

Review of the Tax Administration Diagnostic Assessment Tool (TADAT) and its Effectiveness in Enhancing Tax Administration in Uganda

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SEATINI

Strengthening Africa in World Trade



OXFAM

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List of Acronyms

BoU	Bank of Uganda
CIT	Corporate Income Tax
CSBAG	Civil Society Budget Advocacy Group
CSOs	Civil Society Organisations
IMF	International Monetary Fund
KCCA	Kampala Capital City Authority
KII	Key Informant Interview
LGs	Local Governments
MoFPED	Ministry of Finance Planning and Economic Development
NDP	National Development Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIT	Personal Income Tax
RADEX	Regional Authorities Digital Data Exchange System
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TBC	To be confirmed
TREP	Taxpayer Register Expansion Project
UDN	Uganda Debt Network
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
VAT	Value Added Tax
WHT	Withholding Tax

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Executive Summary

This study set out to undertake a critical analysis of the Tax Administration Diagnostic Assessment Tool (TADAT) framework and its effectiveness in improving tax administration outcomes. The study specifically sought to examine government responses aimed at improving Uganda's performance on the TADAT outcome areas based on the findings of the 2015 assessment, assess Uganda's strength and weaknesses in the implementation of the TADAT and provide policy and practical recommendations on how to make effective use of the TADAT mechanism. The study employed both quantitative and qualitative methods. Under quantitative methods, emphasis was put on numerical analysis of data collected from government, donors, academic, civil society publications and other relevant documents. The qualitative approach provided insights on perceptions, views and experiences of various stakeholders. The study suffered two major limitations namely a short time-frame which limited the number of actors covered. The second limitation was that some important actors were not available for interview.

The findings show that not much has been done in relation to improving performance on the TADAT indicators. At the same time, the limited scope of coverage of the TADAT framework leaves out important interventions undertaken to improve tax performance such as the TREP which are deemed critical for improving tax administration in Uganda. The limited level of intervention is blamed on the poor operational environment characterised by; underfunding, unfavourable and rapidly changing policy framework, a politically charged environment. The results show that given the institutional framework for tax administration in Uganda, the effectiveness of interventions to improve performance on TADAT indicators will require support of other actors beyond URA.

The findings also show that the TADAT framework is potentially a valuable tool for assessing the performance of a country's tax administration system with the view of informing policy reform. It touches on important aspects of operations of URA including tax compliance, assessment of risks, dispute resolution processes, revenue management, and accountability and transparency. However, the tool

suffers from significant omissions in relation to scope of coverage of the tax administration institutions (system) and important attributes for effective and efficient tax administration including; institutional arrangements, autonomy of revenue body, scope of responsibilities of revenue body including non-taxation roles, governance arrangements, institutional arrangements for resolving taxpayers' complaints, adequacy of funding of revenue body and existence of a stable legal framework. The TADAT assessment should therefore be used together with other tools for policy and planning purposes.

Recommendations

- a. There is need to under take legal reforms that would improve effectiveness and efficiency of URA and the tax administration system as a whole.
- b. The tax administration system including URA and other actors should be subjected to regular periodic assessments.
- c. There is need to fast track the finalisation of the medium term revenue strategy by the ministry of finance planning and economic development.
- d. URA and MoFPED should spear head studies aimed at informing policy reforms for improved performance of the tax administration system.
- e. Government should ensure full autonomy of URA and hold it 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.
- f. 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.
- g. 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.
- h. URA should simplify the tax laws and regulations, especially the Income Tax Act to ease taxpayers' understanding of tax laws.
- i. URA should foster collaboration with other EAC revenue authorities through efficient information exchange, in order to monitor the rising number of transactions by multinational and regional companies.

1

Introduction

This study critically analyses the applicability of the TADAT framework and its effectiveness in improving tax administration outcomes in Uganda. The study focused on government responses aimed at improving Uganda's performance on the TADAT outcome areas based on the findings of the 2015 assessment, as well as Uganda's strength and weaknesses in the implementation of the TADAT. The study employed both quantitative and qualitative methods. Under quantitative methods, emphasis was put on numerical analysis of data collected from government, donors, academic, civil society publications and other relevant documents. The qualitative approach provided insights on perceptions, views and experiences of various stakeholders. A combination of the two methods ensured descriptive, analytical, and interpretative perspectives describing the state of affairs both numerically and verbally. The findings show that not much has been done in relation to improving performance on the indicators. At the same time, the limited scope of coverage of the framework leaves out important interventions such as the TREP. The limited level of intervention is blamed on the poor operational environment characterised by under funding, unfavourable and rapidly changing policy framework, a politically charged environment as well as weaknesses of the framework its self related to inadequate guidance for prioritisation of policy interventions. The results also show that given the institutional framework for tax administration in Uganda, interventions to improve performance on TADAT indicators require support of other actors beyond URA. The findings affirm that the TADAT framework is potentially a valuable tool for assessing the performance of a country's tax administration system with the view of informing policy reform. However, the tool suffers from significant omissions with implications for its efficacy in improving tax performance in Uganda.

1.1 Background and Rationale for the Study

The Tax Administration Diagnostic Assessment Tool (TADAT) is a diagnostic assessment tool for tax administration developed under the auspices of the International Monetary Fund (IMF) and the World Bank. The tool was

deliberately modeled on the Public Expenditure and Financial Accountability (PEFA) framework as a revenue counterpart under Public Financial Management (PFM) assessments – providing a more comprehensive view of the whole fiscal picture. It is an integrated monitoring framework that measures performance of a country’s tax administration at a point in time. It is designed to provide objective and consistent assessments of the outcome performance across the essential tax administration functions. The tool addresses questions of “what” and “why” with respect to performance. The assessment report (the output) was expected to have significant input into the reform objectives, and design, sequencing and prioritization of technical assistance (TA).

The TADAT initiative is part of a wider agenda of the international community to help countries strengthen their tax systems to better mobilize the domestic revenue they need to provide essential goods and services to their citizens in a sustainable and economically sound way. All countries at all income levels, and at all stages of development face an ongoing challenge to deliver the highest quality tax administration services to meet the needs and expectations of government, taxpayers of many types, and the wider community. Governments face fiscal pressures, businesses demand even-handedness and higher service standards - with ways of interacting with the tax administration as modern as those found in the best areas of the private sector, and the public demand accountability and transparency from the tax administration which has extensive reach into the community.

TADAT focuses on major direct and indirect taxes critical to central government budget outcomes - corporate income tax (CIT) and personal income tax (PIT) of the self-employed, employer and other withholding taxes, and value-added tax (VAT). It provides an assessment within the existing revenue policy framework in a country, with assessments highlighting performance issues that may be best dealt with by a mix of administrative and policy responses.

A TADAT assessment provides country authorities with a better understanding of the health of the system of tax administration, the extent of reform required, the relative priorities for attention, and the basis on which to develop plans for future reform initiatives. Where external technical assistance is used to advance reforms, with or without donor support, a TADAT assessment ensures that all stakeholders have a common view of the health of the tax administration system.

The postulated benefits of TADAT include: i) Better identification of the relative strengths and the main weaknesses in the tax administration system; ii) Facilitating discussion towards a shared view among all stakeholder; iii) Improvements in setting reform objectives, establishing priorities and implementation sequencing - and strengthening of the design of tax administration reform initiatives; iv) Better coordination of external support for reforms - faster and more efficient implementation and ; a basis for monitoring and evaluating reform progress towards established targets, through repeat assessments.

A TADAT assessment for Uganda was conducted in 2015 by the TADAT secretariat. However the report has not been publicised. This is in contravention of outcome area nine of TADAT on accountability and transparency. The lack of transparency in relation to the findings of Uganda's TADAT has raised concerns among stakeholders. There is apprehension that the potential of the TADAT as a tool to improve tax administration in Uganda could be undermined by lack of transparency and accountability. Before TADAT it had been observed that in Uganda, debates on taxation were not widespread. Furthermore, there was very limited involvement of citizens in the formulation and implementation of tax policies. A study by SEATINI¹, showed that citizens (taxpayers) were not usually involved in tax policy discussions. These limitations to citizen participation in taxation persist post TADAT yet the performance areas cover these issues. This raises questions about what action has been taken by government in response to the TADAT assessment. While there have been some tax reforms since the assessment including the enactment of the Tax Procedures Act and the introduction of the Taxpayer Register Expansion Project (TREP), there is limited appreciation by the public who do not have information on the underlying impetuses.

Also, the PEFA framework on which TADAT was modelled has significant limitations with implications for its efficacy in driving PFM reforms. Hardley and Miller² posit that PEFA assessments do not reveal how the overall PFM system is working and why it is working that way. They highlight three reasons for this. First is the limited depth and coverage of the PEFA indicators, which focus on processes in finance ministries. Second is prominence of form i.e how systems look as opposed to how they work in practice (function). Third is, the disregard of interactions between different actors.

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

2 Sierd Hardley and Mark Miller (2016), *PEFA: What is it good for? ODI Discussion Paper*

The corollary of this is that the results of the TADAT assessments may not necessarily reflect improvements in the functioning of the tax administration system. Over reliance on TADAT for reforms without paying much attention to other analytical tools may lead to ineffective policy reform that does not address the underlying tax administration challenges.

1.2 Objectives of the study

The overall objective of the study was to undertake critical analysis of the TADAT and its effectiveness in promoting tax compliance. Specifically the study sought to fulfil the following:

- a. To examine government responses aimed at improving Uganda's performance on the TADAT outcome areas based on the findings of the 2015 assessment.
- b. To assess Uganda's strength and weaknesses in the implementation of the TADAT.
- c. To provide policy and practical recommendations on how to make effective use of the TADAT mechanism.

1.3 Methodology

The study employed both quantitative and qualitative methods. Under quantitative methods, emphasis was put on numerical analysis of data collected from government, donors, academic, civil society publications and other relevant documents. The qualitative approach provided insights on perceptions, views and experiences of various stakeholders. A combination of the two methods ensured descriptive, analytical, and interpretative perspectives describing the state of affairs both numerically and verbally.

The following data collection methods were used in undertaking the study:

- a) *Document Review*: This involved comprehensive literature and statistical review to capture information on taxation and tax reform in Uganda. The document review covered all relevant data, analytical studies and reports from various sources such from government, donor agencies, academic and research institutions, CSOs, websites, and private sector. List of key documents reviewed are included in the References.
- b) *Key Informant Interviews*: Key Informant Interviews (KIIs) were in-depth, semi-structured and facilitated discussions which was conducted with 14 organisations. Interviews were held with relevant stakeholders in URA, government MDAs, development partners, academic and research institutions, CSOs, and private sector.

1.4 Limitations of the study

The limited resources, and time frame allocated for the study imposed binding constraints on the number of stakeholders and geographic areas that could be covered during the study. Consequently, the findings, conclusions and recommendations emanating from the study depended largely on qualitative information generated via KIs complemented by secondary data from desk review and other sources.

Whereas a total of 18 organisations had been identified for interviews, only 14 were successfully interviewed. The most notable absence from the list of respondents is the Ministry of Finance Planning and Economic Development (MFPED), which is a key player in Uganda's tax administration. Several attempts were made to interview officials from MFPED but they were not available due to tight schedule of the budget process that was on going at the time of data collection. The lengthy bureaucratic process of obtaining interviews with some stakeholder especially government agencies greatly slowed down the study.

Nevertheless, the research design incorporated a number of features intended to mitigate the above limitations. First, the most important stakeholders were identified and targeted them for interviews. Second, a validation workshop was organised to better understand the study findings, increase their utility and improve the consistency of the report findings, conclusions and recommendations with respect to stakeholders' views.

1.5 Structure of the Report

This report is divided into four sections. Section One; gives the introduction, rationale, objectives, methodology, and limitations of the study. Section Two provides an overview of Uganda's taxation system, tax performance and taxation administration challenges. Section Three presents findings of a review of Uganda's performance on the TADAT assessment 2015 in comparison to Zambia, which is the only country in the region whose assessment report was publicised. The performance of 2015 is also compared with the performance on the mock TADAT assessment of 2017 undertaken by URA. Section three also presents perspectives of respondents on taxation challenges and how they can be overcome, and perspectives on relevance and limitations of the TADAT framework in the context of Uganda. Section four provides conclusions and recommendations of the study.

2

Uganda's Tax Administration, Performance and Challenges

2.1 Tax Administration in Uganda

Tax administration in Uganda is governed by a number of laws such as the Income Tax Act, the VAT act, East African Excise Management Act, Excise Management Act, Tax Procedures Code Act, among others. The institutions mandated with tax administration are Uganda Revenue Authority (URA) for the central government and Local Governments for local revenue.

The *Income Tax Act (ITA) (Cap 340)* 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. The ITA is amended every financial year to address any gaps and any inequalities, for instance, the Pay as you Earn (PAYE) threshold was raised from UGX 130,000 to UGX 235,000 in 2012.

The Value Added Tax (Cap 349) 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. The VAT Act is amended regularly, for instance, the standard rate of VAT was increased to 18 per cent in 2005/06. The VAT contains provision for zero-rate³ and exempt⁴ goods and services.

Tax Procedures Code Act, 2014 was enacted 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. It established the adoption of uniform procedures for the registration, assessment and collection of all domestic taxes; promotion of efficiency in domestic tax administration by harmonizing, consolidating and regulating tax procedures in a single law; and streamlining and simplify the administration and collection of taxes (URA, 20163).

³ URA (2016), *Tax Policy Changes FY 2016/2017*.

The *Uganda Revenue Authority* (URA) was established by the *URA Act* of 1991 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. Since its inception, URA had its organizational structure as well as its operational departments revised with the view of strengthening its performance. 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.

Since 2014, URA has been collaborating with the Uganda Registration Services Bureau (URSB), the Kampala Capital City Authority (KCCA) and local governments (LGs) to identify taxpayers and collect taxes from small businesses that are hard to reach. 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, 2014⁴).

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 (SEATINI & Oxfam, 2017⁵).

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

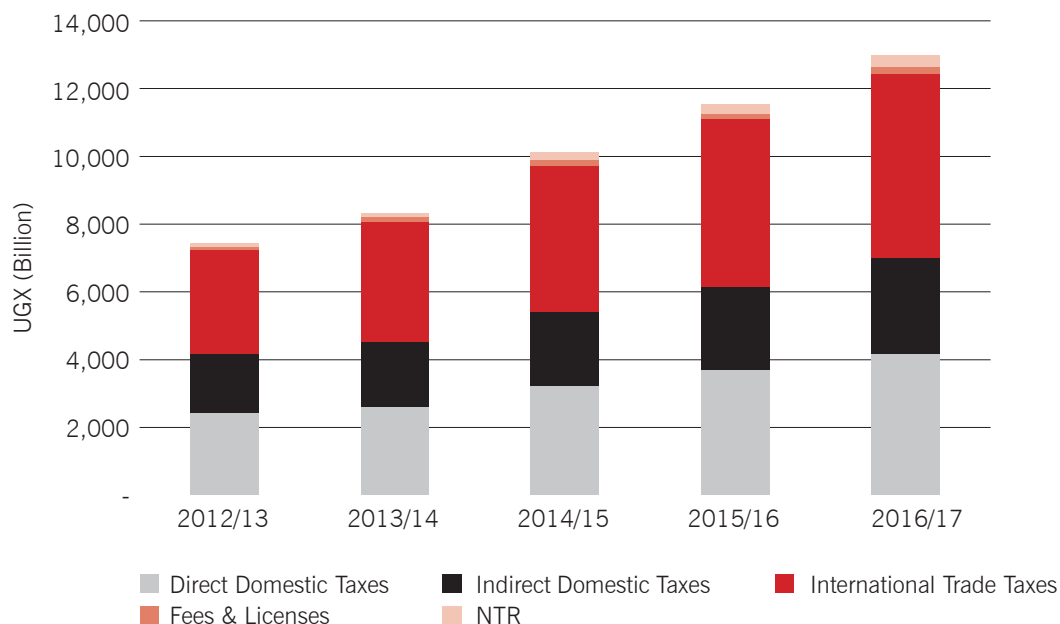
Uganda has seen a significant increase in net URA Total Tax Revenue (TTR) during the five years. Net collections by URA (excluding Government taxes and Tax refunds) increased by 79 per cent from UGX 7,149 billion in

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

5 SEATINI & Oxfam, (2017), *Taxation in Uganda: Review and Analysis of National and Local Government Performance, Opportunities and Challenges*.

2012/13 to UGX 12,798 trillion in 2016/17. 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*).

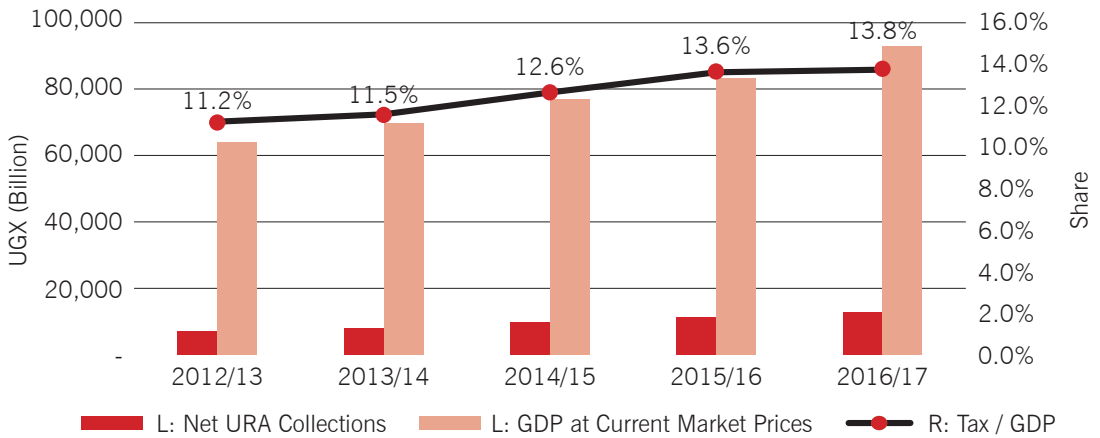
Figure 1: Trends in URA Net Revenue Collections



Source: Author's 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 13.8 per cent of GDP (see *Figure 2*). This makes Uganda's revenue-to-GDP ratio as one of the lowest in the East African Community (EAC) region. While Uganda's revenue-to-GDP ratio stood at 12.8%, Kenya's was at 18.8%, Rwanda's at 16.1%, Tanzania's at 13.3% and Burundi's at 13.0% in 2015/16 (URA, 2017). Uganda also has the lowest efficiency of VAT tax collection (28.6) compared to other EAC countries (average of 48.4) [URA, 2016].

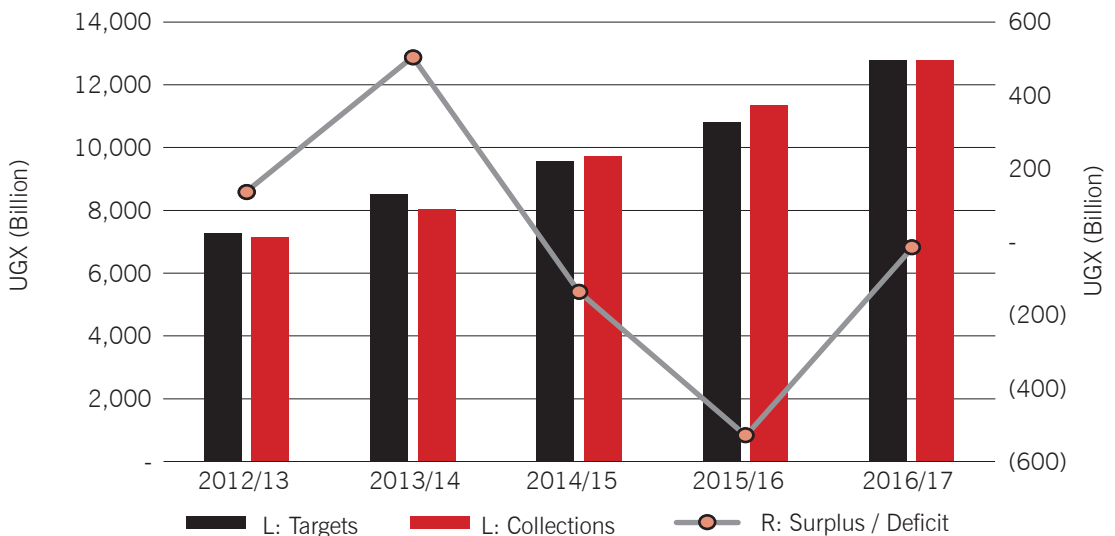
Figure 2: Trends in GDP and tax revenues



Source: Researchers' calculations based on URA Statistics⁶ and MoFPED (BTTB—Various years)

Over the past five financial years, the performance of the URA has been mixed: URA under-performed during FYs 2014/15, 2015/16 and 2016/17, however, the authority over-performed during FYs 2012/13 and 2013/14 (see Figure 3). Although URA has performed relatively well during the five years, however, there are concerns 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

2.3 Key Challenges of tax administration in Uganda

There are number of challenges of tax administration in Uganda, some are endogenous to URA and others are exogenous.

2.3.1 Endogenous challenges

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

Ineffective taxpayer education and complicated tax literature. Taxation regime is not clearly understood by most taxpayers. In addition, 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. Thus, most taxpayers think they pay double when they are taxed by URA and also LGs. This is partly due to ineffective communication of the strategy coupled with poor reading culture.

Inadequacy of the e-tax system: 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 acquisition and filing taxes, who charge arbitrary fees. This has introduced extra costs for small businesses that seek to comply with the tax regime (SEATINI & Oxfam, 2017).

Inadequate 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.

Inadequate capacity to detect and prosecute tax evasion and avoidance. The difference between tax dodging and avoidance is not as clear as it should be to invoke punitive sanctions. Tax avoidance is mainly common with multinational corporations (MNCs) that use transfer pricing and tax havens to avoid paying all taxes. In many instances tax related cases involving MNCs in Uganda are decided out of court and their litigation a protracted spectacle (SEATINI & Action Aid, 2017).

2.3.2 Exogenous challenges

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 207 billion on 2012/13 to UGX 366 billion in 2017/18, this funding is still inadequate to cover purchasing of advanced machinery and hiring of technical staff, thus impacting negatively on tax revenue collections.

Large informal sector: Uganda's informal sector accounts for 43.1 per cent of the country's GDP. 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). This contributes to the weak tax base which is as result of low participation rate in the tax system by most people. Uganda has one of the lowest taxpayer to labour force ratio for income tax of 0.09% compared to Kenya at 37.30% and Tanzania at 5.88%, whereas that of VAT is 0.10% compared to that of Kenya at 2.31% (URA, 2016a).

Tax incentives and exemptions: The GoU is providing a wide range of tax incentives such as people employed by the Uganda People's Defense Forces, the Uganda Police Force, or the Uganda Prisons Service, Judges, MPs⁷, USAID affiliated institutions, and other Tax incentives.

⁷ Members of Parliament are exempted from paying taxes on their benefits, transport allowances and all other reimbursements.

In 2015, URA estimated that the total revenues foregone as a result of tax exemptions in FY 2013/14 amounted to UGX 1.6 trillion, which is equivalent to 2% of GDP (SEATINI, TJNA & Oxfam, 2016). The biggest challenges is that Uganda does not have a clear policy about how tax incentives and exemptions should be awarded or measured (SEATINI, 2013a) and sometimes URA is not involved when discussing and awarding these exemptions.

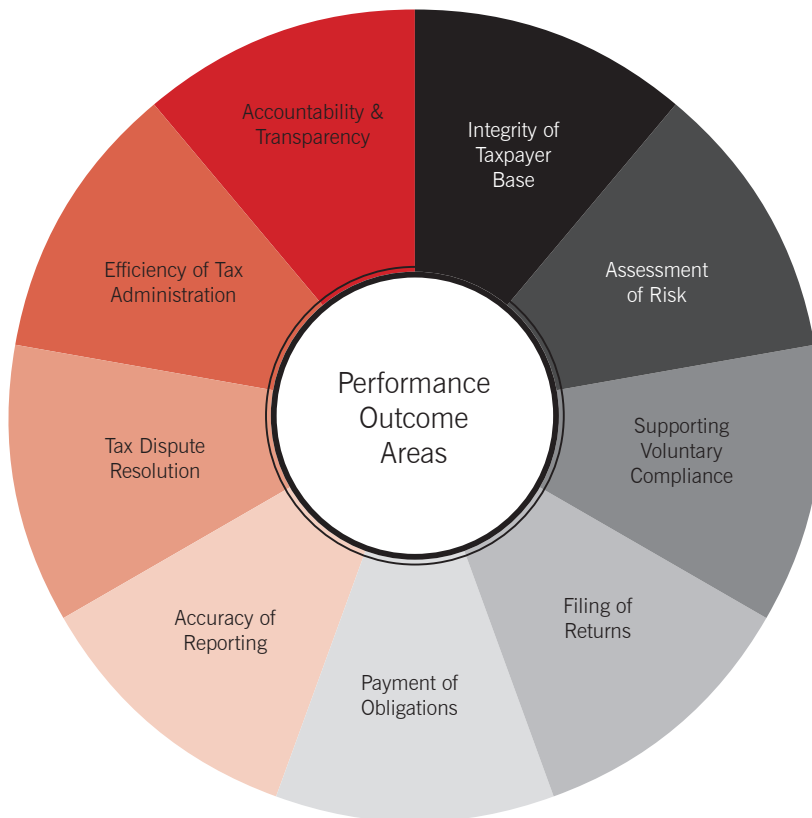
Inadequate information on taxpayers: Underdeveloped register and the absence of enabling legislation in Uganda has impeded the utilization of third-party information by URA. In general, good quality national databases, including company, property and vehicle registries, as well as enabling legislation, would allow URA to use third-party information to improve tax compliance and enforcement (SEATINI & Oxfam, 2017). The existing frameworks with some government agencies are not that effective as data is received on ad hoc basis and is not updated. There still exists restrictive laws within the financial act which prohibit the tax body from having full access to bank clients' details (URA, 2017b).

Regional integration: With regional integration comes the need for tax harmonization such as tax treatment of international services, common approach to transfer pricing and a common methodology for calculation of income tax. However, the integration comes with challenges such as erosion of fiscal autonomy of the member countries through increased mobility in the tax base, as corporations and individuals seek to migrate to more tax optimal locations within the region.

2.4 Overview of the TADAT Framework

The TADAT uses nine outcome areas to assess performance of a country's tax administration system by focusing on its tax authority. A set of high-level indicators critical to tax administration performance is linked to these nine performance outcome areas (See Figure 4). The indicators are oriented towards providing an assessment of main performance outcomes as opposed to outputs (although in some cases outputs are necessary proxies) rather than inputs. The framework steers clear of inputs such as organization structures, human resources, administrative budgets, information technology, legislation and regulations. Lack of information on key performance outcome areas affects performance on the assessment. It is important to note that there have been some adjustments to the TADAT with nine additional indicators being added in 2016.

Figure 4: TADAT outcome areas



Source: TADAT Program Document

The assessment of indicators follows the same approach as the PEFA. Most of the indicators have between one to four measurement dimensions with each dimension being assessed separately. An 'ABCD' scale is used to score each indicator; with 'A' representing the highest level of performance and 'D' the lowest. The overall score for an indicator is based on the assessment of the individual dimensions of the indicator. The scores for dimensions are combined into an overall score for an indicator using two methods,

- Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator.
- Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is used for selected multi-dimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of higher scores on other dimensions for the same indicator.

3

Findings

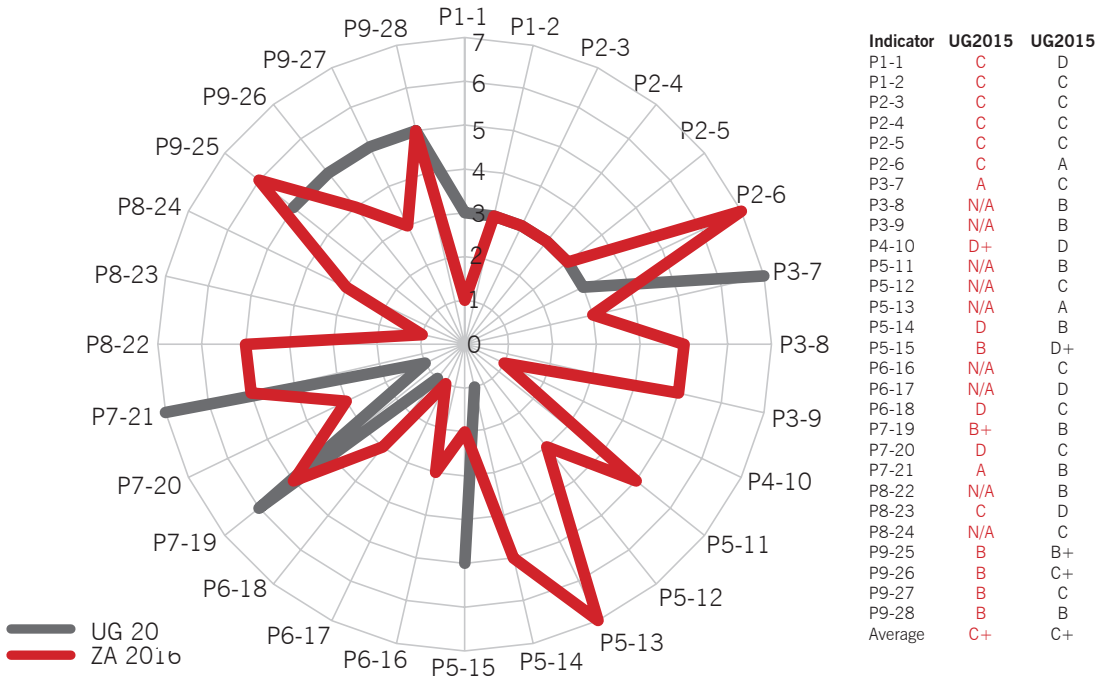
The findings presented here are from two sources. First is a review of the official TADAT assessment report for Uganda for 2015, which are presented along side results for Zambia for 2016⁸. The assessment was conducted over a period of just over two weeks (August 3 - 18, 2015) by a team from the TADAT secretariat. The findings of the assessment were documented in a Performance Assessment Report (PAR). It is important to note that the tool was revised to include an additional nine indicators in 2016 (See Annexes for definition of the different indicators and country profiles for both Uganda and Zambia at the time of the assessments). Secondly are findings from interviews with key stakeholders undertaken during this study between December 2017 and January 2018.

3.1 Review of Uganda's performance on TADAT assessments

The TADAT Performance Assessment Report for Uganda for 2015 applauded progress made by URA in handling taxpayer objections, proactive taxpayer support, and providing online services. However, evidence on several key Performance Outcome Areas (POAs) either did not exist or could not be provided, which lowered some ratings that could perhaps have been higher with the appropriate evidence. As already indicated the PAR for Uganda for 2015 report is not publically available. The figure below summarizes performance of the different indicators. Please note that the indicators not applicable denoted by N/A in Figure 5 were added in 2016.

⁸ Zambia is the only country in COMESA region that gave permission for its PAR to be displayed on the TADAT website.

Figure 5: Distribution of performance scores



Source: TADAT Performance Assessment Report Uganda (2015) and TADAT Performance Assessment Report Zambia (2016)

The average score for both countries was C+ as shown in the figure above. Uganda scored better than Zambia on seven indicators while Zambia was rated better on five indicators. The PAR for Uganda emphasized that resolving significant challenges would require URA's continued attention to building a stronger compliance culture across all segments of the taxpayer population, through a more developed approach to risk management, as well as a judicious balance of audit, compliance and taxpayer service initiatives. Table 2 shows the strengths and weaknesses of URA identified by the assessment.

Table 2: Main strengths and weaknesses of URA identified by TADAT 2015

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Taxpayer registration process is sound ▪ Extensive information is provided to educate taxpayers and support voluntary compliance ▪ High service delivery standards in respect of response to taxpayers' request for information are in place ▪ Arrears management is fairly sound ▪ The dispute resolution mechanism is fairly robust ▪ High level of usage of IT system for e-tax, e-filing, and payment through banks. ▪ Fairly robust external oversight and internal controls/audit ▪ Annual reports are accessible to the public 	<ul style="list-style-type: none"> ▪ Low level of certainty as to the accuracy of the taxpayer registration ▪ Weak initiatives to detect businesses which fail to register ▪ Mechanisms to identify, assess, and prioritize risks are not well structured ▪ Process of compliance risk mitigation does not adequately address all risks ▪ There is no structured approach to evaluation and prioritization of institutional risks ▪ On-time return filing rates are low while information on timely payment of taxes is not monitored ▪ The national audit program does not provide for the evaluation of audit outcomes and overall impact ▪ Third party information is not systematically matched

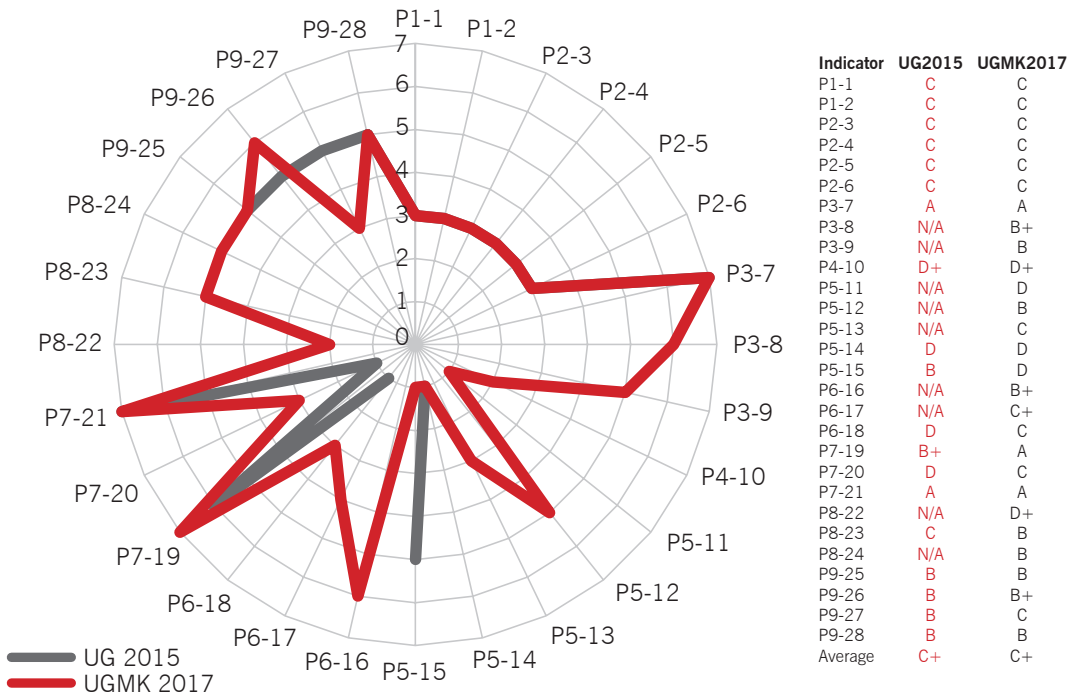
Source: TADAT Performance Assessment Report Uganda (2015)

3.2 Uganda's progress on TADAT indicators since first assessment

The TADAT Secretariat undertook a mock TADAT assessment in 2017. The idea was to gauge how much progress had been registered since 2015. The results of the mock provided by URA show that progress had been registered in eight indicators, while reversals were indicated for three indicators. There was no movement on seven indicators as shown in figure 6. This trend suggests that not much improvement has been registered since 2015. Nevertheless, there are several interventions that are expected to contribute to improvements in Uganda's score on the different indicators. Most notable of these are the Taxpayer Register Expansion Project (TREP) which is expected to contribute to POA 1 and 2 by increasing the number of tax payers captured in the tax register as well as aid in identification of

risk. The other intervention is the incorporation of some TADAT indicators in URA's Monitoring and Evaluation framework. Details of improvements on specific indicators are presented in Annex III.

Figure 6: Distribution of performance scores 2015 and 2017



Source: TADAT Performance Assessment Report Uganda (2015) and TADAT Mock Assessment Study (2017)

3.3 Perspectives on taxation challenges in Uganda

The respondents were asked to mention three most important tax administration challenges facing Uganda. This question was intended to enlist the different perspectives of stakeholders on what the priorities of tax administration in Uganda should be. The responses mirror the challenges gleaned from literature and documents presented in Section 2.3 of this report and cover a wide range of policy issues ranging from performance indicators to effect of politics on tax administration.

3.3.1 Poor performance on tax administration indicators

A number of responses were to do with poor performance on tax administration performance indicators as major challenges. In some ways the responses did not agree with the findings of the TADAT assessment

while in others there was alignment. Most notable of these include, lack of integrity of tax payer registration, weak risk management systems, late filing of tax returns, slow dispute resolution and litigation and capacity gaps.

“*‘High uncertainty of the integrity of the taxpayers’ registration database. URA does not have a good potential of their taxpayers and how much they can grow’.* IMF

“*‘There is a weakness in risk management whereby the mechanism to identify, assess and prioritise risks are not well structured’.* IMF

“*‘Filing and payment of tax returns are not done on time, which delays the revenue to be realised on the right time’.* IMF

“*‘Delays in tax dispute resolution some of which take are number of years to be resolved’* IMF.

“*‘We take long to realise revenue from people who go through court processes. Court cases take long to be reviewed and decision made’.* KCCA

“*‘There are staff capacity gaps’.* IMF

“*‘The URA E- tax system has some inefficiency at certain times, which cause delays in online submissions’.* IMF

3.3.2 Large informal sector

The large informal sector was cited as a major challenge to tax administration given the prominence of PAYE and corporate taxes all of which perform poorly in informal settings.

“*‘In the long run the biggest challenge is the informality. The biggest contributor of tax segment in the developed countries is PAYE and corporate tax, but those countries have a small informal sector. In Uganda we have a large informal sector which is very hard to collect taxes from due to scanty information.’* EPRC

There was however a contrary view that informality of business is over rated as a challenge to tax administration in Uganda. The neighbouring

countries in the EAC have comparable levels of informality yet they collect more revenue as a proportion of GDP. Instead there should be measures that improve tax compliance even for the informal sector such as making TIN compulsory.

“ *‘They should make the TIN compulsory. But we think informality is an issue but not a big issue for tax collection because our neighbours in Tanzania and Kenya have almost the same level of informality but they are collecting more taxes than Uganda’.* IMF

3.3.3 Low levels of compliance

Low level of compliance was alluded to by a number of respondents. This was in some ways linked to high levels of compliance risks. Comparing different tax information suggests that there are low levels of compliance. Some of the data cited was the level of VAT credit and debits.

“ *‘One of the indicators of low compliance is the ‘Credits’ [These are amounts charged on inputs that are to be refunded since a trader will be charged on output to avoid double taxation]. There is something we call input tax, which is supposed to be refunded. According to my calculations these are so high. VAT credit last year was 2.4 trillion according to my calculations. This figure is too high that it needs to be investigated. Then there is the issue of Debits (amounts owed in the system that are being carried forward every month). The last one I calculated was 1.2 trillion. If there are high amounts of unclaimed credits in the system, then as a policy maker you must be alerted. It means people can give up on refunds then they are cheating. Remember you are only refunded input tax if you are registered for VAT and when you claim for a refund you must be investigated. So why do people who are in the system pay taxes on inputs they do not claim it? It is because they fear for investigations. This is a high-risk area’.* EPRC

3.3.4 A disobliging policy framework

The policy framework was indicted for not being supportive or working against tax administration. These were largely to do with exemptions that erode the tax base as well as lack of clarity and important omissions in the

policy. In some cases businesses and individuals benefit from multiple tax exemptions, which compounds the problem.

“*There are a certain exemptions within the Legal regime that erode the tax base. Some of them are within the Law and others within the discretion of a Minister or President. A case in point is about National Cement and Hima Cement companies who are putting up a few production units in Tororo. National Cement has received exemption while Hima Cement has not and yet they are working together. Government said they would pay on behalf of National Cement. Also, There are a few clauses within the tax Law itself that perpetrate tax planning such as; carried forward losses that are indefinite, allowable deductions on entertainment and some clauses on capitalisation are not that strong. Allowable deductions on developments that are beyond 50 km and if a person is getting exemptions because of putting up a factory 50 km outside Kampala and at the same time with another exemption, he ends up paying nothing’.* URA

“*Some policies are not supportive of our revenue collection function. There is no clear policy guidelines for due dates for remitting property tax. The Local Government Rates Act too does not provide for penalties for defaulting on ground rent. There is no clear policy on classifications of hotels, we have 29 in the entire city and don’t know what is happening to the others. Local hotel tax is per night yet people occupy these hotels even during daytime and we think it should be occupancy by room’.* KCCA

The potential of tax exemptions to attract investment, which is the main reason for the distortions in tax administration, was discounted. There was a view that politics takes centre stage in awarding tax exemptions with little regard to whether the exemption is critical. In many cases investors are more interested in other factors such as availability of infrastructure than tax exemptions.

“*I think to a great extent tax exemptions are political. The belief that when you are abroad and hear that Uganda is giving incentives, you will come to invest. But investor surveys done by World Bank and others have shown that investors*

come to Uganda instead of going to Kenya or Tanzania not because of incentives or tax exemptions, but consider things like infrastructure and security. They say they would have invested in any case.’ IMF

The lack of clarity and omissions in the policy framework was blamed for contestation of taxes by various groups. Some of the groups that contest the taxes include persons considered high net worth individuals, which results into loss of revenue.

“*‘There are issues where people contest against paying tax especially the professionals. Medical association, pharmacy and clinics contest trading licences. Lawyers were trying at one time. We were for 10 years not collecting licence fees from bankers saying they pay professional licence and that is all. We look at trading licence as facilitation for service delivery’. KCCA*

3.3.5 Inadequate funding of tax administration

The responses on funding as a challenge for tax administration were in relation to their capacity to constrain implementation of interventions aimed at improving outcomes. Responses suggest that the funds allocated to URA are often not enough to implement planned activities. Related to this was the mode of funding of URA through the consolidated fund yet it is not viewed as a priority.

“*‘URA’s corporate plan is financed by MoFPED unlike in other countries for instance Kenya where the Kenya Revenue Authority retains a certain percentage of revenue collected to support its operations. One thing that has defeated me in financial management is unauthorised funded priorities (why call them priorities if not funded). Our figures (targets vs. spending) do not commensurate and every financial year has had issues to do with funding shortages. You reach in the middle of the financial year and you are told there is no funding for a particular activity yet you are trying to address critical issues’. URA*

3.3.6 Misalignment of priorities and actions

The contradiction and incoherence of decisions on expenditure with revenue mobilisation were cited as a major challenge to tax administration.

Policy decisions taken without regard to how the additional expenditure will be met and what the impact of increased tax revenue mobilisation would on other economic parameters. In some instances the measures to raise revenue have instead backfired leading to lower revenues than before introduction of those measures.

“ *‘The Linkage between each stage of the whole planning framework (budget framework paper, strategic plan then work plan) is a challenge. Government wakes up and says they are going to enhance salaries of teachers and the medical union starting FY 2018/19. By the time they make such pronouncements, the work plans of URA have already been submitted to the ministry of finance. They then come to URA and say can you identify the source of revenue to finance this salary enhancement? When this fails then budget cuts that affect URA as well are instituted thereby reducing the amount of revenue collected. Another example is increasing excise duty on bank charges from 10% to 15%. You are implementing in 2017/18 a financial inclusion strategy, which is trying to make more people access financial services at a lower cost, and now you are taxing the entire financial sector from mobile money to loans. So how will you balance the achievements of financial inclusion versus the revenue generation? Revenue collection should not ignore other parameters. URA*

The void left by absence of medium term revenue strategy creates room for speculation and rent seeking behaviour of officials.

“ *‘URA had proposed an increment in surcharge on used motor vehicles from 20% to 25%. Instead it was raised to 50% for vehicle models older than ten years. This causes speculation and you find a government officer goes into importation of some cars before the budget is read so as to benefit’. URA*

The lack of cooperation among key tax administration actors too compounds problems of misalignment of priorities and actions. This was particularly addressed to relations between URA and local governments where several revenue sharing issues linger on unresolved. These get in the way of implementing reforms for improving tax administration.

‘Our advice to government is that revenue collection should not be solely left to URA. The struggle we have with TREP is some municipalities say local governments are not fully cooperative. They say you guys by removing graduated tax, you are giving us 1% of VAT to support local councils but we have not seen it come, and now you are here working with us on TREP’. URA

Another area where politics was blamed for misalignment of policy was in relation to pronouncements made by politicians that adversely impact on tax compliance and ultimately tax revenue. Some of the pronouncements are in contradiction with the laws while others outrightly forbid collection of certain taxes.

“ *‘We get a lot of guidance from the president, Ministers and the Lord Mayor, and these may have direct effect on revenue collections. An example is the presidential directive on taxis, bodaboda, Lorries and buses on commercial fees, which is in conflict with the parliament’s position, and this has brought a standstill. Another example is allowing back vendors on the streets of the city, which has infuriated KACITA and their members. There are also political directives not to collect revenue from some markets.’ KCCA*

3.3.7 Transparency and accountability issues

The way citizens’ view tax administration impacts on their voluntary compliance. The issue of tax payers being demoralized due to dissatisfaction with the way taxes are used came up in the responses on challenges. The negative views can be linked to lack of information on tax processes and utilisation.

“ *‘Accountability issues on how the taxes collected are used. Taxpayers do not see the benefits of paying taxes. People are demoralised to how much more taxes will be collected from them yet they don’t see the outcome of their taxes. Hence leading to a number of people resorting to tax avoidance. Also Lack of awareness of taxes creating resentment because taxpayers’ do not understand a number of taxes. UDN*

3.3.8 Regional Integration

The URA Corporate Plan cites the customs union taking over the customs department of URA as one of the threats. The respondents were asked to comments on what this possibility means for tax administration in Uganda. Respondents from URA reiterated this fear by explaining the loss of revenue due to the customs union

“ *‘We are seeing reductions in the preferential rates depending on the origin of the products, those from East Africa their customs duty are almost zero. We are no longer getting anything from international trade, which has almost reduced by 20%.’* **URA**

Other respondents held a different view on the impact of the customs union under regional integration on tax administration. Some were optimistic that regional integration would lead to standardisation of tax procedures, which would lead to common and higher standards in the region. The other view was that in the long term increased trade, investment and innovation resulting from competition would offset loss of revenue from reduction in tariffs.

“ *‘On the issue of tax policy, there is some work going on to try and standardise some of the procedures in the region. This will lead to common and better standards. I don’t know whether this is the same with tax administration but it is possible if each country could try and do things in a right concerted similar way.’* **IMF**

“ *‘There is a study EPRC has done on the effects of integration on the customs union. Much as you may have removed and reduced tariffs, there is increased trade. The trade offsets the revenue losses from reduction of tariffs such as import duty and VAT. We put a shield on sensitive products like sugar because Uganda had a lower tariff and because of the customs union our duties increased on the sensitive products. So there is a belief that once you open markets you lose out, but because of our proximity, we generate more trade opportunities, which offsets the revenue you would have lost in terms on import duty. Also because of opening up we are able to attract more investments since companies know even they come to Uganda they can export to Kenya and*

once in Kenya I can export to Uganda (vice versa). So this has increased on investments on either side, which has then increased the tax base. Example is foreign Kenya banks coming in here and Ugandan companies like Sugar factories, Roofings Ltd, Movit expanding and exporting to the region thus more revenue through taxes.’ EPRC

3.4 Proposals on how the challenges can be overcome

The respondents were asked for their views on how the challenges can be overcome. This was intended to examine the extent to which the TADAT framework addresses these issues. The responses covered a wide spectrum ranging from policy reforms to tax payer education. Below are the main issues.

3.4.1 Long term tax revenue planning

Respondents proposed putting in place a long-term tax revenue strategy so as to limit the distortions arising from frequent amendments to especially the Income Tax Act. The long term planning would also allow alignment of taxation with other economic objectives such as incentives.

“ *‘The tax planning should fix a tax for a certain period of time. We should have taxes, which are long term in nature. Why have many yearly amendments of VAT, Income tax and excise duty? Income tax laws should be there for 5 years other than to have amendments every year’.* **PSF**

3.4.2 Implementation of a compliance improvement program

Tax administration agencies should undertake deliberate programs to improve compliance targeting different taxpayers.

“ *‘Launch a compliance improvement programme for both individuals and businesses. This programme should be targeted, well-resourced and supervised to improve the value added tax, large and medium taxpayers, withholding obligations and high income self-employed individuals. These are the highest risk and high value sectors. High income self-employed like doctors and lawyers may sometimes not report their incomes accurately’.* **IMF**

One of the ways of doing this could be providing amnesty. However one respondent appreciated this as a viable strategy of improving compliance but expressed reservations about its propitiousness in Uganda due to limited information on its actual potential.

“ *‘In Kenya property owners were given amnesty and about 1,000 came out and started declaring property income. They got about 450 Kenya million shillings and in terms of returns. It paid off. However we have not been able to do that here because we have not fully aligned ourselves to the potential revenue that exists. We gazetted that rental income be declared separately as expenses that arise from generating that revenue’.* **URA**

Also the system could be abused and lead to more tax defaulting. The respondent preferred the option currently being used whereby a payment plan for arrears is agreed on. A cap on interest applicable augments this so that it does not exceed the principal.

“ *‘The retrospective way may be used against URA. For example if we say that someone has not been paying taxes for the last 5 years and we forget the past period and begin taxing from now to move forward, people will use that clause to dodge because it gives them a clear slate. We have a proper arrangement of paying liabilities based on a proper plan that is approved by the Commissioner General. It can take two to three years. We have put in our tax procedures code a regulation that if your tax liability principal is say 100 million and the interest is slightly after 2 years 30 million (meaning you owe URA 40 million), there is no way the interest should exceed the principal. It is part of the incentive for inducing people to pay by putting a cap. Whoever owes the authority money, the interest should not exceed the principal’.* **URA**

3.4.3 Undertaking audits and other studies

There is need to undertake audits and studies to be able to get the required information for tax planning and policy. There are parameters that require investigation such as the high figure of unclaimed refunds. Also the cost benefit analysis of tax exemptions should be undertaken to ensure that they are efficient and effective.

“There is need to strengthen audits particularly in the high risk areas”. **IMF**

“Investigations on the high figures of unclaimed refunds as well as the cost and benefits of exemptions although it is part of industrial policy. We should not just exempt everybody. Uganda is very quick to exempt foreign firms, which compete with local firms and then kill these local firms”. **EPRC**

3.4.4 Need for legal reforms

There are several tax administration issues that require legal reforms. An example is access to third party information such as bank accounts, which is currently not sanctioned under the law. This limits the use of such information to widen the taxpayers' register as well as in assessing risks.

“There are some administrative issues URA complains about of not accessing third party information, like bank accounts. This may require legal reforms”. **IMF**

3.4.5 Transparency accountability and control of corruption

Transparency and accountability was linked to voluntary compliance. One respondent emphasised the need for greater understanding on taxes by taxpayers as well as utilisation of taxes.

“We need sharing of information for transparency and this is key. We need to have clear procedures and also involve people. Let what you have agreed be known and implemented. If there is need for change, you can plan it 2 years in advance”. **PSF**

“There should be better accountability mechanisms by tax administration bodies. This will ensure that Taxpayers understand taxes better but to also ensure that they can see the benefits of them paying taxes. Also, zero tolerance to corruption as well as strict laws against tax avoidance are necessary”. **UDN**

3.5 Perspectives on relevance of TADAT framework

Most respondents pointed out three main positive attributes of the TADAT framework particularly its appropriateness, which are discussed below:.

3.5.1 A standardised tool for cross-country and inter-temporal comparisons

Since it is a standardised tool that allows comparison across countries, allows for inter-temporal comparison, which makes tracking progress of reforms across countries over time possible. This was emphasised as below:

“It is objective, standardised and identifies the strength and weaknesses within the tax administration system. Many countries have used it”. **IMF**

“The TADAT framework enables monitoring and evaluating reform progress by way of collection of taxes and administration”.
UDN

“The biggest advantage we get from the TADAT assessment is the standardisation in assessing the level of our tax administration. Under standardisation we are able to compare ourselves to the best practices and also compare with tax administrations, which do similar assessments. Example is in 2013 we did research and compared with our colleagues in Rwanda. One of the directors there was candid to say that by public image people think URA is the best in the region. There was no standard to compare us to other countries. By design of the tool we disaggregate the health of the performance using the nine output areas to compare across”.
URA

3.5.2 Participation of multi stakeholders

The framework elicits the participation of multiple stakeholders, which enriches the assessments with their different perspectives.

“It is multi stakeholder and it brings together different perceptions”. **IMF**

“I think it is appropriate given that it is now engaging consultations from several stakeholders such as academia, tax administrators themselves, policy makers (government), policy implementers (URA) and tax payers and by getting information from several stakeholders makes it a good tool”.
EPRC

3.5.3 Applicability of the TADAT assessment results

The TADAT framework can be instrumental in improving tax administration in Uganda. For instance, the TADAT assessment of 2015 influenced tax administration in Uganda. URA indicated that the findings of the assessment had been streamlined into their planning.

“*The results of TADAT have now been streamlined into our strategic planning system i.e. both institutional and business planning in terms of resource allocation. This information was in existence through our monitoring and evaluation reports but was not to the disaggregated level. Our workflow was informed of the revisions in the strategic planning and design of our work plan. We are now rolling out enterprise resource planning by having our planning systems into one planning tool; strategy, finance, human resource planning*”. **URA**

“*My view is that if you have evidence for whatever you do, then you will be in a good position to support your tax initiatives and efforts. For example the register; evidence of collection; taxpayer grievance handling process; studies in tax collection; improving processes and automation are all in place*”. **KCCA**

The URA Corporate plan 2016/17 to 2019/20 cites the TADAT as one of the sources of information. The objectives of the plan can be mapped on the POAs and indicators of the TADAT assessment. For instance the objective on tax compliance in the plan focuses on taxpayer registration, filling, payment and declaration. Some of the proposed strategies could potentially improve Uganda’s performance on the TADAT including, comprehensive Joint risk compliance strategy, a comprehensive Tax Education strategy, Strengthen Debt Recovery & Litigation and implement the Taxpayer Register Expansion Programs.

The second impact is the birth of new partnerships aimed at improving effectiveness of tax administration. The TREP is a flagship in this regard. The project is jointly implemented by Ministry of Local Government, Uganda Revenue Authority, Kampala City Council Authority and Uganda Registration Service Bureau. The project initially covered the five divisions of Kampala City and 28 selected municipalities countrywide. There are plans to roll out the plan to more local governments across the country as well as involve

more agencies such as lands and urban planning under TREP III.

The second application of the TADAT cited was in soliciting for funding and support for improvement in tax administration. Funding for Enterprise Risk Management from USAID could be linked to the findings of the TADAT assessment.

“ *‘TADAT results have been used to solicit for funding from our development partners in areas where we are doing badly. That has brought on USAID and Enterprise Risk Management’.*
URA

“ *‘The framework is good for Facilitating management and coordination of external support for reforms, and achieving faster and more efficient implementation’.* **UDN**

3.6 Perspectives on limitations of the TADAT framework

3.6.1 Limited publicity of the TADAT framework and findings

Some respondents confessed having limited knowledge of the framework, which calls for wide dissemination of information on the TADAT framework and the assessment results.

“ *‘The 2015 TADAT report should be published. URA need to improve the integrity of their staff and need to show what they are doing with the collected revenue’.* **IMF**

“ *‘The Limitation is that there is need to create more awareness about TADAT framework and its findings especially by URA’.*
UDN

However, the failure to publicise the TADAT 2015 report was a strategic decision by URA to enable the authority to adequately address some of the weaknesses internally before going public. .

“ *‘Some tax administrators say they were not ready by the time the assessment was conducted, even when they were invited they did not know what the exercise would take. So certain information that happened to be missing was not ready but still the process had to begin. Basing on this they think the first report should not be in the public domain because it will depict a bad picture. For purposes of public opinion, there*

is the fear for public criticism (although advantageous), some government agencies are reluctant to release reports saying they have to first clean own house'. URA

3.6.2 Narrow focus on a few taxes

There was concern that the framework focuses on domestic taxes mainly VAT, CIT and PIT, whereas customs are a major source of revenue and therefore leaving them out of the assessment raises critical omission issues. The omission of taxes from natural resources too was alluded to as another important omission.

“ *‘That said, my personal criticism of the tool from the research perspective is that all scores are targeting domestic taxes yet tax administration is a combination of domestic and customs’. URA*

3.6.3 Susceptibility to manipulation

Some respondents think that the assessment can be manipulated in order to portray a good image while concealing important shortcomings. This is particularly possible if the assessment is undertaken internally by persons as was the case with the mock assessment. It is possible to prepare all the evidence required and end-up scoring highly on the assessment without necessarily making significant improvements. This also brings into question what an improved score really means.

“ *‘The challenge of the internal mock assessment is the issue of independence. There may be a tendency to paint a good picture for internal purposes. Some governments broadcast only nice performance to the public but not the poor performance for not wanting negative criticism’. URA*

3.6.4 Weak on policy advise

The potential to use the tool for policy reform is limited by its diagnostic nature. This may often require further analysis and studies to get more understanding of the issue. It also requires that policy options be generated outside the framework.

“ *‘The tool tells you how you are performing but not how to improve. It shows you a point where you should be and where*

you are. How to get where you want to be according to best practice is up to you. It is more diagnostic than advisory’.

URA

3.6.5 Focus on evidence

The focus on evidence for assessing performance can be a source of contention. In some cases it may bring the findings and their interpretation under disrepute. Absence of information during the assessment was treated as poor performance, which could have been misleading. There was a perspective that instead it should be treated as mere lack of information.

“ *‘Another criticism is that lack of information is considered as non-performance instead of calling it non-availability of information. For instance in terms of exemption, if I am recording the losses carried forward by companies as revenue forgone and this information is with the technical people before it is availed to the senior management, and you have interviews with the senior, it will be missing and considered non performance’.* **URA**

This point of view resonates with the assertion made by Hardley and Miller (2016) that diagnostic tools are weak on measuring quality or functioning of the system.

3.6.6 Lack of regular assessment

There has not been another official TADAT assessment since 2015 and it is not clear when another one would be undertaken. The absence of a clear plan for repeated assessment constrains the potential of the TADAT framework to cause improvements in tax administration. Nevertheless, there is some anticipation on the part of URA that another assessment will take place.

“ *‘We were forced to do our internal mock assessment in order not to lose track of our progress’.* **URA**

3.6.7 Disregard of governance and political issues in the framework

There are several governance issues that beset tax administration yet they are not covered in the TADAT framework. The perspectives of the respondents on the challenges of tax administration raised several governance issues including lack of (social) accountability, limited participation in planning and decision-making, lack of transparency etc.

“ *‘Does the tool look at political issues? Is it addressing the culture of corruption in Uganda? Does it look at whether the tax administrators are qualified or they are recommended because they are connected? These are things we need to put in context’.* **Parliament**

3.7 Discussion of Findings

The findings of the study can be distilled into three critical and interrelated issues including limited scope of coverage of actors, inadequacy of coverage of important tax administration attributes and restricted impact on tax administration given Uganda’s context.

3.7.1 Limited scope of coverage of actors

The TADAT assessment suffers from a narrowly defined focus, which leaves out important elements of URA’s mandate as well as tax administration as a whole. As already mentioned the assessment focuses on only URA and part of domestic taxes namely Personal and Corporate Income taxes and VAT. This leaves out customs and non-tax revenue, which is also under the ambit of URA. Furthermore, by exclusively focusing on URA, the TADAT framework discounts the importance of other actors in the tax administration system including MDAs particularly MFPEd, LGs, KCCA etc. This limited scope negates the potential of the assessment to address and inform interventions related to key objectives of URA particularly domestic revenue mobilisation and increasing the tax to GDP ratio.

3.7.2 Inadequacy of coverage of important tax administration attributes

The relevance of the TADAT framework should be in its capacity to address key features of tax administration and ultimately its performance. While the assessment focuses on many important tax administration aspects it regrettable leaves out important attributes for effective and efficient operation of the revenue body and tax administration system. The fiscal blueprints developed by the European Commission contain useful guidance on the desirable features of an effective institutional setup for tax administration. A review by OECD of tax administration in OECD countries and non-OECD countries (2011) also identified important institutional arrangements put in place by governments for national revenue administration operations. These attributes are applicable to Uganda as can be seen from the perspectives of respondents on challenges to taxation and proposals on how the challenges can be overcome. Table 3 summarizes which of these attributes the TADAT assessment covers.

Table 3: Coverage of important tax administration attributes by TADAT

Attribute of Tax administration	Whether attribute is covered by TADAT framework
Institutional arrangements including clarity of roles and responsibilities and relationships with other actors	No
Autonomy of revenue body as depicted by its structure and powers for effective and efficient operation (including political interference)	No
Scope of responsibilities of revenue body including non-taxation roles	Partly
Special governance arrangements including external oversight and accountability	Partly
Special institutional arrangements for resolving taxpayers' complaints	Yes
Adequacy of resources of revenue body	No
Existence of a stable legal framework	No

3.7.3 Restricted impact on tax administration

The potential of the TADAT assessment is restricted. Indeed three years after the first assessment there is little to show in terms of reforms. While the TREP is an important and significant intervention, it is not covered by the assessment. Furthermore there is scepticism that it will significantly add to URA's taxpayer register given that most of the informal sector taxpayers are below thresholds for the tax bodies tax brackets. The restriction of the potential of TADAT is from two fronts. First is the operational environment characterised by under funding, unfavourable and rapidly changing policy framework, a politically charged environment. Second is weakness of the framework in providing guidance on priority actions. The assessment points out inadequacies but says very little about the best practice to which the tax administration body should aspire. It also does not emphasize which indicators are more important and therefore require prioritisation in addressing. In a constrained environment this becomes a challenge for identification of interventions.

4

Conclusion and Policy Recommendations

This study set out to undertake a critical analysis of the TADAT framework and its effectiveness in improving tax administration outcomes. The study specifically sought to examine government responses aimed at improving Uganda's performance on the TADAT outcome areas based on the findings of the 2015 assessment, assess Uganda's strength and weaknesses in the implementation of the TADAT and provide policy and practical recommendations on how to make effective use of the TADAT mechanism. The findings show that not much has been done in relation to improving performance on the indicators. At the same time, the limited scope of coverage of the framework leaves out important interventions such as the TREP. The limited level of intervention is blamed on the poor operational environment characterised by under funding, unfavourable and rapidly changing policy framework, a politically charged environment as well as weaknesses of the framework its self related to inadequate guidance for prioritisation of policy interventions. The results show that given the institutional framework for tax administration in Uganda, improvement interventions to improve performance on TADAT indicators require support of other actors beyond URA.

The findings also show that the TADAT framework is potentially a valuable tool for assessing the performance of a country's tax administration system with the view of informing policy reform. It touches on important aspects of operations of URA including tax compliance, assessment of risks, dispute resolution processes, revenue management, and accountability and transparency. However, the tool suffers from significant omissions in relation to scope of coverage of the tax administration institutions (system) and important attributes for effective and efficient tax administration including; institutional arrangements, autonomy of revenue, scope of responsibilities of revenue body including non-taxation roles, governance arrangements, institutional arrangements for resolving taxpayers' complaints, adequacy of funding of revenue body and existence of a stable legal framework. The TADAT assessment should therefore be used together with other tools for policy and planning purposes.

4.1 Recommendations

- a. There is need to under take legal reforms that would improve effectiveness and efficiency of URA and the tax administration system as a whole.
- b. The tax administration system including URA and other actors should be subjected to regular periodic assessments.
- c. There is need to fast track the finalisation of the medium term revenue strategy by the Ministry of Finance Planning and Economic Development.
- d. URA and MoFPED should spear head studies aimed at informing policy reforms for improved performance of the tax administration system.
- e. Government should ensure full autonomy of URA and hold it 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.
- f. 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.
- g. 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.
- h. URA should simplify the tax laws and regulations, especially the Income Tax Act to ease taxpayers' understanding of tax laws.
- i. URA should foster collaboration with other EAC revenue authorities through efficient information exchange, in order to monitor the rising number of transactions by multinational and regional companies.

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Annexes

Annex I: TADAT Framework Performance outcome areas

TADAT assesses the performance of a country's tax administration system by reference to nine outcome areas:

- 1. Integrity of the registered taxpayer base:** Registration of taxpayers and maintenance of a complete and accurate taxpayer database is fundamental to effective tax administration.
- 2. Effective risk management:** Performance improves when risks to revenue and tax administration operations are identified and systematically managed.
- 3. Support given to taxpayers to help them comply:** Usually, most taxpayers will meet their tax obligations if they are given the necessary information and support to enable them to comply voluntarily.
- 4. On-time filing of declarations:** Timely filing is essential because the filing of a tax declaration is a principal means by which a taxpayer's tax liability is established and becomes due and payable.
- 5. On-time payment of taxes:** Non-payment and late payment of taxes can have a detrimental effect on government budgets and cash management. Collection of tax arrears is costly and time consuming.
- 6. Accuracy of information reported in tax declarations:** Tax systems rely heavily on complete and accurate reporting of information in tax declarations. Audit and other verification activities and proactive initiatives of taxpayer assistance, promote accurate reporting and mitigate tax fraud.
- 7. Adequacy of dispute resolution processes:** Independent accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.

- 8. Efficient revenue management:** Tax revenue collections must be fully accounted for, monitored against budget expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds to individuals and businesses must be paid promptly.
- 9. Accountability and transparency:** As public institutions, tax administrations are answerable for the way they use public resources and exercise authority. Community confidence and trust are enhanced when there is open accountability for administrative actions within a framework of responsibility to the minister, legislature, and general community.

Annex II: Uganda and Zambia Country Snapshot

Attribute	Uganda (2013/14)	Zambia
Geography	241,038 km ²	752,614 km ² (290,586 sq. mi)
Population	37.4 million	15.5 million (Source: CSO)
Adult literacy rate	78.4% (Source: CIA World Factbook 2015)	61.4% (CIA World Factbook)
Gross Domestic Product (nominal)	\$26.95 billion (Source: IMF)	US\$24.466 billion (Source: IMF)
Per capita GDP	\$709 (Source: IMF)	\$4,200 (Source: CIA World Factbook)
Main industries	Sugar, brewing, tobacco, cotton textiles, cement and steel production	Mining, Agriculture; Retail Trade & Industry
Communications	Internet users: 44.4 percent penetration • Mobile phone subscribers: 16.355 million (Source: CIA World Factbook 2012)	Internet users per 100 people: 17.3 Mobile phone subscribers per 100 people: 67.3 (as at 2014) (Source: World Bank)
Main taxes	VAT, Excises, Income Taxes, PAYE	PAYE, CIT, Mineral Royalty, VAT, Customs Duty, Excise Duty
Tax-to-GDP	13.0 percent projected for 2015 (Source: IMF Staff Report for the 2015 Article IV Consultation, Country Report No. 15/175)	In 2015, 16.3 percent for domestic taxes. (Source: ZRA)
Number of taxpayers	VAT: 16,600 Income Tax: 130,000 PAYE: 180,000 Excise: 135	PIT (87,125), CIT (57,626), PAYE (23,585), VAT (13,118), Domestic Excise (110), Other taxes -
Main collection agency	Uganda Revenue Authority (URA)	Zambia Revenue Authority

Number of staff in the main collection agency		1,536 (2015)
Financial year	July - June	Calendar year

Annex III: Uganda TADAT Assessment

Indicators	Score		Remarks
	2015	2017	
POA 1: INTEGRITY OF THE REGISTERED TAXPAYER BASE The desired outcome is that all businesses, individuals, and other entities that are required to register are included in a taxpayer registration database. Information held in the database is complete, accurate, and up-to-date.			
P1-1. Accurate and reliable taxpayer information.	C	C	There are significant challenges to ensuring the accuracy of the information in the database. There is no systematic use of third party information of taxpayers.
P1-2. Knowledge of the potential taxpayer base.	C	B	There was improvement due to the implementation of the Block Management System in the central business district of Kampala in August 2017 registering of 9,378 taxpayers. However, this was only done Kampala. The initiatives to detect businesses and individuals who fail to register are weak and fall short of good international practice.
POA 2: RISK MANAGEMENT The desired outcome is that Risks to revenue and tax administration operations are identified and managed effectively			
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	C	B	There is an improvement. Risk Analysts exist at the Compliance Headquarters to do analytics and provide guidance for risk mitigation activities. An Enterprise Risk Analysis tool is in final stages of operationalization. Review of the URA Risk Management Policy to align it to current planning frameworks.

Indicators	Score		Remarks
	2015	2017	
P2-4. Mitigation of risks through a compliance improvement program.	C	C	A documented annual compliance program exists (for VAT and Income Taxes) but this does not address all core taxes, all segments, or risks associated with all four compliance obligations. There are efforts to revamp the Joint Compliance Committee
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	C	B	There are improvements. Monthly Compliance Improvement Program (CIP) review reports providing details of performance for each of the risk mitigation activities against the annual target. The Reviews of CIP activities are reviewed on a quarterly basis.
P2-6. Identification, assessment, and mitigation of institutional risks.	C	C	No improvement. There is no structured approach to evaluate and prioritize these risks.
POA 3: SUPPORTING VOLUNTARY COMPLIANCE The desired outcome is that Taxpayers have the necessary information and support to voluntarily comply at a reasonable cost to them.			
P3-7. Scope, currency, and accessibility of information.	A	A	URA provides taxpayer with extensive current information using a variety of channels, and tailored to the needs of each taxpayer segment.
P3-8. Scope of initiatives to reduce taxpayer compliance costs	N.A	B	URA has a Taxpayer Charter, toll free line, URA web portal available

Indicators	Score		Remarks
	2015	2017	
P3-9. Obtaining taxpayer feedback on products and services.	N.A	B	A variety of methods are used to obtain performance feedback from taxpayers, including perception survey. Conducted an independent countrywide Survey on Taxpayer perception survey 2016. URA routinely, but less systematically, takes into account taxpayer input in the design of programs and services.
POA 4: FILING OF TAX RETURNS			
The desired outcome is that- Taxpayers file tax declarations on time.			
P4-10. On-time filing rate.	D+	C	Relatively good. ratio for all taxpayers filing ratio for the 12 recent months: CIT- 45, PIT -12, VAT -87, & PAYE- 77
P4-11. Use of electronic filing facilities.	N.A	A	All taxpayers segments file returns electronically. Arrangements through free computer have beenput on station to enable taxpayers file
POA 5: PAYMENT OF OBLIGATIONS			
The desired outcome is that- Taxpayers pay their taxes in full on time.			
P5-12. Use of electronic payment methods.	N.A	A	100% of payments for core taxes of CIT, PIT, VAT and PAYE are paid through electronic systems.
P5-13. Use of efficient collection systems.	N.A	A	Withholding at source for employment income, provisional declaration and payments in advance for business income, and withholding of Dividend and Interest income.
P5-14. Timeliness of payments.	D	D	Information on timeliness of payments is not available
P5-15. Stock and flow of tax arrears.	B	B+	Arrears management is reasonably good

Indicators	Score		Remarks
	2015	2017	
POA 6: ENSURING ACCURACY OF REPORTING			
The desired outcome is that Taxpayers report complete and accurate information in their tax declarations.			
P6-16. Scope of verification actions taken to detect and deter inaccurate reporting.	N.A	D+	<p>URA's tax audit program covers all core taxes and most taxpayer segments, but lacks evaluation of their impact on compliance.</p> <p>Despite the recent inauguration e-hub (URA data warehouse system), linking of third party information both internally and externally is not automated to authenticate tax declarations.</p> <p>URA through the TREP initiatives and e-hub is working a system integration with other government agencies like URSB, NIRA and KCCA and BOU to harmonise systems and improve tax administration and effective tax reporting.</p>
P6-17. Extent of proactive initiatives to encourage accurate reporting.	N.A	B	<p>There is no automated crosschecking of third party information.</p> <p>URA is currently in the initial stages of developing a cooperative compliance framework to provide a working and amicable relationship between taxpayers and the revenue body which is based on trust and honesty.</p>
P6-18. Monitoring the extent of inaccurate reporting.	D	C	<p>URA under the domestic revenue mobilisation project has also embarked on advanced data analytics through data matching, data discovery and data management through the use of advanced data analysis techniques.</p> <p>URA is currently undertaking a pilot VAT misreporting experimental study in this FY</p>

Indicators	Score		Remarks
	2015	2017	
POA 7: TAX DISPUTE RESOLUTION			
The desired outcome is that The tax dispute resolution process is fair and independent, accessible to taxpayers, and effective in resolving disputed matters in a timely manner.			
P7-19. Existence of an independent, workable, and graduated dispute resolution process.	B+	A	A tiered review mechanism for tax cases exists and is used by taxpayers, and a specialist tax tribunal TAT (Tax Appeal Tribunal) is external to URA.
P7-20. Time taken to resolve disputes.	D	C	Time taken to determine disputes is not monitored and data on this were not made available
P7-21. Degree to which dispute outcomes are acted upon.	A	A	There is a routine and systematic monitoring of tax dispute outcomes within URA and dispute outcomes are taken into account in the formulation of tax policy
POA 8: OPERATIONAL EFFICIENCY AND EFFECTIVENESS			
The desired outcome is that Tax revenue collections are fully accounted for, monitored against expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds are paid promptly.			
P8-22. Contribution to government tax revenue forecasting process.	N.A	B	There is a team of dedicated staff in URA. However, there is no evidence to suggest that monitoring and reporting on the stock of tax losses carried forward by taxpayers that may be offset against future tax liabilities, is done.
P8-23. Adequacy of the tax revenue accounting system.	C	A	URA has an automated accounting system (SUN system) that meets government information technology and accounting standards.

Indicators	Score		Remarks
	2015	2017	
P 8 - 2 4 . Adequacy of tax refund process	N.A	D+	There is no monitoring of the time taken to clear refund claims, nor any other evidence to show that the 30-day rule is followed
POA 9: ACCOUNTABILITY AND TRANSPARENCY			
The desired outcome is that The tax administration is transparent in the conduct of its activities and accountable to the government and community.			
P9-25. Internal assurance mechanisms.	B	B	Internal controls are reasonably robust. Internal audit function is fairly effective. Staff integrity assurance mechanisms follow many of the good practices
P9-26. External oversight of the tax administration.	B	B+	There is strong external oversight of URA's operations and finances. External review findings and responses of the tax administration are presented to Parliament (COSASE) after engaging the Office on Auditor General (OAG)
P9-27. Public perception of integrity.	B	C	The Independent third party survey was last conducted was conducted in 2010.
P9-28. Publication of activities, results, and plans.	B	B+	The URA annual report, which outlines the financial and operational performance, is presented to office of the Auditor general and Parliament (COSASE). The corporate plan is available on portal.

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