LEGAL AND REGULATORY UPDATE FOR THE PERIOD APRIL – JUNE 2026

A. ACTS AND BILLS OF PARLIAMENT

1. The Protection of Sovereignty Act, Act No. 7 of 2026

The Protection of Sovereignty Act, Act No. 7 of 2026 **("the Sovereignty Act")** was passed by the Parliament of Uganda, received Presidential assent on 17th May 2026 and came into force on 22nd May 2026.

The Sovereignty Act principally regulates agents of foreigners who are involved in political activities. It does this by defining foreigners and their agents; by restricting political activities in which agents of foreigners may participate; by requiring agents of foreigners to register with and submit returns to the Ministry of Internal Affairs and by requiring agents to declare foreign funding above a defined threshold.

"Foreigners" are defined as non-Ugandan citizens, foreign governments, consulates, high commissions, embassies and other incorporated or registered outside Uganda, and international or multinational organizations which are involved in the political activities specified under section 2(2) of the Sovereignty Act.

The term **"agent of a foreigner"** encompasses agents, representatives, employees, persons acting under the control of or being financed by foreigners, who participate in regulated activities under the Sovereignty Act. Such activities

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include influencing and attempting to influence the enactment of legislation, policy formulation, or decision-making by the Government or the people of Uganda.

They extend to mobilizing election funding, conducting election campaigns, attempting to influence election outcomes or public opinion on the Government of Uganda and exercising ideological influence that is inconsistent with Uganda's cultural and customary norms.

The Sovereignty Act exempts funds received from foreigners by: (i) supervised financial institutions and other entities regulated by an Act of Parliament for commercial, licensed, and permitted activities; (ii) health and medical facilities for lawful purposes; (iii) academic or research institutions; (iv) individuals for commercial, domestic, or family use; and (v) faith-based organizations for activities connected to their mission. It also expressly excludes lawful foreign direct investment, portfolio investment, diaspora remittances, export proceeds, trade finance, commercial loans, humanitarian and technical assistance, grants, concessional financing, development assistance, and other lawful foreign exchange inflows and outflows. The Sovereignty Act also exempts foreign funding to government institutions or other bodies where the Government has an interest.

Administratively, the Sovereignty Act falls under the mandate of the Minister of Internal Affairs and the Department responsible for peace and security within that Ministry. The Minister must exercise his powers under the Act in accordance with the rules of natural justice. At the time of reporting, the Minister is yet to issue the Regulations to operationalize the Sovereignty Act.

Any person acting as an agent of a foreigner must register with, and obtain a certificate of registration from, the Department responsible for peace and security. Failure to do so is an offence and, upon conviction, may result in a fine of up to UGX 1,000,000,000 (Uganda Shillings One Billion Only), imprisonment for up to ten years, or both. The Minister and the Department have discretion to approve or reject an application. Where an application is rejected, the Minister must provide reasons for the decision.

Certificates of registration are valid for two years from the date of issue and may be renewed if the holder demonstrates compliance with the applicable conditions. Renewal applications must be submitted at least three months before expiry.

The Minister may suspend or revoke a certificate of registration where the holder: (i) provided false or misleading information in the registration application; (ii) failed to comply with the terms of registration; (iii) committed an offence under the Sovereignty Act; (iv) became insolvent or was placed under administration; (v) posed a risk to national or communal security; or (vi) engaged in disruptive activities.

The Sovereignty Act requires agents of foreigners to submit returns to the Minister, detailing their operations and the amount of funds received, together with the purpose of such funds. The frequency and procedure of such declarations is subject to Regulations, which are yet to be issued at the time of reporting.

An agent of a foreigner who receives more than UGX 400,000,000 (Uganda Shillings Four Hundred Million Only) from a foreigner within a twelve-month period, whether in cash or in kind, must declare the source of those funds to the Minister of Foreign Affairs. Failure to comply is an offence and, upon conviction, attracts a fine of up to UGX 2,000,000,000/- (Uganda Shillings Two Billion Only) for a legal entity, or up to UGX 1,000,000,000/- (Uganda Shillings One Billion Only), imprisonment for up to ten years, or both, for an individual. Any money received in contravention of the requirement to declare the source of funds is forfeited to the State by order of the convicting Court.

It is also an offence to make a falsmisleading declaration of funding sources. Upon conviction, the offender may be fined up to UGX 1,440,000 (Uganda Shillings One Million Four Hundred and Forty Thousand Only), imprisoned for up to five years, or both.

The Sovereignty Act also criminalizes solicitation and procurement of funds, financial support and other assistance from a foreign government, institution, body or person who demonstrates an intention to overthrow the established Government of Uganda or to endanger the security of Uganda; or to participate or recruit any person to participate in disruptive activities. This offence, on conviction, attracts a fine of up to UGX 1,000,000,000/- (Uganda Shillings One Billion Only), imprisonment for up to ten years, or both. Money, funds and assistance received in contravention of this provision is forfeited to the State by order of the convicting Court.

Supervised Financial Institutions **("SFIs")** are not to pay funds to an agent of a foreigner unless the agent has declared the source of the funds and submitted proof of declaration to the Minister of Internal Affairs. SFIs must also submit monthly reports to the Bank of Uganda on funds transferred through them to agents of foreigners. Non-compliance is an offence and, upon conviction, attracts a fine of up to UGX 4,000,000,000/- (Uganda Shillings Four Billion Only).

The Bank must assess its client list and determine whether any of its clients are deemed agents of foreigners under the Sovereignty Act. This scoping exercise helps the Bank to determine its obligation to obtain upon proof of declaration of funding before disbursing funds to such clients. The Bank must also report its payments to agents of foreigners to the Bank of Uganda monthly.

Considering that the Sovereignty Act grants substantial inspection, supervisory and enforcement powers to the Minister and regulatory authorities, the Bank must maintain robust governance structures, funding records, reporting systems and compliance procedures to ensure that it is compliant with the requirement to report foreign funding.

2. THE EMPLOYMENT (AMENDMENT) ACT, 2025

On 29th April 2026, the President of Uganda assented to the Employment (Amendment) Act, 2025, **("the Employment Amendment Act")** which came into force on 5th June 2026.

Section 6A(2) of the Employment Amendment Act makes it a criminal offence to intimidate and harass employees. Statutory liability now extends to physical and verbal abuse that interferes with employee performance or fosters an intimidating, hostile, or offensive work environment. Degrading public tirades by supervisors or colleagues, insults directed at an employee's professional or personal competence, and threatening or insulting communications conveyed orally, in writing, including emails are prohibited. The offence extends to desecration of religious or national symbols and actions that insult an employee's modesty.

Section 6(4) of the Employment Amendment Act requires all employers to draft a formal policy against sexual harassment and to display it in a conspicuous location within the workplace. Consequently, generic guidelines are not sufficient, and the Bank's policies must be reviewed to explicitly define, detect and prohibit the stated thresholds for intimidation and harassment.

Under section 34A of the Employment Amendment Act, there is a six-month cap on casual employment, beyond which employers cannot use casual labour. Casual employment is regarded as continuous where an employer lays off and then re-hires a casual employee. Section 34B counterbalances this restriction by recognizing piecework contracts i.e., where an employee is paid strictly for a defined amount of output.

The Employment Amendment Act replaces the regime for migrant workers and international labour recruitment by repealing Sections 36 and 37 of the original Act. It retains the prohibitions on human trafficking and recruiting persons known to be unlawfully present in

Uganda and permits only licensed recruitment agencies to place prospective employees with employers.

Where a foreign employer recruits in Uganda, the contract must entitle the Ugandan employee to repatriation at the employer's expense upon expiry, incapacity, mutual termination, court-ordered termination, or death.

Under section 54(1) of the Employment Amendment Act, employees were entitled to one month of sick leave on full pay, after which an employer could terminate the contract if the illness persisted beyond two months. Following the amendment, any employee who has completed one month of continuous service is entitled to two months of sick leave on full pay. If the illness continues, the employee is entitled to up to four additional months on half pay. An employer may only terminate the contract if the illness continues beyond six months, provided that all contractual obligations up to the date of termination have been completely settled.

Section 66(2a) deems an employer to have confirmed an employee after six months of probation, where such an employer continues paying the employee salary under the contract even where there is no written confirmation of employment.

Section 56A requires employers to designate specific time, space, or facilities within the workplace to support breastfeeding and childcare for the children of employees, specifically covering children between the ages of three months and thirty-six months.

The amendment broadens the definition of termination of employment. In addition to the existing grounds, a contract may now be terminated where: (i) the employee is redundant; (ii) the employee has been sick and unable to perform their duties for more than six months; or (iii) continued employment would result in a breach of a statutory obligation.

An employer may terminate employment on grounds of redundancy only if the employer can show that it has ceased operations or requires fewer employees for existing work because of a reorganization, the introduction of labour-saving devices, changes in work patterns, or a similar reduction in labour needs.

Where termination is based on the employee's sickness, the employer must obtain the opinion of a medical doctor on the employee's condition.

Where collective termination is envisaged, the Employment Amendment Act requires employers to formally notify the Commissioner responsible for employment services at least thirty (30) days before executing a collective termination. This timeline was not previously stipulated. This mandatory notification under Section 80(1)(b) must detail the reasons for the collective termination, the number of affected workers, and the intended timeframe for the layoffs.

Section 65A of the Employment Amendment Act narrows the lawful justifications for dismissal to four specific thresholds. First, an employer may dismiss a worker who absconds from duty for more than thirty consecutive days. Second, dismissal is legally justified if the employer establishes that the employee presented forged documentation or fundamentally lacked the mandated qualifications at the time of their recruitment. Third, the law permits dismissal if an employee's conduct (regardless of whether it occurs inside or entirely outside the workplace) may adversely affect the employer's business interests. Finally, an employer can rely on any other ground that has been explicitly specified within the individual contract of employment. Companies must audit their standard employment agreements to ensure all critical operational safeguards are explicitly written into the contract itself.

The procedural standard under Section 67 requires employers to notify employees and afford them a fair hearing before any final decision to dismiss can be reached.

This process requires the employer to explain, in a language the employee fully understands, the exact reasons why dismissal is being contemplated. Crucially, the amendment introduces a strict statutory timeline: employers must grant the employee a minimum of five (5) working days to prepare their representations, and they must formally inform the worker of their right to have a companion or representative of their choice present at the hearing. The employer is mandated by law to genuinely consider any representations made by the employee or their nominated companion during this forum. Failure to comply with this requirement attracts a mandatory penalty equivalent to four weeks' net pay, irrespective of whether the dismissal is justified.

Furthermore, Section 67 mandates that employers must explicitly state the reasons for dismissing an employee, and these reasons must be active and operative at the exact time of the dismissal. Neglecting to provide these operative reasons completely renders the separation a wrongful dismissal under the law.

The amendment further clarifies that summary dismissal (formerly designated notice or with less notice than which they are entitled under law or contract, for conduct of the employee that constitutes a fundamental breach of their obligations under the contract of employment. A person that is dismissed summarily is not entitled to claim payment in lieu of notice under section 68.

Employers must fulfil their contractual obligations under the contract of employment, before dismissing their employees. Failure to do so constitutes wrongful dismissal under section 65B of the Employment Amendment Act.

The Employment Amendment Act protects employees from disciplinary action or adverse treatment on specified personal grounds and protected activities. These include: (i) pregnancy or any related reason; (ii) taking or proposing to take statutory or contractual leave; (iii) joining, proposing to join, or participating in a labour union outside working hours, or during working hours with the employer's consent; (iv) seeking office, serving, or having served as a labour union officer or workers' representative; (v) refusing to join or withdrawing from a labour union; (vi) an employee's race, colour, sex, religion, political opinion or affiliation, national extraction, nationality, social origin, marital status, HIV status, or disability; (vii) initiating or proposing legal proceedings or a complaint against the employer, unless the labour officer finds it wholly irresponsible and without foundation; and (viii) temporary absence from work for up to three months on reasonable grounds, including illness or injury.

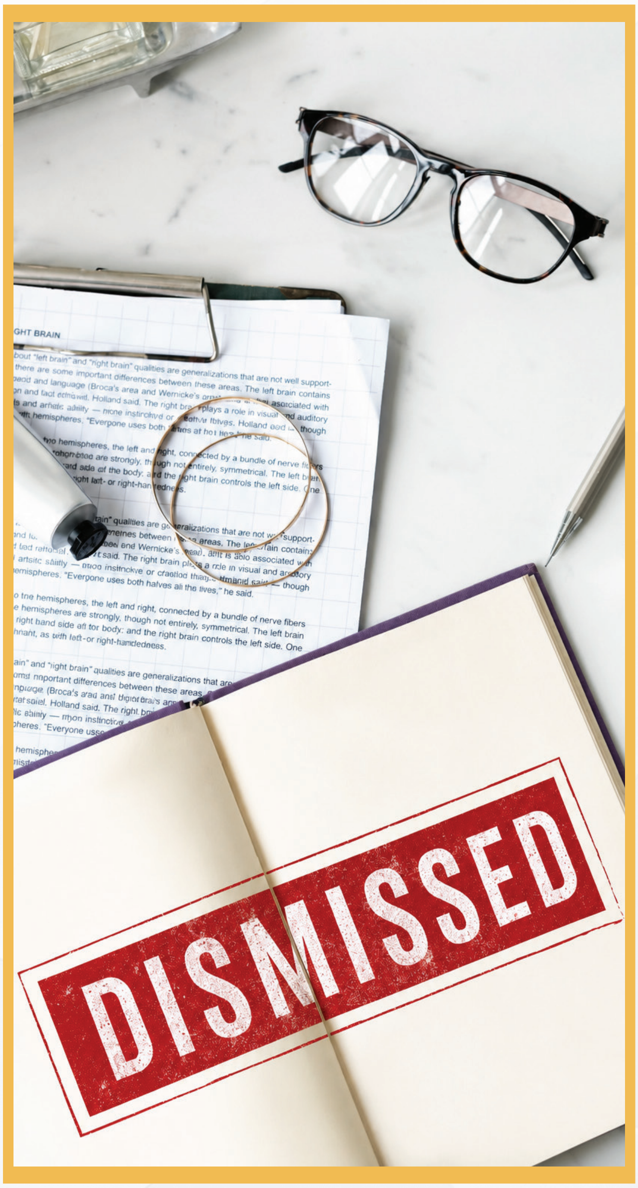
The amendment to Section 70 of the Employment Act has reshaped who can contest a dismissal before a labour officer in Uganda. The amendment significantly expands access to justice for short-term workers by eliminating the thirteen-week minimum service requirement, while simultaneously disqualifying employees currently serving probation. Previously, an employee could only lodge a complaint with a labour officer if they had been continuously employed for at least 13 weeks (three months and one week) prior to termination. The amendment completely deletes this restriction.

Employees who are dismissed without being afforded a fair hearing possess a explicit statutory right to lodge a formal complaint with a labour officer. This complaint must be submitted within three months following the exact date of dismissal. However, the law provides a degree of flexibility, allowing a complaint to be filed outside this three-month window if the employee can demonstrate reasonable grounds for the delay.[1] Employees currently serving a probationary period are explicitly disqualified from lodging a dismissal complaint with a labour officer.[2]

A labour officer who determines that an employee has been unfairly dismissed is empowered to grant a baseline compensatory order of eight weeks' wages, effectively doubling the basic compensation from four weeks' wages prescribed in the original Act. Labour officers have the discretion to award additional compensation, calculable with reference to a multi-factor analysis of the employee's specific circumstances. These include the employee's overall length of service and the probable duration their employment would have lasted had the unfair dismissal not occurred. The officer also considers the employee's realistic opportunities for securing alternative but comparable employment within the market, alongside the value of any severance allowance for which they are eligible. Furthermore, the analysis factors in the former employee's right to claim any unpaid wages, as well as any reasonable expenses they directly incurred because of losing their position.

The labour officer is statutorily required to consider the extent to which the employee's own conduct may have contributed to the friction resulting in the unfair dismissal. Additionally, the officer will examine whether the employee failed to fulfill their duty to mitigate their losses, such as actively seeking a new position, and will deduct any prior compensation already received by the employee directly from the employer.

The amendment requires that the minimum additional compensation awardable cannot fall below one month's wages and the maximum cannot exceed three months' wages. An order made under this section may be executed in the Industrial Court..



awardable cannot fall below one month's wages and the maximum cannot exceed three months' wages. An order made under this section may be executed in the Industrial Court.

The Amendment standardizes severance pay under the Act to be one month's salary for each year worked by the employee. This departs from the previous regime, where severance pay was negotiable between the employer and the employee, or the labour union representing the employee.

The new Part IXA of the Employment Amendment Act empowers the Minister for Labour, Gender and Social Development to designate a list of jobs in the Gazette for which migrant workers are ineligible. Exceptions are permitted only under an agreement between Uganda and a foreign organization, a reciprocal intergovernmental agreement, or where the job requires a particular skill that no Ugandan possesses.

Consequently, the National Citizenship and Immigration Board is prohibited from issuing entry permits to migrant workers offered employment in these restricted roles. To bypass this immigration restriction, the non-citizen worker must possess a certificate of exemption issued by the Commissioner responsible for employment services.

The Employment (Amendment) Act, 2026 removes arbitration as a mechanism for resolving labour disputes by repealing sections 2, 3, and 4 of the Labour Disputes (Arbitration and Settlement) Act and deleting the term "arbitration" from section 12(1)(a) of the Employment Amendment Act.

1 Section 70 of the Employment Amendment Act

2 Section 70(2) of the Employment Amendment Act

Previously, these repealed provisions enabled a party to report a labour dispute to a labour officer, who was required to refer the matter to the Industrial Court at either party's request if it remained unresolved within a maximum period of two months of receipt.
Labour complaints may now only be referred by a complainant to the industrial court where the labour officer has not decided or dismissed the same within three months of filing, pursuant to section 92(7) of the Employment Amendment Act.

The Employment (Amendment) Act, 2025 fundamentally alters the rights, duties, and operational liabilities of both employers and employees. By introducing robust protections against workplace harassment, strict timelines for disciplinary procedures, and standardized severance pay, the legislature has established a more regulated statutory environment. Compliance with the new legal requirements should be a critical priority rather than a passive administrative exercise. To mitigate financial and operational exposure under the new employment law regime, businesses must take immediate, proactive steps to align their policies operations with these legislative changes.

Ultimately, while the Employment Amendment Act significantly broadens access to justice and financial remedies for employees, it also provides an opportunity for organizations to institutionalize modern, equitable workplace practices. Businesses that move swiftly to audit their contracts, update internal policies, and adjust their casual and migrant labour structures will successfully insulate themselves from costly litigation. By embracing these reforms, proactive employers will not only ensure strict legal conformity but also secure a competitive advantage in Uganda's modernizing labour market.

3. AMENDMENTS TO UGANDA'S TAX LAWS

Effective 1st July 2026, the following changes to Uganda's tax laws will take effect:

A. The Income Tax (Amendment Act, 2026)

Under the amendment, non-resident persons are now liable to pay withholding tax (WHT) of 15% on royalties received from Ugandan residents for their use or the right to use software. This clarifies previous ambiguity in whether payments for software were included in the definition of "royalty" under section 2(a)(i) of the Act. This provision previously did not expressly state the word "software", although the Uganda Revenue Authority treated software licence payments as subject to withholding tax under section 82 of the Income Tax Act. Depending on the structure of the arrangement, such payments could potentially be characterized either as royalties under section 2 and therefore subject to withholding tax under section 82, or alternatively as income from digital services taxable under section 86. This created uncertainty as to the applicable taxing mechanism, particularly for software-as-a-service (SaaS), cloud-based subscriptions, downloadable software licences, and similar digital products supplied remotely by non-resident providers.

The amendment resolves this uncertainty by expressly including "software" within the definition of "royalty." Consequently, payments made for the use of, or the right to use, software are now unequivocally treated as royalty payments for purposes of the Act. This means that such payments fall within the withholding tax framework applicable to royalties rather than the digital services tax regime under section 86. This position is reinforced by the amendment to section 86 introducing subsection (7), which expressly provides that section 86 shall not apply to income attributable to royalties.

The effect of this provision is to create a clear statutory separation between royalty income and digital services income. Where a payment qualifies as a royalty, it is excluded from the digital services tax regime even if the software or technology is supplied digitally over the internet or through an online platform.

The amendment reduces the risk of double taxation and interpretive overlap between section 82 and section 86.

Secondly, the amendment to the Income Tax Act exempts the income of a non-citizen developer of a hotel or tourism facility whose investment capital is at least USD 10 million or a citizen developer of such a facility with at least USD 5 million. This exemption applies where the developer uses (subject to availability) at least seventy percent (70%) locally sourced raw materials and whose Ugandan citizens earn at least seventy percent (70%) of the total wage bill.

Thirdly, the amendment expands the definition of "infrastructure bond" for the purpose of income tax exemption: the new definition encompasses all bonds, notes or other similar securities used to raise funds for public infrastructure and other social services, if those bonds have a maturity of at least ten years. The new definition deletes the term "listed bonds" but maintains the requirement for ten-year maturity, in alignment with Uganda's policy to incentivize long-term capital for the country's development needs. The interest income derived from qualifying instruments will be exempt from income tax, making infrastructure bonds a more attractive investment class for both resident and non-resident investors.

Fourth, the amendment of section 24(2)(b) & (c) and section 24(3)(b) of the Income Tax Act, Cap 338 expressly allows microfinance deposit-taking institutions and tier 4 microfinance institutions to claim tax deductions for qualifying bad debts which are written off in their accounts, and for loss reserves held against their identified or potential losses, subject to conditions contained in the Act. This provision is intended to buttress the role of microfinance institutions in Uganda's private credit sector, where they extend credit to small and medium enterprises, farmers and low-income borrowers who may not have access to conventional banking services. This amendment promotes consistency, certainty and neutrality in taxing credit institutions within Uganda's financial services sector.

As regards deductible interest expenses, section 25 of the Income Tax Act is amended to clarify the meaning of the terms “dormant”, “tax earnings before interest, tax, depreciation and amortization”. The term “dormant” means “a person other than an individual that is not doing business and does not have an accounting transaction in a year of income” while “tax earnings before interest, tax, depreciation, and amortization” means “gross income less allowable deductions, other than brought forward losses, and does not include a deduction under section 25(1) of the Income Tax Act.”

These amendments provide greater certainty in the application of the interest limitation rules. In particular, the fifty-one percent ownership threshold establishes a clear test for determining group membership, while the exclusion of dormant entities prevents inactive companies from affecting the interest limitation calculations. Further, excluding brought-forward losses from the tax-EBITDA computation prevents taxpayers from artificially increasing deductible interest through accumulated losses, thereby strengthening the effectiveness of the interest deductibility restrictions.

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Section 82 of the Income Tax Act imposing tax on international payments has been amended to impose a withholding tax obligation on a resident company which pays interest in respect of debentures where the following three conditions are cumulatively satisfied:

(a) the debentures were issued by the company outside Uganda for the purpose of raising a loan outside Uganda; (b) the debentures were widely issued for the purpose of raising funds for use by the company in the business carried on in Uganda, or the interest is paid to a bank or financial institution of a public character and (c) the interest is paid outside Uganda. The WHT rate is 5% on the gross amount of interest paid under Part V, para 2A of Schedule 4 of the Income Tax Act (as amended). The rate of 5% is notably lower than the standard 15% withholding tax rate applicable to interest payments under Part V of Schedule 4, reflecting a deliberate policy choice to facilitate access to offshore capital markets for Ugandan companies without imposing a prohibitive tax cost.

The amendment introduces a new section 115A into the principal Income Tax Act, which provides that where a person has entered into a controlled transaction or a series of controlled transactions, the person shall account for the transaction in a manner consistent with the arm's length principle. Section 115A(2) defines "controlled transaction" as a transaction between associates. Prior to the amendment, the arm's length principle applicable to controlled transactions between associates was primarily governed by the Income Tax (Transfer Pricing) Regulations 2011, made under sections 116 and 151 of the Income Tax Act . The Income Tax Act itself did not contain a standalone statutory provision expressly imposing an arm's length obligation on persons entering into controlled transactions.

This amendment elevates the arm's length principle from subsidiary legislation to the level of primary statutory law, which has significant consequences for both taxpayers and the URA. First, by inserting section 115A directly into Part XI of the Income Tax Act (the anti- avoidance part), Parliament has unambiguously signalled that non-arm's length pricing of transactions between associates is to be treated as a form of tax avoidance subject to the full range of anti-avoidance consequences available under the Income Tax Act . Second, the statutory obligation to account for controlled transactions on an arm's length basis is now a first-order primary legislative requirement, not merely a regulatory obligation under subsidiary legislation, meaning that the consequences of non-compliance are more directly enforceable and carry greater legal force. Third, the definition of "controlled transaction" as simply a transaction between associates, read together with the comprehensive definition of "associate" in section 3 of the Income Tax Act , means that the arm's length obligation extends to the full range of transactions between associated persons, including intra-group loans, service agreements, management charges and intellectual property licences.

The Income Tax Act amendment to section 124(1) of the Income Tax Act gives an individual who is required to pay rental tax to furnish a provisional return of rental income monthly. This gives individual rental income earners greater flexibility in managing their tax compliance obligations, allowing them to spread their rental tax payments across twelve monthly returns, rather than in larger lump-sum instalments contemplated under the annual provisional tax regime.

Section 133 of the Income Tax Act is also amended to impose a withholding tax obligation on any telecommunications service provider who makes a payment of a commission for telecommunication retail services, mobile network services, or the provision of mobile money services, at the rate prescribed in Part XIII of Schedule 4. A "telecommunication service provider" is defined as a person licensed to offer telecommunication services under the Uganda Communications Act, Cap. 103. The rate is 10% of the gross amount of the payment, pursuant to Part XIII of Schedule 4 of the Income Tax Act.

This amendment has direct and immediate relevance to the mobile money sector, which is one of the fastest-growing financial services sectors in Uganda. Mobile money agents, airtime retailers, and mobile network service retailers who receive commissions from licensed telecommunications providers will now have tax withheld at source at 10% on the gross commission payment.

The Income Tax Act amendment amends the schedule of listed institutions for various provisions of the Act, including exemptions from income tax on income derived from Uganda and exclusions from the change of ownership provisions under section 74. Section 15 of the ITA Amendment Act inserts the Arab Bank for Economic Development in Africa (BADEA) and the Uganda Red Cross Society among the listed institutions in Uganda.

B. The Value Added Tax (Amendment) Act, 2026

The amendment to the Value Added Tax Act **("the VAT Act")** introduces several key changes as discussed below:

The obligation on designated persons to withhold VAT when paying for taxable supplies under section 5(2) and section

5(3) of the VAT Act does not apply where a designated person pays for taxable supplies and is issued with an e-invoice or e-receipt in accordance with section 92 of the Tax Procedures Code Act: this exemption is introduced by the insertion of section 5(7) by the amendment. The change is intended to encourage adoption of electronic invoicing. Suppliers who provide e-invoices to designated entities will receive the full VAT portion without any withholding, improving cash-flow and reducing reconciliation burdens. At the same time, URA can still verify transactions through the electronic invoicing system, maintaining control over VAT compliance. Taxpayers dealing with the Government should therefore prioritize issuing e-invoices to avoid VAT being withheld at source.

The amendment to the VAT Act raises the threshold requirement for VAT registration from UGX 150,000,000/- (Uganda Shillings One Hundred Fifty Million Only) to UGX 300,000,000/- (Uganda Shillings Three Hundred Million Only). Any business whose taxable supplies in a twelve- month period do not exceed this higher threshold is no longer mandatorily registrable (though it may still register voluntarily). By doubling the registration threshold, the amendment reduces compliance costs for micro- and small-scale enterprises and narrows the number of taxpayers subject to VAT. Businesses just above the previous threshold should reassess whether their turnover will exceed UGX 300 million from 1 July 2026 and, if not, decide whether to remain voluntarily registered. Relatedly, section 38 of the VAT Act has been amended to reduce the penalty for failure to register for VAT from UGX 5 million to UGX 2 million.

The amendment introduces a targeted VAT incentive for large-scale tourism projects. Investors meeting the prescribed capital thresholds can recover VAT on major construction inputs, reducing the overall cost of developing hotels and tourism facilities. Section 28(3a), (3b) and (3c) of the VAT Act (as amended) allow a taxable person who develops a hotel or tourism facility and invests at least USD 10 million (for foreigners) or USD 5 million (for citizens) to claim a credit for VAT incurred on specified items, provided the supplies occurred not more than two years before the commissioning of the facility. Eligible expenditures include civil works, feasibility studies and design services, construction services and locally produced materials for constructing premises, infrastructure, machinery, equipment or furnishings that are not available locally.

Subsection (3c) states that the relief is restricted to that specific hotel or tourism facility. In addition, section 28(4) is amended so that the right to claim the credit arises on the date of commissioning of the facility. By linking the credit to locally produced materials and requiring commissioning within two years, the law encourages timely completion and local sourcing. Prospective developers should ensure strict documentation to substantiate the timing and eligibility of their purchases.

Section 32(7) as inserted by the amendment empowers the Minister to make regulations prescribing the terms and conditions for payment of VAT on plant and machinery and inputs into the mining sector. This amendment gives the Minister flexibility to introduce sector-specific deferment schemes or instalment arrangements, recognizing that capital-intensive industries such as mining require long lead times before generating revenue. Businesses importing heavy machinery or mining inputs should watch for forthcoming regulations detailing how and when VAT becomes payable.

The amendment increases the penalty for making a false or misleading statement in support of a VAT refund from UGX 50,000/- to 5% of the total amount of the refund claimed. This makes the punishment proportionate to the potential loss to the revenue. Taxpayers contemplating fraudulent or exaggerated refund claims will face significant financial consequences. Legitimate claimants must ensure accuracy and retain

If the person fails to file a return, simple interest of 2% of the duty payable per month accrues. The section defines "financial services" broadly to include the granting, negotiating and dealing in loans and credit guarantees; transactions concerning deposit and current accounts; transactions relating to shares, stocks, bonds and other securities; management of investment funds; and money-lending activities under the Tier 4 Microfinance Institutions and Money Lenders Act.

This amendment introduces a structured reporting regime for banks, microfinance institutions, investment firms and similar entities. Monthly reporting improves oversight of stamp duty collections and ensures that duty collected on instruments such as loan agreements, guarantees and share transfers is remitted to URA in a timely manner. Financial institutions will need to review their internal systems to capture stamp-duty-related transactions and comply with the new deadline or face interest penalties.

Secondly, the amendment introduces a requirement to retain stamped documents for at least five years from the date they were generated. This retention period was previously not stipulated under section 62 of the Stamp Duty Act. Taxpayers should update their document retention policies and systems to ensure stamped instruments are stored securely for the requisite five years.

Thirdly, the amendment imposes stamp duty on the registration or transfer of motor vehicles: UGX 30,000 for a motorcycle, tricycle or quadricycle, and UGX 200,000 for any other motor vehicle.

D. The Tax Procedure Code (Amendment) Act, 2026

Section 21 of the Tax Procedures Code Act deals with tax stamps. The Tax Procedure Code Amendment Act amends section 21(3) by substituting the words "two thousand five hundred" with "one hundred." The amendment therefore reduces the applicable penal tax from 2,500 currency points to 100 currency points.

This is a significant reduction in the penalty burden relating to tax stamps. The previous penalty was extremely high and could be disproportionate, especially for smaller manufacturers, importers or traders dealing in goods subject to tax stamp requirements. The revised penalty remains punitive enough to encourage compliance but is more commercially realistic. Taxpayers should not treat the reduction as a relaxation of the tax stamp regime; rather, it reduces the severity of non-compliance while preserving URA's enforcement power.

The Tax Procedure Code Amendment Act inserts a new section 47C providing that any tax, including penal tax and interest, owed by a taxpayer as at 30th June 2016 and still outstanding at the commencement of the Act, is waived. This is a broad statutory waiver for legacy tax liabilities that remained unpaid for a long period. Its practical effect is to clean up old tax arrears on URA's books and provide finality for taxpayers with outstanding liabilities dating back to 30th June 2016. Taxpayers who believe they have old liabilities within this period should verify their ledger positions with URA to ensure that qualifying amounts are properly written off.

The Tax Procedure Code Amendment Act also inserts a new section 47D providing that any interest and penalty outstanding as at 30th June 2026 shall be waived where the taxpayer pays the principal tax by 30th June 2027. This provision creates a time-bound tax amnesty for taxpayers with outstanding principal tax. The waiver does not automatically extinguish the principal tax; it only waives interest and penalties if the taxpayer pays the principal amount by the deadline.

Taxpayers with existing arrears should therefore review their URA ledgers and consider settling the principal tax before 30th June 2027 in order to benefit from the waiver.

Section 93 deals with penalties relating to electronic receipting and invoicing. The Tax Procedure Code Amendment Act substitutes section 93(1) to provide that a taxpayer specified under section 92(2) who does not use an electronic fiscal device is liable to pay penal tax equivalent to double the tax due on the goods or services, or ten currency points, whichever is higher. The amendment ties the penalty to the tax due on the transaction, subject to a minimum penalty of ten currency points. This creates a proportionate penalty structure: higher-value non-compliant transactions attract higher penalties, while smaller transactions are still subject to a minimum sanction. Taxpayers required to use electronic fiscal devices should ensure that their systems are functional and consistently used.

The Tax Procedure Code Amendment Act further substitutes section 93(2) to provide that a taxpayer specified under section 92(2) who does not issue an e-invoice or e-receipt for goods or services, or who tampers with an electronic fiscal device, is liable to pay penal tax equivalent to double the tax due on the goods or services, or ten currency points, whichever is higher. This reinforces Uganda's electronic invoicing and receipting framework. It targets two forms of non-compliance: failure to issue the required electronic invoice or receipt, and interference with the fiscal device itself. Businesses subject to EFRIS obligations should train staff, monitor system usage and maintain proper records because non-compliance may now result in penalties calculated by reference to the tax due on the transaction.

4. CASE LAW

A. BMS General Trading v Financial Intelligence Authority & Attorney General, Miscellaneous Cause No. 35 of 2026 (High Court, Civil Division, Teko J., April 2026)

In this judicial review application, the High Court clarified the procedural safeguards governing the Financial Intelligence Authority's **("FIA")** power to freeze bank accounts under the Anti- Terrorism Act.

In October 2025, acting on a warning from the Office of the Director of Public Prosecutions, the FIA directed BMS' bankers to freeze the company's account on suspicion of money laundering. In January 2026, BMS discovered that its USD account at Stanbic Bank Uganda Limited had been frozen on the FIA's instructions. The freeze remained in place for more than one year.

BMS applied for judicial review, arguing that the FIA's conduct was unlawful because: (i) the account was frozen without notice; (ii) the FIA failed to report the freeze to the Inspector General of Police and the Director of Public Prosecutions within 48 hours, as required under section 17A of the Anti-Terrorism (Amendment) Act; and (iii) the Director of Public Prosecutions did not apply for a court order confirming or setting aside the freeze, contrary to section 17A(3) of the Anti-Terrorism Act.

The FIA responded that the account had been flagged for suspicious transactions and that there was reasonable suspicion of involvement in terrorism financing. It argued that the freeze was necessary to protect national security and the public interest, that disclosure was limited by ongoing investigations, and that BMS was not entitled to prior notice. The FIA further maintained that its actions were lawful, proportionate and justified, and that any delay in seeking court intervention did not render the freeze unlawful.

The Court held that, although the FIA has broad powers to preserve property, including bank accounts, to prevent dissipation during investigations, those powers are limited and subject to judicial supervision. Under section 17A of the Anti-Terrorism Act, the FIA must notify the Director of Public Prosecutions within 48 hours, and any continued freeze requires sanction by a competent court. The Court emphasized that the authority to validate and maintain a freezing order ultimately rests with the judiciary.

The Court further held that, where the FIA acts on reasonable suspicion, it must rely on objective and demonstrable evidence, promptly seek judicial approval for the continued freeze, and give the affected party an opportunity to be heard in that process. In this case, BMS' account had been frozen for a prolonged period, yet no criminal charges had been brought against it.

The Court therefore found the FIA's conduct illegal, irrational and procedurally improper. It held that national security and financial-system integrity concerns do not displace the FIA's duty to act proportionately, transparently to the extent permissible, and under prompt judicial control.

Where the FIA directs the Bank to freeze a customer account, the Bank should request and retain evidence that the FIA has obtained, or is promptly seeking, judicial sanction for the freeze. The Bank should also monitor customer complaints that may give rise to judicial review proceedings against the FIA, in which the Bank may be joined as the account-holding institution. The decision strengthens the position of customers challenging prolonged, unsanctioned freezes, and the Bank's FIA escalation protocol should reflect the requirement for judicial oversight.

B. Ernst and Young v Uganda Revenue Authority, Civil Appeal No. 26 of 2022 (Ngwatu J., 11 June 2026)

In the decision above, the High Court clarified the Ugandan VAT treatment of cross-border services received through multinational group structures. The dispute concerned a UGX 3.482 billion VAT assessment raised by URA against Ernst & Young Uganda ("EY") for services procured from foreign group entities and third-party providers between 2014 including IT support and other centrally coordinated services.

The decision is significant for commercial banks within regional or global groups, which often rely on shared platforms for core banking, cyber security, risk, compliance, treasury, audit, data analytics and technology infrastructure. It confirms that, where such services are supplied by non-residents and consumed by a taxable Ugandan entity, VAT on imported services is payable even if the services are centrally procured, cost-shared or recharged at cost.

URA assessed EY for VAT on services received from non-resident group entities and third-party providers. After unsuccessfully challenging the assessment before the Tax Appeals Tribunal, EY appealed to the High Court. The issue was whether the services were imported services and, if so, whether EY was liable to account for VAT as recipient.

EY argued that it had not imported the services and that VAT should follow the place of consumption. It contended that section 16 of the VAT Act, which addresses supplies of digital or electronic services by non-residents to non-taxable recipients, did not apply to EY as a taxable person. Any ambiguity, EY argued, had to be resolved in favour of the taxpayer under Article 152 of the Constitution. EY also argued that VAT and income tax have distinct statutory bases, so URA could not rely on EY's withholding tax treatment to impose VAT.

URA maintained that EY received services from non-resident suppliers and was liable for VAT under sections 4(c) and 5(c) of the VAT Act. It argued that section 16 concerns the place of supply and does not override the imported-services charge. URA also relied on EY's withholding tax treatment as consistent with the cross-border nature of the services.

A central issue was whether group service arrangements made EY the importer or consumer of the services. EY argued that entities such as EY Global Services Limited and EY (EMEIA) Services Limited coordinated services across the network and merely allocated costs to member firms.

URA's position was that the evidence showed EY received and consumed the services in Uganda, and that associated-party arrangements do not alter the VAT analysis.

The High Court dismissed the appeal, holding that section 4(c) imposes VAT on imported services and section 5(c) makes the recipient liable. Imported services include services supplied from outside Uganda to a Ugandan recipient, to the extent they are used or consumed in Uganda.

The Court held that section 16(2) did not govern the dispute. Where a taxable Ugandan recipient consumes a service supplied from outside Uganda, the transaction may be treated as an imported service. The Court therefore rejected EY's ambiguity argument.

The Court was also unpersuaded that EY could treat the transactions as imported for withholding tax purposes while denying the same characterisation for VAT. The appeal was dismissed.

For banks in group structures, the ruling confirms that central procurement by a parent, regional hub or shared-services entity will not prevent the Ugandan bank from being treated as recipient and consumer where the service supports Ugandan operations.

This is relevant to remote group services such as core banking support, software licences, cyber monitoring, cloud infrastructure, sanctions screening, AML systems, internal audit, treasury systems and compliance oversight. Even where charges are allocated or reimbursed at cost, VAT turns on use and consumption in Uganda.

Banks should review intercompany service arrangements to ensure that VAT on imported services is identified, self-assessed and documented. Invoices, cost allocations, service agreements, transfer pricing files, withholding tax filings and VAT returns should be consistent.

Legal form remains relevant, but substance is decisive. Banks should be able to show, for each service, where it is consumed, whether VAT applies, and whether the treatment aligns with withholding tax and transfer pricing positions.

C. Hon. Kiiza Winnie & Others v Attorney General, Constitutional Petition Constitutional Petition No. 12 of 2026

Shortly after the Protection of Sovereignty Act received Presidential assent, fourteen petitioners, led by the former Leader of the Opposition in Parliament, Honourable Kiiza Winnie, and MP Zaake Francis, filed **Constitutional Petition No. 12 of 2026** contesting the constitutionality of the Act on several grounds. The petitioners -contend, among other things, that:

1. The Act conflates lawful dissent with the sitting government with disloyalty to the nation, there by subordinating the people's sovereignty to the Executive, contrary to the constitutional principle that government acts as a trustee rather than proprietor of Uganda's sovereignty.

2. The Act's penal provisions are vague and indeterminate, failing to provide persons

2. The Act's penal provisions are vague and indeterminate, failing to provide persons
of ordinary intelligence fair notice of prohibited conduct and granting unfettered discretion to the Prosecutor and the Minister of Internal Affairs, contrary to the principle of legality.

3. Provisions criminalizing the promotion of foreign interests, foreign policy advocacy, and economic sabotage infringe upon the right to freedom of expression.

4. By requiring ministerial certification for persons acting as "agents of foreigners" and restricting associations' access to foreign resources, the Act imposes prior restraint and effectively licenses the freedom of association, violating constitutional guarantees of that freedom.

5. The Act further infringes rights to freedom of assembly and participation in government, imposing disproportionate criminal penalties of up to two billion Uganda shillings, which sanctions are neither rationally connected to nor the least restrictive means of achieving any legitimate objective.

6. Additional grounds include alleged violations of the right to a fair hearing and the doctrine of separation of powers, as the Act vests the Minister with broad authority to make rules, license, impose conditions, inspect, suspend, and revoke certificates based on indeterminate criteria termed as "a security threat".

7. The petitioners also contend that the powers of disclosure, reporting and inspection prescribed in the Act violate the constitutional right to privacy.

8. Subjecting persons to criminal liability, registration and surveillance solely by reason of the foreign origin of their lawful support is argued to offend the right to freedom from discrimination without a lawful justification.

9. Furthermore, the petitioners contend that the Act is inconsistent with Uganda's obligations under several regional and international instruments, including but not limited to the International Covenant on Civil

and Political Rights, the African Charter on Human and People's rights and the Treaty for the Establishment of the East African Community.

It is anticipated that the petition will be heard and determined within nine (9) to fifteen (15) months from the date of filing, though the hearing may be expedited given the public importance of the issues raised. No decision has been delivered at the time of reporting.

5. REGULATORY DEVELOPMENTS

Bank of Uganda: New Cash Withdrawal and Cheque Value Limits

By circular dated 29th May 2026 addressed to the chief executive officers of all commercial banks, credit institutions and microfinance deposit-taking institutions, the Bank of Uganda ("BOU") announced the most significant tightening of payment-instrument limits since the January 2022 cheque-limit revision, as part of its e-payments strategy to promote a cash-lite economy.
For the first time, the Bank of Uganda has introduced sector-wide over-the-counter cash withdrawal limits. Individual customers will be limited to UGX 50 million per day and UGX 250 million per week, while corporate and business customers will be limited to UGX 500 million per day and UGX 2.5 billion per week.

Interbank cheque limits will be reduced from UGX 10 million to UGX 5 million; from USD 2,750 to USD 1,375; from EUR 2,250 to EUR 1,125; from GBP 2,200 to GBP 1,100 and from KES 300,000 to KES 150,000. These limits apply only to cheques cleared through the interbank clearing house. Intra- bank cheques are unaffected, and RTGS, EFTs and mobile money transactions are exempt.

The limits take effect on 1st January 2027, following a six-month public-awareness and transition period coordinated by the Bank of Uganda. Supervised institutions may seek waivers for specific limits, particularly for cash-dependent sectors such as agriculture and artisanal mining, if supported by comprehensive risk assessments and enhanced customer due diligence. Institutions must also maintain risk-based customer profiling systems to justify individual withdrawal limits.

BOU requires all supervised financial institutions to review their core banking and cheque- clearing systems, strengthen customer risk profiling for waiver applications, and guide customers toward suitable retail and wholesale digital channels, including RTGS, mobile and internet banking, EFTs and mobile money. Institutions must also ensure that the selected platforms are feasible, appropriate and effective, and be prepared to demonstrate compliance if required by BOU.

For further guidance, reach out to us at **info@afmpanga.com.**