Policy Brief

SEATINI

Strengthening Africa in World Trade

OXFAM

Taxation in Uganda

Review and Analysis of National and Local Government Performance, Opportunities and Challenges

Introduction

Over the last three decades, Uganda's main tax objective has been to mobilize domestic revenue as a way of providing essential public services and reducing foreign aid dependence. However, despite the sustained growth of the economy, tax revenue in Uganda as a percentage of Gross Domestic Product (GDP) has stagnated at less than 14 per cent over the last decade.

This brief is product of a study on "Taxation in Uganda: Review and Analysis of National and Local Government Performance, Opportunities and Challenges". The study analyzed Uganda's current tax systems and practices at national and local levels by examining the opportunities and challenges of increasing domestic revenue generation and assessing the participation of citizens, civil society organizations (CSOs) and non-state actors (NSAs) in taxation and revenue generation. The study focused on revenue generation at national level and at local levels (Arua and Pader districts) covering four financial years (2011/12-2015/16).

Current taxation laws, policies and institutions

Although, currently, the legal and policy framework in Uganda is comprehensive enough to enable the country generate sufficient revenue, there are some bottlenecks in the implementation partly due to weaknesses within the mandated government institutions, especially at local government (LG) levels. The institutional framework too is very robust; however, there are major challenges related to minimal collaboration among institutions on revenue generation; low staffing; limited funding; low motivation of staff especially at LG levels; lack of autonomy by URA; and corruption.

Evolution of tax systems and reforms over the past decade

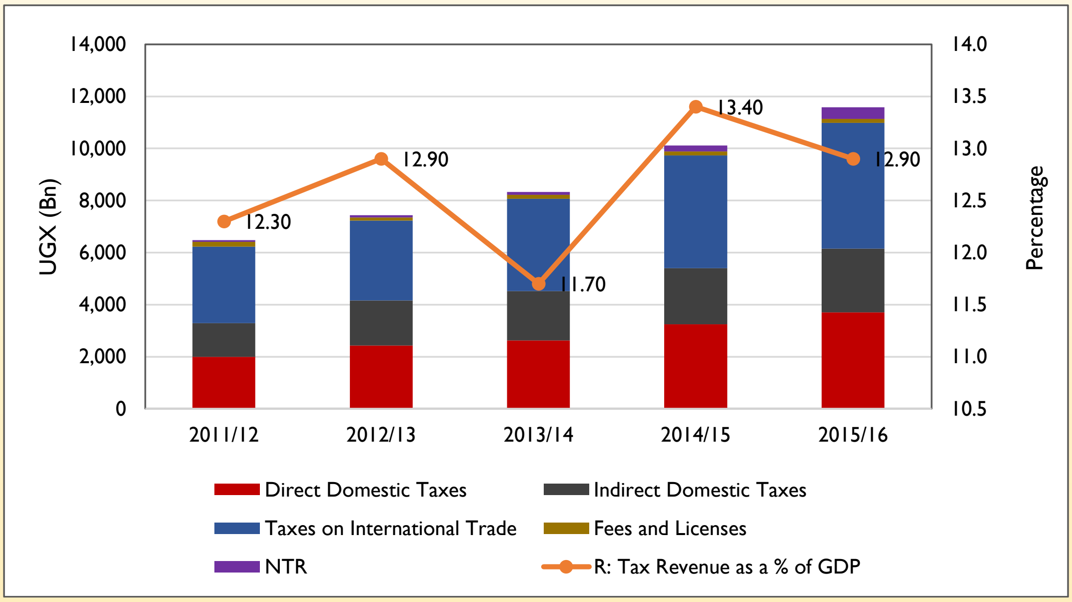
The major tax policy changes over the last decade primarily revolved around value added tax (VAT) and income tax. For instance, the standard rate of VAT was increased from 17 per cent to 18 per cent in 2005/06. Attempts to protect the poor have been through zero-rating[1] and exemptions[2] of foods under VAT, and by raising the threshold of personal income, Pay as You Earn (PAYE), from UGX 130,000 to UGX 235,000 in 2012. Since 2014, Uganda Revenue Authority (URA) through the Taxpayer Register Expansion Project (TREP) has been collaborating with the Uganda Registration Services Bureau (URSB), the Kampala Capital City Authority (KCCA) and local governments to identify taxpayers and collect taxes from small businesses that were hard to reach. This collaboration is expected to expand URA's tax register by 103,570, and generate UGX 12.9 billion in new revenue (URA, 2014).

URA has tried to transform its processes, data systems and its staff towards corporate excellence. Some of the recent reforms include: interfacing and sharing of information with other revenue authorities in the region using the regional Authorities Digital Data Exchange system (RADEX); implementation of Integrated Tax Administration System (e-tax) that provides online services to the taxpayer on a 24-hour basis; enabling taxpayers to lodge their applications online through the web portal (www.ura.go.ug); and rolling out of full-time, day-and-night operations at the main border points of Malaba, Busia and Katuna as well as Entebbe International Airport.

Revenue Performance FY 2011/2012 - 2015/16

Partly due to the above reforms, Uganda significantly increased its total tax revenue (TTR) during the five years. Net collections by URA (excluding Govt. taxes and tax refunds) increased by 79 per cent from UGX 6.22 trillion in 2011/12 to UGX 11.59 trillion in 2015/16 (see Figure 1). Despite the increase in TTR, Uganda's tax revenue to GDP ratio has stagnated at below 13.4 per cent of GDP between 2011/12 – 2015/16, making Uganda's tax-to-GDP ratio one of the lowest in the East African Community (EAC) region. For instance, Uganda's tax-to-GDP ratio stood at 11.7 per cent, Kenya's was 20.0 per cent, Rwanda's 14.7 per cent and Tanzania's 21.0 per cent in 2013/14 (EAC Secretariat, 2015).

Figure 1: Trends in URA Total Revenue Collections



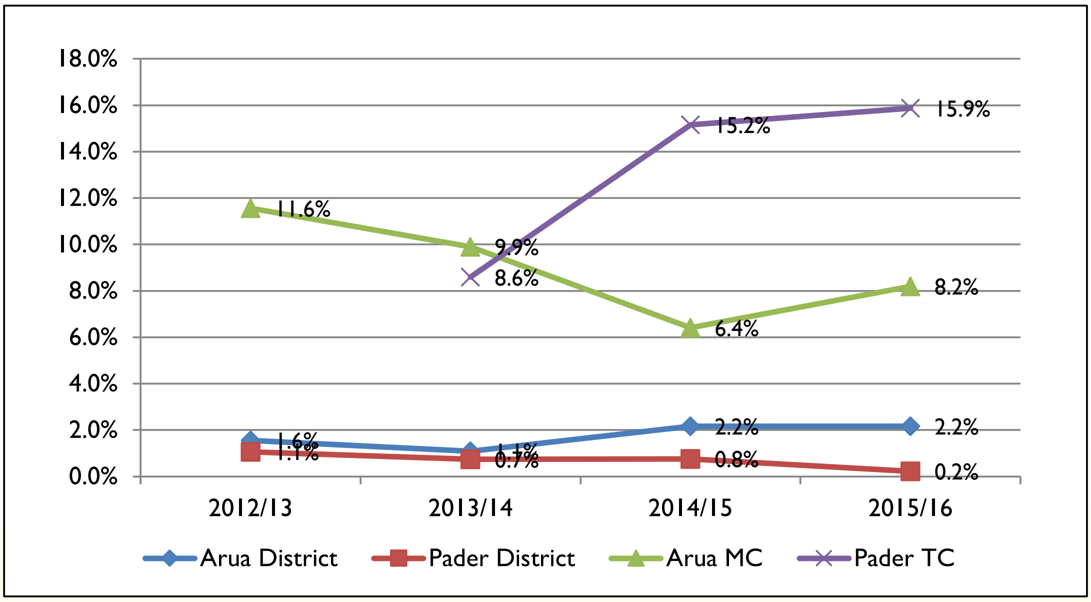
Source: Researchers' calculations based on URA statistics

1 Government does not tax its retail sale, but allows credits for the VAT paid on inputs.
2 Government does not tax the sale of the good, but producers cannot claim a credit for the VAT they pay on inputs to produce it.

Although URA has performed relatively well during the five years, however, some respondents talked to during this study were not impressed given the fact that the authority has failed to raise the country's tax to GDP ratio like in other EAC countries. Another concern was that the revenue targets given to URA by MoFPED seemed too low, and there was no empirical evidence on how they were arrived at.

At LG levels, local revenue (LR) mobilization efforts are based on the Local Government Act, 1997 which allows LGs to levy, charge and collect fees and taxes. However, local revenue performance in the two districts visited during this study was very dismal. In Arua and Pader districts, LR constituted on average 1.7 per cent and 0.8 per cent of total revenue between FY 2012/13 and 2015/16 respectively. However, in Arua Municipality and Pader Town Council, LR constituted an average of 9.0 per cent and 13.2 per cent of total revenue between FY 2012/13 and 2015/16 respectively (based on estimates). Figure 2 shows trends in LR performance as a share of total revenue.

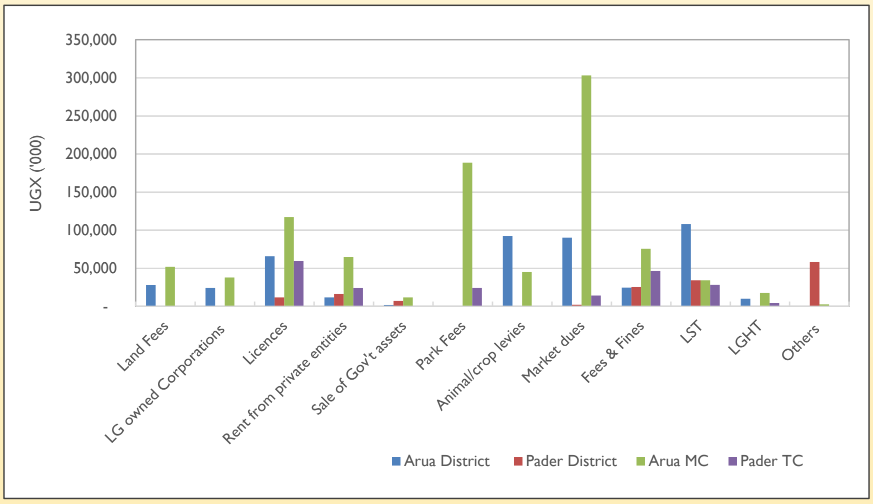
Figure 2: Share of LR revenue in total revenue



Source: Researchers' calculations based on LGs' annual budgets and revenue reports

The bigger proportion of LR is generated from Local Service Tax (LST), Fees, Licences, Market Dues, and Park Fees and Licences. Figure 3 shows total LR by source between 2012/13 and 2014/15. However, the collection of the LST and LG Hotel Tax (LGHT), which were introduced after the abolition of Graduated tax, is very dismal. For Arua DLG, total LST collections declined from UGX 89.7 million in 2012/13 to UGX 16.1 million in 2014/15 (by end of March, 2015). For Pader DLG, total LST collections declined from UGX 47.3 million in 2011/12 to UGX 13.5 million in 2014/15. The decline in LST collections is partly due to: inadequate data on all eligible people who should pay LST; the high LST threshold; lack of technical support by MoLG and LGFC in collection of LST; and absence of LST receipts which makes compliance and enforcement difficult.

Figure 3: Total LR by source between 2012/13 and 2014/15



Source: Researchers' calculations based on LGs' annual budgets and revenue reports

Allocation of the tax burden

Uganda's tax revenue is largely from indirect taxes (which include excise duty, value added tax (VAT), and taxes on international trade). At national level indirect taxes make up two-thirds of total tax revenues. The situation at LG levels is similar to that at national level -- the share of indirect taxes in total LG revenue is about 67 per cent. However, indirect taxes are neutral to inequality -- reducing at least partially because many of the goods and services comprising the bulk of a vulnerable household's budget are exempt (Jellema J., et al, 2016).

In Uganda, income taxes are imposed on the basis of income only, irrespective of gender. Personal Income Tax returns do not require the gender of the person filling in the return. For Corporate Income Taxes, the name of the business, rather than the identity of the owner, is registered in the URA's database. While directors and trustees are also registered, their gender is not isolated, making it more complex to ascertain the gender statistics.

Most of the taxes levied by LGs affect women more than men. The study found that women incur the most burden in paying more in taxes and levies since they deal in small items (such as vegetables, food stuffs, household items) which attract the same fees like those of men who deal in bigger items (such as livestock). These findings are reinforced by a study by Bahiigwa, G. et al in 2004, which found that larger quantities or sizes of products (bags, sacks, and larger animals) attracted lower tax rates than smaller quantities (tins and small stock).

Main Bottlenecks in Revenue Mobilization

At national level, the main bottlenecks include, among others: fast-growing informal sector which accounts for 43.1 per cent of the country's GDP; ineffective implementation of tax policies; wide range of tax incentives and exemptions; tax avoidance mainly by the multinational corporations (MNCs); taxation regime that is not clearly understood by most tax payers; and high levels of corruption which lead to revenue leakages.

At LG levels, major bottleneck include: restrictive legal requirements which limit the amount of revenues LR can collect; low tax base due to high levels of poverty and informal businesses; limited support from the central government towards LR generation; poor attitudes of citizens towards paying taxes due to inadequate sensitization; absence of tax appeals tribunals which would enhance compliance; and leakage of revenues collected.

Citizens, CSOs and the other non-state actors' engagement on taxation

There are supportive legal, policy and institutional frameworks through which citizens, CSOs and the other non-state actors can engage on taxation and revenue generation in Uganda. By and large, CSOs and NSAs' participation in taxation debate is improving. A number of organizations are engaging government on taxation and revenue generation issues. For instance, SEATINI is also coordinating the Tax Justice Alliance which is a CSO platform to enable us engage on tax issues locally, nationally, regionally and globally. In addition, the Alliance meets regularly with MoFPED, URA, Parliament and LGs to present alternative issues on tax policies and revenue generation strategies. CSOs have also developed training manuals, research reports, and alternative policy papers on the taxation policy in Uganda.

However, there is still low participation in taxation issues by citizens. This can partly be attributed to the fact that tax issues are often seen as being technical and often complicated. In addition, some respondents talked to during this study believe that URA is not doing its work of educating the citizens on tax issues.

Citizens' awareness, perception and attitudes towards taxation

The majority of citizens interviewed during this study were aware of direct taxes, fees and levies imposed by local governments such as market dues, business/trading licenses, business registration fees, local service tax, occupation permits, among others. However, many of them were not aware of how most taxes are calculated or assessed. The assessment process, which is done by the local authorities, neither provides sufficient information to the taxpayers, nor do the assessors seek for the involvement of the taxpayers. Therefore, most respondents considered the current taxation system not fair in many cases.

Most citizens interviewed during this study supported the paying of taxes, since taxes help government to run and provide services like education, health, water, roads, among others; and in a way enhance citizens' responsibility and ownership of government programmes and property. However, some citizens were sceptical of paying taxes. They reportedly did not see the link between the taxes they paid and service delivery. They noted that tax revenues did not benefit them, since local governments had failed to provide basic services. Generally, citizens were willing to pay taxes as long as government could in return provide services they needed such as quality health care and education. In addition, government had to show a high degree of transparency and accountability for the monies collected.

Recommendations

Based on the above-mentioned findings, the study provides the following recommendations:

Central Government

a. Formulate and implement policies that allow self-employed people and small businesses to formalize their businesses easily.

b. Take greater steps towards streamlining tax exemptions and incentives, with clear procedures and a coordinating unit in Uganda and across the EAC region to address harmful tax competition.

c. Improve the legal framework to weed out possibilities of tax avoidance. Strengthen the capacity of URA to curb tax avoidance such as transfer pricing.

d. URA in collaboration with LGs should create a comprehensive database for all the eligible taxpayers for efficient identification, assessment and collection. The database should be linked the national ID database and should be updated regularly.

e. Enhance local economic development by transforming LGs into production units rather than service delivery units through introducing and funding strategic reforms in the agricultural sector to boost productivity and expand the potential for taxable bases.

f. Ensure the full autonomy of URA and hold them accountable to an agreed set of performance measures.

Local Governments

a. Most laws that relate to taxation in LGs need to be revised or amended to be in tandem with the current economic realities and conditions at local government levels.

b. Improve transparency and accountability through displaying on public noticeboards all revenue generated and its utilization, for the citizens to know how much they are contributing to the running of the LG.

c. Provide visible public services to the citizens from the collected revenues so as to improve on compliance in tax payment.

d. Encourage the elected officials, especially councillors, to sensitize communities about taxes. The incentive to do so should be high since their allowances and facilitation are largely from LR.
e. Introduce taxpayer days and other sensitization programmes through seminars and radio talk shows.
f. Recruit, train and retain staff to ensure effective tax assessment, collection and enforcement of local revenue collection. In addition, introduce a system of rewards and penalties for revenue collectors to induce staff to collect more revenue.
g. To reduce revenue losses, emphasise the use of financial institutions such as banks or other means such as mobile money when paying taxes, levies and licences; and use of serialized receipt books
h. Institute tax assessment appeals tribunals to handle tax disputes that may arise at that level as stipulated by the LG Act.

Civil Society and Non-State Actors' policy advocacy strategy

i. Educate citizens on their constitutional obligation to pay taxes and influence the affairs of government (including demanding quality services).

j. Simplify all the tax laws and policies and also translate them into local languages.

k. Advocate for the review of the current fiscal transfers in a bid to empower LGs to mobilize more local revenues.

l. Undertake gender audits of taxes and also demand that government implements gender-sensitive tax policies.

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