TAX REFORMS AND DOMESTIC REVENUE MOBILIZATION IN UGANDA REVENUE AUTHORITY A CASE STUDY OF UGANDA REVENUE AUTHORITY ENTEBBE

BY

ALI RONALD

07/U/4694/EXT

SUPERVISED BY

MR. TURYAKIRA NAZARIUS

A RESEARCH REPORT SUBMITTED TO MAKERERE UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD

OF BACHELORS OF COMMERCE DEGREE

JULY 2011

DECLARATION

I Ali Ronald, declare that this dissertation is my own piece of work which has never been submitted for any award of degree in any university or higher institution of learning. Acknowledgement has been made where some other works were quoted and referred to.

Signed…………………… Date………………………

ALI RONALD

07/4694/EXT

APPROVAL

This research report has been carried by the student and submitted for examination with my approval as the candidate's University Supervisor.

Signature………………… Date………………………

MR. TURYAKIRA NAZARIUS

Supervisor

DEDICATION

This research report is dedicated to the following people, my parents Mr. and Mrs. Kerfua Saverio, my beloved wife Aweko Grace and sister Atungonza Lillian for their love and financial support towards my studies.

I also dedicate it to my lovely children Patience and Elisha for having been without my parental love and care during the four years of my studies.

My thoughts and prayers go to my late uncle Anyiri Victorio whose kindly love towards me was immeasurable and has always inspired me. May his soul rest in peace

ACKNOWLEDGEMENTS

My sincere thanks go to all those who helped me financially, morally, materially, spiritually and to the wise personalities who gave me their words of wisdom.

Special thanks go to my wife Aweko Grace and my sister Atugonza Lillian for their love and financial support during the hard economic period in the course of my studies, they were always there for me.

This research report would not have been a success without the guidance and support of my supervisor Mr. Turyakira Nazarius for the intellectual criticisms and advice that helped in shaping the general structure of this research report.

Thanks also go to Mr. and Mrs. Otuko J Bosco who supported my family during hard times in the course of my studies. To my brothers Walter, Deogracius and sisters Harriet, Justine big thanks for their love.

I recognize my friends in the discussion group John, Annet, Margret , Alex, Dorcas, Peace, Ann, Robert, Olivia, Lona, Osteen, Esther, Paul, and Joseph for their positive ideas and cooperation given to me throughout the course.

Thanks also go to the following persons Dr. Odongo Charles, Mr. Opio Felix, Mr. Okello Ronald and Mr. Ocaka Bob who have been of great assistance to me in several ways.

Finally am extremely grateful to all respondents who positively provided me with relevant data as well as Makerere University providing the study requirements and those not mentioned.

Thank you so much may GOD bless you.

TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS

URA	Uganda Revenue Authority
ADB	African Development Bank
VAT	Value Added Tax
GDP	Gross Domestic Product
ASYCUDA	Automated System for Customs Data
PAYE	Pay as You Earn
MFPED	Ministry of Finance Planning and Economic Development
EAC	East African Community
COMESA	Common Market East and Southern Africa
PTA	Preferential Trade Agreement
ITA	Income Tax Act
TIN	Taxpayer Identification Number

ABSTRACT

The study was carried out on tax reforms and domestic revenue mobilization in Uganda Revenue Authority Entebbe branch, basing on the following objectives; to identify the various tax reforms being implemented by Uganda Revenue Authority-Entebbe, to establish the bottlenecks in domestic revenue mobilization facing Uganda Revenue Authority, to find out whether tax reforms affect domestic revenue mobilization.

The study used a cross sectional survey both quantitative and qualitative data gathered in respect to establishing the relationship between the variables under the study and descriptive research design was employed and random sampling was used to determine the sample size. A sample of 30 was considered comprised of staffs from all the departments in Uganda Revenue Authority staffs. Primary data was collected by the use of questionnaires which focused on the research questions; Secondary data was got from the records at the branch. Data entered into SPSS was presented in form of Frequency tables and the analysis was presented in form of Pearson coefficient table which showed the strength of the relationship between tax reforms and domestic revenue mobilization.

Findings on tax reforms indicated that more emphasis was put on indirect tax reform but direct tax heads was given negligible attention. Majority of tax payers do not get the sufficient tax education and this leads to non compliance on the part of tax payers. Domestic revenue mobilization is still performing poorly, larger portion of domestic tax revenue is raised from indirect tax heads, domestic revenue mobilization procedures are not effective and collecting tax revenue from organizations is easier than from individual tax payers. Huge tax burden, rest on the few registered organizations and employees working in formal sector. There is a strong positive relationship between tax reforms and domestic revenue mobilization at correlation coefficient 0.974.

Recommendation on tax reforms were that, Uganda Revenue Authority needs to lower pay as you earn threshold in order to capture income of majority citizens for tax purpose. Further there is need to revise the list of zero rated supplies, diplomatic privileges act and the list of institutions whose income is tax exempt. According to interviews, periodic evaluations are carried out by tax experts to establish performance of each tax heads and identify areas of

weaknesses. This becomes the basis under which various tax reforms are put in place and the mode in which they are implemented.

CHAPTER ONE

1.0 Background to the study

Tax reforms refer to the change that is made to a tax system in order to improve the process of administering and collecting taxes that comply with various tax policies. Tax is a compulsory levy imposed by government upon assesses of various categories of the tax bases such as income from business, employment, property, rent. Therefore, in order for the government to collect sufficient revenue inform of taxes to runs its affairs efficiently and effectively necessary reforms are required (Fjeldstad and Rakner, 2003).

In Uganda tax system has been under revision since the beginning of 1990, mainly due to poor domestic revenue mobilization as a percentage of GDP to public expenditure 4.2%-17% in 1987. The above deficit forced the government of Uganda to come up with a number of tax reforms like establishment of Uganda Revenue Authority, restructured the tax system, recruited and trained new personnel's and motivated them highly, came up with income tax act in 1997, introduced VAT. The success of the tax reforms were mostly realized between 1992-1997, GDP grew at an average of 7% to more than 10% annually (Background to the budget 1998/99).

Domestic revenue mobilization refers to the generation of national resources in the form of overall taxes collected from within the country. In Uganda the tax systems are structured on the British tax model and most of the reforms are derived from the British norms. Uganda like any other developing country would be increasing its domestic tax revenue in order to provide public goods, develop infrastructures needed to speed up national development (Annett, Bristow, Mahler and Terkper 2000).

There has been a declining trend over the last five years in domestic revenue mobilization estimated at an average of 0.6% annually. In 2009/2010 URA revenue collections amounted to shs. 4.3 trillion lower than the programmed target by shs.159 billion, representing a performance of 96.5% and equivalent to 12.5% of GDP. This percentage is very low compared to other East African Community and Sub-Saharan African countries which are at 20% of GDP on average. (Back ground to the budget 2010/2011).

Tax collection as a percentage of GDP grew significantly from 1992 by 1.7%, soon after Uganda Revenue Authority started various tax reforms such as reduction of import duties, establishment of revenue protection service this led to reduction of smuggling of goods across border, tremendous rise in collection of PAYE since enactment of income tax act 1997. Since then, URA (Entebbe branch) have been implementing various tax reforms mostly geared towards broadening tax bases, rationalizing taxes to improve the investment climate enhancing compliance and improving other aspects of tax revenue administration. Despite tremendous Uganda's macroeconomic stability over the recent years, poor domestic revenue mobilization is a major budget constraint, that's why 30% of the total budget is financed by our development partners (Maxwell Stamp 2003).

1.1 Statement of the problem

Tax reforms have had a marginal increase in revenue collection as a percentage of GDP from 11.3% in 1995/96 to 13.1% in 2007/08, the policy makers started to focus on tax reforms that could results into fast revenue growth, by introducing reforms that emphasized on broadening tax base (Fjeldstad, and Rakner 2003).

Tax reforms in Uganda have generally been in line with the IMFs recommendations, based on international trade taxes such as abolition of export duties, reduction of import duties from 70% to 25%, taxes on government import abolished. The other reforms introduction of VAT, introduction of TIN, introduction of withholding tax, introduction of ITA, graduated tax abolished, introduction of local service tax, local hotel tax on all hotels and lodge occupants (Global Development Network-Africa 2005).

Despite the tax reforms introduced such as abolition of taxes on export, introduction of VAT, reduction of import duties, income tax act, tax education, establishment of large tax payer department by Uganda Revenue Authority, 30% of Uganda's budget still being financed by development partners since domestic revenue mobilization has continued to perform poorly, probably the tax reforms had put more emphasis on indirect taxes than direct taxes (Back ground to budget 2009/2010).

1.2 Purpose of the Study

To establish the relationship between tax reforms and domestic revenue mobilization

1.3 Objectives of the study

i. To identify the various tax reforms being implemented by Uganda Revenue Authority-Entebbe.

ii. To establish the bottlenecks in domestic revenue mobilization facing Uganda Revenue Authority.
iii. To find out whether tax reforms affect domestic revenue mobilization.

1.4 Research questions

i. What are the different tax reforms established by Uganda Revenue Authority?
ii. What are the bottlenecks in domestic revenue mobilization facing Uganda Revenue Authority?
iii. What is the relationship between tax reforms and domestic revenue mobilization?

1.5 Scope of the study

Geographical

The study covered Uganda Revenue Authority Entebbe branch. The study covered all the departments; internal revenue, custom and excise duties, value added tax, legal and administration, large tax payers, and expansion URA Entebbe branch.

Content

The key areas covered included tax administrative reforms, VAT, corporation tax, and employment tax.

Time

The time scope covered a period of five years from 2005-2010. The research was carried for a period of two months.

1.6 Significance of the study

i. The study will help URA improve on the collection of domestic taxes.
ii. The study will help URA to come up with more tax reforms, which provides expansion in both direct and indirect tax bases.
iii. To enable the citizens understands the importance of paying taxes.
iv. It will benefit other researchers who may refer to the publication in the future

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter reviews available literature on taxation and tax reforms. It is aimed at evaluating the level of domestic revenue mobilization and the need for more comprehensive tax reforms. The first part focuses on a general outline of Uganda's tax reforms. Second part discusses the determinants of domestic revenue mobilization and lastly it comprehends the performance of domestic revenue mobilization over the period under review, and relevant reforms taken during the same period.

2.2 Tax reforms

The major focus of long run tax reforms should be to improve revenue mobilization inform of direct taxes which should be the basic source of overall tax revenue. Tax reform is defined as a deliberate change in the tax system geared towards improving tax revenue administration and collection that comply with various tax policies (Fjeldstad and Rakner, 2003).

2.2.1 Minimum tax gap

A tax should be structured to minimize non compliance. The tax gap is the difference between taxes such as non filling, under reporting of income or overstating of deductions and unintentional errors such as miscalculations and lack of understanding rules. A number of tax provisions may encourage non compliance because the provision is too complex to understand or to comply with procedural rules generally required for all tax systems. Rules to encourage compliance might include mandatory withholding of taxes at source and penalties for non compliance. Generally compliance measures need a balance between the desired levels of compliance against the costs of enforcement of the tax laws (Fjeldstad, 2003).

2.2.2 Appropriate government revenue

The tax system should enable the government to determine how much tax revenue will likely be collected and when. Tax system should have some level of predictability and reliability to enable the government to determine how much tax revenue is likely to be collected and when.

Government needs some assurance that tax revenues will be stable so that required spending can occur. For instance, during economic meltdown wide unemployment causes income tax revenues to decline. If government is collecting other forms of taxes that are less affected by employment level the effect will not occur immediately (Chipeta, 1998).

2.2.3 Assessment of tax

Tax assessment is levying of amounts to be paid by tax payers on the taxable income (Income Tax Act 1997). On the ascertainment of the chargeable income and the amount of tax payable thereon by a tax payer for the year of income, after identification of the tax payer the assessment of tax liability must be done very carefully considering the tax rates at which the assessment was based on. High rates may lead to tax evasion and low rates will be uneconomical due to inadequate tax revenue yield (Chipeta, 1998).

2.2.4 Tax administration

Tax administration comprises three interrelated activities, identification of tax payer based on existing tax legislation, assessment of taxes to determine the tax liabilities and, the collection, prosecution and penalties that impose sanctions on tax payers who evades taxes. Such activities require some degree of autonomy if tax administration is to realize the predictable tax revenue (Mutambi, 2004).

In order to increase revenue and curb corruption, a number of African countries have implemented comprehensive reforms of their tax administration over the past twenty years one of them was establishing semi autonomous revenue authorities. This was aimed at limiting political interference in the management of the tax bodies. The revenue authority recruited, motivated highly trained staff above the civil service standards and can easily dismiss staff on the ground of misconduct yet in civil service staffs are not easily terminated It is assumed that such steps provides incentives for greater job motivation and minimize corruption tendency (Fjeldstad, O.2003).

2.2.5 Revenue collection

This refers to obtaining cash from tax payers previously assessed. Assessment and collection of taxes requires personnel and equipment, they are the assets and should be provided efficiently. They further argue that, it is important to examine the effectiveness of a tax system with regard to how much revenue is actually collected per unit cost, since costs rise with every function implemented (Ghura, 1998).

2.2.6 Objectives of taxation

The objectives of tax reforms are similar to those of public expenditure budget mostly in developing countries and overlap with the purposes of the tax system most government adopts. There are five reasons for mobilizing taxes, to give government resource strength, enable government allocate public goods and services, encourage general economic growth, enable government to stabilize monetary system in the economy and lastly to foster equitable distribution of national resource (Chipeta, 1998).

Economic Growth

Most developing countries are extremely yarning for constant rate of economic growth in both private and public sectors. Taxation is usually referred to as a system of re-allocating resources from the private sector to public sector. Even in a purely private led economy government need to acquire assets for public sector capital formation in order to ignites the overall economic growth. Most developing countries encourage foreign direct investment through the use of tax incentives, availing them with government lands. However, effectiveness of such incentives remains doubtful as there is insufficient data to link such incentives to economic growth as well as the criteria in selecting which investors qualify for tax incentives in the form of tax holiday (Chipeta, 1998).

Stabilization

The use of tax instrument to enhance economic stability is important in developing countries because this enable them to bring about full employment and price stability in a market economy. Taxation can also be used as a final tool for macro-economic stability necessary for economic growth and development. Taxes can be imposed during inflationary periods to reduce unnecessary expenditure hence checking on inflation. Without fiscal policy guidance the economy suffers from periodic fluctuations that eventually create unemployment (Chipeta, 1998).

Equitable Distribution of Resource

According to Howell, the distribution role of taxes in developing countries is another important purpose of the tax system. Income disparities hampers economic developments since very few people are capable of purchasing items of their choice, majority of people will have low purchasing power hence reduction in the aggregate level of demand. This also increases government expenditure in terms of providing public goods. This function is concerned with creating equity among members of society. Distribution is concerned with systems that will lead to equitable distribution of wealth and income. The tax system should put emphasis on reforms that constitutes a fair or just state of distribution. Tax reforms can also be intended to achieve a Parreto Phenomenon, a situation where improvement in economic condition of a person should not lead to worsening condition of other people. In other words it is a win-win situation nobody loses everybody wins (Chipeta, 1998).

Provision of Public Goods

Public goods are supposed to be available to all those concerned however, the provision is spatially limited. Some public goods can only be provided in given locations yet they are developed using national taxes. The structure of tax reforms must take this problem into account, which is the problem of spatial limitation of benefits (Chipeta, 1998).

2.2.7 Tax reforms

The Tax structure of Uganda shows a heavy dependence on indirect taxes, particularly import taxes, as opposed to direct taxes (Table 1 Appendix). Traditionally, tax reforms have emphasized shifting the composition of taxes from indirect to direct taxes. The current tax reforms do not seem to show preference for one or the other. The reforms provide general scope for expanding tax bases of both indirect and direct taxes. The expansion of tax base seems to have received higher priority than explicitly targeting shift in the balance between direct and indirect taxes (Fjeldstad and Rakner 2003).

2.2.8 Major tax reforms in Uganda

The major reforms included reforming tax administration, introduction of VAT to broaden the tax base, simplifying the tax structure, reduction of import duties, abolition of export taxes.

2.2.9 Administrative reforms

The URA was established in September 1991, as an autonomous agency responsible for administering and collecting of taxes. Previously the administration and collection of taxes fell under the jurisdiction of Ministry of Finance; three separate departments within the ministry were responsible. One the Income Tax department, secondly Customs and Excise department, lastly Inland Revenue department. These departments were under the Ministry of Finance whose final authority resided in the high count for purposes of modification and enforcement of the tax laws. However, tax reforms are still the responsibility of Ministry of Finance (Holmgren and Kasekende 1999).

URA is responsible for administering and collecting taxes through four operative departments and some service departments these included internal revenue, Customs and Excise, VAT department, large taxpayers unit, and Expansion and collection department. URA was expected to improve revenue mobilization through enhanced autonomy, recruitment of skilled personnel's, training and motivation of staff.

The authority was expected to adopt private sector-style of management where targets are set in terms of budgeted revenue and expected to be achieved any variations calls for explanations from the managers and solutions found. All these measures were expected to result in a sustainable increase in revenue mobilization, and to achieve a tax GDP ratio comparable to countries such as Kenya, Mauritius, Zambia and South Africa.

URA introduced measures aimed at increasing tax compliance such as taxpayer education and tax advice facilities, Tax identification Number to reduce the time taxpayers spent fulfilling their tax obligations. The large taxpayers department was set up in 1998 to offer corporate service on all domestic taxes to top 100 taxpayers and their subsidiaries. The Tax Appeal Tribunal was also introduced in August 1998 to provide an independent mechanism to which tax payers can seek redress of their grievances.

Other measures included computerization of the Income Tax Department in 1994, automation of URA operation using ASYCUDA system in Customs, Electronic Tax system in the VAT and introduction of small and medium taxpayers department in April 2000. A special unit called Anti-Smuggling Unit was set up to crack down smuggling and tax evasion.

2.2.10 Value added tax

Another major reform was the introduction of VAT in 1996 at the rate of 17% replacing sales tax at the rate ranging between 12%-30% and commercial transaction levy, a tax system charged on service. VAT was introduced on the ground that it had a higher revenue potential compared to the sales tax. VAT also fulfills the tax principle of fairness than sales tax since it can eliminate double taxation effect on the same income. It also has a mechanism of audit trail to verify VAT amounts declared which sales tax did not have (Government of Uganda 1997 budget speech).

Before VAT was introduced, most of the tax reforms concerned more with rising revenue than equity, and relied more on ministerial discretion. Example of these are the introduction of sales tax on all zero rated and exempt products in 1989/90 and the removal in 1993/94 of all exemptions from tax except those under bilateral agreements with foreign countries and accredited international agencies. Since then Uganda has witnessed a significant move away from ministerial discretion in tax reforms. The VAT law of 1996 prohibited the granting exemptions, in other words the discretionary exemptions have reduced. Under the current VAT system, supply of most basic items such as salt, soap which account proportionately high percentage of low income spending are exempted hence favoring the poor.

Enrolment of pupils in private schools in percentage terms was only 13% compared to 87% in government aided schools. Private education is expensive and commonly established in urban areas. Private medical facilities are also commonly found in urban areas whose services are extremely expensive mainly accessed by well to do individuals. While in public health centre's medical services are provided for free especially after abolition of cost sharing (Ayoki, Bategeka and Mukungu, 2004).

VAT relief for agricultural products and exemption on inputs such as pesticides, hoes cannot be justified by merely advancing the principle of equity. For instance, domestically produced rice, wheat do not make up basic dietary of the poor. And since the small producers and traders who are effectively exempt from VAT generate a high proportion of the value-added in the production and distribution of those products. Therefore, extending VAT to agricultural output would not hurt the poor (Grandcolas, 2004).

The list of VAT exempt products needs to be reassessed and kept to minimum to broaden the tax base and facilitate compliance by taxpayers and control by tax administration. The zero rated should be applied exclusively to exports as required by international convention. Extending zero rates to many sectors results in a more difficult control systems and increases the number of refund in the form of VAT claimable, which in most cases are managed poorly by the tax administration (Grandcolas, 2004).

2.2.11 Income Tax Act 1997

With respect to direct taxes, reforms aimed at reducing overall complexity each of the sources of personal incomes are similarly taxed and that those in the less formal sector are brought into the tax system by use of a presumptive tax to ensure equity payment between all sources of income. The Income Tax Decree of 1974 allowed considerable discretion to the minister to declare any class of income to be exempt from tax.

This loophole was eliminated by the Income Tax Act of 1997, it aimed at broadening the definition of taxable income. It abolished discretionary exemption and tax holidays, and reduced the personal income tax rates to four main bands 0%, 10%, 20% and 30%. Setting annual threshold income to Ush 1,560,000 over 3 time per capita income, excluding the majority of the population whose personal income is below Ush 130,000 per month. Otherwise the main exemption include pensions, official employment income of persons employed in the Uganda People Defence Force, Uganda Police Force, Prison Service, Interest payable on treasury bills, gains made on disposal of personal assets and income of diplomats.

2.2.12 Why income tax?

Taxes are traditionally classified into direct and indirect taxes. To determine whether a tax is direct or indirect the concept of incidence of taxation is used. If the incidence of taxes rests on the person who bears it then it is a direct tax such as income tax, withholding tax, property tax. If the incidence is passed on the others, then it is indirect tax such as customs duties, excise duties, sales tax, and value added tax. Income tax is the main source of domestic revenue mobilization in Uganda (Cnossen, S. 2003).

Income Tax is a direct tax charged on income. In Uganda there are two types of income tax individual tax levied on individuals and corporation tax levied on corporations (Income Tax Act 1997).The huge budget deficit caused by the low total domestic revenue mobilization is bad enough for the country’s economic well being and independence. This situation is however, worsened by over reliance on indirect taxes. The sustainability of indirect taxes which now carry the burden of 86% of total revenue mobilization has become questionable in recent years (Hess, R.1998).

New regional groupings like PTA, EAC have long term objectives of abolishing customs duties on goods imported from member states. On the global scene the theme is increasing free trade and breaking down trade barriers like customs duties. While on the domestic scene, there is a clear policy of import substitution and promotion of local industries. All these will have a combine effect of reducing the level of indirect tax collections related to foreign trade.

Over burdening a small group of tax payers like the importers and industrialists poses its own dangers. This group may become dissatisfied with the outcome of the tax system and consider it unfair. The results may be non compliance where tax payers can get away with it. Low tax payer's morale owing to perceived unfairness may thus lead to evasion (Annett, Bristow, Mahler, Terkper 2000).

2.2.13 Import duty

The current tariffs in Uganda are based on the Harmonized Code having changed it from the original system in 1995/96. Customs tariff reforms have evolved reduction in tariff rates, simplification of the structure, reduction of exemptions and phasing out import bans, import license requirements and pre shipment inspection. The import tax rates have been reduced to three standards rates 0%, 7% and 15% (Hess, R 1998).

Plant and machinery is zero rated, while raw materials and final goods from non COMESA are subject to 7% and 15% duty respectively. Rates for similar goods originating from COMESA countries are at 0%, 4% and 6%. To compensate for the reduction in tariff, government introduced excise duty of 10% on imports on an ad valorem basis. The excise was meant to protect domestic producers against imports from other COMESA countries. The bans on the importation of cigarettes, beer, sodas, and car batteries were removed in 1998/99 replacing the ban with temporary import surcharge (Mutambi, B. 2004).

In 1995/96, government amended section 22 of the 1991 Investment Code to abolish the granting of discretionary exemption on import duties and all other taxes payable on imported plant and machinery for investors licensed by Uganda Investment Authority. Consequently, the tax system became more transparent, easier to administer and has contributed to an increase in the domestic revenue mobilization. However, section 4 of the customs tariff act 1970 allows the minister to remit duty in whole or in part. Frequently, these statutory instruments are used to benefit specific industries that could manage lobbying the politicians.

Most of these statutory instruments have the flexibility to allow raw materials for specific industries to be imported at preferential rates. For instance, remitting the custom duty payable from 15%-7% the preferential treatment tends to target goods with high degree of protection such as textile and sugar. In the case of sugar, the industry benefits simultaneously from high duties on sugar imports at 15%, and preferential access to imported sugar as a raw material for other production of beer and soft drinks. The textile industry benefits from the high duties on textile imports at 15% charged on ad valorem basis plus a 10% excise duty per meter.

The preferential treatment accorded to domestic textile industry, denies consumers mainly the poor access to better and cheaper imported clothing. More so, the taxing of second hand clothes at 15% import duty and a 10% excise duty. The poor who cannot afford to buy new clothes eventually suffers the high prices charged by the second hand cloth dealers.

Extensive tax evasion in form of smuggling occurs, not because of weak customs administration, lack of effective surveillance and deterrence mechanism but also of the existence of such protection. Removal of those protectionist duties bears a significant revenue implication in the form of better domestic revenue mobilization (Government of Uganda Budget Speech 1997).

2.2.14 Structure of domestic taxes

Domestic indirect taxes in Uganda comprises of the following import duty, excise duty, value added tax. The direct taxes include employment income tax, corporation tax, withholding tax, taxes on interest. Other revenue items include fees and licenses, donations, aid, borrowings. The major taxes income tax, import duty, value added tax and excise duty are elaborated on in terms of their coverage, rate structure, contribution to domestic revenue mobilization relative to other Sub Saharan African countries (Holmgren and Kasekende, 1999).

2.3.0 Domestic revenue mobilization

Domestic revenue mobilization refers the generation of domestic resources and their allocation to economically and socially productive investments by both public and private sectors through taxation process managed by the state. Tax revenue is potentially the biggest source of long term financing for sustainable development and it is the life blood of all government activities such as the provision of public goods and services. Tax revenue strengthen fiscal institution because stable and predictable revenue facilitates long term fiscal planning which can help ensure that resources are allocated to priority sectors and translated into outcomes (Moyi and Muriithi 2003).

2.3.1 Importance of domestic revenue mobilization to Uganda:

It's potentially the biggest source of long term financing for sustainable development and it's the life blood of all state governance such as the provision of public goods and service.

It can help strengthen fiscal institutions because stable and predictable revenue facilities long term fiscal planning which can help ensure that resources are allocated to priority sectors and with economic growth is the antidote to long term aid translated into outcomes (Tanzi 1992). Coupled dependency and increased ownership and policy space to implement strategies that reflect development priorities. It also ensures accountability in government in provision of the terms of social contracts with the governed.

The establishment of the URA in 1991 have had a marginal increase in domestic revenue mobilization as a percentage of GDP from 11.3% 1995/96 to 13.1% in 2001/02, an indication that the tax base is not widened. Uganda's revenue mobilization is among the lowest in East Africa region. The low revenue mobilization is attributed to the structure of Uganda's economy. Uganda has a significantly large agricultural sector accounting for 21.4% of GDP in 2001/02 (Mutambi, 2004).

The phenomenal increase of the service sector may not be significantly contributing to revenue mobilization. Real Estate activities the inputs and outputs do not attract taxes. The tax system is dominated by indirect taxes which depend on goods and services consumed. Direct domestic sources of revenue contributed 29% in 2005/06 while indirect taxes accounted for 71%. The share of international trade taxes in total domestic revenue has declined from 61% in 1996/97 to 51% in 2007/08. Developing countries are expected to achieve a ratio of 18% in domestic revenue mobilization to GDP (Sunley and Terkper, 2004).

2.3.2 Challenges associated with domestic revenue mobilization

Uganda has shown encouraging trends in domestic revenue mobilization growth in recent years, enormous challenges still remain (World Bank, 2002).

High taxes, which encourage tax evasion and other loopholes which undermine tax revenue collection. Complex tax legislation which is difficult to understand even by the educated tax payers and discretion on the part of tax officials which leads to corruption. There is also lack of political will to separate tax administration from political incursions.

Weak administrative systems and organizational capacities, there are weak administrative systems, scarce and poor quality data as a result of widespread informal activities. Limited reporting and low levels of education in the general population and seemingly a general culture of non compliance which accounts for the low domestic revenue mobilization. There is a challenge of organizational capacity and resourcing where staffs of tax administration lack the requisite capacity to perform efficiently.

Pareto Principle, there are only a few tax payers who contribute a bulk of the taxes, 20% of the tax payers contribute 80% of direct tax revenue and the remaining 80% contribute only 20%. This is because Uganda is faced with the reality of a large share in agriculture. There is also large informal sectors and occupations, and many small establishment small share of wages in total national income. A small share of total consumer spending made in large informal sectors that are outside the tax structures.

Uganda is beset with very large informal sectors and underground business activities where cash transactions do not leave any audit trails for tax purposes. It will therefore be necessary to find ways of taxing the informal sectors. Many of these employees don’t contribute to PAYE taxes. Even where the income is declared it is grossly underestimated and it is difficult to challenge such claims by employers in the informal sector.

Hence, the tax base that is potentially reachable constitutes a smaller portion of total economic activity than in other countries that collects comparatively more resources in form of domestic tax revenue (URA, 2009).

Uganda is more reliant on indirect taxes largely due to the large informal sectors which characterize the structures of their economies. Kenya and South Africa on the other hand show a relatively more balanced mix of different tax types on account of their respective capacities to tax structure of GDP and abilities to tax level of financial sector development (World Bank, 2002).

An examination of the key determinants of tax revenue performance in the EAC partner states and South Africa indicates that countries which rely heavily on taxes on goods and services have lower tax revenue performance while greater reliance on income and profit taxes improves tax revenue performance. This finding is explained by the fact that taxes on goods and services are indirect taxes and they tend to be regressive in nature. This increases income inequality and could potentially reduce the tax base. On the other hand, the progressivity of taxes on income and profits typically improves income distribution, consequently contributing to increases in tax revenue mobilization.

2.3.3 Determinants of domestic revenue mobilization.

Income tax collections are determined mainly by three factors namely the income tax rate, the level of income of the population and income tax administration (Musgrave, 1980).

2.3.4 Tax rate

In theory, income tax rates have an effect on mobilizations through their effect on tax payer attitude. High tax rates encourage tax evasion because the benefits of not paying are high while low rates encourage compliance. The government of Uganda has over the years considerably decreased the statutory income tax rates in a bid to boost compliance and thereby increase domestic revenue mobilizations. Corporation tax rate was reduced from 60% to 30% in 1992/93 (Budget Speech 1993/94).

The decrease of the rate, however appears not to have had a big impact on income tax mobilizations which have remained low as a percentage of total domestic revenue mobilization, when compared to other countries Tanzania 25% and Rwanda 26% (Table 2 Appendix). The income tax rates in Uganda are among the lowest in the region. Their failure to boost income tax mobilizations by significant levels suggests that the main cause of the low income tax mobilizations lies elsewhere.

Tax evasion is basically independent of the tax rate and cheating is a habit, once people are accustomed to evading tax, they continue to do so even if tax rates are lowered. Decreasing tax rates further is not an option (Mambule, 2003).

2.3.5 Levels of income in the country

A low income country has little scope for the transfer of resources private hands to the public hand through taxation. At a very low level of per capita income, all private income is needed to meet the very necessities of life such as food, clothing, shelter, and health care nothing left for tax. Imposing tax on such low income would therefore, amount to heavy burden on the households (Musgrave, 1980).

While the level of income of the population contributes, it does not seem to be the major cause of the low income tax mobilization in Uganda. Tanzania and Rwanda which are poorer than Uganda, collects more revenue in form of income tax. Table 2 Appendix further shows that Uganda's income tax mobilization is at 14% of GDP is well below the average for low income countries at 22.7% (World Bank 2002).

Some other factors seem to be responsible for the substantial difference in revenue mobilizations between Uganda and other Sub Saharan African countries. The immediate solution to boosting domestic revenue mobilization cannot depend on the levels of income in the country.

2.3.6 Income tax administration

There seems to be agreement from available literature that by comparison to substantive issues, insufficient consideration was paid to questions of tax administration at a time when the tax problems of under developed countries were being tackled. Tax administration has a number of aspects such as codification and drafting of the law, administrative procedures, management capability (Bird 2003).

The creation of the URA in 1991 was meant to address the question of management capability. Since the creation of URA there has been massive recruitment of new officers, retraining of existing staffs and highly motivated. The 1997 Income Tax Act addressed the question of the law. Lastly the introduction of the Tax Identification Number, redesigning of forms and documents was meant to sort out codification of tax payers.

The administrative measures introduced above were aimed at improving the effectiveness of the management in domestic revenue mobilization.

2.3.7 Administrative procedures

The basic administrative procedures include locating and assessment of taxpayers, initial taxpayer's compliance, checking on taxpayer's compliance through audit and examination, collection of taxes and penalties (Bird, 1992). Administrative procedures are the essential steps in the overall procedure of tax administration (Surrey 1974). They are the enforcement measures of the tax system and each administrative procedure represents a step in the enforcement process (Bird, 1992).

Improved administration to enforce tax compliance has to be reinforced by action, meaning enforcing the tax system by using the administrative procedures. The effectiveness of the administrative procedures means the level at which, each of the administrative procedure is being enforced on ground.

When an administrative procedure is reasonably used on the ground then it is effective and contrary it is ineffective. The effectiveness of the tax administrative procedures represents administrative effort in enforcement of tax laws. And all the other aspects of tax administration are just support functions designed to ensure that the administrative procedures are effective (Bird, 2003).

Tax evasion is not the only reason why government fails to mobilize enough domestic tax revenue, there are other problems with existing administration systems arising as a result of faulty techniques and ineffective administrative procedures.

2.4 Relationships between tax reforms and domestic revenue mobilization

Tax reforms must take the administrative dimension of taxation carefully. Tax reforms initiated should take into consideration whether such reforms are applicable elsewhere. The reforms should ensure the predictability and equity of taxes in order that it does not lead to tax avoidance and possibly evasion (Moyi and Muriithi 2003).

The income tax mobilization have increased since the establishment of the URA, from Ushs 14 billion in 1990/91 to Ushs 1371.89 billion in 2009/10 (Table 1 Appendix). However, much the total mobilization of income tax have increased in absolute terms over the years, they are still low as a percentage of total revenue mobilization compared to other countries including low countries whose majority of the population are by far very poor compared to Ugandans. In fact the income tax collections seem to have stagnated at a low percentage of 14% (Government of Uganda Budget Speech 2010/11).

Income Tax accounted for 23.7% of Uganda's total tax revenue in 2003/04 compared with Tanzania 29%, Rwanda 28%, Kenya 35%, Malawi 21.6%, Zambia 33% and Namibia 34.7% with similar income tax structure. Income Tax comprises of Pay as You Earn, Corporate Tax, Withholding Tax, Presumptive Tax, Rental Income Tax, and Taxes on Interest levied on financial institutions lending to borrowers. In Uganda, PAYE charged on employees working in formal sector both public and private sectors with exception of persons employed in armed forces and the diplomats. PAYE contributes about 11.8% of total tax revenue followed by corporation tax at 7.7%, while withholding tax, rental income tax and tax on interest nearly contribute equally (Fjeldstad and Rakner 2003).

Malawi, Zambia, Namibia and Tanzania collect more tax revenue from personal income taxes than from corporation tax. However, the ratio of personal income tax to total tax revenue is much lower in Uganda at 11.8% compared with Tanzania 13%, Namibia 23%, Zambia 26% and Malawi at 16%. The Uganda case is an indication of potential revenue loss due to a large number of individuals exempted from personal income tax including income earned by expatriates. In Namibia, income earned from work performed in Namibia is taxable in Namibia regardless of where or by whom payment is made. Interest income received by ordinary residents regardless of where that interest that interest is earned is taxable in Namibia (Roy Kelly, 2001).

The threshold for personal income subject to income tax in Uganda is about US$ 900 per annum 3.3 times more than per capita income. This renders about 70% of workers not contributing PAYE since their income is below the threshold. While in Tanzania, the threshold is about US$ 570 approximately 2 times per capita income, Malawi threshold stands at about US$ 370 approximately 2 times per capita GDP. In Uganda, where PAYE has recorded high domestic revenue mobilization it has mainly been as a result of increase in wage rates and elastic nature of tax rather than the expansion of the tax base(Fjeldstad and Rakner 2003).

In the circumstance that taxes on property, corporation taxes performs poorly due to global economic crisis as witnessed in 2007/08 and the current persistent rise in commodities prices as a result of political upheaval in North African countries and Middle East personal income remains the only dependable form of tax. Table 2 Appendix, gives tax structure comparisons of countries at various levels of per capita income. It also shows that Uganda depends on indirect taxes more than the rest of sub Saharan African countries (BackgroundBudget2011-2012).

2.5 Conclusion

The continued poor domestic revenue mobilization despite many tax reforms established since 1990's intended to improve the budget structure with very huge deficits funded by development partners. Some other factors seem to be responsible for the substantial difference in revenue mobilizations between Uganda and other Sub Saharan African countries. This study therefore, focuses on the relationship between tax reforms and domestic revenue mobilization (Budget Back ground 2009/10).

CHAPTER THREE

3.1 Introduction

This chapter described out the research design, study population, sampling method, sample size, data collection methods, data source, data processing and presentation, data analysis, and problems encountered during the study.

3.2 Research design

Cross sectional research design was used to establish the relationship between tax reforms and domestic revenue mobilization. The descriptive research design, described the effect of tax reforms on domestic revenue mobilization.

3.3 Study population

The study covered total of 40 employees of URA Entebbe branch which included top managers, middle managers and lower level managers responsible for tax assessment and collection.

3.4 Sampling method

Simple random sampling was used to give employees of Uganda Revenue Authority Entebbe equal chance of being selected. The snow ball method of sampling was also used due to non familiarity with the employees of URA. This meant that the first respondent gave direction to the next respondent with required attributes needed for the research. Self selected method of sampling was used where by willing participants took part in the interview.

3.5 Sample size

The study targeted a total of 30 members who were selected from amongst entire population of Uganda Revenue Authority Entebbe branch.

3.6 Data source

Primary data

Is firsthand information specifically collected for this research problem. Primary data was obtained through carrying out field study, questionnaires were issued to respondents identified and some of the managers were interviewed.

Secondary data

Is second hand information which already existed prepared for some other purpose rather than to solve this particular research problem studied. Secondary data were obtained through consulting past relevant research projects, journals, textbooks, print media and other relevant materials.

3.7 Data collection methods

Data sources were identified and various categories of respondents were selected. The researcher collected data using questionnaires which were answered by employees, some of them were also interviewed and observation was also applied.

3.8 Questionnaires

Both open and close ended questions were used. In the open ended the respondents provide their own answers to the questions. While in the closed ended, respondents choose answers from various options provided by the researcher.

3.9 Data presentation

Data collected were arranged into similar groups, presented in table of frequencies and percentages for easy interpretation of findings. This reduced misinterpretation of findings because of the many data collected.

3.10 Data analysis

Data collected were edited to remove the unwanted data. Coding both quantitative and qualitative data after data editing was done to reduce them, the analysis of data was done by using manual process, SPSS to get a meaningful idea in the form of frequency tables.

3.11 Limitations

Financial constraint; due to various activities such as movement to and from respondents, typing, printing, and binding which require substantial amount of funds. This was dealt with by reducing on the number of trips to and from respondents by distributing questionnaires to respondents and collecting them at once. Typing, printing and binding were done by getting the cheapest source.

Time constraint; time allocation between the study and various activities which occupies human life given the limited time in which the study was carried. Questionnaires were distributed to the respondents and requested that they are filled in time.

Non response; some respondents could not provide the necessary information, due to the technicality of the subject under study and the confidential nature of other data. This was dealt with by simplifying the questionnaires directed to them. Confidentiality of the information provided was promised by assuring the respondents that the study was just for academic purpose.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF RESEARCH FINDINGS

4.0 Introduction

This chapter involves the presentation and interpretation of findings in relation to the study objectives and can be evidenced below.

4.1 Background information

Findings on background characteristics of respondents were considered and can be evidenced below

4.1.1 Gender of respondents

The study captured gender of respondents in order to establish the most prevalent group, the respondents were asked to state their gender, and the distribution was as in the table below.

Table 1. Showing gender of the respondents

Gender	Frequency	Percentage	Cumulative Percentage
Male	17	57	57
female	13	43	100
Total	30	100	

Source: primary data

From table 1 above, 57% of the respondents were male and 43% were female. This indicates that there was no gender bias in the study

4.1.2 Age bracket of the respondents.

The study captured different age brackets and the finding can be seen from the table below

Table 2. Showing age brackets of respondents

Age	Frequency	Percentage	Cumulative Percentage
20-25 years	2	7	7
25-30 years	10	33	40
30-35 years	9	30	70
35-40 years	6	20	90
Over 40 years	3	10	100
Total	30	100	

Source: primary data

Table 2 above, finding indicates that 7% of the respondents were in the age bracket of 20-25 years, 33% were between 25-30 years, 30% between 30-35 years, 20% were in the age bracket of 35-40 years and 10% were over 40 years of age. This implies that most respondents were mature enough and thus had the knowledge and capacity to answer the questionnaires

4.1.3 Academic qualification of respondents.

The researcher was interested in the level of education so as to find out the skills, expertise and experience of respondents in the tax area. The response was as in the table below.

Table 3. Showing academic qualification of respondents

Qualification	Frequency	Percentage	Cumulative Percentage
Degree	18	60	60
Professional qualification	8	27	87
Diploma	3	10	97
Certificate	1	3	100
None	0	0	100
Total	30	100	

Source: primary data

From table 3 above, 60% of the respondents were degree holders, 27% had professional qualification, 10% diplomas holders and 3% had certificate. This implies that the respondents had the capacity to answer the questions in the questionnaires and skills to perform their work.

4.1.4 Period spent working with URA.

Finding on period respondents spent working with URA were considered and the finding was as below.

Table 4. Showing period respondents had worked with URA

Period	Frequency	Percentage	Cumulative Percentage
Less than a years	4	13	13
1-3years	8	27	40
3-5 years	7	23	63
5-10 years	8	27	90
Over 10 years	3	10	100
Total	30	100	

Source: primary data

Finding from table 4 above, indicates that 13% of the respondents had worked for less than a year, 27% had worked for 1-3 years, 23% had worked for 3-5 years, 27% had worked for 5-10 years and 10% worked for over 10 years. This therefore means that respondents had experience regarding the study.

4.1.5. Department respondents worked in.

This was considered and the finding was as in the table below

Table 5. Showing department of respondents

Department	Frequency	Percentage	Cumulative Percentage
large tax payers unit	4	13	13
customs & excise	8	27	40
internal revenue	8	27	67
legal and administration	1	3	70
expansion & collection	4	13	83
VAT	5	17	100
Total	30	100	

Source: primary data

From table 5 above, 13% of the respondents are working in the large tax payers unit, 27% are working in the customs & excise, and 27% working in the internal revenue, 3% working in the legal tax payers unit and 13% are working in the expansion and collection. This implies that the study captured views from different respondents stemming from all the department of URA Entebbe branch.

4.2 Finding on tax reforms

Findings on the tax reforms were considered and can be evidenced below

4.2.1 Staffs have sufficient knowledge of all major tax reforms such as vat, income tax act, abolition of export taxes, reduction of import duties, administrative structure and tax education

This was considered and the finding was as in the table below

Table 6. Showing staffs having sufficient knowledge of all major tax reforms

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	7	23	23
Agree	17	57	80
Not sure	3	10	90
Disagree	2	7	97
Strongly disagree	1	3	100
Total	30	100	

Source: primary data

From table 6 above, 23% of the respondents strongly agreed that staff had sufficient education, 57% agreed, 10% were not sure, 7% disagreed and 3% strongly disagreed. This implies that most staffs have sufficient knowledge of all major tax reforms.

4.2.2 Introduction of vat is a major indirect tax reform undertaken.

Finding on whether introduction of VAT is a major tax reform was considered and the finding is shown in the table below.

Table 7. Showing whether introduction of vat is a major indirect tax reform undertaken

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	22	72	72
Agree	8	28	100
Not sure	0	0	100
Disagree	0	0	100
Strongly disagree	0	0	100
Total	30	100	

Source: primary data

From table 7 above, 72% strongly agreed that VAT is a major indirect tax reform undertaken, 28% agreed. This implies that VAT is a major indirect tax reform undertaken.

4.2.3 Abolition of export taxes is an indirect tax reform.

This statement aimed at establishing if abolition of export taxes was an indirect tax reform and the finding can be seen from the table below.

Table 8. Showing whether abolition of export taxes is an indirect tax reform

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	2	7	7
Agree	16	53	60
Not sure	11	37	97
Disagree	0	0	97
Strongly disagree	1	3	100
Total	30	100	

Source: primary data

From table 8 above, 7% of the respondents strongly agreed that abolition of export taxes is an indirect tax reform, 53% agreed, 37% were not sure and 3% strongly disagreed. This implies that abolition of export taxes is an indirect tax reform.

4.2.4 Reduction of import duties is an indirect tax reform.

This was considered and the finding can be seen from the table below.

Table 9. Showing whether reduction of import duties is an indirect tax reform

Responses	Frequency	Percentage	Cumulative Percentage
strongly agree	3	10	10
Agree	19	63	73
Not sure	6	20	93
Disagree	2	7	100
Strongly disagree	0	0	100
Total	30	100	

Source: primary data

From table 9 above, 10% of the respondents strongly agreed that reduction of import duties was an indirect tax reform, 63% agreed, 20% were not sure and 7% disagreed. This implies that reduction of import duties is an indirect tax reform.

4.2.5 Income tax act is considered as the major direct tax reform.

This was considered and the finding is evident in the table below.

Table 10. Showing income tax act is considered as the major direct tax reform.

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	5	17	17
Agree	20	66	83
Not sure	2	7	90
Disagree	1	3	93
Strongly disagree	2	7	100
Total	30	100	

Source: primary data

From table 10 above, 17% of the respondents strongly agreed that income Tax Act is considered as the major direct tax reform, 66% agreed, 7% were not sure, 3% disagreed and 7% strongly disagreed. This finding implies that the introduction of Income Tax Act is considered as the major direct tax reform.

4.2.6 Administrative procedures are properly followed in the tax management.

This was considered and the finding is seen form the table below.

Table 11. Showing if administrative procedures are properly followed in the tax management

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	18	60	60
Agree	6	20	80
Not sure	2	7	87
Disagree	1	3	90
Strongly disagree	3	10	100
Total	30	100	

Source: primary data

From table 11 above, 60% of the respondent strongly agreed that administrative procedures are properly followed in the tax management, 20% agreed, 7% were not sure, 3% disagreed and 10% strongly disagreed. This implies that administrative procedures are properly followed in the tax management.

4.2.7 All tax payers are provided sufficient tax education.

The finding to this statement can be seen in the table below.

Table 12. Showing all tax payers are provided sufficient tax education

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	2	7	7
Agree	3	10	17
Not sure	5	16	33
Disagree	11	37	70
Strongly disagree	9	30	100
Total	30	100	

Source: primary data

From table 12 above, 7% strongly agreed that all tax payers were provided sufficient tax education, 10% agreed, 16% were not sure, 37% disagreed and 30% strongly disagreed. This implies that most tax payers don't get sufficient tax education.

4.3 Finding on domestic revenue mobilization

Finding on domestic revenue mobilization was considered and the findings are as below.

4.3.1 All tax revenue is collected from assessed tax payers.

This was considered and the finding was as below.

Table 13. Showing if all tax revenue is collected from assessed tax payers

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	0	0	0
Agree	2	7	7
Not sure	3	10	17
Disagree	7	23	40
Strongly disagree	18	60	100
Total	30	100	

Source: primary data

From table 13 above, none of the respondents agreed that all tax revenue is collected from the assessed tax payers, 7% agreed, 10% were not sure, 23% disagreed and 60% strongly disagreed. This implies that bigger part of tax revenue is not collected from assessed tax payers.

4.3.2 URA Entebbe branch collect more tax revenue from indirect form of tax than direct form of tax.

This statement was considered and the finding was as below.

Table 14. Showing URA Entebbe branch collect more tax revenue from indirect form of taxes than direct form of taxes

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	6	20	20
Agree	19	63	83
Not sure	1	3	86
Disagree	2	7	93
Strongly disagree	2	7	100
Total	30	100	

Source: primary data

From table 14 above, 20% of the respondents strongly agreed that URA Entebbe branch collect more tax revenue from indirect form of taxes than direct form of taxes, 63% agreed, 3% were not sure, 7% disagreed and 7% strongly disagreed. This implies that URA Entebbe branch collects more indirect tax revenue than direct tax revenue.

4.3.3 Collecting tax revenue from organization is easier than from individual tax payer

This statement was considered and the finding was as in the table below.

Table 15. Showing collecting tax revenue from organizations is easier than from individual tax payers

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	6	20	20
Agree	22	74	94
Not sure	1	3	97
Disagree	0	0	97
Strongly disagree	1	3	100
Total	30	100	

Source: primary data

From table 15 above, 20% of the respondents strongly agreed that collecting tax revenue from organization is easier than from individual tax payers, 74% agreed, 3% were not sure and 3% strongly disagreed. This implies that collecting tax revenue from organization is easier than from individual tax payers.

4.3.4 Domestic revenue mobilization procedures are effective.

The researcher wanted to establish the level of efficiency in the domestic revenue mobilization and the finding was as in the table below.

Table 16. Showing if domestic revenue mobilization procedures are effective

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	2	7	7
Agree	9	30	37
Not sure	9	30	67
Disagree	7	23	90
Strongly disagree	3	10	100
Total	30	100	

Source: primary data

From table 16 above, findings indicate that 7% of the respondents strongly agreed that domestic revenue mobilization procedures are effective, 30% agreed 30% were not sure, 23% disagreed and 10% strongly disagreed. This reveals that domestic revenue mobilization procedures are not effective.

4.3.5 Budgeted tax revenue target is always achieved.

This was considered and the finding was as in the table below.

Table 17. Showing budgeted tax revenue target is always achieved.

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	2	7	7
Agree	1	3	10
Not sure	5	17	27
Disagree	8	27	54
Strongly disagree	14	46	100
Total	30	100	

Source: primary data

From table 17 above, 7% strongly agreed that budgeted tax revenue target is always achieved, 3% agreed, 17% were not sure, 27% disagreed and 46% strongly disagreed. This implies that most times budgeted tax revenue is not achieved.

4.3.6 Tax rate determine the level of domestic revenue mobilization in your branch

This statement was considered and the finding is shown in the table below.

Table 18 Showing tax rate determine the level of domestic revenue mobilization.

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	5	17	17
Agree	17	57	74
Not sure	3	10	84
Disagree	3	10	94
Strongly disagree	2	6	100
Total	30	100	

Source: primary data

From table 18 above, 17% of the respondents strongly agreed that tax rate determine the level of domestic revenue mobilization, 57% agreed, 10% were not sure, 10% disagreed and 6% strongly disagreed. This implies that tax rate determine the level of domestic revenue mobilization.

4.3.7 Income level of the population determine tax revenue from income tax.

This was considered and the finding was as below.

Table 19. Showing income level of the population determines tax revenue from income tax

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	3	10	10
Agree	9	30	40
Not sure	10	33	73
Disagree	2	7	80
Strongly disagree	6	20	100
Total	30	100	

Source: primary data

From table 19 above, finding indicates that 10% of the respondents strongly agreed that income level of the population determine tax revenue from income tax, 30% agreed, 33% were not sure, 7% disagreed and 20% strongly disagreed. This implies that income level of the population do not determine the tax revenue from income tax.

4.3.8 Tax administrative procedures determine the level of domestic revenue mobilization in your branch.

This statement was considered and the finding was as in the table below.

Table 20. Showing tax administrative procedures determine the level of domestic revenue mobilization

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	5	17	17
Agree	16	53	70
Not sure	5	17	87
Disagree	4	13	100
Strongly disagree	0	0	100
Total	30	100	

Source: primary data

From table 20 above, 17% of the respondents strongly agreed that tax administrative procedures determine the level of domestic revenue mobilization in there branch, 53% agreed, 17% were not sure and 13% disagreed. This implies that tax administrative procedures determine the level of domestic revenue mobilization.

4.4 Finding on the relationship between tax reforms and domestic revenue mobilization

This aimed at establishing the relationship between the two variables and the findings were as below.

4.4.1 Domestic revenue mobilization target is achieved due to appropriate tax reforms put in place.

This statement was considered and the finding was as below.

Table 21. Showing whether domestic revenue mobilization target is achieved due to appropriate tax reforms put in place.

Responses	Frequency	Percentage	Cumulative Percentage
strongly agree	1	3	3
Agree	10	33	36
Not sure	6	21	57
Disagree	10	33	90
Strongly disagree	3	10	100
Total	30	100	

Source: primary data

From table 21 above, 3% of the respondents strongly agreed that domestic revenue mobilization target is achieved due to appropriate tax reforms put in place, 33% agreed, 21% were not sure, 33% disagreed and 10% strongly disagreed. This implies that domestic revenue mobilization target is not achieved.

4.4.2 The tax reform makers always determine the level of domestic tax revenue mobilization and take corrective action.

This statement was considered and the finding was as in the table below.

Table 22. Showing the tax reform makers always determine the level of domestic revenue mobilization and take corrective action

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	1	3	3
Agree	21	70	73
Not sure	6	21	94
Disagree	1	3	97
Strongly disagree	1	3	100
Total	30	100	

Source: primary data

From table 22 above, finding revealed that 3% strongly agreed that the tax reform makers determines the level of domestic revenue mobilization and take corrective action, 70% agreed, 21% were not sure, 3% disagreed and 3% strongly disagreed. This implies that the tax reform makers most times determine the level of domestic revenue mobilization and take corrective action.

4.4.3 More domestic revenue can be mobilized when effective tax reforms are established.

This statement was considered and the fining was as in the table below.

Table 23. Showing more domestic revenue can be mobilized when effective tax reforms are established

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	10	33	33
Agree	18	60	93
Not sure	2	7	100
Disagree	0	0	100
Strongly disagree	0	0	100
Total	30	100	

Source: primary data

From table 23 above, 33% of the respondents strongly agreed that more domestic revenue can be mobilized when effective tax reforms are established, 60% agreed, 7% were not sure. This implies that more domestic revenue can be mobilized when effective tax reforms are put in place.

4.4.4 Tax reforms and domestic revenue mobilization are closely linked.

This statement was considered and the finding is shown in the table below.

Table 24. Showing tax reforms and domestic revenue mobilization are closely linked

Responses	Frequency	Percentage	Cumulative Percentage
Strongly agree	10	33	33
Agree	19	63	96
Not sure	1	4	100
Disagree	0	0	100
Strongly disagree	0	0	100
Total	30	100	

Source: primary data

From table 24 above, 33% of the respondents strongly agreed that tax reforms and domestic revenue mobilization are closely linked, 63% agreed and 4% were not sure. This implies that tax reforms and domestic revenue mobilization are closely linked

4.5 Finding on relationship between tax reforms and domestic revenue mobilization

Findings on the relationship between the tax reforms and domestic revenue collection were considered and can be evidenced in the table below.

Table 25. Showing relationship between tax reforms and domestic revenue mobilization

		Tax Reforms	Domestic Revenue Mobilization
Tax Reforms	Pearson Correlation	1	.974(**)
	Sig. (2-tailed)	.	.000
	N	30	30
Domestic Revenue Mobilization	Pearson Correlation	.974(**)	1
	Sig. (2-tailed)	.000	.
	N	30	30

** Correlation is significant at the 0.01 level (2-tailed).

Source: primary data (SPSS)

From table 25 above, findings show that there is a strong positive relationship between tax reforms and domestic revenue mobilization at Pearson correlation coefficient r=0.974. Therefore tax reforms greatly affect domestic revenue mobilization and this call for more effective tax reforms to be put in place in order to improve domestic revenue mobilization.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter deals with summary, conclusions and recommendations. Summary is based on the study objectives, conclusions based on the problem statement and recommendations based on the conclusions.

5.1 Summary of findings

5.1.1 Findings on tax reforms.

Findings revealed that most URA staffs have sufficient knowledge of all major tax reforms. Most of the respondents agreed that introduction of VAT, abolition of taxes on exports, reduction of import duties are indirect tax reforms and majority of them considered that income tax act is the major direct tax reform undertaken.

The study showed that administrative procedures are properly followed in the tax management but most tax payers do not get sufficient tax education. And these procedures when followed properly more tax revenue can be realized. When tax payers are not educated on tax issues, there is less tax compliance by tax payers.

5.1.2 Findings on domestic revenue mobilization

Findings revealed that some tax revenues are not collected from assessed tax payers hence budgeted tax revenue not achieved always and this explain Uganda's government budget deficits year in year out.

Findings also revealed that URA collects more revenue in form of indirect tax than direct tax. This is as a result of the various indirect tax reforms put in place, which is more effective than direct tax reforms. Collecting tax revenue from organizations is easier than from individual tax payers.

The study showed that tax administrative procedures, tax rate determine the level of domestic revenue mobilization but income level of the population don't. Domestic revenue mobilization procedures are not effective the research revealed.

5.1.3 Findings on relationship between tax reforms and domestic revenue mobilization.

Findings showed that there is a strong positive relationship between tax reforms and domestic revenue mobilization at Pearson correlation coefficient 0.974. This implies that tax reforms affect domestic revenue mobilization.

5.2 Conclusion

5.2.1 Conclusion on tax reforms

From the findings most URA staffs had sufficient knowledge of major tax reforms, more emphasis was put on indirect tax reforms giving direct tax heads a very negligible attention. This therefore, results into less tax revenue raised from direct form of taxes.

5.2.2 Conclusion on domestic revenue mobilization

Domestic revenue mobilization is still performing poorly, larger portion of this revenue is raised from indirect taxes and it’s very difficult to collect taxes from individual tax payers who are predominantly engages in informal businesses. Domestic revenue mobilization procedures are not effective the research revealed.

5.2.3 Conclusion on relationship between tax reforms and domestic revenue mobilization.

There is a strong positive relationship between tax reforms and domestic revenue mobilization at Pearson correlation coefficient 0.974. More domestic revenue can be mobilized when URA comes up with reforms which effectively cater for both forms of taxes and improving on domestic revenue mobilization procedures.

5.3 Recommendations

5.3.1 Recommendations on tax reforms

URA should come up with more tax reforms which focus more to taxing income directly from tax payers, for instance lowering PAYE threshold so that earnings of majority citizens are captured for tax purpose.

There is need to revise the list of zero rated supplies, so that more items are included in the taxable supplies for instance dairy products.

The list of institutions whose income is exempt from income tax needs to be revised, for example Aga khan foundation can be removed from the list.

Diplomatic Privileges Act must also be revised, for instance allowances and emoluments of members of Parliament need to be included in their income for tax purpose.

5.3.2 Recommendations on domestic revenue mobilization

Strengthening tax administration by empowering staff investigative machinery, making the tax procedures simple, and transparent

National identification system needs to be integrated with the URA tax system, this will aid in tax payers identification.

More emphasis should be put in adding values to agricultural products before they are supplied to market, to increase taxable revenues of farmers.

Uganda Revenue Authority needs to improve on tax payer's education.

URA should put in place mechanisms that minimises tax exemptions.

5.3.3 Recommendation on the relationship between tax reforms and domestic revenue mobilization.

URA should come up with more balanced tax reforms that targets both direct and indirect form of taxes which enable domestic revenue to be mobilized from both tax heads.

5.4 areas for further research

i) Property tax and domestic revenue mobilization.

ii) Electronic payment system and income tax revenue.

iii) National identification and domestic tax revenue.

REFERENCES

Annett, Bristow, Mahler and Terkper. (2000) "*Uganda: Tax Policy and Tax Administration Authority*", Public Administration and Development, Vol.23, No.2 (May),pp.165- 175).

Ayoki, Bategeka and Mukungu, (2004). "*Preferential treatment to education and medical services in fulfilment of equity needs careful justification".*

Chipeta, C. (1998) "*Tax Reforms and Tax Yield in Malawi*", AERC Research Paper No. IMF Working Paper. 81, Nairobi.

Fjeldstad, and Rakner, (2003). *Taxation and tax reforms in developing countries:* Illustrations from sub-Saharan Africa. Bergen: Chr. Michelsen Institute.

Fjeldstad, O and Rakner, L. (2003). *Taxation and tax reforms in developing countries*:

Fjeldstad, O. (2003). "*Fighting fiscal corruption*: Lessons from the Tanzanian Revenue

Ghura, D. (1998) "*Tax Revenue in Sub-Saharan Africa":* Effects of Economic Policies

Government of Uganda, (1993) " *Budget Speech delivered at the meeting of the 5th Parliament of Uganda at the International Conference Centre on 11th June*, 1997 by Minister of Finance, Planning and Economic Development.

Government of Uganda, (1997) *Budget Speech delivered at the meeting of the 6th Parliament of Uganda at the International Conference Centre on 11th June*, 1997 by Minister of Finance, Planning and Economic Development.

Government of Uganda, (1998) *Budget Speech delivered at the meeting of the 6th Parliament of Uganda at the International Conference Centre on 11th June*, 1998 by Minister of Finance, Planning and Economic Development.

Government of Uganda, (2009) *Budget Speech delivered at the meeting of the 8th Parliament of Uganda at the International Conference Centre on 11th June*, 2009 by Minister of Finance, Planning and Economic Development.

Government of Uganda, (2010) *Budget Speech delivered at the meeting of the 8th Parliament of Uganda at the International Conference Centre on 11th June*, 2010 by Minister of Finance, Planning and Economic Development.

Government of Uganda. (1997) *Budget Speech delivered at the meeting of the National Assembly, the International Conference Centre 12th June*, 1997 by Minister of Finance.

Hess, R. (1998) "*Synthesis of the Studies on the Harmonization of External Tariffs within the Cross-Border Initiative*", Draft Report, Imani Development

Holmgren, T and Kasekende, L. (1999) "*Aid and Reform in Uganda:* Country Case Illustrations from sub Saharan Africa.
Bergen: Chr. Michelsen Institute. "*Incentives and Harmonisation*" (unpublished report), International Monetary Fund.

Mambule, M.D. (2003). "*Causes of Corruption in Uganda Revenue Authority*", unpublished MA Thesis, Institute of Economics, Makerere University.

Maxwell Stamp (2003). "*Revenue Impacts of Uganda's Trade Integration Strategy"*, a report Measures to Increase Revenue, Aide-Memoire, IMF.

Moyi and Muriithi. (2003) "*Tax Reforms and Revenue Mobilization in Kenya*", AERResearch Paper 131, AERC, Nairobi.

Mutambi, B. (2004) "*Tax Reforms and Revenue Productivity in Uganda*", draft report. prepared for the Tax Policy Department, Ministry of Finance, Planning and Economic Development.

Richard A. Musgrave (1980) "*Theory of Public Finance"*: A Study in Public Economy", Harvard University.

Mani, Sunley and Terkper, S. (2004) "*East Africa Community": Investment Tax*

Uganda Revenue Authority. (2009). "*Revenue Performance Report 2008/09"*, June Kampala URA Corporate Service Department, online: URA
http://www.ugrevenue.com>.

APPENDIX 1: QUESTIONNAIRE

MAKERERE UNIVERSITY

QUESTIONNAIRE

Dear Respondent,

Am a student of Makerere University, carrying out research to fulfill the requirements for the degree award and the topic is Tax Reforms and Domestic Revenue Mobilization in URA Entebbe branch.

The questionnaire is designed with view of collecting reliable data to analyze above variables. Please assist me by responding to these questions and your response will be treated with highest level of confidentiality as the research is purely academic.

Section A: General Information.

Please tick in the appropriate box

1. Gender

Male	Female

2. Age

20-25 years	25-30 years	30-35 years	35-40 years	Over 40 years

3. Marital Status

Single	Married	Divorced	Widow

4. Academic Qualification

Degree	Professional qualification	Diploma	Certificate	None

5. How long have you worked in Uganda Revenue Authority?

Less than a year	1-3 years	3-5 years	5-10 years	Over 10 years

6. Department………………………………………………

Section B: Tax Reforms

7. Staffs have sufficient knowledge of all major tax reforms such as VAT, income tax act, abolition of export taxes, reduction of import duties, administrative structure, and tax education.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

8. Introduction of VAT is a major indirect tax reform under taken.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

9. Abolition of export taxes is an indirect tax reform

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

10. Reduction of import duties is an indirect tax reform

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

11. Income tax Act is considered as the major direct tax reform.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

12. Administrative procedures are properly followed in the tax management.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

13. All tax payers are provided sufficient tax education.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

Section C: Domestic Revenue Mobilization

14. All tax revenue is collected from assessed tax payers.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

15. URA Entebbe branch collect more tax revenue from indirect form of taxes than direct form of taxes.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

16. Collecting tax revenue from organizations is easier than from individual tax payers.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

17. Domestic revenue mobilization procedures are effective.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

18. Budgeted tax revenue target is always achieved.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

19. Tax rate determine the level of domestic revenue mobilization in your branch.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

20. Income level of the population determine tax revenue from income tax.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

21. Tax administrative procedures determine the level of domestic revenue mobilization in your branch.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

Section D: Relationship between Tax reforms and domestic revenue mobilization

22. Domestic revenue mobilization target is achieved due to appropriate tax reforms put in place

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

23. The Tax reform makers always determine the level of domestic revenue mobilization and take corrective action

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

24. More domestic revenue can be mobilized when effective tax reforms are established.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

25. Tax reforms and domestic revenue mobilization are closely linked.

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

Thank you for the co-operation given to me.

APPENDIX 2: DOMESTIC REVENUE MOBILIZATION PERFROMANCE

Table 1: Domestic Revenue Mobilization Performance (Billions UGX) 2005/06-2009/10.

	2005/06	2006/07	2007/08	2008/09	2009/10
Net URA Collections	2230.85	2625.20	3161.40	3662.32	4315.47
Income Taxes	604.62	727.40	862.20	1028.92	1371.89
-PAYE	307.57	368.60	451.40	555.71	669.58
-Corporate	182.17	195.00	213.30	229.96	377.05
-Withholding	93.03	116.10	128.20	163.38	215.65
Indirect Taxes	512.02	597.40	698.50	768.56	959.27
-Excise Duty	159.28	184.70	217.80	242.75	270.54
-VAT	352.73	412.70	480.70	525.81	688.73

Source: Ministry of Finance Planning and Economic Development

Table2: Domestic Tax Revenue/GDP Ratio of Uganda Compared to Other Sub Saharan States 2004/05-2008/09 (Percentage)

Countries	2004/05	2005/06	2006/07	2007/08	2008/09
Uganda	13.8	12.7	12.8	13.3	12.6
Tanzania	13.9	13.4	14.6	14.3	13.7
Kenya	27.8	28.4	27.2	26..9	25.7
Malawi	16.3	15.8	15.4	16.7	16.9
Namibia	23.2	22.3	24.0	24.5	23.7
Zambia	26.1	26.2	25.4	24.6	25.7

Source: The African Development Bank (ADB)

Table 3: Tax Revenue Mobilization 2005/06-2009/10 (Billion Ushs)

Type of Taxes	2005/06	2006/07	2007/08	2008/09	2009/10
Income Taxes	604.62	727.40	862.20	1028.92	1371.86
Indirect Taxes (Domestic)	512.02	597.40	698.50	768.56	959.27
Indirect Taxes (International)	1125.28	1314.20	1631.20	1894.73	1983.47
Net URA Collections	2230.85	2625.20	3161.40	3662.32	4315.47
Tax Revenue/GDP Ratio	12.3%	12.4%	12.9%	12.7%	12.5%

Source: Ministry of Finance Planning and Economic Development.

APPENDIX 3 BUDGET ESTIMATES

Figures in Uganda Shillings

No	Item	Quantity	Rate	Amount
1	Proposal			
	Papers	100	50	5,000
	Pen	2	300	600
	Typing	1	30,000	30,000
	Printing	1	20,000	20,000
	Sub total			55,600
2	Data collection			
	Questionnaires	1	20,000	20,000
	Communication	1	10,000	10,000
	Sub total			30,000
3	Analysis	1	80,000	80,000
4	Report writing			
	Papers	100	50	5,000
	Pen	2	300	600
	Typing	1	40,000	40,000
	Printing	1	20,000	20,000
	Sub total			65,600
5	Binding	3	10,000	30,000
6	Transport	1	100,000	100,000
7	Miscellaneous	1	100,000	100,000
	Grand Total			**461,200**