

Top Corporation Tax Red Flags Every Taxpayer Should Address Before Filing the Final Income Tax Return

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Introduction

The final Income Tax return is more than a compliance requirement—it is a declaration made under oath that the information provided is true and complete. Once filed, the return forms the basis upon which the Uganda Revenue Authority (URA) assesses tax compliance and selects taxpayers for return examination or audit.

Experience shows that a significant proportion of additional tax assessments arise from a few recurring issues. Taxpayers should therefore review these areas carefully before submitting their returns.

1. Reconcile Accounting Profit to Taxable Profit

One of the most common mistakes is assuming that accounting profit is automatically taxable profit.

Taxpayers should ensure that:

- All non-deductible expenses have been added back.
- All allowable deductions have been correctly claimed.
- Capital allowances have been correctly computed.
- Tax losses have been accurately utilized.
- Deferred tax adjustments are excluded from the tax computation.

A tax computation should clearly explain every adjustment made from accounting profit to taxable income.

2. Non-Deductible Expenses (S.22-36 ITA)

This remains one of the largest sources of additional assessments.

Common examples include:

- Penalties and fines.
- Donations not permitted under the Income Tax Act.
- Personal expenses.
- Funeral and bereavement expenses.

- Entertainment not incurred wholly and exclusively in producing income.
- Staff parties and recreational expenses.
- Gifts and hampers.
- Christmas decorations and greeting cards.
- Expenses without supporting documentation.
- Private motor vehicle expenses.
- Other non-allowable deductions prescribed under Sections 22-36 of the Income Tax Act.

Many taxpayers incorrectly deduct these expenses because they appear in their financial statements. An expense included in the financial statements does not automatically qualify as a deductible expense for tax purposes

3. Expenses Without Adequate Documentation

No matter how genuine an expense appears, it may be disallowed where taxpayers cannot produce:

- Valid tax invoices (now EFRIS invoices or receipts).
- Valid Contracts.
- Payment evidence.
- Delivery notes.
- Board approvals where necessary.
- Work completion certificates.

The burden of proof lies with the taxpayer, see section 28 of the Tax procedures Code Act

4. Related Party Transactions

Transactions between related companies are increasingly attracting scrutiny.

Review:

- Management fees.
- Service charges.
- Interest on shareholder loans.
- Cost recharges.
- Shared service arrangements.
- Transfer pricing documentation.

Ensure prices reflect the arm's length principle and transfer pricing documentation is in place before filing the Income Tax return (Regulation 8 of the Income Tax (Transfer Pricing) Regulations, 2011)

5. Interest Expense Limitations (S.25 ITA)

Review:

- Loans from shareholders.
- Foreign related-party loans.
- Highly leveraged financing.

Confirm compliance with the interest limitation provisions under S.25 of the Income Tax Act

6. Capital Expenditure Incorrectly Claimed as Revenue (S.22(3)(b) ITA)

Many taxpayers expense items that should instead qualify for capital allowances.

Examples include:

- Buildings.
- Major renovations.
- Computer systems.
- Machinery.
- Motor vehicles.
- Office furniture.
- Software
- Losses on disposal of assets
- Amortisation
- Impairment losses

These should normally be capitalized before claiming the applicable capital allowance if any.

7. Repairs versus Improvements

Taxpayers frequently classify improvements as repairs.

A genuine repair restores an asset.

An improvement increases:

- Capacity
- Efficiency
- Useful life
- Value

Improvements should normally be capitalized.

8. Unrealistic Tax Losses (S.36 ITA)

Long-standing tax losses are among the biggest audit triggers.

Questions often asked include:

- Why has the company reported losses for several consecutive years?
- How is the business financing operations?
- Is there evidence of profit shifting?
- Are expenses overstated?
- Are revenues understated?

Where losses are claimed, maintain sufficient evidence to justify them.

9. Understatement of Revenue

URA compares declared turnover with numerous independent sources including:

- VAT returns.
- EFRIS data.
- Customs imports.
- Banking transactions.
- Third-party information.
- Financial statements.
- Industry benchmarks.

Any unexplained differences may trigger an audit.

10. VAT and Income Tax Reconciliation

The following should reconcile where applicable:

- Sales in financial statements.
- VAT returns.
- Income Tax returns.
- EFRIS sales.
- Trial balance.
- General ledger

Differences should be properly explained.

11. Payroll versus PAYE

Common inconsistencies include:

- Payroll costs exceeding PAYE declarations.
- Directors receiving benefits not declared.
- Bonuses omitted from PAYE.
- Benefits in kind not taxed.

Review employment costs carefully before claiming them in the Income Tax returns

12. Withholding Tax Credits (S.4(3) ITA)

Before claiming withholding tax credits, confirm that:

- Certificates have been issued.
- Credits belong to the correct taxpayer.
- Credits relate to the correct year of income.
- The income has actually been declared.

Unsupported credits are commonly rejected.

13. Capital Allowances (S.27, 28,29, 30, 34 ITA)

Review whether:

- Assets qualify.
- Correct rates have been used.
- Assets were available for use.
- Disposals have been properly treated.
- Balancing adjustments have been considered.

14. Bad Debts (S.24 ITA)

Bad debts are deductible only where the legal requirements have been met.

Maintain evidence that:

- The debt existed.
- Recovery efforts were undertaken.
- The debt was written off in the books.

15. Provisions (S.22 ITA)

Many accounting provisions are not deductible until actually incurred.

Examples include:

- General provisions.
- Future maintenance.
- Expected losses.
- Warranty provisions.
- Litigation provisions (unless deductible under the law).

16. International Payments (S.82 ITA)

Review whether withholding tax obligations have been met on payments to non-residents including:

- Royalties.
- Interest.
- Management fees.
- Technical service fees.
- Agency fees in Islamic financial business.
- Rent.
- Natural resource payments.

Failure to withhold often results in both withholding tax assessments and disallowance of the expense where applicable. These are the same expenses that trigger Transfer Pricing queries. Do not just pay, ask yourself whether the services were actually rendered and the price charged is at arm's length.

17. Foreign Exchange Losses (S.22)

Review whether:

- Losses are realized or unrealized (only realized losses are deductible)
- The tax treatment follows the Income Tax Act.
- Supporting schedules are maintained.

18. Related Tax Returns Reconciliation

Ensure consistency between:

- Corporation Income Tax Return.
- VAT Returns.
- PAYE Returns.
- Withholding Tax Returns.
- Rental Income Returns (where applicable).
- Excise returns (if applicable).

With the current digital transformation, any discrepancies are easily identified through data analytics.

19. Thin Supporting Tax Computation

A tax computation should not simply show figures.

It should explain:

- Every adjustment.
- Every legal provision relied upon.
- Every capital allowance claimed.
- Every exempt income.

A transparent computation significantly reduces review queries.

20. Industry-Specific Issues

Certain industries have recurring tax risks.

For example:

- **Banks**—interest income recognition, impairment deductions, taxation of investment income, and bad debt provisions.
- **Insurance companies**—claims provisions, reinsurance transactions, reserve movements, and investment income.
- **Manufacturers**—inventory valuation, production losses, and capital allowances.
- **Construction companies**—contract revenue recognition and retention income.
- **NGOs and non-profit entities**—application of exempt status and treatment of commercial income.

Final Advice Before Filing

Before clicking **Submit**, every taxpayer should ask the following questions:

- Are the audited financial statements ready and fully signed. Remember you are required to attach them **(S.16(5) TPCA)**
- Is the Effective Tax Rate (Tax payable as ratio of Total Income) appropriate?
- Can every deduction be supported by evidence?
- Have all non-deductible expenses been added back?
- Do all tax returns reconcile?
- Is the tax computation supported by the Income Tax Act?

- Have all withholding tax obligations been met?
- Does the declared turnover agree with accounting records, VAT returns, and EFRIS?
- Have all international transactions been properly disclosed and treated?
- Are transfer pricing obligations fully complied with where applicable?
- Would an independent reviewer reach the same tax position based on the available documentation?

Conclusion

The final Income Tax return is often the first document reviewed when assessing a taxpayer's compliance risk. A well-prepared return that is supported by complete documentation, reconciled across all tax heads, and consistent with the provisions of the Income Tax Act significantly reduces the likelihood of adjustments, penalties, and prolonged audits.

In today's data-driven tax environment, inconsistencies across tax returns, financial statements, and third-party information are more readily detected than ever before. Investing time in a thorough pre-filing review is therefore not only a compliance exercise but also an effective risk management strategy that protects the business from avoidable tax disputes.

Disclaimer

This article is intended for general information and taxpayer education purposes only. It highlights common areas that frequently attract attention during Corporation Income Tax return examinations and audits based on the provisions of the Income Tax Act, Cap. 338, and practical tax administration experience.

The views expressed are those of the author and are provided to promote voluntary tax compliance. They should not be construed as official policy, practice directions, or legally binding interpretations of the Uganda Revenue Authority (URA) or any other government institution.

Tax laws are subject to amendment and each taxpayer's circumstances are unique. Taxpayers are therefore encouraged to consult the relevant legislation, applicable regulations, and professional tax advisers before taking any action or making decisions based on the contents of this article.

Nothing in this publication should be relied upon as legal, tax, or professional advice, nor should it be used as a substitute for obtaining advice tailored to specific facts and circumstances.

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