TAX APPEALS TRIBUNAL

Justice in Taxation

**THE REPUBLIC OF UGANDA**

**THE TAX APPEALS TRIBUNAL AT KAMPALA**

**APPLICATION NO. 123 OF 2024**

**QUALITY CHEMICALS INDUSTRIES LIMITED....................................APPLICANT**

**VERSUS**

**UGANDA REVENUE AUTHORITY................................................RESPONDENT**

**BEFORE: HON. PROSCOVIA REBECCA NAMBI, HON. STELLA NYAPENDI CHOMBO**

**RULING**

## I. Introduction

1. This ruling concerns additional Value Added Tax assessed on payments made by the Applicant to Cipla Limited for technology, technical know-how and related intellectual-property rights used in the manufacture of pharmaceutical products in Uganda. The disputed amount stated in the Application is UGX 6,019,364,368. The Applicant contends that the imported services were incidental to its supply of zero-rated pharmaceutical products. The Respondent maintains that the payments were consideration for distinct imported services chargeable to VAT at the standard rate.

2. A further question arose during the proceedings. The Applicant contended that the assessment, issued on 28 December 2023 for periods within the audit period from 1 April 2016 to 31 March 2020, was made outside the period prescribed by section 25 of the Tax Procedures Code Act. The Respondent relied on the exceptions for newly discovered information and gross or wilful neglect.

## II. Background Facts

3. The Applicant is a public company listed on the Uganda Securities Exchange. It manufactures and sells pharmaceutical products, including medicines used to treat HIV/AIDS and malaria.

4. The Respondent audited the Applicant for the period from 1 April 2016 to 31 March 2020 and, on 28 December 2023, issued additional VAT assessments for under-declared VAT on imported services. The Applicant accepted and paid UGX 408,441,693 relating to services supplied by persons other than Cipla Limited. It disputed the assessment of UGX 6,019,364,368 relating to payments made to Cipla.

5. The Applicant and Cipla were parties to a Services Fees Agreement dated 18 March 2013 and a Technology Licence Agreement dated 11 April 2018. Under those arrangements, Cipla made available technology, manufacturing procedures, technical documentation, methods of analysis, know-how and rights connected with specified pharmaceutical products and trade names. The consideration was calculated based on sales of products manufactured using the licensed technology.

6. The Applicant objected to the disputed assessment on the ground that the Cipla services were incidental to the manufacture and supply of pharmaceutical products and should assume the zero-rated treatment of those products under section 12(1) of the Value Added Tax Act. By objection

decisions dated 26 April 2024, the Respondent disallowed the objections and maintained the assessment. The Applicant thereafter filed this Application.

## III. Issues for determination

7. At scheduling, the parties agreed upon the following issues:
   a) Whether the Applicant is liable to pay the tax assessed by the Respondent.
   b) What remedies are available to the parties.

8. Limitation was not one of the original grounds in the taxation objection or the Joint Scheduling Memorandum. The Applicant subsequently sought leave to amend its Application. On 17 September 2025, the Tribunal granted leave under section 16(4) of the Tax Appeals Tribunal Act to introduce the ground that the assessment was made outside the statutory period. The Respondent filed an amended Statement of Reasons on 11 February 2026 and an additional witness statement on 13 February 2026. Both parties addressed the ground fully. Leave was appropriate at that stage because limitation raised a pure question of law arising from facts already in the trial bundles, and the Respondent was given a full opportunity to plead and adduce evidence in answer to it.

9. In light of that amendment, the first agreed issue raises two questions: whether the assessment was barred by section 25 of the Tax Procedures Code Act and, if it was not, whether the Cipla payments were liable to VAT as consideration for imported services.

## IV. Representation and evidence

10. Mr. Timothy Lugayizi and Mr. Philip Nsaja of MMAKS Advocates appeared for the Applicant. Mr. Edmond Agaba, Legal Officer in the Respondent's Legal Services and Board Affairs Department, appeared for the Respondent.

11. The Applicant relied on the witness statement of Mr. Richard Kiggundu, its Finance Manager, dated 17 February 2025 and his supplementary statement dated 26 February 2025. AW1 testified that the Cipla technology and know-how were used solely to manufacture the specified pharmaceutical products. He stated that the technology had no independent commercial use outside that manufacture and that royalties became payable by reference to actual product sales. In his view, the service was ancillary to the supply of the medicines and shared their zero-rated status.

12. AW1 produced the Applicant's objection, the 2013 Services Fees Agreement and the 2018 Technology Licence Agreement. He also explained that the Applicant had accepted and paid the part of the assessment relating to imported services from other foreign suppliers but disputed the Cipla component.

13. The Respondent relied on the witness statements of Mr. Nicholas Karyeija, an officer in the Large Taxpayers Office who participated in the audit. RW1 testified that the audit compared the Applicant's withholding-tax returns, VAT returns and audited financial statements and examined the agreements with Cipla. The review showed payments to Cipla for licensed technology and know-how upon which withholding tax had been accounted for but VAT on imported services had not been declared.

14. RW1 stated that the agreements had not been furnished to the Respondent before the audit and that they disclosed the nature, scope and contractual basis of the rights for which the payments were made. He maintained that this was new information relating to the VAT payable. In the alternative, he stated that the Applicant's repeated omission of VAT, while accounting for withholding tax on the same payments and VAT on other imported services, amounted to gross or willful neglect.

## V. The Applicant's submissions

15. The Applicant submitted that the ordinary limitation period under section 25(2)(c) had expired before the assessment was issued. It argued that neither of the exceptions in section 25(2)(a) had been established.

16. Regarding new information, the Applicant contended that the Respondent already held the relevant withholding-tax returns, VAT returns and audited accounts on its electronic system. Those documents identified Cipla, disclosed the payments and recorded technical-service expenses. Counsel argued that an audit which merely connected or reinterpreted information already held by the Respondent did not amount to discovery of new information. The Applicant relied principally on ***Kampala Hospitality Development Limited v Uganda Revenue Authority***, TAT Application No. 69 of 2023.

17. On gross or willful neglect, the Applicant submitted that it had disclosed the payments and paid withholding tax upon them. Its failure to declare imported-services VAT arose from a genuine view that the Cipla technology was incidental to zero-rated medicines. Counsel argued that a dispute over the legal character of a disclosed transaction did not establish deliberate or reckless non-compliance.

18. On the substantive assessment, the Applicant accepted that the technology and know-how were services supplied by Cipla from outside Uganda and used by the Applicant in Uganda. It nevertheless argued that section 12(1) of the Value Added Tax Act treated those services as part of the supply of pharmaceutical goods because the services were incidental to the goods.

19. Counsel relied on ***Card Protection Plan Ltd v Commissioners of Customs and Excise***, Case C-349/96, [1999] STC 270, ***Uganda Revenue Authority v Total Uganda Limited***, High Court Civil Appeal No. 11 of 2012, [2012] UGCommC 171, and ***Uganda Revenue*** Authority ***v Uganda Taxi Operators***

***and Drivers Association***, Supreme Court Civil Appeal No. 13 of 2015, [2017] UGSC 15. It was submitted that an ancillary element which is not an end in itself assumes the tax treatment of the principal supply.

20. The Applicant argued that the Cipla rights could only be used to manufacture the identified medicines and had no separate utility. It further submitted that royalties arose only when products were manufactured and sold. Those features, in its view, showed one economic transaction whose principal object was the supply of zero-rated medicines. The Applicant also relied on ***Commission of the European Communities v French Republic***, Case C-76/99, [2001] ECR I-249, to submit that closely related activities may receive the same VAT treatment even where different persons perform them.

21. The Applicant also relied on regulation 13(1) of the Value Added Tax Regulations and argued that the time at which the royalty crystallised confirmed the inseparable connection between the imported service and the pharmaceutical products.

## VI. The Respondent's submissions

22. The Respondent submitted that the Applicant bore the burden of proving the assessment excessive or the taxation decision wrong under section 19 of the Tax Appeals Tribunals Act, section 28 of the Tax Procedures Code Act and section 101 of the Evidence Act. It relied on ***Williamson Diamonds Ltd v Commissioner General*** [2008] 4 TTLR 167.

23. On limitation, the Respondent submitted that the Technology Licence Agreement was first obtained and examined during the audit. The filed returns disclosed payments but did not disclose that the consideration was for a licence of proprietary technology, manufacturing processes, know-how, intellectual property and trade-name rights. Counsel argued that those material facts constituted new information in relation to the VAT payable.

24. The Respondent further submitted that the Applicant was a sophisticated taxpayer which had deducted withholding tax on the Cipla payments and accounted for VAT on imported services obtained from other suppliers. Its repeated omission of VAT on substantial Cipla payments over several years was said to constitute gross or willful neglect. The Respondent also relied on Kampala Hospitality.

25. On the merits, the Respondent submitted that sections 4(c) and 5(1)(c) of the Value Added Tax Act imposed VAT on the supply of imported services and placed liability upon the person receiving the supply. Cipla supplied valuable contractual rights from India for use in Uganda, for which the Applicant paid royalty consideration. The transaction therefore satisfied the statutory requirements for a supply of imported services.

26. The Respondent argued that section 12(1) did not combine the licence with the Applicant's later sales of medicines. Cipla supplied a service to the Applicant under a separate agreement. The Applicant subsequently supplied goods to different customers. The two transactions involved different suppliers, recipients and consideration and occurred at different levels of the supply chain.

27. The Respondent further argued that the royalty formula did not alter the character of the licence. Calculation of consideration by reference to net sales was a method of pricing intellectual-property rights; it did not convert the licence into medicines. Regulation 13(1), in the Respondent's submission, concerned the time of accounting for tax and not the character of a supply.

## VII. Determination of the issues

28. Before turning to the issues, we record how the panel came to be constituted for the purposes of this ruling. This Application was heard by a panel of three members chaired by Mr. Siraj Ali, who has since ceased to be a member of the

Tribunal. When the matter came up for mention on 6 August 2026, following the filing of the parties' written submissions, the Tribunal informed counsel of this change and invited the parties to indicate whether they were content for the ruling to be delivered by the two remaining members, both of whom sat through the entire hearing, or whether they wished an additional member to be co-opted to the panel.

29. Counsel for the Applicant, Mr. Timothy Lugayizi, and counsel for the Respondent, Mr. Edmond Agaba, each confirmed that they had no objection to the ruling being delivered by the two remaining members. Under section 13(3)(a) of the Tax Appeals Tribunals Act, where one member of a tribunal constituted by three members ceases to be a member before the matter is determined, the proceeding may, with the agreement of the parties, be completed by the tribunal as constituted by the remaining members. As both parties so agreed, the Tribunal, as constituted by the undersigned two members, proceeded to complete the Application and now delivers this ruling accordingly.

30. We have considered the pleadings, the witness statements and oral evidence, the agreements and tax records contained in the trial bundles, and the written submissions filed by both parties. We first address limitation because, if the assessment was not lawfully made, the correctness of its substantive VAT characterisation could not sustain it.

**Issue 1(a): Whether the assessment was barred by section 25 of the Tax Procedures Code Act**

**The burden of proof**

31. Section 19(a) of the Tax Appeals Tribunals Act, provides that where the decision under review is an objection decision relating to an assessment, the applicant bears the burden of proving that the assessment is excessive. Section 28 of the Tax Procedures Code Act, Cap. 343, is to similar effect. The

present Application arises from objection decisions affirming additional assessments. The Applicant therefore bears the ultimate burden of proving that the disputed assessment is excessive.

32. That burden does not relieve the Respondent of the need to establish the factual basis of an exception upon which it relies. The Applicant must first establish the dates and circumstances showing that the ordinary assessment period expired. Once that position is established or conceded, the Respondent must identify the exception which authorised it to assess at any time and place before the Tribunal evidence capable of bringing the case within that exception. The facts said to constitute new information or gross or willful neglect are affirmative facts upon which the Respondent's answer to limitation depends. Requiring proof of those facts does not reverse the statutory burden. The ultimate question remains whether, upon the whole evidence, the Applicant has proved that the assessment was made without statutory authority.

**The statutory framework**

33. Section 25(1) of the Tax Procedures Code Act empowers the Commissioner General to make an additional assessment amending a tax assessment for a tax period so as to ensure that the taxpayer is assessed for the correct amount of tax payable. Under section 25(2), an additional assessment may be made:

(a) at any time, if fraud or any gross or wilful neglect has been committed by, or on behalf of, the taxpayer, or new information has been discovered in relation to the tax payable by the taxpayer for a tax period;

(b) where an additional assessment is itself amended, within three years from the date of service of its notice; or

(c) in any other case, within three years after the taxpayer furnished the self-assessment return to which the original assessment relates or the Commissioner General served notice of the original assessment.

34. The assessment in dispute was issued on 28 December 2023. Under section 25(2)(c)(i), the ordinary three-year period applies separately to each self-assessment return and runs from the date on which that return was furnished. The Value Added Tax Act defines a tax period as a calendar month. The disputed assessment covered the monthly VAT periods from April 2016 to March 2020. On the return history placed before the Tribunal, and as the parties conducted the case, the ordinary period had expired for each of those monthly periods before 28 December 2023.

35. The affected periods were therefore April 2016 to December 2016; January 2017 to December 2017; January 2018 to December 2018; January 2019 to December 2019; and January 2020 to March 2020. Even the return for the latest period, March 2020, was outside the ordinary three-year period by the date of assessment. The Respondent did not contend otherwise. Its case was that section 25(2)(a) nevertheless permitted it to assess at any time because new information had been discovered or, alternatively, because the Applicant had committed gross or wilful neglect.

36. The grounds in section 25(2)(a) are independent. The Respondent need only establish one. We shall nevertheless determine both because each was pleaded, evidenced and fully argued.

**Discovery of new information**

37. The Act does not define the expression 'new information'. In ***Uganda Electricity Distribution Company Limited v Commissioner General, Uganda Revenue Authority***, Civil Suit No. 423 of 2010, [2013] UGCommC 2, the High Court held that information established through an audit may qualify as new information and is not confined to material which was wholly outside the Commissioner's possession. The decision does not make the commencement of an audit sufficient. The audit must reveal a fact, previously unknown to the Commissioner, which bears materially upon the tax payable.

38. ***Kampala Hospitality Development Limited v Uganda Revenue Authority***, TAT Application No. 69 of 2023, concerned an assessment based upon information already apparent from the taxpayer's withholding-tax returns on the Respondent's electronic system. No additional information had been obtained from the taxpayer during the audit. The Tribunal held that a later review of those returns did not amount to discovery of new information. The two decisions show that the inquiry is not resolved merely by asking whether the Respondent possessed a return or later obtained a document. It is necessary to compare what had previously been disclosed with what the audit subsequently revealed.

39. The withholding-tax returns disclosed payments to Cipla, identified the payee and the amounts paid, and showed that withholding tax had been deducted. The audited financial statements identified Cipla as a related party and referred generally to technical-service expenses. The Respondent therefore knew the existence and amount of the payments, and they were not new information.

40. Those documents did not disclose the contractual subject matter of the payments. At least some entries described them as management or professional fees. The general reference in the financial statements to technical-service fees did not disclose that the payments were made in return for proprietary pharmaceutical technology, manufacturing procedures, documentation, methods of analysis, know-how, technical data, intellectual-property rights and permission to use Cipla's trade names.

41. RW1 testified that the Services Fees Agreement and the Technology Licence Agreement had not been furnished to the Respondent before the audit. The Applicant produced no evidence that either agreement had previously been supplied. The agreements identified the rights granted, the products to which they related, the territorial and use restrictions and the basis upon which the

consideration was calculated. We find that the Respondent first learned of those contractual facts during the audit.

42. Those facts were material to the VAT inquiry. They enabled the Respondent to identify what Cipla supplied, whether that supply constituted a service, where the rights were supplied from and used, and whether the payments were consideration for the service. Although the figures used in the assessment were obtained from the withholding tax returns, section 25(2)(a) does not require every figure in the computation to be newly discovered. It requires new information in relation to the tax payable.

43. This case is distinguishable from ***Kampala Hospitality Development Limited v Uganda Revenue Authority***. In that case, the assessment was based solely upon information already apparent from returns held by the Respondent. Here, the returns disclosed the payments but not the contractual rights supplied in return. Those rights and the terms governing their use could not be derived from entries describing the payments as management, professional or technical-service fees.

44. The agreements did not merely provide further evidence of facts already fully disclosed. They revealed the contractual subject matter of the payments, the rights made available, the products and territory to which those rights related and the basis of the consideration. Each matter bore directly upon the liability for VAT on imported services. The Respondent therefore discovered new information in relation to the tax payable within section 25(2)(a) and was entitled to make the additional assessment outside the ordinary three-year period.

**Gross or willful neglect**

45. Section 25(2)(a) distinguishes fraud, gross neglect and willful neglect from an ordinary error of judgment or a mere failure to exercise reasonable care. In ***Kampala Hospitality*** Development ***Limited v Uganda Revenue Authority***,

TAT Application No. 69 of 2023, the Tribunal held that gross or willful neglect requires proof of an intentional gross departure from what is reasonably expected of the taxpayer. In ***Venne v The Queen***, [1984] CTC 223, the Federal Court of Canada similarly distinguished gross negligence from a mere failure to exercise reasonable care and described it as negligence of a high degree, approaching intentional conduct or indifference as to whether the law is complied with. That decision is persuasive and accords with the Ugandan statutory language and Kampala Hospitality. The Respondent must prove facts from which the degree of neglect or the relevant state of mind may properly be inferred. Non-payment of tax, without more, is insufficient.

46. The inference must be drawn from the Applicant's conduct as a whole. Of particular relevance are the nature of the transaction, the recurrence and value of the omission, the treatment of comparable transactions and the explanation given for the distinction. The Applicant's status or the eventual rejection of its legal argument cannot, without more, establish gross neglect.

47. The Applicant made substantial payments to Cipla in successive tax periods and deducted withholding tax from them. It did not declare the Cipla services in its VAT returns. During the same audit period, however, it accounted for VAT on imported services received from other foreign suppliers and accepted the related additional VAT assessment of Shs. 408,441,693. The distinction was therefore not between imported services generally and domestic services. It was between the Cipla arrangements and other imported services the Applicant received.

48. That evidence shows that the Applicant understood that a service received from a foreign supplier could attract VAT and had a mechanism for accounting for it. The omission concerning Cipla was not a single posting or computational error. It was repeated over several tax periods and concerned payments made

under written agreements. Those circumstances called for an explanation of why the Cipla services were treated differently.

49. The explanation advanced was that the Cipla technology was incidental to the Applicant's zero-rated supply of medicines. A taxpayer does not commit gross neglect merely because a bona fide interpretation of a taxing provision is later rejected. The question is whether the position was one which the Applicant had considered and adopted when making the returns. AW1 did not state when the incidental-supply position was adopted, who considered the VAT treatment, or what consideration was given to the fact that Cipla supplied the technology to the Applicant while the Applicant supplied medicines to its customers under separate transactions.

50. The absence of contemporaneous evidence is not itself proof of gross neglect. It nevertheless leaves the proved course of conduct unexplained. The agreements identified Cipla as the technology supplier and the Applicant as its recipient. The Applicant's customers were not parties to those agreements and did not receive the licensed rights from Cipla. That structure was apparent from the documents under which the payments were made and was material to any consideration of section 12.

51. In ***Kampala Hospitality Development Limited v Uganda Revenue Authority***, the Tribunal held that the repeated deduction of withholding tax from foreign payments, coupled with the omission of VAT on the corresponding imported services, supported a finding of gross or willful neglect. That inference is not automatic because withholding tax and VAT arise under different charging provisions. In this case, it is supported by the repeated and substantial omission, the Applicant's accounting for VAT on other imported services and the absence of an explanation, grounded in the treatment adopted when the returns were filed, for treating the Cipla services differently.

52. The evidence does not establish fraud. It also does not establish that the Applicant deliberately withheld tax which it knew to be payable; no finding of willful neglect is therefore made. The treatment of the Cipla payments was nevertheless not accidental. The Applicant repeatedly deducted withholding tax from those payments, omitted them from its imported-services VAT declarations and, during the same period, accounted for VAT on other imported services. That was a deliberate course of return treatment, although the evidence does not show a deliberate intention to evade tax. Willful neglect requires proof of that further intentional element; gross neglect does not, and is made out where the taxpayer's conduct falls seriously and unjustifiably short of the standard of care reasonably expected. In view of the substantial and recurring payments and the separate supply relationships apparent from the agreements, the failure to address the VAT consequences was a gross departure from the care reasonably expected of the Applicant. It amounted to gross neglect within section 25(2)(a).

53. The Respondent has established the discovery of new information and, independently, gross neglect. Either ground permitted the additional assessment outside the ordinary three-year period. The limitation ground accordingly fails.

**Issue 1(b): Whether the Cipla payments were liable to VAT as imported services**

**The charging provisions**

54. Section 4(c) of the Value Added Tax Act, Cap. 344, charges VAT on the supply of imported services, other than an exempt service, by any person. Under section 5(1)(c), the tax on such a supply is payable by the person receiving it. The charging provision therefore requires identification of a supply of services from outside Uganda, its receipt by a person in Uganda, and the absence of an applicable exemption.

55. Section 1 defines 'services' as anything that is not goods or money. Section 11(1) provides that a supply of services means a supply which is not a supply of goods or money and expressly includes the performance of services for another person and the making available of any facility or advantage.

56. Under the agreements, Cipla made available technology, technical information, know-how, manufacturing processes, methods of analysis and intellectual-property and trade-name rights. These were not merely information internal to the Applicant. They were enforceable rights and commercial advantages supplied by Cipla for consideration and therefore constituted services within sections 1 and 11.

57. Cipla supplied those services from India. The Applicant received and used them at its manufacturing facility in Uganda. The rights included permission to use technology, know-how, intellectual property and trade names in Uganda. The place of their receipt and economic exploitation was therefore Uganda. The supply was a supply of imported services chargeable under sections 4(c) and 5(1)(c). This conclusion is consistent with ***Apollo Hotel Corporation v Uganda Revenue Authority***, TAT Application No. 68 of 2018, [2021] UGTAT 4, where rights supplied by a foreign franchisor for use in Uganda were treated as imported services.

58. The Applicant substantially accepts those propositions. Its case is that section 12(1) treats the services as part of its supply of zero-rated medicines. The dispute is therefore not whether a service was imported, but whether section 12 changes the character and rate of that otherwise taxable import.

**Whether section 12(1) applies**

59. The Applicant relied upon section 12(1) of the Value Added Tax Act. The Respondent also referred to subsection (3). Section 12, headed 'Mixed supplies', provides:

    1) A supply of services incidental to the supply of goods is part of the supply of goods.

2) A supply of goods incidental to the supply of services is part of the supply of services.

3) A supply of services incidental to the import of goods is part of the import of goods.

60. The provision addresses a transaction containing goods and services and prevents an incidental service from being artificially separated from the supply of goods to which it belongs. It is not enough that a service contributes to, facilitates or is necessary for the production of goods. Many services acquired by a manufacturer satisfy that description. The first task is to identify the particular supply, the supplier, the recipient and the consideration whose VAT treatment is in issue.

61. In ***Card Protection Plan Ltd v Commissioners of Customs and Excise***, Case C-349/96, [1999] STC 270, the court held that a service is ancillary where it does not constitute an aim in itself for the customer but is a means of better enjoying the principal supply. The court applied that approach in ***Uganda Revenue Authority v Total Uganda Limited***, High Court Civil Appeal No. 11 of 2012, [2012] UGCommC 171. The Supreme Court considered the operation of section 12 in ***Uganda Revenue Authority v Uganda Taxi Operators and Drivers Association***, Supreme Court Civil Appeal No. 13 of 2015, [2017] UGSC 15. The inquiry is objective and is conducted from the perspective of the recipient of the alleged composite supply. Relevant considerations include the identity of the supplier and recipient, the contractual or economic bargain and whether separate treatment would artificially divide a single supply.

62. In the present case, there were two supply relationships. Cipla supplied a licence and know-how to the Applicant under separate agreements and for royalty consideration. The Applicant thereafter manufactured and supplied pharmaceutical products to its customers for separate consideration. Cipla was not the supplier of those products to the Applicant's customers. The customers were not the recipients of Cipla's licence. There was therefore no

single consumer who obtained both the licence and the medicines as elements of one bargain.

63. The expression *'incidental to the supply of goods'* requires the service and the goods to form components of the supply whose VAT treatment is being determined. A cost or input used to make goods is not, for that reason alone, a component of the later supply of those goods. Section 12(1) does not combine successive transactions involving different suppliers and recipients merely because the first transaction provides an input used in making the second.

64. This is the material distinction from ***Uganda Revenue Authority v Total Uganda Limited***. In that case, the alleged management service formed part of the commercial mechanism through which the same supplier made the underlying fuel supply to its customer. Treating the elements separately would have divided one supplier-customer transaction. Here, the Applicant acquired the licence as a business input. The subsequent sale of medicines took place at another level of the supply chain. Recognising the two supplies does not artificially split one transaction. It gives separate legal effect to two actual transactions. ***Commission of the European Communities v French Republic*** does not lead to a different result. That case concerned the scope of a specific exemption for medical care and closely related activities. The Court held that transmitting a patient's sample between laboratories was closely related to the exempt medical analysis for which the sample was taken. It did not establish a general rule that separate supplies by different suppliers to different recipients at successive levels of a supply chain must receive one VAT treatment.

65. The contractual restrictions relied upon by the Applicant do not alter this conclusion. They define the scope of the intellectual-property rights purchased from Cipla. They do not deprive the rights of value or make them part of goods supplied to another customer. The Applicant acquired the rights because they

conferred the legal and practical ability to manufacture the specified products using Cipla's technology and names. From the Applicant's perspective, obtaining that capacity was the commercial object of the licence agreement. It was not merely a means of better enjoying goods which Cipla supplied to it.

66. Neither does the royalty formula convert the supplies into one. Consideration for intellectual property may be calculated by reference to the licensee's sales because sales measure the value derived from the licence. That formula determines the amount or timing of the royalty. It does not change the identity of the supplier and recipient or transform the licensed service into pharmaceutical goods.

67. Regulation 13(1) of the Value Added Tax Regulations requires a person who receives imported services, other than an exempt service, to account for the tax at the earliest of completion of performance, payment for the service or receipt of the foreign supplier's invoice. The regulation determines when the tax is accounted for. It does not determine whether the service is incidental to goods under section 12. The time of supply and the character of the supply are distinct questions. The fact that a royalty is quantified when sales occur does not establish that the licence and those sales constitute one supply.

68. It is unnecessary to determine the Respondent's broader argument that section 12(1) can never apply to an imported service. Even assuming it can, the provision's requirements are not met. The Cipla licence was a distinct imported service supplied to the Applicant for separate consideration. It did not form part of the Applicant's later supply of pharmaceutical goods to its customers.

69. The Applicant did not identify a provision in the Third Schedule which zero-rates the imported licence itself. ***Uganda Revenue Authority v Siraje Hassan Kajura***, Supreme Court Civil Appeal No. 9 of 2015, [2017] UGSC 91, restates the rule that a tax liability or exemption must be found in the language enacted

by Parliament and cannot be created by implication. The use of a taxable input in making a zero-rated output does not, without statutory language to that effect, extend zero-rating to the input.

70. We accordingly find that the royalties paid to Cipla were consideration for a supply of imported services chargeable under sections 4(c) and 5(1)(c) of the Value Added Tax Act. They did not assume the zero-rated treatment of the Applicant's pharmaceutical products under section 12(1). The Respondent correctly assessed VAT on the disputed amount of UGX 6,019,364,368.

**Issue 2: What remedies are available to the parties?**

71. The Applicant has failed to prove that the objection decisions were wrong or that the disputed assessment was excessive. Its prayers to set aside the assessment cannot therefore succeed.

72. Section 22(5) of the Tax Appeals Tribunals Act empowers the Tribunal to award costs. That discretion must be exercised judicially. The general rule is that costs follow the event unless the circumstances of the case provide a sufficient reason for departing from it. (***Jennifer*** Behange ***and Others v School Outfitters (U) Ltd***, Court of Appeal Civil Appeal No. 53 of 1999). The Respondent has succeeded on both the limitation ground and the substantive VAT dispute. The limitation ground was introduced by the Applicant after scheduling and required the Respondent to amend its Statement of Reasons, adduce additional evidence and answer the enlarged case. Neither the importance of the questions determined nor the Tribunal's permission of the amendment constitutes a proper reason to deny the successful party its costs. The Tribunal finds no misconduct, unnecessary prolongation of the proceedings, or other circumstance that would justify a different order. The Respondent is accordingly awarded the costs of the Application.

Orders

73. The Tribunal accordingly makes the following orders:
    1) The Application is dismissed.
    2) Under section 20(1)(a) of the Tax Appeals Tribunals Act, the objection decisions dated 26 April 2024, insofar as they relate to the disputed VAT assessment of UGX 6,019,364,368, are affirmed.
    3) The Applicant shall pay the Respondent's costs of the Application.

It is so ordered.

Dated at Kampala this **18th** day of **September** 2026.

**HON. PROSCOVIA REBECCA NAMBI**

**CHAIRPERSON**

**HON. STELLA NYAPENDI CHOMBO**

**MEMBER**