2

Revenue Generation Policy and Institutional Framework

Historical background

The roots of taxation in Uganda lie in the hut tax, which was introduced in 1900 by the then British colonial administration. The hut tax was levied on any building that was used as a dwelling-place and was payable in money or labour, enforced on a per household basis. The household in this case referred to a collection of not more than four huts in a separate and single enclosure and inhabited by a man and his wife or wives. The head of household, assumed to be the man, was responsible for paying the tax. This colonial policy greatly contributed to the delineation of the market economy from the unpaid care economy, with the latter being defined as female space. This ideology has been consolidated, heightened and reinforced by post-colonial fiscal policies, including revenue-generation regimes.

After independence in 1963, the Government instituted a series of taxation laws to guide tax administration at the central and local government level. Prior to 1991, administration of government taxes was a direct function of the Ministry of Finance. More than 60 per cent of the total tax revenue was import-dependent, and the tax revenue to GDP ratio was only 4 per cent. The Uganda Revenue Authority (URA) was established in 1991 as a semi-autonomous, central tax administration body for the assessment and collection of specified tax revenue, to administer and enforce the laws relating to such revenue and to account for all the revenue to which those laws apply. The URA also advises the Government on matters of policy relating to all revenue. The URA is charged with the responsibility of revenue mobilisation to finance current and capital development activities, to increase the standard of living of all Ugandans and reduce poverty and to increase the ratio of revenue to GDP to a level at which Government can fund its own essential expenditure.

In addition to establishing the URA, the Government also instituted policy reforms intended to make the tax system more comprehensive, efficient, effective and equitable. Gender was, however, not considered part of equity for this purpose. The specific objectives were: to broaden the tax base by bringing the hitherto difficult-to-tax areas of the economy under the tax net; to maximise tax revenue by harmonising the tax laws and rationalising tax rates; to minimise the cost of tax administration; to increase the level of tax compliance by reducing the tax burden; and to promote investment for local and foreign markets.

The above objectives are sometimes in conflict. For instance, eliminating minor taxes and consolidating others so as to reduce the number and complexity of taxes is easier to manage than having many different taxes, but it is not necessarily equitable. Simplicity does, however, enable citizens to understand what their rights and duties are and to participate in discussion around tax laws.

Macro context

The economic reforms that Uganda has been undertaking over the past 20 years have involved a shift to less government intervention and more market-oriented strategies. The overall objective of the fiscal reforms has been to reduce government expenditures as a major instrument for the control of inflation. Decentralisation, intended to improve the efficiency of service delivery, has been another element of public expenditure management. Other reforms include privatisation involving contract management and change of ownership from government to the private sector. Privatisation of service delivery, however, disproportionately affects women because most of the actual cuts in public spending are in sectors that are related to their work in the care economy, e.g., water supply, health and education services.

Domestic revenue (Box 2.1) makes up more than 70 per cent of the resource envelope in Uganda (MoFPED, 2008), with the rest coming from external donor grants and loans. Taxes are the principal own-source of revenue and contribute 13 per cent of GDP. Government's long-term policy objective is to increase domestic revenue mobilisation and reduce over-dependency on donor financing for the budget. To achieve this, it intends to increase domestic revenues by 5 per cent of GDP per annum over the medium term.

Box 2.1. Revenue generators

Government revenue includes direct and indirect domestic taxes, taxes on international trade and non-tax revenue. Direct domestic taxes include pay as you earn (PAYE), corporate tax, withholding tax, rental income tax, tax on bank interest and casino tax. Other tax heads include company income tax and a presumptive tax on small businesses introduced in 1997. Instead of paying regular income tax, a small business with an annual turnover below 50 million Ugandan shillings (USh) is subject to a presumptive tax of up to 1 per cent of its gross turnover, unless it opts to file a regular tax return. This is because many such businesses do not have complete records and cannot afford to prepare books of accounts.

Indirect domestic taxes on local goods and services include excise duty and VAT. Excise duty is an indirect, highly selective tax normally targeting a few goods such as beer, spirits and cigarettes, mainly on the grounds that their consumption has negative effects on society. Other taxes include petroleum duty, import duty, withholding taxes, temporary road licences and commission on imports. Non-tax revenue includes fees and licences: first registration of new vehicles and renewal of licence, drivers' permits, and stamp duty and embossing fees. It also includes revenue collected by Government from the sale of books, passports, work permits and the like.

Uganda has a very narrow revenue base, especially for direct personal income tax. This is attributed to the large size of the informal sector, lack of reliable data on taxpayers and uneven income distribution. The economy is characterised by a substantial share of agriculture in total output and employment (the country is 95 per cent dependent on subsistence agriculture); by large-scale informal sector activities and occupations; by many small establishments; by a low share of recorded wages in total national income, with many workers paid in cash 'off the books'; and by a small share of total consumer spending in large establishments that keep accurate records of sales and inventories.

The absence of reliable data limits the effectiveness of tax administration. A significant proportion of the population does not pay direct taxes. Many (38 per cent) live below the poverty line, while others find the high rates (because of the narrow tax base) an incentive for tax evasion. Income distribution is highly uneven with a rising Gini coefficient, which implies that for revenue collections to generate high amounts, the top deciles have to be taxed significantly more proportionally than the lower deciles.[1]

Uganda has been pursuing an aggressive policy of reducing taxes to increase competitiveness, improve incentives for export activity, facilitate tax administration and promote taxpayer compliance. Many observers believe that the primary focus of these measures has been to maximise revenue generation. Issues such as redistribution, equity and influencing production and consumption patterns are deemed to be secondary considerations.

The Poverty Eradication Action Plan (PEAP)

The Poverty Eradication Action Plan (PEAP), the equivalent of the Poverty Reduction Strategy Paper (PRSP) in other countries, is the overarching national planning framework that is supposed to guide public action to eradicate poverty. Since its inception in 1997, it has provided an indication of the national focus of revenue generation. The third PEAP, issued in 2005, acknowledges that Uganda has one of the lowest revenue to GDP ratios in sub-Saharan Africa (12.1 per cent), but also appreciates the fact that major tax reforms have already been implemented.

The PEAP recognises that improvements in tax administration will enhance the efficiency of revenue collections as well as the operating environment for the private sector. However, this alone is unlikely to achieve the necessary revenue growth to maintain government expenditure. The PEAP thus suggests that tax increases will be needed in order to finance the priority public expenditures required to reduce poverty. This, though, is likely to make the tax system progressively more regressive and damaging to poor women and men.

The PEAP acknowledges the significance of addressing gender inequalities and calls, inter alia, for the review and reform of discriminatory legislation in general. In particular, it highlights women's time poverty arising out of their major domestic burden, gender differences in utilisation of services, women's insecurity of access to land, and domestic violence. Actions to enhance gender equality are prioritised among those needed to boost growth. It thus provides the necessary overall policy guidance for engendering revenue generation.

Budget policy

On an annual basis, the Government states a number of measures that need to be undertaken in order to increase revenue without undermining macroeconomic stability and poverty eradication. For the most part, these measures include changes (increases) in the tax rates. The Government identifies one of the most significant challenges for budget policy as ensuring that tax policy contributes to poverty reduction not only through generating more revenue for public expenditure but also through improving fairness in income distribution. Its primary objective is supposed to be avoiding making the poor worse off through taxation. There is also a principle that taxes should not create an excess burden by diminishing the motivation for earning income and/or inhibiting consumption, nor should they encourage substitution of higher cost domestic production by lower-cost imports. This implies that tax policy will not aim at higher tax rates simply to raise more revenue to GDP. At the same time, raising this ratio is absolutely important for budget policy for fiscal consolidation (GoU, 2006).

The practice seems to differ from the intended policy objective, however. The budget strategy hinges on efficiency at the expense of equity. Whereas improved production and privatisation are essential for growth, these in themselves will not result in gender-responsive development.

Revenue generation structure

Uganda's revenue generation structure is basically centralised. The Government is responsible for the management of most of the major taxes, including all the indirect taxes. The revenue thus collected is put into a Consolidated Fund from which budgetary allocations are made. Disbursements to local governments are made in the form of unconditional, conditional and equalisation grants. Unconditional grants are given for decentralised services. Conditional grants are supposed to finance priority programmes such as primary health care and rural roads. Equalisation grants are given to those local governments that are disadvantaged relative to others due to geographical, historical, security or other reasons to put them at par with the rest of the country. The advantage of a centralised structure of revenue collection is that it allows for redistribution of resources from the richer to the poorer regions, many of which have a higher proportion of women.

Parliament is the supreme authority in revenue generation. No tax is supposed to be imposed except under the authority of an Act of Parliament. The parliamentary budget office advises Parliament on all aspects of revenue generation. At the national level, the MoFPED is charged with financial policy formulation, which involves making proposals for new or amended tax bills. The Ministry also sets targets for revenue collection based on assumptions about the economy, the need to raise revenue and the need to obey some conditionalities of the International Monetary Fund and World Bank (e.g. in relation to deficit reduction), as well as World Trade Organization rules in respect of what can be done in terms of trade taxes. The assumptions include exchange rates, GDP growth, inflation and volume of growth for imports. Gender is not given any specific consideration in the assumptions.

Central government level

The URA is responsible for the administration of all Government revenue. In terms of gendered representation, the Authority is headed by a woman and two of its five commissioners are female. As at June 2005, women accounted for 36.2 per cent of URA staff. Discussions with the staff suggest that gender is not explicitly taken into consideration during tax administration. For instance, tax returns are not sex disaggregated, making it difficult to assess the impact of revenue generation on women separately from men across the different tax categories. Further, being a woman does not necessarily translate into gender sensitivity – otherwise, as one key informant suggested, all the revenue generation instruments would be responsive to gender, seeing that there is a woman at the helm of the URA.

Since the URA was established, average daily collections of revenue have steadily risen from USh0.73 billion in 1991/92 to 7.79 billion in 2004/05.[2] Local government informants attribute this growth to a stable tax system, with minimal interference from the state. In contrast, local revenue collection continues to perform poorly. The same informants attributed this to political interference from the Government, a limited tax base, corruption and poor tendering processes.

Local government level

There is an almost identical but parallel structure for local government revenue generation, defined by the Local Governments Revenue Regulations. Revenue rates are set by the MoLG, while recommendations on revenue and fiscal mechanisms are made by the Local Government Finance Commission (LGFC). The specific roles of the LGFC are: (i) to advise the President on all matters concerning the distribution of revenue between the Government and local governments and the allocation to each local government of money out of the Consolidated Fund; (ii) in consultation with the National Planning Authority, to consider and recommend to the President the amount to be allocated as equalisation and conditional grants to each local government; (iii) to consider and recommend to the President potential sources of revenue for local governments; and (iv) to advise local governments on appropriate tax levels to be levied. In 2006, the LGFC initiated a process of engendering its work but it is constrained by lack of (gender) technical capacity.

Under decentralised governance, local government plays a central role in the operationalisation of national and sectoral policies, strategies and programmes. Uganda is currently divided into 78 districts that constitute the local government system, each with five levels: the district (local council), the county, the sub-county/town council, the parish and the village. Each level has an executive committee. The district and the sub counties are local governments with legislative and executive powers while the rest are administrative units.

Local governments have the power to levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties, personal G-tax (see below) and registration and licensing fees. A local government may also collect fees or taxes on behalf of the Government, for instance, ground rate on national properties, a portion of which it can retain as may be agreed upon. A village council may, with the approval of the sub-county council, impose a service fee on households in the course of execution of its functions such as providing security to the community. Local governments are required to draw up a comprehensive list of all their internal revenue sources and maintain data on potential collectable revenues. None of the data sources observed in the two study districts were gender disaggregated.

Local governments have privatised collection of revenue such as street parking fees, market dues and garbage collection dues. While privatisation has resulted in more efficiency of revenue collection and more reliable revenue flows for local governments, the direct beneficiaries are the private firms themselves. Bidders are required to have registered firms and pay a non-refundable fee. Before the suspension of the G-tax, some local governments would require that bidders possess a G-tax certificate. All these requirements are likely to exclude women.

The G-tax

Until 2006 every district or urban local council was supposed to levy an annual graduated tax (G-tax) on every male person of or above the apparent age of 18 years and on female persons of or above the apparent age of 18 years who were engaged in any gainful employment or business. The G-tax reinforced many of the erroneous assumptions underlying the gender distribution of labour (Box 2.2). While, in theory, men were the majority of those paying G-tax, anecdotal evidence suggests that many women shouldered the responsibility of meeting this tax obligation for 'their' men, husbands and companions alike. Almost all key informants recounted cases of women bailing their G-tax defaulting men out of prison.

Box 2.2. Gender bias in the G-tax

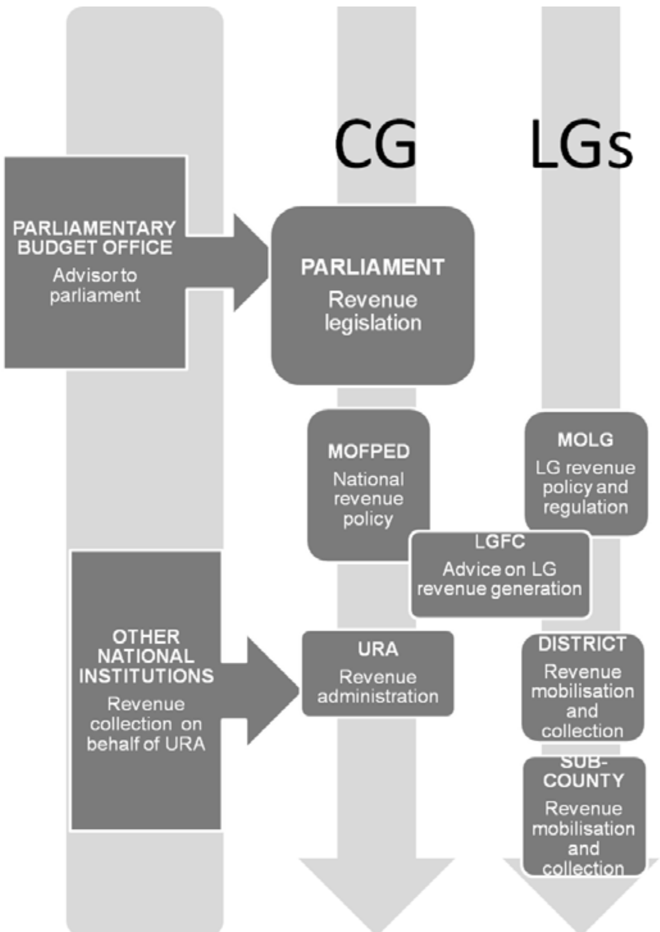
As far as eligibility is concerned, the G-tax assumes that all adult males are gainfully employed, which is not necessarily the case. Persons potentially exempt from payment of G-tax included those unable to pay due to poverty arising out of old age, infirmity or other good cause.

Whereas the tax is sensitive to women, acknowledging that not all of them are paid for their work, it nonetheless reinforces the gender division of labour and perpetuates the stereotype that women are not engaged in economic activities.

The G-tax was a crude personal income tax, a successor of the hut tax, calculated on the basis of estimated earnings from agriculture or livestock as assessed by a committee appointed by the district council. Whereas, it was supposed to be a graduated tax, it never effectively became a progressive tax. A large part of the population effectively fell within the same income brackets so that the real graduation was relatively small (Livingstone and Charlton, 1998). In addition, the tax ceiling was low so that people above a certain income all paid the same. The maximum rate of the tax was USh100,000 annually so, for example, a teacher earning USh100,000 a month would pay the maximum rate and so would a Member of Parliament earning close to USh5 million a month. Furthermore, the single flat rate, rather than the scale, was often applied in practice so that the tax burden fell disproportionately on the poor.

Figure 2.1 offers a schematic overview of the different interests at play in revenue generation.

Figure 2.1. Institutional structure for revenue generation



Key: MOFPED Ministry of Finance, Planning and Economic Development; MOLG Ministry of Local Government; LGFC Local Government Finance Commission; URA Uganda Revenue Authority; CG Central government; LG Local governments.

Revenue generation laws and policies

Uganda does not have a comprehensive policy for revenue generation. The main instruments are the taxation laws, which at the national level include the Income Tax Act 1997; Value Added Tax Act 1996; Excise Tariff Act; Finance Act 1989; Stamps Act; Traffic and Road Safety Act, 1998; Customs Tariff Act; East African Customs and Transfer Tax Management Act; and East African Excise Management Act. An analysis of the regulatory tax system suggests that its purpose is to generate revenue, promote investments and encourage savings. No regulation contains explicit gender bias or discrimination. For the most part, the laws do not take cognisance of the potential different impacts of tax provisions on women and men.

A major tax policy reform has been fiscal decentralisation. Its overall objectives are to increase local governments' autonomy, widen local participation in decision-making and streamline fiscal transfer modalities in order to increase their efficiency and effectiveness. The focus is on providing direct financial incentives for local governments to increase local revenue, and on ensuring that local revenue contributes meaningfully to local development. To that end, there is a statutory obligation of co-funding of some initiatives such as Local Government Development Programme (LGDP) II and the National Agricultural Advisory Services (NAADS) Non Sectoral Conditional Grant for the Plan for the Modernisation of Agriculture, which call for a contribution of 10–20 per cent of the project costs by the local government.

All these programmes require that gender is explicitly addressed and their design, particularly that of the LGDP, provides scope for addressing gender inequalities in the operations of local governments. Under the LGDP, gender sensitivity is one of the nine performance criteria that district and sub-county local governments have to fulfil in order to access funds. Compliance with gender mainstreaming, among other performance measures, is ensured through a system of reward and penalty. A recent audit of NAADS and the LGDP has demonstrated that fiscal processes that are explicitly gender sensitive result in positive outcomes for women and men (Tanzarn, 2007).

A more recent (July 2005) reform has been the suspension of the G-tax discussed above for a period of 10 years to allow for studies to determine whether to abolish or retain it. According to the Acting Commissioner, Local Authorities Inspection, the tax was suspended because the Government 'believed that it was promoting disharmony and killing decentralisation – people were being brutalized, tortured and killed. People lost property because of the excessive force used in its collection. The method of assessment was also not transparent and most of the money collected was mismanaged.' On the other hand, however, suspension of the G-tax has affected fiscal decentralisation – it has resulted in a reduction and destabilisation of local government revenues and is perceived to be inhibiting local development. The net collection from the G-tax used to be an average of USh60 billion per year, but in 2005/2006 the Government was only able to compensate local governments with half the amount. Besides, compensation means trading off some development priorities such as energy, universal secondary education and rural development, some of which have clear gender gains. A key informant at the central level argued that this is 'a disaster' that is resulting in a 'vertical fall of services' mainly affecting the poor, the majority of whom are women.

To replace the G-tax and broaden local governments' revenue base, Government announced a new Local Service Tax in its 2007/2008 budget speech. This tax is supposed to be levied on wealth and incomes of people in gainful employment, self-employed and practising professionals, self-employed artisans, businessmen and women and commercial farmers. A number of persons are exempted, including members of the Defence Force, the Police Force, the Prisons Force and local defence forces, as well as unemployed persons, peasants and people who are unable to earn a minimum income to access the basic necessities of life.

The proposed tax appears to be equitable in the sense that it will be levied on the segments of the society who can afford to pay it. It is also more gender sensitive in that, unlike the G-tax, women are explicitly mentioned among the taxpayers. Considering that men constitute the majority of the paid labour force, they are likely to contribute more to this tax than women, but they are also likely to constitute the majority exempted from payment.

Despite such reforms, some of the laws pertaining to local governments, such as the Markets Act 1942, are very old and do not match current trends including decentralisation and the development focus on poverty eradication. This has greatly affected the revenue generation of local governments and had a negative impact on taxpayers, especially women.