



The Nexus between the Taxation of the Informal Sector and Inequality Concept Note

Tax raises revenue that is essential for funding basic public services and national development goals and is at the heart of the social contract between citizens and state. The tax system can directly reduce inequality by redistributing income from rich to poor, by taxing the rich more heavily and giving the government revenues to spend on public services.

In Uganda, there is a challenge of a large informal sector which has often gone untaxed hence subjecting a higher tax burden on the few within the formal sector. The informal sector is generally characterized by a high level of under-regulation by the government, cash transactions (which makes it difficult to properly track the amount of revenue generated), and improper-record keeping. As a result of these problems, the informal sector has been and remains very difficult to tax. This challenge of taxing the activities in the informal sector means that little or none of the income generated in the informal sector is transferred to the government in form of tax. Therefore, a very high percentage of potential tax revenue is unaccounted for.

This in a way contributes to inequality because the informal sector partly constitutes High Net Worth Individuals (HNWIs) whose incomes are not often subjected to tax. However there could also be rising inequality because those within the informal sector have often been subjected to a presumptive tax which may at times be higher than what they actually earn. The fact that the informal sector is mainly comprised of vulnerable groups such as youth, women and PWDs many of whom are just starting out at business upon failure to acquire stable employment, makes the presumptive tax regime unfair.

As at end of June 2017, the tax register had 1, 030,000 taxpayers (including individual and non-individual) against a taxable population of nine million people. This shows that less than half of the potential tax payers are actually captured in the tax bracket. Due to the large informal sector, a smaller section of the population has been subjected to a huge burden of tax thus encouraging growth of the inequality gap in Uganda. However, it hasn't yet been ascertained whether taxation of the informal sector could bridge the inequality gap in Uganda.

It is upon this background that SEATINI Uganda and Tax Justice Network Africa (TJNA) would like to conduct a research on the nexus between taxation of the informal sector and inequality. Specifically the research will:

- Analyze the characteristics and nature of the informal sector in Uganda.
- Examine the revenue collections foregone from the informal sector from 2010/11-2016/17.
- Analyse the opportunities and challenges in taxing the informal sector.
- Provide recommendations on how to address the gaps and challenges identified in taxing the informal sector while at the same time reducing inequality in Uganda.



Targeted Audience:

The outcomes of the research will target various players but not limited to the following:

- Ministry of Finance Planning and Economic Development
- Uganda Investment Authority
- Uganda Revenue Authority (URA)
- Parliament
- Civil Society Organisations
- Private Sector
- Media
- Uganda Registration Services Bureau
- Academia

Research Methodology

The following methodology/ tools shall be used to carry out the Study:

Desk Review: The research will make use of documents available at relevant government's offices (Policy documents, Legal instruments etc.), research on similar issues conducted by civil society, academia etc.

Key Informant Interviews: The researcher will interview the relevant officials including Multi-National Corporations, Indigenous companies, and Government officials from URA, UIA, Ministry of Finance, Planning and Economic Development, URSB

Time Frame

1. Submission of EOI- 6th September 2017
2. Review of EOI by SEATINI - 11th September 2017
3. Signing of contract with Consultant by 13th September 2017
4. Submission of 1st draft by 12th October 2017
5. Review by SEATINI, TJNA and Partners 13th -20th October 2017
6. Submission of final draft by 31st October 2017

Submission of proposal

Interested candidates should submit their technical and financial proposals addressed to the Country Director, SEATINI-Uganda seatini@info.com.co.ug, cc: nbusingye@seatiniuganda.org, technical proposal should include the proposed methodology, the qualifications of the consultant and referees for previous similar work done in the past. The financial proposal should highlight the expected fee for the work. Deadline for submission of technical and financial proposal is 6th September 2017 by 5:00pm.