SENIOR SIX SELF STUDY WORK
ENT P.1
DAY 1

TOPIC: BUSINESS TAXES/TAXATION

This refers to a legal compulsory transfer of money from the public to the government as a source of revenue without corresponding goods or services rendered.

A tax is a compulsory contribution charged on people by the public authority with no reciprocal benefits (corresponding goods or services rendered).

Or A tax is a compulsory charge or levy imposed by the government to ran other competent authority on persons (individuals, corporate or other legal entities) or on businesses in order to finance government activities.

COMMON TERSM USED IN TAXATION

a. **Tax rate**. This is the general amount of tax that the government intends to charge on each unit or value of the tax base.

b. **Tax avoidance**. This refers to a situation where the taxpayer dodges to pay tax imposed on him or her by exploiting loopholes (weaknesses)in the tax system.

OR Is a situation where a tax payer uses illegal means not to pay the tax imposed on him like a person avoiding buying a commodity on which a tax has been imposed

c. **Tax evasion**. Is the deliberate refusal of a tax payer to pay the tax assessed or imposed on him. Like a person hiding at the time of collecting the tax.

Causes of tax evasion

- ✓ To retain all the earnings
- ✓ Unfair assessments

- ✓ Low income levels
- ✓ Political substance
- ✓ Discontentment about the services provided by the government
- ✓ Inadequate information about advantages of paying taxes.
- ✓ Relaxity in the tax system

d. **Tax base**. This refers to the range of economic activities, or items on which taxes are levied.

e. **Tax capacity**. This is the ability of a tax payer to pay the tax left without negatively affecting the tax payer’s standards of living.

f. **Tax burden**. It refers to how a tax payer feels when the tax is imposed on him or her in form of money loss, or goods and services foregone.

g. **Incidence of the tax**. It refers to the final resting place of a tax. That is, who actually bears the money value of the tax.

h. **Impact of a tax**. This is the immediate person or affirm on which a tax is imposed.

i. **Tax liability**. This refers to the amount of money a tax payer is required to pay within a given period of time.

PRINCIPLES/CANONS OF GOOD TAXATION

According to Adam Smith, the canons of taxation are the criteria by which a tax system should be judged. These are rules that provide guidelines to be followed when designing the system of taxation. These include the following;

1. Principle of convenience. This rule states that, the assessed tax should be collected at ideal times convenient for the tax payer to pay the tax in respect to time, season or availability of income for example at harvesting periods or end of the

month for civil servants. And the method of how to pay the tax should be well known by the tax payer.

2. The principle of simplicity. The nature of tax, method of assessment and tax collection should be simple and easy to be understood by tax payers and tax collectors. Because a complicated tax leads to misunderstandings, disputes and delays in payments
3. Principle of certainty. This rule emphasizes that the nature of the tax, base and the amount should be clearly understood to the tax payer and tax collector without any doubt
4. Principle of economy or cheapness. The cost of collection and administration of the tax should be low compared to the tax revenue. Collected (yield of a tax). I.e. the cost of collection ought not to exceed 5% of the tax yield
5. Principle of productivity. The government should be able to calculate in advance what it will yield and at what rate the revenue would flow in form of taxes. A good tax should be able to encourage effort and initiate and not to discourage investments in the country
6. Principle equity. This canon is based on humanitarian consideration the burden of the tax should fall equitably on the tax payer and amount to be paid should be in relation with the income level. There should be vertical equity (different payments according to incomes). People with higher incomes should pay higher taxes than those with low incomes or there should be horizontal equity where people of the same incomes and situations are placed under equal treatment in taxation. Equity also considers minimum social sacrifice and maximum social benefit i.e. the tax payer should be sacrifice less when paying a tax but benefit more from the tax paid.

7. Principle of elasticity / flexibility. The tax should change according to the prevailing conditions in the economy or should be able to respond easily to changing economic circumstances.
8. Principle of diversity (comprehensiveness). A good tax system should have a wide base or source i.e. have a variety of sources and should cover different incomes or prosperity of individuals in the economy.
9. Principle of consistence. A good tax should be in line with the national policies and economic objectives of a country especially in allocation of resources.
10. Principle of low net restraining effect. It should leave a tax payer in a desirable economic status without greatly affecting his consumption and investment decisions.
11. Automatic stabilization of the economy. A good tax should stabilize the economy in terms of investment, employment and others.

CHARACTERISTICS OF A GOOD TAXATION SYSTEM

1. I should be comprehensive i.e. taxes should be levied on as many tax bases as possible and should be of many types. It should therefore cover different people earning incomes in different ways.
2. It should impose a minimum tax burden on the tax payer i.e. a tax payer should be able to pay the assessed tax with the least burden.
3. Good taxation system should be efficient i.e. cheap in its assessment, administration and collection. Therefore, the tax imposed should be easily administered without involving high administrative costs in terms of time, efforts and financial resources.

4. A good taxation system should be optimal i.e. a maximum balance should be maintained between tax revenue services rendered through public expenditure and the work effort for the coming from tax payers in order to increase output.
5. A good taxation system should consider the principle of
6. double taxation i.e. Should not imposed on the tax payer
7. on the same base more than once
8. It should promote equity, social and economic justice. It should be progressive in order to distribute the tax burden equitably (the higher the income the higher the tax charged and the lower the income the lower the tax charged)
9. A good taxation system should channel and direct resources to priority areas
10. It should help to achieve national objectives. It should promote economic stability, economic growth (inject revenue in areas which are productive and should expand incomes and employment)
11. It should be convenient i.e. collected at such a time when the tax payer is able to pay (when he/she has the money to pay).
12. It should be buoyant/flexible i.e. the revenue should change with changes in national income of the economy or the rates should adjust according to the economic changes
13. Neutrality. The tax system should have minimum distortion for example on consumption, relative prices, production and investment.

ACTIVITY 1

1. Explain the principles of canons of taxation in an economy.
2. a) Explain the Doctrines of a good taxation system.

   (b) Describe the five factors influencing tax compliance in Uganda.

TYPES OF TAXES

Taxes can be classified according to: (i) Tax income ratio or average rate of a tax.

(ii) Final testing place or tax incidence.

ACCORDING TO TAX INCOME RATIO.

This is the volume of the tax amount paid divided by the income (how much of the income will be paid in terms of tax). In this class.

Proportional tax.
This is a tax where average rate is constant irrespective of the level of the income of individuals on which it is levied.
That is, it can be 50% on individual's income.

Progressive tax
This is the tax whose average rate increases with an increase in the income level of the tax payer. People of different incomes have to pay different rates of taxes and this implies that thigh income earners will pay high taxes those with low incomes

Will pay lower taxes for example Pay as You Earn(PAYE)

E**ffects of progressive tax.**

-Increases government revenue

-It leads to equitable distribution of income and wealth

-Trends to discourage some sectors

-Savings are discouraged since it leaves people with less income

-It is disincentive to works Since it increases with increase in income levels

Regressive tax.

This is a tax whose rates fall as income or spending power of an individual increases. This is when the burden of the tax follows more heavily on low income earners. Such a tax is usually an indirect tax like expenditure tax. For example, if it is charged on a certain commodity, a lower income earner will pay a higher ratio in relation to his income compared to a high income earner.

Example:

Example, suppose the price of a bicycle is 10,000/= and the tax imposed is 6000/=. On buying the lower income earner of 5000/= pays the same tax as that one earning 70000/=. Calculate the tax ratio of low income earner and that of a high income earner.

Price of bicycle =10000+6000=16000/=

Tax ratio of low Y Earner=16000/5000x100=320%

Tax ratio of high Y Earner =16000/7000x100=228.6%

Effects of a regressive tax.

i. Low tax revenue is realized due to taxa voidance
ii. It encourages tax evasion in that people with low income may deliberately dodge tax assessed on them
iii. Social un rests may result i.e. people can resort to strikes, riots etc.
iv. Income gap is widened between the low-income earners and high-income group
v. It reduces the consumption of goods
vi. It widens the income gap between poor and the rich

Digressive tax. This happens when the tax is only mildly regressive up to a particular rate beyond which the same tax rate is charged.

CLASIFICATION OF TAXES ACCODING TO FINAL RESITING PLACE DIRECT TAXES.

DIRECT TAXES

These are taxes imposed on income or property of individuals or firms who directly
Pay them. The burden and the incidence of tax cannot be shifted to another person

EXAMPLES / TYPES OF DIRECT TAXES

1. Incometax. This is a tax levied on individuals' income like Pay as You Earn (PAYE). Its advantageous in that fit can be progressive as well as proportional if well assessed.
2. Corporation/company tax. This is a tax imposed on company's profits. In Uganda this tax is at 30%
3. Estate duty / Death duty. This is a tax imposed on the property of the deceased
4. Capital gains tax. This is a tax imposed on the gains made by a seller of capital assets whose value have appreciated overtime.
5. Gift tax. This is a tax imposed on the value of wealth being transferred from one person to another. However, there have been academic arguments as regards who should pay, the tax the dower or the dowee
6. Property tax. This is a tax assessed by the tax authority on the assets owned by the individuals for example houses, land, machinery etc.
7. Sur tax. This is a tax imposed on individuals with a very high level of income exceeding a certain specified limit
8. Graduated tax. It is a tax levied on the citizens or residents of the country basing on one's income and property

9.Poll tax. It is the tax imposed at a fixed rate on every head of the family

10.Wealth tax. This is a tax imposed on wealth or accumulated savings.

ADVANTAGES O F DIRECT TAXES

1.Direct taxes are more certain as the tax payers are more informed with the amount of tax they are going to pay, the time and mode of payment. Even the government is certain of how much revenue it is likely to collect. Hence satisfying the principle of certainty.

2.They are equitable i.e. they satisfy the quality of equity as one of the principles of a good tax. This is because they are progressive in nature and they increase with increase in ones' income and do fall directly to the persons according to how much income / wealth they have

3.They are elastic (flexible) since they can be changed depending on the needs of the economy i.e. it can be increased or decreased to achieve the desired goals of a country

4.They satisfy the canon of simplicity i.e. they do not have any complication in their assessment, administration and collection as compared to the indirect taxes. Tax collectors and tax payers can easily understand the calculations and the mode of payment

5.They are economical i.e. easy to collect and at relatively low costs like pay as you earn which is deducted at the source by the employer

6.Certain direct taxes are convenient since they can be paid in installments or after income has been realized like salary earners pay at the end of the month

7. They facilitate automatic stabilization of the economy for example direct taxes can be used to stabilize price levels and employment in the economy. Hence reducing inflation and economic instabilities
8. They cultivate a sense of civic responsibility among the tax payers. They are concerned about the affairs of the state and how their taxes are being used in the collection and this can help to check on government expenditure
9. They reduce income inequality among the people. It tends to redistribute income with in an economy since they are progressive in nature
10. Like any other tax, they contribute to government revenue which is used to provide social services to its people like medical facilities, road construction, power supply etc.

ACTIVITY 2

1. Mention the effects of the following:
   (a) Progressive tax.
   (b) Regressive tax.
2. (a) State the examples of direct taxes.
   (b) What are the advantages of direct taxes?

DAY 3
DISADVANTAGES OF DIRECT TAXES

1. They encourage tax evasion and avoidance since they are a big burden to the tax payer. Tax payers may understate their incomes so as to dodge paying the taxes
2. They discourage production most especially the corporate tax and wealth tax since they act as a disincentive to effort and initiative. If such taxes are high, people may prefer to tax their incomes in form of leisure which is not taxed

3. They cause capital flight in the country as foreign capital holders transfer their capital to other less taxed countries. Hence lowering government revenue, employment opportunities etc.
4. Sometimes direct taxes inconvenience the tax payers particularly when they are paid in lump sum and in advance. Therefore, since they are very difficult to pay and the formalities associated with them further inconvenience the tax payer
5. Direct taxes are discriminative in nature especially income tax which may not be paid by low income earners hence leading to loss of revenue to the government. This also discourages saving by the rich people.
6. At times, direct taxes are uneconomical since the cost of collection especially in the developing countries and particularly in the rural areas is very high
7. Direct taxes create resentment since the burden of the tax is heavily held by the tax payer
8. Direct taxes reduce the level of investments and savings in the country since individuals and business firms are left with small amount of money for reinvestment
9. Direct taxes are generally unpopular among the population especially in developing countries with high rates of poverty.

INDIRECT TAXES

These are taxes levied on goods and services. They are also known as outlays/ expenditure taxes / consumption taxes or hidden taxes. It can be either specific or advalorem tax.
A specific tax is a tax imposed on each unit of output provided while advalorem tax is the tax calculated according to the value of the commodity. For example, if the value of a

good is 3000/=, and the Advalorem tax is 20% of the value, then the tax is 20/100x3000=600/=

Examples of indirect taxes include:

i. Excise duty
ii. Customs duty
iii. Sumptuary tax
iv. iv. Octroitax
v. Sales tax/
vi. Turn over tax etc.
vii. Value Added Tax(VAT)

EXCISETAX /DUTY.

This is a tax imposed on home made goods and services like tax on sugar beer etc.

Objectives of levying excise duty in Uganda.

i. To raise revenue for the government
ii. To discourage the consumption of certain goods like cigarettes

Effects of excise duties

i. Increased costs of production that result in inflation due to high prices
ii. Producer's and consumer's choices are distorted resulting in inflation due to high prices
iii. It is regressive and hence result in widened income inequality since it affects the poor more
iv. If properly levied can provide fairly high revenue with minimal public protest.

CUSTOMS DUTY/ TAX. This is a tax imposed on goods either entering or leaving the country i.e. a tax either on imports or exports.

Import duty: This is a tax imposed on goods entering a country

Objectives of levying import duties in Uganda

i. To raise government revenue
ii. To protect domestic and infant industries against completion and dumping
iii. To improve the country's BOP position through reducing imports.
iv. To retaliate against import duties imposed by other countries on Uganda's exports
v. To discourage imports especially luxuries and socially undesirable goods for example taxes on second hands vehicles

Export duties. These are taxes imposed on goods leaving a country i.e. taxes on exports

Objectives of export duties

i. To raise government revenue
ii. To control the volume of exports so as to avoid shortages at home

Effects

i. Increased government revenue
ii. Reduced demand pull inflation due to availability of goods in the domestic market

SUMPTUARY TAX. This is a tax imposed on commodities considered harmful to the health to discourage their consumption and production for example a tax on alcohol drinks. It is also known as prohibitive tax

Effects of sumptuary tax

i. They help to generate relatively high government revenue with minimal public protest since they are levied on commodities with in elastic demand
ii. Improved standard of living of the people

iii. Increased problems of income inequality since they are regressive
iv. **OCTROITAX**. This is a tax imposed by a country on goods passing through its territory in transit to another country for example Kenya imposes octroitax on imported goods passing through its territory to Uganda

TURN OVER TAX. This is a tax imposed on the total sales of a business regardless of the stage of production and distribution. In Uganda this tax has been replaced by
Value Added Tax(VAT)

VALUE ADDED TAX. This is a tax imposed on the value of a commodity at each stage of production. In Uganda VAT is charged at 18% of the increase in the value of a commodity

Advantages of VAT in Uganda

i. It is difficult to evade since it is hidden in the price of the commodity
ii. It brings efficiency in business managements since it encourages proper maintenance of books of accounts
iii. It is not a disincentive to resource allocations since it does not lead to shifting of resources to other sectors
iv. It encourages exports and taxes on exports are refundable
v. It leads to increased government revenue because it is comprehensive
vi. It is economical in terms of administration and collection
vii. It reduces corruption since it is paid through banks

Disadvantages

i. It requires proper record keeping by individuals / firms but Uganda still has poor record keeping
ii. It is quite complicated and not too easy to understand especially in developing countries like Uganda
iii. VAT tends to be regressive since all taxable goods are treated equally
iv. iv. It is quite expensive especially to small firms in terms of record keeping expenses and payments.
v. It increases cost of production which finally leads to cost push inflation
vi. It may encourage tax evasion since it's highly dependent on cooperation, honesty and good will of the tax payers
vii. It requires massive education to tax payers in Uganda

Outline the limitations of VAT in Uganda

i. Most business people in Uganda do not keep proper accounting records
ii. It is difficult to understand and complicated to calculate
iii. Inefficiency and dishonesty by the tax collectors and the government tax organizations which lead to increased loss of tax revenue to the government
iv. Limited cooperation among the tax payers hence resulting in to increased tax evasion

TYPES OF GOODS UNDERVAT

Zero rated goods: These are goods where there is no payment of VAT on output but producers can claim any VAT on in puts or these are goods that do not bear any tax(VAT) but the supplier of such goods can claim a tax refund if he paid taxes on out puts for example drugs, food stuffs etc.

Exempt goods: These are goods which are not liable to VAT and no credits is given for any tax paid on inputs for example houses (immovable)

Standard rated goods: These are goods which must have Value Added Tax paid on them like motor vehicles, beer, sugar etc.

SALES TAX.

This is a tax levied on the level of transactions which take place between the buyers and the sellers. Sales tax include single stage sales tax: this is levied once at the first sales and purchase

Multi-stage sales tax: this is levied every time a sale of the same units of the commodity takes place. It is difficult to administer.

ADVANTAGES OF LEVYING INDIRECT TAXES

1. They are used by the government in its economic policies like protection of home industries against dumping and improving on terms of trade
2. Indirect taxes are more comprehensive and therefore they are reliable sources of governments income they cover many goods and services
3. Indirect taxes are difficult to avoid and evade since they are part of the price of the commodity bought and consumed
4. Indirect taxes are more convenient to the tax payers because they are paid when the consumers spend on goods and services
5. They are a source of revenue to the government hence enabling it to finance its expenditures
6. They help to check on consumption of harmful goods like cigarettes which result in improved health of the people

7.Indirect taxes are more economical in collection since they are collected by the sellers and producers and passed in to the government thus reducing government expenditure on man power.

8.Generally Indirect taxes are less felt i.e. the burden of is less felt and resented since they are part of the prices of the commodities bought

9.Indirect taxes help to correct the BOP position through increasing import duties resulting in reduced volume of imports

10.Indirect taxes are flexible (elastic) since their rates can easily be adjusted upwards or downwards to meet the economy's requirements

11.When indirect taxes are electively imposed they can help in income redistribution by levying increasing taxes on commodities consumed by rich people and using revenue to subsidize for the poor

12.They are impartial (neutral) or do not discriminate consumers. They are paid by all groups of consumers and this helps to increase tax revenue

13.They guide in resource allocation i.e. priority areas are less taxed and non-priority areas are heavily taxed. Savings and investment activities in priority areas are guided by indirect taxes.

ACTIVITY 3

1.(a)Present the advantages of indirect taxes over direct taxes in your country

(b) What are advantages of direct taxes over indirect taxes in an economy?

DAY 4
DISADVANTAGES OF INDIRECT TAXES

1. They are regressive in nature (the rate of a tax increases with a decrease in the tax base. This is mainly with low income earners and they are very much affected plus the poor. Most especially if they are imposed on essential consumer goods like fuel, soap, salt sugar etc. the rich will not feel the effect of indirect taxes and therefore create income in equality
2. They are in flationary in nature i.e. they rise price of commodities, costs of production, wages etc. because of tax shifting
3. Unlike direct taxes, these do not cultivate a sense of civic responsibility and consciousness to the tax payer. This is because the tax payer that does not know that he is paying a tax because it is contained in the prices of good she buys
4. It involves the government in inspecting and checking the records, the stock of the producer, wholesalers and retailers to ascertain whether they are paying taxes
5. Revenue collected in the financial year cannot be predicted with certainty. This is due to the difficulty of estimating the effects of indirect taxes and the demand for products
6. They are sometimes difficult to understand for example VAT and this violate the principle of simplicity
7. They have adverse effects on production and employment in a country. Their imposition raises the prices of commodities and if these have elastic demand, then the quantity demanded decreases as well as production and employment
8. Their effects on resource may be negative for resources will move away from taxed to non-taxed areas or low taxed areas
9. The more people consume, the more indirect taxes they pay

WHY UGANDA ARELY MORE ON INDIRECT TAXES THAN DIRECT TAXES

Inspire of the above disadvantages, Uganda are more on indirect taxes as a source of government revenue, this can be explained by the following reasons:

1. Indirect taxes are comprehensive and therefore they are more liable source of government revenue unlike direct taxes which only cover some incomes and property of individuals
2. Unlike direct taxes which are easy to evade and avoid leading to limited scope of revenue mobilization makes Uganda to depend on indirect taxes which are difficult to evade and avoid since they form part of the price of the commodity bought
3. Indirect taxes are convenient to the tax payers since they are only paid when the consumers spend money unlike direct taxes which inconvenience the tax payers since they are at times paid in advance and lump sum
4. Un like the direct taxes which are expensive to collect, indirect taxes are economical to collect since they do not require large man power and other expenses
5. Indirect taxes help to improve the peoples' health standards since they check on Consumption of demerit goods like cigarettes unlike direct taxes which cannot reduce consumption of harmful goods
6. Indirect taxes are less felt and resented since they are part of the price of the commodities bought unlike direct taxes which directly affect the incomes and property
7. Unlike direct taxes. Indirect taxes particularly high import duties help to correct the country's 'BOP position by reducing volume of imports

8.Unlike direct taxes which are less flexible, indirect taxes in Uganda are more flexible since their rate can be adjusted to meet the changing requirements of the country

9.Unlike direct taxes which discourage hard work, Indirect taxes in Uganda are not a disincentive to effort and initiative since they encourage hard work so as to afford commodities

10.Indirect taxes in Uganda increase tax revenue since they are impartial they are paid by all groups of consumers unlike direct taxes which discriminate some people from paying the taxes

11.Indirect taxes help to re-distribute income in Uganda when selectively imposed unlike direct taxes which cannot easily be used to re-distribute incomes since they are usually rejected

12.Un like direct taxes, indirect taxes can be used to protect the domestic and infant industries from well-established foreign firms

13.The narrow tax base in Uganda partly due to the absence of large scale business units and the big size of the subsistence sector. These limits the opportunities for raising adequate revenue through the direct taxes hence the reliance on indirect taxes

OBJECTIVES OR RATIONALE OR REASONS OR JUSTIFICATIONS OR PURPOSES OR NEEDS FOR TAXES

1.To generate government revenue. Taxes are charged in order to get government revenue needed to provide better social series to the public in form of better roads, hospitals, schools, power supply etc.

2.To protect domestic firms and producers from aggressive foreign competition. The government imposes taxes inform of import duties so as to increase the price of imports and reduce their importation to protect domestic infant industries.
3.To ensure equitable distribution of income. (Income equality). The government imposes progressive taxes in order to reduce the high incomes of rich people so as to subsidize the poor and improve on their standards of living.
4.To discourage production or consumption of harmful products. The government charges high taxes on harmful products so as to reduce or discourage their level of consumption in order to protect peoples' health in the country.
5.To discourage dumping. The government charges high taxes on certain products that are sold at the home market at a lower price compared to the price in their home country so as to discourage their importation.
6.To control monopoly power in the country. Specific and lamp sum taxes are charged in order to reduce profit level so that monopolists and their adverse effects of over exploitation of consumer products of poor quality goods.
7.To improve on the country's balance of payment position. The government charges heavy import duties to discourage imports and charges low taxes on exports to encourage exportation of goods and services so as to have earnings on exports exceeding expenditure on imports
8.To control demand pull inflation. High direct taxes are charged on incomes of individuals to reduce their disposable income and purchasing power (demand) which is not matched with the level of output produced.

9.To influence resource allocation in an economy. The government imposes low taxes on some sectors like education, health so as to attract people to invest in such sectors and charges high taxes on some sectors to discourage investments in such sectors.

10.To retaliate against taxes imposed by other countries. Taxes are imposed as a way of revenge against other countries that would have earlier on imposed heavy duties on goods coming from other countries or home countries.

11.To promote regional economic integration. The government charges low taxes on products of member countries so as to encourage trade among the member states.

12.To provide a mechanism through which the government charges those who use its facilities like roads, public toilets, policy etc.

13.To recover community wealth which individuals have obtained not as a result of their efforts but as a result of the efforts of other people e.g. death duty is charged for this purpose.

ADVANTAGES OF PAYING OR LEVYING TAXES.

1.Paying taxes helps to generate government revenue which is used in constructing
infrastructures like roads, hospitals, schools and some any others.

2.Paying taxes helps to protect domestic funds and procedures from aggressive foreign
competition through the government imposing taxes inform of import duties so as to
increase the price of imports.

3.Buying taxes helps to ensure repeatable distribution of income or income in equality through the government imposing progress taxes to reduce on the high incomes of rich people.
4.Paying taxes helps to discourage production of harmful products through the government imposing high taxes on harmful products.
5.Paying taxes helps to improve on the country's balance of payment position through the government charging heavy import duties.
6.Paying taxes helps to control the demand full inflation through direct taxes being charged on incomes of individuals.
7.Paying taxes helps to discourage dumping since the government charges high taxes on certain products that are being sold at the home market.
8.Paying taxes helps to influence resource allocation in a given economy since the government imposes low taxes on some sectors like education health and some any others.
9.Paying taxes helps to provide a method through which the government charges those who use its facilities like roads, public toilets and so many others.
10.Paying taxes helps to recover community wealth in which individuals.

ACTIVITY 3

1.Explain the merits of paying taxes in your country.

DAY 4

DEMERITS OR DISADVANTAGES OR NEGATIVE EFFECTS OF PAYING TAXES

1.It reduces the welfare of people. Direct taxes charged reduce the disposable income of taxes payers and their purchasing power hence subjecting them to poor quality goods and services.

2.Some taxes worsen the problem of income inequality. Heavy taxes imposed on commodities which are consumed by the poor widen the gap between the rich and the poor.

3.They encourage smuggling of trade malpractices. Uniform taxes charged force the disadvantaged groups to practice smuggling which retards development of the country.

4.They discourage investments. This causes the country to reduce personal savings due to reduced disposable income.

5.High taxes make the ruling government unpopular and this leads to political insecurity in the country in form of strikes etc.

6.Some taxes discourage hard work or kill the incentive to work high taxes reduce the attitude of hard working people.

7.Import duties shield or protect domestic industries which lead to production of poor quality goods since they reduce direct competition from direct firms.

THE UGANDA REVENUE AUTHORITY (URA)

The URA and local government Administration are two tax authorities in Uganda. The URA is responsible for the central government revenue and the local government administration is responsible for the collection of local government revenue. The URA was formed by the government on 5th September 1991 to modernize the process of tax administration and reduce the revenue leakage and corruption in the tax administration.

ROLES OF URA

i) To assess and collect taxes.

ii)To account revenue collected by the ministry of finance.

iii) To facilitate trade and investment and advice government on matters of policy related to tax and revenue administration.

TAXES COLLECTED BY URA

a) **International trade taxes**. These are collected on goods entering or leaving the country. In Uganda, this role is performed by the customs and excise department. The taxes collected include import duty, export duty, VAT, withholding tax, excise duty and environmental levy.

b) **Domestic taxes**. These are collected by URA under the domestic Taxes Department. They include income tax, VAT and excise duty.

Taxes collected by local authorities

All local government administration authorities are responsible for collecting local government revenue. They include the districts, town councils, city councils and municipalities. These local authorities collect taxes like property tax in cities and towns; sign post fees and trading licenses among others

TAX CLEARANCE PROCESS

Tax clearance refers to the process of certifying that one has completed his/her tax obligation i.e. has cleared the tax. Tax clearance process involves the following: Tax identification number (TIN). It refers to the computer number assigned to the tax payer for identification purposes. It is important for purposes of reference, issuing tax clearances etc.

Tax authorities. These are bodies responsible for levying / imposing taxes on the tax payers. In Uganda we have the central government represented by URA and the district administration authorities

TAX COMPLIANCE

Tax compliance refers to the degree to which the tax paying community / tax payers meet the tax obligations as set by the appropriate legal and regulatory authorities.

Or This is the degree to which tax paying community meets the tax obligations as set out in the appropriate legal and regulatory provision

Tax payers who are complaint make timely, accurate and proper deliberations to the tax authority and voluntarily settle all the due tax liability. Tax payers who are not compliant avoid taxes Levels of tax compliance

The level of tax compliance depends on the tax payers' attitude and knowledge and there are principally four levels;

1. Tax payers who are fully compliant and are willing to fulfill their obligations voluntarily.
2. Tax payers who reluctantly comply. These know that non-compliance would be expensive and accordingly comply

3. Tax payers who show slight resistance to compliance. This mostly arises from lack of knowledge. When such are advised and pressure is put on them, they pay.
4. Those who are non-compliant and exhibit out right resistance to meeting their obligations. This includes some who take pride in failing the tax authority.

FACTORS INFLUENCING / DETERMINING / AFFECTING TAX COMPLIANCE

1. The extent to which a tax system is equitable. Equitable tax system encourages tax compliance since people who earn the same level of income are subjected to the same tax rate but inequitable tax system discourages tax compliance since it favours some and affect others
2. The extent to which tax laws and the tax regulatory frame work is easy to understand. A tax system which is easy to understand by both the tax payers and collectors promote tax compliance but complicated tax laws and long administration processes discourage tax compliance since tax payers and collectors do not understand why it should be paid, how to pay etc.
3. The extent to which the laws and rules are applied consistently and fairly. Consistence in application of tax laws and rules promotes tax compliance since tax payers know the effects of not paying the taxes in time but in consistent application of the rules leads to non-tax compliance because tax payers use loopholes in the tax system to evade paying taxes imposed on them
4. The quality of tax administration / the extent to which tax administration is qualitative is also very important factor. Tax administration which reflects its professionalism, integrity and good customer care exhibited by the tax

collectors encourages tax compliance because it builds trust and confidence of the tax payer in the tax authority. But poor quality of tax administration with high levels of corruption and poor methods of collection leads to low tax compliance

5. The level of popularity of the government and quality of governance / the extent to which the government Is popular. A popular government encourages tax compliances since people develop trust and confidence in it due to its good governance, honesty and accountability for public revenue. But a government which is un popular or corrupt discourages tax compliance.
6. The quality of business management by the tax payers / the extent to which the business is managed well. A business which practices proper record keeping, business organization and business ethics promotes tax compliance but a business mismanaged by the tax payer with poor record keeping leads to low tax compliance because it is difficult to fulfill the tax compliance in time
7. The extent to which the business is well funded / Availability of funds. Firms with financial problems tend to have low tax compliance but a business which is adequately funded promotes tax compliance.
8. The extent to which the tax rates are favourable / level of tax rates. Low tax rates imposed on tax payers encourage tax compliances since tax payers are less burdened but high tax rates discourage tax compliance since they heavily fall on tax payers
9. The extent to which the tax system is productive. A product tax yield i.e. used to provide social services to people encourages tax compliances since tax payers benefit from it but un productive tax yield / system discourages tax

compliance since tax payers do not see the benefits of paying the tax

10. The extent to which the tax system is convenient. The level of tax compliance is high for a tax system that is convenient i.e. collected at a time when the tax payer has the means to pay for during harvesting periods for farmers or at the end of the month for salary earners but inconvenient tax system discourages tax compliances since it is collected at in appropriate time
11. The extent to which the tax system is certain. A tax system which is certain to the tax payers i.e. when they are aware of the amount to pay, reasons for paying it, when to pay it and the method to use while paying it encourages tax compliance but uncertainty of the tax system discourages tax compliance
12. The extent to which the tax system is comprehensive. A comprehensive tax system i.e. that one charged on various entities / activities encourages tax compliance since it possesses less effect on the paying community but a narrow tax system discourages / leads to low tax compliances since it heavily falls on the tax payers
13. The extent to which the tax system is flexible. A flexible tax system i.e. that one which changes with the prevailing economic conditions of the tax payer encourages tax compliance but a tax system which does not change with the changing economic conditions of the tax payer leads to low tax compliance
14. The extent to which the burden of tax is distributed to all potential tax payers. Equal distribution of the tax burden to all potential tax payers promotes tax compliance but un even distribution of the tax burden discourages tax compliance

15.The extent to which the tax system is economical. An economical tax system i.e. that one which involves less costs in collecting it compared to the tax yield encourages tax payers to pay the taxes imposed on them hence leading to high tax compliance but uneconomical tax system which involve paying a lot of money to tax collectors than what is collected creates resentment in tax payers hence leading to low tax compliance

ACTIVITY 4

1.Explain the factors affecting tax compliance in Uganda.

2. Give the negative effects of paying taxes.

DAY 5

The following are reasons for low tax compliance in my country

1.Unpopularity of the government
2.Poor quality of management of the business
3.Poor quality of tax administration
4.High tax rates
5.Uncertainty of the tax system
6.Inconvenient tax system
7.The tax base is narrow
8.Inequality in the distribution of the tax burden
9.Inconsistence in implementing tax laws and rules
10.Non economical tax system
11.Ignorance of people about the benefits of paying taxes
12.Low level of income of the tax paying community
13.Rigidity of the tax system

Ways of encouraging tax compliance in my country

1. Ensuring transparency in the tax system /reducing corruption and embezzlement of tax revenue
2. Simplifying the tax system
3. Sensitizing the masses on the role of taxation
4. By making the tax system equitable
5. Developing a tax payer friendly system of tax collection
6. Ensuring a high degree of political stability so as to boost economic activities
7. Making the tax system more productive
8. Charging lower tax rates
9. Widening the tax base
10. Shortening the tax payment procedure
11. Being consistent in implementing tax laws / imposing tax penalties
12. Praising and rewarding compliant tax payers
13. Publishing a shame list of noncompliant tax payers
14. Employing trained personnel to assess and collect the tax

Challenges facing tax administrators in my country

1. Inadequate funding by the government. This makes transportation of tax collectors difficult, paying tax collectors and administrators etc.
2. High levels of unemployment / low level of income of tax payers. This leads to low tax yield and a high level of tax evasion since potential tax payers luck the means to pay the taxes imposed on them
3. High levels of corruption and embezzlement of public revenue among tax collectors. This has led to loss of confidence by the tax payers in tax administrators

4.Inadequateskilledlabourtoassessandcollectthetax.Thishasaffectedthe implementation of tax laws, collection and assessment
5.Ignorance of the public about benefits of taxation. This has created resistance in the tax paying community
6.High levels of tax evasion. This has increased the costs of tax collection in the country because of high expenditure on tracing tax evaders
7.Trade malpractices like smuggling of goods which leads to low tax yield
8.Political instabilities in some parts of the country. The increased riots, demonstrations and strikes in the country have made the tax collection process very difficult
9.Poor management of businesses by tax payers. This is manifested in the poor book record keeping and unethical behaviors which lead to high non-tax compliance
10.Languagebarrier. This is due to many tribes in the country and yet taxes are assessed in all parts of the country
11.Unfavourable climatic conditions for example heavy rains, floods, landslides etc. which make tax collection difficult.
12.Conflict of interest between politicians and tax authorities. This leads to sabotage of taxation bills in the parliament and mobilizing people by politicians not to pay the taxes imposed on them
13.Existence of a large subsistence sector. This limits economic activities which can be taxed leading to a narrow tax base
14.High rate of inflation. This reduces the taxable income of tax payers due to high expenditure on goods and services
15.Complicated tax laws and systems. Some tax systems are difficult to understand by the tax payers hence facing challenges in implementing them

ACTIVITY 5

1. Examine the factors influencing the level of tax compliance in your country
2. Suggest ways of encouraging tax compliance in your country
3. (a)Outline the challenges facing tax administrators in your country

   (b) Suggest possible ways of overcoming the above challenges

DAY 6

BUSINESS COMPETITION

Competition is the battle between businesses to win consumer acceptance and loyalty. It is an art, a science and a practice. It is all about creating value, capturing and retaining it.

TYPES OF COMPETITION IN BUSINESS

There are many things one can do to win the competition. These include the following.

i)**Pricing competition**. This type of competition involves charging different prices for the same commodity so as to win customers for example charging low prices compared to competitors

ii)**Product presentation and appearance competition**. This type of competition includes the way one decorates his business premises, the way the sales person dresses, color of the product, wrappers or containers and neatness in packaging. There are many useless products on the market that sell like hot cakes due to the way they are packaged. It is therefore important to pay great attention to the way you package your goods.

iii)**Quality competition**. His type of competition involves producing a product that satisfies the needs of customers.

The quality of the product is the most significant competitive advantage over other people in one's business. The quality of the product determines the precision of the work done. The better the product, the more suitable for use. Also, good quality products live longer than poor quality ones and attract more customers and thus a larger share of the market is attracted by the enterprise.

iv) **Added convenience competition**. This competition includes staying open late or during lunch when other businesses are closed. E.g. some commercial banks work for long hours on weekends. One could also offer something for nothing to the customer.

v)**Customer care competition**. This type of competition involves winning customers in terms of treating them well. One should always treat customers with respect because people always choose to go where they are treated with dignity.

FACTORS TO CONSIDER IN ANALYSING COMPETITION.

The following are some of the things that should be considered when analyzing competition: -

- ✓ Size of competition / number of competitors. A large number of competitors implies a high level of competition but a small number of competitors implies a low level of competition
- ✓ Profit ability of competitors. High profits earned by competitors means that there is stiff competition with the entrepreneurs' business but low profits earned by competitors means low competition with the competitors, business
- ✓ Quality of substitute products or services. High quality products produced by competitors indicates a stiff

competition with the entrepreneurs' business but low quality products produced by competitors implies low competition with the entrepreneurs' business

- ✓ Hours of operation. Added hours of operation for example early morning and late evening indicates a high level of competition among businesses but normal hours of serving customers implies low competition existing between businesses
- ✓ Skills/quality of personnel employed. Use of highly skilled personnel for example sales personnel indicates a high level of competition among business but use of unskilled / semi-skilled personnel implies low competition
- ✓ Servicing, warranting and packaging
- ✓ Methods of selling and distribution channels. Use of personal selling and a long distribution channel shows stiff competition in businesses but selling
  Directly to customers implies low level of competition
- ✓ Location of businesses. Strategic location of businesses in a particular place implies stiff competition but locating businesses in accessible places / less strategic places implies low competition among businesses
- ✓ Level / nature of advertising. Persuasive advertising in businesses implies stiff competition / high level of competition but informative or no advertising in businesses implies low competition in such businesses
- ✓ Promotional methods / level of product promotion. A high level of product promotion among businesses implies a high level of competition but low
- ✓ Promotional activities in the business implies less competition
- ✓ Level of reputation of the company. A high level of reputation of the business implies a low competition with

other businesses but a low level of reputation of the business implies high competition with competing businesses

- ✓ Inventory levels. High inventory levels implies high competition due to the need for continuous supply of products but low inventory levels imply low competition among employees
- ✓ Quality of customer care. Good customer care in businesses implies high competition but poor customer care among businesses indicates low competition among businesses
- ✓ Price charged on similar products. Low prices charged on similar products indicates high competition among businesses but high prices charged on similarproductsbytheentrepreneur’sbusinessindicatelowcompletionofthe business with other businesses
- ✓ Product added advantages / warrantees offered. Excessive benefits attached on a commodity imply high level of competition among the businesses but less benefits attached on commodities imply low competition

INDICATORS OF AN INCREASE IN THE LEVEL OF COMPETITION

- Decrease in the demand for the business products
- Decrease in sales
- Increased advertising /sales promotion by competitors
- Increased complaints by customers
- Increased labour turn over in the enterprise
- Improved customer care
- Increased product added advantage
- Increased customer convenience
- Improved methods of selling
- Improved after sales services

- Increased number of rival firms
- Increased in-service training for workers
- Demand for wage increment by employees

The aspects an entrepreneur can address to win competition

- ✓ Pricing. A similar service / product should be offered at a cheaper price, one stands a better chance of winning the customer's loyalty.
- ✓ Presentation and appearance. This includes the way one decorates his business premises, the way the sales person dresses, color of the product, wrappers or containers and neatness in packaging.
- ✓ Production of good quality products. Good quality products live longer than poor quality ones and attract more customers and thus a larger share of the market is attracted by the enterprise.
- ✓ Added convenience. This includes staying open late or during lunch when other businesses are closed. E.g. some commercial banks work for long hours on weekends. One could also offer something for nothing to the customer.
- ✓ Positive attitude towards the customers. One should always treat customers with respect. People always choose to go where they are treated with dignity.
- ✓ Rewarding loyal and regular customers like by giving them gifts, prizes, inviting them to get together parties etc.
- ✓ Offering credit to loyal and credit worthy customers
- ✓ Communicating regularly with the customers like by communicating to them major changes in the business, availability of new products etc.
- ✓ Maintaining up to date records of regular, loyal and big customers and recognizing them when they call or come to the business

- ✓ Providing appropriate after sales services like offering delivery services, proper packing of goods bought for easy carrying, helping to install the product bought at the customer's premises

The factors affecting competition

i) Mobility and accessibility overlap. Travelling opens up a wider geographical area for competition hence high level of completion but immobility / shorter distances reduce competition.

ii) Product overlap. This refers to the selling of products by. different kinds of establishments that are similar or identical to each other. Big discount stores, sometimes combined with grocery stores provide one-stop shopping for all customers' needs. This reduces completion but dealing in one product increases competition.

iii) Substitution. Availability of many substitutes increases competition but few substitutes in the market reduce competition.

iv) Public awareness. Increased awareness of the product, its quality and other. featurescreatesbrandloyaltyhencereducingthelevelofcompetitionbut ignorance of customers about the product features increases the level of competition.

v) Product priority. A preferred product reduces competition but un preferred product leads to high competition.

How can entrepreneurs improve on their competitive advantage in business?

- Through intensive advertising
- Improving customer care services
- Improving customer convenience
- Through competitive pricing

- Through everyday low pricing
- Through product overlap
- Using attractive packaging materials
- Improving the quality of products
- Offering credit facilities
- Giving discounts
- Carrying out promotional sales
- Motivating business employees
- Training employees
- Merging with weak competitive firms
- Face lifting /painting business premises

ACTIVITY 7

1.Outline the factors considered in analysing competition**.**

2.How can entrepreneurs improve on their competitive

DAY 8

Effects of competition

1.It leads to better customer satisfaction/ production of better quality products. The producers and sellers ensure that they produce high quality goods and services and any other activity that ensures maximum customer satisfaction in order to attract more customers

2.It promotes more efficient production; it makes producers more pro-active in discovering more efficient production methods like use of fewer raw materials and time to produce better goods.

3. It results in better employee remuneration / payments. It forces employers to pay their highly skilled employees better salaries especially when they are likely to be taken away by competitors.

4.It results in more product variation. It makes producers vary their products in order to make them different from those of competitors hence increased customer satisfaction.
5.It results in lower or cheaper prices of commodities. Competition makes producers and sellers to try to lower the prices of their goods or services, thus making consumers enjoy lower prices.
6.It enables businesses to earn more profits. Competition makes businesses that enjoy better competitive advantage over rival ones to sell more which in turn makes them to earn more profits that can be re-invested.
7.It leads to expansion of market for some businesses. Competition allows some businesses to expand the market for their goods or services through persuasive advertising, hence generating more incomes.

Negative effects

1.It results in to wastage of resources. Competition makes businesses to duplicate activities or services as a way of attracting more customers, which results in wastage of the limited resources.
2.It leads to poor relationship between business competitors
3.It leads to collapse of small or in efficient businesses / It results in unemployment when the in efficient firms are outcompeted.
4.It makes resources to become more expensive. Competition makes businesses to compete or struggle to acquire the limited resources like skilled workers, high quality raw materials etc.
5.It lowers profits of businesses. Competitive advertising increases the operation costs of businesses and thus lowers their profits.

6.It reduces the market share per business. Competition from many businesses divide the limited number of customers to different businesses and this reduces the market share per business, resulting in low sales income.

7.Sometimes it misleads customers. Persuasive advertising due to competition sometimes forces customers to buy products they do not really need or which may be of low benefit to them.

MONITORING AND MAINTAINING A COMPETITIVE POSITION.

1.Sustainable competitive Advantage. This allows the maintenance and improvement of the enterprises competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time. It includes the following.

2.Advertising. This is extremely important in competing effectively. It is the key to attracting public attention and building priority to your products. Advertising is the first step in competing after you build the basic condition of the business.

3.Image. Once the customer is attracted by some type of advertising, he/she is influenced by the business image. Image can be critical in competing effectively.

The customer is attracted by the image reflected in the business surroundings, personnel, product displays, etc. Good customer relation techniques, dress requirements, can be taught to sales personnel. Location is also part of image that can make a difference in customers' reactions and buying patterns.

4.Customer convenience and services. Location is related to convenience and good customer relations are part of good service. It also includes attractions like service delivery, repair services, acceptance of returns and exchanges and extension of personal credit. These factors also help sell a product and create loyal customers as well as competing effectively.

5.Competitive pricing. Businesses that operate efficiently can usually afford to price competitively because their costs are lower. Never the less, one mistake that small businesses make is to try to undercut the competition before they get their costs down. That kind of pricing can lead to losses or very low profits and result in a decrease in a business' competitive position.

6.Sales prices. The theory behind seasonal or new sales is that new customers will be attracted to the shops by the sale. They will buy other products at regular prices while they are in the shop, and the quantity sold at the sale price will make up for the lower unit profit. These principles can be effective if the sale is handled properly. However, the sale can attract wrong customers who may only buy sale items and nothing else rather than your loyal customers. And if sale prices are low, you may not gain from the sale.

7.Everyday low prices. Some shops have a standard policy of competitive pricing a tall time without advertising specific sales. While they may lose some business while others to resfeature ''lead items' 'at cost, in general, they maintain a steady customer. Clearance sales may also be used to unload seasonal or out-of-date items or other odds and ends at cost or less.

EVALUATING BUSINESS COMPETITION

In forecasting and monitoring changes and competition in your business, make sure that the following are as carefully monitored and that clear up-to-date records are available

i)Sales decline or increase (may be due to many reasons including competition.

ii)Production order may be reducing due to competition.

iii)Flow of customers. The number of customers flowing in to the enterprise in a day (this is always affected by competition.
iv)Cash flow (movement of cash in and out of the enterprise) may be influenced by competition.
v)Movement of personnel. Employees in non-competitive firms often leave to join other firms which look more competitive, for higher payment and other employment benefits.
vi)Technology. Enterprises which possess modern machinery and knowledge are more competitive than those with old technology.
Clear records of the above items will enable an entrepreneur to devise means for dealing with his competitors.

METHODS USED TO EVALUATE CHANGES AND COMPETITION IN BUSINESS.

There are two methods used by entrepreneurs to evaluate changes in competition.
First, an entrepreneur is required to take an over view of how well his business venture is going to match with his potential customers' needs. This will force him to identify his business' strength and weaknesses in relation to his market.
The features which are important to customers include colour, taste, ease of use, presentation and appearance, delivery, opening times, payment terms and price. When the entrepreneur has graded each attribute, he should join up the respective ratings with a pencil line to obtain two clear profiles, one of the customer's reference and another of the strength and weaknesses of the business. This profiling method can be put in a table as follows.

List of features/attributes that potential customers will be looking for in the business product or service.	Score how important each attribute is to customers.	Score business product or service on each attribute.
1.Colour	12345	12345
2.Taste	12345	12345
3.Smell	12345	12345
4.Quality	12345	12345

Secondly, an entrepreneur must try and be as objective and consistent as possible.

Avoid the temptation to pretend your business idea is something other than what it is. An entrepreneur can compile a more detailed analysis by extending and modifying the profile to suit his particular business. Furthermore, it is a good idea to compile a number of profiles, one for each of your major market segments. This will enable the entrepreneur clearly identify;

- Which market segment he/ she satisfies best?
- Which market segment he / she satisfies better than his / her competitors?
- By using the same format, as the previous table, the entrepreneur should analyze the strength and weaknesses that the competitors present.

Features	The business	Competitor 1	Competitor 2	Competitor 3,etc	Average score of competition
1Colour	12345	12345	12345	12345	12345
2Price	12345	12345	12345	12345	12345
3Easyuse	12345	12345	12345	12345	12345
Total					

Another profiling method which has an advantage over the first is that it takes in to account the relative importance of each feature to the market.

Procedure for second method.

- Give each feature a weighing from 1 to 5, to signify its importance to the market segment.
- Award points, on a scale of 1to5, to each business including your own, on how strong they are in each area.
- Multiply the importance weighing by the points awarded for each business to obtain its score.
- Total each business' score and analyze the results.

Features	Importance	Your business	Competitor 1 1			Competitor 2,etc	
		Points	score	Point	Score	Points	Score
Total							

In an entrepreneur can identify a market segment where he / she is strong in both areas, he / she is likely to take a larger market share a ware from the competition than would otherwise be the case. This will improve the entrepreneur's position concerning finance, personnel, technology and profitability

ACTIVITY 7

1.What are the effects of competition?

2. Explain how to monitor and maintain a competitive position in business.

DAY 8

CAPITALMARKETS

Capital markets are markets that trade in long term financial products known as securities (e.g. shares, bonds). They are a facility for raising long term capital, which is done through the selling of debt (bonds, commercial paper) and equity instruments (shares). They provide avenues for those who require additional capital and others who wish to invest their money.

KEY PLAYERS IN CAPITAL MARKETS.

Different people, groups of people or companies play different roles on the stock exchange.

The roles of each are very vital in the smooth running of the market. Some of these players include the following.

Different people / groups / companies play different roles in the stock exchange markets as explained below

1.Brokers / dealers.

These are licensed financial professionals authorized to buy and sell shares on behalf of their clients. Brokers execute trade deals on behalf of their clients and receive a commission for matching buyers and sellers

Dealers buy shares and later sell them for a profit.

They also provide advice to their clients on management of investment.

2.Registrar.

This is a person in charge of keeping records in respect of stocks and shares of a floated company, a floated company is one which goes public by issuing its shares for sale

3.**Investment advisors**.

These are licensed persons who advise their clients about the profit ability of selling and buying securities. They also manage arrange of investments under a contact or on agreement with investors

4.**Shareholders**.

These are individuals or companies that purchase shares in a company or business and own apart of that company. They earn dividends for the shares bought

5.**Capital Markets Authority** (CMA).

This is a government established body which ensures the regulation and development of capital market industry. The capital markets industry in Uganda is regulated by the capital markets authority (CMA). CMA was established in 1996 following the enactment of the Capital Markets Authority Act Cap84.

It is an autonomous body responsible for promoting, developing and regulating the capital markets industry in Uganda, with the overall objectives of investor protection and market efficiency

Objectives of capital markets authority

Functions of the capital market Authority in Uganda

1. To regulate and promote the development of capital market in Uganda
2. To approve stock exchange and securities central depository system

3.To license brokers or dealers, investment advisors, fund's managers and trustees
4.To approve collective investment schemes
5.To advice government on rules and regulations governing operations of capital market
6.To provide protection to both local and foreign investors
7.To create market in which securities are issued and trade
8.To provide facilities for raising long term capital (funds)
9.To act as a barometer / yard stick / guidance to company's performances
10.To provide avenues for those who require additional capital and others who wish to invest their money
11.To regulate the operation of a compensation fund
12. To approve all offers of securities to the public

6.Fund managers'. Are companies who under a contract of management with a client under taking the management of a portfolio of investments (portfolio refers to the funds managed on behalf of clients at the discretion of a fund manager).

7.Custodians.These perform the actual role of holding or safe keeping the assets or securities (including cash) on behalf of the owners (investors)

PRODUCTS / INSTRUMENTS IN UGANDA'S CAPITAL MARKETS.

Capital markets use different instruments to raise capital which include the following:

1.**Bonds**. A bond is a long term debt instrument that is used to borrow a stated amount of money for affixed period of time and gives a stated rate of interest or it is a debtor loan instrument issued by the government or corporate body that carries a fixed rate of interest and with a maturity of longer than one year and gives the holder claim on the interest and principle promised by the issuer. Or it is a borrowing arrangement in which the issue makes an obligation to pay back interest and principle at specified times and intervals (maturity date)

There are two types of a bond namely:

Government bonds. Are issued by the government to borrow a stated amount of money from the public, for affixed period of time at a stated rate of interest.

Corporate bonds are bonds issued by private or public companies that wish to borrow a stated amount of money from the public for affixed period of time at a stated rate of interest

Features of a bond

- It has a maturity date. It is a period of time over which the bond contract is extended at the end of which the bond contract expires
- It has a bond coupon. It is the periodic interest paid on a bond the issuer to the bondholder
- It has a principle. This is the fixed period value of the bond initially paid by the creditor when
- buying the bond and paid at the maturity date
- It has name of the lender
- It includes name of the borrower

NB. Treasury bills. These are short term financial instruments issued by the government to raise money from the public with a maturity date of less than one year. 2.Shares. A share is a unit of ownership in a limited liability company and gives the holder claim over any dividends that the company may pay. Or it is a unit of capital of a joint stock company. Shareholders become part of the company where they have bought shares

3.**Debentures**. A debenture is a unit of a joint stock company. Or it is a document or certificate issued by a company evidencing that it has borrowed a specified amount of money from a named person and promises to pay back the principle with interest rate at the maturity date

ACTIVITY 7

1.a(i) Explain the two types of bonds.

(ii) What are the Features of a bond?

2. Explain the functions of capital market authority in Uganda.

DAY 8

Types of debentures

1.Naked debentures.

These are debentures which have no security or property declared against them. This means that if the company fails to pay, the debenture holder has no powers to take over the company's property or to suit it.

2.Secured / mortgaged debentures.

These are debentures which have security tied to them i.e. if the company fails to pay, the debenture holder can sell off the company's property to recover the loan.

3.Redeemable debentures.

These are debentures that can be paid back by the company after a specific period of time i.e. the money borrowed is returned by the company with in a given period of time.

4.Irredeemable debentures.

These are debentures which are never paid back by the company until it is liquid dated or ended i.e. the money borrowed remains outstanding or unpaid until the company winds up.

4.**Commercial paper**. This is a short-term unsecured promissory note issued by a company or even a bank with a shorter-term maturity date (usually one to nine months) indicating a promise by the issuer to repay the among borrowed against it on a specified date with a specified rate of interest. Commercial papers are usually issued by large companies or banks to get money to meet their short term debt obligations and are not backed by collateral security

Role of capital markets

1. Providing market to shares being sold. Capital market for shares being sold hence enabling companies and individuals to buy such shares.
2. Improving on people's standards of living. People who buy shares get dividends which increase their income levels and hence improved standards of living.
3. Providing employment opportunities. Capital markets provide jobs to dealers / blockers, registrar of companies and investment advisors. This enables them to earn a living.
4. Encouraging inflow of international capital. Capital markets enable investors from abroad to invest their capital in the country by buying shares being floated or sold.
5. Providing revenue to the government. Capital markets provide revenue to the government inform of taxes imposed on them.
6. Promoting investments. Capital provide technical advice to investors, identify investment opportunities and encourage people to save through buying shares hence increasing investment levels.

Advantages of capital markets

1. They provide market to shares being sold. Capital markets provide market for shares being sold hence enabling companies and individuals to buy such shares.
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Objectives of promoting capital markets

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5. To provide revenue to the government. Capital markets provide revenue to the government inform of taxes imposed on them.
6. To promote investments. Capital provide technical advice to investors, identify investment opportunities and encourage people to save through buying shares hence increasing investment levels.

The stock exchange. Is where already issued out share or securities are formally traded and sold or it is an arrangement through which the already issued out shares are traded. In Uganda, they are traded under Uganda securities exchange.

THE UGANDA SECURITIES EXCHANGE.

This is the market place in Uganda where securities are traded. The Uganda Securities Exchange (USE) was licensed to operate as an approved stock exchange in June 1997 by the CMA. The USE began formal trading operations in January 1998 following the listings of the first instrument, the East African Development Bank (EADB) Bond.

The basic function of USE is to provide a facility for raising funds for investment in long-term assets and is regulated by the CMA

FUNCTIONS OF STOCK EXCHANGE

i) It provides ready market for shares already issued out in the primary market to be transferred.

ii) Stock exchange market facilitates low income earners to save in order to invest in companies listed on stock exchange iii)Stock exchange market helps companies in need of long-term finance to raise the required finances through selling their shares to the public.

iv)It creates a mean through which natives of a country can attain ownership in the various companies especially the privatized companies.

IDENTIFYING INVESTMENT OPPORTUNITIES THROUGH CAPITAL MARKETS. INVESTMENT: Refers to purchase of assets that are used to generate more income or financial gains. The capital markets industry offers various avenues for saving and investments covered below.

Types of investors

Private investors.

These are people who hold securities for their own benefit in terms of either interest on lent funds or dividends on shares. They tend to hold a small percentage of shares in a list company.

Corporate investors.

Are companies that hold shares in other companies for their own benefit

Institutional investors.

These are private or institutions that invest money in securities in the capital market on behalf of others e.g. insurance companies, pension funds etc.

a) Investing in shares.

A share or stock is a unit of ownership in a company. When you buy a share, you become a part owner or shareholder of the company. Shares can be bought either during the offer period or from existing shareholders. New issues of shares take the form of initial public offerings (IPOs), where shares are sold in a primary market.

The IPO refers to the first time a company offers its shares to the public. To buy shares, there processes /steps taken as discussed below;

ACTIVITY 7

1.What are Objectives of promoting capital markets?

2.State the advantages of capital markets.

3.Outline the Roles played by capital markets.

DAY 8

STEPS TAKEN IN BUYING SHARES

1.**Finding and contacting the broker.** The buying process begins with finding and contacting a stock broker and the services he/she offers. This helps the buyer to find out whether the broker has the type of shares he/she wants

2.**Deciding on the type of shares to buy.**

The buyer decides on the type of shares and the company from which to buy shares depending on its financial performance and future prospects as advised by the broker.

3.**Deciding on the price and number of shares to buy.**

This involves deciding on the price to pay for each share and number of shares to buy after getting the prevailing market prices of shares.

4.**Placing an order.**

After guidance by the broker and making a decision on the type of shares to buy. The buyer issues a market order or a limit order to the broker. Market orders are simple buy or sell orders that are to be executed immediately at current and best market prices. The limit orders on the other hand are those in which investors or buyers specify the price at which they are willing to buy shares.

The investor or buyer is supposed to fill;

1.The security central depository account opening forms
2.Aclient information form,
3.An order form and also signs a purchase transfer form.
5.**Receiving a copy of the prospectus.**
A prospectus is a legal document that gives general and material information on the company's history and operations or performance. The intending buyer receives this document and takes time to read it carefully.
6.**Payingforthesharestothebroker.**
The buyer makes for payment of the shares to the broker and in turn gets a receipt from the broker who then delivers the payment to the clearing house on the settlement day.
7.**Receiving a contract note**.
This is a document that spells out the number of shares bought, the price at which they are bought, amount of commission to pay to the broker, details of government taxes which include the contract stamp, transfer duty and capital gains tax and the total amount which the investors or client owes to the broker which has to be paid on the settlement day indicated on the contact note. It is a legal document that acts as proof ownership of the shares until a share certificate is issued.
Payment of the total amount. This involves paying the total shown on the contract note on the settlement day.
8.**Receiving the share certificate from the registrar.**
This is a document issued to a person as evidence that he / she has bought shares of the issuing company and therefore has claim to the dividends on the shares indicated on it

THE PROCESS OF SELLING SHARES
Below are the steps involved in selling shares

1.Finding out how much shares are selling in the market through brokers / dealers.
2.Contacting a broker / dealer to sell the shares at a satisfactory price
3.Pressing an order to sell the shares
4.Sending a sales contact note after selling the shares by the broker to the seller. It shows the net sales payable to the seller.
5.Receiving the cheque by the seller as advised by his / her broker.

ADVANTAGESOF INVESTING IN SHARES.

i)It is a source of income to shareholders inform of dividends. When a company that issued shares makes a profit, the board of directors gives a percentage of the profit to its shareholders (dividends)
ii)It increases the value of capital. When shares are sold at a price that is higher than the price at which they were purchased, this represents a profit called capital gain.
iii)Investing in shares gives shareholders voting rights. Shares give a share holder the right to attend and vote on important company decision sat the companies' annual General meetings.
iv)Shares act as collateral securities. Shares certificates are used as collateral securities to obtain credit facilities like loans, credit supplies etc.
v)Shares are transferrable. Shares can be passed on from one person to another and can also be inherited.

DISADVANTAGES OF INVESTING IN SHARES.

i)It results in depreciation in the value of investment. Share prices sometimes fall due to changes in demand and supply conditions or when the company's performance declines
ii)Share are not freely transferrable in private limited companies hence limiting transfer of the holder's funds to

other new priority areas due to failure of selling the shares to another interested person.

iii)Decisions are made on the basis of rule of the majority in the annual general meetings hence the minority shareholders with contrasting and opposing views are not treated fairly

iv)Shareholders especially in public limited companies lack direct control over their investments or day-to-day activities of the business.

v)It leads to fluctuation in the value of share capital. This is due to fall and rise in prices of shares.

vi)If the company goes in to liquidation, shareholders are the last to be paid after all other creditors and debtors.

b). Investing in bonds

A bond is essentially a loan an investor makes to the issuer of a bond. The investor receives regular interest payments on the loan until the bond matures or is called, at which point the issuer repays you the principal. Certain bonds have special provisions. Bond funds pool money from many investors to buy individual bonds that meet the fund's investment objective. Most bonds pay regular interest until the bond matures.

HOW BONDS WORK.

Bonds have three major components.

- **The first is the face value (par value).** This is the value of the bond as given on the certificate or instrument. It is the value the bond holder will at maturity unless the issuer defaults. Investors pay face value when they buy the bond at its original face value and the price may be more or less than the par.
- **Second is a coupon rate**. This is the annual rate of interest payable on the bond.

The higher the coupon rate, the higher the interest payments the owner receives.
The rate is set at the time the bond is issued and does not change.

- **The third is the maturity**. This is the date upon which the issuer pays back the face value of the bond. The bond terminates at maturity.

Example

Atypical bond-a company issues as shs300,00010-year bond with a 6% coupon rate. Each year, the owner receives shs18,000 (6% of shs 300,000) paid in two semi-annual installments of shs 9000.

Advantages of investing in bonds.

i)Bonds are predictable. You know how much interest you can expect to receive, how often to receive it, and when the bond’s face value will mature.

ii)Bonds are steadier than stocks (which can fluctuate in short-term). Some investors prefer bonds to equity investments since they are less volatile.

iii)People on affixed income and retirement will receive a predictable amount of regular income from bonds. Most bonds pay interest to bond holders on a regular basis, with the exception of zero coupon bonds.

iv)The interest rates paid by bonds typically exceed those paid by banks on savings accounts, especially short-term bonds.

Disadvantages of investing in bonds.

i)Bond lose value most especially when companies and municipalities go bankrupt.

ii)Long-term bonds tied up money in low yielding bonds.

iii)Un like stocks, bonds don’t offer the possibility of high long-term returns. Younger investors and those with several years to go until retirement would be better served by liming their bond purchases and opting for equity buys instead.

iv)Although bonds are less volatile than stocks, they are not immune from price fluctuation. Bonds from riskier companies can be very volatile. It is also possible for a company to default on bonds issued hence a loss of principal for the bond holder.

c. Collective Investment Schemes.

This is a type of investment scheme that involves collecting money from different investors and then combining all the money and investing in various products.

Or are private financial arrangements that pool together resources of many small savers, generating a large pool of resources which is managed professionally and invested in various assets such as shares and bonds with a purpose of making profits. It may also be called a mutual fund.

There are two types of collective investment schemes.

i. Unit trust schemes. These are types of schemes where investors buy units, which represent the various holdings of the scheme. One's investment is represented by the units they hold in the scheme.

ii.Investment Companies with Variable Capital (ICVC). Where one's investments are represented by the shares they hold. The scheme takes the form of an ordinary company. However, unlike other companies, it is allowed to buy back shares when an investor wishes to pull out.

ACTIVITY 7

1.Explain the steps taken in buying shares.

2. State the advantages and disadvantages of investing in bonds.