# Employment tax enforcement in Uganda helps "build the nation"

***By Sharon Tayfield***

The Uganda Revenue Authority held a special thanksgiving ceremony on 15 September 2016 to celebrate 25 years of "building the nation" at its headquarters in Nakawa. The organisation was set up on 5 September 1991 as the central body for assessing and collecting tax revenue in the country. It is also tasked with enforcing tax legislation.

The Uganda Revenue Authority's (URA) tag line has over the years included the phrase: "Developing Uganda together". This commitment has been reflected in impressive revenue collection levels, which have increased consistently and, by 2010, enabled the country to fund 70% of its budget (Source – Background to the budget, a Government publication).

But the road to success has not been easy and a brief historical recap may help to provide some insights into how past events have informed the present. This explanation and subsequent overview of current employment tax regulation may well prove useful to payroll managers working at any of the numerous international companies currently looking to establish operations in the country.

## A brief history

Uganda gained independence from the UK in 1962. The landlocked east African nation subsequently underwent a military coup, which led to a brutal military dictatorship under President Idi Amin that resulted in the death of hundreds of thousands of people. In 1972, thousands of Ugandan Asians were also expelled from the country.

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Between 1978 and 1979, Uganda invaded Tanzania. Tanzania retaliated, forcing Amin to flee home. The country suffered another military coup before President Museveni came to power in 1985, heralding in an era of political stability and improved human rights.

But it continued to endure brutal attacks from the Lord's Resistance Army (LRA) in the north, before the rebels retreated and asked for a ceasefire in 2009. That same year, a UK-based oil exploration company claimed to have made a major oil find.

Two years later, the US deployed its special forces to help Uganda combat renewed attacks by the LRA rebels. Fighting in the Democratic Republic of Congo resulted in tens of thousands of refugees flooding into the country during 2012.

By 2014, Uganda had passed a tough new anti-gay bill into law, which led to censure by many in the international community. In fact, it resulted in the World Bank postponing a £54 million loan and the US imposing sanctions.

All of these events have led to pressure on the national budget. Against this background of ongoing challenges, the URA's recent celebrations truly amount to a milestone worth commemorating.

# Tax basics: Paying employees in Uganda

As is standard, employment in Uganda refers to one individual being employed by another, a company director, permanent or part-time contract workers, and anyone holding, or acting in, a position of public office.

But there is a distinction relating to how the tax of residents and non-residents is treated. Residents pay tax based on worldwide income, while non-residents only pay tax on income that comes from a Ugandan source.

Employment income includes the value of any benefits in kind provided either by employers or paid on behalf of employees; termination benefits or payments; private or personal expenditure that is reimbursed by employers; wages; salaries; leave pay; payment in lieu of leave; overtime; commission; gratuities; bonus payments; any form of allowance and any discount or profit/loss on share transactions.

How to value benefits in kind has been well covered by a Practice Note drawn up by the URA and payroll managers would be advised to refer to it for guidance. But there are certain exceptions to the above inclusions in gross income, otherwise known as tax reliefs. These include:

- Amounts paid by employers in relation to pension or retirement funds. Employees also get tax relief on their own contributions, which are processed as payroll deductions
- Sums either paid or reimbursed to employees for medical expenses
- Premiums paid by taxable employers for life insurance for their employees or their employees' dependents
- Money reimbursed or paid to employees to cover business-related expenditure incurred when performing their duties
- The value of meals/refreshments provided to all employees in the workplace. It is worth noting that this benefit must be made available to all employees on equal terms. Therefore, a separate facility for executive staff would not comply
- Contributions towards Local Service Tax (LST) are deductible. The LST is paid by any individual in gainful employment to their nearest local authority. The amount of LST payable is determined by what income they earn after tax. It must be paid within the first and second quarter of the year (August to November) in four equal instalments or in one lump sum
- Any benefits with a value of less than 10 000 UGX (Ugandan shillings) during the month
- Twenty five per cent of the termination benefits paid to employees with more than 10 years of service to the same employer.

## Tax rates

The tax year operates from 1 July to 30 June. There are three different possible tax rates based on the nature of an individual's employment. These types of employment comprise:

## 1. Part-time employees

Part-time employees are taxed at a flat rate of 30% on gross payments. The rationale is that they are deemed to be earning income from other sources. If an individual is prejudiced by this treatment, they can submit a return of emoluments from all sources of income and request a refund of tax overpaid.

## 2. Resident employees

An individual is classified as a resident employee for the year of assessment if they meet the following criteria. They:

- Have a permanent home in Uganda
- Are present in Uganda for a period/s totalling 183 days or more in any 12-month period that begins/ends during the year of assessment
- Are in the country for periods averaging more than 122 days during the year of assessment as well as in each of the two preceding years of assessment.

The rates of tax payable by resident employees is tabled below:

| **Annual chargeable income (Uganda schillings)** | **Tax residents rate of tax** |
|---|---|
| Less than UGX 1 560 000 | Nil |
| Exceeding UGX 1 560 000, but not exceeding UGX 2 820 000 | 10% of the amount exceeding UGX 1 560 000 |
| Exceeding UGX 2 820 000, but not exceeding UGX 4 920 000 | UGX 126 000 plus 20% of the amount exceeding UGX 2 820 000 |
| Exceeding UGX 4 920 000 | UGX 546 000 plus 30% of the amount exceeding UGX 4 920 000. Where income exceeds UGX 10 000 000, an additional 10% is charged on the amount exceeding UGX 10 000 000. |

## 3. Non-resident employees

Individuals are deemed to be non-resident employees if they fail to meet the criteria set out above for residency. Remember that non-residents are only liable for tax on income from sources in Uganda. They also have no tax–free exemption as seen in the table below:

| **Annual chargeable income (Uganda schillings)** | **Non-residents rate of tax** |
|---|---|
| Less than UGX 2 820 000 | 10% |
| Exceeding UGX 2 820 000, but not exceeding UGX 4 920 000 | UGX 282 000 plus 20% of the amount exceeding UGX 2 820 000 |
| Exceeding UGX 4 920 000 | UGX 702 000 plus 30% of the amount exceeding UGX 4 920 000.<br>Where income exceeds UGX 10 000 000, an additional 10% is charged on the amount exceeding UGX 10 000 000. |

## Employers' obligations

In terms of income tax law, employers are legally obliged to deduct the correct amount of tax at the time they pay an employee, if the employee is liable to pay tax, that is.

Employers need to remit all of the taxes withheld by the 15th day of the following month, together with a return outlining what taxes were withheld. The URA has developed a portal that enables employers to register their PAYE payments and process a monthly return to fulfil this obligation. All records relating to PAYE need to be maintained for at least five years and must be available for inspection by the URA.

Any employer that fails to withhold tax becomes personally liable for paying that tax as well as any penalties and interest on the payment. They are entitled to recover PAYE from their employee but not the interest nor the penalty.

## Conclusion

As a result of a rigorous compliance process, the URA has greatly improved tax revenue collection in Uganda over the last 25 years - and there is no doubt that enforcement is, and will remain, one of its top priorities into the future.

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After graduating with a degree majoring in taxation, accounting and managerial accounts and finance, Sharon gained considerable experience in the fields of training, tax issues and financial ICT management, including mergers and acquisitions. She progressed to a position within South African Revenue Services before moving on to Anglo American Property Services, where she became group financial director with responsibility for ICT and payroll. Sharon joined Praxima Payroll Systems in 2001 and steered the company through the development of its own software. It is now a provider of payroll services to some of the largest legal practices in South Africa. She moved to Celergo to take up the role of head of operations UK. She was tasked with rightsizing its operations and refining the payroll processes to improve productivity. Sharon was asked to take on the COO role at Praxima Holdings in 2013 and has helped the company extend its footprint into Africa and beyond. She is a registered tax practitioner and member of CIPP and GPA.