INCOME TAX AMENDMENTS

SN	Amendment	Justification
1.	**Introduce new definitions** **Beneficial owner:** a) means a natural person who has final ownership or control of another person or a natural person on whose behalf a transaction is conducted, and includes a natural person who exercises absolute control over a legal person. b) in relation to trusts includes— i) the settlor; ii) the trustee; iii) the protector; iv) the beneficiaries; and v) any other natural person exercising absolute control of the trust; c) in relation to other legal person similar to trusts, means a natural person holding a position equivalent any of the positions referred to in subparagraph (b) above	• Uganda has adopted this definition just like its counterparts in the East African region to align with the internationally agreed definition. The current definition falls short of the internationally agreed definition of "beneficial owner" as per the Organization for Economic Cooperation and Development (OECD).
	Consideration: includes, the total amount in money or of payment in kind, paid or payable for the supply of goods, services or sale of land by any person, directly or indirectly, including any duties, levies, fees, and charges other than tax paid or payable on, or by reason of, the supply, reduced by any discounts or rebates allowed and accounted for at the time of the supply or sale;	• The purpose of this definition is to eliminate any ambiguity as regards what amounts to consideration under the Income Tax Act
	Clarify the definition of **An exempt organization** to include a religious, charitable or educational institution whose object is not for profit.	• To provide wording that is clearer than the current wording of the law which provides that the institution should be of a public character which is subjective in interpretation.

2.	**Agro processing** Government has repealed paragraph (z) of Section 21 (1) which provided for income tax exemption for agro processors. This paragraph was giving a blanket exemption to all persons earning income from agro processing. This has been narrowed down to specific sections with in the sector and will only be applicable if certain conditions as to investment threshold and utilization of locally sourced raw materials, employment of citizens and their earnings are met.	• To generate revenue • To do away with duplication since a similar exemption is provided under section 21(1)(a) of the same law.
3.	**Ten-year income tax exemption** a) Government has made an addition to the strategic sectors qualifying for the ten-year income tax exemption - an operator in an industrial park or free zone or any other person who manufactures chemicals for agricultural use, industrial use, textiles, glassware, leather products, industrial machinery, electrical equipment, sanitary pads and for diapers. b)	• To encourage investment in the specified sectors
4.	**Rental Tax** Government has a) Capped up to 75 % of allowable deductions for expenditure and losses incurred in generating rental income. This applies to both individuals and non-individuals	• To ensure equitable taxation of rental income irrespective of the legal nature of the person deriving income. This will remove distortions which arise from capping the allowable deductions for a year of income of individual rental taxpayers, but allows unlimited deductions for non-individual rental taxpayers • This reform will remove the incentive for individual property owners to own properties through

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<tr><td></td><td></td><td>companies in order to claim fictitious deductions.</td></tr>
<tr><td></td><td>b) Increased the rate for rental income tax for individuals from 20% to 30%.</td><td>

- To generate revenue
- To harmonize the tax regime for businesses and individuals by equalizing the treatment of individuals and non-individuals

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Depreciation of assets

Government has

a) Reduced the classes of assets for depreciation purposes from four to three and reduced the depreciation rate as well

Class	Assets included	Rate
1	Computers and data handling	40%
2	Plant and machinery used in farming, manufacturing and mining.	30%
3	Automobiles; buses, minibuses, goods vehicles, construction and earth moving equipment, specialised trucks, tractors, trailers and trailer mounted containers, rail cars, locomotives and equipment; vessels, barges, tugs and similar	20%

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- Lowering the depreciation rate, reduces the number of firms making a "tax loss" and increasing chargeable income - ultimately resulting in higher Corporate Income Tax revenue.

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<tr><td></td><td>water transportation equipment; aircraft; specialised public utility plant, equipment and machinery; office furniture, fixtures and equipment; any depreciable asset not included in another class.”</td><td></td></tr>
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b) Postponed the deduction for the depreciation of an asset that qualifies for initial allowance to the next year of income.
i. Wear and Tear deduction
ii. Industrial building allowance

This will discontinue concurrent deduction of initial allowances and depreciation in the first year of use of the qualifying asset.
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• To generate revenue by discontinuing concurrent deduction of initial allowances and depreciation in the first year of use of the qualifying asset
• Increase chargeable income and tax payable for the first year of income in which the depreciable assets are first used.
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Capital Gains
Government has
a) Provided for indexation in the calculation of capital gains tax in order to account for inflation. This means that before determining Capital Gains tax on a business asset, one will factor in inflation among others that influence the asset value. However, indexation shall not apply to an asset that is sold within twelve months from the date of purchase.

b) Prescribed a formula for calculating the expense to be included in the cost base of a business asset when computing the gain or loss on disposal of that asset (Capital Gains Tax – Indexation). This only applies where the asset is sold after 12 months from the date of purchase of that Asset.
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• To promote Investment
Allowing inflation or valuation in establishing the real value of the cost base in order to determine the gain before application of the 30% tax rate will eliminate over taxation of tax payers and encourage acquisition of capital for investment in the country.
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	Note: Indexation accounts for the inflation effect on each item of cost or expense included in the cost base of the asset. c) Provided for preferential treatment of capital gains tax for a venture capital fund registered under the Capital Markets Authority Act. Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. In this amendment, capital gains arising from the sale of investment interest of a registered venture capital fund will not be recognized if at least 50% of the proceeds on sale is reinvested within the year of income. A venture capital fund shall be entitled to a non-recognition of a gain or loss equivalent to the percentage of reinvested proceeds.	• To reduce the cost of capital by promoting investment into high risk enterprises. • To promote investment since it will provide a much-needed incentive to venture capital funds to set up in the country.
8.	**Exchange of Information** Where an international agreement provides for automatic exchange of information for tax purposes, the Commissioner shall in accordance with the regulations made by the Minister facilitate the automatic exchange of information.	• To generate revenue from information generated both domestically and from reciprocal information obtained from treaty partners • To facilitate automatic exchange of information of non-resident persons with their tax residence jurisdictions, in accordance with the OECD (Organisation of Economic Co-operation and Development) Multilateral Convention on Mutual Administrative Assistance in Tax Matters

		• To incorporate and analyse reports on Financial account information available domestically with what is submitted in tax returns to ensure proper tax reporting of Financial Institutions and their clients. • Uganda will be able to access financial account information from offshore Financial Institutions by exchanging reciprocal financial account data with mutual treaty partners under Section 6 of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters which came into effect on 1st Sept 2016.
9.	**Listed institutions** Government has added to the First Schedule of the Income Tax Act two institutions - the African Export – Import Bank (AFREXIMBANK) and the International and Union for Conservation of Nature	• AFREXIMBANK is an international organization whose host agreement with Government of Uganda entitles it to exemption. • International and Union for Conservation of Nature is an international organisation whose members are by agreement obliged to provide it with exemption and Uganda is a member
10.	**Payment due date** Government has re-introduced the payment due date for income tax purposes. This provision was previously contained in the Income Tax Act but was repealed with the coming into force of the Tax Procedures Code Act and the same was never replaced.	• To enhance tax compliance. The absence of a due date for payment of tax in the law has resulted into taxpayers taking their time to pay the taxes self-assessed with no worry of

	Provision for the due date of payment of income tax as a result of a self-assessment or an assessment issued by the Commissioner shall be; i. in the case of self-assessment, on the due date for furnishing of the return of income to which the assessment relates; and ii. in any other case, within forty-five days from the date of service of the notice of assessment	interest accruing from delayed payment of tax.
11.	**Tax refunds** Government has amended the law to provide that a taxpayer shall be deemed to have submitted an application for refund on the date the application is received by the Commissioner. However, where the Commissioner requests for additional information, the application for refund shall be deemed to have been submitted on the date when the additional information is received by the Commissioner	• To cater for situations where the delay in refund is due to the delay in the taxpayer submitting the requisite documents for verification