

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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1. General Information

1.1 Official currency

The official currency is Uganda Shilling (UGX).

1.2 Tax year end

Tax year end is 30 June every year.

1.3 Revenue service

Uganda Revenue Authority

www.ura.go.ug

2. Paye As You Earns

2.1 Tax Filing and payment of tax

There are no annual PAYE return forms for PAYE in Uganda.

There is no requirement for the employer to issue tax certificates either.

Employers are expected to maintain records and keep them for inspection by URA on demand for at least five (5) years.

2.2 Tax Tables

Tax tables for the 2022 - 2023 tax year.

Resident Individual - Monthly

Taxable income (Ush)		Tax rate
From	To	
0	235 000	0%

235 000.01	335 000	10%
335 000.01	410 000	20%
410 000.01	10 000 000	30%
10 000 000.01	and above	40%

Non-Resident Individual – Monthly

Taxable income (Ush)		Tax rate
From	To	
0	335 000	10%
335 000.01	410 000	20%
410 000.01	10 000 000	30%
10 000 000.01	and above	40%

Uganda prefers a monthly tax calculation where the normal taxable income is taxed according to the monthly tax tables. However, annual tax tables are used to calculate the tax on lump sum and irregular payments.

2.3 Part-time employees / Secondary employees

Employees with secondary employment should be taxed at the highest marginal rate for individuals; currently 40%.

This applies to both resident and non-resident employees who are in secondary employment.

Effective September 2022

The Uganda Revenue Authority released a Public Notice stating that the fixed PAYE rate in the Monthly PAYE return has been adjusted from 30% to 40%. The change applies to both “Residents” and “Non-Residents” where an employee is in “secondary employment” and whose chargeable income is in excess of UGX10 000 000 per month.

In the updated PAYE return template, this change is being implemented under schedule 1 as follows in respect to secondary employees:

- If the amount is UGX 10 million or below, a fixed rate of 30% is applied.

- If the amount is more than UGX 10 million, a fixed rate of 40% is applied.

2.4 Employment Income

Employment income comprises of the following amounts:

- Amount of private/personal expenditure discharged or reimbursed by the employer.
- The value of any benefits in kind provided by/on behalf of the employer.
- Any amount in compensation of termination of employment or contract.
- Insurance premiums paid by a tax-exempt employer for life insurance of an employee and/or his dependants.
- Payments in respect of change of employment/contract terms or payment for agreement to any restrictive conditions of employment.
- Wages, salary, leave pay, payment in lieu of leave, overtime pay, fees, commission, gratuity, bonus, allowance (entertainment, duty, utility, welfare, housing, medical, any other)
- Discounts in shares allotted to an employee and profit/gain on disposal of such shares.
- Gratuity simply treated as employment income and taxed at normal rates. No special rates applicable.

3. Tax on Annual / Irregular / Bonus / lump sum payments

The PAYE tax calculation in Uganda is done using the monthly tax tables. However, where an amount is paid as a lump sum on an irregular basis or upon termination of employment, the tax on that lump sum payment should be computed on the basis of the employees' annualised employment income. Examples of such earnings are: annual bonuses, severance pay, gratuities etc.

When a lump sum is paid to the employee, the normal monthly income should still be taxed

according to the monthly tax tables and a separate annual tax calculation should be done based on the YTD+ income including the lump sum payment.

Note that the annual tax calculation used differs slightly from how we would normally do an annual tax calculation.

The details of the annual tax calculation should be reported in Schedule 3 or 4 of the PAYE tax return.

The steps for the calculation of tax payable on the lump sum payment are as follows:

Determine the Cumulative Employment Income

1. The year-to-date taxable income including the taxable income for the current month but excluding the lump sum earning.

Where the employee was not in employment by 1st July of the current year of income, then the cumulative employment income shall be: Gross employment income from employment start date including current month multiplied by the Total number of months from start of year of income (1st July) to end of employment including current month divided by the Number of months from start of employment to the end of employment including current month.

2. Determine the taxable amount of the lump sum

Where the lump sum payment is for termination/end of employment, and the employee was in the employment of the same employer for 10 years or more, only 75% of the gross lump sum amount is subject to tax. For example, if the employee receives a severance payment of 1 000 000, then only 750 000 will be taxable. All other types of lump sums or irregular payments are fully taxable.

3. Calculate the Annualised Employment Income

Annualised Employment Income is equal to the lump sum amount plus (Cumulative Employment Income multiplied by 12 and then divide by the number of months worked in the tax year).

4. Subtract the Allowable Annual Deduction (e.g. LST) from the Annualised Employment Income to arrive at the Chargeable Annualised Employment Income.

5. Calculate the Annual Tax on the Chargeable Annualised Employment Income using the annual tax tables based on residency status.

6. Subtract the YTD+ PAYE deducted including for the current month.

The sum of PAYE deducted from the employee from the beginning of the year of income (1st July) or employment start date (if after 1st July) to the month of termination or the date lump sum was due.

7. Subtract the Notional PAYE

Notional PAYE is total PAYE deducted during the year divide by the number of months worked during the year of income multiple by (12 less the number of months worked during the year of income).

8. Equals Tax Payable on Lump Sum earning

4. Fringe Benefits

Section 19(2)(f) of the Income Tax Act states that “any benefit granted by employer to the employee during a month, where the total value of the benefits provided by the employer to the employee for the month is less than Ush10 000 shillings, is exempt from tax.

4.1 Housing benefit

Lower of:

- 15% of emoluments (including market rent of housing); and
- Market rent of house provided

Example

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

The benefit derived by this employee is the lesser of:

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

In this case the housing benefit is Ush 550 000

4.2 Car benefit

Taxable value of car benefit is calculated using the formula: $(20\% \times A \times B / C) - D$ where

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

B - is the number of days in the year of income during which the motor vehicle was used or

available for use for the private purposes by the employee for all or a part of the day

C - is the number of days in the year of income; and

D - is any payment made by the employee for the benefit

4.3 Domestic servants

Where a benefit provided by an employer to an employee consists of the provision of a housekeeper, chauffeur, gardener, or other domestic assistant, the value of the benefit is the total employment income paid to the domestic assistant in respect of services rendered to the employee, reduced by any payment made by the employee for the benefit.

Example

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

4.4 Meals, refreshment and entertainment

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

Example

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

4.5 Utilities Payments

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

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

4.6 Interest on Loan

Where a benefit provided by an employer to an employee consists of a loan, or loans in total, exceeding one million shillings at a rate of interest below the statutory rate, the value of the benefit is the difference between the interest paid during the year of income, if any, and the

interest which would have been paid if the loan had been made at the statutory rate for the year of income. Statutory rate here refers to the Bank of Uganda discount rate at the commencement of the year of income.

Example

If an employer gives an employee a school fees loan of Ush 400 000; a furniture loan of Ush 500 000 and an appliances loan of Ush 300 000 at 10% interest per month when the statutory rate is 15%, the benefit would be Ush. 60 000 (i.e. $1\,200\,000 \times 15\% - (1\,200\,000 \times 10\%) = 180\,000 - 120\,000$).

4.7 Release from debt

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

Example

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

4.8 Acquisition of Assets

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

Example

The company transferred a car valued Ush 5 000 000 to an employee in February 2009. The employee was asked to contribute Ush 1 000 000 for that car. The employee derived a benefit equal to Ush. 4 million in February, which should be included in his employment income.

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

5. Exempt Income

- **Pension** – Pension income is tax exempt.
- **Medical Expenses** - Discharge or reimbursement of an employee's medical expenses.
- "Medical expenses" includes a premium or other amount paid for medical insurance, but not medical allowance.
- **Life Insurance** - Premiums paid by a taxable employer for insurance of the life of an employee or his/her dependant.
- **Official duty** - Allowances for or discharge or reimbursement of expenses met by an employee on official duty.
- **Expenditure** - met by an employee while performing duties of employment.
- **Meals and Refreshments** - The value of meals/refreshments provided to all employees at equal terms in premises operated by or on behalf of the employer
- **Retirement fund & NSSF contributions** - Employer's contribution to a retirement fund for the benefit of the employee.
- **Other Benefits** – Fringe Benefits if value is less than Ush 10 000 during the month.
- **Threshold** - The first Ush235 000 per month is tax free for all resident employees.
- **Terminal Benefits** – The exempt portion is 25% of terminal benefits paid to employees who have served the employer for at least 10 years.
- **Passage costs**

6. Tax Deductions

Local Service Tax contributions by the employee are tax deductible with no limits.

See LST section below.

7. National Social Security Fund - NSSF

The NSSF covers all employers who have 5 or more employees between 16 and 55 years of age, with the exception of employees under the Government Pensions Act. The NSSF Act requires a

registered employer is required to pay contributions to the Fund for his/her employees every month during which he/she pays salaries.
The NSSF Act also provides for voluntary membership for employers with less than 5 employees.

7.1 Contribution rates

The employer must deduct 5% from the employee's total gross monthly wage and add 10% of the total gross monthly wage making a total contribution of 15% for each employee. The Payment of contributions must be paid by the 15th day of the following month.

Wages are defined in the NSSF Act as all emoluments which would be payable in cash to an employee under his or her contract of service if no deductions were made, whether in pursuance of any law requiring or permitting any deduction or otherwise.

The employer's contribution to the NSSF is not taxable as benefit. The employee's contribution is not an allowable expense (not tax deductible).

www.nssfug.org

8. Local Service Tax (LST)

Local Service Tax is a tax levied on wealth and incomes of all persons in gainful employment, self-employed and practicing professionals, self-employed artisans, business men/women and commercial farmers

8.1 Who is exempted from paying LST

- Members of the Uganda People's Defence Force
- Members of the Uganda Police Force
- Members of the Uganda Prisons Service
- Members of the Local Defence forces sometimes referred to as LDU's; and
- Members of the Diplomatic missions accredited to Uganda
- Unemployed persons and peasants
- A person engaged in subsistence or occasional economic activities

- Petty food vendors
- Boarder-Boarder (BODA-BODA) cyclists
- Sole petty artisan who are not fully established and are not business entities; and
- People living in poverty who are unable to earn a mini-mum income to access basic necessities of life.

8.2 Payment of LST

A person in gainful employment earning a monthly “take home salary” exceeding UGX 100 000 is eligible to pay LST. The “take home salary” refers to the employee’s cash earnings.

The employer should submit a salary schedule with the respective local service tax computation therein to the local municipality for assessment.

The effective date for payment of LST is in the first four months (July, August, September and October) of every financial year for employees earning a salary or wage. Payments can either occur as a once off or can be paid in instalments with the last instalment being in October.

A surcharge of 50% shall be levied on the expected LST after it is due.

8.3 Calculation of LST

Local Service Tax (LST) in Uganda is calculated on an employee’s monthly income (taxable and non-taxable) as determined in July.

LST Calculation steps:

1. Determine the monthly income for LST
2. Use LST table to determine the annual LST amount
3. Determine the actual LST monthly contribution by employee:
 - If employee started in July then Annual LST should be split over the 4 LST periods.
 - If employee started after July but before November and paid LST at previous employer then Annual LST should be split over 4 periods
 - If employee started after July but before November and did not pay LST at previous employer then Annual LST should be split over the remaining LST periods (1, 2 or 3 months)
4. Deduct LST from taxable income

Note that the LST tax deduction should be limited to the actual contribution made for that month.

Below is the table which should be used in order to determine the annual LST amount which needs to be deducted from employees:

Amount of monthly income earned – (UShs)	Rate of LST per annum (UShs)
Exceeding 100 000 but not exceeding 200 000	5 000
Exceeding 200 000 but not exceeding 300 000	10 000
Exceeding 300 000 but not exceeding 400 000	20 000
Exceeding 400 000 but not exceeding 500 000	30 000
Exceeding 500 000 but not exceeding 600 000	40 000
Exceeding 600 000 but not exceeding 700 000	60 000
Exceeding 700 000 but not exceeding 800 000	70 000
Exceeding 800 000 but not exceeding 900 000	80 000
Exceeding 900 000 but not exceeding 1 000 000	90 000
Exceeding 1 000 000 and above 100 000	100 000

The LST Act and the LST guide are not specific about how to determine the monthly income and which month's income should be used. In practice the July's income is used to determine the Annual LST amount.

Employers should find out what is preferred from the Local Authorities where their employees are based and the consultant can set up an MOC for the Monthly Income for LST

The Kampala Capital City Authority (KCCA) who assess LST advised us that an employer should project only in July what the expected income of the year will be, and use that to pay over LST.

Example

If an employee earns a monthly salary of 500 000 and is expected to get a bonus in December of 500 000, the projected income for the year is $(500\,000 \times 12) + 500\,000 = 6\,500\,000$. This needs to be divided by 12 to get the monthly income earned.

$6\,500\,000/12 = 541\,667$. In this scenario the employee must pay 40 000 LST.

The employee's contribution towards LST is tax deductible and thus reduces the taxable income of the employee. New/terminated employees must be treated according to the policies and guidelines of the organisation that they are with when LST is deducted.

8.4 Problem with LST

The LST regulations are inconsistent with the Income Tax Act in this regard. There has been no attempt so far to correct it. What we advise our clients to do is to follow the Income Tax Act since

it's the earlier law, i.e. compute PAYE after allowing for LST. This means you calculate LST without considering PAYE.

Assume that a worker earns shs.420, 000 per month. The LG Act would require that the earner should be subjected to payment of PAYE first as in the table below:

(a)	(b)	(c)	(d)	(e)
Monthly Salary	PAYE	Disposable Income after PAYE	LST	Disposable Income after PAYE and LST
420,000	48,500	371,500	20,000	351,500

The Income Tax Amendment Act would treat LST deductible from gross income as indicated in the table below:

(a)	(b)	(c)	(d)	(e)
Monthly Salary	LST	Disposable Income after LST	PAYE	Disposable Income after PAYE and LST
420,000	30,000	390,000	41,500	348,500

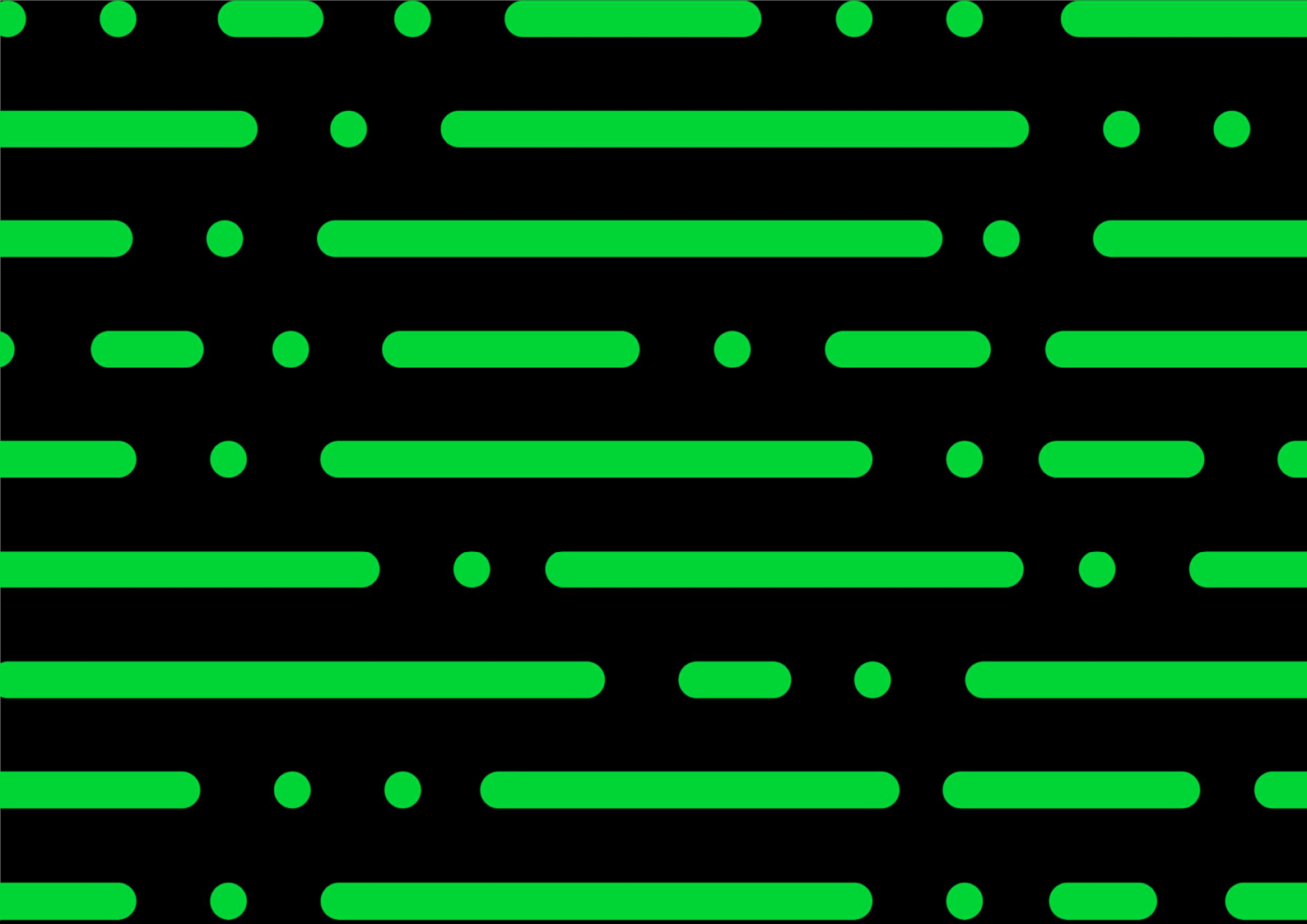
The result from this scenario is that the available income to a taxpayer after payment of both taxes is less than the first scenario. However in both scenarios, figures in column (d) are calculated based on figures in column (c).

Obtaining column (d) from column (a) would amount to double taxation.

www.kcca.go.ug

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Sage Johannesburg
6th Floor, Gateway West
22 Magwa Crescent
Waterfall 5-lr
Midrand
2066
sage.com/en-za

