**TAXATION**

**TAXATION,** this refers to the process through which government obtain money from persons who qualify to be charged the tax by application of low

**TAX,** this is a compulsory charge imposed by government or any other authorized authority on persons or business in order to finance government activities

**REASONS/ RATIONALE / OBJECTIVES OF LEVYING TAXES**

1. To raise government revenue to be used to provide public service
2. To control inflation in order to reduce the amount of money used for consumption of goods and hence reducing their demand
3. To protect domestic infant industries from competition with products from other countries by imposing import duty
4. To ensure equal distribution of incomes in order to reduce income in equality
5. To restrict production and consumption of harmful goods by imposing high taxes on such products
6. To improve on the level; of employment opportunities by taxing low the agricultural sectors products and those people engage in labour intensive technics of production
7. To recover the country’s wealth by imposing taxes on people who inherit the property that is valuable from the deceased
8. To avoid dumping by levying high taxes on foreign business that want to sell their products cheaply in the country
9. To protect scare resources by imposing high taxes on certain business and activities like fishing and mining
10. To correct balance of payment position by imposing high import duties on non – essential goods in order to discourage their importation
11. To reduce dependence on foreign aid by widening the tax base in order to generate more tax revenue other than looking for foreign aid
12. To instill the sense of responsibility among citizens over public utilities since they contribute towards their setting up

**TERMS USED IN TAXATION**

1. **Tax base,** this refers to the economic activity that are subjected to tax
2. **Tax avoidance**, this is where a tax payer takes advantage of the loopholes within the tax administration to avoid or dodge tax
3. **Tax evasion**, this refers to the deliberate refusal of the tax payer to pay tax

**NB: the following are the forms of tax evasion practiced in Uganda**

1. Smuggling of taxable goods in and out of the country
2. Bribing tax collectors
3. Overstating of expenses
4. Hiding away from tax collectors

**Reasons why people evade taxes**

1. Low-income levels
2. In appropriate method of tax collection
3. Political sabotage by some politicians
4. Discontent by people about provision of tax
5. Loopholes in the tax system
6. Inadequate information about tax

**Consequences of tax evasion**

1. It leads to permanent closure of the business
2. It exhibits bad public image for the business
3. Impassion of fines
4. Denies the government to support other sectors
5. Leads to forceful payment of areas
6. Imprisonment of tax evaders
7. **Taxable income,** this is the amount of income subjected to tax
8. **Tax liability,** this is the amount of income that a tax payer is required to pay within a given period of time
9. **Tax rate,** refers to the percentage of the tax payer income that is paid as tax
10. **Impact of tax,** Refers to the first resting place of tax
11. **Incidence of tax,** Refers to the final resting point of tax
12. **Tax shifting,** this is the ability of the producer to transfer the burden of the tax to the final consumer.

**Forward shifting of tax**, this occurs when the tax imposed to producer is transferred to the consumer in form of increased prices

Effects of forward shifting of tax

1. Leads to inflation
2. Leads to high cost of living
3. Leads to poor standard of living

**Backward shifting of tax**, this occurs when the producer transfers the burden of tax to the supplier of raw materials inform of reduced prices

1. **Tax exemption**, this occurs when the tax authority relieves some people from paying taxes due to some reasons like age
2. **Tax holiday,** this is where a tax payer is given some grace period before starting to pay tax
3. **Threshold**, this refers to the amount of money or level of income where the tax liability begins
4. **Tax identification number (TIN),** this is a unique number assigned to each tax payer by the tax authority to identify a specific tax payer
5. **Tax clearance,** this is a process of certifying the tax authority that the tax payer has completed paying the tax levied
6. **Taxable capacity**, it refers to the ability of the tax payer to pay tax

**Factors determining tax capacity**

1. Level of income
2. Size of dependence burden
3. Level of tax imposed

**ROLE OF TAXATION**

**POSITIVE ROLE**

1. Controlling inflation
2. Raising revenue to the government
3. Ensuring equitable distribution of income
4. Protecting domestic infant industries
5. Controlling monopoly power
6. Correcting the balance of payment position
7. Avoiding dumping of foreign goods
8. Restricting consumption of harmful products
9. Improving the level of employment opportunity
10. Increasing the level of economic growth
11. Reducing dependence on foreign aid

**NEGATIVE ROLE**

1. Discouraging investment like high taxes
2. Encouraging trade mal- practices like smuggling
3. Encouraging resource diversion from highly taxed activities
4. Reducing volume of trade due to import and export and export duties
5. Creating inflationary tendency
6. Discouraging efforts and initiative to work
7. Widening income inequality
8. Increasing cost of production due to high taxes

**PRINCIPLE / DOCTRINES / ESSENTIALS OF TAXATION**

These are rules and regulations or guidelines which are to be followed in the assessment, collection and administration in taxes

1. **Certainty**, this principle states the amount of money to be paid must be known both to the tax payers and collectors
2. **Consistence**, this principle states that the place period and reason which the tax dues are collected should be convenient to the tax payer e.g. at the end of the month when people have earned money
3. **Convenience**, this principle states that the objective of the tax paid must be in line with government and other regulatory policies in encouraging proper allocation of resources
4. **Comprehensiveness,** this principles states that a good tax system should be levied on all sectors in the economy and on different economic activities
5. **Simplicity**, this principle states that the type of the tax, that collection method, the method of assessment should be easy enough to be understood by the tax payers and collectors
6. **Neutrality**, this principle states that a good tax system should not discriminate among the tax payers
7. **Flexibility**, this principle states that the tax should be able to change with changes income of different individuals
8. **Fairness,** this principle states that the tax should be fairly levied on each tax payer so that each bears the equal burden
9. **Economy / cheapness,** the principle states the cost of collection and administration of a tax should be lower than the total revenue collected
10. **Ability to pay.**

This principle requires that the tax payer should be able to pay the tax assessed on him / her and there after remain with enough income to sustain his / her life

**TYPES OF TAXES**

There are two types of taxes

1. Direct taxes
2. Indirect taxes

**DIRECT TAXES**

There are taxes that are levied on income on individuals and business

Types of direct taxes

1. **PAYE,** this is the tax imposed on people’s incomes depending on how much they earn and its progressive in nature
2. **Income tax,** this is a tax imposed on people’s income of individuals and at a given period of time
3. **Personal tax,** this is a tax levied on incomes of individuals and it’s normally progressive in nature
4. **Wealth tax,** this is a tax imposed on accumulated wealth and savings of individual’s
5. **Capital gains tax,** this is a tax imposed on profits received from sale of an asset that has gained value from the time of sale
6. **Estate duty,** this is a tax levied on the estate of the deceased person
7. **Gift tax,** this is a levied-on gifts received from various sources which are valuable
8. **Surcharge tax**, this is a tax imposed on those who fail to meet the deadline of paying taxes
9. **Inheritance tax,** Is the tax imposed on the properties so inherited after the death of the owner?

**ADVANTAGES OF DIRECT TAXES**

1. They are certain i.e., the tax payer is informed in advance where, when and how much to pay
2. They redistribute incomes among the tax payers
3. They are convenient because they are collected at the time peoples have earned money
4. They are progressive in nature i.e. high income earners pay more than the low income earners
5. They act as a tool to control inflation
6. They are flexible i.e. they change with changes I income
7. They are simple and easy to understand by the tax payers and collectors
8. They are economically collected by the government since they are not expensive to collect

**DISADVANTAGES OF DIRECT TAXES**

1. They lead to inflation especially when the taxes are levied on the profits of the business
2. They discourage entrepreneurship especially high company taxes
3. They discourage investment especially those levied on the profits on the firm
4. They are characterized by a lot of tax evasion and avoidance
5. The government is usually not sure on how much it gets from these taxes
6. They tend to discriminate among tax payers
7. They make the government un popular especially high tax rates
8. They discourage hard work
9. They are difficult to review in the short period

**INDIRECT TAXES**

These are taxes that are levied on goods and services to be paid by an individual on business

**TYPES OF INDIRECT TAXES**

1. **Custom duty,** it is a tax that is levied on goods and services that cross national boundary. These include;
2. **Import duty,** this is a tax levied on goods entering the country from other countries
3. **Export duty,** it is tax levied on goods leaving the country to other countries
4. **Excise duty,** it is a tax levied on goods produced locally
5. **Octroi / octoroi tax,** this is the tax imposed on goods in transit from one country to another through the territory of another country
6. **Sumptuary tax,** this is a tax imposed on consumer goods which are considered harmful to the society
7. **Advalorem,** this is a tax levied on goods according to the value of the commodities purchased e.g. tax on luxury goods
8. **Specific tax**, this is a tax imposed on each unit of output produced or sold
9. **Sales tax,** this is a tax levied on the total sales of the business regardless of the state of production and distribution
10. **Commercial transaction level** **(C T L**), This is a tax imposed of the business regardless of the state of production and distribution
11. **VAT (Value Added Tax),** This is a tax imposed on the value added to each stage of production
12. **Lump sum tax,** this is a tax imposed on the total output produced

**ADVANTAGES OF INDIRECT TAXES**

1. They are convenient to the government and the tax payers since they are collected when people are aware
2. They promote hard work among tax payers
3. They are difficult to doge since they are paid when consuming a good or a service
4. They are flexible since the rate keeps on changing
5. They are used to guard people’s health from consuming harmful products
6. They assist in overcoming balance of payment problems by imposing high import duties
7. They tend to contribute more to the government revenue since everyone pays tax
8. They are used to protect infant domestic industries against foreign competition
9. They are used to achieve economic stability by minimizing imported inflation

**DISADVANTAGES OF INDIRECT TAXES**

1. They encourage trade mal practice like smuggling
2. They lead to inflation due to increased cost of production
3. They interfere with freedom of trade especially those that are levied on necessities
4. They cause consumers to change their consumption expenditure especially where prices increase that leads to reduced standard of living

**PROBLEMS OF TAXATION IN UGANDA**

1. Large subsistence sector characterized by large agricultural sector that leads to low taxable income
2. Large informal sector that makes it hard to access and collect taxes
3. High level of ones limited tax capacity
4. Weak administrative machinery, high administrative machinery leading to low tax
5. Existence of high dependence ratio where majority of people depend on few
6. Low level of income of individuals and this makes the taxable capacity low
7. High cost of collection that reduces the tax revenue margin
8. Existence of high rate of tax evasion and avoidance
9. Increased mal practice in case of smuggling

**SOLUTIONS TO THE ABOVE PROBLEMS**

1. Undertaking massive industrialization to reduce subsistence sector
2. Developing and encouraging use of labour-intensive technology
3. By sensitizing the mass
4. Controlling malpractice like smuggling
5. Modernizing and monetizing agricultural sector to promote commercial activities
6. Improving tax administration by paying tax personnel attractively
7. Penalizing and dismissing discontent tax officials
8. Checking political insecurity in different parts of the country
9. Introducing a comprehensive tax payer registration in which every tax payer is assigned a tax identification number

**TAX COMPLIANCE**

This refers to the degree to which the tax paying community meet the obligation of paying tax as set out in appropriate legal and regulatory frame work

OR

Tax compliance is the degree to which the tax paying community meets its obligations, in accordance with the legal and regulatory provisions

**ELEMENTS OF TAX COMPLIANCE**

The tax payer is said to be tax compliant when the following have been done

1. **Registration.** This should be done and accurate information is provided to the qualifying taxpayers.
2. **Filing returns**, this entails the filing of accurate and correct information about the business on a prescribed form for the prospective period by a taxpayer and submitting it to URA for purposes of determining the tax payable
3. **Declaration**, accurate and correct information should be provided on transactions on a prescribed for and submitted to URA for processing
4. **Payment,** correct amount of tax due should be pain and I time
5. **Record keeping,** all taxpayers are required by law to keep proper records about their business transactions for tax purposes

**LEVEL OF TAX COMPLIANCE**

1. Tax payers who are fully compliant and are willing to meet the obligation
2. Tax payers who are reluctantly complying they know that compliance is expensive
3. Tax payers who show slight resistance mainly due to lack of resistance
4. Tax payers who are not compliant at all and they show out their resistance

**FORMS OF NON-TAX COMPLIANCE**

1. **Smuggling,** this the importation or exportation of goods secretly contrary to the law without paying the duties imposed
2. **Under declaration**, this the deliberate misstatement of transactions for purposes of under paying tax
3. **Under valuation,** self- assignment of lower values by the importer on the import transactions aimed to defraud government revenue
4. **Falsification of documents,** this is the deliberate alteration of information on prescribed documents for purposes of dodging taxes
5. **Non-filing of returns,** this the deliberate failure by registered tax payer to file returns as required by law
6. **Failure to register for taxation,** this involves failure to register for tax by eligible and misclassification of goods
7. **Dumping as used in taxation**, this is an act of diverting transit and export goods the home market for purposes of not paying taxes

**ECONOMIC FACTORS THAT INFLUENCE TAX COMPLIANCE IN UGANDA**

1. **Level of actual income**. The higher the level of the actual income the higher the tax compliance because the can afford to pay and the lower the tactual income the lower the tax compliance
2. **Nature of employment,** the self-employed have more possibilities to avoid paying taxes than the employed taxpayers whose taxes are deducted at the source by the employers
3. **The tax rates,** high tax rates discourage tax compliance while low tax rates encourage tax compliance
4. **Tax audit,** the stronger the auditing system the more the larger the incomes that will be declared by the tax payers making them tax compliant unlike weak auditing system that breeds non-tax compliance
5. **Fines**, the higher the fines the more the tax payers fear the consequences of not paying taxes hence high tax compliance than when the fines are low
6. **Use of informants,** the presence of motivated informants increases tax compliance since the evaders fear to be caught while there the informants are absent tax compliance is low

**NON-ECONOMIC FACTORS THAT INFLUENCE TAX COMPLIANCE IN UGANDA**

1. **Attitudes towards taxes**, a community with positive and patriotic attitude towards paying the taxes are more compliant than the community with negative attitude
2. **Personal, social and national norms**, the more developed the tax ethics, the more likely is voluntary compliance than where the ethical behavior is negative
3. **Availability of funds**, business or people that have sufficient funds are tax compliant than business with insufficient funds
4. **Popularity of the government**, where the government is characterized by honesty and accountability, the tax payer is tax compliant than when the government is not honest
5. **Level of consistence of tax laws and rules,** where the tax laws and rules are consistent tax compliant is higher than where rules are inconsistent
6. **Level of business management**, businesses that have proper record keeping and management have a higher tax compliance than business with poor record keeping and management
7. **Quality of administration**, where the tax administration is characterized by professionalism the level of compliance is higher than where it is characterized by dishonest
8. **The extent to which the tax system is equitable**, equitable tax system encourage tax compliance while inequalities in tax system discourage tax compliance
9. **The extent to which laws and regulatory frame work are simple,** simple tax laws encourage tax compliance than complicated tax laws.
10. **Level of ta education**, higher levels of tax education increase the awareness and fosters tax compliance whereas low levels of tax education brings in low tax compliance
11. **Customer care to tax payers**, where the tax authorities and staff treat tax payers equally and fairly in a respectful way tax compliance is high than where the tax authorities and staff are arrogant and annoying
12. **Motivation and rewards**, where the compliant tax payers are rewarded and highly recognized through publishing their names on the social medium and winning prizes tax compliance is high while those who are non-compliant are frequently audited and penalties and fines

**BENEFITS OF TAX COMPLIANCE**

1. Increases government revenue, which is used in enhancing the recurrent and development expenditure
2. Reduces the cost of tax administration, this is because the tax payers are willing to pay the taxes with out conducting audits and employing many workers to truck defaulters
3. Promotes equity in business activities as there are limited interference from tax authorities
4. Enables the business to win prizes and recognition form the URA and this attracts customers to the business
5. Enables the business to freely import and export its products since it has more government support
6. Eases facilitation of business activities because they easily receive contracts from government

**COSTS OF NON-TAX COMPLIANCE**

1. High costs of collection on the behalf URA
2. Legal fees charged on these on the tax payers
3. Time wasting in terms of moving to court settle charges
4. Court cases that spoil the image of the business
5. Penalties and fines that reduce the profitability of the business

**WAYS OF AVOIDING COSTS OF NON-TAX COMPLINCE**

1. Keeping proper records of business transactions
2. Adhering to the due dates of payment of taxes
3. Adhering to the dates of filing returns
4. Paying the correct amount of tax
5. Declaring the correct amount of the taxable income in the tax returns

**MEASURES THAT CAN BE TAKEN TO ENCOURAGE TAX COMPLIANCE**

1. By improving on the quality of business management in terms of record keeping
2. Through popularizing the government and improving on the quality of governance
3. By simplifying the tax laws to enable tax payers understand them
4. By using border controls like joint verification between countries, surveillance and patrols
5. By carrying out regular audits and these helps tax payers to keep proper records
6. By ensuring that tax laws are consistently implemented by publishing
7. By providing tax incentives on importation of raw materials tax holidays
8. By using advanced technology including the use of cameras electronic cargo tracking system
9. By use whistle blowers’ system policy to provide information to URA
10. By employing an arrangement of instalment scheme through signing memorandum of an understanding with tax payers of large outstanding tax liability
11. By interfacing with critical stake holders through organizing stakeholder engagements to enable sharing of information to boost compliance
12. By using rewards and recognition to the best tax payers through appreciation to motivate them to comply
13. By licensing clearing and tax agents to handle the affairs of tax payers to mitigate revenue leakages arising from the use of unlicensed agents
14. By ensuring that the taxes are equitable
15. Shortening payment procedures
16. Lowering the tax rates charged
17. By ensuring proper usage of tax
18. By ensuring political stability to boost economic activities
19. By imposing penalty on those who evade tax
20. By sensitizing /education the mass on the role of taxation
21. By reducing corruption and embezzlement of tax revenue
22. By developing a tax payer friendly system of tax collection
23. By ensuring that taxes are simple to understand by both tax payers and collectors

**ROLE OF UGANDA REVENEU AUTHORITY**

1. Assessing and collecting taxes
2. Accounting for all the revenue collected to the ministry of finance
3. Facilitating trade and investment in the country
4. Advising government on matters of tax and revenue administration
5. Providing the tax payers and their authorized agents clear information about taxes
6. Creating employment to labour force
7. Keeping the tax payers’ records safely for future reference
8. Arresting and prosecuting tax defaulters
9. Providing fair and equitable taxation

**HOW CAN URA ENSURE TAX COMPLIANCE**

1. Through education on Radios and TVs
2. Through distributing simplified and translated literature
3. By imposing fines and penalties on tax defaulters
4. By publishing shame list of tax defaulters
5. By exempting compliance tax payers from paying tax
6. By imposing equitable taxes to all tax payers in accordance to the level of income
7. Through incorporation of taxation in Uganda’s curriculum

**ADVANTAGE OF VAT**

1. It avoids double taxation
2. It encourages exports
3. It is cheap to collect
4. It is paid willingly
5. It reduces corruption in the tax system
6. It is difficult to evade
7. It encourages growth of small-scale firm
8. It leads to increased government revenue

**DISADVANTAGES OF VAT**

1. it is difficult to understand
2. it is costly to administer
3. it reduces consumption
4. it increases inflation
5. it discourages investment
6. it requires strict system of record keeping

**THE TAX PAYERS CHARTER**

The URA tax payer’s charter spells out the right and obligation of the tax payer guides URA in upholding these rights and facilitates the tax payers to meet their obligation

**TAX PAYER’S RIGHTS.**

1. **Equity,** a tax payer has a right to equitable tax laws and procedures and all tax affairs should be handled with equality
2. **Confidentiality,** the tax payer has the right to be treated with secrecy and tax information should not be disclosed any how
3. **Prior notes,** a tax payer has a right to be given prior notice to clear his/her tax bills
4. **Tax refund** tax payer has a right to a tax refund with a prescribed time limit under the laws to those subjected to refund
5. **Accountability,** a tax payer has a right to be accounted for the funds paid as tax
6. **Facilitation of tax compliance,** a tax payer has a right to be educated on how tax compliance can easily be achieved.
7. **Objections and appeals,** Tax payers have a right to be facilitated to appeal and object to any tax /loophole
8. **Customer care,** a tax payer has a right to be served with courtesy and prompt service and attendance to complaints
9. **Processing returns and other documents,** a tax payer has a right t to tax returns, entries and any other document related to tax affairs

**OBLIGATIONS OF A TAX PAYER**

1. **Registration,** a tax payer is obliged to register with URA and obtain tax identification number
2. **Tax payment,** a tax payer is obliged to pay the correct tax of the right time and place as required by the relevant laws
3. **Filling returns and entries**, Tax payers are expected to fill tax returns, customs entries or any other forms relating to taxes.
4. **Cooperation** with the authority especially in handling tax matters so that the taxation process is smooth.
5. **Declaration /disclosure**, a tax payer is expected to be honest with URA, treat them fairly with courtesy
6. **When travelling,** the tax payer should ensure that he/she has completed accurately all the necessary forms before departure or arrival at the processing point.
7. **When importing or exporting cargo,** when a tax payer wishes to import or export, he/she should use the services of the licensed customs agents to complete customs entries and related clearance formalities

**BENEFITS ENJOYED BY THE TAX PAYER AFTER PAYING TAXES**

1. Tax refunds in cases of an excess payment
2. Government support like subsidies and tax holidays
3. Continuation of business operation which are guaranteed because of compliance
4. Winning of awards due to tax compliance
5. Free sensitization and audits by the tax authority
6. Free handling charges /no payments of withholding of tax-to-tax complaint payers.
7. Free trade in and out of the country and this leads to high trade turnover