PROPOSALS FOR ENHANCING DOMESTIC REVENUE MOBILIZATION TOWARDS IMPROVING SERVICE DELIVERY

Shared with National Planning Authority **June 2019**

Introduction

Governance and public institutional setting provides the enabling environment for investments to promote growth making Domestic Revenue Mobilization (DRM) possible.[1] DRM is the most reliable source of financing for service delivery and sustainable development as opposed to depending on aid and grants. Revenue mobilization in Uganda is dominated by taxes, non-tax, appropriations in aid (AIA) and debt. Government continues to face intense pressure to meet her service delivery targets due to limited revenues collections and is therefore forced to undertake cash rationing and budget suppression in order to finance supplementary expenditures required by some votes.

Uganda's economy remains stuck in a state of narrow tax base, due to; a) huge informal sector, b) leakages and non-compliance in tax administration, c) Illicit Financial Flows (IFFs) among other factors. There are also cases of preferential tax treatment in deductions where some business entities and/or segments of sectors continue to selectively benefit from State subsidies. Therefore, broadening the tax base and improving efficiency in tax administration are of high priority. Increased attention to revenue mobilization should suffice based on large shortfalls in tax revenue and the risk of reductions in foreign aid and funding gaps left by donors.

Arguments for DRM

A State's ability to mobilize domestic resources is determined by size of economic activities, economic growth performance, and capacity to raise and manage tax revenues and the efficiency in the financial system. DRM is important to Uganda because;

1) It is the biggest source of long term financing for sustainable development.
2) Enables Government to provide public goods and services.
3) Strengthens fiscal institutions because stable and predictable revenue facilitates fiscal planning. As a result resources can be allocated to priority sectors and translated into outcomes.
4) Enables Government to become independent of aid, have increased ownership and policy space to implement strategies that reflect development priorities.

Concerns and Proposals for boosting DRM in Uganda

1) Acquisition, Management and Boarding-off Government fleet:

a) The Uganda Public Service Standing Orders (2010 Edition) provide guidelines on the Acquisition, Usage, Care, Maintenance and Boarding-off of Government Fleet (Vehicles and Motorcycles) across the Ministries, Departments, Agencies and Local Governments (MDALGs). However, in some instances the Standing Orders are disregarded by some Government officials attracting a cost to Government which would have otherwise been saved for service delivery. Government seemingly holds a big fleet of vehicles which seemingly is not necessary yet, requires maintenance. For instance, by beginning of FY 2017/18, Ministry of Health had a Fleet of over 350 Vehicles and Motorcycles, including 259 vehicles deployed at their headquarters alone. The maintenance costs of RDC Motor Vehicles were on the increase while the Budget Framework Paper (FY 2017/18) showed that Government planned to spend UGX. 95 billion on buying vehicles and other transport equipment according to the Auditor General's Annual Report (December 2017).

1. NEPAD/UNECA (2014). Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects - Africa looks within

b) The Ministry of Public Service maintains vehicle expenses (service, repairs, fuel etc) of some categories of officers entitled to government vehicles e.g. up to 7 vehicles for past government leaders. Currently, a number of vehicles are due for boarding off but are still held within the Ministry. Moreover there is a pending proposal to purchase vehicles with higher engine capacities from the current 3500cc to 4500cc which has been forwarded to Cabinet for approval.

c) Comparatively, realizing a high cost of Government Fleet in December 2004, Rwanda sold off all 4WD vehicles with a capacity of over 2000cc. It impounded 250 vehicles in total leaving Government institutions with approximately 10 vehicles each. In case of need for additional motor vehicles, the Government of Rwanda identifies travel agencies who hire vehicles with drivers, to a Government institution or activity. Only five Government officials are entitled to a Government vehicle with under 2000cc i.e "the President, Prime Minister, Speaker of Parliament, Senate Speaker and the Head of the Supreme Court. Tanzania shares a similar strategy where Government ministries have a specified number of fleet and private transport companies are approached in the event of need for additional vehicles. Government should maintain the number of ministry fleets (Vehicles and Motorcycles) low to reduce the unwarranted cost.

Recommendation: *Government should emulate cost saving practices from neighbouring countries like Rwanda and Tanzania by incorporating measures such as restricting government vehicles to 2000cc and reducing the number of Government vehicles in ministries. NPA should work with the Ministry of Public Service (MoPS) to develop a framework to implement this initiative so that saved funds are released for allocation to other key areas eg the health and education sectors to improve service delivery outcomes*

d) Some Ministries and LGs have maintained old vehicles on their compounds and are unable to dispose them off eg Ministry of Agriculture, Ministry of Works, Ministry of Health, Some Vehicles in Masindi and Moroto Districts among others. Some project vehicles whose projects ended have also been grounded as depreciation takes a toll on them eg road works equipment in Moroto district. Some of these vehicles are no longer being produced eg Fiat making their spare parts difficult to dispose of.

Recommendation: *MDAs and LGs need an authorization reform (with the help of PPDA and MoPS) with timelines to board off old vehicles and motor cycles to bidders who can purchase them in form of scrap like still rolling mills who use them as raw materials for other industries/products. While this approach may not fetch a lot of resources but will allow for large savings, and at least they feed into other production lines from which income may be earned. This could also enable Ministries to acquire new fleet, using internally generated Revenues. This will boost DRM in the long-run, as Government will be saving more than it is spending on vehicles to allow for distribution of resources to other sectors. In addition, Government can conduct a cost – Benefit Analysis to establish how much gain it can gather from the process.*

2) High level of Illicit Financial Flows (IFFs): The practices that propel IFFs deprive Uganda from mobilizing enough revenue to finance its expenditure. This means citizens lose out on their financial resources to other countries. According to Uganda Revenue Authority (URA) in 2011, Uganda lost UGX 2 trillion (approx. USD 866 million) annually through "economic and tax fraud/crime"; a figure which could have increased by now. While technological development has eased communication around the globe, it has precipitated crime with regard to IFFs since on-line money transactions can be quickly effected. Unfortunately, nearly 50 percent of the economy is informal in Uganda, which means that a significant portion of economic activity takes place outside the watch of government which makes it difficult to monitor and regulate.[2] The NDP II alludes to the existence of IFF practices and notes that by 2030, IFFs should be significantly reduced to promote economic justice for all and inclusiveness for sustainable development at all levels.

In Uganda, the Financial Intelligence Authority (FIA) was established in 2014 under the Anti-Money Laundering Act, 2013 for the prohibition and prevention of money laundering. However, the

2. Global Financial Integrity (2018). A Scoping Study of Illicit Financial Flows Impacting Uganda, September 2018, pg 11.

effectiveness of FIA depends on the availability of resources (skill and monetary) necessary to tackle a problem as complex as IFFs and money laundering. While the institution commenced operations in September 2014, low funding of the FIA have frustrated efforts to establish the required electronic systems which would facilitate bridging compliance gaps. Budget allocations to the Authority have been low at UGX 7.156 billion, UGX 8.175 billion, and UGX 12.29 billion in the FY 2016/17, FY 2017/18 and FY 2018/19 respectively. The Budget projection for FIA in FY 2019/20 shows that allocations are expected to remain the same with no additional funding. Faced with limited resources, plans for purchasing a sophisticated financial monitoring software platform valued at $ 200,000 remains on hold hence hampering full operations of the institution. Such deficiencies lead to inadequate systems for obtaining information on customer identity and reporting suspicious transactions. Despite the establishment of FIA, several other challenges have propelled the practice.[3] IFFs have further led to increasing income inequality and deepening unequal distribution of power hence undermining the ability to achieve the Sustainable Development Goals, 2030.

Recommendation: *The NDP III should consider adequate resource allocation for the period for the Accountability Sector institutions like FIA, URA, police CIID, Anti-corruption agencies among others; to facilitate collaboration and updating their functional capacities to curtail IFFs especially, through commercial transactions by Multi-National Corporations. In the process, related cyber-crime and illegal repatriation of funds will be addressed. Curtailing IFFs and the mechanisms facilitating them will strengthen the mobilization of domestic resources for long-term sustainable development.*

3) ***Increasing untaxed digital economy**:* Digital businesses have escaped taxes because they do not need factories, stores, or other fixed places of business in order to sell their services to consumers.[4] Current tax rules still rely on the old concept of a permanent establishment to assign tax jurisdiction but the digital economy makes it possible to operate cross-border businesses virtually tax-free. Uganda has lately experienced a rise in the digital economy (based on technologies) enhanced by emerging on-line business ventures from which profits are generated. But these businesses deprive Government of much-needed tax revenues and give foreign-based digital businesses an advantage over their tax-paying domestic competitors. Such company businesses include, Jumia that sells a cross section of products, Taxify, Uber, Safe Boda among others. It is not clear how such company operators have been subjected to tax based on the complexities of taxing the digital sector without physical presence at business jurisdictions.[5]

Recommendation: *While on-line business is a new entrant in the market, an update of Uganda's tax system should be carried out to accommodate the digital economy model (just like sports betting which was incorporated into the tax bracket) in a bid to mobilize revenue. A viable tax reform package compelling these businesses should be instituted.*

4) ***Inefficiency in Public Administration Management.*** Fragmentation of power centers/Agencies into numerous Government administrative structures increases public expenditure. While the consolidation of power centers may rub political ambitions the negative way, this challenge needs to be addressed to ensure revenue mobilization and operational cost cutting.

a) *Division of Administrative units:* In an effort to take service delivery closer to the people, Government introduced the decentralization system in the FY 1994/95 to 13 districts. By 1997, all 39 districts received financial transfers to implement the policy under the Ministry of Local Government. The decentralization system has so far facilitated the division of districts into smaller administrative units creating a total of 112 districts by 2014, thereby increasing public administration costs. By June 2018, Uganda recorded 121 districts, many of which have been criticized for not providing the

3. Eg i) Poor sequencing of trade related taxes, ii) Unclear strategies leading to insignificant progress in fighting IFFs; iii) Insufficient resources to undertake IFFs investigations; iv) Weak regulatory and supervisory regimes (Anti-terrorism institutions and frameworks) characterised by disjointed coordination among institutions; v) complicated political economics surrounding IFFs and conflict of interests; vi) limited tax transparency of all domestic and foreign operations in Uganda (tax paying culture poor); vii) lack of data and limited information sharing on the consequences of IFF; viii) economic liberalisation challenges mitigation of IFFs; ix) On-line /e-commerce/ digital economy/business transactions, among others.
4. https://www.tkfd.or.jp/en/research/detail.php?id=24&searchterm=law
5. TAX Journal: Insight and analysis for the business tax community HMRC's guidance on enveloped UK dwellings: a curious result? Issue 1389 | 2 March 2018

desired quality service delivery as had been envisaged. The multiplication of districts implies creation of counties, sub counties, parishes and constituencies which calls for recruitment of civil servants and political representatives hence increasing operational costs.

> ***Recommendation:*** *The division of mother districts into smaller administrative units should stop to address the operational costs it comes along with. A strategy of regional planning should be adopted to address the different regional unique challenges shared within proximate localities. Resource allocation to maintenance of these administrative units can then be re-allocated to develop other sectors.*

b) *Multiplication of Power centres:* Uganda has over the years experienced the creation of parallel power centres/agencies/Authorities/Commissions etc alongside mother sectors eg Roads, Accountability, Anti-Corruption, Energy, Health among others. Most of these entities have elements of duplication of roles leading to wastage of public resources created by high running costs to ensure their efficiency.

> ***Recommendation:*** *A strategy to merge these agencies should be adopted to consolidate and realign their responsibilities and functions. While the process to repeal and replace laws establishing agencies may be long and hectic, dissolving them needs to be fast-tracked to save public resources.*

c) *Fragmentation of Entrepreneurial Funds:* Government has established several poverty reduction and livelihoods programmes like the Youth Livelihood programmes, eligible smallholder farmers especially the women under Microfinance Support Centre, Operation Wealth Creation, Uganda Women's Entrepreneurship Programme, Abi-Trust etc. Resources to finance such programmes have been fragmented under different power centres like State House and Ministry of Gender, Labour and Social Development. These have increased operational cost as staff have to be employed to manage the programs. In addition, the Auditor General (Report, 2018) notes that in FYs 2015/16 to 2017/18, out of a total amount of UGX.83.3bn disbursed to 10,444 Youth Groups there was improvement of recoveries ranging from 24% in 2015/16 to 60% in 2017/18 but registering below satisfactory performance. Delayed return of revolving funds for other eligible groups undermines the ultimate goal of the program, yet attracting high operational costs. Moreover, some groups have up to 15 members and above, which is a big number for start-up businesses as many have suffered ownership and management challenges, hence leading to default.

> ***Recommendation:*** *Government should consolidate livelihood funds which are scattered under different institutions and programs to reduce duplication, rationalise operational costs and outcomes.*

5) ***Underperformance of Domestic Revenue collection by URA:*** Uganda's tax collection effort has remained below potential despite successive reforms by URA in the tax administration and systems since the 1990s. Nevertheless, these changes have resulted in significant increases in revenue collection since 2002, from about UGX 1,212 billion in 2001/02 to approximately UGX 12,719 billion in 2016/17, and reaching 14,456 billion in 2017/18. Notwithstanding this change, revenue performance remains below potential based on revenue to tax to GDP ratios. Uganda's tax to GDP ratio only increased from 13.5 percent to 14.1 percent between the 2016/17 and 2017/18 fiscal years. A comparison with other countries also shows that Uganda's tax revenue to GDP ratio is still below the Sub-Saharan Africa average of approximately 16 percent. In addition, Uganda lagged behind her East Africa Community (EAC) neighbors, such as Kenya at 18 percent and Rwanda at 16 percent. [6]

   In the current FY 2018/19, domestic revenue projection stands at Shs. 18,375 billion, of which Shs. 17,855 billion is tax revenue and Shs. 520, billion is non-tax revenue.[7] However, given past

6. Global Financial Integrity (2018). A Scoping Study of Illicit Financial Flows Impacting Uganda, September 2018, pg 11.
7. National Budget Framework Paper 2019/20, MoFPED 2019

trends there has been a variance between the revenue projects and actual collection. In FY2017/18 net revenue collections amounted to UGX14, 456.11 billion registering a shortfall of UGX 606.32 billion[8] and in FY 2016/17, domestic revenue underperformed by Shs. 444.7 billion. To cover up the shortfall, Government of Uganda depended on external and domestic debt. While Government is focused on developing infrastructure and industrialization, the drummed-reformed tax administration is key in improving revenue collection.

Recommendation: *Government should reduce corporate income tax rates to reduce the cost of business to attract investment for improved savings. Repealing/eliminating tax incentives/ exemptions and holidays is paramount as an accurate taxpayer registration database and effective compliance risk management practices is upheld. Implementing a clear revenue strategy and compliance improvement plan should increase revenue collection through making adequate use of digitalization to improve operations and performance.*

6) ***Poor plastic waste management.*** Government has embraced plastic production which has been useful to the population. While some plastic products are useful for quite a long time, most of them eg polythene bags, plastic bottles used for packing soft drinks and disposable plastic containers for packing edible content have turned detrimental to the environment. For example, plastic debris clogs street drains and have a degree of danger to wildlife and to people in many ways; the chemical structure of plastics notwithstanding. Most of them are usually designed for single use yet poorly discarded even with available designated rubbish collection points.

Recommendation: *Government should boost local revenue through rewarding plastic garbage collectors to encourage recycling Some production lines eg polythene bags commonly known as "kaveera" need to be closed and to allow factories that can produce paper bags (which rot away into the soil after a short period of time) to stay in operation. Plastic garbage collectors can be rewarded to encourage recycling of used plastics and plastic product sellers should be instructed to have such a mechanism with attendant penalties for mismanagement / poor disposal of such garbage. These approaches will go a long way in protecting the environment which attracts a substantial amount of resources to maintain.*

7) ***Large Informal sector:*** Despite Government's recognition of the informal sector, there need for clarity on the strategic direction for addressing informality. According to the National Strategy for Private Sector Development, FY **2017/18,** the informal sector contributed a significant share to GDP (43.9%) in FY 2014/15 which is sizeable posing a big challenge in competition to formal enterprises.[9] The private sector economy largely characterized by Micro Small and Medium Enterprises (MSMEs), with low productivity and high informality. Up to 80% of the economy is comprised of informal businesses, who transact in cash making it difficult to track and asses them for tax leaving much of the tax burden to the formal sector. The World Bank (2017) noted that the majority of informal firms are evading taxation and therefore depriving formal firms of their hard-earned profits.[10] On the other hand the informal economy is conducive channel for providing a good blend for illicit activities, including illicit financial flows which deprive Government of tax collection.[11]

MSMEs typically have a high mortality rate with 90% operating for less than 20 years. Many informal small enterprises (manufacturers, wholesalers, retailers, agricultural produce dealers) are family owned and often do not have a fixed address.[12] The construction sector for example is one of the fast growing sectors but the service is provided informally implying loss of Government revenue. The transport sector also remains unregulated with no clear records of ownership. This means that a lot of taxable transactions are not traced. This is where the real economy thrives. By their nature, it's difficult for tax authorities to track them hence lower revenues realized than the potential. Stringent

8. Revenue Performance Report FY 2017/18, URA 2018
9. MFPED (2017). National Strategy for Private Sector Development, FY 2017/18-2021/22, pg 4
10. World Bank Group (2017). The Role of City Governments in Economic Development of Greater Kampala, pg
11. Global Financial Integrity (2018). A Scoping Study of Illicit Financial Flows Impacting Uganda, September 2018, pg 10
12. Reality of Aid (2018). The Changing Faces of Development Aid and Cooperation: Encouraging Global Justice or Buttressing Inequalities?, 2018 Report, pg 47

measures by URA further frustrate small businesses and the difficult registration process marked by burdensome compliance procedures, complex tax regulations, and corruption also causes many to prefer informality in Uganda.

Recommendation: *Government should;*

a) *Devise a strategy of tracking all economic activities contributing to growth and drawing them into the tax bracket by implementing an effective process of business registration. A conducive atmosphere for all businesses to thrive must be availed through making access to credit cheaper and supportive registration measures to boost investment in local enterprises. These approaches will enable the mobilization of revenue into the consolidated fund for service delivery.*

b) *Adopt an effective measure to regulate economic activities and no enterprise should be permitted to operate without a Taxpayer Identification Number (TIN).* URA should devise a mechanism of providing tax *clearance certificates to business owners which should be presented before renewing a license to encourage compliance.*

c) *Government needs to set up lawful associations within the transport business to coordinate and regulate the industry as well as collect taxes.*

8) Ineffective Cash Flow Management: To strengthen Public Financial Management, Government is implementing reform initiatives like the Treasury Single Account (TSA) and the Integrated Financial Management Information System (IFMS), which are very critical in improving cash management practices. Due to low revenue collection however, Government is forced to undertake cash rationing and budget suppression in order to finance supplementary expenditures, despite the existence of cash surpluses in various accounts of some spending Agencies. In addition, TSA arrangement is not fully rolled out, and progress in developing cash flow forecasting and active cash management to help move away from the strict cash-rationing regime has been slow***.***

Recommendation: *Government should expedite the finalization of the Cash Management Policy 2019 which is expected to facilitate prudent cash management by minimizing idle cash balances being held by some votes. The policy will guide on reallocation of funds to other expenditure areas, invest it in short term securities to generate revenue for Government and progressively improve the reliability of cash flow forecasts. The cash management policy will also strengthen measures to stop the diversion of public resources to non-existent suppliers which accumulates "Ghost arrears" eg as in the case of preliminary findings of the verification process of all outstanding arrears in MDAs by Ernest and Young (Independent Audit Firm) where almost Shs427bn was meant to be paid to non-existent suppliers.*

8) Mobile Money Tax (MMT) and Over the Top –Tax (OTT): Introducing the mobile money tax overlooked the weight of its burden on the category of population it was targeting. A fair tax is one which taxes the rich more than the poor and vulnerable. Although Government needs to grow the revenue catch, recent experiences on MMT point to a need for broadening the focus and critically analyzing the negative consequences on the wider economy. The burden of the MMT is entirely being shouldered by poor Ugandans while the rich telecoms remain with more profits. Revenue mobilization efforts should not only be interpreted within the scope of how much revenue is expected from a given measure but also on the possible negative consequences on the population. The MMT and OTT however only deepens rather than widens the tax base. Moreover the tax on MM has negative implications on the agenda for financial inclusion and cashless economy, which are key to increasing efficiency and effectiveness of the financial sector to inclusive growth and welfare improvement.

Recommendations: *The tax measure should be revised to target telecom companies. Revenue measures should be introduced after critical analysis and knowledge of the base being targeted and its interaction with the rest of the economy.*

Leakages through tax Evasion and Tax exemptions: KCCA, URA and LGs strengthened tax administrative efforts through the Taxpayer Registration Expansion Project (TREP)[13] as a measure to increase compliance by bringing more taxpayers into the tax net towards improving DRM. However, URA's revenue shortfalls have severally been reported in the past which limits the amount of resources available for service delivery. Government therefore relies on big corporations to close tax gaps yet; when they make losses or drops in profit, as many did in 2013, the amount of tax revenue is hurt.[14] Government provides tax incentives (which tends to benefit more large/sizeable or foreign companies) to designated business entities but tax evasion and exemptions have remained key sources of revenue leakages. According to IMF, in FY 2016/17, roughly half of the 4 – 5 percent of GDP tax losses were attributable to VAT exemptions.[15] According to EPRC, (Report, 2018), granting of exemptions should be justified by an economic cost–benefit analysis, rather than political considerations.[16] That also in FY 2015/16, income tax exemptions led to annual revenue loss worth 4 percent of GDP valued at UGX 1.8 trillion, which was equivalent to the energy and mineral sector budget for the year 2017/18.On the other hand, some incentives and exemptions are no longer enterprise, but sector based. For instance in the agro-processing sector, there is a tax exemption on its income, on all inputs for agriculture like seedlings, pesticides and fertilizers. The income tax law currently exempts income derived from agro-processing, and the VAT law exempts unprocessed foodstuffs and livestock products. However these exemptions exclude large farmers and cattle breeders from the tax base hence extending "favor" to large farmers far exceeds the support to small farmers. However, other sectors have taxes on their inputs and profits which creates the perceived unfairness.

Recommendation: *Government should*

a) *Repeal all tax incentives and exemptions and replace them with low tax rates within a comprehensive tax strategy for broadening (not deepening) the tax base. Incentives tend to distort the tax system hence the need to address the favouritism syndrome because those who feel left out consider the tax system unfair and will create their own tax incentives which eventually amount to tax avoidance or evasion. To reduce the significant revenue loss that is attributed to tax evasion and exemptions, the measure should be uniform and generalized. eg to provide tax incentives for the dairy industry, the exemptions should be extended to all dairy farmers, producers, manufacturers, and processors rather than a handful of selected individuals.*
b) *The Investment Code should be reviewed to eliminate elements that allow for financial repatriation, inefficient exemptions and anomalies, with a balance in the value of social externalities against the cost of exemptions.*
c) *Regressive VAT Should be revised to make it more equitable and progressive* eg *VAT and income thresholds are appropriate to exempt small farmers from certain taxation requirements while ensuring that large farmers are included in the tax base. This will ensure equity in any tax regime.*

9) Inadequate accountability discouraging tax compliance. Government presents a national budget annually to Parliament for approval on which to base expenditure for the different votes. The budget process involves various stakeholder consultations across the country through various budget conferences at the National, District and regional levels with the objective of ensuring efficient allocation of resources for public service delivery. However, effective accountability for resources and governance in the tax system exponentially contributes to improvement in the domestic resource mobilization efforts. Also transparency to ensure equity is another governing principle for enhancing tax compliance in a bid to address tax evasion. Ugandan citizens have cried-out severally on desired accountability challenges facing Government with regard to taxes collected because they do not see the adequacy of how their money is being used.[17] This has precipitated tax avoidance and evasion especially among the entrepreneurial population[18]. Estimates show that the C- Efficiency ratios

13. This is a joint operation of the Uganda Revenue Authority, Kampala City Council Authority, Uganda Registration Services Bureau to widen the tax base, increase revenue collection and improve tax compliance. See https://www.ura.go.ug/download/CGMS/URA%20JOINT%20OPERATIONS%20WITH%20KCCA%20n%20URSB.pdf
14. https://www.observer.ug/lifestyle/health/38-business/business/31819-imf-to-uganda-focus-on-revenue-mobilisation
15. IMF Uganda Economic Update, 11th Edition Financing Growth and Development: Options for Raising More Domestic Revenues
16. EPRC (2018). Boosting Domestic Revenue Mobilization in Uganda, Research Series No. 140, pg 5
17. i) The problem with paying tax in Uganda. The Observer, June 6, 2018. https://observer.ug/viewpoint/57862-the-problem-with-paying-tax-in-uganda
    ii) Taxation without accountability is tyranny. The Observer, April 4, 2018. https://observer.ug/viewpoint/57374-taxation-without-accountability-is-tyranny.html
18. CSBAG (2019). Budget Digest March edition volume 13,pg 4.

(Compliance Efficiency ratio; a measure of actual revenue compared to the theoretical possible revenue) in Uganda increased from 14.1% in 2001/2 to 20.7% by 2015/16, with an average of 17.1% in the period which suggests that direct tax collections remained way below the potential.[19] The difference in compliance could be attributed to high levels of tax avoidance as well as weaknesses in tax administration which partly explains Uganda's relatively low tax effort.

***Recommendations:* Government should**

a) *Improve on its level of accountability for resources and transparency in overall tax collection and administration, strengthen regularity and clarity of reporting of tax revenue utilization and also devise mechanisms to demonstrate the linkage between taxation, public expenditure and effective service delivery. This is likely to improve compliance gaps as responsible centres continuously provide tax education.*

b) *A strategy should uphold an accurate taxpayer registration database and effective compliance risk management practices. All revenue strategies should go digital to improve on level of compliance*

c) *Expedite the process of finalizing the Medium Term DRM strategy to improve coordination in its implementation with clear linkages to economic transformation, increased jobs and the achievement of Uganda's development goals.*

10) **Current Domestic Direct Investment (DDI) Environment discourages economic empowerment:**

Government can only collect as much revenue based on citizens' economic ability which enables them to pay their taxes, while having enough disposable income to afford the indirect taxes as well. The Poor are unable to pay taxes as desired by Government and therefore there is need to increase their incomes to allow them to enter the tax bracket. According to UBOS, poverty levels have reversed from 21% in 2013 to 27% in 2016 signifying inability to afford a relative quality of life as well as paying tax. To this end, not many citizens are able to own businesses hence hampering the growth of domestic investment expected to create employment opportunities and contribute to economic development. The situation is worsened by the fact that there is limited space for financing the domestic sector due to overcrowding by Government's domestic borrowing which competes with private sector investment efforts.

Recommendation: *There is need therefore to revise the financing portfolio to ease up on domestic borrowing to allow for credit support to local entrepreneurs, who in turn promote employment opportunities, economic empowerment and hence contributing to the DRM drive to boost the resource pool.*

General Recommendations

1. *Government should reduce domestic borrowing because as it has increasingly become clear, domestic debt is very expensive. In FY 2015/16 domestic debt only amounted to 32% of the public debt stock but accounted for more than three quarters of the total interest payments budget. The pattern was relatively the same in FY 2017/18 as the NBFP indicated that domestic interest payments would constitute 73% of the interest payments budget. Generally, for government to mobilise revenue, the economy should be stimulated to grow, pay all arrears of citizens, significantly reduce domestic borrowing to avoid competing with the private sector which is expected to lead economic growth.*
2. *To address poor tax paying habits, Ministry of Education should design and incorporate tax education and integrity subjects/studies in the syllabus as early as primary section through to tertiary institution to help mould character of future generations with regard to tax compliance.*
3. *The total number of Members of Parliament is overwhelming. Government spends lots of funds sustaining their operational costs eg Siting allowances, Mileage Allowance, Subsistence Allowance, Town Running Allowance, Constituency Allowance among others which would be saved for service delivery.*

19. EPRC Boosting Domestic Revenue Mobilization in Uganda, Research Series 140