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## **1 INTRODUCTION**

This report sets out the findings of the study commissioned by the Department For International Development on behalf of the Local Government Finance Commission and is submitted as required under the terms of reference.

### **1.1 Objectives of the study**

The purpose of this consultancy is to support the LGFC in the review of the progress made on a previous study and the refinement of the strategies with a view to providing a revised action plan which:

- ?? Takes account of previous work and activities, drawing lessons from the experiences in implementing the present plan.
- ?? Makes proposals as to further potential sources of revenue.
- ?? Is based on consultation with all the stakeholders.
- ?? Has been tested through consultation in a limited selection of local authorities and the calculation of the revenue potential in the selected councils.
- ?? Is realistic in terms of the applicability of the revenue sources available and the implementation capacities of all the actors, especially the local authorities.
- ?? Is matched by the resources available to LGFC.
- ?? Takes accounts of the objectives and activities of other institutions and programmes relevant to local government.
- ?? Has been developed by the LGFC and therefore owned by it.
- ?? Recognises the potential risks and constraints in the activities envisaged.
- ?? Provides the basis for the measurement of the performance of LGFC and the local authorities in the implementation of the plan and the improvement in the generation and collection of local revenues.
- ?? Takes account of social and economic factors with regard to affordability and the effect on the poor.

### **1.2 Approach undertaken**

The approach undertaken during the assignment was to assist LGFC in meeting the objectives of the study through a consultative process that would collectively develop an Action Programme for local revenue enhancement, which would have full ownership of all the stakeholders and meeting the needs of the local councils.

The next sections detail the process undertaken.

### **1.3 Desk Study and Preparation of First Draft Revised Action programme**

Our approach to the assignment followed the emphasis set out in the TORs on the work previously undertaken by Crown Agents and used the final report of that study and the ensuing workshop report as the starting point for our work. The action

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programme set out in the report was reviewed for progress made and critiqued with LGFC in the light of our discussions with stakeholders and the information obtained from the reading of other documents.

From this a draft revised action programme was prepared with the LGFC and presented by the LGFC to a stakeholder workshop on 3<sup>rd</sup> August 2000.

### **1.4 Field Visits**

The draft revised action programme was then taken to the 8 pilot councils and reviewed for appropriateness in the light of the activities and performance at this level. The field teams covered the district administrations, the urban councils and two sub counties in each district. At the end of each district visit a district action plan was prepared with the district administration and was presented and confirmed at a local stakeholder meeting.

The selected eight model councils are:

Mpigi	Kibaale
Jinja	Nakasongola
Bushenyi	Soroti
Gulu	Moroto

The visits were carried out by two teams of three which each spent two weeks in four districts. Each team was made up of two consultants and a member of the LGFC staff.

Separate field trips were made to Bushenyi and Jinja to undertake detailed participatory sociological assessments of grassroots perceptions and attitudes to local taxation. These are dealt with below.

### **1.5 Objectives of visits**

The basic objective of the visits was to test the preliminary findings at the central level as set out in the inception report and to inform the development of the national action programme. A further objective was to assist the local councils visited to develop their own local action plan, which could be met from local resources.

In order to meet these objectives the following activities were carried out:

- ??Identification of the tax base
- ??Assessment of the revenue potential
- ??Assessment of revenue collection performance
- ??Review of privatisation experiences and opportunities
- ??Assessment of financial management performance
- ??Identification of strengths and weaknesses of selected councils in the district
- ??Testing the draft revised Action Plan at district level
- ??Review socio-economic aspects of local revenues including affordability and willingness to pay.
- ??Facilitation of a workshop to confirm our findings and to agree a local action plan

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**1.6 Local Councils Visited**

Within each district we visited sub-counties in addition to the District Council and also where applicable towns, municipalities and divisions. The councils visited were selected with the Chief Administrative Officers with a view to gaining a representative selection. The 37 councils visited in the 8 districts were as follows:

Date	District	Sub- Counties	Towns	Municipals	Divisions
7/8 to 19/8	Kibaale	Kakindo Kisiita	Kibaale		
7/8 to 19/8	Mpigi	Kira Ng'ando	Mpigi		
23/8 to 1/9	Nakasongola	Nabiswera Lwampanga	Nakasongola		
22/8 to 1/9	Jinja	Kakira Buyerngo		Jinja	Central
11/9 to 22/9	Soroti	Kateta Kobulubulu		Soroti	Northern
11/9 to 22/9	Bushenyi	Kanyabwanga Kyamuhunga	Bushenyi- Ishaka		
25/10 to 6/10	Moroto	Ngoleriet		Moroto	North
25/10 to 6/10	Gulu	Rupa Bobi Bungatira		Gulu	Laroo
Councils Visited	8	16	5	4	4

**1.7 Socio-Economic Assessments**

The assessment of local government taxes and user charges was based on the concerns raised in the TORs. These are:

- ?? Equity (horizontal and vertical equity)
- ?? Adjustment of tax payment to seasonal and yearly variation in incomes
- ?? Linkage of revenue payment to service provision
- ?? Possible distortions of economic activities by various revenue sources
- ?? Gender implications (for women as well as for men)
- ?? Political implications (perceptions of fairness; taxpayer view of tax authorities, etc)
- ?? Accountability implications.

The accountability issue was included after consultation with the LGFC because it is central to pre sent government policy.

A two-legged approach was used. The two field teams addressed these issues during their work with the local authorities. In addition, two socio-economists undertook more detailed field studies in selected sub-councils/villages (called the grassroots studies in the following). This work aimed at obtaining impressions of taxpayer views of the tax system with particular emphasis on the views of poorer men and women. Limits of time and resources precluded a full impact study being made.

**1.8 Final Consultation and Drafting**

During the time of the field trips we continued with the LGFC to review the legal instruments and to refine the action plan through discussions with central stakeholders and information gathering.

On completion of the field trips the draft final programme was prepared with LGFC and will be presented with the draft final report to a stakeholder meeting for discussion, adoption and commitment.

## 2 1996/7 ACTION PROGRAMME

### 2.1 Progress in implementing the 1996/7 action programme.

The 1996 Action Programme (ODA, 1996, chapter 6) was based on 24 main recommendations outlined in the Executive Summary of the report. A more detailed 1997 Action Programme was made the following year (ODA, 1997). It reflects the inputs from a workshop in which the authors of the 1996 report met with various stakeholders. This 1997 Action Programme is very detailed containing some 86 specific activities.

A task force was set up to attempt to synthesise these recommendations into a manageable sequenced action plan. This was produced in June 1997 splitting the activities into the headings of:

Preliminary  
Contextual (legal)  
Core Projects  
Infrastructural.

Our overall assessment is that rather limited implementation progress has been made on the 1997 Action Programme. A detailed assessment of each proposed activity in this Programme is therefore not justified. To get a strategic overview, it is more helpful to review progress on the main recommendations in the 1996 report.

Progress on the 24 main recommendations is indicated below. It shows that limited or some progress has been made on 20 of the recommendations. Basically no progress has been made on the remaining 4 recommendations.

<b>Recommendation</b>	<b>Main arguments</b>	<b>Progress</b>
<i>2.1.1.1 Overall</i>		
1. Improve collection of existing revenue bases before introducing new instruments	Large gains in efficiency possible. Should be utilised first. Administrative capacity of local authorities needs improvements before new instruments should be considered.	Some improvement in capacity
<b>Graduated Personal Tax</b>		
2. Reduce GPT bands to five only (revised to 10 to 12 after 1997 workshop).	Simplify administration; maintain revenue	None

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<b>Recommendation</b>	<b>Main arguments</b>	<b>Progress</b>
2.1.1.2 <i>Revise imputation values and bands annually</i>	To keep in line with inflation and PAYE tax thresholds	Imputation values fixed by LAs now.
2.1.1.3 <i>Property/Land Tax</i>		
3. Initiate crash programme for re-valuation of property using simple methods	Property tax potential vastly under-utilised	None
4. Extend the existing system of property tax/rates to cover appropriate housing outside municipal boundaries	Improve coverage/revenues.	Some councils have started but problems being encountered in implementation
5. Introduce Rural Development Charge based on land	Agricultural incomes are largely exempt from income tax. No tax on land.	None
<b>Other Revenue Sources</b>		
6. Set fee levels that reflect earning levels of different activities	Business activities remain significantly under-taxed	Probably only sporadically
2.1.1.4 <i>Privatisation</i>		
7. Privatised revenue collection of GPT and rates/property taxes on experimental basis	To gain experiences for further improvements. LGFC to co-ordinate pilots	No privatisation of GPT collection Some experiments with privatisation of property tax collection
8. Privatised market revenue collection. Improve market planning.	Privatisation has worked. Too many small and ineffective markets-> unofficial markets	Some progress on privatisation of collection of market dues especially in urban areas
2.1.1.5 <i>Uganda Revenue Authority</i>		
9. Improve information sharing between URA and local authorities	Improves revenue collection. Diffuses good practices from URA to local authorities	None
10. Let URA collect GPT for salaried persons. Local authorities to collect from non-salaried people	Efficiency gains	None
<b>LGFC</b>		

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<b>Recommendation</b>	<b>Main arguments</b>	<b>Progress</b>
11. Develop a central revenue data base –co-ordinated by LGFC	Much data already exists, but scattered across ministries, and not published, and/or disaggregated to district level... Authorities should have access to a limited number of basic revenue sources, tax instruments and data bases (40)	Limited progress
12. Systematic district/municipal studies of revenue sources should be carried out by LGFC to determine the nature of opportunities being missed locally. Capacity should be built in LGFC to carry these out as required.	To inform advice to be given to LAs	Some of such work done but not within a systematic programme. This study will do this for 8 districts.
13. LGFC to provide technical advice and strategic management of tax training programmes for local authorities	Ministry of local Government less suitable for this, because it is regarded as ‘too much’ central government	None
14. Monitor annually the costs of tax administration and collection – including privatisation arrangements.	Low and very different standards of tax collection. LGFC to monitor costs so as to help to raise tax standards in local authorities	LGFC is setting up 9 regional monitors whose work will include these tasks
15. Review present revenue sharing arrangements between higher and lower levels of local authorities	Practices seem to vary despite statutory requirements. Sharing should help to improve efficiency	Ongoing in LGFC
<b>General</b>		
16. MOLG to review all relevant laws	To ensure reflect current needs of decentralised LAs	Recommendations made for amendment to the Rating Decree
17. Maintain central control over all tax policies	Maximises opportunities for co-ordination between central and local government taxes.	Unchanged
18. Do not transfer central Government revenue instruments to local authorities at present	Local authority tax capacity too weak.	Unchanged
19. Revise central Government monitoring mechanisms to reflect reforms of ministries and budgeting	Central Government monitoring mechanisms an inconsistent mixture central Government control and mentoring	Some preparations underway

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<b>Recommendation</b>	<b>Main arguments</b>	<b>Progress</b>
20. Improve financial reporting capacities on local authority finances at central and local levels	Information from past years difficult to obtain	A number of initiatives are under way to improve financial management and reporting through Local Government Budget Frameworks, PAF, Conditional Grants, LGDP, Decentralisation Secretariat
21. Further studies required to establish weaknesses in internal and external auditing	Large variations in attitudes of local authorities to importance of high standards of finance management and accountability	Guidelines issued by MoLG
22. Decentralise institutional mechanisms for corruption control	Substantial problems of collecting and handling funds at sub-county level	Directorate of Ethics and Integrity now set up. PAF funds being used from this year to fund District Public Accounts Committees
23. Secure regular pay of staff involved in tax administration and collection	Irregular and poor pay a significant cause of poor performance	Still a major problem

Many of reasons for the generally modest progress were identified and discussed at the First Stakeholder Workshop held on August 3 including the following:

- ?? Certain recommendations were unacceptable
- ?? Some recommendations required major policy decisions prior to implementation and these have not been made
- ?? Lack of capacity at the central level to implement the recommendations
- ?? Lack of capacity in the councils to implement the recommendations.

## **2.2 Comments on the 1996/7 action programme.**

2.2.1 Our comments on the action programme are based on our discussions at central level and also the views of those in the local authorities met during our field visits.

### 2.2.2 Principles

The 1996 report and its recommendations are based on seven principles:

- ?? Horizontal uniformity (avoid tax competition between local authorities)
- ?? Vertical synergy (avoid conflicts between central and local government taxation)
- ?? Administrative/procedural simplicity
- ?? Sequencing of improvements (improve existing instruments before new are introduced)
- ?? Targeting (transparent capacity to focus on the better off)

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- ?? Stratification and progressiveness (focus on non-marginal tax bases)
- ?? Realism (improved revenues are difficult to achieve, so expectations should be realistic).

**2.2.3 Main Conclusions**

A main conclusion of the report is that “Administrative weaknesses at every level... [from central to local level]... are the most obvious constraints on the likelihood of success in implementing new or additional local revenue instruments.” Such new/additional instruments should therefore “be prioritised well below the reformulation and simplification of the existing major instruments of local taxation” (ODA, 1996, 40).

Furthermore the report concludes that many of these administrative weaknesses can be addressed without changing the present legal and regulatory framework for local government. Some local authorities are already doing it. Undoubtedly, low cost capacity building combined with political will would enhance local government revenues.

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2.2.4 Recommendations

Apart from this general and strategic conclusion, the 1996 report makes a number of specific recommendations that are listed above. Some of these are particularly important:

The first concern data bases, tax information:

<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
Systematic district/municipal studies of revenue sources should be carried out by LGFC to determine the nature of opportunities being missed locally. Capacity should be built in LGFC to carry these out as required.	To inform advice to be given to LAs	Capacity should also be built in the local authorities to do this.
Improve information sharing between URA and local authorities	Improves revenue collection. Diffuses good practices from URA to local authorities	Agreed. The need for greater co-operation was emphasised during our field visits by the suspicions and ill feeling communicated.
Develop a central revenue data base co-ordinated by LGFC	Much data already exists, but scattered across ministries, and not published, and/or disaggregated to district level.	Agreed but should be integrated into a monitoring system which defines the regular uses of the data collected.

The second concern Graduated Personal Tax:

<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
Reduce GPT bands to five only (revised to 10 to 12 after 1997 workshop).	Simplify administration; maintain revenue	This will reduce causes for disputes and speed up assessments
2.2.4.1 <i>Revise imputation values and bands annually</i>	To keep in line with inflation and PAYE tax thresholds	Agreed. The local authorities visited agreed in principle with this but were doubtful of the practicality of annual revisions.

The third concern property tax:

<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
Initiate crash programme for re-valuation of property using simple methods	Property tax potential vastly under-utilised	Agreed. Local authorities visited indicated that a major hindrance to the exploitation of this source is the cost of valuation of properties.

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<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
Extend the existing system of property tax/rates to cover appropriate housing outside municipal boundaries	Improve coverage/revenues.	Agreed. Local authorities agreed with this and some are taking faltering steps to implement. The need for guidance and taxpayer education was emphasised.

The fourth concerns land taxes:

<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
Introduce Rural Development Charge based on land	Agricultural incomes are largely exempt from income tax. No tax on land.	Report does not recognise the major problems involved in implementing such a tax – cultural, different land tenure types. Local authorities visited generally accepted this but saw it very much as a long term strategy, stressing the need to address the land tenure problems.

The fifth concern capacity building:

<b>Recommendation</b>	<b>Main arguments</b>	<b>Comments</b>
LGFC to provide technical advice and strategic management of tax training programmes for local authorities	Ministry of Local Government less suitable for this, because it is regarded as 'too much' central government	LGFC should establish itself as the first point for councils to obtain advice on revenues.
Improve financial reporting capacities on local authority finances at central and local levels	Information from past years difficult to obtain	Improved revenue measures will not be productive without an effective system of financial management. This needs greater emphasis.

### **2.3 Other Issues**

As can be seen from the above we are in general agreement with the recommendations from the 1996 report but we feel that the following need to be addressed in the revised draft:

- ?? Other than a general comment on the need to improve existing capacities and procedures before embarking on tasks, the recommendations are not prioritised or sequenced within a time frame. The report of the task force in July 1997 made some attempt to sequence the activities but did not put them within a time frame.

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- ?? Responsibilities for implementation are not clearly assigned. This may be a reason for the modest level of implementation
- ?? Resource requirements have not been identified or their sources identified

### **3 SUMMARY OF MAJOR RECOMMENDATIONS**

The following are the major findings that feed into the revised action programme set out in the following chapter. Details of the findings in the districts are set out in chapter 5 below.

#### **3.1 The purpose of local revenues**

*Action Area No. 13*

During the period since the original decentralisation the objectives of the various financing sources for councils has become blurred. Our visits to the districts and our central consulting indicated a wide perception that additional responsibilities are being passed to councils without the provision of additional funds. This results in salaries being paid out of local revenues rather than the unconditional grant from which they were intended to be paid.

This point is peripheral to the scope of this study but has a major bearing on councils' ability to estimate revenue requirements. Also, and perhaps more importantly, the amount available for service delivery will be reduced thus reducing taxpayers' perception that their money is being used for their benefit.

The definition of the purpose of the various grants needs to be clearly and publicly stated by Government and the costs of the services to be delivered from them should be identified and funded.

#### **3.2 Graduated Personal Tax (GPT)**

It is a truism in Uganda to say that GPT is an unpopular and regressive tax. Our investigations and discussions in the field indicate that the causes for resentment and hence non payment of this specific tax do not arise from a "non tax paying culture" or a lack of understanding of the purposes of taxation. The resentment is more at the mechanics rather than its nature.

Objections identified and which appear valid in general are:

- ?? It is regressive. We were frequently told "the primary teacher on 80,000 shillings per month pays the same as the permanent secretary".
- ?? The methods of assessment are considered to be complex and not fairly applied.
- ?? In urban areas the tax has generally become a fixed poll tax with all but the salaried paying the minimum rate.
- ?? Enforcement methods can be unpleasant and the attitudes of the enforcers are regarded as bullying.
- ?? People are unable to correlate services received to tax paid therefore perceiving that no benefit has been received.

GPT remains the tax on which councils at all levels rely greatly, varying between 13% (Jinja MC) and 61% (Kibaale DC) of total revenues in our sample councils.

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Collections vary between 93% of budget (Bushenyi) and 61% (Kibaale) with an average collection rate in the districts of 80%. Our calculations however indicate that budgets are generally understated and the numbers assessed and the amounts that they are assessed does not reflect the taxable population or the per capita income of the council. The gross yield from GPT can according to our estimates be increased on average by over 40%, without increasing the rate charged.

The cost of collection of GPT is also high, varying between 23% in Kibaale and 46% in Nakasongola. At sub county level the costs are much higher, in some cases being in excess of the amount collected. In municipals the collection costs tend to be lower because of the higher proportion of salaried taxpayers and the tendency towards fixed rates, which do not require assessment. Indeed the costs of collection from salaried employees are generally insignificant at 2 to 3 % of revenue.

The recommendations arising from this study and which have been included in the action programme are:

### 3.2.1 Replacement of GPT

Those with whom we held discussions at all levels, while expressing dissatisfaction with GPT, felt that it should remain for the present and efforts should concentrate on improving its fairness and performance.

We however identified potential revenue sources in the following chapters that, over time, may be able to replace GPT.

### 3.2.2 Open Ended Top Rates of GPT

#### *Action Programme Action Area 1*

At present the top rate of GPT is US\$ 80,000 which comes in for assessed annual income over US\$ 820,000.

We also understand it to be the intention that GPT should tax incomes that do not enter the Central Government PAYE net, that is fall below the threshold for personal tax. The present threshold is at present US\$ 1,560,000. Under this logic the GPT rates should extend to that level.

### 3.2.3 Reduce the Number of Tax Bands

#### *Action Programme Action Area 1*

The present structure has 37 tax bands, though councils have increased the minimum rates to varying levels, thus effectively reducing the number of bands to +/- 25, and adjusting the rates for inflation.

Even this number could be reduced to 10 to 12 which will simplify assessment and involve less cause for argument over the band in which a taxpayer should be placed.

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**3.2.4 Raise the Entry Point**

*Action Programme Action Area 1*

Part of the concern over GPT is that it has an excessive impact on the poor. The tables that we have seen do not have an entry point as such though the 1996/97 action plan proposed raising it. All specifically non-exempted taxable persons are required to pay GPT and the district people interviewed were resistant to this concept of an entry point. It would be more acceptable to widen the initial band of GPT in order to make it protect the poor though still requiring their taxation in some form.

The schedule below gives an example of a tax table that could be used, embodying the recommendations in paras 3.2.2. to 3.2.4. This table is given as an example of how this could be laid out, though would be subject to refinement in different councils.

**Example of a revised GPT Rates Table**

	From	To	Rate
1	0	200,000	10,000
2	200,001	250,000	12,000
3	250,001	300,000	14,000
4	350,001	400,000	18,000
5	400,001	500,000	25,000
6	500,001	600,000	30,000
7	600,001	700,000	40,000
8	700,001	750,000	60,000
9	750,000	800,000	80,000
10	800,000	1,560,000	10% of income

**3.2.5 Revision of Imputation Values Regularly**

*Action Programme Action Area 2*

The imputation values were apparently last revised in 1992 though there appears to be some doubt on the exact date. In order to keep pace with inflation and changing economic circumstances these should be revised regularly, preferably annually.

**3.2.6 Simplified Enumeration and Assessment**

*Action Programme Action Area 2*

The present enumeration and assessment procedures could be radically simplified by decreasing the number of categories and the methods of assessment. In some cases the assessments could take place every two years or so as the deemed wealth earning activity, especially where agricultural, is unlikely to change from one year to the next or be marginal.

The wider bands for assessment as suggested above would reduce the need for complex assessment procedures.

**3.2.7**

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### **3.2.8 Make Explicit Exemption Mechanisms**

#### *Action Programme Action Area 2*

The present exemption mechanisms are done on a case by case basis within the parameters of locally defined rules. The exemptions should be formalised and agreed within the district within national guidelines, and published widely.

### **3.2.9 Publish Data on Assessments**

#### *Action Programme Action Area 2*

Lack of transparency over GPT is one of the major complaints made in our grass roots surveys. We recommend that information on individuals' assessments should be available to all to scrutinise as well as their payment details. This will quell conjecture as to neighbours' assessments and raise peer pressure on those who have not paid. This will especially add transparency to the status of the elected members of the councils.

## **3.3 Property Tax**

Property Tax is the second of the two revenue sources specifically defined in Schedule 5 of the 1997 Local Government Act, the first naturally being GPT. District and urban councils have the ability to levy property tax on owners of land and buildings under the Act and the Rating Decree of 1979.

Few of the councils visited are obtaining a significant proportion of their revenues from property tax. This includes municipal councils for whom property tax is traditionally a major source of income.

Our estimates of potential yields from this source developed with three municipal councils (Jinja, Soroti, and Moroto) suggest that with a 10 % rate they could in all cases collect at least 150% of the present yield from GPT. Of the three only Soroti collects a significant proportion of its potential from this source.

The districts generally do not collect property tax though attempts are being made in some places, Bushenyi being the most notable example with nearly 38% of its income coming from property related revenues.

The recommendations arising from this study and which have been included in the action programme are:

### **3.3.1 Design and Implement a System of Simplified Valuation**

#### *Action Programme Action Area 4*

The major reasons given for lack of collection of property tax are the costs of valuation and the need to survey properties. The present legislation requires the Chief Government Valuer to carry out the valuations and his resources are at present scarce. There are less than 30 qualified valuers in the country of which less than 20 are available, either in public or private practice, to carry out this role for councils.

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There is therefore a need for a simplified method of valuation that can be implemented by high level technical staff based at the district level. Rates can be fixed on the basis of usage (residential), size (square metres), and location (low density area) thus allowing speedy valuation to be carried out, with limited room for dispute. While there may be an element of inequity at either end of the value spectrum in a particular area, these are unlikely to be significant and the inclusion of a much larger number of properties in the tax base will allow the tax rate to be reduced.

### **3.3.2 Extend Property Tax to Peri Urban Areas**

#### ***Action Programme Action Area 3***

This was recommended in the 1996/7 report but not implemented though some councils have made attempts to do so with limited success.

Our estimates in two districts suggest that a yield of up to 17% of current GPT could be raised from property tax in peri urban areas using a tax rate of 5% of value.

### **3.3.3 Design and Implement Appropriate Collection Procedures**

#### ***Action Programme Action Area 3***

Our discussions in the field indicated an expressed need by councils for assistance in setting up the required administration and collection procedures for property tax.

## **3.4 Licences and fees**

### ***Action Programme Action Areas 5 and 6***

Licences and fees are a relatively small but important area of local authorities' revenues normally making up less than 10% of local revenues.

As noted below licences are regulatory instruments and revenue from them should only be maximized to reflect full compliance with the law, not through higher rates. Licences should in principle reflect the costs of the regulation required. In certain circumstances the cost of a licence may fall below that level because of the social importance of the regulation.

Licences are not fully collected and the need identified is for better record keeping and registers of businesses to be maintained.

User fees should in principle be collected on a full cost recovery basis, though some services may require subsidy by the central or local government, or cross subsidy of the poor by the wealthy. The complication here is that many user charges are set by the line ministries and greater co-operation is required with these ministries in order to ensure that charges are made appropriately.

### **3.5 Privatisation**

#### *Action Programme Action Areas 7 and 8*

All the councils visited have privatised market dues collections, generally successfully. Yields have however not been maximised because of inexperience in preparing and awarding tenders and political interference.

Some councils (Jinja MC) are using outside contractors to collect property tax with limited success but their resistance was expressed towards outsourcing the collection of GPT as being too politically sensitive.

Other areas for outsourcing should be investigated and in some cases are being. Boda boda and taxi parks, and garbage collection and disposal are obvious possibilities. A further possibility is the rehabilitation and maintenance of council rented properties where a partnership could be formed with the private sector in order to obtain economic returns for properties. Councils should investigate possibilities for themselves within their activities.

MoLG should also co-ordinate the piloting of privatisation procedures in areas such as property tax so that the lessons learnt can be rolled out to other councils.

### **3.6 Capacity Building**

#### *Action Programme Action Area 9*

The field visit reports have identified capacity building needs in both tax administration and financial management. Improved revenue collection will be ineffective without the appropriate financial management skills and procedures to provide accountability, budgeting and planning, which will direct resource flows towards service delivery and development.

The main vehicle for capacity building in local government is anticipated to be the Local Government Development Programme, initiated by the World Bank. The LGFC should play a major role ensuring that the appropriate revenue collection needs are met by this programme.

### **3.7 Taxpayer and councillor education programmes**

#### *Action Programme Action Area 10*

The need for taxpayer education programmes was identified during the field visits in order to sensitise tax payers to the purposes, and uses made, of revenues raised locally by councils in order to restore the credibility of local authorities within the community. This credibility will clearly only be sustained if the promises are supported by actions.

A further complaint at district level was of political interference and cronyism whereby politicians made decisions on revenue matters for personal political reasons and hindered revenue collection activities for their own ends. Councillors admitted to

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making short term political decisions from time to time, especially at times of elections. This is a natural phenomenon in any democratic society, which has in recent years been exacerbated by the frequency of elections and referenda.

The charges of cronyism and personal benefit were strenuously denied.

Training of councillors should be instigated in order to give guidance on their roles in assisting the councils in their debt collection efforts by mobilising their constituents and providing an example.

**3.8 Revenue Monitoring**

*Action Programme Action Area 11*

LGFC is to set up a capacity of monitoring LG revenue performance through regionally based staff.

**3.9 Assessment of District Revenue Capacities**

*Action Programme Area 12*

Each district should carry out an analysis of its revenue generation potential, its capacity to exploit that revenue, and the activities required to maximise it, in a similar manner to the assessments carried out during our field trips.

## **4 REVISED ACTION PROGRAMME**

### **4.1 Introduction**

A revised action programme has been derived from our review above, consultations and field visits. This programme, which is attached as Appendix 1, is broken down into 13 action areas set out below and these have been allocated three levels of priority.

<b>Time scale</b>	<b>Action Area</b>	<b>Outcomes</b>	<b>Priority</b>	<b>Responsibility of</b>
Jan to Aug 2001	1. GPT - Bands	A more comprehensive GPT assessment schedule in place which is administratively easier to handle and equitable and progressive	1	LGFC
April to August 2001	2. GPT - Procedural	Simplified enumeration and assessment and acceptable collection procedures	1	LGFC
January to May 2001	3. Property Tax – Procedural	Easier assessment methods, reduced cost of collection; improved collections	1	LGFC
February 2001 to June 2003	4. Property Tax - Valuation	Property tax potential is realised	1	Chief Govt Valuer
May to September 2001	5. Licences and Fees	Improved licencing system	3	LGFC
July to December 2001	6. User Charges	Streamlined system of user fees and charges and increased revenue to LGs.	3	LGFC
February to August 2001	7. Privatisation - Procedures	Improved collections from commercial private operators	2	LGFC
March 2001 to June 2002	8. Piloting privatisation	Assessment of use of contractors before commitment	3	MoLG
December 2000 on going	9. Capacity Building Co-ordination	Comprehensive capacity building programmes that cover new procedures and strategies.	1	LGFC

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<b>Time scale</b>	<b>Action Area</b>	<b>Outcomes</b>	<b>Priority</b>	<b>Responsibility of</b>
March to October 2001	10. Taxpayer and Councillor Education Programmes	Appreciate sensitisation on usefulness of various revenues	3	MOLG
January 2001 to July 2001	11. Revenue Monitoring	Up to date and regular information on Revenue collection to LGFC	1	LGFC
April to December 2001	12. Assessment of District Revenue Capacities	New revenue sources identified and improved collections made	2	MoLG
March to October 2001	13. Central Strategy	LG taxes reformed in line with requirements of service delivery	2	LGFC

#### **4.2 Format of Action Programme**

The action programme has been set out in 13 Action Areas, the responsibility for the co-ordination of each has been assigned to an agency – LGFC, MoLG, Chief Government Valuer. Other actors play roles within the Action Area but its implementation is driven by the co-ordinator.

For each Action Area the following boxes have been completed:

**Time scale** The overall period over which the Action is to be accomplished. The start time is dictated by the priority of the Action and its timing in relation to others.

**Objective** A description of what we are trying to achieve by the Action Area.

**Outcome** The change that will have occurred as a result of the Action Area

**Performance Indicator** A measure by which we can measure the success that we have achieved in attaining the outcome.

Within each Action Area there are a number of sequenced activities with their own time scales within the overall time scale, and other columns that are completed:

**Outputs** What has been achieved by the activity – a workshop held, guidance notes produced etc.

**Resources Required** The human and financial resources required to carry out the activity.

**Constraints** What are the factors or risks that could jeopardise the completion of each activity.

### **4.3 The methodology envisaged**

The action programme attached as Appendix 1 takes into consideration the following:

#### **4.3.1 The capacity of LGFC**

The Commission has limited numbers of professional staff available to carry out the activities envisaged. Consultancy input has therefore been proposed in areas where technical expertise is not available (valuation) or the LGFC capacity would be strained to carry out the task.

We understand that the LGFC intends to have two staff working full time on the implementation of the action programme. The Commission also wishes to take on a short term technical adviser to assist in the development of the programme, with six person months of input over the programme.

#### **4.3.2 The roles of the LGFC and MoLG**

The LGFC's role is as an adviser to the President and the local authorities on the financing of local authorities. The MoLG is responsible for advising, supporting and regulating local authorities and therefore it is important that the roles of the two organisations are clearly defined in the activities envisaged.

The action programme therefore allocates research and formulation roles to the LGFC with implementation undertaken by the MoLG.

#### **4.3.3 Stakeholder participation**

The programme envisages that each activity will involve all stakeholders in the process before final outputs are published and the implementation commences.

#### **4.3.4 Implementation in the local authorities**

Following research and stakeholder consultation the general approach is for the LGFC to prepare advisory notes containing best practice guidance in respect of the particular activity envisaged.

The LGFC will then assist the MoLG in the training of district level staff in the advisory notes through five regional seminars. District staff who have been trained by the MoLG in training techniques and who will then be responsible for its rollout at the local level will attend these. On going advice and monitoring will be carried out by the regional monitors to be employed under the programme.

#### **4.3.5 Co-ordination with other programmes**

There is an action area for co-ordination with other programmes. At this time the major capacity building programme in this sector is the Local Government Development Programme and it is imperative that the implementation of these activities is embedded in that programme.

#### **4.4 Costing of activities**

The table below sets out the indicative levels of funding required for the programme.

<b>Action Area</b>	<b>Stakeholder Workshop</b>	<b>Training Seminars</b>	<b>Consultants</b>	<b>Short Term Adviser</b>	<b>LGFC Costs</b>	<b>Total</b>
1. GPT - Bands	750	15,000			1,000	16,750
2. GPT - Procedural	750	15,000		80,000	1,000	96,750
3. Property Tax – Procedural	750	15,000			1,000	16,750
4. Property Tax – Valuation	1,500		120,000		1,000	122,500
5. Licences and Fees	750	15,000			500	16,250
6. User Charges	750	15,000			500	16,250
7. Privatisation – Procedures	750	15,000	30,000		1,000	46,750
8. Piloting privatisation	750				2,000	2,750
9. Capacity Building Co-ordination					500	500
10. Taxpayer/Councillor Education	750	15,000			3,000	18,750
11. Revenue Monitoring	750	15,000				15,750
12. District Revenue Capacities	750		30,000		50,000	80,750
13. Central Strategy	1,500		30,000		500	32,000
<b>Total US\$</b>	<b>10,500</b>	<b>120,000</b>	<b>210,000</b>	<b>80,000</b>	<b>62,000</b>	<b>482,500</b>

These costs include all expenses to the point where district level trainers have been trained.

In the case of Area 4 - Property Tax Valuation it includes costs up to the approval of the simplified valuation system but does not include the costs of employing and training the necessary valuation staff. This will be derived from the activity itself.

The costs of employing and deploying regional monitors have not been included above.

#### **4.5 Financing the Costing**

The sources of the funds to finance the action plan have been identified as the World Bank funded Local Government Development Programme which has recently commenced implementation, the donor partners in the Technical Advisory Group, the local authorities themselves and the Government of Uganda. It is anticipated that the costs will be funded as follows:

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The LGDP includes funds earmarked for the building of capacity in both MoLG and the LGFC.

It is believed that the likely sources of the funds will be as follows:

Outputs	US\$	Source
Stakeholder Workshops	10,500	LGDP funding for LGFC
Training seminars for district trainers	120,000	LGDP Capacity building funds
Consultancy	210,000	Technical Advisory Group
Short term adviser	80,000	Technical Advisory Group
LGFC additional costs	62,000	LGDP funding for LGFC \$50,000 from TAG
<b>Total</b>	<b>482,500</b>	

Further funds will be required for activities, which have not been costed here:

Output	Source
Implementation in districts	Local authorities own resources LGDP district level funds
Employment of monitors	LGDP funding for LGFC
Training of valuation staff	Technical Advisory Group

It is important that, to carry forward the action programme, the Technical Advisory Group should meet at the earliest possible stage to agree the allocation of resources.

## 5 CURRENT REVENUE PERFORMANCE

### 5.1 Introduction

This chapter of the report summarises the current revenue performance drawn largely from our field trips to eight districts during the period from 7<sup>th</sup> August to 6<sup>th</sup> October 2000. The reports on the individual districts are included as 5 to 12

### 5.2 Overview of findings of field trips

As would be expected the circumstances of the individual districts varied considerably in terms of population, geography, economic activities, revenue sources and performance, development, security, and council commitment. This section provides an overview of the generally applicable findings and the following sections in the chapter discuss the activities undertaken in more detail, providing the bases from which these observations have been drawn.

The type and robustness of information available from the individual councils obviously vary and so the analysis that we have been able to carry out obviously differs in line with this. In the time available we have not been able to generate significant amounts of independent data but have depended on locally and nationally available data for analysis and extrapolation.

- 5.2.1 The age and gender distribution of the population means that only +/- 30% is likely to fall within the local tax net.
- 5.2.2 The vast bulk of the taxable resources are orientated to agriculture. Even in the most industrialised of the visited districts, Jinja, the bulk of the population derives its income from agriculture.
- 5.2.3 Little attempt has been made to implement the previous action programme at the local level. Indeed, there was little knowledge of its existence.
- 5.2.4 GPT remains the major source of revenue for councils, though the amount varies considerably especially between rural and urban councils.
- 5.2.5 All interviewed, including councillors, council staff and taxpayers saw little short term opportunity for GPT to be replaced. Its unpopularity was seen to be in the inequity and manner of its application, rather than its inherent nature.
- 5.2.6 Our estimates of the potential yield for GPT indicate high levels of under registration, under assessment and under collection.
- 5.2.7 There was general support for the extension of property tax to peri urban areas. Some councils have started to do this through a form of ground rent, though this is generally a fixed rate which again is regressive.
- 5.2.8 Some urban councils have recognised property tax as a major source and are attempting to, or in the process of, valuing properties. Generally however in urban areas property tax is greatly under-exploited.

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- 5.2.9 The application of some form of development land charge was generally accepted in principle though the problems of implementation were stressed.
- 5.2.10 Licences are used as a method of taxing larger enterprises rather than using the more appropriate taxes on property or turnover.
- 5.2.11 Licences are generally regarded as revenue sources rather than regulatory instruments.
- 5.2.12 All but one of the districts has privatised market collections with significant increases in revenue accruing.
- 5.2.13 Some municipalities have used outside agents to collect property tax with limited success.
- 5.2.14 Financial management and tax administration capacity and record keeping is low.
- 5.2.15 Political involvement at both national and local level is often quoted as a major hindrance to tax collection but the inevitability of the effect is not borne out by comparative performance.

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**5.3 Economic activities in the districts**

The following table summarises the significant economic activities identified in the districts visited.

	<b>Agriculture</b>	<b>Livestock</b>	<b>Commercial Agriculture</b>	<b>Fisheries</b>	<b>Industry</b>	<b>Forestry</b>	<b>Tourism</b>	<b>Other</b>
<b>Kibaale</b>	84% of population	Limited	No estate farming	Important	No	Undeveloped	No	Banana Brewing
<b>Mpigi</b>	46% of population	Important	Little	Limited	Small	Undeveloped	No	24% on salaried income
<b>Nakasongola</b>	97% of population	Important	Little	Important	No	Undeveloped	No	
<b>Jinja</b>	Important	Important	Important	Important	Important	Limited	Yes	
<b>Soroti</b>	Almost all population	Important	No	For local consumption	No	Limited	No	
<b>Bushenyi</b>	90% of population	Important	Little	Limited – 20 tonnes p.a.	Tea/coffee factories	Developing	No	
<b>Moroto</b>	63% of population	Main but low yield	No	No	No	No	No	
<b>Gulu</b>	95% of population	Limited	Little	Limited	No	Undeveloped	No	

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Many households are naturally involved in more than one of the above activities, farmers growing crops, keeping livestock and carrying out cottage industries such as weaving and embroidery. The above does however clearly demonstrate the reliance in these districts on subsistence agriculture as the main economic activity and the few districts within which any significant industrial activities are taking place.

**5.4 Per Capita Income**

We have attempted to estimate per capita incomes from the data available in terms of agricultural production (including livestock yields) and other rural activities. The data is not generally available to allow estimates to be made of urban incomes. As the large majority of the population makes its living from agricultural activities its application across the whole population is unlikely to be significantly misstated and will probably be conservative.

It should also be remembered that the figures derived are indicative only and prepared in order to give some guidance to taxable incomes and affordability in the districts visited.

The figures derived from this exercise are as follows:

	<b>Ushs Thousands p.a. Per Capita</b>
Kibaale	272
Mpigi	281**
Nakasongola	340*
Jinja	309**
Soroti	340*
Bushenyi	294
Moroto	274
Gulu	297

\*The per capita income here is based on district estimates of US \$200 per capita based on the district estimates used in the budget framework papers at the current rate of US\$ 1700 to US\$ 1. This is likely to be overstated as the rate at the time of calculation was 1400 or less. As agricultural produce prices have not risen in line with the US\$ exchange rate terms, a more appropriate figure would be US\$ 280 to 290,000. US\$ 280,000 has been used in the analysis in section 5.

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\*\* The estimates for these two districts are based on the income from agricultural. The large peri urban population in these districts means that this is understated overall and the amount used in section 5.6 is based on district estimates of US\$ 350 per head or US\$ 492,800.

### **5.5 Existing revenue sources collection performance**

The following were identified as the general major sources of locally raised revenues:

- ?? Graduated Personal Tax
- ?? Property tax
- ?? Market dues
- ?? Licenses and permits
- ?? Other revenues.

The performance of each of these is summarised in the following sections.

### **5.6 Graduated personal tax**

Graduated Personal Tax (GPT) continues to be the major tax in all the districts and council types visited. Most of the districts visited are reducing their reliance on this source largely through increases in yields from market fees and licences but there are variations however between entities.

Bushenyi District Council for example has reduced its reliance on GPT from 93% of total income in 1997/98 to 56% in 1999/2000 through the imposition of taxes on surveyed land through ground rents, survey fees and planning fees. This has however been in addition to, not in place of GPT, collections of which have also grown over the period reviewed by our team from US\$ 1.8 billion to 2.6 billion.

Jinja District has also reduced its reliance on GPT through licences and land rent though less successfully than Bushenyi.

#### **5.6.1 GPT Collection Trends**

The following table sets out the trends in budgets and collections of GPT in the districts over the past three years giving the percentage share of total revenues for each council.

The table illustrates the point made above about districts generally reducing the proportion of their revenue arising from GPT though Kibaale is an exception.

An important point illustrated here is also the wide disparity between the budgeted and actual figures for all the districts other than Bushenyi. That district is collecting over 90% of its budgeted GPT but the rest vary between 40% and 87%. Soroti has managed to collect more than its target in 99/00 through aggressive collection of arrears from previous years.

The Gulu District Council data that we received has raised concerns about its accuracy and has not been included in the table below. Arrears of GPT are included in the figures for the years in which they have been collected.

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**Graduated Personal Tax - 1997/98 to 1999/2000 – District Councils**

	1997/98				1998/99				1999/2000			
	Budget		Actual		Budget		Actual		Budget		Actual	
		%		%		%		%		%		%
Kibaale	744	70%	569	80%	935	65%	746	76%	1,122	80%	667	78%
Mpigi	3,116	73%	1,809	74%	1,457	73%	988	83%	1,493	84%	230	60%
Nakasongola	281	54%	193	49%	244	47%	178	48%	260	47%	136	47%
Jinja	579	74%	470	79%	393	72%	296	62%	433	67%	289	68%
Soroti	830	78%	151	77%	182	62%	158	77%	190	61%	251	72%
Bushenyi	NA	NA	1,812	93%	2,669	63%	2,269	64%	2,835	54%	2,637	56%
Moroto	85	65%	69	76%	195	76%	77	74%	103	62%	78	63%
Gulu	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

The table below provides a similar analysis for the urban councils visited. This indicates a much lower reliance on GPT as a revenue source but a similar poor collection performance.

**Graduated Personal Tax - 1997/98 to 1999/2000 – Urban Councils**

	1997/98				1998/99				1999/2000			
	Budget		Actual		Budget		Actual		Budget		Actual	
		%		%		%		%		%		%
Kibaale TC	12	29%	17	38%	15	23%	14	22%	16	19%	na	
Mpigi TC	33	38%	36	56%	37	42%	36	54%	48	49%	26	48%
Nakasongola			11	25%	11	26%	12	40%	20	38%	16	35%
Jinja MC	494	22%	263	24%	494	23%	251	15%	329	13%	251	13%
Soroti												
Bushenyi	103	31%	105	35%	113	32%	84	27%	125	32%	82	27%
Moroto MC	23	29%	22	100%	25	14%	15	28%	33	23%	28	32%
Gulu												

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**5.6.2 GPT Potential Yield**

The tables above compare collections over a three year period with the budget figures. This does not necessarily reflect the potential yield as it is dependant on the correctness of the budget figures.

We have used indicators to calculate the likely area of magnitude of the potential yield for GPT for each district and council visited through the use of two measures. These measures are merely indicators of whether there is reason for concern, and the ball park potential tax yield, not exact calculations of the tax yield for budgetary purposes.

**Scenario 1. Taxable population:**

We derived the potential yield for GPT by estimating the number of tax payers from the population data available which is disaggregated by gender and age. This is multiplied by the existing average assessment as per the budget estimates to give the potential yield.

This scenario gives an indication as to whether all the tax payers are registered, and being assessed, and measures the possible amount of under collection. We have used the following variables in deriving the GPT revenue potential under this scenario:

- ?? Average tax rate: This was calculated from the estimated GPT collections in FY 2000/01 and the number of tax - payers estimated by the council for the same period.
- ?? Potential tax payers: This was determined by using the population figures to get the proportion of eligible female and male taxpayers under different age bands.

Our calculations are based on the assumptions that:

- ?? 5% of the eligible women population are engaged in formal employment in urban, rural and semi-urban areas;
- ?? People eligible to pay tax are within a population band of 20 to 69 years;  
and
- ?? Older people of 70 years and above will get tax exemptions.

**5.6.3 Scenario 2: Per capita income**

In this scenario we have used the estimated district per capita income shown in section 5.4 above to derive GPT potential. This calculation gives an indication as to how closely the average assessment corresponds to the average per capita income, thus revealing where assessment may be a problem.

The tables on the following two pages summarise the results of these calculations at the district level, though the individual district reports repeat it for the councils visited where the data is available. These are then discussed on the pages thereafter.

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**Scenario 1: Taxable Population**

		Kibaale	Mpigi	Nakasongola	Jinja	Soroti	Bushenyi	Moroto	Gulu
Estimated GPT collections	Millions	1,122	273	263	913	490	2,835	271	239
Total tax payers assessed	No.	43,268	14,090	13,086	43,265	42,057	99,396	18,502	31,586
Average tax rate	UShs	25,931	19,375	20,098	21,103	11,651	28,522	14,647	7,567
<b>Potential GPT revenue (base case)</b>									
Potential tax payers	No.	44,654	15,588	21,407	92,396	87,304	127,788	78,964	116,323
Potential yield	Millions	1,158	302	430	1,950	1,017	3,645	1,157	880
Current yield (collections)	Millions	666	164	136	846	251	2,637	67	214
<b>Total Shortfall</b>	Millions	<b>492</b>	<b>138</b>	<b>294</b>	<b>1,104</b>	<b>766</b>	<b>1,008</b>	<b>1,090</b>	<b>666</b>
Total Shortfall	%	42%	46%	68%	57%	75%	28%	94%	76%
Arising from									
- under registration	Millions	36	29	167	1,037	527	810	886	641
- collection perform'ce	Millions	456	109	127	67	239	198	204	25
- under registration	%	3%	10%	39%	53%	52%	22%	77%	73%
- collection perform'ce	%	39%	36%	30%	3%	23%	5%	18%	3%

Because the total district data was not available in Mpigi the total for the two sub counties visited has been used above

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**Scenario 2: Per capita income**

		Kibaale	Mpigi	Nakasongola	Jinja	Soroti	Bushenyi	Moroto	Gulu
Average income/capita	UShs	280,000	492,800	280,000	492,500	280,000	293,732	274,203	296,669
Corresponding tax rate	UShs	17,000	30,000	17,000	30,000	17,000	17,000	16,000	17,000
Potential Tax payers	No.	44,654	15,588	21,407	92,396	87,304	127,788	78,964	116,323
<b>Potential Yield</b>	<b>Millions</b>	<b>759</b>	<b>468</b>	<b>364</b>	<b>2,772</b>	<b>1,484</b>	<b>2,172</b>	<b>1,263</b>	<b>1,977</b>
Total Shortfall Against Budget	Millions	(363)	195	101	1,859	994	(663)	992	1,738
	%	(48%)	42%	28%	67%	67%	(31%)	79%	88%
Arising from									
- under registration	Millions	36	29	167	1,037	527	810	886	641
- under assessment	Millions	(399)	166	(66)	822	467	(1,472)	107	1,097
- under registration	%	5%	6%	46%	37%	36%	37%	70%	32%
- under assessment	%	(53%)	35%	(18%)	30%	31%	(68%)	8%	55%

Bracketed figures are surpluses not shortfalls

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5.6.4

5.6.5 Comments on the analysis:

*5.6.5.1 Taxable Population*

The analysis indicates that the number of people assessed for GPT in Kibaale and Mpigi is in line with our calculation of the taxable population having under registration percentages of 3% and 10% both of which are within the likely error parameters of our calculation. The Mpigi figures are however based only on 2 sub counties as the overall numbers of taxpayers assessed was not available.

The indications are that Bushenyi has cause for concern as our assessment suggests that 22% of the taxable population is not being taxed despite that district's high collection rates in recent years.

Nakasongola, Jinja and Soroti also have cause for concern as it appears that only half the taxable population is being reached.

Moroto and Gulu appear to be only taxing a quarter of the taxable population. These areas have been severely effected by civil strife and this has probably restricted access and may have made the population estimates less reliable.

*5.6.5.2 Per Capita Income*

This measure attempts to give an indication as to whether the amounts of the assessments reflect the underlying income levels of the population as estimated by the teams.

Mpigi, Jinja, Soroti, Gulu and Moroto appear to be under assessing their taxpayers. In the cases of the first two of these this probably arises from the large semi urban nature of the districts where the tendency is more towards a flat rate than true enumeration and assessment. Soroti has had a difficult past and is still feeling the effects of insurgency on its institutional structures, though this may appear to be more an excuse than a reality given the time elapse since the effective end of these troubles.

Gulu and Moroto, on the other hand, continue to suffer from instability and the ability to carry out proper enumeration and assessment is severely impaired by security concerns.

Bushenyi, Nakasongola and Kibaale however show assessment levels significantly higher than the per capita income estimated. As the basis of the calculation of income levels is recognised to err on the conservative we would hope the assessment to be higher but not as high as that evinced in Kibaale and Bushenyi (53% and 68% respectively). This may indicate that our estimates, based purely on agricultural incomes, may err on the low side but the analysis therefore suggests that these districts' assessment levels reflect the actual incomes.

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**5.6.6 Rates of GPT**

While all councils are using the same table of rates for assessment of GPT they have set their own entry points leading to a variation in the actual rates of tax on individuals. Some also charge additional hypothecated taxes for development and education that are collected through GPT.

District councils generally set minimum rates for GPT but the lower level councils are free to set rates higher than this

Examples of the minimum rates charged are as follows:

	District Minimum	Sub County Minimums	Town	Hypothetical
Mpigi	3,000	7,000 10,000	8,000	1,000 500 (Town)
Jinja	6,000	10,000 8,000	15,000	2,000
Bushenyi	1,000	10,000	10,000	3,000
Gulu	10,000	10,000		1,000
Kibaale		12,000	8,000	4,000
Nakasongola	5,000	15,000	15,000	15%
Moroto	10,000	10,000	10,000	500
Soroti	10,000	10,000	10,000	2,500

The norm appears from this to be a minimum tax burden of approximately US\$ 12,000 per tax payer per annum, including the hypothecated taxes, which represents less than 5% of our estimates of per capita income, or less than 10% of the income of those who earn less than half the average income. Some of the latter will however pay exemption rated levels of only 1,000 to 2,000.

**5.6.7 Summary of GPT Issues**

The socio economic findings set out in the following chapter outline some of the issues with regard to taxpayer perceptions of GPT as a tax, and the enforcement mechanisms. The summary below sets out the major findings of the field visits concerning performance and potential.

GPT remains the major tax for councils at all levels though the level of reliance varies between type and grade of council. Councillors and council staff at all levels generally were unable to see a short term alternative to GPT.

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The total potential revenue from this source has three stages:

- Registration
- Enumeration and Assessment
- Collection

Our analysis above has shown that all districts visited are under performing at at least one of these stages and in some cases at them all.

## **5.7 Income from property**

### 5.7.1 Introduction

The central perception that income from property is generally under exploited was confirmed by our field visits. They did however reveal that several districts and urban councils are taking steps, albeit often falteringly, to raise more revenue from this source. This has generally taken the form of:

- ?? Starting the valuation of properties, generally in urban centres; Jinja, Mpigi, Soroti for example
- ?? Application of ground rents; Bushenyi, Kibaale, Mpigi
- ?? Aggressive collection of survey fees and other land charges; Bushenyi

### 5.7.2 Obstacles

The major obstacles in maximising this form of income were identified as;

- ?? Cost of valuation of properties
- ?? Lack of surveyed properties both inside and outside urban areas
- ?? Outdated valuations
- ?? Lack of expertise in this form of tax
- ?? Lack of current records

As with other forms of income the legality of some of the taxes introduced, such as ground rents, is doubtful as bye laws have not been passed or revised to reflect current charges.

### 5.7.3 Urban Property Tax Potential Yield

Estimates of the potential yield against current collections of property tax in urban councils were made during our visits and examples of the current and potential collections in US\$ millions are:

	Collections 99/00	Potential	% Achieved	Potential as a % of current GPT
Moroto MC	0	52	Nil	185%
Soroti MC	89	131	68%	150%
Jinja MC	280	1,051	27%	213%

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**5.7.4 Peri Urban Property Tax Potential Yield**

Estimates of the yield from this source are likely to be essentially indicative because of lack of data on the numbers and values of properties in trading centres but our estimates indicate the following likely revenues at a 5% tax rate in two districts:

	Total Potential	Potential as a % of current GPT
Kibaale	187,000,000	17%
Soroti	80,000,000	16%

**5.7.5 Rental Income**

Some of the urban councils (Jinja, Moroto for example) have rentable properties the income from which falls well below economic levels. We estimate that the present budgeted yield of US\$ 15 million for Moroto for example could be increased to a market value income of US\$ 43.6 million. This would however only be achievable following extensive rehabilitation of the properties. Some form of outsourcing/partnership with the private sector should be considered in order to raise the resources to maximise revenues.

**5.8 Licences and Fees**

Licences and fees are a significant element of the district revenues in most of those visited. It is important for districts to differentiate between these two types of income as licences should in principle be regulatory instruments put in place in order to protect the public and carry a duty of inspection for the council. They should not strictly be regarded as a source of revenue to be maximised. Examples of true licences are motor vehicle licences, business licences, liquor licences, hotel licences etc., which are issued to protect the public from uninsured or unroadworthy vehicles, malpractice in trading, inappropriate operators, and health risks.

Over exploitation of licence revenue can have the effect of discouraging economic activities or acting as a disincentive to apply for them encouraging evasion and making regulation less effective.

A bicycle licence, for example, is not truly a licence as the issuing of the licence does not provide any regulatory function. It is probably better defined as a tax on the owner's property.

It is clear from our visits that councils are using licences as a way of taxing businesses because the more appropriate instruments (property tax, GPT etc.) are not being effectively applied. This can lead to a lack of transparency and ad hoc arrangements being made for individual businesses through negotiation.

Licences and fees vary as a proportion of total revenues from less than 10% in Nakasongola and Moroto and more than 20% in Mpigi and Kibaale. While the reporting styles differ from council to council these figures include licences, permits and all fees excluding market dues.

### **5.9 Market Dues**

All the councils visited had privatised the collection of market fees and while there remain problems and the yield is not as high as it should be, generally they have seen a growth in revenues as well as a drop in collection costs. Nakasongola and Mpigi after initial growths in revenue have stopped growing and the yield has fallen off in 1999/2000.

Market fees will never be the major source of revenue for a particular council. Indeed those councils such as Nakasongola for which such revenues make up over 30% of its revenues are the exceptions and the share conceals a failure to collect other revenues such as GPT. Generally market dues make up 5 to 6% of revenues.

They do have an importance however as much for the revenue earnings as for the low cost of collection, which means that the revenues are over 90% available to fund council operations. We have however noted an incident in a sub county in Gulu where the cost of collection is estimated at some 70% of collections despite being privatised. The chief and the sub county staff apparently still find it necessary to devote considerable amounts of their time to the collection process.

## 6 POTENTIAL SOURCES

### 6.1 Rural Development Charge

The 1996 action programme adopted the principle of some form of tax on land titled the rural development charge which would extend the concept of taxing property to the rural areas. It was seen as a potential replacement for GPT. At the time it was estimated that a charge of Ushs 1200 per acre per year would provide the same income as GPT. This estimate is confirmed by our exercises in the field. Section

We have discussed this at all levels and found the reception generally favourable for this form of taxation, which is generally progressive (the more land you have the more you pay), though the hurdles to be crossed are very significant.

The taxation of land is in principle very attractive as, after the initial surveying and assessment costs, is inexpensive to administer as land infrequently changes hands.

#### 6.1.1 Issues with Rural Development Charge

- ?? The implementation of the Land Act has been delayed and the mechanisms and interpretations have yet to be agreed.
- ?? The multiplicity of different types of land holding have to be addressed for the purpose of taxation – clan, customary, mailo. The Land Act provides for a certificate of registration whether through the clan, or personally. In the case of the clan it would set up a trust, which would register the land.
- ?? The need to survey the land holdings. Most rural land is unsurveyed.
- ?? Cultural resistance to the principle.
- ?? Probably only acceptable as part of a replacement for GPT.

#### 6.1.2 Recommendations as to Rural Development Charge

Until the Land Act implementation problems have been resolved this form of revenue cannot be introduced. However the following actions should be adopted.

- ?? LGFC to obtain high level approval in principle to the introduction of this tax.
- ?? System should be designed and consensus obtained, which addresses the various land holding types
- ?? Implementation should be phased so as to cover large commercial land holdings initially.
- ?? Surveying and valuation exercises to be carried out.

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The above comments confirm our previous perception that improved tax administration and collection could substantially increase the local revenue available to the councils from existing sources. Attention should not be distracted from their maximisation by searching for other sources which are unlikely to yield the revenues that improvement of existing sources can.

Clearly the taxation of land in a structured and nation wide manner is a long term objective, and one which will require a great deal of investment in terms of identification of the mechanisms under the Land Act, surveying of land holdings, and taxpayer and council education.

The potential yields from this source identified in two of the sample councils at a tax rate of UShs 1,500 per acre are as follows:

	Total Potential	Potential as a % of current GPT
Nakasongola	460,000,000	175%
Soroti	921,000,000	184%

## **6.2 Collection of Central Government Sources as an Agent**

As a locally based institution the councils have the local knowledge and infrastructure to collect central government taxes on a commission basis. Such taxes could include:

- 6.2.1 Motor vehicle licences. Collection costs are relatively low given that the council has the institutional infrastructure.
- 6.2.2 Small business tax. This tax is on the statute books but has not been implemented as we understand it, largely because the cost of collection would not be economical for the URA. It could however be economical for the councils to collect. As it is a simple turnover tax it would not require additional council resources and could be included in the GPT/licence assessments. The council would make an overall assessment, deduct the GPT due and a commission, passing the balance over to the URA. The deduction of the GPT would avoid double taxation.
- 6.2.3 Stamp duty.
- 6.2.4 VAT. This is seen in councils as a potential area where they could collect money either on behalf of or instead of the URA. VAT is however a relatively complex tax and the councils do not have the administrative infrastructure or technical expertise to administer it. Outside of the major urban areas the amount of VAT collected would be unlikely to justify the cost of collection.

It should be noted that while the first two would yield revenue in all councils, the bulk of the benefit would be gained in the large urban areas where the bulk of businesses and vehicles are situated.

### **6.3 Sharing of Central Government Sources**

The central government collects revenue at the district level from the exploitation of district based resources. This revenue is generally paid into the treasury as general government income, the district getting no direct return from the use of its resources.

The sharing of sources is being formalised in Tanzania at present with greater shares going to the local authorities. Areas that could be considered in Uganda are:

- 6.3.1 Hunting fees
- 6.3.2 National Park Fees. An allocation of park revenues is made to the parishes bordering national parks to fund development projects. They are not however paid through the district and therefore not subject to district development priorities.
- 6.3.3 Forestry fees. During our visit to a sub county in Soroti we were informed that government forests in the area had been thinned by a private contractor. The district apparently received 50% of the royalties (though they were not passed on to the sub county). It is unclear as to whether this is a formal practice.
- 6.3.4 Other possibilities may include mineral royalties, water extraction fees, court fines on by law offences etc.

### **6.4 Own Sources**

Other sources that may be explored by councils include:

- 6.4.1 Water supply fees. Councils supply water free of charge from bore holes, protected springs and wells. It receives a central government grant for this service. Charging for the service could provide funding for improving and extending it from local resources.
- 6.4.2 Extraction fees. A sub county in Soroti proposed a possible source at that level would be extraction fees for sand and gravel taken from that area. This type of small scale royalty should be encouraged at the local level and is within the capacity of the councils to formulate and implement through bye laws.
- 6.4.3 Cesses. Cesses on agricultural produce are employed with varying levels of success other countries in the region. In Uganda however they would be regarded as a duplication of GPT. They are also difficult to collect other than for major export crops with limited numbers of buyers (cashew in Southern Tanzania).

Opportunities were identified for their charging in Kibaale (Banana Spirit), Jinja (Sugar) and Coffee and Tea (Bushenyi).

## 7 SOCIO ECONOMIC SURVEY

### 7.1 Introduction

The enhancement of local government revenues poses a dilemma.

On the one hand, increased revenues are impossible without improved tax administration, a widening of the revenue base and increases in various rates. Such measures are certainly justified in view of the fact that substantial proportions of the Ugandan economy are largely untaxed or undertaxed (for example agriculture and urban property).

On the other hand, poverty in Uganda is still widespread despite recent improvements. The number of poor people remains substantial. To enhance revenues without burdening the poor unduly is therefore a major challenge of local government revenue reform. The socio-economic study seeks to address this challenge by:

- ?? assessing the poverty situation based on available literature
- ?? providing information about the views of taxpayers, including poor taxpayers, about the problems of the present local government tax system based mainly on focus group discussions in two districts
- ?? making various recommendations that seek to address some of these problems

Only the major findings are presented below while the detailed results are presented in 13. This also provides references to the documents consulted and explains how the information about taxpayer views was obtained mainly through focus group discussions with a variety of taxpayers and with council officials in Bushenyi and Mpigi districts.

The small survey is obviously not statistically representative for the country as a whole, but it does provide substantial insights into many relevant tax issues.

### 7.2 The poverty situation

Some 44 percent of the population (9 million people) were estimated to consume less than required to meet the basic necessities of life in 1997<sup>1</sup> – down from 56 percent in 1992. In 1997, some 5 million people (25 percent) could not meet their daily food requirements.<sup>2</sup>

According to the Background to the Budget 2000, average household consumption rose every year during the period - fastest for the bottom 10 percent of the households

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<sup>1</sup> Absolute poverty line in 1995/6 was around Shs. 15-17000/household (in 1993 prices).

<sup>2</sup> Food poverty line in 1995/6 was around Shs. 5000/household less (in 1993 prices).

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(by 29 percent) and a bit slower for the next ten percent (by 23 percent). This was faster than the growth in the national average (17 percent). Overall therefore, consumption and equity increased while poverty fell.

However, the Poverty Status Report of 1999 paints a somewhat different picture: “the poorest twenty percent of the population became poorer between 1993 and 1996 although there were some improvement in 1997.” These figures are based on consumption per adult equivalent information, which “understates the income gains of the richest Ugandans in this period” and this may imply that inequality has increased. Other studies also show a more mixed picture of poverty trends and their variation across districts.

There is, nevertheless, broad agreement that average regional inequality increased significantly. Although poverty fell in all regions, average consumption grew faster in the already better off regions. Thus, absolute poverty declined by 39 percent between 1992 and 1997 in Central region – and also declined fast in Western - compared to only 13 percent in the North and 8 percent in the East. More than half of the population in the East live in absolute poverty compared to 28 percent in the Central region.

Poverty is particularly widespread in rural areas where some 88 percent of the population live. It fell, however, in both rural and urban areas between 1992 and 1997 but much slower in the former (81 percent of 1992 level) than in the latter (58 percent). On the other hand, rural poverty declined more continuously. Urban poverty fell sharply in 1992 and 1994 but has increased since, perhaps (although this is unclear) because of an influx of rural migrants following the prolonged drought of 1992 and because of insecurity.

At the household level, poverty is particularly widespread among female-headed households (their proportion is growing), the old, the disabled,<sup>3</sup> the young and children. There can also be significant inequities in consumption within households with women and children being relatively worse off. There is no ‘hard evidence’ for the latter, although circumstantial evidence exists.

Consumption of key public services (e.g. education, health services and water) is another important dimension of poverty. Significant quantitative progress has occurred in primary education. Enrolment has increased from 2.6 million in 1996 to 6.5 million at present. The abolition of school fees for the first four children of a family introduced in 1997 is a major reason for this upsurge. Obviously, this has put significant strains on the school system. There are, however, significant geographical differences in enrolment, in school infrastructure, and in the quality of education. The more expensive items like uniforms, books and lunch are still to be provided by the household and this is often a considerable burden for the poor, although the abolition of school fees is an obvious pro-poor reduction of their ‘tax’ burden.

Health status varies widely across districts. Access to health services facilities and health personnel by district differ significantly, too. There is a clear indication of

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<sup>3</sup> Some 7 percent of the males aged 20 to 65 declared themselves disabled in a recently conducted government household budget survey.

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some improvement in offering essential services from 1996 to 1997, although many quality issues remain and there is concern about corruption. Many poor complain that medical personnel are discriminating against them. Medical charges pose a serious barrier to the poor in accessing health services.

Water and sanitation access has improved from 1997 to 1998. However, the rural areas are still less provided (52 percent lack access to improved water supply) than urban areas (42 percent).

Given the widespread poverty in Uganda, and the unequal access to key public services, considerations of equity and ability to pay should be central to any attempt to reform the local government tax system. This would also be consistent with the government poverty reduction policies.

### **7.3 The present local government revenue system: taxpayer views**

Widespread evasion of taxes, it is often claimed, shows that there is a lack of a taxpaying culture in Uganda. The survey does not support this view. The problems of tax evasion are more complex.

First, most people do not see a clear link between paying taxes and service improvements. This may reduce tax compliance incentives. Even where specific payments are made for particular services (as in health and water), there is widespread dissatisfaction because the services provided do not meet the expectations of the payers. The survey shows that this problem is particularly serious with respect to user charges in health - partly because of a lack of information (or confusion) about exactly what services such charges actually cover.

Second, the Graduated Personal Tax and user fees for health in particular are regarded as unfair. There is a widespread feeling among interviewees that the assessment for GPT does not reflect the ability to pay. The poor are treated too harshly, while the better off are treated too leniently. Moreover, the assessment does not adequately consider the fluctuations in incomes due to bad weather, disease, death in the family, etc. The user charge for health is seen as particularly detrimental for the poor.

The survey also shows that if taxpayers were to reform the GPT, they would ask for much more detailed and regular assessments than presently practised. Moves towards greater simplicity in assessments and rates would therefore need to be accompanied by information about why it is necessary to simplify tax administration.

Some taxpayers would also like to see a more progressive property tax structure.

Third, many taxpayers complain about the lack of a proper 'tax collecting culture' in the councils. Taxpayers are concerned with what they often regard as the excessive use of force in tax collection and force is more likely to be used against poor than rich tax defaulters. Some view this as partly a result of tax collectors being ignorant and badly trained. Several feel victimised by the tax authorities when they get caught in actions to net tax-defaulters or when they try to query about revenue matters or complain about assessments and the like.

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Fourth, there is a widespread demand for more information about local government taxation in a broad sense. Many taxpayers would particularly like to know (i) the amount of revenues collected at each level; (ii) the size of revenues transferred from upper levels of the council and received at lower levels; (iii) the types of expenditures these funds can legitimately be used for; and (iv) the specific medical services that the health user fee is supposed to cover ('why doesn't it cover drugs' is a frequent question).

There is also a widespread demand for more information about how revenues are actually spent. For many, however, the best indicator of money well spent is not as more information and figures as evidence of physical progress (classrooms build, roads repaired, water pipes fixed, etc).

Fifth, and closely related to the issue of information, are complaints about lack of accountability. Many people interviewed felt that administrators and politicians were not sufficiently accountable for their decisions and work. There was also concern about corrupt practices. Yet, few had ventured to complain for fear of victimisation, or because they felt that nothing would come out of their efforts.

More information about the tax system (as detailed above) was seen as one step to address the lack of accountability. Others proposed that voters should be able to withdraw the mandate of poorly performing politicians.

Finally, there is no evidence of systematic and widespread discrimination of women in the present tax system. According to the interviewees, where men and women are in similar tax situations (as when engaged in income generating activities) they are generally treated the same. In fact, the survey revealed the reverse problem. The GPT assessment for men does not consider widowship, which may result in immediate (although perhaps temporary) loss of household incomes. Nor does it consider that young adult but unemployed males living at home without own incomes are liable to pay GPT.

By and large the results of this socio-economic survey are confirmed by the findings of other studies of the local government tax system. A review of these earlier findings is presented in the Inception Report for this consultancy.

### **7.4 Recommendations**

The recommendations below do not necessarily reflect the views of the taxpayers and officials included in the survey. Obviously these views (such as a demand for much more detailed and frequent assessments for GPT) must be balanced with assessments of what is realistically possible.

1. It is a widespread view in the survey that most of the taxes of local governments are regressive – if not formally then in the way that they are actually implemented. Clearly, progress towards a more equitable local government tax system would be well received by most ordinary taxpayers. The GPT and the user charge for health services are viewed as particularly unfair as shown above. A specific policy on exemptions from paying GPT and health charges is needed to ensure that the poor are not unduly hit by measures to enhance revenues. In fact, implementable exemption mechanisms are a pre-condition for being able to enhance revenues in an equitable

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manner. The household budget survey results give an indication of household incomes below which members of a household should not be liable to GPT. Raising the threshold level would also ease the very real problems encountered by taxpayers hit by fluctuating incomes due to factors beyond their control. LGFC should develop explicit exemption guidelines (to be implemented on pilot basis at first), and should monitor their implementation.

2. Apart from specific measures to improve the equity of the tax system, more information about how it actually works should be brought into the public debate and into the decision-making arena. The LGFC should therefore take a more forceful role in monitoring the equity implications of the local government system and in making such information known to the public. An important reason for the regressiveness seems to be that social relations between the better off and the councils influence the implementation of tax policy. This situation is not at all unique to Uganda, and cannot be done away with. But it could be more forcefully addressed if the very wide differences among districts in collecting GPT (for example) were publicly known and debated. LGFC should also monitor the number of GPT and health user charge exemptions based on regular reporting by the councils with a view to encourage public debate and to help councils to develop exemption systems over time. This may have positive effects similar to those that the central government's publication of transfer of grants to local authorities already seems to have.

3. Taxpayers complain about the lack of an acceptable tax collection culture in many local government administrations (as the latter often complain about the lack of a taxpaying culture among citizens). In any case, the relations between taxpayers and tax collectors is often strained and characterised by coercion and conflicts. While taxpayer behaviour is difficult to influence in the short run, the behaviour of tax collectors should be easier for councils to change. Training programmes developed by LGFC and also aimed at front-line tax collectors should be started – beginning in districts where relations are especially strained. Complaints mechanisms (which, in as far as they are used at all, generally have very little credibility) should also be strengthened. The interface between taxpayer and taxcollector is perhaps the most neglected aspect of the many problems of tax administration.

4. Taxpayers also consistently complain about the lack of information and this may be an important reason for the widespread view that neither politicians nor administrators are particularly accountable for the collection and use of revenues. A council based strategy for more systematic dissemination of such information should be developed. The emphasis should shift from exclusive focus on taxpayer obligations ('pay your taxes') towards an equal emphasis on taxpayer rights to information (as listed above), including the right to complain and to be heard. Moreover, councils that actually do improve service delivery would do well to try to inform about this. Non-performing councils would, of course, have a (deserved) problem.

5. There is a need to revise rate structures with a view to make them more consistent with the government's poverty reduction policies. Some rates are uniform regardless of the ability to pay (certain property rates). Other rates have remained unchanged for years (market dues in many cities). LGFC should advise regularly on rate revisions, especially those that are politically difficult for local politicians to raise.

## 8 LEGISLATIVE ISSUES

This chapter is split into two sections covering:

- ?? A general review of the sections of the Local Government Act and the Rating Decree relevant to local revenues
- ?? A review of the legal recourse available for the collection of local authority revenues

### 8.1 Review of the Local Government Act and the Rating Decree

#### 8.1.1 Local Governments Act 1997

The 1997 Act replaced the Local Government (Resistance Councils) Statute of 1993 and gave full power of tax setting and collections to the local councils within the parameters of section 81 and the Fifth Schedule.

Issues arising from the Fifth Schedule are as follows:

Section	Description	Comment
2 (10)	No person shall pay more than the maximum GPT determined by the Government for that year.	This does not prevent the government determining a maximum amount being the PAYE entry point at the % rate in the revised GPT tables. This allows for our recommendation.
2 (11)	A taxpayer is liable to pay additional graduated tax on income in the council area up to a total in this council and elsewhere.	This is not generally enforced at present but will be increasingly important with a higher top tax band.
3	The scales of graduated tax shall be determined by the Local Governments in accordance with the advice of the LGFC	Council ability to fix rates within LGFC guidelines
4 (1)	CAO can exempt people from payment on grounds of old age, infirmity or other good cause on the recommendation of the Parish Council.	No legal change urgently required but need for guidelines. It would be better if the CAO's decision was confirmed by the District/Municipal Council to ensure transparency and even-handedness throughout the district.
11 (1)	A district or urban council <u>shall</u> impose rates on properties within the scope of the Rating Decree  It <u>may</u> also impose rates on properties outside the scope of the Decree	As the Rating decree covers all properties it appears that all properties must be rated.

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Section	Description	Comment
11 (4) b	Council can recover by sale of goods and chattels through warrant of distress	Effective threat to motivate compliance if used regularly.
13	A list of other sources	This covers all the normal sources and allows others to be collected as approved by the Minister.

The above review indicates that no changes are required to the Act to implement the reforms envisaged for GPT and Property Tax

8.1.2 Local Government (Rating) Decree 1979

This decree replaced the previous Act and the paragraphs relevant to revenue enhancement are as follows

Section	Description	Comment
2 (1)	Every local authority shall levy such rates as it may determine on land and buildings	Rates are fixed by councils without recourse to Ministry Includes land Covers all councils. Possible contradiction with LG Act
3	Valuation at least every five years	Assumes current valuation system
4	Owner of property is liable	
5	Council can remit rate with ministerial approval	Ministry should only provide guidelines.
7 (1)	Chief Government Valuer is responsible for all local authorities	
7(2)	CGV can appoint a registered surveyor, with ministerial approval to carry out valuation instead.	This allows others to be appointed though process maybe cumbersome.
12 (2)	Draft valuation is available for inspection	
13	Appeal is to valuation court appointed by local authority, chaired by a Chief Magistrate.	
14	Can appeal to High Court	Rights of appeal are appropriate but can delay significantly time before councils can start collecting rates on a particular property.

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The Ministry of Local Government appointed a technical committee to review the appropriateness of the Rating Decree and its recommendations were submitted in May 2000. These may be summarised as follows:

Section	Description	Comment
2	Amount payable not to exceed 15% (at present 20%) and minimum increased to 2,000/=	Agreed
3	Ability to be included to allow provisional rates to be levied	Agreed but a time limit (12 months perhaps) should be included to stop councils from working on provisional values indefinitely.
4	Diplomats should be included in exemptions	Agreed
5	Councils should have the ability to remit payments of rates	Agreed
7	Local Governments should appoint valuers	Agreed subject to CGV producing a list of authorised valuers, and guidelines for their appointment. LGs can appoint other valuers at present with CGV and minister's approval, though cumbersome process.
10	New statutory order to be issued to increase the percentage deduction for the calculation of net annual values to 25% from 16.67%	Agreed
20	Councils to be able to collect property rates while valuation under appeal	Agreed subject to a limit being fixed. Perhaps lower of 75% of council valuation and 100% of property owner valuation.
24	Notice of rate to be displayed in prominent public place as well as newspaper and gazette	Agreed
27	Recovery of rate payments by warrant should be after 60 days, not 14.	Agreed, harmonises with LG Act
28	Recovery by action should be after 3 years not 6 as at present	Agreed
36	Minister should prescribe rules to operationalise the decree as required.	Agreed, this has apparently not yet been done.

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Section	Description	Comment
38	Vacant sites to be excluded	Not agreed. The owner has the use of the site, and may be depriving others of the opportunity to develop it.

The recommendations of the technical committee are, as can be seen, generally agreed and in line with the thinking of the LGFC.

Action Area 4 of the action programme, however, defines the need to establish a simplified rating or property tax system. This may however require further legislative changes. The recommendations of the technical committee should therefore not be implemented until this review is complete and amended accordingly.

The delayed implementation of the recommendations of the technical committee, while important, will not significantly effect the abilities of the local authorities to start to improve the exploitation of this resource. It is important however that the MoLG and the councils co-ordinate with the Chief Government Valuer to ensure that requests for valuation are promptly processed either by the latter or through speedy approval of an outside valuer.

The decree moreover does not disbar the taxing of non-urban properties, or land.

**8.2 Review of legislation in respect of legal recourse in debt collection**

To be presented at the workshop

## 9 APPENDICES

### Volume 1 – Main Report

1. Draft action programme
2. People interviewed - *To be Inserted*
3. Sources- *To be Inserted*
4. Terms of Reference- *To be Inserted*

### Volume 2 – Field Visit Reports- *To be Inserted*

5. Kibaale
6. Mpigi
7. Jinja
8. Nakasongola
9. Soroti
10. Bushenyi
11. Gulu
12. Moroto
13. Socio-economic

5.