Nexus between the Taxation of the Informal Sector and Inequality

The case of Uganda

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SEATINI
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TAX JUSTICE NETWORK AFRICA

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Executive Summary

Uganda's Tax-to-GDP (TTG) ratio as currently estimated at 14 percent remains significantly low compared to the sub-Saharan Africa average of 19 percent and other EAC's countries like Kenya (17 percent). The low ratios expose the tax administration inefficiencies and ineffectiveness that are perpetuated by low compliance rates, extreme tax exemption but largely the existence of the informal sector. The informal sector not only consists of micro and small business owners (women, youth and PWDs) but also harbours High-Net-Worth Individuals (HNWIs) whose operations go untaxed. While deepening the taxation of informal Sector could yield tangible revenues, taxing lower turnover earners would widen the inequalities. It is also important that the tax-burden is spread across to include potential tax-players outside the formal sectors (corporate entities and employed individuals).

In order to guide institutions on better taxation of informal businesses in view of existing challenges, this research was undertaken to put to record firstly, the nature and characteristics of the informal sector operations, estimates of the revenues foregone from non-taxation of informal activities and lastly, the challenges, opportunities and policy recommendations that the government can leverage on. The desk-review used secondary data-sets from institutional websites to estimate numerical computations. Based on the preliminary analysis, interactions and interviews with government officials were convened to validate the interim results. The findings and recommendations presented are intended to form part of the input into the formation of Uganda's domestic revenue mobilization strategy and medium term revenue strategy.

On the definitions, nature and characteristics, the research observed that Uganda's informal sector can well be described using globally known definitions such as unregulated, unregistered, shadow and invisibility of value transactions to government. In addition, URA (the central tax body) has defined her position on the informal sector by citing that all taxable activities and establishments that are unregistered as informal. The research also noted that individuals and entities operational in the informal sector have in the past exhibited features such as; operating without a physical place of aboard; operated without any trace of records or inadequate books of accounts; players have deliberately remained unregistered; investors in the informal sector deploy less capital investments to suit mobility; transactions by players are predominantly cash; players mostly deal in consumables or high demand services in order to respond to the dynamism of market; informal businesses engage in robust tax-avoidance or evasion schemes that are not easily detectable by tax authorities and finally informal entities are highly ambitious in nature (close shop after the intended objective is met). An emerging form of informal business that is highly invisible to government is the e-businesses that are operating in virtual space.

Observations from available literature also noted that although government continues to invest in several strategies to formalize businesses to include but not limited to mass business registration, small business oriented taxpayer education, initiating inter-agency tax administration, simplifying tax processes, among others, less than 200,000 taxpayers have been registered against a three year set target of almost 420,000 small businesses (FY2018/19). Failure to formalize and mobilize revenues has therefore cost the government an average of UGX. 1 Trillion Per annum in revenue foregone. It is estimated that there are over 1.2 million MSMEs, 1.57 million households with businesses, 4.25 million employees in productive work and over 897 High-Net Worth Individuals (HNWI) that are not unregistered hence perpetuating the loss in revenue amounting to Ugx. 1Tn.

The taxation of the small business and less focus on the High-Net-Worth Individuals has a direct impact on income distribution that normally diminishes the disposable income of low earners. The computed Gini coefficient based on income declared by taxpayers shows that after taxation, the coefficient increases from a range of 0.345-0.45 to almost 0.942 which estimate reveals maximal inequality.

Formalization and taxation of unregistered businesses is challenged on both administrative and policy fronts due to: high mobility of businesses, poor book-keeping culture, deliberate tax evasion practices, political interference, inadequate policy framework to guide the taxation of electronic transactions and the inadequate capacity of tax institutions to reach the critical mass in the informal sector. Despite this, Uganda's legal framework continues to render adequate directives to fast register and then tax formalized small businesses. A number of initiatives that provide a platform to intensify registration and taxation are visible; for instance the law is simple and straight forward; the introduction of Block Management System (BMS) where taxpayers are supported to register at their service points for tax compliance ; the establishment of HNWI/VIPs unit in URA intended to monitor operations of the rich and ensure these economic elites contribute some revenue; the TREP initiative – an inter-agency collaboration for the registration of businesses within the shortest time possible also intended to simplify the business formalization exercise, among others.

To maximize revenue collection in this shadow economy, all-round strategies need to be made other than simplification of the registration and collection process. Government ought to listen to the outcry of the citizens concerning periodic provision of public financial accountability, improving quality of service delivery and tightening the grip on corruption or misuse of funds in which billions of taxpayers' funds are stolen. Inefficiencies in tax administration occasioned by the corruption have discouraged even the compliant taxpayers who have lost confidence in tax administrators and government. Civil society organizations on their part are called to horn for more pro-poor taxation through sensitization of the public on tax matters and engagement of government bodies through affirmative action using strong policy research and advocacy.

As a first step to luring informal businesses to formalize, government should put in place incentives for registration such as tax holidays or grace period before taxes are assessed for small businesses. In addition, the inadequacy of resources to collect revenue need to be countered through allocating more funding to tax administration. Other initiatives that could increase the informal sector registration and taxation include; encouraging the use of a single unique identifier at registration such as National Identification Number, customizing taxpayer education material, building capacity of the local government, among others. The subsequent policy amendments could be prioritized as well for instance; adopting a single government tax for small business covering both local and central government taxes – collected by a single entity; implementing Personal Income Tax (PIT) for wealthy individuals; reviewing the company act to inculcate registration of e-businesses; and broadening indirect taxes among others. It is evident that the revenue potential in the informal sector remains untapped and is worth exploring, once realized, it could be a massive boost to the resource envelope thereby reducing the country's indebtedness or the high dependence on overseas development assistance.

Glossary

Direct taxes: Taxes imposed on a proportion of income, such as personal income tax, corporate income tax or capital gains tax.

Exchange rate: The exchange rates between Ugandan Shillings (UGX) and US dollars (US$) used in this study are:

FY	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Official Mid-Rate (Average)	2,323.43	2,559.12	2,588.95	2,538.34	2,823.22	3,442.96	3,528.30

Source: Bank of Uganda (https://www.bou.or.ug/bou/rates_statistics/statistics.html)

Formal Sector: Sector visible to the government regulation and generates income that is subject to taxes.

Gini Coefficient: the measure of income distribution amongst individuals or households within an economy. It is measured as a ratio, a value of 0 represents perfect equality or even distribution across the rich and poor while the value of 1 represent absolute inequality(World Bank, 2013)

High net Worth Individuals: Individuals whose wealth or incomes are publically known as high; earn from land ownership and earnings building exceeding USD142,000 per annum; shareholding in large companies or groups of companies has a turnover of between USD4.3million to USD14.4million; with loan portfolio is beyond USD1.5million and bank transactions is over USD1million per annum (Kangave, 2018)

Illicit Financial Flows: money illegally earned, transferred, or used that crosses borders (World Bank)

Income: the net disposable income available to household members for a particular year earned from labour provided, self-employment, capital income, public cash transfers after all income taxes and social security paid by households are deducted (OECD, 2018)

Income-inequality: the distribution of income across different individuals or members of the society. Income-inequality means that there is an uneven distribution of income amongst different (OECD, 2018)

Indirect taxes: Taxes on consumption, such as value added tax/sales taxes; goods and services taxes; customs duties; and excise duties.

Informal sector: economic activities and the income derived thereof, that circumvents or avoids government regulation or taxation. According to government (URA), these are all unregistered but operational business or individuals earning from productive work (URA, 2017a)

Lorenz Curve: Curve used to illustrate the level income distribution has a control line of perfect distribution and the further the actual distribution is from the line of perfect distribution – the more undistributed income is. The curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household (World Bank, 2013)

Presumptive tax: tax levied on small businesses where indirect means are used to ascertain tax liability (IMF, 1996)

Revenue foregone: Taxes not realized as a result of low mobilization, expenditures and provision in the tax laws that allow credits, deductible, exemptions

Tax avoidance: The practice of seeking to minimize the tax one pays by arranging affairs in a way that is technically legal.

Tax evasion: The illegal or fraudulent non-payment or under-payment of tax.

Value Added Tax (VAT): A tax on consumption, paid by the buyer as an additional percentage of the price. Suppliers of goods or services are required to remit it to the tax authorities.

Report Structure

The report is broken down in four chapters in accordance with the objectives for the research.

Chapter one (1) provides an introduction, rationale and methodology for the research.

Chapter two (2) describes the definition, nature and characteristics of the informal sector world over with unique examples to Uganda.

Chapter three (3) provides estimates for the revenues foregone computed based on available data-sets from institutional websites.

Chapter four (4) presents the challenge encountered and opportunities available to mobilize revenues from the informal sector.

The last chapter (5), summarizes the analytical research with key tax administration and policy measures recommendations that could be adopted to improve revenue mobilization from the informal sector

Acronyms

AAAA	Addis Ababa Action Agenda
Bn	Billion
BMS	Block Management System
COIN	City Operators Identification Number
COBE	Census of Business Establishments
EFD	Electronic Fiscal Device
EUFL	Enterprise Uganda Foundation Limited
GDP	Gross Domestic Product
ILO	International Labour Organization
HNWI	High net Worth Individual
HH	Households
KILM	Key Indicators of the Labour Market
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MoFPED	Ministry of Finance, Planning and Economic Development
MSMEs	Micro, Small and Medium Enterprises
MTIC	Ministry of Trade, Industry and Cooperatives
NDP	National Development Program
PSFU	Private Sector Foundation Uganda
PTR	Presumptive Tax Regimes
PWD	People with Difficulties (Disabilities)
PFM	Public Financial Management
SACCO	Savings and Credit Co-operative Society
SEATINI	Southern and Eastern African Trade, Information and Negotiation Institute
TIN	Taxpayer Identification Number
TJNA	Tax Justice Network Africa
TN	Trillion
TPC	Tax Procedures Code
TREP	Taxpayer Registration Expansion Program
UBOS	Uganda Bureau of Statistics
UGX	Ugandan Shillings
UIA	Uganda Investment Authority
URA	Uganda Revenue Authority
URSB	Uganda Registration Service Bureau
VIP	Very Important Person

I. Introduction

1.1 Background

Although there has been a slight leap in the last three years1, Uganda's Tax-to-GDP (TTG) ratio currently estimated at 14 percent remains significantly low (EPRC, 2018) compared to Sub-Saharan Africa's average of 19.1 percent (OECD, 2015). The low TTG ratio which is a reflection of critical inefficiencies in and ineffectiveness of the tax administration strategies that compels government to solicit for alternative financing such as borrowing.

As at June, 2017, Uganda's debt stock2 (BOU, 2017a) stood at UGX 6.01 Trillion and this stock may continue to grow if gaps in domestic revenue mobilization are not addressed. It is imperative that the government embarks on robust domestic revenue mobilization strategies in accordance with the Addis Ababa Action Agenda (AAAA)3 on the 2030 Development Agenda which horns for nurturing sustainable domestic resources in order to reduce overseas development assistance (ODA).

According to a research by the CSO fraternity (SEATINI, 2017a) and URA's recent revenue performance (URA, 2017) it is revealed that the factors contributing to the tax administration inefficiencies include; slow economic performance, low taxpayer compliance rates, gaps in policy that are susceptible to manipulation by Multinational corporations (MNCs), the extravagant exemptions and the political interference. While attempts have been rolled out to cause a shift in the low contribution of domestic revenues to the resource basket4 through policy reviews, implementation of robust compliance improvement plans and establishment of an international taxation unit to detect and swat MNCs tax planning schemes, the most unaddressed challenge remains the existence of the large informal sector that accounts for 45 percent of GDP.

The misconception that the informal sector only comprises of micro, small and medium enterprises (MSMEs) has misguided the framing of appropriate informal taxation strategies. However, according to Kangave et al (2016) informalities by economic elites or High-Net-Worth Individuals make the sector even expansionary. Mugabi (2014) in his research further clarifies that indeed the MSMEs and HNWIs operate alongside vulnerable groups (youth, PWD and women) who resort to entrepreneurship driven informal activities for livelihood – the implication is that taxation of the informal sector has to be balanced not to limit survival of individuals. The existence of the large informal sector has also further widened and left the heavier side of the tax burden to only the more than one million taxpayers registered with the tax authority (URA, 2017a) yet over nine million people5 are eligible to pay taxes and remain unregistered (or operate informally). While the taxation of the informal sector may increase inequalities especially for

1 In FY2012/13, the Tax-to-GDP ratio was estimated at 12.6 percent (URA, 2015)

2 The debt stock was almost at half the current value – estimated at Ugx. 2.9Trillion in FY2011/12 (BOU, 2017a)

3 Convened in July, 2015 during the 3rd UN international Conference on Financing for Development sets out a vision of how development financing should evolve to support the 2030 Agenda for SDGs. Retrieved from https://ec.europa.eu/europeaid/sites/devco/files/oda-light-touch-report-11042017_en_0.pdf

4 From FY2011/12 to FY2016/17, tax revenues contributed only an average 65 percent to the national budget (MoFPED, 2017a).

5 It is estimated that there are nine million eligible for registration for tax purposes yet less than 1million individuals are registered (16 percent coverage)

vulnerable gaps, it's minimal or non-taxation could also be encumbrance to resource mobilization and restrain development in the long run. This research therefore documents the complexities that exist in the taxation of the informal sector by scoping out the nature and characteristics of its operations, the potential revenues while identifying both the challenges and opportunities that government can leverage on to mobilize potential revenues that exist.

1.2 Rationale

Undertaking this research was spurred by the need to provide policy and administrative recommendations on taxation of the informal sector to inform the ongoing domestic revenue mobilization strategy formulation process by the government of Uganda (Finance Ministry, Uganda Revenue Authority and Sub-national governments). The research also acted as a gap-stopper to close the literature loopholes that exist on the documentation of the informal sector in terms of what the sector comprises or excludes its traceable features and its taxation challenges.

The analysis was cognizant of the potential revenues in the informal sector that are untapped yet once groomed, can expand the resource envelope, minimize on the collection deficits and reduce borrowing. The research also acknowledges that improving the revenue collection is not a matter of boosting revenues from informal sector but also stems down to improving accountability, curbing corruption, strengthening governance and enhancing tailored sensitization of taxpayers. Findings and proposals compliment the other tax-justice campaigns geared towards widening the tax-base and tax-morale while maintaining the income equality.

1.3 Objectives

This research was undertaken to;

i. Analyse characteristics and nature of the informal sector in Uganda.

ii. Examine revenue collections foregone from the informal sector from 2010/11-2016/17.

iii. Analyse the opportunities and challenges in taxing the informal sector.

iv. Provide recommendations on how to address the gaps and challenges identified in taxing the informal sector without enhancing inequality in Uganda.

1.4 Methodology

The study was a desk-based research. References were made to publically available literature which captures the practice and policy of informal sector and its taxation. Secondary data available from websites of key government agencies was also used in the analysis – specifically datasets from Uganda Bureau of Statistics (UBOS)[6] on GDP Estimates and Revenue collections data set[7] from Uganda Revenue Authority (URA). Interviews were also held with selected government officials from relevant MDAs namely; URA, MoFPED, Private Sector Foundation Uganda (PSFU), Enterprise Uganda Foundation Limited (EUFL), and Uganda Investment Authority (UIA) to validate preliminary analysis. The interim report findings were shared at the International Tax Justice Academy held in November, 2017 in Entebbe, Uganda and the comments from the discussions have been incorporated.

6 Also available from http://www.ubos.org/statistics/macro-economic/annual-gdp/ (UBOS Website, Indicators Section, Macro-Economic Statistics Page)

7 Also available from https://ura.go.ug/readMore.do?contentId=999000000000786&type=TIMELINE (URA Website, Performance Section and Statistics Collection Page)

2. Nature and Characteristics of Informal Sector

2.1 Definition of Informal Sector

The review notes that defining the characteristics of informal activities is not a new phenomenon in economic research. Attempts to describe informal operations date back to 1950s when National accounting frameworks8 emerged in the discipline of Public Financial Management (PFM) that provided indicative figures to government financial accounts. In determination of the economic value of all activities within a country that formed part of the government accounts, it was established that key nominal activities significantly contributing to the gross numerical value could not be traced in the backward and forward linkages.

To this end, descriptions like the missing links, unrecognized, unrecorded, unregistered, unprotected or unregulated activities evolved to refer to the informal sector (Becker, 2004). To awaken government institutions to the economic impact that the informal sector could have on the expenditure and revenues9, action oriented terms were introduced such as the irregular economy (Ferman & Ferman, 1973), subterranean economy (Gutman, 1977), underground economy (Simon & Witte, 1982), black economy (Dilnot & Moris, 1981), shadow economy, and invisible or hidden economy (Cassel & Cichy, 1986). These terminologies provided then parameters that could also be employed to ascertain adequacy of the policy, administrative and regulatory frameworks available for formalization – subsequent discussions analyse the case of Uganda.

Firstly, when a sector is referred to as unregulated or unprotected, a benchmark is provided to interrogate the capacity of government to monitor and regulate peculiar industrial operations. Uganda's legal frameworks that guide standards of industrial operations are adequate but only on paper. They capture to detail quality elements of say products entering the country or those manufactured within. The ability to regulate the movement and quality standards has lagged due to the insufficiency of resources and as such, minimal or no regulation of some industrial actions materializes – this operational environment regards some activities as informal.

Secondly, the use of terminologies like unregistered or unrecorded initiates a discussion on whether or not being unregistered is a matter of choice, mandatory by law or is simply because existing structure do not support registration even at the grassroots. The availability of structures that ease formalization (or the existence of those structures that "ease doing business" according to World Bank) have a strong linkage to reducing the informal sector (Odyek. 2017). With Uganda's revenue administrators defining businesses and individuals that are not on the taxpayer register as informal, easier means of registration[10] such as the Taxpayer Registration Expansion Project (TREP), establishment of a local government business databases and automation of sub-

8 National accounts are consolidated description of all economic activities within a government – the approach was discovered then there would be some activities that unfortunately could be traced yet had "weight" on overall balance.

9 Spending on a sector in terms of delivering a service such as road, electricity and other social services but not benefiting from that sector in regards to collecting any revenues from its transactions.

10 Currently, registering a business, a trading license and a TIN can all be done in one-day under the TREP facility

national revenue collection system have been initiated.

The "irregular" features in the informal sector description reveal that there are specific activities or entities in the informal sector that are temporary, target in nature and are never consistent in operations (they change business-line frequently) – once the objective for which the business was set-up is achieved, the establishment seizes operation. It becomes difficult for URA to register lest dormant taxpayers are amassed onto the database.

Lastly, defining transactions as underground or as those that fall under the black or shadow economy questions what is deemed legal or illegal. There seems to be a thin dividing line in this definition. For example, the law could extensively allow businesses to operate but the cultural lens ultimately disregards the products as illegal. A classic example is betting. Betting is culturally perceived as illegal although laws by the government have been enacted to guide their operations – what is legal to government is interpreted as illegal by societal beliefs. In advanced economies, the black-economy also harbours grossly illegal activities that ought to come to justice such as drug-dealing, human trafficking, illicit trade and money laundering.

While the definitions above stand, the government institutions such as Uganda Bureau of Statistics (UBOS), Uganda Revenue Authority (URA) and Ministry of Finance, Planning and Economic Development (MoFPED) have identified a common explanation (Nakayenga, 2016) to describe the informal sector. The informal sector comprises of all operational business establishments or individuals involved in productive work but are not registered with any government regulatory institutions like Uganda Registration Service Bureau (URSB), Kampala City Council Authority (KCCA), Local Government or even Uganda Revenue Authority. It is notable that the informal sector activities in Uganda are well explained using terminologies such as unregistered or unrecorded, unregulated or unprotected, irregular and those in the shadow or black economy.

2.2 Nature and Characteristics of Informal Sector

Delivering an effective taxation system requires comprehensive understanding of the operations of majority of the businesses or enterprises, persons involved, circumstances under which activities go informal and ultimately the informalities that exist in the formal sector. GDRC (2015), a research arm of United Nations recommends that a holistic view is taken by scholars who attempt to profile the informal sector. This recommendation was therefore taken heed of during this research. Subsequent are the most outstanding features of the informal sector businesses and their activities world over although specific examples applicable to Uganda are hinted on.

I: Non-registration and no physical place of aboard

Established informal sector operators transact without necessarily registering with the requisite government institutions (Charmes, 2012). In Uganda, it is mandatory that businesses at inception are registered with

1) Uganda Registration Services Bureau as businesses,
2) Local government or KCCA for trading license,
3) Uganda Revenue Authority for taxation purpose,

4) Uganda National Bureau of Standards for industrial regulation and
5) any other relevant sector line ministry as deemed appropriate. In Uganda, informal operators are either registered with one (local governments or KCCA) or none at all.

In circumstances where these unregistered businesses are compelled to register, business entities are found without any permanent physical address– also known as brief-case offices.

Classic examples of these businesses are the forex bureaux at boarder points that are a one-man office without physical establishments, mobile-vans that distribute merchandise to rural establishments (they also have stores in their homesteads)

II: Invest less capital and are highly mobile

Businesses in the informal economy often invest less capital in their enterprise. Secondly, owners ensure that their portfolio does not grow beyond a certain level (Blades et al, 2011). The low investment and ultimate low earnings/turnovers have compelled scholars to refer to the informal businesses as Micro, Small and Medium Enterprises (MSMEs) although some are actually registered for trading licenses or taxation. In Uganda, MSMEs are classified as in that calibre because of the number of employees contracted (less than 50 employees) and estimates of the turnover that are normally less than 150million per annum. Running low investment businesses or less capital intensive entities makes mobility easier – the cost of terminating business or moving on to new profitable locations is usually regarded insignificant in comparison to the projected returns in new geographical sites. Since the insolvency of these establishments is even quicker, regulators and tax administrators find it expensive to follow-through such businesses. Observations also show that informal businesses deal in the same product or service category but simply change business names – a classic example are hotels, furniture importers, computer shops within cities (for instance on Kampala Road) that deal in the same products but change names almost annually.

III: Highly cash-based and have a track record of poor book-keeping

Peter (2017) wraps up discussions on cashless and cash-driven transactions amongst the informal economy as "informal sector is largely cash based". Historically, cash-based economics have been associated with corruption, money laundering and high inflationary tendencies (Marx and Mynhardt, 2015). Contrary to the negative impact of cash-economies, entities are often driven to operate in a cash-dominated environment because of low financial service access, low income earnings and complicated requirements for registration with financial institutions or opening up accounts. Efforts towards moving to a cashless economy are imperative and eliminate exposure to degrading circumstances that could perpetuate imbalances in trade. Lastly, establishments in the informal sector have a track record of not keeping updated books of account even the bare minimum of issuing out receipts or taking inventories. Operators argue that adhering to these principles of accounting is extremely inconveniencing and costly.

IV: Home-based and employing household members

Economic activities within the informal sector are disguised as household activities and this makes them even more invisible to government taxations. In these cases, tax administrators find distinguishing expenses for home and those for the businesses in tax accounting even complicated-for example,

1) Cars declared for domestic use are also leased or hired out,
2) Cooking facilities can be used for outside catering services,
3) Electricity is used for both home and to run small machinery, among others.

Secondly, informal operators source labour used in the production from amongst household members who in most times are women (Hassan & Farooq, 2015). The reward for the household members providing labour is often made in kind or through cash.

IV: Earnings are spent on livelihood & the chances of business mortality are high

According to Sparks (2010), the informal sector is not only the last resort and destination for the unemployed, the sector is also a driver for sustainable development – therefore its taxation should be balanced. The motivation for establishing the small businesses that operate without registering is to counter the challenges of unemployment, to expand household income and also create income security – therefore the returns of investment are to meet these needs.

The interest of informal enterprise owners are not necessarily to grow the business or meet shareholder views (making more profits), instead focus is placed on using the profits for household livelihood. Unfortunately, it is also often hard to find informal businesses practicing generally accepted principles of financial management - this and the poor culture of book-keeping expose the informal business to bankruptcy and eventual death. Taxation of such entities that will seize operations in less than a year proves expensive. According to FSDU (2015) over 50 percent of the business establishments do not see their first or second birthdate.

V: Operate in a highly virtual space and untraceable (emerging ecommerce)

The informal sector is becoming electronically driven and many unregistered businesses are thriving on the boom of e-businesses. This emerging business model under ecommerce where transactions are initiated and concluded without any physical contact should be a wake-up call to governments to establish innovative means of revenue mobilization in this line.

In Uganda, e-businesses have gradually taken shape to the extent that social-media platforms are now used as spaces to transact or tap into potential markets. Unless government takes interest, these operations shall remain invisible to them. With the readily available market within the country, Uganda now hosts operational e-businesses such as Uber, Jumia, Cheki (for car sales), Kilima and Olx. Whereas the income of these businesses is sourced in the country, the taxation levied is in another territory. It is prudent that government first understands the business model being used such that the right instruments are installed to monitor transactions.

VI: Contracts under the informal sector are mostly verbal and off-book

Interactions with URA staff revealed

that employers in most cases have mere verbal agreements with their employees. The agreements are often "off-the-book" or "under-the-table" and payments are effected in cash. Such transactions become invisible to the taxation and are often hidden from tax agencies. Tax agencies have rethought their audit and risk management to ensure that there is early detection of base erosion practices such as these. In the manufacturing sector, contracts entered into with suppliers are also not legitimate while in employment, verbal agreements are effective and payments made in cash (Beradi, 2009; Kapoor & Krishnapriya, 2017).

Available data on the Labour market from Danish Trade Union (2014) agrees with the UBOS Statistical Abstract (2016) projections that of 37.4million population only 13.9million are employed – it is likely that not all employed staff are without contracts. Again, it is also estimated that majority (72 percent) earn from the agricultural sector. Of those employed it was found that they earn an average monthly wage of UGX 459,639 per month11 and median wage of UGX 140,00012.

Note: Within the informal sector is also a category of professions who are contracted as consultants earning beyond their salaries and wages. Whereas withholding tax is imposed on payments, income realized by the consultants goes without paying any taxes.

VII: Players deal in consumable commodities, seasonal activities and fast moving products

The informal sector is highly responsive to economic dynamics, to this end majority of the informal businesses deal in consumable commodities. Tax administrators have leveraged this line of operation by levying indirect taxes[13] to ensure that such unregistered taxpayers at least make a meaningful contribution. The same businesses deal in fast moving products or seasonal products, which also pose a threat to tax administration since smuggling is perpetuated. Informal activities are often seasonal in nature. For example many middle-men of agricultural supplies or produce are active only during the month of post-harvest. Such businesses are only active during festivities and investments are made in more secure enterprises such as Government treasury bonds and bills.

VIII: High perpetuators of tax-avoidance and evasion schemes

Businesses in the informal sector often find the obligation of paying taxes as a cost rather than a benefit. Majority therefore ensure to avoid or even hire professionals to evade taxes. Incentives to register have to be improvised by government; for example grace periods or a non- retrospective assessment can be introduced. However in scenarios where businesses are persistently uncooperative, aggressive approaches complimented by punitive measures ought to be invoked to bring such businesses into the tax-bracket.

The most pronounced characteristics and compliance behaviours of the informal sector operators are not only specific to Uganda but also to the entire globe. Although similar strategies could be deployed to formalize the sector, it is also critical that the country-context is kept insight.

11 Based on the FY2017/18 Income Tax Act, a person earning such amount would part with UGX39,891 in PAYE

12 This amount would not carry any PAYE

13 Value added tax, excise duty and others

3. Revenue Collection foregone from the informal sector

3.1 Overview of Potential Informal Sector Players (Businesses & Employees)

In order to estimate the number of unregistered businesses and employees, various data data-sets from government and non-government institutions were used. These include; UBOS on Census of Business Establishments 2009/10; Financial Sector Deepening Uganda (FSDU) on MSMEs; UBOS on Uganda National Household Survey 2009/10; from Uganda Revenue Authority on Income returns and Value-added-Tax returns for Businesses and Individuals.

According to the UBOS Census of Business Establishment dataset, Uganda hosts over 1.3million business establishments which estimates are slightly above the National survey report on MSMEs that established that over 1.1million MSMEs are operational in Uganda (FSDU, 2016). Regardless of the numerical indication, it is notable that these multi-sectorial Micro, Small and Medium Enterprises (MSMEs) exhibit the features highlighted above of typical informal operators and employ approximately 2.5million people who contribute 75 percent of GDP (see Table A2). With less than 87,000 businesses registered with URBS and URA, it is obvious that innumerable are unregistered.

The Uganda National Household Survey 2009/10 estimated that 1.2 of 6.2million households (21percent) owned a small business. With the current population of 37.7 million accommodated in 7.4 million households, it implies that 1.57 million households own an operational informal business (see Table A1). Households with businesses do not include High-Net-worth Individuals who according to Kangave, Nakato, Waiswa & Zzimbe (2018), DiCaprio (2014) and OECD ((2009) have some form of informalities. The HNWIs form part of the economic elites. They are highly wealthy or high income earners who directly or indirectly control private entities which are operating in both informal and formal activities. URA developed a framework that identifies HNWIs and as of April 2018, an estimated 1,000 HNWI/VIPs were identified (See table A3). The Danish Trade union estimates that approximately 8.6 million individuals are engaged in formal work and are eligible to tax. However, with the URA register reflecting only 943,055 individuals, it is become more eminent that URA penetration into the formalization labour market is only at 9 percent (See table A4)

3.2 Revenues foregone from unregistered businesses

As of FY2016/17, over 1.2million businesses were in existence and operational in Uganda however majority (70 percent) transacted below UGX 5million turnover, while a mere 10 percent earn slightly above UGX 10million. These establishments exhibit characteristics such as employment of household members, lack of a permanent address, and high immortality rate among others. Under the presumptive tax regime, it is only businesses that are earning above UGX 10million that are eligible for taxation.

Table 1: Revenues Foregone from Unregistered Businesses (UGX' Bn)

Financial year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Businesses operating	458,106	575,610	706,170	836,731	967,291	1,097,851	1,228,411
<5mil, 70%	320,674	402,927	494,319	585,711	677,104	768,496	859,888
5-10mil, 20%	91,621	115,122	141,234	167,346	193,458	219,570	245,682
>10mil, 10%	45,811	57,561	70,617	83,673	96,729	109,785	122,841
Registered by URA	8,002	10,284	8,650	9,658	11,112	15,086	13,453
Unregistered	37,809	47,277	61,967	74,015	85,617	94,699	109,388
Estimated revenues	5.67	7.09	9.29	11.10	12.84	14.20	16.41
Presumptive coll.	-	-	-	4.08	0.054	0.00	4.46
Revenue foregone	5.67	7.09	9.29	7.02	12.79	14.20	11.95

Source: Author's computation, Based on Census of Business Establishment Data (UBOS, 2009/10)

Only 10 percent of the existing business establishments have a gross turnover of UGX 10million and above and are estimated to be 122,841 businesses. With only 13,453 registered by URA, it is apparent that 109,388 are not registered. Assuming that the lowest tax rate of UGX 150,000 per annum is levied on these 109,388 unregistered businesses, (see table A5 & Table A7 for composite presumptive tax rates) – it would mean that on average, UGX 9.71 Bn is foregone as result of less aggressive registration strategies to include operating informal businesses in the tax bracket.

For FY2016/17 UGX 11.95 Bn was foregone, while in FY2010/11, UGX 5.67 n was foregone. There are other taxes such as Value Added Taxes, Pay as You Earn, Local excise duty, Local Service Taxes and many more that have not been included in the computations yet could be realized if such small and medium enterprises were to be included in the taxation framework.

3.3 Revenues foregone from unregistered HH with Businesses

FY2016/17 projections indicate that an estimated 1.5 of the 7.5million households have some physical or virtual business having increased from 1.2million in FY2009/10. The slight increase is attributed to the emerging technology and innovation under the boom of the digital economy, for instance; UBER an online car-rental business that has seen households register their personal cars for the transportation business.

Table 2: Revenue Foregone from Unregistered HHs (UGX' Bn)

Financial Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Household (Million)	1.39	1.43	1.46	1.48	1.50	1.54	1.60
<5mil, 70 percent	971,591	997,521	1,023,452	1,018,259	1,048,806	1,080,271	1,112,679
5-10mil, 20%	277,597	285,006	292,415	290,931	299,659	308,649	317,908
>10mil, 10%	138,799	142,503	146,207	145,466	149,829	154,324	158,954
Revenue Foregone (Bn)	13.88	14.25	14.62	14.86	15.0	15.43	16.0

Source: Author's computation, Based on UBOS Data on UNHS 2009/10 (UBOS Website)

If the same assumption is used in section 3.3 that the 10 percent of these households earn a turnover of UGX 10million and more per annum from their involvement in a range of business activities operating at home – it would mean that for just FY2010/11, an approximate 138,799 households were eligible to pay some tax on their income but remain unregistered. There is no indication however from the URA register that such households perhaps appear as either businesses (non-individuals) or with the household heads/ representatives as individual taxpayers earning business income since majority of the businesses operate in the rural areas.

On grounds that businesses are operating within towns or trading centres, the appropriate tax-rates as provided in Table A6 would apply of an annual fee of UGX 100,000 per establishment. It is estimated that URA foregoes an approximate 14.81Bn per annum, and cumulatively UGX 103.61Bn foregone in the last 7 years. Tax administrators interacted with seem to imply that government undertakes a cost-benefit analysis before certain territories are entered to gauge revenue potential – the returns on investing into office establishments, hiring staff and other logistics in locations may however prove costly compared to the revenues that could be gained therefore delaying the decision by the tax authorities to penetrate into rural and peri-urban areas

3.4 Revenue foregone due to Unregistered Employees

By June 2011, 13,000,000 persons were employed in productive work (Danish Trade Union, 2010). Majority (72 percent) were employed in the agricultural sector which pays minimum wages barely amounting to UGX 100,000 per month, and the rest (28 percent) of workforce were employed in other sectors (industries and services). URA has registered only 943,000 persons against a total of 11.7 million people who are active in the workforce.

Table 3: Revenues Foregone from Unregistered employees

Financial Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Workforce (000)	13,233	13,566	13,900	14,233	14,566	14,900	15,233
Agriculture (000)	9,528	9,768	10,008	10,248	10,488	10,728	10,968
Working proprietors (000)	6,097	6,251	6,405	6,558	6,712	6,865	7,019
Paid Employees (000)	1,238	1,269	1,301	1,332	1,363	1,394	1,425
Unpaid Helpers (000)	2,191	2,246	2,301	2,357	2,412	2,467	2,522
Non-agriculture (000)	3,705	3,798	3,892	3,985	4,078	4,172	4,265
Registered by URA[1] (000)	40	98	206	572	705	829	943
Unregistered (000)[2]	11,000	11,221	11,391	11,303	11,449	11,603	11,767
Penetration Rate	0.37%	0.88%	1.81%	5.06%	6.16%	7.15%	8.01%
Revenue Foregone (Bns)	438	447	454	450	456	462	469

Source: Author's Computation, Based on Danish Trade Union Data on Employees

The estimation of the revenues foregone based on PAYE schedules reveals that UGX 454 Bn per is foregone from 4.25million unregistered employees each financial year. For the period FY2010/11 to the close of FY2016/17, UGX 3.1 Trillion had been foregone in revenues as a result of not taking peculiar action to register employees. Only PAYE (see schedule in Table A9) was considered in this computation and it excluded Local Service Tax (LST). Recently, all civil servants were compelled to acquire TINs as a requirement for their salary processing which boosted the registration. Government should be passing motions that should compel the private sector to register all their employees whether or not they are on contract.

3.5 Revenue foregone from Unregistered HNWIs/VIPs

According to Kangave et al (2018), there are a potential 1000 HNWIs/VIPs in Uganda who either own large agricultural ranches, invest in shares in multiple companies or own high value assets such as cars and buildings among others that generate income.

Table 4: Estimation of Revenues Foregone from Unregistered HNWIs/VIPs

Tax head	Revenue Collections for FY2015/16	Revenue Collections for FY2016/17	Average Revenues per HNWI	Revenue from Potential HNWIs per annum
Rental	9,678,619,886	7,306,044,119	82,449,825	164,899,650,534
Income Tax	5,833,116,720	5,793,580,255	56,440,277	112,880,553,155
VAT	3,297,085,469	7,291,237,447	51,399,626	102,799,251,612
PAYE	370,331,167	484,931,799	4,151,762	8,303,523,942
Audits	-	1,484,758,508	14,415,131	28,830,262,291
Total	19,179,153,242	22,360,552,128	201,649,055	403,298,110,388

Source: Author's Computation, URA Data on Income returns and PAYE (URA Website)

As of June, 2017 only 103 HNWI/VIPs were fully registered with URA and these contributed UGX 22.36 Bn in FY2016/17. If the additional 897 HNWIs/VIPs were registered of the identified potential VIP/HNWI as fronted by Kangave et al (2018), then UGX 434 Bn would be realized in the revenue collections as summarized in the table above.

The analysis above reveals that a consolidated UGX 1 Trillion is foregone per annum due to inadequate strategies by tax administrators to rope in businesses operating informally. It is important to note that the computed revenues foregone only consider URA revenues leaving out Local Governments which can also leverage on the formalization drive to collect revenue. For example, under the TREP initiatives, UGX 23.3 Bn was collected from 34 municipalities for the period of FY2013/14-FY2017/18 (up to March, 2018) whereas UGX 83.3 Bn by Kampala City Council Authority (Busingye, 2017). While estimations of the revenues foregone capture mostly those of individuals and businesses that are within taxable thresholds, government needs to rethink the taxation framework to ensure that a regime is instituted for businesses with a gross turnover below UGX 10 million to have them contribute to the tax base.

4. Challenges and Opportunities of Taxing the informal sector

Discussions on the challenges and opportunities are partly aligned to dialogues that encourage taxation of the informal sector although there are also mixed arguments on whether or not to tax informal sector operations. Rachmawati (2014) emphasizes that the taxation of informal sector only intensifies informal activities therefore the ability to collect from this sector requires that government takes on informal channels too for example to use of associations or trade union of informal workers, linkages to sub-national governments and others. Joshi et al (2015) however broadly argues that including the informal sector in taxation value chain could encourage compliance amongst small businesses. In addition, taxing the informal activities can create equality and for the SMEs– the indirect benefits are even more tangible. Formalization offers small businesses more access to markets, financial services, connections to other players among others. Regardless of the approach used, understanding the nature and characteristics of the informal sector greatly is pivotal to designing relevant tax frameworks that could be staged to grow revenues from the sector.

4.1 Challenges of taxing the informal sector

The challenges of formalizing are embedded in the very nature of the informal sector but administrative challenges in taxation play a central role in propagating the culture of evasion or avoidance amongst taxpayers.

Taxation of the informal sector could breed Inequality and widen the tax-burden: Societal inequalities according to Mount (2010) are part and parcel of tradition manifesting in different forms namely (political inequality, income or wealth inequality, opportunity inequality, equality of treatment and equality of membership in society). The researchers acknowledged that the existences of these categorical inequalities does not necessarily indicate acceptance of such social evils in the fabric of communities. Instead grass-root causes ought to be identified and redressed at the base.

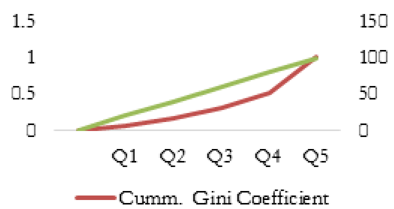
Inequality of treatment: the authority to levy government revenues once misused especially amongst tax administrators can easily result into inequality of treatment among the taxpayers i.e. the poor, rich and middle income earners. Concentration on the taxation of the easy to reach taxpayers who are often in the formal sector has created a high burden and some form of inequality in treatment since the informal sector players are left out in the revenue generation.

Inequality amongst members in society: on the flipside, taxation plays a redistribution role especially if policies and the administrative structures are designed with equity and progressive elements in mind. If heavier taxes are levied on the wealthy and lighter taxes on the poor there is a guaranteed seamless transfer of resources from the wealthy to the poor. The informal sector not only harbours the small business owners who are mostly women and youth (Nalunga, 1996) but also has high-Net-worth Individuals. The taxation of the small business owners who are often survivors and not the rich harbouring the informal sector allows the wealthy members of society to freely expend without necessarily feeling the burden of taxation.

Income equality: the taxation of the small business owners could expand the inequality gap. On the other hand, the taxation of unregistered employees and High-Net-Worth Individuals could on the other note reduce the tax-burden. Using the Gini coefficient and Lorenz curve, the current distribution of income (equality) based on income levels of households is estimated at 0.35 (see figure below)

Figure 1: Uganda's Income distribution by Gini Coefficient and Lorenz Curve

Quintiles	Gini-Coefficient	Cumulative Gini Coefficient (Lorenz Curve)
Q1	6%	6%
Q2	11%	17%
Q3	14%	31%
Q4	20%	51%
Q5	49%	100%



Source: World Bank, the Uganda Poverty Assessment Report, 201614

Once the presumptive tax rates are levied on the incomes of both individuals and businesses operating in informal sector based on the five (5) income groups (Quintiles) using an effective tax rate below, the tax-burden shifts to mainly low income earners and middle income earners rather than the high income earners

Table 5: Tax Burden and Income Distribution

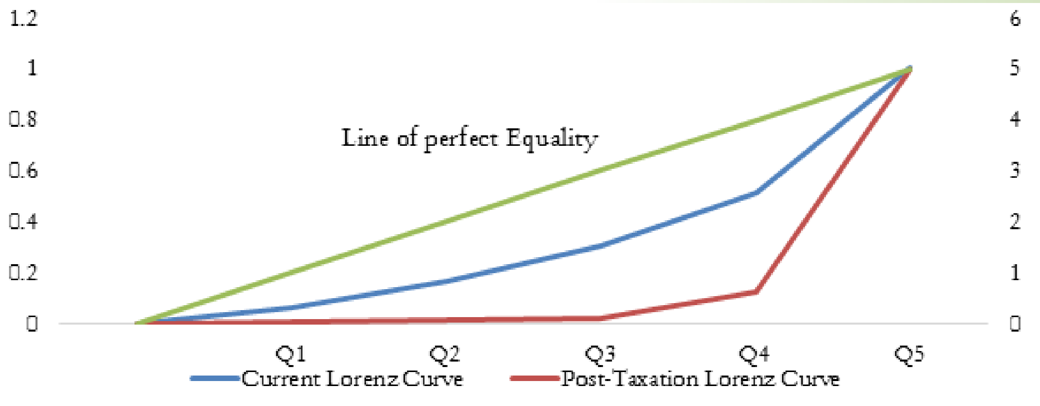
Quintile	Income Range (UGX'Million	Effective tax rate	Tax Burden	Share of taxpayers	Income Share	Tax Share
Q1	10 - 20	1.062	64.31	38.9%	0.69%	0.45%
	20 – 35	0.992	60.02	13.7%	0.44%	0.26%
Q2	35 – 50	0.960	58.09	13.5%	0.62%	0.36%
	50 – 75	1.101	66.65	9.0%	0.60%	0.40%
Q3	75 – 100	1.165	70.52	4.4%	0.39%	0.28%
	100 - 125s	1.860	112.62	2.1%	0.23%	0.26%
Q4	125 – 150	1.436	86.91	2.9%	0.39%	0.34%
	150 – 3,990	1.631	98.72	12.8%	10.14%	10.01%
Q5	4,000 – 22,999	1.058	64.02	2.1%	16.85%	10.79%
	>23,000	1.823	110.35	0.7%	69.65%	76.86%

Source: Author's computation based on URA Income Tax Returns for FY2010/11 to FY2016/17

14 Available via: http://pubdocs.worldbank.org/en/381951474255092375/pdf/Uganda-Poverty-Assessment-Report-2016.pdf

Again, using the Gini-Coefficient and Lorenz curve shows that a measure of distribution of income shifts after taxation from 0.345 to 0.942 which indicates inequality. The inequality implies that; despite introduction of presumptive taxes across the country, businesses still perceive them as highly exorbitant hence greatly reducing their disposable income. This forces many businesses to resort to tax evasion. Despite the efforts undertaken by URA, illiteracy levels in the country and relative complexity in dealing with the taxpayers are still a significant detriment. URA is still dependent on very few businesses that have to pay income tax and thus the introduction of presumptive tax rates has not in any way changed the tide of inequality of individuals and the business community in the country.

Figure 2: Illustration of Income Inequality – Lorenz Curve



Source: Author's computation based on URA Income Tax Returns for FY2010/11 to FY2016/17

One of the possible ways of reversing this turn of events is by increasing the marginal personal income tax rates on high income earners. Increasing the personal income tax rates needs to be implemented cautiously to control unnecessary political interference since high earners have some level of influence on the outturn of policies and other investment or tax related decisions. The most growth-friendly approach would be to reduce tax-induced distortions that harm growth, including closing loopholes by for example raising more taxes on property especially commercial and introducing other taxes aimed at reducing environmental damage and other externalities. One of the ways in which such reforms could contribute to social equity is by putting a moratorium on tax breaks that favour higher income individuals disproportionately.

Poor-record keeping amongst small businesses makes tax assessments exorbitant hence perpetuating resistance to pay:

The assessment of taxes by principle is based on a clear record of the accounts. Unfortunately, unregistered or informal operators fail to keep records. In the absence of a proper record of business transactions, tax administrators are compelled to use rudimentary tax assessment approaches such as rough estimation of daily sales or available stock. Such approaches often spiral up actual tax liability and the burden to pay is wide. The results are obvious. Many businesses would rather stay unregistered than actually incur such a huge cost.

The high cost of tax administration and low returns on investments (revenues) has limited the expansion and drive to penetrate into the sector:
Registration of informal businesses is costly in terms of human resource requirements and technology needed to register. In hard to reach areas where there is no infrastructure such as electricity, internet connection, road network among others, when the high costs of administration are compared to revenue outturn, the decision not to engage in formalization is often stayed. To counter this URA has introduced Block Management System (BMS) that ensures taxpayers are supported at their service points – unfortunately this approach does not scope-in businesses operating from home.

Inadequate resources allocated to tax administration has limited the implementation of formalization strategies:
The high cost of collecting revenues has often been occasioned by low resource allocations. Whereas government buys into innovations to register and collect better, the buy-in is rarely supported with a resource commitment. An assessment of the taxpayer-to-staff ratio shows that the workload per staff continues to grow due to expansion of the taxpayers register. Currently one staff handles 536 taxpayers (URA, 2017a). This is against the OEC0D (2017) recommendation which provides for a workload of not more than 300 taxpayers per staff. This enormous workload renders futile the client relationship model spearheaded by URA where taxpayers are meant to give more support and advisory. In terms of resources (funding), the unfunded priorities for Uganda Revenue Authority have been stable at almost Ugx. 190 Billion Per annum[15] although as a percentage of GDP the budget allocation stands at 0.31 percent.

For example: It was estimated that by FY2017/18, 412,044 small businesses[16] operating informally would have been registered from which UGX. 420 Bn would have been collected under the Taxpayer Registration Expansion Program (TREP) (Businge, 2017). With less than 200,000 businesses registered and only UGX 12.84 Bn (Presumptive tax revenues) collected from small businesses by FY2016/17, it is evident that challenges of taxing the informal sector remain enormous in Uganda due to limited commitment to hiring the required 550 staff to manage the TREP arrangement.

The limited commitment to resources by government of tax administration initiatives has limited the penetration into the informal sector. The underfunding of the tax authority has grossly affected informal sector taxation specific strategies such as TREP arrangement, opening up of One-stop Centres in Municipalities, deployment of an ASK URA application that enables easy access to tax information among others. Government under the Ministry of Finance and Parliamentary Committees ought to commit some resources towards revenue mobilization, more so for formalization.

15 Based on the Ministerial Policy Statement for FY2011/12 to FY2016/17 accessed from the Parliament Website.
16 For FY2018/19, it is estimated that UGX. 420 Billion will be generated in revenue under the Presumptive tax regime

The increasing Political interference in the tax administration limits penetration in key sectors such as real estate:

Political interferences have created a stampede in mobilization of rental income tax in light of the fact that majority of the High-Net-Worth Individuals are in the real estate sector. Indication shows that the owners of commercial buildings are often government officials or politicians. Therefore, administering taxes of top officials has been deterred by the political hand. Furthermore, the political economy has seen policies formulated that offer extravagant exemptions to multinationals thus breeding informalities in the formal operations. URA needs to be availed semi-autonomous power to make decisions and act on them without any interference from politicians or other government authorities. Proper stakeholder management needs to be implemented on the side of tax administration to ensure that government buys into the range of innovations that support better collection.

Corruptions and flouting of tax process by URA Staff:

Corruption and bribery continues to loom within tax administration agencies – the vice has been catalysed by the bureaucratic process of registering, complex systems and often the unrealistic assessments.

Complicated tax-registration processes that requires multiple IDs:

Registration for tax purposes has been further complicated by a lack of linkage to the National ID – multiple identification cards are a pre-requisite to acquire a TIN and this has compelled many to forego registration.

Silo-ism and inadequate collaboration amongst revenue administration agencies at national and sub-national level limits synergies that could quicken formalization: Government institutions continue to work in silos yet URSB collects detailed data about businesses. Institutions such as private sector, Manufacturers Association, Uganda Investment Authority, and National Social Security Fund among others have databases; however there is no linkage of such systems to the revenue mobilization system in URA. System integrations need to be fast-tracked to tap into the few already registered enterprises and individuals.

High mobility and mortality rates of informal businesses renders registration process futile:

As discussed earlier, the low capital investments by informal businesses work to their advantage. It becomes easier to close shop in one area and move to another. Small businesses have also resorted to using caravans to actually sell their products. This high mobility of informal operators has been a challenge to Uganda's taxman especially in cases where there are physical offices for instance in the remote areas.

Phobia for impact of formalization on businesses (small businesses) keeps small businesses habitually and deliberately unregistered:

Informal businesses owners are mostly ignorant of tax laws, tax processes and the benefits that are associated with formalization. This inadequate knowledge creates a fear of the taxman and majority have found themselves deliberately hiding from government agencies. There is therefore need to educate unregistered taxpayers further on expected benefits.

High cost of compliance:

Businesses often view taxes as an additional cost rather than a benefit to their growth. As a result many unregistered businesses take a decision to keep a far distance from government control to break-even. Businesses which are collapsing or are on the verge of closing have often attributed their inability to break even to high costs of compliance. The taxation framework in Uganda has to therefore be structured in a manner that nurtures businesses to grow while collecting revenues from them.

High levels of tax-illiteracy amongst businesses occasioned by complicated tax administration processes:
first and foremost, the business community is infiltrated by semi-literate and often illiterate owners who often rely on professionals like accountants and tax-advisors to manage their tax transactions. The low levels of education, when further occasioned by complicated tax administration procedures (filing, payment and others), compel many to keep unregistered. Business owners are not so familiar with the tax processes and minimal effort has been placed by URA to educate them. The tax education and processes has not been tailored to fit the language needs of the business owners. In short the tax administration regime is so corporate.

Mushrooming digital economy in Uganda occasioned by an inadequate ecommerce regulation framework has not facilitated formalization of e-businesses:
The emerging electronic transacting of business-to-business or business-to-consumer has swept the markets of Uganda as well. This sophisticated part of the economy has seen transactions conclude without any visible evidence of exchange of income. With many of the businesses headquartered outside the country, taxation at source proves complex. In addition, if products being dealt in are intangible say exchange of funds for software or service, then such activities even become invisible to regulators. Deliberate effort need to put towards understanding the ecommerce business model to appreciate the points of taxation at every level of transacting.

There are several other factors that play a role in increasing informal operations in the economy other than what is provided above. Regardless of magnitude of the contributing factors, governments should be aware that the attitude to register for and pay taxes is hinged on citizen's view of the quality of service delivery in most cases.

4.2 Opportunities of taxing the informal sector

The development of the Medium Term Revenue Strategies provides a platform to prioritize the informal sector:
The formulation of the Medium Term Revenue Strategy that also focuses on taxation of informal and an inclusion of other critical tax reforms provides an opportunity to both government and tax-advocates to include feasible and attainable policy and administration that are geared at formalization of the informal sector.

Existence of robust tax-education programme within URA:

at national level, URA has embarked on comprehensive tax-education programmes. However these are not tailored to informal operators such as small businesses in rural and peri-urban areas. Formalization requires that taxpayers are firstly helped to understand the importance of taxation. The existing tax-education programme therefore provides a ground-breaking opportunity to penetrate into the sector.

Taxation of the informal sector can improve income and resource redistribution:
the role of taxation cannot be underestimated in society as not only do taxes redistribute

income[17] but also generates revenues for government. Taxation can be used in the formalization of businesses since it involves registration for taxation making businesses visible to government. Once all players are registered and taxed progressively, the income and resources can be equally distributed. As noted earlier, research by Kangave et al (2016) has shown that informal sector comprises of the High-Net-worth Individuals (HNWIs) whose incomes are not often subjected to meagre taxes due to excessive exemptions. The rich remain with their resources untouched creating a wide gap between them and the poor. Informal businesses are predominantly agricultural (World Bank, 2013) and employing mostly women & youth (incl. PWDs) (Nalunga, 1998). It is important that a balanced approach is used.

Modernization of local government revenue management provides a platform to ease registration and keep track of local businesses:

Under the TREP arrangement, a tax modernization project was initiated in which local governments automated their revenue collection system (called eLogRev accessed through https://www.e-logrev.go.ug/.). The automation would see local government create databases of the businesses and this would also ease the issuance of assessments (URA, 2017a, TREP Progress Update)

The laws for taxation of informal sector are adequate and simplified:

Presumptive Tax Regime (PTR) amendments in the Income Tax Act (ITA) of 2014/2015 provided clear administration references to manage taxation of small businesses. The law defines the nature of businesses that should be taxed under PTR; for instance drug-shops, restaurants, garages, metal-workshops among others; appropriate rates commensurate with the location of the business, and the average business concentration/volume. This clarity has reduced on ambiguities and unclear tax assessment procedures by officers that had been found rudimentary, baseless and irrational. Furthermore, the presumptive tax threshold was also increased from UGX 50million to UGX 150million which meant that some medium businesses were then required to file as small businesses (SEATINI, 2016).

The Income Tax Act, Cap 340 (Second Schedule) provides guidance on tax rates for small businesses that have formalized. The schedule was reviewed in June, 2014 to which the principle of taxation was adjusted to ensure that assessments are raised based on jurisdiction or the gross turnover (see table A5 and Table A6). Whereas the amendment was ultimately to raise revenues (see Table A7 for revenue performance on presumptive and rental income tax), the tax burden on the small businesses has been exacerbated thus compelling some businesses to act indifferent to the formalization process. Generally, there are has been a slow performance in in the Presumptive Tax Regime (PTR). However registration has facilitated the local governments especially in municipalities where TREP

17 where the riches are taxed more and the poor lower

is operational to collect additional revenues. According to Thuronyi (1996), changes in presumptive tax rates are rebuttable whose intent is to ensure some level of bookkeeping and records management is adopted into the operations of small enterprises. Informal sector operators have maintained a habitual practice of not maintaining proper books of account. It is imperative that punitive measures are put in place to curb the vice of not keeping updated books.

Initiated collaborations between local and national government under the Taxpayer Registration Expansion Project intensify massive registration: In FY2013/14, MoFPED directed that a collective revenue mobilization approach between agencies especially those held responsible for regulation of small businesses be adopted at business registration, licenses and tax administration levels. URA, URSB, KCCA and local government embarked on a project referred to as Taxpayer Registration Expansion Program (TREP) initially in Wakiso, Entebbe, Kampala and Mukono districts. Currently TREP is in more than 34 municipalities (URA, 2017a). Under the TREP arrangement, first, the collaborating institutions embarked on massive tax education, set up One-stop-shops where businesses are registered by URSB, provided with a TIN for tax purposes under URA and also issued with trading licenses under KCCA or Local Government. Not only has this model reduced the cost of doing business, 47,467 small businesses were registered in FY2013/14 & FY2014/15 alone, 72,885 in FY2015/16 and 79,493 in FY2016. /17 under URA. With TREP being rolled out to 34 local municipalities in FY2014/15 and later to all districts, deeper penetration into informal sectors maybe realized (URA, 2015). Focus into future trends of TREP initiatives indicate that 414,318 businesses can be registered and would contribute UGX 90.4 Bn for URA, UGX 2.07 Bn for URSB and UGX 51.78 Bn for KCCA and Local Government (URA, 2016). This simplified formalization process should be able to encourage informal businesses and individuals to register and embark on honouring their tax obligation.

The introduction of Block Management System (BMS) encourages and promotes the client relationship model and increases direct tax advisory and support to taxpayers:
Starting July 2017, Uganda Revenue Authority introduced the Block Management System of taxation where a geographical area is demarcated and dedicated to management by tax officers with intentions that such officers shall appreciate the taxpayers more intensely in terms of the business activities and appropriate revenues will be levied. The BMS teams carry out functions of registering, assessing, collection and accounting for tax revenues collected. Having been successfully implemented in Ghana and Tanzania (TRA, 2011), BMS promotes compliance especially amongst eligible small and medium scale enterprises within specific businesses, sectorial and geographical areas by capturing the right information especially on the main business activity engaged in and other valuable tax information. It is envisaged that BMS will provide a robust avenue of scoping out all informal businesses and adding them into the tax-net (Ernest & Young, 2017)

Establishment of HNWI/VIP Section in URA provides a platform for penetrating into informal activities perpetuated by economic elites:
Based on the recommendations of the High-Net-Worth Individuals (HNWIs) research, URA established a HNWI/VIP section under the Public Sector Office (PSO) to which effort was made to register HNWIs/VIPs. As indicated earlier UGX 22.36 Bn in FY2016/17 and UGX 19.18 Bn in FY2015/16 has been collected since inception of the desk. With another 1000 potential HNWIs identified, the modern day informal operations may be curbed down if effort is made by Uganda Revenue Authority to register these individuals of which majority are politicians, real-estates businessmen, highly paid government officials etc. (Kangave et al, 2016).

Initiated inter-agency collaborations that regulate business and advocate for trade facilitation increase visibility of informal traders:
Whereas it could be argued that partnerships within government agencies are not necessarily strong, the opening of One-Stop-Border-Points (OSBPs) at boarders of Uganda has seen Government agencies such as UNBS, Ministry of Trade, Industry and Cooperatives (MTIC), URA, Local Government, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), and others come under one roof to regulate business, especially concerning import and export of wide ranges of goods and services. The collaboration has made it much easier to visualize the missing traders in the trade chain who often operate informally. However, the registered and unregistered exporters' businesses are at the tail-end of the transaction, this inter-agency collaborative effort should be extended inland to ensure that businesses operating informally are registered and regulated.

Presence of wider and convenient tax payment platforms reduce on the cost of compliance:
Compared to the bank and cash payment options for tax payments which were the order of the day at the inauguration of URA, there are currently wider tax payment platforms such as mobile-money payments, visa platforms/points of Sales (POS) among others. The same FSDU Report on the National Survey of MSMEs reveals that compared to bank accounts, small-businesses in the informal sector have more mobile-money accounts due to their ease of operation and access. With Uganda Revenue Authority deploying a platform that allows payments for taxes through mobile-money, small businesses will find it easier to comply.

Leverage on the revenue mobilization campaign (Mpa Receipt Yange) that encourages book-keeping:
Similar to Rwanda's initiative of encouraging traders to issue out receipts, URA initiated a campaign that would ensure that all traders issue out receipts to their clients. It was deemed that goods in one's possession without evidence of transaction (receipts) are regarded as smuggled and leave owners liable to legal procedures. Therefore as part of penetrating into the informal sector, traders are being advised to adopt bookkeeping. This campaign was initiated and is being implemented for almost a year. It is also anticipated that the campaign will help URA administer their taxes systematically. Although the campaign is so far short-lived, the awareness that has been created on the importance of keeping proper books of account especially for small businesses provides a stepping stone toward formalization of informal businesses (Ladu, 2016). This campaign is also a pre-cursor to introduction of the Electronic Fiscal Devices (EFDs).

The challenges and opportunities summarized hereto are only an indicator of the bottlenecks encountered in formalization and platforms that exist to intensify the contribution of informal sector to the revenue or resource basket. Against the summary above, the policy and administrative recommendation subsequent are forwarded

5. Tax Administration and Policy Recommendations

5.1 Policy Recommendations

To the government;

Levy taxes through informal means, for instance, introduce an association tax:
Government should embark on the implementation of the policy recommendations that emphasize that all Saving and Credit Cooperative societies (SACCOs) are registered including investments groups, member-based organizations, associations and others. Once these platforms are registered, tax administrations can leverage on these to ensure registered or member businesses/ individuals pay taxes. Furthermore an annual tax fee could be paid alongside the other mandatory association fees

Introduce a wealth tax or increase personal income tax on high earners:
To redistribute income across the poor and rich, a personal income tax could be instituted for especially higher earners who are either the companies or HNWIs. In some countries, a wealth or inheritance tax becomes effective in mobilizing revenues from HNWIs.

Institute ad-valorem rates or bands for property taxes or interest:
The economic elites invest heavily in stable portfolios or avenues such as commercial buildings, treasury bills or bonds, shares of companies, land or even agricultural projects. Other than rental income tax which is levied on income from leased or rented premises and property rates for local government, no other taxes are levied on these investments yet they gradually gain value. Bands especially for Interest gained from WHT, Rental Income and others for income realized should be enacted within the law to ensure that high income earners pay more. In addition, the capital gains tax should be administered appropriately.

Widen direct taxes in the market:
Presumptive tax being a direct tax diminishes the purchasing power of owners of the businesses especially if they are households. The taxation of the informal sector should therefore be intensified through proper administration of indirect taxes such as VAT, excise duty and others in order to maintain the purchasing power of individuals.

Reduce on presumptive tax rates:
The Income Tax Act should further reduce the PTR rate from 3percent to 1.5percent to ensure that informal sector players are brought into the tax bracket and nurtured to be compliant. For almost three (3) years now, the outcry amongst traders seems to indicate that the rates are still high. The tax burden remains by far and large heavy on small businesses that have to part with other government fees such as trading licenses for local government, property rates, and certification fees for UNBS among others – it is necessary that the presumptive tax rates are reviewed again.

Introduce a single trade tax model:
Whereas small businesses are willing to

comply with all Government provisions and agency-fees including payment of all the required fees, licenses and tax revenues, traders find payment to different institutions of government cumbersome. With many informal business owners almost illiterate or semi-illiterate, government could adopt a single trade tax model administered by a single institution that could be closer to business operations.

Embark on the review of the company act review to rope in e-businesses:
The company act needs to be reviewed to ensure that government captures the registration of entities that engage in electronic transactions or those that operate in virtual space. The first step would be to conduct a comprehensive research into how ecommerce business models work and then a policy framework can be instituted.

Expedite the minimum wage regulations to facilitate administration of the Pay as You Earn regime:

The minimum wage bill needs to be passed to protect employees that are contracted within formal firms. With a threshold well-structured under the minimum wage bill, government can realize some boosts in revenues especially on WHT or PAYE.

Improve the administration of stamp duty for construction contracts:
Contracts especially for constructions companies that employ some locals should be certified by URA. The tax administrator will then have privy information on the number of labourers that will be hired for the period and some local service tax or where applicable PAYE could be collected.

Create incentives that encourage registration:
The incentives within the tax laws seem to target established companies and multinationals or foreign investors. Incentives that are tailored for small-businesses need to be created to encourage this category of businesses to register for example a grace period can be provided for newly registered businesses; for existing businesses that have just formalized, a tax amnesty can be created.

Review the penalties of not keeping a record of transaction:
The penalty for poor or no book-keeping still remains lows. There is need to review the provision in the domestic tax laws and the TPC to compel businesses to adopt the principle. Government has in the past proposed book-keeping software for small businesses. Efforts towards expediting this would move Uganda further to engaging the informal businesses into formalization.

To the Civil Society and Academia

CSOs and Academia should engage further in informative policy research with the intent of documenting the gaps in the practice and policy elements of taxation. Dissemination of recommendations that emanate from the various researches that are commissioned should target government and the legislative to ensure findings inform policy formulation. CSOs should also intensify policy advocacy campaigns to adopt recommendations. CSOs should continue playing the active role of educating citizens on taxation to compliment government efforts.

5.2 Tax Administration measures

In the previous discussions, tax administrative measures that are deemed relevant to Uganda's economic typology and the existing gaps in the tax authority are presented. The subsequent are an extract of the proposal deemed most significant.

Government (Finance Ministry and Parliament) should increase funds allocation to URA:

Compared to other revenue agencies, URA remains underfunded yet the targets continue to grow. There is need to allocate more funds to facilitate projects and recruitment of staff. In the deployment of staff, it is important the persons familiar with the local dialect of the jurisdiction are given priority. Taxpayers have found it easier to comply when staff that are familiar with the culture and norms in the jurisdictions in which they operate support their tax transactions. This creates a sense of belonging for taxpayers while minimizing compromise. Financial resources should also be committed to increasing URA presence (footprint) in some geographical areas for example in major trading centres, on high-ways or business concentrated areas where the up rise of informal business is on a high.

Create amnesty for taxpayers willing to comply: Uganda should emulate Kenya's experience in taxation of owners of rental premise and small businesses. A PTR was instituted for small businesses and in the real estate; amnesty on tax arrears was improvised to encourage landlords become visible. An approximate 1,000 landlords responded and the yield in revenues amounted to Kshs 130million (Wafula, 2016 & Ndemo, 2016)

Adopt single unique identifier in registration: URA should eliminate the multiple Identity requirements at the point of registration. Instead a unique single identifier could be adopted. With the National ID in place, URA could leverage on this.

Leverage on innovations in IT under NITA-Uganda to create linkage of databases and systems: As earlier hinted, government institutions continue to invest in system development and database upgrades. However the databases are not inter-linked to the tax administration systems. System integrations need to be fast-tracked to tap into the few registered enterprises and individuals.

Build the capacity of Local governments to automate further their register and revenue management:

As part of the improvement in the revenue mobilization for both the local and central government, there should be linkages amongst the databases of eLogRev, KCCA's eCitie, URA's eTax and URSB's Businesses registration system. As part of the e-government roadmap, these databases would later be linked to other institutional systems such as NSSF, NIRA and others. Whereas the eLogRev is one step forward towards building the competence of local government in generating their own local revenues, the tax administration acumen needs to be further harnessed for the revenue collection teams to appreciate the business models in their localities and relevant fees or licenses.

Intensify and tailor tax Education to informal sector players: Tax matters in themselves are complex. With small business owners whose intent is often raising a small marginal profit for survival, taxation then is regarded as the least priority. Massive education on tax matters has to be invested into and done jointly across all institutions through government, CSOs and other stakeholders like Tax Accountants/Advisors.

Simplify Tax transaction processes: The process of registration to filing needs to be made citizen friendly. The complexities involved in registering for TIN contribute a lot to non-registration. It is prudent that URA deploys simple step-by-step process mindful that not all taxpayers are actually vast with computer manipulation. Efforts should also be put into stabilizing the systems that experience outages hence creating automatic penalties for taxpayers due to late or non-filing.

5.3 Conclusion

It is eminent that the informal sector has visible revenue potential that remains unaccounted for. Deliberate efforts need to be made to ensure that formalization structures are facilitated through policy reform and implementation of existing administrative procedure in order that maximum tax-revenues are mobilized to increase contributions to the resource envelope and consequently reduce borrowing or high dependence on overseas development assistance. From the estimation of revenue foregone, it is more feasible that government should prioritize registering of unregistered employees and High-Net-worth Individuals (HNWIs) who would bring into the resource envelope an approximate of UGX 1 Trillion per annum combined. As taxation of the informal sector takes shape especially on the consideration of the policy and administrative measures proposed above, the principles of taxation that elevate justice, equality and fairness ought to be maintained and kept in sight.

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7. Appendices of Tables

Table A1: Households with informal businesses by Region

Period (Financial years)	Population (000)	Household (000)	Households with businesses (000)	Households without Businesses (000)	North (17%, 000)	East (23%, 000)	Central (35%, 000)	West (25%, 000)
2009/10 (est)	32,165	6,433	1,350	5,082	229	310	472	337
2010/11 (est)	33,047	6,609	1,387	5,221	235	319	485	346
2012/12 (est)	33,929	6,785	1,425	5,360	242	327	498	356
2012/13 (est)	34,811	6,962	1,462	5,500	248	336	511	365
2013/14	34,634	6,926	1,454	5,472	247	334	509	363
2014/15 (est)	35,673	7,134	1,498	5,636	254	344	524	374
2015/16 (est)	36,555	7,311	1,535	5,775	261	353	537	383
2016/17 (est)	37,437	7,487	1,572	5,915	267	361	550	393

Source: Author's computation, National Population Household Census Report, 2014 (see UBOS, 2014)

Computation note:

Population growth rate is estimated at 3.2% before 2014 & at 3.0% after 2014,
An average 4.5 and 5.5 household members is assumed & is divided across the population to ascertain the number of households

Projections or estimation (est.) have been computed accordingly to provide us with the current population at 37.4 Million for 2016/17 although the World Bank report estimated the Ugandan population at 41.49 Million as of 2016

Table A2: Business Establishments by Region ('000)

Region	2001/02	2010/11	Growth Rate	2019/20[3]	<5mil, 70%	5-10mil, 20%	>10mil, 10%
Central	97	271	180	758	530	152	76
Eastern	30	67	124	150	105	30	15
Northern	10	37	283	142	99	28	14
Western	24	83	240	282	198	56	28
National	161	458	185	1,332	932	266	133

Source: UBOS, retrieved from http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/2010%20COBE%20 Report.pdf

Table A3: High Net worth Individuals in Uganda

Parameter Defining HNWIs	Explanation of the Parameter and Range of Value in Ugandan Shillings	Potential HNWIs	Already on Register	VIPs	Not on Register
Shares	Shareholders in companies with Turn over greater than UGX 50 Billion or	493	13	5	475
	Multiple shareholders in companies with Turn ranging from UGX15 to 50 Bn	36	4	0	32
Commercial buildings	Generates Rental income greater than UGX 500M per year	163	49	0	114
Land	Land Transactions Worth UGX 1 Bn and above in the last five years	197	8	2	187
Motor Vehicles	Vehicle(s) with total value above 500M both individually or in aggregate	109	12	7	90
Imports and exports by individuals' TIN's	Worth UGX 500 M per year	83	3	0	80
	Exports Worth UGX 500 M per year	22	0	0	22
	Total	1103	89	14	1000

Source: Kangave et al, 2018.

Table A4: Registration effort (Penetration Rate) by URA[19]

Financial Year	Uganda Revenue Authority Taxpayer Register, Progressive			Uganda Bureau of Statistic on Businesses, informal businesses			
	Individuals Registered (New)	Businesses Registered (New)	Accumulated URA Register per Annum	Business Establishment Operational	Household with Businesses	Individuals with Formal Work	Penetration Rate[4]
FY2009/10	7,182	9,901	17,083	340,602	1,350,942	7,300,000	0.2%
FY2010/11	33,807	8,002	58,892	458,106	1,387,986	7,488,630	0.6%
FY2011/12	57,417	10,284	126,593	575,610	1,425,030	7,677,261	1.3%
FY2012/13	108,178	8,650	243,421	706,170	1,462,074	7,865,891	2.4%
FY2013/14	365,758	9,658	618,837	836,731	1,454,655	8,054,522	6.0%
FY2014/15	132,860	11,112	762,809	967,291	1,498,295	8,243,152	7.1%
FY2015/16	124,103	15,086	901,998	1,097,851	1,543,244	8,431,783	8.1%
FY2016/17	113,750	13,453	1,029,201	1,228,411	1,589,541	8,620,413	9.0%
Subtotal	943,055	86,146	1,029,201	1,228,411	1,589,541	8,620,413	9.0%

Source: URA, 2017a Report and COBE Report, UBOS 2014 and UNHS Report20)

19 Business Establishments (BE)

20 http://www.ubos.org/UNHS0910/chapter12_the%20informal%20sector.html

Table A5: PTR for Businesses with turnover (Ugx. 150-50mn)

Description of thresholds	Tax Rate or Value	Turnover Range
Where the gross turnover of the taxpayer exceeds Shs.125 million but does not exceed Shs.150 million per annum	Shs.2,062,500 or 1.5% of the gross turnover, whichever is lower	Ugx.150-125million
Where the gross turnover of the taxpayer exceeds Shs.100 million but does not exceed Shs.125 million per annum.	Shs.1,687,500 or 1.5% of the gross turnover, whichever is lower	Ugx. 125-100million
Where the gross turnover of the taxpayer exceeds Shs.75 million but does not exceed Shs.100 million per annum	Shs.1,312,500 or 1.5% of the gross turnover, whichever is lower	Ugx. 100-75million
Where the gross turnover of the taxpayer exceeds Shs.50 million but does not exceed shs.75 million per annum.	Shs.937,500 or 1.5% of the gross turnover, whichever is lower	Ugx. 75-50million

Source: Income Tax Act, retrieved from https://www.ura.go.ug/Resources/webuploads/GNRART/Domestic%20Tax%20 Laws%20-2016%20Updated.compressed.pdf

For businesses whose turnover is below UGX. 50million, the assessments are based on the nature of business activity for each entity and geographical scope of the business as summarized below.

Table A6: PTR for Businesses with turnover (Ugx. 50-10mn)

Business type and Geographical Jurisdiction	With turnover between 50-35million	With turnover between 35-20million	With turnover between 20-10m
Kampala City and Divisions of Kampala			
General trade	500,000	400,000	250,000
Carpentry/Metal	500,000	400,000	250,000
Garage (Motor Vehicle Repair)	550,000	450,000	300,000
Hair and Beauty/Salons	550,000	400,000	300,000
Restaurants or Bars	550,000	450,000	300,000
Clinics	550,000	450,000	300,000
Drug Shops	500,000	350,000	100,000
Others	450,000	300,000	200,000
Municipalities			
General trade	400,000	300,000	150,000
Carpentry/Metal	400,000	300,000	150,000
Garage (Motor Vehicle Repair)	450,000	350,000	200,000
Hair and Beauty/Salons	450,000	350,000	200,000
Restaurants or Bars	450,000	350,000	200,000
Clinics	450,000	350,000	200,000
Drug Shops	400,000	300,000	150,000
Others	400,000	350,000	150,000
Towns and Trading Centres			
General trade	300,000	200,000	100,000
Carpentry/Metal	300,000	200,000	100,000
Garage (Motor Vehicle Repair)	350,000	250,000	100,000
Hair and Beauty/Salons	350,000	250,000	100,000
Restaurants or Bars	350,000	250,000	100,000
Clinics	350,000	250,000	100,000
Drug Shops	300,000	200,000	100,000
Others	300,000	250,000	100,000
For businesses in transport sector			
The rate of advance tax under section 134(e) shall be – (a) for goods vehicles: fifty thousand shillings per ton per year; (b) for passenger service vehicles: twenty thousand shillings per passenger per year			

Source: Income Tax Act, 2017. Retrieved from https://www.ura.go.ug/Resources/webuploads/GNRART/Domestic%20Tax%20Laws%20-2016%20Updated.compressed.pdf

Table A7: Presumptive Tax Performance (Ugx. Bn)

Financial Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net Revenues	5,114.20	6,208.35	7,149.48	8,031.03	9,713.81	11,230.87	12,719.63
Gross Revenues	5,461.24	6,550.80	7,489.35	8,377.83	10,114.50	11,496.77	12,894.95
Domestic Taxes	2,816.19	3,472.04	4,274.73	4,671.21	5,553.72	6,594.95	7,314.99
Intern. Trade Taxes	2,534.02	2,937.18	3,070.51	3,548.00	4,336.69	4,838.88	5,406.07
Dir[5]. Domestic Tax	1,665.12	1,991.90	2,433.50	2,624.45	3,248.72	3,706.96	4,180.05
Pay As You Earn	825.64	996.93	1,196.50	1,397.56	1,612.99	1,803.53	2,114.99
Corporation Tax	419.59	553.93	597.64	486.64	714.77	732.16	764.27
Other Income Tax	8.01	1.68	17.90	53.62	42.19	42.92	46.31
Rental Income Tax	-	-	-	-	27.65	55.03	71.74
Withholding Tax	274.75	328.92	389.38	406.70	546.86	699.34	677.93
Tax on Bank Interest	73.57	102.27	222.63	268.93	290.40	355.15	473.76
Casino Tax	4.79	5.39	7.40	11.01	13.86	17.42	26.59
Presumptive Tax	-	-	-	4.08	0.054	0.00	4.46

Source: URA Website, Also available from https://ura.go.ug/readMore.do?contentId=999000000000786&type=TIMELINE (URA Website, Performance Section and Statistics Collection Page)

Table A8: Pay as You Earn Tax Rates

Description of thresholds	Tax Rate or Value
Exceeding Ugx. 4,920,000 (410,000 pm)	Ugx 582,000 (48,500 pm) plus 30% of the amount by which chargeable income exceeds Ugx. 4,920,000 (410,000 pm); Where the chargeable income of an individual exceeds Ugx.120, 000,000 (10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Ugx.120, 000,000 (10,000,000 pm).
Exceeding Ugx. 4,020,000 (335,000 pm) but not exceeding Ugx.4,920,000 (410,000 pm)	Ugx.120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Ugx.4,020,000 (335,000 pm

Description of thresholds	Tax Rate or Value
Exceeding Ushs.2,820,000 (235,000 pm) but not exceeding Ushs.4,020,000 (335,000 pm)	10% of the amount by which Chargeable income exceeds Ushs.2, 820,000 (235,000 pm).
Not exceeding Ushs.2,820,000 (235,000 pm)	Nil

Source: Income Tax Act, retrieved from https://www.ura.go.ug/Resources/webuploads/GNRART/Domestic%20Tax%20 Laws%20-2016%20Updated.compressed.pdf

(Footnotes)

1 Only considers individuals (employees or directors) on the URA register and not the non-individuals (businesses)

2 Combines all employees under the Agricultural sector especially those who are paid and those working proprietors in the same sector. It also includes employees in the non-agriculture sectors but the final figure does not consider those already on the URA register

3 Based on the computation of the Author at the provided 2010/11 Growth rate at regional and national level where Western Region and Northern Region are the growing hubs for attracting investors.

4 Penetration Rate is the extent to which URA has made efforts to bring as many establishments and individuals into the Register. Compares data from other agencies such as Private Sector Foundation Uganda, Enterprise Uganda, Uganda Manufacturers Association but mainly Uganda Bureau of Statistics in terms of the number of businesses who have taxable income.

5 Dir-Direct Domestic Taxes whose final burden cannot be extend to third party in the consumption party

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