Widening Uganda's Tax base:
What's at stake and what should Government do…

with support from:

Governance, Accountability, Participation and Performance (GAPP) Program

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List of Acronyms

DRM : Domestic Revenue Mobilisation
URA : Uganda Revenue Authority
MDA : Ministries, Departments and Agencies
VAT : Value Added Tax
GDP : Gross Domestic Product
CTL : Commercial Transaction Levy
PAYE : Pay As You Earn

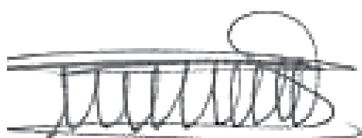
Foreword

In the last three decades, Uganda has undertaken reforms geared towards broadening the tax base and increasing domestic revenue mobilization. These reforms include the establishment of the Uganda Revenue Authority (URA) in 1991; the introduction of Value Added Tax (VAT) - 1996; modernizing the tax administration systems, among others. Following these reforms, Uganda has registered significant increases in domestic revenue collections. Net URA collections have increased over ten times from UGX 1,075.15 billion in 2000/1 to about UGX 11,230.9 shillings in 2015/16.

Against this background, the Civil Society Budget Advocacy Group (CSBAG) undertook a study on the imperatives for domestic revenue mobilization in Uganda. This study is aimed at answering; why Uganda's Domestic Revenue Mobilization (DRM) is low; what policy instruments can be put in place to increase tax compliance and morale; what lessons Uganda can draw from other countries' experiences; how to monitor and increase tax compliance and a sample of untapped areas that Uganda can venture into to increase its DRM both at the national and local level.

The study employed complementary approaches to gather the relevant data and information through an extensive review of the literature on revenue mobilization in Uganda, and consultations with relevant stakeholders from government Ministries, Departments and Agencies (MDAs), Civil Society Organizations (CSOs), academia and the private sector, with an analysis of secondary data.

Results from the study are presented herein, providing revenue collections over the years, challenges faced in its collection and strategies/ ways that can be undertaken to increase DRM in Uganda.



Julius Mukunda
Executive Director

Introduction

In the last three decades, Uganda has undertaken reforms geared towards broadening the tax base and increasing domestic revenue mobilization. These reforms include the establishment of the Uganda Revenue Authority (URA) in 1991; the introduction of Value Added Tax (VAT) - 1996; modernizing the tax administration systems, among others. Following these reforms, Uganda has registered significant increases in domestic revenue collections. Net URA collections have increased over ten times from 1,075.15 billion UGX shillings in 2000/1 to about 11,230.9billion UGX. Shillings in 2015/16 (Figure 1).

However, despite this observed growth in revenue collections, Uganda is still below potential when other indicators such as revenue or tax to Gross Domestic Product (GDP) ratio are considered. Statistics from the World Bank show a stagnation of Uganda's tax to GDP ratio at about 11 per cent over the last ten years. In comparison with regional neighbours, Uganda's tax revenue to GDP is still below the 16 per cent Sub-Saharan average and lags behind her EAC neighbours too (Table 1).

On the other hand, owing to Uganda's many development needs, Government expenditure has over the years continuously exceeded revenue collection, compelling the Government to resort to other sources to finance the deficit. As a result, Uganda's stock of public debt has almost tripled in the last ten years from USD 2.9 billion (about 10 Trillion UGX) in 2006 to USD 8.7 billion (about 30 Trillion UGX) in 2016 (GoU, 2017). Although this is still within sustainable levels (at about 37 per cent of GDP) (IMF, 2016), the pace of growth as well as the country's increased appetite for infrastructure investment calls for an increase in domestic revenue mobilization to reduce the growth in public debt. Revenue collection is key to the financial independence, stability and sustainability of a nation. To reduce on its borrowing, a country must proactively and diligently ensure improved revenue collection. Unfortunately, this has remained a challenge in many African countries including Uganda.

Against this background, the Civil Society Budget Advocacy Group (CSBAG) Undertook a study on the imperatives for domestic revenue mobilization in Uganda. This study is aimed at answering: why Uganda's Domestic Revenue Mobilization (DRM) is low; what policy instruments can be put in place to increase tax compliance and morale; what lessons can Uganda draw from other countries' experiences; how can Uganda monitor and increase compliance? and; what untapped areas can Uganda venture into to increase its DRM both at the national and local level? The study employed complementary approaches to gather the relevant data and information. First, an extensive review of the literature on revenue mobilization in Uganda was conducted. Second, consultations with relevant stakeholders from government Ministries, Departments and Agencies (MDAs), Civil Society Organizations (CSOs), academia and the private sector were held and, third, an analysis of secondary data was carried out.

> "Owing to Uganda's many development needs, Government expenditure has over the years continuously exceeded revenue collection, compelling the government to resort to other sources to finance the deficit"

Findings show that, although Uganda's revenue collections have significantly increased in the last three decades, performance is still below potential and below the Sub-Saharan and EAC averages. Findings also illustrate that the reforms undertaken to improve revenue performance have registered some general success. The study notes that Uganda is still constrained by weaknesses in the tax administrative system, high levels of informality, tax evasion, detrimental tax incentives and a narrow tax base.

There are also no regular tax gap analyses done, hence the revenue potential might never be known and realized. This study
recommends that URA adopts a revenue system that enables it to seal all loopholes, capture all avenues of revenue streams and develop internal capacity for continuous improvement. We provide strategies based on a combination of a Revenue Ecosystem Model and calculations of Uganda's revenue deviations. The strategies include improving auditing; improving staffing and leadership (by recruiting and retaining competent staff to increase productivity); segmentation; forming task forces to oversee compliance of segments with significant negative variations between actuals and target revenue collection; improving the taxpayer registry; simplifying the tax system to encourage formalization; enabling external checks that enforce compliance and encouraging constant innovations through research.

Subsequent sections of the report are organized as follows: section one presents the introduction and an overview of Uganda's reforms and strategies for increasing domestic revenue mobilization. Section two looks at Uganda's revenue performance as well as factors constraining revenue mobilization, while the last sections provide recommendations of revenue collection strategies for Uganda.

1.1 Reforms to Uganda's Tax System and other supportive strategies

Uganda has instituted tax reforms over the last three decades with the intention of broadening the tax base and increasing domestic revenue collection. Most notable of these is the establishment of the Uganda Revenue Authority (URA) in 1991 as a semi-autonomous agency with the mandate to administer and collect specified taxes and revenues in accordance with various taxation statutes. The introduction of Value Added Tax (VAT) replacing Sales Tax and Commercial Transaction Levy (CTL) is another key reform. Furthermore, several tax exemptions have been abolished over the years (although new ones keep cropping up) and a number of ministerial powers to grant exemptions have also been removed. For example, in 1997, provisions granting tax holidays under the Investment Code of 1991 were repealed, and in 2001 a provision of the Customs Management Act empowering the Minister of Finance to grant specific waivers of taxes and duties on imports was also repealed (URA, 2004). URA had to devise new strategies: to curb tax evasion, reduce revenue leakage and simplify compliance. URA embarked on modernizing the tax administration system by undertaking initiatives such as liberalizing revenue collection, direct banking, IT-supported revenue management, self-assessment, withholding tax exemptions and double taxation relief agreements. IT systems introduced include: Automatic Master Register, Direct Trader Input, Cargo Scanning,Electronic Transit Cargo Tracking and Fast Track Clearance, Integrated Database Management and Automatic Motor Vehicle Registration.

In addition to tax collection, there have been efforts to curb illicit financial flows which undermine the benefits generated by sustained economic growth in Uganda. Such initiatives include the enactment of a number of laws and establishment of various government agencies to help combat this problem. These include, The Financial Intelligence Authority, The Capital Markets Authority, Director of Public Prosecutions, The Inspector General of Government, The Insurance Regulatory Authority, The URA, the Anti-Money Laundering Act, 2013, Financial Institutions Act of 2004, Financial Institutions (AML)

Regulations 2010, The Anti-Corruption Act, 2009, The Anti-Terrorist Act 2002, and The Capital Markets Authority Act. Other reforms include fiscal decentralization which took place in 1997 and empowered local governments to collect taxes to fund service delivery at the local level.

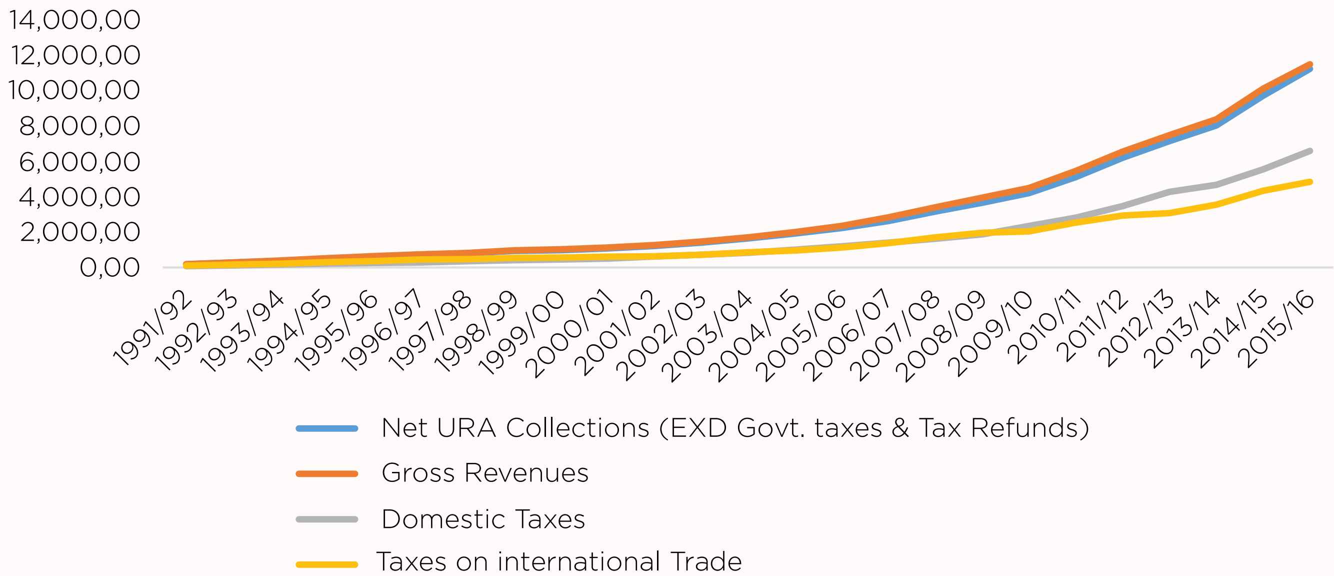
However, local governments have experienced decreased revenues since the abolition of the graduated tax in 2005.

Effective revenue mobilization is also dependent on the quality and efficiency of a country's financial system. Thus, in addition to the above-mentioned reforms, the government enacted laws to further improve and streamline the banking sector to increase financial intermediation. Such policy reforms include the interest rate liberalization, reductions in direct credit, prudent regulation (legal and regulatory reforms), the privatization of financial institutions, capital account liberalization and foreign exchange rate liberalization (Bategeka & Okumu, 2010).

In 2014, in an effort to widen the tax base and reduce the size of the informal sector, URA in collaboration with Uganda Registration Services Bureau (URSB), Kampala Capital City Authority (KCCA) and Local Governments initiated a programme called Taxpayer Register Expansion Project (TREP) which aims to identify and register taxpayers while collecting taxes from small businesses which are hard for URA to reach. 2. Uganda's Revenue Performance

Since the establishment of URA, Uganda's total revenue has increased from UGX 180.5 billion in 1991/92 to UGX 11,230.9 billion in 2015/16 (Figure 1).

Figure 1: Revenue Collections [UGX Billion] From FY1991/92 up to FY2015/16

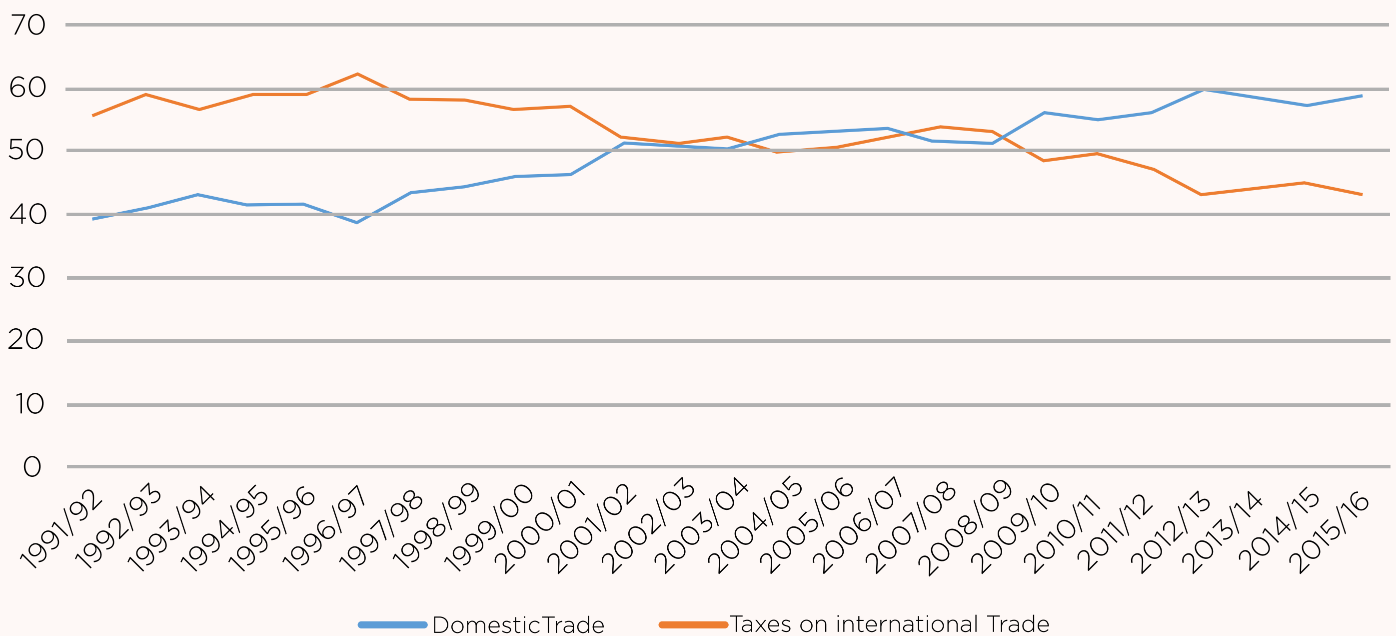


Data Source: URA, 2017

There has also been a shift from reliance on international trade taxes to domestic taxes necessitated by improvements in tax administration, and trade liberalization measures such as the abolition of export taxes and increased domestic economic activities. In the FY 2008/09, revenue from international trade taxes stood slightly higher at UGX 1,957.8 billion compared to UGX 1,875.8 billion for domestic taxes.

However, over the years, domestic taxes have grown at a faster rate to stand at UGX 6,595 billion compared to UGX 4,838.9 billion for international trade taxes in 2015/16 (Figure 2).

Figure 2: Domestic Taxes vs International Trade Taxes (UGX Billions)



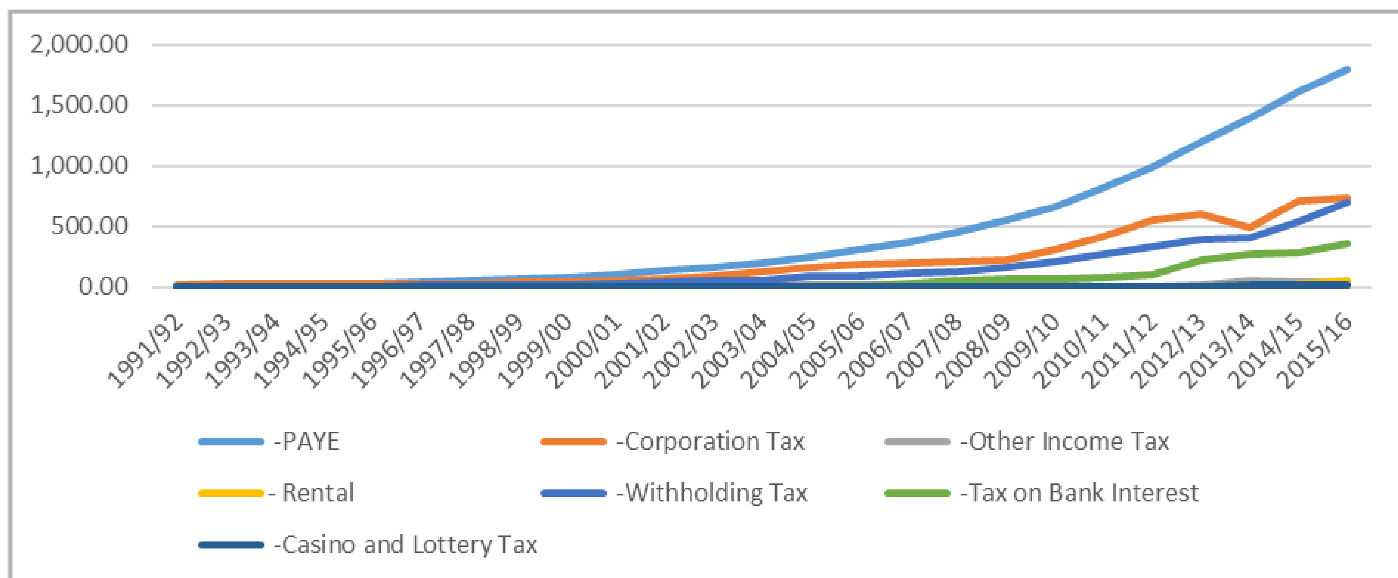
Data Source: URA, 2017

Domestic Taxes are divided into Direct and Indirect Taxes. Under the domestic Direct Taxes, we have Individual Income Tax/Pay As You Earn (PAYE), Corporation Tax, Other Income Taxes, Rental Tax, Withholding Tax, Tax on Bank Interest, Casino and Lottery Tax. Over the years, PAYE has grown faster than other categories of direct taxes, from UGX 137.3 billion in 2001/02 to UGX 1,803.5 billion in 2015/16, becoming the dominant contributor to domestic direct taxes (Figure 3). Although revenue collections from PAYE have increased significantly, they are largely drawn from the small fraction of Uganda's formally employed labour force. With the majority of the labour force informally employed or employed in the agriculture sector, contribution from PAYE could significantly grow with a reduction in informality. However, PAYE collections depend not only on the size of the formal sector but also on the level of incomes.

According to statistics from the Uganda Bureau of Statistics Statistical Abstract of 2016, the median monthly wages for paid employment of UGX 110,000 in nominal terms for 2012/13 are well below the income tax threshold of UGX 235,000. This implies that with or without informality, a large share of the labour force would still be outside the minimum income tax bracket. As such, strategies that boost income growth as well as reduce the informal sector are likely to increase PAYE collections.

> PAYE collections depend not only on the size of the formal sector but also on the level of incomes.

Figure 3: Performance of Domestic Direct Taxes (UGX Billions)



Data Source: URA, 2017

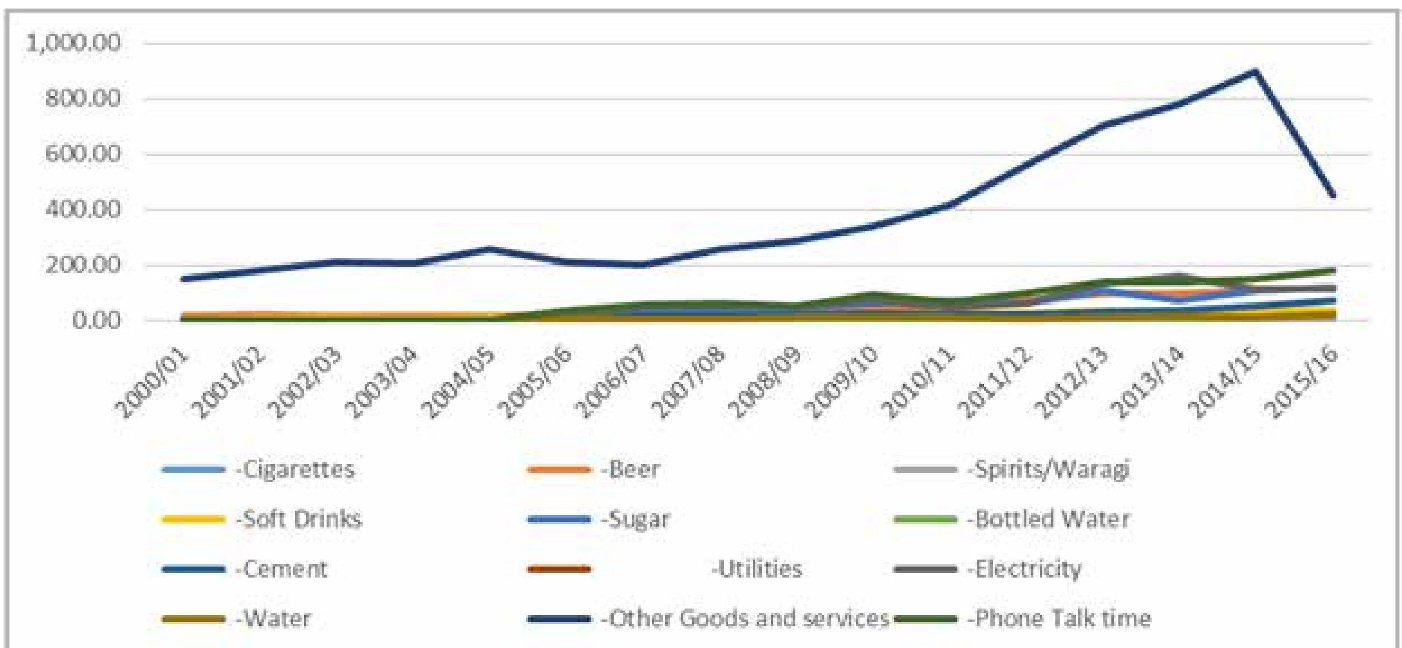
Domestic Indirect Taxes include Excise duties and VAT on goods services. The largest share of collection from domestic indirect taxes comes from VAT which has grown over 6,000 times from UGX 28.3 billion in 1991/92 to UGX 1,772.1 billion in 2015/16. On the other hand, collections from excise duty have grown by over 4,000 times from UGX 15 billion to UGX 671.14 billion over the same period (Figure 4).

Figure 4: Domestic Indirect Taxes (UGX Billions)

Data Source: URA, 2017

VAT is charged on various goods and services, including cigarettes, beer, spirits/waragi, soft drinks, sugar, bottled water, cement, utilities (electricity, water), phone talk time and other goods and services (Figure 5). VAT collection from the other goods category has increased faster than any other category listed above. This high growth can be attributed to increased economic activities and improved tax administration.

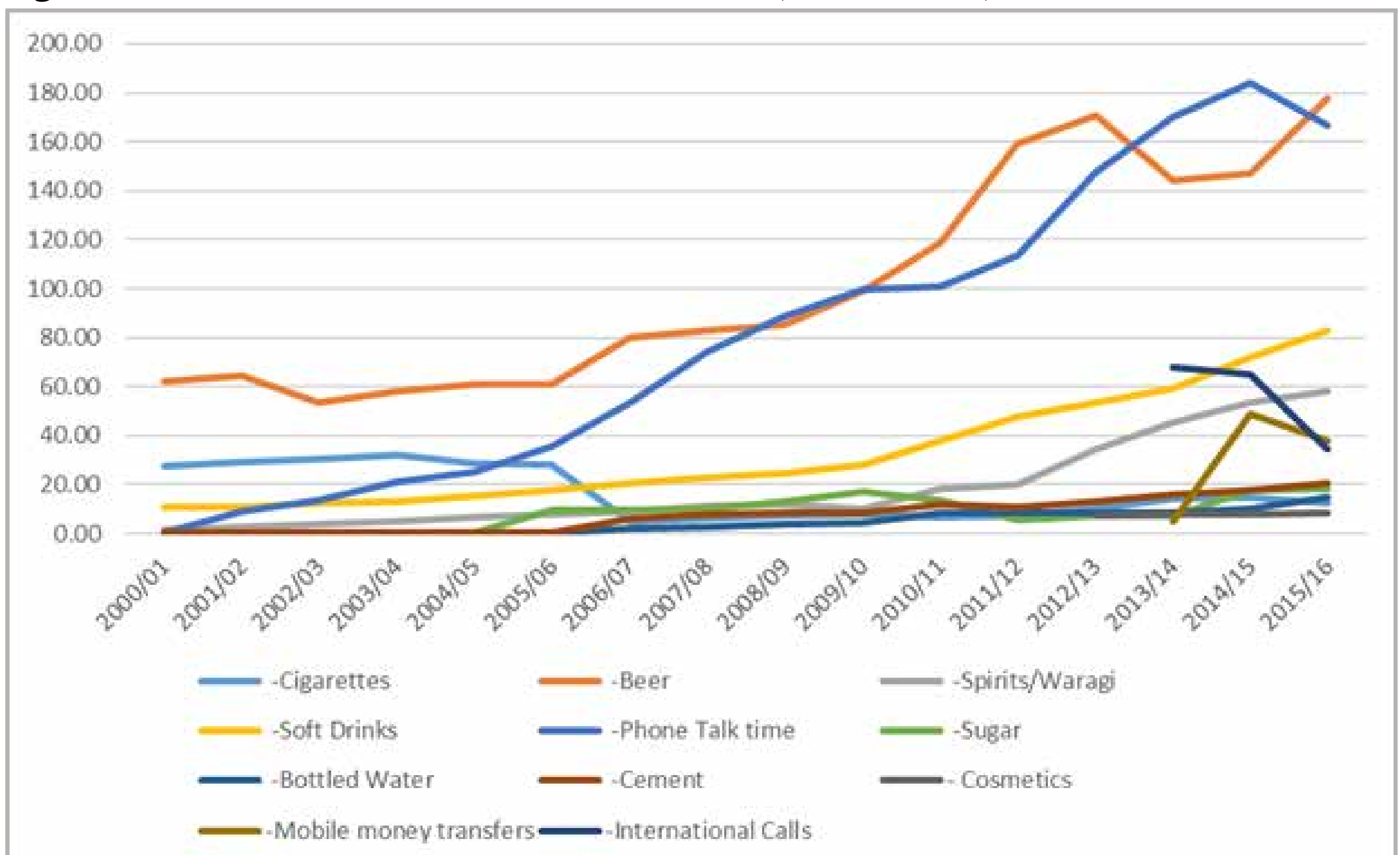
Figure 5: VAT Performance (Domestic) (UGX Billions)



Data Source: URA, 2017

Excise duty in Uganda is charged on Cigarettes, Beer, Spirits/Waragi, Soft Drinks, Phone Talk time, Sugar, Bottled Water, Cement, Cosmetics, Mobile money transfers and International Calls (Figure 6). Phone talk time and beer contribute the largest share of excise duty followed by soft drinks.

Figure 6: Performance of Domestic Excise Duties (UGX Billions)



Data Source: URA, 2017

Despite the noted growth in overall revenue, Uganda's tax effort is still below potential when the tax/revenue to GDP ratio is considered. Even though Uganda's tax to GDP ratio has increased from 11.7% in 1999/00 to 14% in 2015/16, it has grown at a slow pace with episodes of stagnation especially between 2007/08 and 2014/15. In 2014, Uganda's tax revenue to GDP ratio stood at 11.4 per cent compared to 12.4 per cent and 13.5 per cent for Rwanda and Tanzania respectively (Table 1)

Tax revenue (% of GDP) of Various EAC and Sub Saharan African Countries

	2009	2010	2011	2012	2013	2014	2015
Uganda	10.4	10.3	13.3	10.9	11.0	11.4	10.3
Tanzania	11.7	12.1	12.3	12.7	13.2	12.4	..
Rwanda	12.1	12.4	13.1	..	..	13.5	14.0
Kenya	15.5	15.7	15.9	15.9	15.5	..	..
Sub-Saharan Africa	15.4	14.9	15.2	15.7	15.8	..	..
Sub-Saharan Africa (excluding high income)	15.4	14.9	15.2	15.7	15.8	..	..

Data Source: World Development Indicators, World Bank, 2017

A number of reasons account for Uganda's relatively poor performance when it comes to revenue collection. These include tax evasion, tax incentives, high levels of informality and a relatively weak tax administrative system, relatively higher dependence on international trade taxes etc.

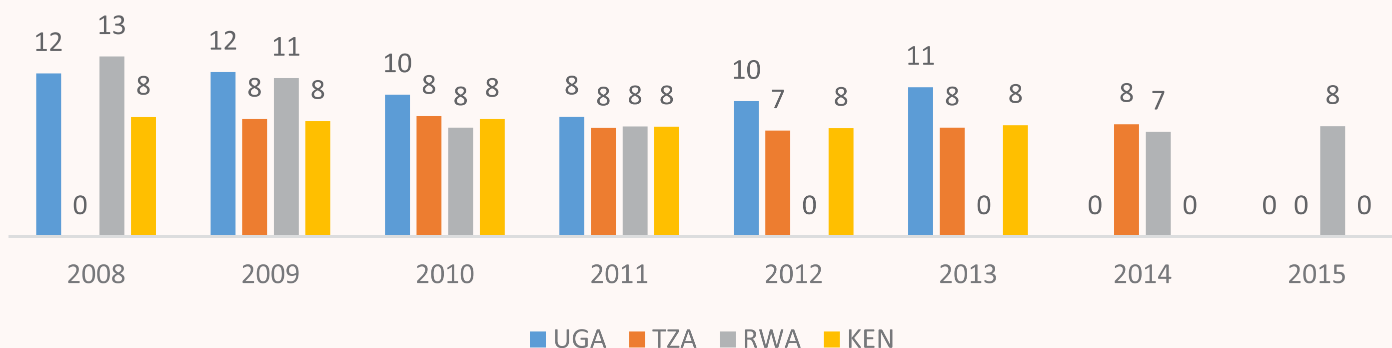
2.1 Constraints to Revenue Mobilization in Uganda.

Relatively Higher Dependency on International Trade taxes:

Despite noted reductions in the share of international trade taxes, statistics show that Uganda still has a higher dependency on international trade duties compared to other EAC countries (Tanzania, Kenya and Rwanda).

In 2013, Uganda collected 11 per cent of its tax revenue from customs and other import duties compared to 8 per cent for Tanzania and Kenya (Figure 7). Given that the EAC now imposes uniform rates under the Common External Tariff CET Regime, the higher ratio of international trade to total tax revenue for Uganda would mean two things: either Uganda has a relatively higher imports ratio or her tax revenue collection from domestic taxes is still below potential. Although easy to collect, international trade taxes are highly dependent on import levels as well as foreign exchange movements. Thus, having a high share of international trade taxes to total taxes can affect the predictability of revenue collection in times of foreign exchange volatility.

Figure 7: Customs and other import duties (% of tax revenue)



Source: Authors' construction from World Development Indicators, World Bank, 2017

Tax incentives and revenue leakages:

In a bid to attract Foreign Direct Investment (FDI), Uganda - like all other East Africa countries- has provided a wide range of tax incentives to businesses.

However, tax incentives have a cost in terms of revenue foregone. Evidence from the Tax Justice Network Africa revealed that Kenya, Uganda, Tanzania and Rwanda were losing up to US$ 2.8 billion a year from all their tax incentives and exemptions. Uganda offers a wide range of tax incentives, including import and stamp duty exemptions, for exporting companies ; unlimited corporate income tax holidays for certain categories of businesses (such as agro-processing companies); and 10-year corporate income tax holidays for businesses exporting finished consumer and capital goods.

In total, over 35 goods and services including petrol, diesel, gas, computers and software are VAT exempt in Uganda. Tax incentives and exemptions can lead to significant revenue leakages. The African Development Bank statistics show a revenue loss of at least 2 per cent of GDP (about US$272 million) in 2009/10 due to tax exemptions. In the EAC, Uganda has the lowest total tax rate on commercial profits after Rwanda. In 2016, Uganda's total tax rate as a percentage of commercial profits stood at 34 per cent compared to 33 per cent, 44 per cent, and 37 per cent for Rwanda, Tanzania and Kenya respectively. The Sub-Saharan countries average stands at 47 per cent (Table 2).

Tax incentives and exemptions have undermined Uganda's revenue potential, partly explaining the sizeable tax gap. It is believed that Uganda's tax revenue as a percentage of GDP could easily go up to 16 per cent if some of the revenue negating measures, particularly incentives and exemptions were removed (AfDB, 2010).

"Tax incentives and exemptions can lead to significant revenue leakages."

Table 2: Total tax rate (% of commercial profits)

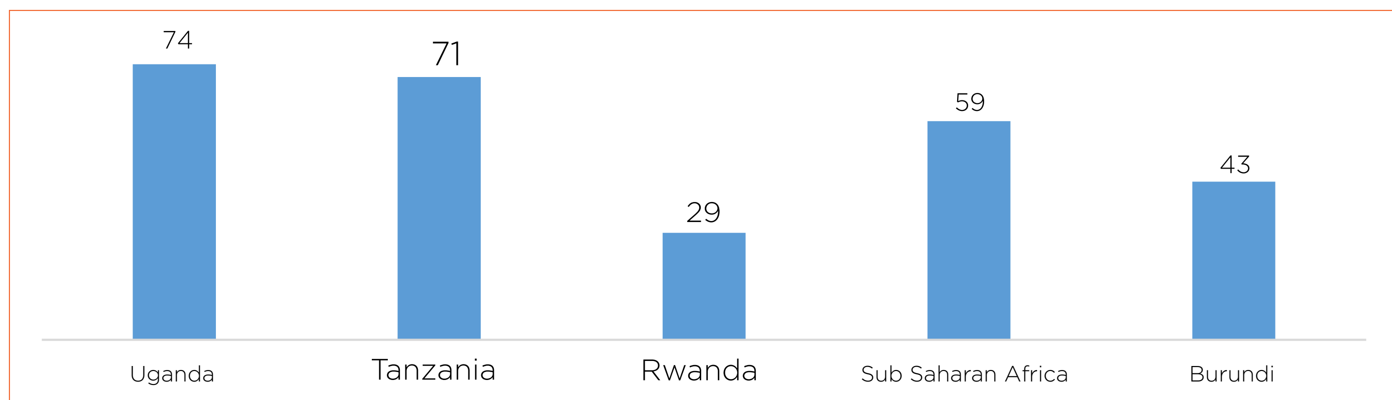
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Uganda	37	35	37	37	34	34	37	34	34	34
Tanzania	44	44	44	44	45	45	44	44	44	44
Rwanda	37	37	35	35	35	35	33	33	33	33
Kenya	49	49	49	49	49	44	37	37	37	37
Sub- Saharan Africa	73	73	72	69	59	58	51	46	46	47
Burundi	280	280	280	155	47	47	45	40	40	40

Source: World Development Indicators, World Bank, 2017

Tax evasion:

Although URA has made significant reforms, tax evasion and avoidance continue to impact tax collection negatively. Figure 8 shows that in the EAC in 2006, Uganda had the highest percentage of firms that did not report all sales for tax purposes standing at 74 per cent compared to 71, 26 and 43 per cent for Tanzania, Rwanda and Burundi respectively. Tax evasion is largely due to the lack of transparency from traders, informality as well as weaknesses in the tax administration system.

Figure 8: Firms that do not report all sales for tax purposes (% of firms) in 2006



Source: Authors' construction from World Development Indicators, World Bank, 2017

High Levels of Informality:

Informality has been identified as one of the most challenging factors to increasing revenue collection in Uganda. Regional comparisons show that Uganda has a higher level of informality than the other EAC countries (Table 3). Having a large informal sector not only impacts negatively tax on collection, but also retards innovation and business growth. In 2013, over 95 per cent of firms were competing against unregistered or informal firms in Uganda compared to 69 per cent and 59 per cent for Ghana and Kenya respectively (World Bank, 2017).

In addition, 38 per cent of Ugandan firms identified competitors in the informal sector as a major constraint compared to 30 per cent and 27 per cent for Ghana and Kenya respectively. This high level of informality partly explains the relatively low level of tax to GDP.

"Having a large informal sector not only impacts negatively tax on collection, but also retards innovation and business growth."

Table 3: Informality indicators

	Percent of firms competing against unregistered or informal firms	Percent of firms formally registered when they started operations in the country	Number of years firm operated without formal registration	Percent of firms identifying practices of competitors in the informal sector as a major constraint
Burundi (2014)	51.3	87.1	0.8	24.4
Ghana (2013)	69.4	76.5	1.1	29.5
Kenya (2013)	59.3	91	0.4	26.9
Rwanda (2011)	56.7	89.8	0.4	37.6
South Sudan (2014)	69.8	80	0.6	38.1
Tanzania (2013)	72.6	75	0.8	45
Uganda (2013)	95.2	63.2	1	37.9

Source: World Development Indicators, World Bank, 2017

Other Constraints

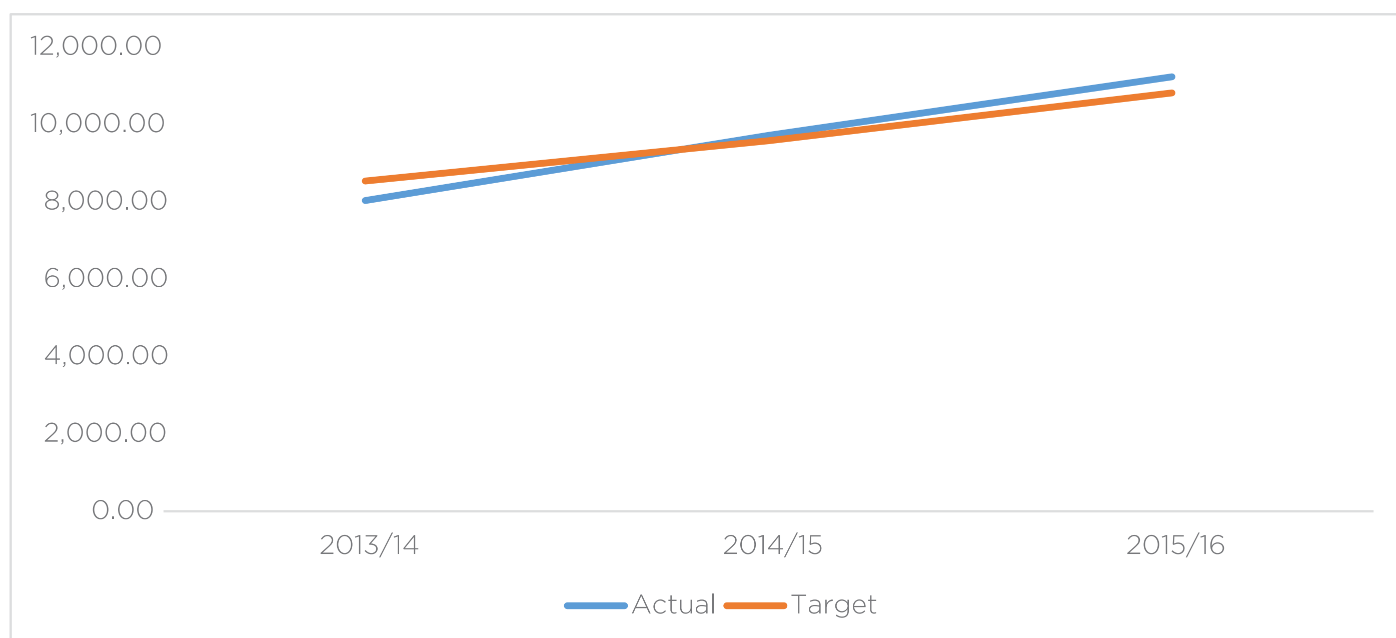
In addition, URA is facing a myriad of challenges that are hampering efficient revenue collection. Kangave (2005) argues that the political environment has not favoured effective tax mobilization; the taxpayer reward system is not attractive and the punishment system is not punitive enough; the information system for remitting tax is mostly manual, leading to lack of accountability and leaving it vulnerable to compromise by government officers; the system still has many unregistered economic entities; revenue awareness and education processes have been low. The public see the government as exploiting their hard-earned incomes; revenue officers half-understand their mandate; and there are no continuous surveys on potential economic and revenue opportunities.

In addition, close to 50 per cent of Uganda's economy is informal (AfDB, 2010). Moreover, agriculture is exempted from taxation and the number of businesses that pay tax is negligible (Ibid). In this regard, URA needs to apply results-oriented strategies to re-energize tax collection and facilitate economic development. Performance of URA

Figure 9 reveals mixed performances in revenue collection for the three recent financial years -2013/14, 2014/15 and 2015/16. It is interesting to note that the disparity between the targeted Net Revenue Collections and achieved was slim. For instance, the 2013/14 target was UGX 8,534 billion versus actual collection of UGX 8,013 billion. Meanwhile, the 2015/16 target was UGX 10,814 billion versus an achieved haul of UGX 11,260 billion. These figures illustrate that revenue targets have been attainable in recent times; however, this masks increasing non-compliance on the part of the taxpayers. In this regard, this analysis disaggregates the net tax collection into contribution by the various tax heads and products (Appendix 2).

of Uganda's economy is **informal**.

Figure 9: Actual vs Targeted URA collections (Excl. Govt. taxes & Tax Refunds) (UGX Billions)

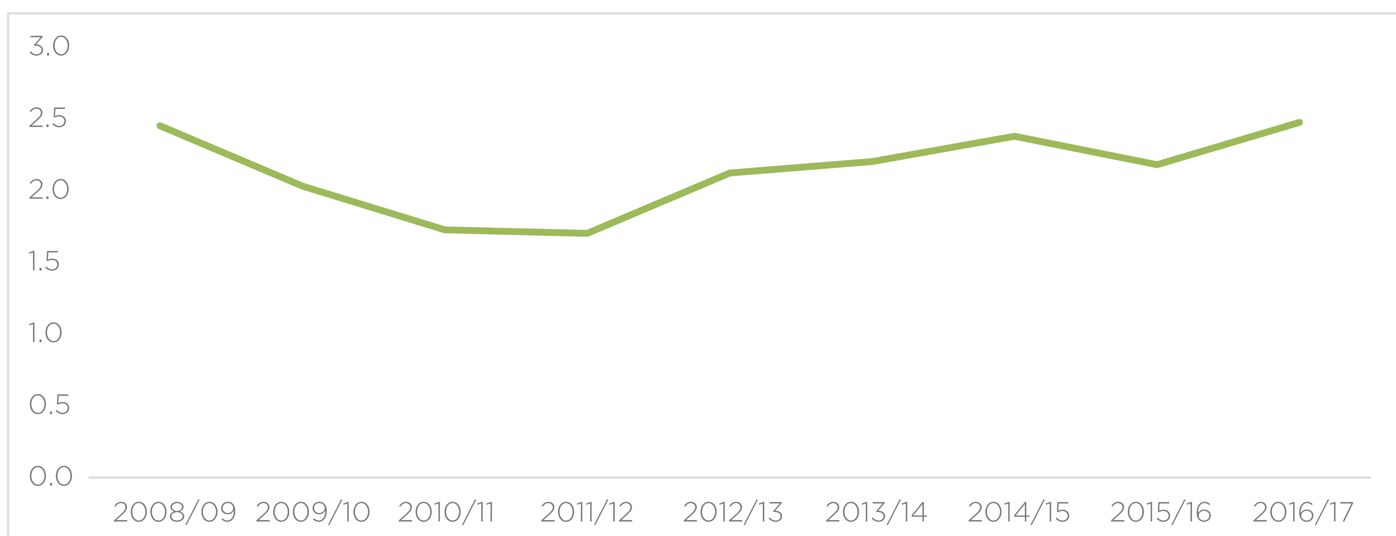


Source: Authors calculation based on URA

Cost of Revenue Collection

Various reforms have reduced the cost of revenue collection over the years. Evidence suggests that structural reforms taken to strengthen and reorganize 2,400 URA staff yielded reduced tax collection costs with the ratio of URA expenditure to total collection falling by 50 per cent in 2011/12 (Almunia, Gerard, Hjort & Knebelmann, 2015). However, since 2011/12 the cost of collection as a proportion of total collections has been rising. This calls for a new set of structural reforms at URA to reflect the emerging challenges in tax collection (such as tariff reforms necessitated by the East Africa Community), advancement in technology, and revision of wage and compensation mechanisms.

Figure 10: URA Cost of Collection (as a percent of total collection)

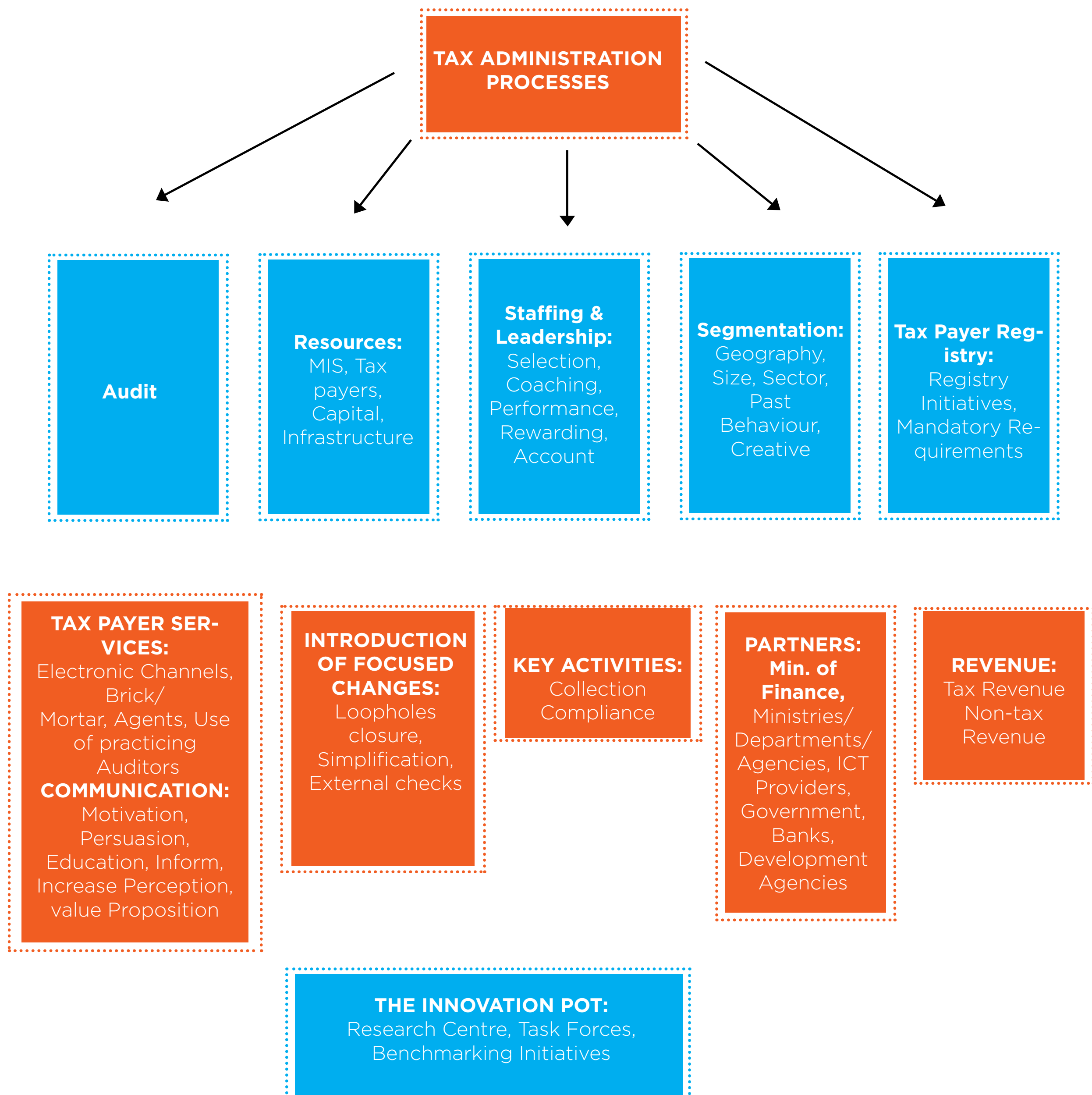


Source: Authors Construction with data from URA and MoFPED

3. Proposed/Recommended Revenue Collection Strategies for Uganda

URA needs to adopt a revenue system that enables it to seal all loopholes, capture all avenues of revenue streams and provide it with the capacity for continuous improvement. This revenue system must be robust, all-inclusive, and open to innovation and must embrace continuous improvement. Against this backdrop, Uganda requires strategies that encompass all critical details required in an effective and efficient tax system. At the same time, the strategies should reflect Uganda's context and should deliberately be simple, straightforward and usable by all tax agents and employees. In this regard, this paper combines Pereira et al's (2013) Revenue Ecosystem Model (Figure 11) and Uganda's revenue deviation calculations to suggest approaches for transforming and increasing revenue mobilization in Uganda.

Figure 11: The Revenue Ecosystem Model



Source: Pereira et al (2013)

3.1 The Strategies

3.1.1 Auditing

Focus must be on improving the **auditing**, processes, and tools. In rapidly developing economies, the control tools used to ensure an efficient auditing process are especially important, as the fast-moving growth creates opportunities for tax evasion and can encourage a culture of non-compliance. In this regard, audits signal the tax administration's intentions to prioritize more aggressive enforcement. Improved auditing will also promote higher levels of voluntary compliance by highlighting the government's efforts in maintaining high ethical standards and thereby improving service levels. The auditing must be frequent to seal all arising loopholes.

In this case, there is a need to audit taxes with volatile collection rates. Table A1 shows negative variations of 38 per cent in 2013/14 and 6.4 per cent in 2015/16 between actual and target collection for corporate tax. Other tax heads with negative variations are direct withholding tax (11.2 per cent in 2013/14) and excise duty on beer (17.8 per cent in 2013/14, 7.5 per cent in 2014/15 and 9.8 per cent in 2016/17). There is also a need to audit the tax heads that are performing well to establish best practices that can be scaled up in poor performing tax heads. From Table A1, it is evident that taxes on excise duty on soft drinks (5 per cent in 2013/14, 6.3 per cent in 2014/15 and 3 per cent in 2015/16) performed well above the expected target.

3.1.2 Staffing, leadership and Task Forces

Another crucial aspect of the tax administration process is staffing and leadership. The government needs to recruit and retain competent staff at URA. Employed staff need to be placed in the right offices and need to be mentored and coached to produce results based on set revenue targets as illustrated in Appendix 2.

However, this depends on the URA leadership's ability to know the people they lead and the business they are engaged to accomplish. As earlier noted, aggregate collection of taxes indicates consistency between target and actual collection; however, there are large discrepancies in the disaggregated analysis (Appendix 2). For example, indirect taxes display negative variations between actuals and targets of 11.2 per cent in 2013/14, 4.5 per cent in 2014/15 and 4.9 per cent in 2015/16. This calls for leaders of the various tax segments such as indirect tax to carry out periodic evaluation of the outcomes of the units they lead.

URA should form taskforces to oversee compliance of segments identified as having significant negative variations between actuals and target revenue collection as identified in Appendix 2. Indirect Tax-heads such as excise tax and VAT require special attention. Staff should be specifically trained for this responsibility, and the taskforces should be further segmented into large and small taxpayer task forces. In particular, the large taxpayer taskforces should deliberately use different processes, rules, and resources from those used by general tax offices. To implement this model, it is necessary to first develop highly skilled, specialized teams to focus on specific sectors or even individual taxpayers. While fully implementing such an approach takes time, a pilot programme can quickly reveal the potential impacts in the short term.

4.1.4 Segmentation

Simple segmentation by tax-head is key to improving tax collection. While Uganda lacks the advanced analytical tools and databases required to automatically flag and follow up suspicious taxpayer behaviour, a simple variation analysis such as the one in Appendix 2 can be used to map tax collection opportunities by geography, size, sector, and past behaviour, among other attributes.

Appendix 2 suggests unexploited tax opportunities in VAT, mobile money transfers and imports; excise duty on imports and water, sugar and cosmetics; and corporate income tax.

As such, URA needs to perform a risk analysis that flags any unexpected discrepancies in the above and other tax-heads. This approach enables effective monitoring of revenue-collection performance by establishing whether too little or too much tax has been targeted for each tax-head.

This segmentation approach has been adopted by many tax authorities in the early stages of improving revenue collection. For instance, by applying this technique to approximately 500 taxpayers, South Africa was able to identify a small number of taxpayers who together owed 5 per cent of the nation's total uncollected tax debt (Pereira, Hoekstra & Queijo, 2013).

3.1.5 Taxpayer registry and follow-up

URA should ensure regular updates to the taxpayer registry. An accurate central taxpayer registry is critical to ensuring proper management of taxpayer obligations. This task can be especially challenging in Uganda where over 50 per-cent of the economy is composed of informal and small-scale businesses. In addition, URA lacks most of the necessary external controls to ensure that a taxpayer stays within the system (AfDB, 2010). Given that URA does not have the resources to control all taxpayers effectively, it is all too easy for a potential taxpayer to fall off the radar in these circumstances—either by not registering in the first place or by stopping declarations— and do so without facing any major consequences.

To counteract this, registration must be made more rigorous, and feedback systems must be introduced to ensure taxpayers regularly update their information. Additionally, quick and simple controls can be put in place to raise the alarm if taxpayers fail to comply with some of their obligations, focusing administration efforts on the cases that are easier to track and follow up.

Tax registration should also capture future taxpayers. In this case, all births registered must be recorded with URA as potential taxpayers who will be eligible to obtain tax documents upon reaching a certain age. In Kenya, it is a requirement for a University Student to have income tax details in the system. In this case, students cannot apply for the Higher Education Loans Board credit facility unless they have an income tax number. This institutes early compliance before people get into the job or self-employment market.

3.1.6 Resources

Consideration should be given to resources needed for tax collection. URA needs to spell out all the resources needed every financial year. These include human resources, the management information system, equipment, capital, infrastructure to enable mobility and stationery. The country should also invest in a robust Management Information System (MIS).

3.1.7 Improving taxpayer service and communications

Improving the way the tax administrations work with taxpayers not only results in better customer service but also has the potential to increase revenue. Since 2003, URA has exploited computer, mobile and internet infrastructure to improve tax service levels. Increased use of modern technology for simple taxpayer transactions such as tax declarations and payments may increase the level of voluntary payments. Such approaches not only help reduce the length of queues at tax offices but may also remove barriers to compliance. Increased computerisation would also yield better quality databases thereby providing the basis for more effective audit and collection processes in the medium term.

While URA has appointed some banks to collect taxes on its behalf, the tax body has not explored cooperation with Postal Corporation offices, Partners' offices and, most importantly, agency services. An agency service encompasses the provision of tax payment, registration and accountability platforms outside the traditional URA offices. This method is particularly successful in collecting Non-Tax revenue such as licenses, court fees, penalties, driving permit fees and passport fees. It should, however, be noted that all partners collecting revenues must provide returns of performance to the Revenue Authority periodically for accountability. As such, they must not wait until the end of the financial year to provide their performance status in order to keep track of the effectiveness of their mobilization efforts.

Pereira et al (2013) shows that communications plans can more than double the impact of individual initiatives by extending the coverage to potential taxpayers, encouraging them to comply with the tax rules and to pay taxes. As such, communication plans should try as much as possible to motivate and inform taxpayers about the benefits of paying taxes, persuade taxpayers to get close to the

authority, educate taxpayers on how to comply, and increase the awareness of non-compliance risk by publicizing: sanctions for failure to comply. The communication plan should include both institutional and initiative-specific messages, and can include messages that elicit fiscal legitimacy such as linking the use of tax revenue to the funding of schools and hospitals. Changes to tax laws or procedures should also be communicated widely.

A Kenyan Case Study shows that most of its citizens know that it is their obligation to be tax compliant. Newspapers often carry information about the Kenya Revenue Authority. Kenya Revenue Authority's Logo, Colour and Motto are often on people's television screens. During periods of filing returns, a sustained campaign about the need for people to file returns and meet the deadline is communicated; they inform the taxpayers of the repercussions of failure to comply. In 2015, the penalty for non-compliance was capped at USD 100, but increased to USD 200 in 2016.

3.1.8 Simplify the tax system to encourage formalization

Differentiation of tax rates and tax-heads may lead to tax evasion and can also push many otherwise willing taxpayers out of the system entirely. Homogenous tax rates generate additional revenue (Anyoki, Obwona & Ogwapus, 2005). For example, South Africa African Revenue Authority attracted 7,000 taxpayers in the first year replacing corporate income tax and VAT with a simpler "turnover tax" that applies to businesses with annual sales below ZAR 1 million (approximately $120,000) (Pereira et al, 2013). A large portion of the new taxpayers were converted from the informal economy and the merger reduced the need for additional record keeping.

3.1.9 Enable external checks that enforce compliance

Informal businesses often operate without paying taxes; yet they regularly interact with other government agencies or entities such as local governments, schools, hospitals and utility companies. Establishing an inter-agency information-sharing system is key in verifying taxpayer status and encouraging formalization. Ghana and Tanzania have laws requiring that authorities check the tax administration's registry when residents attempt to use public services (ACBF, 2015).

3.1.10 Key Partners

Partnerships between URA and the Ministry of Finance, Planning and Economic Development; other Ministries, Departments and Agencies (MDAs); ICT Service Providers; the Government; Banks; Development Agencies like DFID, World Bank and IMF are important in capturing every eligible revenue contributor. Particularly, partnership between URA and Ministry of Finance should be upheld for support with strategy and implementation. In addition, partnerships with new or evolving partners must be encouraged. However,

Appendix 2 shows that URA has difficulty in collecting taxes from government Ministries, Departments and Agencies.

3.1.11 The Innovation Pot

Continuous improvement of the tax system should be a commitment of the government. In this regard, continuous surveys and research on tax matters is required to establish challenges, opportunities, loopholes and trends and to benchmark best practices, especially from the other developing countries. Periodic surveys should be carried out to ascertain the relevance and trends of challenges affecting effective revenue mobilization. The surveys must incorporate key drivers of effective revenue collection. Additionally, tax taskforces should be set up both at national and local government levels. The mandate of the taskforces should be to enforce or reinforce compliance across the board.

4. Conclusions

Since the 1990s, Uganda has undertaken a number of reforms geared towards broadening the tax base and increasing domestic revenue collection. As a result of these reforms, Uganda has registered significant increases in domestic revenue collections. However, revenue collection has grown at slower rate than projected. As such, in order to meet her rising public expenditure, government has resorted to other sources to finance the deficit. This has led to an increase in Uganda's public debt from both domestic and external sources. Although it is still within sustainable levels, the pace of growth is alarming, and thus calls for an increase in domestic revenue collection. This study recommends that URA should adopt a more robust revenue system.

We provide a number of strategies based on the combination of a Revenue Ecosystem Model and calculations of Uganda's revenue deviation. These include improving auditing, improving staffing and leadership by recruiting and retaining competent staff to increase productivity. It is also recommended that URA should form taskforces to oversee compliance of segments identified as having significant negative variations between actual and targeted revenue collection.

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Appendix

Appendix 1: Median Monthly Wages for Persons 14-64 Years in Paid Employment (2005/06-2012/13)

	Survey years		
Background characteristics			
Median Wages Nominal	2005/06	2009/10	2012/13
Male	70,000	90,500	132,000
Female	36,200	54,300	66,000
Urban	90,500	142,400	209,000
Rural	45,250	54,300	75,000
Public	150,000	200,000	330,000
Private	45,200	45,250	99,000
Total	54,300	80,000	110,000
Median Wages (real 2005/2006=100)			
Male	70,000	63,800	65,900
Female	36,200	37,700	32,970
Urban	90,500	98,900	104,400
Rural	45,250	37,700	37,500
Public	150,000	138,900	164,900
Private	45,200	31,400	49,500
Total	54,300	55,600	55,000

Source: UBOS, 2016 STATISTICAL ABSTRACT

Appendix 2: Uganda's Actual and Target Revenue Collection

	2013/14			2014/15			2015/16		
	Actual	**Target**	**Variation (%)**	**Actual**	**Target**	**Variation (%)**	**Actual**	**Target**	**Variation (%)**
Net URA collections(Excl. Govt. taxes & Tax Refunds)	**8,031.0**	**8,534.5**	**-5.9**	**9,713.8**	**9,576.6**	**1.4**	**11,230.9**	**10,814.3**	**3.9**
Gross Revenues	8,377.8	9,039.9	-7.3	10,114.5	9,974.6	1.4	11,496.8	11,613.1	-1.0
Domestic Taxes	4,671.2	5,135.4	-9.0	5,553.7	5,529.3	0.4	6,595.0	6,209.2	6.2
Taxes on international Trade	3,548.0	3,589.7	-1.2	4,336.7	4,263.0	1.7	4,838.9	4,840.7	0.0
Government Taxes	48.2	110.3	-56.4			-			-
Direct Domestic Taxes	**2,624.5**	**2,873.6**	**-8.7**	**3,248.7**	**3,119.7**	**4.1**	**3,707.0**	**3,638.7**	**1.9**
PAYE	1,397.6	1,356.2	3.0	1,613.0	1,631.7	-1.1	1,803.5	1,825.0	-1.2
Corporate Tax	486.6	791.4	-38.5	714.8	597.0	19.7	732.2	781.9	-6.4
Presumptive Tax			-		8.0	-100.0		-	-
Other Income Tax	53.6	19.0	182.8	42.2	48.0	-12.1	42.9	75.6	-43.2
Rental Income Tax			-	27.7	42.9	-35.6	55.0	30.3	81.9
Withholding Tax	406.7	458.2	-11.2	546.9	455.9	20.0	699.3	571.6	22.3
Tax on Bank Interest	268.9	234.1	14.9	290.4	323.5	-10.2	355.2	337.8	5.1
Casino and Lottery Tax	11.0	14.7	-24.8	13.9	12.7	9.4	17.4	16.6	4.7
Agricultural products		-	-		-	-			-
Indirect Domestic Taxes	**1,900.2**	**2,140.8**	**-11.2**	**2,148.6**	**2,251.0**	**-4.5**	**2,443.3**	**2,570.4**	**-4.9**
Excise duty:	546.3	547.8	-0.3	638.5	648.8	-1.6	671.1	785.6	-14.6
Cigarettes	14.3	10.2	40.1	15.0	16.4	-8.5	12.6	16.0	-21.3
Beer	144.2	175.5	-17.8	146.9	158.7	-7.5	177.7	196.9	-9.8
Spirits/Waragi	45.6	34.8	30.9	53.3	51.9	2.8	58.2	56.3	3.4
Soft Drinks	59.3	56.5	5.0	71.8	67.5	6.3	83.1	80.7	3.0
Phone Talk time	170.4	135.1	26.1	184.2	199.3	-7.6	166.8	220.5	-24.3
Sugar	7.5	8.7	-14.4	17.9	16.4	9.0	18.2	25.6	-28.7
Bottled Water	8.3	9.0	-6.9	9.9	10.7	-8.0	14.5	12.1	20.1
Cement	15.7	14.2	11.0	17.8	19.0	-6.2	20.8	18.1	14.7
Cosmetics	8.0	11.8	-32.7	7.7	10.0	-22.6	8.6	8.9	-3.7
Mobile money transfers	4.9	48.1	-89.9	49.0	21.1	132.6	37.7	34.7	8.6
International Calls	68.2	44.0	55.1	65.1	77.9	-16.4	34.2	78.8	-56.6
Bank Charges			-			-		37.1	-100.0
Value Added Tax:	**1,353.9**	**1,593.0**	**-15.0**	**1,510.2**	**1,602.2**	**-5.7**	**1,772.1**	**1,784.8**	**-0.7**
Cigarettes	6.8	1.1	504.5	16.8	10.2	64.5	9.4	17.1	-45.3
Beer	96.4	101.3	-4.8	108.8	114.6	-5.0	120.5	140.2	-14.1
Spirits/Waragi	1.6	0.6	150.0	1.0	3.6	-72.5	1.3	2.4	-46.7
Soft Drinks	30.3	29.8	1.7	32.4	39.7	-18.4	35.5	42.9	-17.3
Sugar	71.3	97.2	-26.6	110.8	81.9	35.3	120.4	129.6	-7.1
Bottled Water	7.3	8.8	-17.6	10.6	8.9	19.1	24.0	8.8	172.5
Cement	37.4	40.9	-8.7	53.1	46.2	14.8	72.0	41.7	72.8
Milk			-			-		22.4	-100.0
Others			-			-		153.1	-100.0
Utilities			-			-			-
Electricity	162.7	77.5	110.0	112.8	219.9	-48.7	114.7	184.0	-37.7
Water	17.6	27.1	-35.1	12.8	20.8	-38.6	20.9	13.8	51.9
Other Goods	781.3	1,033.1	-24.4	899.3	894.8	0.5	453.9		0.0
Phone Talk Time	141.4	175.7	-19.5	151.8	161.6	-6.1	181.9	205.3	-11.4
Services		-	-		-	-			0.0
Insurance services			-			-		20.7	-100.0

Agriculture			-			-		7.0	-100.0
Other Sub-sectors			-			-		795.8	-100.0
Taxes on International Trade	**3,548.0**	**3,589.7**	**-1.2**	**4,336.7**	**4,263.0**	**1.7**	**4,838.9**	**4,840.7**	**0.0**
Petroleum duty	984.2	929.1	5.9	1,197.8	1,119.8	7.0	1,383.0	1,372.6	0.8
Import duty	747.5	693.0	7.9	839.8	904.6	-7.2	940.1	946.4	-0.7
Excise duty	154.0	258.2	-40.4	196.1	197.9	-0.9	245.7	227.1	8.2
Surcharge on Used imports	72.9	67.7	7.7	95.9	90.5	6.0	136.3	105.5	29.2
VAT on Imports	1,404.4	1,360.8	3.2	1,783.5	1,715.3	4.0	1,952.8	1,994.0	-2.1
Withholding Taxes	131.3	220.8	-40.5	152.8	165.9	-7.9	165.1	179.0	-7.7
Temporary Road Licenses	50.5	59.9	-15.8	57.6	64.7	-11.0	58.3		0.0
Commission on Imports		-	-		-	-		105.5	-100.0

Re-exports levy		-	-		4.3	-100.0			0.0
Hides & Skins levy	3.1	0.2	1,465.0	13.2		-	15.9	16.1	-1.1
Coffee Stabilisation Tax			-			-			-
			-			-			-
Total Tax Refunds:	**-188.2**	**-190.6**	**-1.3**	**-176.6**	**-215.7**	**-18.1**	**-203.0**	**-235.5**	**-13.8**
Tax Refunds:	-188.2	-190.6	-1.3	-176.6	-215.7	-18.1	-203.0	-235.5	-13.8
Tax Refunds due to Diesel Tax exemption		-	-		-	0.0		-	0.0
Fees and Licenses	**146.6**	**121.0**	**21.1**	**156.4**	**158.7**	**-1.5**	**151.7**		**0.0**
Fees & Licenses (Traffic Act)	92.9	68.6	35.3	91.9	98.9	-7.1	73.4	100.5	-27.0
Drivers Permits	14.2	15.4	-7.8	15.9	16.0	-0.3	18.2	17.9	1.8
Stamp duty & Embossing Fees	39.6	37.1	6.8	48.6	43.8	10.8	60.1	54.8	9.8
Road User Charges			-			0.0			-
Airport Service Tax			-			-			-
Government Taxes	**48.2**	**110.3**	**-56.4**			**-**			**-**
Non-oil Imports	27.7	81.5	-66.0			-			-
Excise duty	0.1	0.1	33.3			-			-
VAT on Imports	20.3	28.8	-29.3			-			-
Commission on Imports		-	-			-			-
Government Payments on behalf of Private Co.			-			-			-
NTR		**204.4**	**-100.0**		**182.3**	**-100.0**		**495.2**	**-100.0**
temporary road licenses			-			-		74.0	-100.0
motorvehicle fees (traffic act)			-			-		100.5	-100.0

Excise duty:	546.3	547.8	-0.3	638.5	648.8	-1.6	671.1	785.6	-14.6
Cigarettes	14.3	10.2	40.1	15.0	16.4	-8.5	12.6	16.0	-21.3
Beer	144.2	175.5	-17.8	146.9	158.7	-7.5	177.7	196.9	-9.8
Spirits/Waragi	45.6	34.8	30.9	53.3	51.9	2.8	58.2	56.3	3.4
Soft Drinks	59.3	56.5	5.0	71.8	67.5	6.3	83.1	80.7	3.0
Phone Talk time	170.4	135.1	26.1	184.2	199.3	-7.6	166.8	220.5	-24.3
Sugar	7.5	8.7	-14.4	17.9	16.4	9.0	18.2	25.6	-28.7
Bottled Water	8.3	9.0	-6.9	9.9	10.7	-8.0	14.5	12.1	20.1
Cement	15.7	14.2	11.0	17.8	19.0	-6.2	20.8	18.1	14.7
Cosmetics	8.0	11.8	-32.7	7.7	10.0	-22.6	8.6	8.9	-3.7
Mobile money transfers	4.9	48.1	-89.9	49.0	21.1	132.6	37.7	34.7	8.6
International Calls	68.2	44.0	55.1	65.1	77.9	-16.4	34.2	78.8	-56.6
Bank Charges			-			-		37.1	-100.0
Value Added Tax:	**1,353.9**	**1,593.0**	**-15.0**	**1,510.2**	**1,602.2**	**-5.7**	**1,772.1**	**1,784.8**	**-0.7**
Cigarettes	6.8	1.1	504.5	16.8	10.2	64.5	9.4	17.1	-45.3
Beer	96.4	101.3	-4.8	108.8	114.6	-5.0	120.5	140.2	-14.1
Spirits/Waragi	1.6	0.6	150.0	1.0	3.6	-72.5	1.3	2.4	-46.7
Soft Drinks	30.3	29.8	1.7	32.4	39.7	-18.4	35.5	42.9	-17.3
Sugar	71.3	97.2	-26.6	110.8	81.9	35.3	120.4	129.6	-7.1
Bottled Water	7.3	8.8	-17.6	10.6	8.9	19.1	24.0	8.8	172.5
Cement	37.4	40.9	-8.7	53.1	46.2	14.8	72.0	41.7	72.8
Milk			-			-		22.4	-100.0
Others			-			-		153.1	-100.0
Utilities			-			-			-
Electricity	162.7	77.5	110.0	112.8	219.9	-48.7	114.7	184.0	-37.7
Water	17.6	27.1	-35.1	12.8	20.8	-38.6	20.9	13.8	51.9
Other Goods	781.3	1,033.1	-24.4	899.3	894.8	0.5	453.9		0.0
Phone Talk Time	141.4	175.7	-19.5	151.8	161.6	-6.1	181.9	205.3	-11.4
Services		-	-		-	-			0.0
Insurance services			-			-		20.7	-100.0
Agriculture			-			-		7.0	-100.0
Other Sub-sectors			-			-		795.8	-100.0
Taxes on International Trade	**3,548.0**	**3,589.7**	**-1.2**	**4,336.7**	**4,263.0**	**1.7**	**4,838.9**	**4,840.7**	**0.0**
Petroleum duty	984.2	929.1	5.9	1,197.8	1,119.8	7.0	1,383.0	1,372.6	0.8
Import duty	747.5	693.0	7.9	839.8	904.6	-7.2	940.1	946.4	-0.7
Excise duty	154.0	258.2	-40.4	196.1	197.9	-0.9	245.7	227.1	8.2
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VAT on Imports	1,404.4	1,360.8	3.2	1,783.5	1,715.3	4.0	1,952.8	1,994.0	-2.1
Withholding Taxes	131.3	220.8	-40.5	152.8	165.9	-7.9	165.1	179.0	-7.7
Temporary Road Licenses	50.5	59.9	-15.8	57.6	64.7	-11.0	58.3		0.0
Commission on Imports		-	-		-	-		105.5	-100.0

drivers permits			-			-		17.9	-100.0
stamp duty & embosing fees			-			-		54.8	-100.0
passport fees-citizenship & immigration			-			-		23.5	-100.0
migration fees-citizenship & immigration			-			-		109.9	-100.0
land transfer fees-ministry of lands			-			-		0.4	-100.0
transport regulation fees-works			-			-		3.3	-100.0
company regulation fees			-			-		0.4	-100.0
high court fees			-			-		9.5	-100.0
mining fees & royalties-energy			-			-		17.5	-100.0
uganda registration services bureau			-			-		45.3	-100.0
vessels/motor vehicle licenses (works)			-			-		10.0	-100.0
accupational safety and health (gender)			-			-		3.1	-100.0
others			-			-		25.1	-100.0
infrastructure levy			-			-		68.2	-100.0

Source: Author’s Construction with data from URA

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