



Withholding tax exemption

Six-month tax exemption: What businesses don't know



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WITHHOLDING TAX EXEMPTION DEDAN MUTATINENSI

Uganda Revenue Authority (URA) has officially opened applications for Withholding Tax (WHT) exemption for the period July to December 2026, marking a notable shift in policy that businesses should not ignore.

For many compliant taxpayers, this announcement is more than just an administrative notice; it signals a return to a six-month exemption cycle, moving away from the 12-month exemption period that had become the norm in recent years. This change, while subtle on the surface, carries significant implications for business cash flow, compliance discipline and tax planning strategies.

Withholding tax is typically deducted at source on certain payments such as supplies, professional services, and contracts. While it is not necessarily a final tax, it directly affects cash flow, as businesses must wait to offset or claim it through their Income Tax returns.

A withholding tax exemption allows qualifying businesses to receive income without deductions at source, improve cash flow man-



Customers in a shop at Qualicel Bus terminal in Kampala. With a shorter exemption period, businesses must keep records update. PHOTO/MICHAEL KAKUMIRIZI

agement, and reduce administrative burden related to tax credits and reconciliations.

For growing businesses, especially those operating on tight margins or large contracts, this exemption can be the difference between liquidity and strain.

From 12 months to 6 months

Historically, URA operated a six-month withholding tax exemption cycle, requiring businesses to apply twice a year. Over time, this was revised to a 12-month exemption period, giving compliant taxpayers longer relief and reduced administrative pressure.

However, the latest public no-

tice confirms a reversion to the six-month cycle.

Businesses will now need to apply more frequently. Compliance will be monitored more closely. The window for maintaining eligibility becomes shorter and stricter. This shift suggests a move by Uganda Revenue Authority (URA) towards enhanced compliance monitoring and accountability.

Rather than granting long-term exemptions, the Authority is creating a system where businesses must continuously demonstrate compliance.

This change introduces both opportunities and responsibilities.

Compliance discipline. With a shorter exemption period, businesses must now keep records consistently updated, ensure timely filing of returns and maintain continuous tax compliance. There is less room for error, as non-compliance within the six-month period can easily affect eligibility for the next cycle.

Cash flow planning becomes critical. Businesses that rely on exemptions to manage liquidity must now plan around shorter exemption windows, avoid disruptions when exemptions expire, and ensure timely re-application.

Failure to secure an exemption on time could result in unexpected withholding, affecting operations.

The application process is fully digital via the URA portal. With the six-month cycle, businesses must engage more regularly with URA systems and the internal tax teams must stay proactive. This requires structured tax management systems within businesses.

Compliance threshold

One of the most critical aspects of the new application process is the minimum tax contribution requirement. To qualify for withholding tax exemption, businesses must demonstrate that they have paid a certain level of taxes over the

past period:

Small taxpayers:
At least Shs100 million

Medium taxpayers:
At least Shs200 million

Large taxpayers:
At least Shs500 million

This requirement shifts the conversation from: "Are you compliant?" to: "Are you meaningfully contributing to the tax system?"

Businesses must ensure that their declared income aligns with operations, taxes paid reflect realistic business activity and there is no underreporting or aggressive tax positions.

Beyond the revenue contribution threshold, URA has outlined a compliance checklist that businesses must meet:

Up-to-date registration

Business details must be current. Directors and associates must have updated information. All returns must be filed. Income tax returns for the last three years must be submitted. Compliance with electronic invoicing systems where applicable.

Full payment of taxes. There must be no outstanding tax liabilities and any disputes must be properly managed or supported.

The writer is a tax advisor.