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**THE RISE AND FALL OF MASS TAXATION IN UGANDA
1900-2005**

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Contents

Abstract	2
Introduction.....	3
Taxation, compliance and governance.....	4
Direct taxes to central and local governments in Uganda	6
Differences in legal framework for taxation	8
Differences in enforcement practices	11
The dismantling of the GPT	16
Taxation and governance in a poor country	19
References	21

Abstract

Although Graduated Personal Tax (GPT) paid to local government in Uganda has caused numerous tax riots throughout the past century, it is only since the mid-1990s that competitive presidential elections have provided people with an effective way to express their dissatisfaction with it. Thus, greater political competition was instrumental in almost dismantling the GPT in 2001 and abolishing it in 2005. Positive governance effects will follow from this. As shown by the comparison of taxpayer rights and enforcement practices (in particular the use of imprisonment) for GPT and income tax paid to central government, the former has been collected with the use of much more coercion than the latter. Coercive approaches to taxation become more difficult to sustain with greater political competition.

Introduction

“In countries where the ease, comfort and security of the inferior ranks of people are little attended to, capitation taxes are very common.” Adam Smith, 1776, *The Wealth of Nations* (Book five, chapter II, article IV).

“It might almost be said that the African begins to be recognized as a member of civilized society when he becomes subject to the income tax instead of poll tax ...” Lord Hailey, 1957, *An African Survey*, p. 643.

The two quotes reflect the times of their writing, but still provide relevant insights about taxation and taxpayer rights in some former British colonies in Africa. They also reflect the basic proposition of this paper: taxation influences governance here, but not in ways that replicate experiences in rich countries.

Adam Smith captured that poor people were often taxed in rough and coercive ways, which reflected their marginal position in society. Lord Hailey - writing just before the British colonial power formally withdrew from Africa - alludes to the idea that payment of individually assessed income tax may confer certain rights on people. They become citizens rather than subjects to paraphrase the title of Mamdani's (1996) book on late colonialism in Africa. By comparing taxpayer rights and enforcement practices for direct taxes to central and local government in Uganda in a historical perspective, this paper provides new insights about relations between taxation, enforcement practices and governance in poor African countries.

Uganda has at present a dual system of direct taxes related to income. Local governments collect the Graduated Personal Tax (GPT), while income tax is collected by central government. Such taxes are especially interesting in a governance perspective, because their payment and collection are visible to taxpayers and hence are likely to affect state-society relations more fundamentally than less visible taxes such as customs duties (Moore 1998). Both direct taxes have colonial roots. But while the present Ugandan income tax legislation stipulates taxpayer rights and collecting practices that resemble the general principles of similar taxes elsewhere (e.g., OECD, 1990), taxpayer rights and enforcement practises with respect to GPT are still fairly similar to those that existed prior to Uganda's independence in 1962. This means that the law does not give GPT taxpayers the same rights as payers of income tax have. In addition, imprisonment is hardly used

to collect income tax but is more commonly used to enforce the payment of GPT. Imprisonment as practised hit the poorest taxpayers in particular as shown by a 2000 survey of prisoners. Today, discrimination in taxation in Uganda is not by race as it was during colonial rule, but by class.

Despite widespread popular dissatisfaction with local government personal taxes ever since the colonial authorities introduced them a hundred years ago (changing from hut, to poll and eventually to graduated taxes over time), it is only recently, in 2001, that GPT was substantially modified and then abolished in the run-up to the presidential elections in 2006. A main reason is, as will be argued here, the “power of elections” (Lindberg 2004). The advent of political competition and regular national elections since the 1990s provide hitherto unorganised and marginalized GPT tax payers with an institutionalised channel to make their views heard at central level – something that repeated tax riots in the past against personal local government taxes failed to do. A similar chain of events led to the abolishment of local government personal taxes in Tanzania in 2003 (Fjeldstad and Therkildsen forthcoming). In other words: the democratisation process in these African countries leads to significant changes in local government taxation. Some coercive taxes that affect poor people in particular are abolished, and this reduces an important source of government harassment, violence and corruption.

The rest of the paper is organised as follows. First, some of the key arguments that relate taxation, payment of taxes (compliance) and governance are presented. Then follows a short comparison of the two direct income taxes – income tax and GPT: their reach, revenue yield and importance for public finances. Differences between the two taxes with respect to the legal specifications of assessment criteria, taxpayer rights and the use of imprisonment to enforce compliance are presented and analysed next, followed by an interpretation of the reasons for the drastic reduction in the GPT rates and enforcement that began in 2001.

Taxation, compliance and governance

To collect taxes in a reliable and efficient manner requires quasi-voluntary compliance: taxpayers must be encouraged to ‘volunteer’ to pay, while the non-compliant must be coerced to pay if they are caught (Levi 1988, 52-70). Unless constituents are coerced, induced or motivated in other ways to pay tax, they will minimize payment or, if the situation permits, not pay at all. Imprisonment is, of course, at the hard end of this spectrum. It is costly both to the tax authority (in terms of police, courts, prisons, etc) and to the taxpayer (in terms of the economic, social and

psychological costs of being caught and, perhaps, locked up). Hence less coercive approaches are preferable. Such quasi-voluntary compliance depends, Levi argues, on many factors: perceptions of the fairness of taxes (compliance by other taxpayers); perceptions about the benefits (services in a broad sense) that the tax authorities provide in exchange for tax revenues; and perceptions of the legitimacy of rulers based not only on the material benefits of tax payment but also on the norms and beliefs, that is ideology, of constituents vis-à-vis authorities.

Levi underplays, however, one additional factor of importance for compliance. If the tax system is regarded as unfair because of *very many* free riders, then enforcement of compliance through harsh methods, such as imprisonment, may not improve compliance as it is intended to do, but may undermine it further.

In Western Europe, quasi-voluntary compliance emerged through a bargaining process. This brought rulers and potential taxpayers together to negotiate about who was to be taxed, the basis for assessing taxes, how taxes should be collected, and the purposes of revenue use. Where this bargaining process succeeded, it enhanced the effectiveness and legitimacy of the state in three ways. Consultation promoted quasi-voluntary compliance so that taxes could be collected more effectively. Revenues were enhanced as a result. Bargaining also helped to generate consensus about and coherence of national policies and priorities for revenue use. Finally, paying tax became a valid basis for claiming political influence and where this took root the foundation for an eventual move towards electoral democracy was established. In other words: taxation eventually gave birth to institutionalised democracy.

Moore and Rakner (2002), who have outlined these points, are keen to point out that this is a very crude representation of Western European experiences with taxation and governance. After all, that experience was influenced, among other things, by competition among states for survival through war, whose financing forced rulers to negotiate with constituents for revenues.¹ What light do the Ugandan experiences with income tax and GPT - applied in a very different context - throw on these general and broad propositions?

¹ This relationship is further elaborated by Bräutigam (1992), Moore (1984, 2004) and Tilly (1997).

Direct taxes to central and local governments in Uganda

Uganda's present tax system has colonial roots. The prime objective of colonial taxation was financial self-sufficiency of the colony. At the same time taxation of Africans was seen as a way to push them into the monetary economy – at first by compelling them to grow cotton. Coercion and imprisonment were integral parts of taxation of Africans but not of non-Africans (Mamdani 1996; Thompson 2003).

The dual system of taxation described by Adam Smith and Lord Hailey started with the hut tax imposed on Africans in 1900 followed by the poll tax in 1905. At first revenues went to the colonial government. Native local authorities achieved their initial taxing powers in 1925, when they were allowed to commute work obligations (known as "*luwalo*") into cash. But local government taxation proper first came about when GPT was gradually introduced across all districts between 1954 and 1960 (Davey 1974, 35-38). Non-Africans were tax-free until 1919 when a poll tax was levied on them. A graduated personal tax for non-Africans was introduced in 1940 but substituted by income tax in 1945.

For the 20th century as a whole, the most significant change in Uganda's system of direct taxation was the abolition, at independence in 1962, of discrimination based on race. Not only did this discrimination mean that Africans were subjected to different types and rates of taxes than non-Africans. The tax burden was different, too. As Jamal (1978, 428) shows, it went from 23 percent of African cash income in 1927 to an astonishing 55 percent in 1947 (these figures cover all taxes including the effects of marketing board deductions, export taxes, etc). Non-Africans were taxed much lighter relative to their cash income.

While race discrimination in taxation stopped at independence, class discrimination continued as shown below. Thus, Uganda's present system of direct taxation still consists of two very different types of direct taxes: GPT and income tax. They are applied in a country with widespread poverty. Around forty percent of the population lives below the one-dollar-a-day poverty line (Okidi and Mugambe 2002, 10). Peasant agriculture and informal activities provide the livelihood basis for the majority of people. Only relatively few are fully engaged in the formal economy. To this should be added that in northern Uganda where civil unrest has ravaged for years, tax collection has remained extremely low.

It is also instructive to make some quantitative comparisons between the two types of taxes.² GPT is a mass tax. This simple fact helps to explain much of its emerging political importance in recent years. Thus, GPT is paid by many more people (some 2,4 million people in 1993) than income taxes (around 186,000 people³ in 1995). The total population in those years was around 19 million. The number of people paying GPT in relation to total population has, however, dropped dramatically (from 20 percent in 1961 to 12 percent in 1993). The trend with respect to income tax payers is the reverse (from 0,1 percent of total population in 1961 to one percent in 1995).⁴

GPT differs from income tax in another important way. It is the most important source of own funding for rural local governments – comparatively much more important than income tax is for the funding of central government. This dependence on GPT helps to explain the heavy-handed collection methods that are often (although unevenly) used by the local governments to collect it. Thus, while GPT revenues made up some 60 to 70 percent of own revenues in rural councils in 2000 – down from some 90 percent in 1961 - income tax only accounted for 20 percent of total central government own revenues in 2000 (a percentage that has remained fairly stable since independence). By 2003, GPT only made up some 40 percent of own revenues in rural councils and 18 percent in urban councils (Bahiigwa et al. 2004, 10). This is a serious recent blow to local government finances caused by the politisation of GPT during and after the 2001 presidential elections as explained below.⁵

Finally, it is noteworthy that GPT – despite affecting many people and being crucial for local governments' own revenues – is not very important in aggregate macro-economic terms. While income tax made up 3,2 percent of GDP in 1961 compared to 2,5 percent for GPT, the picture is completely different now. Thus, in 2000 GPT only made up 0,1 percent of GDP compared to 2,4 percent of GDP for income tax. This helps, perhaps, to explain the earlier observation that

² The figures in this and the following sections are based on own calculations. Information about 1961 is from Ghai (1966). Information about population and tax payers in the 1990s is from Sunley et al (1996), Livingstone and Charlton (1998), and the World Bank (2001). Information about tax revenues in the 1990s for GPT is from Local Government Finance Commission files while those for income tax are from URA (2002).

³ Some 120,000 paid income tax at source (PAYE), while an additional 65-70,000 people (mostly self-employed) and some 12,000 firms filed tax declarations (Sunley et al. 1996, 8).

⁴ Reliable comparative figures from later years are not available.

⁵ While GPT revenues were stable during the first years of rule by NRM (National Resistance Movement) from the late 1980s to 1993, there has been a significant drop starting in 1997. Revenues from income taxes, in contrast, have increased during NRM rule, from less than 0,1 percent of GDP in 1985 to more than two percent today.

attempts to reform GPT have begun only recently. It has simply not been important enough in revenue terms for politicians, central government bureaucrats and donors to pay attention to. But due to the increased politisation of GPT in recent years also this is changing as explained later.

Differences in legal framework for taxation

Today's main features of income tax (paid by the relatively better off) and GPT (which is also imposed on poorer people) are outlined below with respect to the legal basis for income assessment, and taxpayer rights and enforcement.

INCOME ASSESSMENT

The Income Tax Act of 1997 provides the legal basis for the present income tax to central government. It reflects a number of earlier changes in the legal basis for this revenue source. Two of these are particularly relevant here. Thus, the number of exemptions and deductions has been reduced and various benefits have become taxable (such as allowances). Moreover, tax rates have been lowered. In the 1970s the maximum marginal rate was 87,5 percent. Today it is 30 percent (Bahemuka 2001, appendix I). Larger companies now also pay 30 percent on taxable incomes except mining companies to which special rates apply. Smaller businesses pay presumptive taxes at different rates depending on income levels. Personal income tax starts at incomes above shs. 1,560,000 (\$ 975)⁶ on which 10 percent are paid for incomes until \$1400; 20 percent are paid on incomes until \$2500; and 30 percent on all incomes above that (IMF 2003, table 35). These rates and thresholds have remained unchanged since 1993. Deductions that reflect family circumstances are not allowed. The Uganda Revenue Authority (URA), an executive agency of central government established in 1991, makes tax assessments and collects income taxes (Therkildsen 2004).

In contrast, only minor changes have been made to the GPT collected by local governments between Independence and the mid-1990s. After all, as Due (1964, 59) wrote forty years ago,

⁶ One USD ~ 1600 shs. in 2000, when the prison survey was conducted.

GPT had reached its highest level of development in Uganda already then.⁷ The present GPT is levied by local governments on the basis of crude imputed or presumptive criteria to estimate earnings from sources of livelihood such as agriculture, livestock and trading.⁸ A basic minimum payment is levied on all able-bodied adult males except individuals who the authorities consider unable to pay the tax "by reason of poverty arising from old age, infirmity...or other good cause" (Regulations, § 4).⁹ No other allowances are given for family circumstances. However, all military personnel - including members of the local defence force, the police and prison staff - are exempted. Rates increase with imputed income in a stepwise fashion.¹⁰ Employers deduct the GPT in the case of wage earners. Others pay the GPT to local tax collectors within a six-month period. Local government staff and local committees assess and collect the GPT.

During the early 1980s, as Mamdani (1996, 52) described the situation, the chief was a central figure in GPT collection: he was a "petty legislator, administrator, judge and policeman all in one." Present practices do not differ significantly from those applied earlier according to Francis and James (2003).

TAXPAYER RIGHTS AND ENFORCEMENT

The Income Tax Act of 1997 (part XV) also provides the legal basis for various penalties (fines, interest, imprisonment) for a number of tax offences. Unpaid taxes may result in fines or additional interest payment, but there is no provision for imprisonment. Fines can also be charged for failure to comply with tax recovery provisions, maintenance of proper records, and provision of requested information. Finally, fines apply if misleading or false information is given;

⁷ This positive view of GPT seemed widespread among economists at the time (e.g. Hicks 1961, 210).

⁸ The legal basis is provided by the Local Government Act, 1997, section 80; the Local Governments Revenue Regulations, 1997; and the Local Government Graduated Tax (Declaration of Rates), Instrument no 38 of 2001.

⁹ This formulation has remained substantially unchanged at least since 1967 (see Davey 1974, 31).

¹⁰ Prior to 2001, the annual minimum rate for GPT was shs. 11,000 (Francis and James, 2003). In 2001, the annual minimum GPT rate was reduced to shs. 3,000 (~2\$) payable for annual incomes up to shs. 60,000 (~35\$). The yearly maximum rate was shs. 100,000 (~63\$) payable for annual incomes above shs. 1,560,000 (\$ 975). There were 17 income bands (Kasimbazi 2004, table 4). In 1972, there were 14 bands and the maximum rate was eight times bigger than the minimum rate of shs. 75 payable on incomes above shs. 500 (Davey 1974, 32).

taxpayer identification numbers (TIN) are misused; or tax officials are obstructed or bribed.¹¹ In total, eight types of offences may result in fines or other monetary penalties.

Five types of offences may, in addition, result in imprisonment: misuse of the TIN; knowingly making false or misleading statements; helping others to commit a tax offence; receiving bribes (tax officials) or giving bribes (other persons). The three first mentioned offences carry imprisonment of up to one year, while the two latter offences may give not less than three months in jail.

Until recently, and prior to the abolishment of GTP in 2005, the legal basis for the enforcement of GPT was provided by the Local Government Revenue Regulations (fifth schedule in the Local Governments Act of 1997). First, a surcharge of fifty percent of unpaid GPT is made. Second, failure to register with the local authority as a resident carries a fine. Both offences may, however, also carry a prison sentence of up to one month (sections 3 (15) and 10 (3) of the regulations). The latter section states that imprisonment applies to a taxpayer who "refuses, neglects or fails to pay the tax" without "lawful excuse, the proof of which shall lie on him or her."

To summarise, both sets of legislation provides for imprisonment for certain tax offences. The most remarkable difference between them is that failure to pay an assessed income tax to central government may result in a fine or an interest payment - but not imprisonment. In contrast, failure to pay GPT can result in a jail sentence. And this is a very real possibility for certain categories of GPT-defaulters as shown below. A second difference concerns taxpayer rights. IMF recommends that the burden of proof about criminal intent should be on the government in cases where criminal proceedings against a taxpayer are initiated. In disputes about the correctness of assessments, the burden of proof should be on the taxpayer (Sunley et al. 1996, 73). These principles are followed in the Income Tax Act (see section 102) but not in the Local Government Act, which puts the burden of proof for non-payment of GPT on the taxpayer.

¹¹ If the offender admits the offence in writing, it can be compounded before the court proceedings start (§ 149). Compounding means that the Commissioner can agree to disregard a certain offence in return for payment of money.

Differences in enforcement practices

The legal differences with respect to the use of imprisonment to enforce compliance are, however, only interesting if they are reflected in actual tax administration practices. This issue is dealt with below.

PRACTICES OVER TIME

Unfortunately, central government income tax enforcement practices are not treated very detailed (and sometimes not at all) in relevant publicised literature on Uganda (Due 1964; Ghai 1966; Mahler & Muzundo 1992; Sunley et al. 1996; Bahemuka 2001). This may reflect that neither the colonial nor independent governments used imprisonment against the better off income tax payers - or against wayward tax officials for that matter. It may also reflect that income tax compliance does not require vigorous enforcement of this tax. As shown below, the former interpretation is the most likely.

The near silence about enforcement practices for income taxes in the analytical literature cited above contrasts strongly with the focus on this issue in the literature on GPT in Uganda (Haily 1957; Davey 1974; GOU 1987; Tidemand 1994; Mamdani 1996; Ddungu 1998; Livingstone & Charlton 1998, 2001; Kjær 2003; Bahiigwa et al. 2004). For GPT has always been a controversial tax: incomes of poor people are notoriously difficult to estimate correctly and the assessment is based on an ambiguous mixture of wealth and income parameters; registers of tax payers are mostly incomplete and inaccurate; tax payers are reluctant to pay; and there is a fusion of powers of those responsible for assessing incomes.

Dissatisfaction with GPT is perennial. Taxpayers complain about the arbitrary nature of the assessment: poverty is not adequately considered and the result often seems to depend more on the individual's appearance than on their actual income or property possession. Similar incomes are therefore taxed unequally and arbitrarily depending on the location as indicated by the significant variation in GPT collections across districts (Overseas Development Administration 1996, 9, 47 and table 2.3). Consequently, many people regard assessments as unfair. Moreover, bribing is thought to be widespread both in assessment and collection (UPAPP 2002, 160).

Davey (1974, 61-65; 143-145) has detailed the specific problems with GPT enforcement around independence. Prior to 1955, tax default was a criminal offence carrying penalties of three times

the unpaid tax or a maximum of two months imprisonment. The latter was fairly common, but the main weapon was the power of arrest. Detention in a sub-county lock-up was normally enough to induce relatives or friends to mobilise the money due. Only a relative small percentage of defaulters proceeded to a formal trial and jail. Between 1956 and 1962 civil suit was gradually introduced across districts, but the restoration of criminal proceedings for default was re-introduced in 1966. Prison population rose considerably as a result.¹² Imprisonment has been an important element in the enforcement of GPT ever since.

ENFORCEMENT THROUGH IMPRISONMENT AT PRESENT

Imprisonment is at the hard end of tax compliance enforcement methods. An analysis of its use in 2000 to collect income tax and GPT is therefore especially interesting from a governance perspective.

A total of 56 central government prisons are run by the Uganda Prisons Services under the Ministry of Internal Affairs. Some 15400 people were jailed here in 2000. In addition, there were some 139 local government prisons with perhaps around 7400 inmates.¹³ "Prison conditions are extremely harsh, particularly in the local prisons" according to British authorities (Home Office 1999, 16). Conditions in central government prisons are also bad – even "life threatening."¹⁴ There are reports of "severely inadequate medical services, seriously unhygienic conditions, and 'semi-starvation' among prisoners in several prisons." Moreover, there are believed to be high mortality rates due to overcrowding, malnutrition, unsanitary conditions and

¹² Davey concluded that restoration of criminal proceedings did not improve collection notably (p. 144).

¹³ Calculated on the basis of a non-random sample (see below) of local government prisons selected for this survey. Little detailed information on these prisons is centrally available.

¹⁴ There are two civilian prison systems in Uganda – run by central and local governments respectively. Generally, persons with longer sentences (more than six months) and those charged with (but not yet convicted for) serious crimes are supposed to be held in central government prisons. People sentenced for or charged on smaller offences are supposed to be held in local government prisons. In practice, central government prisons are used for all convicted or remanded persons where there is no local government prison (as, for example, in Kampala). On the other hand, both central and local government use local government prisons in districts without a central government prison. The Constitution of 1995 and the 1958 Prisons Act provide the legal basis for the central government prisons (Thachuk & Westbury 2002, 15). According to the Local Government Act of 1997, section 180, the local government police and prisons existing in 1997 shall continue "until a new law covering them is enacted." The legal status of local government prisons (and local police) has therefore been ambiguous until a prison act (no. 23) was approved in 2003. The Uganda Prisons Service now runs all prisons.

HIV/AIDS (Home Office 2002, section 5.58-59). Uganda has one of the highest prisoner mortality rates in Africa (Penal Reform International 2003, 8).

Overcrowding is a major problem in central government prisons with some 80 percent more inmates in 2000 than international standards allow (Uganda Prisons Service 2001, 8). The problem is worst in jails located in larger urban areas. It is also a growing problem because the numbers of prisoners held in remand increases rapidly. Overcrowding also exists in some local government prisons at certain times of the year.¹⁵ Until 1998 local government prison received no central government funding (Home Office 1999,16). Prisoners are therefore often hired out as labourer to surrounding farmers or are made to cultivate prison land so as to generate resources in cash or kind. There is no doubt that imprisonment in both a central and local government prison is a severe punishment.¹⁶

A survey of prisons was done in 2000 to identify inmates sentenced or remanded for tax related offences.¹⁷ Several findings from this survey help to provide a better picture of actual enforcement practices against income tax and GPT offenders.

Imprisonment is not an important part of the actual enforcement mechanism for central government income tax, although the law provides for this possibility. In the prisons sampled in May 2000, no single inmate (tax payer or tax official) was in prison (remanded or convicted) due to offences against the Income Tax Act of 1997 - or against any other central government tax law. The sample covers some 63 percent of all inmates in central government prisons and includes all large prisons in urban areas (Uganda Prisons Service 2000, 8). Tax offenders are most likely to be found here, if they end up in jail at all. It is therefore unlikely that a sampling of inmates in all prisons would have led to a significantly different result.

¹⁵ Based on interviews with staff of Uganda Prisons Services, Central Police, and human rights organisations in Kampala, November 2003.

¹⁶ Conditions in central government prisons seem to have improved somewhat recently as the Prisons Service receive increasing attention including some modest funding and training.

¹⁷ Officers from the Uganda Prisons Service conducted the survey. It covered 26 central government prisons with 9746 inmates on May 31, 2000. A sample of 20 local government prisons with 1120 inmates on that day was also surveyed. Both samples were non-random. Both access and cost of transport had to be considered. Information about each prisoner was taken from the warrant slip. It contains information about the age, sex, educational status, occupation, status (convict or remand), length of sentence and its legal basis.

One reservation about this finding should, however, be noted. A number of inmates are charged with or convicted for white-collar offences under the Penal Code (for example forgery, corruption, embezzlement, causing financial loss, obtaining money by false pretence, conspiracy to defraud, personating, abuse of office).¹⁸ Some of these cases may be related to taxation, for example those that involve bribing of URA staff, but information to identify such cases was not available. Unfortunately, the tax authority does not publish statistics on tax related offences or on the verdicts in cases taken to court. Statistics of this type are confidential.

Another reservation concerns out-of-court settlements of cases. Newspaper reports indicate that they are fairly common. Some may involve either tax officials receiving bribes or individuals and firms involved in tax evasion charged under the penal code. Without detailed information it is not possible to identify why the URA does not often take corrupt officials or tax evaders to court; why, instead, out-of-court settlement sometimes seems to be a preferred option; or why it is evidently so difficult to win tax related court cases.

Nevertheless, in light of the ostensible magnitude of tax evasion in Uganda, it is surprising that few, if any, income tax offenders seem to end up in jail. Ugandans consistently perceive the URA as one of the most corrupt government organs according to integrity surveys in 1998 and 2002 - not as corrupt as the police and the courts, but worse than the health services and local government (Cockcroft & Legorretta 1998, tables 13 and 15; GOU 2003; Therkildsen 2004). Additional support for this perception is provided by a survey of 243 firms in 1998. More than 40 percent of them reported paying bribes to tax officials occasionally or always (Gauthier & Reinikka 2001, 22).¹⁹ And corruption in URA is officially acknowledged as a serious problem. The government has set up a commission to look into the problem but its 2004 report was controversial and has not led to any significant changes.

Contrast this very limited use (possibly non-use) of imprisonment for tax offences related to income tax to central government with the use of this enforcement mechanism to get people to pay GPT. A total of 74 people were in central government prisons convicted for failure to pay GPT on the survey date (2.1 percent of all convicts). The total number of remanded inmates on

¹⁸ Such cases make up 3.0 percent of the convicted inmates in the central government prisons. The share of inmates remanded for these offences is 6.6 percent of all those remanded here.

¹⁹ The magnitude of income tax loss due to evasion is unknown, but Obwona (1999) thinks it is modest in macro-economic terms. Obviously, this does not rule out that there can be many individual cases of tax evasion.

GPT default charges in central government prisons was 304 - around five percent of all those remanded.²⁰

Indeed, occasionally the local authorities deliberately keep tax defaulters in jail without the court warrant required by law to exhort them to produce proof of payment or to try to mobilise family, friends or moneylenders to pay the tax (or possibly a bribe). Because of poor conditions in the jails, only the poorest tax defaulters fail to find the required money. Their imprisonments continue. This is the unambiguous opinion of the police and prison staffs interviewed and is confirmed by Ugandan lawyers familiar with the situation.²¹ The survey data support this assessment. Inmates generally have no or little education and are mostly unemployed or self-employed. As a tax defaulter you only end up in jail if you have no other option.

While GPT-defaulters risk a prison sentence, there is no similar provision in the tax legislation to enforce income tax payment as already mentioned. But this is not the only unusual feature of the use of imprisonment to enforce GPT compliance. The survey data also show that several GPT defaulters (14 out of 74 - 19 percent) received longer sentences than the 30 days allowed by the law while 57 percent received the legal maximum sentence of one month.²² Only a quarter of the convicts got a shorter sentence (down to five days). Moreover, the survey shows that many GPT defaulters (35 percent) were jailed with reference to a wrong section of the law. This raises serious doubt about the quality of the court process as applied to GPT defaulters.

All this shows that imprisonment practices with respect to direct taxes to central and local government are very different. Much more direct coercion is used to collect the latter.

²⁰ Imprisonment of GPT defaulters is seasonal. The tax is to be paid during the first half of the calendar year. Jailing of defaulters is therefore especially used during the July-December period. The survey focused on the prison population in May, and this should be kept in mind when the comparatively modest number of the defaulters is assessed.

²¹ Interviews, Kampala, November 2003.

²² Indeed, a few had been sentenced up to six months.

The dismanteling of the GPT

No surprise, therefore, that riots to protest against local government taxation have a long history in Uganda. Since the early colonial times every tax rebellion, including that which occurred in Bukedi district in 1960 just before independence, as well as the Busoga district riots in 1983, were caused by dissatisfaction with the power of the chief – especially his lack of accountability in tax matters, both discriminative over and under-assessment, and use of imprisonment (Davey 1974, 36; GOU 1987, 13 and chapter 7). Furthermore, Mamdani (1991, 354) thinks that a growing peasant rebellion against the Obote II regime, which eventually led to its downfall in 1986 when the National Resistance Movement (NRM) took power, was fuelled by a dramatic increase in GPT collection. Not only were rates raised significantly in 1984; people also revolted because of the increased coercion used to collect the GPT. Riots against local government taxes also took place in Iganga district in the early 1990s – again in protest against unfair assessment (ODA 1996). There has been no GPT assessment in this district since then (Kjær 2003, 10).

However, it is only recently, in 2001, that GPT has been substantially reduced to a very modest flat rate of shs. 3000 for most people (approximately \$2 compared to the prior minimum rate of around \$8). Furthermore, following presidential intervention, a less aggressive approach to enforcement was practiced. Finally, in 2005, GPT was abolished. What has brought such changes about at this particular time? There are several possible explanations.

Donor funding may help to explain why the government has decided to first reform and then to abolish GPT. Aid has increased significantly over the last twenty years. Debt relief has also been substantial in recent years. A significant proportion of both types of funds are earmarked to services provided through local governments (e.g. education, health). Funding of local governments has therefore improved significantly during the 1990s and is set to improve further (Steffensen & Tidemand 2004). In that situation, the government (central and local) may decide that the political cost of enforcing tax collection outweighs the benefits gained from controlling own revenues. This relation between donor funds and recipient tax effort sounds plausible. Yet, analyses of that linkage with respect to central government taxation are not conclusive (World Bank 2003a, 138-140). No similar analyses have been made with respect to local government tax effort. There are, however, two reasons why the linkage may not be strong at local government level either. One is, in Levi's (1988, 10) words, that "rulers maximize revenue to the state" although subject to various constraints because control of funds is a key instrument in mobilising support and undermining resistance to their rule. Own generated revenues come without conditionalities and other restrictions that are typically imposed by donors or – in the case of

local government – by central government grants. The other reason why large inflows of funds may not affect local government taxation significantly is that efforts are driven by the need for funding of the bureaucrats themselves (salaries for certain staff categories, per diems, etc). Typically, donor or central government grants do not fund these expenses so generously. Increased external funding of local governments is therefore not a likely cause of the dismantling of GPT in 2001.

A second possible explanation concerns the social contract that is regarded as important for quasi-voluntary tax compliance. If people perceive that they get limited benefits from paying tax, they will try to escape that obligation. Fjeldstad and Semboja (2001) argue, in the case of Tanzania, that this mechanism is clearly at work with respect to local government taxes and that it helps to explain widespread avoidance of local government taxes. Faced with that situation the government may simply give up collecting them. Yet, service provision in Uganda - partly funded by significant inflows of donor funds as described above - has improved dramatically since the NRM took power in 1986 (World Bank 2003).²³ This does not rule out that many people are still dissatisfied with the services provided (UPAPP 2002), but there is no evidence that this dissatisfaction is bigger today than it was earlier.

Quasi-voluntary compliance also rests, as discussed earlier, on accountability and justice in taxation. This is particularly well illustrated by discussions between the so-called Mamdani commission on local government and taxpayers in a rural district right after NRM took power in 1986 (GOU 1987, 93): direct taxes, such as GPT, are preferred over less visible taxes, such as sales taxes, because the former is easier to see, resist payment of, and follow rate changes in. Discussions with taxpayers and observers of the Ugandan scene today confirm this concern. People are not necessarily against paying taxes, but they dislike the lack of accountability in assessing and collecting it. Moreover, as demonstrated above, collection is often coercive and characterised by violent and extortive forms of enforcements, including imprisonment, which infringe on taxpayer rights. The regular tax riots through time illustrate the continuing taxpayer concern with accountability.

Thus, few regard the GPT as fair. Who pays and who escapes payment is fairly accidental. There is little correlation between actual payment and ability to pay (Mamdani 1991, 355; ODA 1996).

²³ The northern part of the country, where the decade-long civil strife and upheavals continue, has not benefited.

Recent surveys show that this continues to be of concern (UPAPP 2002, chapter 8). And while some taxpayers may accept coercion against defaulters in principle (Kjær 2003, 19), there seems to be a widespread acknowledgement that some of the poorest people, who are unlucky enough to get caught in the tax net, are subject to a treatment that is too rough. Kjær (2003, 5) also notes that local politicians sometimes put pressure on their tax collectors to reduce their use of jail and coercion in tax collection.

While these various factors may have contributed to the government's decision to almost dismantle the GPT in 2001 and to abolish it in 2005, the decisive factor is the emergence of political competition in Uganda since the mid-1990s. For contrary to Fjeldstad's (2002, 27)²⁴ argument on Tanzania that as long "as coercion is accepted as an integral part of tax collection, it is unlikely that state-society relations can become more accountable and democratic," such practices have not been widely acceptable in Uganda. Dissatisfaction with GPT has existed for years. Now repeated competitive elections give people a way, which they have not had before, to signal their dissatisfactions with government policies and practices. And even powerful politicians seem to listen carefully.

Thus, the first competitive presidential election in Uganda since NRM took power in 1986 was held in 1996, and one of the key issues was about financing services. At first, President Museveni argued against free primary education because it would mean less public funding of roads and infrastructure, which the President prioritised. However, he faced a strong candidate, Paul Ssemogere, and this made him change his position in the run-up to the election. To match his opponent's promises, Museveni vowed to abolish school fees. This was subsequently done and enrolment almost doubled within five years (World Bank, 2003, 62).²⁵

During the 2001 presidential elections, the opponent, Kizza Besigye, campaigned for the abolition of GPT. Consequently, President Museveni promised to lower the minimum rate from shs. 10,000 to shs. 3,000. In July, during the run-up to the election, this promise was announced by radio and was immediately implemented before it was subsequently legislated for. Finally,

²⁴ See also Fjeldstad (2001).

²⁵ Value Added Tax (VAT), a central government tax, was another election issue. VAT was introduced in the middle of 1996 with elections taking place later in the same year. President Museveni was apparently taken by surprise when his strongest opponent, Paul Ssemogere, made VAT an election issue. He claimed that the government was going to VAT everything – bride prices, potatoes and peasants' goats (Therkildsen 2004). Museveni defended the tax without hesitation but the VAT riots in September and October quickly forced the government to make substantial changes in VAT taxation, which reduced its coverage substantially.

prior to the presidential elections in 2006, GPT was abolished. These elections were the first multi-party elections since the 1960s.

Taxation is becoming a prominent and regular issue of national political competition despite the absence of well-organised pressure groups.

Taxation and governance in a poor country

The key role of bargaining over taxation, which Moore and Rakner (2002) emphasise as central in shaping state-society relations in Western Europe, is not repeated in Uganda. Taxation does influence governance here, but not in ways that replicate experiences in rich countries.

With respect to central government income tax, major changes in central government income tax legislation and administration have been made over the last twenty years. Many basic international principles of taxpayer rights are now adhered to in the reformed income tax legislation (Kasimbazi, 2004). These reforms were strongly pushed by donors (who are Uganda's largest 'taxpayers') and supported by associations of major economic interests, such as the Uganda Manufacturers Association. But no more than around one percent of the total population pays this type of tax, while donors fund a major part of the public sector.

The situation with respect to GPT is different. GPT is a mass tax paid by several million people, mostly males. This tax has also changed, but only recently. Thus, it was first in 2001 that rates were lowered and enforcement practices were eased substantially. Donor pressure was not a driving force. To the contrary, donors have consistently pushed for a more efficient collection of this tax. Instead, the change was a result of sustained but diffuse dissatisfaction with unfair assessment procedures for GPT enforced by coercive collection practices, including use of imprisonment. This dissatisfaction with GPT and predecessor local taxes (hut and poll taxes) has simmered for decades and occasionally blown out in tax riots. Only the advent of competitive national presidential elections from the mid-1990s have given hitherto disorganised rural and urban people a means to express their views in ways that make powerful politicians listen. Dismantling of the GPT is a result of this process (a similar chain of events took place in Tanzania in 2003 with respect to development levy). Taxpayer rights have improved as a consequence: fewer poor people are now coerced and face arrest and month-long prison sentences for failure to pay a two-dollar GPT than has been the case for decades.

In Western Europe taxation grew over time and eventually contributed to democratisation as Moore and Rakner explain. Uganda's experience suggests the opposite casual direction of change: increased democratisation has led to a reduction in taxation. Does this mean that people in Africa, given the chance to vote in competitive elections, will choose to get rid of taxes?

Guyer (1992, 44-45) thinks so. Rights to political participation in Europe followed forced taxation. In Africa, rulers today must seek consent first and then try to enforce taxation afterwards, she argues. The likely result is "representation without taxation." Her evidence is that representation in local government rose while local government taxation almost disappeared in rural Nigeria between 1950 and 1990. "Neither the rich nor the poor in much of present day Africa (or more particularly Nigeria) are taxed anything remotely close to" that experienced by people elsewhere. Colonial tax systems in Africa were simply dismantled after independence, she claims. This not only reduces public revenues; it also has other consequences: "the public revenue system is a powerful moral, political and economic theory of state and society." When there is no graduation of tax then "there is no official theory of inequality and no way for the poorer majority to demand higher contributions from their wealthy brethren."

This is one possible trajectory, but Nigeria is not a good case to draw generalisations from because oil revenue tends to undermine taxation and further authoritarian rule. Ross (2001) provides a review of the relevant literature on relations between oil and governance. Moreover, Mamdani (1996, 308) points out that Guyer fails to take account of the totality of taxes that people typically face in countries like Uganda, especially self-help labour and in-kind contributions.²⁶ Throughout the history of that country local communities have shown a substantial willingness to mobilise such resources for public infrastructure (Nabugusi 1995).

Guyer is therefore wrong in arguing that people will refuse to pay tax when given the chance to vote in competitive elections. Instead, the key issue is that the disadvantages of certain taxes like the GPT – the way they hit many poor people randomly, violently and destructively – is unacceptable to a significant proportion of the electorate. Fairness in assessment, collection and accountability for the use of revenues seems to be important for the willingness of people to comply with taxes in countries with increasing political competition.

²⁶ Mamdani (1996, 52-61) consistently use the word 'compulsion' to characterise this phenomenon, although this is a simplification of a complex phenomenon (Semboja & Therkildsen 1995).

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