



**PARLIAMENT OF UGANDA**

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

OFFICE OF THE CLERK TO PARLIAMENT  
August 2020

*[Handwritten signatures and initials]*

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

**1.0 Introduction**

The Income Tax (Amendment) Bill, 2020 was returned by His Excellency the President of the Republic of Uganda on 11<sup>th</sup> June 2020 in accordance with Article 91 of the Constitution of the Republic of Uganda. The Bill was tabled in the House on 17<sup>th</sup> June, 2020.

H.E the President recommitted to Parliament for reconsideration of clause 2, 3(b), (d), 7(a)(i) of the Bill.

The returned Bill was referred to the Committee on Finance, Planning and Economic Development in accordance with Rule 142 of the Rules of Procedure for reconsideration.

**2.0 Reasons for the return of the Bill by H.E the President**

H.E the President returned the Income Tax (Amendment) Bill, 2020 for reconsideration of clause 2, 3(b),(d) and 7(a)(i) by Parliament for the following reasons:

- (i) Clause 2 that sought to amend Section 4 of the Income Tax Act to provide that taxpayers who declare tax liability for a consecutive period of five years of income less than 0.5 percent on their gross turnover, should pay a minimum tax amounting to 0.5 percent of the turnover

A collection of handwritten signatures and scribbles in black ink, located at the bottom of the page. The signatures are overlapping and difficult to read, but some appear to be initials or names. There are also several large, circular scribbles and lines drawn over the text.

for each year, commencing with the six year. This measure is projected to raise additional revenue amounting to UGX. 178bn. This was one of the measures that was proposed in the Domestic Revenue Mobilization Strategy to generate revenue from tax payers who have colossal turnover but because of the generous deductions in the Income Tax Act, they use them to defeat collection of revenue. Such a tax is not peculiar to Uganda as the United States of America, Tanzania, Kenya and Rwanda do employ it.

(ii) Clause 3(d) of the Income Tax (Amendment) Bill, 2020 which proposed to introduce a new sub-section (3a) to Section 5 of the Income Tax Act. This provision would require a person who earns rental income from more than one building to account for the income and expenses of the buildings and pay tax for each of the buildings separately. The objective of this reform is to increase revenue contribution of owners of multiple buildings by obliging them to account for Rental Income Tax for each building separately. The current legal framework contains a loophole which enables owners of multiple buildings to shelter taxable rental income of a profitable property with expenses and losses of non-profitable buildings which leads to unjustifiable deferral of Government revenue.

(iii) Clause 3(b) and 7(a)(i) of the Income Tax (Amendment) Bill, 2020 which proposed to cap the deductible expenses for purposes of determining the tax on rental income of any person. Currently an individual who

The bottom of the page contains several handwritten signatures and scribbles in black ink. On the left, there is a large, circular scribble. To its right, there are several distinct signatures, including one that appears to be 'John' and another that looks like 'B. N. N. N.'. There are also some smaller, less legible scribbles scattered across the bottom right area.

derives income from letting of property is allowed a deduction of twenty percent from the rent received as expenditure incurred in producing that rent. On the remaining amount he pays 20% of the income in excess of shs. 2,820,000. For a company, it pays 30% tax on its rent after deducting all expenditures incurred in producing the rent. Whereas companies have been receiving rent of about shs.800bn annually, the tax contribution is less than shs.9bn amounting to 1.12% as the effective tax rate. The Bill therefore proposes a ceiling on deductible expenses on rental income and also a limit on expenditure incurred in respect to the property from which the rent is derived.

### 3.0 Methodology

The Committee held a meeting with the Ministry of Finance, Planning and Economic Development and Uganda Revenue Authority.

### 4.0 Observations by the Members

The Committee observed that:

- (i) Alternative Minimum Tax (AMT) is a mandatory alternative to the standard income tax that gets triggered when taxpayers make more than the exemption and use many commotion itemized deductions. The reason why AMT affects those in higher tax brackets is because it eliminates many of those deductions. Therefore, an alternative

A collection of handwritten signatures and scribbles in black ink, located at the bottom of the page. The signatures are varied in style, some appearing as loops and others as more linear strokes. There are also several large, circular scribbles and some smaller marks scattered across the bottom section.

minimum tax is a tax that ensures that taxpayers pay at least the minimum.

(ii) In the Domestic Revenue Mobilization Strategy, one of the targeted challenges affecting the performance of corporate income tax is the wide range of allowances, including capital allowances and deductions which reduce the chargeable income and the effective tax rate. Uganda has historically used taxation instruments, including limited exemptions and holidays, to pursue economic growth and investment. The success of this approach is reflected in the businesses that have chosen to invest in Uganda, but it has an impact on the overall tax yield. This has particularly reflected in the corporation tax performance. For instance, the capital allowances, including depreciation allowance, initial allowance, and industrial building allowance are more generous than economic depreciation, ultimately contributing to the large tax losses claimed by businesses. In addition, the ability to carry forward losses indefinitely may incentivize companies to remain artificially in a tax-loss-making position, over-claiming losses. Tax losses carried forward within the corporation tax system are currently substantial and distort the yield from corporation tax.

(iii) The proposal to introduce an alternative minimum tax is not because of weaknesses in administration but is a practice used by many countries to generate revenue from companies that are actually making

The bottom of the page contains several handwritten signatures and scribbles. On the left, there is a large, stylized signature. Below it, there are several smaller signatures and scribbles, including one that appears to say 'Hans' and another that has the number '4' written on it. The signatures are written in black ink and are somewhat illegible due to their cursive and scribbled nature.

profits but because of the generous deductions in the law (which are good for most businesses) some taxpayers use them to continuously register tax losses. Alternative Minimum Tax has already been imposed in various countries including Tanzania, Kenya, Rwanda, United States of America, India, South Korea and Austria.

- (iv) The reforms in rental income tax are aimed at increasing the revenue effort of rental tax. It is proposed to cap the expenses on rental income to 50%. This reform will improve revenue productivity of rental income tax by capping the deductible expenses for all rental taxpayers to 50% of rental income, with a carry forward of the excess for future deduction. The individual rental taxpayers without records to support their business expenses will take a maximum of 50% deduction in lieu.

## 5.0 Recommendation

The Committee recommends that:

- (i) the returned clauses of the Income Tax (Amendment) Bill, 2020 be passed by the House;
- (ii) The Income Tax (Amendment) Bill, 2020 be passed into law

**RECONSIDERATION OF AMENDMENTS TO THE INCOME TAX  
AMENDMENT BILL, 2020**

The following paragraphs should be passed to form part of the Bill

- (i) Clause 3
- (ii) Clause 3 proposed paragraphs (b) and (d)
- (iii) Clause 7 proposed paragraph (a)(i)

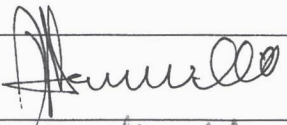
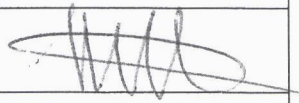


The lower half of the page contains several handwritten signatures and scribbles. At the top right, there is a large, circular scribble with a horizontal line through it. Below this, on the left, is a scribble that looks like 'M. Singh'. In the center, there is a horizontal scribble. To the right of the center, there is a scribble that looks like 'J. Singh'. Below the center scribble, there is a signature that looks like 'R. Singh'. At the bottom left, there is a signature that looks like 'M.'. At the bottom center, there is a signature that looks like 'G.'. At the bottom right, there is a signature that looks like 'M.'. There are also several other scribbles and lines scattered across the page.

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

<b>No</b>	<b>NAME</b>	<b>CONSTITUENCY</b>	<b>SIGNATURE</b>
1	Hon. Musasizi Henry, CP	Rubanda East	
2	Hon. Avur Jane Pacuto	DWR Pakwach	
3	Hon. Lugolobi 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. Tumuranye 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. Bbumba Syda Namirembe	Nakaseke North	
18	Hon. Migadde Robert Ndugwa	Buvuma Islands	
19	Hon. Mukula Francis	Agule Pallisa	
20	Hon. Kakooza James	Kabula County	
21	Hon. Nathan Nandala-Mafabi	Budadiri West	
22	Hon. Akol Anthony	Kilak North	
23	Hon. Mukoda Julie Zabwe	DWR Mayuge	
24	Hon. Luttamaguzi Semakula	Nakaseke South	
25	Hon. Akello Judith Franca	Agago District	
26	Hon. Ochan Patrick	Apac Municipality	