



Tax Administration Reforms: Lessons from Georgia and Uganda

Summary of ATAP Working Paper 5 by Margaret Magumba

Introduction

Tax revenue administration in Uganda went through a series of reforms from 1991–2014, with the height of these reforms occurring from 2004–2014. These reforms achieved a lot of improvement in the quality of tax administrators' service delivery, tax compliance and revenue collection. However, in contrast with some other countries that implemented somewhat similar reforms, the accomplishments of Uganda's reforms dwindle. One such country is Georgia. This paper describes Uganda and Georgia's tax reforms, contrasts them and their results, and suggests reasons for the differences. The ultimate goal is to derive lessons from Georgia's reform experience. These can then be applied in other countries, including Uganda moving forward.

A Contrast of Uganda and Georgia's Reforms and their Results

A comparison of Uganda and Georgia's reforms reveals that they were somewhat similar. However, the difference in the results achieved was astounding. For example, both countries performed organisational re-structuring, improved their staff incentives,

implemented policy changes like the levying of a VAT with a flat rate of 18%, introduced electronic tax systems, improved their taxpayer–administrator relationships, simplified their tax processes, introduced better dispute resolution mechanisms, and introduced risk-based auditing supported by electronic tax processes.

Following these changes, Georgia's tax to GDP ratio surged after the introduction of the reforms, but Uganda's tax to GDP ratio only had a small increment at the beginning and then stagnated at a low average rate of around 13% throughout the remainder of the reform period. Georgia's tax collections shot up and were able to fully finance the national budget within just a year of reform implementation, but to this day, Uganda has never been able to fully fund its national budget. Georgia shot up in the global ease of doing business ranking, but for a big part of the reform period, Uganda continually fell in the ranks. As recognised by The World Bank, corruption in Georgia sharply reduced, but in Uganda, there was no indication of a significant reduction. These, among others, are the differences creating the puzzle this paper scrutinises.

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Probable Reasons for the Differences in the Reform Results

The first key difference between Uganda's reforms and Georgia's reforms was that Georgia's reforms were driven by stronger political will and backing than those of Uganda. Unlike Uganda's, Georgia's reforms involved joint action by the government as a whole; for example, the police, the judiciary, the parliament and other government arms played a major role in the reforms. They were not solely driven by the tax administration's leadership. Political will for reform was lacking in Uganda, this was clearly demonstrated by the deterrent political interference in revenue administration during the reform period.

In Uganda, through employment terminations, the staff of the Uganda Revenue Authority clearly received the message of "zero tolerance to corruption", but the taxpayers did not. This was because there was no radical action taken against those who were corrupt. On the contrary, Georgia sent its "no corruption" message clearly to both tax officers and the public through organisational clean-up and the arrests of big public figures. With corruption tendencies still being exercised by Uganda's taxpayers, it was only a matter of time until tax officers succumbed to corruption once more.

In Georgia corruption detection mechanisms were heightened. In Uganda's revenue authority, staff salaries were increased but this was not matched with increased probability of corruption detection. This shortfall stifled the anticipated effect of the measure.

The Government of Georgia provided better public services to its citizens after collecting more revenue as a result of the reforms, and the taxpayers were convinced of the need to pay taxes. In Uganda, however, there is no evidence to show that citizens acknowledged receipt of better public services owing to the success of improved

revenue collections after the early tax reforms. If the taxpayers did not perceive any improvement in public services, it's logical to conclude that they saw no use for further reform/improvement in tax compliance.

Key Lessons from Georgia's Experience

The key lessons derived from Georgia's experience are as follows. First and foremost, for tax reforms to be successful, they must be driven by both the tax administration leadership and the overriding government leadership. Secondly, in order to curb corruption, mind-sets must be transformed for both tax administrators and taxpayers. Additionally, early success of tax reforms must be matched with visible improvement in public service delivery in order to ensure sustainability of achievements. Tax administrators must be empowered to perform their duties without political interference. Also, tax laws and reforms must be applied uniformly to all taxpayers. Finally, in order to reduce corruption through salary increments for tax administrators, the salary increments must be matched with an increased probability of detection of corruption and guaranteed termination of employment when one is found guilty.

Further reading

Citation: Magumba, M. (2019) *Tax Administration Reforms: Lessons from Georgia and Uganda*, ATAP Working Paper 5, Brighton, IDS

Credits

This paper was written by **Margaret Magumba**. Margaret is a supervisor in charge of research and revenue modelling at the Uganda Revenue Authority. She holds a Master of Arts in Policy Economics from Williams College, Massachusetts; a Masters in Financial Management from Amity University, India; and a Bachelor of Statistics degree from Makerere University, Kampala.

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