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# EMERGING TRENDS ON TAXATION OF SERVICED APARTMENTS IN UGANDA

## INTRODUCTION

Uganda's housing sector continues to attract significant investment, driven by rapid urbanization, population growth, and increasing demand for quality residential accommodation. As developers and property owners seek to meet the needs of a growing middle and upper income market, many residential developments now incorporate value added amenities and hospitality style services designed to enhance the living experience and increase returns on investment. However, as the real estate landscape evolves, so too do the tax considerations affecting property owners and managers. Recent decisions of the Tax Appeals Tribunal and the High Court Commercial Division in *Sharad Karia v Uganda Revenue Authority* have provided important rulings on the VAT treatment of serviced apartments, clarifying the circumstances under which residential accommodation may fall outside the VAT exemption applicable to ordinary residential lettings. This article examines the decisions and their implications for real estate developers, landlords, and property managers operating in Uganda's increasingly sophisticated housing market.

The Tax Appeals Tribunal, in its decision in ***Sharad Karia v Uganda Revenue Authority, Tax Appeals Tribunal Application No. 57 of 2023***, held that residential properties with improvements and amenities that generate significant added value are not exempt from VAT and that taxpayers operating such properties should register for VAT and charge VAT on rental income. This position has now been **affirmed by the High Court Commercial Division in *Civil Appeal No. 0083 of 2024, Sharad Karia v Uganda Revenue Authority***, which upheld the Tribunal's findings and confirmed that serviced apartments fall outside the VAT exemption applicable to ordinary residential lettings

## BACKGROUND

The Applicant owns **Royal Palms Nakasero**, comprising 34 fully furnished apartments with amenities including DSTV, furnishings, Wi-Fi, a swimming pool, gym, reception services and other facilities.

The Applicant challenged additional VAT assessments issued by the Uganda Revenue Authority (URA), arguing that his business involved the leasing of residential property, which falls within the VAT exemption for the supply of immovable property. He contended that his tenants occupied the apartments under long-term tenancies ranging from one to three years and that modern premium residential properties commonly provide such amenities as part of a competitive housing market. According to the Applicant, the presence of these amenities did not convert the apartments into hotels or serviced apartments.

URA argued that the Applicant's activities went beyond the passive provision of residential accommodation. In addition to providing living space, he offered a range of ancillary services and facilities that were not ordinarily associated with residential lettings, thereby creating significant added value for tenants

## TRIBUNAL RULING

The Tax Appeals Tribunal held that the rationale for exempting the leasing of immovable property from VAT is that such activity is generally passive and does not generate significant added value. However, in this case, the amenities and services provided by the Applicant demonstrated an active exploitation of the property that generated substantial added value passed on to tenants through rent and service charges.

The Tribunal found that these services enabled the property to command significantly higher rental charges than ordinary residential apartments and therefore brought the transactions within the category of supplies excluded from VAT exemption.

The Tribunal further defined a **serviced apartment** as accommodation that lies between a hotel and a traditional apartment, capable of being occupied on either a short-term or long-term basis and typically offered fully furnished together with amenities such as Wi-Fi, DSTV, gym facilities, swimming pools and related services. On the facts before it, the Tribunal concluded that the Applicant's apartments fell within that category

## HIGH COURT COMMERCIAL DIVISION APPEAL

Dissatisfied with the Tribunal's decision, the Applicant appealed to the **High Court Commercial Division**. The High Court dismissed the appeal and upheld the Tribunal's findings that the apartments constituted serviced apartments rather than ordinary residential lettings. The Court found that the provision of furnishings, amenities, reception services, security, internet access and related facilities amounted to the provision of services that added significant value beyond a traditional landlord-tenant relationship. Consequently, the income derived from the apartments was properly subject to VAT and did not qualify for the exemption available to ordinary residential leases

## EFFECT OF THE DECISIONS AND ACTION NEEDED BY REAL ESTATE DEVELOPERS AND MANAGERS IN UGANDA

The Tribunal's decision, now affirmed by the High Court Commercial Division, clarifies that residential properties offering substantial amenities and ancillary services may be classified as **serviced apartments** and therefore fall outside the VAT exemption for the leasing or letting of immovable property. Property owners and managers operating furnished apartments with hospitality-style facilities and services should review their VAT compliance obligations, including VAT registration and the charging of VAT on rent and related service charges where applicable

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