

PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
ON

THE INCOME TAX (AMENDMENT) BILL, 2014

OFFICE OF THE CLERK TO PARLIAMENT
PARLIAMENT BUILDINGS
KAMPALA - UGANDA

September, 2014

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INCOME TAX (AMENDMENT) BILL, 2014

1.0 Introduction

Rt. Hon. Speaker and Hon. Members, permit me to present to you a report of the Committee of Finance, Planning and Economic Development on the Income Tax (Amendment) Bill, 2014. You will recall the Bill was referred to the Committee after being read for the first time by the Minister of Finance, Planning and Economic Development on 15th of July 2014.

1.1 Methodology

The Committee held consultative discussions with;

- 1) The Minister of Finance, Planning and Economic Development;
- 2) The Uganda Revenue Authority;
- 3) The National Private Educational Institutions Associations
- 4) The Uganda Sports Betting Association
- 5) The Private Sector Foundation
- 6) Godfrey Akena- Tax Consultant on Hydro power projects.

Their submissions informed the content of this report.

1.3 Object of the Bill

Rt. Hon. Speaker and Hon. Members, the object of the Bill is to amend the Income Tax Act, Cap 340 to;

- a) provide for the rate of income tax for companies,
- b) provide for the rate of income tax for trustees and retirement funds,
- c) provide for withholding tax on winning of sports and pool betting,
- d) provide for capital gains tax on the sale of commercial property,
- e) repeal exemption from tax on interest income on agricultural loans,
- f) repeal the provisions on initial allowance,
- g) make provision for the definition of start up cost,
- h) provide for precedence of international agreement over other laws dealing with matters covered by the agreement,
- i) provide for thin capitalization ratio from 2:1 to 1:1,
- j) provide for tax on winning of sports and pool betting,

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- k) amend the Second Schedule,
- l) amend the Third Schedule; and
- m) provide for related matters

2.0 OBSERVATIONS OF THE COMMITTEE

Rt. Hon. Speaker and Hon. Members, arising out of the public hearings, the Committee makes the following observations;

2.1 Elimination of initial allowance

Clause 9 of the Bill seeks to repeal section 28 of the Income Tax Act.

Currently under Section 28(1) of the Income Tax Act (ITA), a person who places an item of eligible property in service for the first time is allowed a deduction (initial allowance) at the rate of 50% and 75% depending on the location. The Committee has examined this issue in detail and observes that;

- Uganda is not yet rich enough to attract new investment. While the Government may push for more revenue, investment capital should not be suppressed.
- With this elimination there would be a longer period of recovery of the capital cost. Therefore, the return on investment would be very low.
- The proposal would discourage borrowing since the same would be recovered over a very long period thus discouraging investments.
- The effect is that accelerated depreciation as an investment incentive will no longer be enjoyed by business.

The Committee recognizes the need to broaden tax base, however the Committee proposes that;

- The elimination of initial allowance should be gradual to allow for proper planning
- The rate should be reduced to 25% from 50 % for areas in Kampala, Wakiso, Mukono, Jinja, and Njeru.
- The rate of 75% should be maintained for investment in the other areas of the Country.

2.2 Repealing the exemption from tax on interest income on agricultural loans

Under Clause 8 (b), interest income earned by financial institutions on a loan granted to any person for the purpose of farming, forestry, fish farming, bee keeping, animal and poultry husbandry or similar operations will be taxable.

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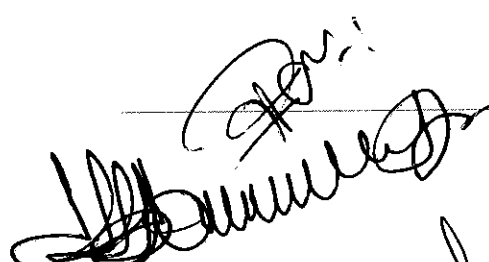
The Committee observes that the proposal may cause financial institutions to reduce loans to the agricultural sector given the inherent risk. Financial Institutions are also likely to pass on the tax costs resulting into increases in the interest rate on agricultural loans.

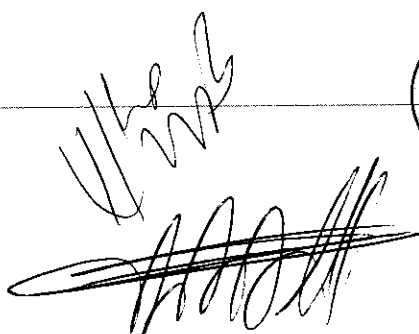
The Committee notes that this will hinder commercialization of agriculture and therefore recommends that the proposed measures to provide for application of income tax on interest income on agricultural loans be reconsidered and alternative sources of revenue be sought.

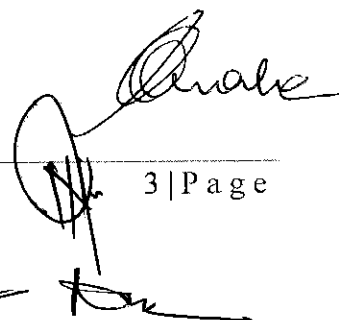
3.0 CONCLUSION

The Committee recommends that the Bill be passed subject to the proposed amendments.

I beg to report


Jambanuli




Chale

PROPOSED AMENDMENTS.

1. Clause 1. - Commencement.

Delete clause 1. Insert the following

This Act shall come into force on 1st July 2014, except sections, 8 (b) and 9 which shall come into force on publication.

Justification.

Amendments to Section 8 and 9 have the effect of reversing what has already been collected since 1st July 2014.

2. Clause 8. - Amendment of section 21 of the principal Act

Delete paragraph (b)

Justification. The Financial Institutions are likely to pass on the tax cost resulting into an increase in interest rates on agricultural loans.

3. Clause 9. - Amendment of section 28 of the principal Act

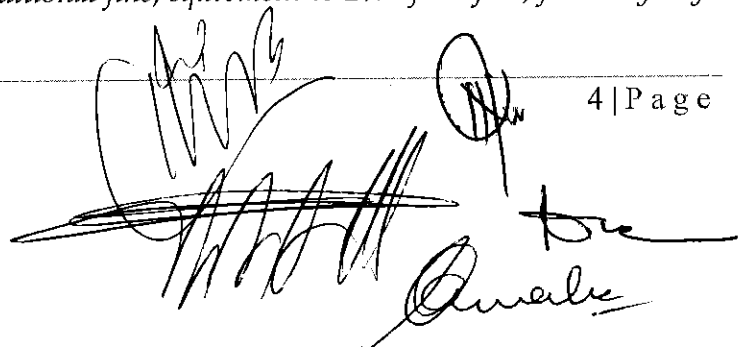
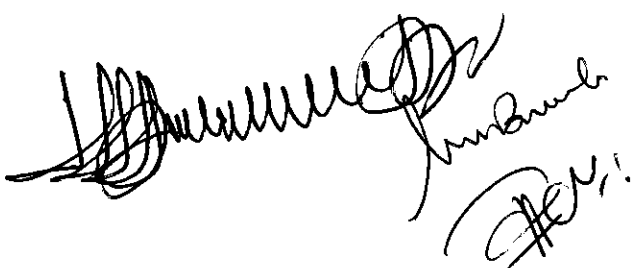
The principal Act is amended by substituting for "50 percent" in subsection (1) (b) for "25 percent".

Justification.

- The elimination of initial allowance should be gradual to allow for proper planning.
- The rate should be reduced from 50 % to 25% for areas in Kampala, Mukono, Wakiso, Jinja, and Njeru.

4. Clause 14. - Amendment of section 140 of the principal Act

Delete the words: "*and to an additional fine, equivalent to 2% of the fine, for every day the offence is committed.*"



Justification.

- The taxpayer already pays tax and Interest of 2% on unpaid tax.
- It is a recipe for corruption.
- Risk too high for not doing business.

5. Clause 15. - Amendment of Second Schedule of the principal Act

Insert after "3%" in the second column the following "of the gross turnover".

Justification. To correct an error.


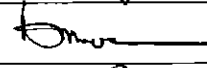

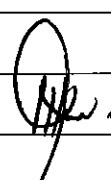
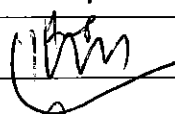
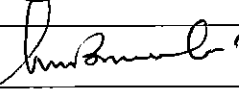
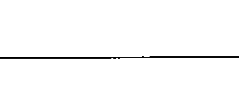

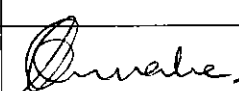
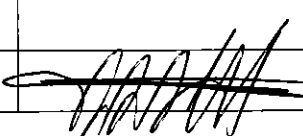
6. Sixth Schedule

In Part IV, replace the provision with the following;

"The following areas are prescribed for purposes of section 28:

- (1) Kampala
- (2) Mukono
- (3) Wakiso
- (4) Jinja
- (5) Njeru

**COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
WHO SIGNED THIS REPORT**

NO	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Kasule Robert Sebunya	Kyadondo North	
2	Hon. Okello Anthony	Kioga	
3	Hon. Musasizi Henry	Rubanda East	
4	Hon. Kyooma Xavier	Ibanda North	
5	Hon. Akol Rose	Bukedea	
6	Hon. Sejjoba Isaac	Bukoto Mid-West	
7	Hon. Lwanga Timothy	Kyamuswa	
8	Hon. Adong Lilly	Nwoya	
9	Hon. Katoto Hatwib	Katerera	
10	Hon. Amos Lugoloobi	Ntenjeru South	
11	Hon. Emma Boona	Mbarara	
12	Hon. Ayepa Micheal	Labwor	
13	Hon. Kakooza James	Kabula	
14	Hon. Mugabi Muzaale Martin	Buzaaya	
15	Hon. Geoffrey Ekanya	Tororo	
16	Hon. Nathan Nandala -Mafabi	Budadiri West	
17	Hon. Odo Tayebwa	Bushenyi-Ishaka M	
18	Hon. Mathias Nsubuga	Bukoto South	
19	Hon. Judith Franca Akello	Agago	
20	Hon. Maxwell Ebong Akora	Maruzi	
21	Hon. Ssasaga Isaiah	Budadiri East	
22	Hon. Kevinah Taaka	Busia Municipality	
23	Hon. Jack Sabiiti	Rukiiga	
24	Hon. Bagoole John	Luuka	



25	Hon. Capt. Lakot Oruni Susan	UPDF	
26	Hon. Ochwa David	NRM	