

## What Explains the Recent Calls for Reinstatement of a Tax Considered Unpopular? An Analysis of Graduated Tax in Uganda

Summary of Working Paper 79 by David J. Bakibinga

### Rationale for the Paper

Three main themes are common in regard to the financing of local government in Anglophone Sub-Saharan Africa. First, is that local government raise very little revenue and depend on the Central Government for grants. Second, the process of revenue generation is informal, coercive and regressive in its impact on low income citizens. Third, the abolition of local government taxes in Kenya, Tanzania and Uganda was ambiguously welcomed. The paper focuses on the third element where there is ambiguity in the attitude towards the abolition of Graduated Tax particularly in Uganda.

### Methodology

The paper is based first, on the review of relevant literature including legislation, government reports, newspaper articles, and academic articles and publications. Second, it is based on field work including interviews of stakeholders comprising central and local government officials, chiefs and local community leaders in eight districts of Gulu, Kabale, Kampala, Kapchorwa, Kisoro, Mbarara, Moroto and Tororo as well as civil society organizations including Civil Society Budget Advocacy Group (CSBAG), Southern and East African Trade Information and Negotiations Institute (SEATINI) and Uganda Debt Network (UDN).

### Summary of Findings

The field work revealed that there was considerable support for the reintroduction of graduated tax in some quarters and unlike the position in Kenya and Tanzania, the decision to abolish graduated tax in Uganda was politically contentious with a significant amount of support for its retention in the Uganda Parliament. The main sources of support were three. First, the majority of local government officials favoured the revival of graduated tax. Second, some women supported the reintroduction of graduated tax on the premise that it acted as an incentive for lazy husbands to work. Third, some men are nostalgic about the tax which was associated with the social standing attached to financial ability to honour one's tax obligations.

### The Case for the Suspension and Subsequent Abolition of Graduated Tax

#### Nature of Graduated Tax

Graduated tax was conceived as "a crude form of income tax levied in Uganda upon the entire population of able bodied males and some women by the District Administration and Urban Authorities where they reside." It was levied on income, actual or presumed from all sources, including land and other assets used for subsistence. It

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was administered by local authorities under powers conferred by the Local Government Act (Cap 243 Laws of Uganda).

### Unpopularity of Graduated Tax

Graduated tax became unpopular for a variety of reasons. First, it was coercively enforced using defence units with tax defaulters being subjected to beatings, arrest, unknown detentions and in extreme cases, imprisonment.

Second, the tax was regressive in that the bands under which it was administered did not reflect the actual tax incidence. This arose from the difficulty in assessing the real income of peasants who relied on rain for farming. This meant that taxes were paid regardless of poor harvests. Related to this, political pressure obstructed collection resulting into the poor paying and the rich being let off the hook. Additionally, inefficient tax administration made payment of the tax accidental.

Third, was the perception among tax payers that the revenue collected was not used to fund local services but was used to fund administrative expenses of the local government. Fourth, was the perception that the whole process of assessment, collection and use of the tax was riddled with corruption, with cases of reported embezzlement. The cost of collection was also high ranging between 22-25 and in some cases 30 percent of collection.

Fifth, despite contributing a significant percentage of revenue collected by local governments, its actual contribution to local government funding was quite small.

The unpopularity of the tax also in some instances resulted into protests and riots.

In spite of the above factors, ten years after its suspension certain portions of the population called for the reintroduction of the tax.

### Calls for the Reintroduction of Graduated Tax

The calls for the revival of the graduated tax in Uganda hinge on three considerations. First, that the abolition of the tax was actually opposed by a significant section among

the Members of Parliament, hence its initial suspension prior to actual abolition. Second, graduated tax constituted a major source of locally generated revenue, historically, whose abolition created a significant immediate short fall in revenue. This was exacerbated by inadequate compensation for it from the central government and the poor performance by the Local Services and Local Hotel Taxes which had been introduced to replace it to effectively provide alternative revenue, particularly in rural areas. Third, interviews and focus group discussions revealed that the payment of graduated tax generated pride and patriotism associated with possession of a graduated tax receipt. Relatedly, women associated the revival of graduated tax with increased economic activity among men which not only enabled the tax to be paid but also generated savings to be used for other domestic needs. As has been put in the paper:

Women in districts such as Lamwo have called for the reintroduction of the tax because they complain that since it was abolished many of their men are no longer interested in working (interview with SEATINI officials). Similarly, in a focus group discussion that we held in Bugongi, Kabale district, the women stated that they wanted graduated tax reintroduced because ever since it was abolished, the men in the community had become lazy and were no longer providing for their households. It was also reported that the lack of pressure to pay taxes has resulted in many young men spending most of their time consuming alcohol (interview with official in Kabale District). This has in turn increased the cases of domestic violence.

### The Way Forward

Given political considerations, the negative perception of the graduated tax historically and insignificant yields from it relative to cost of collection, it is unlikely that the tax would be revived. The solution lies in the local authorities, particularly those in urban areas, mobilizing revenue from property rates and stringently enforcing the Local Services and Local Hotel taxes legislation which was meant to substitute the graduated tax.

### Further reading

- Bakibinga, D; Kangave, J; and Ngabirano, D. (2018) *What Explains the Recent Calls for Reinstatement of a Tax Considered Unpopular? An Analysis of Graduated Tax in Uganda* ICTD Working Paper 79: Brighton May, 2018
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### Credits

This paper was written by **David Bakibinga**. David is a Professor in the Department of Commercial Law, School of Law, Makerere University and author of Revenue Law in Uganda.

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