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Tax watch

Tax Amendment Acts – 2015

This newsletter summarises the amendments to the tax laws outlined in the Amendment Acts for FY15/16. The changes take effect from 1 July 2015.

Changes to the tax laws of Uganda

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The Income Tax (Amendment) Act 2015

The Act amends the Income Tax Act, Cap 340 ("ITA") with various changes that will come into force on 1 July 2015

National Medical Stores as an exempt organisation

The Act amends the Income Tax Act to define an "exempt organisation" to include National Medical Stores.

This change is intended to exempt National Medical Stores from income tax in line with the amendment to the VAT Act which zero rates the supply of handling services provided by the National Medical Stores in respect of medicines and other medical supplies funded by donors.

Small business taxpayers

The ITA is amended to increase the threshold for presumptive tax from UShs 50 million to 150 million, while at the same time halving the base tax rate from 3% to 1.5%.

This means that SME taxpayers with annual turnover between UShs 50 and 150 million may calculate their annual income tax liability based on a flat rate of 1.5% applied to their gross turnover.

The tax amount may be a lesser lump sum according to where the turnover falls within the four prescribed tax brackets for individual tax rates.

Taxpayers with a gross turnover of less than UShs 50 million are required to pay a specific tax (ranging from UShs 100,000 to 500,000) depending on the nature of the business and the location.

This measure will make it easier for a broader number of small businesses to comply with their income tax obligations (without the need to account for expenses).

Deductions linked to TIN

A new measure denies a deduction for any expenditure above UShs 5 million in one transaction on goods and services where the supplier does not have a taxpayer identification number (TIN).

The aim of this amendment is to encourage small businesses to obtain a TIN and thereby broaden the tax base.

The provision does not distinguish between resident and non-resident suppliers. There are no specific compliance requirements outlined, but presumably it is necessary for affected taxpayers to retain evidence of the TINs of all their suppliers.

Roll-over relief

The Act amends section 77(3) of the ITA to define the types of reorganisation that are entitled to roll-over relief for capital gains purposes.

Section 77(3) of the ITA provides for tax neutral treatment where a company or group of resident companies is reorganised without any significant change in the underlying ownership or control of the company or group. Previously, what constituted a "reorganisation" was not defined.

Eligible reorganisations now mean the following:

a. A transfer of assets to a related company following which the stock of the transferee is distributed;
b. A transaction in which persons are allotted shares or debentures of a company in close proportion to their holdings of shares in the company, and any case where there is more than one class of shares and the rights attached to any class are altered;
c. A merger or amalgamation where all or substantially all the assets and liabilities of one or more companies are transferred to a single transferee company and the transferor companies cease to exist by operation of law;
d. Where two or more companies transfer their assets and liabilities to a single newly established company;
e. A corporate division where all or substantially all the assets of one company are transferred in exchange for shares in two or more newly established or pre-existing companies, except where the assets are already in the hands of a subsidiary.

The mere sale of shares from one person to another does not constitute a reorganisation.

Definition of a branch

The definition of a branch is extended to include:

> *"the furnishing of services, including consultancy services, through employees or other personnel engaged by the person for such purpose, but only if activities of that nature continue for the same or a connected project for a period or periods aggregating more than ninety days in any twelve month period."*

Previously, the 90 day test only applied to the use or installation of substantial equipment or machinery, or construction, assembly or installation projects. The amendment affects non-resident persons providing short-term services in Uganda and in particular those from countries where there is no applicable double taxation agreement.

The amendment requires non-resident persons providing services in Uganda to register for taxes in Uganda and pay corporation tax at 30% plus branch repatriation tax whereas prior to the amendment, they were only required to account for withholding tax at the rate of 15%.

Definition of immovable property

The Act defines immovable property to include a mining right, petroleum right, mining information, or petroleum information.

Prior to this amendment, there was no definition of immovable property in the ITA.

This will have an impact when determining whether income in relation to petroleum and mining operations is sourced in Uganda (see below).

However, the amendment does not define immovable property for non -petroleum and mining operations

Income sourced in Uganda

The Act amends the source rules in section 79 of the ITA.

Income is derived from sources in Uganda to the extent to which it is:

i. Derived by a resident person in carrying on a business except to the extent that it is attributable to a business carried on by the person through a branch outside Uganda;
ii. Derived by a non-resident person in carrying on a business through a branch in Uganda.

This clarifies that income of a foreign branch of a resident will be regarded as foreign-sourced.

Under the amendment to section 79(c), employment income or a fee for the provision of services is sourced in Uganda to the extent to which it is

i. Derived from employment or services exercised or rendered in Uganda;
ii. Paid by a resident person, other than as an expenditure of a business carried on by a person outside Uganda through a branch; or
iii. Paid by a non-resident person as an expenditure of a business carried on by a person through a branch in Uganda;

Items (ii) and (iii) are a significant extension of the source rules, and essentially mean that any payment for services by a resident person or local branch are regarded as income sourced (and thereby taxable) in Uganda.

This largely renders item (i) obsolete and contrary to the international norm that generally regards services as sourced where they are performed. It is not clear why a service provider based and performing a technical or professional service in, say, Kenya should be liable to tax in Uganda merely because he has a Ugandan customer.

Thin capitalisation

The Act increases the debt to equity ratio for thin capitalisation purposes to 1.5:1 (from the current 1:1). This follows last year's amendment which reduced the ratio from the prior 2:1, so this now seems to have settled at a mid-point.

Thin capitalisation rules apply to foreign controlled resident companies (resident companies in which fifty per cent or more of the underlying ownership or control is held by a non-resident person either alone or together with an associate or associates).

Therefore, the portion of the interest paid by a foreign controlled resident to its foreign controller in excess of the debt to equity ratio of 1.5:1 is not allowed to the foreign controlled resident company as a deduction.

Previously, the restriction only applied in general to loans from a foreign related party (i.e. the foreign controller or an associate).

The Act also extends the restriction to apply to all interest-bearing debt of a foreign-controlled resident company (i.e. regardless of whether the debt is from a related or unrelated party, or from a foreign or domestic source).

The Act also introduces a safe harbour exclusion for the "arm's length debt amount". The arm's length debt amount means the amount of debt that an unrelated financial institution would be prepared to lend to the company having regard to all its circumstances. Interest on such debt is fully deductible regardless of the debt to equity ratio.

Debt and equity are generally defined according to IFRS. Debt means a "debt obligation" which is defined to exclude interest-free debt and accounts payable. Equity includes interest-free debt obligations (although as debt obligations exclude interest-free debt the circular reference makes the result unclear).

The Act further applies the thin capitalisation restriction to branches of non-resident companies.

For this purpose the branch is deemed to be a foreign- controlled resident company with the debt to equity ratio computed by reference to-

i. The debt obligations of the non-resident company attributable to the branch; and
ii. The equity of the non-resident company attributable to the operations of the company conducted through the branch

However, the Act does not give guidance on how to determine the debt obligations and equity of the non-resident company attributable to the branch. This is likely to be difficult to apply in practice.

Removal of WHT exemptions

The Act amends section 119(5) of the ITA to remove the current exemptions from 6% withholding tax for:

a. Petroleum products;
b. Plant and machinery;
c. Human or animal drugs;
d. Scholastic materials; and
e. Raw materials.

This affects both imports and local supplies.

The exemptions for exempt organisations and taxpayers on the WHT exemption list remain.

The imposition of the 6% tax on imports of plant and machinery and raw materials is an additional tax burden on the manufacturing sector.

New tax on transport operators

The ITA requires a taxpayer who is providing a passenger transport service or a freight transport service using vehicles with a load capacity of more than two tonnes to obtain a tax clearance certificate (TCC) from the URA.

The Act introduces a new requirement for such taxpayers to pay an "advance tax" before renewal of their operational license. The rates are set out in a new Part III of the Second Schedule as follows:

a. For goods vehicles: fifty thousand shillings per ton per year;
b. For passenger service vehicles: twenty thousand shillings per passenger per year.

The Act does not give clear guidance on how the URA will enforce the advance tax.

Although it is described as an advance tax, it does not appear that the tax is creditable against the taxpayer's final income tax liability.

Requirement for TIN

The Act makes it mandatory for every local authority, government institution or regulatory body to require a TIN from any person applying for a licence or any form of authorisation necessary for conducting business in Uganda.

The rationale for this provision is to ensure mass registration for tax purposes. A TIN is already a prerequisite for acquiring or renewing licences with some local authorities (e.g. KCCA).

Global Fund added as a listed institution

The Global Fund for AIDS, Malaria and Tuberculosis has been included as a listed organisation in the First Schedule to the ITA. This means that the entity's income is exempt from income tax.

Withholding tax on re-insurance premiums

The rate of withholding tax on reinsurance premiums has been reduced from 15% to 10%.

This reduction was strongly lobbied for following the introduction of the withholding tax in July 2014, given that the original rate was above international norms. The Bill had a rate of 5%, but the Act has passed 10%.

Petroleum and Mining

The Act makes significant changes to Part IXA of the ITA which contains special provisions for the taxation of petroleum operations (per sections 89A to 89QD). As a consequence the Eighth Schedule to the ITA is repealed.

Part IXA is also expanded to provide special rules for mining operations, as set out in new sections 89B to 89F. There is a resultant repeal of section 36 of the ITA dealing with the deduction of mineral exploration expenditures.

These changes will be discussed in another Newsletter.

The Value Added Tax (Amendment) Act 2015

The Act amends the VAT Act, Cap 349 with a number of changes that will come into force on 1 July 2015 and 1 January 2015

Increase of registration threshold

The Act increases the annual turnover threshold for VAT registration from UShs 50 million to UShs 150 million.

This means that a broader range of small businesses are excluded from the requirement to register for VAT. The threshold is the same as that proposed to be applied for presumptive tax purposes (see above), so the combined measures should ease the tax compliance burden for affected SME taxpayers.

A taxpayer below the threshold is still entitled to apply for (or retain) VAT registration. A registered taxpayer falling below the new threshold may apply for their registration to be cancelled.

Exemption for light bulbs

The Act removes the import VAT exemption for compact fluorescent bulbs with a power connecting cap at the end (such bulbs being otherwise exempt from import taxes under the Fifth Schedule of the EAC Customs Management Act 2004).

Threshold for cash basis accounting

The Act increases the threshold for the use of cash basis accounting from UShs 200 million to 500 million.

This means that a taxpayer whose annual value of taxable supplies is not more than UShs 500 million may elect to account for VAT purposes on cash basis (i.e. when supplies are paid for or cash is received).

This is in recognition of the fact that businesses with a turnover of less than UShs 500 million transact mostly in cash.

Otherwise the normal time of supply rules will apply (which generally work on an accruals basis). An equivalent amendment to the Regulations will be required.

Additions to list of public international organisations

The Act adds the Global Fund for AIDS, Malaria and Tuberculosis and Uganda Red Cross Society to the list of public international organisations in the First Schedule to the VAT Act. Such entities are exempt from VAT on importation of goods and services and can claim for a refund in respect of VAT paid on domestic purchases.

Zero rate on certain supplies

The Act reinstates VAT zero-rating on the supply of cereals where the cereals are grown and milled in Uganda.

VAT zero-rating on such cereals was repealed in 2014 but was effectively reinstated by the Ministry of Finance from 1 January this year. Hence this provision is effective from 1 January 2015.

The Act also introduces VAT at zero rate on the supply of handling services provided by National Medical Stores in respect of medicines and other supplies, funded by donors. This provision is effective from 1 January 2015.

VAT on petroleum and mining operations

Along with the substantial changes made for income tax purposes, there are a number of significant VAT amendments for the mining and petroleum sector.

Definitions

A "licensee" means a person granted a mining right or a person with whom the Government has entered into a petroleum agreement.

A "contractor" means a person supplying services (other than as an employee) to a licensee in respect of their mining operations or petroleum operations.

"Mining operations" includes every method or process by which any mineral is won from the soil and includes mining exploration operations.

"Petroleum operations" means an authorised operation under a petroleum agreement for petroleum exploration, development, production and export including, planning, installation, transportation or petroleum, storage or decommissioning, and for the construction of a pipeline or petroleum refinery;

"Petroleum agreement" means an agreement entered into, by the Government of Uganda with another person in accordance with the Petroleum (Exploration Development and Production) Act, 2013 or the Petroleum (Refinery, Conversion, Transmission and Midstream Storage) Act 2013.

Registration for VAT

The Act allows the following to apply for voluntary VAT registration regardless of whether they are currently making taxable supplies:

a. A licensee undertaking mining or petroleum operations;
b. A person undertaking the construction of a petroleum refinery or petroleum pipeline;
c. A person engaged in commercial farming.

There is a good case to argue that this ability to register should be extended to all taxpayers in the pre-operation phase (as under the previous investor trader regime that was repealed in 2011).

Supplies from contractors to licensees

The Act amends sections 24 and 25 of the VAT Act to provide special treatment for VAT on the supply of goods or services from a contractor to a licensee for exclusive use in mining or petroleum operations.

The treatment can be summarised as follows:

- The VAT on the supply is deemed to have been paid by the licensee to the contractor;
- The contractor does not account for the deemed VAT payment as output tax; and
- The licensee does not claim the deemed VAT payment as input tax

The rationale for the provision is to provide for VAT cash flow neutrality in the transactions between contractors and licensees.

Input credit for imported services

The Act allows a contractor or licensee to claim an input tax credit for the reverse charge VAT paid on imported services.

This restores the position that used to apply up to 2011. Again, it could be strongly argued that the same ability should be extended to all taxpayers.

Refund of tax

The refund provision is amended so that where a licensee's input credit exceeds its output liability for a tax period, the amount must either be refunded or (at the licensee's option) carried forward and offset against a future liability. The Commissioner's ability to unilaterally carry forward overpayments of less than UShs 5 million no longer applies to a licensee.

The Finance Act 2015

The Act amends various Finance Acts and Regulations and comes into force on 1 July 2015

Environmental levy

The Act increases the environmental levy on import of used motor vehicles (excluding goods vehicles) as follows:

i. 35% of CIF value for motor vehicles which are between 5 and 10 years old
ii. 50% of CIF value for motor vehicles which are 10 years old or more

Previously, the environmental levy was 20% on motor vehicles (excluding goods vehicles) which are 8 years old or more.

Passport fees

Passport application fees for ordinary passports have been increased from UShs 120,000 to 150,000, with the exception of the East African passport which remains at UShs 80,000 and conventional travel documents which remain at UShs 120,000.

A new expedited application fee of UShs 300,000 is payable for passports to be processed within two working days.

Single entry visa fees

The fee for a single entry visa has been increased from USD 50 to USD 100.

Non-refundable fee for work permits

The Act introduces a non-refundable prepayment fee of USD 1500 on applications for work permits.

Operator licence fees

The Act introduces annual operator licence fees in respect of vehicles and vessels.

The vehicles covered are;

i. Class 'O'- Licenses for omnibus vehicles
ii. Class 'C' – country taxis
iii. Class 'R' and 'T' – rental vehicles and town taxi cabs
iv. Class 'A' – tourist vehicles
v. Class 'G' – goods operators vehicles
vi. Motorcycles (Boda boda)

The fees for vehicles range from UShs 30,000 to 1.5 million and vary with passenger and load capacity.

The vessels covered are:

i. Cargo vessels(inland water vessels);
ii. Passenger vessels
iii. Research and leisure vessels.

The fees for vessels range from UShs 30,000 to 700,000 and vary with length, tonnage or passenger capacity.

The Excise (Amendment) Act 2015

The Act amends the rates in Schedule 2 of the Excise Duty Act 2014, with general effect from 1 July 2015 but with some retrospective changes.

Incoming international calls

At the Sixth Northern Corridor Integration Summit held in Kigali in July 2014, the responsible ministers of Rwanda, Kenya, Uganda and South Sudan mutually agreed to adopt a "One-Network Area" regional telecommunications framework for implementation by 31 December 2014.

The One-Network Area applies to telephone calls originating and terminating within the region and requires member states to:

- Exempt regional calls from surcharges on international calls;
- Eliminate additional charges to subscribers on account of roaming within the region; and
- Eliminate charges for receiving calls while within the region.

In line with this initiative, the Act removes the existing USD 0.09 per minute excise duty on international calls in respect of calls originating from Kenya, Rwanda and South Sudan, effective from 1 January 2015.

New excise duties

The Act introduces new excise duties on the following items:

Motor vehicle lubricants	5%
Chewing gum, sweets	
and chocolates	10%
Furniture	10%.

The introduction of these new duties appears to be aimed at widening the tax base, although it is debatable whether the specific items could be classified as luxury or harmful items.

Changes in excise duty rates

The Act increases the existing excise duty rates on cigarettes, local-content beer, wine, petrol and diesel and to reduce the existing excise duty rate on un-denatured spirits with effect from 1 July 2014 and the existing excise duty on beer produced from barley grown and malted in Uganda;

Please see a complete summary of the new rates in the table below.

We understand the rate reduction adjustment on un-denatured spirits is intended to encourage consumption of high quality un-denatured spirits and at the same time reduce tax evasion by manufacturers of low quality spirits.

Item	Rate per Excise Duty Act, 2014	Rate per Excise Duty (Amendment) Act 2015
a) Soft cap	a) Soft cap- Ush 35,000 per 1000 sticks b) Hinge Lid- Ush 69,000 per 1000 sticks	a) Soft cap- Ush 45,000 per 1000 sticks b) Hinge Lid-Ush 75,000 per 1000 sticks
	20%	30%
b) Hinge Lid	a) Soft cap- UShs 35,000 per 1000 sticks	Ush 1,000 per litre or 100% whichever is higher
	70%	80%
b) Hinge Lid- UShs 69,000 per 1000 sticks	a) Soft cap- UShs 45,000 per 1000 sticks	Ush 1000 per litre
	Ush 630 per litre	Ush 680 per litre
b) Hinge Lid-UShs 75,000 per 1000 sticks	USD 0.09 per minute	0%
Beer whose local raw material content, excluding water, is at least 75% by weight of its constituent	20%	30%
Beer produced from barley grown and malted in Uganda	40%	30%
Un-denatured spirits	UShs 4,000 per litre or 140% whichever is higher	UShs 1,000 per litre or 100% whichever is higher
Other wines	70%	80%
Motor spirit(gasoline)	UShs 950 per litre	UShs 1000 per litre
Gas oil(automotive, light, amber for high speed engine	UShs 630 per litre	UShs 680 per litre
Incoming international call services from the Republic of Kenya, the Republic of Rwanda and the Republic of South Sudan (strictly)	USD 0.09 per minute	0%
Motor vehicle lubricants	-	5%
Chewing gum, sweets and chocolates	-	10%
Furniture	-	10%

Miscellaneous changes

As per the budget speech for the financial year 2015/2016, the following miscellaneous changes affecting taxation were announced.

International agreements

To curb tax evasion, the Government has ratified the following agreements:

- The East African Community Agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion in respect to Taxes. This agreement will facilitate trade among the East African countries and further enhance the EAC integration.
- The Agreement for the Establishment of the African Tax Administration Forum (ATAF) on Mutual Assistance in Tax Matters. One of the objectives of ATAF is to build capable African tax administrators that develop, share and implement best practices. The ratification of agreement for the establishment of the ATAF shows that Uganda will leverage on the best practices of the more established revenue authorities in its work. Multi Nationals will get more scrutiny from the revenue authorities.
- The OECD Convention on Mutual Administrative Assistance. This convention facilitates international co-operation for a better operation of national tax laws, while respecting the fundamental rights of taxpayers. The amended Convention provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combatting tax avoidance and evasion. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims.

Tax Administration

As part of the strategy to enhance compliance and revenue collections, Uganda Revenue Authority will undertake the following measures:

- Implement the Joint Compliance Campaign (JCC) for the fast growing priority sectors with high revenue contribution such as wholesale, retail, real estate and manufacturing. The JCC aims at addressing taxpayers from a single point of view as the URA. The different departments (customs and domestic taxes) work together to leverage efficiencies.
- Undertake taxpayer sensitization and education on tax policy changes.
- Strengthen the international taxation function with respect to Audit capacity of international transactions and exchange of information with other tax jurisdictions. This move is further strengthened by the ratification of the Agreement for Establishment of the African Tax Administration Forum on Mutual Assistance in Tax Matters and the OECD Convention on Mutual Administrative Assistance.
- Expand Taxpayer Registration and Expansion Program (TREP) outside greater Kampala, Mbarara, Wakiso, Mukono, Arua and Lira. This is being done with the aim of widening the tax base.
- Automate the exchange of information and enforcement collaboration between the Ministries Departments and Agencies within greater Kampala.
- Expand the implementation of the Single Customs Clearance Process.
- Enhance information management systems to facilitate faster clearance of goods by rolling out the Electronic Cargo Tracking System (ECTS) to Mombasa, implementing centralized Document Processing and implementing a centralized automated valuation database. This will be a build-up on what has already been implemented.

EAC Pre-Budget Consultations

Under the East African Community framework the Ministers of Finance held pre-budget consultative meetings to discuss issues of common interest in the spirit of furthering regional integration.

A number of measures were agreed on with regard to the EAC common external tariff, details of which will be contained in the Gazette to be issued by the EAC Secretariat.

Some of the significant decisions for Uganda include authority to import:

- road tractors for semitrailers at a duty rate of 0 percent instead of 10 percent;
- motor vehicle for the transportation of goods with gross vehicle weight exceeding 5 tones but not exceeding 20 tones at a rate of 10 percent instead of 25 percent;
- motor vehicles for transport of goods with gross weight exceeding 20 tones at 0 percent instead of 25 percent;
- buses for the transportation of more than 25 persons at a rate 10 percent instead 25 percent.

The benefits are valid for a period of one year.

Tax Incentive Regime for Investment

The Minister of Finance has not announced any tax incentives; however, he plans to address them through the existing tax laws. He has pledged to meet with investors regularly to discuss options to improve the tax incentive regime for investment and to implement the appropriate changes to ease trade investment where applicable.

Economic processing zones

Government has identified land in Kaweweta (Luwero district) to set up an economic processing zone. The project is still in infancy given that the ownership of the land is yet to be secured and negotiations with prospective investors for the development of the land are on-going.

The zone will consist of among others, a world class modern abattoir, milk and fruit processing plants, an area for a modern farm, a textiles manufacturing plant, and refining local medicinal and aromatic herbs.

East Africa at a glance

As per the budget speech for the financial year 2015/2016, the following miscellaneous changes affecting taxation were announced.

Kenya

The Kenyan economy is projected to grow by between 6.5% and 7% in FY2014/15 compared to 5.3% in FY 2013/14, attributable to lower oil prices, increased investments by government and private entities, and renewed consumer confidence. This growth has been achieved despite continued insecurity which has adversely impacted tourism and other sectors.

Performance in the key sectors of the economy was as follows:

- The financial services sector grew by 8.3% in FY 2014/15 compared to 8.1% in FY 2013/14 driven by higher uptake of loans and advances with a decline in average lending rates and interest rate spreads;
- Information, communication and technology grew by 13.4% compared to 12.3% in FY 2013/14 attributed to mobile and internet penetration;
- Building and construction grew by 13.1% compared to 5.8% in FY 2013/14 attributed to increased government spending on the construction of roads and the standard gauge railway;
- Manufacturing sector grew at a lower rate of 3.4% in FY 2014/15 compared to 5.6% in FY 2013/14 due to modest inflation coupled with lower prices in the second half of the year;
- Agricultural sector recorded a reduced growth of 3.5% compared to 5.2% in the previous year. This was attributed to inadequate rainfall and suppressed global tea prices; and
- Tourism earnings declined by 7.3% impacted by insecurity.

Inflation increased from an annual average of 5.7% in FY 2013/14 to 6.9% in FY 2014/15 due to an increase in the prices of basic commodities which outweighed lower oil and electricity prices.

The Kenya shilling has depreciated against the US dollar in the year. However, it has held firm against the other East Africa currencies.

The priority areas highlighted in the FY 2015/16 budget include the following:

- Tackling insecurity to sustain growth momentum of the economy;
- Infrastructure development to facilitate faster and more inclusive growth;
- Agricultural and industrial transformation aimed at enhancing food security, industrialisation and job creation;
- Revamping the National Youth Service and investing in women;
- Enhancing the quality, relevance and accessibility of education, health care and social services; and
- Increasing support to devolved county governments through increased allocation of revenues.

Tanzania

Tanzania's GDP grew by 7.2% in FY 2014/15 compared to 7.3% in FY 2013/14. The economy experienced a 10.8% growth in the financial services sector, 12.5% growth in transport and storage, 14.6% growth in construction, 10% growth in wholesale and retail trade and 3.4% growth in the agricultural sector.

The priority areas for FY 2015/16 budget include:

- Infrastructure: transportation (roads, railway, airports and marine transport). Investment is aimed at reducing congestion in urban areas, costs of transport and transportation of goods and services and therefore curbing inflation;
- Energy and Minerals: power generation and rural electrification;
- Agriculture: including food and cash crops, irrigation, industrial raw materials, livestock, fisheries and forestry. The measures will enhance production of crops, food security and ensure availability of reliable markets;
- Education: infrastructure, study equipment;
- Health: water and good governance;
- Voter registration and national identity cards; and

Macro-economic objectives highlighted in the budget include the following:

- 7.2% GDP growth in 2015;
- Increase domestic revenue ratio to GDP to reach 14.8% by 2015/16;
- Continue to control inflation at a single digit level; and
- Ensure stability of exchange rate.

Uganda

The economy is projected to grow at 5.3% in FY 2014/2015 compared to 4.5% in FY 2013/2014. This growth has been largely attributed to the recovery in private sector consumption as well as acceleration in both public and private investment.

Uganda's inflation reduced to 3.1%, in FY 2014/2015 in comparison to 6.7% in FY 2013/2014.

The priority areas highlighted in the FY2015/2016 budget are:

- Maintenance of national security and defense;
- Facilitation of private sector enterprise development;
- Effective development and maintenance of infrastructure;
- Commercialization of production and productivity in primary growth sectors;
- Enhanced capacity for increased domestic revenue mobilization;
- Increased social service delivery; and
- Enhanced efficiency in Government management.

Rwanda

Rwanda's real GDP growth rate increased to 7% in FY 2014/2015 compared to 4.7% achieved in FY 2013/14.

Performance highlights include 9% services sector growth, 6% industry sector growth and a 5% increase in the agricultural production sub sectors.

Rwanda continued to achieve low inflation; the inflation rate in December 2014 was 2.1%.

Exports and imports grew by 3% and 8%, respectively, in FY 2014/15.

The Rwanda Franc appreciated against all regional currencies except the Burundi Franc.

The allocation of resources in the 2015/16 fiscal year has been made taking into account the Economic Development and Poverty Reduction Strategy (EDPRS2) priorities. The main areas of focus under the EDPRS2 are:

- The economic transformation which has been allocated 23% of the total budget. This includes: accelerating growth in exports, timely completion of ongoing energy projects, accelerating transport projects to meet targets and ensuring roads connect productive uses and ICT focus on security and increasing country wide access;
- Rural development has been allocated 13% of the total budget. This includes: increasing access to inputs, increasing the number of priority crops and funding one-off investments; water and sanitation; and affordable housing, rural settlement and plot servicing;
- Productivity and youth employment has been allocated 8% of the total budget; and
- Accountable governance which has been allocated 5% of the total budget.

Key highlights from the Kenya, Tanzania, Uganda and Rwanda

	Kenya	Tanzania	Uganda	Rwanda
Real GDP growth	6.5% (5.3%)	7.2% (7.3%)	5.3 (4.5%)	7.0% (4.7%)
Overall inflation	6.0% (6.9%)	5.3% (6.3%)	3.1% (6.7%)	2.1% (3.7%)
91 day treasury bill rates	8.6% (9.5%)	8.9% (12.47%)	14.1% (8.9%)	4.1% (5.3%)
	KShs	*TShs*	*UShs*	*RwF*
Exchange rate to the dollar (Local currency = US$1)	90.9 (87.9)	2,046 (1,609)	3,115 (2,580)	716 (680)
Budgeted spend (billions)	2,002 (1,757)	22,495 (19,853)	18,133 (13,988)	1,636 (1,649)
Recurring (billions)	1,280 (1,248)	16,576 (13,408)	8,716 (7,550)	889 (865)
Development (billions)	721 (509)	5,919 (6,445)	6,802 (4,881)	747 (784)

Customs and Excise duty

Kenya

Customs Duty

- Reduction of customs duty on nylon yarn from 10% to 0% to encourage local manufacturers of fishing nets.
- An increase of import duty on ready-made fishing nets from 10% - 25% to protect local industries.
- An increase in the specific duty rate on imported sugar from USD 200 to USD 460 per metric tonne while maintaining the advalorem rate at 100% to cushion the sector from unfair competition and enable our local companies to break even.
- In October 2014, duty on paper and paper board was increased to 25%. Common External Tariff (CET) on these products has now been reduced to 10% to lower the cost of paper and paper board.
- To deter smuggling of raw hides and skin out of the country the export duty rates had been harmonised across EAC at 80% of Free On Board (FOB) value or USD 0.52 per kg whichever is higher.
- To protect local manufacturers the import duty rates on plastic tubes for packing toothpaste and cosmetics has been increased from 10% to 25%.
- To encourage investors to produce pasta locally, gazetted manufacturers of pasta will be entitled to full duty remission on Semolina (the raw materials used in making pasta).
- Import duty rate for gas cylinders has been increased from 0% to 25% to protect local manufacturers of gas cylinders.
- Prison authorities have been included in the duty exemption schedule. This will enable them import duty free goods, materials, equipment and other supplies for their official use.

Excise duty

- To counter the consumption of illicit brew, beer and wine made from local agricultural products excluding barley will be granted remission.
- To encourage the local production of aluminium milk cans, import duty has been increased from 10% to 25% on importation.
- The CS has once again promised to table a new excise bill in parliament to simplify the current excise regime. Excise duty on alcoholic beverages will be adjusted upwards to cater for inflation. Cigarettes will be taxed on a specific regime. Duty on motor vehicle and motor cycles will be on a graduated scale based on age.
- Non-biodegradable plastics bags will be subject to duty at KES 120 per kg.
- All bottled water and other goods that have no harmful effect will not be taxable under the new excise law.

Tanzania

Customs Duty

- Extension of import duty reduction to 10% on buses for transportation of more than 25 passengers for a further period of one year.

- Removal of some PVC pipes and HDPE from the list of deemed capital goods.

- Extension of stay of an import duty rate of 10% on wheat grain.

- Increase in import duty on rice from USD 200 per tonne or 75% of the value to USD 345 per tonne or 75% of the value whichever is higher.

- Increase in import duty on sugar from USD 200 per metric tonne or 100% of the value to USD 460 per metric tonne or 100% of the value whichever is higher.

- A special procedure was also announced for industrial sugar which will be subject to 10% duty. The initial payment by importers will be 50% but a refund of 40% will be provided once the TRA has certified that the sugar has been used in the manufacturing process.

- Increase in duty on plastic tubes for toothpaste from 10% to 25%.

- Reduction in the duty rate on Semolina to 0% as a raw material to make pasta.

- Imposition of duty at 25% on steel products used in constructions.

- Increase in duty from 0% to 10% for glucose used in producing candy products.

- Reduction of duty to 0% for fibres used in making fishing nets.

- Extension of duty at 0% for manufacturers using LABSA as a raw material for soap manufacture for a further year.

- Reduction of the duty rate from 10% to 0% on solvent used for match sticks for one year.

- Extension of exemption from import duty provided to the Armed Forces Canteen Organisation for a period of one year.

- Amendment of the 5th Schedule to the East Africa Community Customs Management Act (EACCMA) to provide import duty exemption for goods imported for official use by the Armed Forces and Police Force Prisons.

Road and fuel duty

- Increase in road and fuel duty by TZS 100 per litre for diesel, petrol and kerosene.

Uganda

Customs Duty

- Increase of the environmental levy on import of used motor vehicles from the current rate of 20% to -

  i. 35% of CIF value for motor vehicles which are between five and ten years old, and

  ii. 50% of CIF value for motor vehicles which are ten years old or more.

- Remission and in some cases, reduction of import duty on road tractors for semitrailers, goods vehicles for transporting varying tonnage of between five and 20 tonnes.

- Increase of passport fees from UGX 120,000 to UGX 150,000, with the exception of the East African passport that remains at UGX 80,000.

- Introduction of a non-refundable work permit fee of USD 500 per application.

Excise Duty

The proposed amendments to the Excise Duty Act include:

- The excise duty regime has been widened to cover furniture, motor vehicle lubricants and sweets. The applicable rates are 10%, 5% and 10% respectively.

- Removal of excise duty on incoming international calls from the Northern Corridor states (Kenya, Rwanda and South Sudan). This took effect on 1 January 2015.

- Reduction of duty on un-denatured spirits from UGX 4,000 per litre or 140%, whichever is higher to UGX 1,000 per litre or 100%. This is intended to encourage consumption of high quality un-denatured spirits.

- The excise duty changes also include increases of duty on the items below:

  i. Beer whose local material content excluding water, is at least 75% by weight of its constituent from 20% to 30%;

  ii. iGas oil (automotive, light, amber for high speed engine) from UGX 630/- per litre to UGX 680/- per litre;

  iii. Motor spirit(gasoline) UGX 950/- per litre to UGX 1000/- per litre;

  iv. Increase of duty on other wines from 70% to 80%;

  v. Duty on soft cap increases from UGX 35,000 per 1000 sticks to UGX 45,000 per 1000 sticks;

  vi. Duty on hinge lid increases from UGX 69,000 per 1000 sticks to UGX 75,000 per 1000 sticks.

Rwanda

Customs Duty

Import duty rates have been amended as follows for goods originating outside EAC;

- From 25% to 0% for Road Tractors/ Semi Trailors;
- From 25% to 10% on motor vehicles weighing between five to 20 tonnes;
- From 10% to 0% for motor vehicles that weigh more than 20 tonnes.
- Motor vehicles which carry between 25 and 50 passengers will be taxed at 10% down from 25% while those carrying above 50 passengers will be taxed at 0%.
- Imported sugar which is below 70 tonnes will be taxed at 0%.
- From 35% to 0% on wheat;
- From 75% to 45% or USD 200 per tonne on rice in husks;
- Raw materials appearing on approved list will be taxed at 0%.
- Telecommunication equipment to be taxed at 0%.

Excise Duty

The taxation of tobacco is to be amended to a hybrid tax system. Currently, tobacco is taxed through a purely advalorem excise tax system which is based on CIF value/ex-factory price base at the rate of 150%.

The proposed change is to tax tobacco at an advalorem excise of 36% of retail price plus a specific excise tax of Rwf 30 per pack of 20 rods. This change is expected to generate Rwf 5.0 billion to the tax collection. The proposed change is expected to take effect from 1 July 2015.

Direct and indirect taxes

Kenya

Income

- Proposal to introduce taxation at 12% for landlords whose gross rental income is below KES 10 million per year.
- Further, the CS proposed a tax amnesty for all landlords who have been non-compliant.
- Removal of the 5% capital gains tax arising from sale of shares and introduction of 0.3% withholding tax on the transaction value of the shares.
- Reduction of tonnage of ships qualifying for Investment Deduction (ID) from 495 tons to 125 tons. Further, an increase in the ID rate from 40% to 100% has been proposed.
- Proposal to extend the period to utilise tax losses to ten years without obtaining approval of The National Treasury for power producers, manufacturers and hotel operators.

Withholding Tax

- To promote the film industry, proposal to exempt payments made by a film producer to foreign actors and crew members. Previously, a withholding tax of 20% was applicable.
- To promote harmonisation in the extractive sector, withholding tax will be at the rate of 12.5% for training services and 5.6% for contractual services.

Value Added Tax

The CS has proposed to include the following items under the exemption schedule:

- Goods and services purchased for use in film making;
- Plastic bag biogas digesters for cooking and lighting for rural households;
- Inputs imported or purchased locally for the assembly of ICT devices;
- Taxable goods and services for use in the construction of infrastructure works in industrial and recreational parks of 100 acres or more.
- Importation of duty free goods, materials, equipment and other supplies by prison authorities for their official use.

Proposal to zero rate services in respect of goods in transit.

Returning residents will now be allowed to import replacement of left hand motor vehicles subject to specific conditions.

Refund claims to be lodged within 12 months from the date the tax became due and payable.

Personal Taxes

- Proposed tax rebate for employers hiring and training at least ten fresh graduates for a period of between six to 12 months.
- Further proposal to consolidate all the training levies into a National Job Fund.

Tanzania

Income Tax

Proposed amendments to the Income Tax Act include:

- Income and gains arising from bonds issued by the African Development Bank in the Tanzania domestic capital market will be exempt from tax.
- Gaming winnings subject to tax at 18% of the value of the prize.
- Special strategic investment status to be granted to investors who invest at least USD 300 million (in cash or assets) channeled through local financial institutions, employ at least 1,500 Tanzanians (including senior positions) and generate foreign exchange or reduce importation.
- Eliminate tax exemption on government projects financed by commercial loans.
- PAYE threshold to be adjusted from 12% to 11% to provide relief of tax burden to employees of TZS 1,900 per month.
- Confirmation of exemption of Skill and Development Levy for agricultural sector.
- Presumptive tax rate to be reduced by 25% on small businesses.

Value Added Tax

- No changes announced. New VAT Act expected to be enacted on 1 July 2015.

Uganda

Income Tax

The proposed amendments to the Income Tax Act include:

- Taxpayers will not be able to claim a deduction in their tax returns for any expenditure above UGX 5 million incurred on goods and services from a supplier who does not have a Tax Identification Number (TIN). This threshold applies on a transaction basis. It is a new measure aimed at bringing the informal sector into the tax bracket.
- All local authorities, government institutions and regulatory bodies will now require a person applying for a license or any form of authorisation to have a TIN.
- The types of reorganisations that are entitled to roll-over relief for capital gains tax purposes have been defined.
- The definition of a "Branch" of a non-resident company has been extended to include a place where a person furnishes services including consultancy services, if the services continue to be rendered for the same or to a connected project for more than ninety days in any twelve month period.
- The Income Tax Amendment Bill also introduces a definition of the term 'immovable property' for mining and petroleum operations. It includes a mining right, petroleum right, mining information, or petroleum information.
- There are changes to the thin capitalisation rules. The allowable debt to equity ratio for foreign controlled entities has been amended to 1.5:1 (from the current 1:1).
- Further, the thin capitalisation rules will now apply to all interest-bearing debt of a foreign-controlled resident company. Currently the restriction only applies in general to loans from a foreign related party (i.e. the foreign controller or an associate).
- Thin capitalisation rules have also been extended to branches of non-resident companies.
- The withholding tax on reinsurance premiums which was introduced in July 2014 has been reduced from 15% to 5%.
- The exemption of imported and locally procured plant and machinery, petroleum products and raw materials from 6% withholding tax has been removed.
- Taxpayers providing passenger or freight transport services using vehicles with a load capacity of more than two tonnes will now be required to pay an "advance tax" before renewal of their operational license.
- The threshold for presumptive tax has been increased from UGX 50 million to UGX 150 million. In addition, the presumptive tax rate has been reduced to 1.5% from 3%.

Value Added Tax

The proposed amendments to the VAT Act include:

- The VAT annual registration threshold has been increased from UGX 50 million to UGX 150 million.
- The zero-rating of cereals grown and milled in Uganda which was scrapped in July 2014 has been reinstated, effective 1 January 2015.
- The threshold for cash based accounting for VAT has been increased from UGX 200 million to UGX 500 million.
- The list of VAT exempt public international organisations was amended to include the Global Fund to fight AIDS, Malaria and Tuberculosis and the Uganda Red Cross Society.

VAT for petroleum sector

Mining and petroleum operators will now be allowed to register for VAT regardless of whether they are making taxable supplies or not. This is a welcome relief to the operators as they had been de-registered for VAT and as such were not able to claim the significant input VAT incurred in the pre-operating phase.

In addition, mining and petroleum licensees will now be allowed to claim a credit for input VAT charged under the reverse charge mechanism on imported services.

Rwanda

Rwanda is undergoing comprehensive tax reforms hence no changes were announced in this budget.

Miscellaneous

Kenya

Other taxes

- In order to tap into the gaming industry, the CS has re-introduced a simplified gaming tax, which will be a direct charge on the gross gaming revenue. The tax covers public lotteries which are to be taxed at 5% of the lottery turnover and bookmakers at 7.5% of the gross betting revenues.
- Also, all prize competitions where the costs of entry are premium shall be taxable at 15% of the total gross revenue.
- Tax Procedure Bill to be introduced. This will contain uniform procedures across the three tax legislations.
- The Road Maintenance Levy was increased by KES 3 per litre to be collected and paid into the Road Annuity Fund.
- The IDF rate has been reduced from 2.25% to 2%.

Tanzania

Others taxes and levies

Export Levy

Increase of export levies on raw hides and skins from 60% or TZS 600 per kilogram to 80% or USD 0.52 per kilogram whichever is higher and 10% for intermediate to intermediate level (wet blue leather).

Fuel Levy

No enforcement of petroleum charges on projects implemented by aid donors.

Legislative amendments

The Minister stated that minor amendments to various tax laws and other laws will also be made so as to ensure their smooth and effective implementation.

Uganda

Uganda enacted a Public Finance Management Act, 2015 which requires that the budget for the next financial year be presented before Parliament by 1 April. In addition, the Appropriation Bill and any other Bills that may be necessary to implement the annual budget are to be approved by Parliament by 31 May of each year.

This is change from the past where the budget was presented to Parliament together with the Tax Bills after the budget had been read.

International agreements

The Government has ratified the following international agreements:

- The EAC Double Taxation Agreement. This DTA will come into force when all the EAC partner states have ratified it. So far, only Rwanda and Uganda have ratified the DTA.
- The Agreement for the Establishment of the African Tax Administration Forum (ATAF) on Mutual Assistance in Tax Matters. The ATAF Agreement was adopted by members in 2010.
- The OECD Convention on Mutual Administrative Assistance.

These agreements have been laid before Parliament in accordance with Section 4 of the Ratification of Treaties Act Cap 204.

Tax Administration

As part of the strategy to enhance compliance and revenue collections, Uganda Revenue Authority will undertake the following measures:

- Implement the Joint Compliance Campaign involving the Uganda Registration Services Bureau and Kampala Capital City Authority aimed at widening the tax base and increasing revenue collection.
- Undertake taxpayer sensitization and education on tax policy changes.
- Strengthen the international taxation function with respect to audit capacity of international transactions and exchange of information with other tax jurisdictions.
- Expand Taxpayer Registration and Expansion Program (TREP) outside greater Kampala, Maraca, Wakes, Mikonos, Aura and Lira.
- Automate the exchange of information and enforcement collaboration between the Ministries Departments and Agencies within greater Kampala.
- Expand the implementation of the Single Customs Clearance Process.
- Enhance information management systems to facilitate faster clearance of goods by rolling out the Electronic Cargo Tracking System (ECTS) to Mombasa, implementing centralized Document Processing and implementing a centralized automated valuation database.

Rwanda

Others taxes and levies

Road maintenance levy

The levy on petrol and gasoil has been increased from Rwf 62.37/litre to Rwf 82.37/litre. The funds collected are to be used to finance District Class 2 roads. The expected revenue impact of the increase will be Rwf 5.2 billion.

Infrastructure development levy

In order to finance infrastructure projects, such as railway and energy, a 1.5% infrastructure development levy has been introduced on all goods imported outside EAC.

This is per the agreement by the EAC Ministers of Finance during their pre-budget consultative meeting. The Government expects to collect revenue amounting to Rwf 10.6 billion from this levy.

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