PARLIAMENT OF UGANDA

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE INCOME TAX (AMENDMENT) (NO.2) BILL, 2025

Office of the Clerk to Parliament

11th Parliament

May, 2025

1.0 INTRODUCTION

The Income Tax (Amendment) (No.2) Bill, 2025 was read for the First Time on 27th March, 2025 and referred to the Committee on Finance, Planning and Economic Development for consideration in accordance with Rule 135(1) of the Rules of Procedure of Parliament.

The Committee scrutinised the Bill in accordance with Rule 135 (2), (3) and (4) of the Rules of Procedure and now begs to report.

2.0 OBJECT OF THE BILL

The object of the Bill is to amend the Income Tax Act, Cap. 338, to:

i. provide for the exemption of the income of start-up businesses established by a citizen for a period of three years;
ii. to extend the income tax exemption of Bujagali hydro power project up to 30th June 2032; and
iii. to amend Schedule 2 to the Act to prescribe the International Atomic Energy Agency as a listed institution and for related matters.

3.0 METHODOLOGY

In considering the Income Tax (Amendment) (No.2) Bill, 2025, the Committee adopted the following methods;

3.1 Meetings

The Committee held meetings with the following entities:

i. Ministry of Finance, Planning and Economic Development (MoFPED);
ii. Uganda Revenue Authority (URA);
iii. Private Sector Foundation Uganda (PSFU);
iv. Uganda Manufacturers Association (UMA);

v. Birungyi, Barata & Associates;

vi. PricewaterhouseCoopers (PwC);

vii. Institute of Certified Public Accounts of Uganda (ICPA-U); and

viii. American Chamber of Commerce, French Chamber of Commerce, British Chamber of Commerce and Netherlands-Uganda Trade and Investment Platform(NUTIP).

3.2 Written submissions

The Committee received written submissions from the following;

i. The Attorney General of the Republic of Uganda;

ii. Bodawek International Limited;

iii. Kikuubo Entrepreneurs Initiative; and

iv. Bawunha & Badebye Certified Public Accountants

3.3 Document review

The Committee reviewed and made reference to the following documents;

i. Submissions from the above-mentioned stakeholders

ii. The Income Tax Act, Cap. 338;

iii. Corporate Income Tax – Waiver for Bujagali Energy Limited

iv. Policy Brief – Introducing a Three-Year Income Tax Holiday for SMEs; and

v. The Income Tax (Amendment) (No.2) Bill, 2025 –Explanatory Notes.

4.0 COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

4.1 Certificate of Financial Implications (CFI)

Section 74 (2) of the Public Finance Management Act, Cap. 171 necessitates that the CFI indicates the estimates of revenue and expenditure over a period of not less than two (2) years after the coming into effect of the Bill when passed. The Minister of Finance tabled a Certificate of Financial Implications indicating among others the following;

i. The implementation of the Bill would attract budgetary implications to be funded through overall Government allocations to the Uganda Revenue Authority;
ii. Expected revenue loss from the Bill was estimated to be UGX 70 billion annually;
iii. The proposed changes in the Income Tax (Amendment) (No.2) Bill will impact business, consumption and welfare positively;
iv. The revenue yield from the Bill will be allocated to areas that generate economic output, which will contribute to sustainable economic growth from 6.4% in FY 2024/2025 to 7.0% in FY 2025/2026 and to at least 7.0% over the medium term.

The Committee observed that whereas the proposed amendments will positively impact business, consumption and welfare, the CFI also indicates that expected savings and/or revenue were estimated at a loss of UGX 70 billion annually.

The Committee further observed that the CFI is inadequate for the reasons that it only provides for the UGX 70 billion loss and does not quantify the economic impact. In order to ascertain the financial implication of the Bill, there is need to quantify both the gains and losses that will arise from implementation of the Bill.

The Committee recommends that the Minister of Finance, in preparation of the CFI, should ensure consistency with section 74 of the Public Finance Management Act.

4.2 Tax exemption for Bujagali Hydro power Project

Clause 2(a) of the Bill provides for an amendment to section 21 (1) (ab) to extend the tax exemption of Bujagali Hydro Power Project to 30th June, 2032.

Section 21(1) (ab) of the Income Tax Act, Cap. 338 provides that the income of Bujagali hydro power project is exempt from income tax up to 30th June 2024. On 20th February 2025, Parliament passed the Income Tax (Amendment) Bill exempting the income of Bujagali hydro power project from tax up to 30th June 2025. The Bill has however not been assented to by H.E the President.

The amendment seeks to substitute subsection (1) (ab) of Section 21 in order to exempt the income of Bujagali hydropower project up to 30th June, 2032 from income tax for a period of seven years.

The Committee was informed that the power purchase agreement between the Government and Bujagali Hydro Power Project runs up to 2032 and that Government committed in the agreement to provide income tax exemption for the period of the agreement.

The Committee observed that by extending the Bujagali Hydro Power project tax exemption, the anticipated increase in the generation tariff from US cents 8.31 to US cents 9.60 per unit will be averted, stabilising the end-user tariff at an average of UGX 459.8 per unit instead of rising to UGX 481.7 per unit.

The Committee recommends that Bujagali Hydro Power project be exempted from Income Tax for a seven-year period as proposed in the Bill to be consistent with the power purchase agreement which runs up to 2032.

4.3 Exemption of tax for start-up businesses for three years

Clause 2(b) of the Bill provides for insertion of a new subparagraph (za) to exempt income derived from a business established by a citizen after 1st July 2025, for a period of three years where;

i. the business is registered with an investment capital not exceeding five hundred million shillings;
ii. where the citizen or their associate has not previously benefitted from the exemption; and
iii. the citizen files a tax return including business information return referred to in Section 147 of the Act in the format prescribed by the Commissioner General.

The Committee was informed that the proposal is aimed at promoting entrepreneurship and innovation.

The Committee observed that:

i. *the three-year exemption period is a good proposal given that majority of new businesses stand to benefit from this exemption. It has been noted that many businesses in Uganda rarely reach the fifth anniversary of their operations[1];*
ii. *the proposal will promote formalisation of SMEs by encouraging business registration as a requirement for qualification for an exemption;*
iii. *the proposed registration with an investment capital not exceeding UGX 500m is a reasonable threshold for many start-up businesses;*
iv. *the Bill provides for a business to be registered with an investment capital not exceeding Ugx 500m. The provision as it is, is subject to misinterpretation that the investment capital must be registered. However, the intention of the provision is to have a registered business with an investment capital not exceeding 500m. There is*

[1] Keneth Muhwezi and Niclous Kilimani (2023) Survival of Uganda's small and medium businesses in a cox model. The African Journal of Business Management.

need to amend the provision to reflect that it is a registered business which has invested UGX 500m.

The Committee recommends that Clause 2(b)(i) should be amended to reflect that it should be a registered business which has INVESTED CAPITAL not exceeding UGX 500m other than a business REGISTERED WITH AN INVESTMENT CAPITAL not exceeding UGX 500m.

4.4 Exemption of tax on chemicals for agricultural use

Clause 2(c) provides for insertion immediately after the words "agricultural use" the word "or".

The Committee noted that this would provide clarity in the existing exemption relating to chemical manufacturers. It clarifies that the exemption applies only to chemicals intended for agricultural or industrial use, thus removing ambiguity.

The Committee recommends that chemicals intended for agricultural use be exempted from tax as proposed in the Bill.

4.5 Exemption of capital gains tax on transfer of assets

Clause 3 of the Bill proposes to substitute section 76(4)(a) in order to amend the definition of reorganisation to indicate that the transfer of a business asset can be made by a natural or legal person and not a company alone.

The Committee was informed by the MoFPED that the proposal is intended to offer roll-over relief to permit businesses to restructure for efficiency and strategic flexibility without being burdened with capital gains tax when there is no significant change in underlying ownership of the business.

The Committee observed that the amendment will make it possible for individuals who own assets to transfer them to companies they own or control as part of restructuring the business without having to incur capital gains tax. Further, by removing the tax barrier for such transactions, the amendment will enhance efficiency, simplify restructuring and provide clarity in the law.

The Committee recommends that the proposal to exempt businesses which are transferring assets to another person other than an individual controlled by the transferor or the shareholders should be adopted.

4.6 Increase in Digital Service Tax

Clause 4 of the Bill proposes an amendment to Section 86 of the Principal Act to provide for a new subsection (5) indicating that the section shall not apply where a non-resident person is deriving income from providing digital services in Uganda to an associate in Uganda.

Another new sub-section (6) is proposed to provide that Section 82 or 84 of the Act shall apply to the income of a non-resident person derived from providing digital services in Uganda to an associate in Uganda.

The Committee was informed that currently, all non-resident entities that render services to Ugandans through digital platforms are required to pay 5 percent Digital Service Tax (DST) on this income. Under Section 82, a consumer of services from non-residents is required to withhold tax on payments made to those non-resident entities at a rate of 15%. The differential tax rates incentivise multinational enterprises to extract most of their income from Uganda through digital services which poses a revenue risk.

To address this, the committee observed that the proposed amendment excludes related party transactions from DST. Instead, transactions *between non-resident digital service providers and their Ugandan associates will be taxed under the withholding tax regime provided for in sections 82 and 84 of the Income Tax Act. Section 82 provides for tax on international payments and Section 84 provides for tax on payments to non-resident contractors or professionals.*

The Committee recommends that the amendment be passed as proposed in the Bill to enhance compliance and improve revenue.

4.7 Exemption of the International Atomic Energy Agency from tax

Clause 5 of the Bill proposes an amendment of Schedule 2 to the Principal Act to insert the "International Atomic Energy Agency (IAEA)" under Schedule 2 as one of the listed institutions under the Act. The IAEA was established in 1957 as an autonomous agency within the United Nations System and is headquartered in Vienna, Austria. Uganda gained membership to IAEA in 1967.

This implies that the income earned by the IAEA will be exempt from tax. As of principle, all UN-related agencies are required to be listed under the Second Schedule of the Income Tax Act.

The Committee recommends that the International Atomic Energy Agency be tax exempt as proposed in the Bill.

5.0 CONCLUSION

The Committee recommends that the Income Tax (Amendment) (No.2) Bill, 2025 be passed subject to the proposed amendment.

PROPOSED AMENDMENT TO THE INCOME TAX (AMENDMENT)(NO.2) BILL, 2025

Clause 2:Amendment of section 21 of principal Act

Clause 2 is amended in paragraph (b) by substituting for the proposed paragraph (za) (i) the following-

> "(i) registered business which has invested capital not exceeding five hundred million shillings;"

Justification

For clarity that it should be a registered business which has invested capital not exceeding UGX 500m other than a business registered with an investment capital not exceeding UGX 500m.

COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT – ENDORSEMENT OF THE REPORT ON THE INCOME TAX (AMENDMENT) (NO.2) BILL, 2025

NO	NAME	SIGNATURE
1.	HON. KANKUNDA AMOS K. **(Chairperson)**	
2.	HON. ALEPER MOSES **(Deputy Chairperson)**	
3.	HON. OGWAL MOSES GOLI	
4.	HON. DR. KUGONZA EMELY	
5.	HON. BATARINGANYA BASIL RWANKENE	
6.	HON. TAYEBWA HERBERT	
7.	HON. NANGOLI GERALD	
8.	HON. WAMAKUYU IGNATIUS MUDIMI	
9.	HON. ATIMA JACKSON LEE	
10.	HON. KAMBALE FERIGO	
11.	HON. OCHAI MAXIMUS	
12.	HON. WANDA RICHARD	
13.	HON. OKOT JOHN AMOS	
14.	HON. ASIIMWE .K. ENOSI	
15.	HON. OPOLOT PATRICK ISIAGI	
16.	HON. KATWESIGYE OLIVER KOYEKYENGA	
17.	HON. KATESHUMBWA DICKSON	
18.	HON. LUBEGA BASHIR SSEMPA	
19.	HON. KINSHEBA PATIENCE NKUNDA	
20.	HON. NAKUT FAITH LORU	

21.	HON. KYOOMA XAVIER AKAMPURIRA	
22.	HON. NABUKEERA HANIFA	
23.	HON. MUWANGA KIVUMBI MUHAMED	
24.	HON. NABUKENYA BRENDAH	
25.	HON. NABAGABE FLAVIA	
26.	HON. NANDALA MAFABI	
27.	HON. AKOL ANTHONY	
28.	HON. OGUZU DENIS LEE	
29.	HON. SSEMUJJU IBRAHIM	
30.	HON. EKANYA GEOFREY	
31.	HON. OCHAN PATRICK	
32.	HON. SEBALAMA RICHARD	
33.	HON. PAUL OMARA	
34.	HON. MPINDI BUMALI	
35.	HON. MASABA KARIM	
36.	HON. ACIRO PASKA MENYA	
37.	HON. NDYOMUGENYI ROLAND	
38.	HON. KEEFA KIWANUKA	
39.	HON. OCWA DAVID	
40.	HON. AVUR JANE PACUTO	
41.	HON. DR. CHARLES AYUME	
42.	HON. MBABAZI JENNIFFER KYOMUHENDO	
43.	HON. DR. AGNES APEA	

FOR GOD AND MY COUNTRY

PARLIAMENT OF UGANDA

MINORITY REPORT ON THE INCOME TAX (AMENDMENT) BILL, 2025

May, 2025

Clause 2 (b)

The Bill proposes an exemption of the income of the Bujagali hydro power projects up to 30th June 2032 (for 7 years) from Income Tax

I propose that this Clause be deleted

Justification

1. We have always rejected this Clause in the last five (5) consecutive years.
2. This project was exempt from Tax from June 2011 to 2024.
3. The project is another way the so-called investors are fleecing Uganda taxpayers of their meagre resources.
4. There was a Parliamentary investigation, and this project was to refund over **USD 100 million** to Ugandans for taxes taken between 2006 and 2012
5. The formula used includes money for the people of Uganda
6. There would be no profit because all operational costs are covered, including;
    i. ROI, Return on Investment of 19% for investors
    ii. Operational variable costs
    iii. Maintenance costs
    iv. Miscellaneous costs (refer to the 2023 report as ***attached in Appendix I, pages 3-5)***
7. This project has changed hands with the so-called investors every year because it is a lucrative business, and each recoups his/her investments with a return within a year.
8. There is a need to review this agreement as it is also provided in the agreement.
9. The Parliamentary Adhoc Committee Report should be implemented
10. Read the book, "Economic Hit Man".

Nathan Nandala Mafabi

Appendix I

PARLIAMENT OF UGANDA

1 JUL 2023

MINORITY REPORT ON THE INCOME TAX (AMENDMENT) BILL 2023

(AS RETURNED BY THE PRESIDENT)

JULY, 2023

1.0 INTRODUCTION

On 02nd May 2023, Parliament enacted the Income Tax (Amendment) Bill 2023, and the same was referred to the President for assent.

In a letter dated 26th June 2023, the President returned certain clauses in the Income Tax (Amendment) Bill, 2023 reconsideration. The Committee on Finance, Planning and Economic Development has considered President's concerns and prepared a report.

Pursuant to Rule 205 of the Rules of Procedure of the Parliament of Uganda, this Minority Report indicates dissenting opinions from the majority of the Committee.

2.0 AREAS OF DISSENT

Dissenting opinions regard;

a) Capping of carried forward losses
b) Exemption from tax of the income of Bujagali Hydro Power Project
c) Imposition of tax on non-residents providing digital services
d) Taxation of Unit Trusts

3.0 DISSENTING OBSERVATIONS

3.1 Capping of carried forward losses

1. A taxable loss is after adjustment from trading results for disallowing (adding back) expenses not allowable for tax purposes and allowing deductions (subtracting) allowable for tax purposes. For example:
    i) Disallowable expenses include depreciation, donations, expenses not related to the business
    ii) Allowable deductions include capital allowances and other tax allowances as per the tax laws e.g Section 21, 27A, and 29.
2. i) A big capital investment of say 10 Bn will take a long time to have this investment recovered.
    ii) If you say this should be recovered within Five (5) years, it implies that on average the business should be making more than 2 Bn per year. What type of business is this?
    iii) The main cause of taxable losses is because capital allowances given to businesses as per the tax laws in Schedule 6 of I.T.A.
    iv) A business will make a trading profit as per accounting standards and even pay dividends but will make a taxable loss due to taxable allowances like capital deductions

3. Let me illustrate with an investment of **10 Bn.**

	Year I	Year II	Year III	Year IV	Year V
Initial allowance 50% (Sec 27A)	5 Bn				
Annual allowance 20% (Sec 29)	1 Bn	1 Bn	1 Bn	1 Bn	1 Bn
Total	**6 Bn**				

	Year I	Year II	Year III	Year IV	Year V
Trading profit	200M	250M	300M	400M	500M
Add Depreciating capital allowance	1 Bn	1 Bn	1 Bn	1 Bn	1 Bn
Less allowance Bal. loss	6 M	1 Bn	1 Bn	1 Bn	1 Bn
Taxable loss	4.8 Bn	4.55 Bn	4.25 Bn	3.85 Bn	3.35 Bn

Note: You are making trading profit but for tax profit, you are making taxable losses as per the tax laws.

4. To address the main issue of capital allowances:
   i) We have removed initial allowances, however, this will affect investment outside Kampala and Jinja (Amendment 2023), deletion of Section 27A.
   ii) Reduce the rate of capital allowances in Schedule 6. In earlier year;-
      a) Industrial buildings were for 50 years and hence the rate was **2%** as opposed to **40%** now.
      b) Hotels were for **4%** per annum as compared to **40%**
5. URA should intensify tax audits to confirm the right values of investments. This can be done by the values already in their books in World Customs Organization (WCO) Brussels
6. i) Back duty and Tax Investigation be intensified
   ii) expenses of one business is an income of another business for example, if you borrow **10 Bn** to invest at interest of **20%** P.A, i.e **2 Bn** will be the income of the lender who will pay tax on it. Therefore, there is no loss.
7. i) Majority MPs have borrowed to build homes for rent. Let me demonstrate with a small house on ¼ acre **50M** plus building of **150M.** Total **200M.**
   ii) Rent per month is **1M** i.e **12M** per month giving net income after rental tax of **9.6M**
   iii) The 200M borrowed will attract the interest of **20%** P.A giving **40M** as income to the bank, which is subject to tax.

iv) It will take more than 20 years for the MP to recover his investment before he makes a return.

8. What happens to those who declare taxable income in the 5th year and then go back to losses again?

Recommendations

i) Professionalise URA rather than making a law to promote inefficiency

ii) Intensify back duty/Tax Investigation

iii) Intensify the exchange of information as per the law passed to deal with over-the-border transactions.

iv) Apply Section 90 of I.T.A for re-characterization of transactions which are not at arm's length.

v) EFRS should be applied to all traders.

vi) Lower capital allowances rates and remove generous capital allowances as done under Section 27A of the Income Tax Act.

vii) Look for the sources where the so-called investors are getting funds and applying the best prices i.e a bag of cement ordinarily is not more than UGX.32,000, why would someone claim UGX.40,000

viii) Limit capital allowances to the businesses which give rise to such allowances. Do not apply them to other businesses like general trading services completely since they are unrelated.

In a nutshell, tax losses can't be taxed. The Ministry of Finance, Planning and Economic Development ill advised the President.

3.2 Exemption from tax of the income of Bujagali Hydro Power Project

In principle, income tax is imposed on income. This is after making or realisation of a profit.

In case of Bujagali Hydro Power Project, it was agreed that investors will earn Return on Investment (ROI) of 19%

If we treat the ROI as an expense, then there will be no profit, thus the ROI takes care of the dividends of the shareholders.

This can be demonstrated as hereunder;

Whereas Banks/Financial Institutions get Interests and loan repayment as per agreements; Investors get Return on Investment (19%).

In regard to Bujagali, there are Operational and Maintenance Costs for production of 250MW and other variable costs related to power production.

Issues to Note

- Power to be purchased for the Ugandan Economy at minimum cost
- Therefore, power should not be for profit to the Government of Uganda
- Power production is the responsibility of the Government
- Therefore, if all players are covered then there should be no excess. If there is any excess, then it should be transferred to the Consolidated Fund.

Therefore, the cost of power should be;

i. ROI + (Interest + loan repayment) + operation cost + maintenance costs + other variable costs = cost of power
ii. Dividends are paid from ROI not excess after payment of all players
iii. Income Tax should be on ROI unless the agreement says you will be paid gross without tax.

Therefore, Corporation Tax doesn't arise because there is no profit to be made after paying off all players. The request for a waiver doesn't arise because there is nothing to tax.

The investors should make a separate application for exemption of Return on Investment from tax, if need be. This is because in this case the profit is equal to ROI.

Impact of the Foregone Revenue on the economy

For the period between 2018 – 2021, the foregone revenue Bujagali Energy Limited amounted to UGX 388.70 billion, as illustrated in the table below. The foregone revenue translates to foregone 353 Health Centre 4s (each estimated at UGX 1.1 billion), 2950 secondary school classroom blocks (each estimated at UGX 131.75 million), and 3070 primary school classroom blocks (each estimated at UGX 126.60 million) as of 2022.

Table 1. Foregone Income equated to Foregone Healthy Centre IVs, Secondary & Primary Schools.

Year	Foregone income tax	Total tax collections (PAYE, VAT & WHT)	Difference foregone income tax-total tax collections	Equivalent foregone HCIVs	Equivalent foregone secondary school classroom blocks	Equivalent foregone primary school classroom blocks
2018	108,400,720,340	104,719,459,059	3,681,261,281	99	823	856
2019	100,040,078,327	90,797,713,522	9,242,364,805	91	759	790
2020	90,736,603,421	92,080,214,899	(1,343,611,478)	82	689	717
2021	89,522,700,833	87,620,564,589	1,902,136,244	81	679	707
	388,700,102,921	**375,217,952,069**	**13,482,150,852**	**353**	**2,950**	**3,070**

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Given that the Country is facing challenges in revenue generation, it is prudent that Government acts with frugality and actualizes every potential revenue stream to finance service delivery.

Recently the Adhoc Committee on Bujagali tax waiver established that even with the Government intervention of the tax waiver on Bujagali Energy Limited and the refinancing of the Bujagali Hydropower Plant, the current tariff (of US cents 8.3), is still over and above the target of US cents 5.5 per kilowatt[1].

Category	Number of customers	Tariff without CIT(UGX)	Tariff with CIT (UGX)	Increment (UGX).
Domestic	1,563,252	747.5	800.4	52.9
Commercial	89,891	616.6	643.2	26.6
Medium	3,082	526.9	553.4	26.5
Large	597	355	381.1	26.1
Extra Large	52	302	324.4	22.4
Street Light	304	370	370	0
Total	**1,657,178**			

On top of the above-foregone income lost through income tax waiver, the committee on Bujagali tax waiver discovered a lot of haemorrhage and recommended, among others;

i. Bujagali Energy Limited to refund to the Government the excess payments of US$ 342 Million for the period of 10 years plus surcharges.
ii. Bujagali Energy Limited was found liable for not declaring the provisional component of tax on the purported income amounting to US$ 63 Million. On this URA was directed to recover all taxes from BEL prior to the exemption.
iii. Claiming interest during the time of construction, yet they never paid the taxes on interest at a rate of 15%.
iv. Bujagali violated the agreement when it started to withdraw the capital investment which is not in the agreement.

To date, they have not complied. This is clear contempt on the side of Bujagali and the Executive. Parliament cannot keep passing and ignored by the Executive.

[1] Hansard Second Session -Third Meeting Wednesday ,15th March 2023