TAX APPEALS TRIBUNAL

Justice in Taxation

THE REPUBLIC OF UGANDA

IN THE TAX APPEALS TRIBUNAL AT KAMPALA

APPLICATION NO. 201 OF 2025

LC WAIKIKI RETAIL LIMITED..APPLICANT

VERSUS

UGANDA REVENUE AUTHORITY...RESPONDENT

BEFORE:HON. CRYSTAL KABAJWARA, HON. REBECCA PROSCOVIA NAMBI, HON. GERALD AGABA KAKIMA

RULING

I. Introduction

1. This Application challenges the Respondent's additional assessments of Income Tax, Value Added Tax (VAT), and Pay As You Earn (PAYE) arising from alleged undeclared sales, stock movement variances, discounted retail sales, disallowed business expenses, and presumed remuneration of the Applicant's non-resident directors.

II. Background facts

2. The Applicant is a limited liability company engaged in the retail sale of fashion and apparel products in Uganda. Following a compliance review, the Respondent issued a Tax Audit Compliance Review Management Letter dated 20 February 2025 together with assessments across various tax heads.

3. The initial assessments comprised VAT on Imported Services of UGX 18,534,868, Withholding Tax on Imported Services of UGX 15,445,723, domestic VAT of UGX 199,464,50, Income Tax of UGX 255,392,161 and PAYE of UGX 292,549,998

4. Dissatisfied with the assessments, the Applicant lodged objections supported by explanations, reconciliations, schedules, and underlying records. Upon considering the objections, the Respondent conceded that the assessments for VAT on Imported Services and Withholding Tax on Imported Services had been raised in error and reversed them in full. The Respondent partially allowed the objections relating to Income Tax and VAT, but maintained the PAYE assessment relating to two non-resident directors.

5. The Respondent states that the liability remaining after the objection decision is UGX 673,519,840, comprising Income Tax of UGX 315,762,971, PAYE of UGX 292,549,998 and VAT of UGX 65,206,871.

6. There is an inconsistency in the Applicant's evidence concerning the amount in dispute. Mr. Jackson Obambo stated in his affidavit and the Applicant repeated in rejoinder that the contested liability was UGX 357,756,869, comprising PAYE of UGX 292,549,998 and VAT of UGX 65,206,871. The application and the Respondent's affidavit, however, identify a total of UGX 673,519,840 and both parties addressed the Income Tax assessment at length.

7. The Tribunal does not treat the omission of Income Tax from the later computation as a withdrawal. There was no application to withdraw that part of the case; the legality of the Income Tax assessment remained contested; and the Respondent answered it on the merits. The dispute determined in this ruling therefore concerns the post-objection assessments totaling UGX 673,519,840.

III. Issues for determination.

8. The issue to be determined by the Tribunal is whether the Applicant is liable to pay the remaining assessed tax liability.

IV. Representation and evidence

9. Ms. Loyce Nakyanzi, Ms. Barbra Natukunda and Mr. Ronald Muyanja represented the Applicant while Ms. Eseza Victoria Ssendege and Mr. Kenan Aruho represented the Respondent.

The Applicant's evidence

10. The Applicant's evidence was contained in the affidavits of Mr. Jackson Obambo, its Chief Accountant. He stated that he was familiar with the Applicant's accounting records, tax affairs and the matters arising from the compliance review.

11. Mr. Obambo stated that, following the objection decision, the liability which the Applicant regarded as remaining in dispute was UGX 357,756,869, comprising PAYE of UGX 292,549,998 and VAT of UGX 65,206,871. As already noted, that computation did not include the Income Tax figure addressed in the application and in both parties' subsequent arguments.

12. The substance of Mr. Obambo's evidence was that the Respondent treated ordinary features of the Applicant's retail operations as evidence of undeclared income. He challenged the treatment of genuine price reductions, inventory differences, business expenditure and the activities of the Applicant's two non-resident directors.

<u>Pricing reductions and discounted sales</u>

13. Mr. Obambo stated that the Applicant carries on a fashion and apparel retail business in which the selling price of an item does not remain constant throughout its commercial life. Goods may be marked down during promotional campaigns, seasonal clearances and stock-reduction exercises. The Applicant may therefore sell an item below its original retail price or below an anticipated margin in order to clear stock and respond to market conditions.

14. He stated that the discounted prices recorded in the Applicant's sales records were the prices actually charged to its customers. The Applicant did not receive, and did not become entitled to receive, the difference

between those prices and the higher prices reconstructed by the Respondent.

15. Mr. Obambo challenged the Respondent's use of the 32.55% resale margin contained in the Applicant's transfer-pricing policy. He stated that the margin was applied to the cost of purchases to generate expected sales and that the resulting difference, stated to be UGX 315,762,971 in the post-objection Income Tax assessment, was treated as income which the Applicant had not derived.

16. The Applicant's evidence was that a margin appearing in transfer-pricing documentation was not proof that every retail item had been sold, or ought to have been sold, at that margin. It maintained that the Respondent had replaced the recorded transaction prices with a hypothetical return without identifying additional amounts received from customers.

Stock movement differences

17. Regarding stock movements, Mr. Obambo denied that every difference arising from a comparison of inventory and accounting records represented an undeclared sale. He stated that inventory differences may result from timing differences in recording, transfers between locations, stock in transit, customer returns, damaged or obsolete goods, shrinkage and reconciliation adjustments.

18. He maintained that a stock movement difference was an accounting or inventory matter which required reconciliation and could not, without further evidence, be equated automatically to a sale for consideration. In his view, the Respondent had not established that the particular variances resulted in receipts which were omitted from the Applicant's tax returns.

Disallowed expenditure

19. Mr. Obambo also challenged the disallowance of outsourced staffing, merchandising, stock-handling and other operational expenditure. He stated that those costs were incurred in the ordinary conduct of the Applicant's retail business and in the production of its income.

20. He maintained that the expenses were supported by the commercial records available to the Applicant, including invoices, contracts, payment records, bank records and accounting entries. The Applicant's position was that the Respondent placed undue weight on the form of some of the documents and did not sufficiently consider the commercial substance of the services and payments.

Pay As You Earn

21. Regarding PAYE, Mr. Obambo stated that the two non-resident directors did not receive salaries, wages, directors' fees, allowances or employment benefits from the Applicant during the audit period. He denied that the Applicant had an obligation to pay each director UGX 10,000,000 per month or any other amount as employment income.

22. He stated that the Applicant's records contained no employment contracts, payroll entries, pay slips, board resolutions or bank transfers showing remuneration paid or payable to the directors. According to his evidence, the figure of UGX 10,000,000 per director per month was selected by the Respondent without reference to a payment, accrual, contractual entitlement or benefit provided by the Applicant.

The Respondent's evidence

23. The Respondent's evidence was contained in the affidavit of Mr Busingye Bans, an officer in its Legal Services and Board Affairs Department. He stated that the audit team examined the Applicant's returns and records for the audit period and identified differences concerning reported sales, inventory movements, operating expenses and the treatment of two non-resident directors.

24. Mr. Busingye stated that the Applicant's objection was considered and partly allowed. The assessments for VAT and withholding tax on imported services were reversed. The Income Tax and domestic VAT assessments were reduced after the Respondent considered the explanations and documents supplied at objection, while the PAYE assessment relating to the two directors was maintained.

25. According to the affidavit, the post-objection liability was UGX 673,519,840, comprising Income Tax of UGX 315,762,971, PAYE of UGX 292,549,998 and VAT of UGX 65,206,871.

Pricing reductions and discounted sales

26. Mr. Busingye stated that the Respondent reviewed the Applicant's pricing reductions and discounts for 2023. The Respondent obtained a resale margin of 32.55% from the Applicant's transfer-pricing policy and applied that margin to the cost of purchases to determine the sales which, in its view, ought to have been realised. The difference between those expected sales and the sales reported by the Applicant was treated as undeclared revenue.

27. The Respondent's position was that the margin was not selected from an external source but from the Applicant's own transfer-pricing documentation. It regarded that documentation as an appropriate basis for testing whether the sales declared by the Applicant were consistent with the anticipated resale value of the goods. After reviewing additional information supplied during the objection process, the Respondent revised the Income Tax assessment to UGX 315,762,971.

Stock movement analysis

28. The affidavit further stated that the Respondent conducted a stock movement analysis for 2021, 2022 and 2023. The analysis compared the Applicant's opening stock, purchases and returns with the cost of sales and the sales expected from the stock available for disposal.

29. The Respondent maintained that the Applicant did not satisfactorily reconcile the differences arising from that comparison. It consequently attributed tax liabilities of UGX 19,407,031 for 2021, UGX 27,090,437 for 2022 and UGX 111,959,696 for 2023 to the stock movement differences.

30. The Respondent's evidence was that the assessment did not rest only on the physical absence of stock. It was based on differences which remained after comparing the quantities and values reflected in the Applicant's accounting and inventory records. In the Respondent's view, the

explanations offered by the Applicant did not identify or quantify the particular goods allegedly transferred, damaged, returned, lost through shrinkage or held in transit.

Disallowed expenditure

31. Mr. Busingye stated that the Respondent examined the support supplied for outsourced staffing, merchandising, employment and other operational expenditure. The expenditure was allowed only to the extent that the audit and objection teams considered it verified by the documents presented.

32. Regarding outsourced staffing and employment expenses, the Respondent maintained that the Applicant had not supplied adequate documentation for the whole amount claimed. The portions which could be verified were allowed and the unsupported portions were disallowed.

33. Regarding merchandising expenditure, the Respondent stated that, of UGX 56,728,775 claimed for 2020, documents were supplied for UGX 8,822,352, leaving UGX 47,906,423 unsupported. For 2021, the expenditure was disallowed because the documents presented did not contain the suppliers' Tax Identification Numbers.

34. Regarding other operational expenditure, the Respondent stated that UGX 11,480,037 claimed for 2021 was unsupported. For each of 2022 and 2023, the Applicant claimed UGX 52,277,828 but, according to the Respondent, supplied acceptable support for only UGX 14,190,435. The remaining UGX 38,087,393 for each year was therefore disallowed.

Value Added Tax

35. The Respondent maintained the domestic VAT assessment of UGX 65,206,871. Mr. Busingye stated that the assessment arose from the stock differences and revenue which the audit team considered undeclared. As the Applicant's apparel products were taxable goods, the Respondent treated the inferred sales as taxable supplies and charged VAT on the resulting value.

36. The Respondent's position was that the Applicant had not reconciled the affected stock or provided evidence demonstrating that the differences arose exclusively from non-sale events such as transfers, returns, damage, shrinkage or goods in transit.

Pay As You Earn

37. Regarding PAYE, Mr. Busingye stated that the two non-resident directors were involved in the Applicant's day-to-day operations and management. The Respondent's records did not show that they had received dividends, while the Applicant's payroll and employment records did not disclose any remuneration paid to them.

38. The Respondent inferred from their active participation in the business that the directors were performing remunerated functions. It therefore directed the Applicant, through the Compliance Review Management Letter dated 20 February 2025, to amend its PAYE returns by including remuneration of UGX 10,000,000 per director per month. The resulting PAYE assessment was UGX 292,549,998.

V. The Applicant's submissions

39. The Applicant submitted that a tax assessment must be founded on a taxable event recognised by the relevant Act. The Respondent could use an appropriate method to test a taxpayer's declarations, but it could not convert an expected commercial result into taxable income or consideration without establishing the statutory basis for doing so.

40. On Income Tax, the Applicant relied on section 4(1) of the Income Tax Act and submitted that tax is imposed on chargeable income. It argued that the application of the 32.55% margin created notional income because the Applicant had neither received nor become entitled to receive the difference between its discounted prices and the Respondent's expected prices.

41. The Applicant submitted that markdowns, promotions and clearance sales were genuine commercial transactions undertaken in the ordinary course of its business. A commercial margin was a pricing expectation, not

evidence that a higher amount had been paid by a customer or had accrued to the Applicant.

42. On the stock movement component, the Applicant submitted that the Respondent had not identified concealed receipts, parallel accounts, omitted customer payments or other evidence showing that the variances represented completed sales. It argued that the alternative causes identified by Mr. Obambo made it unsafe to treat every variance as undeclared revenue.

43. On expenditure, the Applicant relied on section 22 of the Income Tax Act and submitted that the outsourced staffing, merchandising, stock-handling and operational expenses were incurred wholly and exclusively in producing income. It argued that otherwise genuine expenditure should not be disallowed solely because a document was not generated through EFRIS, lacked a TIN or contained a minor formal defect, where the transaction and payment were established by the other commercial records.

44. On VAT, the Applicant relied on sections 4 and 21 of the Value Added Tax Act. It submitted that VAT on an ordinary retail supply is charged by reference to the consideration paid or payable for that supply. The Respondent could not replace an actual discounted price with a hypothetical selling price unless a provision of the Act authorised the use of fair market value in the circumstances.

45. On PAYE, the Applicant relied on section 126 of the Income Tax Act and submitted that the withholding obligation arises from a payment of employment income. Directorship, oversight or participation in management did not, without evidence of remuneration paid, provided or accrued, create employment income.

46. The Applicant further submitted that the Respondent had not explained the source or computation of the assumed UGX 10,000,000 monthly salary. In the absence of contracts, payroll records, bank transfers, accounting entries, board resolutions or benefits provided to the directors, the PAYE assessment was said to rest entirely on supposition.

VI. The Respondent's submissions

47. The Respondent submitted that the assessments, as revised in the objection decision, were lawfully raised and were due and payable. The Respondent emphasised that the statutory burden rested on the Applicant to prove that the assessments were incorrect, that it was not liable for the tax assessed, or that the objection decision should have been made differently.

48. The Respondent submitted that the Commissioner General was entitled to raise an assessment using the information available where a taxpayer's records contained inconsistencies, omissions or unexplained variances. In its view, the Applicant could not discharge its burden by offering general explanations; it had to reconcile the figures and support the transactions appearing in its records.

49. On Income Tax, the Respondent submitted that the assessment rested on three matters: undeclared sales inferred from pricing reductions and discounts for 2023; undeclared sales inferred from stock movement differences for 2021, 2022 and 2023; and operating and employment expenditure which was not adequately supported.

50. The Respondent argued that the 32.55% margin was reasonably applied because it was drawn from the Applicant's own transfer-pricing policy. It contended that the Applicant had not produced sufficient material to demonstrate why the actual results departed from that margin or to establish that all the differences were attributable to genuine commercial discounts.

51. On the stock movement component, the Respondent submitted that the Applicant was the custodian of the inventory and accounting records and was therefore required to reconcile the identified differences. General references to shrinkage, damage, transfers, returns and timing differences did not show that those events accounted for the particular variances assessed in each year.

52. On expenditure, the Respondent submitted that deductions were not allowable merely because they had been recorded in the Applicant's accounts. The Applicant had to prove that the expenses were incurred and were properly deductible. The Respondent maintained that it had already allowed the amounts supported during the objection review and that the remaining balances were correctly disallowed.

53. On VAT, the Respondent submitted that the goods concerned constituted taxable supplies. It argued that, because the Applicant had failed to reconcile the stock differences and the related revenue, the resulting undeclared sales were properly subjected to VAT.

54. On PAYE, the Respondent submitted that the directors' active involvement in the daily management of the business justified the assessment. It invited the Tribunal to uphold the inference that the directors were remunerated notwithstanding the absence of dividends, salary entries or other formal remuneration records, and prayed that the PAYE assessment be upheld.

VII. The Applicant's rejoinder

55. In rejoinder, the Applicant maintained that its discounted sales were genuine arm's-length commercial transactions and that the discounted prices represented the actual consideration received. Its argument was not that discounted sales were outside the tax net, but that no additional Income Tax or VAT arose on the difference between the actual price and a higher price which was never charged.

56. The Applicant repeated that the 32.55% gross margin in its transfer-pricing documentation was not evidence of the amount realised from each retail sale. It submitted that an adjustment based only on assumed profitability had no legal basis and did not prove undeclared income.

VIII. The determination

57. The parties were directed to file their respective affidavits and written submissions within the timelines set by the Tribunal. The Tribunal notes that while the Applicant filed its affidavit and submissions within the prescribed timelines, the Respondent filed significantly outside the

specified period. This practice is strongly discouraged as it unduly delays the determination and disposal of cases. Nevertheless, the Respondent's filings were ultimately admitted and considered by the Tribunal in rendering this decision.

The Burden of Proof

58. **Section 28 of the Tax Procedures Code Act, Cap. 343** places the burden on the taxpayer, in proceedings concerning a tax assessment, to prove that the assessment is incorrect. Section 19 of the Tax Appeals Tribunals Act, Cap. 341 similarly places the burden on an applicant disputing an assessment.

59. An assessment is not displaced merely because the taxpayer offers a possible alternative explanation. The taxpayer must place before the Tribunal credible evidence which addresses the factual foundation and computation of the assessment. Where the assessment rests on an estimate prompted by deficiencies in the taxpayer's records, the Tribunal considers both whether the estimate had a rational connection to the available information and whether the taxpayer's evidence demonstrates that the resulting figure is wrong.

60. The statutory burden does not, however, convert an unsupported supposition into taxable income. An assessment must still proceed under the relevant charging and computational provisions. Once a taxpayer produces reliable records directly contradicting the premise of an assessment, the Tribunal must determine the dispute on all the evidence; it does not uphold a figure simply because it was stated in an assessment.

I) Income Tax Assessment

61. Section 4 of the Income Tax Act, Cap. 338 imposes Income Tax on a person who has chargeable income for a year of income. Under sections 15, 17 and 18, chargeable income is gross income, including business income derived from carrying on a business, less the deductions allowed

by the Act. For an accrual-basis taxpayer, section 40 treats income as derived when it becomes receivable.

62. The Act therefore taxes income received or receivable. It does not ordinarily tax a margin which an independent trader might commercially have obtained but deliberately surrendered through a genuine discount. That does not prevent the Commissioner General from estimating omitted income from unreliable records, or from making an arm's-length adjustment in a transaction between associates under section 116. It means that the legal and evidential basis for the particular adjustment must be identified.

Discounted sales and the 32.55% margin

63. The Respondent took a margin contained in the Applicant's transfer-pricing policy and applied it uniformly to purchase costs to derive expected retail sales. The transactions in issue, as presented in the evidence, were retail sales to customers during promotions, markdowns and clearance events. The Respondent did not contend that those customers were associates of the Applicant or invoke section 116 of the Income Tax Act in respect of them.

64. A transfer-pricing benchmark may provide an audit lead, but it is not, without more, proof that every item was sold at that margin or that the difference between an expected price and the invoiced discounted price was received or became receivable. Retail margins vary with product life, season, demand and the need to clear stock. The existence of a pricing policy does not create a debt from a customer for the undiscounted amount.

65. The Applicant's position on this component is not merely that discounts are possible. It is that the recorded discounted prices were the transaction prices and that the Respondent replaced them with a uniform expected margin. On the Respondent's own account, the adjustment was derived from that expected margin rather than from identified additional receipts or a statutory arm's-length adjustment involving associates.

66. The Tribunal therefore finds that the use of the 32.55% margin, by itself, did not establish additional business income. The Applicant has proved that the Income Tax assessment was incorrect to the extent that it included income created solely by substituting that margin for the recorded consideration on ordinary retail sales.

Stock movement differences

67. The position is different in relation to stock movement differences. A material discrepancy between stock records, purchases, returns, cost of sales and closing inventory may reasonably call for explanation. If goods acquired for resale disappear from the recorded inventory without a corresponding recorded sale, transfer, return, write-off or destruction, the Commissioner General is entitled to investigate whether sales were omitted.

68. The Applicant identified several matters which can cause inventory differences, that is, goods in transit, transfers, damage, shrinkage, returns and timing adjustments. Those are commercially plausible explanations, but plausibility is not reconciliation. The burden required the Applicant to connect those explanations to the identified differences for each year through stock-transfer records, goods-in-transit schedules, approved write-offs, damage or destruction records, stock take reports, returns and ledger reconciliations.

69. The evidence as summarised in the affidavits does not identify a year-by-year reconciliation which accounts for the differences quantified by the Respondent. Nor does it quantify what part of the difference resulted from each alleged cause. The Tribunal cannot infer that the whole variance arose from shrinkage, damage or timing simply because those events occur in retail businesses.

70. The Respondent was not required, after identifying an unreconciled disappearance of trading stock, to name every customer to whom the goods may have been sold before the Applicant answered the discrepancy in its own records. The Applicant has not discharged its burden in respect

of the stock movement component. That component of the Income Tax assessment is upheld.

Disallowed expenditure

71. Section 22(1) of the Income Tax Act allows expenditure and losses incurred during the year of income to the extent incurred in the production of income included in gross income. The taxpayer must prove both that the expenditure was incurred and that it bears the required connection to the production of income. A description in a ledger or a general assertion that a service was supplied is not, by itself, sufficient.

72. The Respondent allowed the portions it considered verified and disallowed specified balances for want of adequate supporting material. The Applicant's affidavit states generally that invoices, contracts, payment records and bank statements existed, but the record before the Tribunal does not match particular documents to each disallowed supplier, service, year and amount.

73. A bank payment may prove that money moved, but not necessarily what was supplied or whether the expense satisfied section 22. Conversely, the absence of an EFRIS invoice or a supplier's TIN is not, without regard to the applicable law and all other evidence, an automatic answer to whether expenditure was incurred and deductible. The decisive question remains whether the Applicant proved each deduction claimed.

74. On the material presented, the Applicant has not proved that the specified unsupported balances were deductible. The Tribunal will not reopen the evidential record after judgment by directing the Applicant to supply documents which ought to have been produced in support of its application. The disallowances are upheld to the extent that the Respondent had already allowed the amounts it verified and disallowed the balances identified in its objection decision.

II) VAT Assessment

75. Unlike Income Tax, the issue under Value Added Tax is not whether income was derived, but whether taxable supplies were made for consideration upon which VAT became chargeable. The Respondent's assessment is founded on the same assumptions regarding discounted sales and stock movement variances.

76. The Applicant challenges the VAT assessment of UGX 65,206,871 on the ground that it was computed on hypothetical taxable values generated by applying a 32.55% mark-up to discounted sales and stock variances rather than on actual taxable supplies made for actual consideration.

77. Section 4(a) of the Value Added Tax Act, Cap. 349 charges VAT on every taxable supply in Uganda made by a taxable person. Section 18 defines a taxable supply as a supply of goods or services, other than an exempt supply, made for consideration as part of the supplier's business activities.

78. Under section 21(1), the taxable value of a taxable supply is, except where the Act otherwise provides, the total consideration paid in money or kind for the supply. The statutory definition of consideration reduces the amount paid or payable by discounts or rebates allowed and accounted for at the time of supply. Sections 18(7) and 21(2) separately address supplies between associates for no consideration or for less than fair market value.

79. The Respondent did not allege that the retail customers were associates or that the discounts were sham transactions. It instead substituted a 32.55% expected margin for the prices recorded on discounted retail sales. For the same reasons given under Income Tax, that approach does not establish additional consideration or a fair-market-value adjustment authorised by the VAT Act. The VAT assessment is therefore incorrect to the extent that it was calculated solely on the margin imputed to genuine arm's-length discounted sales.

80. We are guided by the principle in ***Guaranty Trust Bank Limited v. Uganda Revenue*** Authority ***(Tax Appeals Tribunal Application No. 20 of 2024)***, where the Tribunal emphasized that tax liability must arise from

facts established by evidence rather than assumptions or deemed transactions unless expressly provided by statute.

81. The stock movement component again stands differently. The Applicant did not reconcile the identified inventory differences to non-supply events. Goods removed from trading stock otherwise than through a documented transfer, return, write-off or destruction may properly form part of an assessment where the records do not account for them. The Applicant has not proved that the VAT assessment attributable to the unreconciled stock differences was incorrect. That component is upheld.

III) PAYE Assessment

82. Section 126(1) of the Income Tax Act requires every employer to withhold tax from a payment of employment income to an employee. Employment income is defined by section 19 and includes amounts and benefits derived from employment. Under the applicable accounting rules, the income must at least have been paid, provided or become payable; participation in management does not itself fix an amount of remuneration.

83. The PAYE assessment was based on the proposition that because the two non-resident directors took part in day-to-day management and were not recorded as receiving dividends, they ought to have received salary. The Respondent then attributed UGX 10,000,000 per month to each director. The Respondent did not identify a contract, board resolution, payroll entry, directors' current account, payment, benefit or other record from which either the existence or amount of the presumed remuneration could be derived.

84. The absence of dividends does not prove the payment of salary. A director may serve without remuneration, may be remunerated by another group entity, or may receive remuneration in a form which must be proved from the facts. The Commissioner General may assess unrecorded employment income revealed by evidence, but section 126 does not authorise the creation of a salary merely because the Commissioner considers that work should have been remunerated.

85. The Applicant's records and sworn denial directly addressed the factual premise of this component. The Respondent answered with an assumption rather than evidence of a payment, accrual or benefit, and gave no objective basis for the monthly figure selected. The approach is also inconsistent with the Tribunal's reasoning in Guaranty Trust Bank (U) Limited v Uganda Revenue Authority, TAT Application No. 20 of 2024, that employment income cannot be deemed in the absence of a statutory basis and facts establishing that it was earned.

86. The Applicant has accordingly proved that the PAYE assessment of UGX 292,549,998 was incorrect. It is set aside in full.

Orders

87. The application succeeds in part. The Applicant has proved that the adjustments founded solely on the uniform 32.55% margin and the assumed remuneration of the two directors are erroneous. However, it has not discharged its burden in relation to the unreconciled stock movement differences and the expenditure which remained unsupported after the objection review.

88. The Tribunal makes the following orders:

(i) The PAYE assessment of UGX 292,549,998 is set aside in full.

(ii) The Income Tax and VAT assessments are set aside only to the extent that they arose from applying the 32.55% margin to the recorded consideration for ordinary discounted retail sales.

(iii) The components of the Income Tax and VAT assessments attributable to the unreconciled stock movement differences are upheld.

(iv) The Income Tax disallowances relating to expenditure which the Applicant did not prove by the evidence filed in this application are upheld, subject to the amounts already allowed by the Respondent in the objection decision.

(v) The matter is remitted to the Respondent solely for the arithmetical recomputation of the Income Tax and VAT payable after removing the adjustments identified in order (ii). The Respondent shall not, in that recomputation, introduce a new basis of assessment or reopen the evidential record.

(vi) As each party has succeeded on substantial parts of the dispute, each party shall bear its own costs.

It is so ordered.

Dated at Kampala this **31st** day of **July** 2026.

HON. CRYSTAL KABAJWARA
CHAIRPERSON

HON. PROSCOVIA REBECCA NAMBI
MEMBER

HON. GERALD AGABA KAKIMA
MEMBER