INNOVATIONS FOR SUCCESSFUL SOCIETIES

BOLSTERING REVENUE, BUILDING FAIRNESS: UGANDA EXTENDS ITS TAX REACH, 2014 – 2018

SYNOPSIS

After a decade of reforms to boost tax collection, in 2014 the Uganda Revenue Authority (URA) faced up to one of its biggest remaining challenges. Although the agency had significantly improved its internal capacity—along with its ability to collect taxes from registered taxpayers—large numbers of Ugandans paid nothing because they were unregistered or because inadequate compliance monitoring enabled them to underpay. The holes in the system undermined public trust and bedeviled the URA's efforts to meet the government-mandated target to raise tax revenue to 16% of gross domestic product. The URA then joined other government agencies to bring millions of unregistered citizens into the tax net, and it tightened the oversight of existing taxpayers who were paying less than their fair share. Prime targets were millions of Ugandans who worked in the informal economy, which the government said accounted for nearly half of the country's economic activity. At the same time, the URA set up operations to go after wealthy and politically connected individuals who avoided paying their full tax load, and it created a separate unit to press government departments that failed to remit to the URA the taxes they collected, such as withholdings from employees. The URA's program achieved strong gains on all three fronts and thereby helped increase the country's tax-to-GDP ratio to 14.2% in the 2017–18 fiscal year from 11.3% in 2013–14. Just as important, the program made significant progress toward a fairer distribution of the tax burden for Ugandans across all economic levels.

Leon Schreiber drafted this case study based on interviews conducted in Kampala, Uganda, in January and February 2019. Case published April 2019.

INTRODUCTION

In November 2014, Doris Akol moved into her new office in downtown Kampala, Uganda, as commissioner general of the Uganda Revenue Authority (URA), the body responsible for collecting all central government taxes in the landlocked East African country. During the previous decade, Akol had been part of the team that turned the URA from an unwieldy and corruption-riddled organization into a modern operation that collected taxes effectively from most of the country's formally registered payers. (See ISS case study "Righting the Ship: Uganda Overhauls Its Tax Agency, 2004–2014.") The major taxes collected by the URA were those related to income, consumption (value-added), and customs (including import and export duties).

However, the earlier reforms had failed to significantly boost the country's tax-to-GDP ratio to the government-mandated level of 16%—which was still lower than the 18% average for countries in sub-Saharan Africa. Upon assuming office, Akol and her team identified Uganda's so-called informal economy—wherein all sorts of business activities took place in the absence of significant government regulation and monitoring—as a key reason that revenue growth lagged behind improved efficiency. "We realized that we needed a deliberate effort to expand the tax base by incorporating the informal sector," Akol recalled. "We had to move away from the thinking that just because someone is informal, they must therefore be poor. The reality is that big players can also be informal."

Indeed, statistics showed that Uganda's tax net had gaping holes, the biggest of which enabled millions of citizens and businesses to avoid the system entirely. In 2015, the government estimated that informal economic activities accounted for 49% of the country's total GDP.[1] In 2012, the International Labor Organization (ILO) reported that 83.2% of Uganda's employed labor force—a percentage that was substantially larger than many that of the country's peers—worked in the informal economy[2] (figure 1). ILO data showed that 68.2% of employed adults worked informally in neighboring Rwanda, 71.8% in nearby Tanzania, and 65.4% in Zambia.[3]

As a result of low registration rates among informally employed Ugandans, the number of registered taxpayers stood at only 632,279 at the end of the fiscal year that ended in June 2014[4]—in a country of 38 million people.

Aside from undermining the URA's efforts to boost revenue collection, the inequality engendered by a large, informal sector paying very little tax while a small, formal sector accounted for the bulk of government revenues also eroded the country's social contract. A 2013 study by Pan-African research network Afrobarometer found that only 32% of Ugandans had a "tax-compliant attitude"—a much lower share than in neighboring Kenya (54%) and Tanzania (47%).[5] Among nine countries in sub-Saharan Africa (Benin, Ghana, Kenya, Malawi, Mali, Sierra Leone, Tanzania, Uganda, and Zimbabwe), only Malawi ranked lower than Uganda in terms of citizens' willingness to comply with tax laws.[6]

Figure 1. Percentage of employed adults working in the informal sector

Country	%
Ghana 2015	83.2
Uganda 2012	83.2
Tanzania 2014	71.8
Rwanda 2017	68.2
Zambia 2017	65.4
Indonesia 2017	78.5
Vietnam 2017	56.1

Source: International Labour Organization statistics, Informal employment, accessed February 18, 2019.

Although the URA's earlier reforms had improved the agency's ability to collect taxes from registered businesses and formal-sector workers such as teachers, nurses, and police officers, Uganda's small, formal middle class still shouldered a disproportionate tax burden. For the URA to significantly increase public revenue and build citizens' respect for the idea of contributing to the common good, the agency had to identify and register income earners in the informal sector and make sure all eligible Ugandans were paying their fair share.

THE CHALLENGE

To shine a light on an informal economy that had long operated in the shadows, the URA faced a tough job. A 2018 World Bank report stressed both the importance of pervasive informality and the difficulty of dealing with it, as "those involved in [informal] activities are hard-to-reach taxpayers, conducting most of their transactions in cash and/or hiding their economic activities from tax authorities."[7]

The URA's first hurdle involved improving its data analysis capacity. From 2009 to 2012, the agency launched electronic services that enabled taxpayers to submit returns and make payments online. The switch to digital services had produced an abundance of detailed information, including the identities of unregistered customers and suppliers that dealt with registered businesses.

Converting the data into policy required deeper analysis.

But it was not enough to simply rely on data provided by already-registered taxpayers. In a country in which 56% of households reported receiving their income in cash and an additional 31% reported receiving in-kind compensation,[8] the URA had to find innovative ways to identify, contact, and either encourage or compel unregistered businesses and individuals to enlist in the tax system.

In line with Akol's belief that there were wealthy Ugandans as well as poor ones among the unregistered, the URA had to track down well-to-do individuals and businesses that remained outside the tax net or paid less tax than they should have been paying. In addition to generating new revenues, ensuring that the country's economic elite began paying their fair share was key to improving the public's tax morale. But the challenge was especially thorny because the wealthy included politicians as well as citizens with powerful connections. Therefore, the chance of political blowback was a crucial consideration.

Alongside its direct attempts to identify and register both small and large nonpayers, the URA had to strengthen its public relations. Such efforts were needed to raise overall awareness of the tax system and how it worked, to educate businesspeople and would-be entrepreneurs in basic financial practices, and to begin building national acceptance of the need for all citizens to share in the cost of government. To do all of that, the authority had to reorient its messaging and outreach efforts to include eligible taxpayers operating in the informal sector. Although the URA already had a department dedicated to public affairs, many of its communications were directed at the large and corporate taxpayers that generated most of its existing revenue. (In 2014–15, the 726 payers registered at the country's dedicated large-taxpayer office accounted for 67% of all domestic tax revenue.[9])

"Some people said we should focus on large taxpayers, where most of our revenue comes from," Akol said. "But we had been doing that for a long time, and the question now was how to expand the tax base beyond that."

Providing financial education was important to achieving that goal of expansion, according to Vincent Seruma, URA assistant commissioner of public and corporate affairs. "Many young businesses fail because of lack of financial literacy," he said. By educating people on how to start a business, keep records, and track expenses, Seruma's division wanted to make it easier for informal businesses to comply with tax requirements and avoid penalties that could cripple their operations in the early stages.

FRAMING A RESPONSE

The URA's first strategic goal was to detail the particulars of the challenge it confronted—especially specific aspects of its main target: the informal economy. In a 2014 analysis, the URA found that despite constituting the biggest economic sector and contributing 27.1% of GDP, agriculture contributed only 0.81% of tax revenue.[10] Among other problem sectors were construction (8% of GDP, but just 2.7% of taxes), education (5.8% of GDP, 1.8% of taxes), and real estate (4.2% of GDP, 1.4% of taxes).[11] Although exemptions contributed to weaken tax collection in sectors like education,[12] the data made it clear that those areas likely also featured exceptionally high levels of informality and, potentially, avoidance.

The next step was to take the URA's analytics capacity to the next level. In 2015, the information technology team, led by longtime assistant commissioner James Kizza, launched a business intelligence and data analytics platform called eHub. Partly funded by the German Development Bank, the new platform brought together all of the data generated through the domestic tax IT system, called eTax, and the customs data stored in the authority's Automated System for Customs Data++, or ASYCUDA++.

"One big advantage of eHub is that it changed our data analysis from a tax-type perspective to a sector perspective. This makes it possible to really slice and dice the data," Kizza said. By pooling and jointly analyzing the data from domestic taxes and customs, the URA could identify inconsistencies and anomalies that indicated possible tax avoidance—for instance, if an individual had paid import duties to acquire an expensive vehicle but had never declared any income for domestic taxes. "It enables us to calculate the risks for each taxpayer or for an entire sector," Kizza said.

After deepening their understanding of the informal sector and developing a more sophisticated data analytics tool, URA leaders planned to move ahead with a pilot program that took aim primarily, though not exclusively, at registering small, informal businesses. The taxpayer register expansion project had been designed under the leadership of former commissioner general Allen Kagina, who retired from the authority in 2014.

The project's genesis lay with Finance Minister Maria Kiwanuka, who in June 2013 announced she would help "provide a legal framework through which [the] URA will collaborate with the Uganda Registration Services Bureau, local governments and the [Kampala Capital City Authority] to identify taxpayers and collect taxes on small businesses which are hard to reach." Kiwanuka said the new framework was "aimed at easing tax administration and enforcing compliance by bringing more taxpayers into the tax net."[13] An important aspect of the project was the establishment of one-stop shops where most citizens could settle their tax affairs and obtain services from other government departments.

In 2015, Akol's team also set up separate units to bolster tax compliance in two narrower segments of Uganda's society. The first focused on high-net-worth citizens—a category that included wealthy individuals but had been defined only loosely until 2018.

The second unit took aim at politically powerful or influential individuals regardless of their financial status. Those so-called VIPs included not only the president, the vice president, ministers, politicians, and the head of the defense force but also religious leaders, cultural figures, heads of business associations, and even outspoken individuals such as journalists and activists, according to a January 2016 study published by the International Centre for Tax and Development, a United Kingdom–based research center funded by Britain's Department for International Development and the Bill & Melinda Gates Foundation.[14]

The URA, which used its own budgeted funds to implement the pilot project and establish the two new units, was navigating a relatively unexplored course. For example, among other African countries, only Mauritius's tax office had a unit dedicated specifically to wealthy individuals in 2014. The South African Revenue Service had shut down its unit earlier that year.[15]

GETTING DOWN TO WORK

The URA's strategy was to expand the taxpayer register across all income levels—but with sharp focus at the bottom and the top. To address the lower portion, the pilot project identified and enforced registration by informal businesses, most of which, although not all, had relatively modest sales and profits and thus qualified to pay a simplified turnover tax. As part of the pilot project, the tax authority reoriented its awareness campaigns to communicate with taxpayers in the informal sector of the economy and to deal with any opposition that might arise.

Meanwhile, separate teams dealing with wealthy individuals and VIPs, most of whom were at the upper end of the income spectrum, had to design and implement criteria and procedures to register members of the Ugandan elite, some of whom were accustomed to avoiding their tax responsibilities or paying less than their fair share.

Starting at the bottom

Working with the finance ministry and other government departments, the URA in early 2014 launched the pilot taxpayer register expansion project in the capital, Kampala. The project rested on a participation agreement between the URA, the city's government, and the Uganda Registration Services Bureau, which was responsible for business registrations and intellectual property.

The idea behind the three-way cooperation "was to leverage one another's strengths. We are revenue experts, but the local government is closer to the clients, has better knowledge of the clients, and hence can enforce better," said Robinah Nakakawa, URA assistant commissioner of service management, who led the project from 2017.

The project began with the joint training of a total of 144 staffers from the three participating agencies in order to harmonize data gathering.[16] Then the partnership created dozens of one-stop shops across Kampala with a view to provide services from the local government and the national registration bureau in addition to those from the URA. The three participants together designed a single set of forms that could be used for all transactions, thereby eliminating the need for clients to submit the same information repeatedly.

Involving the national registration bureau had specific advantages. Because the bureau was the only government agency that offered services like patent, business, property, marriage, and divorce registration, many Ugandans had no choice but to periodically visit its offices. For example, business licenses had to be renewed annually and in person.

Through the one-stop shops, the URA gained direct access to large numbers of Ugandans who otherwise might have remained outside the tax net. As a result, the tax agency's workers were able to identify citizens who lacked proper tax registration and could then issue them identification numbers. Tax workers also had the opportunity to inform registered taxpayers of outstanding debts and related matters.

The one-stop shops were popular with Ugandans who no longer had to complete as much paperwork as they had previously. And taxpayers who were not yet comfortable with the URA's online service no longer had to travel to one of the authority's field offices to sit down with a URA official.

The URA publicized the taxpayer expansion project by advertising in local newspapers and on radio, and Nakakawa said some workers in the pilot program reached out directly to the public. "They invited people to the [one-stop shop] and filled in a form with their details ahead of time," she said. In early 2015, to give further public prominence to the project, the URA launched Operation Storm Kampala, an initiative that featured surprise visits to businesses that were registered with the city but not with the URA.[17]

The Kampala pilot produced strong results. From 2014 to mid 2016, the URA registered 134,332 new taxpayers, which expanded the national register by 20%.[18] During 2016, with the backing of the finance ministry, the tax authority signed agreements with local governments to establish one-stop shops across Uganda. Buy-in and direct involvement by local authorities was crucial to making the project work in areas outside Kampala.

The main thrust of the registration project was to improve compliance with Uganda's tax laws among citizens who operated small businesses, most of which operated informally. Nakakawa explained that enterprises with turnover of less than 150 million Ugandan shillings (about US$40,500) per year were permitted to pay a simplified annual presumptive turnover tax that required neither formal accounting records nor the submission of complete tax returns: Taxpayers with gross turnover of less than USh50 million (US$13,500) paid a flat rate. And those earning USh50 million ($US13,500) to USh150 million (US$40,500) paid about 1.5% of their total turnover.[19]

Because the cost of living differed between urban and rural areas, the flat-rate tax also varied based on geographic location and type of business. For example, a motor vehicle repair shop with turnover of USh35 million (US$9,500) to USh50 million ($US13,500) based in Kampala would pay a flat rate of USh550,000 (US$150) per year, whereas the same company would pay only

USh450,000 (US$122) if based in a medium-size municipality and USh350,000 (US$95) in a rural area.[20]

The project also helped support the URA's efforts to expand taxation in the agricultural sector. Akol said that a cattle farmer, for instance, "may look like a peasant but might have 100 head of cattle that he milks every day. If a registered co-op buys milk from that farmer, the co-op is allowed to deduct certain expenses. . . . However, if the farmer is not registered, the deduction will not be allowed. So they have an incentive to tell us who and where the farmer is." As more and more traders registered, the URA became able to identify more and more farmers at the start of the supply chain.

Although the URA's registration project did not explicitly focus on larger businesses or wealthier individuals, who were supposed to register with the domestic tax department, project officials flagged such potential taxpayers when they encountered them, Nakakawa said.

Raising awareness, encouraging compliance

Not only did the registration project strengthen tax-law enforcement among small businesses and individuals of generally modest means, but the URA also aimed to strengthen the social contract. The agency did not want Ugandans to view the tax registration push as merely trying to ensnare them in some sort of government scheme to take their money. "Our strategic goal is to cultivate a taxpayer culture, but the appetite to pay tax is influenced by perceptions of accountability," said Seruma, who was in charge of public and corporate affairs. "The public knows that the URA collects taxes, but what does the government do with them? We realized that this is a big obstacle."

In 2017, Seruma's 33-member division began to evaluate the URA's past approach to raising awareness and encouraging compliance, such as an annual taxpayer appreciation day that catered largely to elite economic institutions such as banks and multinational companies. "We usually invited 300 large taxpayers to a luxurious dinner, but we realized we were ignoring informal taxpayers," he said. "The informal sector had very limited opportunity to interface with the value of taxes." Outreach was especially complicated in a multilingual country with dozens of indigenous languages.

Seruma said he recognized that the URA had to focus on "every living Ugandan . . . because everyone pays directly or indirectly. Even someone who just buys a bottle of water pays excises." He added, "We needed a proposition for someone in a village. A bank wants a plaque in its office [congratulating it for being a loyal taxpayer], but the person in the village wants something in return [for paying taxes]."

Staffers revamped the division's taxpayer appreciation effort and developed a weeklong program that aimed to "present evidence to ordinary people of what the government does with tax money," Seruma said. The cabinet endorsed the URA proposal, and other government agencies enthusiastically joined in. The inaugural week took place in Kampala in 2017 and featured a public exhibition area where government departments showcased their work and advertised job and contracting opportunities. An estimated 100,000 Ugandans visited the exhibit during the week, according to Seruma.

"It was an effort to connect the dots for taxpayers but also to encourage our colleagues in government to learn to be transparent," Seruma said. He stressed the importance of seemingly small gestures. For instance, the government bottling agency provided free bottles of water for attendees; the ministry of health offered yellow fever vaccinations free of charge; and government lawyers provided free legal advice. "For once, taxpayers felt they'd gotten something from government without fighting. That is the kind of philosophy we are trying to create," Seruma said.

Alongside government exhibits, the weeklong event also enabled 300 newly tax-compliant small businesses and traders to showcase their products and services. The URA thus directly rewarded previously unregistered individuals and businesses by providing an opportunity for them to market their products in an unusually busy venue. Seruma explained the new philosophy metaphorically: "Usually, the public saw us coming only to take some of the mangoes from the tree they had grown during a drought. But now we wanted people to see us contributing to growing the mangoes, because they saw us helping them grow their businesses."

In 2017, the public affairs division launched a separate intervention aimed at informal and small businesses, which was in the form of a financial literacy program called Tax Katale, or tax market. The initiative featured workshops to build awareness of financial matters among several specific social sectors, including woman entrepreneurs and youth. The workshops provided businesspeople with sales and expense books, gave information on how to register a business and keep records, and—important for the URA—instructions in how to comply with applicable tax laws. Under the program, URA officials went door-to-door across the country to provide advice for businesspeople. Seruma said the Tax Katale also benefited the URA by enabling the agency to better understand "who is selling what and where."

Although the URA sharpened its focus on smaller taxpayers, officials made sure their new approach continued to recognize the importance of larger ones, and a revamped annual taxpayer appreciation week still culminated in a gala dinner mainly for banks, multinational companies, and such. Seruma said it was important to retain the event "because it translates into brand visibility and public confidence" in compliant companies.

The tax office also continued its decade-long practice of organizing a highly publicized annual Open Minds Forum to debate matters of public concern and to position the URA to drive the public agenda. Significantly, the 2018 event was themed "The informal sector: An invisible force with a visible impact."

Other initiatives to raise awareness included financial literacy campaigns, annual budget breakfasts, and integrity drives for taxpayers.

Netting wealthy and influential Ugandans

To further boost revenues and ensure that wealthy and powerful individuals played their part in sharing the country's tax burden, the URA also homed in on the top end of the personal-income spectrum, which had received little scrutiny by tax regulators in the past. Although the authority in 2012 had introduced a wealthy-individuals category to describe the 737 taxpayers registered at the large-taxpayer office, only 17 were individuals; the rest were big businesses.

Wealthy and politically connected individuals were worthy targets for tax-compliance investigators. In 2013–14, only 5% of directors in the largest taxpaying companies paid income tax, with some paying as little as US$5, according to a 2018 report by the International Centre for Tax and Development. The report further showed that out of a sample of the top 60 lawyers in the country, "less than a third were remitting [personal income tax] for the periods 2011–12 and 2013–14." In addition to other findings, the report said a study of 71 top government officials during fiscal years 2011–12 and 2013–14 found that all of them had stakes in commercial enterprises, but most paid no personal income tax.[21]

In 2015, reformers sought to address those gaps by setting up within the URA's large-taxpayer office separate units focused on VIPs and wealthy individuals. "I was called and given a register [drawn up by the large-taxpayer office] that contained the names of the president and all of the people who mattered in this country," recalled Monica Tumukunde, head of the unit focused on VIPs. As a first step, Tumukunde's unit generated a list of additional names of potential VIPs to add to the existing register. A separate team that focused on wealthy individuals went through the same process.

Because many of the people whose names were on the list did not file returns, "we made Google our friend and created detailed files on each client," Tumukunde said. She emphasized that in compiling the register, "we included on the VIP list people who were not necessarily wealthy but were influential and could help spread the URA's message."

After compiling an initial list of 209 VIPs, Tumukunde's team divided the register among four client-relationship managers who had to find ways to contact those influential people. Tumukunde said tax officials relied heavily on informal networks of business associates or friends to determine how to make contact and set up face-to-face meetings. "These weren't people you just called or showed up to see out of the blue," she said. "It sometimes took me three months to complete a task that normally takes two weeks."

The process required a personal touch uncommon in government work. Tumukunde stressed the importance of being courteous and building rapport to avoid political entanglements: "These are busy people who often canceled or postponed meetings. . . . You must handle them properly because they can call the president. At the same time, we also had to stop feeling intimidated."

Support from Commissioner General Akol and the commissioners and assistant commissioners on her management team was vitally important to counter pushback. "Some people would say: 'I don't deal with small people.' In those cases, we relied on the commissioner general to help us secure and attend the meeting," Tumukunde said. Akol was a well-known and respected senior government official, and her personal involvement and presence during meetings encouraged recalcitrant taxpayers to comply.

Because there was substantial overlap between VIPs and wealthy individuals—of the 117 original wealthy individuals identified, 21% also made the VIP list—the URA decided to merge the two units in 2017. The next year, Tumukunde's team set out to formalize its criteria for each category and developed parameters suited to the local context. The proposed measures, designed together with researchers from the International Centre for Tax and Development, consisted of four core criteria and an equal number of noncore criteria. The system designated individuals as wealthy or VIPs if they satisfied one core criterion or two noncore criteria.[22] The core measures, which focused mainly on quantitative and measurable wealth indicators, were:

- Land transactions valued at more than US$285,715 over the previous five years
- Rental income valued at more than US$142,858 per year
- Loans greater than US$1.5 million over five years or bank transactions of more than US$1 million per year
- Shareholders in companies whose turnover was greater than US$14.3 million

The noncore parameters were somewhat more qualitative:

- Publicly known wealth
- Farmers with high-value commercial forests, animal ranches, and plantations
- Ownership of cars with a market value of more than US$142,858
- Imports or exports valued at more than US$142,858 per year[23]

The adoption of clearer criteria improved the URA's ability to identify wealthy individuals and VIPs who were not registered. The system also made it easier for officials who encountered pushback from powerful people, because the officials could point to defined parameters to support their case.

OVERCOMING OBSTACLES

Even as the URA was working to ensure that all Ugandans, regardless of their income or status, paid their fair share of taxes, officials realized that the public sector remained an outlier. The agency had long known that some government departments failed to carry out their tax-collecting responsibilities. Some never collected required taxes and fees, and others failed to remit to the central government the money they had collected in the course of their official responsibilities. With so much political capital used in drawing private-sector citizens and businesses into the tax net, Uganda could no longer afford a public sector that didn't lead by example. The "government lacked the moral authority to ask other people to pay" if it did not pay its own share, Akol said.

In the Ugandan system, government departments and other public agencies were required to deduct taxes—including pay-as-you-earn income tax deducted from employees' wages or value-added tax withheld from contractors—and remit them to a central URA bank account. After verifying the payment, the URA would then transfer the money to the central bank. However, as a result of poor management by government departments and inadequate oversight by the URA, public-sector taxes often fell through the cracks. Weak and ineffective financial systems lay at the heart of the problem; for example, some departments simply failed to deduct value-added tax from money paid to private contractors.

Poor monitoring and inadequate follow-up by the URA exacerbated the situation. Tax officials perceived it to be much more difficult to win compliance from the public sector because of all of the bureaucratic and political hurdles they had to jump through. It was much easier to meet revenue targets by clamping down on private-sector taxpayers.

Although the URA had a unit dedicated to government departments within the large-taxpayer office, the office was understaffed and had a low profile. To raise the prominence of the issue, the URA sought to team up with the treasury, which had launched a series of public financial management reforms, such as creating a single treasury account. The URA approached Keith Muhakanizi, permanent secretary of the treasury, for assistance. "The secretary to treasury was very clear that as part of the [public financial management] reforms, the government would [no longer] miss its tax payments," Akol said.

In September 2014, the URA created a more-high-powered, stand-alone office focused solely on ensuring compliance by public-sector taxpayers. As noted in an October 2018 International Centre for Tax and Development paper, the URA took a broad view of the public sector, including the executive, legislative, and judicial branches, which comprised the office of the president, the parliament, central government ministries, and local government units.[24] The new public-sector office also was responsible for semiautonomous government entities such as the national petroleum and electricity regulatory authorities.[25]

The office started on a pilot basis with seven staff members managing 379 public-sector taxpayers. Building relationships was an important initial step, and the office hired people with strong interpersonal skills to serve as client-relationship managers, who worked with specific government agencies. The managers traveled across the country to meet the various departmental financial heads and the heads of local governments and to make sure they had the correct contact details for each client. "Even though our budget is tight, we try to physically visit every customer twice per year," said Marion Namnyoro, a manager of the public-sector office.

The public-sector team cleaned up the public-taxpayer registry by checking that each entity was correctly registered for the right tax types. The next step was enforcement. "The client relationship managers are supposed to sweet-talk customers into complying," Namnyoro said. "But if they fail, enforcement officers like myself are supposed to apply the cane."

Namnyoro said enforcement could be more difficult in this domain than it was with regard to private taxpayers. "The problem is that you cannot attach government accounts, which makes sense because you could be jeopardizing service delivery," she said. Instead, in cases of noncompliance, the office's main enforcement strategy was to use the government hierarchy. "Now that we had all the right contacts, I would go to the bosses like permanent secretaries or district commissioners to apply pressure from the top," she said.

In exceptional circumstances, the office applied to Muhakanizi for the treasury to automatically deduct outstanding taxes from the

Figure 2. Public-sector-office evolution

Taxpayer category	2014–15	2015–16	2016–17
Taxpayer register	381	666	981
Number of public-sector-office staff	7	17	26
Staff-to-taxpayer ratio	1:55	1:39	1:38

Source: Henry Saka, Ronald Waiswa, and Jalia Kangave, "Taxing Government: The Case of the Uganda Revenue Authority's Public Sector Office," International Centre for Tax and Development Working Paper 84, October 2018, accessed February 18, 2019; https://www.ictd.ac/publication/taxing-government-the-case-of-the-uganda-revenue-authoritys-public-sector-office/.

next budget payment to the owing entity. "But this could be done only on audited amounts, and it's not easy because the treasury does not want to stop those people from meeting their [service delivery] target for the year" by deducting money from their budgets, Namnyoro said.

With political backing from the treasury department, the combination of building strong personal relationships and enforcement from the top produced results. Less than a year after starting operations, the public-sector office had collected US$77 million—well above the target of US$50 million that the URA's management had set.[26] From July 2015 to January 2017, the URA expanded the office staff to 26 and included more departments within its purview.

The office gradually assumed responsibility for collecting revenues from public authorities and commissions, hospitals, public universities, vocational training institutions, and national parks. In July 2017, the URA moved the wealthy individuals/VIP unit from the large-taxpayer office to the public-sector office. The expanded public-sector office now oversaw 981 of the biggest and most-important taxpayers in Uganda, rivaling the large-taxpayer office in terms of revenue collection[27] (figure 2).

Throughout this period, the authority also improved its customs collection and tracking capacity (see text box 1.)

ASSESSING RESULTS

The URA succeeded in creating a more productive and fairer system in which previously unregistered individuals and businesses, the country's economic and political elite, and government departments were now contributing their fair share. Annual net revenue collection increased to USh14.4 trillion (US$3.9 billion) in the fiscal year that ended in June 2018 from USh8.03 trillion (US$2.2 billion) in June 2014—an increase of nearly 80% over four years.[28] And after stagnating at about 11% during the early 2010s, Uganda's tax-to-GDP ratio increased to 14.2% in 2017–18 from 11.3% in 2013–14.[29]

Following decades of underperformance, Uganda was finally catching up to the sub-Saharan African tax-to-GDP average of 18%, registering the highest revenue growth in the East African region from 2015–16 to 2017–18.[30]

The taxpayer register expansion project—launched in 2014 as a pilot program in Kampala—played a major role in broadening the country's tax base. From 2013–14 to June 2018, the total number of registered taxpayers in Uganda more than doubled: to 1,320,691 from 632,397.[31] The pilot alone enlisted 134,332 new taxpayers, and the URA registered an additional 520,922 after the nationwide scale-up began in 2016.

The URA's focus on wealthy and high-profile individuals yielded immediate results. From September 2015 to June 2017, the unit generated US$11.44 million in new revenue, and the proportion of known wealthy and high-profile individuals who filed income tax returns surged to 78% from 13%.[32] Although the monetary contribution represented only a small part of the US$3.4 billion that the URA collected in 2016–17, the increase in tax collection from the wealthy and powerful underscored the URA's commitment to greater fairness and laid the foundation for future efforts to raise revenue collection from the Ugandan elite.

Box 1. Strengthening Customs

The URA's earlier effort to improve the effectiveness of its customs collection and tracking came to fruition under Dicksons Kateshumbwa, who became commissioner of customs in 2015. Kateshumbwa said his team faced a number of pressing challenges. "Uganda is a landlocked country and a major supply route for our neighbors, yet we didn't have a cargo-tracking mechanism," he noted. That led to illegal dumping by people who claimed they were only traveling through Uganda en route to a neighboring country. The lack of cargo tracking opened the door for such people to avoid customs duties. And the absence of a centralized clearing system created a corruption problem as well, because the process of checking and approving imports and exports took place at border posts in face-to-face meetings.

The customs team's first key reform was the creation of a central clearinghouse at URA headquarters in Kampala. Instead of having customs officials work directly with clearing agents at border posts, the team used the URA's improved internet connectivity to link all border posts with the Kampala office, where a customs department clearance center operated around the clock, seven days a week. The URA simultaneously cracked down on customs brokers by introducing an examination that each broker had to take before being permitted to obtain a license to operate in Uganda.

To further smooth importing and exporting, the URA installed electronic scanners at border posts that permitted truck drivers to have their loads inspected without the need to open and unpack shipping containers. The clearance process sped up significantly. Uganda took this change a step farther in 2015, when it introduced six one-stop border posts. Instead of clearing goods twice—once when exiting a neighboring country and again a few moments later when entering Uganda or vice versa—traders could now clear their cargoes in only one building, which housed officials from both revenue authorities.

Similarly, the URA created an electronic cargo-tracking system that was fully integrated with Kenya and Rwanda. Under the new system, "The moment goods arrive at the port of Mombasa, we attach an electronic GPS device, called a *seal*" to the container, Kateshumbwa said. Because each device contained a record of the route the specific truck would follow, "if you make an attempt to divert, we get an alert," he added.

Using large screens mounted on the wall of a monitoring center in Kampala, URA workers became able to track every shipment moving in and out of Uganda from and to the ports of Mombasa and Dar es Salaam. The new system made it much harder for importers to dump goods in Uganda that, for example, they had said were destined for the Democratic Republic of Congo. (for more detail see the companion ISS case study *"Righting the Ship: Uganda Overhauls Its Tax Agency, 2004-2014."*)

Similarly, within the first year of its operation, the public-sector office had revenue collections from government organizations nearly triple those from the previous year: to USh628 billion (US$168 million) from USh216 billion (US$58 million).[33] Its performance made the office Uganda's second-largest contributor to domestic tax collection—after the large-taxpayer office. The public-sector office's share of total domestic revenue more than tripled to 17% in 2016–17[34] from 5% in 2014–15 (figures for 2018 were not available in early 2019).

The public-sector office proved so successful in managing public revenue collection that in 2016, the finance minister directed the URA to also collect all other nontax revenues—such as license fees and permit fees—on behalf of the rest of the Ugandan government.

REFLECTIONS

A major challenge the Uganda Revenue Authority confronted in its efforts to improve tax compliance in the economy's informal sector was the absence of a comprehensive national identification system. That made it difficult to combat the use of fraudulent documents. A January 2016 study by the International Centre for Tax and Development said, "even in institutions such as banks, where identification documents are required, it is difficult to verify the authenticity of the documents used. . . . [This makes] it difficult to establish audit trails."[35] Many Ugandans relied on reference letters from local officials to confirm their identities in order to open bank accounts or register for tax purposes, and documents were usually easy to forge.

A credible identification system would go a long way toward helping the URA further boost the integrity of Uganda's tax compliance system. But such a system remained on the drawing board in early 2019, even though the government had begun to develop a national identification system in 2014.

Tax avoidance in the agricultural sector remained a specific challenge. The URA's taxpayer register expansion project helped the authority identify some agricultural producers that failed to register for taxes, but the challenge went beyond registration. A 2018 World Bank report outlined how exemptions from value-added tax and other taxes undermined revenue growth. Although such exemptions were intended to "provide support to small farmers . . . these exemptions also [excluded] large farmers and cattle breeders from the tax base, with the result being that in terms of absolute value, the level of support provided to large farmers significantly exceeds that provided to small farmers. This makes the stated justification for these exemptions unconvincing," according to the report.[36]

Instead of exemptions, the World Bank recommended income thresholds in the agriculture sector "to exempt small farmers from certain taxation requirements, while ensuring large farmers that produce significant values of cash crops or cattle are included in the tax base."[37]

A final key issue involved the outlook for sustaining momentum in expanding the government's taxation reach. From 2014 through 2018, the URA registered impressive gains and showed remarkable determination to bring more Ugandans into the tax net—including some of the wealthiest and highest-profile individuals in the country. Political commitment by the URA's top leaders, including their personal participation in meetings with high-profile officials to convince them to pay tax, had been an integral part of the URA's progress. But going forward, would the URA be able to continue enforcing compliance by all wealthy individuals, or would pressure from vested interests eventually force the tax authority to focus only on those whose wealth was not directly or indirectly connected to politics?

Doris Akol, who became the URA's commissioner general in 2014, acknowledged that the authority had to walk a fine line in order to engage powerful interests without triggering political backlash. "If our authority is watered down by a pushback, then the URA will also not be able to enforce other regulations." she said. "We are tax professionals who want to do our work, but many times we meet political roadblocks. That's why our work not only is technical but also requires a balancing act."

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