TAX APPEALS TRIBUNAL
Justice In Taxation

THE REPUBLIC OF UGANDA

IN THE TAX APPEALS TRIBUNAL AT KAMPALA

TAT APPLICATION NO. 252 OF 2022

MOIL UGANDA LIMITED.....APPLICANT

VERSUS

UGANDA REVENUE AUTHORITY..... RESPONDENT

BEFORE: HON. CRYSTAL KABAJWARA, MS. CHRISTINE KATWE, HON. WILLY NANGOSYAH

RULING

I. Introduction

1. This ruling is in respect of an application challenging the demand for taxes arising from a reconciliation by the Respondent of the Applicant's ledger, where the Applicant seeks orders that:
   (i) The Applicant is not liable to pay the taxes being demanded by the Respondent.
   (ii) All the Respondent's claims in interest that arose prior to 30 June 2020 are unlawful.
   (iii) All the payments made by the Applicant in 2021 and 2022 and applied by the Respondent to clear interest /penalties accumulated prior to 30 June 2020 were made in error.
   (iv) Costs of this application should be provided for.

II. Background Facts

2. The Applicant deals in the importation and sale of petroleum products and lubricants. On 19 October 2022, the Applicant received a demand notice from the Respondent to pay Shs. 1,311,162,063 in VAT, Income Tax, rental tax and PAYE arising out of the electronic ledgers.

3. Upon review of the ledgers, the Applicant found that the ledgers were defective as they were not made in accordance with the tax laws and therefore do not reflect the Applicant's true tax position. The payments in the ledgers were misallocated, the interest was inflated as a result, and the interest was not waived under Section 46 of the TPC Act.

4. On 24 October 2022, the Applicant sent an email to the Respondent informing them of the various anomalies in the ledger and that the tax liabilities do not arise out of any assessment, and neither any interest nor any penalty was waived. On 19 November 2022, the Respondent upheld their original position and issued a demand notice of Shs. 1,327,996,811 to pay the outstanding liability.

5. On 30 January 2023, a joint reconciliation meeting was convened following the Tribunal's temporary injunction directing the parties to undertake a reconciliation exercise. During the joint reconciliation meeting, all verified credits that had not initially appeared in the Applicant's ledger were duly posted. An erroneous refund posting of Shs. 138,727,908 on the VAT ledger, which had overstated the Applicant's credit position, was identified and corrected. Payment redistributions that the Applicant specifically requested were approved and applied.

6. However, the Applicant, still aggrieved by the Respondent's decision, filed this application in this Tribunal.

III. Issues for determination.

7. The key issue to be determined is whether the Applicant is liable to pay the tax assessed.

IV. Representation and evidence

8. Mr. Robert Karigyenda represented the Applicant, while Ms. Amutuhaire Doreen and Mr. Edmond Agaba appeared for the Respondent.

9. During cross-examination on 27 August 2025, the Applicant's first witness, **Mr. Amin Ali Mohammed Manji (AW1),** was questioned extensively on the Applicant's tax ledgers, assessment notices, and the waiver of interest and penalties. He confirmed that the assessment notices contained assessed penal tax and references to interest payable on outstanding principal tax.

10. He further admitted that no interest had been paid on some assessed amounts. However, he disputed the Respondent's assertion that interest and penalties exceeding Shs. 700 million had been waived by June 2022. AW1 acknowledged that prior to the enactment of section 40(c) of the Tax Procedures Code Act (TPCA), the Applicant had outstanding interest and penalties, although he stated that he was unaware whether some of those liabilities had already been recovered through allocation of payments under section 41 of the TPCA.

11. During re-examination, AW1 maintained that several assessments had been issued without interest being assessed and explained that the electronic ledger system was only introduced to taxpayers in 2020. He further stated that the Applicant had objected to some assessments and that discussions with URA were ongoing when the waiver provisions came into force.

12. During cross-examination on 27 August 2025, **the Applicant's second witness**, **Mr. Ahil Manji (AW2**), was questioned on the disputed tax heads, the Applicant's alternative ledger analyses, and the computation of interest. AW2 confirmed that the dispute concerned PAYE, rental tax, VAT, and income tax, although he acknowledged that one of the demand notices did not expressly include income tax.

13. He admitted that some of the interest reflected in the Applicant's analyses extended beyond June 2020 and further conceded that some alternative VAT ledgers prepared by the Applicant did not contain outstanding VAT interest.

14. AW2 nevertheless maintained that the Applicant's complaint was that the interest had never been properly notified and that payments had not been allocated correctly by URA. He also testified that different interest rates had been applied during different periods and asserted that, had the waiver provisions been properly implemented, the post-June 2020 interest would not have continued accruing.

15. During examination-in-chief and cross-examination on 31 October 2025, the Respondent's witness, **Mr. Enyasu Godfrey (RW1)**, who was attached to the Ledger Reconciliation Unit, explained the operation of the Respondent's electronic ledger system and the allocation of taxpayer payments.

16. RW1 testified that the ledger automatically computes interest for late payment and that payments made before July 2021 were allocated first to principal, then penalties, then interest, beginning with the oldest outstanding liabilities. He further explained that after June 2021, taxpayers could direct which liabilities they intended to clear.

17. RW1 maintained that only interest and penalties outstanding as at 30 June 2020 qualified for waiver under section 40C, now section 46 of the TPCA, and that already recovered interest could not be waived. He also stated that the unpaid principal tax continued attracting fresh interest from 1 July 2020 onwards.

18. During cross-examination, RW1 admitted that certain figures on the PAYE ledger did not tally and required "transformation." He further acknowledged that payments made after 2016 had been allocated to liabilities dating back to periods before 2016, and stated that URA relied on earlier provisions of

the VAT Act and the Income Tax Act before the enactment of section 41 of the TPCA. The Tribunal questioned the statutory basis for the retrospective allocation practices and the rapid accumulation of interest on the ledgers.

19. During further cross-examination on 18 December 2025, RW1 admitted that certain withholding tax credits had initially not been captured on the Applicant's ledger because the taxpayers' TINs had not been entered by withholding agents. He also acknowledged that erroneous postings had occurred on the ledger and were later corrected.

20. RW1 confirmed that some payments made several years later, including payments made in 2017 and 2023, had been allocated towards liabilities dating back to 2010 and 2020 respectively. He further admitted that, in some instances, the interest charged exceeded both the principal tax and the penalties, and that no capping mechanism existed during the earlier periods.

21. RW1 nevertheless maintained that the interest in issue had already been recovered before the waiver provisions came into force and therefore did not qualify for waiver. He also explained that taxpayers were not notified whenever payments were allocated to earlier liabilities and that such allocations followed URA's practice and section 41 of the TPCA.

22. During further cross-examination on 9 February 2026, RW1 testified that the electronic ledger system was introduced in 2020 and that taxpayers were only granted viewing access in 2021. He stated that taxpayers could view transactions on the ledger but could not make adjustments.

23. RW1 admitted that, despite the claimed accuracy of the system, a Ledger Reconciliation Unit was still required to address historical issues, missing entries, unimplemented court orders, and erroneous postings, including an erroneous refund of Shs. 138 million.

24. He further conceded that no separate assessments for interest had ever been issued and that taxpayers were not notified when payments were allocated to earlier liabilities. RW1 nevertheless maintained that interest could lawfully be demanded without a formal assessment because interest was not static and depended on the timing of payment. During questioning by counsel and the Tribunal, RW1 acknowledged that, prior to the TPCA, there were no statutory allocation rules equivalent to section 41, and admitted that the retrospective application of later provisions would not be permissible.

25. During re-examination on 17 February 2026, RW1 reiterated that prior to July 2021, URA allocated payments first to principal, then penalties, and thereafter interest, beginning with the oldest liabilities. He further explained that after June 2021, taxpayers could direct which liabilities they intended to settle. RW1 maintained that section 46 of the TPCA only waived interest and penalties that remained outstanding as at 30 June 2020 and that any unpaid principal thereafter continued to accrue fresh interest from 1 July 2020 onwards.

26. He also justified URA's failure to issue separate assessments for interest on the basis that assessment notices already warned taxpayers that unpaid liabilities would attract interest. RW1 additionally clarified that an earlier discrepancy in the PAYE ledger arose from an incorrect manual computation on his part, where he had failed to account for section 45 of the TPCA, which deferred certain payment deadlines to 31 December 2020. Upon applying the correct due date, he stated that the interest figure reflected on the ledger was accurate.

V. Submissions by the Applicant

27. The Applicant submitted that this is a complex ledger system that incorporates multiple factors, and it is necessary to first examine the underlying issues raised by both parties and explored throughout the hearings in this case.

Whether the Applicant's payments were properly allocated

28. The Applicant submitted that the payment allocation adopted by the ledger is not in accordance with the law, as S.38(1) (now S.41), and S.38(2) of the Tax Procedures Code Act ("TPCA") were applied retrospectively to periods when the law was not in effect, thereby creating liabilities that could not lawfully arise at the time the payments were made.

29. The Applicant contended that the Respondent's sole witness, Mr. Godfrey Enyasu, RW1, testified in p.11 of his witness statement *that "the allocation of payment made by the Respondent.... in the ledger is based on the allocation rules as provided under S.41 of tire Tax Procedures Code Act, Cap 343."* While demonstrating the online ledger on 31 October 2025, RW1 stated that for periods before July 2021, payments were allocated in the order of principal, penalty, interest, and to the oldest liability, whereas from July 2021, the Respondent no longer allocated payments to the earliest liability. In July 2021, S.38(2) of the TPCA was repealed.

30. During cross-examination, the Applicant argued that RW1 admitted the allocation rule was applied retrospectively and that they were not guided on the order of recovery prior to 2016. In ***Multi-Consults Limited v URA TAT No. 72 of 2019***, the Tribunal held that:

> *"The Respondent's application of S.38(2) of the TPCA, to payments made by the Applicant in respect of the period prior to 1st July 2016, amounted to a retrospective application of the law and was therefore unlawful."*

31. The Applicant also relied ***on Eye Care Centre Uganda Limited v URA TAT No. 91 of 2021***, where the Tribunal again rejected retrospective allocation of payments under later statutory provisions. It was proved that the rules laid out in S.41, formerly S. 38(1), as well as S.38(2) of the TPC Act, were applied to the tax periods from 2009 to 2016.

32. The Applicant submitted that the retrospective application of S.41 and S. 38(2) was further evidenced by AW2, Amin Ali Mohamed Manji, in his

witness statement and supported by AIDEX 1, AIDEX 2, AIDEX 3, AIDEX 4, which show the various payment registration numbers ("PRNs") that were split by the Respondent in the ledger to recover liabilities in different tax periods. This caused the taxpayer's ledger to be distorted and created liabilities, in the form of interest, that did not exist under the legal framework at the time the payments were made.

33. The Applicant argued that an example of this distortion was evident during the cross-examination of RW1 on 18 December 2025, when he presented the Applicant's electronic VAT ledger. For March 2020, the Applicant filed a return of Shs. 3,881,828 and made a corresponding payment under PRN 2200004635196 on 14 April 2020, within the due date. Despite this, the ledger split that payment into three portions and applied it to liabilities for July, August, and September 2018. As a result, the March 2020 principal remained outstanding and attracted interest of Shs. 3,881,828, which was only cleared through a later payment made on 17 June 2023.

34. Similarly, it was seen that a payment made on 24 February 2010 under PRN 2100000008560 is used to clear liabilities for the months of July 2010 and August 2010. These instances during the demonstration directly support the tabulation in AIDEX 2, which shows that the chain of reallocated payments extends as far back as February 2010 and as far as June 2023. Both of these periods fall outside the 2016-2021 period, during which the earliest liability rule was in effect. Therefore, the payment allocation made by the Respondent was unlawful, as before 1 July 2016, there was no legal basis for the Respondent to apply S.41 (formerly S.38), and this illegality consequently rendered the ledger balances invalid.

Whether the interest reflected in the ledger is lawfully recoverable

35. The Applicant submitted that the interest reflected in the Respondent's ledger is not lawfully recoverable from the Applicant because it arose through a process that lacked transparency as prescribed by **S. 25(6)(b) and S.42 of the TPC** Act and instead arose as a result of unlawful retrospective payment allocations. The Respondent's witness, RW1, stated

in paragraph 10 of his witness statement that interest is not separately assessed because it is not a new tax head but rather arises automatically as a consequence of non-payment of tax and that such interest is reflected directly on the taxpayer's ledger.

36. The Applicant contended that the specific interest reflected in the ledger was not generated through a lawful process. During the demonstration of the ledger, it was shown that the balances currently appearing on the Respondent's ledger are not the result of straightforward unpaid tax but of retrospective payment allocations made through an electronic ledger system introduced only in 2020, with taxpayer access granted only in 2021. Yet the ledger reaches back to periods as early as 2009.

37. The Applicant argued that this means that for over a decade, the Applicant had no direct visibility of how payments were being allocated, how balances were being carried forward, how interest was being computed or whether legal changes introduced over the years were being retrospectively applied to earlier payments. The Applicant's interest accrued as at June 2020 stood at Shs. 2,412,541,118, while the amount waived was only Shs.700,026,550. The clear implication is that Shs. 1,712,514,568 had already been absorbed through prior payment allocations towards interest recovery, without the Applicant being aware that such interest even existed

38. The Applicant maintained that the retrospective allocations also put an impossible burden on the taxpayer to know and clear their liabilities for a past period based on a law introduced in the future. RW1 stated during cross-examination that the ledger system was introduced in 2020 and the taxpayer was given access rights to the system in 2021. When asked whether taxpayers were ever informed that a later law may be applied retrospectively and change their payments, RW1 responded negatively.

39. The Applicant submitted that interest cannot be treated as automatically enforceable where the taxpayer was not in a position to understand how the underlying balance itself was created. This is particularly important in

the present case because the Respondent's own evidence shows that the underlying balances were altered by the retrospective application of Section 41 of the Tax Procedures Code Act, a provision that did not exist when many of the payments were made. Once those old payments were reallocated, new balances emerged and interest then accumulated upon those reconstructed balances. The interest now demanded is not merely statutory interest arising naturally from unpaid tax. It is interest generated from retrospective ledger restructuring.

40. The Applicant maintained that it would be unjust and unlawful to charge the taxpayer interest dating back to periods before 1 July 2016, when neither the ledger nor the laws being implemented in the ledger, particularly S.41 of the TPCA, were in effect at the time. A taxpayer cannot be expected to object to or even clear liabilities that are invisible, not duly informed and generated internally through a system to which they had no access at the material time.

41. Counsel for the Applicant argued that interest cannot become lawful merely because it appears on a ledger, especially if the process that generated it is itself legally defective. In fact, by the time the Applicant was finally able to access the ledger in 2021 and given the opportunity to reconcile the balances that had been created, many of the underlying periods were already far beyond the statutory record retention requirement as laid out in Section 15 of the TPCA, which requires a taxpayer to maintain records for up to 5 years.

42. The Applicant contended that the law cannot, on one hand, relieve a taxpayer of the obligation to preserve records after five years and, on the other hand, permit liabilities to be enforced through retrospective ledger reconstruction that requires explanations for periods far beyond that statutory limit. Further, it is worth noting that the electronic ledger system itself, extending back to 2009 and forming the foundation of the disputed liability, is not expressly prescribed under any law as a basis for imposing retrospective tax on a taxpayer. This becomes even more critical when

viewed against Article 152(1) of the Constitution of Uganda, which provides that no tax shall be imposed except under the authority of an Act of Parliament.

43. The Applicant maintained that in these circumstances, the consequences of reconciling ledger entries dating back more than a decade cannot lawfully be shifted onto the taxpayer, particularly where the taxpayer had neither the statutory obligation to retain records for those periods nor access to the system at the material time. For that reason, the interest reflected in the electronic ledger should not be enforced against the Applicant, because it arises from unlawful retrospective allocations and a process that deprived the Applicant of a genuine, timely opportunity to understand and contest or even pay the liabilities at the time they were supposedly being created.

Whether the tax waiver, as prescribed in S.46 of the TPC Act was applied correctly

44. The Applicant submitted that the tax waiver prescribed by law was not correctly applied by the Respondent, as the misallocation of payments distorted the ledger and wrongfully created interest liabilities for periods whose principal taxes were already paid. These liabilities were then recovered through payments meant to clear the principal taxes for the subsequent periods. Over three years after the waiver, the interest kept accruing and when it was finally done, interest started accruing on the principal of June 2023 whose payment was used to clear March 2020.

45. Counsel for the Applicant contended that despite having made payments against the principal taxes, the payments were being used to recover interest. As far as the taxpayer was concerned, they paid their principal assessed liability regularly and expected the interest if any to be waived in accordance with **S.46 of the TPC Act** because at the time of the waiver, they had access merely to the law and their records, not the Respondent's internal system.

46. The Applicant relied on the case of **K-*Files v URA TAT No. 69 of 2021***, where the Tribunal held that:

> *The Respondent did not notify the Applicant on any interest liability. What the Applicant calls outstanding interest and penalty is what the Respondent calls principal tax outstanding. If the Respondent had notified the Applicant of interest and penalty in timely fashion, this dispute would not have arisen. A taxpayer should be treated fairly.* ***S. 40(C) of the TPC Act*** *waived any interest and penalty outstanding as at 30 June 2020. If the respondent were to reconcile ledgers, where it uses payments made by taxpayers to first pay interest and penalty and not principal tax, one may not be wrong to view it as an attempt to circumvent S.* ***40(C) of the TPC*** *Act, especially where the legislature did not mention how the interest and penalty it waived should be arrived at. Where there is doubt to the application of a law, the taxpayer takes benefit.*

47. The Applicant argued that in line with that authority all interest and penalties outstanding as at 30 June 2020 ought to have been waived in its entirety and the Respondent should not rely on internal retrospective reallocations to reduce the benefit intended by a parliamentary waiver. The Applicant's payments over the years were unlawfully misallocated by the Respondent. accordance with the law.

VI. Submissions of the Respondent

48. The Respondent submitted that the Applicant's electronic tax ledger accurately reflects its true tax position and that the Applicant is fully liable to pay the outstanding tax. Further, the assessments and demand notices issued against the Applicant are lawful. What the Applicant characterises as a retrospective and unlawful administrative system is on any fair reading of the evidence and the law nothing of the sort.

Whether the Applicant's Payments Were Properly Allocated

49. The Respondent contended that the Applicant's argument that the Respondent retrospectively applied **Section 41 of the TPCA (formerly Section 38**) to periods prior to July 2016, thereby creating liabilities that did not lawfully exist at the time fundamentally mischaracterises how the

payment allocation in the tax ledger operates and it conflates the act of recording historic liabilities with the act of imposing new ones.

50. Counsel for the Respondent quoted **Section 41 of the Tax Procedures Code Act (TPCA),** which states that;

> *"When a taxpayer is liable for penal tax and interest in relation to a tax liability and the taxpayer makes a payment that is less than the total amount of tax, penal tax, and interest due, the amount paid is applied in the following order*
>
> *(a) in payment of the principal tax;*
>
> *(b) in payment of penal tax, and*
>
> *(c) the balance remaining is applied against the interest due."*

51. The Respondent submitted that **Section 41(2),** prior to its repeal in July 2021, further required that the allocation be made to the earliest liability first. This framework has been on the statute book since the TPCA came into force on 1 July 2016, when it was then numbered **Section 38**. It has applied to every payment made by the Applicant from that date onwards, precisely as Parliament enacted it.

52. The Respondent argued that their witness, Mr. Enyasu Godfrey (RW1) explained the mechanics to the Tribunal in clear and straightforward terms that the ledger is divided into two, that is the period before July 2021 and the period after June 2021.In the period before July 2021, **Section 41 of the Tax Procedure Code Act, Cap 343** is applied in full. In the order of principal, penalty and Interest and to the earliest liability as provided for under Section 41(2). After June 2021, the payments are allocated in the order of principal, penalty, interest but not to the earliest liability following the repeal of **Section 41(2) of the TPCA**. The taxpayer through the URA portal is able to select which liability is clearing on the ledger."

53. The Respondent submitted that the real issue concerns the period before July 2016 because the Applicant's tax history does not begin in 2016. It begins in 2009. For the pre-TPCA period, the governing framework was

Section 104 of the Income Tax Act and **Section 35 of the Value Added Tax Act** both since repealed but fully operative at the time. Those provisions declared that tax payable under a tax law was a debt due to the Government payable to the Commissioner General in a manner and at a place determined by the Commissioner General.

54. The Respondent contended that the language is unambiguous. It vested in the Commissioner General express and broad authority to determine the manner of payment recovery including the order in which incoming payments reduced outstanding debts. Recovery to the earliest outstanding liability was the method applied under that authority and there was nothing unlawful about it. This is, therefore, emphatically not a case of a new law being imposed on old transactions. The Respondent did not reach back and create liabilities where none had existed.

55. Counsel for the Respondent argued that the liabilities, principal tax, penalties and interest arose from the Applicant's own self-assessments and from administrative assessments that were properly raised and communicated at the time. The allocation framework did not generate those liabilities. It simply determined the order in which the Applicant's payments reduced them. Allocating a payment made in say, 2012 against the earliest outstanding balance is not retrospective legislation, it is elementary debt administration.

56. Counsel for the Respondent submitted that Multi-Consults case the Applicant heavily relied is factually distinct in a material respect. The Tribunal's concern in multi-consults was with the specific sub-rules introduced by the TPCA in 2016 being mechanically applied to transactions that pre-dated the statute's commencement. In the present matter, the Respondent's case is that no such extension occurred. For the pre-TPCA period, allocation was carried out under the authority of Section 104 of the Income Tax Act and Section 35 of the VAT Act provisions that were in force throughout and that provided the Commissioner General with the necessary legal authority. The Respondent did not apply the TPCA's

allocation rules to pre-2016 transactions. It applied the law that was actually in force at the time.

57. Similarly, ***Eye Care Centre Uganda Limited v URA, TAT No. 91 of 2021*** raises no different point. The concern in that case was with the importation of later statutory rules into an earlier period in which they had no application. The present case does not raise that concern, for the reasons already given. The Respondent operated on a coherent and continuously lawful basis throughout. The pre-TPCA payments were administered under the Commissioner General's debt recovery authority; post-TPCA payments were allocated under Section 41.

58. Counsel for the Respondent quoted **Section 97/3) of the Tax Procedures Code Act** expressly provides that;

> *"a tax liability that arose before the commencement of this Act may be recovered under this Act, but without prejudice to any action already taken for recovery of the tax."*

59. Counsel for the Respondent argued that Parliament therefore expressly authorised the Respondent to deploy the mechanisms of the TPCA in the recovery of tax liabilities that pre-date the Act's commencement. Far from prohibiting retrospective application for recovery purposes, **Section 97(3) of the TPCA** affirmatively sanctions it. Prior to the enactment of the TPCA, equivalent recovery authority was vested in the Respondent under **Section 104 of the Income Tax Act** and **Section 35 of the Value Added Tax Act**.

60. Additionally, The TPCA did not disturb or supplant these pre-existing recovery powers. It supplemented and consolidated them and by Section 97(3), confirmed that liabilities that arose under those earlier laws remain fully recoverable under the current regime. It is therefore submitted that, whether the Respondent's conduct is analysed under the pre-TPCA framework or under the TPCA itself, the recovery of the Applicant's outstanding tax liabilities was at all times lawful and properly authorised. When a taxpayer made payments, the payments were applied to the earliest outstanding liability in accordance with the law.

61. The Respondent submitted that the payment allocation was carried out lawfully throughout, on a sound statutory footing that existed continuously from 2009 to date. It is not susceptible to challenge on grounds of retrospectivity.

Whether the Interest Reflected in the Ledger Is Lawfully Recoverable

62. The Respondent quoted **Section 136 of the Income Tax Act,** now **(Section 148 of the Income Tax Act, Cap. 338 and Section 65 of the Value Added Tax Act, Cap 349, now Section 39 of the Value Added Tax Act, Cap 344** which provides that interest accrues on any unpaid tax from the date the tax became due. Interest is therefore not a separate tax head requiring an independent assessment it arises automatically by operation of law when tax is not paid by the due date.

63. Counsel for the Respondent relied on **Section 42(1) of the TPCA** which provides that;

> *"The interest payable on unpaid tax under a tax law shall be collected by the Commissioner General in accordance with this Art as if it were unpaid tax"*

64. The Respondent submitted that the specific interest in the ledger was generated through a lawful process. The underlying principal tax liabilities from which the interest flows are themselves lawful. The assessments were properly raised and communicated. Where the Applicant disputes the computation, it had and exercised the right to object. The interest is simply the statutory consequence of unpaid principal tax remaining outstanding. Important to note is the fact that, most of the Assessments whose interest the Applicant disputes, were self-Assessments whereby the Applicant self-assessed but made late payments that attracted interest.

65. The Respondent further contended that the Applicant's complaint that it had no visibility over how interest was accruing prior to 2020 does not invalidate the interest. **Section 136 of the Income Tax Act, now (Section 148 of the Income Tax Act, Cap. 338 and Section 65 of the Value Added Tax Act, Cap 349, now Section 39 of the Value Added Tax Act, Cap 344** does not

require the Commissioner to separately notify a taxpayer of each incremental accrual of interest in order for that interest to be enforceable. Interest accrues by operation of law.

66. The Respondent argued that prior to the electronic ledger system, taxpayers were not left without recourse. They could and were expected to seek information about their tax position from URA offices and the Respondent communicated outstanding liabilities through letters. During cross-examination, AWI admitted that interest is payable on outstanding principal amount and is not a new assessment in its self.

67. The Respondent submitted that the Applicant argued that because the electronic ledger was only accessible to the taxpayers in 2020, the Applicant was deprived of meaningful transparency. This argument cannot in law operate as a bar to the recovery of interest that is otherwise statutorily due. The law does not condition the accrual of interest on the existence of a particular technological platform. To accept the Applicant's argument would be to hold that taxpayers incur no interest liability for any period in which the URA had not yet introduced electronic ledgers a proposition that has no basis in the tax statutes and would produce manifestly absurd results.

68. The Respondent submitted that the ***K-Files case (supra)*** relied on by the Applicant was decided on its specific facts where the Respondent had demonstrably failed to communicate interest and penalty information to the taxpayer. Second, and more importantly, in K-Files the Tribunal held that where there is doubt in the application of a law, the taxpayer takes benefit.

69. The Respondent submitted there is no genuine doubt here. The statutory basis for interest recovery is clear and unambiguous. Interest follows automatically from unpaid tax. The Respondent's ledger records, far from being obscure, are now accessible to the Applicant and the electronic ledger was demonstrated to the Tribunal during the hearing by Mr. Enyasu Godfrey (RW1).

70. The Respondent also noted that the Applicant's argument about Article 152(1) of the Constitution which provides that no tax shall be imposed except under the authority of an Act of Parliament, is a non-starter in this context. Interest on unpaid tax is explicitly authorised by multiple Acts of Parliament. There is nothing in the Constitution that has been infringed. Therefore, the interest reflected in the Applicant's ledger is lawfully recoverable and enforceable against the Applicant.

Whether the Tax Waiver Under Section 46 of the TPCA Was Correctly Applied

71. The Respondent submitted that the waiver was correctly applied in accordance with the statute. **Section 46 of the Tax Procedures Code Act, Cap 343,** provides for the waiver of outstanding interest and penalties that were accrued and unpaid as at 30 June 2020. The operative phrase is critical. The waiver applies to liabilities (interest and penalties) outstanding at that date.

72. The Respondent relied on **Black's Law Dictionary 11th Edition** which defines outstanding as unpaid; uncollected". The Respondent waived the Applicant's outstanding interest and penalties that were uncollected as at 30 June 2020 and such computation could not include interest that had already been recovered. It does not, and cannot, apply to interest and penalties that had already been absorbed by prior payments before 30 June 2020. The Respondent's evidence set out at paragraph 22 of RWI's witness statement and supported by the waiver table produced therein, demonstrates that the Applicant in fact benefited from a total waiver of Shs.733,362,570 across all tax heads, comprising Shs. 33,336,020 in penalties waived and Shs. 700,026,550 in interest waived.

73. The Respondent contended that the Applicant's complaint appears to be that had the payment allocation been done differently, that is, without applying the earliest-liability rule then more interest would have remained outstanding as at 30 June 2020 and thus more would have fallen within the waiver. The payment allocation was lawful. It necessarily follows that the

computation of what was outstanding as at 30 June 2020, and therefore eligible for waiver, was also correctly determined.

74. The Respondent maintained that post-waiver, interest continued to accrue on all outstanding principal tax liabilities in accordance with **Section 148 of the Income Tax Act, Cap. 338 and Section 39 of the Value Added Tax Act, Cap 344**. This is consistent with the statutory framework and is not disputed by the Applicant in principle. Any suggestion that post-waiver interest is somehow tainted by pre-waiver allocation decisions is legally untenable. The waiver was correctly applied, that the Applicant received the full benefit it was entitled to, and that the post-waiver outstanding balances are lawfully due.

The Applicant's Broader Constitutional and Transparency Arguments

75. The Respondent submitted that they do not dispute that the electronic ledger was only made accessible to the Taxpayers in 2020. This was a genuine improvement in tax administration, not an attempt to ambush taxpayers. Prior to the electronic system, taxpayers received demand letters, assessment notices and were able to query their position at URA offices. The law does not require the existence of a particular communications technology as a precondition for the enforceability of tax liabilities. The Respondent's progressive modernisation of its administrative systems should not be weaponised against it.

76. On Section 15 of the TPCA (record retention for 5 years). The Respondent noted that Section 15 imposes an obligation on taxpayers to retain records, it says nothing about the Commissioner's obligation or entitlement to assess or collect tax within only that window. The Respondent's assessments and demands are governed by the limitation provisions applicable to tax assessments, which are separate from and not to be confused with the record retention obligation.

77. The Respondent submitted that the payment allocation in the Applicant's ledger was carried out lawfully. There was no unlawful retrospective

application of the law. The interest reflected in the ledger arises automatically by operation of law from the Appl cant's failure to pay principal tax by the due date. It is lawfully recoverable. The waiver under Section 46 of the TPCA was correctly applied to all interest and penalties outstanding (i.e., unpaid) as at 30 June 2020. The Applicant benefited from a waiver of Shs. 733,362,570. The Applicant is therefore liable to pay the full outstanding tax as set out in the reconciled ledger.

VII. The Applicant's submissions in rejoinder

78. The Applicant submitted that there is a discrepancy in the year the Respondent alleges that they introduced the ledger. The Respondent, in their submissions, claims the electronic ledger system was introduced in 2016. However, this is directly contradicted by the sworn testimony of RW1, who stated that the ledger was introduced in 2020 and became accessible to taxpayers only in 2021. This inconsistency goes to the reliability of the ledger, and it is therefore of paramount importance to establish when it was introduced.

79. The Applicant contended that the Respondent's reliance on Section 35 of the Value Added Tax Act and Section 104 of the Income Tax Act as a lawful basis for its payment allocation method is with respect unsustainable both in law and on the evidence before this Tribunal. Neither Section 35(1) of the VAT Act nor Section 104(1) of the Income Tax Act makes any reference whatsoever to the allocation of payments across multiple tax liabilities. The provisions merely state that

> "*tax payable under a tax law is a debt due to the Government payable to the Commissioner General in a manner and at a place determined by the Commissioner General.*

80. Their purpose is therefore limited to establishing the nature of tax as a recoverable debt and the administrative authority of the Commissioner General to collect it.

81. The Applicant contended that a proper reading of Section 104 of the old Income Tax Act (now Section 32 of the TPC Act), taken as a whole, confirms that it does not provide any basis for payment allocation. While subsection (1) establishes that tax payable constitutes a debt due to the Government, subsection (2) complements this by setting out the enforcement mechanism available where such tax remains unpaid. Section 104(2) stated:

> *(2) Tax that has not been paid when it is due and payable may be sued for and recovered in any court of competent jurisdiction by the Commissioner acting in the Commissioner's official name, subject to the general directions of the Attorney General.*

82. The Applicant maintained that it is settled law that each section in a statute must be construed in its entirety. It is clear that the provisions **in Section 104 of** the **Income Tax Act and Section 35 of the VAT Act** concern the existence of tax as a debt and the steps the Commissioner may take upon default. At no point does it address, whether expressly or by implication, how payments are to be allocated across multiple liabilities or tax periods.

83. The Applicant argued that the Act's silence on allocation is not incidental but reflects its limited purpose, as the Commissioner can use it to sue for unpaid tax that is payable. Accordingly, it cannot be relied upon to justify a structured allocation method, let alone one applied retrospectively. The Respondent's attempt to derive such a structured allocation regime from these provisions is, with respect, an impermissible expansion of their scope.

84. The Applicant argued that while the Respondent characterises the language of Section 35 and Section 104 as "unambiguous," that assertion does not withstand scrutiny when justifying payment allocation. The provisions are entirely silent on allocation. They cannot be relied upon to justify the recharacterisation of payments. In ***Uganda Revenue Authority vs. Kajura, SCCA 09 of 2015, the Supreme Court, citing Cape Brandy Syndicate v IRC [1921] 2 KB 64,*** reiterated the cardinal principle of interpretation of tax statutes and held that;

"In a taxing Act, one has merely to look at what is clearly said. There is no room for an intendment. There is no equity about tax. There is no presumption as to a tax. Nothing is to be read in it nothing is to be implied. One can only look fairly at the language used."

85. The Applicant argued that the above principle is fatal when we consider the fact that the payment allocation rules do not merely recover tax, but create new tax liabilities in form of interest by determining which liabilities remain outstanding. Parliament addressed allocation expressly in 2016 through **Section 38 of the Tax Procedures Code Act (now Section 41).** The provision relied upon by the Respondent continues to exist under the Tax Procedures Code Act as Section 32, yet Parliament saw it necessary to introduce a separate and detailed allocation regime under Section 38 (now Section 41).

86. The Applicant maintained that if Section 35 and Section 104 had already provided a clear, sufficient and "unambiguous" legal basis for payment allocation as the Respondent claims, there would have been no need for Parliament to enact Section 38 at all, nor to subsequently amend that regime by repealing Section 41(2) in 2021, which the Respondent agrees to follow, despite Section 32 of the TPC Act (formerly Section 104 of the Income Tax Act and Section 35 of the VAT Act) still being in effect.

87. The Applicant submitted that the Respondent's own evidence directly contradicts its present position. RW1 expressly testified that the allocation of payments in the ledger is based on **Section 41 of the Tax Procedures Code Act** and further admitted that such allocation was applied retrospectively. He also stated that there was no guidance on the order of recovery prior to 2016. These admissions are recorded in the proceedings of 31 October 2025 and were not withdrawn.

88. The Applicant submitted that the demonstration of the electronic ledger during the hearings of this matter further reinforced this position, clearly showing that structured allocation rules, as prescribed in Section 41, were

applied to periods predating 2016. The Respondent's assertion that there was no retrospective allocation" is inconsistent with the evidence before this Tribunal and ought to be rejected.

89. The Applicant submitted that the Respondent's attempt to distinguish the decisions in ***Multi-Consults Limited v URA TAT No. 71 of 2019 and Eye Care Centre Uganda Limited v URA TAT No. 91 of 2021*** is, with respect, misleading. Both authorities addressed the Respondent's practice of applying structured allocation rules retrospectively through its ledger system, and in both cases, this Tribunal held that such retrospective allocation was unlawful. The Respondent's contention that those cases are distinguishable because they involved Section 38(2), whereas the present case is said to be grounded in Section 35 and Section 104, does not withstand scrutiny, especially when its witness already confirmed that it relied on Section 41 of the TPC.

90. The Applicant contended that the Respondent failed to demonstrate that the alleged method of allocating payments to the earliest outstanding liabilities was, in fact, applied in real time prior to 2016. The only evidence presented is the electronic ledger constructed in 2020 and made available to taxpayers in 2021. That ledger system, by the Respondent's own admission, was built in 2020 and cannot, without more, be taken as proof of how payments were actually treated when they were made.

91. Additionally, the Applicant established that the Respondent's reliance on **Section 35 of the VAT Act and Section 104 of the Income Tax Act** as a lawful basis for its allocation method is without merit. Those provisions do not establish allocation rules, do not authorise retrospective reallocation of payments, and cannot be used to validate a practice introduced in 2020 that effectively rewrites the historical application of payments.

92. Furthermore, the Respondent's reliance on **Section 97(3) of the Tax Procedures Code Act** does not assist its position on this issue. That provision permits the recovery of tax liabilities that arose prior to the

commencement of the Act using the mechanisms provided under the Act. It does not, however, authorise the Respondent to retrospectively reconstruct how payments were made under the law at the time.

Whether the interest reflected in the ledger is lawfully recoverable

93. The Applicant submitted that interest, by its nature, is dependent on the existence of an outstanding principal liability. It arises where tax remains unpaid. In the present matter, the evidence demonstrates that the Applicant made payments that were subsequently reallocated across different periods through the Respondent's ledger system. As a result, liabilities that had been deemed settled at the time of payment were later treated as outstanding. In fact, the Respondent failed to demonstrate any consistent pattern of late payment. What it showed was a series of reallocated payments intended to clear one principal liability but used to clear a different liability, leaving the principal the payment was originally meant for.

94. The Applicant contended that it is this recharacterisation of payments, rather than any failure to pay tax, that gave rise to the interest now being claimed by the Respondent. Accordingly, the interest in question does not arise from the operation of the statute on unpaid tax, but from the Respondent's allocation method, which has been shown to be inconsistent with the applicable legal framework. The law is clear that, where default assessments and additional assessments are involved, interest must be notified to the taxpayer by the Commissioner General. **Section 23(2)(b) of the TPCA states:**

> *(2) The Commissioner General shall serve the taxpayer assessed under subsection (1), with notice, in writing, of the assessment specifying-*
>
> *(b) the amount of penal tax and interest, if any, payable in respect of the amount assessed*

95. Similarly, **Section 25(6)(b)** states:

> (6) *Where the Commissioner General has made an additional assessment under this section, the Commissioner General shall serve the taxpayer assessed under subsection (1), with notice, in writing, of the assessment*

specifying-(b) the amount of penal tax and interest if any payable in respect of the amount assessed as a result of subsection (2)(a)

96. The Applicant submitted that the Applicant's witness, AW1, stated in p.6 of his witness statement that all the interest and penalties that are included in the ledgers and are being demanded as taxes by the Respondent are without issuance of assessments and without service of such assessments. During the hearing, the Respondent failed to show a single instance where it communicated the amount of interest to the Applicant. In the case of other interest appearing as a result of "late payment," the Applicant reiterates that interest cannot become lawful merely because it appears on a ledger, especially if the process that generated it is itself legally defective.

97. The Applicant submitted that the Respondent presented the ledger as a tool for reconciliation, yet in practice places the burden on the taxpayer to explain and verify entries spanning periods well beyond the statutory 5-year record retention limit. A taxpayer who complies with Section 15 is therefore placed at a disadvantage, as they may no longer possess the records required to challenge historical entries. This is illustrated by the Respondent's own admission that an amount of Shs. 138,727,908 was erroneously posted as a refund and only corrected upon reconciliation. In the absence of the Applicant's ability to provide proof, such an error would have remained.

98. The Applicant maintained that the interest reflected in the electronic ledger system is unenforceable because it arises from unlawful retrospective allocations, and a process that deprived the Applicant of a genuine, timely opportunity to understand the liabilities when they were allegedly being created.

Whether the tax waiver, as prescribed in S.46 of the TPC Act was applied correctly

99. The Applicant contended that the Respondent used the same practice of retrospective allocation as evident by RW1's admission and the

demonstration of the ledger during the hearings. This retrospective allocation has influenced the amount waived under S.46 of the TPC Act. It was already held in K-Files v URA TAT No. 69 of 2021 that the wrongful application of S. 38 can be seen as an attempt to circumvent S. 400. The tax waiver prescribed by the law was not correctly applied by the Respondent, as the misallocation of payments distorted the ledger.

VIII. The Determination

Whether the Applicant's Payments Were Properly Allocated

100. We have carefully considered the pleadings, the evidence placed before us, and the submissions of both parties. In resolving this dispute, we have also considered the applicable statutory provisions and authorities cited.

101. The Applicant challenged the legality of the Respondent's allocation of tax payments in the electronic ledger, contending that the Respondent retrospectively applied Section 38 of the TPCA, now Section 41, to periods prior to the commencement of the TPCA on 1 July 2016. The Applicant argued that this retrospective application distorted its tax ledger and unlawfully generated interest liabilities that did not exist when the payments were made.

102. The Respondent, on the other hand, maintained that the allocation was lawful throughout and that even before the enactment of the TPCA, the Commissioner General possessed authority under Section 104 of the Income Tax Act and Section 35 of the Value Added Tax Act to recover tax debts and determine the manner in which payments would be appropriated against outstanding liabilities.

103. The starting point is **Section 41 of the TPCA, formerly Section 38**, which provides that;

> *"When a taxpayer is liable for penal tax and interest in relation to a lax liability and the taxpayer makes a payment that is less than the total amount of tax. penal tax, and interest due, the amount paid is applied in the following order*

in payment of the tax liability;
in payment of penal tax;
and the balance remaining is applied against the interest due."

104. Prior to its repeal in July 2021, subsection (2) further required that such payments be applied to the earliest outstanding liability first. The evidence of RW1 was unequivocal that the Applicant's ledger allocation was based on Section 41 of the TPCA. RW1 further testified during the hearing on 31 October 2025 that, for periods before July 2021, payments were allocated in the order of principal, penalty, and interest, with the earliest liability paid first. He also admitted during cross-examination that the allocation rule was applied retrospectively and that, prior to 2016, there was no statutory guidance on the order of recovery.

105. The Applicant demonstrated through AIDEX 1, AIDEX 2, AIDEX 3, and AIDEX 4, as well as through the ledger demonstration during the hearing, that payments made in earlier years were split and reallocated to liabilities from entirely different periods. The Applicant specifically pointed to the payment made on 14 April 2020 under PRN 2200004635196 in satisfaction of the March 2020 VAT liability of Shs. 3,881,828. The evidence showed that instead of clearing the March 2020 liability for which the payment had been made, the Respondent split the payment and applied it to liabilities for July, August, and September 2018. Consequently, the March 2020 principal tax was treated as unpaid and attracted interest until June 2023.

106. Similarly, the Applicant demonstrated that a payment made on 24 February 2010 under PRN 2100000008560 was allocated to liabilities for July and August 2010. The Tribunal notes that these allocations occurred before the commencement of the TPCA.

107. The principal question for determination is therefore whether the Respondent possessed lawful authority prior to 1 July 2016 to apply payments to the earliest outstanding liabilities in the structured manner reflected in the electronic ledger.

108. The Respondent relied on **Section 104 of the Income Tax Act and Section 35 of the VAT Act**. **Section 104(1)** of the repealed Income Tax Act provided that:

> *"Tax when it becomes due and payable, is a debt due to the Government of Uganda and is payable to the commissioner in the manner and at the place prescribed.*
>
> *(2) Tax that has not been paid when it is due and payable may be sued for and recovered in any court of competent jurisdiction by the commissioner acting in the commissioner's official name, subject to the general directions of the Attorney General."*

109. The Tribunal respectfully agrees with the Applicant that those provisions merely established the character of unpaid tax as a recoverable debt and empowered the Commissioner General to collect such tax. They did not expressly prescribe any payment allocation regime, nor did they authorize the Commissioner General to retrospectively redistribute payments across multiple tax periods in the manner later codified under Section 38 of the TPCA.

110. This Tribunal is guided by the well-established principle of interpretation of tax statutes stated by the Supreme Court in ***Uganda Revenue Authority v Kajura, where the Court, citing Cape Brandy Syndicate v Inland Revenue Commissioners***, held that;

> *"In a taxing statute nothing is to be implied and one can only look fairly at the language used. Tax liability must therefore arise from clear statutory language and not implication."*

111. Applying that principle to the present matter, the Tribunal finds no express language in **Section 104 of the Income Tax Act** or **Section 35 of the VAT Act** authorising the structured allocation mechanism that was later enacted under **Section 38 of the TPCA**. Indeed, the enactment of Section 38 in 2016 demonstrates that Parliament considered it necessary to specifically

legislate on payment allocation. Had Section 104 and Section 35 already provided such authority, there would have been no necessity for Parliament to enact Section 38, nor subsequently repeal Section 38(2) in 2021.

112. The Tribunal further notes that RW1 expressly testified that the allocation in the ledger was based on Section 41 of the TPCA. The Respondent, therefore, cannot simultaneously assert that the allocation was conducted under Section 41 while also contending that it was independently grounded in Section 104 of the Income Tax Act and Section 35 of the VAT Act.

113. The Tribunal is also persuaded by the decisions ***in Multi-Consults Limited v Uganda Revenue Authority TAT no. 72 of 2019,*** where this Tribunal held:

> *"The Respondent's application of section 38(2) of TPCA to payments made by the Applicant in respect to the periods prior to 1 July 2020 amounted to a retrospective application of Section 38 of the TPCA was therefore unlawful".*

114. The Respondent argued that in the present matter, the allocations prior to 2016 were undertaken pursuant to Section 104 of the Income Tax Act and Section 35 of the VAT Act. However, the evidence before this Tribunal does not support that contention. RW1 admitted that there was no guidance on the order of recovery prior to 2016, and the Respondent's own evidence confirmed that the electronic ledger introduced in 2020 applied the allocation methodology under Section 41 retrospectively to historical liabilities.

115. The Tribunal further finds that Section 97(3) of the TPCA does not assist the Respondent. That provision merely authorizes the recovery under the TPCA of tax liabilities that arose prior to the commencement of the Act. It does not authorise retrospective reconstruction of historical payment allocations or permit the Respondent to retrospectively apply allocation rules that were not in force at the time payments were made.

116. The distinction between recovery of pre-existing liabilities and retrospective reallocation of payments is important. While Section 97(3) preserves the recoverability of pre-2016 liabilities, it does not validate the retrospective application of a statutory payment allocation regime to transactions predating the TPCA.

117. The Tribunal therefore finds that the Respondent retrospectively applied the allocation framework under Section 38 of the TPCA to tax periods preceding 1 July 2016. The effect of those reallocations was to leave certain liabilities artificially outstanding, thereby generating interest obligations which would otherwise not have arisen. Such retrospective allocation was unlawful.

118. The Tribunal further finds it necessary to draw a clear distinction between the power to recover tax and the power to impose a structured statutory method for allocating payments. The Respondent's submissions treated these concepts as interchangeable, yet in law they are distinct.

119. Section 104 of the repealed Income Tax Act and Section 35 of the Value Added Tax Act merely established that unpaid tax constituted a debt due to the Government and empowered the Commissioner General to recover such debt. Those provisions addressed the existence and recoverability of tax obligations. They did not prescribe the sequence in which payments were to be appropriated across multiple liabilities, nor did they authorise the Commissioner General to retrospectively redistribute payments among different tax periods in a manner capable of generating additional interest liabilities.

120. The Tribunal therefore accepts that while the Respondent possessed lawful authority prior to 2016 to recover outstanding tax debts, such authority did not extend to the application of the detailed allocation methodology later introduced under Section 38 of the TPCA, now Section 41. The enactment of Section 38 in 2016 was not merely procedural or declaratory; rather, it introduced a specific statutory framework governing how partial payments would be appropriated between principal tax, penal tax, interest and earlier liabilities.

121. The Tribunal further observes that the Respondent's approach effectively conflates debt recovery with payment recharacterisation. Recovery concerns the lawful collection of taxes already due, whereas allocation determines which liability is treated as discharged and which remains outstanding. The latter has substantive legal consequences because it directly affects whether penal tax and interest continue to accrue. Consequently, allocation cannot be treated as a mere administrative convenience where its effect is to generate additional liabilities against the taxpayer. In tax law, any mechanism capable of increasing a taxpayer's liability must derive from clear statutory authority.

122. Additionally, the Tribunal attaches considerable weight to the evidence concerning the Applicant's designated payments through specific Payment Registration Numbers (PRNs). Where a taxpayer makes a payment through a specifically generated PRN linked to an identified tax period, that payment constitutes a designated payment toward the liability for which the PRN was created.

123. Absent express statutory authority permitting the Commissioner General to override the taxpayer's designation, such payment ought ordinarily to be applied to the liability identified by the taxpayer. The Respondent did not point this Tribunal to any statutory provision that existed prior to 1 July 2016 and authorised the Commissioner General to disregard taxpayer-designated payments and instead redistribute them across unrelated historical liabilities.

124. The Tribunal therefore finds that the Respondent's retrospective reallocation of designated payments not only lacked express statutory foundation but also undermined certainty and predictability in tax administration. A taxpayer who makes payment against a specifically identified liability is entitled to expect that such payment will extinguish that liability unless the law expressly provides otherwise.

125. To permit retrospective redistribution of payments in the absence of clear statutory authority would expose taxpayers to indefinite and unforeseeable interest accumulation arising not from non-payment, but from subsequent administrative reallocation of already paid sums. Accordingly, the Applicant's payments were not properly allocated.

Whether the Interest Reflected in the Ledger is Lawfully Recoverable.

126. The law relating to interest on unpaid tax is largely undisputed. **Section 148 of the Income Tax Act, Cap. 338 and** provide:

> *"A person who fails;*
> *(a) to pay any tax, including provisional tax;*
> *(b) to pay any penal tax; or*
> *(c) to pay to the commissioner any tax withheld or required to be withheld by the person from a payment to another person, on or before the due date for payment, is liable for interest at a rate equal to 2 per cent per month on the amount unpaid calculated from the date on which the payment was due until the date on which payment is made."*

127. Similarly, **Section 42(1) of the TPCA** provides that;

> "*Interest payable on unpaid tax shall be collected by the Commissioner General as though it were unpaid tax itself.* "

128. The legal position is therefore settled that interest ordinarily arises automatically by operation of law and does not constitute a separate tax head requiring an independent assessment in every instance.

129. However, the dispute before this Tribunal is not whether interest may generally accrue on unpaid tax. Rather, the issue is whether the particular interest reflected in the Applicant's ledger arose from lawful outstanding tax liabilities or from retrospective and unlawful reallocation of payments.

130. This distinction is important.

131. As already determined under the preceding issue, the Tribunal found that the Respondent retrospectively applied the allocation framework under Section 38 of the TPCA, now Section 41, to periods preceding the commencement of the TPCA without lawful authority. The evidence demonstrated that payments initially made towards identified liabilities were subsequently redistributed across different tax periods through the electronic ledger system introduced in 2020 and made accessible to taxpayers in 2021.

132. The practical consequence of those reallocations was that liabilities which had originally been paid became retrospectively treated as outstanding. Once such liabilities were reconstructed as unpaid balances, interest automatically began accruing on them. The Tribunal therefore agrees with the Applicant that the interest did not arise purely from non-payment of tax, but substantially from the Respondent's retrospective recharacterisation and redistribution of payments.

133. The Tribunal finds persuasive the Applicant's demonstration concerning the March 2020 VAT payment under PRN 2200004635196. The evidence showed that the Applicant made payment for the March 2020 liability within the prescribed due date. However, the Respondent subsequently diverted that payment to earlier liabilities relating to July, August, and September 2018. As a result, the March 2020 liability was retrospectively rendered unpaid and interest accrued against it until later payments were made.

134. Where interest arises not from an actual failure to pay tax but from a subsequent administrative redistribution of already paid sums, the legality of the underlying allocation process becomes central to the legality of the resulting interest. Interest cannot be insulated from scrutiny where the very balances upon which it accrues are themselves products of an unlawful allocation methodology.

135. The Tribunal therefore rejects the Respondent's contention that the legality of the interest may be considered independently from the legality of the allocation process that generated the underlying balances.

136. The Tribunal further notes the Applicant's complaint regarding the lack of transparency and notification. RW1 admitted during cross-examination that the electronic ledger system was introduced in 2020 and that taxpayers were only granted access in 2021. The evidence before the Tribunal further showed that the ledger reconstructed transactions dating back to 2009. Consequently, for a considerable period, the Applicant had no direct visibility into how payments were being allocated, how balances were carried forward, or how interest was being computed within the Respondent's internal system.

137. While the Tribunal accepts the Respondent's submission that the law does not condition the accrual of statutory interest upon the existence of an electronic ledger platform, the present dispute concerns more than mere technological access. The concern raised by the Applicant is that the Respondent retrospectively reconstructed historical balances through a system implemented many years after the payments had been made and thereafter imposed interest on those reconstructed balances.

138. The Tribunal finds merit in the Applicant's submission that a taxpayer cannot reasonably be expected to challenge or settle liabilities whose existence only emerges years later through retrospective ledger reconstruction, particularly where the taxpayer had no contemporaneous access to the underlying allocation methodology being applied.

139. The Tribunal further observes that Sections 23(2)(b) and 25(6)(b) of the TPCA require the Commissioner General, in cases involving assessments and additional assessments, to notify the taxpayer of the amount of penal tax and interest payable. Although the Respondent correctly submitted that statutory interest may accrue automatically, the Tribunal finds that where interest becomes payable as a consequence of reconstructed balances

arising from retrospective reallocations, transparency and proper communication become especially important.

140. The Respondent did not demonstrate before this Tribunal that the Applicant was contemporaneously notified of the reconstructed balances and resulting interest obligations now being demanded. Instead, the evidence showed that substantial portions of the interest were absorbed through ledger reallocations over time without the Applicant's knowledge of how those balances had emerged.

141. The Tribunal is therefore unable to accept the Respondent's position that the mere appearance of interest on the electronic ledger automatically renders such interest lawfully recoverable, irrespective of the legality of the process that generated it.

142. The Tribunal accordingly finds that to the extent that the interest reflected in the Applicant's ledger arose from unlawful retrospective allocation and redistribution of payments, such interest is not lawfully recoverable from the Applicant. Interest which accrues upon balances artificially created through an unlawful allocation process cannot itself acquire legality merely because it is subsequently reflected in the Respondent's electronic ledger.

Whether the Tax Waiver Prescribed under Section 46 of the TPCA Was Correctly Applied

143. Section 46 of the TPCA provides:

"Any interest and penalty outstanding as at 30 June 2020 is waived."

144. The operative consideration under the provision is therefore whether the interest and penalties were outstanding and unpaid as at the waiver date. The Respondent relied on the ordinary meaning of the word "outstanding" as meaning unpaid or uncollected and argued that the Applicant benefited from a waiver amounting to Shs. 733,362,570 comprising waived interest and penalties.

145. The Tribunal accepts that, as a matter of principle, the waiver could apply only to liabilities that remained unpaid as at 30 June 2020 and could not extend to interest or penalties already extinguished by payment prior to that date.

146. However, the dispute before the Tribunal is not merely about the meaning of "outstanding." **The real issue is whether the balances treated by the Respondent as already recovered prior to 30 June 2020 were lawfully recovered in the first place**.

147. The evidence showed that payments made toward identified principal tax liabilities were retrospectively redistributed across earlier liabilities through the Respondent's electronic ledger system. As a result, portions of the Applicant's payments were absorbed towards historical interest and penalties without the Applicant's contemporaneous knowledge that such liabilities had been reconstructed within the ledger.

148. The practical consequence of that process is significant in the context of the statutory waiver. Where payments that the taxpayer intended to extinguish principal liabilities were retrospectively redirected toward historical interest and penalties, the amount of interest and penalties remaining "outstanding" as at 30 June 2020 would inevitably be reduced. Put differently, the Respondent's allocation methodology directly affected the quantum of liabilities eligible for waiver.

149. The Tribunal finds persuasive the reasoning in ***K-Files v Uganda Revenue Authority (supra),*** where the Tribunal observed that when payments are retrospectively applied to interest and penalties rather than to the principal tax, such a process may effectively undermine the benefit intended by Parliament under the statutory waiver provisions. The Tribunal in that case further emphasised the importance of fairness and transparency in the administration of tax waivers.

150. The Tribunal notes that the objective of Section 46 of the TPCA was to grant taxpayers relief from historical interest and penalties outstanding as at 30 June 2020. That legislative intention would be substantially undermined if retrospective ledger reallocations were permitted to absorb taxpayer payments toward historical interest liabilities before the waiver date, thereby artificially reducing the amount available for waiver.

151. The evidence before the Tribunal demonstrated that the Applicant consistently made payments against assessed principal tax liabilities. However, due to the Respondent's retrospective reallocations, some of those payments were redirected toward earlier interest liabilities, leaving the intended principal liabilities outstanding and generating additional interest thereafter. Consequently, the amount ultimately classified by the Respondent as "outstanding" interest as at 30 June 2020 was directly influenced by the disputed allocation methodology.

152. The Tribunal is unable to accept the Respondent's contention that the waiver computation can be treated as entirely independent from the allocation process already found to be unlawful. Once the underlying allocation methodology is found defective, the resulting computation of what remained outstanding for purposes of waiver is equally affected.

153. The Tribunal accordingly finds that the waiver under Section 46 of the TPCA was not correctly applied to the extent that the Respondent relied upon retrospectively reallocated payments to determine the amount of interest and penalties considered outstanding as at 30 June 2020. The retrospective allocation methodology unlawfully distorted the ledger balances and consequently affected the Applicant's entitlement under the statutory waiver regime.

154. The Tribunal hereby finds that:

    (i) The Respondent retrospectively applied the payment allocation framework under Section 38 of the Tax Procedures Code Act, now

Section 41 of the Tax Procedures Code Act, to periods preceding the commencement of the Act on 1 July 2016 without lawful authority.

(ii) The Respondent's retrospective reallocation of the Applicant's payments distorted the Applicant's tax ledger by reallocating payments made towards identified liabilities to unrelated historical liabilities.

(iii) To the extent that the interest reflected in the Applicant's ledger arose from unlawful retrospective allocation and redistribution of payments, such interest is not lawfully recoverable from the Applicant.

(iv) The computation and application of the waiver under Section 46 of the Tax Procedures Code Act were affected by the unlawful retrospective allocation of payments and consequently did not correctly reflect the Applicant's lawful entitlement under the waiver regime.

155. The Respondent is hereby directed to reconcile and reconstruct the Applicant's tax ledger in accordance with this decision by:

i) Removing all retrospective allocations of payments made prior to 1 July 2016 under Section 38/41 of the Tax Procedures Code Act.

ii) Restoring payments to the tax liabilities for which the respective Payment Registration Numbers (PRNs) were originally generated and paid unless otherwise lawfully justified.

iii) Recalculating any interest and penalties consequent upon the corrected allocations.

iv) Recomputing the Applicant's entitlement under the waiver provided under Section 46 of the Tax Procedures Code Act based on the corrected ledger balances.

(v) Any interest and penalties arising solely from the unlawful retrospective allocation of payments shall be vacated and removed from the Applicant's ledger.

(vi) The Respondent shall provide the Applicant with the reconciled ledger and computations arising from this decision within sixty (60) days from the date of this ruling.

156. Costs follow the event; accordingly, they are hereby awarded to the Applicant.

It is so ordered.

Dated at Kampala this 29th day of May 2026

HON. CRYSTAL KABAJWARA

CHAIRPERSON

MS. CHRISTINE KATWE

MEMBER

HON. WILLY NANGOSYAH

MEMBER

THE REPUBLIC OF UGANDA

IN THE TAX APPEALS TRIBUNAL AT KAMPALA

TAT APPLICATION NO. 252 OF 2022

MOIL UGANDA LIMITED.....APPLICANT

VERSUS

UGANDA REVENUE AUTHORITY..... RESPONDENT

BEFORE: HON. CRYSTAL KABAJWARA, MS. CHRISTINE KATWE, HON. WILLY NANGOSYAH

DISSENTING RULING

I have had the opportunity of reading the ruling of my colleagues, and I wish to dissent as follows:

1. The Applicant imports and sales of petrol and petroleum products, e.g, Lubricants. The Applicant contended that the administration and management of its ledgers by the Respondent, which resulted in the demand for taxes of Shs.1,327,996,811, including principal, penalties, and interest allegedly payable by the Applicant, is in error, improper, and outside the Law and therefore not payable.

   Both parties reconciled and incorporated the pending credits not considered before, and were still not happy with the results.

2. It is evident that the Applicant was not paying the full amount payable as declared in his returns. These part payments were done many times, leaving outstanding amounts which would be carried forward into the subsequent months, attracting interest on a monthly basis where the VAT Law is concerned and interest on income tax, not paid timely.

3. The Applicant would sometimes file returns late, which would attract penalties that were not paid, accumulating principal tax, penalties, and interest over time. The Applicant is adamant in acknowledging and accepting its mistake.

4. The Law kept on changing, and the Respondent would change the applications accordingly. What is surprising to note is that even from July 2020, when all the pending penalties and interest were waived, and the Applicant's ledger in the Respondent's system went to zero interest and penalty. The Applicant neither fully paid the declared amount in time nor filed some returns on time which gave birth to more penalties and interest, which the Applicant is adamant to accept.

5. Any prudent accountant is supposed to maintain his or her ledgers in his or her records, which he or she would present and compare with those of the Respondent for reconciliation purposes.

6. The Applicant did not show any evidence of the company ledger to match with the Respondent's ledger, but complained about the Respondent not displaying its ledger to it for quite some time. However, the Respondent had all the transactions at hand

7. The Respondent laboured to explain how it configures the changes in its system and let the system do its work. In the case of ***Eye Care Centre v URA, TAT App No. 91 Of 2021***, the Tribunal recognised a different application by the Respondent's system, which the Respondent corrected, and corrected which cleared the lacuna in all the subsequent matters.

8. So, as the previous payments had taken care of the old pending penalties and interest in accordance with the presiding Law at the time. The Applicant can not come forward to expect the already catered for and done with interest and penalties to be waived once again. They were already paid for and non-existent on the ledger. All the highlighted pending issues, like the refund on the ledger and the uncredited WHT withheld by third parties, etc, were all taken care of at reconciliation.

9. To me, remitting back the matter will not solve anything. It is the Applicant to adhere to the tax law(s), file and pay the taxes in time to avoid inconveniences. Consequently, the Applicant's application is dismissed with costs to the Respondent and the tax of Shs. 1,327,996,811 is payable by the Applicant. The

Applicant is advised to use the benefit of the current running waiver terms to offset the interest and penalty, and start filing and paying its taxes within the prescribed time.

Dated at Kampala this **29th** day of **May** 2026.

MS. CHRISTINE KATWE

Member