

Rental tax is imposed on income generated from the lease or letting of immovable property. The current tax regime includes tax and non-tax revenue collections from landlords. Landlords thereafter shift the burden to the tenants through increased rental charges.

Uganda Revenue Authority (URA) has reported a significant increase in the rental income tax collections from Shs275.59 billion in the 2023/2024 financial year with a projection of Shs332 billion for the period 2024/2025. This will affect the standard of living due to the skyrocketing cost of housing.

The Uganda Bureau of Statistics estimates that 70 percent of urban households, particularly in Kampala, are renters, while nationwide, about 47–48 percent of households are rented.

To understand the tax burden, let us dive into the tax and non-tax revenue landscape in Uganda. The Income Tax Act (ITA) Chapter 338 imposes a 30 percent direct tax on rental chargeable income for corporate companies generating rental income. Individuals are currently taxed at 12 percent on the rental chargeable income after deducting the annual tax-free threshold accorded to all resident individuals, currently at Shs2.82 million. This tax is enforced and collected by URA every quarter from individuals and on a bi-annual basis from companies through the self-assessment regime.

Taxpayers must submit provisional tax estimates—bi-annual for companies and quarterly for individuals. If they fail to pay at least 90 percent of the actual rental income tax by year-end, a 20 percent penalty is applied to the underpaid amount.

Moreover, the Income Tax Act imposes a tax on gains from the disposal of business assets, including buildings and land at a rate of 30 percent also known as Capital Gains Tax (CGT). This tax arises when the cost base of the asset is less than the consideration received on disposal, and it is payable by the seller to URA. To ease collection of this tax on gains on alienation of immovable property in Uganda, the cur-

Cut rental taxes for affordable housing



A house for rent. The real estate business is capital-intensive, and many landlords rely on debt financing. PHOTO/FILE

rent tax laws oblige a resident person that purchases a business asset to withhold 6 percent at the time of payment on the gross amount payable and remit the same to URA 15 days following the end of the month of income and failure to do so transfers the tax burden to the buyer. The 6 percent is the advance tax paid on the sale whether the sale is a gain or a loss. Either way, URA gets to collect on each alienation and sale upfront. Administratively, landlords are required to issue tax Electronic Fiscal Receipting and Invoicing System

Invoices

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The current tax regime caps the expenditure claimable by corporate landlords to 50 percent of their gross rental income earned, whether the expense is properly supported by EFRIS invoices or not. This capping includes interest on loans and wear and tear suffered from using assets to generate taxable income.

In his address justifying the capping of rental tax expenses, the URA Commissioner General (CG) noted that the measure was based on practices in neighbouring countries, such as Kenya, where it had been successful. To increase tax collections, Uganda introduced a 50 percent cap on rental expenses in the tax amendments that took effect in the 2021/2022 financial year. In addition to direct taxes, property owners in Uganda must pay annual property rates ranging from 1 percent to 12 percent of the property's value, a 1.5 percent stamp duty, and mandatory survey fees of Shs500,000 to local councils. These non-tax revenues are collected by the Kampala City Council Authority (KCCA) on all immovable property, including commercially managed buildings, and are considered non-tax revenue for the government.

A leaseholder should pay ground rent for the right to use the land. This is a contractual obligation that represents the value of holding and using someone's property. In Buganda, ground rent is commonly known as *'busulo'*.

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debt financing. Allowing interest as a deductible expense encourages landlords to borrow more, invest in property development, and improve Uganda's infrastructure, which in turn, increases taxable income.

However, capping expenses—including loan interest at 30 percent of earnings before interest, taxes, amortization, and depreciation (EBITDA)—raises landlords' tax burden and limits their ability to service loans in the early years when properties are not yet fully occupied. This extends the loan payback period, making the sector less attractive to investors. Over time, this reduces rental income tax collections.

Government should reconsider dropping the capping of expenses, which is contrary to the general tax principle under section 22 of the ITA. This section of the law allows an expense incurred in generating taxable income to be tax-deductible.

Contravening this law implies that the government aims at taxing capital and losses of the entity to get short term increase in rental tax collections.

Therefore, there is no justification for the tax policy to restrict a person in the rental income business from claiming expenses that are well supported. With EFRIS, URA has visibility on expenses incurred in generating taxable rental income. For fairness, tax policy makers should revisit the capping of genuine expenses incurred in generating rental income in Uganda and think about regulating the non-tax revenues collected to avoid double taxation.

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