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SIMPLIFIED TAX GUIDE

USAID PRESTO Project

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What follows in this document are simplified tax guidelines intended to assist the ordinary taxpayer to know his/her obligation and rights The taxes have been grouped into two broad categories, namely, direct and indirect taxes

Direct Taxes

1. Corporation Tax

Who pays this tax?
Corporation Tax is paid out of the profits made by limited Liability companies and other institutions such as Trusts, Registered Cooperative Societies

Rate of Tax
The corporation tax rate is 30% of the net profits This tax is supposed to be paid in installments In the first six months the establishment is supposed to compute and come up with an estimate of the end of year profit That figure then determines the expected tax to be paid at the end of year With that figure a computation of 30% is made and payment of half of that as provisional tax is made

The second half of the tax is paid before the end of the fourth month after the end of the financial year The Uganda Revenue Authority receives the final returns, examines them and a final tax assessment of the annual tax liability is made If the provisional tax paid was less than the tax assessed the taxpayer pays the difference to URA If the reverse is the case the difference is credited to future tax obligations

2. Pay As You Earn (PAYE)

This is a tax commonly referred to as the Employment Tax

Who Pays and How Much

Every Employee whose employment income exceeds Shs 1,560,000 per year or Shs 130,000 per month pays this tax The tax has three bands

Not exceeding Shs 130,000	**Nil**
Exceeding Shs. 130,000 but does not exceed Shs. 235,000	**10% of the amount by which chargeable income exceeds Shs130,000**
Exceeding Shs. 235,000 but not exceeding Shs. 410,000	**Shs 10,500 plus 20% of the amount by which chargeable income exceeds Shs 235,000**
Exceeding Shs 410,000	**Shs 45,500 plus 30% of the amount by which chargeable income exceeds Shs 410,000**

PAYE is paid on a monthly basis The employer is obliged to deduct this tax from the employees at the end of each month and remits it to URA within 15 days of the following month Employment income on which PAYE is paid includes wages, salary, leave pay, payment in lieu of leave, overtime pay, fees, commission, gratuity, bonus, travelling allowance, entertainment, utilities, cost of living, housing, medical and any other allowance It is however net of National Social Security Fund Contribution

Also qualifying for PAYE are the following, compensation for termination of any contract of employment, any gains derived by an employee on disposal of a right or option to acquire shares under an employee share acquisition scheme and any other value of any benefit granted to the employee including housing, official car, domestic assistance and insurance cover

3. Rental Income

Rental Income is paid by all individuals who receive rental income in excess of the threshold of Shs 130,000 per month from renting residential or commercial property, machinery, vehicles, other real or movable property This provision does not apply to those institutions or individuals whose sole business is renting

The tax rate applicable to rental income is 20% of the chargeable income in excess of Shs 130,000 per month

4 Withholding Tax

(a) Withholding tax of 4% is withheld by receivers of services provided by contractors, suppliers of goods and services
Tax credit certificates are prepared by the relevant tax district for each taxpayer These are used to defray tax obligation of the taxpayer at the end of the financial year The taxpayer is required to present his withholding tax credit certificate at the end of the financial year if he has to benefit from withholding tax payments

(b) Customs Withholding Tax Withholding tax is charged on imported goods at the rate of 4% of the CIF value The taxpayer may offset the amount paid in withholding tax against tax liabilities, which arises from business profits at the end of the financial year The taxpayer must however present the customs receipt as evidence of having paid the withholding tax

5. Stamp Duty

Stamp Duty is imposed on a wide range of legal documents/Instruments The most common ones are mortgage agreements, property transfers, hire purchase agreements and company registrations The duties paid may be a fixed sum or percentage of the contract value

INDIRECT TAXES

1. Import Duty

Import duties are taxes imposed on imported goods Currently we have tax rates for COMESA (Common Market for East and Central Africa) and for the rest of the World The COMESA rates are a maximum of 10% but the majority are 4% For the rest of the World the highest import duties are 20% COMESA countries include Kenya, Tanzania, Mauritius, Rwanda, Burundi, Malawi, Zambia, Zimbabwe, Mozambique etc Importers are better off importing from COMESA countries because tax rates are lower

2 Excise Duty

Excise duty is imposed on goods either to protect local industry, or as means of raising government revenue Currently there is excise tax on petroleum products, tobacco products, beer, soft drinks and large capacity vehicles

3 Value Added Tax

VAT is a consumer expenditure tax which in the case of Uganda replaced both the sales Tax and the Commercial Transaction Levy , (CTL) This tax is paid by individuals and firms In order for a company to register for VAT payment, business sales turnover must be exceeding Shs 50 Million per year It does not matter whether the business is profitable or not

When one charges a customer VAT, what he/she pays is referred to as output tax On the other hand when one buys goods and services the VAT paid is an input Tax When the input tax is more than the output tax a refund from Uganda Revenue Authority can be claimed On the other hand when the out put tax is more than the input tax then the difference between the two has to be paid to the

Uganda Revenue Authority not later than fifteen days after the end of the month in which the transaction took place

Exempt and Zero Rated Supplies

Zero rated and exempt supplies are the goods and services not subjected to VAT However, while on zero-rated supplies one can claim in-put tax, on the exempt supplies one cannot the input tax

VAT has two bands, 17% and zero (0%) or nil

Exempt supplies include

(a) the supply of unprocessed foodstuffs, including agricultural livestock
(b) the supply of postage stamps
(c) the supply of financial services
(d) the supply of insurance services
(e) the supply of unimproved land
(f) a supply by way of lease or letting of immovable property other than

> (i) a lease or letting of commercial premises
> (ii) a lease or letting of hotel or holiday accommodation
> (iii) a lease or letting for periods not exceeding two months or
> (iv) a lease or letting for parking or storing cars or other vehicles

(g) the supply of education services
(h) the supply of medical, dental, and nursing services
(i) the supply of social welfare services,
(j) the supply of betting, lotteries, and games of chance including Casinos,
(k) the supply of goods as part of the transfer of a business as going concern by one taxable person to another taxable person,
(l) the supply of burial and cremation services,

(m) the supply of precious metals and other valuables to the Bank of Uganda for the State Treasury,
(n) the supply of passenger transportation services,
(o) the supply of petroleum fuels (petrol, diesel and paraffin),

Zero rated supplies include

(a) a supply of goods or services where the goods or services are exported from Uganda as part of supply,
(b) the supply of international transport of goods or passengers or of goods or services in connection with the international transport of goods or passengers,
(c) the supply of milk, including milk treated in any way to preserve it,
(d) the supply of maize flour,
(e) the supply of dental, medical and veterinary equipment and supplies,
(f) the supply of seeds, fertilisers, pesticides and hoes,
(g) the supply of educational materials

In order to avoid complications in the calculation of VAT at the end of the month, it is important that the VAT registered person keeps a VAT account Every time a purchase or an import is made VAT thereon is recorded Conversely when sales are made then VAT charged is also recorded

Completing the VAT Return

On or before the 15th day of the month VAT returns of the previous month should be lodged with the nearest VAT office for all registered VAT payers This is irrespective of whether purchases and sales were made Instructions on how to fill the fourteen boxes are available at the back of the page It is of great importance that the Tax Identification Number (TIN) and VAT registration numbers are filled in This helps in posting your payments on the right VAT account in URA

Payment of VAT dues as for all other taxes are done through the bank even if the amount is less than ten thousand shillings

In order to ease computation of VAT at the end of the month, sales records should be grouped under three headings

- Taxable sales at the standard rate of 17% and then compute the VAT on these sales
- Taxable sales at the zero rate
- Exempt sales

One must ensure that all documents related to business transactions are kept These include tax invoices, customs documents etc This is important because URA is authorised to inspect books including those of previous years at any time in the course of their revenue collection exercise

VAT taxpayers whose turn over is below Shs 100,000,000/= may apply to the Commissioner General for permission to handle VAT payments on a cash basis This means that one does not have to account for VAT due to URA until the customer has paid and cannot claim VAT credit on purchases until they've been paid for

All imported goods attract VAT of 17% or the zero rate except if they fall in the exempt category VAT on imports is paid at the time of clearing the goods and is calculated on CIF (Cost Insurance, Freight) value

VAT on exports is zero-rated Exporters are however advised to register for VAT This is helpful in that the inputs which are used to produce the exports may be attracting VAT Once registered as a VAT payer, then one can claim input tax In order to claim input tax on exports, the customs certified copy of the export entry must be attached to the VAT return Although it is a bit difficult to prove, VAT on services exported can also be zero rated but there must be proof that the services were exported and consumed outside Uganda

Cancellation

You can/may cancel your VAT registration if

- you cease carrying out business in taxable supplies
- you have been a sole proprietor and you change to partnership or vice versa
- your sole proprietorship or partnership is replaced by an incorporated company
- your company is wound up or the owner of the sole proprietorship dies

Calculating VAT

The VAT on sales and that payable to URA can be computed as follows

Assume that the trader buys the goods at Shs 100,000 inclusive of VAT The he makes a 10% mark up the selling price becomes Shs 110,000/=

	Total with VAT	VAT Fraction	VAT Calculated
Selling Price	110,000	17/117	15,983
Purchase Price	100,000	17/117	14,530
VAT payable to URA			1,453

When the trader was buying goods he paid VAT of Shs 14,530/= and URA received it from the supplier, when he sold he charged VAT of Shs 15,983/=, therefore he can only remit the difference between the two figures which is Shs 1,453/= If the sales price was lower than the purchase price, meaning that the trader made a loss sale, then he would claim from URA the difference between the two figures

TAX APPEALS TRIBUNAL

The need for a TAT became apparent after the establishment of the Uganda Revenue Authority (URA) It is meant to service as a neutral and respected forum where the URA and the taxpayer can resolve their conflicts Once in operation taxpayers can use it to solve any contentious matters related to taxes payable

Common areas of contention between tax payers and tax collectors

1 The enactment of the Tax Appeals Tribunal Act was a recognition that taxpayers sometimes disagree with tax collectors on tax assessments In other cases the tax laws may be bad and the taxpayer has no other channel of redress except to try to avoid or evade the tax payment In a number of occasions this kind of disagreement may be one of the causes of smuggling

The disagreement between taxpayers and tax collectors may stem from the following reasons

(a) Interpretation of the tax laws
(b) The Administration of the taxes
(c) The content of the tax laws

In the case of (1) and (2) the problem would lie with the institution or department which is charged with tax collection, in Uganda this the Uganda Revenue Authority In the case of item (3) above the problem would be lying with the policy makers and initiators In our case, this would be the Ministry of Finance and the Parliament

The Tax Appeals Tribunal Act is supposed to correct these problems once it has been put into operation The delay in putting up the TAT is therefore an act of oppression of the taxpayers

2 Contentious areas in the VAT Statute

- The taxable person, the time when taxpayer becomes a taxable person The procedure of registration, part III

- The determination of taxable value and the calculation of tax payable The taxpayer is always concerned with over assessment and yet the tax collector has the objective is to collect the maximum possible This is part VI and VII

The procedures and administration of tax provision of returns, assessments and how they are viewed, problems related to appeals against the oppression meted out by URA, the failure of URA to refund what is due tax payers who may have been over assessed, part VIII

The interpretation and implementation of part VIII of the law that deals with the definition of offences and attached penal tax For example when someone writes his TIN number and makes one mistake in the figures – it can be interpreted that the tax payer knowingly used a false TIN which belongs to someone else Take the number P94 3031 5833 O, suppose it is mistakenly written as P94 3301 5833 O The last number belongs to a different taxpayer The issue is when does one tell that the mistake was intended?

3 *Income Tax Act 1997*

The Income Tax 1997 that replaced and improved on the Income Tax Decree 1974 has since its implementation from 1st January 1998, become very controversial The major problem areas are the following

- Definition and calculation of gross income, and more specifically the Employment Income This is part V of the law
- Determination or chargeable income for the individual, partnerships, trusts and companies – Part VII and VIII

- Assessments, collection and recovery of tax, payment of provisional taxes, refunds and rights of appeal – Part XI
- Penal tax for failure to observe the provisions of the law General practices in the administration and interpretation of the Act
- Understanding the rights and obligations of both the taxpayer and the tax collector

4 Procedures

The problem that arises in the tax administration process is the lack of information on the procedures

- Procedure to obtain TIN number and the reasons for having it
- Procedure of obtaining a VAT number
- How do you process the payment for a motor vehicle license, obtain number plates, duplicate log book or driving permit
- When is non-payment of tax a crime, what grace period does one have, if any
- When is the tax administrator harassing the taxpayer
- How do you detect harassment that is aimed at extorting a bribe?
- Does a taxpayer have a right to challenge a tax law – if so how is this to be done?