

PARLIAMENT OF THE REPUBLIC OF UGANDA

**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT ON THE VALUE ADDED (AMENDMENT) BILL, 2022**

OFFICE OF THE CLERK TO PARLIAMENT

MAY, 2022

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE VALUE ADDED (AMENDMENT) BILL, 2022

1.0 Introduction

The Value-Added Tax (Amendment) Bill, 2022 was, at the 18th Sitting of the 3rd Meeting of the 1st Session of the 11th Parliament of Uganda held on Thursday 31st March, 2022, presented for First Reading and referred to the Committee on Finance, Planning and Economic Development for further scrutiny.

Rt. Hon. Speaker, the Committee considered the Bill through consultations with different stakeholders, hence this report.

2.0 Object of the Bill

The object of the Bill is; to clarify the VAT exemption regime applicable to imported services of Value added tax on imported services used by business in making exempt supplies; to provide for the repeal of the exemption on seed cake; to exempt assistive devices for persons with disabilities; to provide for an exemption for supply of airport user services charge by Civil Aviation Authority to a passenger; to provide for the tax exemption of educational materials from East Africa Community partner states and to provide tax incentives to investors by exempting certain supplies from Value Added Tax.

3.0 Methodology

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

- i) Minister of Finance, Planning and Economic Development;
- ii) Uganda Revenue Authority;
- iii) Institute of Certified Public Accountants;
- iv) Private Sector Foundation Uganda;
- v) Uganda Manufacturers Association;
- vi) Uganda Tourism Board
- vii) Uganda Publishers Association
- viii) Mr. Erastus Ngirabakunzi

4.0 Observations of the Committee

The Committee identified various cross-cutting issues and made the following observations regarding the Value Added Tax s(Amendment) Bill, 2022;

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A. Cross-cutting Issues

The following cross-cutting issues were identified by the Committee in its deliberations regarding the Value Added Tax Amendment Bill, 2022;

4.1 Accumulation of interests and penalties accruing to delayed payment of government supplies of goods and services

The Committee observed that government delays to pay for services and goods supplied to it. Subsequently the supplies are charged by URA penalties and interests on these services supplied to government.

While meeting the Ministry of Finance, Planning and Economic Development, the Committee was informed that the Government is trying to solve this through holding personal liable those accounting officers who accumulate arrears that are not budgeted for in the FY in question.

That notwithstanding, the Committee noted that some supplies to Government are subject to multi-year commitments, while resource allocations may be subject to delays during the span of the contracts.

The Committee therefore observed that all supplies to government should be deemed to have been paid in accordance to Section 24 (7) of the Value Added Tax.

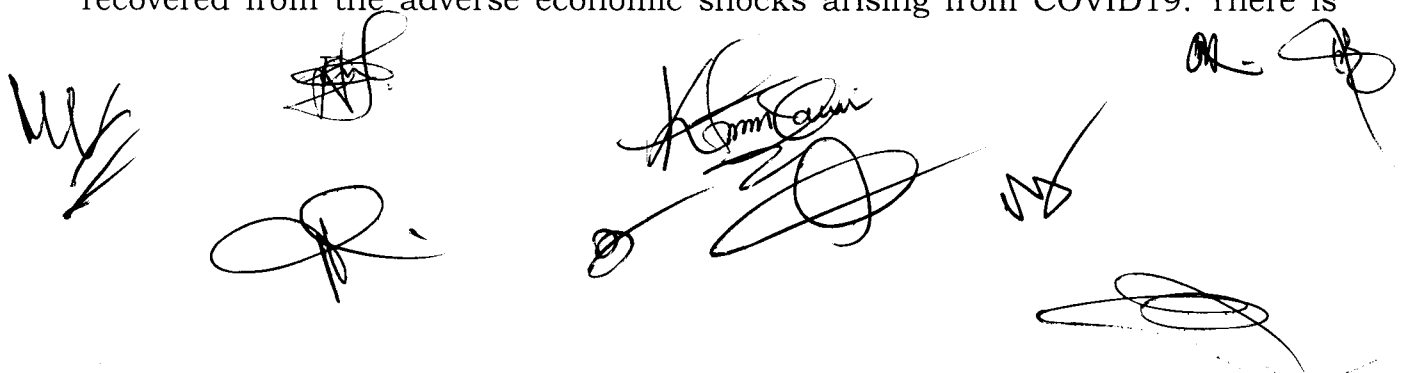
The Committee therefore recommends that the Value Added (Amendment) Bill, 2021 be amended to ensure that VAT on goods and services supplied to government is deemed to have been paid.

Specific Observations and Recommendations

4.2 Extension of waiver on accommodation facilities to 1st July 2023

The Committee observed that exemption on accommodation for tourist hotels and lodges both upcountry and within Kampala under Section 19 was enacted to ensure that hotels and other accommodation facilities under the hospitality industry are given the necessary policy-support to recover from the effects of COVID19.

The Committee further observed that the hospitality industry has not yet fully recovered from the adverse economic shocks arising from COVID19. There is



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therefore need to extend the waiver on VAT on accommodation for tourist hotels and lodges located both upcountry and in Kampala until 2023.

The Committee recommends that the Second Schedule, Item 1(hhha) be amended to extend non taxation of accommodation to tourist hotels and lodges from 1st July 2022 to 30th June 2023.

4.3 Clause 4: Amendments to 2nd schedule (exempt supplies); Sec. 4d of the Bill proposes to repeal subparagraph (fff) thereby reinstating VAT on cotton seed-cake;

The Committee observed that cotton seed cake is a key input in the poultry sector. For example, for poultry feed, 8%-10% of feed is cotton seed-cake, which is 15% of the cost of feeds. Putting 18% VAT means that the feeds will increase in price by 18%. This proposal therefore adversely impacts on the nascent animal feeds industry in the country which will be affected by increased cost of inputs leading to increased prices to the final consumer.

Recommendation

The Committee recommends that Clause 4 of the Value Added Tax (Amendment) Bill 2022 be moved to the third schedule of the VAT Act to benefit from zero rating.

4.4 Clause 5: Amendment of the 3rd Schedule of the VAT Act- Exemption on education materials in EAC


The Committee observed that Clause 5 of the Bill seeks to amend the 3rd Schedule of the VAT Act to exempt educational materials supplies from EAC Member States from VAT.

The Committee is cognisant of the fact that Uganda is a signatory to the Florence Agreement that compels government not to impose any taxes internal or external on educational materials. The goal of the Agreement is to promote education by making education materials affordable.

The Committee however observed that owing to two years' school closure in Uganda, as opposed to other EAC partner states, the paper sector in Uganda had restricted business activity in that period, leading to financial losses that are not yet recouped in the current FY.

The Committee therefore supports the proposal but recommends a transitional period of at least one year to allow the paper industry to recover.

Recommendation

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The Committee recommends that Clause 5 (a) of the VAT (Amendment) Bill, 2022 be deleted.

4.5 VAT Rate for Domestic Electricity Consumers

The Committee observed that the Report of the Committee on Natural Resources on the Electricity (Amendment) Bill 2021 noted the importance of varying the VAT rate paid on electricity sales for domestic consumers.

The Committee on Natural Resources noted that Kenya in 2020 lowered the tax tariff it when it lowered the VAT rate paid on electricity sales from 16% to 14% leading to a surge in demand for electricity.

The Committee further noted that in 2020, domestic consumers through Yaka bought electricity units worth UGX. 466 Billion and topped it up with VAT payments of UGX. 85.6 Billion. The lowering of the VAT paid on electricity from 18% to 10% for domestic consumers would have resulted into Government losing UGX. 47.7 Billion, leading to a revenue loss of UGX. 38.1 Billion.

The Committee observed that this policy measure would only affect domestic consumers who contribute 29% of all sector revenues. 71% of the electricity sold would still have a VAT rate of 18% apply. The combined effect would be that instead of UGX. 289 Billion which URA collected in VAT on electricity sales in 2020, the actual collections would have been UGX. 250.9 Billion. URA (stands to make more collections to offset the shortfall created by this policy measure of lowering the VAT rate by surging demand on account of power affordability.

The Report noted that this policy when combined with other sector efficiency measures would clear deemed power in the system further saving hundreds of Billions that the tax payer will be paying after commissioning of Karuma dam later this year.

The Report of the Committee on Natural Resources took cognisance of the Government electricity connection policy aimed at accelerating access to clean energy* The policy provides for free connection materials after the beneficiaries undertaking of house wiring and payment for the survey and testing of the installation. However, the funding of this policy has not been consistent resulting into delayed connection.

The Committee observed that the customers have therefore since resorted to self-financing. However, the Committee notes that the cost reflective cost of a self-financed new connection is prohibitive currently at UGX. 720,883 for a no pole

connection and UGX. 2,741,188 for a one pole connection inclusive of VAT. This high cost of new connections is an impediment to the Government initiative for accelerating access to clean energy. The Committee observed that the removal of the VAT on the cost reflective cost of new connections will reduce the above cost to UGX. 610,918 for a no pole and UGX. 2,323,041 for a one pole connection hence contributing to affordability reduction in the cost reflective new connection cost in line with the Government policy for electricity connections. The removal of VAT will support customer funded connections in circumstances where the Government has not been able to provide funds to support the free connection policy.

Recommendations:

The Committee recommends that;

- i) the VAT be zero rated for the cost of new connections for domestic consumers (no pole and one pole) to support accelerated access to clean energy.**



PROPOSED AMENDMENTS TO THE VALUE ADDED TAX (AMENDMENT) BILL, 2022

Insertion of new clause

The Bill is amended by inserting immediately after clause 2 the following-

“Amendment of section 24 of the principal Act

Section 24 of the principal Act is amended in subsection 7 by substituting for the phrase “contractor executing an aid-funded project” the word “supplier””

Justification

For easy administration of the tax and to remove the unfair treatment of suppliers in regard to payment of interest on unpaid VAT that arises from delay in payment by Government Ministries and Departments.

Clause 4: Amendment of the Second Schedule to the principal Act

Clause 4 is amended by inserting immediately after paragraph (d), the following-

“by substituting for paragraph (hhha), the following-

“the supply of accommodation in tourist lodges and hotels inside a radius of 50 kilometres from the boundaries of Kampala from 1st July 2022 to 30th June, 2023.

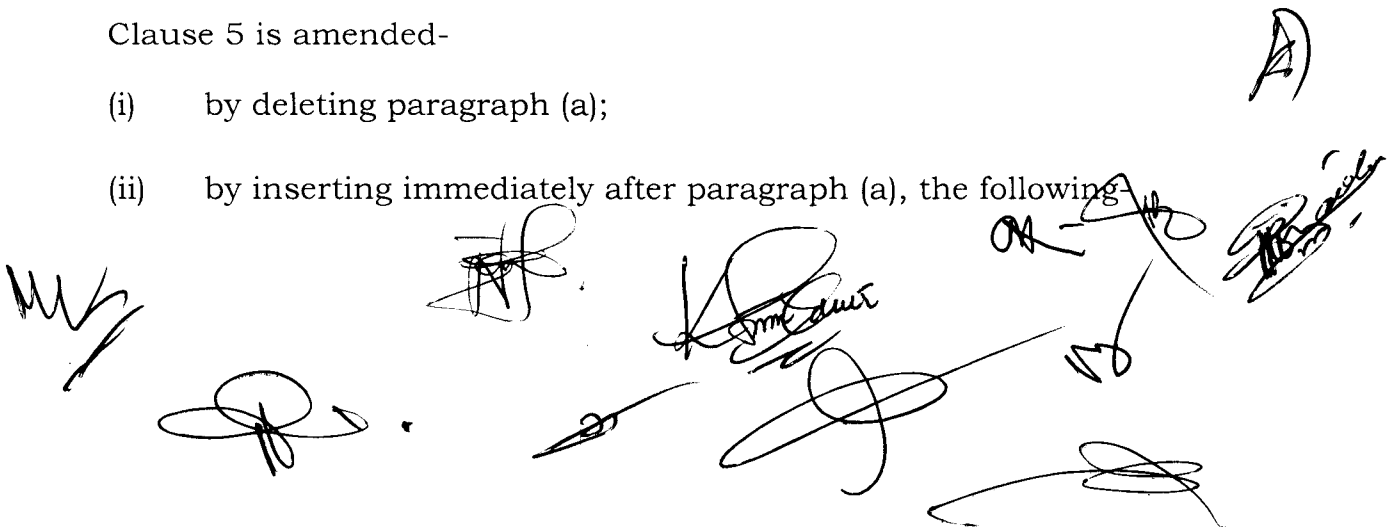
Justification

The proposed amendment has the effect of rendering the prices of accommodation in tourist lodges and hotels inside a radius of 50 kms affordable.

Clause 5: Amendment of the Third Schedule to the principal Act

Clause 5 is amended-

- (i) by deleting paragraph (a);
- (ii) by inserting immediately after paragraph (a), the following-

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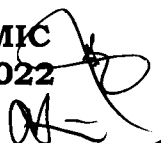
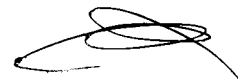
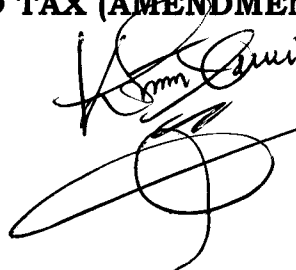
“by inserting immediately after sub paragraph (e), the following-
“(ea) the supply of cotton seed cake.”; and




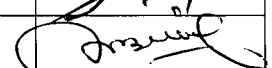

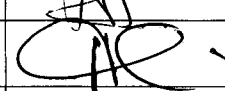
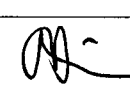
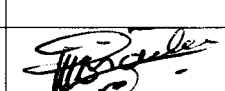
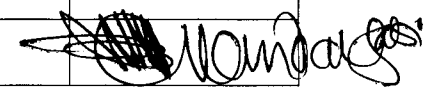
- (iii) by inserting immediately after paragraph (b), the following-
“The supply of electrical energy to new connections for domestic consumers.”

Justification

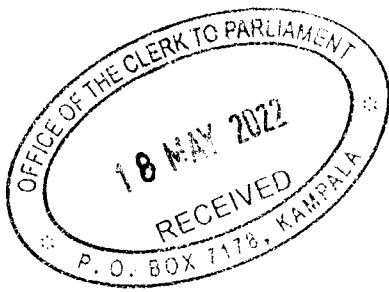
- (i) The proposed amendment has the effect of rendering the cost of education materials more costly;
- (ii) To zero rate the supply of cotton seed cake; and
- (iii) To make electricity affordable to the end user which will promote the protection of the environment.

MEMBERS OF THE COMMITTEE FINANCE, PLANNING AND ECONOMIC DEVELOPMENT; THE VALUE ADDED TAX (AMENDMENT) BILL OF 2022



NO	NAME	CONSTITUENCY	SIGNATURE
1	Dr. Keefa Kiwanuka C/P	Kiboga East County	
2	Hon. Avur Jane Pacuto D/CP	DWR Pakwach	
3	Hon. Wamakuyu Ignatious Mudimi	Elgon County	
4	Hon. Kankunda Amos Kibwika	Rwampara County	
5	Hon. Atima Jackson	Arua Central	
6	Hon. Bataringaya Basil	Kashari North County	
7	Hon. Asiimwe K Enosi	Kabula County	
8	Hon. Aleper Moses	Chekwii County	
9	Hon. Ssejoba Isaac	Bukoto CountyMid West	
10	Hon. Tayebwa Herbert Musasizi	Kashongi County	
11	Hon. Lematia John	Ayivu West County	
12	Hon. Kyooma Xavier Akampurira	Ibanda County North	
13	Hon. Nakut Faith Loru	DWR Napak	
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23	Hon. Nandala Mafabi	Budadiri West County	

24	Hon. Batuwa Timothy	Jinja West County	
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26	Hon. Luttamaguzu Semakula P.K	Nakaseke South	
27	Hon. Ocan Patrick	Apac Municipality	
28	Hon. Omara Paul	Otuke County	<i>Omara Paul</i>
29	Hon. Muhammad Nsereko	Kampala Central Division	
30	Hon. Aciro Paska Menya	DWR Pader	
31	Hon. Kinyamatama Suubi Juliet	DWR Rakai	
32	Hon. Masaba Karim	Mbale, Industrial Division	
33	Hon. Patience Nkunda	Kanungu	



PARLIAMENT OF THE REPUBLIC OF UGANDA

**A MINORITY REPORT ON THE VALUE ADDED TAX (AMENDMENT) BILL,
2022**

MAY, 2022

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1.0 Introduction

The Value Added Tax (Amendment) Bill, 2022 was presented for First Reading and referred to the Committee on Finance, Planning and Economic Development for further scrutiny.

However, Rt. Hon. Speaker, the following issues constituted a dissenting opinion on the Value Added Tax (Amendment) Bill, 2022.

2.0 Area of Dissent

2.1 VAT on Bread and Bread In-puts

VAT on bread and bread products is standard-rated at 18%; It was further noted that this has led to an increase in the price of bread, with a 400gm loaf of bread currently selling at 4543/- with VAT of 683/-. Further, products on bread such as bread crumbs.

It was further noted that Zero-rating bread and bread products will lead to manufacturers reinvesting the VAT input in more production, reduced prices and higher revenues, bring the price of bread down, which is a very integral part of the Ugandan food staple, especially among children.

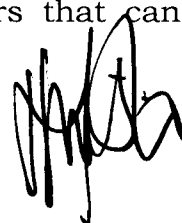
Recommendation

We recommend that government imposes a zero-rated regime on bread and bread products.

2.2 VAT Exemption on Computers 5 years and above

Computers and computer accessories that are five years old should be exempted of 18% VAT, 15% withholding tax, and 1.5% infrastructure tax. It was noted that this help promote higher levels of digital literacy, and promote the acceleration of technology transformation in the country which fits within the National Development Goals under NDP3.

The Digital Literacy levels in Uganda as compared to many developing countries is extremely low, and there is no holistic inclusion of digital skills in the education curricula, partly due to the cost involved. If Uganda is to be part of the new world order, then embracement of ICT is an integral part. The basic learning manual for ICT is a computer, laptops, kindles, etc. Therefore Uganda must find ways of cutting the cost of basic computers that can aid basic



programming, designing and coding and the only way is through this august house approving this exemption.

It was further noted, that in line of the COVID19 pandemic, a majority of people resorted to remote working and online studying for example through Zoom, Google Classroom etc. An exemption on the VAT for computer and computer accessories will promote productivity and ensure a reduction in the cost of doing business.

Recommendation

We recommend that tax on computers and computer accessories of 5 years old be removed.

2.3 Tax Recovery of Exempted Tax

By amending the Excise Duty Act Schedule 2, it is proposed that revenue lost in the VAT exemption on bread can be recovered by reinstating 20% excise duty on sugar confectionaries, chewing gum, sweet and chocolate. These luxuries will help the Government recover at least UGX10Bn/=.

PROPOSED AMENDMENTS TO THE VALUE ADDED TAX (AMENDMENT) BILL

Clause 2: Amendment of the Third Schedule of the Value Added Act, 2014;

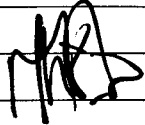
Schedule 3 of the Value Added Tax, be amended to introduce under Paragraph 5 exempting computers and computer accessories from VAT.

By Inserting Section 118 of the Income Tax Act, cap 340 to clearly state that “There shall be no payment of withholding tax charged on computers and computer accessories of 5 years old.’

By amending the Second Schedule of the Value Added Tax to include Section 1 (a) to introduce 1 (A) (i) to state that Bread and bread products are exempt from VAT.



MEMBERS OF THE COMMITTEE FINANCE, PLANNING AND ECONOMIC DEVELOPMENT; THE VALUE ADDED (AMENDMENT) BILL OF 2022

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