

PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE INCOME TAX (AMENDMENT) BILL, 2018

OFFICE OF THE CLERK TO PARLIAMENT
May 2018

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REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE INCOME TAX (AMENDMENT) BILL, 2018

1.0 Introduction

The Income Tax (Amendment) Bill, 2018 was read for the first time on the 3rd April 2018 and referred to the Committee on Finance, Planning and Economic Development in accordance with Rule 118 of the Rules of Procedure of Parliament.

2.0 Object of the Bill

The object of the bill is to amend the Income Tax Act Cap. 340 to provide for the exemption of expenditure incurred during a year of income in acquiring returnable containers as a deductible expense; to empower the Minister to make regulations for tax accounting for Islamic financial transactions; to provide for taxation of income arising from change of ownership of a business; to redefine immovable property; to provide for restrictions on deductible interest; to provide for a new definition of mining exploration rights; to include a transfer for the whole interest of the transferor in a mining right or petroleum agreement; to prescribe a tax rate for a person with assessed losses that are carried forward; to provide for furnishing of returns of income; to provide for payments for agricultural supplies and commissions paid by telecommunication service providers on airtime distributions and mobile money transactions; and for other related matters.

3.0 Methodology

The Committee held meetings and received memoranda from the following:

- (i) Minister of Finance, Planning and Economic Development
- (ii) Ministry of Education and Sports
- (iii) Uganda Revenue Authority
- (iv) Uganda Law Society

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- (v) Uganda Manufacturers Association
- (vi) Uganda Breweries Limited
- (vii) Uganda Bookman and Gaming Association
- (viii) Association of Soft Drink Manufacturers
- (ix) Price Waterhouse Coopers
- (x) Uganda Bankers Association
- (xi) Uganda Tax Alliance
- (xii) Buganda Kingdom
- (xiii) MTN Uganda
- (xiv) REEV Consult
- (xv) Uganda Forex Bureau and Money Lenders Association
- (xvi) Uganda Cooperative and Savings Credit Union Limited
- (xvii) Uganda Solar Energy Association

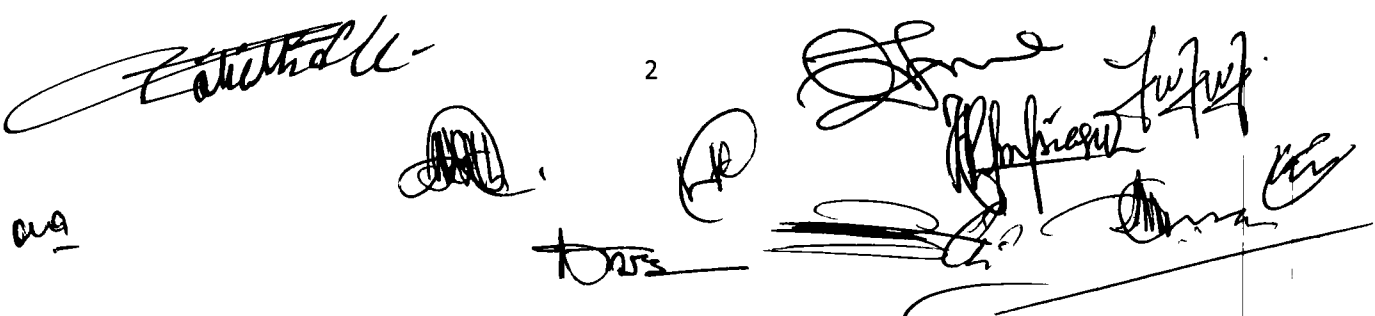
The Committee also received a petition from the Uganda Cooperative and Savings Credit Union limited challenging the imposition of tax on savings and credit cooperatives under the Income Tax (Amendment) Bill, 2018 which was considered along with the Bill as it had a direct impact on the outcome.

4.0 Observations by the Committee

The Committee observed that:

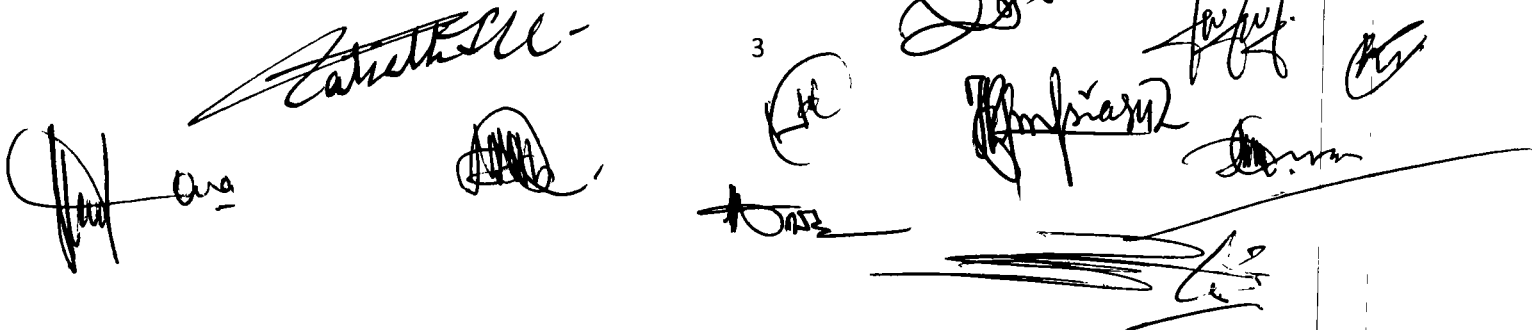
- (i) Clause 2 reintroduces tax on income derived by a Savings and Credit Cooperative Society under Clause 2(a). This is intended to remove discrimination against other providers of micro finance services such as banks, micro finance institutions who are paying income tax. Imposition of tax on profit earned by these organizations from business operations such as interest on loans, does not therefore deter the progress of the SACCOs or these organizations. The most prosperous SACCOs are predominantly of persons of relatively good

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income at the expense of persons of lower incomes. Membership to these organizations is open and it is therefore becoming a tax planning vehicle for individuals to avoid tax.

- (ii) Savings and Credit Societies (SACCOs) are one of the ways government is promoting financial inclusion. SACCOs have the capacity to reach to rural areas where there are no financial services as opposed to other financial institution. The Income Tax (Amendment) Act, 2017 exempted SACCOs from income tax for 10 years. However, the bill proposes to reintroduce the tax before assessing the effect of the exemption. No studies have been conducted by the government to enable the Committee make an informed decision on the reintroduction of the tax.
- (iii) An individual who acquires or constructs premises that generate rental income will be allowed to deduct interest on a mortgage from a financial institution when determining their tax liability in respect of such income. The effect of this reform is to grant individual taxpayers who derive rental income an additional deduction to the currently allowed 20% of their rental income, in order to ease the cost of investment in rental income generating properties.
- (iv) The bill seeks to introduce a tax of 0.5% percent of the gross turnover of a taxpayer who carries forward tax losses for a consecutive period of seven years of income, during every subsequent year of income in which the taxpayer continues to have tax losses. The reform is intended to limit the abuse of the current policy providing for indefinite carry forward of tax losses which has been abused by taxpayers to illegitimately defer payment of income tax. Under the principles of taxation, income tax is charged on income earned not losses made by a tax payer. URA should conduct an audit on any business which is suspected to be profitable but has been declaring losses.

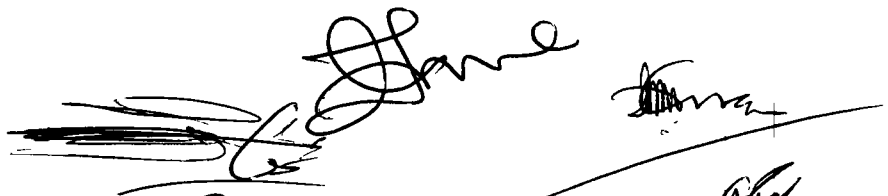


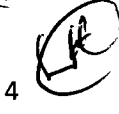
- (v) Withholding tax on payments made by designated persons for agricultural supplies is proposed to be reduced from 6% to 1% while increasing the applicable rate of withholding tax on commission paid by telecom service providers on airtime distribution and mobile money from 6% to 10%. These reforms will enhance revenue collections from the agriculture and telecommunications sectors.
- (vi) The bill seeks to empower the Minister to issue regulations for tax accounting of Islamic financial transactions. However, no information was provided to the Committee to support this proposal. Therefore this proposal should not be passed.

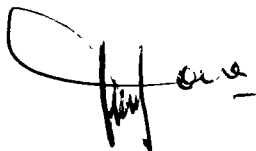
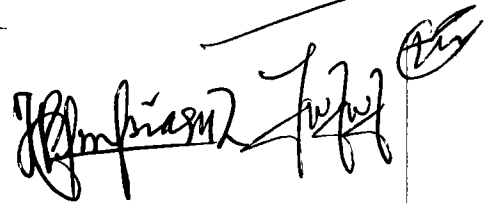
5.0 Recommendation

The Committee recommends that:

- (i) Tax should not be charged on gross turnover for companies declaring losses for 7 consecutive years. URA should conduct an audit and establish the status of the company;
- (ii) Government should conduct a study on the effect of the exemption of taxes on SACCOs before reintroducing the tax;
- (iii) the Income Tax (Amendments) Bill, 2018 be passed into law subject to the proposed amendments.



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PROPOSED AMENDMENTS TO THE INCOME TAX (AMENDMENT) BILL, 2018

INCOME TAX (AMENDMENT) BILL, 2018

1. Clause 2

Clause 2 is amended-

- (i) by deleting paragraph (a)
- (ii) in paragraph (b)-
 - (a) in the proposed (ae) by substituting for the words "two hundred" with the words "one hundred" and the word "ten" the word "five"
 - (b) in the proposed (af) by substituting for the words "thirty" the words "fifteen" and the word "ten" the word "five"

Justification

- 1. There is need to have consistency in taxation; and
- 2. To reduce the threshold in order to encourage investors to qualify for investment and operate industrial parks and strategic investments.

2. Clause 4

Clause 4 is amended-

- (i) in sub clause 3 by deleting the words "who is a member of a group" and substituting the words "to other members of the same group or an associate"
- (ii) In sub clause (5)(b) by substituting for the definition of the word "group", the following-
"group" means associates or companies with a common underlying ownership of 50% or more

Justification

- 1. To open up the restriction to debts owed to members of the same group or associates; and
- 2. To specify a minimum percentage of common underlying ownership.

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3. Clause 6

Clause 6 should be deleted

Justification

Income tax cannot be charged on gross turn over

4. Clause 7

Clause 7 should be deleted

Justification

There was no information provided to the committee to justify this proposal.


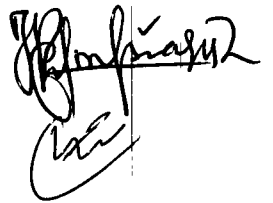
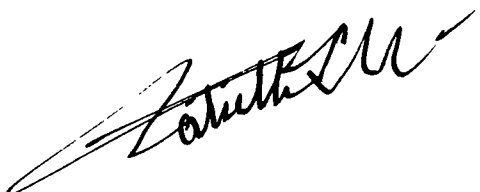
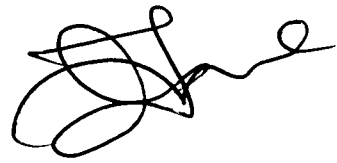
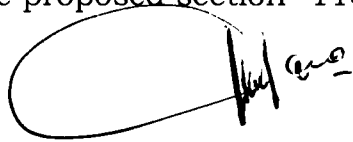
5. Clause 18

Clause 18 is amended-

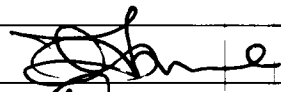
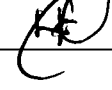
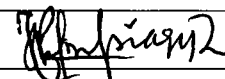
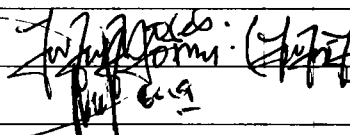
- (i) In the headnote by substituting for the headnote the following-


“18. Insertion of section 118E and 118F to principal Act”

- (ii) renumbering the proposed section “118C” as “118D”
- (iii) renumbering the proposed clause “118D” as “118E”
- (iv) renumbering the proposed section “118E” as “118F”



**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT ON THE INCOME TAX (AMENDMENT) BILL, 2018**

| No | NAME | CONSTITUENCY | SIGNATURE |
|-----------|------------------------------|---------------------|---|
| 1 | Hon. Musasizi Henry, CP | Rubanda East |  |
| 2 | Hon. Katali Loy, V/CP | DWR Jinja |  |
| 3 | Hon. Acidri James | Maracha East | |
| 4 | Hon. Lugoloobi Amos | Ntenjeru North | |
| 5 | Hon. Asiku Elly Elias | Koboko North | |
| 6 | Hon. Bategeka Lawrence N | Hoima Municipality | |
| 7 | Hon. KaluleSengo Emmanuel | Gomba East |  |
| 8 | Hon. KamateekaJovah | DWR Mitooma | |
| 9 | Hon. KatotoHatwib | Katerera County |  |
| 10 | Hon. Lokii John Baptist | Matheniko County |  |
| 11 | Hon. Nagwomu Moses M | Bunyole East | |
| 12 | Hon. Niringiyimana James .K. | Kinkizi West | |
| 13 | Hon. Opolot Isiagi Patrick | Kachumbala County |  |
| 14 | Hon. TumuramyGenensio | Kashongi County |  |
| 15 | Hon. Naigaga Mariam | DWR Namutumba | |
| 16 | Hon. Ilukor Charles | Kumi county | |
| 17 | Hon. Okello Anthony | Kioga County |  |
| 18 | Hon. Ayepa Michael | Labwor County | |
| 19 | Hon. WalyomuMuwanika Moses | Kagoma County |  |
| 20 | Hon. Mulindwa Isaac Ssozi | Lugazi Municipality |  |
| 21 | Hon. Adong Lilly | Nwoya District | |
| 22 | Hon. Mukula Francis | Agule Pallisa | |
| 23 | Hon. Kakooza James | Kabule County | |
| 24 | Hon. Bagoole John Ngobi | Luuka County | |
| 25 | Hon. Nathan Nandala-Mafabi | Budadiri West | |
| 26 | Hon. Akol Anthony | Kilak North | |

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| 27 | Hon. Odonga Otto | Aruu County | |
| 28 | Hon. Luttamaguzi Semakula | Nakaseke South | |
| 29 | Hon. Akello Judith Franca | Agago District |  |