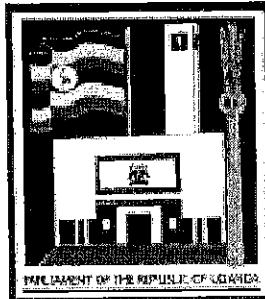


CLERK



PARLIAMENT OF UGANDA

**REPORT OF THE COMMITTEE ON FINANCE, PLANNING
AND ECONOMIC DEVELOPMENT ON THE INCOME TAX
(AMENDMENT) BILL, 2011**

OFFICE OF THE CLERK TO PARLIAMENT
PARLIAMENTARY BUILDINGS
KAMPALA - UGANDA

SEPTEMBER 2011

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE INCOME TAX (AMENDMENT) BILL, 2011.

1.0. Introduction

The Income Tax (Amendment) Bill, 2011 was committed to the Committee on Finance, Planning and Economic Development under rules 113 and 161 (c) of the Rules of Procedure for consideration and subsequently report to the House.

In accordance with Article 90 of the Constitution and Rules 133, and 161 of the Rules of Procedure, the Committee has considered the Bill. I now present the report of the Committee on the Bill.

1.1 Method of Work

The Committee held consultative discussions with the Minister for Finance, Planning and Economic Development and The Uganda Revenue Authority. Their submissions informed the content of this report.

1.2 Object of the Bill

The Object of this bill is to amend Income Tax Cap. 340; to provide for the exemption from tax of the value of a right or option to acquire shares granted to an employee under an employee share acquisition scheme; to provide for the exemption from tax of income derived from agro processing; and for other related matters.

2.0 OBSERVATIONS

The Committee makes the following observations and recommendations.

2.1 URA guideline on land and vehicle transactions.

The Committee was informed that, in a bid to collect more revenue and reduce tax evasion, URA instituted a new measure that requires that; for any transfer of land or

vehicle worth 50million shillings and above, the buyer must satisfactorily show evidence of payment of tax on the income used to purchase the land or vehicle.

While the Committee appreciates URA, on the innovativeness to collect more revenue, as per last year's committee recommendation, the Committee observes that there is need for URA to issue and publicize clear guidelines on how the method works such that tax payers know what is required and to avoid unnecessary haggles and negotiations between the tax payers and URA Officers which may breed corruption.

The Committee further recommends that URA and the Ministry of Finance, conduct a study on whether this indirect method of tax compliance will not affect economic activity and in turn narrow the tax base, given the long time strategy of a liberalised economy.

Secondly, the Committee recommends that in the event that there is a dispute for pending determination by the Tax Tribunal, arising out of the assessment by URA on this particular income, the transfer of the property should not be hampered, since the issue is bound to be decided by the Tax Tribunal.

2.2 Pay As You Earn (PAYE) threshold

The Committee notes that PAYE was last reviewed in 1999, since then the value of the shilling has fallen tremendously and it is no longer viable to set the threshold at 130,000/= The Committee observes that this situation is unfair to the low income earners who are now heavily taxed compared to the high income earners. The Committee further notes that the Net Present Value of the 130,000/= in 1999 is now approximately 418,147/=,¹ therefore, in light of the current economic situation, Government should consider raising the PAYE threshold with the objective of lessening the burden on the lower income earners.

¹ Using an average inflation rate of 8.1% per annum for the period 1997 to 2011.

2.3 Income from Telecom companies

The Committee noted that URA has no technological capacity to track all business operations undertaken by the giant telecom companies and depends largely on the technology used by the Uganda Communications Commission and also on the self assessment returns of the same companies. The Committee observes that the monitoring capacity of URA has to continuously evolve to capture changing technology used by these telecom companies.

2.4 Government policy on Agriculture

The Committee notes that despite Government commitment to the promotion of agriculture as a major contributor to the GDP, this commitment is not reflected in the taxation regime on agriculture. While many other categories of income for example, business income derived from managing an education institution and income derived from agro -processing, are exempt so as to boost those respective sectors; farming income is taxed creating serious imbalances in the value chain.

The Committee is concerned why Government should tax a Producer and give relief to a Processor whose margins are much higher than those of the Producer in the value chain. The Committee therefore recommends that if exempting agro - processing income is meant to boost processing for agricultural produce, then income from production should also be exempt too, so as to motivate more farmers and investors to produce on a large scale. The Committee will propose an amendment to this effect.

2.5 Research on previous tax reforms.

The Committee notes that Government needs to make a detailed report to Parliament on how previous tax reforms, that is, exemptions and waivers, have affected the economy and therefore justifying their relevance.

3.0 AMENDMENTS

The Committee recommends that the Bill be passed with the following amendment.

Clause 5. (Exempt Income)

Insert another amendment to section 21 as follows.

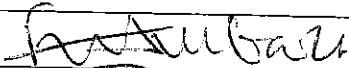
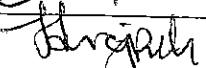
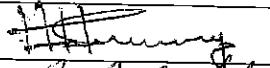
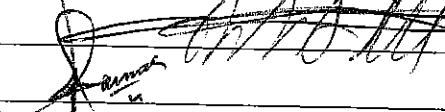
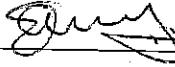
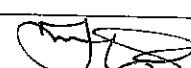
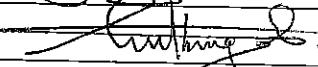
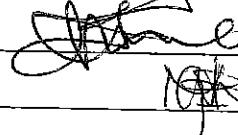
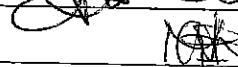
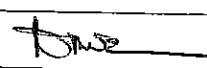
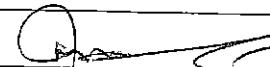
Section 21 of the Act is amended in subsection (1) by inserting immediately paragraph (ab), the following-

"(ac) income of a person for a year of income derived from farming"

Justification. This is line with Government Commitment to promote the agricultural sector and motivate more farmers to produce on a large scale.

I beg to move.

**SIGNATURES FOR MEMBERS OF THE COMMITTEE ON FINANCE,
PLANNING AND ECONOMIC DEVELOPMENT ON THE INCOME TAX
(AMENDMENT) BILL, 2011.**

S/N	NAME	SIGNATURE
1.	Hon. Tumwebaze Frank	
2.	Hon. Kasule Robert Sebunya	
3.	Hon. Adong Lilly	
4.	Hon. Akol Rose Okullu	
5.	Hon. Akora Maxwell Ebong Patrick	
6.	Hon. Arinaitwe Rwakajara.K	
7.	Hon. Bagoole John	
8.	Hon. Basajjabalaba Nasser	
9.	Hon. Ekanya Godfrey	
10.	Hon. Karuhanga Gerald Kafureeka	
11.	Hon. Kikungwe Issa	
12.	Hon. Kyooma Xavier .A	
13.	Hon. Lokeris Samson	
14.	Hon. Lwanga Timothy Mutekanga	
15.	Hon. Mawanda Michael Maranga	
16.	Hon. Mugabi Muzaale Martin	
17.	Hon. Musasizi Henry	
18.	Hon. Nakawunde Sarah Temulanda	
19.	Hon. Ochwa David	
20.	Hon. Okello Anthony	
21.	Hon. Okupa Elijah	
22.	Hon. Oromait Michael	
23.	Hon. Sejjoba Isaac	
24.	Hon. Ssasaga Isaiah	
25.	Hon. Todwong Richard	