ADEQUACY OF TAX REVENUE AND THE NATIONAL BUDGET DEFICIT IN UGANDA BEFORE AND AFTER THE TAX REFORMS (1980-2008).

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ABSTRACT

Like any other countries in Sub-Saharan Africa, Uganda's tax performance is still poor. Inadequacy of tax revenue is evidenced by the existence of national budget deficit. Every year the realised total tax revenue falls short of the budgeted total tax revenue. The budget deficit annually increases by a bigger percentage than the increment in realised total tax revenue. In spite of the tax reforms launched by the government, budget deficit persistently increases. The study aimed at finding out the cause of the inadequate tax revenue in Uganda that is not enough to service government expenditure so as to reduce the budget deficit before and after the tax reforms.

To achieve the main objective, buoyancy, elasticity and tax effort indexes of the tax system were estimated. Ordinary least square (OLS) method was used on time series data to estimate those economic magnitudes. Data were got from Ministry of Finance, Planning and Economic Development; Bank of Uganda; Uganda Bureau of Statistics (UBOS) and Uganda Revenue Authority (URA). Economic models for estimating buoyancy and elasticity were established. Elasticity with respect to the national income of individual taxes was decomposed into tax-to-base elasticity and base-to-national income elasticity. Models to estimate that decomposed elasticity were specified as shown in chapter 5, equations 5 & 6.

It was found out that total tax revenue has negative relationship with the budget deficit (Table 6.8). After the tax reforms, buoyancy increased with the exception of that of import duties (Table 6.13). Total tax revenue was inelastic before the tax reforms (1980-1990) and for the whole period (1980-2008).But after the tax reforms (1991-2008), total tax revenue was elastic with respect to GDP (Tables 6.14). In the same period income tax and VAT were elastic with respect to GDP (Tables 6.14) but the base of VAT was still inadequate as evidenced by tax-to-base elasticity and base-to-GDP inelasticity (Tables 6.15 & 6.16). Import tax was inelastic to its base whereas the base was elastic with respect to national income (Tables 6.15&6.16). Tax effort was generally less than one before the tax reforms and the combined periods (Tables 6.12 & 6.23). Tax reforms brought about positive changes in tax effort (Table 6.17).

The study concluded that the country has inelastic tax system and that total revenue cannot increase automatically as national income grows. The tax effort was less than one for the whole period (1980-2008) and therefore a country has a high tax potential and can increase tax revenue generation by redesigning the tax system. The base for VAT needs broadening and measures to tap import tax should be increased by fighting corruption, tax evasion and smuggling. Positive changes that were brought about by tax reforms should be cherished and more should be done to increase tax revenue generation such as increasing the base of VAT and improving the collection methods of import duties. Tax reforms brought about positive changes in buoyancy with the exception of import duties but still more discretionary changes are needed to achieve tax effort which is one or more. Finally the study concluded that tax revenue generation is insufficient and thus national budget deficit persistently increases every year. It was recommended that the government should make ventures to increase tax revenue such that the realised tax revenue is nearer to the budgeted tax revenue but at the same time it should check on its spending culture.