Consequences of tax evasion to the tax evaders:

(a) Imposition of fine / penalty and forceful payment of all the tax arrears.

(b) Temporary or permanent closure of the business which is a regular tax evader e.g by withdrawing a trading licence.

(c) Confiscation of the goods being smuggled by those caught smuggling with an intention of evading tax.

(d) Imprisonment of tax evaders after court action.

(e) Denial of government support to a business that evades taxes where tax compliance is considered as a necessary condition for receiving the support.

(f) Denial of tax refunds for business that evade import duty on raw materials used to manufacture goods for export.

(g) Denial of public contracts and tenders as the business evading taxes may be blacklisted by the tax authority.

(h) Imposition of strict monitoring of some business that are blacklisted as tax evaders.

(i) Publishing regular tax evaders thus creating a bad image of their businesses.

TYPES OF TAXES

The major categories of taxes are Direct taxes and Indirect taxes.

DIRECT TAXES

These ate taxes imposed directly on the incomes and properties of individuals and business such that the burden of paying tax is borne by the individuals or business and cannot be shifted to another person or business.

Main feature / characteristic of direct taxes.

(i) The incidence of paying the tax is borne by the entity on which it is imposed ad cannot be shifted to another person of business.

(ii) They are progressive in nature i.e. they increase with an increase in income of the tax payer.

(iii) They are unavoidable since they are paid by the persons or businesses on whom they are imposed.

(iv) They are imposed on incomes and properties of tax payers

(v) They are collected by the government and not through intermediaries.

(vi) They are expensive to administer and collect since the government has to employ many tax collectors.

Direct taxes take the following forms:

1. **Income tax**: This is tax imposed on profits or income earned by an individual or business entity. It takes the example of:

   (a) Personal income tax: This is tax imposed on incomes earned by individuals. It is based on the principles of ability to pay and the tax rate increases with an increase in the tax payer's income e.g. Pay As You Earn (PAYE). This is an instalment income tax that is deducted by an employer from the salaries of employees and remitted to the government.

   (b) Corporation / corporate tax: This is tax imposed on the profits of a company or corporation and its rate is normally fixed (flat rate) e.g. it may be fixed at 30% of the profits made.

2. **Wealth tax/ property tax:** This is a tax levied on an individual or business entity. It is levied on the values of real assets like land, buildings, vehicles, equipment among other.

3. **Capital gains tax:** This is levied on profits received from the sale of fixed assets.

4. **Death duty: (Estate duty):** This is a direct tax imposed on the property / estate of a deceased person before the property is shared by the different beneficiaries.

5. **Inheritance tax:** This is imposed on the property inherited by an individual from a dead person. It is calculated basing on the value of the property inherited.

6. **Gift tax:** This is imposed on the value of the property or gifts received by a person from another e.g. donations.

7. **Capital levy:** This tax is levied on individuals with a lot of money or wealth as a temporary measure of raising government revenue during national emergency situations like during the period of shortage of funds for government use.

8. **Sur tax:** This is imposed on the personal income of a high income earners whose income exceeds a certain upper limit.

Advantages of direct taxes (Role/positive impact)

1. Direct taxes are certain i.e. the tax payer knows exactly how much to pay, when to pay and the method of payment.

2. They are simple and easy to understand. Both tax payer and tax collectors understand how they are calculated and the way they are collected.

3. Direct taxes are flexible (elastic). The government easily increases or decreases their tax rates so as to collect the direct tax revenue to suit the needs of the country.

4. They help in the redistribution of income and wealth since they take a higher proportion of the incomes of high income earners.

5. They help to control inflation (demand pull inflation) since they reduce disposable incomes in the hands of the tax payer which in turn reduces the total demand for goods and services forcing their prices to fall.

6. They promote social responsibility among the tax payers. Since they are levied directly on the incomes and properties of the tax payers, the people are encouraged to monitor the activities of the government to ensure that the tax revenue is spent on developmental issues.

7. They are used to control monopoly powers since they are imposed on their abnormal profits to reduce the effects they would cause using their large incomes.

8. They are convenient to tax payers since they are collected at the time when the tax payers have earned sufficient income.

9. They are economical in terms of collection e.g. **PAYE** which is deducted by the employer before paying employees and then the tax revenue is submitted to the tax authority.

10. They are sources of government revenue used to finance development and revenue expenditures like paying salaries to government workers.

Disadvantages

1. Direct taxes are easy to avail by under declaring the value of property and income by the tax payers.

2. They inconvenience the tax payers since they are paid in large sums of money which disorganises their expenditure patterns.

3. They discourage savings and investments in the country since they increase with increase in incomes. This discourages people from saving and investing so as to avoid paying high direct taxes their wealth.

4. They discourage hard work since tax payers know that the tax will increase as their incomes improve.

5. They create resentment (unrest) among the people since they reduce their disposable income and their standards of living fall. This resulting into internal conflicts

6. They have high costs of administration because many workers are employed to collect and administer which raises costs thus making the tax less productive.

7. They encourage resource diversion from highly taxed activities to none or low taxed ones.

8. They reduce the level of consumption in the city because people are left with less disposable income.

9. They are discriminative in nature because most direct taxes are levied without following the principle of impartiality because they exclude some persons like low income earners. This leads to low government tax revenue.

10. They result into inflation because they force employees to demand for higher wages to improve their disposable income. This in turn forces producers to increase the prices of their products resulting into further inflation.

INDIRECT TAXES

These are taxes imposed on goods and service, persons or business entities. Paying taxes can shift the taxes to the final consumers in form of high prices. They are also known as hidden taxes / expenditure taxes/ consumption taxes/ out lay taxes. They are paid voluntarily since a person only pays them when he decides to buy the taxed goods.

Characteristics of direct taxes.

1. They are imposed on goods and services and form part of the prices of these goods and services.
2. They are collected by the producers / sellers on behalf of the government.
3. They are regressive in nature since they take a bigger proportion of low income earners in come than that of the rich.
4. They can be avoided by avoiding purchasing and consuming of taxed goods and service. They are not compulsory.

5. The taxes are hidden in the prices of the taxed products since they are added to the prices to arrive at the final selling prices.
6. They raise high tax revenue especially in developing countries like Uganda.
7. The incidence or the total burden of paying these taxes can be shifted by the tax payer or producer or seller to another person or business such as final consumer.

FORMS OF INDIRECT TAXES INCLUDE:

A. **EXERCISE DUTY:** This is tax imposed on select locally produced commodities whether they are for local consumption or for export. Products liable for excise duty in Uganda include beers, cement, cigarettes, soft drinks, sugar, wines etc.

B. **CUSTOM DUTY:** This is tax imposed on goods either entering into or going out of the country i.e. either on imports or exports.

   (i) **Import duty:** This is tax imposed on foreign goods entering the country. (Imports)
   (ii) **Export duty:** This is a tax imposed on goods leaving the country (export)

C. **VALUE ADDED TAX (VAT):** This is a consumption tax imposed on the value added to a good or service at each stage of production or chain of distribution. In Uganda, current VAT is charged at 18% of the increase in value of a good /service.
   Value added at each stage = value of output – value of inputs.
   VAT is usually collected by the sellers who adds the tax to the prices of the products taxed.
   The VAT that a business person pays on products purchased is called the **<u>input tax</u>** while the VAT the business person charges when selling the products is called the **<u>output tax</u>**. This implies that the difference between output tax and input tax is the VAT which is paid by the business person to Uganda Revenue Authority.

Common terms related to VAT

1. **Taxable person / registered supplier:** This refers to a supplier of goods or services who is registered to charge or collect VAT.

2. **Exempt goods:** These are goods on which no VAT is charged. A seller does not charge VAT when selling the products and the VAT charged on inputs is not claimed. Examples of such products include: life jackets, educational services, insurance services, land, financial services etc.

3. **Zero rated products:** These are products on which zero VAT (0%) is charged and the seller can claim a tax refund which might have been paid on inputs e.g. water, flowers, dental or medical or veterinary equipment, human drugs, agro-processing machinery etc.

4. **Standard rated products:** These are products which must be charged VAT e.g. beers, cigarettes, sugar, sodas, electricity, fuel etc.

5. .**Tax invoice:** This is a document which shows specific details of a transaction required to support a claim for refund of an input tax especially for zero

6. **Advalorem tax:** This is a tax levied as a percentage of the value or price of the product. The higher the value of a product, the higher the Advalorem tax.

7. **Specific tax (Per unit tax):** This is a tax levied per unit (on each unit) of a product e.g. per kg, per litre. etc.

Merits of VAT

1. It is difficult to evade since it is hidden in the price of the products consumed.

2. Since it is comprehensive, it leads to increased government tax revenue.

3. It brings efficiency in business management since it encourages proper maintenance of books of accounts.
4. It reduces completion among the tax collectors and tax payers since it is paid by them.

5. It is economical in terms of administration and collection since the tax money is banked by the business that collect the tax.

6. It does not usually involve the shifting or diverting of resources to other sectors.

7. It encourages exports as taxes paid on exports mainly from taxed inputs are refunded to the producers.

8. It avoids double taxation since it is only calculated on the value added at each stage of production or distribution.

Demerits of VAT

1. It is regressive in nature as it negatively affects the poor than the rich hence worsens income inequality.

2. VAT is inflationary in nature since it increases the costs of production and then final prices of the products.

3. It encourages tax evasion like when unfaithful tax payers decide to keep two separate books of accounts in order to doge paying the tax.

4. It is not easy to understand VAT calculations especially for those who have no idea on how it is done.

D. **SUMPTUARY TAX:** This is a tax imposed on some products in order to discourage their consumption based on moral, health and economic grounds e.g. tax on cigarettes, alcoholic drinks etc. It is in other words a prohibitive tax.

E. **OCTROI TAX:** This is a tax imposed by a country on products passing through its territory in transit to another country e.g. Kenya imposes octroi tax on goods in transit from Mombasa to Uganda.

MERITS OF INDIRECT TAXES

1. They are comprehensive because they are imposed on a variety of consumer goods, thus they are a reliable source of government revenue.

2. They are convenient both to the tax payers and the government because tax payers only pay these taxes when they purchase the taxed consumer goods and services and the government collects the taxes when the tax payers have money to spend.

3. They are difficult to evade and avoid because they are imposed on various consumer goods and services.

4. They help to restrict consumption and production of harmful goods and services by imposing high exercise duties on harmful products like alcoholic drinks and cigarettes.

5. They help to protect domestic infant industries by imposing high import duties on foreign products so as to make them expensive to the citizens and this makes people to buy relatively cheaper locally produced products.

6. They help to correct the balance of payments problem. Increasing import duties on selected imports helps to reduce demand and expenditure on these goods thus improving Uganda's balance of payment position.

7. They are flexible (elastic) i.e. their tax rates are easy to adjust either upwards or downwards. This helps the government to collect the planned / desired tax revenue for use.

8. They are fairly impartial i.e. they do not discriminate consumers. They are paid by all groups of consumers who buy and use taxed consumer products.

9. They help to reduce income inequality once selectively imposed i.e. imposing high exercise duties on consumer goods consumed by the rich the rich, helps the government to generate much revenue which is then used to provide services to the low income earners.

10. They promote effort and hard work among the citizens because they encourage the people to work hard in order to earn more money so as to purchase the taxed goods and services normally consumer goods.

11. They are more economical in terms of collection and administration because they are collected by producers/ sellers/ intermediaries on behalf of the government without the government paying them for their services.

DEMERITS

1. They are inflationary in nature because they increase the prices of consumer goods taxed. Indirect taxes on raw materials lead to cost.

2. They lead to trade malpractices e.g. import duties encourage smuggling of foreign goods into the country so as to avoid paying taxes thus loss of government's tax revenue.
3. They promote income inequalities since they are imposed on consumer goods consumed by both the poor and the rich. They pose a heavier money burden on the poor than the rich.

4. They reduce the volume of international trade e.g. import duties reduce the volume of imports into the country thus reduction in varieties of consumer goods.

5. They encourage resentment of the government e.g high indirect taxes in Uganda makes the consumer goods to become expensive to the citizens and

this in turn makes them to hate the ruling government for making their lives hard.

6. They reduce the level of consumption of goods and services e.g high indirect taxes force low income earners to shift from consuming the taxed goods to non-taxed ones of low quality.

7. They lead to misallocation of resources e.g exercise duty and value added tax on inputs force producers to divert resources from using taxed inputs to non-taxed ones resulting into loss of government revenue and reduction in volume and variety of goods for consumers.

8. They lead to increased costs of production e.g. import duty and VAT on raw materials increase the production costs of the final consumer goods. This leads of charging higher prices

9. They breed inefficiencies in the protected firms because they do not face competition from better foreign firms.

10. They discourage investments especially to the small and medium size investors and this reduces on the volume of goods and services.

REASONS WHY UGANDA GOVENRMENT RELIES MORE ON INDIRECT TAXES THAN ON DIRECT TAXES.

1. Indirect taxes are difficult to evade since they are included in the prices of consumer goods.

2. They help to discourage the consumption of harmful products such as cigarettes and alcoholic drinks.

3. They are convenient to the tax payers since they are only paid as one consumes a taxed good.

4. They encourage effort and hard work among the citizens of the country so as to earn enough money to be able to purchase the goods and services they normally consume.

5. Some indirect taxes such as import duties help to protect infant industries.

6. They influence allocation of resources by influencing investment in desired areas like agriculture.

7. They help to improve the balance of payment position by discouraging imports i.e by imposing high import duties.

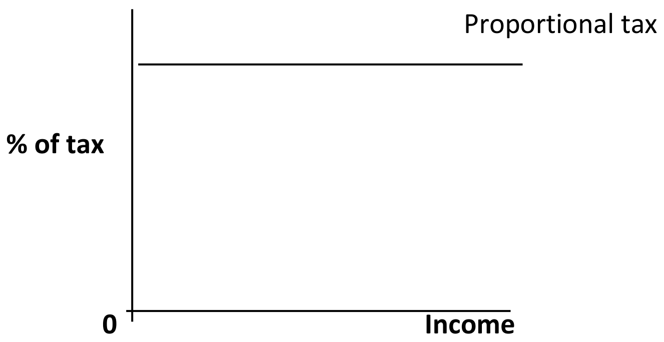
8. They are economical to collect and administer by the government.

9. They are comprehensive in nature hence generate high government tax revenue than direct taxes.

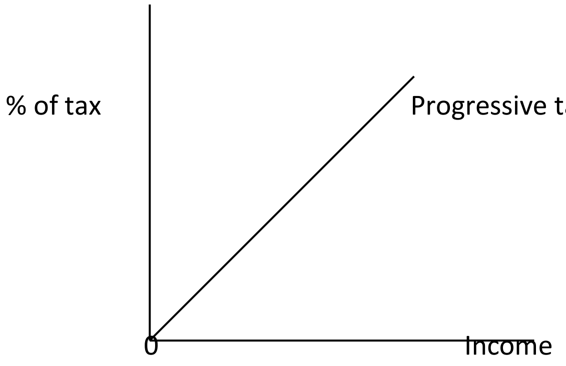
CLASSIFICATION OF TAXES

Taxes can be Classified according to income paid as tax (tax rate) and these include the following;

1. **A proportional tax**; this is a tax whose rate is constant irrespective of the level of income. The amount of income taken as taxes increases as the income level increases. E.g if the tax is 10% of gross income, a person earning Shs 10000 will pay Shs. 1000 as tax while a person earning 1000 will pay shs 100 as tax



2. **A progressive tax:** this is a tax whose rate increases as incomes increase. The rate of increase in tax is more than the rate of increase in income. This tax is designed to redistribute income and raise more revenue for government.



Merits of a progressive tax

i) Reduces income inequality.

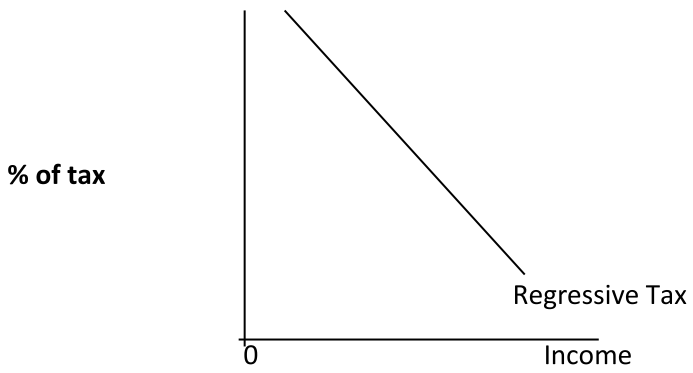
ii) Increases government revenue as the rich pay more tax.

iii) Reduces social tension between the poor and the rich.

iV) Encourages hard work.

v) Increases the consumption of goods especially by the low-income groups.

3. **Regressive tax:** this is a tax whose rate decreases as incomes increase e.g. most indirect taxes. The percentage of income taken as tax declines as income increases.



Effects of regressive taxes

i) They promote saving and investment among the rich.

ii) The poor are encouraged to work harder in order to maintain their standards of living.

ii) They widen the income gap between the rich and the poor.

iv) They reduce consumption of some commodities leading to low standards of living.

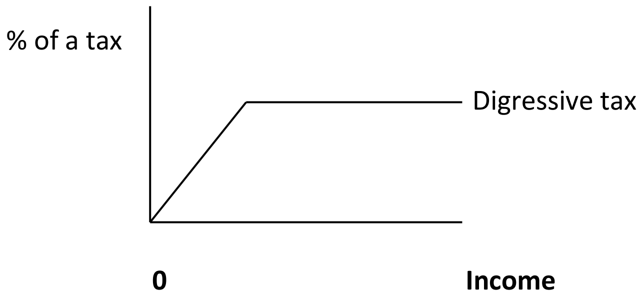
v) Low revenue is realised by government.

vi) They discourage saving and investment among the low-income groups.

vii) They lead to social unrest/resentment among the low-income groups.

viii) They encourage tax evasion and avoidance among the poor.

a) **Digressive tax**: this is a tax where the percentage rate of a tax initially increases as incomes increase (progressive) but becomes uniform after a certain point of income increase (proportional) i.e it's initially progressive up to a certain income level and there after it becomes proportional.



TAX AUTHORITIES IN UGANDA
There are two main tax authorities in Uganda i.e.
(i) Uganda Revenue Authority
(ii) Local Government Administration Tax department.

ROLES OF URA
(i) To assess and collect taxes according to the law.
(ii) To account for all the revenue collected to the Ministry of Finance.
(iii) To facilitate trade and investment e.g. by ensuring fast clearance of goods entering or leaving the country, provision of tax clearance certificates etc.
(iv) To advise the government on matters of policy relating to tax and revenue administration.

TAXES COLLECTED BY URA

1. **International Trade Taxes**
   These are taxes collected on goods entering or leaving the country. In Uganda, this role is performed by the customs and exercise department. These taxes include:
   - Import duty
   - Export duty
   - Value added Tax
   - Excise duty
   - Environmental levy.

2. **Domestic taxes**
   These are taxes collected by URA under the domestic tax department. They include;
   - Income tax i.e. corporation tax, Pay As You Earn

- Value added Tax
- Excise duty

Local Government Administration Tax Departments
These are tax departments of the local government administration authorities of the Districts, Town Councils, Municipalities ad City Councils. These local authorities collect revenues such as;

- Property tax in cities and towns
- Sign post fees
- Trading licences
- Market dues
- Packing fees

These taxes collected are spent at the local administration levels.

PROBLEMS FACE BY TAX AUTHORITIES IN UGANDA.

1. Existence of a big subsistence sector whose output doesn't reach the market meaning that such output is not taxed resulting into low tax revenue.

2. Rampart tax evasion and avoidance; many people like traders dodge paying taxes like import duty, smuggling goods into and out of the country resulting into low tax revenue collections.

3. Presence of a small industrial sector. Most firms in Uganda are agro-based with low value added in their products and thus low taxable income.

4. Poor and underdeveloped infrastructures such as roads, railways, electricity which limit the level of economic activities due to difficulty in accessing some tax payers, thus low tax collection by URA.

5. Shortage of skilled manpower such as statisticians, tax assessors and others to keep the tax records, assess taxes to be paid by all tax payers.

6. Poor record keeping by many businesses in Uganda. This makes it difficult for tax authorities to calculate the correct tax to be paid.

7. Political insecurity in some parts of the country limits tax authorities from reaching all the tax payers and also limiting the level of economic activities.

8. Weaknesses in the Uganda Tax laws make it difficult for tax authorities to collect enough tax revenue for example some low income earners do not pay the **Pay As You Earn** tax.

9. Existence of illegal activities which are not taxed such as smuggling, prostitution, and black-market deals.

10. Hostility by some tax payers e.g some traders become harsh to the tax officials and even beat or kill them.

11. Low levels of incomes of many citizens due to low levels of economic activities. This hinders the tax authorities from generating high tax revenue for financing government expenditures.

12. High costs of tax collection and administration due to high salaries to the tax officials and other costs, thus reducing the tax revenue yields.

13. Corruption among tax officials and tax payers who sometimes agree to give false information on properties, incomes and wealth which reduces the tax revenue to be collected by the tax authorities.

POSSIBLE SOLUTIONS TO SOLVE THESE PROBLEMS.

1. Commercialising the economy e.g through encouraging producers to produce for both domestic and foreign markets like through the Uganda Export Board so as to increase people's incomes and tax revenue.

2. Improving on the implementation of tax laws and regulations to deal with tax offenders.

3. Expanding the industrial sector e.g by inviting foreign investors to come and invest in the country.

4. Improving and constructing basic infrastructures like roads, electricity and others throughout the country so as to increase the level of economic activities, increase incomes of the citizens resulting into high taxable incomes.

5. Recruiting skilled manpower and conducting regular training of tax workers such as economists, statisticians, Accountants, computer specialists to help improve on tax administration and collection.

6. Educating/ sensitising the masses (Tax payers) e.g through consumer tax education programmes on the role of taxes in Uganda, maintaining proper business records.

7. Maintaining security in the country by deploying more police and army personnel all over the country so as to promote economic activities.

8. Improving on the tax laws, rules and regulations so as to close the weaknesses in the laws e.g by introducing electronic registration of tax payers, payment of taxes aimed at reducing tax evasion.

9. Improving on the tax administration and fighting illegal activities like smuggling, black market activities through using ant-crime boards like anti-smuggling unit and revenue protection services of URA.

10. Diversification of the economy e.g. by encouraging farmers to produce non-traditional crops like Vanilla, cocoa and red pepper for export with an aim of expanding the tax base, improve the incomes of the citizens, thus generating more tax revenue.

11. Fighting corruption in the tax authorities and among the tax payers e.g by using tax education, dismissing corrupt tax officials etc.

TAX COMPLIANCE

This is the degree to which the tax paying unit meets the tax obligation as set out in the appropriate legal regulatory provisions.
A compliant tax payer is one who makes timely correct declaration of property, income or wealth to the tax authority and voluntarily pays all the taxes due.

Anon-tax compliant tax payer is one who evades or avoid paying taxes required.

DEGREE OR LEVELS OF TAX COMPLIANCE IN UGANDA.

i. **Fully compliant tax payers:** These are tax payers who are willing to pay taxes assessed on them and do so voluntarily.

ii. **Tax payers who reluctantly comply:** these are tax payers who know that non-compliance would be expensive and accordingly force themselves to comply and pay the taxes required due to fear of legal consequences of dodging to pay the tax.

iii. **Tax payers who show slight resistance to tax compliance:** These are tax payers who resist to comply due to lack of knowledge and once they get advice and exertion of some pressure they comply and pay the taxes.

iv. **Non-tax compliant tax payers. These are tax payers who resist to comply** At this level tax payers show out right resistance to meet their tax obligations.

FACTORS THAT INFLUENCE THE LEVEL OF TAX COMPLIANCE IN UGANDA.

QN. EXPLAIN FACTORS THAT INFLUENCE TAX COMLIANCE IN YOUR COUNTRY.

1. **The extent to which the tax system is equitable**. Uganda's tax system is fairly equitable for direct taxes like **PAYE** that results into a high level of tax compliance since the tax burden is fair but for indirect taxes there is a low level of tax compliance as they impose a high tax burden on low income earners.

2. **The extent to which the tax laws and regulatory frame work is simpler or easy to understand**. The easier the framework is understood the higher the level of tax compliance and vice-versa.

3. **The quality of the tax administration** e.g in form of professionalism, integrity and food customer care by the tax collectors in URA result into high level of tax compliance unlike in the local government administration where there is low quality of tax administration as shown by rudeness of the tax collectors.

4. **The level or quality of business management by the tax payers**. Businesses in Uganda such as large companies that maintain high quality of business management through proper record keeping and good business ethics have a high level of tax compliance than those with low quality business management like most of the sole trade business and partnership businesses.

5. **Availability of funds**. Businesses in Uganda with reasonable adequate funds usually pay their taxes compared to small ones that have low levels of funds nor enough to pay taxes promptly.

6. **The level of tax rates**: High tax rates in Uganda such as VAT at 18% have a heavy tax burden on tax payers forcing some to evade the tax compared to those with low tax rate like excise duty which reflects high level of tax compliance.

7. **The level of popularity of the government and the quality of governance including honesty and accountability for public revenue**. There is a high level of tax compliance in taxes collected by URA because of the popularity of the central government while there is a low level of tax compliance among tax payers in the local popularity.

8. **The level of consistency and fairness in the application of the tax laws and rules**. Consistent application of tax laws for income taxes in Uganda results into fairly high level of tax compliance compared to areas where tax laws are inconsistently applied.

9. **The extent to which the tax system is convenient**. There is a high level of tax compliance in Uganda for indirect taxes such as VAT, excise duty because they are paid only once on purchase of the taxed products compared to direct taxes that are less convenient to the tax payers as they are paid in large amounts leading to some tax payers to evade paying them.

Guiding questions:

- Account for the low level of tax compliance in Uganda
- Why is there low levels of tax compliance in Uganda?
- Explain the factors responsible for the low levels of tax compliance in Uganda
- Explain the reasons for the low levels of tax compliance in Uganda.

N.B
Biased questions require biased points and biased explanations e.g. tax rates, inconvenient tax system.

ACTIONS THAT CAN BE TAKEN BY THE GOVERNMENT TO IMPROVE ON TAX COMPLIANCE.

1. Reducing corruption and embezzlement of the tax revenue by laying off corrupt tax officials and imposing fines on corrupt tax payers.

2. Ensuring that the tax system is simple to understand by training the tax officials and sensitising the tax payers so as to make them understand the tax and tax system.

3. Ensuring that the taxes are equitable / fair by making sure that tax payers in the same income bracket pay the same amount of tax.

4. Sensitising the population on the role of taxation and responsibilities of tax payers through appropriate media like Newspapers, Radios, Televisionsets, tax seminars.

5. Improving the relationship between the tax payers and tax collectors using such measures like employing well trained tax officials, ensuring non-harsh tax enforcement methods.

6. Ensuring political stability in the country by employing armed forces in all parts of the country to boost economic activities that can increase people's gross income and also improve on their tax compliance.

7. Widening the tax base by introducing new taxes on goods and services, property and incomes in addition to the old taxes.

8. Using well trained tax officials to assess and collect taxes hence encouraging more people to pay their taxes.

9. Charging lower tax rates on taxed goods and services and incomes so as to encourage the citizens to willingly pay the taxes.

10. Imposing penalties upon tax evaders. This compels more tax payers to willingly pay their taxes promptly to avoid heavy penalties.

11. Strengthening the tax implementation laws and regulations e.g by maintaining up to date records of all tax payers and following them up to ensure prompt payment of their tax dues.

12. Shortening the tax payment procedures e.g by encouraging tax payers to use electronic tax payment system / automated tax payment so as to avoid long procedures. This motivates more businesses and individuals to pay their taxes on time.

13. Showing accountability on the use of the tax revenue by giving a detailed budget report on the tax revenue collected in a specified period and how the revenue has been spent.

14. Publishing tax defaulters (non-compliant tax payers). This makes tax payers to become more tax compliant in order to gain back the image of their businesses.

MEASURES THAT CAN BE TAKEN BY ENTREPRENEURS TO IMPROVE THE LEVEL OF TAX COMPLIANCE.

(IN CASE OF PAPER TWO USE THESE TO DEVELOP GUIDELINES -USE SHALL)

1. Resisting corrupt tax officials by opposing their unethical actions e.g by reminding the corrupt officials of their right duties and refusing their intentions to cheat the tax authority.

2. Remitting the taxes due promptly to the tax authority at the right time and place.

3. Reporting corrupt tax assessors to the tax authorities. This reduces corruption and encourages more businesses to pay their correct taxes promptly.

4. Maintaining accurate and up-to-date accounting records to facilitate easy calculations of correct amounts of taxes to pay at the right time and place.

5. Obtaining tax training /education to increase their tax knowledge. This encourages the tax payers to pay their taxes promptly and the right time and place.

6. Maintaining honesty when declaring relevant information to URA for calculation of the correct amount of taxes to be paid.

7. Registering the businesses voluntarily with URA to make it easy for URA to calculate or collect the taxes from the registered businesses.

8. Declaring income, property or wealth to the tax authorities for correct tax assessment, thereby increasing the level of tax compliance.

BASIC TAX COMPUTAITONS

1. **GROSS INCOME:**

   This is the total of all the incomes earned by an entity or individual from business income, employment income and property income excluding income that is tax free or exempt from tax.

$$\text{Gross income} = \left(\begin{array}{ccccc}\text{Business} & + & \text{employment} & = & \text{property}\\ \text{Income} & & \text{income} & & \text{income}\end{array}\right) - \text{Tax exempt income}$$

   Or

   Gross income = Income from all sources - tax exempt income

2. **CHARGEABLE INCOME**:

This refers to the gross income excluding expenses and losses incurred in earning the income.

Chargeable =	Gross –	expense and losses incurred
Income	income	in earning the income.

3. **INDIVIDUAL INCOME TAX**:
This is tax imposed on the chargeable income of an individual .tax payer.

Example
AMONG earned the following incomes form different source for the y=year 2020.

Business income	Shs. 1,550,000
Employment income	Sh. 2,400,000
Property income	Shs. 500,000

Expenses and losses for the year amounted to Shs. 1,200,000
Income that was tax exempt totalled to Shs. 150,000
Calculate: Among's
- Gross income for 2020
- Chargeable income for 2020

SOLUTION;

(i) Gross income = income from all sources – tax exempt income

Business income	Shs. 1,550,000
Employment income	Sh. 2,400,000
Property income	Shs. 500,000
Total income	4,450,000
Less tax exempt income	150,000
Gross income for 2015 =	**Shs. 4,300,000**

(ii) Chargeable income = gross income– expenses and losses incurred in earning income

Shs. 4,300,000 – 1,200,000
Chargeable income = **Shs.3,100,000**

4. **TAX RATE (AVERAGE RATE OF TAX).**
This refers to the proportion or percentage or the ratio of the tax payer's income that is paid as tax.

$$\textbf{Tax rate} = \frac{\textit{Tax liability}}{\textit{taxeable income}} \times 100$$

Example: Using the following information, calculate each tax payer's tax rate.

Tax payer	Income.(Shs)	Tax liability (Shs)
kATO	1,000,000	150,000
OPIRA	800,000	80,000
MUKISA	600,000	48,000
ESIANA	400,000	20,000

Tax rate = $\frac{\boldsymbol{Tax\ liability}}{\boldsymbol{taxeable\ income}}$ **x 100**

Tax rate for

Kato = $\frac{\mathbf{150{,}000}}{\mathbf{1{,}000{,}000}}$ **x 100 = 15%**

Opira = $\frac{\mathbf{80{,}000}}{\mathbf{800{,}000}}$ **x 100 = 10%**

Mukisa = $\frac{\mathbf{48{,}000}}{\mathbf{600{,}000}}$ **x 100 = 8%**

Esiana = $\frac{\mathbf{20{,}000}}{\mathbf{400{,}000}}$ **x 100 = 5%**

Exercise:

Calculate the tax liability for the following tax payers given the different tax rates for different taxable incomes.

Tax payer	Taxable income (shs)	Tax rate %
A. Nantege	2,000,000	30
B. Nyanzi	4,000,000	20
C. Lugya	6,000,000	15
D. Jane	8,000,000	5

Guide: Tax liability = taxable income x tax rate.

5. **EMPLOYMENT INCOME:**

This is income earned by individuals from paid employment or from the work individuals do for business, organisation or the government. Employment is said to exist where there is a legal master – servant relationship. (Legal employer – employee relationship). Employment income includes the following.

(a) Any wage, salary, leave pay, gratuity and bonus.

(b) Allowances such as travelling, cost of living, housing, entertainment and medical allowances.

(c) Value of any benefit, advantage of facility granted to the employee e.g. cars, houses, insurance.
(d) Compensation for termination of a contract of employees.

Most people who pay individual income tax earn the income from employment and tax is collected at the employment source through the PAYE system.

Chargeable (Annual income tax rate)

	Chargeable Annual Income	Rate of tax
1.	Not exceeding Shs. 2,820,00	Nil (Zero)
2.	Exceeding Shs 2,820,00 but not exceeding Shs 4,020,000	10% of the amount by which chargeable income exceeds Shs. 2,820,000
3.	Exceeding Shs,4,020,000 but not exceeding 4,920,000	Shs. 120,000 + 20% of the amount by which chargeable income exceeds Shs.4,020,000
4.	Exceeding Shs.4,920,000	Shs.300,000 + 30% of the amount by which chargeable income exceeds Shs.4,920,000

N.B The tax rate above are periodically adjusted by the ministry of Finance.

6. **PAY AS You Earn (PAYE):**
This is an instalment income tax that is deducted by an employee from the salaries of the workers and remitted to the government.

The PAYE monthly tax rates for individuals for incomes earned in or after 1sy July 2012 are as follows:

	Monthly changeable income	**Rate of Tax**
1	Not exceeding Shs. 235,000	Nil (Zero)
2	Exceeding Shs 235,000 but not exceeding 335,000	10% of the amount by which chargeable income exceeds Shs. 235,000
3	Exceeding Shs 235,000 but not exceeding 410,000	Shs. 10,000 + 20% of the amount by which

		chargeable income exceeds Shs.335,000
4	Exceeding Shs 410,000 (410 000 – 10,000,000) (Exceeding 10,000,000)	(a) Shs. 25,000 + 30% of the amount by which chargeable income exceeds Shs.410,000 (b) Where chargeable income exceeds Shs.10,000,000 , an additional 10% is charged on income exceeding shs. 10,000,000

N.B ***These rates are usually adjusted by URA or government from time to time*.**

Example: The following workers earned the following incomes as their salaries for the month of March 2019.

Magara Shs. 232,000
Lucy Shs. 335,000
George Shs. 400,000
Flavia Shs 600,000
Racheal Shs 12,000,000
Calculate the PAYE payable by each worker

Solution
Magara's PAYE = o . This is because the salary Magara earned is below the threshold.

Lucy = 10% (Shs 335,000 – Shs 235,000)
= 10% x Shs 100,000
= $\frac{10}{100}$ x Shs.100,000
= **<u>Shs. 10,000</u>**

George = Shs. 10,000 + 20% (400,000 – 335,000)
=Shs. 10,000 + Shs 65,000 x $\frac{20}{100}$
= Shs.10,000 + 13,000
= <u>Shs 23,000</u>

Flavia = Shs 25,000 + $\frac{30}{100}$ x (600,000 – 410,000)
=25,000+30/1 x 190,000
= Shs. 25,000 + 57,000
= **<u>Shs.82,000</u>**

Racheal **= 25,000 +30/100 x (12,000,000 – 410,000) +10/100 x (12,000,000- 10,000,000)**

= 25,000 + 30/100 x 11,590,000+10/100 x 2,000,000

=25,000 + 3,477,000 + 200,000

= Shs 3,702,000

7. RENTAL TAX

This is an income tax that is imposed on every individual or property owner who gets rental income for the year of income derived from immovable property (Land and buildings) situated in Uganda.

The tax rate for rental tax is 20% of the chargeable rental income in excess of the threshold which is Shs.2,820,000.

Rental tax = 20% (rental income – rental expenditure and loss –threshold)

Where rental expenditure and loss = 20% of rental income

i.e

Rental tax = $\frac{20}{100}$ x (rental income – $\frac{20}{100}$ x (rental income) – threshold)

Example:

Mr. ELETU a landlord earned Shs. 3,600,000 as rental income from his house for 2019. Compute his rental income tax.

Rental tax = $\frac{20}{100}$ x(rental income – rental expenditure and loss – threshold)

= $\frac{20}{100}$ (3,600,000 – $\frac{20}{100}$ (3,600,000) – 2,820,000

= $\frac{20}{100}$ x (3,600,000 – 720,000) – 2,820,000

= Shs.12,000.

8. Taxable rental income;

   This is the amount of rental income which is subject to taxation.

   Taxable rental income

   = 20% x gross rental income – tax threshold / tax free allowance

   OR

=Net rental income – Tax threshold / Tax free allowance

Where;

Net rental income = Gross rental income - expenses and losses

Example.

REGINA a resident person who operates in GULU who operates rental property in the financial year ended dec 2019. She received shs. 17,500,000 as rental income.

Required;

Using the allowable deductions and tax rate below-

Determine Regina's

i. Gross Rental income
ii. Taxable Rental income
iii. Taxable Liability

Allowable deductions include the following

I- as statutory deduction on expenses on Gross Rental Income
II- Shs. 2,820,000 as tax free allowance/tax threshold
III- Tax rate is 20% of Taxable Rental Income or chargeable Rental Income

SOLUTION

9. VALUE ADDED TAX (VAT)

This is a consumption tax imposed on the value added to a good or service at each stage of production or chain of distribution. The current VAT rate in Uganda is 18%.

<u>VAT CALCULATIONS</u>

A. <u>When the taxable value is value added tax exclusive</u> i.e. when the value <u>given for a product does not include VAT. (VAT EXCLUSIVE)</u>

The formular to use is;

Value Added Tax = 18% x taxable value added

Example 1

The price of a good was Shs.200,000 excluding value added tax.

Calculate

(a) The value of value added tax

(b) The cost of the good including VAT

Solution

(a) Value added tax

$= \frac{18}{100}$ x Shs. 200,000

$\underline{= \boldsymbol{Shs. 36,000}}$

(b) Cost of the good including VAT

= Price of the good + VAT

= Shs. 200,000 + 36,000

= <u>Shs. 236,000</u>

Example II:

The following VAT exclusive transactions were carried out by a VAT business in Uganda for the month of February 2016 at different chains of distribution stages.

(i) **Mukasa** bought goods worth Shs. 10,000,000

(ii) **Mukasa** sold all the goods to **Billy** for Shs. 12,000,000

(iii) **Billy** sold the same goods to **Aguma** for Shs. 15,000,000

(iv) **Aguma** a retailer sold the goods to the final consumer for Shs. 20,000,000

Required

(a) Compute the VAT chargeable at each stage

(b) Determine the total price the consumer would have paid.

Stage I: VAT chargeable $= \frac{18}{100}$ x 10,000,000

= <u>Shs. 1,800,000</u>

Stage II VAT chargeable = $\frac{18}{100}$ x Shs. (12,000,000 – 10,000,000)

$= \frac{18}{100}$ x 2,000,000

= <u>Shs. 360,000</u>

Stage III VAT chargeable = $\frac{18}{100}$ x (15,000,000 – 12,000,000)

$= \frac{18}{100}$ x Shs. 3,000,000

= **<u>Shs. 540,000</u>**

Stage IV: chargeable VAT = $\frac{18}{100}$ x Shs(20,000,000 – 15,000,000)

= $\frac{18}{100}$ x 5,000,000

= Shs. 900,000

This can also be tabulated as seen below:

Stage	Activity(Transaction)	Purchase price (Shs)	Selling price (shs.)	Value added (shs)	VAT at 18% Shs
	Purchases by:				
I	Mukasa	10,000,000		10,000,000	1,800,000
II	Mukasa sells to Billy	10,000,000	12,000,000	2,000,000	360,000
III	Billy sells to Aguma	12,000,000	15,000,000	3,000,000	540,000
IV	Aguma sells to the consumer	15,000,000	20,000,000	5,000,000	900,000
Total VAT					**3,600,000**

N.B VAT 18% x value added at each stage

(b) Total price the consumer would pay
= selling price at stage IV + total VAT
= Shs. 20,000,000 + 3,600,000
= Shs. 23,600,000,00

Or

Shs. 20,000,000 + $\frac{18}{100}$ x 20,000,000
=Shs.20,000,000 + 3,600,000
= Shs 23,600,000

B. <u>Calculating VAT when the taxable value is value added tax inclusive ie. when the value given for the product does Include VAT</u>

The formular is;

Value added tax = $\frac{\text{VAT rate}}{\text{VAT rate} + 100}$ x VAT inclusive value

= $\frac{18}{18+100}$ x VAT inclusive value

Example

Using the information in the example above, given that the consumer paid Shs 23,600,000 for the goods VAT inclusive. Calculate the VAT paid

VAT paid by consumer = $\frac{18}{18+100}$ x 23,600,000

= $\frac{18}{118}$ x 23,600,000

= <u>Shs 3,600,000</u>

CALCULATING VAT USING <u>OUTPUT VAT</u> AND <u>INPUT VAT</u> APPROACH

INPUT VAT: refers to VAT paid on purchases

OUTPUT VAT: refers to VAT paid on sales

Therefore;

VAT paid to URA = output VAT – input VAT

A. Calculation of VAT When the values of products are VAT exclusive

Example 1

Ndugu a whole sale trader whose business is VAT registered made the following purchases and sales during the month of March 2020

	Products	Purchases(VAT) exclusive	Sales (VAT exclusive
1.	100 bags of Sugar	6,000,000	10,000,000
2.	150 cartons of cooking oil	45,000,000	60,000,000
3.	80 bags of salt	1,600,000	2,000,000
4	200 boxes of bar soap	8,000,000	10,000,000
Total		60,600,000	82,000,000

Calculate the VAT paid by Ndugu to URA

VAT paid to URA = output Vat – input VAT

Output VAT = $\frac{18}{100}$ x shs.82,000,000

= **Shs. 14,760,000**

Input VAT $\frac{18}{100}$ x Shs. 60,600,000

= **Shs. 10,908,000**

VAT paid to URA = Shs. 14,760,000 – Shs 10,908,000
= Shs. 3,852,000

B. Calculations of VAT when product values are VAT inclusive

Examples

Mafutamingi a dealer in hardware products made the following transactions during the month of January 2020.

	Goods	Purchases (shs) (VAT inclusive)	Sales (Shs) (VAT inclusive)
1.	Wire mesh	15,000,000	18,000,000
2.	Angle bars	40,000,000	55,000,000
3.	Circular pipes	42,000,000	65,000,000
4.	Iron sheets	80,000,000	98,000,000
Total		**177,000,000**	**236,000,000**

Calculate MAFUTAMINGI'S VAT liability to URA

VAT liability = output VAT – input VAT

Out put VAT = $\frac{18}{118}$ x Shs. 236,000,000 = 36,000,000

Input VAT = $\frac{18}{118}$ x Shs.177,000,000 = 27,000,000

VAT liability (VAT paid to URA) = Shs. 9,000,000

N.B ***VAT for each product can be calculated and then the sum of individual vat can be got.***

EXERCISE

1. **MR. SSERUBULA N a wholesaler in JINJA city dealing in general merchandise** had the following purchases and sales during the months of January 2021

	PRODUCTS	PURCHASES (VAT exclusive)	SALES (VAT exclusive)
		Shs.	Shs.
1	200 bags of beans	60,000,000	66,000,000
2	100 bags of rice	17,500,000	21,300,000
3	300 jerrycans of cooking oil	25,500,000	29,800,000
4	140 bags of posho	21,000,000	26,000000
5	220 boxes of bar soap	6,600,000	10,450,000
	TOTAL	**130,600,000**	**153,550,000**

Required;
Calculate VAT paid by Mr. SSerubula N to URA.

2. **NAKANDI Mary a dealer in Furniture and kitchen ware made the following purchases and sales during the month of December 2020**

	PRODUCT	**PURCHASES (VAT inclusive)**	**SALES (VAT inclusive)**
		Shs.	**Shs.**
1	**10 sets of an eight seater dinning tables**	**24,000,000**	**28,000,000**
2	**30 sets of a seven seater sofa set**	**240,000,000**	**300,000,000**
3	**200 dozens of Dinnerplates.**	**10,000,000**	**14,000,000**
4	**330 Dozens wine glasses**	**14,850,000**	**16,500,000**
	TOTAL	**288,850,000**	**358,500,000**

Required;
Calculate Nakandi's VAT liability to URA.