



Taxing Government: The case of the Uganda Revenue Authority's Public Sector Office

Summary of Working Paper 84 by Henry Saka, Ronald Waiswa and Jalia Kangave

In the past three decades, revenue authorities in African countries have undertaken various reforms in a bid to increase revenue collections. Among these reforms is the segmentation of taxpayers along sizes of small, medium and large taxpayers. Even though government organizations have an obligation to pay taxes and should, in fact, be one of the biggest taxpayers in most countries, most revenue authorities do not treat government organizations as a separate segment of taxpayers. Their tax affairs are often managed under the three “traditional” taxpayer segments (small, medium and large). Similarly, virtually all the literature on taxation presents it as a relationship between government and non-government taxpayers. Yet in reality, there is a large intra-government dimension of taxation.

In recognition of the importance of the government as a taxpayer, in 2014, the Uganda Revenue Authority (URA) established a separate office – the Public Sector Office (PSO) – to manage the tax affairs of government ministries, departments, agencies and politically influential individuals. The PSO is headed

by a manager, has 26 staff members and manages the tax affairs of 981 taxpayers. In the financial year 2015/2016, revenue collected by the PSO grew by 194% over the previous year. In 2016/2017, it increased by 106%. The PSO is now the second largest contributor to domestic tax collection in Uganda, after the Large Taxpayers' Office (LTO).

The URA found it necessary to establish the PSO for a number of reasons:

- a) The LTO (which managed the affairs of some of the government organisations along with other private sector taxpayers) was not operating efficiently. Internal and external reports revealed that part of the problem was the fact that it was dealing with different categories of taxpayers who behaved very differently. Large private businesses, for example, tended to engage more in complex tax planning. Government organizations on the other hand were simply non-compliant. In addition, tax officials dealing with government organizations required skills in public accounting, which were not necessary when dealing with private sector taxpayers.

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b) A number of the smaller URA offices were relying heavily on a relatively small number of public sector taxpayers to meet their revenue targets. Consequently, not much effort was being put into registering and collecting taxes from small taxpayers.

c) Many public sector entities were not filing returns or paying taxes. This resulted in the accumulation of huge tax arrears, which were often written off by government.

d) The URA wanted to put in place a system that would monitor the flow of money from government to the private sector since internal and external URA audits had revealed that there were various businesses with government contracts which were not complying with their tax obligations.

e) The compliance strategies that URA needed for the public sector were different from those needed for the private sector. It was important for the URA to customize its services to address the problems and expectations of public sector entities, win their trust and thus influence their behaviour.

Since its establishment, the PSO has registered significant success:

a) Revenue contributions from public sector entities have increased tremendously. The public sector contributed 5% to domestic revenue in financial year 2014/2015. This figure had increased to 17% by 2016/2017. The PSO is now the second largest contributor to domestic tax collection in Uganda, after the LTO.

b) There is great improvement in the number and quality of returns filed by public entities. Similarly, the number of employees declared in Pay As You Earn returns has increased over time.

c) It is now easier for the URA to trace transactions between government entities and private businesses. This has improved the timeline within which public entities pay private businesses and in turn resulted in improvements in the time

within which private businesses pay their taxes.

d) The tax compliance of politically influential individuals significantly improved since the setting up of the VIP unit under the PSO. Before the unit was established, hardly any politicians were complying with their tax obligations. However, in financial year 2015/2016, 65 per cent of the VIPs on the register were filing tax returns.

A combination of factors have enabled the success of the PSO:

a) In addition to having a proficient and dedicated PSO team, the team has received significant support from URA's top management.

b) There's good collaboration between the PSO and key government agencies such as the Treasury Department and Bank of Uganda, which has enabled the PSO to access budget execution data in a timely manner.

c) In addition to the institutional support from key government agencies, there has been additional support from high ranking government officials such as the Permanent Secretary and Secretary to the Treasury (PSST) and the Commissioner for Local Government Administration. Both of these officials have personally taken it upon themselves to ensure that other government officials are supportive of the PSO's work.

d) Use of soft compliance strategies such as sending reminder emails and text messages to key contact persons in government agencies.

The PSO still experiences some challenges:

a) The staff to taxpayer ratio is still high (1:37). This is made worse by limited resources such as laptops and vehicles, which are needed for upcountry visits.

b) There is low attendance by government officials for some of the sensitization workshops organized by the PSO.

c) Poor internet connection in remote areas undermines compliance.

Further reading

Saka, H; Waiswa, R; Kangave, J (2018) 'Taxing Government: The Case of the Uganda Revenue Authority's Public Sector Office' ICTD Working paper 84, IDS, Brighton: October

Credits

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