
BILLS**SUPPLEMENT No. 11****27th September, 2021****BILLS SUPPLEMENT***to The Uganda Gazette No 71, Volume CXII, dated 27th September, 2021*Printed by UPPC, Entebbe, by Order of the Government

Bill No. 28*Income Tax (Amendment) (No. 2) Bill***2021****THE INCOME TAX (AMENDMENT) (NO. 2) BILL, 2021****MEMORANDUM****1. POLICY AND PRINCIPLES**

The purpose of the Bill is to amend the Income Tax Act, Cap. 340, to provide for windfall tax and limitation of deductions on petroleum operations.

2. DEFECTS IN THE EXISTING LAW

(1) The Income Tax Act is not specific on the cost recovery limit which a licensee can recover from petroleum operations in a given year. The Bill therefore seeks to cap the allowable deduction per year to the cost recovery limit stipulated in the PSAs.

(2) The current law does not cater for the volatility in oil prices. There is therefore need to impose a windfall tax in the event that the international oil price equals USD 75 per barrel or more on any day of the year of income. This is intended to capture the additional revenues arising in the event that the international oil prices rise.

3. REMEDIES PROPOSED TO DEAL WITH THE DEFECTS

The Bill amends the Income Tax Act Cap. 340—

- (a) to cap the allowable deductions per year to the cost recovery limit for Contract Area 1, Contract Area 3A and Licence Area 2;

- (b) to introduce a windfall tax for Contract Area I, Contract Area 3A and Licence Area 2.

HON. MATIA KASAIJA,
Minister of Finance, Planning and Economic Development

A Bill for an Act

ENTITLED

THE INCOME TAX (AMENDMENT) ACT, 2021

An Act to amend the Income Tax Act, Cap. 340 to cap the allowable deduction per year to cost recovery limit for Contract Area 1, Contract Area 3A and Licence Area 2 and to introduce a windfall tax for Contract Area 1, Contract Area 3A and Licence Area 2.

BE IT ENACTED by Parliament as follows:

1. Amendment of section 89GA of Income Tax Act

The Income Tax Act, in this Act referred to as the principal Act is amended in section 89GA—

- (a) by inserting immediately after subsection (1) the following subsections—

“(1a) Notwithstanding subsection (1), the amount that a licensee for Contract Area 1, Contract Area 3A and Licence Area 2 may deduct, in relation to petroleum operations undertaken in the respective areas in a year of income shall not exceed the cost recovery limit in the respective petroleum agreements.

- (b) by inserting immediately after subsection (2) the following subsections —

“(2a) For the purposes of subsection (1a), where, in any year of income, the total deductions of a licensee in relation to petroleum operations undertaken respectively in each of Contract Area 1, Contract Area 3A and Licence Area 2 exceed the amount which represents the cost recovery limit applicable in that Contract Area or Licence Area respectively as determined in subsection (1a) for that year of income arising from the petroleum operations in the respective Contract Area or Licence Area, the excess shall be carried forward to the next following year of income and is deductible for that year of income against the cost recovery limit set for that year of income in respect of the petroleum operations in the respective Contract Area or Licence Area, until the excess is fully deducted or the petroleum operations in the Contract Area or Licence Area cease.

- (2b) For the avoidance of doubt, subsections (1a) and (2a) apply only to Contract Area 1, Contract Area 3A and Licence Area 2.”

2. Insertion of section 89GDA in principal Act

The principal Act is amended by inserting immediately after section 89GD the following —

“89GDA. Windfall tax.

(1) Where the international oil price equals USD 75 (seventy five United States Dollars) per barrel or more on any day of a year of income, all licensees for Contract Area 1, Contract Area 3A and Licence Area 2 shall each pay a windfall tax on their net income generated from petroleum operations in

relation to Contract Area 1, Contract Area 3A and Licence Area 2 shall each pay a windfall tax on their net income generated from petroleum operations after deduction of corporate income tax at a rate of 15%, computed as follows—

Windfall tax = 15% * (A/B) * (C-D)

where—

- A = the number of calendar days in the year of income on which the international oil price equals USD 75 per barrel or more;**
- B = the total number of calendar days in the year of income;**
- C = the net income generated from petroleum operations by the licensee in the year of income; and**
- D = corporate income tax payable by the licensee for the year of income.**

(2) Where, for any calendar day there is no international oil price quotation, the oil price of the last quotation prior to the respective calendar day shall apply to that day.

(3) The windfall tax shall be paid by the licensee on an annual basis, on the same date as the date of payment of corporate income tax due for the last quarter of the relevant year of income.

(4) For the purposes of this section —

- (a) “international oil price” means the higher of either the simple arithmetical average of the per barrel selling prices of three globally recognised international crude oil benchmarks which are similar to the Lake Albert Crude, as agreed to between the Government of Uganda and the licensee, not later than sixty days prior to the commencement of commercial production or the Dated Brent; and

- (b) “net income” means the chargeable income of the licensee derived from petroleum operations in that year of income.”