Uganda Budget Brief 2022/23

Full Monetization of the Ugandan Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access.

June 2022

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Economic commentary

Economic Performance

The Ugandan Economy is steadily recovering from a slower growth due to the Covid-19 in the year 2020/2021. The World Bank's forecast in the Global Economic Prospects places Uganda's economic growth lower than most of its peers in the East African Community region. For the year 2021/2022 the economy is expected to grow at 4.6% compared to a revised 3.5% in 2020/2021. The growth is expected to mainly be driven by services sector contributing 41.5% in 2021/2022 (2020/2021: 41,8%), following the reopening of schools in 2022 and recovery in the hospitality sector.

GDP per capita also increased from US$ 889 in FY 2018/19 to US$ 1046 in FY 2021/22, passing the annual National Development Plan III (NPD III) target of US$ 1006 and effectively confirming Uganda's transition to lower middle-income status.

Despite the above, the external risks emerging from the Russia–Ukraine conflict, which include inflationary pressures due to higher food and oil prices and continued supply chain disruptions create more uncertainty.

The Economic Policy Framework in the short to medium-term aims to restore economic activity to pre-pandemic levels and accelerate the pace of socio-economic transformation. The Economic policy going forward will seek to achieve the following three broad objectives: -

1

To mitigate the COVID19 impact on business activity and livelihoods to support the recovery of the economy back to normality by increasing access to capital, revamping health infrastructure and health systems; reducing vulnerabilities and ensuring access to education by automatic promotion for all classes.

2

To speed up socio-economic transformation through re-prioritizing and delivering impactful investments and restructuring resources/budget to areas with more value for money.

3

To sustain macro-economic stability, peace and security as key foundations for growth and development by keeping exchange rate stability, inflation control, maintaining an adequate reserve of forex; and mitigating emerging internal and external security threats.

Macro-Economic indicators

Inflation

1

Annual inflation increased significantly to about 6.3% in May 2022, recording the fastest pace since 2017, up from 3.3% in the FY 2020/21 mainly due to the increasing fuel and food prices attributed to the Russia- Ukraine conflict and the shortages caused by the demand and supply imbalance as a result of the Covid-19 pandemic.

2

For the FY 2021/22, inflation is expected to average 7% which is higher than what was earlier projected and peak in the second quarter of 2023 before gradually declining to stabilise around the mid-term target of 5% by mid-2024.

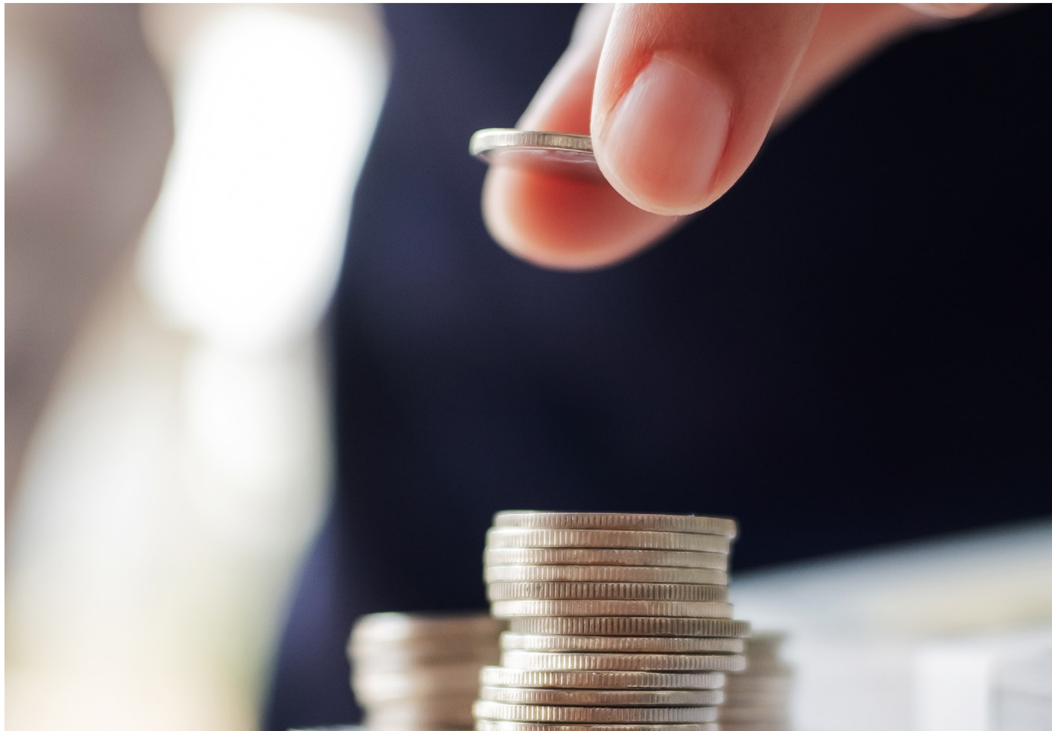
Interest rate

1

Bank of Uganda increased the Central Bank Rate (CBR) to 7.5% in June 2022 from 6.5% since June 2021 in order to control the rising inflation. The Central Bank expects to continue raising the CBR until inflation is firmly contained around the medium-term target of 5%.

2

Average commercial bank lending rate marginally reduced from 19.1% in April 2021 to 18.8% in the April 2022, mainly as a result of a stable Central Bank Rate of 6.5% during the year.



Exchange rate

The Uganda shilling strengthened against the US Dollar and remained relatively stable between July 2021 and May 2022 where the lowest rate was recorded in February 2022 (3,491.6) and the average rate was 3,574.43. The appreciation of the Uganda shilling was attributed to higher dollar inflows from exports, foreign direct investment, and foreigners buying Government treasury bills and bonds.

The Uganda shilling has subsequently weakened against the dollar in June 2022 with 3,799 as the highest rate recorded during the year. The depreciation was mainly driven by higher demand for foreign currency and monetary policy tightening in developed countries.

Budget commentary

To achieve Uganda's socio-economic transformation, the Government has resolved to achieve the followings goals in the forthcoming year and the medium term:

1. Kick start the process of getting the households still engaged in subsistence into the money economy,
2. Support businesses and the overall economy to recover from the impact of the COVID-19 pandemic and restore the lost jobs and livelihoods, and
3. Protect households from the rising prices of food, fuel, and other essential commodities using prudent economic policies.

The financial year 2022/2023 is the second year of the National Development Plan III and the theme for this year's budget is

Full Monetization of the Ugandan Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access

This theme summarises the budget strategy and priorities of the country and include;

i. Full implementation of the Parish Development Model (PDM) to accelerate the transition of the 39% of households still engaged in the subsistence economy into the money economy;

ii. Step up implementation of the relief and recovery funds to support the recovery of businesses and restore the lost jobs and livelihoods. These relief funds include the Small Business Recovery Fund; the Emyooga Fund; UDB and UDC debt and equity funds; .

iii. Implement appropriate fiscal and monetary policies to mitigate the impact of price shocks on the wellbeing of ordinary Ugandans, without causing long-term distortions in the economy.

iv. Maintain peace, security and stability, which jointly are the foundation of all other government, business and household plans.

v. Enhance investment in infrastructure to facilitate increased production, value addition, and national and regional market access and entry.

The key priorities for the FY 2022/2023 Budget are the following:

i. Enhancement of security, the rule of law and fight corruption;

ii. Sustaining economic recovery;

iii. Implementation of the Parish Development Model to create wealth and jobs;

iv. Promotion of agro-industrialisation, standards and market entry;

v. Commercialisation of Oil and Gas;

vi. Enhancing human capital development, science, innovation and knowledge transfer;

vii. Enhancement of transport, energy and ICT infrastructure; and

viii. Enhancing public sector effectiveness and efficiency.

Resource envelope

The resource envelope for the financial year 2022/2023 is Ushs 48,130.64 billion comprised of both domestic and external sources as detailed below;

Revenue source	Amount (Ushs billions)
Domestic Revenue	25,789
Project Support (External Borrowing)	4,587
Budget Support (External Borrowing)	2,579
Domestic Debt Refinance	8,008
Domestic Borrowing	4,965
Petroleum Fund, Local revenues, etc.	34
Grants	2,169
Total	**48,130**

Expenditure (Outflows)

The total expenditure for the FY 2022/2023 is Ushs 48,131 billion and is allocated as follows;

Programme	Amount (Ushs billions)
Productive Sector Allocation	8,174
Complementary Sector Allocation	22,572
Total Programme Allocation	30,746
Debt Refinancing, External Debt, Int Payment	17,385
Total Budget	**48,131**

Key highlights and action plans on priority areas

1. Enhancing Security, the Rule of Law and Anti-Corruption. Government identifies this as the bedrock to the socio-economic transformation, and thus is a key priority area.

On peace security and stability:

i. The recent surge in theft and cross-border conflicts in Karamoja sub-region have been and will continue to be addressed;

ii. The UPDF will also continue with the pacification of the Eastern DRC;

iii. Government will in the medium term embark on enhancement of pay for gallant men and women in uniform;

iv. The construction of the Military Referral Hospital in Mbuya is on schedule and within budget;

v. To enhance surveillance and improve crime detection, the first Phase of the CCTV camera project was successfully implemented with the installation of over 3,000 cameras country wide. The second phase is now 95 percent complete and targets all cities and major highways; and

vi. Ushs 3.987 trillion has been provided for improvement of security and security infrastructure.

On the rule of law

In order to enhance the rule of law, the priority will be placed on improving the dispensation of justice for all. The Judiciary will be supported to allow for speedy dispensation of justice and address the backlog of cases. Actions here include:

i. The rollout of systems that enhance judicial process;

ii. The recruitment of Judicial Officers; and

iii. the establishment of two (2) Regional Courts of Appeal in Gulu and Mbarara, and two (2) High Court circuits in Luwero and Soroti. In addition, three (3) Chief Magistrate Courts in Alebtong, Lyantonde and Budaka; and four (4) Grade I Magistrate Courts in Karenga, Patongo, Abim, and Kyazanga Districts, will be established.

On anti-corruption

i. There was increased declaration of income, assets, and liabilities by leaders from 25,000 to over 400,000 in 2021.

ii. In the year 2020/2021 a total of Ushs 2.96 billion has been recovered from corrupt leaders and public servants.

Ushs 381.6 billion has been provided for the judiciary, Ushs 94.97 billion for the Directorate of Public Prosecutions, Ushs 876.44 billion to the Uganda Police, Ushs 308.7 billion to the Uganda Prisons Service and Ushs 79.37 billion to the Inspectorate of Government.

2. Implementing the Parish Development Model

i. in order to integrate the 3.5 million households currently working in the subsistence economy into the money economy, and to proactively create wealth and jobs, the Parish Development Model (PDM) is going to be fully implemented in the coming Financial Year.

ii. In financial year ending June 2022, Ushs 234 billion was provided for the implementation of the PDM.

iii. Ushs 1.059 trillion was provided for full implementation of the Model. Each of the 10,594 Parishes in the country will receive Ushs 100 million as a revolving fund.

3. Climate Change and Environmental degradation. Climate change is a significant risk for agriculture production, and food security. In order to mitigate environmental degradation:

— Government has set a target to increase the national forest cover from the current 12.4 per cent to 15 per cent.

— 850 kilometers of wetlands and forests will be restored by evicting all encroachers, and also having them demarcated and gazetted.

Ushs 628.02 billion in the next fiscal year has been allocated 2022/23 for actions to mitigate climate change.

4. Promoting Agro-Industrialisation, Standards and Market Access. Promoting agro-industrialization, enforcing product standards and enabling marker access are key aspects to creating wealth and jobs. Ushs1.419 trillion has been allocated to promote agro-industrialization, standards and market access.

5. Supporting Economic Recovery and Commercializing Oil and Gas. Major steps have been taken to revive business activity, which Government will continue to do in the medium term. The Government is also addressing the tourism sector that has suffered from the pandemic. Commercializing Oil and Gas will also be facilitated to support economic recovery and medium-term growth. Ushs 194.7 billion has been allocated to tourism activities in this budget The construction of the East African Crude Oil Pipeline (EACOP) is expected to commence next financial year. Ushs 904.7 billion has been allocated towards the development and commercialization of minerals, Oil and Gas.

6. Enhancing Human Capital Development. Having successfully contained the COVID19 pandemic over the last two years, Government will continue its path to improve the well-being of the people of Uganda, targeting Health, water, education and science and innovation. Ushs 3.722 trillion has been allocated to Health in the next financial year, and Ushs 1.027 trillion, Ushs 4.14 trillion to water and education respectively. Ushs 274.4 billion has been allocated towards advancing innovation and technological development in this country, with major projects being the development of three COVID-19 vaccines and research into cancer, diabetes, sickle cell, anemia and malaria medicine development; construction of Kiira Vehicle Plant and the launch of the first satellite into lower Earth Orbit.

7. Enhancing the Transport, Power Infrastructure and information communication infrastructure. This covers construction of roads, commissioning of Karuma Hydro Power Plant, Completion of transmission lines and support Industrial Revolution Technologies such as Artificial Intelligence, Internet of Things (IoT) and the use of Robotics.

8. Enhancing Public Sector Effectiveness and Efficiency. This will include continued rationalisation of Government and public expenditure, automation of business and service delivery, establishment of divisional Citizenship and Immigration Offices in Kampala City. Salaries of medical workers and science teachers have also been enhanced by Ushs 495 billion. Further, a total of Ushs 5.1 trillion has been provided as direct financing to Local Governments to enhance the Decentralisation policy.

Tax Amendments

Introduction

Tax Highlights

The overall fiscal strategy is to promote inclusive growth to increase household incomes and improve the quality of life of Ugandans without compromising fiscal and debt sustainability. This will entail the implementation of the Domestic Revenue Mobilization Strategy (DRMS) to reduce the share of the budget that is financed through borrowing.

The DRMS aims at achieving revenue to GDP growth of 0.5% every financial year. The focus of the domestic revenue mobilisation in the FY2022/23 will be more on enforcing compliance other than introducing new taxes.

The tax amendments affect the Income Tax Act (Cap 340), Value Added Tax Act (Cap 349), Excise Duty Act, 2014 (Returned to Parliament), Stamp Duty Act, 2014, the Tax Procedure Code Act 2014, the Tax Appeals Tribunal Act (Cap 345) and the East Africa Community Common External Tariff.

The amendments will come into effect on 01 July 2022. We highlight below the major provisions for the financial year 2022/2023.

Detailed discussion

A. Income Tax (Amendment) Act, 2022

1. Amendment of the Definition of a "Beneficial Owner"

The Act has been amended to define a 'beneficial owner' to mean a natural person who ultimately owns or controls a customer or the natural person on whose behalf a transaction is conducted and includes a person who exercises ultimate control over a legal person or arrangement and—

a. in relation to a legal person includes:

  i. the natural person who either directly or indirectly holds at least 10 percent of shares or voting rights of the legal person;

  ii. the natural person who exercises control of the legal person through other means including personal or financial superiority; and

  iii. the natural person who has power to make or influence decisions of a legal person.

b. in relation to trusts includes—

  i. the settlor

  ii. the trustee

  iii. the protector

  iv. the beneficiary or the individual benefitting from the trust who is yet to be determined; and

  v. any other natural person exercising ultimate control of the trust; and

c. in relation to other legal arrangements similar to trusts, the natural person who holds positions equivalent to those referred to in sub-paragraph (b);"

Implication

The Amendment of the definition above emphasises that the beneficial person is a natural person. This definition is relevant when applying an exemption or reduced income tax rate provided for by a double taxation agreement (DTA). The person making the payment ought to establish the person benefiting from the exemption or reduced tax rate under the DTA is indeed the beneficial owner of that income.

2. Amendment of the definition of an "Exempt Organisation"

The Act has been amended to define an "exempt organisation" to mean a religious, charitable, educational institution or research institution whose object is not for profit.

Currently, the amended provision of the Act defines an "exempt organisation" to mean a religious, charitable, or educational institution whose object is not for profit.

Implication

The definition has been amended to include not for profit research institutions as exempt organisations for income tax purposes.

3. Amendment of taxation of rental income

a. Allowable deductions only available to persons other than individuals

The Income Tax Act has been amended to repeal provisions in respect of the deductibility of expenditures and losses incurred by the individual in the production of the rent income that is to say individual will not be allowed to deduct the expenses incurred by them in the production of income.

The Act has also been amended to state that the expenditures incurred, or gross rent derived by a partnership shall be allocated to the partners in accordance with Section 67 (5) and (7) of the Income Tax Act that deal with taxation of partnerships and partners.

Implication

The changes above imply that the gross rental income earned by an individual or partnership for the year will be subjected to the applicable tax rate without taking into consideration any expenditures and losses incurred in production of the gross rental income.

Additionally, gross rent and expenditures incurred by a partnership shall be allocated as per the provisions of Section 67 (5) and (7) of the Income Tax Act which provide for taxation of partnerships.

b. Expenses incurred by a person in the production of rental income

The Act has been amended to limit the expenses and losses allowed as a deduction in computing rental income for companies on which tax is imposed to 50% of the Rental income in a year of income and the excess is not carried forward.

The Act is further amended to remove interest incurred on a mortgage from a financial institution from the expenses to be allowed in computing chargeable rental income of an individual.

Implication

Expenditures and losses incurred by an individual in the production of rental income shall not be allowed in computing chargeable rental income. Also, expenses and losses incurred by companies in the production of rental income shall be capped at 50% of the rental income, and the excess, if any, is not carried forward to the next year of income.

c. Rate of Rental Tax applicable to Individuals

Currently, the Principal Act taxes chargeable rental income earned by individuals and companies at a rate of 30%.

However, the Act has been amended to provide for the tax rate for individual who earn gross rental income above UGX 2,820,000 at the rate of 12%. Rental income below UGX 2,820,000 will not attract any income tax.

Implication

The tax rate has significantly dropped from 30% to 12% which compensates for the fact that individuals are not allowed to offset any expenditures or losses incurred in production of the gross rental income.

However, it still leads to a heavier tax burden compared to when the rate was 30% with 75% of the rental income and interest on mortgage allowable as expenses.

4. Extension of tax holiday for income earned from the Bujagali Hydro Power Project

The amendment extends the period within which income of Bujagali Hydro Power Project is exempted by 1 year, that is, from 30 June 2022 to 30 June 2023.

5. **Income derived from a Ugandan-source service contract**

The Act has been amended to introduce Section 85 (5) which provides that income derived from the carriage of passengers who do not embark or cargo or mail which is not embarked in Uganda is not income derived from a Ugandan-source service contract.

Implication

Therefore, payments to non-resident transporters will not be construed as income sourced in Uganda and as such will not attract income tax.

6. **Penal Tax for failure to furnish an income tax return or any other document by a licensee**

The Act has been amended to provide for a penalty not less than USD 50,000 and not more than USD 500,000 for failure by the licensee to furnish a return or any other document within the time prescribed by the Act. This is not withstanding provisions of the Tax Procedures Code Act, 2014 (Sections 48 and 49A).

A licensee means a person who has been granted a mining right or a person with whom the Government of Uganda has entered into a petroleum agreement as defined in the Petroleum (Exploration, Development and Production) Act, 2013 or a person licensed under the Petroleum (Refining, Conversion, Transmission and Midstream) Act, 2013.

Implication

The amendment makes it clear that the provision of the Income Tax Act in respect of the penalty for filing of the return or any other document by a Licensee take precedent over similar ones in the Tax Procedures Code Act which are general in nature.

B. Value Added Tax (Amendment) Act, 2022

1. Amendment of the definition of an exempt import

The Act has been amended by removing from section 20 (2) the phrase 'or would be used in the provision of an exempt supply'.

Currently, Section 20 (2) of the VAT Act Cap 349 of 2021 states that an '*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.*'

Implication

This implies that effective 01 July 2022, taxpayers are obliged to account for VAT on imported services that are used in the provision of exempt supplies unless the services are exempt had they been supplied in Uganda.

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2. VAT on supplies to Government to be accounted for on cash basis

The Act has been amended to provide that a supplier who supplies goods or services to Government shall account for the VAT on those supplies on cash basis.

Currently, the suppliers to Government have been accounting for VAT upon making the supply and not when the Government pays them.

Implication

This implies that persons who have supplied to Government will only remit VAT to URA on those supplies once the Government has paid them. This will improve on the cashflows for persons making supplies to the Government.

3. Inclusion of additional organisations on the list of Public International Organisations

The Act has been amended to include on the First Schedule to include the International Development Law Organisation (IDLO) and substitute the Department for International Development (DFID) with Foreign Commonwealth and Development Office (FCDO).

Implication

This means that both the International Development Law Organisation (IDLO) and Foreign Commonwealth and Development Office (FCDO) will be entitled to a refund for the VAT borne or paid by them relating to transactions concluded for their official purposes.

4. Exemption of additional supplies from VAT

The Second Schedule of the Act has been amended to:

i. Exempt oxygen cylinder or oxygen for medical use from value added tax;

ii. Removal of the condition for the hospital facility to be at the level of a national referral hospital for a developer of a hospital facility to be exempt from Value Added tax on the supply of services to conduct a feasibility study; supply of local materials for construction; machinery and equipment among others.

iii. The supply of assistive devices for persons with disability;

iv. Supply of airport user services charged by the Civil Aviation Authority.

5. Removal of menstrual cups from the Exempt supplies schedule

The Act has been amended to remove the supply of menstrual cups from the list of the exempt supplies.

However, these have been included in the list of zero-rated supplies.

Implication

This implies that there will be VAT at 0% on supply of menstrual caps and the persons who supply menstrual cups will be allowed to claim the input tax incurred in the production and selling of the menstrual cups.

6. Changes in zero rated supplies

The Act has been amended to include the following supplies to the list of zero-rated supplies;

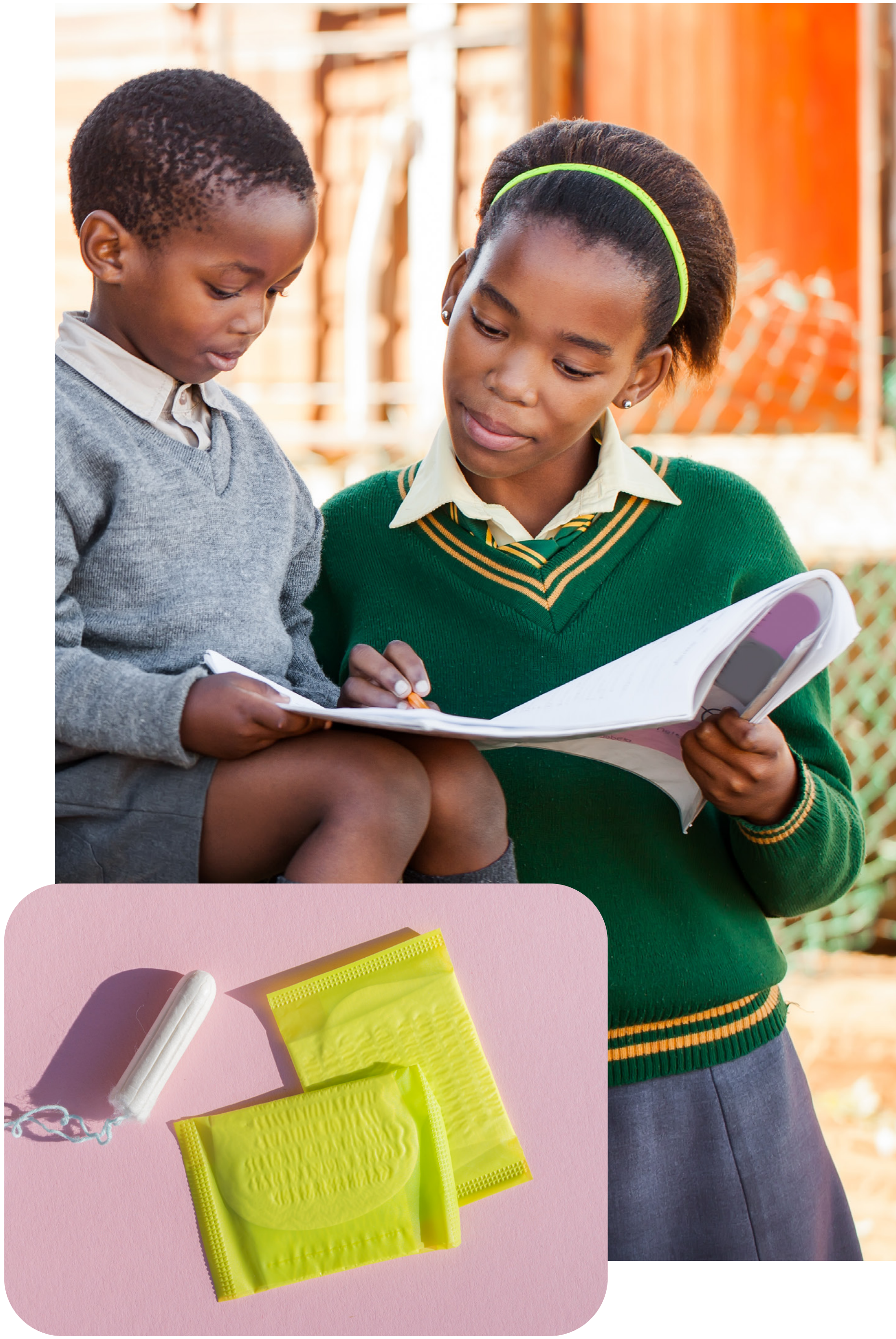
- the supply of educational materials including educational materials manufactured in a Partner State of the East African Community; and
- the supply of menstrual cups, and the inputs for their manufacture.

The amendments have also substituted sub-paragraphs (d) and (j) of the Third Schedule to the VAT Act Cap. 340.

Currently subparagraph (d) relates to the supply of educational materials, while subparagraph (j) relates to the supply of sanitary towels and tampons and inputs for their manufacture.

Implication

This implies that the supply of both menstrual cups, and educational material manufactured in a Partner State of the East African Community are zero rated.



C. Stamp Duty (Amendment) Act, 2022

1. Removal of Stamp Duty on an agreement for Deposit of Title

Item 6 of the Second Schedule to the Act has been amended by removing stamp duty payable on an Agreement relating to deposit of title-deeds, and pawn pledge.

Currently the stamp duty payable on the deposit of title- deeds and pawn pledge is 1% of the total value of the deeds and pawn pledge.

2. Removal of Stamp duty on Agricultural Insurance Policy

Item 48 of the Second Schedule to the Act has been amended by removing stamp duty payable on Agricultural insurance Policy.

Currently the stamp duty payable is UGX 35,000.

3. Removal of Stamp Duty on security Bond or Mortgage deed

The Act has been amended by removing stamp duty payable on a security bond or Mortgage deed.

Currently the stamp duty rate is 1% of the total value of the security bond or the mortgage.

4. Introduction of Stamp duty on property to a beneficiary from an executor or administrator of the will

Item 63 of the Second Schedule of the Stamp duty Act has been amended to impose stamp duty of UGX 15,000 on any property made by any writing including a transfer from a holder of letters of administration or probate orders to a beneficiary.

Currently, the above attracted stamp duty at UGX 15,000 but under item 64 that provides for any other instrument not specifically mentioned.

The inclusion of these kinds of transfers seeks to make it clear that they indeed attract stamp duty.

D. Tax Procedures Code (Amendment) Act, 2022

1. Validity of the registration of a tax agent.

The Act has been amended to specify the period within which the registration of a tax agent shall remain in force upon the issue of the certificate of registration to be valid until 31December of the year of registration.

Currently, the registration of a tax agent remains valid for a period of twelve months upon the issue of the certificate of registration.

2. Penal Tax relating to Tax Stamps.

The Act has been amended to include the failure to activate tax stamps on locally manufactured or imported goods as part of the offenses on which taxpayers will be liable to penal tax.

Currently, taxpayers that fail to affix a tax stamp on goods prescribed are the only ones liable to penal tax.

3. Temporary Closure of Business

In the current tax regime, the Commissioner may notify a person in writing of the intention or go ahead to close part or the whole of the person's business premises for default in paying a tax that is due and payable.

The Act has been amended to include the requirement for a person to comply with the requirements of electronic receipting and invoicing or tax stamps as part of the reasons the Commissioner can close part or the whole of a person's business premises.

4. Notice to Obtain Information or Evidence

Under this amendment, persons engaged in the construction or extractive industry will be required to disclose to the Commissioner the names of the persons contracted during the performance of their duties within seven days from the date of signing the contract.

Where they fail to avail the above-mentioned information, they will be penalized for one thousand currency points (i.e UGX 20,000,000).

The current tax regime does not specify the period within which persons in the construction or extractive industry ought to furnish the Commissioner with information for purposes of administering any provision within the tax law.

5. Penalty for making false or misleading statements

The amendment has increased the fine for a person who knowingly or recklessly makes a statement to a tax officer that is false or misleading or omits from a statement made to a tax officer from UGX 4,000,000 to UGX 110,000,000.

6. Offences relating to registration.

The Act includes the following offences relating to registration under Section 62. The current tax regime does not provide for the following offences and penalties.

— Section 62B - Failure to affix or activate tax stamps –a taxpayer who fails to affix tax stamps or activate tax stamps on locally manufactured or imported goods as prescribed by the Minister commits an offence and is liable to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years or both.

— Section 62C - Offence relating to Defacing/printing over of tax stamps – a taxpayer who prints over or defaces tax stamps affixed on goods on locally manufactured or imported goods as prescribed by the Minister commits an offence and is liable to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years or both.

— Section 62D - Offence relating to forgery of tax stamps – a taxpayer who is found in possession of a forged stamp commits an offense and is liable upon conviction to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years or both.

— Section 62E - Offence relating to failure to use electronic receipting or invoicing – a taxpayer who does not issue an e-invoice, issue an e-receipt, or employ an electronic fiscal device as per section 73(A) commits an offense and is liable upon conviction to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years or both.

— Section 62F - Offence relating to forgery of an electronic receipt or invoice – a taxpayer who does not issue an e-invoice, issue an e-receipt or employ an electronic fiscal device as per section 73(A) commits an offense and is liable upon conviction to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years or both.

— Section 62G- offence relating to interference with the electronic fiscal device or electronic dispensing control device - a taxpayer who makes unauthorised interference with the software or hardware of an electronic fiscal device or electronic dispensing control device commits an offence and is liable, on conviction, to a fine not exceeding one thousand five hundred currency points or imprisonment not exceeding ten years, or both.

— Section 62H - Offence relating to automatic exchange of information – a taxpayer who fails to file a return for purposes of automatic exchange of information, fails to maintain records for purposes of automatic exchange of information, makes false or misleading statements in the information return and omits from a statement made in the information return commits an offense and is liable upon conviction to a fine not exceeding two thousand five hundred currency points for each day of default or imprisonment not exceeding ten years or both.

7. Payment of Informers

Under the current regime, a person who provides information leading to recovery of tax or duty receives a reward equivalent to five percent of the principal tax or duty recovered.

The Act under section 74A (1) has changed the reward granted to a person who provides information to the commissioner leading to;

— identification of unassessed tax or duty to one percent of the tax or duty assessed or fifteen million shillings whichever is less; or

— recovery of unassessed tax or duty to five percent of the tax or duty recovered or one hundred million shillings whichever is less

The above provision however will not apply to URA staff.

E. The Tax Appeals Tribunal (Amendment) Act, 2022

The Act has been amended to increase the number of the other members of the Tribunal from four to eight and at least 40% of the members shall be women.

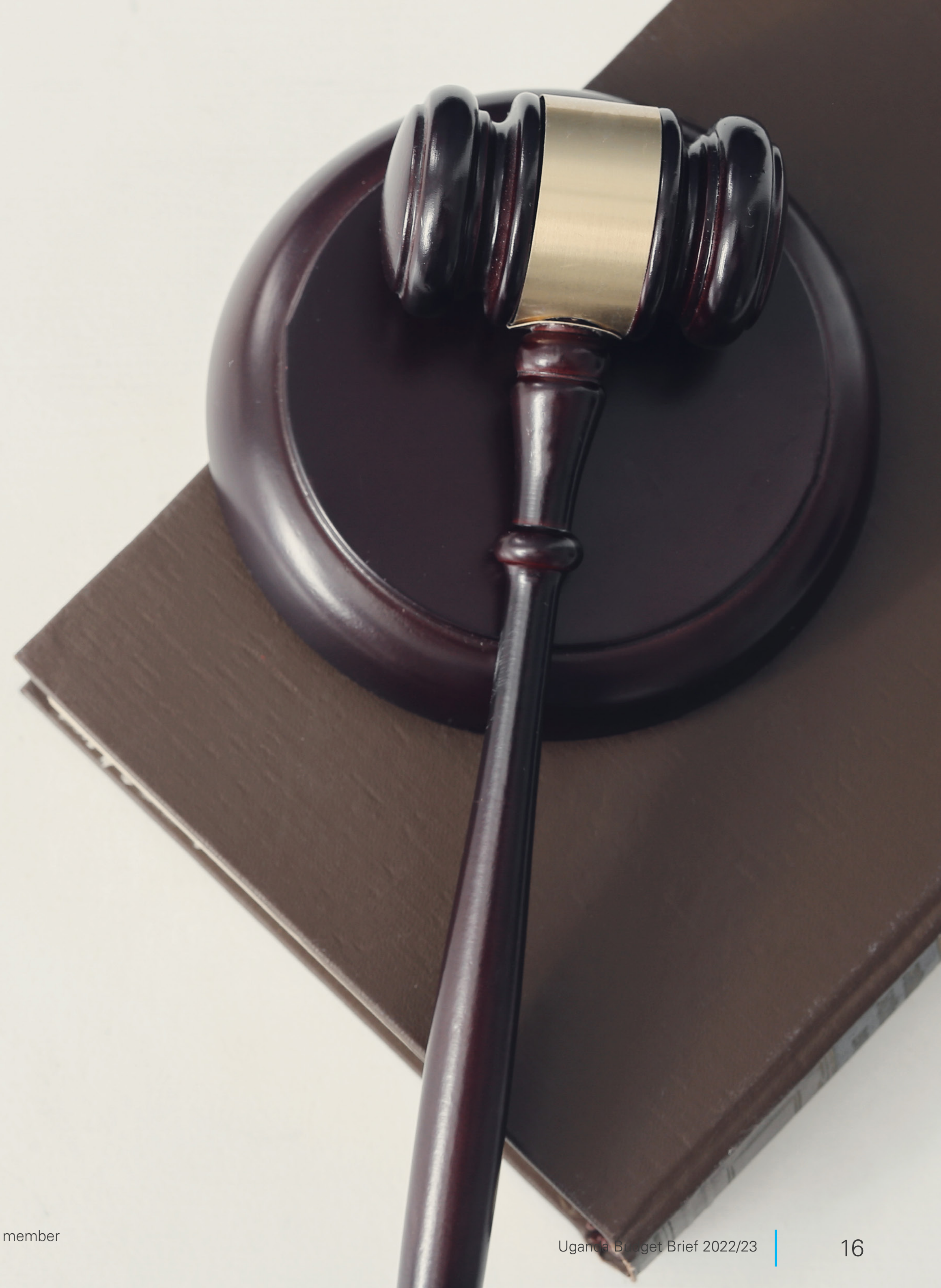
Currently the Tax Appeals Tribunal consists of the Chairperson and four other Tribunal members, of which only 1 member is a woman.

Therefore, the Tribunal will be made up of the Chairperson and 8 other Tribunal members, at least 40% of which will be women.

This will ensure that tax matters before the Tribunal are handled expeditiously.

F. Excise Duty (Amendment) Act, 2022

By the time of concluding this brief, the Excise Duty Amendment Act had not yet been assented to by the President. However, below we summarise the proposed amendments to the law.



Amendment of Schedule 2 of the Excise Duty Act, 2014

The Act proposes to amend Schedule 2 of the Excise Duty Act, 2014 to substitute certain items; and vary excise duty in respect of certain excisable goods as follows;

	Excisable good or services	Current Duty (2021/2022)	Proposed Duty (2022/2023
1	**Beer**		
	Opaque beer	20% or Shs. 230 per litre, whichever is higher	12% or Shs 150 per litre; whichever is higher
2	**Spirits**		
	Undenatured spirits of alcoholic strength by volume of 80% or more made from locally produced raw materials	60% or Shs. 1500 per litre, whichever is higher.	60% or Shs. 1500 per litre, whichever is higher. (Proposed Change: Prescribing the Alcoholic Volume)
	Undenatured spirits of alcoholic strength by volume of 80% or more made from imported raw materials	100% or Shs. 2500, whichever is higher	100% or Shs. 2500 per lire, whichever is higher (Proposed Change: Prescribing the alcoholic volume)
	Any other un-denatured Spirits: That is locally produced of alcoholic strength by volume of less than 80%; or	Not provided for	80% or Shs. 1700/= per litre whichever is higher
	That is imported of alcoholic strength by volume of less than 80%	Not Provided for	80% or Shs. 2000/= per litre whichever is higher;
	Undenatured spirits made from locally produced raw materials that is used in the production of disinfectants and sanitizers for the prevention of the spread of COVID 19 of alcoholic content by volume not less than 70%	NIL (This applied to all undenatured spirits regardless of the alcoholic content)	NIL

	Excisable good or services	Current Duty (2021/2022)	Proposed Duty (2022/2023
3.	**Non- Alcoholic**		
	Fruit Juice and Vegetable juice, except juice made from at least 30% pulp or at least 30% juice by weight or volume of the total composition of the drink from fruits and vegetables locally grown.	13% or shs.250 per litre, whichever is higher	12% or Shs. 250 per litre, whichever is higher.
	Any other non- alcoholic beverage locally produced other non- alcoholic beverages not excluding fruit or vegetable juice, made out of sugary tea solution with a combination of yeast and bacteria	12% or Shs. 250, whichever is higher	12% or Shs. 150 per litre, whichever is higher.
4	**Telecommunication Services**		
	Incoming international calls, except calls from the Republic of Kenya, the Republic of Tanzania, the Republic of Rwanda and the Republic of South Sudan	USD 0.09 per minute	USD 0.09 per minute (Proposed Change: Exemption of incoming calls from the Republic of Tanzania from Excise Duty on international calls)
5	any other fermented beverages made from locally grown cider, perry, mead, spears or near beer produced from locally grown or produced raw materials	30% or shs 550 per litre; whichever is higher	30% or Shs. 550 per litre whichever is higher (Proposed Change: inclusion of any other fermented beverages made from locally grown cider, perry, mead, spears or near beer produced from locally grown or produced raw materials
6	Construction materials of any other manufacturer, whose investment is at least USD 35m in case of a foreigner or USD 5m in case of a citizen	NIL	NIL (Reducing the investment capital threshold from USD 50m, to USD 35M in case of a foreigner and introducing a threshold of USD 5M for citizen.)
7	Sugar confectioneries; chewing gum, sweets and chocolates"	Not provided for	20%

G. East Africa Community Common External Tariff (EAC-CET)

The EAC – CET (also universally referred to as the Harmonized System - HS) primary objective is to create a base that allows for free trade within a larger market spread than that of the individual countries that comprise it. It is a system used to uniformly categorize, identify, name and code physical goods that are moved across borders among various jurisdictions.

— The EAC-CET serves as a guide on which import duty is determined for customs purposes.

— The current EAC-CET comprises a three-band structure in the form of raw materials and capital goods (0%), intermediate goods (10%) and final goods (25%) and a Sensitive Items (SI) list which consists of rates that are over and above 25%.

a. Amendment of the EAC-CET

— On 01 January 2022, the 7th Amendment to the Harmonised System (HS) was brought into force.

— For the case of East Africa, the revised and updated EAC-CET 2022 version will be rolled out on 01 July 2022.

b. Introduction of a 4th Band to the EAC -CET

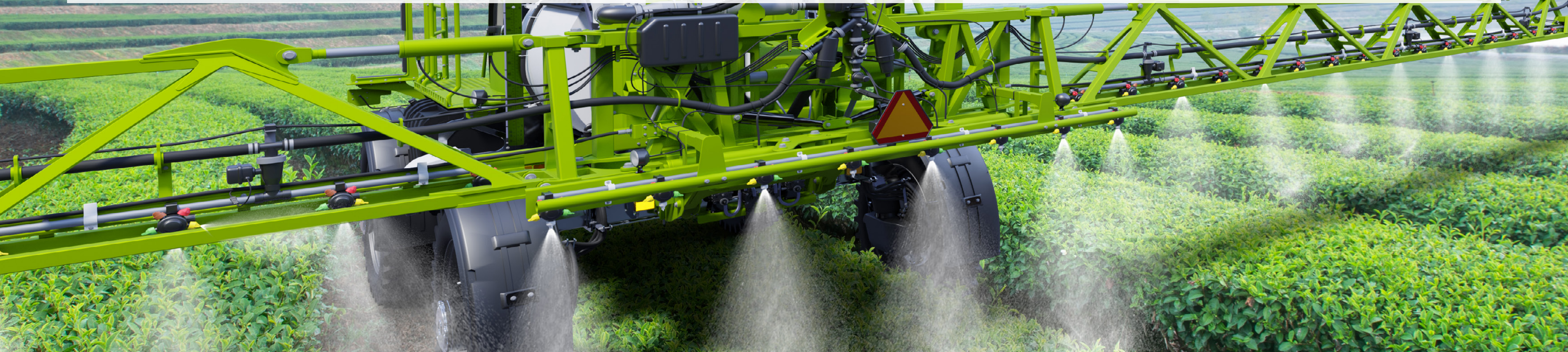
— In a meeting held on 5th May 2022, the EAC Ministerial body in charge of Trade and Finance adopted 35% as the fourth band of the EAC-CET.

— Various products like fresh-cut flowers, leather products, coffee, cereals, sugar and confectionary are accommodated for in this 4th band.

— The key motive behind introduction of the fourth band is to reduce the stays of application that trigger trade distortion thereby reducing ambiguity and ensuring uniform treatment of the goods in question.

— Additionally, the various items indicated in the fourth band (35%) are mostly sensitive items in sense that there is either sufficient local production of the same or there is a need to encourage and grow local production.

More information on the customs changes can be found in our monthly Customs Newsletter



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