

## By Vision Reporter

Bankers have raised concern over the proposed tax amendments, warning Parliament that the measures could raise the cost of borrowing, distort financial markets and ultimately slow investment across the economy.

Officials from the Uganda Bankers' Association appeared before Parliament's finance committee on Wednesday, chaired by Amos Kankunda (Rwampara County MP).

Trevor Lukanga, an associate director in the international tax practice at PwC Uganda and tax advisor of the bankers' association, outlined concerns around key proposals, including taxation of software, limits on interest deductibility, alternative minimum tax and the withholding tax on foreign borrowing.

### SOFTWARE TAX DISPUTE

One of the most contested proposals is the plan to include software in the definition of royalties, effectively subjecting its purchase to a 15% withholding tax.

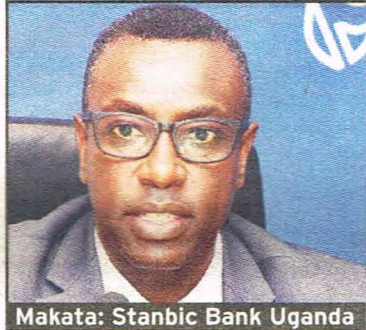
Lukanga said currently, banks procuring core banking software from global providers do not incur withholding tax.

"To illustrate this, if a bank procures software worth \$1m, the supplier expects to receive the full amount," Lukanga said.

# New taxes to raise cost of borrowing – bankers



Lukanga: PwC Uganda



Makata: Stanbic Bank Uganda



Omara: Otuke County MP

"But with the withholding tax, the bank would have to gross up the payment, pushing the total cost to about \$1.2m."

He said while the Government would collect the withholding tax, it would simultaneously allow higher capital allowances on the inflated cost, creating what he described as a policy inconsistency.

"On one hand, you collect tax and, on the other, you give it away through capital deductions. Our view is that this amendment should be dropped," Lukanga said.

### INTEREST DEDUCTIBILITY CONCERNS

The bankers also raised concerns about the limitation on interest deductibility under the Income Tax

Act, which caps allowable deductions at 30% of earnings before interest, tax, depreciation and amortisation.

Lukanga said this creates a mismatch in taxation. While banks are taxed on the full interest income they earn, borrowers are restricted in the amount of interest expense they can deduct.

"In a scenario where a borrower incurs interest of 70% but can only deduct 30%, the bank is still taxed on the full 70%. This results in a form of double taxation within the system," Lukanga said, adding that the bankers' association is proposing the exclusion of loans from local banks from this limitation.

On the proposed 0.5% alternative minimum tax, bankers said the measure fails to consider the unique

structure of the financial sector. Lukanga said banks are required to invest heavily in government securities to maintain liquidity, yet the interest earned from these instruments is already taxed at rates of between 10% and 20%.

"It is possible for a bank to make tax losses due to high investment costs, yet still be required to pay tax on gross income under the minimum tax regime," Lukanga said.

"We request that exemptions be considered, particularly for financial institutions investing in government paper."

### COST OF FOREIGN BORROWING

Ronald Makata, the chief finance officer at Stanbic Bank Uganda, said:

"As Uganda, we are a net importer of capital. When we borrow externally, lenders will either increase interest rates to cover the withholding tax or require us to absorb the cost."

"Either way, it becomes a double cost that is ultimately passed on to the borrowers."

Makata said the impact would be felt across the economy, affecting industry players, investors and even the Government, which relies on foreign financing for infrastructure projects.

"This will distort the foreign exchange market, increase the cost of investment and discourage investors," Makata said.

### WHAT MPS SAY

Paul Omara (Otuke County MP) said some foreign lenders earn interest in Uganda but pay no tax locally or abroad, urging the Government to impose the withholding tax and close the loopholes.

Dickson Kateshumbwa (Sheema Municipality MP) said cloud-based software has complicated taxation, creating revenue leakages and called for refining, not rejecting the proposal.

Lukanga said banks already operate under strict transfer pricing rules that limit profit shifting. He said taxing foreign borrowing would raise banks' costs, which would be passed on to borrowers, increasing business costs and slowing growth.