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An Outline of a Proposed Tax Assessment Survey.

1. The Uganda Government has approached Makerere with a request to undertake a study of tax assessment procedures throughout the Districts of Uganda. This is entirely restricted to a study of the procedures employed by the Districts and Urban Authorities in assessing individuals within their jurisdiction to Graduated Poll Tax. Present indications are that the methods currently employed and the results obtained vary so widely as to merit close study.

2. Importance of the study:

There are two main reasons for undertaking a study designed to improve the efficiency of tax assessment and collection at the district level. The first is more general, and relates to the need for the Government of Uganda to tap all possible sources of tax revenue for development purposes. The view that government revenue is a serious bottleneck on development in East Africa generally has been expressed by a prominent economist who has worked on East Africa's development problems. In the opinion of Professor P.G. Clark government revenue is a serious bottleneck on development. He States, inter alia, "..... I think a reasonable conclusion, for East Africa today, is that government finance is the most critical barrier. If additional government finance could be obtained from foreign aid or domestic sources, it seems likely that development budgets could be substantially enlarged without being promptly checked by lack of generalised saving, foreign exchange, or specialised manpower".¹ Given the fact that income taxes affect only a small proportion of Uganda's population, the most promising method of increasing government revenue must be through improving the assessment of direct taxes which affect the majority of taxpayers. And these are essentially local taxes.

If the local governments had more revenue this would affect Central Government financing of development projects in one of two ways. The Central Government could reduce its grants to local governments and direct more revenue to its own development projects; alternatively the Central Government could give more responsibilities to local governments to participate in the financing of local development schemes. In fact there seems to be a very good case in favour of the latter alternative as a way of associating the



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districts with development schemes in their areas in partnership with the Central Government.² The choice of schemes to be financed in this way is a matter for the planners to decide, but in my opinion the underlying principle has many advantages to commend it. After all Central Government development projects are located in the Districts so that making these Districts and Urban Authorities participate in the financing of some of these projects would be a step in the direction of "planning at the grass-roots level". Central Government Planning is already moving in this direction but if the local governments had more revenue efforts in this regard would be greatly expanded.

The second reason for enquiring into the efficiency of tax assessments in the Districts is that the Government of Uganda has a general responsibility to give grants to the local governments to enable them to provide services up to a certain minimum standard. This means that the poorer districts are bound to get more grants than the relatively rich ones for this purpose. But it also means that districts which fail to raise sufficient revenue through their own laxity in tax assessments would lay a greater claim on Central Government grants than those which are more efficient at tax assessments and collection. If this happened there would be no incentive for local governments to increase the efficiency of their tax assessment, since by so doing they qualify for a smaller share of Central Government grants. Hence the need for designing a formula for distributing grants which would give an incentive for efficient local administrations to maintain and improve their efficiency of tax assessments, while at the same "penalising" the inefficient administrations.

3. The main problems with local Government taxation at present.

(a) As already stated there are great variations in the concepts and procedures used for assessing graduated poll taxes in the districts. While the view has been expressed that graduated poll tax should be graduated according to the income of the taxpayers, and not according to his wealth, it has been found necessary to take into account income earning assets owned by an individual in assessing taxable capacity. Differences between Districts in the definition of income concern the coverage of assets and the income imputed to accrue from such assets. The income expected from the same kind of asset such as cattle will vary from area to area; the same is true of coffee plots, but

it is important to study the rationale of these procedures and to find out whether there are logical grounds to justify the differences in coverage and valuations.

(b) The problem of defining income apart, there is another problem associated with the actual assessment of individuals: i.e. the application of these concepts by tax assessment committees to determine the taxable capacity of individuals. Until recently tax assessment committees included non-officials who in many cases tended to side with the taxpayers³. Even the officials, mainly chiefs were under pressure of various kinds to under-assess taxpayers in their areas. A conference of Treasurers of District Administrations etc held in 1962 noted the following points in this respect.

"The Conference agreed that efficiency of tax assessment was adversely affected by:

- (a) Political factors and even favouritism affecting the actions of assessment committees;
- (b) Inefficient operation of the assessment system due to lack of experience and training;
- (c) the incompleteness of the assessment system and the difficulties of finding a good method for the assessment of certain classes of taxpayer. -----

It was agreed that there was definitely scope for raising more revenue by more efficient and impartial assessment".

Recently tax assessment committees have been reconstituted to exclude non-officials and giving more powers to the District Commissioners in tax assessment matters. For instance, the assessments of these committees are only provisional, subject to approval by the District Commissioner or his representative; nor can these committees award total or partial exemption from graduated poll tax as they used to.

(c) Another main problem is that in some district administrations government employees have either misappropriated public money or appear to the taxpayer to enrich themselves at his (the taxpayer's) expense. This greatly affects the taxpayer's attitude to the payment of taxes, and eliminates the main advantage of local taxation i.e. that in a smaller area it is easier to relate benefits from taxation to contribution as most of the

taxes are spent on local projects. It is for this reason that taxpayers as a general rule should feel less averse to paying local taxes than central government taxes. Yet the knowledge that their money is misapplied does little to maintain this attitude.

(d) Lastly, the fact that graduated poll tax has a ceiling at six hundred shillings tends to make it difficult to convince low income taxpayers that the whole tax structure is not regressive. This ceiling has been set by the Central Government apparently to prevent poll tax overlapping with income tax. The maximum rate is reached for incomes of about shs 10,000/- per annum and above. Thus in Ankole a person who receives shs 9,600/- per annum is liable to the maximum rate, but a Central Government Minister who earns shs 60,000/- per annum pays the same amount of poll tax. Although the Minister with shs. 60,000/- also pays income tax the significant factor affecting the attitude of the man with shs 9,600/- is that he pays the same amount of graduated tax as the Minister.

4. The proposed procedure.

At this stage I visualise three complementary parts to this study:

- (a) First, I think it is important to have a theoretical model with which to work;
- (b) An intensive study of existing records of local government financial procedures and practices in Uganda in light of the theoretical model;
- (c) A survey designed to obtain information about the attitudes of taxpayers, chiefs, councillors and local government officials on matters of local government taxation.

(This is not the sequence I intend to follow since there is a lot of interdependence between the parts, but the final product will take into account all three parts).

The first part concerns the possibility of building up a model which could indicate the taxation potential of a district. For instance, Nicholas Kaldor has suggested that the taxation potential of a country (in my case a district) is "greatly dependent on (i) real income per head; (ii) the degree of inequality in the distribution of income; (iii) the relative importance of different

kinds of economic activity (such as the production of cash crops, subsistence agriculture, and so on) and their social and institutional setting; and (iv) the administrative competence of the tax-gathering organs of the government"⁴ In the case of districts one must also add another factor, which is the population of the district and its age distribution.

With this part of the study I am likely to run into problems of availability of statistics and their accuracy, apart from definitional problems; for instance data on distribution of income in each district is likely to be fragmentary. In addition some of the factors such as administrative competence cannot be quantitatively assessed; and the other factors referring to social and institutional set up would necessitate calling upon other disciplines for help. But, if nothing else, this part of the study would, I hope, also have a feed-back effect by suggesting gaps in available statistics and information relevant to tax assessment.

In so far as it is necessary for government expenditure to have some regard to the taxation potential, this part of the study could also act as an indicator of possible levels of local government expenditure. But this would be subject to the responsibilities which Parliament deems it necessary to entrust to a particular local government, a factor which in turn affects the distribution of Central Government grants. It is my strong feeling that unless we have some taxation potential indicators - however rough- we cannot distribute grants fairly and it also becomes difficult for the Central Government to advise local governments on what level of expenditure they should aim at and what sources of revenue they should tap.

Part (b) calls for an intensive study of local government finances and tax assessment procedures in the various districts. E.g. the main sources of local government revenue over time; growth of total revenue and expenditure; how deficits have been covered; the basis of tax assessment in each district, and any complicating factors which have been operative. The minutes of local councils and finance committees must be probed.

The last part of the study is most suitable for field work through interviews. As far as taxpayers are concerned a sample of them will be interviewed by assistants of School Certificate standard equipped with questionnaires. As far as possible all

County Chiefs will be interviewed by myself (sometimes through interpreters). I will also contact personally Urban Authority officials.

5. The Questionnaire.

This is the most tentative part of the whole survey, and the questions attached are only provisional. In particular, not all questions are suitable for all groups of people likely to be interviewed; for instance local government officers at the headquarters will not be asked the same questions as rural taxpayers. I look to this discussion to suggest improvements; I also intend to visit a few districts to test the usefulness of these questions before I finalise this questionnaire.

People's attitudes to paying taxes is very much influenced by what they feel the money is used for. This part of the questionnaire will seek information from the taxpayers whether they know what their money is used for and to which layer of government they think (would prefer to pay their taxes.) (Questionnaires will provide space for information to be collected about the taxpayer's name, level of education, occupation etc. A direct question on the taxpayer's income may have to be avoided although all information will be treated as confidential).

1. How many kinds of taxes did you pay last year?
2. To whom were they paid?
3. Did all your taxes go to the local government or to the Central Government?
4. To what use were your taxes put?
5. Whom do you think determines the use to which your taxes are put?
6. Would you prefer to pay all your taxes to the local government or to the Central Government?
7. What services in your district/area are provided by the Central Government?
8. Which of these would you like to see expanded first?
9. Which other services would like to see introduced by the Central Government or taken over from local government?
10. Which services are provided by your local government?
11. Which of these would you like to see expended first?
12. Which other services would you like to see introduced by your local government or taken over from Central Government?
13. Do you think Central Government Services are run better in your area?

14. Do you think it would be better to reduce taxes and reduce the following services:

- (a) schools
- (b) roads
- (c) dispensaries
- (d) policemen
- (e) number of chiefs
- (f) agricultural extension officers

Which of these would ^{you} like maintained even if taxes are reduced.

15. Supposing your local government could obtain more grants from Central Government which of the above services would you recommend for immediate expansion (in order of preference).

Attitude to tax assessment.

16. Do you think you were assessed fairly last year with regard to your means?

If not, give reasons.

17. What factors do you think should not be taken into account in assessing taxes?

18. What factors do you think should be included?

19. Do you think you were assessed too highly in relation to your neighbours?

20. Why do you think any of your neighbours got light assessments.

21. Do you think many people evade paying taxes? If so how and what remedy would you suggest?

22. Do you think graduated poll tax is a fair tax to:-

- (a) the small farmer
- (b) the large farmer
- (c) the traders
- (d) civil servants

23. What changes would you like to see in the composition of tax assessment committees?

References

1. Paul G. Clark: Foreign Aid, Domestic Finance, and the Development Plan EDRP 45, August 1964.
2. Ursula Hicks is the great advocate of local government finance. This is advocated in her book Development from Below, Oxford University Press, 1961. She was also a member of the Fiscal Commission to Uganda in 1962.
3. Colin Leys Politicians and Policies. An essay on Politics in Acholi, Uganda 1962-65 p. 63.
4. Nicholas Kaldor, Taxation for Economic Development in The Journal of Modern African Studies I 1963 pp. 7-23.

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