



Uganda Revenue Authority
DEVELOPING UGANDA TOGETHER

UGANDA REVENUE AUTHORITY

Revenue Assessment and collection and analysis of the cost structures of EI Companies.

4th International Training Programme on “Audit of Extractive Industries”

02nd – 5th April 2024 & 8th April 2024

Presentation Outline



Uganda Revenue Authority
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regulatory
Framework and
the URA mandate

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Institutional regulatory framework



**MINISTRY OF
TOURISM, WILDLIFE
AND ANTIQUITIES**
THE REPUBLIC OF UGANDA



Institutional framework...

Institutions governing only Petroleum in Uganda



URA mandate

The 2008 National Oil and Gas Policy of Uganda grants URA the mandate to:

- Administer the collection of petroleum revenues;
- Assist in monitoring and assessing the impact of oil and gas revenues on the economy;
- Participate in the formulation of tax measures to regulate collection of the right revenues from oil and gas activities.



URA mandate ...

- **S.57 PFMA** – mandates URA to collect or receive petroleum revenue due to Government
- **S. 56(2) PFMA:** all petroleum revenues that accrue to Government shall be paid into the Petroleum Fund

MANDATE



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General Petroleum laws

The Constitution

Petroleum (Exploration, Development and Production) Act and the 2016 Regulations

The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act

Production Sharing Agreements (PSA)

The Local Government Act

Public Finance Management Act (PFMA)

The Water Act

The Wildlife Act

National Oil and Gas Policy



Fiscal specific laws



- Value Added Tax Act Cap 349 (VATA)
- Tax Procedures Code Act 2014 (TPC)
- Income Tax Act, Cap 340 (ITA)
- Double Taxation Treaties
- Stamp Duty Act, 2014 (SDA)
- EAC-CMA
- EACOP Act(IGA, HGA)

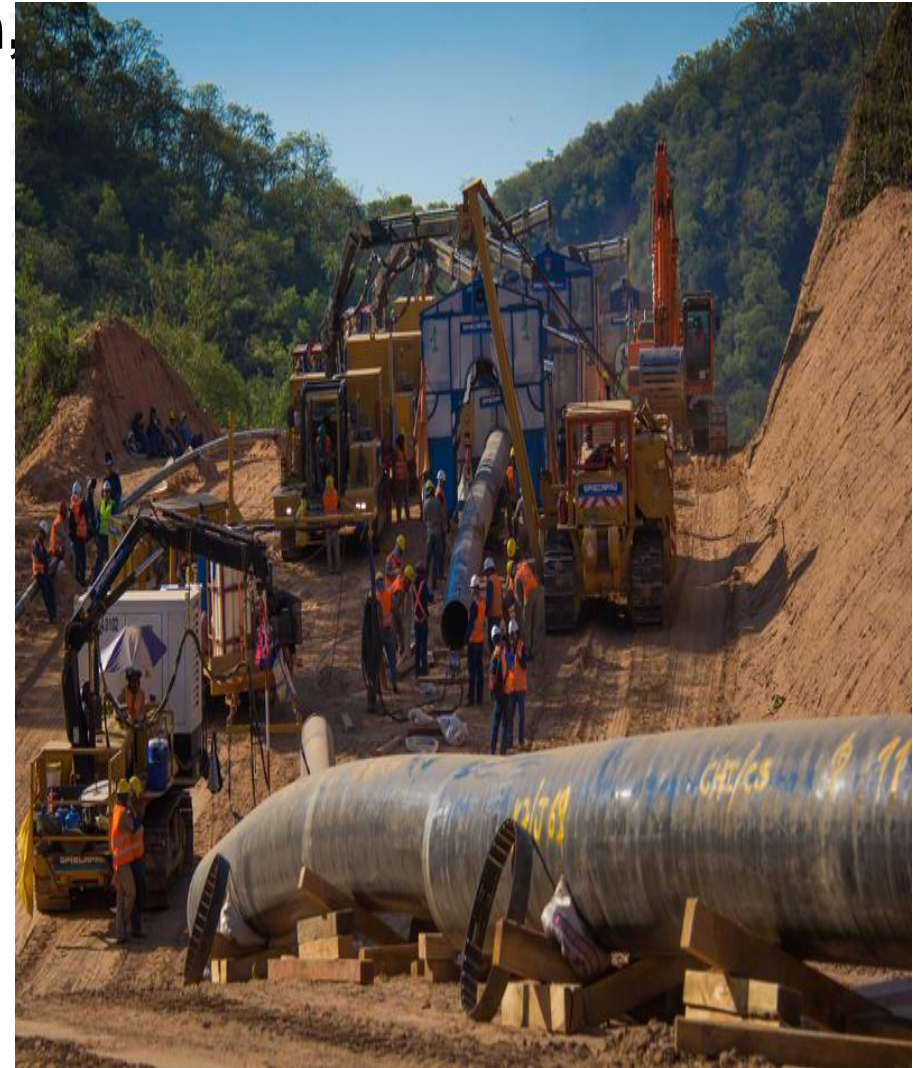
Midstream specific laws

Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013:

Regulates, manages, coordinates and monitors midstream operations.

The East African Crude Oil Pipeline (EACOP) (Special Provisions), Act 2021

Management, construction and operation of the crude oil pipeline project; Lays out inter alia, a special fiscal regime for the EACOP Project.



UGANDA'S OIL AND GAS STATUS

UGANDA'S OIL AND GAS RESOURCES: KEY FIGURES

21 Oil and Gas Discoveries

88% Drilling Success rate

6.5 Billion Barrels of Oil In Place

1.4 Billion Barrels of Recoverable Reserves

9 Production Licences over **14** field to



5 Exploration Licences to



85% of the Albertine Graben unlicensed

2 Upstream Development projects **230,000** Barrels Per Day Peak Production

- Tilenga Project - **190,000** bopd at peak
- KingFisher Development Area Project – **40,000** bopd at peak

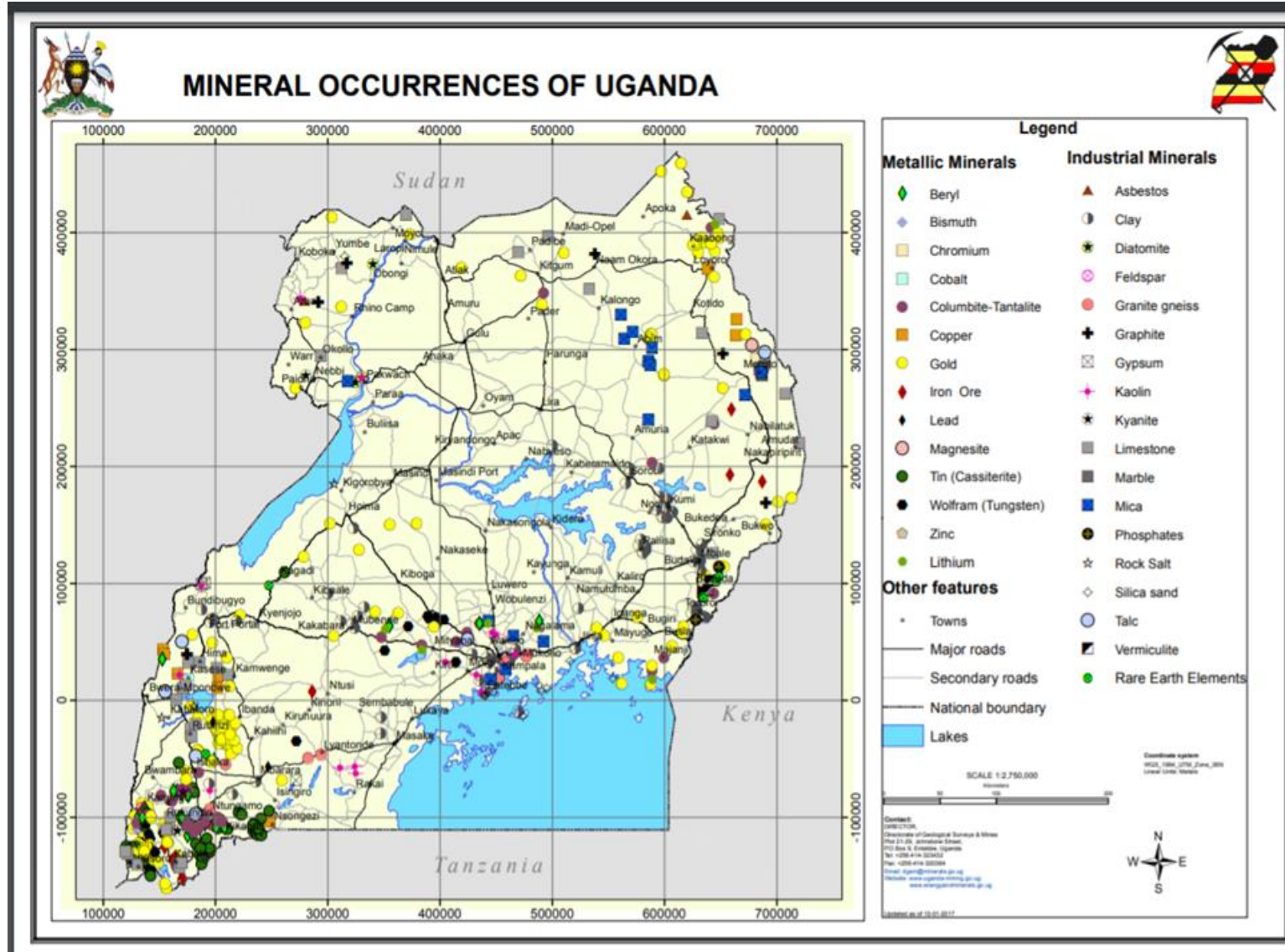
2 Midstream (Commercialisation) Projects

- **1,445km** East African Crude Oil Pipeline from Hoima Uganda to Tanga (Tanzania)
- **60,000** Barrels per day Uganda Refinery Project in Hoima

2nd February Final Investment Decision for the **3** flagship projects



MINERAL OCCURENCIES IN UGANDA



REVENUE ASSESSMENT



Tax dues/ liabilities

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- Corporation Income Tax (CIT) at 30%;
- PAYE – 10%, 20%, 30%, 40%;
- WHT for non-resident service providers- at 10%;
- WHT applicable to local providers – 6%; and licensees are designated WHT agents by law (S.89H(4));
- WHT on interest and dividends, and participation dividends – 15%;
- Branch Profits Tax (BPT) – 15%;
- VAT – 18%; 0%; or deemed paid
- Stamp duty on any dutiable instruments;
- Import duties – vary from 0% to 25%



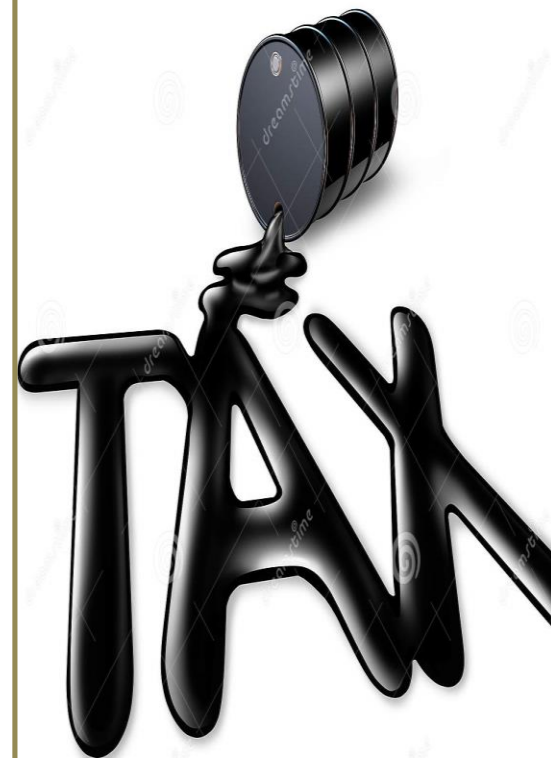
Tax incentives



- WHT for non-resident service providers - at 10% reduced from 15%;
- Exemption from 6% WHT - S. 119 ITA Commissioner's discretion;
- Open right to apply for VAT registration as a taxable person;
- VAT – deemed paid regime applies to licensees;
- Customs: exemption for Temporary importation of motor vehicles; and exemption for plant and machinery applies – extended to contractors and subcontractors;
- Accelerated (100%) depreciation allowance for depreciable, intangible and other petroleum exploration expenses;
- Capital allowances for petroleum development expenditures;
- Improved cost recovery limit from 60% to 70% (for some licensees)

Petroleum Income Tax Law Outline

- **PSAs** - Taxed per Ugandan laws
- **S.89G: ITA – Part 9A**
 - Whole ITA applies with modifications in Part 9A
 - Incase of a conflict between the rest of the ITA and/ petroleum Agreements, Part 9A takes precedence
 - Tax rate – 30%
- Other provisions: Definitions, mining provisions, petroleum related provisions, deductions, windfall tax, ring fencing, capping of losses, straddling reserves, crude valuation, returns, payments, penalties, contractors' provisions





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Chargeable income of a licensee

Tax imposition:

Section 4 of the ITA imposes tax on every person who has chargeable income in a year of income.

Licensees and contractors in carrying out petroleum operations in Uganda, are subject to tax in Uganda.

Sec.15 of the ITA defines **chargeable income** of a taxable person as the gross income less total deductions allowed under the Act.

The **chargeable income** of a licensee from petroleum operations is the **gross income** from petroleum operations less **petroleum related deductions**





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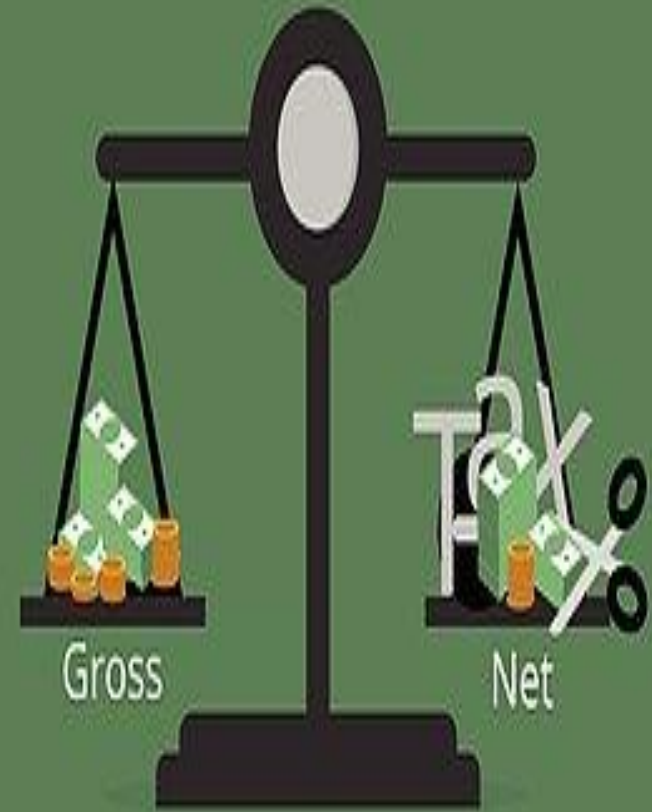
Gross Income

Section 89A(1): Gross income of a licensee includes:

- **Cost Oil**, - entitlement to production as cost recovery under a petroleum agreement
- Licensee's Share of **profit oil** ; and
- **Credits** earned by the licensee from **Petroleum Operations**.
- Amounts withdrawn from the decommissioning fund and returned to the licensee

- **The credits may include:**

- a) **Proceeds from Insurance** in connection with the petroleum operations
- b) **Revenue received** for the use of property which was charged to the account of the taxpayer under the PSA
- c) **Rebates/ refunds** and other credits
- d) **Actual net Proceeds** from disposal on an arm's length basis of inventory materials



Windfall Tax (salient features): Section 89GDA

- Due where the international oil price is equal to or more than 75 *USD per barrel on any day* in a year of income;
- Applies to *licensees* in contract Area 1, Contract Area 3A and License Area 2;
- Due on *net income* after deduction of CIT at a rate of 15%
- **WT** = Rate x (days barrel was 75USD / days in year) x (net income for the year – CIT)



Special rules for computation of expenses

- **Section 89A(1)/ 89GB: Petroleum Exploration Expenditure:**
 - if depreciable – 100%;
 - intangible- amortized at the rate of 100% (S. 31 ITA)
 - and others are fully allowed as deductions in the year of income in which they are incurred;
- **Section 89A(1)/89GC: Petroleum Development Expenditure:**
 - intangible- amortized per lesser of 6 years or life of the operations,
 - depreciable assets – lesser of life of operations or 6 years – deducted on straight line basis;
 - others are also depreciated as above

Special rules for computation of expenses...

- **Section 89A(1)/ 89GD: Petroleum Decommissioning Expenditure:**

allowed if made to a decommissioning fund per an approved decommissioning plan. Actual expenses incurred in undertaking approved decommissioning works without withdrawing from the fund/account

Farm Outs S.89GE

- It is a farm-out where:
 - a *licensee* enters into a *farm-out agreement* with a *transferee* for the transfer of the *whole or part* of the interest of the transferor *in a mining or petroleum agreement*; and
 - The **consideration** given by the transferee for the transferred interest *wholly or partly includes* the transferee *undertaking some or all of the work commitments* of the transferor *in respect of the part of the interest retained by the transferor*





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Farm Outs S. 89GE – Consideration

- S. 89GE(2)(a) ITA: Farm-out Consideration is:
 - *Value of work undertaken* by the transferee for the part of the interest retained by the transferee and is included in the *consideration got by the transferee* for the sold interest i.e.
 - [Cash + Value of commitments taken on by the buyer for portion of licensee retained by the seller]; or
 - Gross income of the transferor



Farm Outs S.89GE – Treatment of monies received by the transferor

S. 89GE(2)(b) ITA:

- The money is a *recoupment* by the transferor of any *deductions allowed* for expenditure incurred by the seller in respect of the transferred interest;
- If sell consideration (farm-out monies) exceed deducted expenditures, the excess is then treated as consideration for the transferred interest
- Therefore, Excess = Considered for CGT purposes



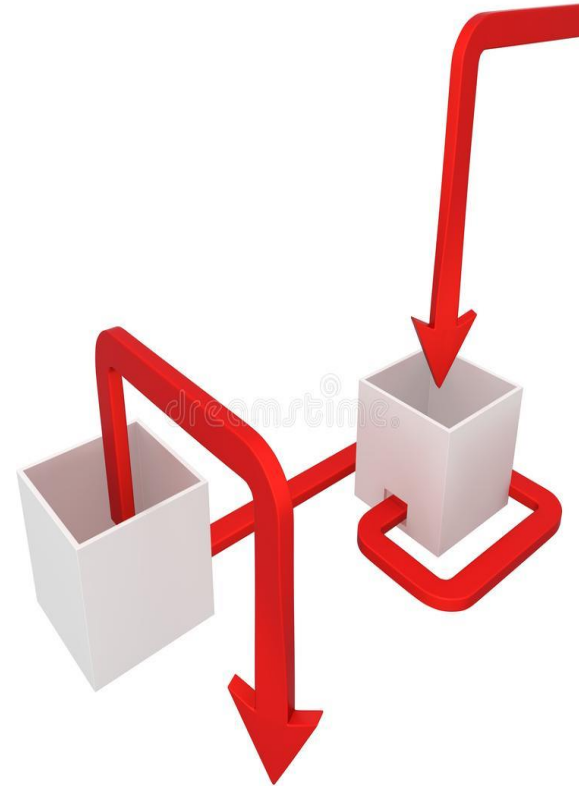


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Indirect transfers of interest S.89GF

- **S. 89GF ITA:**

- Immediate *written notification* to the Commissioner of indirect *changes* in the *underlying ownership* of a licensee must be given;
- If the *indirect disposer* is a *non-resident*, the *licensee is liable as agent for the non-resident person* for any tax payable under the Act by the non-resident person in respect of the disposal



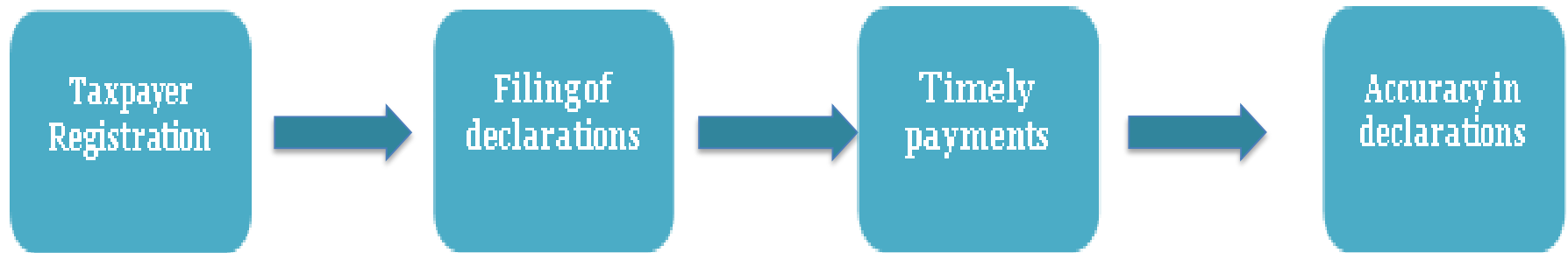


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Tax accounting principles

- Licensees to account on **accrual** basis
- All transactions to be accounted for at **arm's length** prices and these must be disclosed in the return;
- **Maintain accounts** in USD and UGX and in case of a conflict, the accounts in USD shall prevail Arm's length;
- Licensees must use rates prescribed for conversion of currencies;
- Licensees to maintain **records of the exchange rates** used in converting Uganda Shillings, United States Dollars or any other currency

KEY TAXPAYER OBLIGATIONS



Key fiscal obligations



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Registration for Taxes

Transact as per the ALP and keep transfer pricing documentation

Filing of Returns

Fine payable = USD between 50,000-500,000

Notify URA in 30 days of execution of contracts with non-residents; 7 days of names of all persons contracted

Not to engage in tax evasion

Provide information (full and true disclosure/ accuracy in declarations);

Penalty – TPC 20m and 50m for TP inform

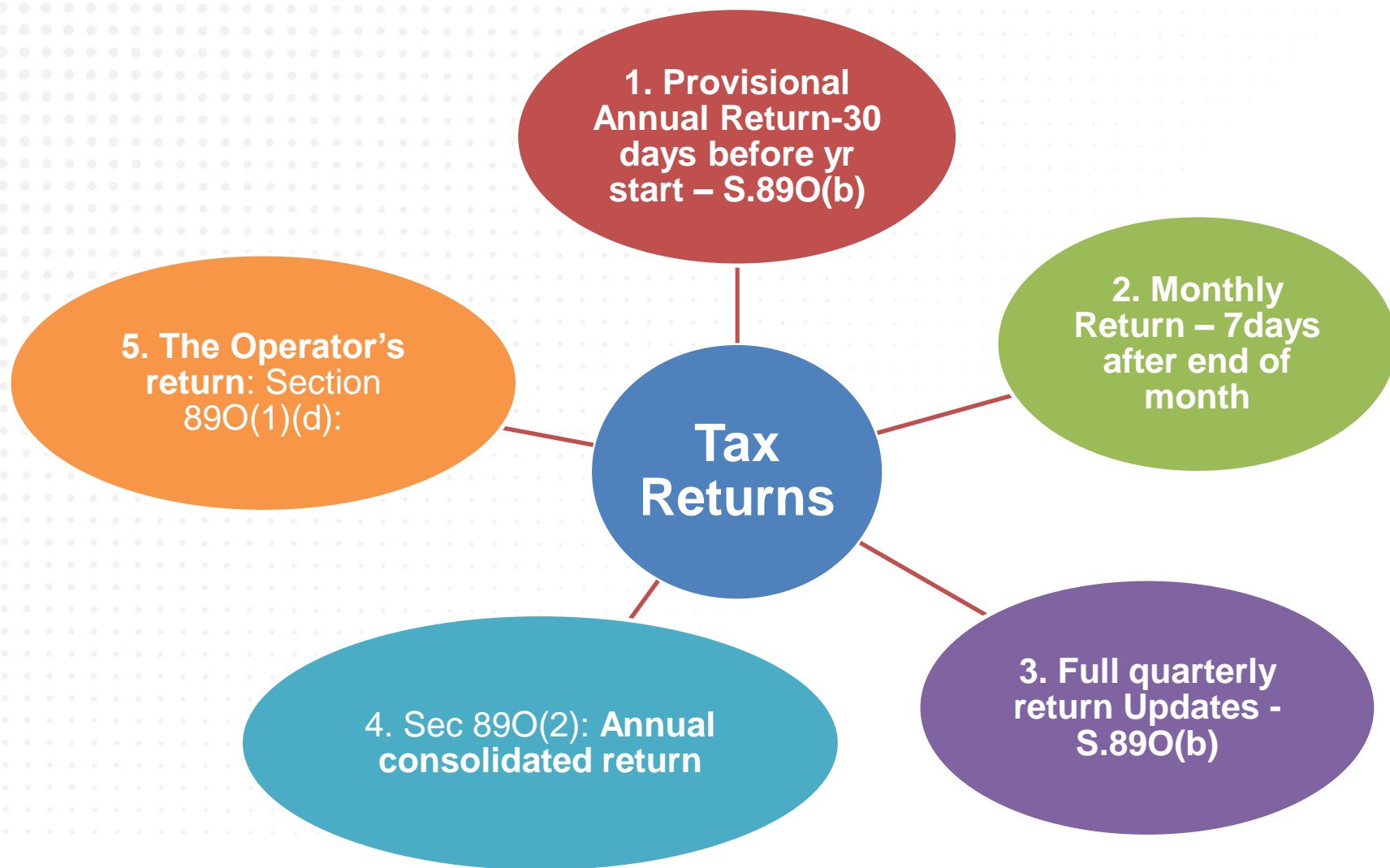


Proper record keeping, in the English language

Payment of taxes and other petroleum payments by the due date;

- Section 89P(f) of the ITA:
- Late payment: **for each day the sums are overdue** in any month bear **interest compounded daily** at an annual rate equal to the **average rate published by Bank of Uganda plus 5%.**

Returns and timing - S. 890(1)



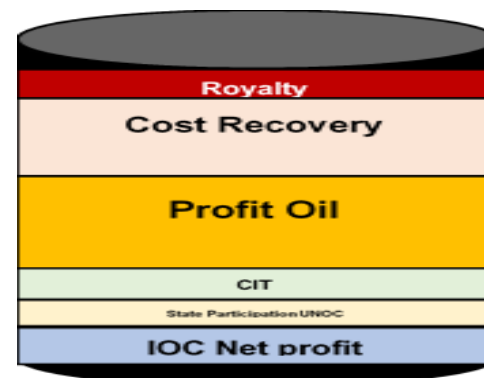
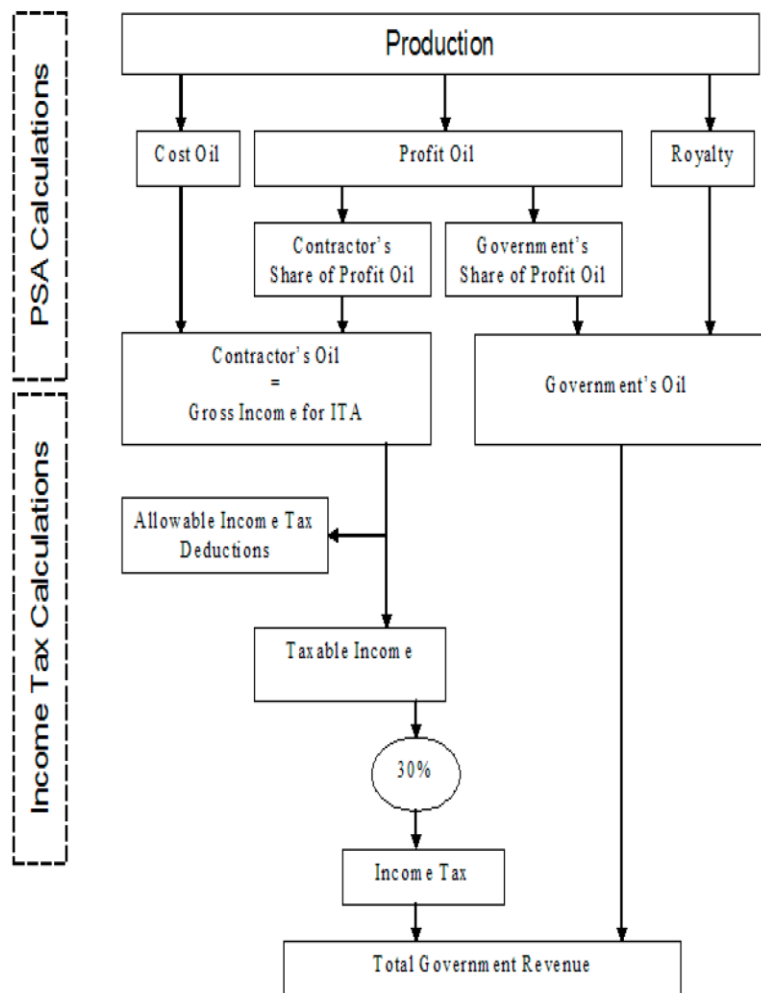
REVENUE COLLECTION

PFMA definition of Petroleum Revenue

Act *Public Finance Management Act* 2015

“petroleum revenue” means tax paid under the Income Tax Act on income derived from petroleum operations, Government share of production, signature bonus, surface rentals, royalties, proceeds from the sale of Government share of production, any dividends due to Government, proceeds from the sale of Government’s commercial interests and any other duties or fees payable to the Government from contract revenues under a petroleum agreement;

Uganda's Oil & Gas Fiscal Regime

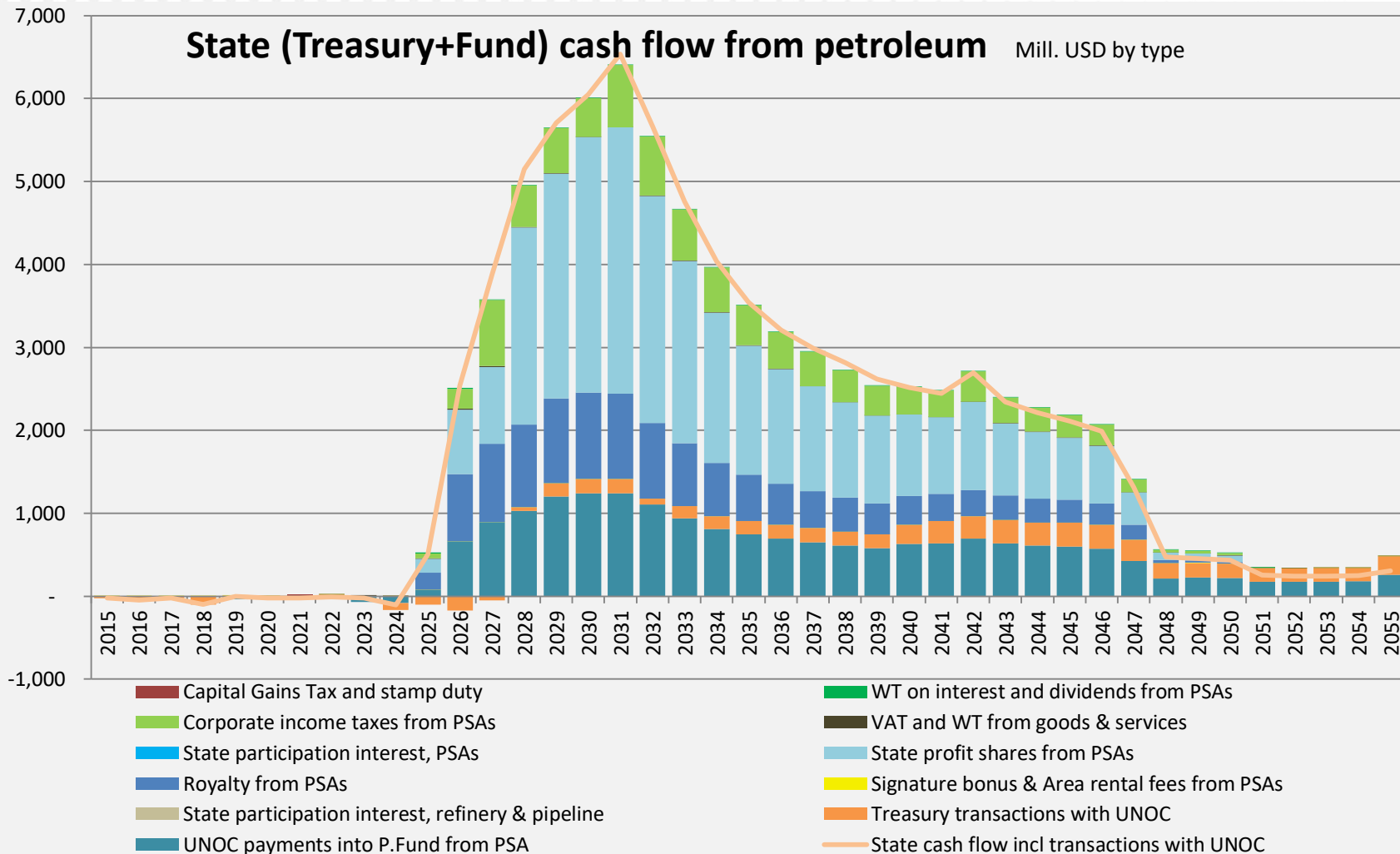


- Royalty based on daily rate of production varies from 5 - 12.5% (incremental sliding scale)
- Cost oil limit – 60 to 70%
- Profit oil which is split based on DROP. GoU share varies from 40 – 67.5% (incremental sliding scale)
- Corporate income tax (CIT) – 30%
- Windfall tax – 15% when International oil price is \$75/bbl and above
- State participation – 15% managed by UNOC
- Government take is the summation of Royalty + Government profit oil + CIT + Windfall tax + UNOC net profit
- Government revenues from oil and gas activities also include training fees, surface rentals, bonus, proceeds from sale of Data, WHT, VAT, PAYEE and other relevant taxes



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Revenue Budgeting & Forecasting



ROYALTIES APPLICABLE ON VARIOUS MINERALS

| Mineral type | Royalty amounts payable |
|---|---|
| precious metals; except gold | five (5%) per centum of the gross value |
| precious stones | ten (10%) per centum of the gross value |
| base metals and ores, other than iron ore | five (5%) per centum of the gross value |
| Rare Earth Elements (REE) | Five (5%) per centum of gross value |
| Graphite | five (5%) per centum of the gross value |
| Vermiculite | Shs.20,000/ = per tone |
| coal; including peat | Shs.1,000/ = per tonne; |
| kaolin, limestone, chalk, diatomite or gypsum | Shs.20,000/ = per ton; |
| marble, granite, sandstone and other dimension stones | Shs.20,000/= per ton; |
| pozzolanic materials | Shs.2,000/ = per ton |
| Phosphates | Shs.20,000/ = per ton |
| Salt | Shs.5,000/ = per ton |

Cash Flows from petroleum (upstream)

Government

Bonus payments (signature, production)

Surface rentals

Training levies

Other duties and fees

Royalties

Government Profit oil share

UNOC share of government participation (15% – 20%)

Taxes (WHT, CIT, CGT, windfall tax)

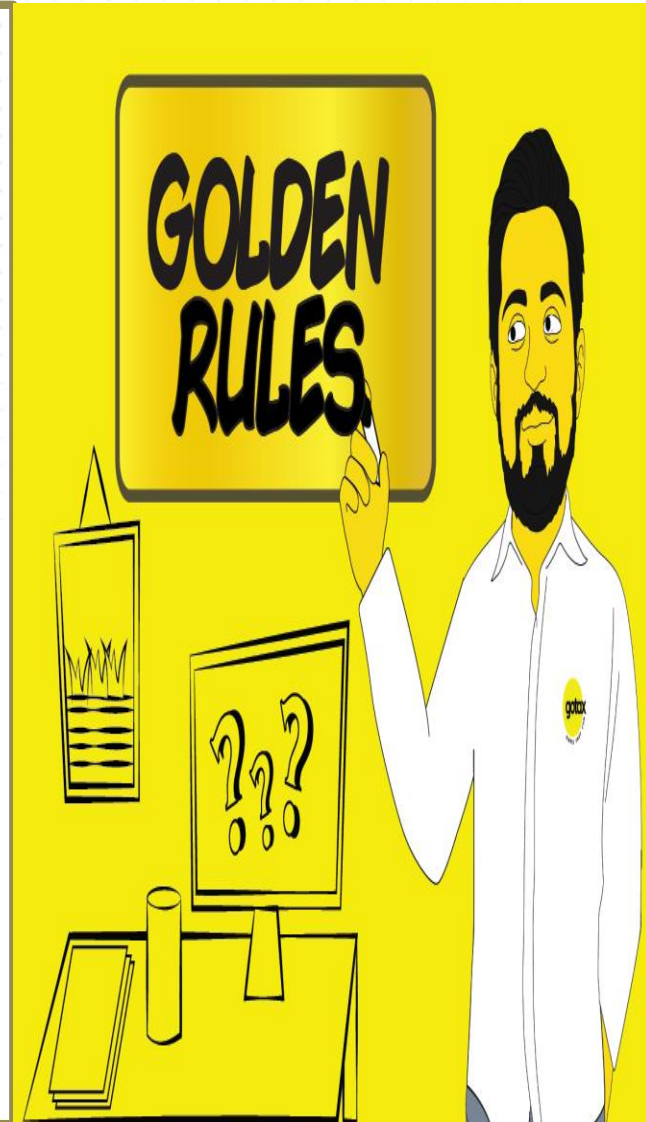




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Income Tax Declaration rules

- Ring-fencing principle applies to incomes and expenses per contract area (development and / exploration area) and business type;
- Deductions for expenditure is delayed until Commercial Production of petroleum hydrocarbons is attained
- Cap imposed on allowable deductions for the year (60% or 70% depending on nature of PSA held by the tax payer;
- Balance of expenses can be carried forward indefinitely until fully exhausted starting with loss of earliest year;
- Transact / record transactions based on arms length principles;
- Keep and produce on request transfer pricing documentation;
- Electronic receipts for designated persons (licensees are designated)
- Allocation of costs for straddled discovery areas into neighboring countries or other license areas or both will be based on petroleum reserves attributable to divided proportions



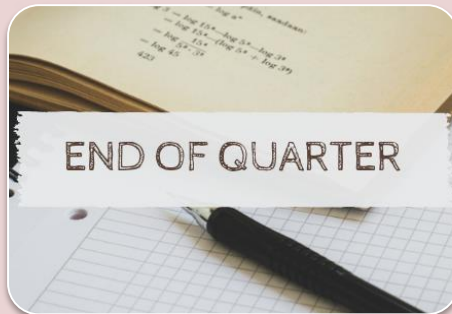


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Tax payment timelines



Monthly
payments
(S. 89P(a) –
14 days
after period



Quarterly
provisional
payments
(Section
89P(b)): 7
days after
end of
quarter



Annual
consolidate
d return: 7
days after
90 days
after end of
the year



Penalty for
late
payments:
BOU rate,
plus 5%
(compound
ed)

Revenue Payment configurations

| SN | ACTION |
|----|--|
| 1. | <p>Configuration of Fees</p> <p>Revenues/fees/duties by URA</p> <ul style="list-style-type: none"> • Petroleum Royalties • Government share of Profit Oil • Income Tax • Dividends due to Government • Windfall Tax • Withholding Tax • Stamp Duty • Revenue received from test crude <p>Revenues/fees/duties Through URA to be configured under MEMD</p> <ul style="list-style-type: none"> • Signature Bonus • Discovery Bonus • Surface Rentals • Production Bonuses • Training Levy • Guarantee fees • Sale of Data • Licensee Application fees |




Revenue Payment configurations

Browser tabs: Email - gmucurezi@ura.go.ug | Payment Registration - Uganda

URL: ura.go.ug/en/domestic-taxes/make-a-payment/generate-a-payment-slip/

Navigation: Domestic Taxes | Import & Export | Legal & Policy | Tax Education | Opportunities | Research & Publications

Other NTR

 Taxpayer Details

NIN/BRN:

Taxpayer Name*:

County/Municipality*: --Select--

Parish*: --Select--

Details of Other

Ministry/Department/Agency*:


DEPARTMENT:

TAX HEAD:

Tax Head Description: SURFACE/RENTAL FEES (AREA OCCUPIED)

Reference Number:

Amount*:

Assessment Date: 


Revenue Type:

Currency Type:

Fees Calculation

Dropdown menu options:

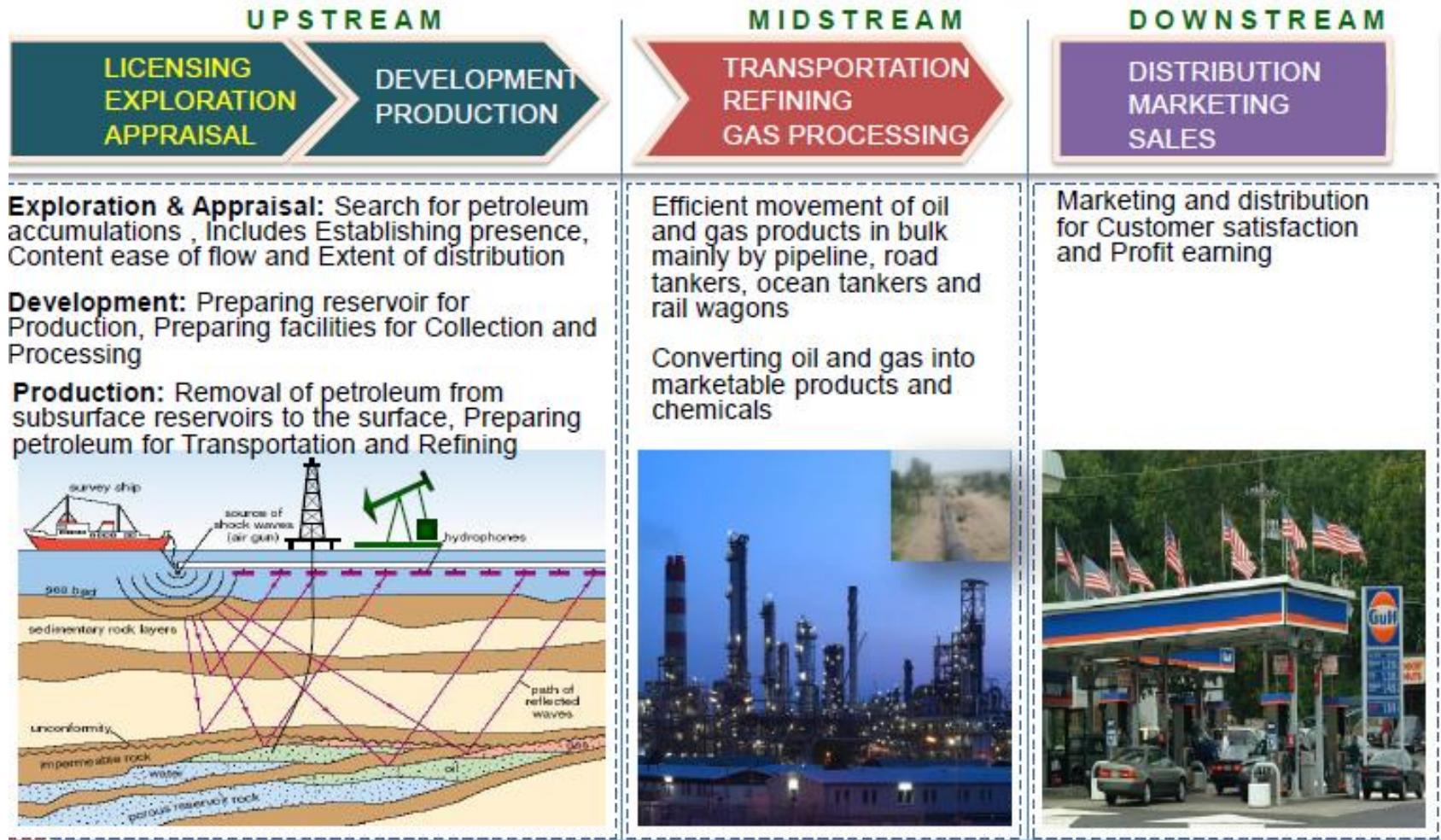
- Select--
- ANNUAL CHARGE IN RESPECT OF PETROLEUM PRODUCTION LICENCE
- DATA PURCHASE
- DISCOVERY BONUS
- GUARANTEE FEES
- PETROLEUM EXPLORATION LICENCE
- PETROLEUM PRODUCTION LICENCE
- PRODUCTION BONUSES
- RENEWAL OF PETROLEUM EXPLORATION LICENCE
- RENEWAL OF PETROLEUM PRODUCTION LICENCE
- SIGNATURE BONUS
- SURFACE/RENTAL FEES (AREA OCCUPIED)**
- TRANSFER PETROLEUM PRODUCTION LICENCE
- SURFACE/RENTAL FEES (AR)

Chat with us. 

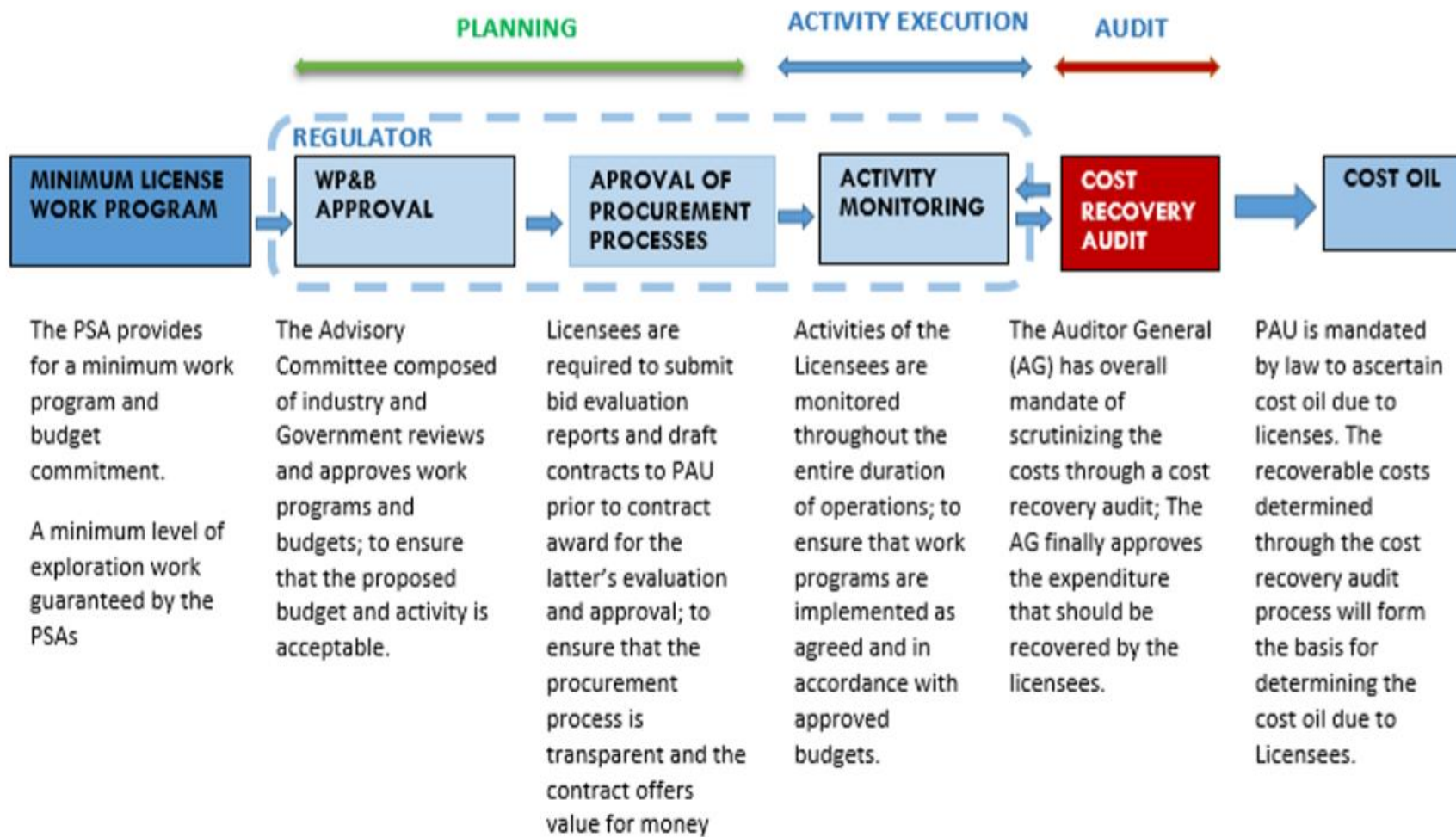
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COST STRUCTURE

The petroleum value chain



Upstream Cost Monitoring





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Memorandums of Understanding

MEMORANDUM OF UNDERSTANDING ON INFORMATION SHARING AND EXCHANGE ON PETROLEUM SECTOR AUDITS BETWEEN UGANDA REVENUE AUTHORITY AND THE OFFICE OF THE AUDITOR GENERAL

MEMORANDUM OF UNDERSTANDING ON MUTUAL COOPERATION

BETWEEN

UGANDA REVENUE AUTHORITY

AND

PETROLEUM AUTHORITY OF UGANDA



MEMORANDUM OF UNDERSTANDING

BETWEEN

UGANDA REVENUE AUTHORITY

AND

UGANDA NATIONAL OIL COMPANY LIMITED



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El companies FS cost structure

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

| | Note | 2020 USD | 2019 USD |
|-----------------------------------|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Oil and gas assets | 9 | 2,743,700,353 | 2,130,596,889 |
| Property and equipment | 10 | 2,370,654 | 2,439,632 |
| Intangible assets | 11 | 6,587 | 40,586 |
| Pipeline related costs | 12 | <u>28,381,977</u> | <u>27,207,788</u> |
| | | <u>2,774,459,571</u> | <u>2,160,284,895</u> |
| Current assets | | | |
| Inventories | 13 | 8,553,123 | 1,937,450 |
| Due from related parties | 14(a) | 144,321 | 394,949 |
| Due from joint operators | 15(a) | - | 6,983,423 |
| Prepayments and other receivables | 16 | 39,001,541 | 37,597,148 |
| Cash and bank balances | 17 | <u>3,322,927</u> | <u>11,480,609</u> |
| | | <u>51,021,912</u> | <u>58,393,579</u> |
| TOTAL ASSETS | | <u>2,825,481,483</u> | <u>2,218,678,474</u> |



El companies FS cost structure..

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

| | Note | 2021 US\$ | 2020 US\$ |
|-----------------------------------|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Oil and gas properties | 7 (a) | 1,398,799,300 | 1,286,928,946 |
| | | 1,398,799,300 | 1,286,928,946 |
| Current assets | | | |
| Inventories | 8 | 709,639 | 709,639 |
| Due from related parties | 10(a) | 400 | 7,337,694 |
| Prepayments and other receivables | 10(b) | 213,119 | 3,953,279 |
| Cash and bank balances | 11 | 28,536,261 | 185,682 |
| | | 29,459,419 | 12,186,294 |
| TOTAL ASSETS | | 1,428,258,720 | 1,299,115,240 |



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El companies CA cost structure

STATEMENT OF DIRECT EXPENDITURE - SUMMARY

as of 31ST DECEMBER 2020

| Budget Line Details (USD) | CA-1 ITD DECEMBER 2019 | ACM BUDGET 2020 | CA1 YTD DECEMBER 2020 | CA-1 ITD DECEMBER 2020 |
|-----------------------------------|------------------------------|--------------------|-----------------------------|------------------------------|
| EA1 (JOBI-E/MPYO) | 127,221,745 | 2,000 | 1,922 | 127,223,667 |
| GENERAL | 127,221,745 | 2,000 | 1,922 | 127,223,667 |
| TILENGA PROJECT DEVELOPMENT | 654,880,592 | 25,783,400 | 20,500,239 | 675,380,831 |
| GENERAL | 1,860,652 | 292,400 | 236,045 | 2,096,697 |
| PROJECT MANAGEMENT TEAM | 97,208,163 | 0 | 0 | 97,208,163 |
| RFS HQ SUPPORT & TOOLS | 14,551,600 | 9,408,000 | 9,750,979 | 24,302,579 |
| WORK PROGRAM | 411,325,281 | 11,252,000 | 7,166,231 | 418,491,512 |
| GEOSCIENCES | 92,884,599 | 100,000 | -5,565 | 92,879,035 |
| FACTORY DRILLING | 234,227,596 | 445,000 | 23,515 | 234,251,111 |
| SURFACE PROJECT | 55,307,927 | 3,135,000 | 861,162 | 56,169,089 |
| ENVIRONMENT, SOCIAL & LAND (EXCL. | 25,223,330 | 6,784,000 | 5,537,963 | 30,761,293 |

El companies CA cost structure

KDA Cumulative Expenditure Statement as of December 2020

In US Dollars

| Description | PRE-2014 ITD | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | ITD December 2020 |
|--------------------------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| PSA License Fees | 744,000 | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 | 372,000 | 3,348,000 |
| Geology & Geophysics Study | 14,548,448 | | | | | | | | 14,548,448 |
| Seismic | 1,977,625 | 325,101 | | | | | | | 2,302,726 |
| Appraisal & Development Drilling | 607,450 | 44,918,141 | 13,765,861 | - | - | - | | | 59,291,452 |
| Development Project(Pre-Dev.) | 29,715,838 | 20,555,391 | 12,437,506 | 8,723,392 | 12,582,773 | 15,429,858 | 15,407,810 | 4,579,603 | 119,432,171 |
| Field Service | 8,048,973 | 34,318,513 | 15,116,752 | 2,364,888 | 4,652,945 | 3,431,578 | 1,758,773 | 1,650,147 | 71,342,567 |
| General & Administration Expenses | 60,930,562 | 29,544,570 | 25,965,145 | 15,321,862 | 11,773,500 | 16,006,670 | 12,427,339 | 7,859,400 | 179,829,048 |
| Pipeline & Refinery | 5,239,262 | (895,023) | 1,982,704 | - | - | | | | 6,326,942 |
| Overheads | 1,759,217 | 2,296,617 | 1,316,177 | 528,203 | 580,184 | 697,362 | 591,879 | 281,783 | 8,051,422 |
| Total | 123,571,374 | 131,435,310 | 70,956,144 | 27,310,344 | 29,961,402 | 35,937,469 | 30,557,801 | 14,742,933 | 464,472,777 |

El companies Audit cost categorization

SUMMARY OF THE TOTAL ADJUSTED AUDIT FINDING:

| Period | JIB | Cost Category | JIB Amount reviewed (USD) | Allowed (USD) | Disallowed (USD) |
|------------------------|----------------------|---------------|---------------------------|----------------------|--------------------|
| Oct. 2001- Dec 2020 | 1,326,268,738 | Third Party | 1,088,268,473 | 1,036,535,413 | 51,733,060 |
| | | Related Party | 238,000,265 | 146,665,384 | 91,334,881 |
| TOTAL | 1,326,268,738 | | 1,326,268,738 | 1,183,200,797 | 143,067,941 |

COST STRUCTURES FOR MINING COMPANIES

| STAGE OF MINING OPERATIONS | EXPECTED MAJOR COSTS |
|------------------------------|---|
| Exploration operations costs | <ul style="list-style-type: none"> • Acquisition of exploration right • Environmental and other permits • Geological and geophysical surveying costs, • Environmental impact assessment costs • Exploration capital expenditure • Personnel costs |
| Development operations costs | <ul style="list-style-type: none"> • Capital expenditure, • Construction costs e.g construction of the mine, office blocks etc. • Social Infrastructure costs • Personnel costs |
| Extraction operations costs | <ul style="list-style-type: none"> • Acquisition of a mining lease • Mineral extraction, crushing and grinding costs • Waste rock and tailings management. • Transport, handling, storage and marketing of mineral substance extracted. • Repair and maintenance of machinery, • Personnel costs, • Royalties. |
| Decommissioning costs | <ul style="list-style-type: none"> • Environmental monitoring costs, • Site rehabilitation costs e.g site clean up, reclamation and rehabilitation |

Guiding Principles for Audit



Income Tax Act, Cap 340 (ITA)

- Sec 89QD- nothing in the mining right or petroleum agreement limits the right of the Commissioner to execute an audit.

PSA- cost should be:

- Necessary
- Appropriate &
- Economical

El companies cost structure

3rd Party Costs

Verify for:

- Occurrence relevance of the transaction
(contract, PLO, Invoice, field reports and payment)
- Relevance of the transaction
(fits the definition of petroleum operations

El companies cost structure

Related party Costs

Verify for:

- Whether an independent party would pay for such service.
- The service was beneficial to the recipient (not duplication or incidental cost)
- Arm's length (price an independent party would pay under similar circumstances)



Uganda Revenue Authority
DEVELOPING UGANDA TOGETHER

Questions and Answers

