



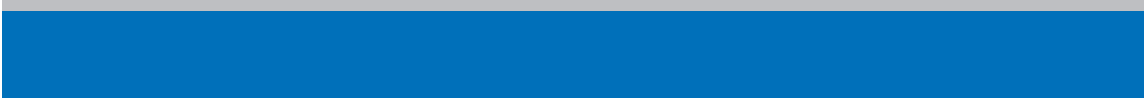
Uganda Revenue Authority
DEVELOPING UGANDA TOGETHER



EMPLOYMENT INCOME

INCOME TAX ACT CAP 340:

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IMPORTANT DEFINITIONS

EMPLOYER:

A person (individual or corporate) who employs/remunerates an individual

EMPLOYEE:

An individual engaged in an employment

EMPLOYMENT:

- (i) Position of an individual in the employment of another
- (ii) Directorship of a company
- (iii) A position entitling the holder to a fixed or ascertainable remuneration. This may be contractual, permanent or part time
- (iv) Holding or acting in any a public office

COMPOSITION OF EMPLOYMENT INCOME

Employment income comprises of the following amounts according to the law:-

- Amount of private/personal expenditure discharged or reimbursed by the employer
- The value of any benefits in kind provided by/on behalf of the employer
- Any amount in compensation of termination of employment or contract
- Insurance premiums paid by a tax-exempt employer for life insurance of an employee and or his dependents
- Payments in respect of change of employment/contract terms or payment for agreement to any restrictive conditions of employment
- Wages, salary, leave pay, payment in lieu of leave, overtime pay, fees, commission, gratuity, bonus, and the amount of any traveling by virtue of one's employment, entertainment, utilities, cost of living, housing, medical or other allowance.
- Value shares received by an employee under employee share acquisition scheme less consideration if any
- Consideration for the grants or option to acquire shares
- Amount of any gain on disposal of a right or option to acquire shares under an employee share scheme.

NOTE: Each or any of the above in combination comprise employment income.





EMPLOYEE'S RELIEF (Exempt Income)

(Employment gains not included in chargeable income)

Pension: Pension is tax exempt

Medical Expenses: Discharge or reimbursement of an employee's medical expenses

Life insurance: Premiums paid by a taxable employer for insurance of the life of an employee or his/her dependent

Official Employment expenditure: Allowances for or discharge or reimbursement of expenses met by an employee while performing duties of employment

Meals/refreshments: The value of meals/refreshments provided to all employees at equal terms in premises operated by or on behalf of the employer

Retirement fund: Employer's contribution to a retirement fund for the benefit of the employee (employee's contribution is taxable)

Shares: The value of a right or option to acquire shares granted to an employee under an employee share acquisition scheme

Local Service Tax: This is deductible before computing tax

Other benefits: Any benefit whose total value is less than Shs. 10,000 during the month

Threshold: The first Shs. 235, 000 per month is tax free for all resident employees

Terminal benefits: 25% of terminal benefits (for employees who have served the employer for at least 10 years)

Transport Costs: Cost of passage incurred by employer in respect of employee's appointment if recruited out of Uganda for employer's sole purpose (only applies to Non – Ugandans)

Passage costs

Allowances/Reimbursement: of the actual cost of accommodation and travel; meals and refreshments in the course of performing employment duties

COMMON BENEFITS IN KIND

We have already noted that the value of any benefit in kind provided by an Employer is part of employment income.



What is a Benefit In Kind?

It is facilitation directly/indirectly by an employer of an employee in relation to past, present or future employment (not necessarily contractual). A benefit in kind is one provided by an employer, third party of an employer or associate of an employer.

Taxable Non cash Employment benefits under the law include but are not limited to:-

- Private use of official motor vehicle
- Provision of domestic servants , utilities, house keeper, chauffeur
- Meals, refreshment, entertainment
- Relief of debt obligations/interest
- Waiver of obligations of the employee by the employer
- Any other benefit provided by the employer
- Provision of property by an employer to an employee (at non-arm's length terms)
- Provision of residential accommodation
- Difference between interest at statutory rate and rate at which loans are granted

When is a benefit deemed to have been provided by the employer?

A benefit need not be provided by the employer or provided to the employee. It can be provided by the associate of the employer or can be provided to an associate of the employee.

A benefit is said to have been obtained in respect of employment:

- When it is provided by an employer or by a third party under arrangement with the employer or an associate of the employer
- When it is provided to an employee or an associate of an employee
- When it is provided in respect of past, present or prospective employment

The valuation of benefits for the purposes of subsection (3) of section 19 of the Act is determined as follows.

1. Where a benefit provided by an employer to an employee consists of the use or availability for use, of a motor vehicle wholly or partly for the private purposes of the employee, the value of the benefit is calculated according to the following formula –

(20% x A x B/C) - D where,

- A** is the market value of the motor vehicle at the time when it was first provided for the private use of the employee;



- B is the number of days in the year of income on which the motor vehicle was used or available for use for private purposes by the employee for all or a part of the day;
 - C is the number of days in the year of income;
 - D is any payment made by the employee for the benefit.
2. Where a benefit provided by an employer to an employee consists of the provision of a housekeeper, chauffeur, gardener, or other domestic assistant, the value of the benefit is the total employment income paid to the domestic assistant in respect of services rendered to the employee, reduced by any payment made by the employee for the benefit. However provision of a security private guard is not classified as a taxable benefit

For example if the company pays a gardener sh. 150,000 per month, but the employee contributes sh. 20,000 per month, the benefit derived by the employee is sh. 130,000 (i.e. 150,000 – 20,000). If the employee does not contribute anything, the benefit is sh. 150,000.

3. Where a benefit provided by an employer to an employee consists of the provision of any meal, refreshment, or entertainment, the value of the benefit is the cost to the employer of providing the meal, refreshment, or entertainment, reduced by any consideration paid by the employee for the meal, refreshment, or entertainment.

For example if the meals are provided for 26 days in a month, each meal costing 3,000 and the employee not contributing anything, then the benefit is sh. 78,000 per month (3,000 x 26).

4. Where a benefit provided by an employer to an employee consists of the provision of utilities in respect of the employee's place of residence, the value of the benefit is the cost to the employer of providing the utilities reduced by any consideration paid by the employee for the utilities.

In this case, the actual payment receipts from the utility company can be used to ascertain the value (less actual contribution by the employee if any).

5. Where a benefit provided by an employer to an employee consists of a loan, or loans in total, exceeding one million shillings at a rate of interest below the statutory rate, the value of the benefit is the difference between the interest paid during the year of income, if any, and the interest which would have been paid if the loan had been made at the statutory rate for the year of income. Statutory rate here refers to the Bank of Uganda discount rate at the commencement of the year of income.



Example: if an employer gives an employee a school fees loan of sh.400,000;a furniture loan of sh. 500,000 and an appliances loan of sh. 300,000 at 10% interest per month when the statutory rate is 15%, the benefit would be sh. 60,000 (i.e. 1,200,000 x 15%) – (1,200,000 x 10%) = 180,000 – 120,000.

6. Where a benefit provided by an employer to an employee consists of the waiver by an employer of an obligation of the employee to pay or repay an amount owing to the employer or to any other person, the value of the benefit is the amount waived.

Example: In the month of January 2013, an employee owed a bank sh. 300,000. The employer decided to pay the full amount for the employee on 31st January 2013 and opted not to recover that amount from the employee. The employee has obtained a benefit equal to sh. 300,000 for the month of January, which should be part of her employment income.

7. Where a benefit provided by an employer to an employee consists of the transfer or use of property or the provision of services, the value of the benefit is the market value of the property or services at the time the benefit is provided, reduced by any payment made by the employee for the benefit.

Example: The Company transferred a car valued at sh. 5,000,000 to an employee in February 2009. The employee was asked to contribute sh. 1,000,000 for that car.

The employee derived a benefit equal to sh. 4 million in February, which should be included in his employment income.

8. Where a benefit provided by an employer to an employee consists of the provision of accommodation or housing in kind, the value of the benefit is the lesser of-
 - (a) the market rent of the accommodation or housing reduced by any payment made by the employee for the benefit; or
 - (b) Fifteen per cent of the employment income, including the amount referred to in paragraph (a), paid by the employer to the employee for the year of income in which the accommodation or housing was provided.

Example: A company pays an employee basic salary sh. 3,000,000 per month; transport allowance sh. 300,000 per month and medical allowance sh. 200,000per month. They provided him with a company house whose market rent is sh. 600,000 per month for which he contributes 50,000 per month.



The benefit derived by this employee is the lesser of:

- a) $(600,000 - 50,000) = \mathbf{550,000}$ and
- b) $15\% (3,000,000 + 300,000 + 200,000 + 550,000) = \mathbf{607,500}$

In this case the housing benefit is sh. **550,000**

- 9. The value of any non-cash benefit provided by an employer to an employee which is not covered by the above clauses is the market value of the benefit, at the time the benefit is reduced by any payment made by the employee for the benefit.

PAY AS YOU EARN RATES OF TAX

MONTHLY CHARGEABLE INCOME	RATE OF TAX
Not exceeding Shs. 235,000	Nil
Exceeding shs. but not exceeding Shs. 335,000	10% of the amount by which chargeable income exceeds Shs. 235,000
Exceeding Shs. 335,000 but not exceeding Shs. 410,000	Shs. 10,000 plus 20% of the amount by which chargeable income exceeds Shs. 335,000
Exceeding Shs. 410,000	<ul style="list-style-type: none"> (a) Shs. 25,000 plus 30% of the amount by which chargeable income exceeds Shs. 410,000 (b) Where the chargeable income of an individual exceeds 10,000,000 per month, an additional 10% is charged on the amount by which the chargeable income exceeds shs. 10,000,000 per month

NB. Non-resident employees are not entitled to the threshold (Shs 235,000); so at every amount under rates of tax, add shs.23,500 or (10% of 235,000)

TREATMENT OF PART TIME ALLOWANCES

- Employees who are engaged on part-time basis are deemed in principle to be earning income from more than one source.
- Part-time allowances/earnings are taxed at a flat rate of 30% of the gross
- An employee aggrieved by this treatment may submit a return of emoluments from all sources and make a claim of tax overpaid.

EMPLOYER'S OBLIGATION

The income tax law further provides for obligation of the employer as summarized below:

Withholding: To deduct the correct tax at the time of effecting payment to a liable employee.

Remitting: To remit the total tax by the 15th day of the immediately following month.



Accountability: Account the tax deducted from every employee on a monthly basis.

Maintenance of Employees' Records: To maintain records and keep them for inspection by URA on demand for at least five (5) years

EMPLOYEE'S OBLIGATION/RIGHTS

- If you are deriving income from more than one source, complete an end of year return and declare:
- Total income from all sources including business income.
- Total tax paid at source such as PAYE, Withholding tax or provisional tax. (This excludes presumptive tax and rental tax paid by such employee).
- Tax payable.

EMPLOYEE'S RIGHTS

An Employee:

- Is not required to furnish return if taxpayers source of income is only one employment and tax is fully deducted and paid source
- Is entitled to claim refund of over-paid tax where applicable.
- Is entitled to accountability for all taxes deducted and paid at source by the employer.

Therefore it is in the interest of the taxpayer to file a return of income where he/she has multiple source of income. No one can enjoy a refund of overpaid tax without making a declaration.

WHAT HAPPENS IF TAX IS DEFAULTED?

An employer who fails to withhold tax as required by law is personally liable to pay the tax together with any penal tax and interest thereon.

However the employer is entitled to recover the tax from the employee, if he/she wishes to do so, but cannot recover the interest or penalty from the employee.

Disclaimer

This information is strictly for creating awareness and providing guidance to our clients. It should not at any one time be used in place of substantive law; and is subject to change on amendment of tax legislation and any other regulations governing tax administration.

