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**BILLS**

**SUPPLEMENT No. 4**

**30th March, 2020**

**BILLS SUPPLEMENT**

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**Bill No. 7**

*Income Tax (Amendment) Bill*

**2020**

**THE INCOME TAX (AMENDMENT) ACT, 2020**

**MEMORANDUM**

The object of this bill is to introduce a minimum tax rate to apply to taxpayers whose declared tax liability for a consecutive period of five years is less than 0.5% of the gross income; to revise the tax rate applicable to individuals and companies for purposes of rental income; provide for a ceiling on deductible expenses on rental income; to provide for incentives to existing investors; to impose withholding tax on sale of land, other than a business asset; to introduce a new tax regime for small businesses; to exempt Income of Islamic Development Bank from Tax; to exempt Income of Deposit Protection Fund from Income Tax; to impose withholding tax on commissions paid to insurance and advertising agents; and for related matters.

**MATIA KASAIJA, (MP)**

*Minister of Finance, Planning and Economic Development.*



## THE INCOME TAX (AMENDMENT) BILL, 2020

## ARRANGEMENT OF CLAUSES

*Clauses*

1. Commencement
2. Amendment of Income Tax Act, Cap. 340
3. Amendment of section 5 of principal Act
4. Amendment of section 7 of principal Act
5. Amendment of section 8 of principal Act
6. Amendment of section 21 of principal Act
7. Amendment of section 22 of principal Act
8. Amendment of section 118B of principal Act
9. Insertion of sections 118G and 118H in principal Act
10. Amendment of section 119 of principal Act
11. Amendment of section 122 of principal Act
12. Amendment of section 123A of the principal Act
13. Amendment of section 130 of principal Act
14. Amendment of First Schedule to principal Act
15. Amendment to Second Schedule to principal Act
16. Amendment to Third Schedule to principal Act
17. Amendment of Sixth Schedule to principal Act

A Bill for an Act

ENTITLED

**THE INCOME TAX (AMENDMENT) ACT, 2020**

**An Act to amend the Income Tax Act, Cap. 340 to introduce a minimum tax rate to apply to taxpayers whose declared tax liability for a consecutive period of five years is less than 0.5% of the gross income; to revise the tax rate applicable to individuals and companies for purposes of rental income; provide for a ceiling on deductible expenses on rental income; to provide for incentives to existing investors; to impose withholding tax on sale of land, other than a business asset; to introduce a new tax regime for small businesses; to exempt Income of Islamic Development Bank from Tax; to exempt Income of Deposit Protection Fund from Income Tax; to impose withholding tax on commissions paid to insurance and advertising agents; and for related matters.**

BE IT ENACTED by Parliament as follows—

**1. Commencement**

(1) This Act shall come into force on 1<sup>st</sup> July, 2020.

(2) Section 6 (b) and (c) of this Act shall be deemed to have come into force on the 1<sup>st</sup> day of July, 2019.

**2. Amendment of Cap. 340.**

The Income Tax Act, in this Act referred to as the principal Act, is amended in section 4 by inserting immediately after subsection (2), the following—

“(2a) A taxpayer whose declared tax liability for a consecutive period of five years of income is an arithmetic average of less than 0.5 percent of gross income shall pay a minimum tax at a rate of 0.5 percent of the gross turnover after the sixth year.”

**3. Amendment of section 5 of principal Act**

Section 5 of the Principal Act is amended—

(a) in subsection (2), by substituting for paragraph (d) the following—

“(d) where the person is a partnership, the tax shall be imposed on the individual partners.”

(b) by substituting for subsection 3(b) the following—

“(b) expenditures and losses incurred by a person in the production of the rent shall be allowed as deduction under this Act for any year of income only as provided for in section 22(1) (c);

(c) in subsection (3), by repealing paragraph (c) and (d);

(d) by inserting immediately after subsection (3), the following—

“(3a). A person who earns rental income from more than one building shall account for the income and expenses of the buildings and shall pay tax for each of the buildings separately.”

**4. Amendment of section 7 of principal Act**

Section 7 of the principal Act is amended in sub section (2) by substituting for the words “Part II” the words “Part VI”.

**5. Amendment of section 8 of principal Act**

Section 8 of the principal Act is amended in sub section (5) by substituting for the words “Part III” the words “Part VI”.

**6. Amendment of section 21 of principal Act**

Section 21 of the principal Act is amended in subsection (1)—

- (a) by inserting immediately after subsection (1) (w) the following—

“(wa) income of the Deposit Protection Fund established under section 108 of the Financial Institutions Act, 2016;”;

- (b) by substituting for paragraph (af) the following—

“(af) the income of an operator in an industrial park or free zone or the income of any other person carrying on business outside the industrial park or free zone and the investment capital of that operator or that other person, over a period of at least ten years from the date of commencement of business, 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, or in the case of an existing operator or other person carrying on business outside the industrial park or free zone, from the date on which the operator makes an additional investment equivalent to ten million United States Dollars in the case of a foreigner or one million United States Dollars in the case of a citizen who,

subject to availability, uses at least fifty percent of locally sourced raw materials and employs at least one hundred citizens and—

- (i) processes agricultural goods;
  - (ii) manufactures or assembles medical appliances, medical sundries or pharmaceuticals, building materials, automobile, house hold appliances;
  - (iii) manufactures furniture, pulp, paper, printing and publishing of instructional materials;
  - (iv) establishes or operates vocational or technical institutes;
  - (v) carries on business in logistics and ware housing, information technology or commercial farming; or
  - (vi) manufactures tyres, footwear, mattress or toothpaste.
- (c) by repealing paragraph (ag)
- (d) by inserting immediately after subsection (1) the following—

(1a) An operator in an industrial park or free zone or any other person carrying on business outside the industrial park or free zone who carries on any of the businesses who seeks to benefit from the income tax exemption provided for under section 21 (1) (ae) and (af) shall declare in their tax return for a year of income the qualifying income and its related expenses.

(1b) The qualifying income referred to in subsection (1a), shall be the income attributable to the qualifying investment made in Uganda to be determined as follows—

I \* A/B

Where:

I – the sum of gross income and exempt income of the person for the year of income, before accounting for the qualifying income;

A – the total amount of investment made by an investor from the beginning of the year of income in which the investment becomes a qualifying investment;

B – the sum of amount of the qualifying investments and the total investment made before the commencement of the current year of income;

(1c) The expenses which are related to the qualifying income shall be determined as follows:

E \* F/G

Where:

E – the total allowable deductions for the year of income as provided for under the Act;

F – Qualifying income calculated under subsection (1b);

G – the sum of gross income and exempt income of the person for the year of income, before accounting for the qualifying income;

(1d) For purposes of subsection (1) (af), the date of commencement of business of the investor shall be the later of the 1st day of the year of income or the first day during the year of income on which the qualifying generates income.

(1e) For purposes of subsection (1b), where a qualifying investment is still under construction or assembling, the amount in the qualifying investment shall be cumulated to the year of income in which the qualifying investment starts to generate income.

**7. Amendment of section 22 of principal Act**

Section 22 of the principal Act is amended—

(a) in subsection (1)—

(i) by substituting for paragraph (c) the following—

“(c) in case of rental income, fifty percent of the rental income as expenditures and losses incurred by a person in the production of such income.”

(ii) by repealing paragraph (ca)

(b) in subsection (2) by inserting immediately after paragraph (m) the following—

“(n) expenses of a person who purchases goods or services from a supplier who is designated to use the e-invoicing system unless the expenses are supported by e-invoices or e-receipts.”

**8. Amendment of section 118B of principal Act**

Section 118B of the principal Act is amended by inserting immediately after subsection (2), the following—

“(3) A resident person who purchases land, other than land which is a business asset, from a resident person shall withhold tax at a rate of 0.5% of the purchase price.”

**9. Insertion of sections 118G and 118H**

The Principal Act is amended by inserting immediately after section 118F the following—

**“118G. Withholding of tax on commission paid to an insurance agent.**

An insurance service provider who makes a payment of a commission to an insurance agent shall withhold tax on the gross amount of the payment at the rate prescribed in Part XIII of the Third Schedule.

**118H. Withholding of tax on commission paid to an advertising agent.**

A person who makes payment for a commission to an advertising agent shall withhold tax on the gross amount of the payment at the rate prescribed in Part XIII of the Third Schedule.”

**10. Amendment of section 119 of the Principal Act**

Section 119 of the principal Act is amended in subsection (5), by repealing paragraph (h).

**11. Amendment of section 122 of principal Act**

Section 122(ab) of the principal Act is amended by substituting for the word “section 118E” the words “section 118F”.

**12. Amendment of section 123A of the principal Act**

Section 123A is amended by—

- (a) by renumbering section 123A as subsection (1);
- (b) by inserting immediately after subsection (1), the following—

“(2) A taxpayer who provides a passenger transport service or a freight transport service under subsection (1), shall be required to obtain a tax clearance certificate from

the Commissioner in accordance with section 43 of the Tax Procedure Act, 2014 before renewal of operational licences.”

**13. Amendment of section 130 of principal Act**

Section 130 of the principal Act is amended by inserting immediately after subsection (4) the following—

“(5) A withholding agent who makes a payment subject to withholding tax under sections 83 to 86 and 117 to 119 shall furnish a return of withholding tax for every month in the Form specified by the Commissioner not later than fifteen days after the end of every month to which withholding tax relates.”

**14. Amendment of the First Schedule to principal Act**

The First Schedule is amended by inserting immediately after “International Telecommunications Union” the following—

“Islamic Development Bank”

**15. Amendment of Second Schedule to principal Act**

The Second Schedule to the principal Act is amended by substituting for Part 1 and Part II the following-

“1. The amount of tax payable for purposes of section 4(5) is—

Gross turnover	Tax rates without records	Tax rates with records
Where the gross turnover of the taxpayer does not exceed ten million shillings per annum	Nil	Nil

Where the gross turnover of the taxpayer exceeds ten million shillings but does not exceed thirty million shillings per annum	Eighty thousand shillings	0.4 % of the annual turnover in excess of ten million shillings
Where the gross turnover of the taxpayer exceeds thirty million shillings but does not exceed fifty million shillings per annum	Two hundred thousand shillings	Eight thousand shillings plus 0.5% of the annual turnover in excess of thirty million shillings
Where the gross turnover of the taxpayer exceeds fifty million shillings but does not exceed eighty million shillings per annum	Four hundred thousand shillings	One hundred and eighty thousand plus 0.6% of the annual turnover in excess of fifty million shillings
Where the gross turnover of the taxpayer exceeds Eighty million shillings but does not exceed one hundred and fifty million shillings per annum	Nine hundred thousand shillings	Three hundred and sixty thousand shillings plus 0.7% of the annual a turnover in excess of eighty million shillings.

2. The tax payable by a tax payer under section 4 (5) is reduced by—
- (a) any credit allowed under section 128 (3) for withholding tax paid in respect of amount included in the gross turnover of the tax payer; or
  - (b) any credit allowed under section 111 (8) for provisional tax paid in respect of amounts included in the gross turnover of the tax payer.”.

**16. Amendment of Third Schedule to principal Act**

The Third Schedule to the principal Act is amended—

- (a) by substituting for Part VI the following—

“Part VI  
*Rate of Rental Tax*

The tax rate applicable to a person for purposes of section 6 (2) is 30% of the chargeable income.”

- (b) by inserting immediately after Part XII the following—

“Part XIII

**Withholding tax rate on insurance and advertising agents**

The tax rate of applicable to withholding tax for purposes of sections 118G and 118H is 10% of the gross amount of the payment.”

- (c) by substituting for the words “sports betting and pool betting” appearing in in Part X, the words “betting or gaming”.

**17. Amendment of Sixth Schedule to principal Act**

The Sixth Schedule is amended by repealing Part IV.

