**A GUIDE TO TAXATION OF THE HOTEL – ACCOMMODATION AND TOURISM SECTOR**

**VOL 1, ISSUE 3 FY 2022-2023**

**key definitions**

**What is a hotel?**

The Income tax act defines an approved hotel as an industrial building licensed by the appropriate authorities for use, at a price, for boarding and lodging with at least;

* Ten bedrooms with minimum facilities of bed and breakfast, toilet and bath or shower room; and
* Restaurant or dining room for provision of food and beverages

**What is an Accomodation?**

According to the International Standard Industrial Classification of all Economic Activities (ISIC), Accommodation includes the provision of short-stay accommodation for visitors and other travellers. Also included is the provision of longer-term accommodation for students, workers and similar individuals. Some units may provide only accommodation while others provide a combination of accommodation, meals and recreational facilities

**What are the main activities in the hotel- accommodation sector?**

The main activities include;

* hotels
* resort hotels
* suite / apartment hotels
* motels
* motor hotels
* guesthouses
* bed and breakfast units
* visitor flats and bungalows
* time-share units
* holiday homes
* chalets, housekeeping cottages and cabins
* Villa

This class excludes: provision of homes and furnished or unfurnished flats or apartments for more permanent use, typically on a monthly or annual basis, Camping grounds, recreational vehicle parks and trailer parks.

**BUSINESS REGISTRATION**

**What are the requirements for business/company registration in Uganda?**

The legal requirements for the incorporation / registration / formation of a company in Uganda are contained in the Companies Act, 2012

All businesses in Uganda are required to register with URSB, KCCA/ Local government and URA.

At URSB, upon approval of a Business Registration application, you will receive either a Certificate of registration (if registered in your own names or business names or incorporated outside Uganda) or Certificate of Incorporation if registered as a Limited liability Company.

AT URA, upon approval of a TIN application, you will be given a Taxpayer Identification Number (TIN) for tax purposes. A TIN is obtained free of charge and therefore no one should charge you for it.

At KCCA/LOCAL GOVERNMENT, upon approval of a Trading License application, you will be given a trading license to enable you operate your business in a delineated Local Authority country wide.

**What are the requirements for registration with URA?**

Any person engaging in “business “generating income in Uganda is required to register ffor taxes. “Business” includes any trade, profession, vocation or adventure in the nature of trade, but does not include employment.

One registers for URA taxes by acquiring a Taxpayer Identification Number (TIN.)

A person liable to pay tax under a tax law shall apply to the Commissioner for registration with Uganda Revenue Authority (URA). On successful registration, the Commissioner shall issue to every applicant a Tax Identification Number (TIN).

A person’s TIN shall be indicated on any return, notice, communication, or other document furnished, lodged, or used for the purposes of a tax law.

A TIN is personal to the person to whom it has been issued and shall not be used by another person.

Please note that a TIN is obtained free of charge and therefore no one should charge you for it.

**DIRECTIVE TO MINISTRIES, GOVERNMENT DEPARTMENTS, AGENCIES AND INSTITUTIONS ON USE OF TINS**

Section 135(3) of the Income Tax Act (ITA), requires that every local authority, Government institution, or regulatory body shall require a Tax Identification Number from any person applying for a license or any form of authorization necessary for purposes of conducting any business in Uganda.

**What is a TIN?**

TIN stands for Tax Identification Number. A TIN is a 10-digit number which acts as an account of a taxpayer with Uganda Revenue Authority (URA). It shall be used for identification of each taxpayer, communication with URA and shall be used for all tax purposes under all tax laws.

**What are the key requirements for TIN registration?**

**The key requirements for TIN registration include;**

1. **Individuals**

An individual is a living person who applies for a TIN. The required documents include:

* Copies of National identification card or two identification documents one which must be from the three listed here (Passport, Employee’s ID or Voter’s Card).
* Others are; Driving Permit, Work Permit, Village Identity Card, Current Bank Statements (past 90 days), VISA card Number, Diplomatic Foreign Affairs ID.

Please take note of the following categories that need additional requirements

1. **Foreign Directors**

Foreign Director is a non-Ugandan who has incorporated a company in Uganda

i)For resident foreign directors to qualify for a TIN in Uganda, they require to have the following documentations:

* Valid passport and either
* Work permit for non-East Africans (ie if it is already processed) or
* National IDs for East-Africans or
* Refugee ID for refugees

1. **Non-resident directors**

At least two valid identification documents are mandatory, ie valid passport and foreign national security cards among others.

# Note: A work permit is not mandatory for foreign directors as it is a requirement to have a TIN to process a work permit.

1. **Minors**

A Minor is a person who is under 18 years of age. For minors to qualify for a TIN, a copy of Legal / Court document of guardianship shall be attached.

1. **Non-Individuals**

A Non-Individual is an entity that is not a living person and it includes partnership, trust, a company, retirement fund, a government etc.

|  |  |  |
| --- | --- | --- |
| **Entity Type** | **Entity Sub Type** | **Documents required**  **(M- Mandatory, O- Optional)** |
| Company | * Public Company | * Certificate of Incorporation(O) * Memorandum between Government and Entity (M) |
| * Private Company | * Company form 7(20) (M) * Certificate of Incorporation (M) * Company form 8 (O) |
| * Foreign Company | * Certificate of Registration (M) * Company form 19 (M) * Company form 21 (M) |
| Other Entity types | * Club, Society or Associations | * Certificate of Registration (M) * Club Constitution (O) |
| * Estate or Trust | * Certificate of registration (M) * Trust deed (O) |
| Partnership | * General Partnership | * Partnership deed (O) * Certificate of Registration (M) * Statement of Particulars (M) |
| Partnership | * Joint Venture (JV) NB:  1. Where the name of the JV is different from the corporate names of all partners which are corporations. 2. Where a partner in the JV is a resident person, the JV shall be registered as resident partnership. 3. Where none of the partners in the JV is a resident person, the J shall be registered as a non-resident partnership. | * Joint venture agreement duly endorsed by the Registrar of companies * Registration/incorporation documents shall be required for the individual partners in the JV * Certificate of Registration of the JV under the Registration of Business Names Act |
| Partnership | * Limited Liability Partnership | * Certificate of Registration of the Limited Liability * Partnership (M) * Statement of Particulars (M) * Memorandum and Articles of Association (M) |

**How can one apply for a TIN?**

A TIN can be acquired through any of the processes below:

1. **Through the URA Web portal:**
2. Visit the URA web portal and click e-Services
3. Under e-Services click register for taxes
4. Select the registration type applicable to you;

* Instant TIN application
* Web form TIN application for individuals
* Excel template Individual TIN registration
* Non-individual TIN registration
* Group TIN registration that is; registering a company along with its directors.

1. Complete the application and submit
2. Upon approval by URA, you will receive a TIN and it will be sent to the phone number and email address you provided to URA at the point of registration.
3. Print TIN Certificate sent to your e-mail address.
4. **Visiting a URA designated office**

In case a taxpayer cannot register online, he or she can walk into any of the URA offices or One Stop Centre located in any Municipality or KCCA division and assistance shall be provided to complete the registration process. Ensure that you move along with the necessary attachments as listed below.

In case of failure to do any of the above, call the Contact Centre: 0800217000 or 0800117000 (Toll free) or WhatsApp 0772140000 or send an email to [services@ura. go.ug](mailto:services@ura.%20go.ug)

**What are the benefits of acquiring a TIN?**

Acquiring a TIN enables you to:

* Import or export goods within and outside Uganda.
* Claim tax benefits that accrue to you e.g. tax refunds etc.
* Access bank loans.
* Acquire a trading license from Local Government / KCCA to undertake business in their jurisdiction. Register your Motor Vehicle
* Process land transactions above 50 Million UGX.

The TIN acts as a security measure on transactions regarding some assets e.g. already validated motor vehicles, titled land since a notification is automatically sent to the owner’s TIN account and registered email.

**What are the taxpayer rights and obligations?**

|  |  |
| --- | --- |
| **Rights** | **Obligations** |
| * You have a right to equity:   + Tax laws and procedures shall be applied consistently to you | * Comply with all the taxation requirements and regulations. * Make full disclosure of information and correct declaration of all transactions at all times. |
| * All your tax affairs handled with fairness * You and your agent(s) shall be presumed honest until proven otherwise * You shall always pay the correct tax * Your tax affairs shall be kept secret and any tax information in our possession shall be used in accordance with the law. * You and your authorized agent(s) shall be provided with clear, precise and timely information. * You will receive courteous and professional services at all times | * Pay the correct tax at the right time and place as required by the relevant laws. * Not indulge in any form of tax evasion and other illegal practices. * In handling your tax matters, you and or your appointed agent(s) shall be expected to deal and cooperate only with the * Authority’s authorized staff. * Quote your Tax Identification Number (TIN) for all dealings with URA. * Request for a proper receipt for all your purchases and keep records properly |

**BOOK KEEPING AND ACCOUNTS**

**What are the benefits of accounts and record keeping?**

1. It is very important for taxpayers to;

* Keep proper records of all business transactions in English language;
* Keep records such that it is easy to determine their tax liability;
* Keep records for five years after the end of the tax period to which they relate for future reference.

1. In case a record is necessary for a proceeding which started before the end of the 5 year period, a taxpayer shall keep the record until the end of the proceedings.
2. The records kept should contain sufficient transaction information and should be saved in a format that is capable of being recovered and converted to a standard understandable record format.
3. A taxpayer who wishes to keep records in a different language or currency shall apply in writing with clear reasons to the commissioner for permission.
4. Where a record is not in English, the taxpayer will be required to meet the cost of translation into English by a translator approved by the Commissioner.
5. However, the taxpayer shall file a tax return or provide other correspondence with the Commissioner in English.

**When does a person deregister?**

A person who no longer fulfills the registration conditions may, in the prescribed manner, apply to the Commissioner to be deregistered.

The Commissioner shall by notice in writing, deregister a person if he is convinced that the person no longer satisfies the registration conditions.

A person who temporarily closes a business with an intention of resuming, shall not be deregistered but apply to the commissioner in writing to have his TIN deactivated and later on reactivated when they resume business.

**What are the consequences of failure to register for a TIN, cancel a registration or notify the commissioner of a change in registration or circumstances?**

The penalty for a person who fails to apply for registration, cancel a registration or notify the Commissioner of a change in registration or circumstances is;

* a fine not exceeding Shs. 3,000,000 or imprisonment not exceeding six years or both on conviction if the failure/act was done knowingly or recklessly.
* to a fine not exceeding Shs. 1,000,000 or imprisonment not exceeding two years or both on conviction in any other case.

The penalty to be paid under this section shall be recovered and collected as unpaid tax.

**Use of a false TIN**

A TIN is personal to the person to whom it has been issued and shall not be used by another person.

* A person who uses a false TIN on a tax return or other document prescribed or used for the purposes of a tax law, knowingly or recklessly or not, commits an offence and is liable on conviction to a fine not exceeding Shs. 3,000,000 or imprisonment not exceeding six years or both.

**What is the penalty for failure to maintain proper records?**

The penalty for knowingly or recklessly or not failing to maintain records as required under any tax law is a fine not exceeding Shs. 2,000,000 or imprisonment not exceeding six years or both on conviction.

**Note:** A taxpayer, who cannot effectively handle his tax matters, can appoint a tax agent to transact with URA on his/her behalf.

**What tax types are applicable to hotel & accommodation business income tax?**

Any person dealing in Hotel and Accommodation Business is required to be registered

for income tax. Income tax applies generally to all types of persons who derive income, whether an individual, non-individual or partnership.

Resident persons are taxed on worldwide income, while non-resident persons are taxed only on income derived from sources in Uganda.

The tax payer is required to make a self-assessment by calculating the taxable income and then calculate tax due on that income. The taxpayer’s calculations are reviewed by revenue officials when returns are filed to ensure that the declarations made are correct. The income tax rates apply differently to;

1. **Non-Individuals**
2. **Individuals**
3. **Tax rates for non-individuals in education services business.**

The income tax rate for a company i.e. a body of persons, corporate or unincorporated, created or recognized under any law in Uganda or elsewhere, is 30% of the entity’s CHARGEABLE INCOME (gross income less tax allowable deductions.)

# Income tax worked example for a non-individual in education services business.

**The table below shows the income statement for Pumba Safari lodge Limited for the period 1/01/2019 to 31/12/2019**

|  |  |  |
| --- | --- | --- |
| **SALES /Revenue** | **UGX** | **UGX** |
| Hotel Rooms (Accommodation) | 875,025,000 |  |
| Food and Beverages Sales | 291,675,000 |  |
| Total Sales |  | 1,166,700,000 |
| COST OF SALES | | |
| Total Cost Of Sales |  | (370,428,000) |
| EXPENSES | | |
| Pay Roll | 332,177,000 |  |
| Employees Benefits | 56,865,000 |  |
| Direct Expenses | 54,835,000 |  |
| Advertising | 33,834,000 |  |
| Music and Entertainment | 11,667,000 |  |
| Utilities | 37,334,000 |  |
| Administrative Expenses | 46,668,000 |  |
| Total Expenses |  | (573,380,000) |
| Profit Before Interest And Tax |  | 222,892,000 |
| Interest |  | (84,000,000) |
| Profit Before TAX |  | 138,892,000 |
| TAX =30% of 138,892,000 UGX |  | 41,667,600 |

1. **Tax rates for Individuals in education services business**

The income tax rate for individuals depends on the income bracket in which the individual falls. Resident individuals enjoy a tax free annual income threshold of UGX. 2,820,000 per annum. The balance is taxed at 10%, 20% or 30% depending on the income bracket. Individuals who earn above UGX 120,000,000 per annum pay an additional 10% on the income above UGX 120 million.

**N.B CY represents chargeable income.**

|  |  |  |
| --- | --- | --- |
| **ANNUAL CHARGEABLE INCOME (CY) IN UGX** | | **RATE OF TAX** |
| **Residents** |
| 0 to 2,820,000 | | Nil |
| 2,820,000 to 4,020,000 | | (CY – 2,820,000UGX) x 10% |
| 4,020,000 to 4,920,000 | | (CY – 4,020,000UGX) x 20% + 120,000UGX |
| 4,920,000 to 120,000,000 | | (CY – 4,920,000UGX) x 30% + 300,000UGX |
| Above 120,000,000 | | [(CY – 4,920,000UGX) x 30% + 300,000UGX] + [(CY  – 120,000,000UGX) x 10%] |
| **ANNUAL CHARGEABLE INCOME (CY) IN UGX** | **RATE OF TAX** | |
| **Non-residents** | |
| 0 to 4,020,000 | CY x 10% | |
| 4,020,000 to 4,920,000 | (CY – 4,020,000UGX) x 20% + 402,000UGX | |
| 4,920,000 to 120,000,000 | (CY – 4,920,000UGX) x 30% + 582,000UGX | |
| Above 120,000,000 | [(CY – 4,920,000UGX) x 30% + 582,000UGX] +[(CY  – 120,000,000UGX) x 10%] | |

Income tax worked example for a resident individual in business.

Using the example of Pumba Safari Lodge Limited above; assuming the school is owned by Katende Edith a resident individual trading as Pumba Safari Lodge, the tax payable would be:

**SOLUTION:**

The chargeable Income UGX 138,892,000 falls in the bracket (above UGX 120,000,000) [(CY – 4,920,000) x 30% + 300,000] + [(CY –120,000,000) x 10%]

{(138,892,000-4,920,000) \*30%+300,000} + {(138,892,000-120,000,000) \*10%}

=42,380,800

Tax payable =UGX 42,380,800

**PAYE AS YOU EARN**

Any person dealing in hotel and accommodation business and officers employment is required to be registered for Pay As You Earn (PAYE).

**What is employment?**

Employment refers to;

* Position of an individual in employment of another Person
* Directorship of a company,
* A position entitling the holder to a fixed or ascertainable remuneration.
* Holding or acting in a public office.

Employment income includes: Wages, salary, leave pay, payment in lieu of leave, overtime pay, fees, commission, gratuity, bonus, allowances (entertainment, duty, utility, welfare, housing, medical, or any other, allowance

PAYE is a monthly return furnished by an employer for an amount withheld from their employees who earn employment income or an associate as tax.

Pay As You Earn is tax charged on all employees earning a salary income above the stated threshold as per the Income Tax Act.

**The PAYE rates are applied based on the person’s resident status as shown in the table below.**

**PAYE Tax rates that apply for both Residents and Non-Residents.**

|  |  |  |
| --- | --- | --- |
| **CHARGEABLE INCOME (CY) UGX (MONTHLY)** | | **RATE OF TAX** |
| **RESIDENTS** |
| 0 to 235,000 | | Nil |
| 235,000 to 335,000 | | (CY – 235,000UGX) x 10% |
| 335,000 to 410,000 | | (CY – 335,000UGX) x 20% + 10,000UGX |
| 410,000 to 10,000,000 | | (CY – 410,000UGX) x 30% + 25,000UGX |
| Above 10,000,000 | | [(CY – 410,000UGX) x 30% + 25,000UGX] +[(CY – 10,000,000UGX) x 10%] |
| **CHARGEABLE INCOME (CY) UGX (MONTHLY)** | **RATE OF TAX** | |
| **NON-RESIDENTS.** | |
| 0 to 335,000 | CY x 10% | |
| 335,000 to 410,000 | (CY – 335,000UGX) x 20% + 33,500UGX | |
| 410,000 to 10,000,000 | (CY – 410,000UGX) x 30% + 48,500UGX | |
| Above 10,000,000 | [(CY – 410,000UGX) x 30% + 48,500UGX] +[(CY – 10,000,000UGX) x 10%] | |

**How is PAYE calculated for a resident employee?**

**Illustration**

* Kamonde is a resident employed by Rafiki hotel. He earns a monthly salary of UGX 200,000. Is Rafiki hotel obliged to deduct PAYE tax from Kamonde?

**Solution**;

No, because Kamonde’s monthly salary is less than the threshold UGX 235,000 so his salary does not attract PAYE.

* If Kamonde in addition to the monthly salary of UGX 200,000 is given travelling allowance of UGX 75,000 and medical allowance of UGX 45,000.

Chargeable income = 10 %( 320,000 - 235,000) =8,500 UGX PAYE worked examples for non-resident employee.

* Mr. Brown is a non-resident employed by Rafiki Hotel. He earns a monthly salary of Shs. 15,000,000. Compute his monthly amount of PAYE to be deducted?

**Solution**

15,000,000 falls under the bracket (Exceeding UGX. 410,000) Thus PAYE = (48,500 + 30% (15,000,000 - 410,000)) + 10 % (15,000,000 - 10,000,000)

= UGX. 4,925,500

**WITHHOLDING TAX (WHT)**

**What is Withholding tax?**

Withholding tax (WHT) is income tax that is withheld at source by one person (withholding agent) upon making payment to another person (payee).

**Who is a withholding agent?**

A withholding agent is a person legally obliged to withhold tax on payment. To become a withholding agent, one must;

* Be on the list of selected / designated withholding agents published by the Minister of finance in a gazette or
* Be making a payment on a transaction that is required by law to be deducted from WHT.

**What are types of payments that are considered for WHT tax?**

* Employment income: Tax is deducted by the employer from the employment income of every liable employee on a monthly basis under the PAYE system.
* International payments: Tax is imposed on every non-resident person who derives any dividend, interest, royalty, natural resource payment or management charge from sources in Uganda. The tax is withheld by the payer at the rate of 15% on the gross amount before payment.
* Payments to non-resident Contractors or professionals: Tax is imposed on every non-resident person deriving income under a Ugandan source service contract. The tax is charged at 15% of the gross amount of payment and the person making the payment should withhold the relevant tax before effecting the payment.
* Payments on dividends: A resident company which pays a dividend to a resident shareholder is required to withhold tax at 15% of the gross amount of the dividend paid, except where the dividend income is exempt from tax in the hands of the shareholder. However, where the dividend is paid by a company listed on the stock exchange to a resident shareholder, the rate is 10% on the gross amount.
* Payment for Goods and services: Any payment of amounts in total exceeding Shs. 1,000,000 to any person in Uganda for the supply of goods, materials of any kind or services, is required to withhold 6% of the gross amount. The threshold of Shs. 1,000,000 is in respect of the total contract value, implying that separate supplies which constitute one contract are subject to the 6% withholding tax regardless of the fact that the amount paid per a single supply

**Who is responsiblele for Filing a WHT return and Payment of WHT?**

* The responsibility for payment of the tax rests primarily on the person making payment as a withholding agent. Thus, in case of his/her failure to withhold the tax or in case of under-withholding, the under-collected tax becomes due from the withholding agent.
* A WHT Agent is required to pay the tax withheld within 15 days after the end of the month in which the payment subject to withholding tax was made by the WHT Agent. Note; this is not only for PAYE but also all other Withholding taxes.

**How is WHT calculated?**

**Illustration**

If Kato a resident individual supplies hotel sundry worth 100M UGX to Umoja hotel (Designated withholding agent), he will receive a net of 94 million UGX and the 6 million UGX (6% of 100M UGX) will be Withheld and remitted to URA by Umoja hotel on his behalf. Note that the 6million UGX withheld forms part of Kato’s annual Tax liability and thus will reduce his Tax liability for the year.

**VALUE ADDED TAX (VAT)**

**What is VAT?**

VAT is a consumption tax charged at a rate of 18% on all supplies made by taxable persons i.e. persons registered or required to register for VAT purposes. The threshold for VAT registration is an annual turnover of over 150 million UGX or 37.5 million UGX for 3 consecutive months.

Some transactions are beyond the scope of VAT and these are classified as Exempt supplies. Supplies on which VAT is charged at 0% are classified as zero-rated supplies.

**How is Voluntary VAT Registration done?**

The Commissioner General shall register a person who applies for registration and issue to that person a certificate of registration including the VAT registration number (TIN) unless the Commissioner General is satisfied that;

1. the person has a fixed place of abode or business; or
2. the Commissioner General has reasonable grounds to believe that that person

* will keep proper accounting records relating to any business activity carried on by that person
* will submit regular and reliable tax returns as required by Section 31 or
* is a fit and proper person to be registered

Some transactions are beyond the scope of VAT and these are classified as Exempt supplies. Supplies on which VAT is charged at 0% are classified as zero-rated supplies.

**IMPORTANT**

**ISSUANCE OF E-INVOICES OR E-RECEIPTS BY ALL VAT REGISTERED TAXPAYERS**

It is mandatory for all VAT registered taxpayers to issue e-invoices or e-receipts as no tax credit is allowed or claimable on purchases unless they are supported by e-invoices or e-receipts.

All VAT registered taxpayers are obliged to register for EFRIS and issue fiscalised invoices i.e. e-invoices.

The Electronic Fiscal Receipting and Invoicing Solution (EFRIS) is a new smart business solution used to record business transactions and share the information with URA in real time.

An e-invoice shows that a sale has occurred through EFRIS. It shows the seller’s details, URA information, Buyer’s details, Good and services details, Tax details and Summary sections.

**What are the Penalties for non-compliance in regard to EFRIS?**

A VAT registered taxpayer who does not adopt the use of EFRIS is liable to pay a penal tax equivalent to the tax due on the goods or services or 400 currency points whichever is higher.

Note: One currency point =20,000 Uganda Shs.

**When is the period for claiming input tax?**

The law allows a period of six (6) months from the date of issue of the invoice within which a person can apply for an input tax credit.

**Illustration**

Rider Hotel made the following accommodation sales (VAT inclusive) to the following customers in the month of September 2016.Usur UGX 5000, 000, Biyinzika

UGX 600,000, Coca Cola UGX 3,200,000 and UBDP UGX 2,780,000. The hotel

also incurred the following purchases (VAT inclusive) Globo Chemicals (U) Ltd, UGX 1,200,500 Jactor Supermarket, UGX 100,800, African Queen UGX 3,389,831. Calculate the VAT payable to URA.

**Solution:**

**SALES**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Name | Particulars | TIN | Amount charged (UGX) | 18% VAT | VAT  Inclusive (UGX) |
| Usur Biyinzika | Accommodation | 1000427333 | 4,237,288 | 762,712 | 5,000,000 |
| Poultry | Accommodation | 1002240249 | 508,475 | 91,525 | 600,000 |
| Coca Cola | Accommodation | 1000243003 | 2,711,864 | 488,136 | 3,200,000 |
| UBDP | Accommodation | no TIN | 2,355,932 | 424,068 | 2,780,000 |
|  |  |  |  | 1,766,441 |  |
| PURCHASES | | | | | |
|  | laundry supplies | 1000159958 | 1,017,373 | 183,127 | 1,200,500 |
| Jactor Supermarket | Cornflakes | 1000153993 | 85,424 | 15,376 | 100,800 |
| African Queen | beverages | no TIN | 3,389,831 | - | 3,389,831 |
|  |  |  |  | 198,503 |  |

OUTPUT TAX (**Sales**) - INPUT TAX (**Purchases**) 1,766,441 - 198,503 = UGX 1,567,938 VAT payable to URA.

**Note;** When you are VAT registered, you can charge VAT to all your customers on taxable sales however you can only claim on purchases where VAT has been charged as shown in the illustration above. Rider hotel was able to charge VAT to UBDP even though it is not registered however Rider couldn’t claim VAT on the purchases from African Queen because no VAT had been charged.

**TREATMENT OF LOCAL HOTEL TAX UNDER INCOME TAX.**

**What is a local hotel tax (LHT)?**

This is a tax levied and paid by room occupants of Hotel and lodges.

**How is a local hotel tax levied?**

LHT is levied on hotel and room accommodation per room per night and is paid by the room occupant.

**Who then submits the tax to KCCA/municipal or town council?**

The tax is collected by the management of the hotel, which remits the same to KCCA/ Municipal or Town Council on a monthly basis**.**

**How is this local hotel tax treated for income tax purposes?**

Local Service Tax is not paid by the hotel owner but it’s paid by the guests who occupy the room. It is thus not revenue to the hotel owner. For income tax purposes this is not allowed as an expense to the hotel owner as this revenue is not recognized in the records of the hotel owner and should thus be paid to the local authorities as and when received by the hotel management.

**CUSTOMS DUTY**

**What is customs duty?**

These are taxes which are charged on all goods entering into or leaving our country. The taxes charged depend on the Value and nature of the item imported.

**What are the steps to follow when computing customs duties?**

* Step 1 Determine Customs Value (CV);
* Step 2 Convert the Customs Value to Local Currency (UGX);
* Step 3 Classify the item (HSC) as per the common external tariff;
* Step 4 Determine taxes collectable
* Step 5 Apply the duty rates on the Customs Value

Customs duties comprise of.

1. **Import duty**

This is a tax collected on imports and some exports not listed in the exemption schedule by URA. It is based on the customs value of the goods that are imported. The customs value is Cost, Freight and Insurance up to Mombasa or cost and insurance if by Air. The rate of import duty is either 0%, 10%, 25% or more for sensitive items like wheat and powdered milk.

**NB.** For more information on import duty rates, please refer to our common external tariff book on the portal under tax assistant, A-Z tax topics.

**How are customs duties calculated?**

**Formulae for calculating import duty**

* Import Duty (ID) = ID rate x Customs value
* VAT = VAT value x 18%= (ID+EXD+CV) x 18% Where;

ID= Import duty EXD= Excise duty CV= Customs value

1. **Excise duty at Importation**

This tax is only charged on specific goods imported at varying rates.

**Formulae for calculating excise duty**

* Excise duty (EXD)= EXD value x EXD rate= (ID + Customs value) x EXD rate

1. **VAT at importation**

# This is a tax on consumption charged on taxable goods imported into the country and is charged at a rate of 18% if the importer is registered for VAT and at 15% on the 18% of the value if the importer is not registered for VAT but importing taxable goods of a value of UGX 4,000,000 and above.

**NB.** If the importer is registered for VAT, he/she can claim any VAT incurred at importation through her/his monthly VAT returns.

**Formulae for calculating VAT at importation**

* VAT = VAT value x 18%= (ID+EXD+CV) x 18%
* Domestic VAT = 15% (VAT value x 18%) = 15% ((ID+EXD+CV) x 18%)

1. **Withholding Tax (WHT) at importation**

This is income tax withheld at importation of a good. It is at a rate of 6% of customs value. It can be claimed by the importer when he/she is filing his/her final income tax return as advanced tax already paid.

**NB**. If the importer is exempted from WHT, he/she should not be charged this tax at importation

**Formulae for calculating WHT at importation**

WHT = Customs value x 6%

# Infrastructural levy

This levy is only applicable to dutiable items imported from outside EAC Region.

**NB:** The following will not attract the 1.5% Infrastructure Levy

1. Items that are at 0% Import duty rate
2. All items imported under conditional Exemptions as indicated in the 5th Schedule of the EACCMA (East African Community Customs Management Act)

Formulae for calculating infrastructural levy

IL = Customs value x 1.5% Where; IL=Infrastructural levy

1. **Environmental levy**

This is tax levied on imports that may be harmful to the environment for example on used clothes and used vehicle.

# Formulae for calculating infrastructural levy

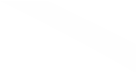
EL on used clothes = Customs value x 10%

EL on used vehicles of YOM between 5 and 10years = Customs value x 35% EL on used vehicles of YOM 10years and above = Customs value x 50%

Where; EL= Environmental levy

**What are the tax incentives under domestic taxes?**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **INCOME TAX** | | | | | | | | | | |
| **Beneficiary** | **Incentives** | | | | **Period of Incentive** | **Conditions for the Tax Incentive** | | | | |
| 1.Private employers of persons with disabilities (PWDs) | Income derived by a person from undertaking any of the listed business activities in the Industrial Park or Free Zone. | | | | Indefinite | 5% of employees must be PWDs | | | | |
| 2.Non-profit making Organizations | Income tax exemption | | | | Indefinite | Where the Commissioner has issued a written ruling stating that it is exempt | | | | |
| 3.Compliant taxpayers | 6% WHT exemption on payment for goods and services and professional fees | | | | 12 months renewable | Where the Commissioner is satisfied that the taxpayer has regularly complied with the obligations under the tax laws | | | | |
| 4.All taxpayers | 100% deduction of Scientific research expenditure | | | | Indefinite | A person who incurs expenditure for scientific research | | | | |
| 5.All taxpayers | 100% deduction of training expenditure | | | | Indefinite | Employers who train permanent residents or provide tertiary education not exceeding in the aggregate 5 years | | | | |
| 6.All taxpayers | Initial allowance and Depreciation allowance: Initial Allowance – capital deduction of 50% of qualifying Plant & machinery and 20% on Industrial building placed in the radius of 50Km outside the boundaries of Kampala. Person who places depreciable assets in service | | | | Indefinite | All taxpayers with depreciable assets | | | | |
|  | e.g. computers, automobiles, specialized trucks, tractors, plant and machinery used in farming, manufacturing or mining operations, trailers and trailer mounted containers; and Industrial building deduction of 5% on cost of construction straight line method for 20 years | | | |  |  | | | | |
| 7. All taxpayers | Carry forward losses: Assessed loss is carried forward as a deduction in the following year of income. | | | | Duration of the loss | All taxpayers | | | | |
| 8.  Investor established in a country with which  Uganda has a DTA | Double Taxation Agreements (DTA): Investors from countries with active DTA’s with Uganda i.e. United Kingdom, Denmark, Norway, South Africa, India, Italy, Netherlands and Mauritius. Withholding tax rates applicable to dividends, interests, management fees and royalties are 10% except UK at 15% | | | | Duration of the DTA | Beneficial owner of investment as defined in the Income Tax Act established with economic substance in a country with which Uganda has a DTA. | | | | |
| **VAT ACT** | | | | | | | | | |
| **Beneficiary** | | | **Incentives** | **Period of Incentive** | | | **Conditions for the Tax incentive** | | |
| 1. Developer of a hotel or tourism facility | | | No VAT on the supply of feasibility study, design and construction services; or on the supply of locally produced materials | Duration of the development | | | The hotel developer must invest at least USD 8m. The feasibility studies must be for the development of a hotel or tourism facility or the supply of machinery and equipment furnishings or fittings (not available on the market). The hotel or tourism facility must have a room capacity exceeding 30 guests. A developer of a facility for meetings, conferences and exhibitions whose investment capital is not less than one million United States Dollars. | | |
| 2. VAT Registered taxpayers | | | VAT registered persons claim all the VAT incurred. | Indefinite | | | Turnover of UGX 150m in any 12-month period for first time registration, ability to keep proper books of accounts and making taxable supplies. | | |
|  | | | | | | | | |
| **STAMP DUTY ACT** | | | | | | | | |
| **Beneficiary** | | **Incentives** | | **Period of Incentive** | | | | **Tax incentive** |
| 1. Hotel or tourism developer | | Nil Stamp Duty on debenture, further charge, lease of land, increase of share capital, transfer of land and agreement to provide services on conducting a feasibility study or developing a design for construction. | | Duration of the development | | | | Must invest at least USD 8m.  Hotel or tourism facility should have room capacity exceeding one hundred guests |
| 2. Strategic investments (specified in Item 60  A (iii) of the Second  Schedule of the Stamp Duty Act) | | Nil stamp duty | | Indefinite | | | | Investor must have   1. Capacity to use at least 50% of the locally produced raw materials, subject to availability 2. Have capacity to use 50% of raw materials sourced locally and; 3. Be able to employ a minimum of 100 citizens |
| 3.Loan applicants | | NIL stamp duty on an agreement relating to the deposit of title- deeds, pawn pledge-of the total value. | | Indefinite | | | | Agreement relating to the deposit of title- deeds, pawn pledge-of the total value. |
| 4. Loan applicants | | NIL stamp duty on security bond or mortgage deed. | | Indefinite | | | | Security bond or mortgage deed executed by way of security for the due execution of an office, or to account for money or other property received by virtue of security bond or mortgage deed executed by a surety to secure a loan or credit facility-of entry value. |



**What are the International Trade Incentives?**

Any of the following goods engraved or printed or marked with the hotel logo imported by a licensed hotel for its use

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **EDUCATION AND SPORTS SECTOR** | | | | |
|  | **Description** | | **Tax incentive** | |
|  | a)Washing machines Machine for washing clothes, bed linens, etc. | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | b) Kitchen ware Instruments and utensils found in a kitchen,particularly those associated with the preparation and serving of food. | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | c) Cookers Utensil, device, or apparatus for cooking | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | e) Air conditioning systems A system used for cooling and drying the air in a building, room, etc. | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | f) Cutlery Edged or cutting tools specifically implements for cutting and eating food. | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | g) Televisions A device that receives elevision signals and reproduces them on a screen | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 | |
|  | | h) Carpets, A carpet is a textile floor covering typically consisting of an upper  layer of pile attached to a backing | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 |
|  | | i) Furniture  Large movable equipment, such as tables and chairs, used to make a house, office, or other space suitable for living or working | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 |
|  | | j) Linen and curtains Linen:  Sheets, pillowcases, and  duvet covers Curtain: A piece of material suspended at the top to form a covering or screen, typically one of a pair at a window | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 |
|  | | k) Gymnasium  equipment Exercise equipment is any apparatus or device  used during physical activity to enhance the strength or conditioning ects of that exercise by providing either fixed or adjustable amounts of resistance, or to otherwise enhance the experience or  outcome of an exercise routine | | * Exempted from all taxes under the 5th schedule of the East African Community Customs Management Act, 2004 |
|  | | 2) Bathrobes | | * Import duty is applicable at a rate of 0% instead of 25% for one year when imported by a licensed hotel. |
|  | | 3) Clothes-dryers | | * Import duty is applicable at a rate of 0% instead of 25% for one year when imported by a licensed hotel. |

**TOURISM AND TOUR OPERATIONS SUB SECTOR OVERVIEW**

Over the decades, tourism has experienced continued growth and deepening diversification to become one of the fastest growing economic sectors in Uganda. Modern tourism is closely linked to development and encompasses a growing number of new destinations. These dynamics have turned tourism into a key driver for socio- economic progress. Tourism constitutes a wide variety of sectors that provide diverse products and services to visitors.

**What is tourism?**

Tourism involves the short-term movement of people to destinations outside the places where they normally live and work. It also involves the activities of people, referred to as tourists or visitors, during their visit to these destinations and the facilities and services utilized during their stay.

**What are the activities involved in tourism?**

1. **Accommodation and food service activities**

This section includes the provision of short-stay accommodation for visitors and other travelers. Also included is the provision of longer-term accommodation for students, workers and similar individuals. Some units may provide only accommodation while others provide a combination of accommodation, meals and/or recreational facilities.

This division excludes activities related to the provision of long-term primary residences in facilities such as apartments typically leased on a monthly or annual basis classified in Real Estate. This class includes the provision of short-term accommodation provided by:

* Hotels o Resorts
* Suite / apartment hotels o Motels
* Motor hotels o Guesthouses
* Bed and breakfast units
* Visitor flats and bungalows o Time-share units
* Holiday homes
* Chalets, housekeeping cottages and cabins o Youth hostels and mountain refuges.

This class excludes: —provision of homes and furnished or unfurnished flats or apartments for more permanent use, typically on a monthly or annual basis, Camping grounds, recreational vehicle parks and trailer parks.

1. **Administrative and support services**

# This section includes a variety of activities that support general business operations. These activities include:

1. **Travel agency, tour operator, reservation service and related activities - Travel agency activities include;**

Activities of agencies primarily engaged in selling travel, tour, and transportation and accommodation services to the general public and commercial clients.

* Tour operator activities include;
* Arranging and assembling tours that are sold through travel agencies or directly by tour operators. The tours may include any or all of the following: transportation,
* accommodation, food, visits to museums, historical or cultural sites, theatrical, musical or sporting events
* Other reservation service and related activities
* Provision of other travel-related reservation services i.e. reservations for transportation, hotels, restaurants, car rentals, entertainment and sport etc.
* Provision of time-share exchange services
* Ticket sales activities for theatrical, sports and other amusement and entertainment events
* Provision of visitor assistance services i.e. provision of travel information to visitors activities of tourist guides
* Tourism promotion activities

1. **Transportation and storage**

This section includes the provision of passenger or freight transport, whether scheduled or not, by rail, pipeline, road, water or air and associated activities such as terminal and parking facilities, cargo handling, storage etc.

**Land transport and transport via pipelines**

This division includes the transport of passengers and freight via road and rail, as well as freight transport via pipelines.

**Water transport**

This division includes the transport of passengers or freight over water, whether scheduled or not. Also included are the operations of towing or pushing boats, excursion, cruise or sightseeing boats, ferries, water taxis etc.

**Air transport**

This division includes the transport of passengers or freight by air or via space.

**Who is a tourist?**

Anyone traveling for such purposes as recreation, holiday, sports, family reasons, business, on a mission or as a delegate at a conference, staying at least 24 hours and overnight, but not more than one (1) year. It excludes emigrants, diplomats, consular representatives and armed forces personnel. In no instance should the person be earning income in the place visited.

**What are the classifications of tourists?**

International-An International Tourist is one who visits another country outside his own country Regional-A Regional Tourist is one traveling in a defined geographical region Domestic-A Domestic Tourist is one traveling within his own country of residence.

**THE NATURE OF TOURISM**

* Tourism is Perishable in that the services cannot be stored for later sale or use.
* Tourism is Inseparable in that the producer and the consumer (visitor) must come together in order for consumption of the tourism products to occur.
* Tourism is Heterogeneous because there are so many different persons to provide an expected level of quality service to make the overall experience what it should be. This variability of tourism services is so because it depends highly on who provides them, when, where and how they are provided.

**Who are tour agents?**

Because these visits (tours) are outside their spheres of influence, these tourists sometimes require the services of other persons to help them get along. These persons, called tour agents, provide this intermediation service for a fee.

1. **TOUR PACKAGE PLACEMENT**

* Client/ agent make contact and state what they want and requests for a quotation of how much it will cost.
* The tour agent establishes the costs of the goods and services the tourist will require and sends a quotation to the client
* Client confirms; -with advance payment or with advance deposit, or cancels the tour
* Where payment is made as in (iii) above money is received into tour company account.
* Tour agent makes bookings for the services and goods the client will need e.g. Hotels, game parks, other places of interest, Souvenirs etc.
* Client arrives and trip is conducted.

**THE TOURIST/TOUR OPERATOR RELATIONSHIP**

The Tour operator is an independent party and deals with a tourist in two capacities; -as an agent of the tourist, as principal host of the tourist.

A clear distinction must be made of when the tour operator makes supplies of own services to the tourist and when the tour operator acts as agent to the tourist. For tax purposes we need to understand what constitutes the tour operator’s business in these functions and the income derived from such business.

**What costs does a tour operator incur?**

* Costs on behalf of the client,
* Costs of the business,
* Taxes for both the business and the tourist; -VAT on the tour services (not tour package!) -P.A.Y.E. for the employees

Corporation tax on the company.

**How to register with URA?**

Any person engaging in the tourism business generating income in Uganda is required to register for taxes. “Business” includes any trade, profession, vocation or adventure in the nature of trade, but does not include employment.

**How does one register for taxes?**

One registers for taxes through acquiring a TIN.

**What taxes apply to the tour industry?**

Note that all taxes {Income Tax, WHT, PAYE} apply as explained in Hotel and Accommodation section with the exception of VAT which is handled differently.

**VAT IN THE TOURISM SECTOR**

Tour agents are expected to prepare two accounts

* The reconciliation account to determine the actual VAT spent by the tourist.
* The VAT account to determine the actual amount of VAT payable or claimable to URA by the agent.

**ILLUSTRATION**

Mr. Brown a tourist from Canada contacts Opolot tour and travel agency for a quotation to come and tour in Uganda. The tour agent sends a quotation of UGX 14,160,000 Total VAT inclusive. Below is an illustration of a reconciliation statement prepared by the tour agent for the expenditure incurred by Mr. Brown.

**References:**

* THE TAX PROCEDURES CODE ACT, 2014.
* THE INCOME TAX ACT (IT A), CAP.340
* THE VALUE ADDED TAX ACT (VAT A), CAP.349
* THE EXCISE DUTY ACT,2014
* THE EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT