TAX APPEALS TRIBUNAL
Justice in Taxation

THE REPUBLIC OF UGANDA

IN THE TAX APPEALS TRIBUNAL AT KAMPALA

TAT APPLICATION NO. 276 OF 2024

LAGAN DOTT NAMANVE LIMITED ..... APPLICANT

VERSUS

UGANDA REVENUE AUTHORITY..... RESPONDENT

BEFORE: HON. CRYSTAL KABAJWARA, HON. KABAKUMBA MASIKO, HON. STELLA NYAPENDI CHOMBO

RULING

I. Introduction

1. This application challenges an administrative default assessment amounting to Shs. 9,162,736,149 on grounds of failure to file the income tax return within the approved extension period and the basis of reducing the Applicant's assessed tax loss from Shs. 24,713,932,424 to Shs. 19,298,229,285.

II. Background facts

2. The Applicant is engaged in infrastructure development. On 16 April 2024, the Respondent, the Uganda Revenue Authority (URA), issued an administrative default assessment against the Applicant for the year of income ending 30 June 2023 in the sum of Shs. 9,162,736,149. The assessment arose from the Applicant's failure to file its corporate income tax return within the extended period granted by the Respondent.

3. The Applicant objected to the assessment on 28 May 2024. Thereafter, the parties held reconciliation meetings on 6 August 2024 and 21 August 2024, during which the Respondent requested supporting documentation from the Applicant. The Applicant provided, among other documents, bank statements,

interim payment certificates, ledgers, and schedules relating to various expenditure items, including professional fees, staff welfare, advertising, and management fees.

4. Following the reconciliation process, the Respondent issued an objection decision on 4 September 2024. While part of the objection was allowed, the Respondent amended the assessment to Shs. 2,822,478,034.

5. The Applicant was dissatisfied with the objection decision for two principal reasons. First, it contended that the Respondent introduced a new issue concerning an alleged variance of Shs. 26,379,704,449 between sales declared in the Applicant's VAT returns and those declared in its income tax returns, yet this issue had neither been raised nor discussed during the objection process.

6. Secondly, the Applicant disputed the disallowance of business expenses amounting to Shs. 7,742,488,088, including professional and tax advisory fees of Shs. 2,888,000,885, staff welfare expenses of Shs. 275,964,341, and management fees paid to Lagan Group Limited amounting to Shs. 1,936,901,419. The Applicant maintains that adequate supporting documentation for these expenses was provided to the Respondent during reconciliation.

7. It is against that background that the Applicant filed the present application before the Tribunal.

III. Issues for determination

8. The following issues were raised for determination before the Tribunal:
    i. Whether the administrative additional income tax assessment issued by the Respondent was valid?
    ii. What remedies are available to the parties?

IV. Representation and evidence

9. Ms. Yvonne Tusiime and Ms. Doreen Niko represented the Applicant, while Ms. Christine Mpumwire appeared for the Respondent.

10. **Maheswara Reddy Munnamgi (AW1),** a Director of Lagan DOTT Namanve Limited, testified on behalf of the Applicant. He stated that the Applicant is a registered branch involved in the development of the Namanve Industrial Park.

11. He testified that the dispute arose on 16 April 2024 when the Uganda Revenue Authority (URA) issued an administrative default assessment of Shs. 9,162,736,149 on the grounds that the Applicant had failed to file its income tax return. According to the witness, the assessment did not reflect the Applicant's actual tax position because a statutory audit conducted by PKF Uganda showed that the company had instead incurred a tax loss of Shs. 24,713,932,424. Consequently, the Applicant lodged an objection to the assessment in May 2024, relying on the audited accounts.

12. AW1 further testified that following the objection, the parties held reconciliation meetings in August 2024 during which the Applicant furnished supporting documentation relating to the disputed expenses. Thereafter, the Respondent issued an objection decision on 4 September 2024, reducing the assessment to Shs. 2,822,278,034. However, the Applicant remained dissatisfied with the decision because, in its view, the Respondent introduced new issues that had not featured during the reconciliation process, including an alleged variance of approximately Shs. 26.3 billion between sales declared in VAT returns and those declared in the income tax returns. He also stated that the Respondent continued to disallow several categories of business expenditure despite the documentation provided.

13. He also stated that the Applicant subsequently filed the present application before the Tribunal in October 2024. He added that the matter later proceeded

to mediation, which concluded in August 2025. During the mediation process, the Respondent revised its position and accepted that the Applicant had incurred a tax loss of Shs. 19,298,229,285. Nevertheless, the Respondent maintained the disallowance of business expenses amounting to Shs. 5,415,703,140.

14. AW1 explained that the professional fees amounting to approximately Shs. 3.2 billion related to audit, tax advisory, engineering, and construction consultancy services provided by firms, including Mott MacDonald and Ernst & Young. Regarding staff welfare expenses, he stated that part of the expenditure had already been subjected to PAYE, while another portion related to allowable medical insurance expenses for staff. He further explained that the approximately Shs. 1.9 billion in management fees represented reimbursements for consultancy services initially paid by Lagan Group Limited on behalf of the Applicant and were distinct from the legal fees incurred in securing project financing.

15. AW1 maintained that the Respondent wrongly disallowed the expenses and urged the Tribunal to set aside the income tax assessment together with the resultant tax liability. He also prayed for the costs of the application.

16. **Gerard Anthony Cawley (AW2),** also a Director of the Applicant, generally corroborated the evidence of Maheswara regarding the chronology of the assessment, the objection proceedings, and the subsequent mediation process. He confirmed that although the Respondent initially issued a default assessment of Shs. 9,162,736,149, the Applicant's audited accounts, prepared by PKF Uganda, reflected a tax loss of Shs. 24,713,932,424. He further stated that the Respondent later revised its position during mediation and accepted a reduced tax loss of Shs. 19,298,229,285, although disagreements remained regarding the disputed expense categories.

17. AW2 maintained that the professional fees, staff welfare expenses, and management fees were legitimate business expenditures incurred in the course of implementing the Applicant's infrastructure project. He explained that the professional fees related to audit, legal, engineering, and consultancy services, while the management fees represented reimbursements to Lagan Group Limited for consultancy services rendered on behalf of the Applicant. He denied that the expenses were duplicative or unsupported, and maintained that the Applicant had provided sufficient documentation to justify the claimed deductions.

18. **Hamza Mukasa Ssali (AW3),** an accountant with Ernst & Young, gave evidence on behalf of the Applicant regarding the accounting treatment and nature of the disputed expenses. Ernst & Young was responsible for maintaining the Applicant's financial records and preparing the accounting schedules relied upon in these proceedings.

19. Regarding the professional and tax advisory fees amounting to Shs. 3,202,837,380, Ssali explained that the costs arose from professional services procured by Lagan Group Limited on behalf of the Applicant. The services included audit, tax, legal, engineering, and construction consultancy services provided by firms such as Mott MacDonald, Ernst & Young LLP, and Carson McDowell LLP. He further explained that although the total contractual cost stood at Shs. 8,007,093,449, the amount claimed in the relevant year of income represented the portion amortised over the initial thirty-month contract period.

20. In relation to finance costs and management fees amounting to Shs. 1,936,901,419, Ssali stated that these were reimbursements made to Lagan Group Limited, Uganda, for consultancy expenses incurred on behalf of the Applicant during implementation of the project. The management fee included a contractual mark-up of 7.5% on the consultancy costs. He disputed the

Respondent's position that the expenses were duplicative, explaining that the "pre-establishment and post-establishment costs" related to advisory services incurred at the commencement stage of the project, whereas the disputed management fees related to services rendered during the execution phase of the project.

21. AW3 explained that the Respondent had misconstrued the nature of the staff welfare expenses amounting to Shs. 275,964,341. Out of the total staff welfare expenditure of Shs. 540,144,369, the Applicant had already voluntarily disallowed Shs. 245,897,373 in its income tax return. He further clarified that Shs. 91,234,198 related to accommodation expenses that had already been subjected to PAYE and therefore could not properly be treated as undeclared employee benefits. In addition, Shs. 44,907,662 related to medical and insurance expenses, which he maintained were allowable business expenses.

22. AW3 maintained that the Respondent's conclusions that the professional fees were unexplained, that the staff welfare expenses had not been declared for PAYE purposes, and that the management fees were duplicative were inconsistent with the accounting records and supporting documentation availed by the Applicant.
23. He accordingly supported the Applicant's position that the reduction of the assessed tax loss was unjustified and prayed that the Tribunal vacates the impugned income tax assessment.

24. **Sabiti Javan Ivan (RW1),** an officer in the Domestic Taxes Department of the Respondent, gave evidence on behalf of the Respondent in support of the impugned assessment and objection decision.

25. He explained that the Respondent issued an administrative default income tax assessment of Shs. 9,162,736,149 on 16 April 2024 after the Applicant failed to file its return within the extended filing period granted by the Respondent.

Following receipt of the Applicant's objection, the Respondent reviewed the Applicant's VAT and income tax declarations and established a variance of Shs. 26,379,704,449 between sales declared in the VAT returns, amounting to approximately Shs. 141.2 billion, and those declared in the income tax return, amounting to approximately Shs. 114.8 billion. According to the witness, the Respondent treated the difference as undeclared sales and accordingly added it back to the Applicant's taxable income for the year under review.

26. RW1 stated that the staff welfare expenses amounted to Shs. 275,964,341 expenses were disallowed because the Applicant had failed to demonstrate compliance with Pay As You Earn (PAYE) obligations. Although the Applicant provided a ledger reflecting rent and accommodation expenses totaling Shs. 249,339,333, a review of the PAYE records showed that the housing allowance had been declared in respect of only one employee, namely Andrew Khana Bamanya. No corresponding declarations were identified for other employees for whom accommodation expenses had allegedly been incurred, including Anthony Barton. He further stated that the Applicant did not provide invoices in support of the insurance-related expenses claimed under staff welfare.

27. RW1 stated that during the objection process, the Respondent was only able to verify professional and tax advisory fees expenses amounting to Shs. 473,288,107, relating principally to EY EFRIS and Carson McDowell. The balance of Shs. 2,888,000,885 remained unsupported. He added that during mediation, the Applicant provided a ledger reflecting "other professional fees" amounting to Shs. 3,210,394,772, but maintained that the expenditure was not supported by sufficient underlying documentation and was therefore properly disallowed.

28. Regarding the management fees amounting to Shs. 1,936,901,419 paid to Lagan Group Limited, RW1 explained that the Respondent identified a risk of duplication because the Applicant had advanced the same explanation for both

the management fees and the "pre and post establishment costs" amounting to Shs. 973,322,000. In both instances, the Applicant described the expenses as reimbursements for services related to project identification, bid support, and funding arrangements through UK Export Finance. In the Respondent's view, the similarity in description created a risk of double claiming. Consequently, the Respondent allowed the pre- and post-establishment costs but disallowed the management fees.

29. RW1 maintained that the Respondent had allowed all expenses that were satisfactorily verified and that the Applicant was not entitled to any further deductions or adjustments beyond those already granted in the objection decision and mediation process.

V. Submissions of the Applicant

30. The Applicant submitted that the Respondent unjustifiably reduced its declared tax loss from Shs. 24,713,932,424 to Shs. 19,298,229,285 by disallowing business expenses amounting to Shs. 5,415,703,139. It argued that the disputed expenses were wholly incurred in the production of income and were supported by documentation provided during the objection and mediation proceedings.

Professional fees

31. The Applicant contended that the professional and tax advisory expenses of Shs. 3,202,837,380 were incurred for audit, tax, legal, engineering, and construction consultancy services rendered by firms such as Mott MacDonald and Ernst & Young LLP. According to the Applicant, the nature and purpose of these expenses had been adequately explained through correspondence, invoices, and ledger extracts provided to the Respondent.

32. In support of this position, the Applicant relied on section 22 of the Income Tax Act, which allows the deduction of expenditure incurred in the production of

income. It also cited ***Okello Okello v Commissioner General, URA HCCS No. 229 of 2010*** for the principle that expenditure incurred for a business purpose is deductible. Further reliance was placed on ***Magna Alloys & Research Pty Ltd v FC of T (1980)***, where the court held that expenditure qualifies for deduction where there is a sufficient nexus between the expense and the carrying on of business.

33. The Applicant further argued that it had discharged the burden of proof under section 101 of the Evidence Act by producing supporting documentation for the expenses claimed. In its view, once such evidence had been produced, the evidential burden shifted to the Respondent to justify the disallowance.

Staff welfare expenses

34. The Applicant also challenged the disallowance of staff welfare expenses amounting to Shs. 275,964,341. It maintained that the amount had already been voluntarily added back in its tax computation and therefore could not lawfully be disallowed a second time. It further argued that Shs. 91,234,198, relating to rent and accommodation expenses, had already been declared in the PAYE returns, while Shs. 44,907,662 related to medical and insurance expenses, which constituted allowable business expenditure.

Management fees

35. The Applicant maintained that the management fees of Shs. 1,936,901,419 represented reimbursements made to Lagan Group Limited for third-party consultancy services incurred during the execution phase of the project. It distinguished these expenses from the pre-establishment and post-establishment costs, which, according to the Applicant, had been incurred at the commencement stage of the project.

36. The Applicant further relied on section 92(3) of the Tax Procedures Code Act and Regulation 3(3) of the Electronic Fiscal Receipting and Invoicing System

(EFRIS) Regulations, 2020. It argued that because the invoices had been generated through the EFRIS system, they were traceable and within the Respondent's peculiar knowledge, rendering the allegation of duplication unsustainable.

37. To reinforce that argument, the Applicant cited ***Union Government (Minister of Railways) v Sykes (1913)*** for the principle that a lesser evidential burden may suffice where the relevant facts lie peculiarly within the knowledge of the opposing party. The Applicant also relied on ***Article 152(1) of the Constitution*** and ***Warid Telecom (U) Ltd v URA (2011)*** to argue that no tax may be imposed except as authorised by law. It further relied on ***Wrights' Canadian Ropes Ltd v Minister of National Revenue (1946)*** for the proposition that the discretion to disallow expenses must be exercised judiciously and on proper legal principles.

38. The Applicant prayed for a declaration that the reduction of the assessed tax loss was unjustifiable, an order vacating the impugned income tax assessment, and costs of the application.

VI. Submission of the Respondent

39. The Respondent submitted that the impugned assessments were lawful, justified, and properly issued on the basis of the information available to the Commissioner. It maintained that the Applicant failed to provide sufficient documentation to support the disputed expenses and that material inconsistencies existed in the Applicant's tax declarations.

40. The Respondent argued that the burden of proof rested entirely on the Applicant to demonstrate that the assessment was excessive or erroneous. Reliance was placed on section 18 of the Tax Appeals Tribunal Act, which places the burden on an applicant in review proceedings to prove that an assessment should have been made differently. The Respondent also relied

on section 101 of the Evidence Act, which provides that he who alleges must prove. Further reliance was placed on ***Williamson Diamonds Ltd v Commissioner General (2008) and Cooper Motor Corporation (U) Ltd v Uganda Revenue Authority, TAT Application No. 67 of 2018,*** for the proposition that the burden of proof in tax disputes does not shift to the tax authority.

41. The Respondent additionally raised a preliminary objection challenging the competence of the application on the ground that the Applicant had failed to pay 30% of the tax in dispute prior to filing the application. According to the Respondent, this requirement was mandatory under section 15 of the Tax Appeals Tribunal Act. It also relied on Article 17(1)(g) of the Constitution, which imposes a duty on citizens to pay taxes promptly, and cited ***Uganda Projects Implementation and Management Centre v Uganda Revenue Authority, Constitutional Appeal No. 2 of 2009***, where the constitutional validity of the 30% payment requirement was upheld.

42. The Respondent further submitted that it established a variance of Shs. 26,379,704,449 between sales declared in the Applicant's VAT returns and those declared in its income tax return. It maintained that the discrepancy constituted undeclared sales, which were properly added back as income. In support of that position, reliance was placed on section 117 of the Income Tax Act, which empowers the Commissioner to re-characterise transactions and amounts for tax purposes.

43. The Respondent also defended the disallowance of professional and tax advisory expenses amounting to Shs. 3,202,837,380, arguing that the Applicant failed to provide sufficient supporting documentation during the objection and mediation processes. It relied on ***New Vision Printing & Publishing Corporation v Uganda Revenue Authority, Civil Appeal No. 78***

of 1999, for the principle that the nature and purpose of expenditure must be clearly established before a deduction can be allowed.

44. Regarding staff welfare expenses amounting to Shs. 275,964,341, the Respondent maintained that the expenses were not properly declared for PAYE purposes, save for one employee. It also argued that the Applicant failed to provide invoices in support of the insurance-related expenses claimed under staff welfare.

45. The Respondent similarly justified the disallowance of management fees amounting to Shs. 1,936,901,419, arguing that there was a risk of duplication because the explanation given for those fees was substantially similar to that provided for the already allowed pre-establishment and post-establishment costs.

46. The Respondent further argued that where a taxpayer fails to maintain proper records, the Commissioner is empowered to estimate tax liability and issue additional assessments. In that regard, reliance was placed on sections 23 and 25 of the Tax Procedures Code Act, which govern default and additional assessments, as well as section 15 of the same Act, which requires taxpayers to retain records for at least five years. The Respondent also cited ***URA v Balondemu David, Civil Appeal No. 0002 of 2023 and Massalia-SMC Ltd v URA, TAT Application No. 251 of 2024*** in support of the principle that the tax authority may resort to estimation where taxpayer records are incomplete or unreliable.

47. Lastly, the Respondent submitted that the Applicant was not entitled to damages or costs because no evidence had been adduced to prove any injury or loss attributable to the Respondent. Reliance was placed on section 21(6) of the Tax Appeals Tribunal Act, section 27(1) of the Civil Procedure Act, and authorities, including Robert Coussens v Attorney General and Godfrey

Katunda v Betty Atuhaire Bwesharire, on the discretionary nature of awards of costs.

48. The Respondent prayed that the application be dismissed with costs and that the assessments be upheld.
49. The Applicant did not file submissions in rejoinder.

VII. The Determination

50. Before addressing the substantive issues, the Tribunal notes that the Respondent's position evolved considerably during the objection and mediation processes. The original default assessment of Shs. 9,162,736,149 was subsequently reduced at the objections and appeals stage to Shs. 2,822,278,034, and during mediation, the Respondent further accepted that the Applicant had incurred a tax loss of Shs. 19,298,229,285. Consequently, the live dispute before the Tribunal ultimately narrowed to:
    a. the treatment of the VAT variance as undeclared income; and
    b. the disallowance of professional fees, staff welfare expenses, and management fees amounting to approximately Shs. 5.4 billion.

51. The Tribunal has considered the pleadings, witness testimony, documentary evidence, and submissions of counsel. The central question is whether the Respondent properly adjusted the Applicant's declared tax loss by treating the VAT variance as undeclared income and disallowing the disputed categories of expenditure.

Preliminary Issue: Whether the application was incompetent for failure to pay 30% of the tax assessed

52. The Respondent raised a preliminary objection contending that the application was incompetent for failure by the Applicant to comply with section 15 of the Tax Appeals Tribunal Act, which requires payment of 30% of the tax assessed

or the tax not in dispute before commencement of proceedings before the Tribunal.

53. We have considered the objection together with the authorities cited by both parties. The present dispute principally concerns the reduction of the Applicant's declared tax loss from Shs. 24,713,932,424 to Shs. 19,298,229,285. Although the Respondent initially issued a default assessment, the mediation process substantially altered the parties' positions, and the dispute ultimately crystallised around the treatment of the disallowed expenses and the reduction of the assessed loss.

54. In our view, where the dispute substantially concerns the adjustment or reduction of a tax loss rather than a crystallised tax liability immediately payable by the taxpayer, the application of the 30% requirement must be considered in light of the circumstances of the case. In ***Fuelex Uganda Limited v Uganda Revenue Authority (Constitutional Petition No. 3 of 2009)***, it was established that the 30% requirement is a condition precedent to the tax becoming due and payable. Where a taxpayer is in a loss position, there is no immediately payable tax liability to which a 30% calculation can be applied. In the circumstances of this case, where the dispute principally concerns the reduction of a declared tax loss rather than an immediately payable tax liability, the Tribunal is not persuaded that the application is rendered incompetent by non-payment of the 30% requirement.

55. Accordingly, we find that the preliminary objection lacks merit and it is hereby overruled.

Issue (i): Whether the administrative additional income tax assessment was valid?

A. The VAT vs. Income Tax Variance

56. The Respondent adjusted the Applicant's income by adding back Shs. 26,379,704,449 on the basis of a variance between sales declared in the Applicant's VAT returns and those declared in the income tax return, treating the variance as undeclared income liable to tax. The Applicant contended that this issue was introduced after the reconciliation process and did not form part of the original matters communicated during the objection proceedings. The Applicant further maintained that it was not afforded a sufficient opportunity to reconcile or explain the variance prior to the objection decision.

57. We have considered the evidence and submissions of both parties on this issue. While the Respondent established that a variance existed between the VAT declarations and the income tax return, no reconciliation schedules, transaction analysis, or supporting documentation were produced to demonstrate that the entire variance constituted undeclared taxable income. The evidence before the Tribunal did not sufficiently demonstrate how the Respondent concluded that the variance represented undeclared sales as opposed to possible accounting or timing differences arising from accrual treatment, advance payments, credit notes, or differences in recognition under the VAT and income tax regimes.

58. In ***Standard Chartered Bank (U) Ltd v URA (TAT Application No. 22 of 2017),*** the Tribunal observed that a variance between accounting records does not automatically translate into taxable income unless the Revenue Authority establishes the factual and legal basis for treating the difference as income chargeable to tax. Similarly, in ***Tullow Uganda Operations Pty Ltd v Uganda Revenue Authority (TAT Application No. 4 of 2011)***, the Tribunal emphasised that the Commissioner's power to issue an assessment is not an unfettered license to estimate liability without an objective foundation. Where a taxpayer produces audited accounts and supporting financial records, the Revenue Authority must demonstrate the factual basis upon which the assessment is anchored.

59. The Respondent relied on section 117 of the Income Tax Act to justify recharacterisation of the variance as undeclared income. While section 117 empowers the Commissioner to recharacterize transactions or amounts in appropriate circumstances, the exercise of that power must be supported by evidence demonstrating why the impugned amounts ought properly to be treated as taxable income. In the present case, the Respondent did not place before the Tribunal sufficient evidence to justify recharacterisation of the variance as undeclared income.

60. The Tribunal further notes that the evidence before it did not sufficiently demonstrate that the Applicant was specifically afforded an opportunity during the objection process to reconcile or explain the variance before the adjustment was confirmed in the objection decision. In ***Meera Investments Ltd v Commissioner General URA [2007] HCT-00-CC-CA-0003***, the High Court underscored the importance of procedural fairness in tax administration.

61. In the circumstances, the Tribunal is unable to find a sufficient evidential basis for the addition of Shs. 26,379,704,449 as undeclared income.

B. Professional and Tax Advisory Expenses

62. The Respondent disallowed professional and tax advisory expenses amounting to Shs. 3,202,837,380 on the ground that the expenditure was unsupported. The Applicant, through the evidence of its witnesses, maintained that the expenditure related to audit, tax, legal, engineering, and consultancy services provided by firms including Mott MacDonald, Ernst & Young LLP, PKF-FPM, and Carson McDowell LLP. In support of the claim, the Applicant produced invoices, ledgers, explanatory schedules, contractual documentation, and audited financial records contained in Exhibits "B", "C", "K1", and "K2". The Tribunal notes in particular that the schedules and invoices identified the nature of the professional services rendered, the service

providers involved, and the corresponding accounting treatment adopted by the Applicant.

63. Section 22(1)(a) of the Income Tax Act permits the deduction of expenditure incurred in the production of income. The applicable inquiry is whether the expenditure bears a sufficient nexus to the carrying on of the taxpayer's business. This principle was recognised in ***Magna Alloys & Research Pty Ltd v FC of T (1980)*** and similarly applied in ***Okello Okello v Commissioner General, URA HCCS No. 229 of 2010.***

64. Having considered the evidence on record, the Tribunal is satisfied that the Applicant produced sufficient documentary material demonstrating both the nature and business purpose of the disputed expenditure. The invoices, ledgers, contractual schedules, and accounting explanations contained in Exhibits "B", "C", "K1", and "K2" established a clear connection between the expenditure incurred and the Applicant's infrastructure development activities. The Tribunal further notes that the audited accounts prepared by PKF Uganda reflected the disputed expenditure within the Applicant's recorded project costs for the relevant year of income. In particular, the evidence of Hamza Mukasa Ssali explaining the amortisation of the contractual costs over the relevant accounting period was not substantially challenged or rebutted by the Respondent.

65. While the Respondent questioned the adequacy of the supporting documentation, it did not demonstrate that the services in question were fictitious, unrelated to the Applicant's business operations, or otherwise prohibited under the Income Tax Act. The Tribunal further notes that the Respondent did not place before it any contrary reconciliation, analysis, or evidence that would displace the documentation produced by the Applicant. In our view, the evidence produced by the Applicant established a prima facie basis for the deductions claimed and sufficiently demonstrated the requisite

nexus between the expenditure and the carrying on of the Applicant's business.

66. Accordingly, we find that the Respondent did not sufficiently justify the disallowance of the professional and tax advisory expenses.

C. Staff Welfare Expenses

67. The Respondent disallowed staff welfare expenses amounting to Shs. 275,964,341 principally on the basis that the Applicant had not demonstrated compliance with PAYE obligations in respect of certain accommodation and welfare benefits.

68. The evidence before the Tribunal, including the reconciliation schedules, PAYE records, and Table "C" referred to by Hamza Mukasa Ssali and Gerard Anthony Cawley, showed that expenditure amounting to UGX 245,897,373 had already been voluntarily disallowed by the Applicant in its own tax computation. The same documentation further demonstrated that accommodation expenses amounting to Shs. 91,234,198 had been subjected to PAYE declarations.

69. The Tribunal agrees with the Respondent that employers are under a statutory obligation to account for PAYE where taxable employment benefits arise. However, the deductibility of expenditure under section 22 of the Income Tax Act is distinct from liability arising under the PAYE regime. As recognized in ***Kasese Cobalt Company Limited v URA (HCCA No. 4 of 2020)***, the treatment of employment benefits for PAYE purposes does not necessarily determine whether the expenditure is deductible for corporate income tax purposes.

70. In the present case, the Respondent did not demonstrate that the expenditure itself was fictitious, unrelated to the Applicant's business operations, or otherwise non-deductible under the Income Tax Act. The evidence before the

Tribunal, particularly the reconciliation schedules and PAYE records referred to in Table "C", further showed that part of the impugned expenditure had already been voluntarily adjusted by the Applicant, while another portion had been declared for PAYE purposes. In those circumstances, the Tribunal is unable to find a sufficient factual basis for the wholesale disallowance of the expenditure.

71. To the extent that any PAYE non-compliance existed, the appropriate remedy lay in enforcement under the PAYE provisions rather than outright disallowance of the expenditure for corporate income tax purposes. We therefore find that the Respondent did not establish a sufficient basis for the impugned disallowance of the staff welfare expenses.

D. Management Fees

72. The Respondent disallowed management fees amounting to Shs. 1,936,901,419 on the ground that there was a risk of duplication with the pre-establishment and post-establishment costs already allowed by the Respondent.

73. The Applicant, through the evidence of Hamza Mukasa Ssali and the supporting EFRIS invoices and schedules contained in Exhibit "F", explained that the management fees related to reimbursements made to Lagan Group Limited for consultancy and project implementation services incurred during execution of the project. The Applicant distinguished these expenses from the pre-establishment and post-establishment costs, which it maintained related to services rendered during the project inception and financing stages.

74. The Tribunal has considered the explanations advanced by both parties together with the supporting invoices, schedules, and EFRIS documentation placed before it. Although the Respondent expressed concern regarding possible duplication of expenditure, no direct evidence was produced

demonstrating that the same invoices, transactions, or consultancy costs had in fact been claimed twice.

75. The Applicant further relied on the EFRIS invoices contained in Exhibit "F", which bore identifiable fiscal document numbers capable of independent verification within the Respondent's own EFRIS system. The Tribunal notes that while the existence of EFRIS invoices does not automatically establish deductibility, such records nevertheless formed part of the documentary trail supporting the Applicant's explanation that separate invoices existed for the management fees and the pre-establishment costs.

76. In the absence of evidence demonstrating actual duplication within the EFRIS records or other accounting documentation, the Tribunal is unable to uphold the disallowance solely on the basis of perceived similarity in the description of the expenses. The Respondent's concern remained largely speculative and was not supported by documentary verification or transaction analysis establishing double claiming of the expenditure.

77. We therefore find that the Respondent did not sufficiently justify the disallowance of the management fees.

78. The Tribunal has considered the specific adjustments that ultimately formed the basis of the Respondent's revised assessment of Shs. 2,822,278,034. These adjustments primarily arose from treating the VAT variance as undeclared income and disallowing professional fees, management fees, and staff welfare expenses.

79. There is no dispute that the Respondent was entitled to audit the Applicant's affairs, question documentation, reconcile variances, and revise the Applicant's tax position where necessary. However, the exercise of those powers must be supported by a sufficient factual and evidential foundation. In ***Tullow Uganda Operations Pty Ltd v Uganda Revenue Authority (TAT***

Application No. 4 of 2011), the Tribunal emphasised that the Commissioner's power to issue an assessment is not an unfettered license to estimate liability without an objective basis. Where a taxpayer produces audited accounts, invoices, schedules, and financial records, the Revenue Authority must demonstrate, through objective analysis, why the taxpayer's material ought not to be accepted.

80. The Respondent relied on ***Williamson Diamonds Ltd v Commissioner General (2008)*** in support of the argument that the burden of proof remained throughout on the taxpayer. The Tribunal agrees that the legal burden rests on a taxpayer to demonstrate that an assessment is excessive or incorrect. In the present case, however, the Applicant did more than merely assert that the disputed expenditure was deductible. Through its witnesses and documentary exhibits, including invoices, ledgers, audited accounts, payment schedules, reconciliation schedules, and accounting explanations, the Applicant produced prima facie material explaining both the nature of the expenditure and its connection to the Applicant's business operations.

81. Once such material was placed before the Respondent, it became necessary for the Respondent to properly evaluate the documentation and provide a reasonable evidential basis for rejecting it. This approach is consistent with the reasoning in ***URA v Balondemu David, Civil Appeal No. 0002 of 2023***, where the court recognised the Revenue Authority's obligation to evaluate and rebut documentary material produced by a taxpayer.

82. Although the Respondent questioned the adequacy of the Applicant's documentation and raised concerns regarding possible duplication and undeclared income, no sufficient evidence was placed before the Tribunal demonstrating that the disputed expenses were fictitious, duplicated, or unrelated to the Applicant's business operations. In several instances, the disallowances appear to have been based on perceived inconsistencies or

suspicion without corresponding documentary verification or reconciliation analysis.

83. Having considered the evidence as a whole, the Tribunal is unable to find a sufficient evidential basis for the Respondent's reduction of the Applicant's declared tax loss from Shs. 24,713,932,424 to Shs. 19,298,229,285. The underlying adjustments giving rise to the revised assessment of Shs. 2,822,278,034 were therefore not sufficiently justified, and the resultant assessment cannot be sustained.

Issue (ii): What remedies are available to the parties?

84. Under section 21 of the Tax Appeals Tribunal Act, the Tribunal is empowered to affirm, reduce, vary, or set aside an assessment.

85. Having considered the evidence and findings above, the Tribunal is satisfied that the objection decision and the resultant assessment cannot be sustained to the extent that they were founded on the impugned disallowances and adjustments.

86. Notwithstanding the Applicant's success in this matter, the Tribunal recognises that the reconciliation and mediation processes involved complex technical issues and significant cooperation from both parties. In the interest of concluding this dispute and fostering continued tax compliance, it is ordered that each party shall bear its own costs of this application.

VIII. ORDERS

87. For the reasons stated above, the Tribunal makes the following orders:

(i) A declaration is hereby made that the Respondent did not sufficiently justify the reduction of the Applicant's assessed tax loss from Shs. 24,713,932,424 to Shs. 19,298,229,285.

(ii) The objection decision dated 4 September 2024, together with the resultant additional income tax assessment of Shs. 2,822,278,034 is hereby set aside.

(iii) The Respondent is directed to recompute the Applicant's assessed tax loss in accordance with the findings contained in this ruling, taking into account the adjustments voluntarily conceded by the Applicant during mediation.

(iv) Each party shall bear its own costs.

Dated at Kampala, this **22** day of **May** 2026.

HON. CRYSTAL KABAJWARA
CHAIRPERSON

HON. KABAKUMBA MASIKO
MEMBER

HON. STELLA NYAPENDI CHOMBO
MEMBER