Taxation in Uganda

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

RESEARCH REPORT

February 2017

SEATINI

Strengthening Africa in World Trade

OXFAM

Table of Contents

List of Figures

List of Tables

Acknowledgements

This study was produced jointly by Oxfam in Uganda and Southern and Eastern Africa Trade, Information and Negotiations Institute (SEATINI UGANDA). Thanks to the following for their contributions: Mr Daniel Lukwago and his team(Robert Mugambwa and Geofrey Ssekalembe) as well as Tabu Mr Denis Ojoma and Ms Gertrude Wadiko for assisting the research team in compiling the case study. In a special way, we would like to thank Community Empowerment for Rural Development (CEFORD) and Women and Rural Development Network (WORUDET) for assisting the research team in mobilizing stakeholders and contributing to the study. We also appreciate CEWIT, CSBAG, SEATINI and AFIC staff, Mr. George Bogere and Mr. Johnson Gumisiriza and Mr Mukotani Rugyendo for commenting and peer reviewing this report

List of Abbreviations

AfDB	African Development Bank
BBT	Background to the Budget
CAO	Chief Administrative Officer
CBOs	Community Based Organizations
CEFORD	Community Empowerment for Rural Development
CEWIT	Citizen Watch—IT
CFO	Chief Finance Officer
CIT	Corporate Income Tax
CSBAG	Civil Society Budget Advocacy Group
CSOs	Civil Society Organizations
DLG	District Local Government
DTT	Double Taxation Treaty
EAC	East African Community
FGDs	Focus Group Discussions
FOWODE	Forum for Women in Democracy
FY	Financial Year
GDP	Gross Domestic Product
ITA	Income Tax Act
KCCA	Kampala Capital City Authority
KII	Key Informant Interview
LG	Local Government
LGFAR	Local Government Finance and Accounting Regulations
LGFC	Local Government Finance Commission
LGHT	Local Government Hotel Tax
LLG	Lower Local Government
LR	Local Revenue
LREP	Local Revenue Enhancement Plan
LST	Local Service Tax
MoFPED	Ministry of Finance Planning and Economic Development
MTIC	Ministry of Trade Industry and Cooperatives
NDP	National Development Plan
NSAs	Non-State Actors
PAYE	Pay As You Earn
PIT	Personal Income Tax
S/C	Sub County
SEATINI	Southern and Eastern African Trade Information and Negotiations Institute
TC	Town Council

MC	Municipal Council
TJNA	Tax Justice Network Africa
TREP	Register Expansion Project
TREP	Taxpayer Register Expansion Project
TTR	Total Tax Revenue
UDN	Uganda Debt Network
UGX	Ugandan shilling
UIA	Uganda Investment Authority
URA	Uganda Revenue Authority
URBS	Uganda Registration Services Bureau
UWONET	Uganda Women's Network
VAT	Value Added Tax
TTR	Total Tax Revenue
WHT	Withholding Tax
WORUDET	Women and Rural Development Network

Executive Summary

This 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, CSOs and non-state actors (NSAs) in taxation and revenue generation. The study focused on URA at national level and Arua and Pader districts at local levels. The study specifically analyzed revenue performance for four financial years, that is from 2011/12 to 2015/16. The study used both quantitative and qualitative methods which utilized four primary data collection methods: secondary document review, key informant interviews (KIIs), focus group discussions (FGDs), and case study. The key findings of the study are summarized below:

Current taxation laws, policies and institutions

Although, currently, the legal and policy framework is comprehensive to enable the country generate sufficient revenues, there are some bottlenecks in the implementation partly due to weaknesses within the mandated government institutions, especially at 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, among others.

Evolution of tax systems and reforms over the past decade

The major tax policy changes over the last decade primarily revolved around VAT and income tax. For instance, the standard rate of VAT was increased to 18 per cent from 17 per cent in FY 2005/06. Attempts to protect the poor have been through exempting or zero rating foods under VAT, and by raising the threshold of personal income. Since 2014, 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 are currently hard to reach. In 2014, GoU enacted a Tax Procedures Code Act to guide and harmonize the administrative procedures of the current tax laws, hence easing the compliance process for taxpayers.

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 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 points 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 government 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. Despite the increase in TTR, Uganda's tax revenue to GDP ratio has stagnated at around 12.6 percent of GDP, making Uganda's tax-to-GDP ratio one of the lowest in the East African Community (EAC) region.

Although URA has performed relatively well during the five years, some respondents talked to during the course of this study were not impressed by 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 (as amended) which allows LGs to levy, charge and collect fees and taxes. Yet, local revenue performance in the two districts visited during this study is 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, LR performance for urban authorities (Arua Municipality and Pader Town Council) was better than the districts. In Arua Municipality and Pader Town Council, LR constituted on average 9.0 percent and 13.2 per cent[1] of total revenue between FY 2012/13 and 2015/16 respectively.

The bigger proportion of LR is generated from Local Service Tax (LST), Fees, Licences, Market Dues, and Park Fees and Licences. 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 the collection of LST; and absence of LST receipts which makes compliance and enforcement difficult.

Major bottlenecks in taxation and revenue generation at national level 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;

1 However, the figures are based on estimates because the study team was unable to access the actual figures.

tax avoidance mainly by the multinational corporations (MNCs); taxation regime that is not clearly understood by most taxpayers; and high levels of corruption which lead to revenue leakage.

At LG levels, major bottlenecks to LR generation include: restrictive legal requirements which limit the amount of revenue LGs 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 institution frameworks through which citizens, CSOs and the other non-state actors can engage on taxation and revenue generation in Uganda. By and large, the participation of CSOs and NSAs in taxation debate is improving. A number of organizations are engaging government on taxation and revenue generation issues. For instance, SEATINI is 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. The low participation of citizens can be partly 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 does not provide sufficient information to the taxpayers and the assessors do not seek for the involvement of the taxpayer. Therefore, most respondents consider the current taxation system not fair in many cases.

Most citizens interviewed during this study support the paying of taxes, since taxes help government to run and provide services like education, health, water, roads, among others; and in a sense enhance citizen 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 are willing to pay taxes as long as government can in return provide services they need such as quality health care and education. In addition, government has to show a high degree of transparency and accountability for the monies collected.

Given the above-mentioned findings, the study recommends the following to various stakeholders:

Central Government

a. Implement reforms aimed at enhancing non-tax revenue collection, recording and management.

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

c. 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.

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

e. 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 regularly be updated.

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

g. MoFPED should establish mechanisms for tracking and recording all tax revenues collected by local governments to be included in TTR.

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

i. URA should simplify the tax laws and regulations, especially the Income Tax Act to ease taxpayers' understanding of tax laws.

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 conditions and conditions at local government levels.

b. Through Uganda Local Government Association should strengthen their advocacy towards influencing policy direction that directly affects their local revenue performance.

c. 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.

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

e. Encourage the elected officials, especially councillors, to sensitize communities about taxes. The incentive to do should be high, since their allowances and facilitation are largely from LR.

f. Introduce taxpayer days and other sensitization programmes through seminars and radio talk shows.

g. Recruit, train and retain staff to ensure effective tax assessment, collection and enforcement of local revenue collection. In addition, introduce a system of reward and penalties for revenue collectors to induce staff to collect more revenue.

h. Reduce revenue losses, emphasise the use of financial institutions such as banks or other means like the use of mobile money when paying taxes, levies and licences; and the use of serialized receipt books.

i. Institute tax assessment appeal 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

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

b. Mobilize concerted efforts to simplify all the tax laws and policies and also translate them in local languages.

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

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

1. Introduction

1.1 Background and Rationale

The importance of Taxation to any Economy cannot be overstated. It plays the traditional roles of raising government revenue, redistributing wealth and income and allocation of resources among the population. It has the potential of ensuring good state-society relations through good governance and accountability. Taxation can also be a tool to achieve trade policy objectives. Mobilizing domestic revenue is a way for governments to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence (Ali, M. et al, 2013).

Despite the sustained growth of Uganda's economy, trends in tax revenue show a stagnation of performance. Tax revenue as a percentage of GDP, oscillated between 11.7 per cent and 13.1 per cent between 2005/06 and 2014/15. Compared to other EAC countries, Uganda's Tax to GDP ratio is one of the lowest; Kenya's stood at 20.0 per cent, Rwanda's at 14.7 per cent and Tanzania's at 21.0 per cent in 2013/14. In its efforts to raise tax revenue from the current 13.9 per cent of GDP in FY 2015/16 to 16.3 per cent of GDP by FY 2020/21, government has put in place several mechanisms to widen the tax base (Republic of Uganda, 2015).

At the start of FY 2016/17, the government enacted the Tax Procedures Code Act, 2014 which guides and harmonizes the administrative procedures of the current tax laws, hence easing the compliance process for taxpayers. During the budget speech for FY 2016/17, the Minister of Finance, Planning and Economic Development stated that government had developed a policy to guide the negotiation of double taxation agreements and it is hoped that upon re-negotiation of the already existing double taxation agreements, a number of loopholes that have recently been used by multinationals to avoid taxes will be plugged.

Furthermore, Uganda Revenue Authority (URA) in collaboration with URSB, KCCA and LGs rolled out the Taxpayer Register Expansion Project (TREP) and is earmarked to expand URA's tax register by 103,570 value clients (clients who submit returns and pay income tax) and generate revenue worth UGX 12.9 billion (URA, 2014). Other proposed measures include: development and implementation of a policy on mandatory association membership for informal sector players; streamlining the non-standard VAT tax exemptions; strengthening Inter-Agency collaboration among agencies i.e. UIA, KCCA, LGs, URA and URBS; combating international tax evasion schemes; strengthening the capacity of relevant URA staff in critical functions; strengthening local tax administration; and exploring new sources to widen and deepen local revenue bases (Republic of Uganda, 2015).

Despite these efforts by government, Uganda still faces a number of challenges in domestic revenue mobilization. These include, among others: a large informal sector that contributes 43 per cent of GDP; a narrow tax base composed of a few taxpayers; a tax regime riddled by exemptions; and weaknesses in tax administration (Republic of Uganda, 2015). There are other important challenges namely: tax evasion[1] and avoidance[2] practices; administrative challenges within URA; limited capacity of LGs to identify and collect revenue; poor record-keeping at LGs in respect to taxpayers; low spirit of voluntary compliance among taxpayers.

All these challenges are compounded by general limited discussion among the different stakeholders (government, civil society, media and citizens) on tax issues and domestic revenue mobilization. Debates around taxation are not widespread and rarely involve citizens. A study by SEATINI in 2013 identified three primary reasons for non involvement of citizens in tax policy discussions namely:

- Relevant information on taxation is often not available in a timely manner;
- There are few official avenues for citizens to influence tax policies, i.e. formal processes or forums through which the government and its citizens can freely engage on tax policy are non-existent. Thus, it is easier for the government to side-step public tax debates and conceal the true implications of the proposed tax policies;
- Tax issues are often seen as highly technical and complicated.

Against this background this study had the following objectives:

1.2 Objectives of the study

The main objective of the study was to undertake critical analysis of the tax systems and practices at national and local levels in Uganda by examining the opportunities and challenges and assessing the participation of citizens in the fiscal processes and governance.

Specifically, the study sought to fulfil the following:

a. Examine the current tax systems and practices at national and local levels.

b. Examine the opportunities and challenges of increasing domestic revenue generation.

c. Assess the level of citizens' perception, awareness and attitudes towards participation in fiscal processes at national and local levels.

d. Document key concerns and propose policy advocacy issues towards fair taxation.

1.3 Scope and Coverage

The study focused on the national level and two districts of Arua and Pader. In each district, two Lower Level Local Governments (LLGs) were selected. These included: Pader Town Council and Ogom Sub County in Pader District and Arua Municipality and Oluko Sub County in Arua District. The analysis covered four financial years (2012/13-2015/16).

1.4 Methodology

The study used both quantitative and qualitative methods to examine the underlying factors and issues around domestic revenue mobilization. Both quantitative and qualitative information were integrated in an iterative manner that unearthed the factors underlying the observed trends, thereby ensuring the findings are credible and recommendations plausible and realistic.

1.4.1 Data collection methods

The study used four primary data collection methods namely, Document Review, Key Informant Interviews (KIIs), Focus Group Discussions (FGDs), and Case Studies.

a) *Document Review* involved the collection and review of relevant data and analytical studies from various sources such as government, donor agencies, academic and research institutions, CSOs, websites, and the provide sector.

b) *Key Informant Interviews (KIIs)* involved in-depth and semi-structured interviews with relevant stakeholders to get their views and experiences regarding domestic revenue mobilization in Uganda. A total of 23 stakeholders (9 at national and 14 at LG levels) were interviewed (see Annex 1).

c) *Focus Group Discussions (FGDs)* involved in-depth moderated discussions with small groups of taxpayers such as traders, market vendors and business persons. A total of 52 people (14 males and 38 females) took part in FGD meetings in the two study districts (see Annex 1). The FGDs were segmented by gender, specifically targeting women and youth groups in order to capture views / voices of both women and men. The research team, in collaboration with SEATINI partners in the districts, selected the FGD participants -- Community Empowerment for Rural Development (CEFORD) and Women and Rural Development Network (WORUDET) in Arua and Pader respectively.

d) *Case Study*: This study selected a case study of Arua Central Market and Ejupala Market in Arua District to document what actually happens in the markets with regard to the assessment and collection of duties. It also tried to estimate how much money is collected on a day, monthly, and annual basis vis-à-vis the amounts recorded by the sub county /division authorities. Through this, we were able to identify potential leakages in local revenue generation.

1.5 Limitations of the study

Adequacy, quality and availability of data and information: There were difficulties in accessing official data on local revenue mobilization and utilization in the LGs, especially at LLG levels. Despite this limitation, the data and information obtained provided for ample analysis of LG experience regarding local revenue.

Limited national interviews: Despite numerous requests, the study team was unable to interview officials of Ministry of Finance, Planning and Economic Development (MoFPED), URA and Chairpersons of Parliamentary Committees. This was mainly because these institutions were not willing to participate in this kind of study. Therefore, the study mainly relied on literature review of other relevant studies and publications for perspectives from these key institutions.

Sample Size: The limited resources and time frame allocated to this study imposed binding constraints on the number of local governments that could be covered. However, we are confident that the two case study district provide a good picture of what is happening in most LGs in Uganda.

We are confident that the methodology used in this study is of sufficient rigour and coverage to generate valid findings capable of yielding strong and credible answers to the study objectives.

2. Current Tax Systems and Practices at National and Local Levels

2.1 Review of Current Legal Framework on Taxation

Constitution of the Republic of Uganda, 1995

Provisions about taxation in the Constitution of the Republic of Uganda include: Article 152, (1) which vests power to impose taxes in Parliament and empowers it in chapter 3 to make laws to establish tax tribunals for the purposes of settling tax disputes. Articles 191 (1) and (2)) empower LGs to levy, charge, collect and appropriate fees and taxes. Article 192 entrusts Parliament with the power to allocate the collection of certain taxes to local governments or on behalf of the Government for payment into the Consolidated Fund. Article 196 (a) instructs Parliament to make laws requiring each local government to periodically draw up a comprehensive list of all its internal revenue sources and to maintain data on total potential collectable revenues.

Income Tax Act (Cap 340)

The Income Tax Act (ITA) commenced in 1997 with the aim of consolidating and amending the law relating to income tax and for other connected purposes. The main objective of this action was levying tax on a residence basis, ensuring simplicity and promoting a flat tax rate scale. It took away power to grant discretionary exemptions from the Minister of Finance. It also: provided for accelerated and simplified depreciation allowances on productive assets; removed tax holidays offered under the Investment Code; introduced a presumptive tax for businesses; eliminated exemptions (e.g., for public servants and parastatals) and/or made them more stringent; introduced a capital gains tax on certain business transactions; and streamlined the withholding tax regime (AfDB, 2010).

Value Added Tax (Cap 349)

Value Added Tax (VAT) was introduced in 1996 at a rate of 17 per cent, replacing the sales tax and commercial transaction levy (CTL). The VAT Act was generally easier to understand and interpret, [and therefore] huge strides were made to help compliance and improve transparency; and removed the Minister of Finance's power to grant exemptions on a discretionary basis (AfDB, 2010). The VAT Act was amended in 2015 to: define certain terms used in the Act; increase the annual registration threshold; provide for tax treatment of the oil and gas and mining sectors; exclude compact florescent bulbs from the exempt category; add Global Fund to fight AIDS, Malaria and Tuberculosis and Uganda Red Cross Society to the list of Public International Organizations and zero rate the supply of cereals grown and milled in Uganda (Government of Uganda, 2015).

Excise Management Act (Cap 335)

The act regulates the excise duties. Excise duties are levied on beer, wines, spirits, soft drinks, cigarettes and fuel, which are manufactured in or imported into Uganda, as well as mobile airtime.

Uganda Revenue Authority (Cap 196)

The Uganda Revenue Authority (URA) Act (1991) established the URA as a central body for the assessment and collection of specified revenue, and administering and enforcement of the laws relating to such revenue. The act incorporates the URA as a body corporate with perpetual succession, a common seal and capable of suing and being sued in its corporate name. The Act also gives URA powers to borrow money, acquire and dispose of property and do all other things as a body corporate may lawfully do.

East African Excise Management Act (Amendment) Act, 2012

The act underpins the establishment of Common External Tariffs (CETs) and elimination of internal tariffs. It also brought about the harmonization of customs principles and procedures; and removal of suspended duty.

Tax Procedures Code Act, 2014

The Tax Procedures Code Act provides for a code to regulate the procedures for the administration of specified tax laws in Uganda; and to harmonize and consolidate the tax procedures under the existing laws. The objectives of the act are to: adopt uniform procedures for the registration, assessment and collection of all domestic taxes; promote efficiency in domestic tax administration by harmonizing, consolidating and regulating tax procedures in a single law; and streamline and simplify the administration and collection of taxes (URA, 2016).

The Local Government Act (Cap 243)

Section 80 of the Local Government Act 1997 (as amended) allows LGs to levy, charge and collect fees and taxes, including: Local Service Tax (LST); LG Hotel Tax (LGHT); Property rates and land-based charges like premium, building plan approval fees, land fees, etc; Ground rent; Business licences; User fees (include market dues, parking fees), user charges and permits; Royalties from electricity generation, mineral mining and exploration and protected areas; Other revenues (such as forest fees; veterinary fees; registration of births, marriages and deaths; fines, etc). In addition, Section 77 (1) empowers LGs to formulate, approve and execute their budgets and plans and to collect revenue and spend it (Republic of Uganda, 1997).

Other laws governing taxation at LG levels

- The LG (Rating) Act (Cap 242) (as amended), enables LGs to collect property rates.
- The Physical Planning Act, 2010. This Act enables collection of land-based charges like ground rent, lease offer fees, inspection fees and others related; and ground rent premium, and property rates.
- The Trade Licensing Act (Cap 101)
- The Public Health Act (Cap 281)
- Mining Act (Cap 148) (Section 98) which sets out how tax revenue from minerals is shared among government, LGs and owners, i.e. Central Government (80 per cent), HLG (10 per cent), LLG (17 per cent) and individual land owner (3 per cent).
- Forests Act (Cap 146) (Sections 39-64) allows LGs to collect the following levies from forest products, licenses for cutting from outside the forest reserve, selling seedlings and seedling production, fees from timber, charcoal burning and selling, and transportation of charcoal, etc.

- Water Act 1997 (Cap 152) under Section 87 gives power to the Minister to allow LGs collect water conservation fees.
- Uganda Wild Life Act, 1996 (Cap 200) under Section 69 (4) requires payment of 20 percent of the park entry fees collected from a wildlife-protected area to the LG of the area surrounding the wildlife protected area from which the fees were collected.
- Electricity Act, 1999 (Cap 145). Sections 75 (7), (8) and (9) require the holder of a license for hydropower generation to pay, to the district LG in which his/her generating station (dam or reservoir) is situated, a royalty agreed upon by the licensee and the district LG, in consultation with Energy Regulatory Authority (ERA).
- Traffic and Road Safety Act (Chap 361): Section 139, for collection of parking fees.
- Market Act (Cap 94): for collection of market dues.
- Public Finance Management Act, 2014, Section 75: Sharing of revenues from royalties from oil and gas.
- Registration Act (Cap 309): Registration fees for births, deaths, marriages.
- Local Government (Amendment) Act, 2008: collection of local service tax and LG hotel tax.

Although the current legal framework is comprehensive, there are challenges in effective implementation of some of the provisions of these laws, partly due to weaknesses within the mandated government institutions, especially at LG levels. Some of the weaknesses are discussed in the subsequent sections of this report.

2.2 Review of Current Institutional Framework on Taxation

Uganda's tax administration system is split between the central government and local government regimes. The central government tax regime is implemented by the **Uganda Revenue Authority (URA)**, which was established by the URA Act 1991 (Cap 1996). It serves as a central body for the assessment and collection of specified tax revenues. The URA identifies, informs and assesses taxpayers. The URA is headed by a Commissioner-General who is appointed by the Minister of Finance, Planning and Economic Development. The organization comprises seven departments (each headed by a Commissioner) namely: Corporate Affairs, Domestic Taxes, Tax Investigations, Customs, Internal Audit and Compliance, Legal Services and Board Affairs, and the Commissioner-General's office. Although the URA is a quasi-autonomous institution, for budgetary purposes, it is regarded as a department under MoFPED, and is subject to the same financial rules and discipline as other departments (SEATINI, TJNA & Oxfam, 2016).

The **Ministry of Finance, Planning and Economic Development (MoFPED)** is responsible for the formulation of policies aimed at generating domestic revenue and promoting investment, consumption and savings. However, policy formulation is limited to a few technocrats, to the exclusion of other stakeholders, such as civil society and taxpayers themselves. Broad tax policy objectives are contained in annual budget speeches, which area is fleshed out in legislation.

The **Parliament of the Republic of Uganda** is mandated by the Constitution of the Republic of Uganda to impose taxes. In addition, Parliament is required to make laws requiring each local government to draw up a comprehensive list of all its internal revenue sources and to maintain data on total potential collectable revenues. The Parliament works through committees to scrutinize, analyze and consult on tax matters. The parliamentary committees responsible for tax issues are: Budget; National Economy; and Finance, Planning and Economic Development. The Committee on Finance, Planning and Economic Development (CFPED) oversees, monitors and evaluates the performance of the MoFPED and URA. The bills mostly considered by the CFPED are related to revenue collection, and the relevant institutions.

The **Local Government Finance Commission (LGFC)** considers and recommends to the President of the Republic of Uganda potential revenue sources for local governments, and advises about appropriate taxes to levy; mediates and advises the local government minister in financial disputes between local governments; and analyzes local governments' budgets for compliance with legal provisions.

The **Ministry of Local Government (MoLG)** provides legal and policy guidance on local revenue administration; supervises and monitors the collection of revenue; and mentors local governments on collection procedures.

The **Ministry of Trade, Industry and Cooperatives** is mandated to formulate and review, where necessary, appropriate policies, legislation, regulations and standards for sustainable development of trade.

The institutional framework is very robust; however, there major challenges related to minimal collaboration among institutions, inadequate staffing, limited funding, inadequate capacity, low motivation of staff especially at LG levels, lack of autonomy by URA, and corruption. This hinders the responsible institutions to effectively mobilize sufficient revenue.

2.3 Evolution of Tax Systems and Reforms over the Past Decade

Fundamental changes to tax policy

The major tax policy changes over the last decade primarily evolved around VAT and income tax. For instance, the standard rate of VAT was increased to 18 per cent from 17 per cent in 2005/06. Attempts to protect the poor have been through zero-rating[3] and exemptions[4]of foods under VAT, and by raising the threshold of personal income; Pay as you Earn (PAYE) threshold was raised from UGX 130,000 to UGX 235,000 in 2012. In 2014, GoU enacted a Tax Procedures Code Act to guide and harmonize the administrative procedures of the current tax laws hence easing the compliance process for taxpayers.

Institutional changes

Since its inception in 1991, URA had its organizational structure as well as its operational departments revised with the view of strengthening its performance especially with regard to domestic and international revenue mobilization. By 2015 the original five departments had been modified and expanded into seven departments. These are: corporate affairs, domestic taxes, tax investigations, customs, internal audit and compliance, legal services and board affairs, and the commissioner-general's office.

Currently, URA has segmented taxpayers according to turnover. The Large Taxpayers Office has two specialized units: the International Taxation Unit and the Natural Resource and Minerals Unit. In FY 2014/2015, the Large Taxpayers Office collected 61.5 per cent of revenue collected by the Domestic Taxes Department. The International Taxation Unit was primarily set up to track and avoid substantial CIT revenue loss caused by aggressive tax planning by multinational corporations. It has been critical in ensuring that transfer pricing is handled using the 'arm's length' principle.[5] It thus keeps abreast of, and helps to respond to, the dynamic business environment, increasing globalization and international trade, and international e-commerce (SEATINI, TJNA & Oxfam, 2016).

Since 2014, URA 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 are hard to reach (URA, 2014). This collaboration, code-named the Taxpayer Register Expansion Project (TREP), is expected to expand URA's tax register by 103,570, and generate UGX 12.9 billion in new revenue.

URA as an institution 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 24-hour basis; enabling taxpayers to lodge their applications online through the web portal (www.ura.go.ug) as long as they have access to the internet; and rolling out of full-time, day and night hour operations at the main border points of Malaba, Busia and Katuna as well as Entebbe International Airport.

Local Governments

The Local Government Act (as amended) empowers LGs to levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties, personal graduated tax, and registration and licensing fees and taxes that are specified in the Fifth Schedule (Republic of Uganda, 1997). The LG Act was in 2008 /09 amended to introduce Local Service Tax (LST) and Local Government Hotel Tax (LGHT).

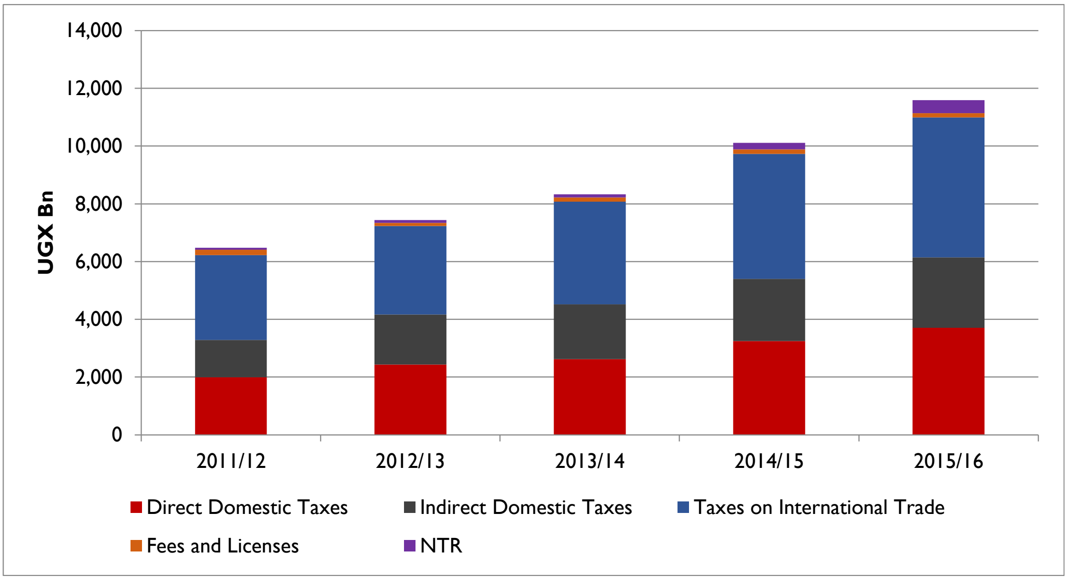
2.4 Revenue Performance FY 2011/2012 - 2015/16

2.4.1 National Level

Tax Revenue

Uganda has seen a significant increase in Total Tax Revenue (TTR[6]) during the five years. Net collections by URA (excluding Government 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. The TTR comprised direct domestic taxes; indirect domestic taxes; taxes on international trade; fees and licenses; government taxes; and Non-Tax Revenues (NTR) (see Figure 1).

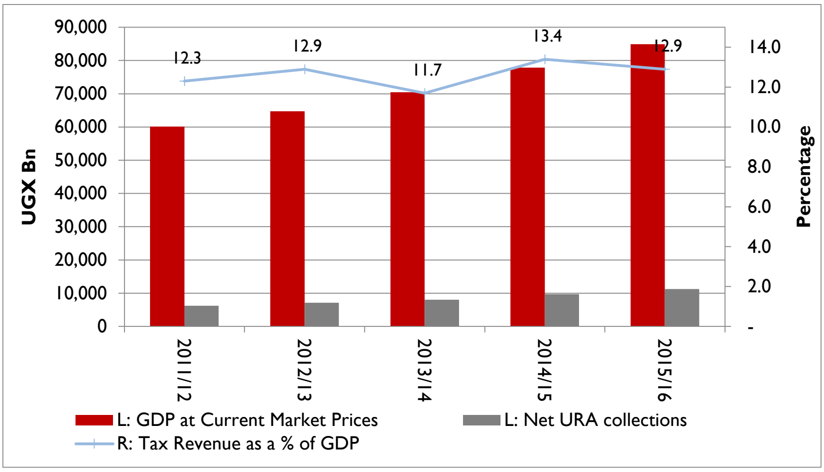
Figure 1: Trends in URA Total Revenue Collections



Source: Researchers' calculations based on URA statistics

Despite the increase in TTR, during the last five financial years Uganda's tax revenue to GDP ratio has stagnated at below 13.4 per cent of GDP (see Figure 2). This makes Uganda's tax-to-GDP ratio is one of the lowest in the East African Community (EAC) region. While 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).

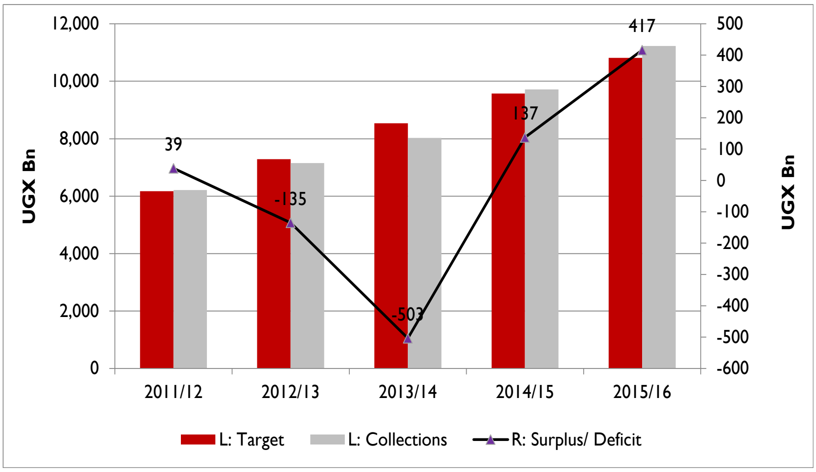
Figure 2: Trends in GDP and tax revenues



Source: Researchers' calculations based on URA Statistics[2] and MoFPED (BTTB—Various years)

Over past five financial years, the performance of the URA has been mixed: URA under-performed during FYs 2012/13 and 2013/14, however, the authority over-performed during FYs 2014/15 and 2015/16 (see Figure 3). Although URA has performed relatively well during the five years, however, some respondents talked 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.

Figure 3: Revenue Performance



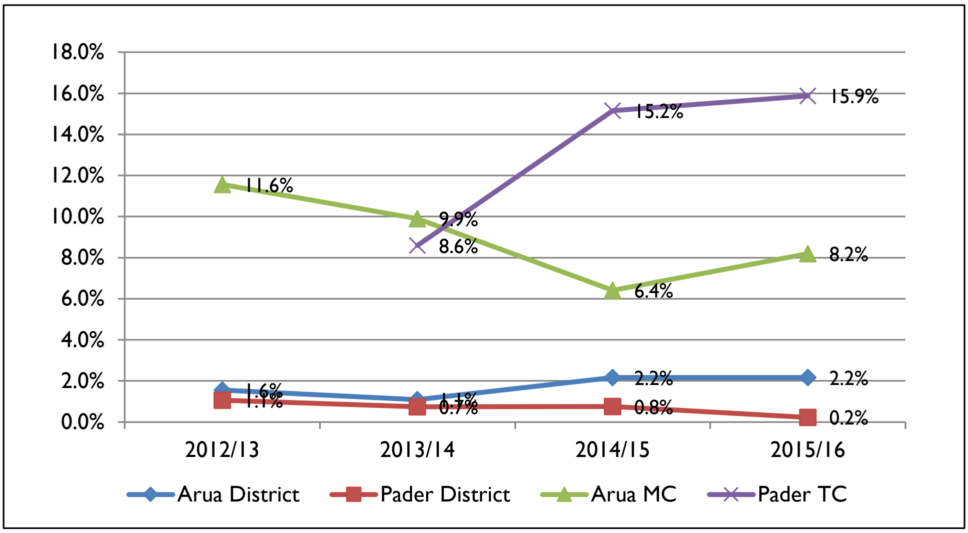
Source: Researchers' calculations based on URA Statistics

2

2.4.2 Revenue Performance in Arua and Pader districts

Local revenue[7] is important because it provides financing over which local governments have the most discretion. Therefore, local revenue is important for the success and long-term sustainability of service delivery in local governments. However, local revenue performance in the two districts visited during this study is very dismal. In Arua and Pader districts, LR constituted on average 1.7 per cent and 0.8 per cent of total revenue between FYs 2012/13 and 2015/16 respectively. However, LR performance for urban authorities (Arua Municipality and Pader Town Council) was better than the districts. In Arua Municipality and Pader Town Council, LR constituted on average 9.0 per cent and 13.2 per cent[8] of total revenue between FYs 2012/13 and 2015/16 respectively. Figure 4 shows trends in LR performance as a share of total revenue.

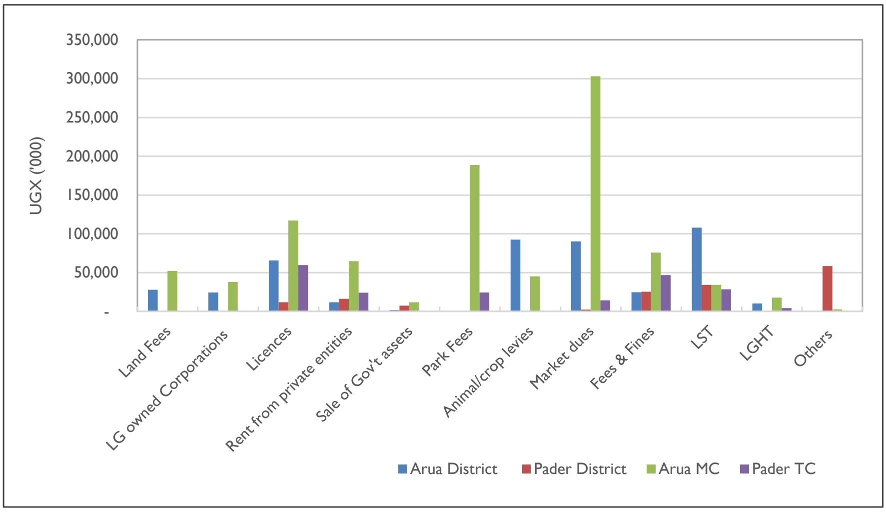
Figure 4: Share of LR revenue in total revenue



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

For the districts (Arua and Pader), the bigger proportion of their local revenue is generated from Local Service Tax, Fees, and Licences. Whereas for the urban LGs (Arua MC and Pader TC), the bigger proportion of their local revenue is generated from Market Dues, Park Fees and Licences. Figure 5 shows total LR by source between FYs 2012/13 and 2014/15. It should be noted that the Pader DLG does not follow the Government Chart of Accounts (GCOA) when entering specific revenues collected in the books of accounts. This is reflected by the fact that most of the revenues lumped up as 'others' such that this source seems to generate a lot yet the contents are not established.

Figure 5: Total LR by source between 2012/13 and 2014/15



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

The collection of the Local Service Tax (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 situation in the two districts is similar to what is happening all other LGs in Uganda. According to the LGFC official talked to during this study, LGs only collect on average 22 per cent of the expected revenues. Both LST and LGHT are expected to yield UGX 67 billion annually but only UGX 12 billion is collected by all LGs.

According to LGFC, the decline in LST collections is partly due to: a) inadequate data on all eligible people who should pay LST such as Businessmen and Women (BMBW); the Self-Employed Professionals (SEP); the Self-Employed Artisans (SEA); b) the schedule for category of the Commercial farmers (which might be the biggest contributor to LST, if collected) is not yet passed by Parliament; c) the LST threshold is too high; which excludes most people. Other challenges include: lack of technical support by MoLG and LGFC in collection of LST; and absence of LST receipts which makes compliance and enforcement difficult.

2.5 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 local government 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 tend to be more regressive since they are based on the value of goods, services and assets, rather than the ability of people to pay (SEATINI, TJNA & Oxfam, 2016). In their study, Jon Jellema et al, 2016 noted that VAT and Excise taxes were widespread – over 95 per cent of households pay at least one of the indirect taxes and the burden they create is approximately neutral with respect to consumption expenditure. The same study found that 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.

Though the bigger proportion of tax revenue comes from indirect taxes, the ratio of direct taxes in total tax revenues is beginning to increase, which indicates shift towards progressivity and fairness of a tax system in Uganda.

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.

Under the Second Schedule of the VAT Act Cap 349, there are some VAT exemptions on the supply of machinery, tools and implements suitable for use only in agriculture.[9] This is critical in addressing gender issues since the majority of women are engaged in agriculture. However, excise duties on salt and kerosene have been criticised by a number of people for oppressing women.

The Income Tax (Amendment) Act 2008 under section 22(1) (e) allows a deduction on 15 per cent of tax payable to all private employers who employ ten or more persons with disabilities. This is a good provision towards increasing the number of PWDs who can access formal employment.

At local government levels, most of the taxes levied by local governments affect women more than men. During FGDs, women noted that they bear the burden more in taxes and levies since they deal in small items (such vegetables, foodstuffs, 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 (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). For instance, the effective tax rate on a chicken was 10 times the rate on a head of cattle.

3. Main Bottlenecks and Challenges in Revenue Mobilization

3.1 Bottlenecks in revenue mobilization at national level

After marked successes in the first years after the creation of URA, tax revenue as a percentage of GDP stagnated. The large gap between the tax paid on overall earnings in the country and the tax expected to be paid on income-generating activities is a big concern. There could be several reasons for this which are discussed below.

Structure of Uganda's economy

Uganda's fast-growing informal sector accounts for 43.1 per cent of the country's GDP. Informal businesses are normally characterized by an absence of final accounts, having few employees and no fixed location, being unregistered and often operational for less than a year (UBOS, 2010). The existence of a large informal sector means that tax rates are higher for those in the legal, regularized or formal economy (Akol, D., 2015). Uganda's high economic growth rate is largely down to fast-growing sectors such as services, which employ few Ugandans. Sectors such as agriculture, which employ many Uganda, contribute negligible amounts of revenue; in part because the people employed in agricultural sector are less taxed.

Inadequate information on taxpayers

Underdeveloped registries and the absence of enabling legislation in Uganda has impeded the utilization of third-party information by URA. In general, good quality national databases, including company, property and vehicle registries, as well as enabling legislation, would allow URA to use third-party information to improve tax compliance and enforcement. URA currently issues taxpayers tax identification numbers (TINs) that are not linked to the national biometric ID cards. This complicates compliance management and increases the risk of tax evasion.

Ineffective tax policies

The quality of the tax policies greatly impact the tax revenue realized by any revenue agency. Policy makers in Uganda are short on policy innovations and prescriptions and lack vigorous and comprehensive research and analysis of the tax policy environment, which in part explains the minimal impact of the reforms on tax revenue as a percentage of the GDP. The tax reforms have been administratively comprehensive but neither focused nor driven by specific performance outcomes such as improved tax enforcement or increasing the tax base. They have been mainly focused on meeting revenue targets and not enough has been done to embed non-revenue performance objectives and indicators (SEATINI Uganda, TJNA & Oxfam Novib, 2012).

Tax incentives and exemptions

The GoU is providing a wide range of tax incentives[10] to attract greater levels of foreign direct investment, as part of the wider tax competition among the members of the EAC, following its re-establishment in 1999. This has created a larger regional market, and means that firms can be located in any EAC country to service the whole market (SEATINI, 2013a). A study by the African Development Bank estimated that Uganda was losing at least 2 per cent of GDP in revenues due to tax incentives (AfDB, 2010). New and even higher figures were reported by the URA in 2015, when total revenues foregone as a result of tax exemptions in FY 2013/14 amounted to UGX 1.6 trillion, which is equivalent to 2 per cent of GDP (SEATINI, TJNA & Oxfam, 2016).

Uganda does not have a clear policy about how tax incentives and exemptions should be awarded or measured (SEATINI, 2013a). Uganda's finance minister has the power to grant tax and non-tax incentives, as well as waive the tax due depending on the reasons and evidence provided by the URA Commissioner-General. Uganda's Constitution (Article 152(2)) obliges the Minister of Finance to provide information on how much tax the government directly paid on behalf of some taxpayers. However, parliament cannot legally reverse the minister's decisions; therefore, the proper and equitable use of these broad discretionary powers is open to abuse (SEATINI, TJNA & Oxfam, 2016).

There are a number of the exemptions in the Income Tax Act (ITA). For instance, people employed by the Uganda People's Defense Forces, the Uganda Police Force, or the Uganda Prisons Service, Judges are exempt from PAYE. In 2016, Members of Parliament amended the ITA to exempt themselves from paying taxes on their benefits, transport allowances and all other reimbursements. Such exemptions not only violate the principle of equity, but also lower the tax revenues.

A number of goods and services are VAT-exempt (i.e. have a zero-per cent rate) – such as unprocessed foodstuffs, medication, contraceptives, sanitary towels and tampons, inputs for the manufacture and supply of seeds, fertilizers, pesticides, and hoes – and there is desire to introduce more progressivity into the tax system by exempting goods which form a systematically higher budget share of the poor households. The exemptions result into a reduction in the tax base. This implies that tax imposed on the non-exempted goods/ services need to be higher to avoid erosion of the tax base.

Taxation regime that is not clearly understood by most taxpayers

Most taxpayers in Uganda are not knowledgeable about the taxation regime and taxes levied in Uganda. Further, most taxpayers do not have an adequate understanding of the functions and mandates of institutions responsible for taxation in Uganda. There is confusion between the URA taxes and LGs taxes. Most taxpayers complained of double taxation in that they pay taxes to URA and also LG taxes and levies. This is partly due to the fact that most citizens do not understand what kind of taxes they are supposed to pay and to which institutions. This was emphasised by a Civil Society respondent who noted that "*generally citizens don't differentiate between URA and LG taxes*".

Tax avoidance

Tax avoidance is a practice of seeking to minimize the tax one pays by arranging affairs in a way that is technically legal. Tax avoidance is mainly common with multinational corporations (MNCs) that use transfer pricing and tax havens to avoid paying all taxes. A global financial report released in 2013 revealed that Uganda loses an average of US$509m in illicit outflows per year. One of the vehicles used to effect capital flight by MNCs is establishing branches in low-tax jurisdictions and then manipulatively arrange their profit determination and tax affairs in such a way that profits arise from and are taxed in the low-tax country (SEATINI Uganda, TJNA & Oxfam Novib, 2012). The Uganda Financial Intelligence Authority is mandated with tackling illicit financial flows (IFFs) in Uganda, however, it faces challenges in fulfilling its mandate.

Corruption

Studies have shown that at least a half of the revenue that should be collected can be lost by government treasuries through corruption and tax evasion (SEATINI Uganda, TJNA & Oxfam Novib, 2012). Opportunities for corruption among tax officials arise in the context of corruption-perpetrating networks, wage differentials, corrupt management, and in the context of poor internal detection and punishment mechanisms. Officials' corrupt actions often take one of two forms: they are either abusive, whereby officers extort from honest taxpayers; or are collusive, in which case they condone and benefit from the corrupt behaviour of tax avoiders (Bridi. A, 2010). Though URA tried to counter corruption through computerized tax processes which reduced the contact between taxpayers and tax officials, the vice is still rampant in Uganda.

3.1.1 Capacity of URA to identify and collect taxes

The capacity of URA to effectively identify and collect taxes is affected by a number of factors which include:

Inadequate staffing: The Taxpayer-to- URA staff ratio has been increasing from 63 in 2011/12 to 326 in 2014/15 due to the expansion of the taxpayer register (see Table 1*).* Consequently, the number of URA staff does not tally with the nature and heavy workload at URA main service centres. A large taxpayer-staff ratio has implications on service delivery and constrains revenue administration.

Table 1: URA staff numbers and taxpayer-staff ratios

Fiscal year	Registered Taxpayers	URA Staff	Taxpayer-to- staff ratio
2011/2012	126,593	2,020	63
2012/2013	243,421	2,274	107
2013/2014	618,837	2,252	275
2014/2015	762,809	2,340	326

Source: URA Reports

Inadequate funding: Much as URA is responsible to collecting taxes, it does not retain any money for itself. Its role is to collect and hand over all revenue collected to the Treasury. The Ministry of Finance is responsible for funding the budget of URA. Issues related to capacity building/training, recruitment of new staff, tax policy implementation are mainly determined by funds made available by the Ministry of Finance. Though the budget approved for URA increased from UGX 116 billion on 2011/12 to UGX 239 billion in 2015/16, this funding is still inadequate to cover purchasing of advanced machinery and hiring of technical staff, thus impacting negatively on tax revenue collections.

Relationship with taxpayers: Relations between URA staff and taxpayers have improved in recent years. However, some of the respondents to this study noted that some URA staff are very arrogant and use intimidating language when handling tax matters. This affects tax payers' compliance.

Coordination between URA and LGs

URA and LGs use different systems of tax collection, which are not in consonance with each other. This has crippled joint efforts to penetrate untapped taxable areas. In addition, these institutions currently operate under independent legal frameworks, which results in duplication and unnecessary bureaucracy. Although this challenge is expected to be addressed through the Taxpayer Register Expansion Project (TREP), this is mainly within Kampala city and large towns. Secondly, the relationship between URA and LGs is not good.

Some of the LG officials talked to complained that URA does not treat them as partners in revenue generation, but rather sources of revenue. They (LG officials) complained that they (LGs) collect a lot of revenue on behalf of URA, but they get nothing in return such as agency fees.

Efforts to modernize tax collection

The use of the e-tax system is a key challenge to most taxpayers especially Small and Medium Enterprises (SMEs) that are either computer illiterate or lack access to the internet, making the online tax registration and filing of tax returns a problematic exercise. As a consequence, URA has designated agents for TIN number acquisition and filing taxes, who charge arbitrary fees. This has introduced extra costs for small businesses that seek to comply with the tax regime (Rwakakamba, M. et al, 2013).

3.2 Bottlenecks in Revenue generation at LG level

As discussed above, revenue generation by LGs in Uganda is very low. This is mainly due to the challenges discussed below:

Restrictive legal requirements

- For any LG to introduce new taxes, levies and duties, it must be passed via an Act of Parliament and or cleared by the Ministry of Trade, Industry and Cooperatives (MTIC). However, this sometimes takes time. For instance, Pader introduced a development levy of between 2 and 3 per cent on all contracts (goods and services) in a bid to increase it local revenue. However, this was queried by the Auditor General as illegal since it had not been gazetted by the MTIC or passed via an Act of Parliament. Yet, efforts by the district to reach out to the MTIC for redress have been fruitless. A Pader District official lamented: "*We have written several times to the MTIC on the issue of development levy, but we have received no response*."
- The LG Act does not provide for effective mobilization of Local Service Tax (LST).[11] LST has never reached its targets. According to the LGFC, the contribution of LST averaged UGX 8.6 billion between FY 2010/11 and FY 2012/13, far below the target of UGX 67 billion. This is partly due to the fact that the Local Government Act (as amended) does not provide for sufficient[12] taxes to be collected, and there are considerable exemptions, e.g. for those working in the Judiciary, Police or Military. LGs are required to collect LST, but they are unable to collect it from employees (especially private and non-government organizations) due to inadequate enforcement and compliance from employers. There is also friction between the districts and sub counties on the sharing of the LST, emanating from the fact that most NGOs operate in sub counties.
- One of the major sources of LR is market duties; however, the Market Act does not provide definition of the word 'market'. This gap provides leeway for various interpretations of what a market is. There are various kinds of fees paid in markets. However, it is not clear whether the mentioned fees are backed by any law. This provides space for the exploitation of the vendors by the market authorities.

- The LG Rating Act 2005 does not provide for effective mobilization of property rates; the exemption of owner-occupied residential houses and government institutions has significantly affected the performance of property rates.
- There is no alignment of licence fees set by MTIC to economic conditions in LGs. The rates of license levied have almost nothing to do with levels of profitability or volume of business and this is causing big concern among the business community.
- Revenue sharing: Under the current law, urban local councils (municipalities and town councils), which have the highest sources of local revenues such as business licences and fees, do not remit any local revenues to the district. Thus, the districts depend on rural lower local governments (sub counties) whose local revenue sources are very low. To make it worse, with the proliferation of districts, more town councils have been created; yet these do not remit any local revenues to the district as per the Local Government Act (as amended). Consequently, the ability of districts to raise local revenue is very low.
- The existing law does not enable LGs that host central forest reserves to share anything directly from such resources. Some central forest reserves are totally hosted by single LGs although functionally, they are managed by National Forest Authority (NFA). The major concern is that LGs are not directly benefiting from or sharing any revenues generated from lumbering or other activities done in these forests, yet the local people also contribute to the protection and sustainability of these forests.
- The policy on the management of public taxi/bus parks by associations has been the source disagreements and wrangles. This, in part, is due to lack of experience in managing the revenue collection, and ensuring that the payees/vendors receive commensurate services.

Low tax base

Most of the households in Uganda are largely owned by subsistence farmers with no formal business and enterprises that can be taxed. Given the high numbers of informal businesses and activities which are highly subsistence in nature, it is very hard to collect certain types of local revenues. In addition, some LGs have not effectively identified or utilized some local revenue sources such as LGHT. For instance, this study found out that some S/C officials, especially politicians in Oluko S/C Arua District, were not aware of the LGHT.

Fear of formalizing businesses

Most business persons, especially in urban centres, fear to formally register their business, partly because doing so will expose them to URA taxes. For instance, officials in Arua Municipality informed the research team that only 10 per cent of the over 1,000 business entities in the municipality pick the trading licence certificate. This is because they fear to provide the requisite information about their businesses.

Tax on agricultural produce: Almost all the LGs are not collecting Cess (since it was abolished by the Central Government) from the available agricultural produce and there is no data on the level of production of this produce.

Concentration of most taxes in the hands of the Central Government

The major sources of revenue such as PAYE, income taxes, corporate tax, VAT, WHT, among others, are controlled by the Uganda Revenue Authority (URA). In addition, all contractors who collect market dues have to pay VAT (18 per cent) to URA. A DLG official in Pader noted that "*URA collects juice taxes, and leave small taxes to LGs*". Another LG official in Arua noted that *"every person / contractor who collects market dues have to pay VAT to URA…this is unfair to the LGs".*

Limited support from the Central Government

The LGs lack sustained follow-ups from MoLG and LGFC on local revenue enhancement. This is due to the fact that these institutions of LGFC and MoLG are poorly funded to do this function and cover all the districts, municipal councils and town councils, in any given financial year. Currently, the two institutions conduct support trainings in, say, a third of these LGs every year.

Interference from Central Government

Efforts by LGs to generate revenue are undermined by the CG and some political heads who are in the habit of making countless, off-the-cuff pronouncements on policy matters. A case in point is the issue of market vendors, *boba boda* cyclists, taxi and lorry drivers, among others, who resist paying dues on the pretext that the President ordered that they should not pay. This was confirmed by an Arua Municipal Council official who noted: "*Previously we were giving tenders to collect market dues on merit…but the President ordered that the markets be managed by vendors; however, the vendors failed to raise the required revenue for over 2 years*."

Lack of community sensitization

LGs have done very minimal community sensitization on LR generation. Sensitization is only done when LGs are introducing new taxes or levies, and mainly with the business people, not the entire community. The LG officials interviewed during this study attributed the lack of community sensitization to lack of funds to organize meetings and poor attitudes of communities towards attending meetings. This was emphasised by a Pader District official who noted: "*In 2014, we tried sensitizing communities on taxation, however, the money spent on councillors to do this activity was more than the revenue generated…so, how do we justify this expenditure?*"

Poor attitudes of citizens towards paying taxes

There is growing resistance by citizens towards paying taxes. This is partly attributed to the fact that citizens do not see the value of paying taxes amidst poor service delivery in their communities. The current decline in services has worsened the taxpayers' attitude towards any local revenue generation and thus a spiral decline in LR performance generally. LGs are also failing to show how the taxes generated are linked to the services they provide to the citizens.

Respondents talked to during this study noted that even if they wanted to pay their taxes and duties, the bureaucratic behaviour of LGs officials discourages them. For instance, in most local governments, the process of acquiring a license is not yet computerized; hence it is still a long and tedious process.

Absence of Tax Appeals Tribunals: Section 7 of the Local Governments Revenue Regulations requires LGs to establish tax assessment appeals tribunals. However, in most LGs they have not been constituted. This study found that there are a number of disputes at local levels which are not handled due to the absence of effective of tax tribunals. For instance, traders in Pader TC were contemplating to take the town council to the commercial court over trading licenses and property tax disputes. This could be resolved through the tax tribunal rather than the commercial court which is more expensive.

3.2.2 Capacity of LGs to identify and collect local revenues

The capacity of LGs to effectively identify and collect local revenues is affected by a number of factors which include:

Leakages of revenues collected

Some of the top LG officials interviewed did not rule out the possibility of some of revenue collected not being remitted to the district treasury through spending at source. Some revenue collectors, especially Town Agents and Parish Chiefs take advantage of poor supervision and monitoring to siphon some of the money. Because of difficulties in estimating revenues from source like markets, some S/C officials have taken advantage of the situation by under-declaring the amount of revenue they collect from markets. This is shown in the case studies (see Box 1 and Box 2).

Box 1: Ejupala market is located in Vurra S/C Arua District

The market operates twice a week on Wednesdays and Saturdays. It's estimated to have 1,000 vendors (who are permanent and temporary) who deal mainly in clothes, electronics, food staffs, produce, fish, foot wear, utensils. A number fees are levied in market including: licenses, ground rent, market dues, loading and off- loading among others. The market is tendered out to a private contractor. Payments for the dues are done by each vendor at the entrance of the market, but no receipts are issued. This is done on pretext of saving time. Therefore, it's hard to know how much is collected on the each market day.

Nevertheless, researcher tried to estimate how much is collected on each market day. Based on conservative estimates, UGX 92,500,000 are collected from the market annually as shown below:

- Market dues from the outside vendors – estimate of 800 vendors x UGX 500 x 2 time per week x 12 months = UGX 41,600,000 annually
- Market dues from those within or in rentals and lock ups –estimate of 200 vendors x UGX 100 = 365 days = UGX 7,300,000.
- Trading Licenses from those within or in rentals and lock ups –estimate of 200 vendors x 10,000 = 2,000,000 annually.

Although investigations could not get official figures from the S/C officials, the local leaders in the area informed the researcher that the contractor remits about UGX 2,000,000 per months, which translated into UGX 24 million a year. This shows that over UGX 68 million is lost annually.

Source: CEFORD Staff, Arua (Done on 16th November, 2016)

Box 2: Arua Central Market, Arua District

According to the vendors (who participated in the FGD organised by the research team), the market is estimated to have 7,000 vendors who deal in a number of commodities including clothes, electronics, food staffs, agricultural produce, fish, foot wear, utensils. The market is tendered out to a private contractor. Each vendor is required to pay UGX 500 daily for the space she or he occupies irrespective of whether she or he works.

Based on conservative estimates, UGX 1.277 billion is collected from the market annually. However, according to revenue estimates by Arua Municipality, Market dues (for all markets) is estimated at UGX 542 million for FY 2015/16). This is about half of the revenue generated from Arua central market. This shows that may be some of the revenue is lost or not declared by the Municipality.

Source: Research team

It was noted by some respondents that during auction market days, some of the revenue collectors and other leaders collect money from vendors using their own receipts.

A female FGD participant in Oluko noted that "*they (tax collectors) don't provide receipts, if they do, they write on the receipts less money than what we pay, i.e.* UGX *5,000 when you have given them* UGX *10,000. If you complain they stop you from accessing the market*." However, ignorance and illiteracy contribute to this; some taxpayers (especially women) do not take keen interest in how much is receipted. Those who are assertive have been able to mitigate this. For instance, a female FGD participant in Oluko noted: "*One time, I paid* UGX *350,000 for the trading licence, but they gave me a receipt of* UGX *300,000… when I complained at the S/C, they refunded my* UGX *50,000…however, they don't like me anymore*."

Insufficient data on potential taxpayers

There is lack of data on potential taxpayers such as employees in the private sector, types of businesses in the district, categories of farmers, agricultural activities, types of hotels, etc. These, coupled with limited LG emphasis on developing and maintaining effective data bases of potential tax payers, make LR generation efforts difficult. This challenge was emphasised by a Pader District official who noted: "*We identified some of the problems in LR mobilisation such as lack of registers of all tax sources…we thus agreed in District Executive Committee (DEC) to have the register; however, we don't have funds to compile the register."* Consequently, such LGs cannot easily estimate the reserve prices of such sources and therefore simply project a certain amount of local revenue from various sources and try to collect what they can using out-dated methods with minimum effort.

To address this, the LGFC has been piloting the LR database in 14 municipalities under the Uganda Support to Municipal Infrastructure Development (USMD) project funded by the World Bank. However, follow-up to ensure the tool is being used is very minimal. This was confirmed by the Arua Municipal official who noted: "*LGFC introduced the LR database to capture information on LR…which is very good, however, the challenges is that it's a standalone database – not integrated with other systems and computers-, and we also don't have laptops/ computers to apply the tool…thus, we are kindly not using it*."

Abuse and non-compliance on revenue sharing

Whereas the legal provisions for sharing the locally-raised revenues are well stipulated, and whereas the law further indicates the remedy for non-compliance with remitting, there is gross abuse and non-compliance by both S/Cs / divisions and districts / municipalities. In some cases, S/Cs do not effectively remit the district share (35 per cent) of the total local revenue collected, and on other hand the districts do not remit the share (65 per cent) of the local revenue collected to the S/Cs. This was emphasised by a Pader DLG official who noted: "*S/Cs sometimes don't remit the full 35 per cent of the LR collections to the district… they claim that the district is also not remitting the 65 per cent they collect on behalf of the S/Cs*." In Pader District, they have put sanctions on S/Cs which do not remit the 35 per cent; for instance, by withholding the 65 per cent remittance from the CG and sometimes holding the S/C Chiefs personally accountable.

Inadequate supervision and monitoring of LLGs by HLGs

Senior district technical staff and the political wing (Finance Committee) rarely go out to monitor and cross-check on the activities of the revenue collectors. Supervision is hurriedly done on quarterly basis. Consequently, most S/Cs under-declare or fail to declare how much revenue they collect.

Insufficient staff and poorly skilled revenue staff

The Department of Finance at the LG which is responsible for local revenue does not have professional revenue officers. Those in post are professional accountants and just assigned the duties of this function but have no technical knowledge on how to advise the LG to generate local revenues. LGs depend on Accountants and Parish Chiefs who are inadequate in number. For instance, Purrang S/C in Pader District has 8 parishes, but only has 3 Parish Chiefs. In Ajia S/C, Arua District, there is only one substantive Parish Chief while the other six are acting. Oluko S/C, Arua District, with 9 parishes has 7 Parish Chiefs in acting positions. The challenges of low staffing are largely due to the ban by government on the recruitment of staff, and the high levels of qualifications set by the government for the position of revenue officers yet the remuneration is very low.

Additional challenges include: poor facilitation of officials involved in LR mobilization; lack basic transport means to effectively reach the taxpayers; lack of the requisite capacity and skills in taxation, especially assessment of taxpayers. This leads to poor assessment as noted by a female FGD participant in Oluko S/C: "*The assessment is sometime done arbitrary…they (assessors) assume those with shops have more money; therefore, they have to pay more, however, this is not case sometimes*."

Poor attitudes and behaviour of LG officials towards LR generation

Most LG officials are not bothered about LR generation; after all, they are assured of funds transfers from the CG. LGs have taken the easiest and softest approach to revenue mobilization by entirely relying on the CG transfers. It was noted by some district officials that during the budget conference, revenue generation issues come up, but no action is taken. This has been worsened by the fact that the Chief Administrative Officers and Town Clerks are appointed by the CG and are constantly transferred across LGs every three years or less. Here, the Chief Executive, who is the pillar in administration, is not allowed adequate time to marshal viable efforts to raise the local revenues. For instance, there are delays in the procurement of revenue collection materials (such as assessment forms, demand notes, receipt book etc) leading to late collection of revenues. For example, a Pader District official noted that "*the contract for the production of LR documents for FY 2016/17 had just been awarded in November, 2016, five months into the FY*."

Weak enforcement

Local revenue legal provisions on enforcement are very weak and even the penalties cannot be enforced. Enforcement is difficult when dealing with agricultural produce; some traders buy from gardens and others operate during the night. Since the abolition of Local Defence Units (LDUs), most LGs depend on Police to enforce revenue collection, which sometimes is costly. This was emphasised by a Pader District official who noted: *"We don't have our own law enforcement officers…we have to hire from the CG (i.e. Police)."* The challenge of weak enforcement is exacerbated by corruption and connivance with taxpayers. "*Some town agents (revenue collectors) are corrupt; during enforcement, when they come close, your shop and you give them something, they leave for at least for a day*" (FGD Participant, Pader TC).

Low capitalization of local revenue sources

Investment/ expansion in local revenue sources is not sufficiently attended to; for example, construction and/ or rehabilitating of public vehicle parking facilities, fencing and reconstruction of markets purposely to expand the revenue collection, are not given due attention. This could be due to lack of the necessary funds or lack of viable ideas like encouraging the private sector to collaborate and work with LGs in a Public Private Partnership.

Inadequate implementation of the Local Revenue Enhancement Plans (LREP)

The Central Government requires LGs to develop LREPs, and this forms part of the annual assessment of the performance of the LG by the Ministry of Local Government. The LGs visited had prepared the LREPs which were approved by the respective district councils. However, there was no evidence that the LREPs had really increased local revenue generation capacity within the local government. This was evident during an interview with a top LG official in Pader who said: "*…I know we have a Local Revenue Enhancement Plan, but I have not seen it being implemented during the last two years*." In addition, many councillors have no capacity to scrutinize the budgets, let alone LREPs – partly due to low levels of education and minimal interest. An Arua District official observed that *"at the S/C we have a challenge; the councillors at that level can't even look through the LREPs".* Furthermore, the implementation of the plans is partly hindered by lack of funding. LGs do not provide sufficient funding for enumeration, assessment, appeals, mobilization, setting reserve prices of each revenue source, and sensitization of communities.

Interference from local politicians

Interference is mainly done through two ways: one is when the politicians interfere in the awarding of tenders to collect some of the local revenues such as market dues. This is done through connivance with technical staff to award tenders to their firms which sometime fail to remit collected revenues to the district treasury. Some technical staff also establish firms and penetrate the system to access the tenders making the situation complicated, especially regarding supervision and performance. When this happens, checks and balances in revenue collection and utilization get compromised. Second, some politicians discourage people from paying taxes; sometimes for genuine reasons. A case in point is when the Pader TC Mayor told vendors in Pader TC market to stop paying market dues until the market had been fenced by the TC.

4. Participation of Citizens in Taxation and Governance

4.1 Importance of citizens' engagement in taxation

Studies on taxation have revealed that governments that derive a greater proportion of taxes from local sources tend to be more accountable, responsive and democratic. The more accountable a government is perceived to be, the more willing (higher level of voluntary compliance) taxpayers will be to pay for the services offered. This improved 'tax morale' will limit the case for coercion and, thereby, reduce collection costs and facilitate tax administration (AfDB, 2011). However, various studies on taxation in Uganda have revealed that fiscal contract[13] does not exist in Uganda and, as a result, tax morale is either non-existent or very low. Such a contract is missing due, among other things, to high levels of corruption and mismanagement of tax revenues; uncertainty (and lack of communication) about the use of tax revenues, and poor delivery of public services.

If citizens do not witness Government expending tax revenue on development programmes that support their development and social welfare requirements, they are unlikely to comply with taxes. This is based on the logic that the collection of tax revenue relies on both coercion and a degree of willingness of the citizens to comply; hence governments should allow for some concessions to secure the compliance (SEATINI Uganda, TJNA & Oxfam Novib, 2012). Therefore, having vigorous, open debate on tax policies facilitates the development of a country's "fiscal contract", whereby citizens are encouraged to pay taxes because they are confident that the tax system is fair and is raising revenue for valued programmes and services (Moore and Schneider, 2004).

Uganda has registered progressive increase in domestic revenue collections, relying heavily on a limited number of large taxpayers, including Multinational Corporations (MNCs). This makes it inherently difficult to create a valid fiscal contract with the citizens. The five biggest taxpayers in Uganda are MNCs with excusive foreign ownership. The MNCs' interest is influencing policies that improve the environment to suit and benefit their business ends. They have no interest in pressing for good governance like individual citizens would do. They are more often wary of engaging in local politics, lest they fall prey to the resultant intrigues and purges (SEATINI Uganda, TJNA & Oxfam Novib, 2012).

At local government levels, non-payment of any direct taxes and overdependence on non-discretionary central government transfers by LGs, makes it inherently difficult to create a valid fiscal contract with the citizens. Most citizens do not directly contribute to tax revenues which has increased apathy and disempowerment among citizens. Citizens are not able to effectively demand for quality service delivery, since they cannot link the taxes they pay with the services they are supposed to receive.

To build trust, information to the public is crucial (Rothstein, 2000). Information by government to the public on taxes collected and the way they are used is, however, in short supply, according to most people we talked during this study. Most people are not aware of how much is collected by their respective local governments and how this money is utilized.

4.2 Current operating environment for citizens, CSOs and the other non-state actors' engagement on taxation

4.2.1 National level

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. The 1995 Uganda Constitution guarantees citizens' involvement in matters that affect them individually, through civic organizations or their representatives. The Constitution, Article 17 (1) states that it is the duty of every citizen of Uganda "(g) to pay taxes", and Article 38 states that (1) "Every Uganda citizen has the right to participate in the affairs of government, individually or through his or her representatives in accordance with law". (2) "Every Ugandan has a right to participate in peaceful activities to influence the policies of government through civic organisations". In addition, various government institutions such as Parliament of the Republic of Uganda, MoFPED, National Planning Authority, URA, and LGFC, among others, have engaged citizens and CSOs on taxation and revenue generation issues.

By and large, CSO and NSA participation in taxation debate is improving. A number of organizations (such as Oxfam, SEATINI, CSBAG, UDN, CSBAG, UMA and KACITA) are engaging government on taxation and revenue generation issues. For instance, SEATINI is coordinating the Tax Justice Alliance which is a CSO platform to enhance engagement on tax issues locally, nationally, regionally and globally. In 2016, CSOs and NSAs spearhead by CSBAG lobbied the President not to assent to the proposed amendment to Income Tax Act by Members of Parliament to exclude themselves from paying taxes on their allowances. Although the campaign was not successful (since the President finally assented to the bill), the campaign attracted public attention and debate. Furthermore, CSOs regularly engage 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; the authority generally provides minimal information mainly on how to file returns and penalties. A Civil Society respondent noted, "*Those in the system (especially URA) survive on the taxpayers' ignorance…they are not effectively helping taxpayers to understand how taxation works.*"

4.2.2 Local Government Levels

The decentralization framework provides an opportunity for citizens to participate and influence their own governance including fiscal processes. When citizens are aware of how revenues are mobilized, allocated, and spent, they are in a better position to hold their leaders accountable and demand effective delivery of services. There are several platforms (formal and informal) that citizens can engage in revenue mobilization, allocation and utilization. Formal platforms include: LG councils (district and sub county), planning meetings (at village and parish levels), budget meetings (such as budget conferences), and local revenue meetings. Informal platforms include: citizens' barazas, media (radios), and religious gatherings, among others. Despite the existence of these platforms, this study found out that there is negligible citizens' engagement on taxation in the two districts visited. This was mainly due to the challenges discussed below:

Lack of information: According to the LG technical staff, information on revenue is communicated through the councils. It is expected that the councillors will transmit the information to the entire community; however, this is not happening. In addition, community members can attend council meetings as 'strangers', but this is not common due to lack of information when councils are to meet and limited space (in most council halls) to accommodate non-members.

Failure to organize meetings: The LG officials interviewed noted that during the development of the Local Revenue Enhancement Plans, tax-related meetings are organized usually at the beginning of the financial year. However, these meetings are not organized regularly and they usually involve the business community and not the general public. Some LG officials noted that they have tried to use the media, especially radios, to sensitize communities on issues of taxation, but they are rarely done due to high associated costs.

Inadequate feedback mechanisms to taxpayers: The processes and systems for feedback have not been institutionalized and are largely subjected to the influence, goodwill and pro-activeness of the office bearers. In cases where revenue generation has been contracted to private contractors, interaction between the LG officials and taxpayers is very poor. For instance, vendors in Arua Municipality noted that they had a lot of complaints about the contractor who was collecting revenues from the market, but the Municipal officials had not come to their rescue. A vendor in Arua Central Market noted, "*Municipal officials especially the elected councillors have distanced themselves from us….there is no formal engagement with us (the vendors).*" They added that when people refuse to pay levies, that is when the LG officials engage them. A vendor added: "…*When* *we refused to pay taxes sometime back, that's when they came to interact with us*."

Apathy and ignorance: Most citizens exclude themselves from community meetings on the pretext that even if they participate they will not influence change. In addition, most of them think that taxation is too technical for them and should be left to those involved in business and government officials.

To address these challenges SEATINI-Uganda and other partners have been engaging citizens and local governments in some districts like Pader, Lamwo and Kitgum. Through this engagement, there has been increase awareness among citizens on issues of taxation. For instance, in Pader this has led to Town Council Hotel Owners and Managers forming an association to improve on the co-ordination, mobilization, communication and advocacy. In Pajule S/C, some taxpayers are proactive in paying their taxes, levies and charges, to the extent that they do not wait for demand notes or revenue collectors; instead, they make telephone calls to revenue officers to come and collect taxes, fees and licences (SEATINI, 2016[14]).

4.3 Citizens' awareness, perception and attitudes towards taxation

4.3.1 Citizens' awareness

A study by SEATINI (in 2013) showed that citizens' awareness of taxation has an impact on tax compliance and demand for effective service delivery. Another study by Ali, M. et al (2013) showed that tax knowledge and awareness have a significant impact on tax compliance. The majority of the citizens interviewed during this study were aware of direct taxes, fees and levies imposed by the government. They were aware of: market dues, business/trading licenses, business registration fees, ground/plot rent, local service tax, group registration fees, occupation permits, charcoal fees, loading fees, among others. The majority of them, especially those in urban centres (Pader TC, Arua Municipality), had actually paid some of these taxes, fees and levies. They noted that these taxes and levies are usually collected by contractors and S/C or TC officials (Parish Chiefs and Town Agents).

The majority of them are not aware of how most of the taxes are calculated or assessed. The assessment process, which is done by the local authorities, does not provide sufficient information to the taxpayers and the assessors do not seek for the involvement of the taxpayer either. Therefore, most FGD respondents consider the current taxation system not fair in many cases. For instance, in Pader TC, the business community complained of large amounts of money they pay in trading licences compared to other town councils. One FGD participant asked, "*Are we people in Pader TC different from other parts of Uganda, why do we pay a lot of money in taxes*?" Another one added that "*there is selective rating…they (assessors) don't follow the rates of MTIC*". In Oluko S/C, Arua District, women noted that they had never been fairly assessed and many times they paid much more than what they should pay. Unfortunately, they had nowhere to report their grievances.

4.3.2 Citizens' attitude and perceptions

Citizens' attitude and perception can help to identify perceived weaknesses of the revenue generation efforts, and enable tax authorities to focus attention on improving revenues. Respondents said that they support the government in collecting taxes for the following reasons:

- Tax revenue helps government to run and provide services like education, health, water, roads, among others. It also helps government to subsidize provision of essential services for those who cannot afford them, such as primary health care, universal primary education etc. A Male FGD participant in Ogom S/C, Pader, noted; "*taxes are important because the funds collected from the rich help to support the vulnerable people especially children and elderly*."
- Certain taxes help to influence behaviour of people such as reduction in consumption of harmful goods like alcohol (waragi). They also tame other behaviours such as engaging in betting and gambling.
- Direct taxes in a way enhance citizens' responsibility and ownership of government programmes and property. For instance, the Graduated Tax used encourage the citizenry to be more responsible and demand accountability from their leaders. However, nowadays this is not happening because citizens are not directly paying such taxes. Taxes, especially direct taxes, may make people work harder since they have to meet their tax obligations. A youth leader in Oluko S/C noted: *"Our people are now lazy, government should re-introduce graduated tax, to make them responsible again."* In addition, citizens believe if they paid more direct taxes, indirect taxes on consumer good would reduce. This was elaborated by Male FGD participant in Ogom S/C, Pader, who noted: "*Let's pay more direct taxes so as to reduce indirect taxes (prices) on manufactured goods."*
- Paying taxes and levies is good, since some people use the trading licence to access financial services such as loans. "*Taxes and levies are good…you can use the trading licence to access a bank loan or contract*" – Male FGD participant, Pader TC.

Studies have shown that compliance is positively related to perceptions about the government, in particular, the capacity and effectiveness of government in providing services (Fjeldstad, OH et al, 2013)[3]. Most respondents said that they are willing to pay taxes as long as government can in return provide services they need such as quality health care and education for children. In addition, government has to show a high degree of transparency and accountability for the money they collect. This was emphasised by Oluko S/C Official who noted, "people *are willing and appreciate paying taxes, but they want us to account for their taxes.*"

Though most respondents support taxation, some would hesitate to pay taxes because of the following reasons:

3

- ***Lack of information on taxes (amounts collected) and utilized.*** The LGs do not disseminate any information on how much they collect and how the money is utilized. This creates suspicion among the citizens that maybe their tax revenues are not properly utilized.
- ***Mistrust.*** Most business community members do not trust local government officials mainly due to lack of information sharing on local revenue generation. They believe the LG officials are just enjoying the money they collect. This mistrust has caused taxpayers to resist paying tax, hence contributing to lower revenue generation.
- ***High levels of corruption:*** Citizens believe most of the revenues collected is stolen by some government officials and minimal action is taken on the culprits. They were aware of the national corruption scandals where no concrete actions were taken punish the culprits. It is important to note that reliance on locally generated tax revenue is consistently associated with lower corruption, higher public goods provision, and better institutional development (Martin, 2013).
- ***Poor service delivery:*** They noted that tax revenue does not benefit them, since government has failed to use the money collected to provide basic services. This implies that public service provision is poor and the citizens who are the taxpayers are unhappy. The funding from the central government has also either stagnated or reduced, yet more services are required as LGs need to expand amidst a growing population over time. This has further weakened the position of LGs to provide services. Studies have shown that poor service delivery has a big effect on the willingness of the taxpayer to pay any more tax because he does not see or get services anymore.

"Our money from taxes does not come back to us; because, all the money is spent on facilitating councillors … this money should have been used on health centres."

Male FGD Participants, Ogom S/C Pader District.

Traders especially those in markets complained of poor sanitation, and security in the markets, which the LGs have failed to address. A female FGD Participant, Pader TC, noted:

"We pay for garbage collection, but garbage is not collected for weeks, we end up paying additional money for garbage collection."

Another Female Vendor in Arua Central Market added:

"We pay these people UGX 500 every day and they are expected to collect and remove garbage but they are not doing it…we end up paying for garbage collection."

Failure to improve on the infrastructure, especially in the markets, is another big issue.

"We do not see better services from the money they collect from us; in the market we are paying dues everyday but there is no better market built for us we are still in temporary structures"

Market Woman Representative - Pader T/C, Pader.

Without showing what the taxes are doing, some communities believe they are just giving LG officials money to enjoy, as a Female FGD participant in Oluko S/C noted:

"…you only give them (LG officials) money….we don't see anything in return…we don't have drugs in health centres for instance." Another Female participant added, "…the tax we pay is not helping us. I pay a lot at school, I go to hospital there are no drugs then I ask myself why should I pay Tax? Where is the money going?"

However, the LG officials talked to noted that the reason people do not see impact is because the amount of LR generated is very small. A Councillor, Ogom S/C, Pader District noted,

"…the reason why people don't see impact is because LR is very small".

The LG officials observed that LGs try to use the local revenue to provide services. For instance, using LR, Ogom S/C, Pader District constructed a Placenta Pit at Ogom H/CIII. In Pader TC, local revenue has been utilized to install solar-powered street lights on the street and also to contribute to the construction of a new council block. The Pader TC Mayor noted that the installation of solar-powered security lights has led to increased compliance by the business people on their tax obligations. Consequently, LR increased from the projected UGX 147 million to UGX 187 million during FY 2015/16.

- Some respondents, especially in urban centres, complained of ***multiple taxation*** by various agencies of government (sub counties, districts, URA). This was affecting their businesses. In addition, due to low tax base all the taxes were concentrated on taxpayers in urban centres. Many traders talked to during this study complained that the current tax regime is unfair; only focused on draining them and putting them out of business.
- ***Unprofessional behaviour of tax collectors.*** Some tax collectors are rude, and do not respect taxpayers. During the FGDs, participants complained of lack of customer care by tax collectors who use bad and uncompromising language. This problem is more common with

contracted revenue collectors who would like to maximize revenue collection at all costs. A female FGD participant in Oluko S/C noted, "*The approach the tax collector use is very bad… if they come to lock up your shop due to non-payment, and you hesitate to move out quickly, they can lock you inside*." Another participant added that, "*There are times the people from the S/C just come and close your shop; they never warn you or ask you to pay yet when you pay them they don't give you a receipt.*" However, the LG officials talked to noted that the behaviour of tax collectors is influenced by some taxpayers who refuse to pay their dues and sometimes confront or abuse the tax collectors when they are doing their enforcement work.

- ***Frequent changes in rates:*** Some respondents, especially in urban centres, complained of frequent changes in taxes and fees without sensitizing the taxpayers.
- ***Limited income:*** Some people believe they earn very little and therefore cannot afford to pay any taxes and levies. A female FGD participant in Oluko S/C said: "We *should not pay taxes… because the little money we earn can be used to meet our essential needs*."

5. Conclusions and Recommendations

5.1 Conclusions

This 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, CSOs and NSAs in taxation and revenue generation. The study focused on URA at national level and Arua and Pader districts at local levels. From the findings of the study we conclude that:

Although the current legal and policy framework is comprehensive to enable the country generate sufficient revenues, there are some weaknesses in the implementation partly due to weaknesses within the mandated government institutions, especially at 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, among others.

Uganda has significantly increased its total tax revenue (TTR) during the five years. Net collections by URA (excluding Government 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. However, Uganda's tax revenue to GDP ratio has stagnated at around 12.6 per cent of GDP, making Uganda's tax-to-GDP ratio one of the lowest in the East African Community (EAC) region.

Local revenue performance in the two districts visited during this study is 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, LR performance for urban authorities (Arua Municipality and Pader Town Council) was better than for the districts. In Arua Municipality and Pader Town Council, LR constituted on average 9.0 per cent and 13.2 per cent of total revenue between FY 2012/13 and 2015/16 respectively.

Major bottlenecks in taxation and revenue generation at national level include, among others: fast-growing informal sector; 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 taxpayers; high levels of corruption which lead to revenue leakages; restrictive legal requirements which limit the amount of revenues LG can collect; poor attitudes of citizens towards paying taxes due to inadequate sensitization.

Most citizens interviewed during this study support the paying of taxes, since taxes help government to run and provide services. However, some were sceptical of paying taxes since they did not see the link between the taxes they paid and service delivery. Generally, citizens were willing to pay taxes as long as government could in return provide services and show high degree of transparency and accountability for the monies collected.

5.2 Recommendations

The study provides the following recommendations of various stakeholders:

5.2.1 Central Government

a. Implement reforms aimed at enhancing non-tax revenue collection, recording and management. In addition, review all NTR sources to ensure that they are commensurate with current economic conditions.

b. ***Tapping the informal sector:*** Formulate and implement policies that allow self-employed people and small businesses to formalize their businesses easily. Such policies include reducing business compliance regulations, tax amnesties with a cut-off date for compliance, providing limited tax shelters for small-scale informal activity, and allowing businesses to formalize using simple 'off the shelf' models.

c. ***Streamlining Tax Incentives:*** 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.

d. ***Curb tax avoidance:*** Improve the legal framework to weed out possibilities for tax avoidance. Strengthen the capacity of Uganda Financial Intelligence Authority and URA to curb tax avoidance such as transfer pricing.

e. ***Develop comprehensive databases of all taxpayers:*** 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 regularly updated. The TIN should be linked to a person's ID number (for individuals) and company registration number (for organizations). The use of national ID will facilitate information sharing with URA and tracking/authentication of taxpayer transactions.

f. ***Expand the banked population:*** Expanding access to financial services, e.g. reducing costs of banking which aids in the expansion of the tax base. Tax enforcement and compliance will also be easier, especially since bank transactions provide an audit trail.

g. ***Use of third party information:*** URA can use information from the government's business and land registries to validate tax returns and to inform tax investigations. Third-party information can also be used to pre-populate tax returns and, as a result, reduce taxpayer burden. For instance, in South Africa from 2007/08 taxpayers began to receive pre-populated and restructured personal income tax forms, resulting in the reduction of errors and increased client satisfaction.

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

i. The MoFPED should establish mechanisms for tracking and recording all tax revenues collected by local governments to be included in TTR.

a. ***Ensure full autonomy of URA*** and hold them accountable to an agreed set of performance measures. Autonomy should enable them to manage budgets on an annual basis, reorganize operations, recruit and develop personnel, and set staff compensation levels.

b. ***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.

c. ***URA should simplify the tax laws and regulations***, especially the Income Tax Act to ease taxpayers' understanding of tax laws.

d. ***LR databases:*** LGFC should follow up the LR database which was introduced in some districts and municipalities to ensure its optimal utilization.

5.2.2 Local Governments

a. ***Review/amendment of current laws:*** Most laws that relate to taxation in LGs need to be revised or amended to be in tandem with the current economic environment and conditions at local government levels, such as:

- **Local Service Tax (LST):** Reduce the LST threshold for the salaried from UGX 100,000= to UGX 50,000=; adjust the legal provisions; and include commercial farmers and boda boda cyclists in the LST category.
- **LG Hotel Tax:** Make it compulsory for hotel owners to have pre-printed receipt books clearly indicating LGHT.
- **Royalty fees especially on natural resources:** Revisit the law provisions to make them very clear, relevant and enabling enough for LGs to operationalize royalty fees.
- **Trading licences:** The MTIC should in consultation with key stakeholders, revise the rates payable for businesses; rating should not follow zones but ability to pay principle.
- **Development Levy:** This is a potential source of LR which needs to be exploited thus the MTIC needs to come out clearly to provide the legal framework on this.

b. Through Uganda Local Governments Association, LGs should strengthen their advocacy towards influencing policy direction that directly affects their local revenue performance.

c. Engage the central government on the re-introduction of cess on agricultural produce.

d. Establish reserve prices or optimal levels expected to be collected from each revenue source. This will form a good basis for estimation of the amount expected from the sources and will safeguard the LGs against the exploitative potential tenderers.

e. 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.

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

g. Encourage the elected officials, especially councillors, to sensitize communities about taxes. The incentive to do so should be high, since their allowances and facilitation is largely from LR.

h. Introduce taxpayer days and other sensitization programmes through seminars and radio talk shows.

i. Ensure timely assessment (at the beginning of the financial year) of the various revenue sources like trading licenses and operational permits to enable taxpayers prepare and honour their obligations.

j. District officials should enhance regular monitoring and supervision of LLGs to ensure that all potential revenues are collected, recorded and submitted.

k. 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.

l. To reduce revenue losses, emphasize 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.

m. Institute tax assessment appeals tribunals to handle tax disputes that may arise at that level as stipulated by the LG Act.

5.2.3 Civil Society and Non-State Actors policy advocacy strategy

The policy advocacy strategy could focus on the following areas:

a. *Building public awareness and having increased knowledge by taxpayer.* Educate citizens on their constitutional duty to pay taxes and influence the affairs of government (including demanding quality services). Citizens need to understand that as taxpayers they can make their voices heard and actively take part in public policy decision-making processes about how taxes are collected and spent on public services and thus hold governments accountable.

b. *Simplification of tax laws and policies:* Efforts have been made by some 'tax experts' to annually explain the implications of certain tax proposals by government. However, the language used is too technical and not easily understood by most Ugandans. Currently, there is a big knowledge gap on which types and kinds of taxes, levies and fees citizens need to pay to who and when. This calls for concerted efforts to simplify all the tax laws and policies and also translate them into local languages. At local levels, CSOs can work with citizens' groups (such as neighbourhood assemblies) and traders/ vendors' associations to provide simplified information about taxation.

c. *Advocacy towards the review of the fiscal decentralization architecture:* Currently, over 95 per cent of the funds that run LGs are from the central government. This has not only dismissed the discretion powers of the LGs, but has also disempowered them from thinking of innovative means to mobilize local revenues. Therefore, there is need to review the current fiscal transfers in a bid to empower LGs to mobilize more local revenues through motivating them. For instance, LGs that collect more LR should be accorded more CG unconditional transfers. However, this will require the amendment of Article 193 of the Constitution of the Republic of Uganda. In addition, there is need to advocate for the amendment of laws and legislations on taxation and LR mobilization. Currently, the LGFC has submitted some amendments in Local Service Tax, Property rates, Royalty fees, Market Act, trade licenses and agency fees, among others. The proposals are before Cabinet for consideration.

d. *Tax administration, transparency and accountability:* There is evidence that ordinary people pay their taxes, but the tax collectors do not record or transmit the revenue to the LG Treasury. This calls for more advocacy work on ensuring tax administration, transparency and accountability.

e. *Evidence-based advocacy:* In order to make effective engagement on tax policies, there is need to undertake more empirical studies to establish the impact of tax burden on various categories of people.

f. *Gender and taxation:* CSOs could undertake gender audits of taxes and also demand that government implements gender-sensitive tax policies.

References

AfDB. (2010). Domestic Resource Mobilization for Poverty Reduction in East Africa: Uganda Case Study. Regional Department East Africa (OREA).

Akol, D. (2015). Informal sector is threat to tax revenue collection. The Observer. http://www.observer.ug/viewpoint/37810-informal-sector-is-threat-to-tax-revenue-collection

Ali, M, Fjeldstad. O, Sjursen. I. H. (2013). Factors affecting tax compliance attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa. Paper prepared for Centre for the Study of African Economies 2013 Conference. Oxford, 17-19 March 2013.

Bahiigwa, G., Ellis, F., Fjeldstard, O-H., Iversen, V. (2004). Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction.

Bridi, A. (2010). Corruption in tax administration. U4 Expert Answer. Transparency International.

EAC Secretariat. (2015). East African Community Facts and Figures 2015. http://www.eac.int/statistics/index.php?option=com_docman&Itemid=153

Fjeldstad, O.H, Schulz-Herzenberg, C., Sjursen, I. H. (2013). Peoples' views of taxation in Africa: A review of research on determinants of tax compliance.

Government of Uganda. (2015). Value Added Tax (Amendment) Act 2015. The Uganda Gazette No. 30 Volume CVIII dated 5th June 2015.

Jellema J., Lustig N, Haas A, and Wolf S. (2016). The impact of taxes, transfers, and subsidies on inequality and Poverty in Uganda.

LGFC. (2012). Review of Local Government Financing, Management and Accountability for Decentralised Services.

Martin, C. (2013). Taxation and Accountability: Experimental Evidence for Taxation's Effect on Citizen Behaviour.

Moore, M. and *Schneider,* A. *(2004).* Taxation, Governance and Poverty: Where do the Middle Income Countries Fit? IDS Working Paper, No. 230.

New Vision. (2015). Uganda needs to tackle illicit financial flows. New Vision. http://www.newvision.co.ug/new_vision/news/1326484/uganda-tackle-illicit-financial-flows#sthash.uBT3uqh8.dpuf

Republic of Uganda. (1997). The Local Governments Act (CAP 243), as amended.

Republic of Uganda. (2015). Second National Development Plan (NDPII) 2015/16—2019/20. http://npa.ug/wp-content/uploads/NDPII-Final.pdf

Republic of Uganda. (2013). Anti-Money Laundering Act 2013.

Rothstein, B. (2000). Trust, Social Dilemmas and Collective Memories. Journal of Theoretical Politics, 12 (4): 477-501.

Rwakakamba, M., Lukwago, D. & Walugembe, J. (2013). Ease and Cost of Doing Business in Uganda: What the World Bank 'Doing Business' Report does not tell us.

SEATINI Uganda, TJNA & Oxfam Novib. (2012). Taxation State-Building and Governance.

SEATINI. (2013a). Tax Incentives and Exemptions in Uganda: Implications on Domestic Revenue Generation.

SEATINI. (2013). To Pay or Not to Pay? Citizens' Perceptions on Taxation in Uganda. A case of Jinja and Kampala.

SEATINI, TJNA & Oxfam. (2016). Fair Tax Monitor: Uganda.

UBOS. (2010). Uganda National Household Survey Report 2009/2010.

URA. (2014). Tax Register Expansion Project (TREP) to tap into the informal sector: https://www.ura.go.ug/download/CGMS/TREP_FINAL.pdf

URA. (2016). Tax Policy Changes FY 2016/201.

URA. (2015). Performance - Statistics (collections 1991-2016) https://www.ura.go.ug/topmenu/topmenuMain.jsp?viewPageNo=5#

URA. ( ). Ministerial Policy Statements presented to Parliament (various years).

ANNEXES

Annex 1: List of Respondents

A. National Level

Name	Position	Institution
Mr. J. B. Mugabi	Director Research	Parliament of Uganda
Mr. Sande Etrima Olishe	Research Officer (Economist)	Parliament of Uganda
Mr. Julius Mukunda	Coordinator	CSBAG
Mr. Johnson Gumisiriza	Principal Economist	LCGF
Ms. Nelly Busingye	Programme Officer	SEATINI-Uganda
Ms. Ritah Aciro	Executive Director	UWONET
Ms. Sophie Kyagulanyi	Programme Manager	FOWODE
Mr. Rama Omonya	Governance Thematic Manager	Oxfam-Uganda
Mr. Lawrence Micheal Oketcho	Policy & Advocacy Manager	UMA

B. Local Government Level

Name	Position	Institution
Ms.Doris Tazita	SAS	Oluko S/C
Mr. Edoma Seth	Chairman Finance Committee	Oluko S/C
Mr. Josep Ayaba	Chairperson LCIII	Oluko S/C
Ms. Amony Sarah	Deputy Mayor	Arua MC
Mr. Nelson Koro	Senior Account	Arua MC
Mr. Hasfa Abas Chandiru	Deputy Speaker	Arua DLG
Mr. Afayoa Alex	Ag. Finance Officer/Revenue	Arua DLG
Carlos Mwaka	Head Finance	Pader TC
Mr. K Fearless Wodecholi	Mayor	Pader TC
Mr. Charles Otto	Chairman	Ongom S/C
Mr. David Ojara	Senior Accounts Assistant	Ongon S/C
Mr. Robert Okwir	Deputy CAO	Pader DLG
Mr. Patrick Obwa	Vice Chairperson / Secretary Finance	Pader DLG
Mr. Charles Omony	Senior Finance Officer	Pader DLG

C. Focus Group Discussions

Ongom S/C Pader District - Telela East Village		
	Name	*Gender*
1	Acha Rose	Female
2	Olanya Cypriano	Male
3	Ongom Justine	Male
4	Lakareber Gladys	Female
5	Ongom Francis	Male
6	Okol Banny	Male
7	Anena Sunday	Female
8	Otonga Charles	Male
9	Hon Affa Thomas	Male
10	Adong Maracela	Female
11	Anena Jackie	Female
12	Abalo Nancy Alice	Female
13	Arugee Scovia	Female
14	Omwony Charles	Male
15	Akile Sunday	Female
16	Ayikoru Gladys Anguyi	Female

Pader Town Council – Pader District			
	Name	*Gender*	*Association*
1	Akena Simon Peter	Male	Pader United Business Community Association
2	Bongomin Alfred	Male	Chamber of commerce
3	Abalongo Evaline	Female	Market vender Coordinator
4	Akello Night	Female	Main Market Vendors
5	Christine Okengo	Female	Main Market Vendors
6	kivota Ezra Eric	Male	Oasis Manager

Arua Municipality - Arua Market Vendors		
	Name	*Gender*
1	Maneno Innocent	Female
2	Abdul Rahman	Male
3	Safi Margret	Female
4	Zatun Alay	Female
5	Asiku Lucy	Female
6	Akulia Betty	Female
7	Jimia Maturis	Female
8	Chandiru Mary	Female

9	Ojobina Alice	Female
10	Ayakaka Phyllis	Female
11	Faidah Gloria	Female
12	Driwaru Beatrice	Female
13	Dramadri Simon	Male
14	Angucia Zenabu	Female
15	Jurua Charles	Male
16	Achalo Twaha	Male
17	Ankoru Gladys Anguyi	Female

Oluko S/C, Arua District - Origawa Village , Bunyu Parish		
	Name	*Gender*
1	Anguko Florence Monday	Female
2	Amuiko Doreen	Female
3	Aritua Beatrice	Female
4	Azikuru Night	Female
5	Abira Irene	Female
6	Draru Harriet	Female
7	Ayikoru Magere	Female
8	Avako Molly	Female
9	Atiburu Baifa	Female
10	Andicia Caroline	Female
11	Drileba Hope	Female
12	Tiku Nesta	Female
13	Edonia Gladys – CDO Oluko S/C	Female

SEATINI Uganda
Plot 806, Block 213, Bukoto-Kisaasi Road
P.O.Box 3138, Kampala
Tel: +256-414-540856
Email: seatini@infocom.co.ug
Website: www.seatiniuganda.org