

UGANDA MARTYRS UNIVERSITY
BACHELOR OF ARTS IN LOCAL GOVERNANCE AND HUMAN RIGHTS
PUBLIC FINANCE, MANAGEMENT AND ACCOUNTABILITY
NOVEMBER 2022 EXAMINATIONS

DATE: 5th NOVEMBER 2022

TIME: 9:00 AM TO 12:00 PM

Instructions:

- a) Answer FOUR Questions in All.**
- b) Section A is Compulsory**
- c) Answer ANY three questions in Section B**
- d) Marks are indicated against each Question**
- e) Submit through Moodle system**

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Section A:

Question One:

Generally every government imposes tax to fulfill its normal social obligations in the form of defense, maintenance of law and order and socio-economic development. Normally, the tax policy is governed by the principles of equity, economic stability and economic growth, but in actual practice, the tax policy

is determined by the pressures which are exerted on the government by different pressure groups in society. In practice, every legislature and every authority is pressurized by various economic, social and political groups to orient its taxation policy in certain directions.

Every group would try to resist a change that goes against its interests. The authorities, in many cases, have to adopt certain policies simply because there are pressures to that effect. The authorities have to, many times, reshape the tax structure depending upon the changing political strength of different economic groups. It is also clear that while choosing and imposing a tax, the authorities would be making a great blunder if they lose sight of the administrative feasibility, the cost of collection, and so on. Therefore when the government bows before the pressures of various pressure groups and formulates its tax policy accordingly, we call it the expediency approach.

Another Approach to Public revenue collection is the Cost of Service Approach. This is one of the oldest principles, advocated for the distribution of the tax burden. According to this theory, the basis of taxation should be the cost incurred by the Government on different services for the benefit of the individual tax-payers. Each tax-payer has to pay the tax equal to the cost of service to him. It means, the higher the cost, the higher should be the tax rate and vice-versa. In other words, according to this theory, the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. The government acts like a producer of a commodity who charges the price from his customers equal to the amount of cost of production of the commodity.

One can also talk about Socio-Political Approach advanced by Adolph Wagner. This is an approach where social and political objectives are the deciding factors for the distribution of tax burden. Wagner, like most Germans of those days, did not believe in individualist approach to a problem. He wanted that each economic problem should be looked in its social and political context. Accordingly, a tax system should not be designed to serve the needs of the individual members of the society. But it should be designed for the welfare of the society as a whole. He was in favour of using taxation for reduction in income inequalities and he advocated that all small incomes should be exempted from taxation. In other words, the tax structure should aim at achieving social objectives.

The shortcomings of Socio-Political Approach gave birth to Ability to pay theory, which is interpreted as the money income of the assessee. It is the most generally accepted theory. According to this theory each person should contribute to the income of the state in proportion to his ability to pay. Ability is the “ideal ethical basis of taxation. Every tax-payer should feel that he has made equal sacrifice in the payment of tax. The concept of ability to pay depends upon the bold concept of equity in taxation. Equity implies just tax payment. When the assessee is required to pay tax according to his ability to pay, it may be called equity in tax payment. As Dalton puts it, “the burden of taxation should be so distributed that the direct real burden on all tax-payers is equal.”

In addition the above taxation theories, there are many other tax theories which endeavor to give alternative approaches in design of a tax system that ought to enhance revenue collection without causing instability in any sector. For example; Benefit Approach theory, Expenditure Approach Theory and Income Approach theory. In view of the above, you are required to:

- a)** Discuss Ability to Pay theory of Taxation, clearly bringing out its strength in relation to generation of public revenue. **[10 marks]**
- b)** Compare and contrast, Social-political Approach, Cost of Service Approach and expediency Approach to Tax revenue collection, then recommend the best approach Uganda Should adopt we have to select from only hoe three. **[15 marks]**
- c)** One of the measures of ability to Pay is the “Objective Approach” as advanced by pro. Seligman. Explain the indices of ability to pay as given by Pro. Seligman. **[10 marks]**
- d)** Outline the limitation of Benefit theory as a measure of raising public revenue. **[5 marks]**

Section B, Answer three Questions Only

Question Two:

- a) Most governments in sub-Saharan Africa have implemented a number of reforms, amongst which are; the structural adjustments, economic liberalization, regulatory realignment. These reforms aim at achieving efficiency and effectiveness in government operations and results. Nevertheless, the reform efforts seem to be elusive considering the service delivery indicators on the ground. Based on the concept of *value for money*, discuss the statement. **[10 marks]**
- b) The discussion on the frameworks and practices of corruption remain conflicting in light of the ever increasing vice. Discuss **[5 Marks]**
- c) With evidence, present the most recent measures taken by your government in combating corruption **[5 Marks]**

Question three:

“A budget is a document that translates plans into money - money that will need to be spent to get your planned activities done (expenditure) and money that will need to be generated to cover the costs of getting the work done (income). It is an estimate, or informed guess, about what you will need in monetary terms to do your work”.

- a) In view of the above description, Define Recurrent expenditure and explain its main expenditure heads applied by any government during the budgetary process. **[4 marks]**
- b) Discuss five kinds of budget drawn by government and state the unique purpose for each. **[4 marks]**
- c) Discuss the basic principles of budgeting **[4 marks]**
- d) Examine the fundamental processes that have to be followed in the preparation and passage of the Government Budget. **[4 marks]**
- e) What are the budgeting challenges in Uganda? **[4 marks]**

Question Four:

- a) Canon of Public Expenditure, give guidelines on how the national budget can be distributed among various government Sectors. State Ten Canons of public Expenditures, clearly showing how they guide spending. **[4 marks]**
- b) Recent analysis of financial reports of many government units indicate that the absolute financial figures of the government units increased intensively and extensively over successive years. Discuss the statement in context of your government's budgetary allocation over the past 5 years. **[4 marks]**
- c) Explain the various roles of government in the development of the economy. **[4 marks]**
- d) There has been phenomenal increase in public expenditure over the years. Provide an elaborate explanation as to why there is ever increasing public expenditure in Uganda. **[4 marks]**
- e) Explain the meaning of tax "Impact and Incidence", according to Philip Taylor and discuss the external factors that affect the shift-ability of tax incidence. **[4 marks]**

Question Five:

Public debt is a debt or loan taken by the Government from its own people as well as from foreign countries or both. Borrowing may be short-term as well as long-term. The Government may borrow from banks, business organizations, business houses, individuals and foreign countries. As mentioned in the "Encyclopedia Britannica", Public debt refers to "Obligations of Governments, particularly those evidenced by securities to pay certain sums to the holders at some future date." Government needs to borrow when current revenue falls short of public expenditure since current public revenue is usually insufficient to meet the current and development expenditure of the modern Government, the Government has no alternative except to borrow money.

- a) Considering the said definition of Public Debt, Discuss six Categories of public Debt, clearly showing circumstances that may lead to use of a particular category as opposed to the other. **[6 marks]**

- b) Define the Term “National Debt Capacity” **[4 marks]**
- c) Discuss factors that determine debt Capacity of any developing country. **[6 marks]**

Question Six:

- a) Explain the concept of a Public good as a Non-excludable. **[5 marks]**
- b) Explain three Environmental and Health externalities, clearly showing how they influence public expenditure. **[5 marks]**
- c) Investment in economic and social goods is normally made by government with a view to enhance income levels of its. Such investment includes expenditure on Building, dams, roads, canals, schools, hospitals etc. Since investment on these projects is generally associated with public policy its therefore investment is regards as *Public Investment*. Discuss the Factors that influence Public Investment **[6 marks]**
- d) Do you consider governments’ investment in economic growth a reality when the economy is fully liberalized? **[4 marks]**

End of exam Paper