

Review of the TADAT and its Effectiveness in enhancing Tax Administration in Uganda

Study Validation Meeting

March 22, 2018

By Bogere George

Outline of Presentation

- Introduction
- Approach to the study
- Uganda's tax administration performance
- Overview of the TADAT Framework
- Findings
 - Uganda's performance on TADAT assessment
 - Perspectives on taxation challenges in Uganda
 - Proposals on how challenges can be overcome
 - Outcomes of TADAT assessment
 - Perspectives on TADAT framework
 - Discussion of findings
- Conclusions and Recommendations

Introduction

- The TADAT is a diagnostic tool developed under the auspices of the World Bank and the IMF
- The tool was deliberately modeled on the PEFA framework as a revenue counterpart under PFM
- It was designed to provide objective and consistent assessments of outcome performance across essential tax administration functions.
- A TADAT assessment for Uganda was under taken by the TADAT secretariat in 2015
- The TADAT PAR for Uganda was not publicized and has therefore had no impact on discourse on taxation
- Furthermore there is concern that non-disclosure of the report could limit the potential of the TADAT framework to contribute to improving tax administration in Uganda
- Also, the TADAT framework may suffer from the similar limitations as the PEFA framework on which was modeled

Objectives

- The overall objective of the study was to undertake a critical analysis of the TADAT framework and its effectiveness in improving tax administration in Uganda.
- Specifically, the study:
 - Examined interventions for improving Uganda's performance on the TADAT assessment
 - Assessed Uganda's strengths and weaknesses in the application of TADAT framework
 - Provide policy and practical recommendations on how to make effective use of the TADAT mechanism.

Methodology

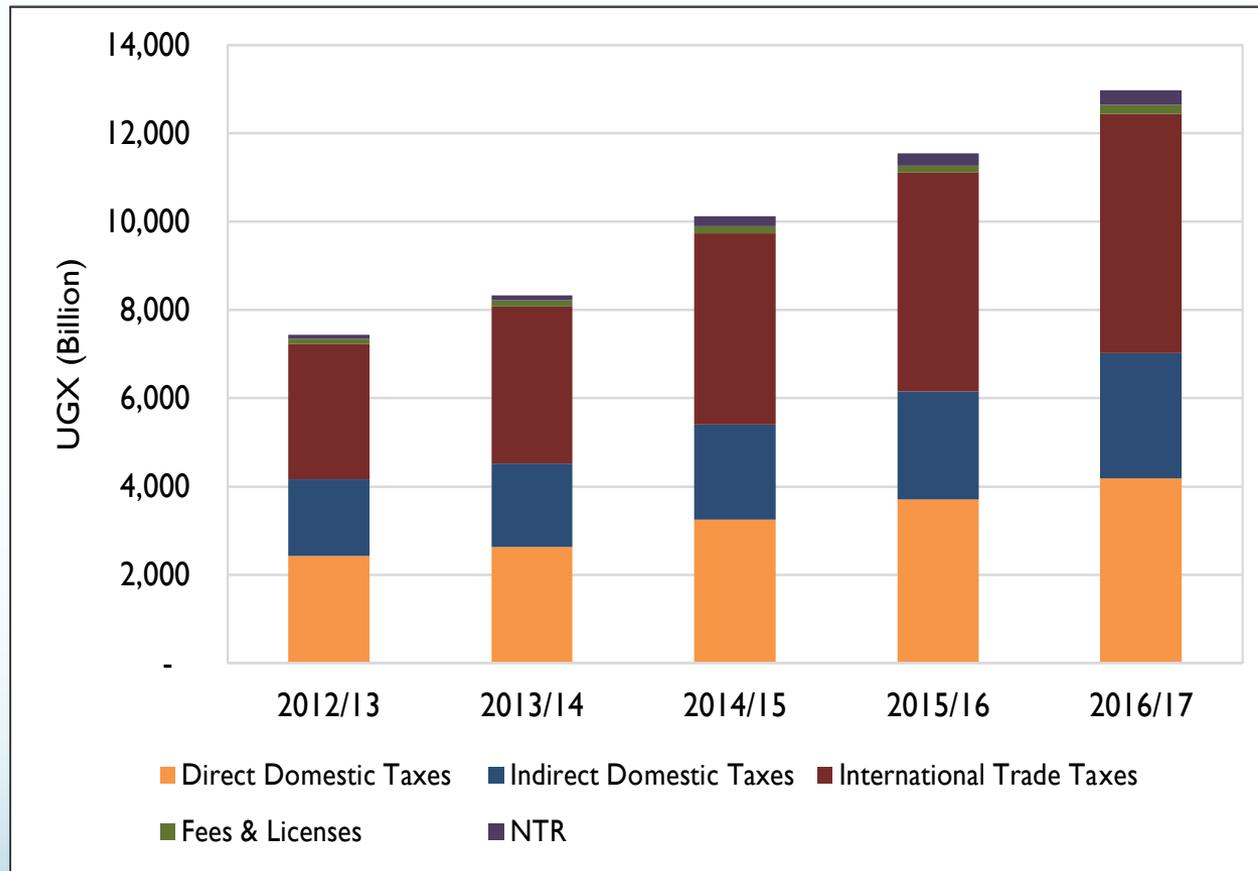
- The study employed both qualitative and quantitative approaches and used data from secondary sources collected through documentary review and primary sources collected through KIIs (14)
- Analysis was by:
 - comparing Uganda's performance on the TADAT assessment 2015 with performance of Zambia (2016) which is the only country in the region whose TADAT PAR was publicized as well as the mock assessment by URA (2017)
 - Thematic analysis of perspectives of respondents
 - Content analysis of the TADAT for coverage (institutions covered) and depth (tax attributes)

Tax administration performance and challenges

- Tax administration in Uganda is governed by:
 - Constitution of the Republic of Uganda, 1995
 - Income Tax Act (Cap 340) ,
 - The VAT act (Cap 349) ,
 - East African Excise Management Act Act, 2012,
 - Excise Management Act (Cap 335),
 - Tax Procedures Code Act, 2014
 - The URA Act,1991
 - The LG Act ((Cap 243)
- The institutions mandated with tax administration are Uganda Revenue Authority (URA), Local Governments, KCCA, Parliament, and the MFPED which is responsible for policy formulation and supervision of the sector.

Uganda's Tax Performance FY 2012/2013 - 2016/17

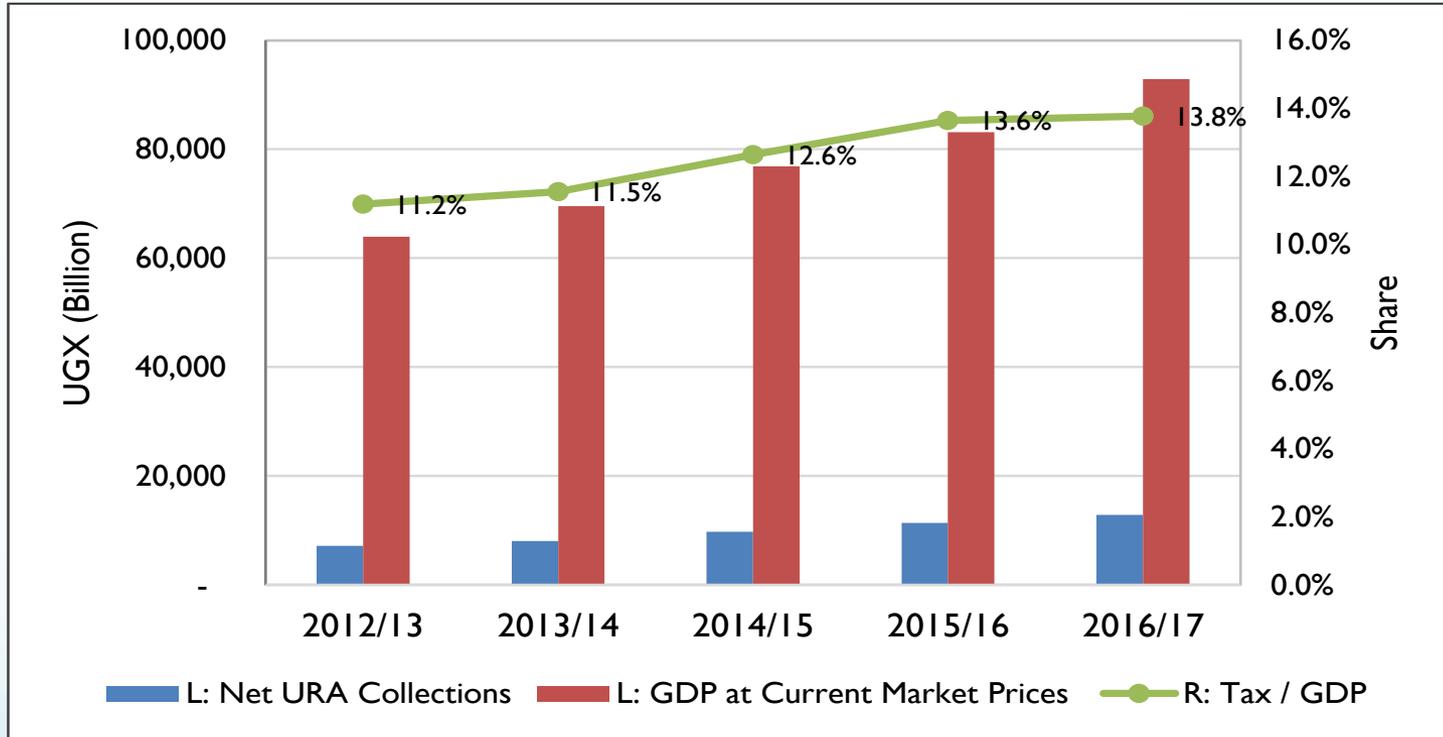
Trends in URA Net Revenue Collections



Source: Author's calculations based on URA statistics

Uganda's Tax Performance FY 2012/2013 - 2016/17 Cont'd

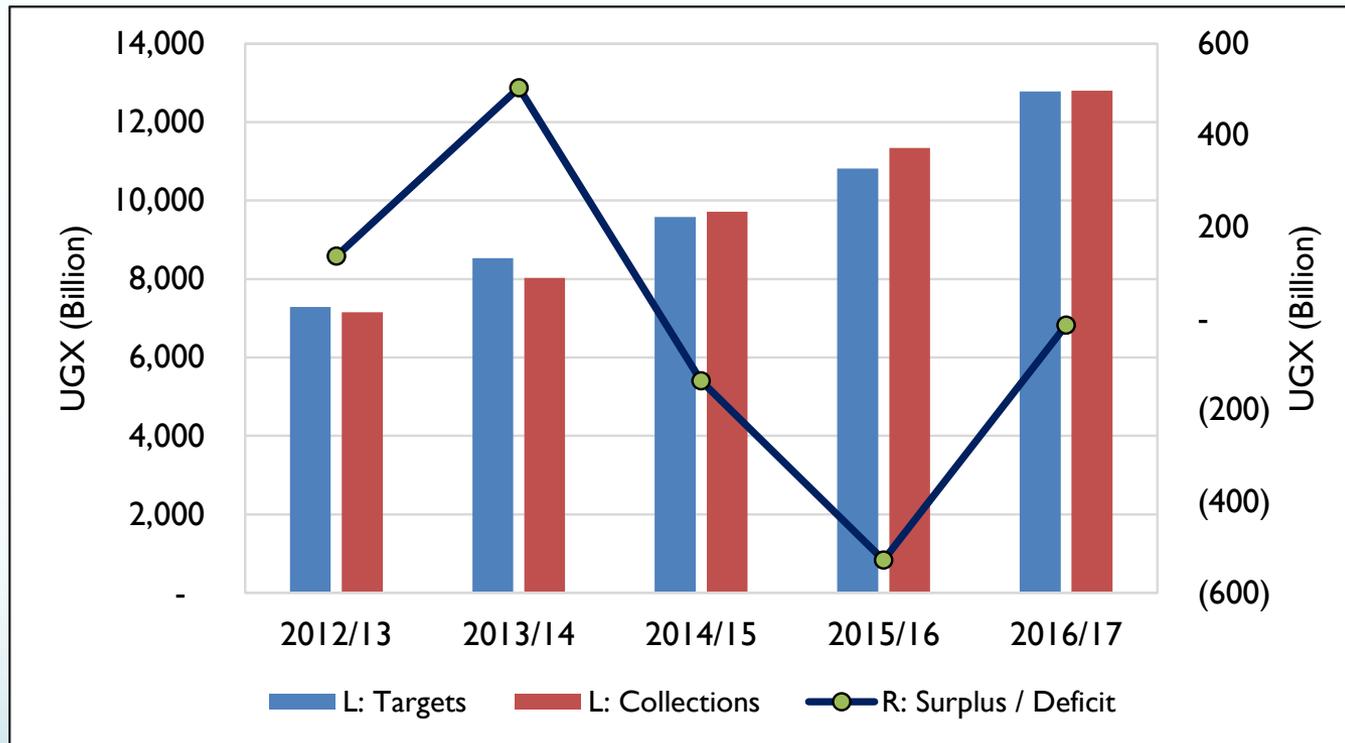
Trends in GDP and tax revenues



Source: Researchers' calculations based on URA Statistics and MoFPED (BTTB—Various years)

Uganda's Tax Performance FY 2012/2013 - 2016/17 Cont'd

Revenue Performance



Source: Researchers' calculations based on URA Statistics

Key Challenges of tax administration in Uganda

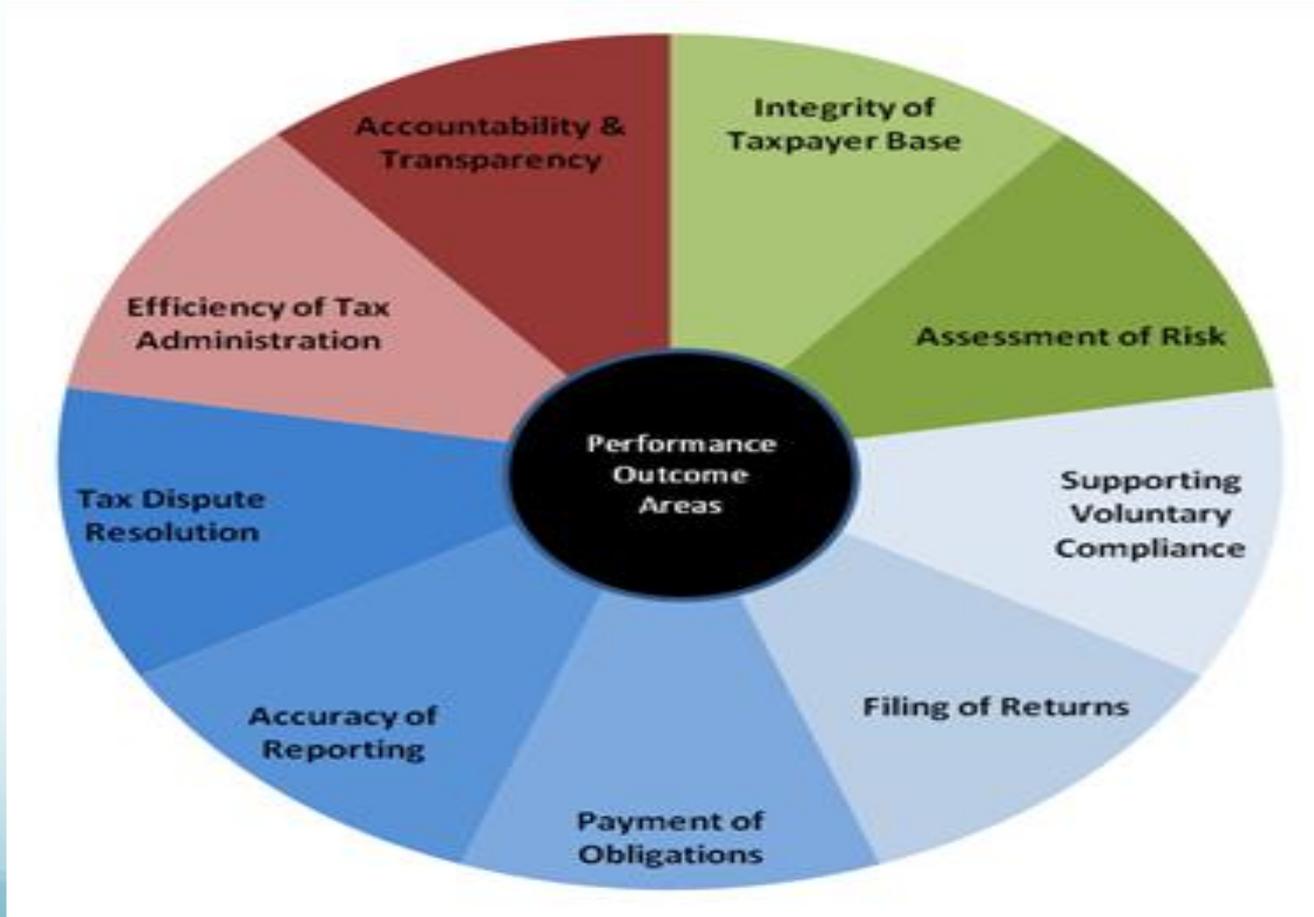
- Endogenous to URA
 - *Inadequate staffing*
 - *Ineffective taxpayer education and complicated tax literature*
 - *Inadequacy of the e-tax system*
 - *Inadequate coordination between URA and LGs*
 - *Inadequate capacity to detect and prosecute tax evasion and avoidance*
- Exogenous to URA
 - *Inadequate funding*
 - *Large informal sector*
 - *Tax incentives and exemptions*
 - *Inadequate information on taxpayers*
 - *Regional integration*

Overview of the TADAT Framework

- Uses nine outcome areas to which a set of high level indicators critical to tax administration is linked and focuses on a country's tax authority
- The framework steers clear of inputs such as organization structures, human resources, administrative budgets, information technology, legislation and regulations.
- Lack of information on key performance outcome areas affects performance on the assessment.
- There have been some adjustments to the TADAT with nine additional indicators being added in 2016.
- Like the PEFA, the assessment of indicators uses the ABCD scale with the overall score for an indicator being based on the assessment of the individual dimensions of the indicator- combined into one score using two methods- M1 and M2

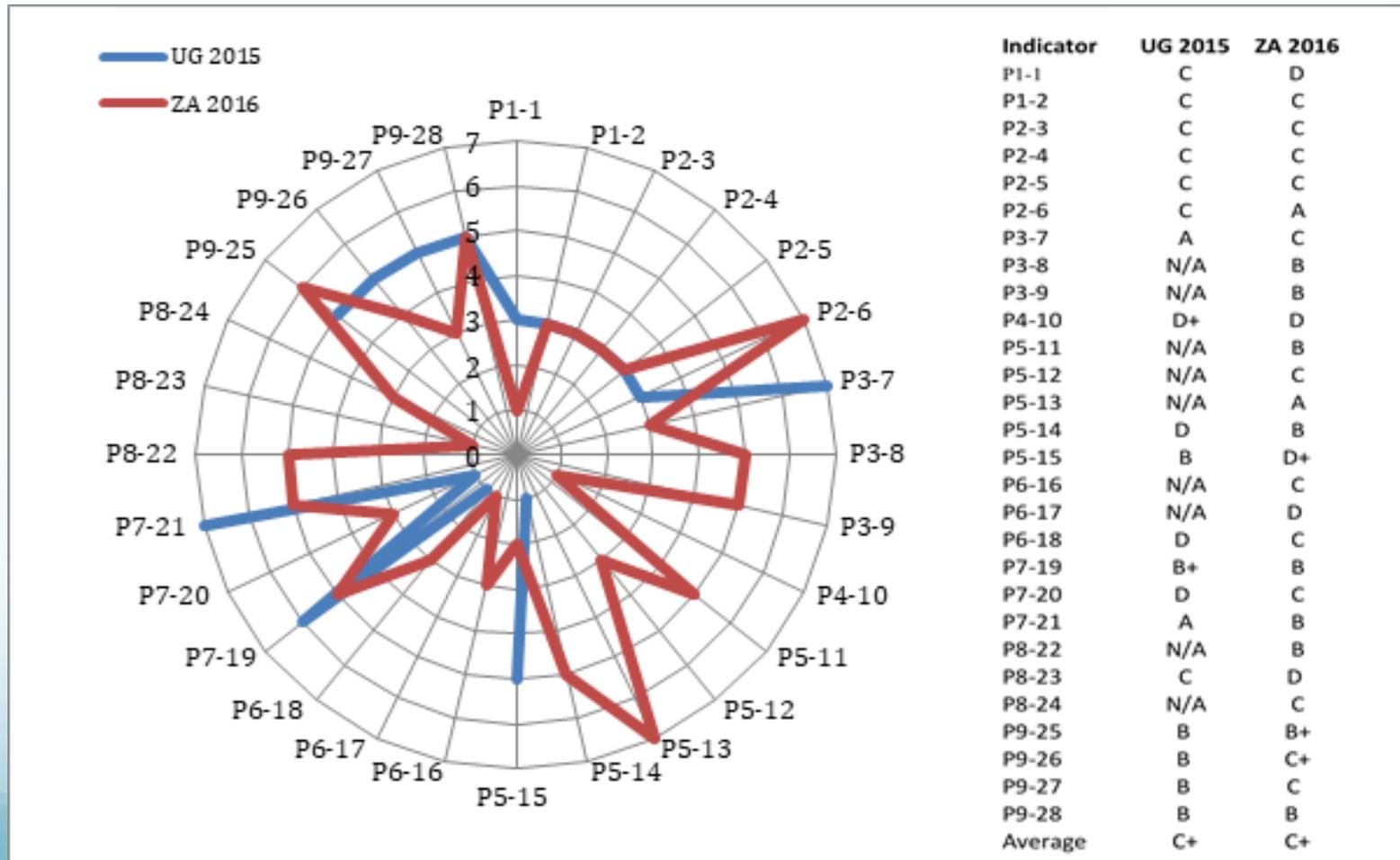
Overview of the TADAT Framework Cont'd

TADAT outcome areas



Review of Uganda's performance on TADAT assessments

Distribution of performance scores



Main strengths and weaknesses of URA identified by TADAT 2015

Strengths

- Taxpayer registration process is sound
- Extensive information is provided to database educate taxpayers and support voluntary compliance
- High service delivery standards in respect of response to taxpayers' request for information are in place
- Arrears management is fairly sound
- The dispute resolution mechanism is fairly robust
- High level of usage of IT system for e-tax, e-filing, and payment through banks.
- Fairly robust external oversight and internal controls/audit
- Annual reports are accessible to the public

Weaknesses

- Low level of certainty as to the accuracy of the taxpayer registration
- Weak initiatives to detect businesses which fail to register
- Mechanisms to identify, assess, and prioritize risks are not well structured
- Process of compliance risk mitigation does not adequately address all risks
- There is no structured approach to evaluation and prioritization of institutional risks
- On-time return filing rates are low while information on timely payment of taxes is not monitored
- The national audit program does not provide for the evaluation of audit outcomes and overall impact
- Third party information is not systematically matched

Perspectives on taxation challenges in Uganda

The most important tax administration challenges facing Uganda include:

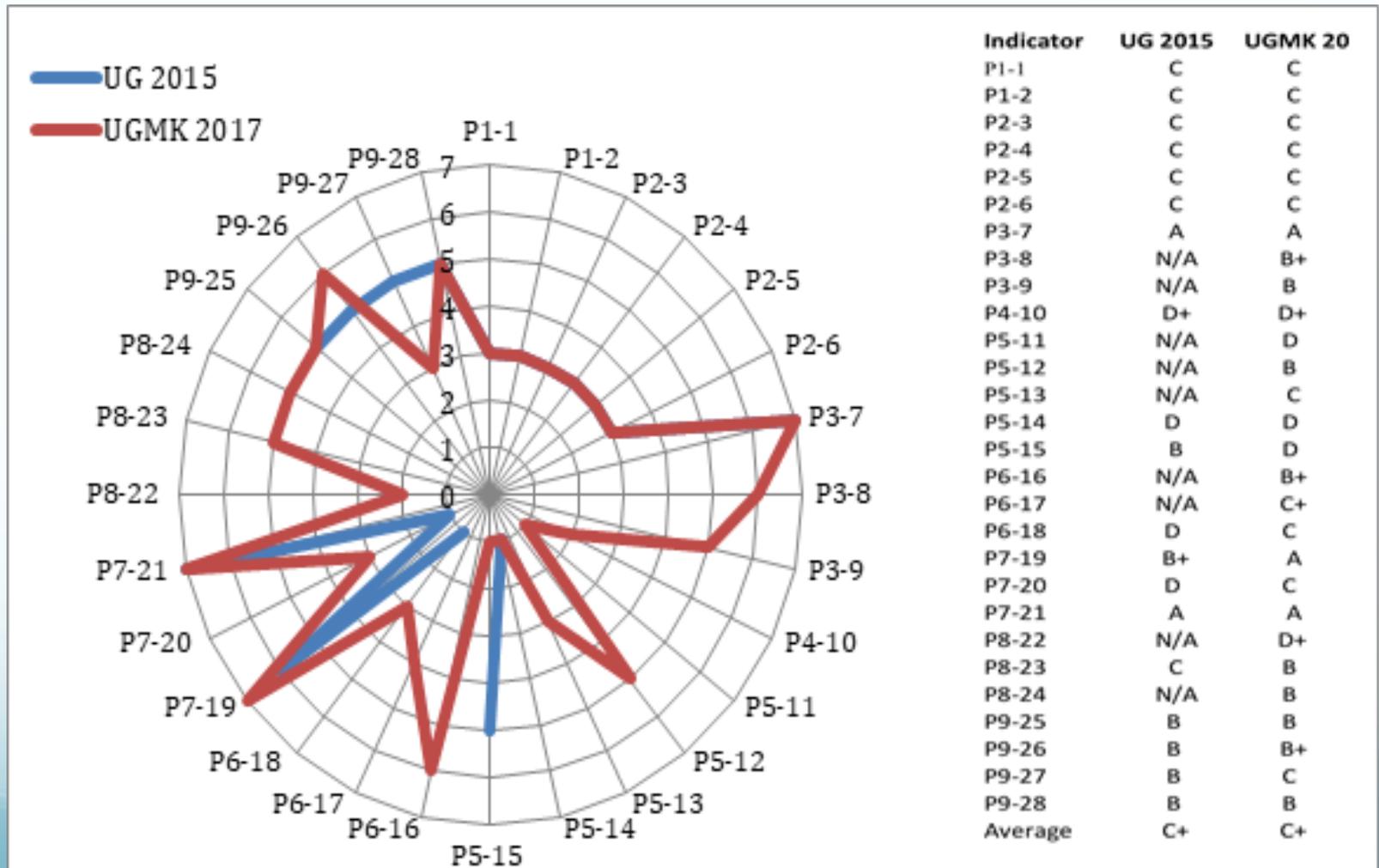
- Poor performance on tax administration indicators
- Large informal sector
- Low levels of compliance
- A disobliging policy framework
- Inadequate funding of tax administration
- Misalignment of priorities and actions
- Transparency and accountability issues
- Regional integration

Proposals on how the challenges can be overcome

- Long term tax revenue planning
- Implementation of a compliance improvement program
- Audits and other studies
- Need for Legal reforms
- Transparency accountability and control of corruption

Outcomes of the TADAT Assessment

Distribution of performance scores 2015 and 2017



Perspectives on relevance of TADAT framework

- A standardised tool for cross-country and inter-temporal comparisons
- Participation of multi stakeholders
- Applicability of the TADAT assessment results

Perspectives on limitations of the TADAT framework

- Limited publicity of the TADAT framework and findings
- Narrow focus on a few taxes
- Susceptibility to manipulation
- Weak on policy advise
- Focus on evidence
- Lack of regular assessment
- Disregard of governance and political issues in the framework

Discussion of Findings

The findings of the study can be distilled into three critical and interrelated issues:

- Limited scope of coverage - The TADAT assessment suffers from a narrowly defined focus, which leaves out important elements of URA's mandate as well as tax administration as a whole
- Inadequacy of coverage of important tax administration attributes – The TADAT assessment leaves out important attributes for effective and efficient operation of the revenue body and tax administration system
- Constrained space for policy reform- The potential of the TADAT assessment is restricted by the operational environment characterized under funding, unfavorable and changing policy framework and politically charged environment.

Conclusions

- The findings show that not much has been done in relation to improving performance on the indicators. At the same time, the limited scope of coverage of the framework leaves out important interventions such as the TREP.
- The limited level of intervention is blamed on the poor operational environment characterised by under funding, unfavourable and rapidly changing policy framework, a politically charged environment
- The results show that given the institutional framework for tax administration in Uganda, improvement interventions to improve performance on TADAT indicators require support of other actors beyond URA.
- The findings also show that the TADAT framework is potentially a valuable tool for assessing the performance of a country's tax administration system with the view of informing policy reform.
- However, the tool suffers from significant omissions in relation to scope of coverage of the tax administration institutions (system) and important attributes for effective and efficient tax administration.
- It is also weak guidance for prioritisation of policy interventions.
- The TADAT assessment should therefore be used together with other tools for policy and planning purposes.

Recommendations

- There is need to under take legal reforms that would improve effectiveness and efficiency of URA and the tax administration system as a whole.
- The tax administration system including URA and other actors should be subjected to regular periodic assessments.
- There is need to fast track the finalisation of the medium term revenue strategy by the ministry of finance planning and economic development.
- URA and MFPED should spear head studies aimed at informing policy reforms for improved performance of the tax administration system.
- **Government should ensure full autonomy of URA and hold it accountable to an agreed set of performance measures.**

Recommendations- Cont'd

- Third-party information can also be used to pre-populate tax returns and, as a result, reduce taxpayer burden. URA can use information from the government's business and land registries to validate tax returns and to inform tax investigations.
- The URA should put more emphasis on performance objectives. Experiences in several countries have demonstrated that public institutions that boast an outcome-oriented and mission-driven culture tend to perform better.
- URA should simplify the tax laws and regulations, especially the Income Tax Act to ease taxpayers' understanding of tax laws.
- URA should foster collaboration with other EAC revenue authorities through efficient information exchange, in order to control the rising number of transactions by multinational and regional companies.

THANX