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UGANDA'S TAX POLICY: *IDENTIFYING AND ADDRESSING THE GAPS*

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UGANDA'S TAX POLICY: *IDENTIFYING AND ADDRESSING THE GAPS*

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EXECUTIVE SUMMARY

This policy brief is based on two research studies conducted by scholars of Taxation and Public Administration based at Makerere University Kampala (MaK) and Uganda Management Institute (UMI) respectively. The research studies titled **Public Aversion to Tax in Uganda: Political and Public Administration Perspectives** and **Improving Tax Revenue in Uganda** were commissioned by Uganda Policy Development Management Forum (UPDMF) with support from UMI and Africa Leadership Institute (AFLI). The studies were conducted in response to an expressed public need to streamline the process of introduction, collection and accountability for taxes.

Payment of Taxes accords citizens the right to demand quality services and welfare. Through September 2018, debate in the Parliament of the Republic of Uganda (PRU) and in the media focused on taxation, following public resistance to proposed tax levies including the social media tax (OTT) and mobile money tax contained in the Tax Amendment Bill tabled by the Minister of Finance, Planning and Economic Development. Also introduced but courting less controversy were; repeal of tax exemption for income of savings and cooperative societies (SACCO), deductions for interest on mortgage from financial institutions, withholding of tax on payments for winnings of betting/gaming, withholding of tax on payments for agricultural supplies, among others. Controversy and public disorder surrounding the proposed tax evoked interest of UPDMF to study the existing tax policy to identify alternative approaches to introduction, collection and accounting for taxes.

Uganda's attempt to expand her tax base is understandable. Over the past two decades, Uganda's economic growth rate averaged 6.5 per cent and the country's tax to GDP ratio oscillated between 11 and 14 percent, lower than the 16 percent national target, the lowest in East Africa (World Bank 2017). These two studies were conducted to address elements of the tax policy that need to be revised to improve tax collection and ameliorate relations between tax payers and tax collectors. Data was obtained by documentary review and interrogation of expert opinion. The researchers established that underutilization of tax capacity, non-compliance with tax policy, low tax effort (corruption and governance defects), loss of revenue to global trade, costly tax administration, informality, tax system rigidity, failure to account for accruing tax revenue and non-engagement of the public in tax activities contribute to public aversion to tax. The studies conclude that Uganda lacks a tax culture to ensure a sustainable tax base and has a wide informal sector that hampers systematic tax collection.

The studies recommend that URA should minimize informality in taxable businesses and introduce flexibility in tax administration to be fair to tax payers. Non-conventional approaches like public accountability for tax revenue, collective taxation, involvement of other government agencies in tax collection, addressing corruption, minimizing double taxation, documentation of informal sector transactions and involvement of the public in introduction, collection and revision of taxes are recommended to ensure a sustainable tax culture.

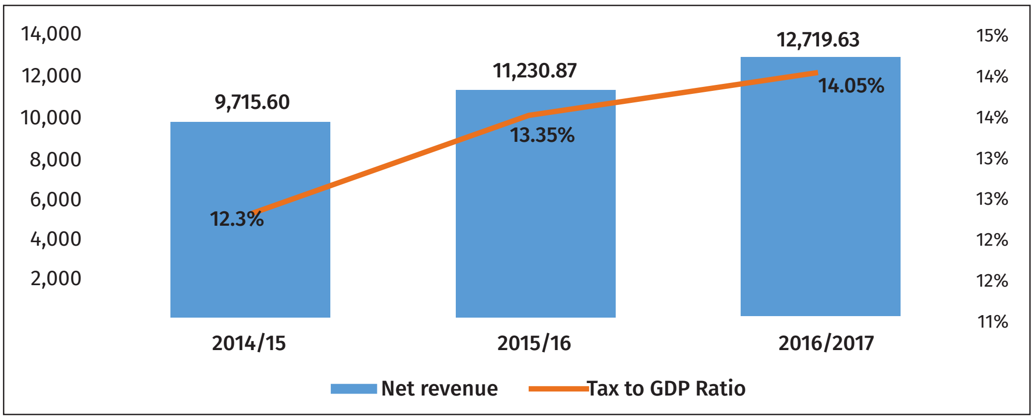
Hon. David Pulkol, Executive Director, AFLI, speaks during a forum organised jointly with the Uganda Management Institute (UMI) at the Kampala main campus to discuss Uganda's tax policy.

BACKGROUND

L-R: Associate Prof. Gerald Karyeija (UMI), Dr. Willy Kagarura (MUK) and Prof. William Kaberuka (Chair, National Policy Forum Steering Committee), during a forum at the UMI Kampala main campus to discuss Uganda's tax policy.

Uganda's potential revenue base is reported to be under exploited. Kagarura (2018) demonstrates that Uganda has the lowest tax to GDP ratio across East Africa oscillating between 11 to 14 per cent against a projected 16 per cent (URA, 2017). This largely implies defects in tax collection. For instance in FY 2016/2017, Ushs. 14,456.11 billion was collected, Ushs. 606.32 billion less of the projected Ushs.15,062.43 billion and the situation has not been much different for other financial years (Kagarura 2018). Comparatively, Kenya, Rwanda and Tanzania consistently achieve 18, 16 and 14.5 per cent tax to GDP respectively making Uganda's Tax to GDP the lowest in the region..

Figure 1: Revenue and Tax to GDP trends FY 2014/2015 - FY 2016/17



Source: URA Databases, 2017

Considering the vibrancy of business in Uganda, failure to achieve projected revenues can be attributed more to defects in the tax collection system than to absence of taxable income/business.

Attempts to expand the tax base by introducing new taxes to incorporate new tax payers have been frustrated by public aversion to taxes caused by absence of financial accountability, defective service delivery, corruption and concerns around governance. The most recent expression of public aversion to tax is the public resistance against introduction of social media (OTT) and the mobile money tax in the Parliament of the Republic of Uganda and in the media. Other suggested tax related changes including repeal of tax exemption for income of SACCOs, deduction for interest on a mortgage from a financial institution, withholding of tax on payments for winnings of betting/gaming, withholding of tax on payments for agricultural supplies did not generate as much controversy. Besides double taxation, the main argument by dissenting voices against OTT and mobile money tax was that government did not guarantee accountability for the accrued revenue. According to McGee & Gelman (2008), people may find resistance to a tax justifiable if they perceive the tax as unfair, if the government abuses human rights, if tax funds are thought to wind up in the pockets of corrupt politicians, if tax rates are too high, or if there is inability to pay. It is imperative that tax policy is tested against these parameters.

The UPDMF considered this a challenge to the current tax policy and commissioned research to investigate the gaps and prescribe avenues to effectively address them.

UMI Senior Research Fellow Jude Rwemisisi makes a presentation during the inter-agency policy brief monitoring meeting at AFLI offices in Bugolobi.

APPROACH AND RESULTS

Researchers were selected from among the scholars of taxation at the MaK School of Economics and from among Public Administration experts at UMI to dissect the existing tax policy with a view to identify and address areas of improvement. The scholars conducted document review and select interviews with key informers in this sector. Secondary data analysis was conducted to establish a scholarly perspective and findings were disseminated to a public policy dialogue presided over by the Minister of Finance at UMI. Feedback on content was obtained from the technocrats in the line ministry, Civil Society Organizations, Uganda Revenue Authority (URA), academia from MaK and UMI, traders and members of the public.

Dr. Syvester Kugoza, Dean, Uganda Management Institute's School of Civil Service, Public Policy and Governance, speaks to journalists at the UMI Kampala main campus after a forum that discussed Uganda's tax policy.

GAPS IN UGANDA'S TAX POLICY

- At 11-14 per cent tax to GDP rate, Uganda's revenue collection remains lower than the projected 16 percent.
- Realization of projected taxes is hampered by systemic challenges including lack of technology to track taxable items in the informal sector and international trade conducted in Uganda.
- While formal sectors like industry and services contribute predictable figures of 20 per cent and 65 per cent to GDP respectively, the contribution of some areas like agriculture to GDP is indeterminate due to inadequate recordings.
- Exemption of PAYE, VAT, and CIT account for 9.4 per cent, 2.7 per cent and 3.97 per cent of GDP respectively.
- Uganda's Non-Tax Revenue (NTR) outcome at 0.34 percent of GDP in 2016 and Own Source Revenue (OSR) at 0.9 per cent of GDP remain the lowest in the region. Tanzania, Rwanda and Kenya posted 1.5 per cent, 0.8 per cent and 1.3 per cent NTR while Kenya achieved 0.5 per cent, Tanzania 0.4 per cent and Rwanda 0.9 percent OSR of GDP.
- Uganda's tax capacity is under-utilized. Studies by IMF (1970); Le, Moreno-Dodson, and Bayraktar (2009); and Tanzi (1987) revealed that underutilization of tax capacity contributed to failure to reach full revenue potential.
- Uganda loses revenue to tax-avoiding international traders due to lack of skills and technology to engage them.
- At 2-3 per cent of GDP, the administration of tax in Uganda is high.
- Effort to document informal economic activities for taxation is minimal.
- Rigidity of tax policy and minimal consideration of contingency has made tax administration difficult especially in case of over estimation of individual tax payers' income that sometimes leads to collapse of enterprises.

A local council official addresses the inter-agency policy monitoring meeting at AFLI offices in Bugolobi. Participants discussed Uganda's tax policy, being part of the process of producing a policy brief on the subject.

CONCLUSION

Overall Uganda lacks an embedded tax culture to ensure population ownership of the tax process through socialization, tax payer education and massive tax payment. Realization of maximum tax capacity is difficult with the current situation of limited tax literacy among the taxable population, limited monetization of business, small corporate sector, minimal exploitation of natural resources and a wide informal sector.

Hon. Matia Kasaija, Minister for Finance, Planning and Economic Development (right), speaks to journalists after presiding over a forum that discussed Uganda's tax policy at the Uganda Management Institute's Kampala main campus. With him is Dr. James Nkata, UMI Director-General (left), and other senior Government officials.

A section of the audience during a policy forum on taxation at the Uganda Management Institute's Kampala main campus.

RECOMMENDATIONS FOR REVIEW OF TAX POLICY IN UGANDA

- URA should access existing databases including the National ID data to document, monitor and engage all potential tax payers.
- URA should procure advanced computer software to track undeclared taxable transactions, detect double taxation and reduce tax administration costs.
- Ministry of Finance, Planning and Economic Development should publicize accountability for collected revenue through accessible communication channels.
- URA domestic tax department should engage local socialization channels through consistent tax education at family, communal and school levels to gradually establish a defined tax culture.
- URA should establish restrictive and transparent tax exemption procedures to avoid abuse of the provision.
- URA domestic tax department should introduce a community liaison system to involve the public in development and revision of taxes and capturing community feedback.
- URA should encourage collective taxation for individuals in the informal sector to ease tax collection. For example, if they work at a market or participate in a SACCO, the revenue collection may be done at the group level.
- URA should engage other government agencies in collection of tax especially in hard to reach areas to ease administration costs.
- URA should train traders at their workplaces to build capacity for formalization of business transactions.

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