



PARLIAMENT OF UGANDA

**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND
ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX
(AMENDMENT) BILL, 2020**

OFFICE OF THE CLERK TO PARLIAMENT
April 2020

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REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2020

1.0 Introduction

The Value Added Tax (Amendment) Bill, 2020 was read for the first time on the 31st March, 2020 and referred to the Committee on Finance, Planning and Economic Development in accordance with Rule 128 of the Rules of Procedure of Parliament.

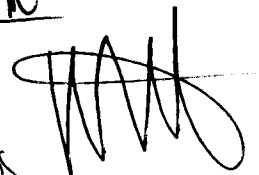
2.0 Object of the Bill

The object of the bill is to amend the Value Added Tax Act Cap.349, to restrict a taxable person from claiming input tax credit in respect of specific construction of a commercial building; to exempt the Islamic Development Bank from tax; to require an owner of a commercial building to account for tax for each building separately; to provide for exemptions from tax for specified supplies and for other related matters.

3.0 Methodology

The Committee held meetings and received submissions from the following:

1. The Minister of Finance, Planning and Economic Development;
2. The Uganda Revenue Authority;
3. The National Social Security Fund;
4. The Uganda Tourism Board
5. The Private Sector Foundation;
6. The Civil Society Budget Advocacy Group (CSBAG);
7. The Tax Justice Alliance Uganda (TJAU);
8. The Uganda Law Society;
9. PricewaterhouseCoopers;
10. The Uganda Association of External Recruiters;
11. M/s Meera Investments ltd;



12. Ellie & Associates Certified Public Accounts
13. Khadhar Investments Limited
14. Mr. Jim Middleton
15. Mr. Alex Rezida
16. Mr. Dunstan Sendiwala
17. Mr. Tindyebwa Obed
18. MK

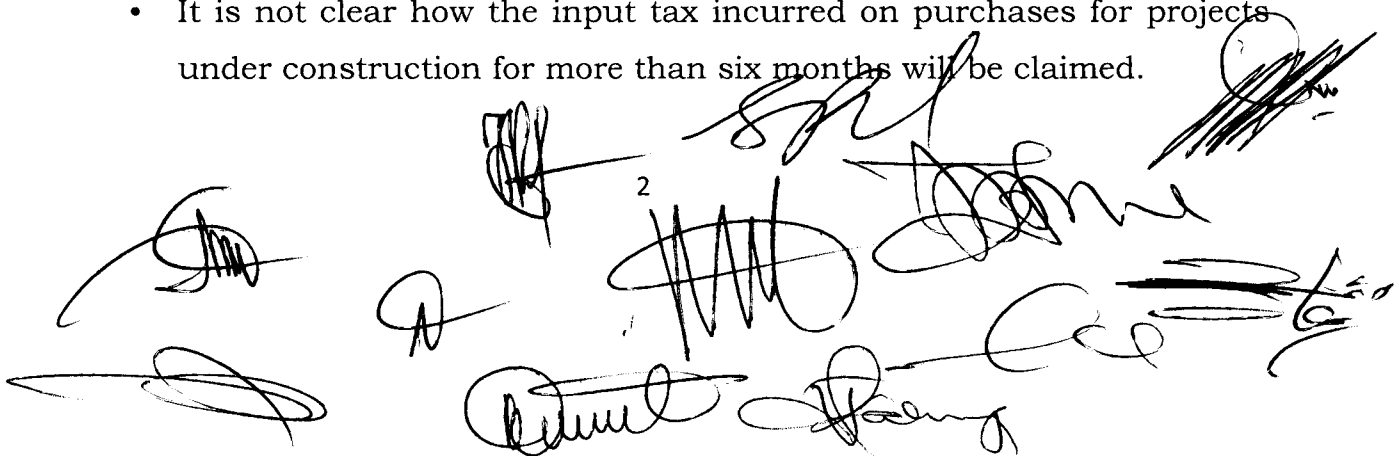
4.0 Observations by the Committee

4.1 S.28(3) of the Act currently provides that a person is allowed a claim of VAT which is incurred not more than six months prior to the person being registered for VAT provided the supply or import was for use in the business of a taxable person

- **Clause 2 (a)** proposes that a manufacturer will be allowed a claim for input VAT incurred not more than twelve months prior to the person being registered for VAT.
- The amendment will increase the period for which manufacturers can claim input VAT credit after registering for VAT. Most investments in manufacturing take a long time before producing taxable supplies. In this regard, the proposed amendment will ease the cash flow on manufacturers prior to commencing actual sales of manufactured products.

4.2 Clause 2(b) of the Bill proposes that an owner of more than one commercial building shall account for tax for each commercial building separately and shall not claim tax credits on inputs used in the construction of an incomplete building against the tax collected from a completed commercial

- It is not clear how the input tax incurred on purchases for projects under construction for more than six months will be claimed.



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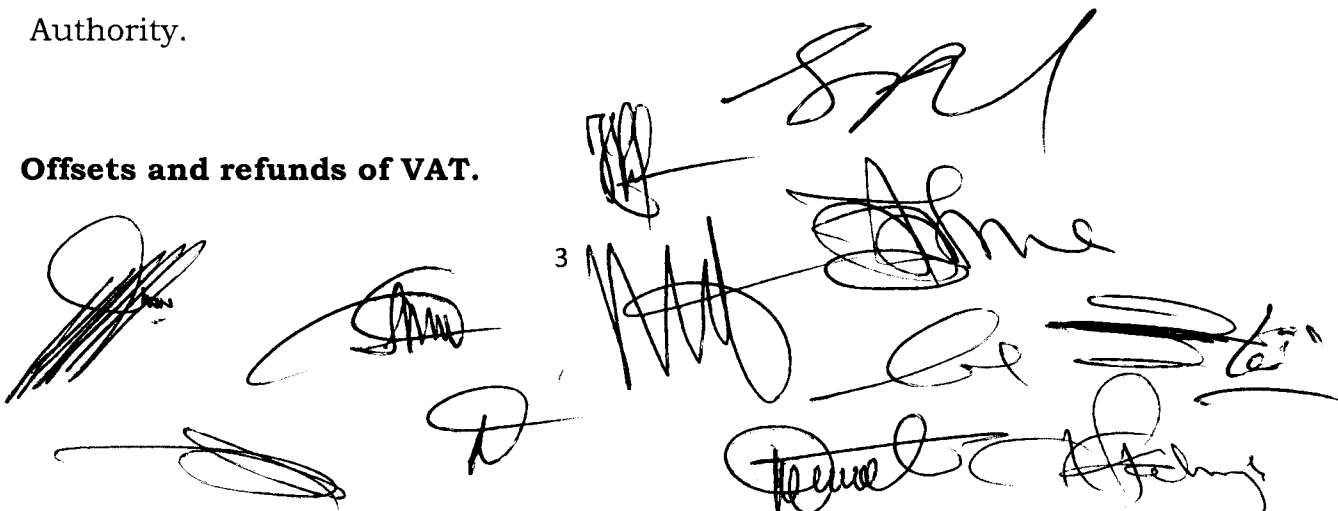
- (1) The VAT Act is equitable where the supplier accounts for output tax while the purchaser claimed the input incurred. However in this case the suppliers of goods and services for projects under construction will be expected to account for the output while on the other hand developers cannot claim the input tax credit on their purchasers.
- (2) This is bound to increase the administrative cost for companies in the business of commercial property since they will have to either obtain separate tax invoices for shared supplies for each property or apportion a single invoice among the properties owned.
- (3) The proposal will impact the real estate sector by increasing the cost of each project threatening the viability of many developers currently undertaking debt funded projects
- (4) it is not clear how the input tax incurred on purchases for projects under construction for more than 6 months will be claimed.

4.3 Claims for expenses supported by e-invoices

Clause 2 (b) (4a) The bill proposes that a taxable person who is allowed a tax credit on purchase of goods and services from a supplier who is designated to use e-invoicing system, shall only claim a tax credit on expenses supported by e-invoices or e-receipts.

This will promote digitization of the economy and improve tax compliance. It will also ensure real time reporting of transactions. The amendment will also limit abuse of the e-invoicing system as it provides an incentive to taxable persons to ensure that they demand for e-invoices in order for them to claim input tax credit from Uganda Revenue Authority.

4.4 Offsets and refunds of VAT.

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Clause 3 proposes to give a taxpayer a maximum period of three months to offset VAT on his/her purchases from the final VAT. After that period the taxable person shall claim a refund.

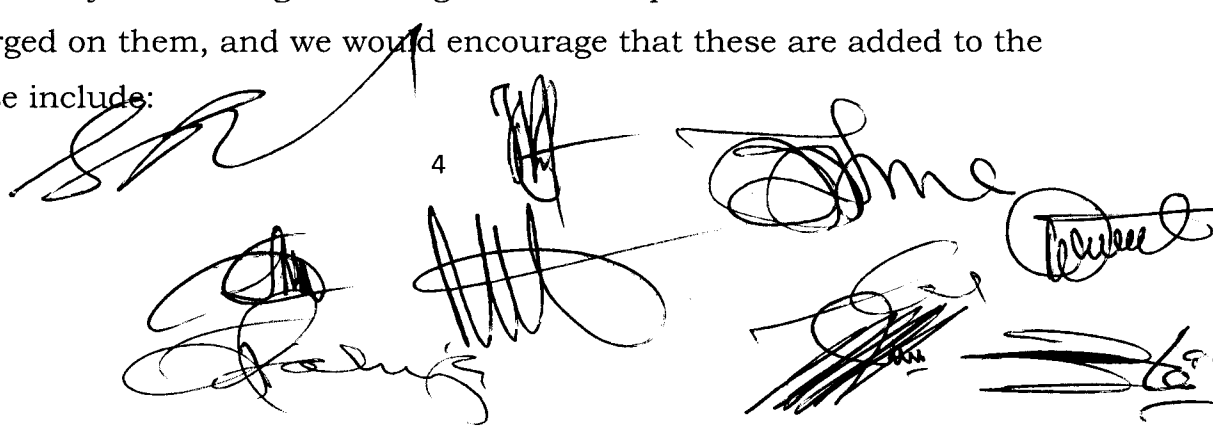
- VAT is a consumption tax thus developer and other taxable persons are not supposed to be burdened by it. This proposal creates a burden on the developer and allows the tax authorities to benefit from income that they are not entitled to for the duration of the project.
- For example, the NSSF submitted that URA currently owes the fund VAT approximately 12 billion shillings incurred on the construction of pension towers. This amount of VAT expected to be incurred during this project is estimated at UGX 58 billion, the current law requires URA to refund these amounts to the Fund during the entire project.

4.5 Proposed exemptions

4.5.1 Clause 5 (a) seeks to exempt combine harvester and trailers agricultural purposes from VAT.

- However, this will have a negative impact for companies engaged in the manufacture of agricultural trailers in Uganda making fabrication uneconomic.
- The materials and parts that are used to manufacture the trailers will have VAT charged on them when they buy or import yet they will not be able to claim the VAT input as the sale. This will lead to an increase in the production cost of 18% rendering the production uncompetitive with imported agricultural trailers. Therefore, parts and materials used in fabrication of agricultural trailers should be VAT exempt to keep the industries in Uganda competitive.
- There are many other categories of agricultural implements that still have VAT charged on them, and we would encourage that these are added to the list. These include:

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- (a) tractor mounted Hay mowers, slashers, rakes & tedders.
- (b) Crop sprayers
- (c) Hay & straw Balers
- (d) Tractor mounted Hole diggers / borers
- (e) Tractor mounted Scrapers, levelling blades & Dam scoops
- (f) Root or tuber harvesting machinery
- (g) Tractor mounted loaders
- (h) Irrigation equipment
- (i) Drinkers & feeders for all farm animals
- (j) Tuber harvesting machinery

4.5.2 Clause 5(b) provides for exempt supplies by making a substitution that will require a local investor with an investment of at least USD 1 million in the listed sectors to have a minimum of 100 citizen employees in order to qualify for the 10 year exemption for the listed supplies [feasibility study, design, supply of locally produced materials for construction of a factory or a warehouse and inputs of machinery or equipment etc].

- The requirement for 100 citizen employees threshold for a USD 1 million Investment is discriminatory and locks local investors out of the very fundamental 10 year incentive and enabler.
- *The proposal seeks to replace the current requirement whose threshold is 65% of employees being citizens*
- Note that the proposed amendment is discriminatory in two ways ;
 - (a) First , any local investor with a USD1 million project that employees 100 employees for the sake of qualifying for the 10 year exemption will be discriminated against because that project will more likely than not wind up before its second anniversary.

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(b) Secondly, Local investors, shunned by such an amendment will keep away or if they do not and from a competitive perspective they risk losing their investment to foreign entities that will operate at a larger scale with a 10 year break.

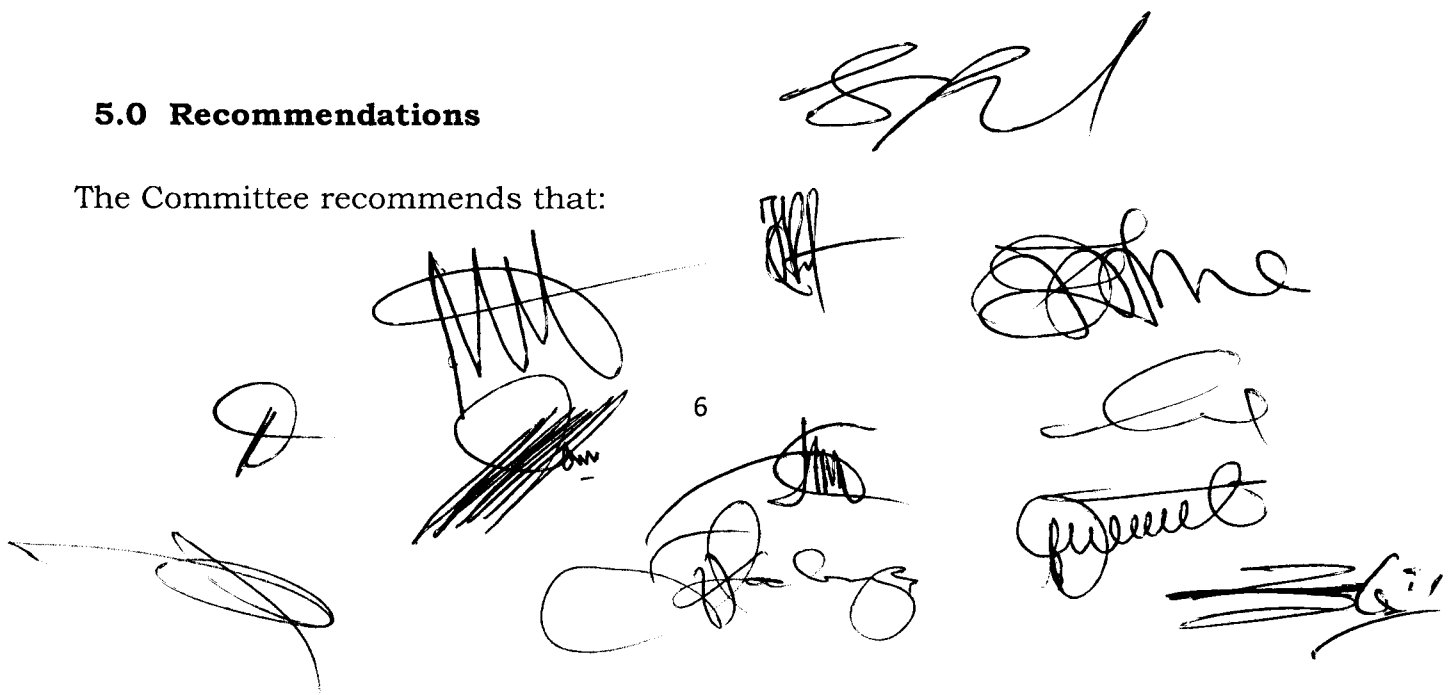
- The percentage threshold should be maintained and increased to 70% of the employees being citizens. However Employment of citizens should be gainful and as far as is practical skilled labour.
- There is need to lower the capital requirements for citizens and further encourage investments placed up country as follows; 300,000USD for Municipalities and 150,000 USD up country.

4.5.3 The tourism sector

- the tourism sector has been the worst hit hard by the COVID-19 pandemic, therefore there is need to prioritize the promotion and development of Meetings, Incentives, Conferences and Exhibitions (MICE), and generally the tourism sector.
- Therefore the need for tax incentives to subsidize MICE infrastructure investment that would not occur in the absence of tax reliefs.
- Tax incentives will not only promote increased or additional investment in tourism enterprises, but also increase investment or spending by those undertaking tourism related activities.

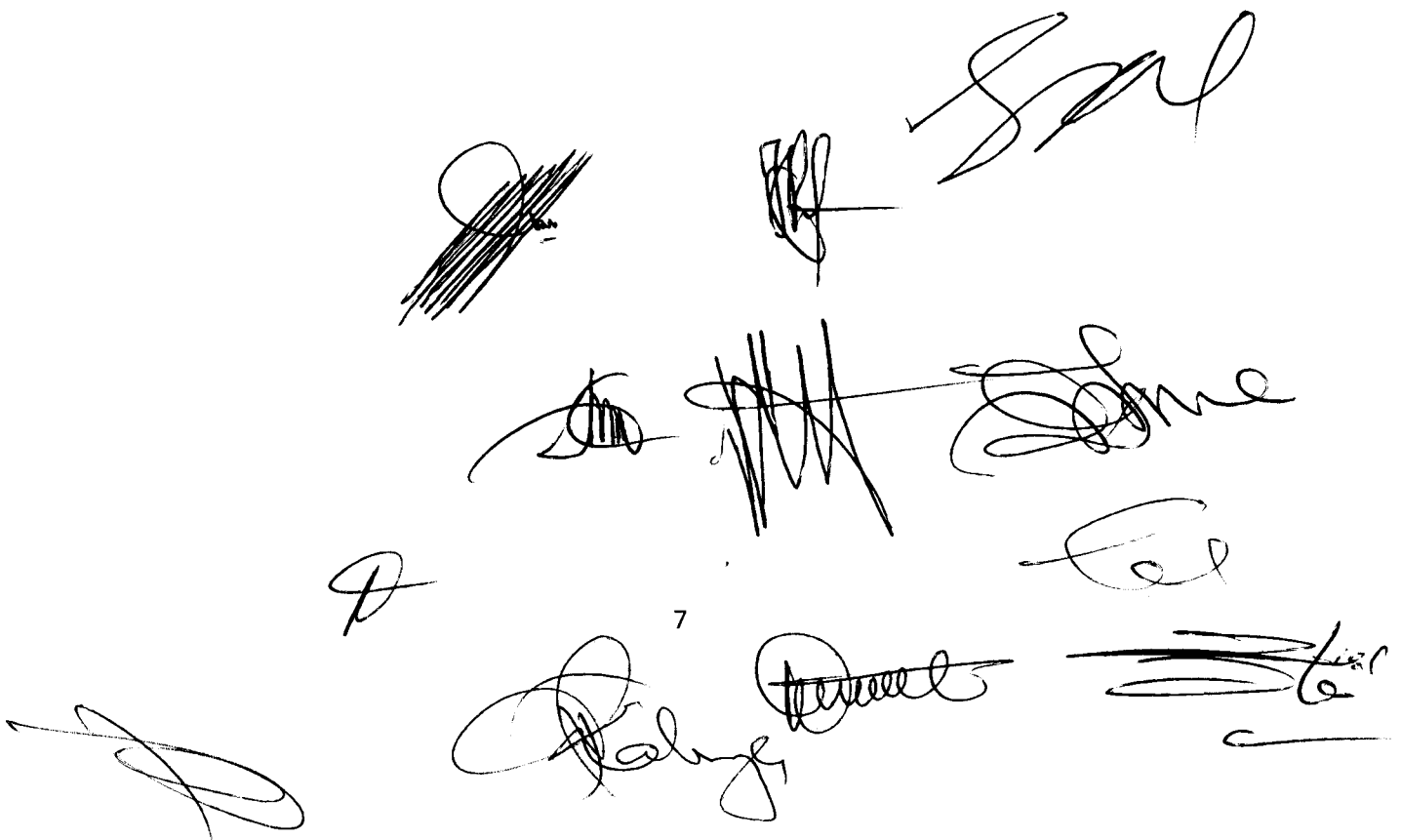
5.0 Recommendations

The Committee recommends that:



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- (i) Uganda Revenue Authority strengthens its tax Investigations Department so that audits can be carried out where there is suspicion on VAT claims;
- (ii) The Value Added Tax (Amendment) Bill, 2020 be passed into law subject to the proposed amendments



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PROPOSED AMENDMENTS

CLAUSE 2. AMENDMENT OF THE VALUE ADDED TAX, CAP 349

Under paragraph (b), delete the proposed subsection (4a)

Justification

- (1) The VAT Act is equitable where the supplier accounts for output tax while the purchaser claimed the input incurred. However in this case the suppliers of goods and services for projects under construction will be expected to account for the output while on the other hand developers cannot claim the input tax credit on their purchasers.

- (2) This is bound to increase the administrative cost for companies in the business of commercial property since they will have to either obtain separate tax invoices for shared supplies for each property or apportion a single invoice among the properties owned.

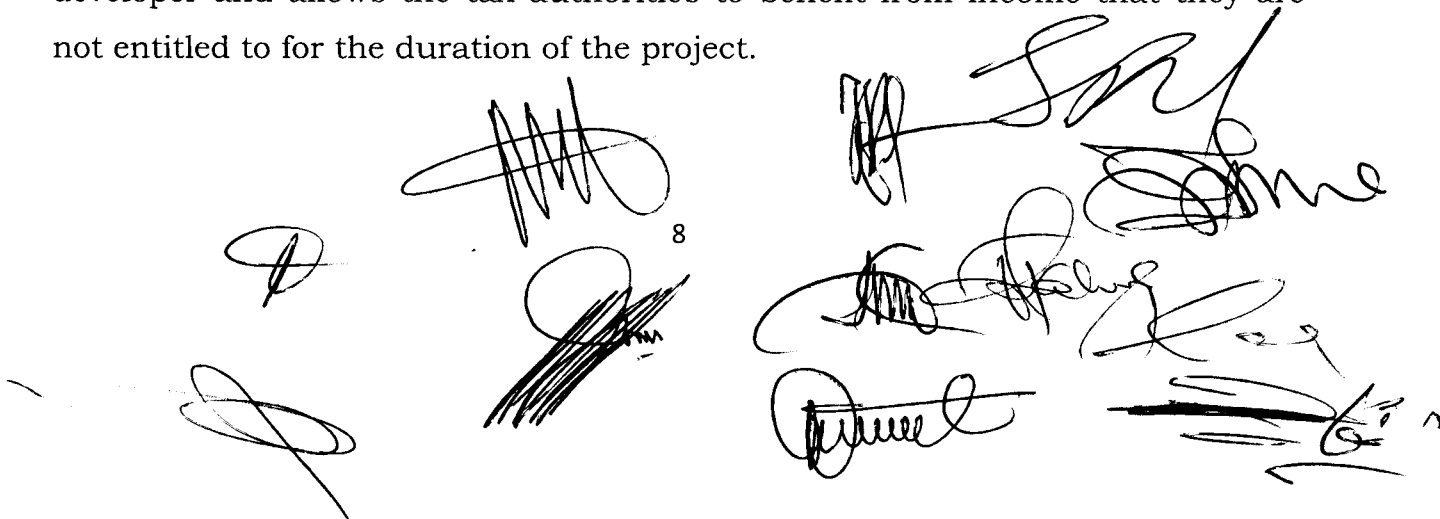
- (3) The proposal will impact the real estate sector by increasing the cost of each project threatening the viability of many developers currently undertaking debt funded projects

CLAUSE 3. AMENDMENT OF SECTION 42 OF THE PRINCIPAL ACT

Delete clause 3.

Justification

VAT is a consumption tax thus developer and other taxable persons are not supposed to be burdened by it. This proposal creates a burden on the developer and allows the tax authorities to benefit from income that they are not entitled to for the duration of the project.



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CLAUSE 5. AMENDMENT OF SECOND SCHEDULE TO PRINCIPAL ACT.

1. Under paragraph (a) insert new sub paragraphs as follows;

“(xxxx) tractor mounted Hay mowers, slashers, rakes & tedders; Crop sprayers; Hay & straw Balers; Tractor mounted Hole diggers / borers; Tractor mounted; Scrapers, levelling blades & Dam scoops; Root or tuber harvesting machinery; Tractor mounted loaders; Irrigation equipment; Drinkers & feeders for all farm animals; Tuber harvesting machinery”

Justification. To support the mechanization of agriculture

2. Under paragraph (b), (pp);

Substitute for **“and whose investment capital is at least ten million United States Dollars in the case of a foreigner or one million United States Dollars in the case of a citizen for ten years who, subject to availability, uses at least fifty percent of locally sourced raw materials and employs at least one hundred citizens”** the following

“whose minimum investment capital is ten million United States Dollars in the case a foreigner or three hundred thousand United States Dollars in case of a citizen; or one hundred thousand United States Dollars, for a citizen whose investment is placed up country; who uses at least seventy percent of the raw materials that are locally sourced, subject to their availability and at least seventy percent of the employees are citizens earning an aggregate wage of at least seventy percent of the total wage bill; and who “

Justification.

- The number 100 million may not be viable for some companies which work smart and do not need a total number of 100 employees; however

this can be expressed as a percentage as is the case currently under the Value Added Tax Act.

- To ensure that this benefits a larger proportion of the local economy. This can also be instrumental in enhancing and strengthening forward and background linkages between the free zones and or industrial parks and Uganda's farmers, who comprise 80% of the local economy.
- Encourage development and investment in the rural areas as opposed to concentration of investments in the towns

3. Under paragraph (c),

- Delete paragraph (fff)

Justification.

The implementation of digital stamps increases the costs of production for manufacturers. Government should evaluate and prove that the DTS implementation on its own has actually led to a commensurate increment in Excise Duty collections before the exemption is granted. This is especially important because the money being spent on DTS is going OUT of the country to a Company that only employs 60 people as opposed to the thousands being employed and supported here by the private sector.

- Delete the word "imported" appearing in proposed (hhh),

Justification.

The exemption must be extended to local suppliers.

4. Insert new subparagraphs immediately after paragraph (kkk) as follows;

(a)“(lll) the supply of locally developed computer software, its maintenance and software licenses”

Justification. To support technological development among the youth.

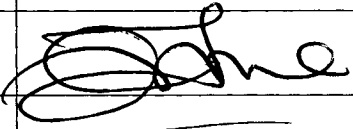


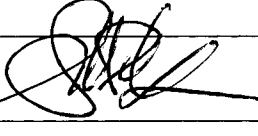
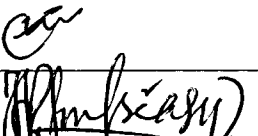
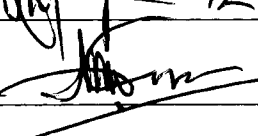
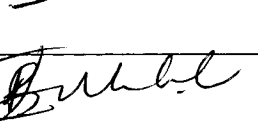
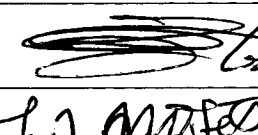
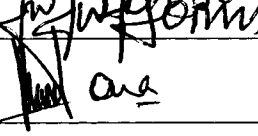
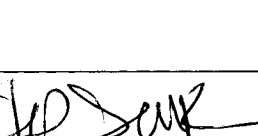
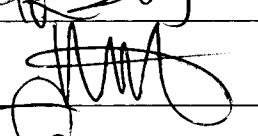
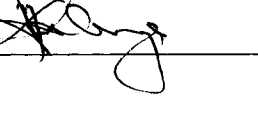


(b) “(mmm) The supply of services to conduct a feasibility study, design and construction; the supply of locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings which are not available on the local market to a hotel or tourism facility developer whose investment capital is eight million United States Dollars with a room capacity exceeding 30 rooms; or to a meetings, incentives, conferences and exhibitions facility developer whose investment capital is not less than USD 1 million.

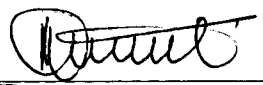


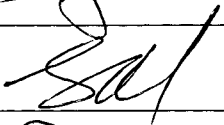

(c) “(nnn) The supply of services to conduct a feasibility study design and construction; the supply of locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings which are not manufactured on the local market to a hotel or tourism facility developer whose investment capital is ten million United States Dollars with a room capacity exceeding 30 rooms; or to a meetings, incentives, conferences and exhibitions facility developer whose investment capital is not less than USD 1 million.



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REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2020

No	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Musasizi Henry, CP	Rubanda East	
2	Hon. Avur Jane Pacuto	DWR Pakwach	
3	Hon. Lugoloobi Amos	Ntenjeru North	
4	Hon. Asiku Elly Elias	Koboko North	
5	Hon. Bategeka Lawrence N	Hoima Municipality	
6	Hon. Abala David	Ngora County	
7	Hon. Katoto Hatwib	Katerera County	
8	Hon. Opolot Isiagi Patrick	Kachumbala County	
9	Hon. Tumuramyé Genensio	Kashongi County	
10	Hon. Stella Kiiza	Kyegegwa District	
11	Hon. Ilukor Charles	Kumi county	
12	Hon. Lokii John Baptist	Matheniko County	
13	Hon. Walyomu Muwanika Moses	Kagoma County	
14	Hon. Mulindwa Isaac Ssozi	Lugazi Municipality	
15	Hon. Odur Jack Lutanywa	Kibanda South	
16	Hon. Achia Remigio	Pian County	
17	Hon. Mukula Francis	Agule Pallisa	
18	Hon. Kakooza James	Kabula County	

19	Hon. Ayepa Michael	Labwor County	
20	Hon. Nathan Nandala-Mafabi	Budadiri West	
21	Hon. Akol Anthony	Kilak North	
22	Hon. Mukoda Julie Zabwe	DWR Mayuge	
23	Hon. Luttamaguzi Semakula	Nakaseke South	
24	Hon. Akello Judith Franca	Agago District	
25	Hon. Ochan Patrick	Apac Municipality	