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This subject please quote No.



Ministry of Finance, Planning &
Economic Development,
P.O. Box 8147
Kampala, Uganda

TPD/141/167/01 Vol. 5

October 5, 2022

All Accounting Officers - Local Government Votes

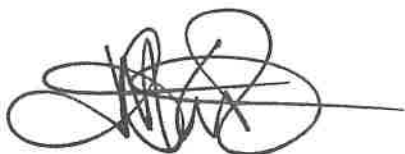
GUIDANCE ON THE TREATMENT OF VALUE-ADDED TAX (VAT) FOR PROJECTS BEING CONSTRUCTED UNDER THE UGIFT PROGRAM

1. Government of Uganda with support from the World Bank is implementing the Uganda Inter-Governmental Fiscal Transfers (UGIFT) Program which started in FY 2017/18. Under this Program, the Government is financing the construction of Seed Secondary Schools and the upgrade of Health Centers II to IIIs in sub-counties without such facilities, among others.
2. As such, the construction of a total of **117 Seed Secondary Schools** and the upgrade of **250** HCIIIs to HC IIIs was undertaken across the beneficiary Local Governments under the UGIFT Program in the period between FYs 2018/19 to 2020/21, while the construction and upgrade of additional facilities has commenced this FY 2022/23.
3. Despite several meetings this Ministry has held with the Local Governments, we continue to receive requests from Local Governments and Contractors seeking clarification on the treatment of VAT for projects under the UGIFT Program.
4. The purpose of this letter, therefore, is to:
 - a) Share the Circular (**copy attached**) issued on the **7th August, 2017** by this Ministry to all Accounting Officers providing guidance with respect to VAT treatment for aid-funded projects;
 - b) Share the Public Notice (**copy attached**) issued by URA clarifying the requirements for operationalization of the provisions in the above Circular;

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- c) Inform you that the details of all the construction projects under UGIFT in Education and Health were forwarded to the Commissioner General, URA for tax management, in accordance with Section 24 of the VAT Act; and
 - d) Request you to provide the necessary guidance to the Contractors implementing UGIFT projects to enable them to follow up on their tax obligations and/or claims with Uganda Revenue Authority as guided by the above Circular and Notice.
5. By copy of this letter, the Commissioner General, URA is informed accordingly.



Ramathan Ggoobi

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

Copy to: The Permanent Secretary, Office of the Prime Minister

The Permanent Secretary, Ministry of Education and Sports

The Permanent Secretary, Ministry of Health

The Permanent Secretary, Ministry of Local Government

The Commissioner General, Uganda Revenue Authority

Executive Director, Public Procurement and Disposal of
Public Assets Authority

The Undersecretary/Accounting Officer,
Ministry of Finance, Planning and Economic Development

The Coordinator, PFM Reforms Coordination Unit,
Ministry of Finance, Planning and Economic Development



Uganda Revenue Authority
 DEVELOPING UGANDA TOGETHER

PUBLIC NOTICE

VALUE ADDED TAX (VAT) ON AID-FUNDED PROJECTS

Uganda Revenue Authority would like to notify the General Public, Suppliers, Contractors, and Ministries, Departments & Agencies (MDAs) that the treatment of Value Added Tax related to Aid-funded projects will be as follows:

Section 24(6) of the VAT Act provides that the tax payable on a taxable supply made by a supplier to a contractor executing an aid-funded project is deemed to have been paid by the contractor provided the supply is for use by the contractor solely and exclusively for the aid-funded project. This was effective 1st July 2016.

Section 24(7) of the VAT Act further provides that, "the tax payable on a taxable supply made to a government ministry, department or agency (MDA) by a contractor executing an aid-funded project is deemed to have been paid by the ministry, department or agency if the supply is for use solely and exclusively for the aid-funded project". This was effective 1st July 2017.

Section 24(8) of the VAT Act defines an "aid-funded project" to mean a project financed by a foreign government or a development agency through loans, grants and donations.

From the above provisions, the following tax treatment shall apply.

1. Effective 1st July 2016, Suppliers shall invoice CONTRACTORS of Aid-funded projects with VAT in the normal way, but CONTRACTORS shall NOT pay the VAT so invoiced. This is because the law deems that this tax has been paid by the CONTRACTOR;
2. Suppliers shall account for the deemed VAT as provided for in the VAT return;
3. Suppliers shall claim any input tax incurred in the course of making supplies to a CONTRACTOR in the normal way;

In the case of supplies made to Government Ministries, Government Departments, and Agencies,

1. Effective 1st July 2017, the CONTRACTOR shall invoice the MDA with VAT in the normal

- way, but the MDA shall NOT pay the VAT so invoiced. This is because the law deems that this tax has been paid by the MDA;
2. The CONTRACTOR is required to solely and exclusively apply the supplies on which VAT is deemed to be paid ONLY on the Aid-funded project;
3. The CONTRACTOR shall account for the deemed VAT as provided for in the VAT return.

In order to implement the above provisions, Uganda Revenue Authority shall require the following from the suppliers and contractors in respect to Aid-funded projects:

- I. Copies of contracts duly stamped indicating that stamp duty has been paid;
- II. Bills of quantities (BOQs);
- III. Procurement plan with details including but not limited to names of supplier, TIN, Location, nature and description of goods and services to be procured from each supplier and quantities of each supply;
- IV. Keep proper records of all supplies including but not limited to purchase orders or pro-forma invoices, delivery notes, stock movement and utilisation at the concerned project(s);

NOTE: Uganda Revenue Authority shall issue letters to specific suppliers confirming qualifying projects and quantities to be procured by the contractor on a project by project basis.

Contractors including those who have already received confirmation from URA, that their contracts are Aid-funded and VAT in respect of supplies for purposes of the contracts is deemed paid are required to comply by submitting the above requirements to the Commissioner Domestic Taxes for revalidation.

Suppliers to aid-funded projects and the General Public are hereby informed to take note of the above and ensure that all supplies to aid-funded projects conform to the above with effect from **1st March 2018**.

Commissioner General
Uganda Revenue Authority

For more information, please call our toll free line 0800117000 or visit: <https://ura.go.ug>

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Ministry of Finance, Planning & Economic Development
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Kampala
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This subject please quote No. TPD 137/167/08

7th August, 2017

All Accounting Officers (Central and Local Government Votes), and
All Chief Executive Officers of State Enterprises

VALUE ADDED TAX (VAT) ON AID-FUNDED PROJECTS

This Ministry has received requests from various stakeholders seeking clarification of policy changes in the VAT (Amendment) Act 2016 and the VAT (Amendment) Act 2017 regarding VAT treatment of taxable supplies made under aid-funded projects. The purpose of this Circular is to clarify the following aspects of this policy.

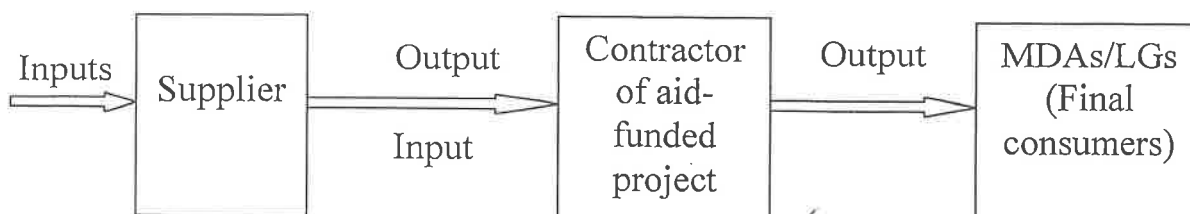
Section 4 of the VAT (Amendment) Act, 2016 provides that:

“For purposes of this section, the tax payable on a taxable supply made by a supplier to a contractor executing an aid-funded project is deemed to have been paid by the contractor provided the supply is for use by the contractor solely and exclusively for the aid-funded project”.

Section 2 of the VAT (Amendment) Act, 2017 provides that:

“For purposes of this section, the tax payable on a taxable supply made to a Government ministry, department, or agency by a contractor executing an aid-funded project is deemed to have been paid by the Government ministry, department, or agency if the supply is for use by the contractor solely and exclusively for the aid-funded project”.

Assume a Ministry/Department/Agency (MDA) contracts a service provider to implement an aid funded project and the contractor procures taxable goods from a local supplier for the purposes of executing the project. This supply chain may be represented diagrammatically as follows:



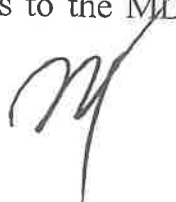
The implication of Section 4 of the VAT (Amendment) Act, 2016 and Section 3 of the VAT (Amendment) Act, 2017 read together is that;

A. SUPPLIES TO A CONTRACTOR OF AID FUNDED PROJECT.

- i. The supplier to the contractor of an aid-funded project will issue a tax invoice for the full cost (including 18% VAT) for taxable supplies made to the contractor. The supplier will account to Uganda Revenue Authority in their monthly VAT return the VAT deemed to have been paid by the contractor as a book entry but will not be required to pay the tax.
- ii. The contractor will pay the supplier the invoiced amount referred to in (1) above **excluding the VAT** component because the VAT would be deemed to have been paid pursuant to Section 4 of the VAT (Amendment) Act, 2016.
- iii. The **supplier** will account to Uganda Revenue Authority in their monthly VAT return the VAT deemed to have been paid by the **contractor** but will not pay this tax. The supplier will be entitled to take a credit for any VAT which they incurred to make taxable suppliers to a Contractor of an aid-funded project in respect of which the VAT-deeming applied.

B. SUPPLIES BY A CONTRACTOR TO MDA EFFECTIVE 01/07/2017.

- i. The contractor of an aid funded project will issue a tax invoice for the full cost (including 18% VAT) for taxable supplies made to the **MDA**. The contractor will account to Uganda Revenue Authority in their monthly VAT return the VAT deemed to have been paid by the MDA as a book entry but will not be required to pay the tax.
- ii. The **MDA** will pay the contractor the invoiced amount referred to in (1) above **excluding the VAT** component because the VAT would be deemed to have been paid pursuant to Section 3 of the VAT (Amendment) Act, 2017.
- iii. The **contractor** will be entitled to take credit for any VAT which they incurred to make taxable suppliers to the **MDA** in respect of an aid-funded project.



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The effect of Section 3 of the VAT (Amendment) Act, 2017 is to remove from Ministries/Departments/Agencies with effect from 1st July 2017, the obligation to budget and pay VAT on supplies received from their contractors who execute aid-funded projects, which burden remained after the coming into force of the VAT (Amendment) Act, 2016.

The MDA would have to budget within their MTEF ceiling, for the VAT payable to other contractors other than contractors for aid funded projects effective 01/07/2017. VAT in respect of tax invoices for periods prior to 01/07/2017 should be settled in full.

Therefore, MDAs which procured taxable supplies for implementing aid-funded projects prior to 1st July 2017 should have budgeted for the VAT within their MTEF ceiling for the respective financial years and paid the VAT to the contractors.

This is therefore to request you to accordingly follow this guidance. In case you require further clarifications on any of the aforementioned issues, please liaise with the Commissioner General, Uganda Revenue Authority.



Keith Muhakanizi

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

CC Commissioner General,
 Uganda Revenue Authority,
 KAMPALA