
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C8. Because the TRADER paid Shs. 14,530/- in the purchases, and this was received by Uganda Revenue authority from the supplier, the VAT he collects and passes on to URA is only that on Value Added, that is Shs. 1,453/-.

Total collected at the two levels of the trader's supplier and his own sales from value added totals Shs. 15,983/-.

Value added is the input of a trader in terms of labour, packaging, display, transport, etc, incurred to bring the goods to a new sellable state. It is therefore, the sum total of mark up plus overheads plus value of the work on the new products.

D. In the above example, the TRADER recovers the VAT paid at purchase of Shs. 14,530/-, and VAT charged on his value added (Shs. 1,453/-) from the Customer. The Customer pays the total Shs. 15,983/- = (14,530/- + 1,453/-) over and above the principle sum.

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