Course Name	: Elements of Taxation
Course Code	: APBSS 301
Course Level	: Level 3
Credit Unit	: 4 CU
Contact Hours	: 60 Hrs

Course Description
The Course details from the definition and meaning of a tax, common features in a tax system, principles of taxation, classification of taxes, budgetary & fiscal measures, tax accounting principles, dividend income, international agreements, capital expenditures, insurances business.

Course Objectives
- To help students analyze the impact of tax on economic growth, wealth distribution & Gross Domestic Product (GDP).
- To improve students' knowledge on understanding several controversies in the tax structure.
- To develop students' capacity to compute tax obligation to respective individuals.
- To provide students with opportunity to understand several principles of taxation relevant to their economies.

Course content
Introduction
- What is a tax
- Public Finance
- Common features in any tax system
- Different types of taxes
- Purposes of taxes
- Principles/Cannons of taxation
- Taxable capacity
- Incidence of a tax and tax shifting
- Classification of taxes
- Advantages and disadvantages of different types of taxes

Budgetary and Fiscal Measures
- Definition of a budget
- Types of budgets
- Main sources of revenue
- What is included in expenditure
- Budgetary policy
- Fiscal policy
- Instruments of fiscal policy
- Effects of taxation on production and distribution

Tax Accounting Principles
- Forms of accounting principles
- Methods of accounting
- Foreign currency debt gains and losses
- Special rules for consideration received
- Taxation of partnerships and partners

Dividend Income
- Meaning of dividend income
- Withholding of a tax at source
- Withholding as a final tax
- Payment of tax with held
- Small business tax payer rates
- Foreign employment income
- Tax on international payments

Other related topics; International agreements, Capital expenditure, Insurance Business etc

Mode of delivery Face to face lectures
Assessment
Coursework 40%
Exams 60%
Total Mark 100%

Introduction

A tax is a compulsory levy by the gov't on incomes of individuals or corporations or companies. Taxation is part of public finance and its's on é of the ways inch gov't raises revenue to finance its activities.

The gove't is expected to carry out some activities as part of its social sus.2 é public. Such activities include:-

1. Maintaining internal security and external defence and to carry out general administration. Such expenditure relates to:-
   (a) Cost of police and judicial maintenance ie maintenance of law and order
   (b) Cost of armed forces/navy against external aggression.
   (c) Cost of provincial or general administration of law and order.

2. Providing infrastructure and communication such as construction of roads, railways, harbours as well as electricity and telephone works, television and radio system etc.
3. To provide social basic services e.g medical services, education, water ss and sewerage, sports and casual activities and entertainment information.

4. To participate in the production and marketing of goods e.g through parastatals, guaranteeing markets, protection and legal procedures from competition.
5. Influencing and guiding the level and direction of economic activities through various regulations e.g monetary and fiscal policies.
6. Redistribution of income and wealth through taxation and public spending e.g by taxing the rich at a high rate án é poor or providing basic needs 2 é poor e.g free education.

PUBLIC FINANCE

This involves aunts di are received by é gov't from all é different sources e.g fees.

(a) Fees: These are amts received 4 any direct sv rendered by é gov't central or local authority e.g National Park fees, airport fees, parking fees, television and radio fees.
(b) Prices: Ese are é amts received by é central or local authority for commercial svs e.g r/way fare, postage & revenue stamps, telephone charges etc, radio advertisements.

(c) Fines and penalties: If individuals or firms don't observe laws of the country, fines and penalties are imposed on them and éry am part of gov't y. Land rent & rates are paid to local authority on basis of aq source of government revenue.

(d) State property. Some land, Forests, mines, national parks are government property. The y át arises from such property is also public revenue. The y will arise from payment of rent, royalties or sale of the produce, also from tourism.
(e) Specific assessments: Ese are charged 4 specific purposes. The government may charge a specific assessment from residents of a place area 4 the purposes of establishing a hospital in that area.

(f) Taxation: Taxes are the most important source of public finance. A tax can be defined as an involuntary payment by tax payer account involving the direct payment of goods and services in return.

The tax payer can however enjoy goods and services by the government like other citizens …… and preference or discrimination.

Common features in any tax system

1. Taxing authority : This is the authority of the power that impose tax e.g Central or local government.
2. The payer; Person of entity … pays the tax e.g an individual, a …., business firm or other organisations.
3. A tax: The amount ….. paid ……. Taxing authority directly by cash payment or indirectly through purchase of commodities.

Different types of taxes

i) **INCOME TAX**: This is a tax that is imposed on the annual gains /profits earned by companies or individuals.

(ii) **VALUE ADDED TA X (VAT):** a TAX IMPOSED ON SALE OF GOODS AND SERVICES . Replaced sales Tax ….. effect from 1st January 1990.

(iii)

(iv) **SALES TAX:** Is a tax imposed on the sale of commodities. However, this was replaced by VAT.

(iv) **CUSTOMS DUTY:** This is a tax imposed on imports and exports of commodities**.**

(vi) **STAMP DUTY:** Tax imposed on transfer of property ie **CORPORATION TAX**, Imposed on gains of a company.

(vii) **LAND RATES AND RENT**: tax paid on property. Rent's paid to the central government as leases and rates

PURPOSES OF TAXES:

Raising revenue's not the only purpose for taxes. Taxes are levied for various other purposes and they include:-

1. Raising revenue for the government: The income so earned from such taxes is used to maintain peace and security, these social welfare, complete development projects e.g roads, schools hospital, power stations etc.
2. Economic stability: During inflation, the government imposes more taxes in order to discourage the unnecessary expenditure of the individuals. During deflation on the other hand, taxes are reduced in order to encourage individuals to spend more on goods and services. This ….in taxes or ….. in taxes thus leads to maintenance of economic stability.
3. Protection policy: The government has a policy of protecting some industries, high taxes are thus imposed on commodities imported from other countries to compete within them selves thus making them more expensive.
4. Social welfare (check on consumption of harmful food) some commodities like tobacco, cigarettes and alcoholic drinks are taxed highly to make them more expensive and thus out of each of as many people as possible.

5. Fair distribution of income: The rich taxed at a high rate than the poor and the amounts obtained are spent on increasing the poor's welfare. In so doing, taxes help to achieve a fair distribution of income in the country.

6. Allocation of resources;

   The may remove taxes on some industries or impose low rates of taxes 2 encourage allocation of resources in particular direction.

7. Increase employment: Funds collected from taxes can be used on programmes like roads, drainage, public buildings etc. Such projects and programs provide more employment opportunities to the citizens.

POWER TO TAX

The laws of the country will authorise the government (central and local authorities) to levy taxes. Taxes imposed are legally enforceable and must be paid by all those individuals and business that come concerning the jurisdiction of the taxing authority. Fines and penalties are imposed for failure to pay. The Parliament and local councils have the power to pass laws and by-laws respectively. The Central government and local authorities both have the power to impose taxes.

PRINCIPLES/CANNONS OF TAXATION

The principles of an optimum tax system may be one of the following:-

1. **Simplicity:**

A tax system should be simple enough to enable a tax payer understand it and be able to compute it him/herself. A complex and difficult to understand tax system may produce law yield as it may discourage a tax payer's willingness to declare income. It may also create administrative difficulties and hence inefficiency.

2. **Economy (administrative efficiency):**

A good tax system should be capable of being administered efficiently. The system should produce the highest possible yield at the lowest possible cost both to the tax authorities and to the tax payers.

3. **Neutrality**

This is the measure of the extent to ……. Tax avoids distorting the workings of the market mechanism. A neutral tax system should market affect the tax payer's choice of goods or services to be consumed.

4. **Certainty**

A tax should be formulated so that the tax payers are certain of how much they have to pay and when Tax shouldn't be arbitrary. ………. Should be readily available information if tax payers need it. Certainty's essential in planning and uprising of certain biz investments. It's also important in designing remuneration packages.

5. **Conviniencing**

The method and frequency of payment should be convenient to the tax payer e.g PAYE. This may discourage tax evasion e.g it may be difficult for tax payers to pay a lump sum at the end of the year.

6. **Productivity**

A tax should be productive in …… sense that should bring large revenue adequate for the government. However, …..shouldn't tax people heavily to adversely affect their efforts.

7. **Diversity/Comprehensiveness**

……. Should be variety in taxation. A …… of few taxes will neither meet the revenue requirements of the state nor satisfy the cannon of equity. ……… should be a variety of direct and indirect taxes.

8. **Flexibility**

Flexibility in taxation is different from elasticity. It means that there should be no rigidity in taxation…. Tax system can be …. To meet the revenue requirements of the state. On the other hand, elasticity in taxation means that the revenues can be ……… under the prevailing tax system. However, there can't be flexibility ….. elasticity.

9. **Equity:**

A…… tax system should be based on ability to pay. Equity's ….. now the burden of tax is distributed. The tax system should be arranged so as to result in the minimum possible sacrifice. People ….. high incomes pay large amounts of tax. People with similar circumstances should be given similar treatment and those ……. Similar treatment be given circumstances.

………. Are 3 alternative principles that may be applied in the equitable distribution of the tax burden ie:-

(a) Benefit Principle or Insurance theory or Quid Pro Quotheong.
This dictates that tax's apportioned to individuals according to the benefit they derive from the government activity and spending. The government is regarded as a market and taxes are treated as payment for goods and provided by the state.

Its criticisms

The provision is inadmissible as it goes …….the aims of taxation which are also duties to the government the market economy …… redistribution of income.
In instances of road users, whom may pay road licences for use of roads, they may not obtain the benefit of such payment if the revenue so raised isn't applied to the ………of road users.

(b) Ability to pay principle

This is concerned ……… the equitable distribution of taxes according to the stated taxable capacity of an individual or some stated criterion of ability to pay.

Its criticism

-The difficulty in application of this theory is in determining the criterion of ability to pay. Three prepositions have been advanced ie:

i) Income
ii) Wealth
iii) Expenditure

A wealth based tax may be useful in redistribution of income and wealth but may not provide sufficient revenue by itself.

An expenditure tax ensures that income and wealth are taxed when they are spent. Most tax regimes would thus partly be income based and partly expenditure based.

c) Cost of service principle or Purchase Theory:
This is the cost to the taxing authority of services rendered to individual tax payers. Tax is a payment for …… there is no …… pro quo' between tax authority and tax payer. The payer doen't necessarily have to receive services and goods equivalent to the tax paid. For this reason, the principle can't be applied to services provided out of the proceeds of taxes e.g taxes e.g police and judiciary. Rather, it may be applied for such services as postal, electricity or water ….. where the pxs are fixed.

TAXABLE CAPACITY

This refers to the maximum tax…… may be collected from a tax payer …… producing undesirable effects on him/her. A good tax system ensures that people pay taxes …….. to the extent they can afford. ……. Are to aspects of taxable capacity:-

1. **Absolute taxable capacity**:

It's measured in relation to the general economic conditions and individual position e.g region or industries to which the payer belongs. ……. Individual having regard to his circumstances and the prevailing economic conditions pays more tax …… he should, his taxable capacity will have exceeded in the absolute sense.

2. **Relative taxable capacity**

Measured by comparing absolute taxable capacities of different individuals or communities.

TAX IMPACT

This means person on whom a tax is imposed and who has to bear the burden of a tax. Here taxes may be direct or indirect.

TAX BASE

This is the object upon which the tax is levied and to which tax rates are applied e.g for …tax, the base is …., property tax - property; sales tax - px of the goods export tax -value of …. And …. Tax - value of ….

TAX INCIDENCE

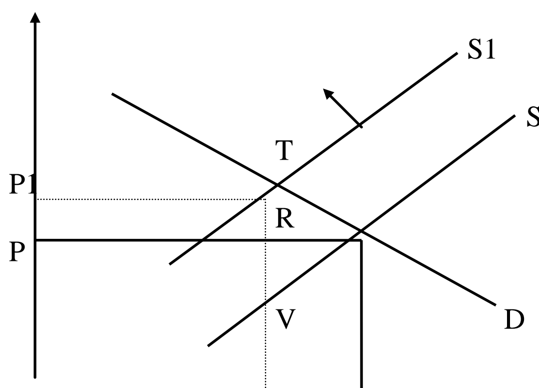
Refers to the direct money burden of the tax ie who ultimately pays the tax.

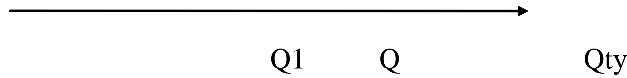
Importance of tax incidence.
A good tax system must be designed having regard of the impossible incidence of the taxation. A tax imposed on cigarette sales in order to discourage smoking and hence cut expenditure on health must be ascertained whether the smokers will be affected adversely by the tax.

INCIDENCE OF A TAX AND TAX SHIFTING

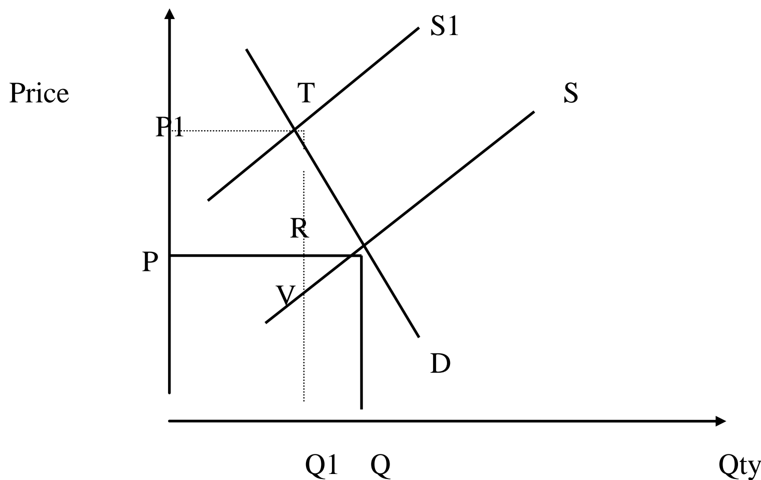
Tax ………. The transfer of the burden of a tax from a person on whom it's legally imposed to another person. Tax shifting in the eyes of the taxing authority is the governing principle for levying of taxes. Tax authorities will always look at the …. Elasticity of …. And …… …… levying a tax.

Hypothetical example of tax incidence.





Price elastic demand curve means that the producers will respond more in the event of an increase or decrease in price. In the diagram above , the original equilibrium position is the intersection of the demand curve D and supply curve S at price P and quantity Q. The imposition of a tax will shift the original supply curve S1. The resultant price P1 will emerge as P1 that the intersection of the sully curve S1 and demand curve DD. New quantity will now be Q1. The tax has caused an increase TV in price. TR will be borne by the buyer and RV by the seller/supplier. For price elastic goods, a smaller portion of the tax is borne by the buyer than by the seller.



Price inelastic demand curve means producers will respond less proportionately too demands in the price. Examples of goods … inelastic demand are salt, cigarettes etc. In the diagram above, original eg … positions the intersection between the demand curve D and supplies curve w S at price P and quantity Q. When a tax is imposed, supplies curve will shift from S to S1. The resultant price P1 is the intersection between demand curve D and suppliers curve S1. The new quantity will be Q1. The tax causes an increase in price TV. TR will be borne by the buyer & RV by the seller. For price inelastic goods, TR > RV hence a bigger proportion of the tax is borne by the buyer than by the seller.

CLASSIFICATION OF TAXES

Taxes may be classified in various ways ie:-

1. Direct or indirect taxes
2. Progressive, Proportional or Regressive taxes.

DIRECT TAXES

A direct tax is one whose impact and incidence are on the same person. Tax has impact on the person on whom it is legally imposed. The incidence of a tax is on the person who ultimately pays the tax whether or not …. Legally imposed on him. Thus, a direct tax is one which is paid (incidence) by the person on who … legally imposed (impact) e.g Income tax and corporate tax.

Indirect taxes

An indirect tax is one whose impact is on one person but paid partly or wholly by another person. An indirect tax can be shifted on passed on as opposed to a direct tax which can't be passed on e.g sales tax, excise tax, excise tax etc. Taxes are also classified according to the marginal tax rates which the level of income and they include:-

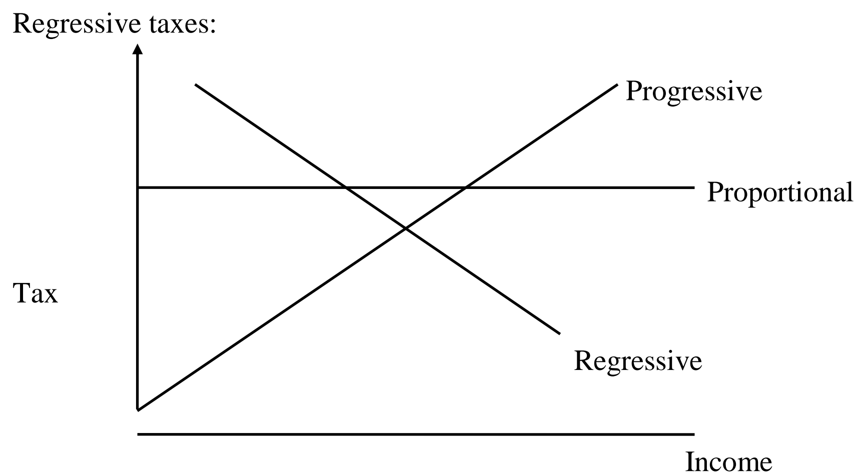
PROGRESSIVE TAX

A proportional tax is a tax where the same rate is applied to all tax payers e.g corporate tax.

REGRESSIVE TAX

Is one where the tax rate falls as income rises. Here, the poor are called upon to make a greater sacrifice compared to the rich.

Diagrammatic illustration of proportion, progressive taxes



A progressive tax is preferred for its redistribution of it's also a productive tax since it yields more than the proportional tax. It's also more economical since the cost of collection doesn't increase with the rate of tax. It also brings about equality of sacrifice among tax payers. The richer one's the less sacrifice felt in paying the tax. It tries to reduce the inequality as higher burdens fall on high income earners.

Advantages of direct taxes.

1. …… economical in collection e.g the tax is collected through ….. who are 'unpaid tax collectors.'
2. Direct taxes are progressive and fall equitably on tax payers having regard on their relative abilities to pay.

3. …. Are more certain in quantity as opposed to indirect taxes.
4. ….. usually less inflationary than indirect taxes … are imposed on goods hence a rise in prices of goods.

Disadvantages of direct taxes.

a) Ey're costly to administer. People who are liable for tax would be assessed independently depending on their taxable capacity. Ey've fewer collection points hence administrative inefficiency.

b) Ey're not flexible hence not adapted to differing indirect taxes.

c) Higher levels of tax reduce the incentive to save on the other hand, higher level's of indirect taxes may encourage saving when goods become unaffordable and the purchasing of those goods is delayed in the hope that their prices will reduce later.

d) Some …. Of taxes are paid annually as a lump sum and thus, it may be difficult for tax payers to find the lump sum. This gives opportunity for tax evasion by submission of fraudulent returns.
e) Indirect taxes as opposed to direct taxes lack announcement (awareness) effect. People are often un aware that they are paying tax or even now much they are paying. Direct taxes, have a defect of … and thus affect effort and enterprise.

BUDGETARY AND FISCAL MEASURES

Ey're adopted by the government to maintain economic stability in the country and accelerate the rate of economic growth.

Budget

A statement which consists of revenue and expenditure estimates of a government in one particular year. If government > revenue, then we get a Deficit Budget. If revenue expenditure its known as a surplus Budget. If revenue = expenditure its a Balanced Budget.
Budgets may be of two types ie:
a) Revenue Budget
b) Capital Budget

Revenue budget relates to normal income & expenditure items whole capital budget relates to development projects. In revenue budgets, the main sources of revenue are:-
i) Customs and excise duties
ii) Income and corporate taxes.
iii) Income from state property and fines.

Expenditures include the following:-
-Defence
-Administration
-Education
-health
-Cost of tax collection.

Major sources of income for capital budgets are:-
a) Loans and grants obtained by the government.

b) Main expenditures on capital budget include:

1. Development projects
2. Establishment of new industrial agricultural projects.

Budgetary policy

These are measures designed to clearly attain the set budgetary objectives. Budgets are annual plans designed by the government to achieve economic growth, equitable distribution of income, capital accumulation, distribution of income and provision of government services.

FISCAL POLICY

This is a policy according to ….. government uses its … expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on National ….. and …….. It's combination of deliberate …. In expenditure, revenue & tax programmes & debt night policy. The main objectives of fiscal policies in LDOS is to promote investment , to maintain stability & reduce extreme inequality. The main objective's thus are:-

a) Achievement of desirable price level
b) Achievement of desirable consumption level
c) " " " e+ level
d) " " " distribution

The main objective of fiscal policy to attain desirable level of consumption. Fiscal policy in LDCs is used:-
-To increase the rate of investment by checking consumption.
-To encourage the flow of investment …. Channels which are most desirable from the… of view of society.
-To regulate the flow of purchasing power in accordance ….. the requirements of the plan.

Instruments of fiscal policy.

a) Public revenue
b) Public expenditure
c) Public debt.

When a country faces .. a threat of inflation, it raises its taxes & cuts expenditure. On the other hand, during deflation, the government increase expenditure & reduces taxes so that … can be decreased by increasing effective ad.

Economic stability can be maintained by spending public loans on development programmes.
Effective tax policy for an LDC

A developing countries must have different tax policies from a developed one ….:-
a) Its primary objective's to achieve a high level of economic development & not …. Economic stability.
b) Greater attention has to be paid to maxi…… of revenue and not ability to pay or equity.
c) It has to follow a policy of active intervention in economic affairs.
d) It aims at accelerating economic growth and not merely reducing economic inequality.

Effects of Taxation

The quality of a tax system will depend on the effects produced . The best tax system is one which produces the least undesirable effects. Effects can be observed under:-
i) On Production
ii) On distribution

Effects on plan.

……. Are two aspects of effects on production and they are:-
-Ability to work & save
-Desire to work and save.
Taxes have adverse effects on the ability to work if they lower efficiency of the workers. A person's ability to work will be reduced by taxation which reduces efficiency. The ability to save's reduced by all taxes on those who have any margin of income out of which saving's possible. This happens when a person maintains the same standard of living after imposing or increasing a tax and doesn't reduce the expenditure on goods accordingly.

Taxes especially the direct type are argued to be a disincentive to work. It's argued that if taxes are …, this will increase incentive because people will receive more from their efforts.

Illustration of the desire to work due to tax

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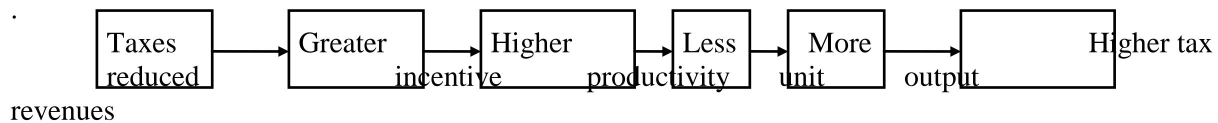

Greater incentive will lead to hard work and higher productivity & explanation of the economy to create more ….. This will lead to a rise in the level of real NY and high yield from taxation. On the otherhand, it may be argued that an increase in taxes will induce people to work harder to rise disposable ….. It follows thus that increase in taxation may or may not be a disincentive to work. The effect upon the tax payer's desire to work & save will depend partly on the nature of the tax and partly on the individual's reaction ie:

a) **Nature of the tax:**

An unexpected or temporary tax might not have any effort at all and will not continue in the future thus, the effect on the desire to work is negligible.

b) Nature of individual reaction to taxation

This is largely governed by the elasticity of his demand for income, in terms of effort and sacrifice which he makes in order to obtain his net …. Increased taxation … the net … earned although the efforts and sacrifice remain the same if the elasticity of his demand for … is small, he will desire to work harder.

Effects on distribution

A person who owns … or by himself embodies … which in their actual … are subject to taxation may … to escape taxation by diverting his resources to over … in which they will either be untaxed or not taxed heavily. A tax's concerned to have adverse effects if it diverts … from their natural channels. A tax's considered to produce desirable effects on distribution if it helps to encourage the slow of resources along their natural channels. Taxes levied for this purpose are called redistributive taxes.

<u>Deductions allowable against income (i) Expenses of deriving income</u>

All expenditures and losses incurred by the person during the year of income to the extent to which the expenditures or losses were incurred in the production of income included in gross income.

Any loss on disposal of assets incurred by the person on the disposal of a business asset during the year of income whether or not the asset was on revenue or capital account.

The following are however not allowable against income except in so far as it is provided in the Act.

any expenditure or loss incurred by a person to the extent to which it is of a domestic or private nature i.e.

cost incurred in the maintenance of the person and the persons' family or residence.

the cost of commuting between the person's residence and work..

The cost of clothing worn to work, except clothing which is not suitable for wearing outside work..

The cost of education leading to a degree whether or not it is directly relevant to the person's employment or business.

any expenditure or loss of a capital nature or any amount included in the cost base of an asset (amount paid for asset).

any expenditure or loss which is recoverable under any insurance, contract or indemnity.

income tax payable in Uganda or a foreign country.

any income carried to a reserve fund or capitalized in any way.

the cost of a gift made directly or indirectly to an individual where the gift is not included in the individual's gross income.

any allowance given to or a reimbursement or discharge of expenditure incurred by our employee in respect of employee's housing and any expenditures incurred in respect of housing provided to an employee.

any fire or similar penalty paid to any government or a political sub division of a government for breach of law.

a contribution or similar payment made to a retirement fund either for the benefit of the person making the payment or for the benefit of any other person.

a premium or similar payment made to a person carrying on a life insurance business on the life of the person making the premium or on the life of some other person.

the amount of a pension paid to any person

any alimony or allowance paid under any judicial order or written agreement of separation.

(ii) Meals refreshments and entertainment expenditure

a deduction is allowed for expenditure incurred by a person in providing meals, refreshment or entertainment in the production of income included in gross income but only where ;

the value of meals, refreshment or entertainment is included in the employment income of an employee or is excluded owing to the fact that it is provided on equal terms to all workers.

the person's business includes the provision of meals refreshment and entertainment and the persons to whom the meals refreshment or entertainment have been provided have paid an arm's length consideration for them.

(iii) Bad debts

a person is allowed a deduction for the amount of bad debt written off in the person's accounts during the year of income.

if the amount of the debt claim was included in the person's income in any year of income or
if the amount of the debt claim was in respect of money lent in the ordinary course of business carried on by a financial institution in the production of income included in gross income.

(iv) Interest

This is allowable in respect of a debt obligation to the extent that the debt obligation has been incurred in production of income included in gross income.

Repairs and minor capital equipment (loose tools)

A person is allowed expenditure for repairs of property occupied or used by the person in the production of income and in acquiring a depreciable asset with a cost base of less than 5 currency points (one currency point = 20,000/=)

Depreciation of depreciable assets as per the Act.

Start up costs - a person shall be allowed a deduction of an amount equal to 25% of the amount of the expenditure in the year of income in which the expenditure was incurred and in the following 3 years of income.

Costs of intangible assets - these are allowed on the gross income of a person after ascertaining their useful life. The annual amount is calculated according to this formula

$$\frac{A}{B}$$

Where A = amount of expenditure incurred
B = useful life of the asset in whole years

Scientyic research expenditure – allowable deduction on gross income of a business whether incurred by business or a contribution to a scientyic research institution for purpose of developing a person's business but does not include

expenditure for acquisition of a depreciable or tangible asset
" for " of land or buildings
" for the purpose of ascertaining the existence, location, extent or quality of a natural deposit

Training expenditure - employer's allowed a deduction for expenditure on training or tertiary education not exceeding in the aggregate five years on a citizen or permanent resident of Uganda other than associate of employer who is employed by the employer in a business.

Charitable donations

A person is allowed a deduction of a gift made to an organistaion belonging to "exempt organisations" class and is either an amateur sporting association or a religious charitable or educational institution of a public character.

The value of the gift of property is the lesser of

the value of the property at the time of the making of the gift.
The consideration paid by the person for the property. However, the amount of deduction allowed shall not exceed 5% of the person's chargeable income before allowable deduction.

Farming - the expenditure on horticultural establishments and farm works deductions as per the Act.

Carry forward losses – any "assessed loss" for the previous year of income shall be carried forward & deducted from following year's income. Applies separately to sources in Uganda

Assessed farming loss may not be deducted from any other income other than farming income.

The amount of an assessed loss c/f shall be reduced by the amount or value of any benefit to the tax payer from a concession by a compromise with the creditors which reduces or extinguishes such liabilities, provided such liabilities arose from the production of income included in gross income.

N.B

A deduction relating to the production of more than one class of income shall be reasonably apportioned among the classes of income to which it relates.

Where a person derives more than one class of income, the deduction allowed in relation to charitable donations shall be allocated ratably to each class of income.

Where a tax payer has more than one class of loss, the reduction, in case of a concession or compromise by creditors, will be applied ratably to each class of loss.

TAX ACCOUNTING PRINCIPLES

A tax payer may apply in writing to use a substituted year, being a twelve month period other than the normal year of income.

He may also apply to commissioner to change his year of income from a substituted to the normal year of income or to another substituted year.

The commissioner may only approve such application if the tax payer has shown a compelling need to change the year of income in any of the above instances.

The commissioner may, by notice in writing, with draw the permission granted.

Where the year of income of a tax payer changes as a result of the above circumstances, the period between the last full year of income prior to the change and the date on which the changed year of income commences is treated as a separate year of income, to be known as the "transitional year of income."

Method of accounting

This slid conform to generally acceptable accounting principles. Unless the commissioner prescribes, a tax payer may account for tax purposes on cash or accrual basis.

A tax payer may apply for a change in the method of accounting and the commissioner may approve only if he is satisfied that the change will clearly reflect the tax payer's income. The adjustments to items of income, deductions, or credit or to other items shall be made in the year of income following the change so that no item is omitted and no item is taken into account more than once.

Cash basis tax payer – here income is derived when it is received or made available and incurs expenditure when it is paid.
Accrual basis tax payer – here income is derived when it is receivable and expenditure incurred when it is payable.
Long term contracts - incomes and deductions are taken into account on the basis of % of the contract completed during the year.

Where in the year of income in which a long term contract is completed, it is determined that the contract has made a final year loss, the commissioner may allow the loss to be carried back to the preceding

years of income and applied against the amount included in income over the period of the contract for these years starting with the one immediately preceding the year in which the contract was completed.
Trading stock – closing value of trading stock is the lower of cost or market value of trading stock on hand. Cash basis tax payers may calculate the cost of trading stock on the prime – cost or absorption cost method and for accrued basis, the absorption cost method is used. The relevant methods for stock valuation are either FIFO or average cost method.

Interest in the form of discounts, premium or deferred interest shall be taken into account as it accrues. However, where it is subject to w/tax, it shall be taken to be derived or incurred when paid.

Foreign currency debt gains and losses

Gains arise from the disposal of an asset where the consideration received exceeds the cost base of the asset at the time of the disposal.
The amount of any loss arising from the disposal of an asset is the excess of the cost base of the asset at the time of disposal over the consideration received for the disposal.
A tax payer is treated as having disposed of an asset if the has been
sold, exchanged, redeemed, or distributed
transferred by way of gift
destroyed or lost
it may also include disposal of part of the asset.

The conversion of an asset from a taxable use to a non taxable use or vice versa is deemed to be a disposal and it's converted at a value equal to the market value of the asset at that time of the asset is also deemed to have been re acquired for a cost base equal to that same value.

A non resident person who becomes a resident person is deemed to have acquired all assets, other than taxable assets owned by the person at the time of becoming a resident for their market value eat that time and vice versa where person becomes non resident.

Special rules for consideration received.

Where consideration for an asset is paid in kind, the value should be the market value of that asset
Where an asset is disposed in a way other than by way of transmission of asset to a trustee or beneficiary on death the person disposing the asset (disposer) is treated as having received consideration equal to the greater of
the cost base of the asset to the disposer at the time of disposal
the fair market value of the asset at the date of disposal.

Where 2 or assets are disposed of in a single transaction, the amount to each asset is apportioned using the market values.
No gain or loss is taken into account in determining chargeable income in relation to :-
transfer of an asset between spouses
transfer of an asset between former spouses
an involuntary disposal of an asset to the extent to which the proceeds are reinvested in an asset of a like kind within one year of the disposal.
Transmission of an asset to a trustee or beneficiary on the death of a tax payer.

Miscelleneous Rules for determining chargeable income

Income joint outners :- Income or deductions relating to jointly owned property are apportioned among the joint owners in proportion to their respective interests in the property. Where such interests can not be ascertained , equal interests shall be deemed.

Valuation :- Value of any benefit in kind is the fair market value of the benefit on the date it is taken into account for tax purposes.

Currency conversion :- Where income involves amounts in other currencies, the amounts shall be converted to Uganda shillings at the bank of Uganda mid – exchange rate applying between the currency and the Uganda Shilling on the date the amount is derived, incurred or otherwise taken into account for tax purposes.

A tax pay may keep books of accounts in a foreign currency or use the average rate of exchange.

Indirect payments and benefits :- The income of person includes,

payment that directly benefits the person.
Payment dealt with as the person directs, which would have been income of the person if the payment had been made directly to the person.

Finance lease :- a lease of property is a finance lease if,

the lease term exceeds 75% of the effective life of the leased property.
the lessee has an option to purchase the property for a fixed or determinable price at the expiration of the lease.
The estimated residual value of the property to the lessor at the expiration of the lease term is less than 20% of its fair market value at the commencement of the lease.

The interest component of the lease is treated as interest expense incurred by the lessee and income derived by the lessor.

Recouped expenditure :- Where a previously deducted expenditure is recovered by the tax payer, it is deemed to be income for the year of recovery.

Persons Assessable

Taxation of individuals

Chargeable income of each tax payer is determined separately. Where a tax payer splits income with another person, the commissioner may adjust the chargeable incomes of both payers to prevent any reduction in tax payable as a result of the splitting of income.

A tax payer is treated as having attempted to split income where

the tax payer transfers income, directly or indirectly to an associate, or
the tax payer transfers property including money directly or indirectly to an associate and the associate receives or enjoys the income from that property, and one of the reasons to transfer is to lower the total tax payable upon the income of the transfer or and the transferee.

Taxation of Partnerships and Partners.

The income or loss arising from activities of a partnership is liable to tax. A partnership shall be liable to furnish a partnership return of income but shall not be liable to pay tax on that income.

A notice of statement required to be furnished or filed in relation to a partnership's activities shall be filed by the partnership.

Calculation of partnership income or loss :- this is

the gross income of the partnership for the year calculated as if the partnership were a resident tax payer
less
the total amount of deductions allowed in deriving the income

Taxation of non resident partners is on withholding tax basis where such tax is final on gross income earned without deductions for allowable expenditure.

Taxation of Partners

The gross income of a non resident partner includes the partner's share of partnership income attributable to sources in Uganda.

A resident Partner is allowed a deduction for a year of income for partner's share of a partnership loss. A partnership loss is deductible from non residents income only to the extent that the activity giving rise to the loss would have given rise to partnership income attributable to sources in Uganda if a loss had not been incurred.
Share of Partnership income or loss is in relation to their percentage interests in the Partnership or capital contributions where the agreement does not show the interest.

A contribution to a partnership by a partner of an asset owned by the partner is treated as a disposal of the asset by the partner to the partnership for a consideration equal to :-

the cost base of the asset to the partner at the date in which the contribution was made where all the ff conditions are satisfied-
the asset was a buz asset of the partner before its disposal.
The parties and partnership are residents at time of contribution
Partner's interest in the capital of partnership after contribution is 25% or more
in any other case, market value of the asset at the time of contribution where (a) applies, the asset retain the same character as it did before disposal to partnership.

N.B. The same principle applies where a partnership has sold its undertaking to another partnership.

Taxation of Trusts and Beneficiaries

Chargeable trust income is the gross income of the trust (other than an amount derived for immediate or future benefit of an ascertained beneficiary) calculated as if the trust is a resident tax payer, less
The total amount of deductions allowed under the Act qualified beneficiary trust – means
trust in relation to which a person other than a settlor has a power solely exercisable by that person to vest the corpus or income of the trust in that person.
A trust whose sole beneficiary is an individual or an individuals estate or appointees
But does not include a trust whose beneficiary is an incapacitated person.
Settlor trust – means a trust where the settlor has
the power to revoke or alter the trust, so as to acquire a beneficial entitlement in the corpus or income of the trust
reversionary interest in the corpus or income of the trust

The income of a trust is taxed either to the trustee or to beneficiary of the trust.
A trust is required to furnish returns of income
A settlor trust or qualified beneficiary trust
is not treated as an entity separate from the settlor or qualified beneficiary respectively.
The income of such a trust is taxed to the settlor or qualified beneficiary of the property owned by the trust is deemed to be owned by the settlor or qualified beneficiary.

The trustee of an incapacitated person's trust is liable for tax on the chargeable trust income of the trust.

Trustees are jointly and severally liable for a tax liability arising in respect of chargeable trust income that is not satisfied out of the assets of the trust.

Where the trustee has paid tax on the chargeable trust income of the trust, that income shall not be taxed again in the hands of the beneficiary.

Any amount derived by the trustee for the immediate or future benefit of any ascertained beneficiary, other than an incapacitated person with a vested right to such amount is treated as having been derived by the beneficiary for the purposes of the Act.

A trustee of a trust that is non resident is liable for tax or so much of chargeable trust income as is attributable to sources in Uganda.

Any amount derived by a trustee as execution of the estate of a deceased person shall, to the extent that the commissioner is satisfied that such amount has been derived for the immediate or future benefit of any ascertained heir or legatie of the deceased, be treated as having been derived by such heir or legatie.

The heir or legatie shall be allowed a deduction for expenditure and loss incurred in deriving such income.

The trustee of an estate of a deceased person is responsible for the tax liability of the deceased tax payer arising for any year of income prior to the year in which the tax payer died.

Taxation of Companies and Share holders

A Company is liable to tax separately from its shareholders

A dividend paid to a resident Company other than an exempt organisation by another by another resident Company is exempt from tax where the Company receiving the dividend controls, directly or indirectly, 25% or more of the returning power in the Company paying the dividend. This however does not apply to :-

a dividend paid to a financial institution by virtue of its ownership of redeemable shares in the Company paying the dividend or

where a Company takes part in a transaction in the nature of **<u>dividend stripping</u>** and receives a dividend from a resident Company in the transaction, the Company receiving the dividend shall include the dividend in its gross income to the extent the commissioner considers necessary to offset any decrease in the value of shares in respect of which the dividend is paid or in the value of any property caused by the payment of the dividend.

In case of such transaction, commissioner may also reduce the amount of any deduction arising to the extent to which it represents the decrease in value of the shares or other property.

dividend stripping includes an arrangement under which

a Company referred to as the "**acquiring Company**" acquires the shares in the target Company for an amount that reflects the profits of the target Company

a Company referred to as the "**target Company**" has accumulated or current year profits or both represented by cash or other readily realizable assets.

the disposal of shares in the target Company gives rise to a tax free capital gain to the share holders in the target Company.

After the acquiring company has acquired the shares in the target Company, the target Company pays a dividend to the acquiring Company which in the absence of dividend stripping transaction would be exempt from tax in the hands of the target company.

After the dividend is declared, the acquiring Company sells the shares for a loss.

Where a resident person transfers a business asset, with or without any liability not in excess of the cost base of the asset to a resident Company other than an except organisation in exchange of a share in the transferee and the transferor has 5% or quarter interest in the returning power of the transferee immediately after the transfer.

the transfer is not treated as a disposal of the asset by the transferor but is treated as the acquisition by the transferee of a buz asset .

the transferee's cost base for the asset is equal to the transferor's cost base for the asset at the time of transfer.

the cost base of a share received by the transferor in exchange for the asset is equal to the cost base of the asset transferred less any liability assured by the transferor in respect of the asset.

The above apply for liquidation of Companies but the transfer of the asset is not a dividend and no gain or loss is taken into account on the cancellation of the transferee's shares in the liquidated Company.

Dividend Income :-

Dividend means

where a company issues debentures or redeemable profit shares to a shareholder

in respect of which the share holder gave no consideration, an amount equal to the greater of the nominal or redeemable value of the debentures or shares or

in respect of which the share holders gave consideration which is less than the greater of nominal or redeemable value, an amount equal to the excess.

any distribution upon redemption or cancellation of a share or made in the course of liquidation, in excess of the nominal value of the share redeemed, cancelled or subject to liquidation.

In the case of a partial return of capital, any payment made in excess of the amount by which the nominal value of the shares was reduced.

In the case of a reconstruction of a company any payment made in respect of the shares in the company in excess of the nominal value of the shares before the reconstruction or

the amount of any loan, the amount of any payment for an asset or services, the value of any asset or services provided or the amount of any debt obligation released by a company to or in favour of a shareholder of the Company or an associate of a share holder to the extent to which the transaction is in substance of distribution of profits, but does not include a distribution made by a building society.

The rate of tax for dividend is 15% and this tax is final.

Exempt

Dividend from a Company where one owns > 251 of the shares in the paying Company.

Withholding of tax at source

Every employer shall hold tax from payment of employment income to an employee not withstanding any other law that provides otherwise.

Interest income – a resident person who pays interest to another resident person shall withhold tax on the gross amount of the payment at the rate of 15% of gross paymen

This does apply to interest paid by a natural person

interest paid to a financial institution

interest paid by a company to an associated Company

interest paid which is exempt from tax in the hands of the recipient.

(associated 6 refers to 50% holding of Company by another)

Dividend income :- a resident company which pays a dividend to a resident share holder shall withheld tax on the gross amount of the payment at a rate of 15% of gross dividend.

Payment for goods and services - Where the government of Uganda, a government institution, a local authority, any Company controlled by government or any person designated in a notice issued by the minister as payer, pays an amount or amounts in aggregate exceeding one million shillings to any person in Uganda.

for a supply of goods or materials of any kind
for a supply of any services

The Payer shall withhold on the gross amount of payment, 4% and shall issue a receipt to the payee. Where separate amounts are supplied which would have ordinarily been supplied together and thus exceeding one million shillings in value the act prescribes that the consignments be taxed separately even though they may be less than one million.

5. **International payments** - a 15% withholding tax is levied on the amount being paid to a non resident person and also for dividend interest and royalties to a non resident person and foreign entertainers and sportsmen.

Non resident services contract – a person who is in agreement with another non resident person is required to with hold tax from any payment made under the agreement at a rate prescribed by the commissioner.

Withholding as a final tax.

Where the tax has been withheld under payment of interest by financial institution to a resident individual and or payment of dividends to resident individual, the tax is final and;

(a) no further tax liability is imposed upon the tax payer in respect of the income to which the tax relates.
(b) That income is not aggregated with the other income of the payer for the purpose of ascertaining chargeable income.
(c) no deduction is allowed for any expenditure or losses actually incurred in deriving the income.
(d) No refund of tax shall be made in respect of the income.

Payment of tax withheld.

The withholding agent should pay the tax withheld or supposed to be withheld within 15 days after the end of the month in which payment subject to the tax was made by the agent.

Where a person withholds or should have withheld tax as a promoter or agent of a non resident performer, entertainer or sportsman, tax shall be paid to the commissioner within 5 days of the performance or by the day before the date the non resident leaves Uganda, which ever is earlier.

Failure to withhold tax

The agent who fails to withhold tax in accordance with the act will be personally liable to pay such tax to the commissioner but will be entitled to recover the amount from the payee.

Failure to remit tax withheld

The tax so withheld but not remitted will be treated as a debt to the government and collection & recovery procedures will apply.

Tax credit certificate

A withholding agent shall deliver to the payee a tax Credit certificate settling out the amount of payments made and tax withheld during the year. This is attached to tax returns made by payee.

Records of payment and tax withheld

These should be maintained and kept by the agent for inspection by the commissioner showing payments made to a payee

tax withheld from those payments
These should be kept for 5 years following the year to which they relate.

Priority of tax withheld

Tax withheld is held in trust for the government and is not subject to attachment in respect of a debt or liability of the agent and in event of liquidation or bankruptcy of agent, the commissioner shall have a first claim before any distribution property is made.

Small business tax payer rates

Where the gross turn over of a resident tax payer for a year derived in carrying on a business or businesses is less than fifty million (50m) Shillings, the income tax payable shall be determined in accordance with the second schedule of the act, unless the tax payer elects by notice in writing to the commissioner.

The 2nd Schedule stipulates tax as follows :-

Gross turn over	Tax
1. $X \leq 20m$ p.a.	SHS. 100,000
2. $20M < X \leq 30m$	Shs. 250,000 or 1% of gross turn over whichever is the lower
3. $30m < X \leq 40m$	Shs. 350,000 or 1% of gross turnover, whichever is the lower
4. $40m < X \leq 50m$	Shs. 450,000 or 1% of gross turn over, whichever is the lower **and**

(a) the tax shall be final tax on the business income
(b) no deductions shall be allowed for expenditures or losses incurred in the production of the business income
(c) no tax credits allowed shall be used to reduce the tax payable as the business income except
any credit allowed for withholding tax paid in respect of amounts included in the gross turnover of the tax payer or
any credit allowed for provisional tax paid in respect of amounts included in the gross turn over of the tax payer.

International taxation

Income is derived from sources in Uganda to the extent to which it is
(a) derived from the sale of goods:-
in the case of goods manufactured, grown or mined by the seller, the goods were manufactured, grown or mined in Uganda or

in the case of goods purchased by the seller, the agreement for sale was made in Uganda, wherever such goods are to be delivered.

(b) derived by a resident person in carrying on a buz as owner or charterer of a vehicle, ship or aircraft whenever it may be operated.
(c) Derived from any employment exercised or services rendered in Uganda
(d) Derived in respect of any employment exercised or services rendered under a contract with the government of Uganda wherever exercised or rendered.
(e) Derived by a resident individual from any employment exercised or services rendered as a driver of a vehicle or an officer or member of a crew of any ship, vehicle or aircraft. Wherever operated.

(f) Derive from the rental of immovable property located in Uganda.
(g) Derive from the disposal of a share in a Company the property of which consists directly/indirectly of interest in such immovable property where interest or share is a business asset.
(h) Derived from the disposal of movable property other than goods, wherever the property is to be delivered.
(i) An amount
    included in the business income of tax payer in respect of disposal of a depreciable asset used in Uganda.
    (ii) treated as an income where the deduction was allowed for an expenditure, loss or bad debt in production of income in previous years and is now recovered.

(j) Royalty (i) arising from the use of or right to use in Uganda
    A. any patent, design, trade mark or copying it, formula etc.,
    B. any motion picture film
    C. any video or audio material connected to broadcasting
    D. any sound recording or advertising
    E. any tangible movable property
    arising from the importation of any scientyic, technical, industrial commercial.
    Arising from he use of or the right to use or receive in Uganda any video/audio material by satellite, cable or similar tech for use in connection with television or radio broadcasting.
    Arising from he disposal of industrial or intellectual property used in Uganda.

(k) interest where
    (i) the debt obligation giving rise to the interest is secured by immovable property located or movable property used in Uganda.
    (ii) The payer is a resident person
    (iii) The borrowing relates to a buz carried in Uganda
    .
(l) a dividend or director's fee paid by a resident company
(m) a pension or amnity where

    (i) it is paid by the government of Uganda or by a resident person
    (ii) It is paid in respect of an employment exercised/rendered in Uganda.

(n) natural resource payment in respect of a natural resource taken from Uganda.
(o) A foreign currency debt gain derived in relation to a buz debt which has arisen in the course of carrying on a business in Uganda.
(p) A contribution to a retirement fund made by a tax exempt employer in respect of an employee whose employment is exercised in Uganda.
(q) A management charge paid by a resident
(r) Attributable to any other activity which occurs in Uganda is conducted through a branch in Uganda.

<u>Foreign employment income</u>

Foreign source employment derived by a resident individual is exempt
From tax if the individual

<u>Foreign tax credit</u>

A resident tax payer is entitled to credit for any foreign income tax paid by the tax payer in respect of foreign source income included in the gross income of the payer. Such foreign tax credit shall not exceed the income tax payable in Uganda on the payer's foreign source income for the year, by calculating the average rate of Uganda income tax of the payer to tax payer's net foreign source for the year.

Calculation of the foreign tax credit of a tax payer for a year income is made separately for foreign source business income and other income derived from foreign sources by the tax payer .
N.B. average rate of Uganda income tax is the percentage that the Ugandan income tax before the foreign tax credit is of the chargeable income of the tax payer for the year and in the case of tax payer with both foreign source business income and other income derived from foreign sources, the aver rate of tax is to be calculated separately for both classes of income.

Taxation of branch profits.

A tax is imposed on every non resident company carrying on business in Uganda through a branch which has repartriated income for the year of income.
The rate applicable to the repatriated income is 15% i.e. the non resident rate.
The repatriated income of a branch is calculated as follows :-

A + (B – C) –D

Where A = total cost base of the assets net of liabilities of the branch at commencement of the year.
B = net profit of the branch for the year of income calculated in accordance with GAAP
C = Ugandan tax payable on the chargeable income of the branch for the year.
D = total cost base of the assets net of liabilities of the branch at the end of the year.

Tax on International payments.

A tax is imposed on every non resident person who derives any dividend, interest, royalty, natural resource payment or management charge from sources in Uganda.
A dividend derived by a non resident person is only treated as income dividend from sources in Uganda to the extent to which the dividend is paid out of profits sourced in Uganda.

Interests paid by a resident company in respect of debentures is exempt from tax where the foreign tax apply:-

debentures were issued by a Company outside Uganda for the purpose of raising a loan outside Uganda.
The debentures were issued for the purpose of raising funds for use by the Company in business carried outside Uganda.
The interest is paid outside Uganda

Tax on payments non resident public entertainment or sports person

A tax is imposed on every non resident person carrying on business of ship operation, charterers or air transport operator who derives income from the carriage of passengers who embark or cargo or mail which is embarked in Uganda. The rate is 15% on gross amount derived by the person from the carriage.

Where a non resident carries on the business of transmitting messages by cable, radio or satellite communication, the chargeable income of the person derived from transmission of messages whether or not such message originated in Uganda, is 5% of the gross amount derived by a person in respect of such transmission.

International agreements

The government of Uganda can enter into international agreements with another country where both countries can help each other in the collection of taxes. Where an exemption or a reduction is imposed by the Uganda Government, the benefit can only accrued to persons of other countries in the agreement only to the extent to which they are residents of that other country.

Depreciable Assets :- Sixth schedule of the Act.

A person is allowed a deduction for the depreciation of the person's depreciable assets, other than an asset of less than 5 currency points (100,000)

Depreciable assets are classified into 4 classes with depreciation rates applicable for each class.

CLASS	ASSETS INCLUDE	RATE
1.	Computers and Data handling equipment	40%
2.	Automobiles; buses and minibuses with a setting capacity of less than 30 passengers; good vehicles with a load capacity of less than 7 tones; construction and earth moving equipment	35%
3.	Buses with a seating capacity of 30 or more passengers; goods vehicles designed to carry or pull loads of more than 7 tones, specialized trucks; tractors; trailers and trailer mounted containers; plant and machinery used in farming, manufacturing or mining operations.	30%
4.	Rail road cars, locomotives and equipment; vessels, barges, tugs and similar water transportation equipment; air craft; specialized public utility plant, equipment and machinery, office furniture fixtures and equipment, any depreciable asset not included in another class.	20%

A person's depreciable asset shall be placed into separate pools for each class of asset and the depreciation deduction for each pool is calculated according to the ff formula.

A X B

Where A = the written down value of the pool at end of the year of income

B = the depreciation rate applicable to the pool.

The written down value of a pool at the end of a year of income is the total of:-

(a) written down value of the pool at the end of the preceding year of income after allowing the deduction of depreciation and
(b) the cost base of the assets added to the pool during the year of income;
(c) reduced but not below zero, by the consideration received from disposal of assets in the pool during the year of income.

Where the amount of consideration received by a person from the disposal during a year of income of any asset or assets in a pool exceeds the written
Down value of the pool, the excess is included in the business income of the person.

Where the written down value at the end of the year after allowing for the deduction of depreciation is less than 5 currency points, a deduction shall be allowed for the amount of that WDV.

Where all the assets in a pool are disposed of before the year end, a deduction is allowed for the amount of the WDV of the pool as at the end of that year.

Where a person has incurred non deductible expenditures in more than one year in respect of a depreciable asset, the expenditures are treated as if they were incurred for the acquisition of separate assets of the same class.

The cost base of the depreciable asset is added to a pool in the year of income in which the asset is placed in service.

Where a depreciable asset is only partly used during a year of income in the production of income included in gross income, the depreciation deduction is proportionately reduced.

The cost base of a road vehicle other than a commercial vehicle, is not to exceed 30,000,000=

Where the cost base of a road vehicle is limited, the person is treated as having acquired 2 assets.

1. a depreciable asset baring the road vehicle with cost base equal to 30,000,000
2. a business asset that is not a depreciable asset with a cost base equal to the difference between the cost base of the asset not taking into account the actual cost base.

Where a road vehicle to which the above applies is disposed of, the person is treated as having disposed of each of the assets and the consideration received on disposal is apportioned between the 2 assets based on the ratio of the cost base of each asset to the actual cost base of the asset.

i.e. if the actual (original) cost of the asset was 100m,
the max. allowable limit of the depreciable as is 30m
therefore the cost base of "the other business asset" is 70m
if the consideration on disposal is 80m, it is apportioned as follows :-

1. depreciable asset - $\frac{30}{100} \times 80 = 24m$

2. business asset - $\frac{70}{100} \times 80 = 56m$

In calculating the amount of any gain or loss arising on disposal of the asset termed "business asset", the cost base of the asset is determined by reducing the cost by the depreciation which would have been allowed to the person if the asset :-

(a) was a depreciable asset being a road vehicle
(b) the asset was the only asset in the pool

Commercial vehicle means
(a) a road vehicle designed to carry loads of more than half a tone or more than 13 passengers.
(b) A vehicle used in a transportation or vehicle rental business.

Initial allowance :- A person who places an item of eligible property into service for the first time during the year of income is allowed a deduction for that year of an amount equal to
(a) where the asset is placed in service outside Kampala, Entebbe, Namanve, Jinja, Njeru, 75% of the cost base of the property at the time it is placed in service or

(c) in any other case, 50% of the cost base of the property at the time it is placed in service.

The cost base of an asset is reduced by the amount of the deduction allowed under the Act.
N.B. Eligible property means Plant & machinery wholly used from production of income but does not include;
(i) goods and passenger transport vehicles
(ii) appliances of a kind ordinarily used for house hold purposes

(iii) office or household furniture and fitting.

Industrial Building :-

Where a person has incurred capital expenditure in any year of income on the construction of an industrial building and the building is used by the person during the year in the production of income included in gross income, the person is allowed a deduction for the depreciation of the during year as calculated according to the following formula.

A X B X C/D

Where

A -the depreciation rate applicable (5%)

B -the capital expenditure incurred in the construction of the building

C -the number of days in the year of income during which the asset was used or was available for use in the production of income included in gross income

D -the number of days in the year of income

Note

1. Where an industrial building is only partly used by a person during a year of income for prescribed uses, the amount of the depreciation deduction allowed shall be proportionately reduced.
2. Where an industrial building is only partly used by a person during the year for prescribed uses and the capital expenditure incurred in the construction of that part of the building used for other uses is more than 10% of the total capital expenditure incurred on the construction of the building, the building is treated as wholly used for prescribed uses.
3. where a person has incurred expenditure in making a capital improvement to an industrial building in a year, the expenditure is taken as capital expenditure incurred in that year in the construction of a separate industrial building.
4. Where an industrial building is purchased by a person, the person is deemed to have incurred capital expenditure incurred by the person who constructed the building.
5. The amount of the deduction allowed is not to exceed the amount which, apart from making the deduction, would be the residue of expenditure at the year end. (< O)
6. Where an industrial building has been disposed of by a person during the year, the cost base of the building is reduced by any deductions allowed to the person in respect of the building.
7. Where an industrial building is bought and sold together with land, the value of the land shall be the difference between the total consideration and the value of the building.
8. Where consideration is received on disposal of a building on which an extension was taken as separate capital expenditure, the consideration shall be reasonably apportioned among the separate buildings.

Relevant definitions

Capital expenditure does not include:-

(i) expenditure incurred in the acquisition of a depreciable asset installed in an industrial building.

(ii) Expenditure incurred in the acquisition of, or of any rights in or over any land.

Industrial Building means any building which is wholly or partly used or held ready for use by a person in

(a) manufacturing operations

(b) research and development into improvement or new methods of manufacture

(c) mining operations

(d) an approved hotel business

(e) an approved hospital

Residue of expenditure – capital expenditure less any allowable deductions and any amounts which would have been allowed as deductions if the building was solely used for prescribed uses since construction was completed.

Farming :-

This includes pastroral, agricultural, plantation, horticultural or other similar operation. Farm income, includes the business income derived from the carrying on of farming operations, chargeable farming income is the total farming income of a tax payer for a year of income reduced by any deductions allowed under the Act which relate to the production of such income e.g.

(i) expenditure of a capital nature on
    (a) the acquisition or establishment of a horticultural plant
    (b) the construction of a green house

shall be allowed on the income of a horticulturalist at the rate of 20% of the amount expenditure in the year of expenditure and in the following four years of income in which the plant or greenhouse is used. This shall include expenditure on draining or clearing land.

Farm works means any labor quarters and other immovable buildings necessary for the proper operation of a farm, fences, dips, drains, water and electricity supply works, wind breaks and other works necessary for farming operations but does not include;

(a) farm houses or
(b) depreciable assets

Any "assessed farming loss" incurred shall be carried forward and allowed as a deduction in the following year of income. In cse the creditors of the farm allow a concession with the tax payer, the assessed farming loss should also be reduced in proportion to the concession.

Insurance Business

This is the business of or in relation to the issue of, or the undertaking of liability under life policies or to make good or indemnify the insured against loss or damage, including liability to pay damages or compensation contingent up the happening of a specified event.

Life insurance means

(i) effecting carrying out and issuing policies on human life
(ii) effecting carrying out and issuing policies on risk of a person sustaining injury or dying as a result of accident, disease etc, expressed to be for a period not less than 5 years except under special circumstances.
(iii) Effecting, carrying out and issuing policies whereby in return for premiums paid to insurer in the future.

Short term insurance business means any insurance business which is not a life insurance business.

Chargeable income arising from short term insurance business

This is determined by the following formula A – B
Where A = the total amount derived by the resident person for the year of income in carrying on a short term insurance business as determined by;

(a) the amount of gross premiums, including premiums on re-insurance derived by the person during the year of income in respect of any risk, other than premiums returned to the insured.
(b) The amount of any other income derived by a 'person' in a year including any commission or expense allowance derived from investments held in connection with such a business, any gains derived on disposal of assets of the business.
(c) The amount of any reserve deducted in the previous year in relation to un expired risk.

B= the total deductions allowed for the year of income in production of income from the carrying on of short terms insurance business being;

(a) the amount of claims admitted during the year in the less any amount recovered or recoverable under any contract or re-insurance, guarantee, indemnity
(b) amount of agency expenses incurred in the year.
(c) Amount of expenditures and losses incurred by the person which are allowable as deductions, other than expenditures or losses referred to above.
(d) The amount reserve or unexpired risks referable to such business at the percentage adopted by the Company at the year end.

Any loss incurred in any year of income shall be carried forward and offset against any income in the year of income following the one in consideration.

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