

# TAXATION OF RELIGIOUS INSTITUTIONS IN UGANDA: A LEGAL AND PRACTICAL ANALYSIS

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## 1. Preamble

Religious institutions occupy a unique position within Uganda's tax system. Churches, mosques, dioceses, religious foundations, missionary organizations and faith-based charities are established primarily to advance religion, provide humanitarian support, promote education and undertake charitable activities.

Owing to these public-benefit objectives, many religious institutions assume that they are exempt from taxation.

**"That assumption is only partly correct".**

Uganda's tax laws **do not grant a blanket exemption to religious institutions.** Rather, the Income Tax Act, Cap. 338, the Value Added Tax Act, Cap. 344, the Stamp Duty Act, Cap. 339 and the Tax Procedures Code Act, Cap. 343 impose tax obligations based on the **nature of the income earned, transaction undertaken or activity conducted.** Consequently, a religious institution may simultaneously enjoy exemption from one tax while remaining liable for another.

The position is best summarized in the words of the Supreme Court in tax jurisprudence that **tax exemptions must be expressly granted by law and are construed strictly.** Exemption is therefore not presumed merely because an institution pursues religious objectives.

This article examines the taxation of religious institutions in Uganda under the various tax heads and analyses the statutory provisions governing exempt organizations, donations, commercial activities, employment income, rental income, VAT, withholding taxes and stamp duty.

## 2. The Legal Status of Religious Institutions under the Income Tax Act

The starting point is the definition of an **"exempt organisation"** under section 2 of the Income Tax Act.

The Act defines an exempt organisation as a **company, institution or irrevocable trust** which is:

(a) **a religious**, charitable, educational or research institution whose object is not for profit; and

(b) **has been issued with a written ruling** by the Commissioner General currently in force stating that it is an exempt organisation.

This definition is significant for two reasons.

**First**, not every church, mosque or faith-based organization automatically qualifies as an exempt organization. The institution must satisfy the substantive requirement of **being established for non-profit religious or charitable purposes**.

**Secondly**, and more importantly, the institution **must obtain a written ruling from the Commissioner General** recognizing it as an exempt organisation. In practice, therefore, **exemption is not self-executing**. Religious institutions that have not obtained such recognition may find it difficult to rely on the exemptions available under section 21 of the Income Tax Act.

The requirement for **public benefit** is further elaborated in **URA Practice Notes**, which state that a charitable organization must provide **public benefit** through **the relief of poverty, advancement of education, advancement of religion, or other purposes beneficial to the community**. URA further states that an institution of public character must provide benefits to the public at large or at least a sufficient section of the community.

The advancement of religion therefore constitutes a recognised charitable purpose under Uganda's tax law.

### 3. Exempt Income of Religious Institutions

**Section 21(1)(f)** of the Income Tax Act exempts the income of an exempt organisation from tax. However, the exemption is subject to important qualifications.

The Act expressly excludes:

(a) **property income**, except **rent** received by an exempt organisation in respect of immovable property where the rent is **used exclusively for the exempt activities of the organisation**; and

(b) **business income** that is **not related to the function** constituting the basis for the organisation's existence.

This provision demonstrates that Uganda's tax regime adopts **a functional approach** rather than an **institutional approach**. The relevant question is not whether the taxpayer is a church or mosque. Rather, the question is whether the

income is derived from activities connected with the religious purpose for which the institution exists.

Thus, income derived from **religious worship, missionary activities, pastoral ministry** and **charitable religious work** is generally **exempt**. Conversely, income derived from unrelated commercial activities may **remain taxable** notwithstanding the religious nature of the institution.

#### **4. Tithes, Offerings and Donations**

The most common source of funding for religious institutions is voluntary contributions from members and well-wishers.

These include Tithes, Offerings, Zakat, Missionary support, Building fund contributions, Donations and grants.

Although the Income Tax Act does not specifically mention tithes or offerings, such receipts generally fall **outside chargeable income because they do not constitute business income, employment income or property income**. In addition, gifts and inheritances that do not constitute business, employment or property income are exempt under section 21 of the Income Tax Act.

Consequently, **voluntary contributions** made for religious purposes are generally not subject to income tax.

However, **institutions should maintain adequate records** demonstrating the voluntary nature of such receipts, particularly where substantial sums are involved.

#### **5. Commercial Activities Undertaken by Religious Institutions**

The greatest area of tax exposure for religious institutions arises where they engage in commercial activities such as Commercial farming; Printing and publishing businesses; Guest houses and hotels; Commercial conference facilities; Media enterprises; Retail businesses; Commercial property developments etc.

**Section 21(1)(f)(ii)** of the Income Tax Act **specifically excludes from exemption business income** that is **unrelated to the function** constituting the basis for the institution's existence.

This means that **a church-owned business may be taxable** if its activities cannot reasonably be regarded as advancing religion or supporting the institution's exempt purpose.

The analysis is therefore **highly fact specific** and requires consideration of the relationship between the activity and the institution's religious objectives.

## 6. Rental Income Tax and Religious Institutions

One of the most misunderstood aspects of the taxation of religious institutions in Uganda concerns **rental income** derived from church-owned or mosque-owned properties.

Many religious institutions have over the years accumulated substantial immovable property including **office buildings, shopping arcades, residential apartments, hostels, conference facilities** and **commercial developments**. These properties frequently generate significant **rental income** which **often funds religious, educational and charitable activities**.

The starting point is **section 20 of the Income Tax Act** which defines rent as property income. Ordinarily, property income forms part of chargeable income and is subject to tax. However, **section 21(1)(f)(i)** creates an **important exemption for exempt organisations**.

The provision exempts:

**"rent received by an exempt organisation** in respect of immovable property and the **rent is used by the lessor exclusively for the activities of the organisation."**

This exemption reflects a deliberate legislative policy. Parliament recognised that religious and charitable institutions often hold income-generating property to finance their charitable and religious work. Consequently, where rental income is used exclusively to advance the institution's exempt purposes, the income remains exempt notwithstanding its character as rent.

The exemption, however, is subject to **three important conditions**.

**First**, the institution **must qualify as an exempt organisation** under section 2 of the Income Tax Act.

**Secondly**, the **rent must arise from immovable property**.

**Thirdly**, and most importantly, **the rental proceeds must be applied exclusively** towards the activities constituting the basis of the organisation's existence.

This raises practical evidential issues. Religious institutions should maintain clear records demonstrating how rental income has been utilised. **Where rental proceeds are diverted to private individuals or used for purposes unrelated to the institution's religious objectives, URA may challenge the exemption**.

The exemption is therefore not an exemption of property but rather an exemption of income that satisfies a statutory use test.

## 7. Employment Income and PAYE Obligations

While exempt organisations may enjoy relief from income tax on qualifying income, **they remain employers** for purposes of the Pay As You Earn (PAYE) system.

**Section 126 of the Income Tax Act** imposes an obligation on employers to withhold and remit tax from employment income paid to employees.

The fact that a church, mosque or religious foundation is exempt from income tax does not exempt it from PAYE obligations.

Consequently, religious institutions must account for PAYE on remuneration paid to:

- Priests;
- Pastors;
- Bishops;
- Imams;
- Evangelists employed under contracts of service;
- Teachers;
- Administrative staff;
- Drivers;
- Accountants;
- Medical personnel employed by faith-based hospitals.
- All other employees engaged by the institution

The distinction between **institutional exemption** and **employee taxation** is critical. The exemption belongs to the institution and not to the individual employee.

Accordingly, **a bishop receiving a salary from an exempt religious organisation remains liable to tax** on that salary unless a specific statutory exemption applies.

### Taxation of Clergy Benefits

Religious institutions frequently provide benefits to senior clergy and other employees. These benefits often include:

- Housing;
- Motor vehicles;
- Utility payments;
- Domestic servants;
- School fees for dependants;
- Medical allowances;
- Other taxable benefits.

**Section 19** of the Income Tax Act broadly defines employment income to include not only cash remuneration but also benefits and advantages provided in respect of employment.

Consequently, where a church provides a residence to a pastor or a vehicle to a bishop, the tax consequences must be examined under the employment income provisions.

A common misconception is that benefits provided to clergy are automatically exempt because of their religious office. There is no such general exemption in the Income Tax Act.

Religious institutions should therefore carefully evaluate all non-cash benefits provided to clergy to ensure proper PAYE treatment.

Failure to account for employment benefits remains one of the most frequent causes of payroll assessments during URA audits.

## **8. Withholding Tax Obligations**

Religious institutions also interact with the withholding tax regime in numerous ways.

Churches and faith-based organisations routinely procure:

- Legal services;
- Audit services;
- Consultancy services;
- Architectural services;
- Engineering services;
- Construction services;
- Training services.
- Assets
- Other goods and services

Where the institution has made payments of such kind or has been designated as a withholding agent, it must comply with the withholding obligations imposed by the Income Tax Act.

The obligation to withhold does not depend on whether the institution itself is exempt from income tax. Rather, it arises because the institution acts as an intermediary in the collection of tax from suppliers.

The Tax Appeals Tribunal has consistently held that withholding tax obligations are independent statutory obligations and failure to comply may result in the tax

being recovered directly from the withholding agent together with interest and penalties.

Religious institutions should therefore maintain systems capable of identifying payments that attract withholding tax and ensuring timely remittance to URA.

## 9. Value Added Tax and Religious Institutions

Unlike the Income Tax Act, the Value Added Tax Act does not contain a broad exemption for religious institutions.

VAT is imposed under **section 4 of the VAT Act** on:

- Taxable supplies made by a taxable person;
- Imports of goods;
- Imported services.

The critical question is therefore not whether the supplier is a church or mosque, but **whether a taxable supply exists**.

Under **section 18 of the VAT Act**, a taxable supply arises where goods or services are supplied in Uganda by a taxable person for consideration in the course of business.

Applying this principle, many core religious activities fall outside the VAT net. Examples include Worship services; Religious ceremonies; Prayer meetings; Pastoral counselling; Voluntary offerings; Tithes.

These activities generally lack consideration and therefore do not constitute taxable supplies.

The position changes where a religious **institution engages in commercial transactions** such as Sale of religious books; Sale of branded merchandise; Commercial accommodation; Conference facilities; Advertising services; Commercial farming outputs; Catering services etc.

Where such **supplies exceed the statutory registration threshold**, VAT obligations arise in the same manner as for any other taxpayer.

Recent Tribunal decisions have reaffirmed the principle that VAT liability depends on the existence of a taxable supply and not the status of the taxpayer.

## 10. VAT on Imported Services

The rapid digitalisation of religious institutions has created a growing exposure to VAT on imported services.

Many churches and faith-based organisations now utilize:

- Microsoft 365;
- Google Workspace;
- Zoom;
- Cloud storage platforms;
- Foreign accounting software;
- International training programmes;
- Foreign consultants.

**Section 4(c) of the VAT Act** imposes VAT on imported services consumed in Uganda.

Consequently, **where a foreign supplier provides services to a religious institution in Uganda**, VAT consequences may arise even where the supplier has no physical presence in Uganda.

This area remains one of the most frequently overlooked tax risks among non-profit organisations.

Religious institutions should periodically review all payments made to foreign service providers to determine whether VAT on imported services is applicable.

## 11. VAT Withholding

**Section 5(2) of the VAT Act** empowers the Minister to designate VAT withholding agents. Designated persons are required to **withhold six percent of the taxable value** of supplies and remit the amount directly to URA.

Where a religious institution is designated as a VAT withholding agent, it assumes obligations similar to those of any other withholding agent.

The institution must:

- Withhold VAT;
- Remit the tax within the prescribed period;
- Maintain supporting documentation.

Failure to comply attracts penalties and interest under the Tax Procedures Code Act.

## 12. Stamp Duty Implications

Religious institutions frequently engage in property and financing transactions which attract stamp duty.

Unlike income tax, **stamp duty is imposed on instruments** rather than on persons.

The relevant question is therefore not whether the institution is religious but **whether the instrument executed falls within a chargeable category** under the Stamp Duty Act.

Common transactions that may attract stamp duty include:

- Land transfers;
- Leases;
- Mortgages;
- Caveats
- Powers of attorney;
- Security instruments.

Consequently, where a church purchases land, grants a lease, obtains financing or creates security over property, stamp duty implications must be considered before execution of the relevant instrument. Religious status does not ordinarily provide immunity from stamp duty obligations.

### **13. Religious Institutions Operating Schools and Hospitals**

A significant proportion of Uganda's schools and hospitals are owned or managed by religious organisations.

These institutions often benefit from the goodwill associated with their religious affiliation. However, from a tax perspective they remain separate economic activities whose treatment depends on the applicable statutory provisions.

The same analytical framework is useful when considering faith-based hospitals and other charitable institutions. The critical question remains whether the income is connected to the charitable or religious purpose for which the institution exists.

### **14. Conclusion**

The taxation of religious institutions in Uganda is governed by a delicate balance between public policy and tax neutrality. On the one hand, Parliament recognises the public benefit generated by religious, charitable and educational institutions and accordingly grants significant tax concessions. On the other hand, the tax system seeks to ensure that commercial activities conducted by such institutions do not enjoy unfair advantages over ordinary taxpayers.

The Income Tax Act therefore adopts a functional approach. Exemption depends not on the religious identity of the taxpayer but on whether the institution qualifies

as an exempt organisation and whether the income is connected to the exempt purpose for which the organisation exists.

Religious institutions **must therefore move beyond the assumption that they are wholly exempt from taxation.** Effective tax governance requires careful consideration of income tax, rental income, PAYE, withholding tax, VAT, imported services VAT, VAT withholding and stamp duty obligations.

As religious institutions continue to diversify into education, healthcare, property development and commercial enterprises, the need for proactive tax compliance has never been greater. Sound governance, proper record keeping and periodic tax reviews remain essential to preserving statutory exemptions while ensuring full compliance with Uganda's evolving tax framework.

### **About the Author**

**Julius Nandeeba** is a published author, Advocate of the High Court of Uganda, a member of the Institute of Certified Public Accountants of Uganda (ICPAU), and a Fellow of the Association of Chartered Certified Accountants (FCCA). He possesses over fifteen years of extensive experience in tax administration, tax policy implementation, compliance management, tax investigations, and revenue mobilization.

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