

**BOLSTERING REVENUE, BUILDING FAIRNESS:
UGANDA EXTENDS TAX REACH, 2014–2018 (SHORT VERSION)**

This summary draws on an ISS case study with the same title can be found on the [ISS website](#). Leon Schreiber drafted the full case based on interviews conducted in Kampala, Uganda in January and February 2019. Case published April 2019. Summary published in May 2019.

BACKGROUND

In November 2014, Doris Akol took over as commissioner general of the Uganda Revenue Authority (URA), the semiautonomous body responsible for collecting all central government taxes. During the previous decade, Akol had been part of the team that transformed 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. 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. Large numbers of Ugandans paid nothing because they were unregistered or because inadequate compliance monitoring enabled them to underpay. The holes in the system bedeviled the URA's efforts to improve tax collections and undermined public trust.

Akol and her team identified Uganda's large informal economy as a main reason that revenue growth lagged behind improved efficiency. In 2015, the government estimated that informal economic activities accounted for 49% of the country's total GDP.¹ And 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 2014²—in a country of 38 million people. (In 2014–15, the 726 taxpayers registered at the country's dedicated large-taxpayer office accounted for 67% of all domestic tax revenue.³) “We realized that we needed a deliberate effort to expand the tax base by incorporating the informal sector,” Akol said. “We had to move away from the thinking that just because a person is informal, the person must therefore be poor. The reality is that big players can also be informal.”

KEY ISSUES

- The switch to digital services and an e-payment system beginning in 2009 had produced an abundance of detailed information, including the identities of unregistered customers and suppliers that dealt with registered businesses. 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,⁴ 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. But the likelihood of political blowback was a crucial consideration.
- Alongside its direct attempts to identify and register both small and large nonpayers, the URA had to raise overall awareness of the tax system and how it worked, had to educate businesspeople and would-be entrepreneurs in basic financial practices, and had to begin building national acceptance of the need for all citizens to share in the cost of government.

REFORM STRATEGY

“Some people said we should focus on large taxpayers, where most of our revenue comes from,” Akol said. “But we had already been doing that for a long time, and the question now was how to expand the tax base beyond that.” The URA aimed to expand the taxpayer register across all income levels—but with sharp focus at the top as well as the bottom, where most enterprises had relatively modest sales and profits and thus qualified to pay a simplified turnover tax.

To identify where taxpayer compliance was low, the URA first boosted its analytic capacity. In 2015, the information technology team, led by longtime assistant commissioner James Kizza, launched a business intelligence and data analytics platform called eHub. Funded partly 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.

The authority then moved forward with an existing pilot project to register small, informal businesses in Kampala. Finance Minister Maria Kiwanuka had already started to create a legal framework that enabled the URA to collaborate with the Uganda Registration Services Bureau, local governments, and the Kampala Capital City Authority in the collection of taxes on small businesses. An important aspect of the project was the

establishment of dozens of one-stop shops where most citizens could settle all 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. At the time, among African countries, only Mauritius's tax office had a unit dedicated specifically to wealthy individuals. The South African Revenue Service had shut down its office just as Uganda launched its project.

ACTIONS TAKEN

The URA publicized the taxpayer expansion project in Kampala by advertising in local newspapers and on radio, and some workers in the pilot program reached out directly to the public. The pilot produced results. From 2014 to mid 2016, the URA registered 134,332 new taxpayers, which expanded the national register by 20%.⁵

During 2016, with the backing of the finance ministry, the tax authority signed agreements with local governments to establish one-stop shops across Uganda. 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.

The project also helped support the URA's efforts to expand taxation in the agricultural sector. Akol said that a cattle farmer, for instance, "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 traders registered, the URA became able to identify more farmers at the start of the supply chain.

The agency did not want Ugandans to view the tax registration push as merely a government scheme to take their money. Staffers developed a weeklong program that demonstrated to Ugandans what the government did with their tax money. 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. Alongside government exhibits, the event also enabled 300 newly tax-compliant small businesses and traders to showcase their products and services. An estimated 100,000 Ugandans visited.

Also in 2017, the public affairs division launched a separate intervention aimed at informal and small businesses—in the form of a financial literacy program called Tax Katale, or tax market. The workshops (1) provided businesspeople with sales and expense books, (2) conveyed information on

how to register a business and keep records, and—important for the URA—(3) gave instructions about how to comply with applicable tax laws. Under the program, URA officials went door-to-door across the country to provide advice for businesspeople.

The URA also addressed tax problems at the high end of the income spectrum. 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. In 2015, the URA set up within its large-taxpayer office separate units focused on VIPs and wealthy individuals.

Monica Tumukunde, head of the unit focused on VIPs, worked with advisers to establish criteria. The system designated individuals as wealthy or VIPs if they satisfied one of four core criteria or two noncore criteria.⁶ The core measures, which focused mainly on quantitative and measurable wealth indicators, were land transactions valued at more than US\$285,715 during 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, and shareholders in companies whose turnovers were 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 market values of more than US\$142,858; and imports or exports valued at more than US\$142,858 per year.⁷ The unit then matched names to returns, researched those not on the tax list, and held face-to-face meetings in an effort to win compliance.

As the URA worked to ensure that all Ugandans, regardless of their income or status, paid their fair shares of taxes, officials realized that some government departments were failing to carry out their tax-collecting responsibilities. 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 and value-added tax withheld from contractors—and remit them to a central URA bank account. However, many departments and agencies failed to either collect or remit the revenues to the URA. In September 2014, the URA created a stand-alone office that focused solely on ensuring tax-law compliance by public-sector taxpayers. In exceptional circumstances, the office asked the treasury to deduct outstanding tax-related revenues from budget allocations.

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 contributing their fair shares. Annual net revenue collection increased to US\$14.4 trillion (US\$3.9 billion) in the fiscal year that ended in June 2018 from US\$8.03

trillion (US\$2.2 billion) in June 2014—an increase of nearly 80% in four years.⁸ 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 2013–14.⁹

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 2017–18.¹⁰

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 632,397.¹¹ 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%.¹² 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 Uganda’s elite.

Similarly, within the first year of its operation, the public-sector office’s revenue collections from government organizations nearly tripled those from the previous year: to 628 billion Ugandan shillings (US\$168 million) from 216 billion Ugandan shillings (US\$58 million).¹³ The office’s performance made it 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 2016–17¹⁴ from 5% in 2014–15 (figures for 2018 were not available in early 2019).

LESSONS LEARNED

- 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. Without such a system, it was difficult to combat the use of fraudulent documents. 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.
- Despite increased tax registrations among farmers, the agricultural sector remained a problem area because of broad exemptions from the value-added tax and other levies. A 2018 World Bank report concluded that although such exemptions were intended to “provide support to small

farmers . . . these exemptions also [excluded] large farmers and cattle breeders from the tax base.”¹⁵

- An unsettled issue involved the outlook for sustaining momentum in expansion of the government’s taxation reach to affluent, politically connected Ugandans. The active commitment of the URA’s top leaders, including their personal participation in meetings to convince high-profile officials to pay their rightful shares of taxes, had played an important role in the URA’s progress. Commissioner General Doris Akol acknowledged that the URA had to walk a fine line if it was going 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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