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Governance Of Domestic Revenue Mobilization In Uganda

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Abstract

Uganda has implemented a number of reforms aimed at increasing domestic revenue collection. Such reforms include introduction of the Value Added Tax (VAT), increasing income tax rates and tax administration reforms, among others. This study aimed at examining the relationship between the number of registered tax payers and net revenue collection in Uganda and analyzed the relationship between tax to GDP ratio and net revenue collection in Uganda. The study employed a correlation design as one design that measures the relationship between two variables without controlling either of them. Findings indicated that there has been a significant improvement in tax compliance management in Uganda, Uganda Revenue Authority (URA) has put in a lot of efforts to encourage tax payers to register, and the net revenue collection registered growth from 9715 billion UGX in 2014/15 to 12,719 billion UGX in 2016/17 (Authority, 2017), improvement in the number of registered tax payers perfectly increases on the net Revenue collection in Uganda and that Tax to GDP ratio of Uganda has no significant influence on the net revenue collection since it is also evident that it is below the Sub-Saharan Africa average of approximately 16 percent. It was concluded that the government through URA should continue with their efforts of encouraging taxpayers to register since they play a perfect significant role towards revenue collection in Uganda and The government should continue with its efforts of sensitizing tax payers to register since this would continue to improve on tax compliance and management in Uganda.

Key words: Registered tax payers, net revenue, VAT, URA, Gross Domestic Project, Uganda

1.0 Background

Uganda has implemented a number of reforms aimed at increasing domestic revenue collection. Such reforms include introduction of the Value Added Tax (VAT), increasing income tax rates and tax administration reforms, among others. As a result of these reforms, revenue collection has significantly grown from 2013/14 to 2017/18. According to Uganda Revenue Authority (URA) (Authority, 2017), revenue collected increased from 8,031.03 billion in 2013/14 to 14,456.11 billion[1] in 2017/18 giving a percentage of growth of 55.6%. Nonetheless, revenue performance

[1] URA (2017/18) Annual Report Available on:https://www.ura.go.ug/Resources/webuploads/GNRART/Annual%20Report%202017-18.pdf

remains below potential based on revenue or tax to GDP ratio. Explicitly, Uganda's tax to GDP ratio has significantly increased from 11.3% in 2013/14 to 14.4% in 2017/18.

Meanwhile, the growth has been slow compared with other countries and Uganda's tax revenue to GDP is still below the Sub-Saharan Africa average of approximately 16 percent. When compared with the GTR of East African Countries like Kenya (18.8%) and Rwanda (16.1%), Uganda lags behind[2] (GoU, 2019; Lwanga, Lakuma, Sserunjogi, & Shinyekwa, 2018; WB, 2018). Therefore, it is against the above background that the present study presents the required changes to boost domestic revenue mobilization in Uganda. More specifically, the study concentrates on the relationship between the number of registered tax payers, tax to GDP ratio, and the net revenue collection.

2.0 Study Objectives And Hypotheses

2.1 Study Purpose

The purpose of this study was to analyze the mechanisms for boosting domestic revenue mobilization in Uganda from 2015 t0 2017

2.2 Specific Objectives Of The Study

1. To examine the relationship between the number of registered tax payers and net revenue collection in Uganda
2. To analyze the relationship between tax to GDP ratio and net revenue collection in Uganda

2.3 Study Hypotheses

This study was guided by the alternative hypotheses below;

1. The number of registered tax payers are significantly associated with net revenue collection in Uganda
2. Tax to GDP ratio is significantly associated with net revenue collection in Uganda

[2] Economic Policy Research Centre (2018) Boosting Domestic Revenue Mobilization in Uganda, Uganda and Ministry of Finance, Planning, and Economic Development

2.4 Literature Review

Resource mobilization literature indicates that in Uganda, there is continued effort to boost local resource mobilization (Mayanja Lwanga, Lakuma, Sserunjogi, & Shinyekwa, 2018), domestic revenue mobilization is seen in tax reforms (Akitoby, Honda, Miyamoto, Primus, & Sy, 2019; Ayoki, Obwona, & Ogwapus, 2005; Bhushan, Samy, & Medu, 2013; Kefela & Ghirmai, 2009; Matovu, 2010; Mayanja Lwanga et al., 2018; Mullins, Gupta, & Liu, 2020; Ronald & NAZARIUS, 2011).

Uganda has a success story in creating a fiscal space through mobilization of resources (Gupta & Tareq, 2008), revenue mobilization has challenges that result into court cases (Sserunjogi & Lakuma, 2019), mobilization of resources results into economic development (Kjær, Ulriksen, Kangave, & Katusiimeh, 2017), there is need for government to build trust among citizens in mobilization of resources (Coplin & Nwafor, 2019), there is need to administer the mobilized resources (Okumu, 2017).

While resource mobilization has increased, there are challenges related to policy (Kayaga & Lahey, 2007), there is need for reforms in the tax administration (Hillary, 2018) and effects of revenue on public expenditure and sectoral growth (Mawejje & Francis Munyambonera, 2016), and there is need to understand the history of mobilization of resources to guide the future activities (Ulriksen & Katusiimeh, 2014).

According to Ulriksen and Katusiimeh (2014)who argued that there is increased responsiveness of tax revenue to sector Gross Domestic Products (GDP) growth and calls for public expenditure priorities to stimulate tax revenue performance (Hillary, 2018; Kayaga & Lahey, 2007). However, the growth of in revenue further requires export growth and focus on the oil industries with its related revenue generation bearing in mind with the Dutch disease and focusing on low growth of agriculture.

There are a number of challenges faced by revenue growth in Uganda; foreign direct investment inflows, foreign direct investment volatility, government expenditure, money supply and trade openness and tax avoidance (Akitoby et al., 2019; Ayoki et al., 2005; Mayanja Lwanga et al., 2018), while a number of factors explain why Uganda has achieved a good milestone in domestic revenue mobilizations; emphasis on agriculture and food security, private sector investment, improving resilience, encourage entrepreneurship, trained labor force, improved technology usage, capital acquisition, natural resources, physical capital infrastructure, law frameworks, rule of law and political stability (Mullins et al., 2020). There are a number of challenges faced in the growth of domestic revenue in Uganda; unrealistic expenditures, corruption, poor governance, low tax morale, overdependence on international trade tax revenues, and structure system weaknesses (Coplin & Nwafor, 2019).

3.0 Methods And Data Sources

To provide answers to the study hypotheses, the study employed a correlation design (Michela, 1990). A correlation design measures the relationship between two variables without controlling either of them (Seeram, 2019). The study used secondary data (Vartanian, 2010) from Uganda Revenue Authority (URA) of 2017 (Authority, 2017). The relationship between the independent and dependent variables was analysed using Pearson correlation analysis (Benesty, Chen, Huang, & Cohen, 2009; Cleophas & Zwinderman, 2018).

4.0 Key Study Findings

This section presents findings on both the trend of the study variables and objectives of the study.

4.1 Trend Of The Study Variables

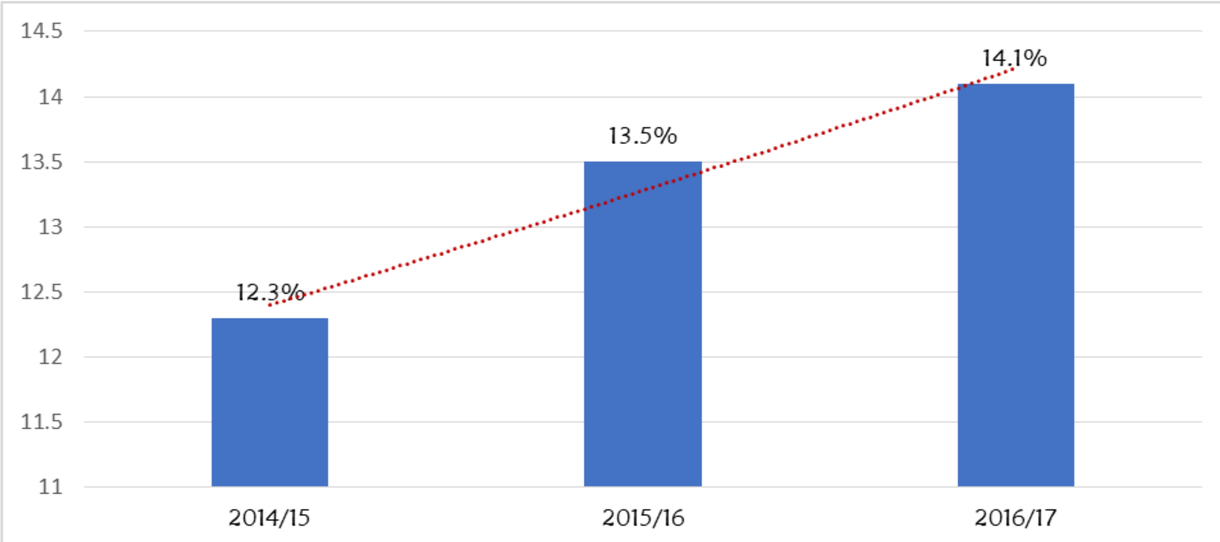
The study presents the trend on the number of registered tax payers, tax to GDP ratio and the net revenue collection in Uganda from FY 2014/14 to 2016/17.

4.1.1 Trend Of Tax To GDP Ratio In Uganda From Fy 2014/14 To 2016/17

Tax GDP ratio shows the tax revenue for a country measured in terms of GDP. Tax GDP ratio shows the richness of the government's exchequer. The government's ability to spend on socio-economic development programs, military, salary, pension heads etc., depends on tax GDP ratio. Thus for the government to be able to meet its expenditure needs, it should get adequate revenues to finance its expenditure through rising its Tax GDP ratio.[3] The figure below presents the Tax GDP ratio of Uganda from FY 2014/15 to 2016/17.

[3] Indian Economy (2018) what is tax-GDP ratio? Why it matters? Available on: https://lms.indianeconomy.net/news/what-is-tax-gdp-ratio-why-it-matters/

Figure 1: Trend of Tax to GDP ratio in Uganda from FY 2014/14 to 2016/17



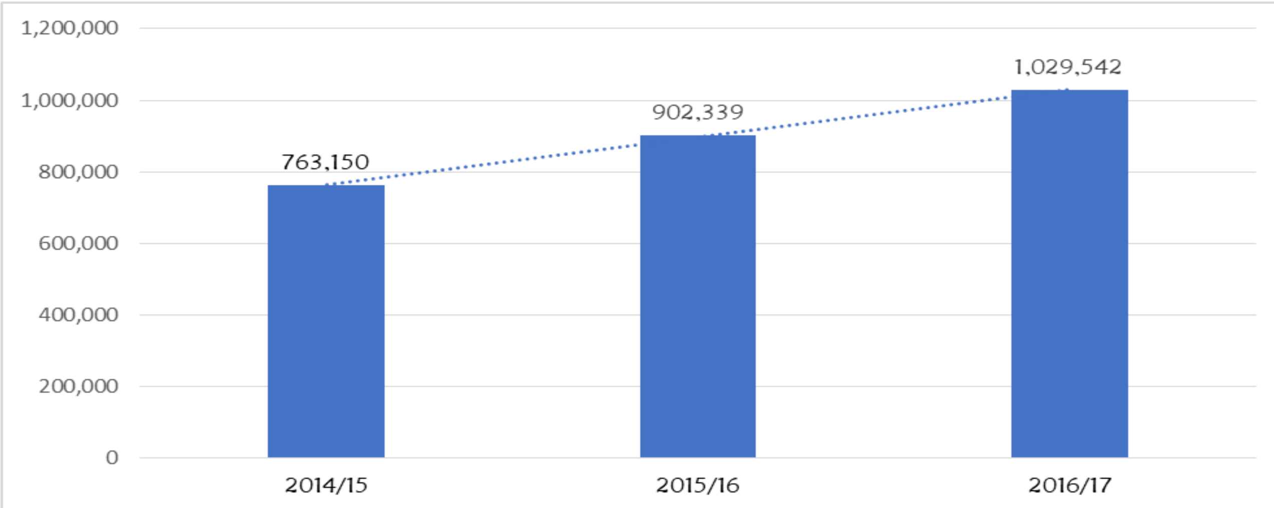
Author's Computations based on data from URA (2017)

The figure above shows that Tax to GDP ratio of Uganda has continued to improve from 12.3% in FY 2014/15 to 14.1% in FY 2016/17, giving a growth difference of 1.8%. This implies that there has been a significant improvement in tax compliance management in Uganda. These findings are similar to past studies of (Besley & Persson, 2014; Ghura, 1998; Pessino & Fenochietto, 2010).

4.1.2 Trend Of The Number Of Registered Tax Payers In Uganda From Fy 2014/14 To 2016/17

Registered tax payers play a vital role towards tax compliance and management in majority of the countries around the world. Thus, the figure below shows the trend of the number of registered tax payers in Uganda from FY 2014/14 to 2016/17;

Figure 2: Trend of the number of registered tax payers in Uganda from FY 2014/14 to 2016/17



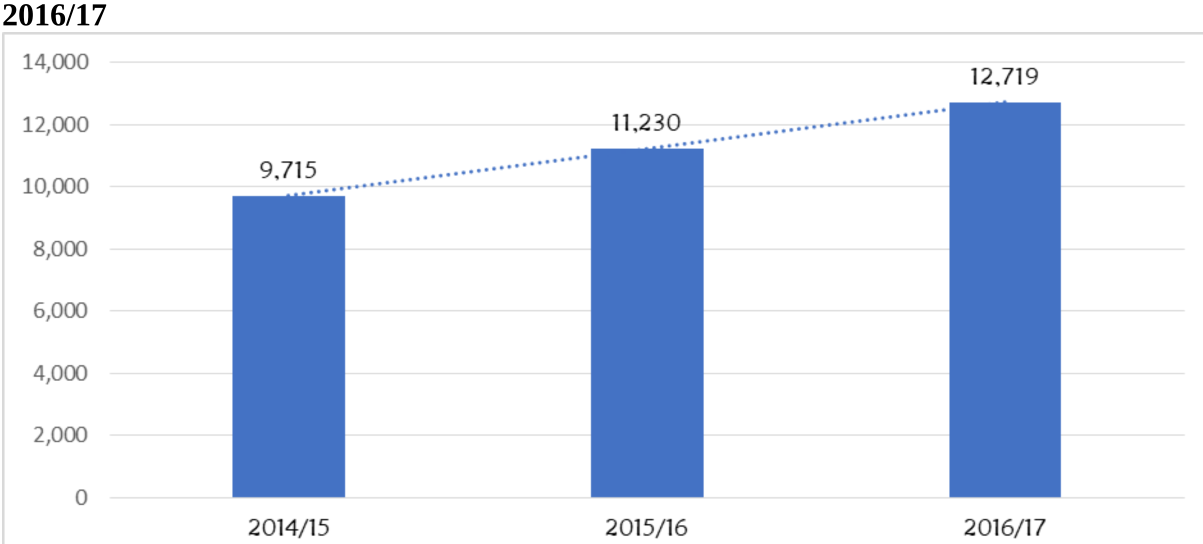
Author's Computations based on data from URA (2017)

The results in figure 2 show that the number of registered tax payers increased from 763,150 people in FY 2014/15 to 1,029,542 people in FY 2016/17 giving a percentage of rise of 35%. This indicates that there has been an improvement in tax management and compliance in Uganda. The findings also show that URA has put in a lot of efforts to encourage tax payers to register. These studies are similar to studies done by Teera and Hudson (2004).

4.1.3 Trend Of Net Revenue Collection In Uganda From Fy 2014/14 To 2016/17

The study assessed the performance in the revenue collected in Uganda from FY 2014/14 to FY 2016/17 as shown in the figure below;

Figure 3: Trend Of Net Revenue Collection (Ugx Billion) In Uganda From Fy 2014/14 To 2016/17



Author's Computations based on data from URA (2017)

Figure 3 above shows that the net revenue collection registered growth from 9715 billion UGX in 2014/15 to 12,719 billion UGX in 2016/17. The net revenue growth is an indication of an improvement in tax compliance in Uganda. These findings are similar to studies done in Uganda by (Mukasa, 2011; Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, & Nakabuye, 2017; Tusubira & Nkote, 2013) who argued that there is increased responsiveness of tax revenue to sector Gross Domestic Products (GDP) growth and calls for public expenditure priorities to stimulate tax revenue performance (Hillary, 2018; Kayaga & Lahey, 2007). However, the growth of in revenue further requires export growth and focus on the oil industries with its related revenue generation bearing in mind with the Dutch disease and focusing on low growth of agriculture (Kjær et al., 2017; Ulriksen & Katusiimeh, 2014).

4.2 Findings on the study objectives

The study examined whether Tax to GDP ratio and number of registered tax payers are significantly associated with the net revenue collection in Uganda.

Table 1: Correlation Results Showing The Relationship Between The Number Of Registered Tax Payers And Net Revenue Collection In Uganda

		Number of Registered Taxpayers	Net Revenue (UGX Billions)
Number of Registered Taxpayers	Pearson Correlation	1	1.000*
	Sig. (2-tailed)		.013
	N	3	3
Net Revenue (UGX Billions)	Pearson Correlation	1.000*	1
	Sig. (2-tailed)	.013	
	N	3	3
*. Correlation is significant at the 0.05 level (2-tailed).			

Author's Computations based on data from URA (2017)

The results in table 1 above show that there is a perfect positive relationship between number of registered tax payers and net revenue collection in Uganda (r=1.00, P-value<0.05). This means that an improvement in the number of registered tax payers perfectly increases on the net Revenue collection in Uganda. These findings are similar to studies done by authors such as (Kangave, 2005a, 2005b; Kangave & Katusiimeh, 2015; Kim & Kim, 2018; Musimenta, Naigaga, Bananuka, & Najjuma, 2019).

Table 2: Correlation results showing the relationship between tax to GDP ratio and net revenue collection in Uganda

		Tax to GDP Ratio	Net Revenue (UGX Billions)
Tax to GDP Ratio	Pearson Correlation	1	.983
	Sig. (2-tailed)		.118
	N	3	3
Net Revenue (UGX Billions)	Pearson Correlation	.983	1
	Sig. (2-tailed)	.118	
	N	3	3

Author's Computations based on data from URA (2017)

The study findings in table 2 above indicate that tax to GDP ratio is not significantly associated with net revenue collection in Uganda as shown by a probability value (0.118) which is above the 0.05 level of significance. This implies that the rise in Tax to GDP Ratio of Uganda is not associated with the growth in net revenue collection. This also indicates that Tax to GDP ratio of Uganda has no significant influence on the net revenue collection since it is also evident that it is below the Sub-Saharan African average of approximately 16 percent (Nkundabanyanga et al., 2017). This implies that there is no connection between commodities produced in the country and revenue hence implying that majority of the revenue in Uganda is got from other various sources such as individual taxes, social insurance taxes, fines, land taxes, property taxes, market dues, pay as you earn, fees for government services, local ordinances for violations, public utilities such as pay toilets, community game pitches, and hospital fees (Mpaata, Lubogoyi, & Okiria, 2017).

5.0 Conclusions

5.1 The Relationship Between The Number Of Registered Tax Payers And Net Revenue Collection In Uganda

The evidence from the study revealed that the growth in the number of registered tax payers is perfectly associated with the growth in the net revenue collection in Uganda. Therefore, the study concludes that the government through URA should continue with their efforts of encouraging tax payers to register since they play a perfect significant role towards revenue collection in Uganda (Musimenta et al., 2019).

5.2 The Relationship Between Tax To GDP Ratio And Net Revenue Collection In Uganda

The investigations from the study show that GDP ratio is not significantly associated with net revenue collection in Uganda. Therefore, the study concludes that government should increase on the GDP tax ratio such that it meets the level of sub-Saharan recommended figure of 16%. This is expected to significantly improve on the net revenue collection in Uganda.

6.0 Recommendations

The study recommended that the government should continue with its efforts of sensitizing taxpayers to register since this would continue to improve on tax compliance and management in Uganda. More efforts should be put in the informal sector where some people deliberately refuse to register their businesses.

It is recommended that the government should increase on the Tax to GDP ratio in order to improve on the revenue collection in the country. It is evident that the Tax to GDP ratio of Uganda is still below the recommended 16% average of sub-Saharan Africa.

The study also recommends that there should be equality and transparency when levying taxes on people and enterprises among others. This would help remove some of the deficiencies in revenue collection in the country.

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