BASIC INSIGHTS ON TAXATION

TRAINING MODULE ONE

2012

SEATINI Strengthening Africa in World Trade
DGAP DEMOCRATIC GOVERNANCE & ACCOUNTABILITY PROGRAMME
MAKE TAX FAIR
tax justice network - Africa
Oxfam

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Abbreviations and Acronyms

AU	African Union
CIT	Corporate Income Tax
CRAFT	Capacity for Research and Advocacy for Fair Taxation
CSOs	Civil Society Organizations
DRM	Domestic Resource Mobilization
EA	East Africa
EAC	East African Community
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
GoSL	Government of Sierra Leone
HTC	Harmful Tax Competition
IFI	International Financial Institutions
IMF	International Monetary Fund
LTU	Large Taxpayer Units
MLAT	Mutual Legal Assistance Treaties
MNCs	Multinational Corporations
MFPED	Ministry of Finance Planning and Economic Development
MDGs	Millennium Development Goals
MPs	Members of Parliament
NEMA	National Environment Management Authority
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
SAPs	Structural Adjustment Programs
SEATINI	Southern & Eastern African Trade, Information and Negotiations Institute
SEZs	Special Economic Zones
TIs	Tax incentives
TIEAs	Tax Information Exchange Agreements
TJN-A	Tax Justice Network-Africa
TRG	Titanium Resources Group
TWN-A	Third World Network-Africa
UN	United Nations
UNCSD	United Nations Commission on Sustainable Development
UNECA	United Nations Economic Commission for Africa (same as ECA above)
URA	Uganda Revenue Authority
VAT	Value Added Tax
WB	World Bank

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Introduction and Background

Government programs or policies can only succeed if there are sufficient funds to implement or enforce them. Without taxes and other revenue flowing into the treasury, a government cannot commit itself to fund development and social programs, particularly those aimed at reducing poverty and inequality in society. While in most developed countries public expenditure is funded primarily by taxes and fees levied by government, in the less developed economies, the budget expenditure is largely complemented by grants from foreign donors or loans from international financial institutions.

It has been observed that usually during the budget making process, politicians are tempted to inflate the projected revenue figures so that the budget appears to meet a wide range of expenditure demands and at the same time be seen as being fiscally responsible. However in instances where the actual revenue falls short of the projected revenue, the government is then forced to cut its expenditure and usually investments in social programs like health, education and social welfare tend to suffer heavy budget cuts. Governments tend to allocate the scarce resources to what they consider to be critical commitments such as national defense, debt service payments, civil service salaries, or pensions.

Public expenditures targeting the poor are often the easiest to sacrifice. This category of people tend to be unorganized and politically weak and they lack the voice to challenge the actions and decisions of their politically powerful leaders. Since most civil society groups play an oversight role over government and are involved in service delivery, especially health, education, and work closely with the poor, it is imperative that they play a vital role in defending these programs by engaging with tax issues and advocating for adequate government revenue. In their work, civil society groups should endeavor to understand how the tax system works so as to engage in debates on taxation and other sources of revenue needed to fund crucial public services such as health, education, and welfare programs. In circumstances where civil society groups advocate for new expenditure policies that require substantial government funding, they should also strengthen their case by proposing to the government specific taxes or other revenue sources to pay for them. Having vigorous, open debate on tax policies will facilitate the development of a country's "fiscal social contract," whereby citizens will be encouraged to pay taxes because they are confident that the tax system is fair and is raising revenue for valued programs and services (Moore and Schneider, 2004).

Taxation is a subject that is broadly regarded as a domain of experts and is poorly understood in Africa due to lack of information among the elected leaders, citizens, civil society organizations, the media, and even the business community or the corporate sector. Additionally, taxation is grossly underutilized and underrated as a tool to establish capable and responsive States that can facilitate the development of representative democracy in Africa. In a context of global financial crisis, this lack of information and understanding constitutes a major impediment to greater tax revenue mobilization by African States so as to finance their development agenda and also having effective advocacy for sound tax systems that are crucial to building representative democracy, good governance and accountability in Africa.

The Capacity for Research and Advocacy for Fair Taxation (CRAFT) project was developed through a collaboration between Oxfam Novib and Tax Justice Network-Africa (TJN-A). The project is mobilizing civil societies in five countries in Africa (Nigeria, Uganda, Mali, Senegal and Egypt) on tax justice, with a view to achieve accountable, fair and pro-poor tax systems. The overall objective of the CRAFT project is to contribute to more democratic, accountable and responsive States by collecting more taxes that are due and using the tax revenues in a more transparent, accountable and redistributive manner.

According to work done by the TJN it has been proven that by building public awareness and having increased knowledge, taxpayers will be motivated to pay their taxes and mobilize public pressure for tax justice. Informed citizens will have an opportunity to hold the government accountable on the quality of public goods and services provided to them and hence increase citizen representation in decision-making processes as well as influencing tax and spending policies in Uganda. Consequently citizens will effectively contribute to the building of a democratic political system and promote better governance by advancing an agenda for change.

The CRAFT Training Module 1 on Basic Insights on Taxation is the first of three modules aimed at enhancing the technical skills and advocacy capacity of participants from targeted Civil Society Organizations (CSOs). It is intended to equip the participants with the relevant information about the concept of taxation and how it works in Africa, with reference to Uganda.

As a watchdog over government programs and policies, CSOs have got a critical role to play in terms of improving the integrity and transparency of budgets and overseeing how the government raises its revenue and how it is spent. As a result of their work CSOs will prevent the uncontrolled outflow of resources and widespread tax evasion, corruption and reinforce the implementation of pro-poor development policies. This will then decrease inequalities, and ultimately create more domestic budget space for progress towards the Millennium Development Goals (MDGs).

The participants will also be equipped with relevant knowledge required to engage in tax policy processes and enhance their capacity to participate in negotiating tariffs, tax justice and also strengthen the relationship between the governments and its citizens. The series of trainings will help to build the internal capacity of CSOs working on taxation and other interested stakeholders in order to have a critical mass of activists advocating for tax justice.

Objectives of the Module

By the end of this module participants will be able to:

I. Explain the general principles of taxation, tax policy and structure of tax systems in their countries

II. Explain the relevance of taxation to development

III. Define democracy, citizenship, good governance and relate them to taxation

IV. Explain the tax burden and the use of taxation as a redistributive tool

V. Analyze the causes of tax injustices and identify mechanisms of how to overcome them so as to have just tax policies

Structure and Duration of the Training

The training will be structured in seven sessions, covering a range of topics and it is planned to last for five (5) days.
The Topics Covered in this Module include:

i. Taxation and its Relevance to Development
ii. Taxation Policy and Tax Mechanisms
iii. Tax Policy Formulation and Implementation
iv. Democracy, Taxation and Citizen Participation
v. Promoting Tax Compliance through Citizenship, Representation and Good Governance
vi. Tax Justice and Resource Mobilisation
vii. Sources of Tax Injustice in Africa
viii. Addressing Tax Injustice in Developing Countries

Training Methods

The facilitators will use different methods that enable adult learning and these will include:

I. Lectures
II. Brainstorming
III. Group discussion
IV. Case studies
V. Question and answer
VI. Plenary discussions

Training Materials

i. Black board/Flip chart
ii. Chalk and markers
iii. Masking tape
iv. Handouts (Notes and Case Studies)
v. Projector (where possible)

Session 1: Taxation and its Relevance to Development

This session is aimed at introducing the principles of taxation and give explanations and definitions of key tax terms to enable the participants have a basic understanding of the subject matter. The session will enable the participants to understand the relevance of taxation to their economies and why they should comply with paying their taxes to the State.

Objectives

At the end of the session participants should be able to:

I. Define the concept of taxation and how it relates to State development
II. Analyze the role of taxation in developing economies
III. Explain the different types of taxes
IV. Define key terms used in taxation

Duration 120 minutes

Activity: Brainstorming, Question and Answer

Step by Step Process

i. Welcome the participants and break the ice with a simple story or joke to bond with the participants.
ii. Through brainstorming the facilitator should prompt the participants to discuss taxation by probing their understanding of the subject and how they think it relates to development.
iii. Encourage participation and ensure that all participants have something to say and have the answers recorded on a flip chart.
iv. Enrich the discussion by adding value to the answers given.
v. Conclude the session by asking the participants what they have learnt from the session.

Questions for Discussion/Brainstorming

i. What is taxation?
ii. What is the importance of taxation?
iii. What are the different types of taxes you know?
iv. Is it necessary for poor people to pay taxes?

Proposed Questions to Evaluate Participants' Learning

i. Based on the introduction you have been given, what do you understand by taxation?
ii. Why should the citizens of a country pay taxes?
iii. Should poor people be taxed, if so, why?
iv. What role do taxes play in developing a nation?
v. What is the difference between direct taxes and indirect taxes?

Facilitator's Notes

What is a Tax?

A tax can be defined as 'an involuntary payment' to the government by identified persons who are earning taxable incomes, spending money or residing in a particular jurisdiction levying the tax for the common good of the citizenry. It is not only relatively permanent but also a compulsory levy on privately held assets, work, transactions and other activities and capital flows as designated by the parliament and enacted by the government. For most developing countries, development aid, together with taxes provide the resources required for public expenditure, which could either take the form of financial transfers or public services. Transfers can immediately benefit the poor by increasing their disposable incomes while public services increase the welfare of the poor by improving their living conditions. Adequate public services in key sectors such as health and education enable populations to live in decent conditions that provide a good environment for economic growth and equitable development. Taxation however does not guarantee a direct relationship between the amount contributed by a citizen and the extent of government services provided to him or her. Taxation can also have the potential to perpetuate injustices in society or be used by politicians to persecute their political opponents.

Case Study 1: Tax and Human Rights

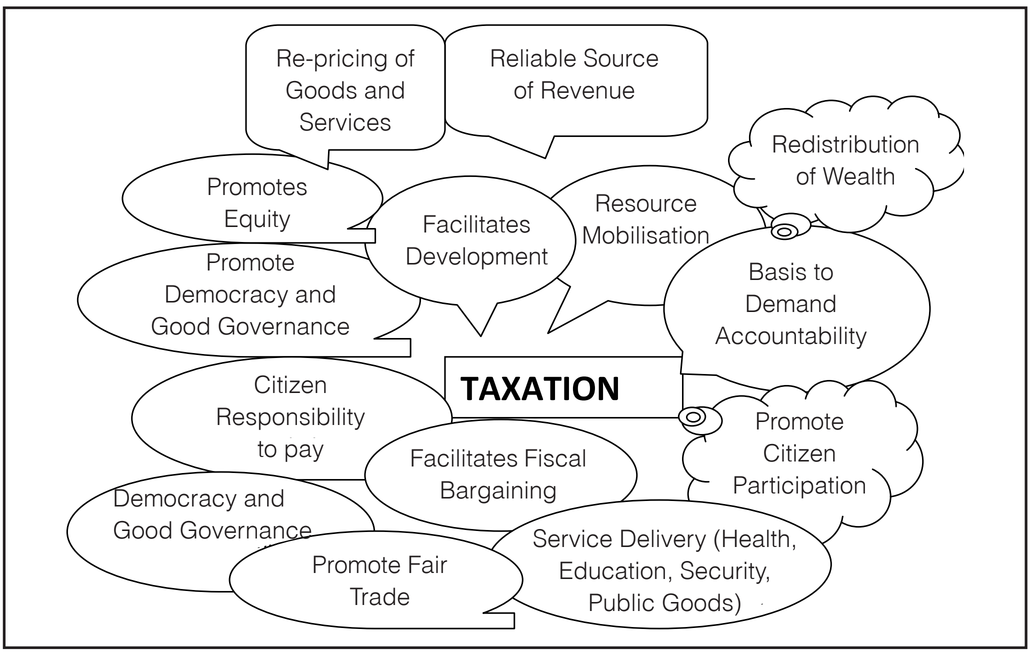
Every government in the world has certain responsibilities regarding its citizens. The human rights legal framework spells out those responsibilities. However, human rights encompass not just social and political rights, but also economic rights. The minimum requirements for the fulfillment of economic and social rights include the provision of available foodstuffs for the population, essential primary healthcare, basic shelter and housing, and the most basic forms of education.

Groups working on human rights should be concerned about how rights are realised through the budget, and how they are violated when states are unable to meet their obligations through weak or unfair taxation. In 1986 the United Nations made explicit the link between this right and the resources required to fund it. More recently the millennium development goals (MDGs) are an attempt to create a practical benchmark for states to work towards implementing human rights.

MDG campaigners often focus on pushing countries to fulfill their aid pledges, aimed at meeting the MDGs. While this is important, there is an increasing recognition that the progressive realisation of rights, in the long term, requires domestic resource mobilisation through tax. Indeed, a recent analysis by the Tax Justice Network showed a strong relationship between African countries with high levels of tax collection and those making progress with regard to the MDGs.

Are resources being mobilised to ensure that governments fulfill their responsibilities towards the progressive realisation of rights? If not, a government may be failing in its human rights obligations and may be held to account for doing so.

Taxation and its Relevance to Development



The importance of Taxation

Taxation enables the State to raise revenue so as meet the basic needs of its citizens, redistribute wealth and be able to fulfill its development objectives of maintaining the public service, providing essential services and building the country's infrastructure. Effective tax structures also help governments to improve their governance by strengthening the channels of political representations and reduce the levels of corruption. The reasons generally advanced as to why citizens must pay taxes are:

1. Taxation helps the Government to raise revenues equitably

Taxes are a very important source of government revenue that enables them to fund essential services and infrastructure for their citizens. A good tax system should raise revenues from all sources and treat taxpayers in the same situation equally. Both local and multinational enterprises and all sources of income should be taxed equally and according to similar rates in order to create a level playing field. A broad based tax system uses a variety of different types of taxes, including income taxes, capital gains, property taxes, sales taxes, royalties from extractive industries, and taxes on financial transactions. Most governments prefer using tax revenue, rather than aid or loans to meet the education and health needs of their citizens and also fund all the other services that rely on government support and funding because this type of money that is domestically mobilized is relatively secure and more predictable.

2. Taxation helps to redistribute income and wealth to address poverty and inequality

Taxation can be used as a means of redistributing income within an economy in order to reduce poverty and address inequalities in society. By redistributing wealth and income and ensuring the reallocation of resources among the population, the government is able to play a major role of sustaining good State-Society relations by promoting accountability and good governance. In most developing countries, like Uganda the poor tend to depend more on key services provided by the government such as publicly funded health and education. A good tax policy should therefore have the potential to redistribute a country's riches from the wealthy towards the poorest and most vulnerable, for example women, children, persons with disabilities and the elderly. Such form of taxation is known as 'progressive' and equitable taxation.

3. Taxation enables the re-pricing of goods and services in line with social values

Taxation can be used to discourage activities or the consumption of goods and services that may be deemed socially undesirable. Goods like cigarettes and alcohol are often taxed heavily because of their dangerous effect on people's health and disruption to family and community life. In other cases, the government may decide to remove taxes on certain goods or services because of their cultural values, associated health benefits, or their social impact and benefits. The production and consumption of such desirable goods, basic foodstuffs and services, like public transport, could for example, be encouraged by exempting them from Value Added Tax

(VAT), or by creating a tax credit scheme that encourages socially beneficial investments such as companies subsidizing their workers' access to health care, or engaging in public transportation or protection of the environment. Environmental taxes are an example of how taxes can be used to put a price on activities that are considered harmful for society as a whole, such as imposing a heavy duty on petrol and second hand fridges. In other circumstances, a manufacturing plant may emit pollutants that have high environmental and health costs, but yet have little or no monetary cost on the manufacturer. In such a case, a government can levy a tax on the manufacturer to reflect the cost borne by society as an effect of the pollution. It is believed that such taxes enhance economic efficiency by inducing businesses and individuals to take into account the social costs of their decisions.

4. Taxation facilitates the representation of taxpayers as citizens

Taxation is a fundamental element of State- building and democracy. When a government fails to raise sufficient funding, the citizens' rights to enjoy certain basic requirements like housing, security, health care and education are often compromised. Through taxation, citizens entrust the government with a share of their incomes and in return expect efficient delivery of services. Usually when people are sensitized about the tax injustice they are likely to come together to demand for an explanation or resist the levying of oppressive taxes by the government. For example in 2011, some politicians staged demonstrations in Kampala to challenge the increased taxation on fuel that resulted into high transport costs and the hiking of prices of basic food items. In many countries, when governments have introduced or increased taxes without simultaneously increasing or improving service delivery, citizens have demanded for their rights and subsequently forced democratic reforms. Often, unjust tax systems cause tax resistance and non-compliance or help create interest groups that advocate for equitable tax systems.

5. Balancing of Trade

Taxation can also be a tool to achieve trade policy objectives, such as nurturing and protecting the State economy in general and specific sectors in particular from premature exposure to foreign competitors. Import tariffs and export taxes are some of the taxes that may be used for such purposes and developed countries have often used tariff peaks and tariff escalation on top of export and import taxes to protect their economies.

Basic Terms used in Taxation

Domestic Resource Mobilisation

Domestic resource mobilisation refers to having savings and investments generated by both the public sector, primarily through taxation and the private sector, as a channel for private savings by households and domestic firms. Domestic resource mobilisation ensures the State of having predictable and sustainable financing on one hand and a reduction in long-term dependence on aid on the other. Taxation is a more reliable source of government funding than international aid. Having available tax revenues allows a State to finance itself without resorting to printing money or promoting foreign indebtedness, which results in inability to respond to the needs of the citizens. When a State has sufficient domestic revenue, it holds the key to economic stability and is able to invest in infrastructure, put in place proactive social policies, and accumulates on its domestic savings. These savings can then be used to build the resilience of the most vulnerable sections of the population in times of recession.

What is Fiscal Policy?

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economic performance so as to stabilize the economy. The two main instruments of fiscal policy are government expenditures and taxes. Fiscal policy measures specifically manipulate the levels and allocations of taxes and government expenditures and affect tax rates, interest rates and government spending, in an effort to control the economy. For example, governments can influence macroeconomics productivity levels by either increasing or decreasing tax levels, public spending with an aim of curbing inflation, which is generally considered to be healthy when it is at a level between 2-3%, increase employment and consequently maintain a healthy value of money.

What is Tax Revenue?

Tax revenue is income obtained by the government from tax sources. These are drawn from individual and corporate persons, both residents and non-residents. Every government lays down specific criteria for persons and activities subject to the various existing tax systems. There are two types of taxes: direct and indirect taxes.

1. DIRECT TAXES

Direct taxes are levied on the financial incomes, property or wealth of persons or companies. This tax is borne entirely by the entity that pays it and cannot be passed onto another entity. Examples of direct taxes include the following:

Income Taxes

The personal income tax is imposed on income that is earned through work, as "payroll taxes" or "social security taxes or it is charged on income from investments. Most income taxes levied on businesses are imposed on their profits. In such a case the tax only applies to the income, after deducting all expenses from the money that was received. Governments can structure income taxes to ensure that they impose a larger tax burden on the people or businesses that are well-off and relieve the strain on the poor. For instance, income taxes often have a graduated rate structure, meaning that higher tax rates are imposed on higher levels of income and in most cases people or businesses with incomes below a certain level are excluded from taxation.

Wealth Taxes

Wealth taxes are normally levied on individuals' "net worth," which is their assets (such as investments, house, and other property) minus their liabilities (such as a mortgage or other debt). Wealth taxes are considered to be direct taxes. In some countries, wealth taxation takes the form of a "transfer tax," which is a tax on wealth when it is transferred from one person to another, for example gift taxes and inheritance taxes. Taxes on property such as land are also wealth taxes and are a common source of revenue for local governments. Much as wealth taxes are generally viewed as targeting those who are economically better-off, in some cases these tax can be shifted to those who have lower incomes. For instance, a landowner could shift the burden of a property tax on to his or her tenants by increasing their rent by the amount of the tax.

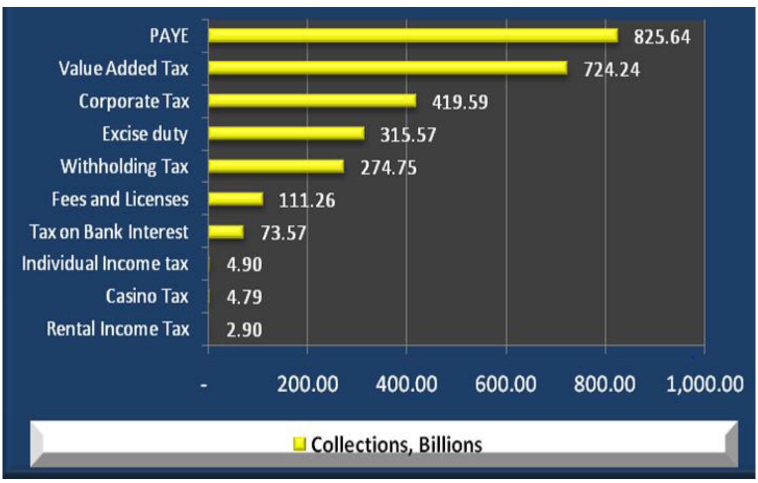
2. INDIRECT TAXES

This is a tax levied by the State on consumption, expenditure, privilege, or one's right but not on income or property. Customs duties levied on imports, excise duties on production, sales tax or value added tax at some stage in the production or distribution process are examples of indirect taxes. Consumption taxes are generally levied on goods and services when they are sold and the consumers bear the burden of the taxes. These taxes are referred to as "indirect" taxes because the consumers pay the tax indirectly through businesses, which are responsible for collecting the tax when a transaction occurs, and they remit the receipts to the government.

Consumption taxes usually impose a heavy burden on the poor since the poor spend a larger share of their income on consumer goods and services, than those who are better off and are able to save part of their income. Any funds that are saved and not consumed are not subject to a consumption tax. As a result, consumption taxes are levied on a smaller share of the income of well-off households than low-income households. The VAT is imposed at every step of the production process, while the sales tax is imposed only when the consumer buys the finished product. By collecting taxes at multiple stages of the production process, the VAT makes it harder for some people to avoid paying their taxes. Since they are less obvious than income tax which is reflected on the earner's payroll slip. Governments are often tempted to increase indirect taxes so as to generate more tax revenue. Indirect taxes are regressive measures because they are not based on the ability to pay principle.

Revenue Obtained from Domestic Taxes in Uganda, 2010/11

What is Tax Expenditure?



Source: Uganda Revenue Authority

'Tax expenditure' refers to the exemptions, credits, deductions, deferrals and refunds that some taxpayers can benefit from at a cost to the State. Tax expenditure or at times referred to as tax preferences reduce or eliminate taxation of selected goods or activities in order to make them more attractive or to alleviate burdens on particular groups of taxpayers. Tax preferences can be used to encourage companies to invest in a particular geographic region or sector of the economy or in worker training or high-technology equipment. In general, tax expenditure is the result of any kind of preferential and differential treatment that deviates from the basic tax system and benefits a specific sector, branch, region or group of taxpayers. They can also be used to promote social goals, for instance to encourage higher education or saving for retirement. Developing countries however lose a lot of money through tax expenditure, which benefits certain sectors and groups of taxpayers that have got the ability to pay, and yet it cuts the overall amount of public revenue.

Session 2: Taxation Policy and Tax Mechanisms

This session is aimed at enabling the participants to get a deeper understanding of how taxation works, with a specific case study of the Uganda Revenue Authority (URA). The tax bodies in most African countries have got a lot of similarities and thus URA will be used to help the participants appreciate the relevance of taxation to an economy and how effective tax policies can be developed and implemented in order to make an economy more self reliant and less dependent on international aid. Participants will also discuss the different tax systems or mechanisms and how they impact on people's welfare, specifically looking at the concepts of progressive and regressive taxation. The key players in tax policy formulation and implementation will be identified and emphasis will be put on the need for active involvement of civil society in tax negotiations.

Objectives

At the end of the session, participants should be able to:

I. Define tax policy and tax revenue and explain its relevance to a country's development

II. Analyze the existing taxation mechanisms and discuss progressive and regressive taxation.

III. Identify the key players involved in tax policy discussions and the reasons as to why others are excluded

Duration: 120 minutes

Activity: Group Discussion of Case Study; Question and Answer and Lecture

Step by Step Process

i. The facilitator should introduce this session, drawing from the participants' learning from the previous one and introduce the session with a definition of tax policy.

ii. Introduce the case study and break up the participants into groups.

iii. Give the participants specific questions to guide their group discussion.

iv. Answers should be written on cards, that the participants will display appropriately as guided by the facilitator.

v. Enrich the discussion by emphasizing areas of importance

vi. Conclude the session by identifying the key learning points

Proposed Questions to Evaluate Participants' Learning

i. What do you understand by tax policy and why is it important?

ii. How do you rate a good tax system?

iii. What is the difference between progressive and regressive taxes?

iv. What is the relationship between gender and taxation?

v. Why are the various developing countries finding it difficult to have tax policies that meet their development aspirations?

vi. How can you describe a tax gap and how does it affect an economy?

Case Study 2: Uganda's Tax Revenue Status

Over the last 10 years Uganda has recorded an average economic growth rate of 7.4%. There has also been a growth in revenue collections reported by the Uganda Revenue Authority (URA) which was 19.7% in the 2010/2011 financial year. However, the trend is still low and there is a very low Tax:GDP ratio that has stagnated at 12.41%, the lowest in the East African region. There is evidence of wide spread inequality among the citizens and a very narrow tax base. Uganda has substantial donor budget support an implication that the government is not collecting enough resources to meet its domestic needs.

Each year, Uganda's Ministry of Finance Planning and Economic Development sets the target for URA tax collection, based on several assumptions that include inflation and foreign exchange rates, factors that are quite volatile and therefore affecting the tax revenue collection.

Uganda has a large informal sector (43.1%) and a low absorption capacity of the working age population in the formal sector. Much as the informal sector is big, it is only those in formal employment who largely contribute to tax thus putting the tax burden on a few. Direct taxes have kept Pay As You Earn (PAYE) as the main contributor to the tax revenue, with an average share level of 51.32%. Worse still the country has a poor culture of paying taxes especially in the informal sector, partly due to the fact that citizens do not seem to see how revenue collected through their taxes paid is spent by the government.

About 14% of the economy is non-monetized with the agricultural sector contributing 23% to the economy. In Uganda although the Agriculture sector is the backbone of the economy, with some people earning a substantial income from their produce, most farmers are presumed to be operating on a small scale and the politics around taxing agriculture produce has resulted in a meager tax contribution of about 0.15% from the sector.

The VAT Act virtually keeps Agriculture and construction sectors out of the VAT net which results in the Uganda Revenue Authority (URA) not collecting taxes from a very large sector of income earners. The Income Tax Act also exempts taxation of income derived from agriculture produce, which has inhibited URA's efforts to expand the tax base in this direction and thus denying government tax revenue from the agriculture sector. Even key players in the agricultural industry like the food processors are also exempted from taxation for long periods and yet some are large scale foreign investors who import agriculture inputs and other machinery tax-free.

As a result of such exemptions, this has denied URA the opportunity to collect 4.83% points of the tax to GDP, which could have raised the tax: GDP ratio to about 16%.

In other sectors, tax incentives and exemptions have also been used widely to spur growth in industrial, tourism and hospitality sectors. Very often foreign investors get tax exemption as an incentive to invest in Uganda. Estimated revenue foregone as a result of incentives and exemptions has since grown from UGX 481.98 Billion in 2005/06 to UGX 1,231.60 Billion in 2009/10. This has denied URA to collect 5.9% points of the Tax to GDP.

By joining the East African Community (EAC), there have been various tax reforms under the common market protocol applied to all the five Partner States: Burundi, Kenya, Rwanda, Tanzania and Uganda. The objective of establishing a Common Market is the realisation of accelerated economic growth and development through the attainment of the free movement of goods, persons, labour, the rights of establishment and residence, the free movement of services and capital. This will result in less tax from the common market countries and a shift from higher dependence on international trade taxes to domestic tax revenues.

Internally, URA is faced with various administrative challenges that range from inadequate funding from government, inadequate staffing, inefficient and ineffective systems and processes, and all this is compounded with massive corruption and lack of integrity. This State of affairs has had great impact on the core functions of revenue authorities which are ensuring taxpayer registration, monitoring tax filing and taxpayer auditing.

Source: Information from the Internet

Questions for Group Discussion

i. How has the tax policy affected Uganda's economy?

ii. What kind of policy measures should the government of Uganda initiate in order to broaden its tax base?

iii. Who are the key players in Uganda's tax administration?

iv. Imagine you are a policy maker in Uganda, what kind of taxation mechanisms would you apply?

v. What are some of the challenges facing the tax authority in Uganda and how can they be overcome in order to increase domestic resource mobilisation?

vi. What do you think is the role of CSOs in taxation matters in Uganda?

Guide to Responses for Group Discussion

i. How has the tax policy affected Uganda's economy?
- There are too many tax exemptions in agriculture and construction sectors that affect the tax base
- The informal sector is huge and yet it is largely untaxed
- There is a big non-monetised economy

- There is corruption and inefficiencies in the tax administration

ii. What kind of policy measures should the government of Uganda initiate in order to broaden its tax base?
    - Review the exemption process and select the sectors that are contributing largely to the GDP, and yet they are not being taxed
    - Review the non-monetized economy
    - Identify the sources of tax revenue
    - Set other performance target such as reducing tax evasion, increasing tax to GDP levels, other than simply setting tax collection based targets
    - Simplification of the tax system

iii. Who are the key players in Uganda's tax administration?
    - Ministry of Finance Planning and Economic Development (MFPED)
    - The Tax Appeal Tribunal
    - Parliament of the Republic of Uganda
    - Uganda Revenue Authority (URA)
    - Ministry of Local Government (Local Government Finance Commission)
    - Local Government Authorities (Municipal Councils, Parishes, District Councils)
    - Companies and Organisations (Withholding Tax)
    - Judiciary (Commercial Court, High Court, Court of Appeal)
    - Civil Society Organisations (CSOs)

iv. Imagine you are a policy maker in Uganda, what kind of taxation mechanisms would you apply?
    - Minimise tax exemptions in the agriculture sector
    - Introduce stronger punitive measures against tax evasion
    - Introduce a computerized system to improve efficiency in tax administration
    - Sensitize the public on tax compliance

v. What are some of the challenges facing the tax authority in Uganda?
    - Inadequate funding leading to high staff turnover
    - Unable to meet targets set by MOF
    - Too many laws and rules that are difficult to administer

vi How can they be overcome in order to increase domestic resource mobilisation?
    - Simplification of rules and laws
    - Increased public awareness to promote tax compliance
    - Offer better incentives to staff
    - Computerization of tax administration

vii. What do you think is the role of CSOs in taxation matters in Uganda?
    - Raising awareness on the linkage between tax and development
    - Monitor transparency
    - Expose companies and individuals that evade taxes
    - Carry out popular research in order to promote advocacy
    - Ensure that CSOs are exemplary

Facilitator's Notes

What is Tax Policy?

A tax policy is the identification of the different levels and methods of taxation and it dictates where the tax burden shall lie. One of the key components of a tax policy is defining the duty bearer charged with paying the tax to the State. It identifies the person or business entity responsible for the income that has been earned or the productive activity carried out so that appropriate taxes are imposed. A tax policy also identifies where taxes are applied, for example, is it on the income or profits, wealth, consumption, production, internal transactions, or international trade, among others. Since people are taxed as individuals or businesses or organizations, a tax policy will also be able to identify those entities that are exempted from paying the tax in order to achieve a variety of social, economic or any specified political objectives.

What is the importance of a Tax policy?

Tax policy influences the distribution of income and wealth in a country, whereby different groups or entities face different tax liabilities under a country's tax code. By knowing how the tax burden is borne by the different groups—rich or poor, male or female, urban or rural, employers or workers— it can help civil society groups to advocate for improved and fairer tax policies. A comprehensive tax policy will provide the structural basis for the building and consolidation of a genuinely democratic State.

What is a good Taxation Mechanism?

A good tax system should treat taxpayers in the same situation equally. Both local and multinational enterprises need to be taxed according to similar rates, and all sources of income be equally taxed to create a level playing field. A tax policy can be classified as either being a progressive or regressive policy.

Progressive Tax Policy

A tax policy is called 'progressive' when it is based on the principle that the greater the earnings or income of an individual or entity, the higher the percentage in taxes that must be paid. A progressive tax policy is individualized taxing based on one's income and it takes a larger percentage of income from those people earning more income and a smaller percentage from those with a smaller income. Under this structure, the rich pay proportionately more tax than the poor and it is usually levied on personal wealth or personal income tax, corporate taxation or taxation of property like land or luxury goods. There is always an indirect linkage between economic growth and pro-poor growth, which calls for the adoption of a progressive tax system and targeted government spending on the poor. Taxes have the potential to directly correct an unequal distribution of market incomes.

Regressive Tax Policy

A regressive tax is a tax system in which as a person's income from all sources rises, the amount of tax they pay reduces in proportion to their income even if it increases in absolute amount i.e their percentage tax rate falls as their income goes up. A tax imposed on basic necessities like salt, sugar and other essential needs that form a larger percentage of the expenditure of the lower income population or the poor is seen as regressive because it increases the tax burden on the poor and the cost of living. For example, VAT is considered a regressive tax because both the rich and the poor are uniformly taxed for spending on consumption goods and yet the poor spend a higher proportion of their income on consumption when compared to the rich, who have some money put aside for savings. Heavy dependence by government on consumption or regressive taxes tends to deepen inequality and promote poverty and consequently widen the gap between the rich and poor. Flat rate taxes, such as the graduated tax that was implemented at Uganda shillings 3000/= (about US D 1.25) was regressive in character in that it affected the poor more that the rich. It was abolished in 2006, but a number of local governments have called for its reinstatement arguing that it should be made more progressive and the assessment carefully done so as to promote fairness.

Gender inequality in the tax system

Tax systems can also play a role in addressing or exacerbating economic inequality between women and men. An identical tax may have a differential impact on women and men because of their differing social and economic roles. For example:

- A high rate of tax on part-time earners is likely to affect women more than men because women are more likely to work part time to accommodate family responsibilities.
- If the tax code treats a married couple as a single unit (combining their earnings for tax purposes), the couple can face a 'marriage penalty' whereby they end up paying more than when they filed their taxes separately as single people. This usually affects women disproportionately because the higher tax is effectively placed on the 'second' earner. Women are more likely to be earning less than their spouses and their earnings are thus usually regarded as 'secondary'.
- A shift from direct taxes to indirect taxes such as VAT can produce greater gender inequalities if taxes are levied on essential goods that are consumed disproportionately by female-headed households.
- Men are more likely than women to benefit from corporate and income tax exemptions as they are more likely to own property and shares.

Sometimes there are differences built into the tax system between how women and men are taxed. In Pakistan, for instance, the tax code allows working women to shield a greater amount of their income from tax than working men. In contrast, in South Africa before 1994, married women were taxed at higher rates than married men. So, it is important for groups working on tax to assess the gender implications of tax structures and to challenge those systems that are regressive along gender lines.

Case Study 2: Gender and Taxation in Ghana

The tax system in Ghana – at least for women in the informal sector - is not accountable, responsive or fair, and therefore is not building a good relationship between the state (or local govt) and its vulnerable citizens. About 95% of women surveyed pay taxes but 57% say they do not feel well informed on why they should pay tax, (beyond the legal requirement to pay), and over 50% say they do not see their tax money going towards service provision or public works projects. 30% of women say they encounter very harsh attitudes in their interactions with the tax collectors. Some women have their possessions seized and their shops locked by the authorities if they are unable to pay, and others report being asked to pay bribes or even carry out favours – either sexual (only a few) or in kind. One complaint that women had about timing of tax payments was that sometimes national and local tax collectors would request payments very close to each other and it made it difficult for them to pay both. They do not feel they have a way to make complaints about tax collector behaviour or about service provision.

Studies also show that the majority of women have very low levels of education, with only 28.4% possessing more than basic education. In Ghana, only about 20% of the workforce is part of the formal sector. With about 80% of women and about 50% of men in the informal sector (Oduro 2009), women clearly form the majority of the informal sector. Women are already in a vulnerable situation, making up the majority of the poor and vulnerable people in the world. They tend to have less access to education which often leads to less access to formal employment, and women and girls carry out the majority of the unpaid care work in the home and the community. Women have difficulties in obtaining credit; they lack negotiation skills; education; there are few available jobs in the formal sector to accommodate many of the women and those in the informal sector inherit the jobs from their mothers and guardians. Given their gender roles most women want to work close to their homes so they can attend to their household duties; and they are not encouraged by their parents and husbands to venture into other areas.

The tax system in Ghana is gender neutral and according to Ghana Internal Revenue Act. 2000 (Act 592), there is no explicit difference in the taxation of men and women. But due to cultural norms and behaviours such as those mentioned above in relation to women, there may be implicit bias embedded in the tax policies. Men may pay more income tax as they have more paid jobs in the formal sector. Just by the fact that women, due to their roles in the family and the community, lower levels of education and barriers to entry into the formal sector, they dominate the informal sector and it is assumed that women will bear more of the tax burden of the informal sector than men.

The study indicated that women earning more tend to pay less of their monthly income in taxes, while those who are earning less tend to pay more of their monthly income. Many women reported a reduction in profits due to their tax payments, and some said their ability to provide for their families was negatively impacted by the amount of tax they had to pay. 75% of the women surveyed said they are never asked to show records of their accounts and only 40% of those surveyed said they kept records of their accounts, and the majority of those responses came from women with secondary or higher levels of education.

Source: Taxing Ghana's Informal Sector: the experience of women, Christian Aid Ghana

Questions for Discussion

i. What are some of the challenges facing women in respect to the tax system?

ii. Why should women be treated as a special category when it comes to tax administration and what should tax authorities do to increase compliance?

iii. What role can civil society groups play in increasing compliance among women so as to broaden the tax base?

Some of the characteristics of tax policies in developing countries

a) The taxes imposed are largely regressive because there is a massive implementation of indirect taxes like VAT that is charged on consumption. Governments assume that by charging a tax on goods and services consumed by everybody an opportunity to broaden the tax base is created since all goods in the formal sector are taxed. For governments such taxes are easier and politically safe to collect since they do not seem to interfere negatively with the productive and economic processes. However, they have regressive or negative effects since the poor people who consume more of their income become increasingly poorer.

b) In developing countries because of the small formal sector there is limited implementation of direct taxes or personal income taxes. Income tax is often difficult to manage as compared to indirect tax. Generally, capital incomes or non-wage personal incomes such as dividend, rents, and interests are rarely taxed.

Factors behind the 'failed tax policy' in developing countries

Tax systems in developing countries are operating far below their real potential in terms of generating public revenues and redistributing wealth because of internal and external constraints. These include:

a) A narrow tax base to generate proper domestic resources from productive sectors and consequently insufficient tax collection compared to the real potential. Overall tax revenues fall short of those that theoretically could be obtained when countries' productive potential is analyzed.

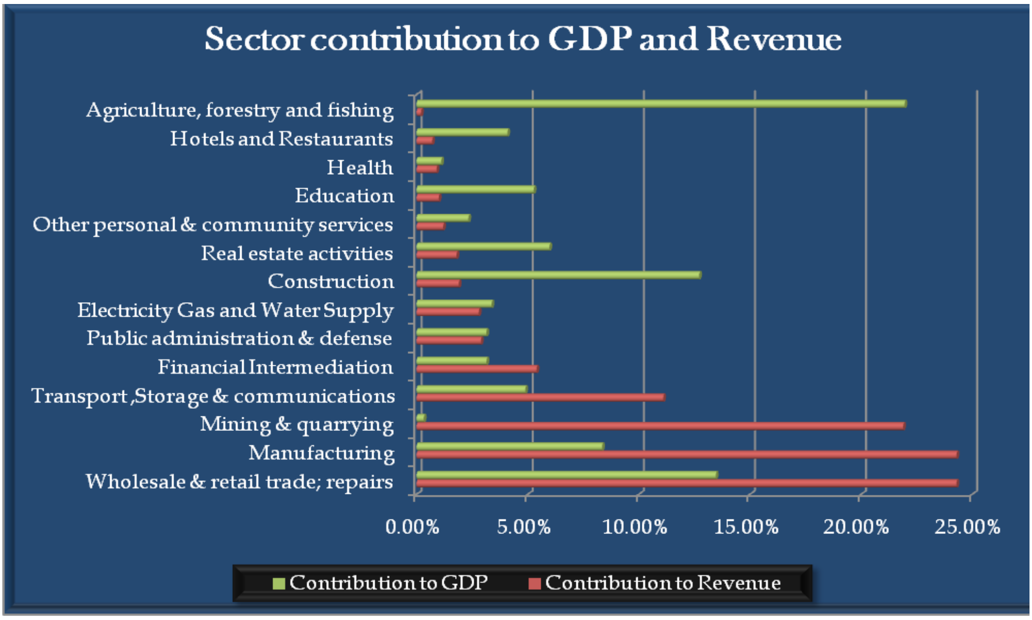
b) There are a lot of uncollected domestic resources since tax revenue is lost in form of tax breaks or tax expenditures; a huge informal economy that is not taxed; inability to tax agriculture, non-taxed capital incomes such as dividends, and rents and a weak tax administration.

c) Political interference – in most African countries legislators will not pass bills that affect their personal income.

d) There is an imbalance between direct and indirect taxes in total revenue collection with very little tax revenue obtained from taxing businesses and the owners of capital. Taxation has instead focused on levying taxes on consumption which is potentially regressive. Because of having regressive tax systems, taxes have got a low impact on reducing inequalities and thus poverty levels are aggravated.

e) The tax breaks mainly benefit rich people and boost the profits of national and international companies. There is little evidence to indicate that these exemptions are attracting the kind of added-value investments that would have a positive impact on the growth of those developing States that are offering them.

f) The tax dodging by small and medium companies in the informal economy, contributes to a systematic violation of the rights of poor and vulnerable workers. Meanwhile, some measures taken to tax the more vulnerable sectors of the informal economy are often arbitrary and undermine poverty reduction efforts.



Uganda's Sector Contribution to GDP and Tax Revenue, 2010/11

g) Conditions set by International Financial Institutions (IFI) such as the International Monetary Fund (IMF) dictate the imposition of tax policies that favor economic efficiency and short-term collection goals as opposed to policy objectives like poverty eradication that would favour developing economies. Some of the conditionalities include promoting taxes that are easy to collect such as VAT, which has got lower political costs and are unlikely to affect the interests of companies and rich economic sectors. Their likely impact on the redistribution of wealth or their negative impact on the poorest sections of the population was not carefully analyzed before their introduction.

h) International trade liberalization has got a huge impact on government revenue collection because it reduces or totally eliminates import taxes.

i) Secrecy jurisdictions (commonly known as tax havens) have been a barrier to increasing taxation of the population's richest sectors and of companies that operate in developing countries. The spread of tax havens with international community laxity promote illicit capital outflows and there are abuses on corporate trade mispricing practices and insufficient international fiscal cooperation.

j) There has been a proliferation of unjust corporate practices, such as the altering of intra-group trading prices by multinationals and shady company accounts. This makes a farce of any attempt to monitor the financial resources that are expropriated from developing countries.

What is a Tax Gap?

The tax gap is the difference between total amounts of taxes owed to the government and the amount they actually receive or the difference between actual tax collection and potential revenue. Generally, a tax gap is caused by taxpayers overstating deductions and understating their income so that they can pay lower taxes. The tax gap is as a result of three main areas of non-compliance with the tax law; that is:

- Underreporting of income,
- Underpayment of taxes and
- Non-filing of tax returns.

Late payment of taxes by the taxpayers also causes the tax gap. In the US it is estimated that about 80 percent of the tax gap comes from taxpayers who either underreport income or overstate expenses and on the improper returns filed by individual taxpayers, more than 80 percent understate income, rather than overstate deductions. Most of the understated income comes from small business activities, and not wages or investment income[1].

What are the Disadvantages of a Tax Gap?

The tax gap costs honest taxpayers money in a number of ways:

- It results in higher taxes, whereby honest taxpayers pay nearly 20 percent more in taxes due to tax cheating.
- Collecting the underpaid taxes takes time and costs money.
- Tax rates must be set higher initially in order to cover the shortfall that results from the tax gap.
- The tax gap increases the national deficit, which further increases taxes.
- The tax gap leads to lower revenues and contributes to the reduction in the level and quality of government service that can be offered to the citizens.

1 Robert Longley, **What is the Tax Gap and Why Does it Cost You Money?** US Government Info Guide

Session 3: Tax Policy Formulation and Implementation

The participants will also be introduced to the history of taxation in Uganda and how the tax policy is formulated and implemented and who is actually involved. The participants should be able to appreciate the reasons as to why developing countries need to have efficient tax systems and clearly define the role civil society groups should play in promoting tax compliance and consequently broaden the country's tax base. The participants will have an opportunity to share the experiences of someone from a tax authority.

Objectives

At the end of the session, participants should be able to:

- Describe the historical perspective of taxation in Uganda and a case of G-Tax
- Explain who is involved in the formulation and implementation of the tax policy
- Identify the different measures that can be used by Government to broaden its tax base
- Justify the importance of paying taxes by the citizens
- Analyze the role of CSOs in discussing issues of taxation and promoting tax compliance

Duration: 120 minutes

Activity: Presentation from a Tax Expert and Question and Answer Session

Step by Step Process

i. The facilitator should introduce the subject and present to the participants the expert from a tax administration authority
ii. The session will be more interesting if someone from a tax administration authority gives hands on experience and technical and expert information.
iii. Participants should be encouraged to ask questions, particularly to broaden their understanding of tax issues in their country.
iv. The facilitator should divide the participants into two groups and ask them to debate: Graduated Tax was a Curse to the Poor and should never be re-instated. The case study on G-Tax should help the participants to structure their debate.
v. Both the facilitator and the tax expert should give their input after the debate.
vi. Conclude the session by evaluating what the participants have learnt.

Proposed Questions to Evaluate Participants' Learning

i. In your country who are the key players in tax policy formulation and implementation?
ii. What measures can be taken by different developing countries to broaden their tax base?
iii. As someone in civil society, what role can you play to ensure that tax policies adopted in your country are fair to all citizens, and in particular the poor?
iv. Looking at Uganda's case study on Graduated tax, how can such a tax be improved?

Facilitator's Notes

History of Taxation in Uganda

Taxation in Uganda traces its roots to the hut tax that was introduced by British colonialists in 1900 on each hut or household. It was variously payable in money, labour, grain or stock and benefited the colonial authorities in four related ways: it raised money, it supported the currency, it broadened the cash economy, aided further development and/or exploitation, and it forced Africans to labour in the colonial economy. Households which had survived on, and stored their wealth in cattle ranching now sent their able bodied members to work for the colonialists in order to raise cash with which to pay the tax. The colonial economy largely depended upon black African labour to build new towns and railways, and in southern Africa to work in the rapidly developing mines.

The first tax legislation in Uganda was, however, introduced in 1919 under the Local Authorities Ordinance. Other subsequent Tax Laws including the East African Customs Act of 1970, Sales Tax Act of 1970, Stamp Duties Act of 1970, Finance Decree of 1972 and the Income Tax Decree of 1974 were all introduced to allow a legislated administration of the tax system. These Laws were not used for long as they made the exercise of tax administration complicated and as such most of them were rendered obsolete by the late 1980s, calling for their repealing or amendment. Currently the Laws in force include the Customs Tariff Act (1970), VAT Statute (1996), Income Tax Act (1997), Traffic and Road Safety Act (1998), Stamp Duty Act (Cap 172), Finance Statute (1998), East African Customs Management Act (2004) and the Excise Tariff Act (Cap 174).

Challenges in Uganda's Tax Laws

Uganda's tax system has faced several challenges that include:

- Having a small taxable component of Gross Domestic Product (GDP) from the private sector to support a much bigger public sector. The inability to tax the agriculture sector directly means tax collections are likely to grow at a rate lower than that of GDP.
- The opaqueness and various inconsistencies in the tax laws create numerous loopholes that are used to avoid payment of taxes.
- The tax laws were characterized by wide ranging exemptions and provide extensive discretionary powers to the Minister of Finance Planning and Economic Development.
- There are a number of provisions in the laws that give a lot of discretionary powers to the tax authority in decision making leading to arbitrary tax assessments. This subjectivity in

provisions regarding tax administration has fuelled corruption in the tax system.

- The tax system has been characterized by high tax rates and tariffs.
- As a result of the political and economic crisis in the 1970 and 80s, taxable sectors such as industry collapsed and wage income tax has mainly been imposed on civil servants and parastatal workers thus putting the tax burden on a few individuals.
- Corruption and inefficiencies in tax collection and administration contributes to huge losses for the State and reduced contributions from the private sector.

Key Players in Tax Policy Formulation and Implementation

Governments, both local and national are responsible for developing and implementing domestic tax policy. In Uganda, the Ministry of Finance Planning and Economic Development (MFPED) is charged with the formulation of tax and non-tax policies while the Parliament is mandated by the Constitution to enforce taxation policies. The Uganda Revenue Authority (URA) then assesses and collects the specified revenue. Very few groups like the Uganda Manufacturers Association (UMA) on the part of manufacturers, the Kampala City Traders' Association (KACITA), on behalf of the traders in Kampala and the Uganda Debt Network (UDN) and Forum for Women in Democracy on the part of CSOs are invited to participate in tax policy discussions.

What is Civil Society?

Civil society is an important player in development and it constitutes the full range of formal and informal organizations that are outside the State and the market. It also acts as a watch dog to ensure that government policies are implemented. In respect to taxation, these groups have got a very important task of sensitizing citizens on the relevance of paying taxes and how to hold government officials accountable on how tax revenues are spent. CSOs can also broaden the debate on taxation and bring a new focus on how to promote tax fairness and include the needs of the poor and vulnerable members of society into the tax policy. Through such debates CSOs could offer their perspective on tax policies and influence them and reduce the negative impact taxes may have on all citizens. A successful tax advocacy campaign aimed at promoting development will therefore largely depend on having both a robust democratic State and an active civil society with healthy levels of civic engagement. Discussions by CSOs on taxation need to go beyond domestic tax policies, and involve sub-regional institutions like the East African Community (EAC) and the African Union/UNECA since sub-regional policies influence what is being done at the national level.

Why are citizens not involved in tax policy discussions?

In most developing countries, the citizens who are the taxpayers are usually not involved in tax policy discussions because:

- Relevant information on taxation is often not available in a timely manner, and there are few official avenues for citizens to influence tax policies.

- Tax issues are often seen as being technical and often complicated, and with this excuse it is easier for the government to sidestep public tax debates and conceal the true implications of the proposed tax policies.

- There is a lack of formal processes or forums through which the government and its citizens can freely engage on tax policy.

What is the role of CSOs in taxation matters?

In ensuring just tax policies and increased domestic resource mobilizations, CSOs should:

- Help to inform the public about taxation and tax issues or improve taxpayers' education and understanding on taxation issues in general.
- Help elected officials and civil leaders understand the enormous advantages of promoting quasi-voluntary compliance rather than coercion to increase domestic resource mobilization.
- Help taxpayers understand why they should pay taxes and what they can expect from their tax compliance or willingness to pay taxes.
- Help citizens understand the bargaining power that comes from complying with meeting their tax obligations and the virtuous circle of benefits, such as having an effective and accountable State, better governance and greater democratization efforts that come with having an enduring fiscal social contract.
- Help citizens understand that as taxpayers they can make their voice heard and actively take part in public policy decision-making processes about how taxes are collected and spent on public services and thus hold governments accountable and increase their political participation.
- Help improve the capacity of the members of parliament and that of parliamentary and tax committees.
- Help link taxation to national strategic development plans and enable citizens participate in and influence the different stages of the budget process, right from formulation, legislative, implementation and assessment stages. This engagement enables citizens to be involved in discussions on how their taxes should be spent in accordance to their needs and preferences. In such an environment, as citizens become an integral part of the institution and the political dialogue, they increase their level of tax compliance, thus increasing citizens' tax ethics and hence create a tax compliance culture.

What Role can Elected Leaders Play?

Elected leaders could contribute to greater tax compliance, accountability, good governance and democracy by:

- Simplifying and making the tax system more transparent
- Ensuring improved tax administration
- Widening the tax base
- Ensuring improved efficiency in public service delivery
- Increasing reliance on domestic revenues through a broadly-based taxation which would increase government's responsiveness to citizens' needs and would promote broad economic development.

Measures to Broaden Domestic Revenue Collection in Uganda

i. Increase monitoring and surveillance on tax evasion, smuggling across borders, and national companies.
ii. Expand the tax base by targeting rental tax, which has lot of potential but it is not being targeted for taxes despite the growth in real estate.
iii. Integration of systems in order to incorporate other stakeholders, for example by tracking registered companies. The registrar of companies needs to collaborate with URA in order to know the number and location of registered companies and regularly be updated on the newly registered companies.
iv. Target employees that are classified as casual workers through the banking system in order to track people's individual income
v. Subscribe to certain forums that can help share information with other tax administrators in different countries, such as the African Tax Administration Forum (ATAF), a platform aimed at promoting and facilitating mutual cooperation among African Tax Administrations.
vi. Enhance the capacity of the tax administrators, particularly in area of transfer pricing and ensure the retention of trained personnel that are often taken over by private companies and consequently become a negative resource in facilitating tax planning.
vii. Enhance relationships with stakeholders like CSOs who can continuously mobilize and sensitize citizens on the need to pay taxes and also address the loopholes in the tax system.

Case Study 3: Taxation: Is it a Social Responsibility?

Graduated Tax (G-Tax) in Uganda

The Graduated Tax (G-Tax) succeeded the Hut Tax and was one of the taxes where over the years Ugandan citizens across the country had come to believe that the annual payment of the G-Tax was a responsibility to and a requirement by government. G-Tax was only payable by able bodied males above the age of 18 years and able bodied females in formal employment above the age of 18 years but below 65 years. G-Tax was a form of income tax since it was assessed according to one's income for formally employed taxpayers and one's wealth for those in the rural areas. Since Uganda has got no national identification, the payment of G-Tax brought a lot of pride to a man and was the only true identification in the rural areas or those employed in the informal sector. G-Tax also promoted social responsibility since each able bodied person who had some income had to contribute to social development.

Prior to decentralization in 1997 and the introduction of elective local government councils, G-Tax was free from any political interference and tax assessments were done in a free and transparent manner. With these developments, G-Tax which was initially seen to be mandatory was then used as a political tool, where some local politicians influenced the underassessment of their supporters, leading to taxpayers questioning the relevance of the G-Tax; increased non-compliance and eventual scraping of the tax by the central government. G-Tax however contributed greatly to local government revenue and although politicians argued that it was a burden to the poor, this was not the case since the tax burden was not all that great. Some people have argued that ever since G-Tax was scrapped in 2006, most Ugandans have lost a sense of responsibility. "In the villages, men have turned to drinking themselves silly all the time yet during those years when this tax was there, every man endeavored to find gainful employment," they contend.

Should G-Tax be Re-instated in Uganda?

A number of local governments have called for the re-introduction of the graduated tax and some people believe that the tax is beneficial but taking into account the specific reforms below:

1. The progressiveness of the tax should be secured by improving the assessment of the tax payers to eliminate over or under assessment and ensure that individuals pay the rightful amount.
2. Political interventions in G-Tax must be stopped right from both the central government to the local government and matters of G-Tax be handled by the Chief Administrative Officer (CAO), Sub-county and Parish Chiefs, while the politicians play an oversight role.
3. Local governments need to improve their transparency on locally generated revenue and information on how much money is collected and how it is spent should be displayed on public notice boards at the district, sub-county and parish levels.
4. Local governments should demonstrate that it pays to pay taxes by improving service delivery to the taxpayers. Projects that are co-funded or fully funded by locally generated revenue should be known by the taxpayers so that they can make a connection between tax payment and service delivery and thus the state-citizen relationship be strengthened.
5. Local governments should be more flexible in the assessed payments and provide for payments to be made in installments so long as the whole amount is paid within the fiscal year. This will enable the taxpayers to pay when it is convenient depending on the income earning cycle, such as cropping seasons.

Session 4: Democracy, Good Governance, Taxation and Citizen Participation

This session is aimed at helping the participants to understand the concept of democracy and relate it to taxation and citizen participation which is crucial for setting a tax agenda and also having effective advocacy for sound tax systems. The participants will appreciate the linkage between citizenship, representation and good governance and their relevance to promoting tax compliance. They should be able to relate how tax compliance contributes to building a democratic political system and promote good governance.

Objectives:

By the end of the session, participants should be able to:

- Define the concept of Democracy and Citizenship
- Identify the different pillars of Democracy and understand the role of the State in a democracy
- Understand the need for citizen participation and the role of the State and civil society organizations in a Democracy
- Define the concept of Good Governance and explain the characteristics of good governance
- Link tax revenue to good governance and the need to increase taxpayers compliance

Duration: 140 minutes

Activity: Case Study, Group Discussion, Lecture, Question and Answer

Step by Step Process

- Ask the participants to form groups of 4 to 6 people.

- Allocate about 45 minutes for the group to discuss the questions below and list out the points discussed on a flip chart and give each group five minutes to make a presentation of their discussion to the plenary.

- Based on the explanations given by the participants the facilitator should define the term democracy, its relevance in our society and how different actors (citizens, the State and CSOs) can participate in it. Additional input should be given as part of the lecture

- Having a brainstorming session and pose questions to the participants to enable them to reflect on:
  - The linkage between taxation, democracy and good governance
  - What is the role of taxation in building State capacity?

- How can taxation lead to increased political participation from citizens?
- What is the role of CSOs, FBOs, elected leaders the media and citizens in formulating tax policies that would ultimately lead to good governance?

- Give the participants an opportunity to share their views and sum up the discussion with clear examples of countries that have experienced good or bad governance

- Conclude the session with an evaluation of the participants learning

Proposed Questions to Evaluate Participants' Learning

i. Who is a citizen and what are their duties and obligations? What prevents citizens from effectively participating in decision making in your country?

ii. Why do we need democracy in our countries and what characteristics would you use to define a democratic state?

iii. What is the role of taxes in a democratic state?

iv. In your opinion is there good governance in your country, if not what are the some of the governance issues being experienced and how can the governance in your country be improved so as to enhance development?

v. What are some of the critical governance issues facing most African countries?

vi. What is the relationship between good governance and taxation and what roles can be played by the citizens and civil society organizations to improve tax compliance?

Facilitator's Notes

What is Democracy?

Democracy is "a form of government in which power and civic responsibility are exercised by all adult citizens, directly or indirectly through their freely elected representatives"[2]. In a democracy the governing power is vested in the people and exercised by them, either by direct referendum, also known as direct democracy or by means of elected representatives, referred to as a representative democracy. The people are the most important decision-makers and they are expected to freely decide how they want to be led or governed. In a democracy, all public power proceeds from the people and the citizens are jointly responsible for the society in which they live. It is therefore essential that everyone is involved in its development by taking part in all civic activities and exerting an influence in decisions made.

2 Konrad-Adenauer-Stiftung etal 2011

Case Study 4: Functioning of a Democratic State

Sweden's democratic system

Sweden is a parliamentary democracy, which means that all public power proceeds from the people. At the national level, the people are represented by the Riksdag (Swedish parliament) which has legislative power. The Government implements the Riksdag's decisions and draws up proposals for new laws or law amendments.

General elections which are held every four years are an important expression of the fact that the people in Sweden live in a democracy. Approximately 7 million people in the country entitled to vote, are all given an opportunity to influence which parties are to represent each one of them in the Riksdag, county council and municipal council. However, there are many ways of influencing Swedish politics, for example by taking part in referendums, joining a political party or sending in one's comments on reports presented by the Government.

Basic provisions defining how Sweden shall be governed are enshrined in the Constitution. In these fundamental laws the relationship between decision-making and executive power is set out and also the freedoms and rights enjoyed by citizens. Among other things, the Instrument of Government guarantees citizens the right to freely procure information, hold demonstrations, form political parties and practice their religion.

In another of the fundamental laws, the Freedom of the Press Act, the principle of public access to official documents is set out in order to guarantee an open society with access to information about the work of the Riksdag, the Government and public agencies. This openness entitles the Swedish people to study official documents. Anyone may avail him/herself of this possibility whenever they wish.

Source: Swedish Government Website, Swedish Government Offices, Information Department

Questions for Discussion

1. *Define democracy and the instances in which the term has been used?*
2. *Who is a citizen? What are the duties of a citizen? And what prevents citizens from effectively participating in a democracy?*
3. *What is the relevance of taxation to promoting democracy, good governance and citizen participation?*

Representative Democracy

This is a form of government where elected officials represent the people and speak for them in the legislature or parliament. It is the process by which citizens' voices, opinions, preferences and perspectives are brought forward in the public policy making processes by elected individuals acting on their behalf.

Why is Democracy Necessary?

- Enable citizens to participate in their governance either directly or indirectly through elected representatives.
- Avoid tyranny by autocratic or dictatorial rulers and (in some democratic systems) by the majority;
- Promote open and fair competition for power on the basis of the popular vote;
- Ensure transparency and accountability of government in its actions and management of public resources;
- Provide a forum for rational discussion of policy issues, political problems and settlement of conflicting social interests.

What is the Role of a good government in a Democracy?

The government protects and enhances the rights and security of people, formulates the policy framework, provides the services to people and maintains rules and institutions to do all these. Functions of the government include:

- Ensuring peace and security
- Protecting the social, economic and political rights of the populace
- Making critical development choices
- Providing basic social and economic services
- Managing public resources efficiently and effectively
- Providing basic infrastructures and services
- Ensuring equitable access to opportunities and distribution of resources

The State must therefore be:

  - Democratic and ensure the rule of law, respect of human rights and protection to all citizens.
  - Efficient in providing essential laws, basic services, frameworks and the environment for meeting basic needs.
  - Effective, strong and capable of standing up to powerful global forces.
  - Effective in the use of public resources
  - Effective and responsive in delivering the public goods such as roads, houses and hospitals, education, electricity, social security systems, etc.

Taxation and Democracy

Fair and transparent tax collection in any tax system is central to State building and in demonstrating good governance. A good tax system contributes to the shaping of government legitimacy by promoting accountability to its citizens, and a fulfillment of the social contract between the two. The relationship between the government and the citizens is strengthened when there is a clear understanding of the relationship between taxation and democracy.

Principles of Democracy and their Application to Taxation

Under a democratic system of governance:

- All people are equal and there is equal treatment of all people irrespective of their status, gender, religion, race, class or ethnicity. People need to feel that they are being fairly and justly treated and the governance systems are responsive and inclusive. Citizens need to feel that they are involved in public affairs and are being listened to; they have equal rights without social discrimination and there is equity and justice.
- Everybody has a right to participate in decision making either directly or indirectly through their elected representatives and the citizens as taxpayers have a right to come together to negotiate tax demands and oversee the collection and use of tax revenues through public expenditures, thus making government more accountable.
- There is observance of human rights and freedoms and social justice is guaranteed for all people. Citizens desire to have a secure and sustainable livelihood, with dignified lifestyles where their basic needs such as access to water, health and education, security and reasonable standards of living are guaranteed.
- There is tolerance and accommodation of opposing viewpoints, openness and responsiveness in the decision-making process. Taxpayers are entitled to express their views on public policies directly or through their elected representatives and therefore advocate for better service delivery from States.
- Regular free and fair elections are held and there is division of responsibilities between different arms of government that is the executive, judiciary and legislature or parliament. Fiscal systems should be based on a regularly-renewed agreement or contract between governments and citizens. Such a contract, in the form of democratic elections, should result in increased government responsibility for the use of tax revenues.

Policy-making processes in a democracy must therefore be democratic with:

- Strict adherence to the norms of accountability, transparency and openness on behalf of the State and the policy makers.
- Genuine public participation that ensures social inclusion of all peoples (women, elderly, persons with disabilities and other minority groups), personal security, and freedom of speech and assembly.
- A strong civil society, civic education, and good channels of communication between the different levels of society to facilitate policy making processes.

Pillars of Democracy

i. **Citizen Participation:** Democracy can only be built and sustained when citizens actively participate in the governance of public affairs at all levels. Active participation requires the involvement of all citizens in political and civic activities at the family level, village, local councils, in community organizations and national and international development initiatives.

ii. **Rule of law:** All citizens must be protected under the law from the abuse of government power. Citizens are free to do anything that does not contravene the law and the government must abide by the law.

iii. **Political Competition:** Leaders successfully compete for the popular vote in periodic elections. There is legitimate political opposition and individuals or groups of people are free to challenge those holding important positions of authority in order to replace them. There are free and transparent elections and well functioning political parties with diverse ideologies and platforms, representing the various opinions in society.

iv. **Good Governance:** Requires the proper management of public affairs in an effective, open, responsible and democratic manner, applying the ideals of democracy. There are established democratic institutions that provide for a peaceful change of leaders and mechanisms for resolving conflicts. Decisions by the leaders are made in line with the will of the people and the leaders at any level use their positions responsibly. Under good governance, the people elect those individuals whom they feel will represent their interests and remove those that fail to represent them. Good governance promotes open and responsible leadership, equality, peace and stability.

Principles of Democracy Guaranteed under Uganda's Constitution

Uganda's Constitution (1995) guarantees democratic principles that guide all organs and agencies of the State, all citizens, and organizations. These principles State that:

(i) The State shall be based on democratic principles which empower and encourage the active participation of all citizens at all levels in their own governance.

(ii) All the people of Uganda shall have access to leadership positions at all levels, subject to the Constitution.

(iii) The State shall be guided by the principles of decentralization and the devolution of government functions and powers to the people at appropriate levels where they can best manage and direct their own affairs.

(iv) The composition of Government shall be broadly representative of the national character and social diversity of the country.

(v) All political and civic associations aspiring to manage and direct public affairs shall conform to democratic principles in their internal organizations and practice.

(vi) Civic organizations shall retain their autonomy in pursuit of their declared objectives.

Who is a Citizen?

A citizen is a member of a political community with a right to political participation. The citizen has the rights and responsibilities to work for the betterment of society through his or her participation in good governance. The rights and responsibilities of a citizen include the right to vote, paying taxes, and participating in the political and civic life of society. Prisoners, refugees or in some cases migrants are deprived of some of these rights. According to the social contract theory, citizenship is defined as the relationship between an individual and a State; or an individual and a particular social or political community, where the relationship is legally recognized and, which entails rights and responsibilities prescribed by law, such as the right to vote and the responsibility to pay taxes. Active citizenship therefore refers to a philosophy, according to which citizens should strive for the betterment of their community through civil, political, socio-economic, and cultural or collective work.

The duties of a Citizen

In order for the citizens to enjoy their rights and freedoms, they have certain duties and obligations to perform. These include:

- Being patriotic and loyal to their country and to promote its well-being.
- Engaging in gainful work for their own good as citizens, the family, the common good and to contribute to national development.
- Contributing to the well-being of the community where they live as citizens by paying all government taxes and complying with the prevailing tax laws as they apply to them.
- Promoting responsible parenthood.
- Fostering national unity and living in harmony with others.
- Promoting democracy and the rule of law.
- Acquainting themselves with the provisions of the national Constitutions and upholding and defending the Constitution and the law.

Barriers to Effective Citizen Participation

There are various factors that prevent citizens from effectively participating in the governance of their country. These range from economic to political reasons and the social set up of a particular society. In some cases the citizens are demoralized by the manner in which the leaders run the affairs of the States. Below are some of the areas that may affect the quality of people's participation in their governance.

- Distrust of government which is at times seen as uncaring, elitist and divorced from the people's interests – In most cases many citizens cannot stand up for their rights because of the feeling that they are powerless; they have got no recognized role and, therefore, very little stake in the governance of society. Citizen participation in decision-making processes gives them a voice in deciding how their taxes are used, in line with their preferences.

- Lack of faith in the will and capacity of government institutions to address the problems of ordinary citizens – The rigid authority of the State often leaves little room for the wider notions of citizenship to emerge and individuals are relatively powerless in effecting social change. In case of taxation, if citizens have no faith in how the government will spend collected revenues, then they will not comply with their responsibility to pay taxes.

- The widening gap between the rich and the poor –The concerns of the majority of the poor in most cases are unheard and justice is dispensed on the basis of one's wealth and influence.

- Endemic corruption – political office holders are at times appointed on the basis of bribery, nepotism or family influence and thus they are more concerned with serving the interests of their patrons or political god-fathers or mothers as opposed to the community or the general public. The citizens' willingness to pay taxes will diminish once they perceive that the government is not responsive to their needs and there is poor service delivery. Furthermore, citizens as taxpayers lose the motivation to be politically interested to participate in decisions of how they are governed.

- Government's undermining of the autonomy of citizens –The desire of the people to voice their need for equal rights and social and political freedom and justice is often seen by the government as an insurrection or opposition and military or police force is used to silence the critical voices. Citizens need to be empowered in order to have the capacity to observe how public officials carry out their responsibilities and have a perfect knowledge of whom they can hold accountable for the poor quality of service delivery in their jurisdiction.

- Economic insecurity as a result of poverty, deprivation, rising prices of basic commodities, unemployment, and undefined land ownership rights – There is an increasing sense of vulnerability and hopelessness among citizens, brought about by the high rates of unemployment and the struggle for economic survival and meeting basic needs.

What is Good Governance?

Good governance refers to the proper management of public affairs in an effective, open, responsible and democratic manner. Good governance promotes openness and responsibility of the leaders as well as the citizens. Under good governance all people are treated equally and involved in all decision-making processes. Good governance ensures that corruption is limited, the views of minorities and voices of the most vulnerable are taken into account in decision-making processes and government institutions and processes are responsive to the needs of society as a whole. The quality of governance in a country is an important determinant of development and growth and it implies having:

- Democracy, openness and responsibility of leaders as well as citizens, having mechanisms for peaceful change of leaders and resolving of conflicts;

- Respect for human rights and equal treatment for all people and involvement in all decision-making processes;

- A non-sectarian government with a legal system that is accessible, just and not too slow or costly;

- Transparent, efficient, accessible and affordable government with a competent and adequately remunerated public service and having a strong sense of partnership between government and other development agents;

- A positive contribution to international peace and security;

Good governance therefore demands that:

- The people in leadership positions at any level use their positions responsibly.

- Leaders take decisions in consultation with the people or in line with the will of the people.

- The people elect those people they feel will represent their interests and remove those who fail to represent them.

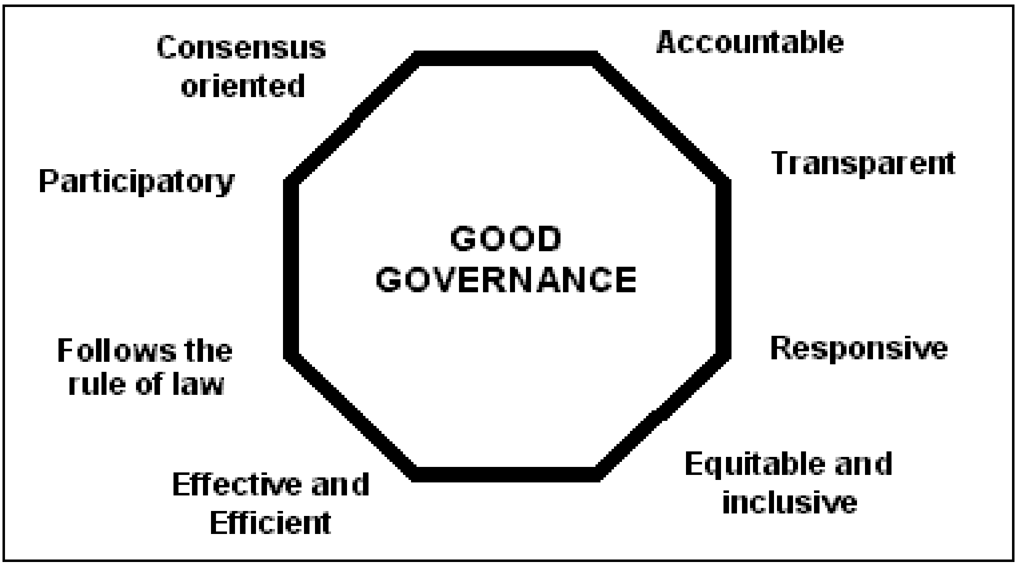
- Government establishes forums or procedures that the people can use or pass through to give their views and their opinions on how they are governed.

- People are tolerant of different views; they listen to and consider the interests of all groups within the State.

Good governance rests on four major characteristics that is: Accountability, Transparency, Predictability, and Participation.

- Accountability refers to the capacity to hold public officials responsible for their actions.
- Transparency refers to the capacity to access relevant information at low costs.
- Predictability is achieved when law and regulations are clear, known in advance and uniformly and effectively enforced.
- Participation is essential to provide reliable information about the needs and concerns of the most vulnerable in society and to act as checks and balances for government actions.

Characteristics of good governance



Source: (UNESCAP 2010)

Establishing Good Governance in our Society Requires:

- Participating in the affairs of the country: All Ugandans, including women, the elderly, people with disabilities (PWDs) and minority groups (based on ethnic and religious lines) have a right to participate in all the affairs of their community and the State.
- Having the right of access to information: The right to information is a fundamental right because information enables citizens to make an informed judgement of their leaders and also make the leaders accountable to the people and society. Informed citizens play a critical

role in monitoring what the leaders and institutions do in terms of policy making and service delivery, how they utilize government resources and ensure that they effectively perform the functions for which they are in place. Citizens have a right to know how the tax revenues are allocated and where and how to complain if their rights are denied or abused.

- Rule of law: The rule of law means that everybody is treated equally before the law and that the values of democracy are integrated in everyday life and practices. The rule of law eliminates favouritism and discrimination on different grounds and corrupt leaders and others who break the law are punished, without fear or favour.
- Having strong institutions of Good Governance: The various institutions that foster good governance in society such as the Executive (Presidency and Cabinet), Legislature (Parliament), and the Judiciary, need to be strong enough to deliver public goods and services to their citizens. These institutions are also supposed to operate independently without interference.
- Choosing of responsible leaders: There should be an established mechanism through which the people can choose good leaders to represent their interests or recall them when they fail to deliver.
- Tolerance: There should be tolerance of different viewpoints in society. All people must be accommodated irrespective of gender, ethnicity, religion and other differences.
- Having a strong civil society: Civil Society Organizations (CSOs) play a big role in promoting good governance by demanding accountability from government. CSOs monitor the use of power and resources by the government to ensure that these are used for the public good.

What is the linkage between Taxation, Citizenship, Representation and Good Governance?

The raising of revenue by governments through taxation is crucial in the relationship between the State and its citizens. From a historical perspective mainly drawn from Europe and America, it is determined that governments' dependence on domestic revenues through a broad-based taxation is conducive to having a participatory political process based on negotiations, bargaining and balancing conflicting interests. In this context:

- Citizens as taxpayers would come together to negotiate tax demands and oversee the collection and use of tax revenues through public expenditures, thus making government more accountable.
- Their political representation would have a greater say in public policy in exchange for citizens' quasi-voluntary tax compliance.
- Governments would have to put in place strong bureaucracies capable of collecting and administering taxes effectively as well as information systems enabling bureaucracies to carry out these functions efficiently.
- Strong incentives to generate more revenues would compel States to foster economic growth that resulted in improving the well-being, the quality of life and prosperity of their citizens.
- Concurrently, parliaments would implement appropriate structures to oversee revenue-raising and hold States accountable for the use of the tax revenues.

What are the Benefits to the Different Stakeholders?

There would be a win-win situation whereby, both the government and citizens, could benefit since the citizens would have accepted their obligations to pay taxes and as taxpayers they would be entitled to express their views on public policies directly or through their elected representatives and therefore advocate for better service delivery from States. Below are the obligations and benefits of both parties:

Government	Taxpayers
• Offers representation • Incentives for accountability, adequate and efficient provision of public goods and services • Incentives to strengthen bureaucracies capable of collecting and administering taxes effectively • Incentive to generate more revenues which compels States to foster well-being, quality of life and prosperity of their citizens • Parliaments oversee the raising of revenue and hold States accountable for the use of citizen's tax revenues	• Voluntary compliance over tax payments • Citizen demands for right to representation • Greater citizens' demand for better and effective delivery of public services • Increased citizen participation in decision-making processes over how tax revenues are raised and spent and in other public policy matters

Can this Model Work for Africa?

With sensitization this model may work for Africa, just like all other positive trends that have been adopted from elsewhere. It is important to note that Africa's historical legacy of colonialism resulted in having resource-based economies that created a socio-economic structure supported by foreign aid. Rent from natural resources and foreign aid inflows in Africa have generally been associated with the low levels of tax revenues due to limited support for domestic revenue-raising efforts; low quality of government institutions; and ineffective and unaccountable governments characterized by an absence of representation for taxpayers in the tax policy process.

In a number of African countries there is a "State-society imbalance", whereby the State has considerable power over it citizens because governments mainly gets their revenues from a source that is largely independent from the domestic or local economy. Consequently, most States tend to resist democratic pressure since they can still afford to survive in power and at the same time be unresponsive to their citizens. In response, the citizens are unwilling to pay taxes since they perceive their governments as being callous to their needs due to the prevalence of poor service delivery. Furthermore, citizens as taxpayers do not have the motivation to be politically active thus compromising the main avenues to economic development and political stability in developing countries.

Session 5: Tax Justice and Domestic Resource Mobilisation

This session is aimed at helping the participants to understand the importance of having fair tax policies as a means of mobilizing domestic resources for national development. Participants will discuss in detail why citizens have to pay taxes and how the tax burden can be shared amongst all citizens.

Objectives

At the end of the session, participants should be able to:

- Understand the need for Domestic Resource Mobilisation
- Explain who pays taxes or bears the burden of taxation
- Explain why there is need to have tax justice and the strategies needed to promote fair taxation

Activity: Case Study, Group Discussions, Question and Answer, Lecture

Duration: 120 minutes

Step by Step Process

- Ask the participants to break up in groups
- Provide them with activity cards and let them answer the questions based on the case study
- Give the participants an opportunity to share their views with others in the plenary by displaying their activity cards on the wall.
- The facilitator should then broaden the discussion on the linkage between taxation and democracy.
- Conclude the session by asking the participants what they have learnt.

Proposed Questions to Evaluate Participants' Learning

i. What do you understand by tax justice?
ii. How can tax justice be promoted in your country?
iii. What is the meaning of a tax burden and who is likely to bear the heavier tax burden in your country?
iv. If you were an elected leader in your country, how would you reduce the tax burden on the poor?
v. What role can CSOs play in attaining tax justice in your country?

Case Study 5: Environmental Catastrophe in Nigeria

Nigeria is presently losing about 351,000 square kilometres of its land mass to the desert which is advancing southward at the rate of 0.6 kilometres per year. According to a recent survey by the Centre for Arid Zones Studies in Nigeria, desertification is by far the most pressing environmental problem in the northern states along the Niger Republic border. The outward and visible sign of the desertification process is the gradual shift in vegetation from grasses, bushes and occasional trees, to grass and bush and in the final stages, extensive areas of desert-like sand.

Entire villages and major access roads have been buried under sand dunes in the northern portions of Katsina, Sokoto, Jigawa and Borno States. With about 55 percent of its land under siege from desert encroachment, Borno State which suffered from a protracted fifteen-years drought in 1972-1987, is one of the most threatened land areas of Nigeria. Perhaps more spectacular, and of grave consequence are the persistent droughts which, a number of times, have resulted in famine in the northern part of the country. During the drought of 1972-1973 for instance, about 300,000 animals died and farm yields dropped by up to 60%.

The intensification of the use of fragile and marginal ecosystems has led to progressive degradation and continued desertification of marginal agricultural lands even in years of normal rainfall. It is feared that the damage by drought and population pressure may have resulted in the genetic loss of a vast array of valuable plant species. Pressure on the dwindling resources in the arid prone areas has caused a number of devastating socio-political and sectarian conflicts in the country with concomitant death, injury and heavy economic losses.

Inappropriate agricultural practices, the destruction of watersheds, and the opening up of river banks and other critical areas have led to silting of river beds and loss of water sourses. Uncontrolled use of agro-chemicals and the concomitant problems of chemical persistence in the soil in humid areas and soil-crust formation in arid climates have contributed to salinisation and destruction of vast agricultural lands.

Petroleum prospecting with its attendant oil pollution problems (including spills, oil well blow-out, oil blast discharges, improper disposal of drilling mud) has created problems such as: the loss of the aesthetic value of natural beaches due to unsightly oil slicks; damage to marine wildlife, modification of the ecosystem through species elimination and the delay in biota (faunal and floral) succession; and decrease in fishery resources; Gas flaring and the resultant problems of ecosystem heat stress, acid rain and acid precipitation have prompted destruction of freshwater and forests resources in the coastal areas of the country. A scientist once estimated that the heat and energy emanating from gas flaring in 1986 was equivalent to all the electrical power generated by the Nigerian Electricity Power Authority (NEPA) that year. Global estimates indicate that the flaring of petroleum associated gas in Nigeria alone accounts for 28% of the total gas flares in the world.

The problems of exposure to radiation, creation of artificial ponds associated with bad mining practices and non-reclamation of mining waste lands as provided for in the Minerals Acts are common in the mine fields of Jos Plateau, Enugu and other locations.

Uncontrolled logging and tree felling from which government generate paltry taxes accentuated by lack of re-stocking are the order of the day in many parts of the southern states of Nigeria. This carries with it loss of precious biological diversity.

Stack fumes from industries emit nauseating gases and particulates with grave respiratory and cardiac ailment consequences. Their physical spread often occludes sunlight for hours in several parts of Lagos, Kano, Enugu and Port-Harcourt. Air inversion with its accompanying foggy dispersion and visibility reduction to less than 20 meters has almost become a permanent feature of the Oko Baba mid-section part of the Third Mainland Bridge in Lagos where saw millers burn away sawdust and other wood shavings. A similar phenomenon is experienced at the toll gate end of the Lagos-Ibadan Expressway at Oregun, where smoke from a nearby dump site pollutes the air and emits nauseating odour.

The problems of industrial pollution are enormous. Nigeria has about 5,000 registered industrial facilities and some 10,000 small scale industries operating illegally within residential premises. In places like Kano, Kaduna and Lagos, coloured, hot and heavy metal-laden effluents especially from the textile, tannery and paints industries are discharged directly into open drains and water channels, constituting direct dangers to water users and biota downstream. Also disturbing is the practice whereby some industrial facilities bury their expired chemicals and hazardous chemical wastes in their backyard threatening the ground water quality.

Excessive pressures on available urban resources, infrastructure and space, due to rural urban migration and the resultant problems of urban decay and squatter settlements are evident in Lagos, Port-Harcourt, Ibadan, Umuahia, Kano, Kaduna, Maiduguri and of recent Abuja and its satellite towns.

Source: UNCSD, 1997, Nigeria Country Profile Implementation of Agenda 21: Review of Progress Made Since The United Nations Conference on Environment and Development, 1992

Questions for Discussion on Case Study

1. ***What are some of the environmental issues in the case study?***
2. ***Who is most affected and who is going to bear the burden of cleaning up the environment? In what way?***

Facilitator's Notes

Why do we need Fair Tax Policies or Tax Justice?

- Tax justice is necessary in order to broaden the tax base and increase the amount of revenue poor countries collect from tax. Increased tax revenue ensures sustainability of funding required to implement public policies and programmes aimed at addressing development, poverty reduction and inequality.
- Fair tax policies promote equity by increasing redistribution of wealth and the rich individuals and large corporations bear the biggest burden of taxation. Transparency and accountability will also promote stronger and more accountable States, ownership and higher social involvement of citizens.
- Participation enables the citizens, as taxpayers to have an opportunity to hold their governments accountable on the quality of public goods and services and consequently increase their representation in decision-making processes as well as discuss tax and spending policies.

This will consequently contribute to the building of a democratic political system and promote good governance.

- In a democracy, the government, the parliament, the taxpayers or citizens and corporate entities all have got defined responsibilities to play in order to have tax justice. The government needs to openly and transparently account for and ensure that expenditure by the State is budgeted and accounted for through democratic and transparent processes; the parliament approves the budget and plays an oversight role and the citizens duly pay their taxes.

Strategies needed to promote fair tax policies

1. Increase tax collection by promoting fair fiscal systems that will reduce on the impact of indirect taxes and increase on collections from direct taxation;
2. Fight tax policy loopholes that diminish countries resources by eliminating arbitrary tax exemptions and tackling tax dodging of MNCs using strong regulatory framework;
3. Build State capacity by formalization of part of the informal economy.

Resources from Natural Resource Extraction

Africa has vast amount of natural resources like land, forest, timber, wildlife, petroleum, natural gas, oil and other minerals. A large part of government revenue in Africa comes from natural resource rents, for example extraction of oil, mineral and logging or timber harvesting. If well managed mineral resources have got a special contribution towards economic development and transformation. Natural resources are expected to create employment, add value, knowledge and skills, to human development, generate foreign exchange and increase government revenue so that governments can provide social and economic infrastructure. Taxes form the largest revenue from minerals in the form of direct State participation (non-tax instruments), royalties, and other direct and indirect taxes.

When a particular mine is established the State has an automatic share in the mine, in form of income tax since the company declares dividend that is shared among its shareholders. In various countries, production sharing agreements are common with petroleum companies. Other forms of taxes are resource rent, whereby governments impose a particular tax on the mine any time a certain amount of mineral is produced or have a contract for automatic shares in the revenue a company obtains. Governments may also impose taxes in form of royalty, which is a value of sales/ exports/ export price whereby when a company produces, the State imposes a particular percentage which is charged on the sale of a particular mineral. A fixed percentage of royalty may be charged on the volume of minerals produced over a period of time; any time the mineral is produced irrespective of the price of mineral, profitability of company, volatility of the mineral prices, inflation etc. A sliding royalty or flexible royalty is a percentage charged on the volume of mineral produced over time based on the profitability of the company, whereby if it is making profit it pays more and when it makes losses it pays less. A flexible royalty also applies on the net melted value of mineral of the end product and not on the raw mineral. Other taxes on natural resources include corporate income tax, import/export duties, capital gain tax, additional profit tax and windfall taxes.

Case Study 6: Oil in Uganda: Is it a Raw Deal

OIL IN UGANDA COMMENT: A BAD PRECEDENT AND A BAD OMEN

In the absence of adequate regulations at the time, it is not clear whether Heritage's disposal of drilling waste on Douglas Oluoch's land was technically illegal. But it certainly fell spectacularly short of the "international best practice" which the Petroleum Bills currently before Uganda's parliament affirm as the standard for the country's nascent oil industry.

Even if the wastes were relatively innocuous (harmless), disposing of them for a pittance in a private deal with a semi-educated farmer was, at very best, shady and cheapskate. And the apparent concern subsequently shown by the National Environment Management Authority (NEMA) suggests that the wastes were quite possibly not innocuous.

The UK-based Heritage walked away from Uganda in 2009 with hundreds of millions of dollars in profits from its exploration foray, after selling its interests to Tullow Oil for US$ 1.45 billion—and then contested and refused to pay the US$ 404 million capital gains tax levied upon the transaction by the Uganda Revenue Authority (URA). However, the Ugandan Tax Tribunal ruled in favour of Uganda arguing that "it was the location of the assets which formed the subject matter of the sale that was the pertinent issue rather than the jurisdiction in which the sale took place". The tribunal ordered Heritage "to pay the tax, including government's costs i.e. US$434million".

This is a paradigm case of corporate irresponsibility. At the macro level of trying to maximise its already substantial profits to the detriment of the Ugandan treasury, and at the micro level of cheating Oluoch, Heritage has displayed what a former British prime minister, with reference to the behaviour in Africa of another British company, famously termed "the unacceptable face of capitalism."

This was a bad start for Uganda's oil industry. The international oil companies that remain here, and those that will come in the future, will have to work hard to shake off the aura of avarice and duplicity that Heritage has left behind as its major legacy to Uganda.

At the same time, the Ugandan authorities' handling of this case suggests a worrying lack of monitoring and follow-up capacity.

International oil companies have now been exploring the Albertine Rift continuously for more than a decade. And yet only now have the National Environmental Management Authority and other major government players come up, at last, with an Environmental Monitoring Plan for the oil producing area.

How much confidence can Ugandans have in the authorities' ability to implement the plan when we learn, from this case, that NEMA has failed to report to a local government the results of analysis of a potentially polluted soil sample a whole three years after the sample was taken?

If the existing monitoring capacity was inadequate to cope with the early exploration phase, how will it cope with a greater workload as production comes on-stream, and as more companies move into exploration through future licensing rounds?

Source: www.oilinuganda.org

Questions for Discussion on the Case Study

i. What are some of the environmental issues associated with oil exploration in Uganda?
ii. Who is responsible for the pollution and what is being done about the situation?
iii. What is Uganda's capacity in handling such environmental related issues associated with oil exploration and drilling?
iv. Who is likely to carry the burden of cleaning up the degraded environmental?
v. Are there similar occurrences elsewhere in Africa?

3. Natural Resources Depletion

The ecosystem also directly bears the burden of taxation in the form of natural resource depletion, and the depletion of ecosystem services. Oil and gas exploitation causes tremendous ecological harm in terms of destruction of the environment and nearby forestry cover. The people that are dependent on the environment therefore also bear the indirect effects of taxation when they are forced to pay in order to clean up a polluted or restore a degraded environment.

Session 6: Sources of Tax Injustice in Africa

This session is intended to help the participants appreciate tax injustice and the need to get more information on its prevalence so as to participate in overcoming it. A case study on the extraction industry from Sierra Leone will be used in this case, but a facilitator may decide to use another case study that may be familiar to the participants. This session will provide the participants an opportunity to discuss Africa's development challenges, in particular the assertion that "Africa's rich natural resources are a curse to the continent'.

Objectives

At the end of the session, participants should be able to:

- Identify the sources of tax injustices in Africa
- Detect unfair tax practices and identify the means to eradicate them
- Point out areas that need to be addressed in order for Africa to benefit from its rich natural resources.

Duration 120 minutes

Activity: Group Discussion of Case Study; Question and Answer and Lecture

Step by Step Process

i. Introduce this session, drawing from the participants' learning from the previous one and define tax injustice
ii. Introduce the case study and break up the participants into groups.
iii. Give the participants specific questions to guide their group discussion as they engage each other.
iv. Answers should be written on a flip chart for presentation in the plenary
v. Enrich the discussion by emphasising areas of importance and conclude the session by identifying the key learning points
vi. Conclude the session with an assessment of what the participants have learnt

Proposed Questions to Evaluate Participants' Learning

i. What are the causes of tax injustice in Africa?
ii. What is the cause for Africa's maldevelopment?
iii. How can the existing unfair tax practices in your country be corrected?
iv. What are some of the challenges facing tax administration in your country?

Case Study 7: The Challenge of Africa's Maldevelopment

Sierra Rutile: 'Working for a better Sierra Leone'

High-grade rutile and ilmenite deposits in southern Sierra Leone may account for as much as 30 percent of the world's supply. Rutile and ilmenite both contain high concentrations of titanium dioxide. This is a white pigment used in plastics, paper, ceramics, food, sunscreens and a host of consumer products.

Titanium metal, also derived from titanium dioxide, is designated by the US Defense Department as a strategic material, largely because of its use in light armour and the aerospace industry in military aircraft and missiles.

Sierra Leone's rutile deposits are thus of strategic importance to the United States and its allies. The deposits are controlled almost exclusively, both as exploration concessions and in an active mine, by the Titanium Resources Group (TRG), a public liability company incorporated and domiciled in the British Virgin Islands. It is registered on the London Stock Exchange. TRG is 59 percent owned by Jean-Raymond Boulle, a controversial mining magnate with extensive contacts in the USA and Canada, who allegedly helped finance the march to power of Laurent Kabila in the Democratic Republic of Congo (then Zaire) in 1997.

The rutile mine in southern Sierra Leone was closed during the civil war in 1995, and re-opened in 2006 by TRG after one of its directors, John Sisay, negotiated a deal with the Government of Sierra Leone (GoSL) according it a royalty rate of just 0.5 per cent (the standard is 3 per cent) and a 10-year tax holiday on fuel taxes. The IMF estimated that this would cost the country US$98 million in lost revenue between 2004 and 2016.

The TRG mining contract and the foundation it established to support community development in areas affected by its dredging have been much criticised by civil society groups. The groups have documented the loss of revenue for the cash-strapped government, and the massive social and environmental upheaval caused by the mine. To date this has forced the relocation of 13 communities and turned an estimated 190,000 hectares of formerly thriving agricultural land into turgid lakes and wasteland, destroying livelihoods. Communities heap scorn on the company's slogan, 'Working for a Better Sierra Leone'.

As part of a mining reform process started in 2008, the GoSL has said it will re-negotiate the much-criticised mining contract with TRG. But, given the lack of transparency of this process, civil society groups fear that exploitation of the rutile will continue to produce what they call 'blood rutile.'

Source: Tax us if You Can; Why Africa should stand up for Tax Justice, TJN-A

Questions:

i. What key development issues strike you in the case study?
ii. Do you have a similar example of exploitation of natural resources in your country?
iii. What do you think is preventing the Government of Sierra Leone from taking action against the mining company?
iv. What role can CSOs play in addressing this matter?

Facilitator's Notes

What are the Sources of Tax Injustice in Africa?

National budgets are affected by loss of tax revenues as a result of illicit capital flows and non-collected domestic resources that include tax breaks, low fiscal pressure, institutional weakness and non-taxation of the informal economy. There are several causes of tax injustices that have led to Africa's impoverishment, some of which include:

- The existence of secrecy jurisdictions or tax havens that provide high levels of confidentiality, to hide income from tax and shelter criminal tax practices.
- Autocratic governments often helped by 'respectable' economic mercenaries who make use of regulatory gaps and loopholes to evade taxation.
- Tax policies that are often excessively and exclusively influenced by multinationals and international finance institutions (IFIs). These policies include undermining domestic (taxable) industries providing income and employment; shrinking State budgets; and emphasising the importance of odious debt repayment.

Tax injustice in African countries has therefore been going on due to a number of factors that include:

- Selective development or maldevelopment
- Regressive taxation
- Limited taxation undermining representation
- Ineffective tax and customs administration

4. Selective Development or Maldevelopment

Since the 19th century when Africa was colonized the continent's natural resources have been unfairly exploited by the more advanced and powerful countries of the world. In terms of natural resources, Africa is possibly the richest continent in the world with the African Union (AU) estimating that the continent holds 38 per cent of the world's uranium; as well as 42 per cent of gold; 73 per cent of platinum and 88 per cent of diamonds[3]. Other sources add that more than 80 per cent of the world's known reserves of coltan; 57 per cent of cobalt; 39 per cent of manganese; 31 per cent of phosphates and 9 per cent of bauxite; lie under African soils[4]. The DRC is estimated to have a total value of natural resources of US$24 trillion, two times the GDP of the world's leading economic power, the USA and in terms of copper, the country has the second highest level of reserves in the world, about 70 million tons after Chile's 88 million tons. International structures have continued to be used to facilitate cheapened access to resources and impoverish Africa. Little or no asset transformation or value addition takes place within the continent, despite, for example, having such a high share of the world's resources such as rough uncut diamonds. African countries are only developed selectively, through specific industries useful for providing further benefits at low cost to capital exporting countries.

3 African Union, Conference of Ministers Responsible for Mineral Resources Development 1st Ordinary Session, 13—17 October (Addis Abeba: African Union, 2008).
4 R Custers, 'Réviser des Contracts Minières Iniques', in Manière de Voir, Number 108, December 2009—February 2010.

Africa's maldevelopment is reflected by the fact that despite most countries having abundant mineral and other resources they are still classified as least developed because of the type of development they have been subjected to. These countries are only developed selectively, through specific industries that are deemed to be useful for providing further financial benefits at low cost to capital exporting countries that have got the extraction or mining concessions. Since the colonial era, there has been no growth for Africa, with its share of global exports declining from 7.3 per cent in 1948 to 2 per cent in 2009[5]. The continent continues to lose huge sums of money as a result of illicit capital flight and some of the major extraction industries employing the growing population have been neglected by the governments. Many resource rich African countries have also been susceptible to armed conflicts which cost the continent $18 billion per year, and an estimated $300 billion since the early 1990s[6].

Characteristics of Maldevelopment

- Having a narrow and distorted tax-base vulnerable to the demands of large taxpayers that is 'legal' citizens and corporations, benefitting from export-oriented economies. However the blame is often heaped on the abuse of political power at the State level in developing countries rich in resources and mismanagement as a result of corruption.
- Little or no development of an active taxpayer citizenry, leading to lack of political representation and the holding of African governments accountable.
- Failure to disclose information on the projects, level of investment and to redistribute revenue, income and wealth.
- An over-valued currency making other export sectors less competitive (the 'Dutch disease'), distorting the economic base towards investment in extractive industries.
- Over-dependence on natural resource rents as a source of government revenue, resulting in rentier economies, failure to capture just portions of tax revenue due to hidden subsidies such as low or zero tax and royalty rates, falsified profits and tax-exemptions.
- A failure to tax exploitation or extraction industries, degradation and loss of critical ecosystem services.

5. Regressive taxation

African governments have been forced to adopt taxation systems that are regressive such as the VAT, hence the unfair tax burden being largely borne by the poor. This injustice can be avoided if governments focused on direct taxation that can be administered by using progressive marginal tax rates. Basic necessities on which the poor spend most of their income could be exempted from consumption taxes, thus reducing the tax burden of the most vulnerable groups. Governments should also put emphasis on promoting the efficiency of tax collection so as to tackle tax evasion and avoidance. The one-off payments to society resulting from disturbing social order such as fines, penalties, user charges, road levies could be indexed on income levels to increase the

5 S Ugwu, 'Africa's Share of World Exports Stands at 2% - Expert', Business World (Lagos: Business World Communications Limited, 2009) <http://businessworldng.com/web/articles/875/1/Africas-Share-of-World-Exports-Stands-at-2--Expert/Page1.html>

6 S Ugwu, 'Africa's Share of World Exports Stands at 2% - Expert', Business World (Lagos: Business World Communications Limited, 2009) <http://businessworldng.com/web/articles/875/1/Africas-Share-of-World-Exports-Stands-at-2--Expert/Page1.html>

progressivity of taxation. Since tax policies are largely shaped through undemocratic processes and often imposed as a result of external intervention by agencies such as the IMF, who have their own agendas, active awareness of taxation, and the concept of tax advocacy should be promoted in all African countries. Both the World Bank and the IMF have often pushed for the implementation of tax policies that counter the proposals advanced for a fairer tax system and thus directly hindering the introduction of progressive policies that would contribute to increased public spending and alleviation of poverty in some of the world's poorest countries.

Some of the Negative Effects of Tax Policies Proposed by the IFIs include:

- Trade and investment liberalisation programmes have expedited the collapse of domestic (taxable) industries, often causing people and businesses to switch to the informal sector.
- Phasing out trade taxes and tariffs, which comprised 30 to 50 per cent of tax revenues in many developing countries prior to trade liberalisation, has greatly reduced government revenues. IMF research shows that low-income countries have been able to recover less than a third of lost revenue, on average, by following the standard prescriptions around increasing VAT and other domestic taxes[7].
- Phasing out wealth, property and capital gains taxes, and reducing the maximum rates and progressivity of other direct taxes such as corporate and personal income taxes have greatly reduced government revenues and public expenditure on the goods and services largely consumed by the poor.
- Shifting the tax charge to consumption, in particular through the introduction of indirect taxes such as VAT, has made tax systems more regressive even with exemptions on some basic necessities.
- Capital account liberalisation and the dismantling of monitoring mechanisms to measure capital inflows and outflows immensely facilitated illicit capital flight of which a large component is tax loss via trade mispricing.

6. Limited taxation undermining representation

Dependence on revenues from the extractive industries has created a situation in which many African governments are largely sustained by resource rents extracted from a very small number of powerful companies, who in return for taxes paid have got a high degree of influence over the tax policy. As a result the majority of citizens are excluded from the political process of tax policy formulation. This process has predominantly become an interaction of large transnational corporations or powerful governments, that are eager to secure preferential tax concessions for corporations or home country investors; the rentier States financed by resource income that remain financially secure; and the international finance institutions and bilateral donors, that impose their 'tax consensus' through loan and grant conditionalities. The citizens are thus sidelined and left to bear the huge tax burden and being excluded from taking decisions pertaining to public expenditure that would finance education, health, infrastructure and agriculture.

7 Thomas Baunsgaard & Michael Keen, Tax Revenue and (or?) Trade Liberalization, IMF Working Paper WP/05/112 (Washington DC: International Monetary Fund, 2005).

7. Ineffective Tax and Customs Administration

Tax administrations in most African countries have often been characterised as either corrupt or inefficient, hard to reach and unwelcoming places. One of the more efficient ones, the Kenyan Revenue Authority (KRA), employed approximately 3,000 tax and customs officers in 2009, to serve a population of 32 million. Meanwhile Nigeria, with its 5,000 tax officials, cannot engage in a meaningful tax dialogue with its 140 million citizens. On the other hand the Netherlands, as an example of a developed country, employs 30,000 tax and customs officials to serve a population of 10 million. Most of the time of the Dutch tax and customs officials is spent on managing tax credits, and responding to taxpayer queries rather than simply extracting revenue.

Throughout Africa there is need to hire more tax officers, with a public mandate to serve the interests of the citizens rather than simply extracting revenue from them. Africa's lack of tax personnel is a product of decades of failed tax policy, where the role of tax administrations was seen as implementing economic stabilizing programmes prescribed by IFIs, including the IMF. Tax authorities have largely focused on collecting revenue from easier sources and neglecting their wider public mandate of reaching out to all taxable sectors. They have also created Large Taxpayer Units (LTUs) that give special treatment and quicker response and customer service to the large and rich taxpayers. These tendencies within the tax administrations have undermined staff morale causing many to defect to the private sector; reduced productivity within the revenue agencies and encouraged corrupt practices. Consequently revenue officials have increasingly become receptive to bribes and have been intimidated by vested interests of the State and other powerful interest groups. Several tax agencies have also had limited access to information technology, and infrastructural and institutional capacity to coordinate provincially, nationally and internationally and thus limited capacity to combat tax avoidance by enforcing the relevant laws.

Session 7: Promoters of Tax Injustice in Developing Countries

This session is intended to broaden the participants' understanding of tax injustice and the role played by different actors in promoting the vice. The participants will discuss the various mechanisms that can be encouraged for each stakeholder to ensure tax justice.

Objectives

At the end of the session, participants should be able to:

- Identify the promoters of tax injustice and how the practice is perpetuated
- Discuss how transparency and accountability can be improved in respect to taxation.

Activity: Lecture, Question and Answer

Duration: 90 minutes

Step by Step Process

- Build the discussion on the previous session.
- The facilitator should then lead a discussion on how the different players can be influenced to promote tax justice.
- Allow the participants to ask questions and have them answered
- Conclude the session by asking questions of what the participants have learnt.

Proposed Questions to Evaluate Participants' Learning

i. Who are the main perpetuators of tax injustice in your country?

ii. What can be done to ensure that different actors that promote tax avoidance are transparent and accountable in conducting their businesses?

iii. How can civil society educate the citizens about the existing tax injustices?

iv. How can your government ensure that the various loopholes used in avoiding taxation are covered?

Facilitator's Notes

Principles of fair tax policies are:

- **Equity:** A fair tax policy can have a huge impact on addressing inequality and poverty reduction in society through income redistribution;
- **Transparency:** this is a key element to guarantee the social contract between citizens and their government. This would result in increased accountability and confidence in the public institutions;
- **Sustainability:** Increasing domestic resources and reducing external financing dependency would lead to predictable and sustainable financing.

Promoting Tax Justice

Tax injustice or unfair taxation is promoted by several actors that legally justify their actions under the guise of tax planning. Tax evasion is illegal and yet tax avoidance is acceptable as a respectable way of doing international business. Some people have argued that tax avoidance is just a smarter form of tax evasion that is justified as the legal utilization of the tax regime to one's own advantage, so as to reduce the amount of tax that is payable under the provisions of the law. The United States Supreme Court has defined tax avoidance as "The legal right of an individual to decrease the amount of what would otherwise be his taxes or altogether avoid them, by means which the law permits, cannot be doubted." The major actors promoting tax injustice by avoiding making due payments include: Accountants, Lawyers, Bankers, Multinational Companies (MNCs), Secrecy Jurisdictions, Governments, Parliaments and Taxpayers.

Tax avoidance involves exploiting legal loopholes that are not explicitly illegal and transactions are often hid in offshore structures to reduce the risk of disclosure to tax authorities. The most common way of shifting capital from Africa through tax avoidance is by manipulating financial accounts, whereby MNCs avoid paying taxes by mispricing trade transactions between different jurisdictions and subsidiaries, and allowing their profits to be moved offshore without being taxed. It is rare for revenue authorities in Africa to challenge the tax avoidance practices of large companies since they lack sufficient staff as well as the expertise needed to analyse the accounts of these complex organisations. The secretive nature of illicit capital flow makes it difficult for countries to capture how much they are losing in form of unpaid taxes. It is extremely difficult to identify taxpayers, assess them, tax or even follow them up in order to enforce payment. The problem of capital flight is often underestimated and does not get enough attention in policy discussions in Africa due to insufficient data. However, in the recent years, more international research institutions are conducting research on the issue of illicit capital flight and this could enable CSOs and other stakeholder groups to engage policy makers on the subject.

The establishment of the AU/UNECA high level panel on illicit financial flows, which was inaugurated on 18th February 2012 in South Africa, will go a long way in determining the nature, pattern, scope and channels of illicit financial outflows from the continent; sensitizing African governments, citizens, policy makers, political leaders and development partners to the problem; mobilizing support for putting in place rules, regulations, and policies to curb illicit financial outflows; and influencing national, regional and international policies and programmes on addressing the problem of illicit financial outflows from Africa.

How Different Actors use their Positions to Avoid Taxation and how they can Promote Tax Justice

1. Accountants

Often the global accounting firms reinforce the culture of tax avoidance by claiming to have a duty to minimise tax liabilities of clients, which is in conflict with their duty to the public. To achieve tax justice, accountants should:

- never mix auditing with the provision of other services like corporate consulting or tax advice
- respect their duty to the shareholder and other users of accounts by ensuring companies report their finances truthfully
- respect the duty to the public by ensuring that companies give a truthful account of their role in society
- respect the duty to the environment by giving a truthful account of ecological harm and risk a company creates
- create ethical codes of conduct to counter arguments from company directors who may demand otherwise.

2. Lawyers

Lawyers play key roles in creating, interpreting and enforcing rules. Some lawyers act as conduits of secrecy, so as to meet the wishes of their clients while others find it difficult to resist pressures to provide tax evasion services. Lawyers also often lobby on behalf of their private clients to try to dilute draft public interest legislation and actively promote secrecy jurisdictions to their clients. None of the ethical codes of conduct promoted by the professional bodies of lawyers condemns the use of secrecy jurisdictions, aggressive tax planning or the promotion of noncompliant taxation behaviour by its members. To achieve tax justice, lawyers should:

- create a climate of compliance, where advice given is in the best interest of the management, shareholders and wider stakeholders
- create a climate of trust, where advice given is always within the letter and the spirit of the law
- operate with transparency, where all legal instruments on offer are maintained in a public registry, with known owners as beneficiaries
- work for the public interest, whereby they would not create secretive trusts or arrange ownership of fictitious companies
- Not offer contracts where the use of secrecy jurisdictions and tax havens are suggested, contradicting the spirit of the law.

3. Bankers

Banks play a major role in the world of secrecy jurisdictions, the weakest link in tackling global corruption. It is often difficult to find accounts in the name of specific individuals, as corrupt individuals or companies try to evade tax by setting up charitable foundations, trusts and International Business Companies in whose name they open accounts. Banks should:

- Know the laws of other countries and respect them in not offering secrecy services where clients, by not reporting their funds back home, can easily break money laundering or tax laws.
- Know who their clients are, and never accept a company without clear beneficial owners as a client.
- Keep records of the company or account beneficial owners for the period that interest and other capital gains are likely to be taxable, usually up to ten years.
- Work to improve financial transparency and not influence governments to try to establish new secrecy jurisdictions.
- Co-operate with regulators and judicial inquiries concerning their clients, placing the public rather than the client interest first as all banks operate with banking licences granted by the government.

4. Multinational Companies

Many African governments have based their development strategies on attracting foreign direct investment. This has placed multinational companies, especially those involved in the mining industries, in strong bargaining positions which they frequently use to reduce the amount of tax they are required to pay. They do this by lobbying for extensive tax holidays and other exemptions. They also engage aggressively in tax avoidance, often by using transfer pricing techniques to shift profits away from the countries where they are generated into subsidiaries located in secrecy jurisdictions. MNCs have a responsibility to ensure that they pay the taxes they owe in the countries in which they make profits. Many MNCs fail to do this and argue that tax is a business cost; and since costs have to be minimised, tax should be avoided wherever possible. Many companies, even those that like to claim they are responsible global citizens, see tax avoidance as an acceptable practice.

5. Secrecy Jurisdictions

Africa loses a vast quantity of its wealth through deals structured in secrecy jurisdictions or places commonly known as tax havens that facilitate illicit financial flows. Secrecy jurisdictions are defined as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use, secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so. Similarly, Free Zones, Special Economic Zones, or Export Processing Zones, are also clearly designed to confer advantages to those not resident in the countries hosting them. Companies operating in these zones usually seek anonymity in order not to be associated with the multinational companies owning them in order to avoid reputational risks.

Africa has its share of secrecy jurisdictions[8], which are also labeled tax havens, judicial and

8 Africa's secrecy jurisdictions include Liberia, Mauritius, Seychelles, Djibouti, Somali, Ghana, Botswana, Anjouan and Tangier, Tax us if you Can, TJN-A, 2011

regulatory havens, financial havens, Offshore Financial Centres (OFCs), International Financial Services Centres (IFSCs), or flags of convenience. Many of the IFSCs, OFCs, or similar constructions have been established with little popular consultation, parliamentary oversight, or evaluation of the causes, consequences, costs and risks of secrecy jurisdictions hosting such financial centres. These centres are already or may become competitors in the market for services that facilitate the handling of illicit financial flows from Africa. The main motives driving these flows include tax evasion and avoidance and the routing of payments for illegal arms trading, trafficking in human beings and bribery.

6. Government

Governments both local and national are responsible for developing and implementing domestic tax policy. The responsibilities of government in relation to tax policy are to raise revenues equitably; redistribute income and wealth to address poverty and inequality; reprice goods and services and represent the interests of citizens. Therefore the government is expected to create a system of taxation that:

- requires each person and corporate entity to pay tax according to their means and impose no undue cost on them to comply with that law
- provides them with reasonable certainty as to what is due and a system of access to information and arbitration when the law is not clear
- imposes a duty to ensure that taxes are applied impartially, free of corruption, and equally enforced
- ensures that taxes received are openly and transparently accounted for and State spending is budgeted and accounted for through democratic and transparent processes.

To promote Fair Taxation Governments should avoid:

- regressive tax systems that charge people on lower incomes a higher proportional rate of tax than those on higher incomes
- oppressive tax systems which charge a source of income to more than one tax
- inconsistent tax systems which charge similar types of income in different ways or at substantially different rates
- incomplete tax systems that are either not comprehensive in their scope or allow income to fall through loopholes.

7. Parliament

Under the Constitution of Uganda, parliament is responsible for passing laws that provide for good governance in the country. The government ministers are bound to answer to the people's representatives on the floor of the house and through the various parliamentary committees, parliament scrutinises government programmes, particularly as outlined in the State of the Nation Address by the President. The fiscal issues of the government, such as, taxation and loans have to be sanctioned by the parliament, after appropriate debate. Members of parliament need to:

- uphold the spirit and letter of the constitution that guarantees every citizen with equal rights to development

- question deals and treaties that are counter to the constitution in delivering on political and social justice and request for information on secretive extractive industries, such as oil and other investment deals to uphold equality of all taxpayers
- legislate transparent and comprehensible tax codes
- keep a dialogue with civil society on these common objectives.

Taxpayers: Citizens and Corporate Entities

There are different types of taxpayers and they all need to be treated according to their status, capacity, and the type of activity they are involved in. Taxpayers include both companies and individuals and they pay taxes directly on their income and indirectly, for example, on goods and services they consume. In their role as citizens, taxpayers must accept their duty to the State to cooperate with tax administrators and pay the taxes they owe as defined by the spirit of the law of the country where they reside or operate their business. They should neither evade or avoid taxes and seek to comply with the prevailing tax laws as they apply to each one of them.

Appendix 1

THE ROLE OF A FACILITATOR IN CARRYING OUT THE TRAINING

A successful training will depend on proper planning, preparation and delivery of the content on the part of the facilitator. Thus the facilitator must carefully:

1. Identify the training needs of the participants.
2. Set the training objectives
3. Analyze the participants
4. Design the learning experience
5. Conduct the training

Identification of the Training Needs

A training need is a gap that exists between what is required of people to execute their duties, roles, and responsibilities and what they actually know can enable them to perform effectively. Before undertaking the training, a training needs identification and assessment must be done, so as to ascertain whether the performance gap is due to deficiency in knowledge, skills, attitude, environmental conditions or motivational deficiency.

Recommended steps for identifying Trainings Needs

- Identify the existing problems in relation to tax education.
- Trace and identify the main cause and areas of problem is it lack of information, communication, attitude or institutional capacity.
- Establish the existing information, knowledge and training programmes that have been availed to the participants.
- Collect data on the training needs as felt by the target group, through questionnaires, interviews or consultative meetings.
- Convert the identified deficiencies into training objectives and subsequently into a training programme.

Analysis of the Participants

This analysis helps the facilitator to answer pertinent questions in relation to their knowledge, level of simplicity or complexity of the training content, style or method of training, and visual aids that will be required. In carrying out the analysis, the facilitator must take into consideration the:

- Education background of the participants
- Their work experience
- The age range
- Sex/gender consideration
- Size of the group
- Cultural and social considerations
- Level of exposure (political, economic, social, travel, knowledge)

Designing the learning experience

In designing the learning experience or what the facilitator wants the participants to benefit she or he should consider the:

i. Objectives and aims of the training
ii. Course Content
iii. Training materials
iv. Learning environment
v. Training methods
vi. Programme management
vii. Logistical support
viii. Facilitators/Resource Person to carry out the training.

Setting Training Objectives

This is the process through which the facilitator determines what she or he wants the participants to learn. The objectives must provide for the assessment of the learning process and determine the course of action after the learning has taken place. The major aim of setting objectives for any training is to facilitate communication between the designer of the training, the trainee and the facilitator of the training. In setting training objectives, active verbs that indicate behavioral change should be used. Training objectives are useful because they define the resultant behaviour of the training, assist in evaluation of the training and breaks up the training in sequences for appropriate instruction.

How to Conduct a Successful Training

- Be proficient and know your subject matter (knowledge on taxation). Read widely beyond the information provided in the training manual.
- Go over the training plan until you feel confident that you can conduct the training.
- Where possible share your views with co-facilitators or other people conversant with the subject matter.
- Ensure that all the training materials are in place and ready to be used.
- Be prepared to handle any training related problems as they arise in the course of the training.
- Have a positive attitude about the training, the participants and other co-facilitators.
- Rely on your strong points during the training and give the training your best shot.

Overview of Training Methods that can be used

A training method is an instrument or a technique that a facilitator employs for delivering the training content or for facilitating the learning process in order to achieve the predetermined learning objectives. Training methods provide a means for the participants to understand the specific training content. There are a variety of training methods that are recommended they include:

i. **Lecture method:** The facilitator, by virtue of his or her knowledge and expertise in taxation, presents orally or verbally the subject matter. The facilitator possibly uses visual or other training aids, but without active group participation. This method is appropriate where the facilitator knows much more than the participants on the subject matter and with a large group of participants. Lectures are easy to arrange and the facilitator can cover a lot of subjects in a short time. Many people can benefit from the lecture at the same time. However there is often no or minimal participation of the audience leading to distraction of participants. It is difficult for listeners to memorize the information given in the lecture and hard for the facilitator to assess its success.

ii. **Case study method:** It is a sample of a real life situation that allows the participants to learn on the basis of the summary of a well documented series of events, incidents and circumstances, centering on an individual, issue or situation. A case study can induce reality into the training setting and bring discussions down to a reasonable level of concreteness and reality and helps the participants to familiarize themselves with facts, situations and dilemmas that they might face in real life. Discussion of the case study can bring out the participants' assumptions, experiences, attitudes, preferences and ways of functioning, thus giving them an opportunity to correlate these with those of the others in the group. Case studies help the participants develop problem-solving skills and follow procedures. But if the case study is not practical and relevant to the subject at hand, discussions can easily go off track.

iii. **Question and answer method:** Encouraging discussions through questioning between the facilitator and participants and those among the participants is useful experience because the learner takes a more active role in the discussions and is able to determine the content of what is discussed, hence utilizing more of his or her senses. The questions will help the facilitator to determine what the participants already know about a topic so that she or he can focus on what they don't know, and therefore need to learn. The facilitator should be able to invite participation and involvement in the group process and get prompt feedback about how the training experience is being received.

iv. **Group discussion method:** Aims at a structured but informal exchange of knowledge, ideas, and perceptions among the participants on any issue or topic. Group discussions can provide a highly enriching and stimulating experience to the participants, who can develop new insights into various issues under discussion. The participants will be able to develop their interpersonal and group communication skills, since they will be provided with an opportunity to share their views in a comparatively secure and non-threatening environment. The participants will also be encouraged to develop greater respect for the points of view and opinions of others and become more tolerant. Group work promotes participation and the participants get to know each other well. However this method is of little use if the participants do not understand the method and the responsibilities given to them.

v. **Brainstorming:** Generates a wide range of solutions or options in solving a problem, addressing an issue or situation or in taking a decision, thus stimulating creativity in the group. Brainstorming is intended to develop a positive attitude among the participants by encouraging them to listen carefully to others, suspend judgement and outright rejection of their ideas, and refrain from making negative comments without going into their merits and demerits. Through brainstorming, shy and reluctant participants will be encouraged to share their ideas and fears without the fear of getting an immediate negative reaction from their colleagues, hence becoming open about their thoughts and viewpoints. This method is only useful when participants have some knowledge of the subject.

vi. **Handouts:** The facilitator may prepare copies of useful notes and important documents that are prepared beforehand and distributed to the participants before or after a session. The handouts provide a permanent record and useful reference material. The participants can read and clarify issues they may not have understood or asked questions about during the session. However the participants may not have the time to read the handouts, and they can only be useful if they are written in a relevant language and where participants are literate.

Factors that determine the choice of the training method

1. Learning objectives of the topic or session: The facilitator must ensure that the training method will help him or her realize the learning objectives of the training activity. For example group discussions and brainstorming methods provide great opportunities for sharing and exchanging of ideas and experiences among the participants.
2. Special characteristics of the training group: The nature of the training group, its composition, age, gender balance, social background and experience. For example the effectiveness of the case study method will depend on the analytical abilities of the group.
3. Time allocated for the topic or session: At the time of designing the training programme, the planning team draws up a schedule, allocating time for each training activity. One needs to keep the time allocation in mind when deciding on the method that he or she wishes to use for the training activity. Methods like group discussions generally require substantial time.
4. Level of competence of the facilitator in effective use of the method: A facilitator needs to objectively assess his or her own ability and expertise in using the method; in handling situations arising out of its application; and in analyzing the data generated by the method to arrive at the expected learning outcomes. One needs to be fully prepared for the method and feel confident in utilizing it.
5. Availability of facilities and resources required for the method: The facilitator needs to keep in mind the practical and operational aspects of using the methods such as costs, materials, equipment and other facilities required for the purpose.
6. Stage of the training programme: It is not advisable to use intensely interactive and participatory methods, like group discussions, in the initial stages of the training programme because the group is maturing, the patterns of relationships are being formed, and support mechanisms are just being established.

Professional and Mental Preparation of the Facilitator

The facilitator should be comfortable with the training manual and be flexible to apply it to her or his local environment. The training manual is only supposed to guide the facilitator and to be used for quick reference, but the person using it should have the liberty to apply it according to the situation on the ground. In order for you to have the necessary confidence as a facilitator to deliver the training and respond to the queries from the participants, you must ask yourself the following questions:

- Am I comfortable with my assignment?
- Have I accepted the assignment under some pressure and I'm not sure of my own ability to deliver?
- Am I adequately prepared for my presentations?
- Have I done enough reading beyond what is presented in this manual?

- Do I have appropriate local examples for each session?
- Renew your notes, update them and add new examples.
- Plan to make your presentations exciting and enjoyable for the participants.

Glossary

Balanced Budget
This is when the government expenditures are exactly equal to tax revenues in a given year. A government is then said to be running a balanced budget for that year.

Budget Deficits
When government expenditures exceed government tax revenues in a given year, the government is running a budget deficit for that year. The budget deficit, which is the difference between government expenditures and tax revenues, is then financed by government borrowing; or the government issues long-term, interest-bearing bonds and uses the proceeds to finance the deficit.

Budget Surpluses
When government expenditures are less than tax revenues in a given year, the government is running a budget surplus for that year. The budget surplus is the difference between tax revenues and government expenditures. The revenues from the budget surplus are typically used to reduce any existing national debt.

Capital Gain Tax
Is a tax on capital gains, the profit realized on the sale of a non-inventory asset that was purchased at a cost amount that was lower than the amount realized on the sale. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property. Not all countries implement a capital gains tax and most have different rates of taxation for individuals and corporations.

Duty
In economics, a duty is a kind of tax, often associated with customs, a payment due to the revenue of a State, levied by force of law. It is a tax on certain items purchased abroad. A duty differs from a tax in being levied on specific commodities, financial transactions, estates, etc., and not on individuals; thus import duties, excise duties, death or succession duties, etc., but not of income tax that is levied on a person in proportion to his or her income.

Export Duties
Are taxes or duties imposed on exports.

Gender Roles
Are socially and culturally assigned functions and responsibilities of men and women that have been based on traditions and values and hence shaped people's attitudes and behaviors.

Government
Is a body of people that sets and administers public policy, and exercises executive, political, and sovereign power through customs, institutions, and laws within a State.

Income Tax
This is a direct tax that is imposed on income derived from business, employment, rent, dividends, interest, and pensions.

Informal economy
These are economic activities and the income derived from them that circumvent government regulation, taxation or observation. It includes unreported income from the production of legal goods and services, either from monetary or barter transactions, and so includes all economic activities that would generally be taxable were they reported to the tax authorities.

Import Duties
Are taxes or duties imposed on imports

National Debt
The total stock of government bonds and interest payments outstanding, from both the present and the past, is known as the national debt. Thus, when the government finances a deficit by borrowing, it is adding onto the national debt.

Non-tax Revenues
These are Government revenues that are not generated from taxation, notably rents and royalties from extractive industries.

Personal Tax Relief
This is a uniform tax relief that is automatically granted to all those people employed and all other personal income earners. The tax relief is deducted from the total tax payable of each individual taxpayer, thereby reducing the total amount of tax that an individual pays.

Policy
A policy is a plan, course of action, or set of regulations adopted by government, business or an institution, designed to influence and determine decisions or procedures.

Presumptive Tax
Involves the use of indirect means to ascertain, or arrive at, a tax liability where the level of tax liability cannot be easily ascertained, for example, when taxing small-scale businesses and agriculture. The term ‘presumptive’ refers to the legal presumption that the taxpayer’s income is not less than the amount that is approximated when completing a tax return.

Progressive Taxation
Is a tax system in which as income rises, the amount of tax paid increases in proportion to the income as well as in absolute amount, that is to say the percentage tax rate increases as the income rises. It is also referred to as graduation tax.

Public Expenditure
Is the expenditure incurred by public authorities like central, State and local governments to satisfy the collective social wants of the people such as health, education, defence, pensions and expenditure on infrastructure.

Regressive Taxation
Is a tax system in which as a person’s income from all sources rises, the amount of tax they pay reduces in proportion to their income even if it increases in absolute amount i.e. their percentage tax rate falls as their income goes up.

State
A State is a self-governing political entity. The term State can be used interchangeably with country.

Tax
A tax is any obligatory payment made to a State for which no direct benefit is provided in exchange, for example a payment based on a percentage of income earned from an employment is a tax. It is fee levied by a government or a regional entity on a transaction, product or activity in order to finance government expenditure.

Tax Advocacy
The campaigning and information dissemination methods that civil society uses to represent the public interest in taxation, and to give a voice to those who currently have none in tax policy.

Tax Avoidance
Is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. The United States Supreme Court has defined it as "The legal right of an individual to decrease the amount of what would otherwise be his taxes or altogether avoid them, by means which the law permits, cannot be doubted."

Tax Base
Is the amount or value upon which the assessment or determination of a tax liability is based. For example, the amount of income declared for tax purposes is the tax base for income tax. For excise taxes and VAT, the tax base is the ex-factory price of the commodity. Tax base can also refer to the range of assets and transactions that a country chooses to tax. A broad base includes a wide range of assets and transactions, a narrow base relatively few transactions.

Tax Burden
This is the amount of tax borne by an individual or company. It may not be the same as the tax actually paid because of the possibility of shifting tax to another individual or company.

Tax Deduction
Represent an expense incurred by a taxpayer, which is subtracted from the gross income when the taxpayer computes his or her income taxes. As a result, the tax deduction will lower overall taxable income and thus lower the amount of tax paid. Examples of allowable deductions can be mortgage payments and pension contributions.

Tax Effort
This is the proportion of tax revenue that is collected compared to the actual revenue potential. A high tax effort means that the government is able to collect most of its potential tax revenue. At the national level, the tax effort has a different meaning: it is tax revenues as a percentage of GDP (Gross Domestic Product).

Tax Evasion
Is the general term for efforts by individuals, corporations, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true State of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions).

Tax Exemption
This is an exclusion from all or certain taxes with the result that part of the tax revenue that would normally be collected is foregone. Most basic goods are exempted from VAT (Value Added Tax) to make this tax less regressive.

Tax Expenditure
This is any reduction in government revenue that results from applying a preferential treatment such as deductions and exemptions. It is therefore regarded as a cost to the State of tax exemptions or deductions.

Tax Gap
The tax gap is defined as the amount of tax liability faced by taxpayers that is not paid on time. It is the difference between the amount of tax revenue that the government should be able to collect and the actual amount that is collected. This difference is mainly explained by tax evasion and tax avoidance.

Tax Haven
Is a country that offers foreign individuals and businesses little or no tax liability in a politically and economically stable environment. Tax havens[9] also provide little or no financial information to foreign tax authorities. Individuals and businesses that do not reside in a tax haven can take advantage of these countries' tax regimes to avoid paying taxes in their home countries. Tax havens do not require that an individual reside in or a business operate out of that country in order to benefit from its tax policies. However, pressure from foreign governments that want to collect all the tax revenue they believe they are entitled to have caused some tax haven countries to sign tax information exchange agreements (TIEAs) and mutual legal assistance treaties (MLAT) that provide foreign governments with formerly secret information about investors' offshore accounts.

Tax Holiday
This is a period during which a tax is not payable or is reduced. Governments usually create tax holidays as incentives for business investment. They are often designed to allow foreign companies to invest in a country and not pay tax for an initial period of years to enable them recover part of their establishment costs and stabilize.

Tax Rebate
This is also referred to as a tax refund. A tax rebate is a refund on taxes when the tax liability is less than the taxes paid.

Tax Subsidy
This is a form of financial assistance to an individual, business or economic sector, where the recipients receive the benefit through the tax system. It can be used to support businesses that might otherwise fail, or to encourage activities that would otherwise not take place. Examples include tax deductions or exemption from consumption taxes such as VAT (Value Added Tax).

Tax Threshold
This is the level of income above which income is taxable. Most countries put a threshold level in place in order to exclude low-income individuals from the tax net.

9 Countries considered tax havens include Andorra, the Bahamas, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, Hong Kong, the Isle of Man, Mauritius, Lichtenstein, Monaco, Panama, Switzerland and St. Kitts and Nevis.

Value Added Tax

Is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at the final point of sale. The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed. For example when a table is being produced the carpenter is charged a value-added tax on all of the supplies they purchase for producing the table. Once the table reaches the shelf, the consumer who purchases it must pay the value-added tax that applies to him or her.

Windfall Tax

This is a tax levied by governments against certain industries when economic conditions allow those industries to experience above-average profits. Windfall taxes are primarily levied on the companies in the targeted industry that have benefited the most from the economic windfall, most often commodity-based businesses or natural resource based industries.

Withholding Tax

Is an income tax that is usually deducted at source from income payments made to individuals who do not directly pay income tax through the Pay As You Earn system. It is mainly levied on consultancy fees, dividends and interest income. The individual is expected to deduct this amount of tax from the total tax payable when filling in income tax returns. Withholding tax can also refer specifically to tax deducted from a payment made to a person outside the country; in this sense it tends to apply to investment income, such as interest, dividends, royalties and license fees.

Publications for Further Reading

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Towards Taxation for Development: Challenges and Opportunities; The Case of Uganda, SEATINI–Uganda, 2010

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