

PARLIAMENT OF THE REPUBLIC OF UGANDA



A REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND
ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX
(AMENDMENT) BILL, 2021

OFFICE OF THE CLERK TO PARLIAMENT

APRIL, 2021

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A REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE VALUE ADDED TAX (AMENDMENT) BILL, 2021

1.0 INTRODUCTION

The Value Added Tax (Amendment) Bill, 2021 was read for the first time on 1st April, 2021 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 Value Added Tax Act, Cap 349 to provide for the timelines within which to apply for input tax credit; to provide for the refund of tax for use of electronic receipts or invoice; to impose strict liability for violations under penal tax; to provide tax incentives to investors by exempting certain supplies from value added tax.

3.0 METHODOLOGY

The Committee held meetings with and received memoranda from the following;

1. The Minister for Finance, Planning and Economic Development
2. Uganda Revenue Authority
3. The Civil Society Budget Advocacy Group
4. Private Sector Foundation Uganda
5. Coca Cola Beverages, Africa
6. Uganda Breweries Ltd
7. Nile Breweries Ltd
8. Tax Justice Alliance Uganda
9. SEATINI, Uganda
10. Unwanted Witness

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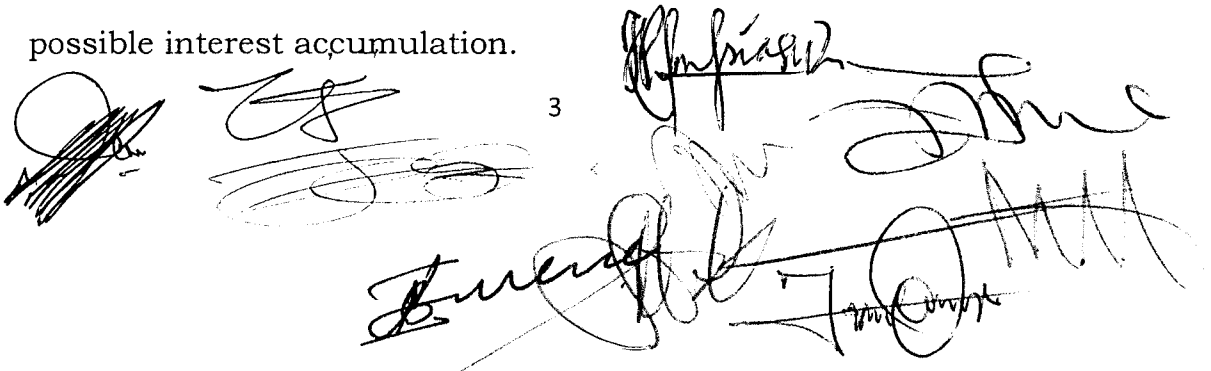
4.0 COMMITTEE OBSERVATIONS

The Committee observed that:

- I. The Committee noted that liquefied gas is exempted from VAT with effect from 1st July, 2020. This is due to the fact that the amendment was inadvertently left out of the final gazette copy of the tax law despite having been passed by Parliament in 2020.
- II. Clause 2 of the Bill proposes to repeal section 1(aa) of the Value Added Tax which defines “biodegradable packaging material”
This proposal is a consequential amendment since Paragraph 1(jj) of the Second Schedule to the VAT Act which exempted biodegradable packaging material was repealed in 2012.
- III. Clause 3 of the Bill proposes to insert Section 20(2) of the Principal Act which reproduces Section 20A.
This is intended to remove ambiguity that had arisen from Section 20A as a standalone provision.
- IV. Clause 4 proposes to repeal Section 20A which is now reproduced as Section 20(2).
This is a consequential amendment to clarify the heading of Section 20A
- V. Clause 5 proposes to amend section 28 to allow a period of up to six months from the date of the invoice within which a person can apply for input tax credit.

This is intended to streamline claims for VAT credit to ensure that tax payers do not file applications for refunds after a long period of time.

This will expedite refund verification audits in respect of very old claims and hence save the funds that would be incurred in terms of costs and possible interest accumulation.

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VI. Clause 6 proposes to amend section 31A of the Principal Act by creating a separate quarterly return filing regime for non-resident suppliers of services deemed to be supplied in Uganda when made to non-taxable persons.

This is bound to create a simplified regime for non-resident providers of services deemed to be supplied in Uganda.

VII. Clause 7 proposes to amend section 45A to introduce a tax refund of 5% of the VAT amount, to be paid back to consumers with invoices worth ten million shillings within a consecutive period of thirty days. The Committee however notes that this threshold should be reduced to five million as it will be a step in a positive direction to encourage purchases from the formal sector by giving incentives to ultimate consumers, which will also prompt them to apply for TIN and ultimately expanding the tax base.

VIII. Clause 8 proposes to amend section 65 of the Principal Act by repealing the words "*knowingly or recklessly*".

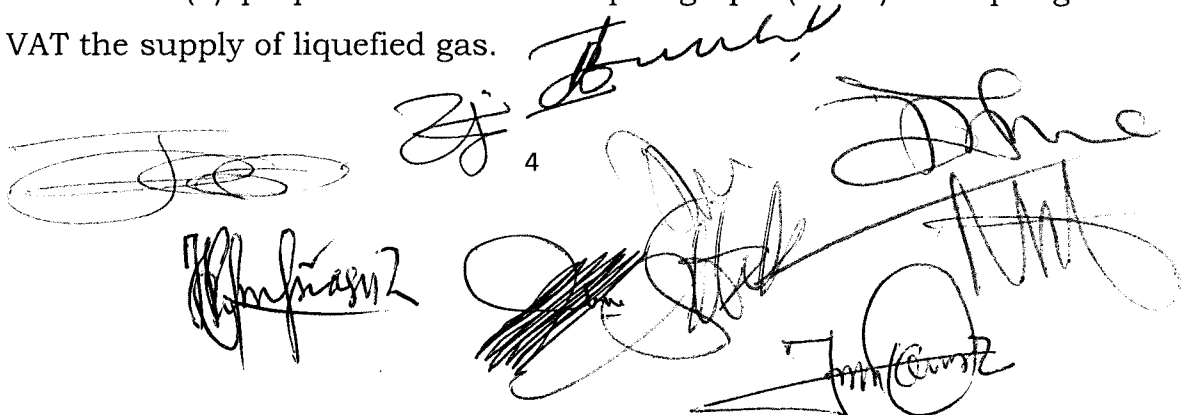
This proposal will make the offence one of strict liability.

IX. Clause 9 proposes to insert African Export – Import Bank and International Union for Conservation of Nature in the First Schedule to the VAT Act.

This proposal will promote trade by providing relief to banks that finance trade.

X. Clause 10 (a) proposes to repeal subparagraphs (vv) and (xx) in the Second Schedule to the VAT Act.

Clause 10 (b) proposes to insert subparagraph (hhhb) exempting from VAT the supply of liquefied gas.



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Clause 10 (c) proposes to introduce subparagraph (mmm) exempting from VAT the supply of services to conduct feasibility study, design and construction to any manufacturer who invests at least fifty million United States Dollars, has capacity to use at least seventy percent of the raw materials that are locally sourced, subject to their availability; and has capacity to employ at least seventy percent of the employees that are citizens earning an aggregate wage of at least seventy percent of the total wage bill. However given the current effects of COVID -19 and the subsequent adverse effects, fifty million United States Dollar as a cap for VAT exemption may be quite on the high side. On the other hand the Clause should be able to clearly distinguish between a foreign investor and a local investor in order for the local investor to be able to fully derive and enjoy the benefits that come with being indigenous.

This proposal is intended to promote strategic investments in the country.

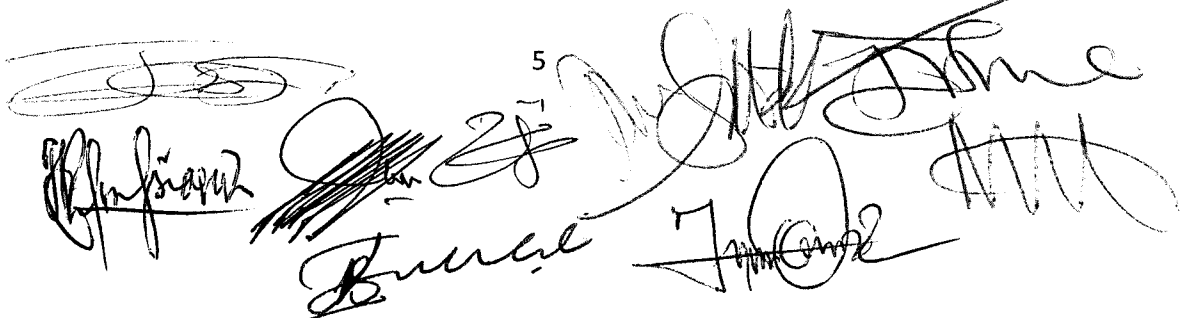
- XI. Clause 11 proposes to amend Paragraph 1 of the Third Schedule to the VAT Act by substituting for subparagraph (k) the supply of leased aircraft, aircraft engines, spare parts for aircraft, aircraft maintenance equipment and repair services.

This proposal is intended to promote the aviation industry by adding maintenance and repair services.

5.0 Committee Recommendations

1. The Committee recommends and urges Government to sensitize the business community on EFRIS system. This will go a long way in enhancing the enforcement of the use of e- invoicing amended in Section 45A
2. The Committee recommends that the Value Added (Amendment Bill), 2021 be passed into law subject to the proposed amendments.

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VALUE ADDED TAX (AMENDMENT) BILL, 2021

Clause 3: Amendment of principal Act

Clause 3 is amended by substituting for paragraph (b) the following-

“(b) inserting immediately after subsection (1) the following-

“(2) Import of a service is an exempt import if the service would be exempt had it been supplied in Uganda or would be used in the provision of an exempt supply”

Justification

This will prevent VAT exempt taxpayers from needing to account for VAT (irrecoverable VAT) on imported services used in the provision of exempt supplies not locally available.

Clause 7 Insertion of section 45A in principal Act

Clause 7 is amended in the proposed section 45A by substituting for the word “ten” the word “five”

Justification

The threshold should be reduced to five million shillings per month considering the purchasing power of ordinary Ugandans and the level of inflation

Clause 10: Amendment of Second Schedule to principal Act

Clause 10 is amended-

(a) in paragraph (b), by substituting for the proposed paragraph (hhhb), the following-

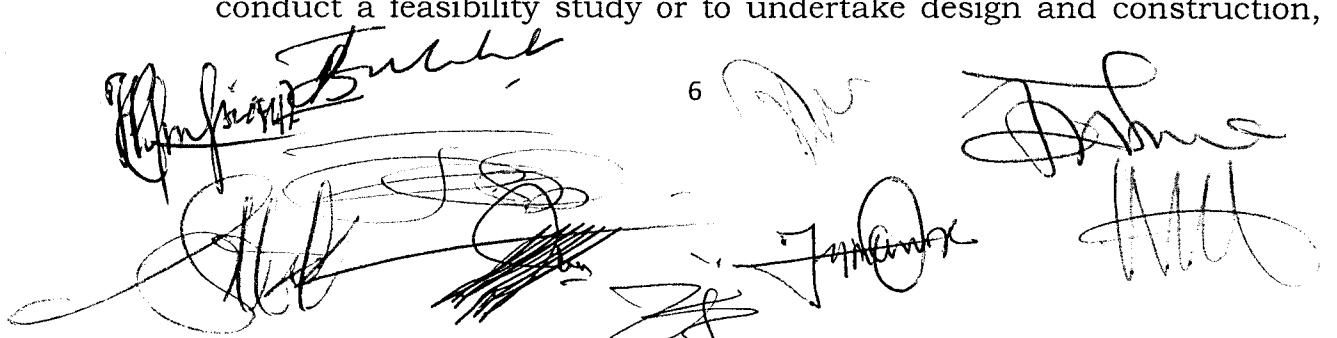
“the supply of liquefied gas and renewable energy from biomass”

(b) by substituting for paragraph (c), the following-

“(c) by inserting immediately after subparagraph (lll) the following-

(mmm) the supply of services to a manufacturer, other than a manufacturer referred to in subparagraph (pp) whose investment capital is at least thirty million United States Dollars for a foreign investor or United States Dollars five million for a local investor, to conduct a feasibility study or to undertake design and construction,

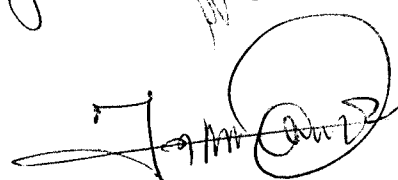
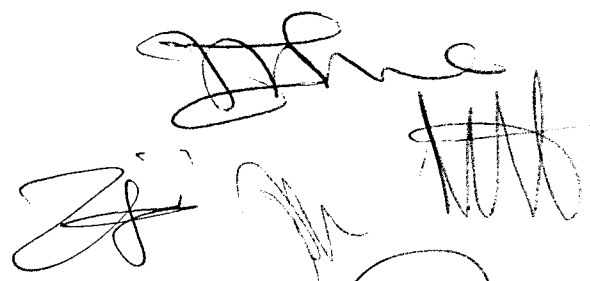
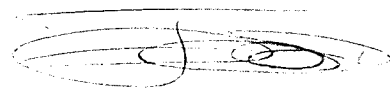
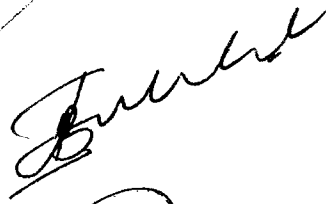
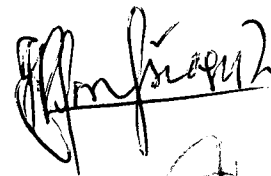
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or in the case of any other manufacturer, from the date on which the manufacturer makes an additional investment equivalent to thirty million united states Dollars for a foreign investor or five million United States Dollars for a local investor.”

Justification

- (i) Renewable energy from biomass is a close substitute of liquefied gas which will foster value addition in Uganda as biomass is generated from conversion of living or once living organism into fuel or energy.
- (ii) The investment cap for the general exemption is very high and shall render the exemption difficult to be accessed by potential investors



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No	NAME	SIGNATURE
1	Hon. Musasizi Henry, C/P	
2	Hon. Avur Jane Pacuto, D/CP	
3	Hon. Lugolobi Amos	
4	Hon. Asiku Elly Elias	
5	Hon. Bategeka Lawrence N	
6.	Hon. Abala David	
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