

Uganda

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An overview of Ugandan tax legislation

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Katende Ssempebwa & Co Advocates
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Principal taxes

Uganda's main taxes are income tax (on individuals and companies), value-added tax, customs and excise duty levied by the government through the Uganda Revenue Authority (the URA), and graduated tax on land rates, which are levied by local authorities.

Filing

All registered business organizations are obliged to send a provisional return of income for any year of income as follows:

Individuals: no later than three months from the commencement of the 12 months ending in the year of income for which the individual makes up their accounts, and in any other case, no later than March 31 of that year of income.

Corporate bodies: no later than six months from the commencement of the period of 12 months ending in the year of income for which the body prepares the accounts, and in any case no later than June 30 in such year of income.

The returns are based on the income gained during the year immediately preceding the year of income in respect of which the provisional return is made, or on the last assessment that has by then become final and conclusive, whichever is greater, or a considered estimate of income liable to tax if the former two are inappropriate. A final return of income is due within four months from the end of the accounting period, together with any further tax due.

Categories of taxes

Both direct and indirect taxes apply in Uganda. Direct taxes are levied on individual and corporate income. Indirect taxes are levied on certain transactions, such as the sale and purchase of land, goods and services.

Income tax

Income tax is payable by individuals. It is calculated on the individual's net assessable income after making allowance for deductible expenses. The sources of assessable income for individuals include employment, business and property. The annual income threshold is US\$1.56 million (\$900).

Different tax rates apply, depending on whether the individual is a resident or non-resident of Uganda for tax purposes.

Pay as you earn (PAYE) tax and taxation of employment benefits

PAYE is not a separate tax. It is an instalment income tax system under which employers are required to deduct tax instalments from their employees' salary or other employment income. The instalments deducted are remitted to the URA, and based on the PAYE tax return lodged by the employer. The employee offsets the total amount deducted from the individual employee against the employees' tax liability upon submission of the annual tax return at the end of the tax year. Every employer must therefore register for PAYE, as well as be familiar with the rules relating to the filing of PAYE returns and how PAYE is calculated.

Penalties apply where the employer fails to deduct or remit PAYE, or deducts and remits incorrect amounts. For example, the URA can require the employer to pay any PAYE shortfalls.

Taxation of companies and other business entities

A corporate tax is levied on companies, partnerships and sole proprietorships. Any income arising out of any trade, profession, vocation or venture in the nature of trade is taxable under special rules applicable to business entities.

The income of all companies accruing or derived from Uganda is taxable. A company is liable to pay tax separate from its shareholders. The sources of income of a company on which the tax can be levied include profits and gains from any business carried on for whatever period of time. Other sources include dividends from shares in other companies and interest from use of the company's property.

Taxation of partnerships

Income tax assessments for a partnership can be made either in respect to individual partners or in the partnership's name. The profits of a partnership, including a firm carrying on a trade or profession, are taxable.

Taxation of sole proprietorships

A sole proprietor is taxed in the same way as an individual.

Taxation of trusts

The income tax rate applicable to trusts is 30% of the chargeable trust income for the year of income. A trust is exempt from income tax where income of the trust is paid directly to the beneficiary without passing through the hands of the trustee, or where a trustee relies on the ground that part of the income to be assessed accrues or arises for the benefit of the beneficiary.

Value-added tax (VAT)

VAT is a consumer expenditure tax, payable by individuals and firms. The business sales turnover threshold for VAT is US\$50 million a year. Individuals and firms whose business sales turnover is below this level are exempt from VAT. It does not matter whether the business is profitable or not. VAT registration for individuals and firms with business sales turnover above the US\$50 million VAT threshold must register with the URA for VAT. All professionals must apply for VAT regulation, regardless of their turnover of taxable goods or services.

A person who has registered for VAT can charge VAT on customers as an output tax. When a VAT payer buys goods and services they pay VAT as an input tax. When the output tax (what a person registered for VAT pays) exceeds the input tax (what they charge customers as VAT), a refund of the difference from the URA can be claimed. On the other hand, when the input tax is greater than the output tax, the difference is payable to the URA within 15 days after the end of the month in which the transaction took place.

Certain goods and services are exempt from VAT. A person registered for VAT cannot claim an input tax on exempt goods and services. Similarly, such person cannot charge VAT (as an output tax) on goods and services that are exempt from VAT. Zero-rated supplies are goods and services that are exempt from VAT but in respect of which a VAT (output tax) is claimable.

All imported goods attract VAT of 18% (or the zero rate, except if they fall in the exempt category). VAT on imports is paid at the time of clearing the goods, and is calculated on the cost, insurance, freight (CIF) value of the imports.

VAT on exports is zero-rated. Investors interested in export trade are however advised to register for VAT. This is helpful in that the inputs, which are used to produce the exports, might attract VAT. Once registered as a VAT payer, one can claim input tax. To claim input tax on exports, the customs-certified copy of the export entry must be attached to the VAT return.

Stamp duty

Stamp duty is an indirect tax, levied on a number of legal documents and certain agreements.

Taxation of rental income

Rental income of an individual is segregated from other income and is taxed at a rate of 20% of gross rental income in excess of US\$1.56 million a year.

Withholding tax

Payments of dividends and interest are subject to a withholding tax of 15% both for residents and non-residents. Any payment to a person in Uganda from the government, a government institution, a local authority, any company controlled by the government or any person designated in a notice issued by the finance minister of an amount exceeding US\$1 million for the supply of goods or materials of any kinds or any service, is subject to a 4% withholding tax. The finance minister has the power to exempt companies from paying withholding tax.

In addition, non-residents are subject to 15% withholding taxes for royalties, management fees, entertainers and sports personnel income, natural resource payments and equipment leases, on income earned from Uganda.

Banking and finance**Recommended firms****Tier 1**

Katende Ssempebwa & Co Advocates
MMAKS Advocates
Shonubi Musoke & Co Advocates

Tier 2

Kateera & Kagumire
Sebalu & Lule Advocates

Tier 3

Byamugisha & Rwaheru Advocates
Byenkya Kihika & Co
Lex Uganda
Magezi Ibale & Co Advocates
Mpuanga & Co

Tier 4

Kasirye Byaruhanga
Semuyaba & Co Advocates

Corporate and commercial**Recommended firms****Tier 1**

Katende Ssempebwa & Co Advocates
MMAKS Advocates
Shonubi Musoke & Co Advocates

Tier 2

Kateera & Kagumire
Sebalu & Lule Advocates

Tier 3

Byamugisha & Rwaheru Advocates
Byenkya Kihika & Co
Kampala Associated Advocates
Lex Uganda

Tier 4

Kasirye Byaruhanga
Mpuanga & Co
Semuyaba & Co Advocates

Byamugisha & Rwaheru Advocates

Last year's market faith in Byamugisha & Rwaheru Advocates despite the sad passing of Mr Rwaheru has been proved correct. Joseph Byamugisha's sterling efforts to recover have been rewarded by increased deal flow. Competitors and clients agree that although the firm is small, it "should move up to tier three" due to the "sophisticated work" that it covers. In addition, Byamugisha "knows his stuff" and should therefore be applauded.

On the banking and finance side, it is noted that the firm is "quite active in the financial market, especially in bonds". With regard to corporate and commercial work, the firm is described as "excellent," and is congratulated on winning mandates from "big clients in corporate restructurings."

Peers report that Byamugisha & Rwaheru Advocates attracts high-profile clients such as British American Tobacco and the East African Development Bank.

Leading lawyer

Joseph Byamugisha

Key contact partner

Joseph Byamugisha

Byenkya Kihika & Co

Byenkya Kihika & Co is still making its quiet but steady rise in the Ugandan banking and finance market. It is also continuing to impact on the corporate and commercial arena. Unfortunately for the firm, this has not yet equated a rise in the rankings this year, but many peers believe that it is capable of making the next step soon.

Commentators perceive Oscar Kihika to be the best lawyer at Byenkya Kihika & Co. This is chiefly because he personally handles the majority of the firm's larger transactions at a consistently high level of quality.

Leading lawyer

Oscar Kihika

Key contact partner

Oscar Kihika

Kampala Associated Advocates

It is now five years since Kampala Associated Advocates was founded, and the Kampala firm retains respect from the market with regard to its corporate and commercial work and solid tax department. The head of the firm is no longer Bart Katureebe; he has been replaced by Elly Karuhanga, who will be looking to drive the firm further up the rankings in the future.

Kampala Associated Advocates is in the enviable position of being associated with UK law firm Denton Wilde Sapte. This means that it receives a lot of referral mandates and can therefore widen its experience in the market. In addition, it has a vast array of resources at its disposal.

Key contact partner

Elly Karuhanga

Kateera & Kagumire

Kateera & Kagumire was founded in 1903 and as a result has more valuable years of experience over its competitors. Recently, this traditional firm welcomed a new partner to the fold. Yusufa Kagumire and John Fisher Kanyemibwa have appointed Dennis Lubega Wamala at partner level, and will be looking to him for increased leadership from him in the coming years.

The team also consists of a further four associates who provide general financial law coverage. It is this consistency that has resulted in the firm occupying a long-term residency in tier two. Kateera & Kagumire is just as adept at handling banking transactions as it is advising on M&A, restructuring and project finance matters.

With such a wide spectrum of activity, it is easy to see how the firm attracts the clientele it does. From international and domestic banks to government agencies and industrial establishments, Kateera & Kagumire represents a large cross-section of entities doing business in Uganda. In addition, it is particularly proud of its work for international aid organizations.

Key contact partner

John Fisher Kanyemibwa

Katende Ssempebwa & Co Advocates

Katende Ssempebwa & Co Advocates comfortably retains its tier one position in both sets of rankings this year, on the strength of market opinion. The firm was founded in 1969 and is now one of the largest law offices in Uganda, comprising two senior partners, three partners, four senior associates and five associates. This team makes up the core of the firm that houses almost sixty lawyers.

The services offered by Katende Ssempebwa are extremely wide-ranging. The firm cites almost fifty areas of law in its coverage, although its star shines brightest in the banking and finance arena, and in corporate and commercial mandates.

In particular, Sim Katende is "active in corporate and commercial work", but he is also seen in capital markets. Observers note that "out of the six or seven securities in the market over the past 12 months, he has done three."

Over the years, Katende Ssempebwa & Co Advocates has represented international corporations, a range of large banks, domestic banks, multilateral agencies, foreign investors and the Ugandan government.

Key contact partners

Sim Katende

Soogi Katende

Lex Uganda

2006 is the tenth anniversary of Lex Uganda's presence in the country. The firm can celebrate this with the news that it has consolidated its tier three position in both sets of *IFLR1000* rankings. This is important as it was only promoted last year and the firm is looking to build with year-on-year growth. There are now three partners, one consultant and four associates at Lex Uganda, and the team is becoming increasingly popular with clients at the big-ticket end of the market.

In particular, interviewees singled out senior partner Charles Odere as the lead lawyer at the firm. He is extremely well-respected, and is widely congratulated for being the driving force behind Lex Uganda's success, especially on the corporate and commercial side.

Leading lawyer

Charles Odere

Key contact partner

Charles Odere

MMAKS Advocates

"MMAKS Advocates should definitely be in tier one ... they have a strong banking and finance department at the firm, and deal with many reputable clients such as Central Bank and Barclays." In addition, the firm is now "quite big" on the corporate and commercial side, and has "some big clients and good lawyers." It is this weight of opinion that has seen MMAKS Advocates leap to the top of the table only a year after its merger between Mugerwa Masembe Advocates, Adriko & Karugaba Advocates and Central Law Offices.

The six partners at the firm are all UK-educated, and they are backed up by an able team of eight associates. Over the past year, managing partner Timothy Masembe Kanyerezi has led this outfit in a number of impressive deals and transactions. In banking, it advised the International Finance Corporation (IFC) in a \$5 million loan facility to a local financial institution, represented Parparco in a similar loan of \$7 million, and acted for

Proparco/DEG in relation to a \$6.3 million loan financing for a local hotel project.

MMAKS Advocates has also been active in the capital markets, where it counselled Jubilee Holdings on its cross-border listing from the Nairobi Stock Exchange to the Uganda Securities Exchange. It also provided a confidential client with due diligence work regarding a prospective purchase of a Ugandan oil company. Finally, the firm was again called upon by the IFC, this time when it needed Ugandan advice in relation to the \$12 million project financing of a bio-extract plant.

Key contact partner

Timothy Masembe Kanyerezi

Sebalu & Lule Advocates

With over 25 years' experience in the Ugandan legal market, Sebalu & Lule Advocates is well-placed to advise on all areas of financial law. The main focus of the firm is on banking and finance, but it is also active in privatizations, acquisitions, telecommunications, insurance, intellectual property and energy work. The four-partner, five-associate and two-consultant team is also held in high regard for its civil litigation arm.

The firm attracts international clients such as the IFC, Merrill Lynch, Benton Oil & Gas Canada and the East African Development Bank. It also works consistently for domestic clients, including Toyota, Shell Uganda, Total Uganda and the British High Commission. However, the market most respects Sebalu & Lule's place as the "main firm on the panel for Standard Chartered Bank in Uganda." It is the "ordinary to sophisticated lending" work that the firm completes here that earns praise from commentators.

In addition, peers single out head of the firm Barnabas Tumusingize for special attention. This is principally because his role as senior managing partner has not prevented him from maintaining a hands-on approach to the firm's caseload. Over the past 12 months, he has led a due diligence exercise on the Uganda Printing and Publishing Corporation, a Public Enterprises loan restructuring in association with Deloitte and Touche, and advice on multiple financing projects in industry and agriculture. In addition, Tumusingize watched over two pieces of advice to Uganda Telecom – first, the firm served as legal advisor in relation to the client's US\$54 billion note programme, and secondly, when it advised it on a \$38 million coordinated facility with domestic and international banks.

Leading lawyer

Barnabas Tumusingize

Key contact partners

James Mukasa Sebugenyi
Barnabas Tumusingize

Shonubi Musoke & Co Advocates

The four partners and nine associates of Kampala firm Shonubi Musoke & Co Advocates represent the firm as the Ugandan member of the Africa Legal Alliance, an extensive network of the continent's leading law firms. The firm's lofty position in the rankings follows another strong year across the board.

In the banking arena, the firm has advised the likes of Uganda Microfinance, Orient Bank, Bank of Africa Holdings and Morgan Stanley International on a range of regulatory issues over the past 12 months. It has matched this in lending work by counselling the Aureos East Africa Fund in relation to a \$2 million convertible loan, representing Norfund on another \$2 million

facility and acting for Bank of Africa on a \$1.97 million loan to Excel Construction. Also, at the time of writing Shonubi Musoke was acting for Rand Merchant Bank on a \$5 million facility agreement.

Capital markets work is also something of a forté for the firm. On the debt side, May 2005 saw it advise MTN Uganda on its US\$12.5 billion floating-rate bond, and at press time was representing the Lake Victoria Free Trade Zone Authority on the setting up of a \$15 million listed bond. If anything, equity work has been even more impressive. The definite highlight was Alan Shonubi's continuing representation of the Heritage Oil Corporation on its cross-listing of shares on the Oslo Stock Exchange, estimated at C\$160 million. In project finance the firm has also been busy, advising TPS Carriers Uganda and MTN Uganda on financings worth \$9.6 million, \$4 million and \$40 million respectively.

On the corporate and commercial side, meanwhile, Shonubi Musoke has been especially active on the M&A front. In September 2005 it was heavily involved in the \$10 million acquisition of Ugacof by Kyoga. This was followed in March 2006 by its presence in Uganda Microfinance's \$5 million acquisition of Uganda Microfinance Union. And at the time of writing the firm was guiding Maersk Uganda through its takeover of P&O's local operations, and was acting for the Bank of Africa Holdings on the acquisition of a local bank.

Leading lawyers

Alan Shonubi
Ezekiel Tuma

Key contact partners

Alan Shonubi
Ezekiel Tuma

Other notable firms

Magezi Ibale & Co Advocates is recommended by peers for its sturdy banking and finance advice. Many peers remarked that it will not be long before the firm's two partners, John Magezi and Silver Adowa Owaraga, increase their work capacity and move up the rankings accordingly.

Mpuanga & Co is also a preferred banking and finance-side adviser, although it does have a presence in tier four of the corporate and commercial rankings too. David Mpuanga is highlighted as a banking and finance star by competitors, as "he is the main account manager for Citibank and covers the unusual financial transactions in the market, which amounts to great exposure". The market has also earmarked Ernest Kalibaba as a "rising star" and a "good lawyer."