

African Development Bank Group



Domestic Resource Mobilization
for Poverty Reduction in East Africa:

Uganda Case Study

Regional Department East A (OREA)

NOVEMBER 2010

Table of Contents

	Table of Contents	i
	List of abbreviations.....	ii
	Preface	iii
	Acknowledgements	iv
	Executive summary	iv
1	Context – Political economy and fiscal legacies	1
1.1	The NRM’s drive for economic recovery and liberalisation	1
1.2	Macro-economic, fiscal stability and steady growth from the 1980s	1
1.3	Development financing mix and challenges.....	2
1.4	Political economy dynamics underpinning DRM.....	4
1.5	Fiscal governance drivers, results and trajectory.....	7
2	Trends in the tax system	9
2.1	Changes in tax policies over the years	9
2.2	Institutional changes	11
2.3	Changes in the administrative systems	12
2.4	Fiscal decentralisation and taxation by local governments	13
2.5	Reforms sequencing, implementation and results	14
3	Domestic revenue performance.....	17
3.1	Domestic revenue performance trends.....	17
3.2	Tax administration benchmarks.....	19
3.3	Summary of overall trends.....	22
4	Challenges and issues.....	23
4.1	An introduction to the challenges and issues.....	23
4.2	Ensuring the efficacy of tax incentives and exemptions.....	23
4.3	Widening the tax base	23
4.4	Developing and maintaining capacity for tax policy management	23
4.5	Building and sustaining management capacity in URA.....	24
4.6	Minimising corruption in tax collection	24
4.7	Ensuring harmonised, systematic and policy led regional integration measures.....	25
5	Lessons of experience.....	26
5.1	It is important to insulate an ARA from politics	26
5.2	Restructuring, reengineering and automation can facilitate the reduction in the cost of collection.....	27
5.3	Tax incentives and exemptions can negate DRM results	27
	Annex A: List of Key informants.....	28
	Annex B: Bibliography.....	30
	Annex C: Select indicators.....	35
	Annex D: Changes to the administrative systems at URA	40
	Annex E: Glossary of definitions of select terms.....	42

List of abbreviations

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
APRM	African Peer Review Mechanism
ARA	Autonomous Revenue Authority
ASYCUDA	Automated System for Customs Data
CET	Common External Tariff
CIT	Corporate Income Tax
CITPROD	Corporate Income Tax Revenue Productivity
CTL	Commercial Transaction Levy
DFID	Department for International Development
DRM	Domestic Resource Mobilization
EAC	East African Community
eFiling	Electronic Filing
EPRC	Economic Policy Research Centre
eTax	Integrated Tax Management System
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoU	Government of Uganda
HIPC	Heavily Indebted Poor Countries Initiative
ICT	Information and Communication Technology
ID	Identification
IEP	Integrity Enhancement Programme
IMF	International Monetary Fund
LTO	Large Taxpayers' Office
M&E	Monitoring and Evaluation
MDRI	Multilateral Debt Reduction Initiative
MoFPED	Ministry of Finance, Planning and Economic Development
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NRM	National Resistance Movement
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PEAP	Poverty Eradication Action Plan
PIT	Personal Income Tax
PITPROD	Personal Income Tax Revenue Productivity
PwC	PricewaterhouseCoopers
RADDEX	Revenue Authority Digital Data Exchange
SAP	Structural Adjustment Programme
SSA	Sub-Saharan Africa
TAXSTAFF	Ratio of Tax Staff per Population
TIN	Taxpayer Identification Number
URA	Uganda Revenue Authority
VAT	Value Added Tax
VATGCR	VAT Gross Compliance Ratio

Preface

The African Development Bank (AfDB) has partnered with the African Tax Administration Forum (ATAF) and the East African Secretariat on a project aimed at sharing lessons of experience from Domestic Resource Mobilization (DRM) through case studies for the East African Community partner states (EAC), South Africa and South Korea. For the purposes of this work, DRM is defined to include only tax policy and administration and excludes other possible components of DRM such as domestic financial markets.

The overall objective of this project is to make recommendations, for the participating countries of the EAC, on the priority reforms and ways to sequence and implement them, in order to significantly enhance DRM. As such, the primary beneficiaries of the project are both the Ministries of Finance and the Revenue Administrations of the EAC.

This paper seeks to respond to the following question: *What key factors have contributed to or inhibited DRM in Uganda?* This case study has been prepared following an extensive review of available literature, interviews with key informants in Uganda, the collection of quantitative data, and the analysis of both primary and secondary data. Its development has also been informed by a methodological framework designed by the AfDB. The core principle of the methodological framework is to analyse tax performance as a result of tax systems, reforms and the political economy. The study adopts an explanatory case study approach to match patterns from our analysis of the literature and key informant interviews.

The achievements and lessons of experience contained in this and other country case studies will provide primary inputs for a policy note. The policy note will seek to address the following questions: *What are the priority reforms for EAC partner states and the EAC? How should these reforms be sequenced and implemented?*

Chapter 1 of this case study begins with an examination of Uganda's political economy and fiscal legacies. Thereafter, Chapters 2 and 3 explain and analyse the trends in the tax system and their impact on domestic revenue performance, respectively. The final chapters highlight the challenges and issues currently faced by the authorities (Chapter 4), and lessons of experience for consideration by the EAC partner states (Chapter 5).

Acknowledgements

The Uganda Case Study was prepared under the overall supervision of Mrs. Diarrietou Gaye (Regional Director, Department East A, OREA) and Catherine Baumont-Keita (Lead Economist, OREA). Core team members were Edward Sennoga (Macro Economist, UGFO and Task Manager, Richard Walker (Country Economist, KEFO) and Christian Lim (Private Sector Specialist, OSGE). The external consultants were led by Elizabeth Kariuki and Kithingi Kiragu (PricewaterhouseCoopers).

Mr. Aloysius Ordu (Vice President, Country and Regional Programs), Mr. Steve Kayizzi-Mugerwa (Director, Operational Resources and Policies), and Ms. Radhika Bharat (Investment Officer) initiated the project and were involved in the early design of the study.

The production of this case study was made possible by the generous financial support from the Korea-Africa Fund for Economic Cooperation. We also thank the African Tax Administration Forum, East African Community Secretariat, senior management and staff of the Uganda Revenue Authority and Ministry of Finance, Planning and Economic Development for the extremely productive exchanges and valuable insights provided to us during the preparation of this case study. Similar appreciation also goes to representatives of regional organizations, private sector organisations, think tanks and multilateral and bilateral development partners in Uganda.

The case study also benefitted from valuable feedback provided by staff in different departments of the ADB both at headquarters and in the field offices (Kenya, Tanzania, Uganda and Rwanda). External reviewers were Tom Richardson IMF Snr. Res Rep, Uganda, Kalyebbi B. Magoola, Assistant Commissioner: Research, Planning and Development, Uganda Revenue Authority who provided valuable comments.

There is not enough space here to name each and every one of those who have contributed immensely to the successful completion of this case study; however, Annex A lists some of the key contributors to this report. In addition, we seek the indulgence of all the contributors in accepting this blanket acknowledgement and appreciation of their efforts and contribution. We are indeed very thankful.

Executive summary

1. Context-Political economy and fiscal legacies

The first two and a half decades following Uganda's independence (in 1962) were dominated by political turmoil and war, including nine years rule under the dreaded Amin regime (1971-79). Economic performance was either dismal or negative in the intervening fiscal years. The National Resistance Movement (NRM) regime of President Museveni, which has governed Uganda since 1986 ushered an era of peace, political and economic reforms, and sustained social-economic development. On assumption of power, the regime embraced Structural Adjustment Programmes (SAPs). The implementation of the SAPs extended into and dominated the 1990s (AFRODAD, 2007), and entailed wholesale economic liberalisation. In return, Bretton Woods Institutions and the developed countries of the West lavished the regime with all round development assistance.

From the late 1980s, Uganda entered its current trajectory of macro-economic and fiscal stability, and poverty reduction. From 1987 to 2000, per capita GDP grew at an average annual rate of just over 3%, and this rate rose to about 4% in 2001 and 8.7% in 2007/08. According to the IMF (2009a), aggregate economic growth in the past five years has been at particularly high rate - approaching an annual average of 9%. Yet, according to the same source, in spite of two decades of steady economic growth, Uganda's economy remains more reliant on subsistence agriculture and correspondingly less on high-productivity manufacturing. It appears that one major drawback in Uganda's era of economic recovery and development has been the limited investments in economic infrastructure in yesteryears.

As elaborated below, DRM in Uganda has clearly lagged well behind both economic growth and far reaching tax administration reform efforts for many years. A review of political economy legacies suggests, firstly, despite strong support from the NRM regime for DRM, the national political leadership may have undermined tax revenue collection through ad hoc decisions on matters touching on tax policies and administration. Also, the tax base remains narrow. Furthermore, "tax morale" is undermined by the public perception that public services are predominantly funded with external resources, and a prevailing sense that due to corruption and mismanagement, government has not been delivering value for money with resources made available to it.

The commercial production of newly discovered oil reserves which are projected to commence by 2015 will be the most critical variable in Uganda's fiscal governance trajectory in the medium to long-term. No doubt oil revenues will vastly add to the level of domestic resources. This development will in turn, generate four significant outcomes. First, whether or not these revenues are managed by URA will impact either positively or negatively on the capacity and performance of URA to collect other revenue. Second, oil revenues may also serve to reduce Uganda's reliance on external resources. As a consequence, the relationship between Uganda and international development organisations will be redefined. Third, there is a distinct prospect that new revenue streams will in all probability, stimulate the acceleration of the modernisation of the economy and poverty reduction. Fourth, the availability of this new source of development resources, and the concurrent modernisation of the economy, may in the long-term dampen the prevailing propensity of political leaders to make ad hoc awards of tax incentives and exemptions. Therefore, barring the unforeseen or the tragedy of the so called "oil curse", the fiscal governance trajectory for Uganda is exponential.

2. Tax reforms: Sequencing, implementation and results

In the early years following independence, Uganda relied on unified tax policies and an administrative system jointly administered by the initial three members of the EAC. Following the enactment of the Income Tax Decree No. 1 of 1974, there were no major changes to the tax system until the 1990s and 2000s when government:

- Established URA (in 1991) in an attempt to better coordinate tax administration and enhance tax revenue collection;
- Introduced the Value Added Tax (VAT) (in 1996) despite popular resistance;
- Promulgated a new Income Tax Act (in 1997) with the objectives of levying tax on a residence basis, ensuring simplicity and promoting a flat tax rate scale;
- Abolished export taxes and embarked on tariff reform whose policy objectives evolved around simplification of the tax structure;
- Introduced major policy changes in the decade up to 2007/08 primarily around VAT and income tax.

An initial series of administrative reforms took place following the establishment of URA. The reform focus in these early years was on breaking the culture of corruption by screening staff, strengthening URA's capacity (Fjeldstad, 2005) and to a limited extent, modernising systems (IMF, 1999). However, corruption remained pervasive leading to the appointment of an independent inquiry into URA led by Justice Julia Sebutinde in 2002. The inquiry's report was, however, questioned by Parliamentarians, and nullified

by the High Court in 2004 (Fjeldstad, 2005). Still, in 2004/05 GoU appointed a new Commissioner General and Board. Since then the URA has undergone two phases of reform: (1) structural and further institutional reforms; and (2) a programme of modernisation.

As part of its post 2005 reforms, structural changes evolved around streamlining URA's structure which had become top heavy as well as hierarchical. Thereafter, URA's management also continued to address the problem of staff integrity, and embarked on modernising the authority. Key results under the modernisation phase include the following:

- Business processes in customs and domestic tax have been reengineered, new procedures drawn up, and staff retrained;
- Certain aspects of URA's corporate services have been modernised;
- As a means towards enhancing integrity, a revised staff code of conduct and whistle blowing policy were developed in 2009;
- URA has disseminated a taxpayers' charter with clear standards of service;
- Various publications on tax has been translated into eight languages, and Public and Taxpayer Education services regularly hold tax clinics to obtain feedback on taxpayers' needs.

It is noteworthy that the post 2005 reforms have focused primarily on tax administration. This is not surprising because Uganda is yet to undertake rigorous and comprehensive research and analysis of the tax system for instance as was the case with the work of the Katz Commission in South Africa.

3. Domestic revenue performance

Uganda achieved considerably improved levels of domestic revenue in the first seven years following the establishment of URA - with tax and non tax revenue collections rising by 5.1 percentage points to 11.9% of GDP in 1998/99. The reform of tax administration arrangements, as well as the introduction of VAT and Income Tax legislation contributed to a significant increase in domestic revenue collections in the late 1990s.

In addition, since 1991/92, non-tax revenues have contributed an average of 7% of total domestic revenue collected each year. It is noteworthy that from 2002/03, URA started to collect some non-tax revenues on behalf of ministries and departments including for

example: passport and migration fees; company regulation fees; and mining fees and royalties.

Still, in the current decade, domestic revenue growth has not been as high as anticipated, levelling at 12.8% of GDP in 2007/08. Revenue collections stagnated as a result of smuggling and tax evasion. The growing level of incentives and exemptions granted in recent years has further undermined Uganda's revenue potential, and perhaps explains the sizeable tax gap.

4. Challenges and issues

Considerable efforts have been made to modernize the URA, with a view to realising its vision "to be a model for best practices and innovation in revenue services". However, the following major challenges will need to be addressed for this vision to be realised and sustained:

- *Ensuring the efficacy of tax incentives and exemptions:* According to some key informants, tax revenue as a percentage of GDP could easily go up to 16%, if, some of the revenue negating measures, particularly incentives and exemptions were removed;
- *Widening the tax base:* The predominance of a large informal sector that is outside the tax net, under declarations, evasion and smuggling are challenges;
- *Developing and maintaining capacity for tax policy management:* There is a view that more could be done to build and sustain tax policy capacity in Uganda. Key informants proposed that one way of building and sustaining this capacity, would be, to promote knowledge sharing in the region. Another approach proposed would be to transfer staff between MoFPED and URA;
- *Building and sustaining management capacity in URA:* senior managerial positions have fixed term limits. Also remuneration has not been adjusted for senior staff and personnel in professional and technical positions since 2004/05. As a result, URA has not been able to retain institutional knowledge and specialised skills;
- *Minimising corruption in tax collection:* In 2009, URA was ranked as the second and seventh most corrupt public institution in Uganda, and in the three EAC countries (of Kenya, Tanzania and Uganda), respectively (Transparency International, 2009). Furthermore, the 2008 integrity baseline survey commissioned by URA suggests that corruption is still a challenge;

- *Ensuring harmonised, systematic and policy led regional integration measures:* It is noteworthy that there are demands by Ugandan based businesses to extend the duty exemption period beyond 2010 for the importation of key inputs and materials under the Duty Remission Scheme. In addition, Uganda's tax regime is not fully in synch with the systems in other EAC partner states.

5. Lessons of experience

There are three key lessons that can be drawn from Uganda DRM experience:

- *It is important to insulate an ARA from politics:* It would seem that URA's staff remuneration has been politicised in recent years, and therefore pay has not kept up with packages offered by other organisations in the market seeking to recruit similar skills. Therefore, URA has suffered staff losses in critical positions;
- *Restructuring, reengineering and automation can facilitate the reduction in the cost of collection:* Since 1996/97, URA has been able to bring down the cost of collecting tax and non-tax revenues. This reduction demonstrates one benefit of the restructuring, reengineering and automation initiatives;
- *Tax incentives and exemptions can negate DRM results:* It is therefore important to quantify, and if significant, reverse the effects of this and other negating factors.

1 Context – Political economy and fiscal legacies

1.1 The NRM's drive for economic recovery and liberalisation

The first two and a half decades following Uganda's independence were dominated by political turmoil and war, including a military coup nine years after independence, which was followed by the era of the dreaded Amin regime (1971-79) – who “became known as the ‘Butcher of Uganda’” (The Independent, 2003). Thereafter, following the 1979-80 war with Tanzania, Idi Amin was deposed, and the Uganda National Liberation Front under President Binaisa took over power for two years before he was overthrown, President Milton Obote took over for a period of five years (1980-1985), before a military junta (1985-86) overthrew him, and the National Resistance Movement (NRM) seized power in 1986.

Since 1986, the NRM under President Yoweri Kaguta Museveni has virtually dominated politics and the exercise of power in Uganda. The NRM's ten point agenda on taking power, which until recently was the legacy ideology of the movement, placed a strong focus on economic recovery and liberalisation. However, only a year after taking over, NRM embraced the IMF and World Bank structural adjustments programme and economic liberalisation policies as it recognised “the need for increased external support” (APRM, 2009). Thereafter, the government embarked on rebuilding the economy, which had virtually collapsed as a result of the prolonged economic mismanagement and the wars.

1.2 Macro-economic, fiscal stability and steady growth from the 1980s

“The NRM and President Museveni provided the leadership and governance discipline that helped turn around the fortunes of the country” (Tumushabe, 2009). The regime embraced Structural Adjustment Programmes (SAPs), “whose implementation extended into and dominated the 1990s” (AFRODAD, 2007). Under SAPs, the Government of Uganda (GoU) liberalised: prices and trade in the domestic market; foreign exchange; and payments. These measures enabled Uganda to diversify its exports. Furthermore, under SAPs, GoU restructured and divested its holdings in private enterprises. It was also able to contain inflation and promote a rise in interest rates through prudent monetary policies (IMF, 1999). In return, Bretton Woods Institutions and the developed countries of the West, lavished the regime with all round development assistance.

By the mid-nineteen nineties, Uganda entered onto a trajectory of macro-economic and fiscal stability. From: 1987 to 1996, per capita GDP grew at an average rate of 3% per annum (p.a.); and 1996 to 2000, average GDP per capita growth remained at around the same level. It is noteworthy that between 2001 and 2007, Uganda's average GDP per capita growth rose to around 4% p.a. According to the IMF (2009a), in the last five years, Uganda's average growth has been almost at 9% p.a.

Between 1990/91 and 2005/06 the structure of Uganda's economy changed fairly significantly. The services sector overtook the agriculture sector to become the largest contributor to the economy. Industry's share in production also rose, but since 2001/02 its share in total output has remained flat. Available estimates indicate that the contributions by the three sectors remained at around the same levels in 2009 – agriculture (22.2%), industry (25.1%) and services (52.8%)¹. Selassie (2008) suggests that industry's contribution could be much higher if more investment had been made in infrastructure – in particular, “cheap and effective infrastructure is a pre-requisite for industrialization”. To this end, for example, GoU is championing the Bujagali hydropower project scheduled to be commissioned in 2011.

In addition to the above Uganda's economic “growth has contributed to a sharp decline in poverty from 56% of the population in 1992/93 to 31% in 2005/06” (IMF, 2009a). This decline is attributable to concerted efforts on the part of GoU to combat poverty through the Poverty Eradication Action Plan (PEAP). “PEAP defines the framework through which [GoU] provides public goods and services needed to support economic growth and development” (GoU, 2004). PEAP was succeeded by a National Development Plan (NDP) covering a five-year period from 2010/11. The NDP targets a national growth rate of 8 to 9% of GDP p.a., and incorporates interventions aimed at further rapidly reducing poverty on a sustainable basis. Enhancing the quality of life of disadvantaged and vulnerable groups by financing initiatives in social services and infrastructure is at the forefront.

1.3 Development financing mix and challenges

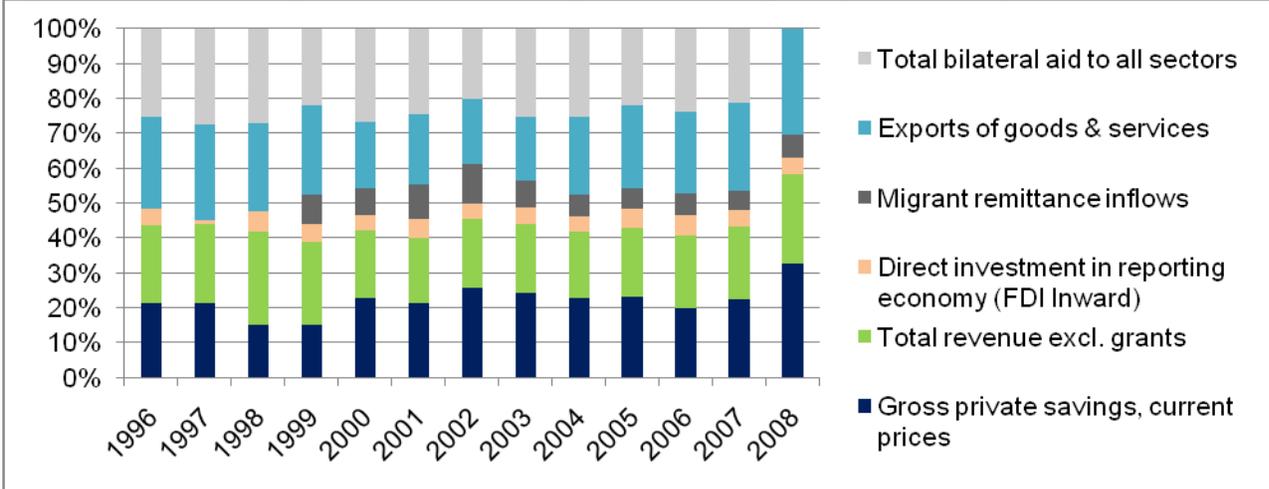
Figure 1.1 shows trends in the overall development financing mix for Uganda between 1996 and 2008. The three largest sources of developing financing during the period were gross private savings, exports and domestic revenue. Gross private savings (averaging at 14.6% of GDP between 2002 and 2008) were fairly low remaining below the Africa benchmark for the post-Monterrey period (after 2002) of 22.1%. This low level of saving is partly attributable to low household income levels and interest rates offered for deposits (World Bank, 2007). However, between 2002 and 2008, gross private savings grew at a fairly rapid rate of 19.9%.

Liberalising Uganda's economy has facilitated the growth of the nation's exports. According to the IMF (2009a), “the volume growth of major export commodities ... was either in line or above the average volume growth of world exports”. In 2008 and 2009, Uganda's largest foreign exchange earners were from the export of coffee, fish and fish products and tobacco.

¹ See <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html> [Accessed 26 March 2010].

On its part, the GoU has for most years played a proactive role in its dealings with international development organisations. Between 1996 and 2008, official development assistance (ODA) was a significant source of development financing accounting for an average of 10.7% of GDP. Most ODA financing went towards supplementing domestic resources and debt to finance GoU’s public expenditure which lingered around 17.5% to 17.8% of GDP between 1992/93 and 2007/08, except in select years when it rose above 20% (e.g. 23.8% in 2002/03). Through the innovation of the Poverty Action Fund, Uganda convinced its development partners to provide substantial funding for its socio-development programmes for many years. In addition, Uganda pioneered access to poverty reduction support credits and other substantial support in the decade just ending.

Figure 1.1: Trends in Uganda’s overall development financing mix (1996 to 2008)²



Source: Africa Economic Outlook (AEO) 2010 data

Uganda’s fiscal deficit rose in the early years (e.g. to 11.5% in 2003/04 from 6.5% in 1997/98) due to “the absolute expansion in the size of the government budget” which was financed largely by borrowing externally (Ayoki et al, 2008). However, it is noteworthy that Uganda was a front runner in accessing debt relief under the Heavily Indebted Poor Country (HIPC) initiative. Therefore, Uganda has not run short of resources to finance its development agenda.

Also, Uganda to a limited extent benefited in recent years from foreign direct investment (FDI) which accounted for an average of about 3% of GDP between 1996 and 2008. More recently the discovery of oil near Uganda’s Lake Albert, has to be the most important development in recent times with prospects for high FDI flows in the medium-term.

² Data on ODA for 2008 is not available.

1.4 Political economy dynamics underpinning DRM

The synopsis of the political economy legacies that have impacted DRM, as presented in the subsections below, is based on Brautigam's (2008) analytical framework³, which consists of the following five facets: (1) level of economic development and economic structure; (2) societal factors: culture, values, trust and 'tax morale'; (3) war and taxes: bureaucratic modernisation as a response to threat; (4) political institutions and tax systems; and (5) taxation and the fiscal contract.

1.4.1 The economic structure is predominantly agrarian driven and hard to tax

In spite of two decades of steady economic growth, Uganda's economy "remains more reliant on subsistence agriculture and correspondingly less on high-productivity manufacturing"⁴ (IMF, 2009a). Furthermore, as observed in a DIFD (2008) publication:

"Agriculture by nature is difficult to tax, and so far the ...sector has not made any significant contribution to government revenue. Even with the commercialisation drive that is underway, it is not expected that agriculture can be relied on for tax revenue in near future. There are also views ... that taxing [farmers] will cripple agriculture (discourage investment) and have disastrous economic fallout for farmers who are already facing hardship"

It appears that one major drawback in Uganda's era of economic recovery has been the limited investments in economic infrastructure. In spite of liberalisation, only a few large corporations have invested significantly in the Ugandan economy. For many years, investments in physical infrastructure were limited to relatively small projects in social services delivery, and rehabilitation and maintenance of historical facilities. Large investments identified in transport, energy, property development and agricultural production and agro-processing, have lagged behind for most of the years. Indeed it is only in the past five years that large investments in energy, mining, tourism and roads have been made.

However, Uganda has just entered a threshold of fiscal transformation, following the discovery of substantial oil deposits, which have attracted considerable investments in the last few years. Initial yields of oil production are anticipated in 2011, and full commercial potential, and thereby revenue streams for government financing, are expected in 2015. "The country expects to earn US\$ 2 billion a year from oil by 2015" (The Economist, 2010). It is not clear at the moment what the full implications for

³ Brautigam's framework is adopted because compared to others that were examined; it is judged to be more comprehensive and elegant. However, like most others, its historical perspective derives too much from the emergence of the modern European state to be linearly applied to states that are legacies of colonial rule, such as Uganda.

⁴ Although over 70% of Uganda's population is employed directly or indirectly in agriculture, in 2009, the services sector contributed close to 50% of GDP.

Uganda's economic structure and development financing mix will be given the imminent substantial oil revenues.

1.4.2 A culture of conflict and distrust which contributes to low 'tax morale'⁵

Many important facets of traditional culture among Uganda's diverse communities, have withstood the onslaught of western culture. In this regard it has been suggested that the tastes associated with that culture constrain the transit to consumerism associated with economic development in the same way, for example, as in neighbouring Kenya. As a consequence, many wealthy Ugandans have resisted full entry into the modern monetary economy. In other words, a reliance on informal institutions for business transactions remains comparatively high. Furthermore, many years of civil war and ethnic tensions, have given rise to a culture of conflict and distrust in sections of the society. As a matter of fact, sections of society consider the NRM to be hegemonic. In addition, over the past decade, the government has been intermittently bedeviled with high profile cases of public expenditure scandals and corruption in the public service. As a result, trust in government, and between communities, is low. In these circumstances, tax morale in Ugandan society is low.

1.4.3 Bureaucratic modernisation of the tax administration was a high priority following the wars that brought NRM to power

In the decade following independence, Uganda benefited from a robust revenue mobilisation bureaucracy, jointly developed by the defunct EAC (1967-1977). The foundations of these structures, were inherited from the colonial East African Common Services Organisation. The collapse of the EAC in the late 1970's was very disruptive to the development of the revenue administration system. The decade of civil war that followed sustained that disruption.

The final days of the Amin regime were epitomised by his declarations of war against both Kenya and Tanzania. "He clashed with President Jomo Kenyatta after making absurd territorial claims to western Kenya and in 1978 made the mistake of declaring war on Tanzania" (The Independent, 2003). To wage these wars, Amin had strived to enter into alliances with rich Arab and Islamic regimes, and to an extent the Soviet Union, to obtain the resources for war. Therefore, his regime did not give due attention to DRM, and the development of an enabling bureaucracy. Therefore subsequent short-lived regimes, as well as, the NRM did not inherit a viable tax administration bureaucracy.

After its victory, the NRM government was cognisant of the high priority it needed to accord to resource mobilisation, in order to sustain its operations as a modern state. Also, since the NRM was not democratically elected, the expansion and intensification

⁵ In a society where "tax morale" is high, there are low levels of tax evasion and avoidance. It is only in a social culture where citizens generally appreciate their responsibility for sustaining state services and where they have a trust in their state institutions and leaders that "tax morale" evolves.

of basic social services was central to achieving regime legitimacy among the population. It is therefore no wonder that the NRM regime was a trail blazer among the countries of the region in establishing an autonomous revenue authority (ARA), the Uganda Revenue Authority (URA) in 1991, with high expectations of rapid growth in DRM.

1.4.4 Political support for URA's autonomy has waived in recent years

Apparently, the NRM political elite led by President Museveni, strongly backed the establishment of URA as an autonomous and integrated agency (Fjeldstad, 2005). The NRM political leadership collaborated closely with, and took advice, from the Bretton Woods Institutions and the British Government which provided substantial initial technical support. At that point, there was a general consensus about the need to insulate URA from both bureaucratic and political interference. It is in this context that two Commissioner Generals of URA (1991-1997, 2001-2004), were expatriates. Several top management positions were also filled by expatriates and funded by donors. President Museveni is cited to have openly hailed the role of the expatriates in ensuring the professionalism of the agency.

However, there was serious distrust and conflict between URA and the top political leadership, including those in Ministry of Finance, Planning and Economic Development (MoFPED). At the time the Value Added Tax (VAT) was introduced, URA staff were suspected to be active in encouraging resistance by the general public (Therkildsen, 2004). Subsequently, with an explicit cue from the President, in 1998, MoFPED moved to curtail the mandate and administrative autonomy of the URA's Board (Fjeldstad, 2005). Since then, URA has remained prone to close oversight and patronage by the national political leadership.

In the latter context, it is also significant that the national political leadership in Uganda has over the years, intervened on an ad hoc basis on matters touching tax policies and administration. In particular, many tax incentives and exemptions have been imposed on URA by political leaders outside formal tax policy formulation and administration processes.

1.4.5 There is no semblance of a fiscal contract between government and its citizens⁶

The opportunities for even a semblance of a fiscal contract between Uganda's taxpayers and the government/URA, have been severely curtailed in at least three respects. First, so far, the tax base remains narrow, and taxpayers are largely confined to a relatively small number of private sector enterprises, government as an employer

⁶ Fiscal contract has its genesis in agreements between European monarchies and the propertied class and merchants that the latter would contribute to state coffers especially to fund war in return for specific benefits. In modern times a fiscal contract would be characterised by government pledges of specific socio-economic benefits to justify taxation. This is a more realistic proposition in a democratic dispensation.

and importers. The popular resistance to the introduction of the VAT in 1996, reflected the absence of a fiscal contract. Yet since then, there does not appear to be any evidence of any concrete initiatives to develop one. Such an initiative would necessarily be led by the national political leadership.

A second factor is the success of the NRM regime in financing a large proportion of public expenditure with external resources. Over the past two decades, external donor support has accounted for about 20% to 50% of the public expenditure budget.

A third factor arises from a prevailing sense amongst taxpayers and potential taxpayers that due to corruption and mismanagement, government has not been delivering value for money with resources made available to it. According to a publication by the Private Sector Foundation of Uganda (2009) “85% of both taxpayers and professionals believe [low compliance is] ...the key cause of low [DRM]... Most respondents...were generally pessimistic [about]” how funds are used”. It is no surprise therefore that the Minister of Finance, Planning and Economic Development in her 2009/10 budget speech mentioned the problem of compliance. Specifically, “compliance remains a challenge, as we undertake reforms in tax administration”.

1.5 Fiscal governance drivers, results and trajectory

The NRM regime’s legitimacy has remained predicated more on development results than on liberal democratic ideals. Accordingly, President Museveni has been preoccupied with economic development in terms of expanding access to public service delivery (including infrastructure development) and modernisation of the economy. Thus, on the one hand, the demand for ever expanding fiscal space to meet public service delivery targets has been sustained over the years. On the other hand, the President is personally involved in the extensive award of tax incentives and exemptions to potential investors on an ad hoc basis ((Mwenda and Atuhaire, 2006); (Sseppuya, 2005)). Fortunately for Uganda, external resources have been available to close the financing gap in successive years.

The persistent large gap between domestic revenues and the public expenditure framework, has given ample room for international development organisations to exercise considerable influence in Uganda’s fiscal governance. For example, according to Therkildsen (2004) in addition to their involvement in economic policy:

“Donors’ fingerprints on tax policy and administration are obviously numerous and deep... [they] participate in setting revenue targets...[This involvement] has [forced] URA to concentrate on the larger known taxpayers”.

Ayoki et al (2008), suggest that “high levels of development aid [could] be a...disincentive to making full use of domestic resources for revenue generation”. The recent African Peer Review Mechanism (APRM) (2009) report on Uganda is another

source that confirms that excessive reliance on external financing is an important fiscal governance driver in Uganda in that it “impinges on the sovereignty of the country and constrains its economic budgetary choices”. This concern has been previously raised by Uganda’s Members of Parliament, prompting government to initiate a reduction in aid contributions to its budgets, and ambitious targets to grow domestic resources.

The discovery of oil has injected a new dynamic in Uganda’s fiscal governance. Already, there is clamour for control or influence on access and use of the oil revenues. Also, aspirations for the rapid growth in public service delivery and poverty reduction, have been considerably raised by the prospect of oil wealth – “Oil executives and loyalists of Uganda’s President...say the bonanza, offers a chance to overhaul the country’s rickety infrastructure and to train a professional workforce” (The Economist, 2010). As the IMF (2009a) observes there is a case for fiscal restraint to curtail pressure to spend when government starts to receive revenues from oil. Therefore, to counter this risk “a specific line on oil will be introduced in the National Accounts and incorporated into the Medium Term Fiscal Framework”.

The management of the imminent substantial oil revenues will be the most critical variable in Uganda’s fiscal governance trajectory in the medium to long-term. There appears to be little doubt that in five years time, these revenues will vastly add to the level of domestic resources. This development will in turn, generate four major outcomes. In one respect, whether or not these revenues are managed by URA will impact either positively or negatively on the capacity and performance of URA to collect other revenue. Second, oil revenues may also serve to reduce Uganda’s reliance on external resources. As a consequence, the relationship between Uganda and international development organisations will be redefined. Third, there is a distinct prospect that new revenue streams will in all probability, stimulate the acceleration of the modernisation of the economy and poverty reduction. Fourth, the availability of this new source of development resources, and the concurrent modernisation of the economy, may in the long-term dampen the prevailing propensity of political leaders to make ad hoc awards of tax incentives and exemptions⁷. Therefore, the fiscal governance trajectory for Uganda holds a lot of promise.

⁷ There is a view that the discovery of oil could in the short-term lead the scaling-up of exemptions (through concessions).

2 Trends in the tax system

2.1 Changes in tax policies over the years

In the early years following independence, Uganda relied on unified tax policies and an administrative system jointly administered by the initial three members of the EAC. However, there were changes even before the collapse of the EAC. In 1971 and 1972, the three governments held discussions “on how to improve income tax collection in a manner equitable” to all, leading to a decision to “place the responsibility of income tax in the hands of each national government” (Osoro, 1993). As a consequence, Uganda legislated its own Income Tax Decree No. 1 of 1974 “which [over the next twenty years was frequently and extensively amended” (Holmes, 2006). There were no major changes to the tax laws until the 1990s. Thereafter, there were two main episodes in tax policy reforms as presented below.

2.1.1 Fundamental changes to tax policy in the 1990s

Despite popular resistance, Uganda was one of the first countries in the EAC to introduce the VAT in July 1996 at a rate of 17%, replacing the sales tax and commercial transaction levy (CTL). According to the IMF (1999) copies of the sales tax and CTL legislation were in limited supply. Furthermore, legislation had undergone numerous amendments, and only a few were conversant with their requirements. The new VAT law: 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 (IMF, 1999). Under the Act certain supplies were VAT exempt (e.g. milk, maize, dental, medical, financial and insurance services, passenger transportation etc.).

It was not until 1997 that the GoU promulgated a new Income Tax Act with the objectives of levying tax on a residence basis, ensuring simplicity and promoting a flat tax rate scale (Holmes, 2006). Again this new act removed the Minister of Finance’s power to grant discretionary exemptions. 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 with a turnover of less than US\$ 50 million; 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 (IMF, 1999).

During the 1990s, as a means of promoting trade, GoU gradually abolished export taxes (Cawley and Zake, 2010). It also embarked on tariff reform whose policy objectives evolved around simplification of the structure, reducing the number of rates, the removal of exemptions and elimination of bans on the importation of certain goods (e.g. cigarettes, beer, sodas etc.). “However, as import duty rates were being lowered, ad

valorem excises were imposed...with the dual objective of allowing some degree of protection” for local firms and recouping revenue foregone (IMF, 1999).

2.1.2 Major tax policies from 2000 to 2008

The major tax policy changes in the decade up to 2007/08 have primarily evolved around VAT and income tax. During this period, the main policy changes around VAT were the following:

- To encourage the development of Information and Communications Technology (ICT) services government removed VAT on computers and computer software in 2002/03 and 2003/04 respectively;
- To minimise any revenue leakages arising from tax evasion, a new rule requiring government to only issue contracts to suppliers who are VAT registered, became effective in 2002/03.;
- As a means of widening the tax base: accommodation in hotels and tourist venues which were previously exempt from VAT, became taxable at the VAT the standard rate from 2003/04;
- In 2004/05 the VAT Act was amended to exempt constructors of roads and bridges, and providers of consulting services to such construction contractors. This had the effect of reducing the prices charged to government for road construction, as there was no longer any VAT element;
- In line with government’s deliberate policy of increasing the proportion of the national budget that is financed by domestic revenue, the standard rate of VAT went up to 18% with effect from 1 June 2005;
- In 2006/07, the government zero rated VAT on Liquid Petroleum Gas to increase its affordability given its use as an alternate energy source for lighting and cooking. To promote the use of condoms in the fight against HIV/AIDS and animal husbandry, GoU also exempted contraceptive sheaths and acaricides;
- As a means of promoting tax morality and enhancing revenue collections, government (in 2007/08) also offered non-compliant taxpayers an amnesty on penalties and interest for principal taxes (i.e. under the Customs and Excise, Income Tax, VAT and Stamps Acts). Taxpayers were required to voluntarily disclose and pay their taxes by 31 December 2007.

The major changes to income tax policy since then include the following:

- In 2001/02, on the one hand to widen the tax base, interest payable on Treasury bills became taxable. On the other hand, to promote the development of a stock

exchange, expenses relating to initial public offerings became an allowable tax expense;

- In 2003/04, to promote exports, the government indicated it would provide firms operating in export processing zones with various incentives such as a ten-year corporation tax holiday, duty exemption on raw materials, plant and machinery and other inputs etc.;
- In 2005/06 to expand access to finance, interest earned by financial institutions on loans granted to persons engaged in the agriculture sector was exempted from income tax;
- The tax amnesty of 2007/08 (see above) also covered income tax. Also, to promote exports and thereby stimulate economic growth in 2007/08 the government offered various incentives, including a 10 year tax holiday to companies engaged in value added exports, which is limited to export of finished consumer and capital goods.

Changes in customs policies and administration have been driven by the East African Community Customs Management Act of 2004, which underpins the establishment of common external tariffs (CETs) and elimination of internal tariffs. It also brought about the: harmonisation of customs principles and procedures; and removal of suspended duty.

Excise duties are regulated under the Excise Management Act of 1970. The Act is levied on beer, wines, spirits, soft drinks, cigarettes and fuel which are manufactured in or imported into Uganda, as well as mobile airtime. Over the years, there have been modest increases and decreases in the rates levied for certain goods and services.

2.2 Institutional changes

URA was the second revenue authority to be established in Africa in 1991, following the enactment of the URA Act Cap 196. The establishment of URA was “an attempt to integrate central government taxes under one management, and to improve revenue collection through enhanced autonomy, acquisition of skilled staff, increased integrity and effective use of automated systems” (Ayoki, 2008). From its launch, URA’s operations have been financed by Parliamentary appropriations.

The authority is led by a Commissioner General who reports to a Board of Directors. The Board of Directors “is [URA’s] policy making body and has general oversight”

responsibility, and is accountable to the Minister of Finance⁸. MoFPED sets URA's revenue targets on an annual basis.

Following a restructuring exercise undertaken in 2004, six departments within URA have responsibility for the following day-to-day operations: (1) the Commissioner General's office which in addition to maintaining executive control, is charged with managing research and planning, and corporate and public affairs; (2) board and legal affairs; (3) collecting and accounting for international trade taxes; (4) registration, audit, assessment, collection and accounting for domestic revenues; (5) the provision of various corporate services (e.g. finance, administration, human resources, ICT); and (6) internal audit and tax investigations. Also, URA has a training school which runs both technical as well as ICT courses.

2.3 Changes in the administrative systems

URA employs around 2,000 staff. Under the Act, URA has freedom to pay its staff competitive salaries. At its launch, "substantial salary increases to staff that moved to the URA meant that they were relatively well paid to start with – by a factor of 8 to 9 – compared to most public-sector employees" (Therkildsen, 2004). Also, "bonuses as a percentage of their salaries were a potential lure when URA exceeded tax collection targets, but this was only done once, with a 10% bonus in 1998/99" (Robinson, 2004). Furthermore, there have been no substantial salary increments for managerial staff since 2004/05.

The development of URA's administrative systems has been guided by a tax modernisation initiative (see **Section 2.5**). The administrative systems that are operational (also see **Annex D**) include:

- A bespoke developed Integrated Tax Administration System (eTax) in the Domestic Tax Revenue Department covering all taxes and non-tax revenues collected by URA. The eTax's functionality was recently extended to cover electronic filing (eFiling) and payments;
- The Automated System for Customs Data ++ (ASYCUDA++) in customs for direct trader input so that importers can lodge declarations from their bases. Further, to support the effective cargo tracking between the revenue authorities of the EAC, URA has implemented the Revenue Authority Digital Data Exchange (RADDEX) system;
- URA has also recently introduced a call centre with a toll free line which operates on weekdays and responds to any queries lodged at the authority's new interactive website (<http://ura.go.ug/uraweb/index.jsp>);

⁸ <http://www.ugrevenue.com/administration/> [Accessed 28 March 2010].

- URAnet for internal communications among staff.

2.4 Fiscal decentralisation and taxation by local governments

Uganda was widely seen as one of the forerunners of decentralisation in Africa during the 1990s. Decentralisation in Uganda is based on the devolution of powers, functions and responsibilities to popularly elected local governments. Devolution is not only aimed at the current 112 districts in the country (as at August 2010), but also at the sub-county level and other sub-district levels (including the village level). Local governments are assigned responsibility to deliver key social and economic services, including primary and secondary education; public health services; agricultural extension services; roads; water and sanitation. Corresponding with the importance of the functions assigned to them, local governments receive almost one-third of the country's public financial resources (Bitarabeho, 2008; Ministry of Local Government 2009).

In principle, local governments in Uganda: are highly autonomous. In practice, however, local governments are increasingly constrained by inadequate resource discretion and administrative re-centralisation⁹. Own source revenues have declined considerably over the past ten years, in large part due to the abolition of the main local revenue source, the graduated tax. As a result, local governments now receive 90% of their resources in the form of intergovernmental fiscal transfers. The overwhelming majority of these intergovernmental fiscal transfers are in the form of conditional grants.

Available local revenue data indicate that own source revenues for the district level (excluding sub-county revenues) has decreased not only in relative terms in Uganda, but declined considerably in nominal terms, from US\$ 80.1 billion in 2003/04 to US\$ 39.5 billion in 2006/07 (Steffensen 2008). The main contributing factor to the drop in local revenue collection was the abolition of the graduated tax on 1 July 2005. Also, the rest of Uganda's local government revenue system has been performing poorly. In part, this has been due to the tax structure; for instance, the many tax exemptions in the property rates have added to the funding gaps amongst the urban authorities (Steffensen 2008).

A new Local Service Tax (LST) and Local Government Hotel Tax (LGHT) system was adopted from FY 2008/09, but the implementation of these new revenue sources have been surrounded by numerous technical and political obstacles. Even when fully implemented, the revenue yield from these new sources is expected to be quite limited compared to the graduated tax system. A Local Government Finance Commission survey in 2007/08 established that local governments collected US\$ 4.8 billion from LST and LGHT compared to the projected US\$ 67 billion that the taxes were estimated to be contribute to local government revenues annually.

⁹ Whereas previously the Chief Administrative Officer was appointed by the District Service Commission, the appointment and supervision of CAOs was re-centralised by the central government during the Constitution reforms adopted in July 2005.

2.5 Reforms sequencing, implementation and results

An initial series of administrative reforms took place following the establishment of URA. The reform focus in these early years was on breaking the culture of corruption by screening staff, strengthening URA's capacity (Fjeldstad, 2005) and to a limited extent, modernising systems (IMF, 1999). However, corruption remained pervasive leading to the appointment of an independent inquiry into URA led by Justice Julia Sebutinde in 2002. The inquiry's report was, however, questioned by Parliamentarians, and nullified by the High Court in 2004 (Fjeldstad, 2005). Still, in 2004/05 GoU appointed a new Commissioner General and Board. Since then the URA has undergone two phases of reform: (1) structural and further institutional reforms; and (2) a programme of modernisation.

2.5.1 Sequencing and implementation of reforms

As part of its post 2005 reforms, structural changes evolved around streamlining URA's structure which had become top heavy as well as hierarchical – the new structure is described in **Section 2.2**. Thereafter, URA's management also continued to address the problem of staff integrity. In particular, in 2006, it launched an Integrity Enhancement Programme (IEP) which, for instance: introduced an internal process for investigating reported cases of misconduct; sensitised staff on ethics; and instituted a code of conduct.

From 2006, URA's reforms are specified in its 'Modernisation Plan' covering the period from 2006/07 to 2009/10. The reforms have received support (US\$15 million) from development partners, including: Belgium; China; DANIDA; DFID; IMF; JICA, Netherlands; SIDA; and the World Bank. The modernisation programme is comprehensive, and seeks to achieve the following ten objectives (URA, 2009):

- A strategy development process backed up by a disciplined “plan-implement-monitor-review” cycle to ensure achievement of results;
- User friendly, simplified, cost effective and transparent processes;
- Quality client service characterised by open, responsive and pro-active customer care programmes;
- A dynamic organisational structure that adapts to operational demands;
- A highly skilled and motivated work force committed to delivering to the highest professional standards;
- Application of ICT and other productivity tools in a manner that integrates people, process and technology for greatest value;

- A safe and healthy working environment;
- A regulatory and policy framework that supports continuous improvement;
- Use of analytical tools and other modern management techniques to enhance compliance and minimise resource wastage;
- A corporate culture across all levels of URA that values service excellence.

Modernisation reforms are substantially complete. Key results under the modernisation phase include the following:

- Business processes in customs have been reengineered, new procedures drawn up, and staff retrained. ASYCUDA++ and RADDEX are functioning (see **Annex D**);
- Business processes in domestic tax have been reengineered, new procedures drawn up, and staff retrained. The eTax system is in operation (see **Annex D**), however, work is ongoing to extend its functionality (e.g. to cover audits, refunds, investigations etc);
- Certain aspects of URA's corporate services have been modernised. For example, URA has a corporate plan in place. M&E of the corporate plan is supported by the corporate scorecard system (see **Annex D**);
- As a means towards enhancing integrity, a revised staff code of conduct and whistle blowing policy were developed in 2009. Furthermore, URA is proactive in communicating issues centring on integrity both internally and externally;
- URA has disseminated a taxpayers' charter with clear standards of service;
- As a means for improving access to information, various literature on tax has been translated into eight languages. Further Public and Taxpayer Education services regularly hold tax clinics to obtain feedback on taxpayers' needs.

It is noteworthy that the reforms pursued by URA have been primarily administrative oriented. In other words, they have been short in policy innovations and prescriptions. This is not surprising because there is apparently no rigorous and comprehensive research and analysis of the tax policy environment and system such as the work of the Katz Commission in South Africa which lasted for five years. This may in part explain the minimal impact of the reforms on tax revenue as a percentage of GDP, tax effort and tax gap (see **Section 3.2.4**).

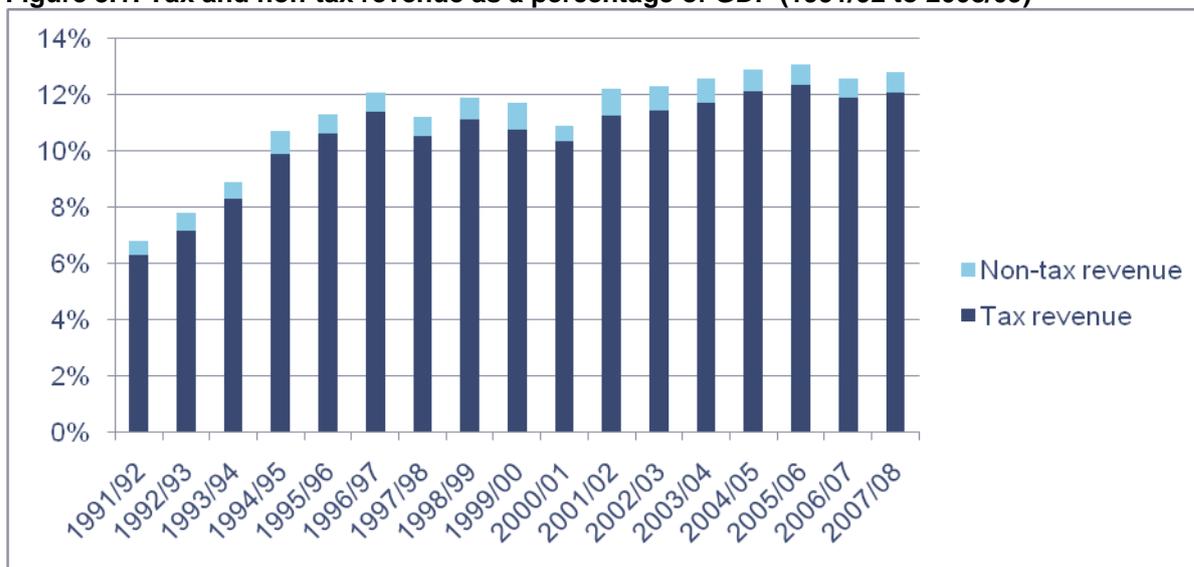
Furthermore, while URA's reforms were administratively comprehensive, generally, they were neither focussed nor driven by specific performance outcomes such as improved enforcement, a wider tax base etc. "The main focus was on meeting revenue targets and not enough was done to embed non-revenue performance objectives and indicators" (Cawley and Zake, 2010). Excessive tax exemptions may also have significantly cancelled out the prospective impact of the reforms on tax revenue performance. In addition, Ndulu et al (2007) attribute a slow growth in tax revenue in both Uganda and Tanzania as a percentage of GDP to emanate "chiefly from fiscal corruption".

3 Domestic revenue performance

3.1 Domestic revenue performance trends

In the fiscal year that URA was established (1991/92), domestic (tax and non-tax) revenue as a percentage of GDP was 6.8% (IMF, 1997). The reform of tax administration arrangements, as well as the introduction of VAT and Income Tax legislation contributed to a significant increase in domestic revenue collections in the late 1990s. In particular, by 1998/99, total domestic revenue as a percentage of GDP stood at 11.9% (see **Figure 3.1**). In addition, since 1991/92, non-tax revenues have contributed an average of 7% of total domestic revenue collected each year. It is noteworthy that from 2002/03, URA started to collect some non-tax revenues on behalf of GoU ministries and departments including for example: passport and migration fees; company regulation fees; and mining fees and royalties. Migration fees registered the highest growth between 2002/03 and 2007/08 recording an average annual growth rate of 33.5%. Still, in the current decade, domestic revenue growth has not been as high as anticipated, levelling at 12.8% of GDP in 2007/08.

Figure 3.1: Tax and non-tax revenue as a percentage of GDP (1991/92 to 2008/09)



Source: Various IMF staff reports. Also see Table C4 in Annex C

The lower than expected growth in domestic revenue as a percentage of GDP is explained by five main factors. First, it is claimed that a large proportion of the informal sector falls outside the tax net. “It is estimated that the top 35 highest tax payers in the country alone account for about 50% of all the tax revenue, an

indication of how narrow the tax base is in the country” (Sennoga et al, 2009). Second, there is a common view that tax evasion in Uganda is widespread, and is “a serious constraint to Uganda’s ability to raise resources” (Matovu, 2008). Third, smuggling of various products has also contributed to revenue leakages (Cawley and Zake, 2010). Fourth, “the slowing of revenue growth is partly explained by the erosion of institutional autonomy... and deficiencies in URA’s governance and management structures” (Robinson, 2004). Fifth, is the growing level of exemptions given by government to businesses over the years, which again have negated any DRM effort. Many exemptions appear to “have been granted in an *ad hoc* fashion over the past years” (IMF, 2010); and with no specific deadline or details about who they apply to (see **Section 3.2.2**).

It is therefore not surprising that Uganda is still heavily reliant on revenue from international trade taxes (e.g. import and excise duties – especially on petroleum imports). **Table C6** (see **Annex C**) indicates that whilst the proportion of customs and excise revenue as a percentage of total domestic resources fell from 53% in 1996/97 to 36% in 2007/08, it remains the largest revenue source. Nonetheless it is significant that since its introduction in 1996/97 to 2007/08, VAT revenue (the second largest revenue source) grew at an average annual rate of 16.3%. In the initial years, the increase in VAT revenue is attributed to the “entry into the Uganda market of a number of international telecommunications and supermarket operators – large payers with more transactions – and some administrative improvements” (Cawley and Zake, 2010). However, according to the same authors there was scope for the VAT tax base to expand even more if government had not extended the number of items eligible for exempt or zero rating status.

Likewise by 2007/08, Inland Revenue (PAYE, corporate income and local excise taxes), the second largest revenue source, comprised almost 30% of total revenues collected by the URA, a marked increase from its contribution in 1996/97 of 17%. Throughout the period PAYE was the largest contributor to inland revenue (accounting for almost 50% in 2007/08), and grew at an average annual rate of 29% between 1996/97 and 2007/08 despite the reduction in tax rates (see **Annex C: Table C1**). This growth is due to: economic growth especially in the manufacturing and service sectors and as a result the growth in formal employment; the fact that all government employees began to make PAYE contributions from 1998/99; and “improvements in tax administration and compliance” (Cawley and Zake, 2010). Corporate tax contributions constituted 12% and 20% of inland revenues in 1996/97 and 2007/08 respectively, and grew at an average annual rate of 30% partly as a result of the expansion of the telecommunications and banking sectors.

Another tax policy that proved to be a success was the tax amnesty offered by GoU in 2007/08. The amnesty not only registered new taxpayers but also GoU realised US\$ 41 billion (about US\$18 million) from the voluntary disclosures. To further encourage entities to clean up their books, in 2008/09 the Minister of Finance proposed to write off arrears of duty and tax relating to the principle, interest and penalties that had accrued to 30th June 2002. This proposal was in order in that it encouraged taxpayers to start from a clean slate. Also it was in line with the Income Tax Act in that the URA can not go beyond 5 years back in its audit coverage.

3.2 Tax administration benchmarks

3.2.1 Performance efficiency

Cost of collection. Between 1995/96 and 2007/08 the average cost of collection as a percentage of total domestic revenues was 3.4% p.a. The cost of collection as a percentage of revenue has been on the decline since 1995/96, except in years when URA has incurred high capital expenditures (e.g. in 2003/04, when it procured heavy duty scanners for the Customs and Excise Department) (see **Annex C: Table C2**). However, between 1995/96 and 2007/08, tax administration costs grew at an average annual rate of 15.1%.

Organizational structure. URA is organised along functional lines. It established a large taxpayers' office (LTO) in November 1998. The LTO currently serves 667 large taxpayers. In 2008, large taxpayers constituted 1% of the entire taxpayer base, but contributed 72% of tax revenues¹⁰.

Ease of paying taxes. Uganda has the second best rating among the EAC countries, (after Rwanda), in terms of the World Bank's Doing Business Ranking with respect to, ease of paying taxes – ranking 61st out of 183 countries in 2010, which is a marked improvement on its position in 2009 of 71st place. According to the World Bank's 2010 Paying Taxes report, a company is required to make 32 payments a year which are below the SSA average of 37.7 p.a., but above the OCED average of 12.8 a year (see **Annex C: Table C11**).

Tax arrears. URA reports that tax arrears at the end of 2007/08 were US\$ 162 billion (or 4.8% of total revenues). Key informants indicate that tax arrears increased by 439.8% between 2006/07 and 2007/08, partly due to the zealous charging of penalties by some URA officers. URA is addressing this issue to ensure that penalties are only levied when warranted. Also, in 2006/07, GoU wrote off tax

¹⁰ Source: The International Tax Dialogue: Tax Administration in Selected African Countries: 2009.

arrears of US\$ 120 billion arising from government's commitment to pay tax on donor funded projects.

Tax compliance. Uganda has a very low VAT gross compliance ratio (VATGCR) of 26.50 in comparison to World and SSA averages of 65.48 and 38.45 respectively¹¹. This low rate may be due to the significant number of exemptions. From an economic efficiency perspective, a moderate VAT rate with a broad consumption base and few exemptions is always preferred to a high rate with many exemptions. Cawley and Zake (2010) also indicate that VATGCR has remained low because "administration capacity and compliance did not improve as much as expected".

Further, Uganda's CIT revenue productivity (CITPROD) and personal income tax (PIT) productivity (PITPTOD) measures of 0.03 and 0.11, respectively, indicate that Uganda uses these taxes less efficiently in generating revenue than World averages of 0.13 and 0.14 for CITPROD and PITPROD, respectively. The low revenue yields are partly attributable to low levels of voluntary compliance by taxpayers¹².

3.2.2 Allocative efficiency

Between 1991/92 and 1997/98, the levels of corporate tax collections were reduced as a result of the investment code, which was subsequently abolished and replaced with depreciation and tax allowances (e.g. for depreciation). Furthermore, there have been various exemptions offered over the years, such as the ten year tax holiday introduced in 2007/08 (see **Section 2.1.2**). Although the associated loss in tax revenues has not been determined through rigorous study, key informants suggest Uganda could be foregoing revenue of at least 2% of GDP as a result of such incentives and exemptions.

3.2.3 Performance equity

The World Bank's 2010 Paying Taxes report indicates that the 'total tax rate' as a percentage of profit of 35.7% is significantly lower than the OECD average of 44.5%, and lower than the SSA average of 67.5%. Furthermore, a study by Matovu et al (2009) intimates that PAYE rates are relatively progressive for most individuals – "this perhaps explains why PAYE is one of the taxes where government collects a lot of revenue". However, another study by Sennoga et al (2009) reports that the highest PAYE burden falls on households based in Kampala, and suggests that there is scope to spread the burden by taxing households which are based

¹¹ http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132 [Accessed 2 February 2010].

¹² www.cabri-sbo.org/ [Accessed 7 July 2010].

upcountry and in rural areas, in particular those engaged in profitable economic activities-(see **Table 3.1**).

Table 3.1: Tax contributions by households

Households	Income tax (UShs millions)	Total income (UShs millions)	Total collected %
Rural farm	50,106	4,695,186	1.07%
Rural non-farm	33,670	954,396	3.53%
Kampala metro	234,007	1,249,676	18.73%
Urban farm	35,768	882,176	4.05%
Urban non-farm	41,706	711,087	5.87%

Source: Sennoga et al (2009)

It is also noteworthy that the PAYE threshold has been stagnant at UShs 130,000 (or US\$ 57) per month for over ten years, suggesting that government has not taken account of inflationary effects on wages for low income workers. As a result, low and fixed income earners are unlikely to be able to save. In addition, the tax rates by bracket are progressive up to a relatively low threshold of UShs 410,000 (US\$ 182) per month (after which income tax is levied at a flat rate of 30%).

In addition to PAYE, low income tax earners are also burdened with VAT, which was adjusted upwards by 1% in 2005 to 18%. However, many basic items and services are zero rated (see **Section 2.1.1**). Furthermore, excise duties are highest for cigarettes (130%), beer (60%) and spirits (45%) to reflect the health risks and social costs associated with their consumption. High tax rates for such items is common in many countries as it is argued that there is merit and considerable scope for collecting additional tax revenue to cater for externalities.

Another indicator of the tax burden for corporate taxpayers (i.e. time taken to comply with major taxes) suggests that Uganda's tax system promotes equity. In this regard, the 2010 World Bank paying taxes survey indicates that, the time taken by companies in Uganda to comply with major taxes is 161 hours, which is much lower than the OECD and SSA averages of 194.1 hours and 306.0 hours respectively (see **Annex C: Table C11**).

3.2.4 Performance effectiveness

URA's performance effectiveness is comparatively low in terms of both tax effort and tax gap (see **Annex C: Table C13**). At 60.3%, in 2005, Uganda's tax effort was well below the level of Kenya (90.5%), but better than those of Rwanda (57%) and Tanzania (54.4%). However, Uganda's tax effort increased by 6 percentage points

between 2001 and 2005. During the same period, Uganda, also managed to reduce its tax gap by 1 percentage point to 7.8% of GDP. Still, there is considerable scope to further reduce the tax gap.

URA has been proactive in soliciting feedback on its performance with a view to improving the effectiveness of tax administration. Soliciting feedback on perceptions about service delivery, and the integrity of URA, appears to have been of particular importance in recent years. An independent integrity survey of 444 taxpayers commissioned by URA in 2008, confirms views expressed in the literature, and by key informants around revenue performance (RDC, 2009). For example “tax evasion in general was perceived to be a major problem in tax collection”.

3.3 Summary of overall trends

Uganda achieved considerably improved levels of domestic revenue in the first seven years following the establishment of URA - with tax and non tax revenue collections rising by 5.1 percentage points to 11.9% of GDP in 1998/99. Much of this growth is attributable to the growth of the economy following many years of conflict, and more effective collection by URA. However, in subsequent years revenue collections stagnated as a result of smuggling and tax evasion. The growing level of incentives and exemptions granted in recent years has further undermined Uganda’s revenue potential, and perhaps explains the sizeable tax gap.

4 Challenges and issues

4.1 An introduction to the challenges and issues

Chapter 2 sought to demonstrate the considerable efforts that have gone into modernising the tax system in URA, with a view to realising its vision “to be a model for best practices and innovation in revenue services”. However, major challenges will need to be addressed for this vision to be realised and sustained. These challenges and issues are expounded on in the remainder of this chapter.

4.2 Ensuring the efficacy of tax incentives and exemptions

According to some key informants, tax revenue as a percentage of GDP could easily go up to 16%, if, some of the revenue negating measures, particularly incentives and exemptions were removed. GoU has undertaken to draw up “a register of all existing incentives and exemptions...their cost [computed]—in terms of lost revenue—and net economic impact quantified” (IMF, 2010). It is anticipated that government will abolish unproductive tax expenditures from 2010/11. The elimination of non-value adding incentives and exemptions will however, demand the resolve and commitment of Uganda’s political leadership.

4.3 Widening the tax base

The predominance of a large informal sector that is outside the tax net, under declarations, evasion and smuggling are challenges that commonly arise in the literature and discussions on Uganda’s tax system. The problem of smuggling is being addressed through measures such as heightened intelligence (e.g. RADDEX), and the introduction of customs clearances at specific border points. However, the issues around the informal sector, under declarations and evasion are best addressed through one or more of the following: (1) an exercise to quantify the size of the informal economy; (2) enforcing compliance; (3) the availability of a functioning land registry system which provides URA with third party information; and (4) the introduction of a national identification (ID) system. The development of a land registry system is ongoing under a World Bank financed Private Sector Development Project. In addition, there are indications that the national ID project is back on track.

4.4 Developing and maintaining capacity for tax policy management

It was suggested in **Chapter 2** that the tax reforms in Uganda are weak in terms of policy innovations and prescriptions, and that this may underlie the minimal impact of the reforms on DRM. It is also the case that some key informants to the study indicated that the tax policy function is weak. In this context there is a view that

more could be done to build and sustain tax policy capacity in Uganda – particularly in supporting the nation to increase its revenue as a percentage of GDP. Key informants proposed that one way of building and sustaining this capacity, would be, to promote knowledge sharing in the region. Another approach proposed would be to transfer staff between MoFPED and URA. But when this approach has been tried in the past, the large differences in salaries between the two institutions, has created a problem around motivation. In this latter regard, an anonymous source from MoFPED is quoted as having said that:

“The salary disparities paid by the same government to its workers is creating discontent among the lowly paid workers in the civil service yet they do almost the same work and are qualified. According to this official there is no justification in paying workers in statutory bodies higher salaries (which are nearly 70% higher) compared to their counterparts working in ministries” (Habuti and Masinde, 2009).

4.5 Building and sustaining management capacity in URA

There are two potential obstacles to building and sustaining management capacity in URA. First, is that the positions of Commissioner General, Commissioners and Assistant Commissioners have fixed term limits, following which incumbents are prevented from serving any longer. There is therefore, a danger that specialised skills and institutional knowledge, are lost each time such staff depart from the organisation. Second, is the issue of remuneration, which has not been adjusted for senior staff and personnel in professional and technical positions since 2004/05. With respect to this latter issue, it would appear that the salaries of URA staff have been politicised, especially since URA’s salaries are perceived to be high when compared to those offered to public servants. As a result, some key informants indicated that URA has been unable to retain specialised skills in areas such as ICT and audit.

4.6 Minimising corruption in tax collection

In 2009, URA was ranked as the second and seventh most corrupt public institution in Uganda, and in the three EAC countries (of Kenya, Tanzania and Uganda) respectively (Transparency International, 2009). URA “was the only tax authority in the region to appear among the top five institutions in their respective country index” (Transparency International, 2009).

In its corporate plan URA acknowledges that “there is a perception among the public that to some extent corruption still exists within the organisation”. Furthermore, the 2008 integrity baseline survey commissioned by URA indicates

that “a good number of respondents reported that they had experienced or seen URA officers engage in improper behaviour” (RDC, 2009). Furthermore, the report suggests that URA still needs to ensure that it strengthens resistance to corruption. To this end, URA inevitably continues to actively collaborate with anti-corruption bodies and the public, and will shortly implement its whistle-blowing policy.

4.7 Ensuring harmonised, systematic and policy led regional integration measures

Regional integration at both EAC Customs Union level is apparently a predominantly politically driven initiative. Evidently, many of the regional integration measures promulgated by regional political forums have been made before any rigorous assessment of both the feasibility of implementation, and DRM implications. Thus for example: (1) common external tariffs (CETs) were pronounced on the eve of the EAC Customs Union launch, there is still a lot of haggling over them; (2) there is an absence of clarity on the appropriate classification of manufactured and semi-manufactured goods; (3) “the value of goods which [qualify] for exemptions and remissions has been growing” (Mugisa, 2009) ; and (4) weak and poorly coordinated controls over the rules of origin continue to pose major problems for all the ARAs in the EAC member states.

It is noteworthy that there are demands by Uganda based businesses to extend the duty exemption period beyond 2010 for the importation of key inputs and materials (225 tariff numbers) given to 94 companies under the Duty Remission Scheme. Yet businesses in other EAC member states are required to pay import duty at the applicable CET rate. “This is contrary to the spirit of the agreed position, and naturally, there is opposition to this from other members and even in Uganda there is no unanimous support on this matter” (Mugisa et al, 2009). In addition, Uganda’s tax regime is not fully in synch with the systems in other EAC partner states. For example, VAT and excise duty are not harmonised, which could negatively impact on cross-border trade.

5 Lessons of experience

It is clear that URA like other ARAs in the region has embarked on extensive reforms and capacity building initiatives. This synthesis of lessons of experience is based on an assessment of outputs from the reform efforts and policy measures for which specific outcomes can be identified. At the same time, this chapter captures lessons of experience in terms of what decisions, and actions, affect tax efforts.

5.1 It is important to insulate an ARA from politics

In line with the original envisioning of the relevance of URA's autonomy, the authority should have the institutional environment and incentives that allow it to attract and retain the talent necessary to build, operate and maintain an efficient and effective tax administration system. However, as indicated earlier in this paper, it would seem that URA's staff remuneration has been politicised in recent years, and therefore pay has not kept up with packages offered by other organisations in the market seeking to recruit similar skills (see **Box 5.1**). Therefore, URA has suffered staff losses in critical positions. Furthermore, freezing URA's pay levels may serve to undermine its image in the market. For example, it may be perceived to be less professional due to its reduced ability to attract and retain the best skills available in the market. The remuneration aspect "of autonomy has [therefore] become less significant over time as pay and conditions move more closely into line with civil service norms" (Robinson, 2004).

Box 5.1: Political leader tirade against salary adjustments for URA staff

Despite the global economic downturn the URA is moving to increase the salaries paid to its employees in a bid to improve its 'operational efficiency'. The tax body which has some of the highest paid employees on the government payroll submitted a proposal to the Ugandan parliament last week in which it seeks a 16% increment to its employees' salaries.

Members of parliament.. last week threatened to block the proposal. "Our economy is doing badly and we are collecting less revenue, not due to lack of skilled staff, but because of the financial crisis... It will be irrational for us to increase URA salaries by Shs7.8 billion yet we are collecting less and our people have no drugs in hospitals. We cannot fix the realities of the financial crisis by rewarding URA executives." [one Member of Parliament] argued.

Ironically as the URA asks for staff salary increments, the National Health Service Commission will not be able to recruit the 1,000 health workers its needs this financial year [FY 2008/09] for lack of funding. Furthermore the national budget this year slashed about 3.4 billion off the main national hospital (Mulago Hospital) budget, yet the hospital is in dire need of these funds.

Source: Anyoka (2009)

5.2 Restructuring, reengineering and automation can facilitate the reduction in the cost of collection

Table C2 Annex C indicates that since 1996/97, URA has been able to bring down the cost of collecting tax and non-tax revenues. This reduction demonstrates one benefit of the restructuring, reengineering and automation initiatives that URA has implemented. When all the new processes and systems are fully functioning, there is a distinct possibility that the cost of collection as a percentage of total revenue collected will be even lower. Then also, URA should start “harvesting” from its massive investment in IT systems say through, data matching, enhancing compliance management capabilities, use of third party information, and sharing of information across departments.

5.3 Tax incentives and exemptions can negate DRM results

URA has made noteworthy advancements with its modernisation agenda. However, the effect of its reforms are not fully discernible in domestic revenue performance indicators (See **Chapter 3**), especially collections as a percentage of GDP. The key factors for this lower than expected performance appear to be: the large proportion of the informal sector that falls outside the tax net; the common view that tax evasion in Uganda is widespread; and the growing level of exemptions – which “not only shrink the tax base but also complicate tax administration and are a major source of revenue resource leakage from the taxed economy” (Gupta and Tareq, 2008). It is therefore important to quantify, and if significant, reverse the effects of these three negating factors.

Annex A: List of Key informants

Jack Grigg (Mr) Economist – Tax Policy Division – Fiscal Affairs Department, International Monetary Fund

Jeroen de Lange (Mr) Senior Economist, World Bank Country Office

John Ogol (Mr) Senior Finance Officer – Legal, Ministry of Finance, Planning and Economic Development

Kalyebbi Magoola (Mr) Assistant Commissioner – Research, Planning & Development, Uganda Revenue Authority

Keith Muhakanizi (Mr) Deputy Secretary to Treasury, Ministry of Finance Planning and Economic Development

Lawrence Bategeka (Mr) Senior Research Fellow, Economic Policy Research Centre

Lawrence Kiiza (Mr) Director Economic Affairs, Ministry of Finance, Planning and Economic Development

Luke Okumu (Dr) Senior Research Fellow, Economic Policy Research Centre

Moses Kajubi (Mr) Commissioner Domestic Taxes, Uganda Revenue Authority

Moses Kibirige (Mr) Adviser Financial and Private Sector Development, World Bank Country Office

Moses Ogwal (Mr) Director Policy and Advocacy, Private Sector Foundation Uganda

Moses Sabiiti (Mr) Manager – Modernisation, Uganda Revenue Authority

Patrick Khaemba (Mr) Resident Representative - Uganda, African Development Bank

Paul Wade (Mr) Poverty Reduction and Economic Management Cluster Lead, The World Bank

Peter Malinga (Mr) Commissioner Customs, Uganda Revenue Authority

Rob Rudy (Mr) Pro-Poor Growth Adviser, Department for International Development

Sarah Babalanda (Ms) Supervisor Tax Education – Public and Corporate Affairs,
Uganda Revenue Authority

Sarah Birungi Banage (Ms) Assistant Commissioner, Public and Corporate Affairs
Management, Uganda Revenue Authority

Sarah Ssewanyana (Dr) Executive Director, Economic Policy Research Centre

Thomas Richardson (Mr) Senior Resident Representative - Uganda, International
Monetary Fund

Annex B: Bibliography

Africa Peer Review Mechanism (2009) *Republic of Uganda* APRM Country Review Report No. 7.

African Forum and Network on Debt and Development (2007) *A Critical Assessment of Aid Management & Donor Harmonisation: The Case of Uganda*, AFRODAD 2007.

Anyoka, M. (2009) *Higher URA Wages vs Better Health Care* [Available at: <http://www.groundreport.com/Opinion/HIGHER-URA-WAGES-VS-BETTER-HEALTHCARE/2904087>] [Accessed 4 April 2010].

Ayoki, M. (2008) *Tax Administration in Poor Countries: Country Report Uganda*. IPRA, 2008. Working Paper No. 20. Ayoki, M (2008) *Tax Administration in Poor Countries: Country Report Uganda* Institute of Policy Research and Analysis IPRA Working Paper No 20.

Ayoki, M., Obwana, M., Ogwapus, M. (2005) *Tax Reforms and Domestic Revenue Mobilization in Uganda* Institute of Policy Research and Analysis, Global Development Network.

BBC (2002) *Uganda Roots Out Tax Corruption* BBC News 15/03/02, [online].

Bitarabeho, J. (2008) The Experience of Uganda – Local Government’s Role as a Partner in the Decentralisation Process to Strengthen Local Development. A Paper Presented at a *Conference on Access to Development Funding for Local Governments in Africa, Johannesburg, 15 – 17 September 2008*.

Boko, SH. and Balamoune-Lutz, M. (2009) Fiscal Decentralisation, Donor Funding and Poverty Reduction in Africa: A Case Study of Uganda. Paper presented at *Conference on the Role of the Sub-National Jurisdiction in Efforts to Achieve the MDGs*, Abuja Nigeria 7-9 May 2009.

Brautigam, D.A. (2008) Introduction: Taxation and State Building in Developing Countries. In D.A Brautigam., O-H. Fjeldstad and M. Moore (eds) *Taxation and State Building in Developing Countries* Cambridge University Press: Cambridge, pp. 1-33.

Cawley, G. and Zake, J. (2010) Tax Reform In F. Kuteesa, E. Tumusiime-Mutebile, A. Whitworth and T. Williamson (eds) *Uganda’s Economic Reforms: Insider Accounts* Oxford University Press: Oxford, , 1st edtn, pp. 103-128.

Chen, D., Matovu, JM., Reinikka, R. (2001) *A Quest for Revenue and Tax Incidence in Uganda* IMF Working Paper WP/01/24.

DFID (2008) *Making Uganda's Tax System More Appropriate in Meeting National Objectives: What works, what doesn't, and why* Institute of Policy Research and Analysis, DFID 2008.

Fjeldstad, OH. (2005a) *Corruption in Tax Administration: Lessons from Institutional Reforms in Uganda*, CMI Working Paper WP 2005: 10.

Fjeldstad, OH. (2005b) *Revenues and Corruption: An Overview of Issues*, In U4-Workshop on *Corruption in Public Financial Management: Donor Perspectives* Bergen, 16-17 February 2005.

Fjeldstad, OH. and Rakner, L (2003) *Taxation and tax reforms in developing countries: Illustrations from sub-Saharan Africa* CMI Report R 2003:6.

Gauthier, B. and Reinikka, R. (2001) *Shifting Tax Burdens Tax Burdens Through Exemptions And Evasion Exemptions: An Empirical Investigation Of Uganda* The World Bank Policy Research Working Paper 2735.

Gauthier, B. and Reinikka, R. (2006) *Shifting Tax Burdens through Exemptions and Evasion: an Empirical Investigation of Uganda* *Journal of African Economies* doi:10.1093/jae/ejl022 Advance Access published June 14, 2006.

GoU, (2004), *Poverty Eradication Action Plan (2004/5 – 2007/8)*. GoU, 2004.

Growth E. (2008) *Uganda's Taxation Policy: Implications for Poverty Reduction and Economic Growth* Review Report No. 9

Gupta, S., and Tareq, S.(2008) *Mobilising Revenue: Strengthening domestic Revenue Bases is Key to Creating Fiscal Space for Africa's Developmental Needs*, IMF Fiscal Affairs Department, *Finance and Development*, 2008.

Habuti, M.A. and Masinde, J. (2009) *Tensions Mount Over Disparities in Uganda's Public Service Salaries* East Africa In Focus 10/11/2009, [online].

Hauser, E. (1999) *Ugandan relations with Western donors in the 1990s: what impact on democratisation?* *The Journal of Modern African Studies* 37(4):621-641.

Holmes, K. (2006) *The Uganda Income Tax Act 1997: A Primer on Concepts and Structure* IFBD Publications: Amsterdam.

IMF (1997) *Uganda Statistical Appendix*. IMF, 1997. Report no. 97/48.

IMF (1999) *Uganda: Selected Issues and Statistical Appendix*. IMF, 1999. Report No. 99/116.

IMF (2009a) Country Report, IMF Country Report No. 09/79, March 2009.

IMF (2009b) Some Observations on Domestic Revenue Mobilization. Presentation made during *IMF Staff Visit to Rwanda*, Oct-November 2009.

IMF (2010) *Uganda: Sixth Review Under the Policy Support Instrument and Request for an Extension of the Policy Support Instrument—Staff Report*. IMF, 2010. Report no. 10/1.

Kaweesa, C. (2004) *Taxation and Investment in Uganda Structure and Trend A Presentation To The Business Forum in London, UK For Investment Opportunities In Uganda* May 2004.

Kayaga, L. (2007) *Tax Policy Challenges Facing Developing Countries: a Case Study of Uganda* Unpublished Master's Thesis, Faculty of Law, Queens University.

Khorana, S., Kimbugwe, K., Perdakis, N. (2007) *The Impact of Tariff Reductions under the East African Community Customs Union: Intra-trade effects on Uganda* BOUWP/08/08.

Matovu JM. (2008) Domestic Resource Mobilisation in Uganda and Economic Performance, Country Presentation for the *North-South Institute Domestic Resources Mobilization in Sub-Saharan Africa Project* January 2008-January 2009.

Matovu, J., Twimukye, E., Nabiddo, W., Guloba, M. (2009) *Impact of Tax Reforms on Household Welfare*. EPRC, 2009. Research Series No.64.

Ministry of Local Government (2009) *Ministerial Policy Statement Presented To Parliament For The Debate On The Budget Estimates*. Government of Uganda, 2009.

Monitor Reporter (2005) ***Uganda Must Give Incentives to Investors, says Museveni*** The Monitor 16/02/2005, [online].

Mugisa, E., Onyango, C., Mugoya, P. (2009) *An Evaluation of the Implementation and Impact of the East African Community Customs Union*. EAC, March 2009.

Mwenda, A.M. and Atuhaire, A.B. (2006) Museveni Gives Bassajja Another Shs. 13b in Taxes The Monitor 14/06/2006, [online].

Ndulu, B.J., Chakraborti, L., Lijane, L., Ramachandran, V., Wolgin, J. (2007) *Challenges of African Growth: Opportunities, Constraints, and Strategic Directions* IBRD/World Bank: Washington, 1st edtn.

Osoro (1993) *Revenue Productivity Implications of Tax Reform in Tanzania*. AERC, 1993. Paper No. 20.

Page, S. and Te Velde, D.W. (2004) *Foreign Direct Investment by African Countries*. ODI, 2004.

Private Sector Foundation Uganda (2009) *Widening Uganda's Tax Base and Improving Tax Administration* Final Report.

RDC (2009) *Perceptions and Integrity Baseline Survey in URA*. URA, 2009.

Rice, X. (2009) *Oil Find Sparks New Hope for Uganda's People* *Guardian* 25/08/09, [online].

Robinson, M. (2004) *Managing Successful Governance Reforms: Lessons of Design and Implementation – The Political Economy of Governance Reforms in Uganda*. World Bank, 2004.

Robinson, M. (2006) *The Political Economy of Governance Reforms in Uganda* Institute of Development Studies, Discussion Paper 386.

Selassie, A.A. (2008) *Beyond Macroeconomic Stability: The Quest for Industrialization in Uganda*. IMF, 2008. WP/09/231.

Sennoga, E., Matovu, J.M., Twimukye, E. (2009) *Tax Evasion and Widening the Tax Base in Uganda*. EPRC, 2009. Research Series No.63.

Sseppuya, M. (2005) *Rakai to Get Free Trade Zone* *The New Vision* 16/12/2005, [online].

Steffensen, J. (2008) *Fiscal Decentralisation Issues*. Mission Report for the JBSF Taskforce, October 25, 2008.

Tangri, R. and Mwenda, A. (2010) *President Museveni and the Politics Of Presidential Tenure in Uganda* *Journal of Contemporary African Studies*, Volume 28 Issue 1 2010.

The Economist (2010) *A Bonanza Beckons: Hope and Peril for the Great Lakes* *The Economist* 03/04/2010, p.37-38.

The Independent (2003) *Idi Amin: Jovial but Brutal Tyrant known as the 'Butcher of Uganda'* The Independent on Sunday 18/08/2003, [online].

Therkildsen, O. (2004) Autonomous Tax Administration in Sub-Saharan Africa: The Case of the Uganda Revenue Authority in *Forum for Development Studies* No. 1 – 2004 Volume 31, Norwegian Institute of International Affairs.

Transparency International (2009) *The East African Bribery Index 2009*. Transparency International, 2009.

Tumushabe, G. (2009) *Trends in Public Administration Expenditure In Uganda: The Cost of the Executive and its Implications on Poverty Eradication and Governance* ACODE Policy Research Series, No. 27, 2009.

UCC (2009) *A Review of the Post and Telecommunications Market 2008/09*. UCC, 2009.

Uganda Revenue Authority (2009) *Taxpayer's Charter*, URA Revised edition, June 2009.

URA (2009) *Modernisation Plan 2006/07 – 2009/10: Best Opportunity for Total Transformation*. URA, 2009.

World Bank (1995) Economic Consequences of the Transition from Civil War to Peace *Development Brief* Number 47.

World Bank (2005) Budget Support, Aid Dependency, and Dutch Disease: The Case of Uganda, *Practitioner's Forum on Budget Support* Cape Town, South Africa May 5-6, 2005.

World Bank (2007) *Uganda: Moving Beyond Recovery: Investment & Behavior Change, For Growth*. World Bank, 2007. Report no. 39221-UG.

Annex C: Select indicators

Table C1: Tax policy – Maximum marginal tax rates (1991/92 to 2007/08)

Fiscal year	PAYE	Corporate tax	VAT
1991/92	50%	-	-
1992/93	40%	-	-
1993/94	30%	-	-
1999/00	30%	30%	17%
2000/01	30%	30%	17%
2001/02	30%	30%	17%
2002/03	30%	30%	17%
2003/04	30%	30%	17%
2004/05	30%	30%	18%
2005/06	30%	30%	18%
2006/07	30%	30%	18%
2007/08	30%	30%	18%

Source: Budget speeches, IMF (1999) and Doing Businesses

Table C2: Tax administration costs (1995/96 to 2007/08)

Fiscal year	Operating cost including capital expenditure (US\$)	Operating cost as a % of tax revenue
1995/96	24,773,779,106	3.9%
1996/97	27,070,834,505	3.6%
1997/98	29,441,017,509	3.6%
1998/99	36,530,777,177	3.8%
1999/00	36,638,290,073	3.6%
2000/01	37,867,361,311	3.4%
2001/02	47,431,462,746	3.7%
2002/03	47,052,693,855	3.2%
2003/04	71,399,654,482	4.2%
2004/05	70,644,656,503	3.5%
2005/06	74,767,060,318	3.2%
2006/07	78,153,461,190	2.8%
2007/08	100,885,309,949	3.0%

Source: Various URA audited accounts

Table C3: Ratio of tax staff per population (TAXSTAFF)

Indicator	Uganda's measure	World's measure	SSA's measure	Low income economies' measure
TAXSTAFF	-	0.82	0.37	0.20

Source: http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132 [Accessed 2 February 2010].

Table C4: National government revenue and fiscal deficit as a percentage of GDP

Fiscal year	Revenue (tax and non-tax revenue)	Fiscal deficit excluding grants
1991/92	6.8%	-
1992/93	7.8%	-
1993/94	8.9%	-
1994/96	10.7%	-
1995/96	11.3%	-
1996/97	12.1%	-6.4%
1997/98	11.2%	-6.1%
1998/99	11.9%	-6.0%
1999/00	11.7%	-10.1%
2000/01	10.9%	-11.0%
2001/02	12.2%	-12.3%
2002/03	12.3%	-11.5%
2003/04	12.6%	-9.6%
2004/05	12.9%	-7.2%
2005/06	13.1%	-7.1%
2006/07	12.6%	-6.0%
2007/08	12.8%	-5.1%

Sources: Various IMF staff and PRSP progress reports

Table C5: Split of total budgeted tax and non-tax revenue as a percentage of total domestic revenue (1991/92- 2007/08)

Fiscal year	Tax revenue	Non-tax revenue
1991/92	93%	7%
1992/93	92%	8%
1993/94	93%	7%
1994/96	92%	8%
1995/96	94%	6%
1996/97	94%	6%
1997/98	94%	6%
1998/99	93%	7%
1999/00	92%	8%
2000/01	95%	5%
2001/02	92%	8%
2002/03	93%	7%
2003/04	93%	7%
2004/05	94%	6%
2005/06	94%	6%
2006/07	95%	5%
2007/08	95%	5%

Source: Various IMF staff reports

Table C6: Composition of national government tax and non-tax revenues as a percentage of total revenues collected by URA (1996/97 to 2007/08)

Fiscal year	Customs and excise duties	VAT	Inland revenues	Non tax revenues collected by URA
1996/97	53%	30%	17%	-
1997/98	49%	32%	18%	-
1998/99	46%	34%	20%	-
1999/00	45%	35%	20%	-
2000/01	42%	36%	22%	-
2001/02	40%	35%	25%	-
2002/03	37%	36%	27%	1%
2003/04	37%	34%	29%	1%
2004/05	35%	33%	31%	1%
2005/06	35%	34%	31%	1%
2006/07	35%	34%	30%	1%
2007/08	36%	34%	29%	1%

Source: Various URA audited accounts

Table C7: Major sources of tax revenue as a percentage of total revenues collected by URA (1996/97 to 2007/08)

Fiscal year	Petroleum imports	Import and excise duties	Excise duty - local	VAT on imports	VAT local	CIT	PAYE
1996/97	27%	14%	11%	18%	12%	2%	5%
1997/98	23%	13%	12%	18%	14%	3%	4%
1998/99	20%	14%	11%	19%	14%	5%	7%
1999/00	19%	13%	10%	19%	16%	4%	8%
2000/01	18%	14%	9%	20%	16%	5%	9%
2001/02	17%	11%	9%	19%	17%	5%	11%
2002/03	16%	11%	8%	19%	17%	6%	12%
2003/04	16%	12%	8%	0%	14%	7%	12%
2004/05	16%	11%	7%	18%	15%	8%	12%
2005/06	16%	11%	7%	19%	15%	8%	13%
2006/07	-	-	6%	19%	15%	7%	13%
2007/08	17%	10%	6%	19%	14%	6%	13%

Source: Various URA audited accounts

Table C8: Major sources of non-tax revenue collected by URA as a percentage of total non-tax revenues collected by URA (2002/03 to 2007/08)

Fiscal year	Passport and migration fees	Company regulation fees	Mining fees and royalties
2002/03	57%	12%	22%
2003/04	57%	15%	18%
2004/05	42%	9%	16%
2005/06	43%	8%	20%
2006/07	49%	9%	21%
2007/08	57%	9%	12%

Source: Various URA audited accounts

Table C9: CIT and PIT revenue productivity and VAT gross compliance ratio (2008/09)

Indicator	Uganda's measure	World's measure	SSA's measure	Low income economies' measure
CITPROD	0.03	0.13	0.09	0.08
PITPROD	0.11	0.14	0.08	0.07
VATGCR	26.50	65.48	42.3	38.45

Source: http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132 [Accessed 2 February 2010].

Table C10: World Bank Doing Business indicators on the tax burden (Uganda only)

Indicator	Year		
	2008	2009	2010
Uganda's global ranking	-	71	66
Number of tax payments a year	33	33	32
Time taken to comply with the major tax types	237	222	161

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=185> [Accessed 10 March 2010]

Table C11: World Bank Doing Business indicators (2010) on the tax burden (Uganda vis-à-vis the OECD and SSA)

Indicator	Region		
	Uganda	OECD	SSA
Number of tax payments a year	32	12.8	37.7
Time taken to comply with the major tax types	161	194.1	306.0
Total tax rate as % of profit	35.7%	44.5%	67.5%

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=185> [Accessed 10 March 2010]

Table C12: Number of registered taxpayers (2002/03 to 2007/08)

Registered for	Aug-05	Jun-06	Growth
VAT	13,485	16,410	21.7%
Corporate	15,639	19,218	22.9%
Individual	20,936	25,051	19.7%
PAYE	4,575	5,399	18.0%
Rental income	4,607	6,524	41.6%

Source: URA audited accounts

Table C13: Tax gap and tax effort for select EAC countries and South Africa (select years)

Country	Year	Tax revenue (A)	Estimated potential tax revenue (B)	Tax gap (B) – (A)	Tax effort (A)/(B) as a %
		As a % of GDP			
Kenya	2001	17.8	20.8	3.0	85.5
	2005	18.6	20.6	2.0	90.5
South Africa	2001	24.8	26.7	1.9	92.9
	2005	27.4	27.0	-0.4	101.4
Rwanda	2001	10.7	20.9	10.2	51.2
	2005	12.2	21.4	9.9	57.0
	2008	13.5	22.0	8.5	61.4
Tanzania	2001	9.7	20.0	10.3	48.5
	2005	11.2	20.5	9.3	54.4
	2008	15.0	20.9	5.9	71.6
Uganda	2001	10.4	19.2	8.8	54.3
	2005	11.8	19.5	7.8	60.3

Source: IMF (2009b)

Annex D: Changes to the administrative systems at URA

The development of URA's administrative systems has been guided by a tax modernisation initiative. A bespoke developed Integrated Tax Administration System (eTax) is used in the Domestic Tax Revenue Department covering all taxes and non-tax revenues collected by URA. A unique feature of the eTax is that it generates a unique taxpayer identification number (TIN). ETax is interfaced with the URA's accounting system – Sun Systems. The eTax's functionality was recently extended to cover electronic filing (eFiling) and payments, and is targeted at around 2,000 medium and large firms. The eFiling feature of eTax was piloted in December 2009, and will be rolled out in 2010.

Between 2002 and 2004, the Customs and Excise Department migrated to Automated System for Customs Data ++ (ASYCUDA++) , which was rolled out from 2005 to 2007. ASYCUDA++ runs at 30 out of 38 customs offices and border stations. This version allows for direct trader input so that importers can lodge declarations from their bases, and to minimise the build up of documents.

Furthermore, to support the cargo tracking between the revenue authorities of the EAC, URA has implemented the Revenue Authority Digital Data Exchange (RADDEX) system. RADDEX is also operational in Kenya, Rwanda and Tanzania. According to a status report on the implementation of URA's modernisation plan "the introduction of RADDEX has further provided cargo details in standardised electronic...format –minimising data errors and saving time".

URA has also recently introduced a call centre with a toll free line which operates from 8am to 5pm on weekdays. In addition, the call centre responds to any queries lodged at the authority's new interactive website (<http://ura.go.ug/uraweb/index.jsp>). It is also worth mentioning, that at this new website, taxpayers can register as an individual, non-individual or a group, and obtain a TIN from eTax.

Since December 2007, the internal communications among URA staff have been enabled through the use of URAnet. "URA, in partnership with Uganda Telecoms Limited (UTL) launched the URAnet upgrade, which now allows members of URA to communicate among themselves on intercom network irrespective of where they are (in Uganda)" (DFID, 2008).

URA has in place a corporate plan covering the period from 2006 to 2010, which specifies four goals: (1) maximise taxpayer compliance; (2) maximise the quality of service delivery; (3) modernise URA through its people, processes and systems; and (4) enhance URA's corporate image¹³. To facilitate monitoring and evaluation (M&E) of the achievement of performance indicators and targets contained in URA's corporate plan, a corporate scorecard was developed in 2009. The corporate scorecard maintains a record of actual results against baseline indicators.

¹³ A new corporate plan based on the balanced scorecard framework has been developed to run until 2014.

Annex E: Glossary of definitions of select terms

CITPROD	CITPROD indicates how well CIT does in terms of producing revenue, given the prevailing tax rate. It is calculated by dividing total corporate income tax revenues by GDP and then dividing this by the general corporate income tax rate.
PITPROD	PITPROD attempts to provide an indication of how well the personal income tax in a country does in terms of producing revenue. It is calculated by taking the actual revenue collected as a percentage of GDP, divided by the weighted average PIT rate.
Tax effort	Actual tax revenue as a percentage of estimated potential tax revenue
Tax gap	The difference between estimated potential tax revenue and actual tax revenue
VATCGR	This is a measure of how well the VAT produces revenue for the government. It is computed by dividing VAT revenues by total private consumption in the economy and then dividing this by the VAT rate.