

## ANNEX 5: PAPERS PRESENTED AT THE WORKSHOPS BY CENTRAL INSTITUTIONS<sup>1</sup>

### INFORMATION BRIEF ON LOCAL REVENUES

BY

#### THE LOCAL GOVERNMENT FINANCE COMMISSION

January 2003

The Local Government Finance Commission is mandated by Article 194 of the 1995 Constitution of the Republic of Uganda to consider and recommend to the President potential sources of revenue for Local Governments and advise Local Governments on appropriate tax levels, among other things. The provisions are further elaborated in section 77 of the Local Governments Act, 1997.

The Local Government Finance Commission (LGFC) under its medium term strategy rates local revenue enhancement as a top priority. The Commission has adopted and it emphasises action-oriented interventions as opposed to studies and recommendations. This workshop is a testimony that the Commission would like to influence all local governments to champion actions, rather than complaints, to enhance local revenues.

This paper presents the status and emphasises the importance of local revenues to local governments and lays out the actions being taken at the central level by the LGFC through the Local revenue Enhancement Co-ordinating Committee (LRECC).

#### STATUS OF LOCAL REVENUE IN LOCAL GOVERNMENTS

##### **Dependency on a few sources**

Rural and urban Local governments rely on graduated tax as the main source of local revenue. Districts on average get up to 70% of their local revenue from graduated tax. Urban councils on the other hand get up to 45% of their local revenue from graduated tax. Market dues come second as it contributes between 10-20% on average. The collection of property tax is extremely disappointing.

##### **Potentials are under-exploited**

In general terms local revenue collections are below potentials. This is evidenced by the fact that districts, town councils, sub-counties, municipalities and divisions annually report shortfalls in collections, some as high as 70%. A Monitor Newspaper article of Thursday January 24, 2003 on Hoima Town Council presents the plight of most local governments today:

Hoima town has collected only five percent of the projected graduated tax, just six months into the 2002/03 financial year. In its estimates, council expected about Shs 68m, but as of January 20, only Shs 4.3m had been realised. Shs 1.5 are arrears. The Town Clerk Kakooza Kabyanga said government employees are paying promptly because the taxes are cut direct from their salaries. He said other taxpayers are a disaster. – Jonathan Akweteireho.

##### **Annual collections are continuously declining**

The amounts collected generally show declining trends. An analysis of 42 local governments between 1997/98 and 1999/00, revenue decreased in 25, increased in 11 and remained static in 5. It is therefore evident that although revenues in local governments are falling, some local governments are doing well. It is also true that urban councils have tended to fair better than districts. We believe that the main reason behind this is because urban councils are generally at the centre of businesses: the markets, the parks and trade. This does not mean that urban councils are more effective and efficient in collecting local revenues.

##### **Many reasons are known to contribute to the under-performance**

First and top on the list is political pronouncements. The adverse impact of politics on taxation is real and immediate as it directly erodes compliance. Graduated personal tax was highly politicised in the last elections and its performance speaks for itself.

Second are weaknesses in enumeration, assessment, collection, enforcement, taxpayer servicing/feedback and usage of the collections. These procedures are generally dogged with poor timing, inadequate transparency, impartiality, inadequacy in registers, inadequacy in auditing and monitoring systems, etc.

Third is the possible decline in tax effort across most local governments. LGDP II design study conducted in 2002 by the Ministry of Local Government suggested that local governments rely heavily on central transfers and that this reliance could be compromising the tax effort to collect local revenues. This may not be true, but one question to

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<sup>1</sup> In addition to the papers presented by central institutions, 24 Local governments presented their best practices in mobilising and generating local revenues in the workshops. Most LGs prepared one page summary of their best practices. These have not been included in this report.

ponder on is whether local revenues today are collected with the same administrative and political efforts as it used to be in 1995.

Fourth are the weak linkages of tax payments to benefits. Most taxpayers, and especially the poor, are questioning why they pay taxes. The Uganda Participatory Poverty Assessment report of 2002 quotes some taxpayers relating local taxes to the stomach of politicians and administrators.

Last but not least are the constraints caused by inadequate and inappropriate capacities both in terms of staff availability and skills, existence of transport, existence of a reward system (allowances, incentives and punishment), banking opportunities, etc.

A number of studies conducted in the past confirmed these and many other causes of declines in revenue collections. The most recent studies are the Revenue Enhancement study of 2000 and the Revenue Sharing Studies; phase one of 2000 and phase two of 2002 all conducted by the LGFC. The findings from these studies were widely discussed with local governments and other key stakeholders and have laid the basis for action-oriented interventions that the Commission is now implementing under the Local Revenue Enhancement Co-ordinating Committee.

### **Why concerned about the performance of local revenue**

The effect of under-performance of local revenue has a number of consequences such as:

One, inadequacy in local revenue affects the ability of a local government to provide local services -- without conditions from the centre.

Two, poor local revenue performance affects a local government's ability to meet co-funding obligations. Most local governments have experienced this problem under LGDP, DDP and bilateral supports. The challenge that all local governments should note is that co-funding has been found to be good as enforces collection of local revenues. Government and donors also believe that it is a way of ensuring sustenance of investments. And as you are aware, the development transfer system under FDS is built along the principles of LGDP/DDP and will apply co-funding rules.

Three, is the challenge to maintain well-motivated local councils. You know the 20% rule on emoluments in absolute figures translate to diverse amounts depending on the size of your actual collections the previous year.

Four is the question of how a local government complements service provision within centrally prioritised programmes in a way that the central objective is achieved? For example the central government transfers grants to local governments for various services within PPA and expects local governments to operate functional departments to supervise, monitor and audit the programmes. Inadequacy of local revenue will mean the departments carrying out supervision, monitoring and auditing will not effectively and efficiently function, thus indirectly impacting on the realisation of the central government's objective of transferring the money.

Any investment in a local government must eventually be maintained / sustained using local revenue.

### **WHAT THE LGFC IS DOING**

#### **Implementation Framework on Revenue Sharing and Revenue Enhancement**

The Commission has developed a revenue sharing and revenue enhancement implementation framework. The published framework is being printed and will be distributed accordingly. The framework prioritises recommendations of the revenue enhancement and revenue sharing studies, taking into account recent initiatives (such as DDPII, LGDPPII) and outlined a plan of action. For every activity, the implementation framework identifies a lead institution responsible for the activity, the resources required to undertake the activity and the resources/ source of funds required. The Commission now uses the framework as a tool for initiating action and monitoring implementation.

#### ***The Local Revenue Enhancement Co-ordination Committee (LRECC)***

The LRECC was formed by the LGFC in April 2002 to answer the concerns of government and donors about the declining trend in local revenue collections.

The goal of the Co-ordinating Committee is to enhance the capacities of local governments to mobilise, generate and manage sustainable local revenues.

It does this through:

- ?? Co-ordinating decision making regarding local revenue enhancement
- ?? Providing support to the policy and legal framework for local revenue enhancement
- ?? Promoting best practices for tax mobilisation at the local government level through capacity building and tax education

## **Membership**

- ?? Local Government Finance Commission, Chair of the Co-ordinating Committee
- ?? United Nations Capital Development Fund, donor representative
- ?? Ministry of Local Government: Commissioner Inspectorate & an Assistant Commissioner
- ?? Ministry of Local Government, PMU: Co-ordinator
- ?? Ministry of Finance Planning and Economic Development, Decentralisation Desk: Assistant Commissioner
- ?? Ministry of Finance, Tax Policy Department: Commissioner Tax Policy
- ?? Uganda Local Authorities Association:
- ?? Urban Authorities Association of Uganda
- ?? Ministry of Lands, Water and Environment, Chief Government Valuer
- ?? Kampala City Council
- ?? Bushenyi district. Additional local government may be co-opted on ad hoc basis depending on need
- ?? Uganda Revenue Authority: Commissioner
- ?? Representative of the Attorney / Solicitor General

## **Achievements of the Committee**

The committee does its work through meetings. Since its inauguration in April 2002, the LRECC has had 9 fruitful meetings. Attendance of these meetings is generally very good.

It has played a key role in discussing the implementation framework for revenue enhancement and sharing prepared by the LGFC.

Researchers and stakeholders involved in revenue activities are continuously liaising with the committee in their work.

The committee in the past reviewed a project proposal on the impact of taxation on the poor by the University of East Anglia/EPRI, Makerere University. It is also developing close contacts with the Deregulation project of the MoFPED and the SDU-USAID project.

The Committee has influenced the content of the revenue enhancement component of LGDP II.

## **Examples of Action Oriented Interventions that the Committee Promotes**

Under DDPII

- ?? Compiling a best practices inventory and baseline survey of current revenue sources
- ?? Conducting a revenue generation feasibility study to investigate opportunities for local governments to generate their own income / including policy implications
- ?? Devising and testing improved and simplified procedures, guidelines and mechanisms in selected districts
- ?? conducting a local revenue action research project in a selected district incorporating property tax and user fee revenue mobilisation procedures and an incentive system for local revenue collection
- ?? initiating a capacity building programme for property valuers, tax collectors and physical planners
- ?? initiating exchange and debate between local councils on experiences and best practices on tax assessment and collection
- ?? promoting public private partnerships

Under LGDP II the committee will support:

- ?? the review of graduated tax, property tax, comprehensive business levy policy and legislation.
- ?? the design of appropriate training modules on good governance and the LG legal and fiscal environment
- ?? the dissemination of best practices and review of LG tax administration documentation including the development of appropriate best practice manuals
- ?? the implementation of a comprehensive property tax administration system

## **Conclusion**

The important message that this paper delivers is that Local Revenues are the cornerstones and building blocks of fiscal decentralisation and it is the source that gives local governments autonomy and the clout of being local governments.

Although the collection of local revenue is falling in a majority of local governments, some local governments are doing well. This implies that we can improve the performance of local revenue collections within the existing legal and policy set-up by adopting best practices.

The LGFC on its part will continue to play its constitutional mandate of advising local governments on local revenue issues. It will continue to use the LRECC to co-ordinate decision making, to provide support to the policy and legal framework and to promote best practices for tax mobilisation at the local government level.

END OF PAPER PRESENTED BY THE LGFC

**THE LEGAL AND POLICY FRAMEWORK OF LOCAL GOVERNMENT TAXES AND THEIR  
CHALLENGES  
BY  
THE MINISTRY OF LOCAL GOVERNMENT**

**1.0 POLICY FRAMEWORK OF LOCAL GOVERNMENT TAXES**

The mission of the Ministry of Local Government is to co-ordinate and support Local Governments for sustainable, efficient and effective service delivery in a decentralised framework of Local Government. The mandate of the Ministry is to guide, harmonise, mentor and advocate for all Local Governments in the County. The mission and the mandate of Ministry of Local Government is guided by the desire and commitment to enhance capacities of Local Governments in a bid to bring about efficient and effective service delivery.

In order to fulfil this mandate and mission, the Constitution of the Republic of Uganda -1995 and the Local Government Act 1997 give the Ministry of Local Government power to implement a policy of decentralisation. The objective of this policy is to transfer real power to the Local Governments and bring political and administrative control over services to the point where they are actually delivered thereby improving accountability, transparency and promoting peoples feelings of ownership of programme and projects executed in their areas.

It is therefore important that capacity of Local Governments be built to enable them deliver services to the population efficiently and effectively. Local Revenue administration is one of the areas which in the process of building capacity has to be addressed if Local Governments have to reduce reliance on Central Government and Donor transfers

**2:0 THE LEGAL FRAMEWORK OF LOCAL GOVERNMENT TAXES**

Article 191(1) of the Constitution of the Republic of Uganda 1995 empowers Local Governments to levy charge collect and appropriate fees and taxes in accordance with any laws enacted by Parliament by virtue of article 152 of the Constitution.

Article 191(2) stipulates the fees, and taxes to be levied, charged, collected and appropriated under Article 191(1). The fees and taxes to be levied by Local Governments are rents, rates, royalties, stamp duties, personal graduated tax, cess, fees on registration and licensing and any other fees and taxes that parliament may prescribe.

Article 192 empowers Local Government to collect taxes for or on behalf of Government for payment into the consolidated fund and retain for purposes of its functions and services, a proportion of the revenues collected.

Section 81(1) of the Local Government Act 1997 empowers Local Governments to levy, charge and collect fees, royalties, stamp duties, personal graduated tax, registration and licensing fees and fees and taxes specified in the fifth schedule. The authority to empower Local Governments levy, charge and collect taxes is derived from Article 191(1) of the Constitution of the Republic of Uganda.

Section 81(3) empowers a Local Government to collect fees and taxes on behalf of Government as its agent. In this case a portion of the funds collected shall be retained by the Local Government as may be agreed upon between the two parties. This authority is derived from Article 192 of the Constitution.

The fifth schedule of the Local Government Act 1997 sets out the Local Government Revenue Regulations.

**3.0 LOCAL SOURCES OF REVENUE FOR LOCAL GOVERNMENTS**

**3.1 GRADUATED TAX**

**Background to Graduated Tax**

Graduated Tax is the oldest tax Local Governments have been levying and collecting. It started in the beginning of the twentieth century under the name HUT TAX. Later in the 1930's, it was changed to POLL TAX. In 1963 it was graduated to eliminate some of the inherent problems with Poll Tax so as to increase equity, economic viability and administrative feasibility. This is how the name Graduated Tax was derived.

This tax was paid by all men above the age of 18 years except those who are exempted. Men cherished paying the Tax because it was a determinant of manhood. The higher tax one paid the higher his status in his locality. As a result of this positive attitude, Graduated Tax was a major source of revenue for Local Governments. Over time new challenges about Graduated tax have come up to affect its administration and collection.

Currently, the mandate to levy and collect Graduated Tax by Local Governments is stipulated in Section 81(1) and Part II of the Fifth Schedule of the Local Government Act 1997.

### **Graduated Tax Structure**

The Minister of Local Government issued a statutory instrument which introduced a new Graduated Tax structure with effect from 1<sup>st</sup> July 2002. *The Local Governments Graduated Tax (Declaration of Rates) Instrument, 2001(No.38)* introduced a minimum and maximum graduated Tax of shs 3,000/= and shs 100,000/= respectively per year. This new structure is more equitable and progressive than the previous one as it has redistributed the tax burden towards people with high incomes and away from people with low incomes. It has 17 segments.

### **Implementation of Graduated Tax**

Implementation of Graduated tax is guided by the various laws governing the administration and collection of the tax. The lowest rate of Shs 3000/= shall be imposed by every Local Government in Uganda on people who have very little or no income at all. A person is deemed to have little or no income at all if he or she does not earn more than Shs.60000/= in a year.

The maximum rate of Shs.100,000/= is imposed on persons whose annual amount of income exceeds Shs.1,560,000/= per annum. The Minister of Local Government in *The Local Governments Revenue (Amendment) Regulation, 2001* exempted persons who have attained the age of sixty years and have no gainful employment or business. This requirement was with effect from 1<sup>st</sup> July 2001.

## **3.2 PROPERTY TAX**

Section 11(1) of the fifth schedule of the Local Government Act 1997 empowers a District and Urban Local Council to impose under provisions of the Local Government (Rating) Decree 1979 rates on property that is within its area of jurisdiction.

Section 11(2) of the same schedule empowers a District or Urban Council to enact laws imposing rates on persons owning occupying or in possession of land or buildings in any area to which the Local Government (Rating) Decree 1979 does not apply. These areas are stipulated in Section 4 of the Local Government (Rating) Decree 1979.

The current practice is that it is the Urban areas that are levying rates as a major source of revenue. However, in District Local Councils, property tax is a minor source of revenue.

A bill has been tabled in Cabinet to repeal the Local Government (Rating) Decree 1979 with the intention of enhancing and easing collection of this Tax.

## **3.3 OTHER REVENUE**

These include fees, fines, licences, permits, interest, uses charges and any other revenue which may be prescribed by the Local Governments and approved by the Minister.

## **4.0 CHALLENGES IN REVENUE COLLECTION**

In spite of all the stipulated sources of revenue, Local Governments continue to generate insufficient revenue to finance service delivery. In fact of late there is steady decline in total amount of local revenue collected by Local Governments. As a result there is increasing reliance by Local Governments on Central Governments transfers and Donor funds. This has resulted into agitation by some Local Governments demanding to either share taxes collected by Central Government or takeover some taxes collected by Central Government

### **4.1 Graduated Tax**

This Tax has created some of the biggest challenges. These include:

- ?? Misinterpretation by the public of His Excellency the President's pledge during the Presidential campaigns as to who should pay the Minimum rate of tax of shs.3,000=
- ?? Belief that people should not pay Graduated Tax. Where
- ?? they have to pay, they want to pay the minimum rate irrespective of their levels of income. Political leaders have compounded this problem by making pronouncements that people should be made to pay the minimum rate of Graduated Tax.
- ?? Perception that Graduated Tax is a punitive tax as opposed to a resource for development.
- ?? Under assessment of political leaders which discourages other eligible people to pay.
- ?? Poor sensitisation, mobilisation, enumeration and assessment of person by enumerators and assessors who include technical staff and political leaders. Given their short terms interests, political leaders can sometimes seek cheap popularity.
- ?? Relating, the tax paid to services received due to poor accountability.

- ?? Keeping reliable and up to date records of Graduated Tax payers.
- ?? Determining incomes of people in the informal sector for purposes of assessing tax
- ?? Determining imputation values taking into consideration regional differences.
- ?? Maintaining the good qualities of the tax i.e. economic viability, administrative feasibility and political acceptance.
- ?? High cost of collection and low yield of Graduated Tax

#### **4.2 Property Tax**

This tax has mostly been collected by Urban Authorities. Rural Local Governments have not seriously considered collecting it inspite of the number of taxable properties in their localities. It is therefore time for rural Local Governments to find means of levying this tax. When levying this tax, Local Governments need to find solutions to challenges that arise out of the administration of the tax. Urban Authorities unlike the rural Local Governments are already aware of these challenges. Some of the challenges they will face include:

- ?? High cost of valuing taxable properties. As a result of Local Governments cannot afford to carry out property valuation
- ?? Identification of owners of properties since most people do not have titles
- ?? Property tax is the most direct and visible of all taxes. It is neither passed on nor deducted from earnings therefore the most politically sensitive.
- ?? Assessments tend to be complex and therefore infrequent so that the base declines in real terms.
- ?? Owners of property have so much power that it is usually difficult to get adequate tax from this source.
- ?? People who acquire property usually work hard in order to acquire them. It may therefore not be reasonable to over tax them in order to uplift people who depend on the state to solve problems which can be solved by individual work
- ?? Understanding the laws governing administration of property tax.

#### **4.3 Other Revenue**

Challenges of other revenue include:

- ?? Costs of collection visa vis rates levied.
- ?? The big informal sector whose activities defy accurate identification and concretisation of income for taxation purposes.
- ?? People do not appreciate payment of these taxes.
- ?? Tax collectors fear to create enmity with those who are eligible.
- ?? Peasants do not reveal their sources of income
- ?? Peasants are frightened to report evaders.

#### **5.0 THE WAY FORWARD**

There is need to appreciate the role Local Revenue plays in the provision of services in Local Governments. The transfers from Central Government are only budget support to Local Governments to enable them fulfil their obligations. Therefore all efforts should be made to ensure that local revenue collection and administration is improved to enable Local Governments effectively provide quality service to their people.

The following areas therefore need to be addressed to achieve these goals:

- ?? Management and administration of the taxes
- ?? Methods of assessing the taxes
- ?? Management of information on the taxes at all levels.
- ?? Continuous tax payer education by Local and national leaders and technical staff on the importance of paying tax.
- ?? Continuous capacity building in order to cope up with the challenges
- ?? System of appeals to enable taxpayers pay equitable tax and appreciate why it is paid
- ?? Improvement and strengthening accountability to enable taxpayers appropriately relate tax paid to service delivery.
- ?? Date Collection and dissemination.
- ?? Identifying new and better yielding sources of revenue
- ?? Strengthening enforcement of laws governing the administration and collection of taxes.
- ?? Reduce costs of collection of taxes.
- ?? Higher Local Governments should look into and bring on board levies made by Village and Parish Councils
- ?? Replicating good practices in some Local Governments

END OF PAPER PRESENTED BY THE MoLG

## OVERVIEW OF TAX POLICY IN GOVERNMENT

By  
MoFPED

The Poverty Eradication Action Plan (PEAP), which is central to Government's national development objectives, is premised on four pillars, namely: sustained economic growth; good governance and security; increasing incomes of the poor; and improving the quality of life for the poor. It is thus the planning framework that guides planning and budgeting at both national and local levels. Underpinning PEAP is the overriding need to mobilize financial resources to sustain implementation of the necessary activities; hence taxation is one of the key policy instruments that government uses to facilitate resource mobilization to achieve the broader objective of poverty eradication.

One of the key objectives of the government's medium term revenue strategy in the last sixteen years has been to increase the revenue-to-GDP ratio while reducing the anti export bias of the tax system. A special feature of Uganda's Budget is that we have one of the lowest revenue efforts in Africa, and, as a consequence we rely excessively on donor funding. The fundamental issue has therefore been the need to improve revenue performance to reduce reliance on external sources, and to enable government to intervene more effectively in terms of providing better services.

Sixteen years ago, our public finances were in shambles and government had little or no capacity to intervene effectively to finance the provision of any kind of public services. In 1987, for example, our total expenditure was a meagre Shs. 53 billion and the tax revenues we collected amounted to only Shs. 17 billion. In terms of the overall economy, these figures were dismally small. Our revenue collections were lower than 5% of our total GDP. To compound matters, almost half of our total revenues were coming from taxes on coffee exports. Government quickly established that taxing exports and agricultural production was very damaging to the economy and was not a right way for any government to generate revenues.

Since then, the policy as seen a change in direction characterized by major policy and administrative reforms aimed at *inter alia*: boosting agricultural production; diversification of the export base; encouraging both local and foreign direct investment; besides, the generation of revenue to finance public expenditure needs. The position of the government budget has improved dramatically since those early years. Last Financial our total expenditure excluding donor-financed projects, were Shs. 1,888 billion while revenue collections were Shs. 1,264 billion, which was 11.3% of GDP.

In general, therefore, central government has historically had two major roles in local government resource mobilization: devolving revenue - raising authority to local governments and providing direct financial support through the grants transfer system. It presently provides the bulk of local government resources through direct financial support because it collects most of the national revenue at the centre on the one hand and also in order to achieve a variety of national objectives on the other hand: namely;

- ?? Macroeconomic management - controlling the overall level of expenditure by local governments as part of its macroeconomic policy management;
- ?? Redistribution of resources and regional equity;
- ?? Resource mobilization efficiency - URA has developed the capacity to more easily and efficiently collect revenue centrally; and
- ?? National decentralization objectives - whereby the grant transfers are designed to strengthen local governments' to enable them to assume more responsibility for delivering public services for which they cannot ordinarily raise the revenues locally.

Hence the current intergovernmental transfer mechanisms, through their power to redirect resources, provide central government with a valuable set of policy instruments for use in pursuing national equity objectives and other fiscal equalization policies.

### Role of Tax Policy in the Macro-Economic Framework

The macro-economic framework is essentially the platform for the design and functioning of public finance; that is, the mobilization and spending of public funds. There are a number of factors that govern the proper operation of this platform and one of the key factors is taxation so the main thrust of this section is tax policy and how it relates with the other factors in the macro economy.

Governments everywhere play an essential role in allocating resources i.e. in influencing what gets produced, how it's produced, who receives the benefits, and who pays. They do so both directly and indirectly. Both modes of intervention involve public revenue and spending and are thus equally subject to the strictures of sound public finance.

Public finance affects the economy in many different ways. Revenue, expenditure, and the public sector deficit they

imply are essential tools for macroeconomic stabilization. They help to determine the other variables like: inflation rate, the current account deficit, the growth of the national debt and the level of economic activity. They also affect adjustment and growth by influencing the rates of consumption, savings, and investment in both physical and human capital.

Furthermore, at the microeconomic level, taxes and government purchases of commodities encourage the production and consumption of some goods while discouraging the production and consumption of others. Hence in the context of the wider macro economy, tax policy does, in principle affect all sectors of the economy and this also means that whatever policy pursued determines not only the amount of revenue, but also the costs of collection in terms of money, time, and impact on other macro economic variables thus tax policy should be designed to send the desired signals to other sectors of the economy because anything to the contrary has the potential to derail the macro economy.

Government of Uganda has maintained judicious macro-economic policies whose outcomes are; controlled inflation, promoting investments, maintaining external creditworthiness, and generally a sustained GDP growth. In all these, tax policy plays a key role in the medium to longer term for sustainability.

Taxation, largely, addresses structural adjustments in the economy, which deals with obstacles to longer-term growth whereas other macro-economic management tools like borrowing and money creation deal with "quick fix" short-term stabilization problems that need to be dealt with urgently. It is important to note here that careless-structural adjustments can make the problem of stabilization more difficult, because the distortions are often a source of revenue to the government. Equally, structural reforms are unlikely to command credibility unless stabilization policies are in place. This further brings out the importance of the linkages and interdependence between the short-term stabilization policy instruments on the one hand and the longer term tax policies for structural adjustments.

### **Ministry of Finance's Expectations of How Local Governments Should Fit in Tax Policy**

The Constitution of the Republic of Uganda and the Local Governments Act, 1997 clearly spell out the legal and administrative framework which governs, *inter alia*, the financial relationships between the centre and local governments and this aspect is taken here as a given. So as local governments seek for ways and means of boosting local revenues, one overriding consideration is that whatever tax measures they come with should at the very least not be at variance with the national development objectives as reflected in the PEAP. This means that to the extent possible the principles, which guide tax planning at the centre, would equally apply at the local level. Simply raising adequate revenue alone is not enough. Revenue mobilization should be done as a sub-component within the holistic approach of planning for the greater good of the society as a whole. To this extent, following are six key guiding principles to evaluate taxation in general. The first five apply, not necessarily in that order, to all revenue sources, tax or non-tax, central or local while the last one is rather specific to local governments.

(i) *Equity*. The requirement of equity means that the burden of maintaining public expenditure should be borne by sections of the population in proportion to their ability to pay. By these standards, taxation is good if it is progressive (that is, if the percentage of a person's income paid in tax increases with the level of that income), tolerable if it is proportionate (that is, if the percentage of income paid in tax is constant at all levels), and bad if it is regressive (that is, if the percentage of income paid in tax declines with rising income levels). In terms of local taxation, the equity question has to be seen in three dimensions. Firstly, there should be vertical equity that refers to the scope for reducing income inequality by taxing the rich more heavily than the poor. Secondly, it should be equitable between different sources of income; i.e., it should ask how those with similar incomes are treated; for example, a salaried worker should not pay more than one with an identical income derived from business (horizontal equity). Thirdly, the incidence of taxation should be fair between different geographical areas: people should not be taxed more heavily simply because they live in one area rather than another. In practice, however, experience has shown that taxes do little to change the distribution of income. Their important role in the pursuit of equity is to raise revenue needed for distributive spending, particularly to alleviate poverty.

(ii) *Elasticity*. Revenue sources should be adequate to meet the costs of the services that they are intended to finance. It is usually desirable to concentrate effort on taxes that can raise at least a substantial portion of the cost of the services to which they are devoted. The cost of services is not static, however. Costs increase because of inflation, because of population growth (especially in urban authorities), because rising standards of living inspire demands for higher standards of services. It is therefore, desirable that revenue sources should show elasticity, that is, that their capacity to yield additional revenue should respond to the same pressures as the increasing demands upon public expenditure.

(iii) *Administrative capacity*. Revenue sources vary in the amount of skill, integrity, and determination required in their administration. They also vary in the amount of time and money involved in collecting them, compared with



the yield. Given the staffing and resource limitations in local governments, tax reforms should give preference to taxes that are simple and enforceable in the medium term.

- (iv) *Economic efficiency.* Taxation has a dual purpose: to provide money for public purposes and to influence economic behaviour. Taxes affect the cost of individual decisions hence they must be judged in terms of their effect upon the decisions of a taxpayer and upon the taxpayers' propensity to work, consume, save, and invest. Efficiency here means that taxation should not impose avoidable real costs on the community; it should not unnecessarily interfere with the attainment of the prime economic objectives of growth, stability, and equitable distribution and if possible should promote them.
- (v) *Political acceptability.* No tax is popular, but some taxes are more unpopular than others. Political will is needed to impose taxes, to collect them physically, and to enforce sanctions against defaulters. Sometimes political sensitivity focuses on particular questions of social values or of sectional interests. More generally, taxes are usually less sensitive politically if they are indirect and do not involve too many over political decisions, such as a parliamentary/ council decision to raise the rate of tax.
- (vi) *Tax Administration by Local Authorities.* In addition to the general factors highlighted above tax administration by local authorities raises other specific questions of feasibility. The first issue is whether it is clear to which authority a particular tax liability is due. Some argument arises over, for example, graduated tax where an individual resides in a different jurisdiction from that in which he or she works; it is usually held that the area in which a person lives should get the tax, but some urban authorities claim the right to tax commuters.

The second issue concerns the feasibility of local variation in tax rates or assessment rules.

### **Conclusion**

This paper has focused on the importance of taxation in the context of the macro economy and dwelt on the crucial linkages and interdependence between it and the other policy variables in the macro-economic framework.

It underscores the need for fiscal discipline as the only way to sustained stability in comparison with the "quick fix" avenues.

Generally, what comes out is that government uses the tax system to achieve many goals; raising revenue is only one of them. Hence in tandem with the revenue-raising objective, the need to facilitate compliance and collection requires the tax system must to be administratively feasible. For the same reason, but also as an end in itself, it must spread its burden equitably. To avoid misallocating resources, it must not upset the patterns of production, trade, consumption, saving, and investment. All these aims cannot be satisfied simultaneously, so tax policy design will always be a matter of tradeoffs. The principles, nevertheless, offer a needed framework for organizing analysis and arguments.

END OF PAPER BY MoFPED

# THE EXPERIENCES OF URA ON REVENUE COLLECTION

By  
URA

## 1.0 Background

Uganda Revenue Authority (URA) was set up in September 1991 to administer Central Government Taxes. The main aim was to professionalise tax collection so as to ultimately improve the tax to gross domestic product (GDP) ratio, which has grown from 6.97 in 1992 to 12.98 in 2002.

In spite of the revenue yield having grown from 133. 78bn in 1991 to 1,264.31 bn in 2002, this growth has been at a decreasing rate.

As a result of the increase in tax revenue, the Government of Uganda in 2001/2002 mandated URA to collect another non-tax revenue - passport fees from which URA collected Ug. Shs. 2,022,441,000= against a target of shs.100m.

During the 2002/2003 fiscal year, additional 7 non-tax revenues have been added on the collection list of URA.

### 1.1 Taxes Collected By URA

URA is mandated to assess and collect the following taxes: Income taxes, Import duty, Excise duty, VAT, Casino taxes, Licensing fees (under the Traffic Act), and stamp Duty. Presently other non tax revenues such as Passport fees, Migration fees, Land transfer fees, Transport regulation fees, Company regulation fees, High Court fees, Radio and Television fees, and Mining fees have been added to the collection list where URA services are only limited to collection.

## 2.0 Reasons for Good Performance

### 2.1 Strategic planning

URA Management recognizes the importance of strategic planning for effective organizational performance. The organisation in its set up established strategic planning -as a defined role. The URA vision statement is "collecting revenue that will fully finance the Uganda Government recurrent and development expenditure by attaining a tax to GDP ratio of at least 24%." This vision statement is in line with the organizational mission statement, which is:

*"Maximizing central Government tax revenue while optimising resource utilization by ensuring a fair and equitable tax administration with a highly motivated and professional staff".*

### 2.2 Mapping of stakeholders

During the strategic planning process, URA carefully maps out its stakeholders using the stakeholder-mapping matrix and gives attention in a preferential manner.

### 2.3 Analysing the business-operating environment

This is done in order to identify ways, in which the business operating environment can be utilized or improved to enable URA achieve its objectives and this is done using the SWOT and PEST analysis.

## SWOT ANALYSIS

The URA SWOT Analysis examines the authority's internal strengths, weaknesses, opportunities and threats and it presented as here below:

<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1. Existence of a competent, experienced, and, committed staff at all levels;</li> <li>2. Skilled and trained staff with a wide range of academic profiles, expertise and professions;</li> <li>3. Decentralized revenue collection through District Regional Offices;</li> <li>4. Monopoly over the collection of central government tax revenue;</li> <li>5. Tested support from the low and middle level cadres whenever required;</li> <li>6. Adequate levels of the workforce;</li> <li>7. Elevation of the Human Resource function;</li> <li>8. Clear mission;</li> <li>9. Existence of basic IT infrastructure and support services;</li> <li>10. Semi-autonomous status-quick decisions (without clearance from higher authority);</li> <li>11. Good relations with stakeholders;</li> <li>12. Extensive geographical coverage;</li> <li>13. Existence of a known organizational structure;</li> <li>14. Strong and capable tax education and public relations functions;</li> <li>15. Clear and enabling tax laws/legal framework.</li> </ol>	<p><b>Weaknesses</b></p> <ol style="list-style-type: none"> <li>1. Inadequate facilitation and wages;</li> <li>2. Relatively low staff morale and motivation;</li> <li>3. Inadequate staff development programs;</li> <li>4. Lack of staff transfer and deployment policy;</li> <li>5. Lack of a competitive retirement policy;</li> <li>6. Lack of transparent recruitment system/policy;</li> <li>7. Irregular and un-harmonized promotions;</li> <li>8. Lack of a sound welfare scheme;</li> <li>9. Poor performance management appraisal system;</li> <li>10. Poor flow of information across departments and inadequate interdepartmental co-ordination;</li> <li>11. Low levels of integrity of some staff;</li> <li>12. Apparent (communication) gap between staff and management;</li> <li>13. Lack a corporate culture and identity;</li> <li>14. Lack of updated, consolidated, comprehensive and well defined procedures and job descriptions/desk instructions;</li> <li>15. Lack of own premises;</li> <li>16. Undeveloped record management systems;</li> <li>17. Excessive (avoidable) Bureaucracy;</li> <li>18. Poor supervision;</li> <li>19. Inadequate levels of appreciation of the importance of strategic planning function;</li> <li>20. Inadequate research;</li> <li>21. Some cases of poor customer care like in the cash office;</li> <li>22. Lack of a strong and integrated inspectorate function;</li> <li>23. Less than optimal resource allocation;</li> <li>24. Generally inadequate basic IT infrastructure and support services.</li> </ol>
<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>1. Support from the government, in particular, MFPED;</li> <li>2. Good relations and established co-operation with the Revenue Authorities in the region</li> <li>3. Emerging technology and e-commerce;</li> <li>4. Increasing levels of literacy;</li> <li>5. Liberalization and free market economy (tax base widening);</li> <li>6. Existing co-operation between URA and other tax bodies like CATA, VAT Commissioner Forum, East African Revenue Authorities Technical Committee, etc;</li> <li>7. Non-tax revenue collection potential;</li> <li>8. Growing economy;</li> <li>9. Privatisation of public enterprises;</li> <li>10. Donor funding;</li> <li>11. Stable political and economic environment;</li> <li>12. Political will;</li> <li>13. Improved/improving infrastructure;</li> <li>14. Alliance with developed countries e.g. Sweden;</li> <li>15. Availability of cheap manpower.</li> </ol>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1. Brain drain of experienced and well-trained officers especially due to better remuneration outside URA;</li> <li>2. Political instability in some regions particularly in Northern Uganda;</li> <li>3. Ignorance on tax matters especially in rural areas due to illiteracy;</li> <li>4. A generally poor tax culture in Uganda Revenue Authority;</li> <li>5. Tainted corporate image;</li> <li>6. A corrupt external, environment;</li> <li>7. Inadequate financial support from MFPED;</li> <li>8. Possible privatisation of central government tax revenue functions;</li> <li>9. Patronage and political interference;</li> <li>10. Instability in some neighbouring countries;</li> <li>11. Low level of inter-governmental relations;</li> <li>12. Poor record keeping by the taxpayers;</li> <li>13. Regional integration;</li> <li>14. Public policy bureaucracy;</li> <li>15. Rapid technological developments and e-commerce;</li> <li>16. High and unrealistic revenue targets;</li> <li>17. Legal framework;</li> <li>18. Smuggling and fraud;</li> <li>19. Generally poor economy and unfavourable economic structure;</li> <li>20. Hostile/uninformed mass media (with conflicting interests).</li> </ol>

## **PEST ANALYSIS**

In addition to the SWOT analysis URA further analyses its external business environment using the PEST Analysis as here under:

### *Political factors*

URA recognizes that Government to a certain extent directs the operation and functioning of the Authority. In exercising its mandate the Government presents threats and opportunities which URA seriously takes care of and these include: -

- ?? The need to exploit macro economic factors like economic growth;
- ?? Political relationship with neighbouring countries;
- ?? Government pressure on staff recruitment;
- ?? Cadre identification at employment.

### *Economic factors*

URA sets out strategic plans in order to harness economic factors,

### *Sociological factors*

URA strategically plans on how to sensitise the entire country on tax related issues bearing in mind that it deals with a diversity of people with different levels of literacy, behavioural attitudes, and varying cultural practices, beliefs and norms.

### *Technological factors*

URA recognizes the need to revamp its technology to match with the changing times and needs, to this effect during the fiscal year 2002/2003, URA has embarked on a US\$6m computerization project.

## **3.0 Collection Procedures and Enforcement**

The various URA taxing statutes empower the Authority to assess, collect and recover taxes.

During the fiscal year 1999/2000 URA adopted a more accountable tax collection method called Direct Banking. In this method, the taxpayer assesses himself and pays in the bank whereby the Authority minimizes staff delays in assessing taxpayers and also compromising with taxpayers to pay less.

Supplementary to this method, the Authority established audit units, which regularly visit taxpayers to check on the authenticity of their records and their compliance.

The other traditional method of assessing taxpayers and asking them to pay in the bank is still in practice in areas where it's difficult for the taxpayers to determine the taxable value. However, this method is vigorously checked by established Tax Audit and Investigation sections of the Authority.

URA employs various tax collection methods, which include direct banking, issuing assessments and demand notes, distress action like third party Agency notices, auctioning, locking up of business premises, issuing caveats and prosecuting.

However, a taxpayer is entitled to appeal against the tax assessed and/or demanded up to High Court.

## **4.0 Cost of Collection of Different Types of Taxes**

URA has not carried out a detailed study of the cost of collection of different types of taxes.

However, generally the overall cost of collection is 3.7 %. This cost varies from tax head to tax head. Source taxes have the least cost, followed by the Indirect taxes and finally the Direct taxes. The different types of Direct taxes also have different costs, with corporation tax having the least cost followed by Individual income tax and finally Presumptive tax.

### 5.0 Trends of Revenue Collection

URA revenue collection has continued to grow since inception as indicated in the table below: -

FY	Actual (Ug. Shs.'000)	Year-To-Year Growth (%)	URA Revenue to GDP ratio (%)
1991/92	180,456,721	34.89	6.97
1992/93	282,604,042	50.60	7.79
1993/94	388,040,825	37.31	9.54
1994/95	522,230,450	34.58	10.61
1995/96	639,371,465	22.43	11.49
1996/97	742,617,834	16.15	12.33
1997/98	821,588,038	10.63	11.56
1998/99	969,573,116	18.01	12.11
1999/00	1,031,580,311	6.40	11.76
2000/01	1,125,403,611	9.09	11.62
2001/02	1,264,306,723	12.34	12.98

### 6.0 Conclusion

The experiences of URA in collecting Central Government revenue can be replicated to an extent in collecting Local Government revenue by adapting them to different circumstances and types of taxes collected by Local Governments. URA is committed to assisting the Local Governments in capacity building and research.

**URA's MOTTO IS "TAXES FOR NATIONAL DEVELOPMENT"**  
**END OF PAPER BY URA**