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PROGRESSIVE TAX REFORMS FOR EDUCATION FINANCING IN UGANDA

December 2023

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Acronyms

AAIU	ActionAid International Uganda
CIT	Cooperate Income Tax
CSOs	Civil Society Organizations
EAC	East African Community
EPRC	Economic Policy Research Center
FTM	Fair Tax Monitor
GDP	Gross Domestic Product
GOU	Government of Uganda
HNWI	High Net Worth Individuals
INGOs	International Non-Government Organisation
ITA	Income Tax Act
LG	Local Government
MDAs	Ministries, Departments and Agencies
MOES	Ministry of Education and Sports
MOFPED	Ministry of Finance, Planning and Economic Development
NGOs	Non-Government Organizations
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay As You Earn
PPPs	Public-Private Partnerships
SDGs	Sustainable Development Goals
TOR	Terms of Reference
TTR	Total Tax Revenue
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
URA	Uganda Revenue Authority
VAT	Value Added Tax

Foreword

ActionAid International Uganda (AAIU) is working closely with the Hills family to implement a project titled; "Tax, Privatization, and the Right to Education: Influencing Education Financing Policy". This project aims at ensuring that all children have improved access to inclusive public education of a high and quality standards, financed through greater government support and increases in fair tax revenue.

Uganda's education sector is financed primarily through government spending, supplemented by donor funding. However, the government's budgetary constraints limit its ability to invest in education, and donor funding is subject to fluctuations and uncertainty. The current challenges in education financing, include low public expenditure on education as a percentage of GDP and the need for increased resources to address growing population, infrastructure, and learning outcome challenges demonstrates the need for appropriate progressive tax reforms to generate additional revenue to increase public resources for education. According to the UNESCO 2015, Member States agreed on a level of educational funding of 4 to 6% of GDP or 15 to 20% of public expenditure, but the majority of countries including Uganda have not yet reached this threshold as Uganda's tax-to-GDP ratio is below average, at 12.7% even though various reforms haven been proposed and implemented to improve revenue collections to fund public services.

The study aimed at analyzing existing progressive tax reforms and recommend appropriate progressive tax reforms/ measures to generate revenue for education interventions in Uganda. It also provides insights into education financing and the gaps, tax burden and performance, tax administration and makes recommendations on how to generate additional revenue resources for education in the medium term and improve education outcomes.

The study also examines the tax policy, legal and regulatory framework and also does a comparative analysis of Uganda's education budget allocations in

comparison with selected East African Community (EAC) member States. The study established that a progressive tax system will ensure that wealthy individuals and corporations are paying a fair share in taxes. This implies that individuals and corporations need to be assessed on their ability to pay tax such that government will reduce regressive taxes that impact on incomes of the poor.

It is our hope that this report is used to advocate for allocation of additional resources to pre-primary, primary and secondary education intervention to improve education outcomes in line with the SDG goal 4, enhance policy advocacy on progressive tax measures that can increase revenue for education financing in Uganda. Note that ultimately, all the efforts towards funding in education should aim to address access and equity issues and culminate in improved learning outcomes for all levels of education.

We sincerely appreciate all partners who have contributed to this study.

Executive Summary

Although education financing in Uganda has increased over the past decade in response to population growth, demand for education, and the need for improved infrastructure and teacher welfare, public expenditure on education as a percentage of Gross Domestic Product has averaged at 2.04% over the last decade. This indicates a relatively low level of financing for education compared to the Uganda's Gross Domestic Product. This low funding level has raised concerns about the adequacy of resources allocated to education in Uganda. Note that the change in financing has been driven by both demand and supply factors, with an emphasis on addressing various challenges and improving the quality of education services.

In Uganda, tax laws are annually amended mainly to increase tax revenue. The major tax amendments evolve around VAT, Income tax, Excise duty, Customs and Non-tax revenues. Despite these amendments, the country has continued to register low revenue collections which cannot sufficiently finance the national budget. A study by Price Water Coopers- Uganda, 2023 mentions that when compared with other EAC member States, Uganda's revenue-to-GDP ratio stood at 13.9%, Kenya's was at 17.8% and Rwanda's at 15.08% as of 2021.

Uganda's tax system comprises of a mixture of progressive (e.g. PAYE, Corporate Tax, Withholding Tax) and regressive taxes (e.g. VAT, Excise Duty). Progressive tax reforms/ measures in Uganda are designed to ensure that individuals with higher incomes contribute a larger share of their earnings to government revenue, while those with lower incomes pay a proportionally smaller share thereby reducing income inequality, promote social equity, and provide funding for public services such as education and other national development programs. The projected increase in domestic revenue is anchored on implementation of the Domestic Resource Mobilization Strategy, fiscal consolidation, widening of the tax base and increased monetization of the economy. The Government of Uganda has implemented several progressive tax reforms in recent years to improve tax collection and promote economic development such as changes to tax rates, increasing the tax base, and improving tax administration.

A report by Oxfam on Uganda's Tax Regime, 2023 argues that one of the most significant tax reforms in Uganda has been the introduction of a progressive income tax system where individuals with higher incomes are subject to a higher tax rate than those with lower incomes to increase revenue for public spending. In addition to changes in income tax, Uganda has also implemented reforms in corporate tax, PAYE, rental tax, withholding tax, tax on bank interest, lotteries and gaming tax and tax on agricultural products are viewed as progressive because they affect those with greater earnings more as a proportion of income than those with less.

A key finding of this study is that the system is mostly regressive since majority of tax is collected through indirect taxation, and there is therefore a need to strengthen more progressive forms of revenue generation. Progressive taxation is only effective if compliance is enforced to combat tax evasion, tax avoidance due to tax exemptions and weak tax administration.

The study recommended that regular reviews of the progressive tax reforms would ensure that wealthy individuals and corporations are paying a fair share in taxes to generate revenue for education in the medium term including reducing income inequality and promote social equity.

Chapter 1

1.0 Background

Uganda's tax system includes excise duties, import duties, VAT, income taxes, and smaller-yield taxes like fees, licenses and airport taxes. The country primarily relies on indirect taxes particularly those related to international trade because of a small taxable base and large informal sector. Uganda's tax to GDP ratio, at 13.9%, reflects a low level of tax revenue relative to its economic size. This suggests a significant portion of economic activity goes untaxed, with fewer contributors to government revenue (URA Annual Report, 2022).

Tax is a monetary charge imposed by the government on persons, entities, transactions or property to generate government revenue. One of the main characteristics of a tax is that the payer does not demand something in return equivalent to the payment made to government. Taxes are collected and used by government for a public good and not just for those who make the payment.

Ministry of Finance, Planning and Economic Development (MOFPED, 2020) defines progressive tax as a tax rate that increases (or progresses) as taxable income increases. It imposes a lower tax rate on low-income earners and a higher tax rate on those with a higher income. This is usually achieved by creating tax brackets that group taxpayers by income range. Personal income tax based on graduated scales where the tax rate goes up as income level rises is probably the clearest example of progressivity. Regressive taxation means the poor pay a greater proportion of their available resources than the rich. Consumption taxes which employ a flat rate are the clearest example of regressive taxes.

Taxes can be made more progressive with well-designed thresholds (on who earns or has enough to pay a particular tax) and exemptions. What matters for the overall progressiveness of a tax system is the mix of different types of taxes and the rates applied to them. A mix of progressive taxes such as those

discussed in subsequent chapters with high rates and relatively low-rated consumption taxes, are likely to produce a more progressive overall tax system.

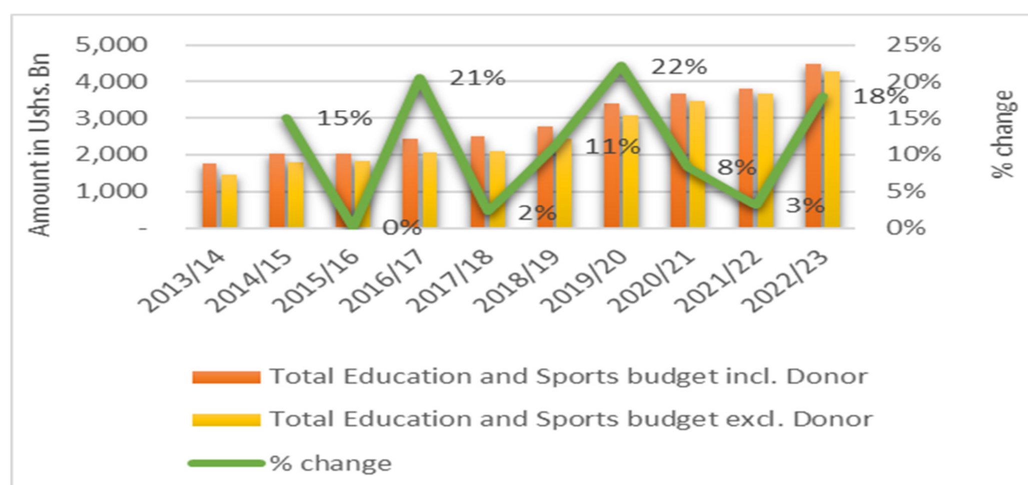
1.2 Education financing in Uganda

Financing of education in Uganda involves various sources, the government, both at the central and local levels, provides funding for education whereas households and private entities contribute to education financing, and development partners (bilateral and multilateral agencies) provide support through loans and grants. Internally generated funds raised by schools and institutions, also contribute to education financing.

It is important to note that Uganda faces several factors that demand increased funding for education. These include a growing population, long distances to schools and educational institutions in certain areas, the influx of refugees, and declining learning outcomes. These challenges require additional financial resources to improve access, infrastructure, teacher quality, and learning outcomes.

Although education financing in Uganda has increased over the past decade in response to population growth, demand for education, and the need for improved infrastructure and teacher welfare, public expenditure on education as a percentage of Gross Domestic Product has averaged at 2.04% over the last decade (EPRC Policy Brief, 2020). This indicates a relatively low level of financing for education compared to the Uganda's Gross Domestic Product. This low funding level has raised concerns about the adequacy of resources allocated to education in Uganda. Note that the change in financing has been driven by both demand and supply factors, with an emphasis on addressing various challenges and improving the quality of education services.

Figure 1: Public education financing in Uganda



Source: Medium Term Expenditure Framework FY 2013/14 to FY 2022/23

Figure 1 depicts the growth of public education financing in Uganda over the past decade. The figure shows that education financing has increased from Ushs. 1,762 billion in the fiscal year 2013/14 to Ushs. 4,484 billion in the fiscal year 2022/23. This includes both government spending and donor funding, with a substantial 155% increase in donor funding during this period. Government spending, excluding donor contributions, has also seen significant growth, with a 191% increase over the decade. These figures indicate a strong commitment to education financing by the government.

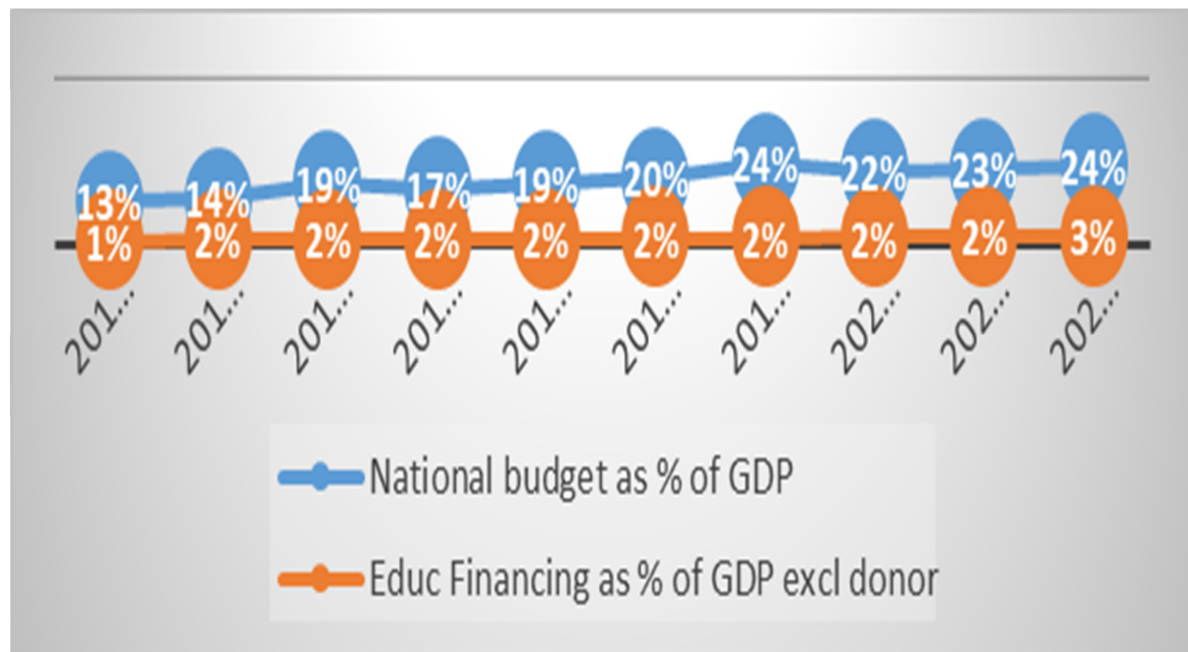
On the other hand, Uganda's education sector is financed primarily through government spending, supplemented by donor and private (households, NGOs) funding. However, the government's budgetary constraints limit its ability to invest in education, and donor funding is subject to fluctuations and uncertainty while private funding is limited by affordability and willingness. Yet the demand for access and improved education services is evident given the growing population, inadequate infrastructure, learning outcome challenges and emerging challenges (gender, Special Needs Education (SNE), pandemics, disaster responsiveness among others).

The 4S Framework for education financing emphasises that "increasing the size of government revenues must be linked to clear commitments to increase the share of budgets spent on education and action to ensure that spending is sensitively targeted to help the most marginalised and actually arrives in practice". More investment is needed to achieve a breakthrough in ensuring

free, quality public education for all. This framework provides a holistic and sustainable approach for governments to ensure that public education is free for all and there are no economic barriers to prevent families from sending their children to school, especially girls and marginalised people.

1.3 Education as a percentage of GDP

Figure 2: Public Education Share as a percentage of GDP



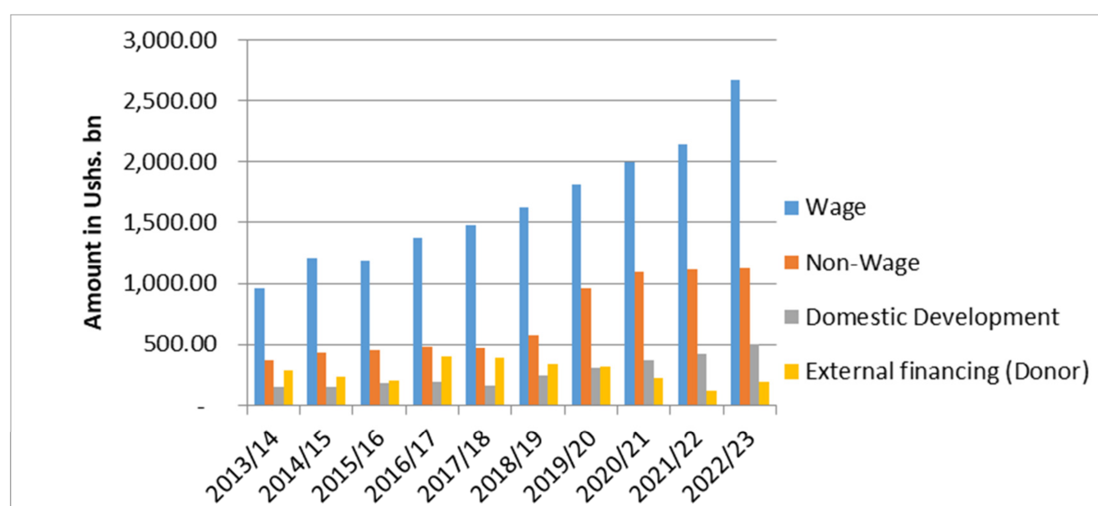
Source: Medium Term Expenditure Framework FY 2013/14 to FY 2022/23

The above figure illustrates that over the past decade, the public expenditure on education in Uganda has averaged at 2.04% of the country's Gross Domestic Product (GDP). This indicates that the proportion of GDP allocated to education is relatively low compared to the country's gross domestic product. In comparison to the overall size of the national economy, the funding for education is not as significant. This suggests that there may be limitations in the financial resources allocated to the education sector, potentially impacting the level of investment and support for educational programs and infrastructure in Uganda.

1.4 Structure of public education financing

The figure below shows the structure of public financing for education. Public financing of education is divided into four categories: wage, non-wage, government development, and external financing (donor).

Figure 3: Financing for Education Expenditure



Source: Medium Term Expenditure Framework FY 2013/14 to FY 2022/23

The above figure 3 shows that over the past decade, the allocation of funding in the education sector in Uganda has been distributed as follows: 57% towards wages, 24% towards non-wage recurrent expenses, 9% towards Government of Uganda (GoU) development initiatives, and 10% towards external financing from donors. This distribution reflects the significant portion of funding dedicated to paying salaries and wages for education personnel. Non-wage recurrent expenses cover various operational costs, such as maintenance, supplies, and other recurrent expenditures. The GoU development allocation focuses on initiatives aimed at improving and expanding educational infrastructure and facilities. External financing from donors plays a crucial role in supporting education through financial contributions from international organizations, governments, and non-governmental entities.

On the other hand, the World Bank notes that external debt stocks have grown exponentially in recent years in Uganda - at 437%. This needs urgent action to ensure that this does not further erode the current public spending and revenue available for education financing in Uganda. It is therefore important to note that reaching Sustainable Developments Goal 4 will require Government to grow

the national budgets to generate additional public funds to meet the sustained costs required to meet targets and goals on education. This implies that there's need to raise new revenues sources to finance education. According to the United Nations Development Programme, at least 20% tax-to-GDP ratio is needed to deliver on SDGs which include education targets.

1.5 Funding Gap for provision of Education

Table 1: Funding Gap for Primary Sub sector

Amount Ushs. Bn	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	ESSP/BRMS Requirement		SDG Requirement				
Wage	1,229.91	1,242.36	1,369.47	1,414.56	1,458.82	1,505.29	1,554.22
Non-Wage	4,062.19	8,386.25	2,636.37	1,425.60	1,293.05	1,188.86	1,077.31
Capital	223.37	152.02	2,857.63	2,344.97	2,455.58	18,303.71	21,029.93
Total Estimated Costs	**5,515.46**	**9,780.63**	**6,863.48**	**5,185.12**	**5,207.45**	**20,997.85**	**23,661.46**
Wage	1,054.76	1,054.76	1,109.45	1,252.81	1,252.81	1,252.81	1,252.81
Non-Wage	200.29	219.52	235.82	266.30	266.30	266.30	266.30
Capital	88.62	97.12	104.34	117.82	117.82	117.82	117.82
MTEF Allocation	**1,343.67**	**1,371.40**	**1,449.61**	**1,636.94**	**1,636.94**	**1,636.94**	**1,636.94**
Wage	175.15	187.60	260.02	161.75	206.01	252.48	301.41
Non-Wage	3,861.90	8,166.73	2,400.55	1,159.30	1,026.75	922.56	811.01
Capital	134.75	54.90	2,753.29	2,227.15	2,337.76	18,185.89	20,912.11
Funding Gap	**4,171.79**	**8,409.23**	**5,413.87**	**3,548.18**	**3,570.51**	**19,360.91**	**22,024.52**

Source: Ministry of Education & Sports

The above table shows information on the funding gap for the Primary Subsector in Uganda as discussed below;

The funding gap for wages in the Primary Subsector ranges from 1,054.76 bn (Ushs) in 2023/24 to 1,252.81 billion Ushs in 2029/30. This indicates that there is a shortfall in the allocated funds compared to the estimated costs for wages. The funding gap for non-wage expenses varies from 200.29 billion Ushs in 2023/24 to 266.30 billion Ushs in 2029/30. This shows that there is a deficit in the funding allocated for non-wage expenditures compared to the estimated costs.

On the other hand, the funding gap for capital investments in the primary Subsector ranges from 88.62 billion Ushs in 2023/24 to 117.82 billion Ushs in 2029/30. This implies that there is insufficient funding allocated for capital expenses compared to the estimated costs over the projected period. The

allocated funds from the Medium Term Expenditure Framework (MTEF) for each year will vary from 1,343.67 billion Ushs in 2023/24 to 1,636.94 billion Ushs in 2029/30. However, note that even with the MTEF allocation, there still remains a funding gap in different expense categories.

It is important to note that table 1 indicates that the total funding gap for the Primary Subsector will vary from 4,171.79 billion Ushs in 2023/24 to 22,024.52 billion Ushs in 2029/30. This indicates a significant shortfall in the funding needed to cover the estimated costs of providing education in the Primary Subsector. This highlights the need for additional resources to ensure adequate provision of primary education services in all regions in Uganda to improve access and equity.

Table2: Funding Gap for Secondary sub sector

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	ESSP/BRMS Requirement		SDG Requirement				
Wage	1,698.33	2,103.08	2,770.24	3,519.34	4,332.42	5,179.16	6,037.14
Non-Wage	291.14	399.32	627.99	825.86	1,086.55	4,484.34	6,206.22
Capital	595.59	788.42	3,055.31	4,096.88	5,182.28	21,236.36	28,112.43
Total Estimated Costs	**2,585.06**	**3,290.81**	**6,453.55**	**8,442.09**	**10,601.24**	**30,899.86**	**40,355.79**
Wage	436.64	436.64	459.28	518.63	518.63	518.63	518.63
Non-Wage	199.86	219.05	235.33	265.74	265.74	265.74	265.74
Capital	204.78	224.44	241.11	272.27	272.27	272.27	272.27
MTEF Allocation	**841.28**	**880.13**	**935.71**	**1,056.63**	**1,056.63**	**1,056.63**	**1,056.63**
Wage	1,261.69	1,666.44	2,310.97	3,000.72	3,813.79	4,660.54	5,518.51
Non-Wage	91.27	180.26	392.67	560.13	820.81	4,218.60	5,940.49
Capital	390.81	563.98	2,814.20	3,824.62	4,910.01	20,964.09	27,840.16
Funding Gap	**1,743.78**	**2,410.68**	**5,517.83**	**7,385.46**	**9,544.61**	**29,843.23**	**39,299.16**

Source: Ministry of Education & Sports

The above table shows the funding gap for the Secondary Subsector in Uganda as detailed below:

- The funding gap for wages in the Secondary Subsector ranges from 436.64 bn (Ushs) in 2023/24 to 1,261.69 billion Ushs in 2029/30. This indicates that there is a shortfall in the allocated funds compared to the estimated costs for wages. Also, the funding gap for non-wage expenses

varies from 199.86 billion Ushs in 2023/24 to 820.81 billion Ushs in 2028/29 which shows the deficit in the funding allocated for non-wage expenditures compared to the estimated costs.

- Furthermore, the funding gap for capital investments in the Secondary Subsector ranges from 204.78 billion Ushs in 2023/24 to 4,910.01 billion Ushs in 2028/29 implying that there is insufficient funding allocated for capital expenses compared to the estimated costs to provide education services. Budget allocation under the Medium Term Expenditure Framework (MTEF) for each year also varies from 841.28 billion Ushs in 2023/24 to 1,056.63 billion Ushs in 2029/30. However, it's worth noting that even with the MTEF allocation, there remains a funding gap in different expense categories.

The total funding gap for the Secondary Subsector as shown in the table 2 above ranges from 1,743.78 billion UShs in 2023/24 to 39,299.16 billion UShs in 2029/30 indicating a significant shortfall in the funding needed to cover the estimated costs of providing education in the Secondary Subsector and support investments in various expense categories such as wages, non-wage expenses, and capital investments. This implies that there's need for additional financial resources to ensure adequate provision of education in the Secondary Subsector and achieve BRMS and SDG 4 targets.

In summary, note that the funding gap to meet the BRMS for primary education for year 2023/24 to 2024/25 is Ushs.12,581.02bn and to meet the SDG target FY 2025/26 to 2029/30 totals to Ushs.53, 917.99bn. This translates to a cost requirement of Ushs.66, 499.01bn. On the other hand, the total cost requirement to meet the BRMS for secondary education for year 2023/24 to 2024/25 is Ushs.4,154.46bn and to meet the SDG 4 targets FY 2025/26 to 2029/30 totals to Ushs.91, 590.29bn. This translates to a cost requirement of Ushs.95, 744.75bn.

1.6 Overview of Taxation in East Africa

According to URA Taxation Handbook, 2021, taxation was introduced in East Africa by the early British colonial administrators through the system of compulsory public works such as road construction, building of administrative headquarters and schools, as well as forest clearance and other similar works. The first formal tax, the hut tax, was introduced in 1900 when the first common tariff arrangements were established between Kenya and Uganda. Through this, Ugandans started paying customs duty as an indirect tax, which involved imposition of an ad valorem import duty at a rate of 5% on all goods entering East Africa, through the port of Mombasa and destined for Uganda. A similar arrangement was subsequently made with German East Africa (Tanganyika) for goods destined for Uganda that entered East Africa through Dar-es-Salaam and Tanga ports. This gave rise to revenue which was remitted to Uganda.

The requirement to pay tax compelled indigenous Ugandans to enter the market sector of the economy through either selling their agricultural produce or hiring out their services. The tax burden was later increased by the introduction of an additional tax to finance local governments. This culminated into the first tax legislation in 1919 under the Local Authorities' Ordinance. In 1953, following recommendations by a committee headed by Mr. C.A.G Wallis, Graduated Personal tax was introduced to replace the Hut tax to finance local governments and the rate was between Ushs 6,000 and Ushs. 30,000.

Income tax was introduced in Uganda in 1940 by a Protectorate ordinance. It was mainly payable by the Europeans and Asians but was later on extended to Africans. In 1952, the ordinances were replaced by the East African Income Tax Management Act, which laid down the basic legal provisions found in the current income tax law. The East African Income Tax Management Act of 1952 was repealed and replaced by the East African Income Tax Management Act of 1958.

The administration of both income tax and customs duty was done by departments of the East African Community (EAC) until its collapse in 1977. Under the EAC dispensation, there were regional taxing statutes and uniform administration but the national governments (or partner states, as they were called) retained the right to define tax rates. After the collapse of the EAC, the tax departments were transferred to Ministry of Finance with the transfer of the Income Tax Department in 1974; followed by the Customs Department in 1977. In 1991, the function of administering Central government taxes was shifted

from the Ministry of Finance to the Uganda Revenue Authority, a corporate body established by an Act of Parliament.

The EAC was re-established in 1999 by Tanzania, Kenya and Uganda. Rwanda and Burundi joined the EAC in 2007. The EAC in December 2004 enacted the East African Community Customs Management Act 2004 (EAC-CMA). This Act governs the administration of the EA Customs union, including the legal, administrative issues and operations.

1.7 Legal and Institutional Framework for Tax Administration in Uganda

Uganda's tax administration is governed by a number of laws such as: the Constitution of the Republic of Uganda, 1995; Income Tax Act, Value Added Tax Act, Tax Procedures Code Act, 2014; The East African Excise Management Act, Excise Management Act; Uganda Revenue Authority (URA) Act and Local Government Act; among others. In addition, there are a range of institutions at national and local/district levels, which include: Ministry of Finance, Planning and Economic Development (MoFPED), URA, Parliament of Uganda, Ministry of Local Government (MoLG), Ministry of Trade and Industry, and Local Governments (LGs), among others.

In Uganda, tax laws are annually amended mainly to increase tax revenue. The major tax amendments evolve around VAT, Income tax, Excise duty, Customs and Non-tax revenues. Despite these amendments, the country has continued to register low revenue collections which cannot sufficiently finance the national budget. Note that a study by the International Monetary Fund (IMF) in 2020 found that VAT compliance levels in Uganda were below that of countries at a similar level of development. Consequently, Uganda has not raised its tax-to-GDP ratio to the level of other EAC countries. While Uganda's revenue-to-GDP ratio stood at 13.9%, Kenya's was at 17.8% and Rwanda's at 15.08% as of 2021 (Budget Performance Report, 2021.

1.8 Distribution of the Tax Burden and Progressivity

1.8.1 Tax Burden

Uganda's dependence on indirect taxes makes the tax system regressive. Indirect taxes disproportionately affect low-income earners, especially women, because they spend a higher proportion of their income on consumer goods for

their families. Changes in the price of these goods can reduce consumption or result in substitution of better-quality goods with inferior ones. On a positive note, the share of indirect taxes in the total tax revenue has been declining, from 66.4% in 2016/17 to 64.4.2% in 2020/21, which is a sign that Uganda's taxation is becoming less regressive. This is a step in the right direction; however, more needs to be done to ensure progressivity by strengthening policy around direct taxes such as property tax, capital gains tax, corporate tax and taxation of business income.

There are significant gender inequalities related to personal income taxes in Uganda, but these do not specifically have a negative impact on women, since very few women pay Pay-As-You Earn (PAYE). Results of the Uganda National Household Survey 2019/20 showed that of the 31.8% of females in paid employment, most of their income is not liable for personal income tax, and since the monthly nominal median wage for females was UGX 100,000 (US$27.3) in 2019/20, and the PAYE threshold was UGX 235,000 (US$62.9). In addition, women tend to spend more of the income on goods that contribute to the social reproduction of labor, including healthcare, education, food, child care and the elderly.

Although, Uganda's excise duty regime has a degree of progressivity, as households in the top deciles pay more excise duty as a percentage of their consumption than households in the bottom deciles. However, in some cases excise duties are regressive because they are usually flat-rated (e.g. a 0.5% levy on mobile money withdrawals). These tend to affect low-income earners more especially women, who spend a higher portion of their income on these items.

A study conducted by ActionAid International in 2023, on the International Monetary Fund, debt and austerity in Africa interviewed Akol Janet Ikilai, a primary school head teacher in Uganda and she responded saying her and other staff are living with the realities of public spending cuts and increased cost of living in Uganda. "The cross-cutting challenges are linked to payments. The salaries are not sufficient. Most of the workers are relying on loans to educate their children and to support their families. So, their families are not very stable, and they are not able to deliver services because of the meagre funds".

On the other hand, it's worth noting that in Uganda, the percentage of the active population (those engaged in productive work) that are registered for taxes is still very low at only 6.8%, though the share has been increasing during the last five years (FYs 2012/13 -2016/17). Despite an increase over the past five years, the percentage of established and operational business entities registered with

URA for taxes is still very low at only 7.1%. This means the tax burden is concentrated within a few people, households and businesses yet multinational companies are not paying the fair share of tax due to incentives such as tax exemptions.

1.9 Tax Revenue Performance

An assessment report by Ministry of Finance, 2022 showed that cumulative revenue collection i.e. tax and Non-Tax Revenue (NTR) for FY 2021/22 amounted to Ushs 21,831.8 billion against a target of Ushs 22,425.35 billion registering a deficit of Ushs 594.19 billion (of which NTR deficit was Ushs 142.9 billion). This represented a 13.9% tax to GDP ratio against a target of 13.8% as per the Charter of Fiscal Responsibility (CPR). However, with regards to a year on year comparison, tax to GDP ratio has grown by only 0.1% against the Domestic Resource Mobilization Strategy (DRMS) annual growth target of 0.7% (i.e. 0.5% tax revenue and 0.2% NTR). Also gains from tax policy measures amounted to Ushs 510.91 billion against a target of Ushs 460.63 billion.

It is important to note that revenue collections for the period July 2022 to February 2023, amounted to Ushs 16.025 trillion registering a growth of 14% over the same period of the last FY 2020/21. The growth of Ushs 1.92 billion was higher than the 4-year average growth of 10% for the same periods. According to URA Annual Report, 2022, major surpluses were registered under PAYE with 364.46 billion, mainly due to increased recruitment in the private sector, especially in the manufacturing, banking, and oil and gas sectors. This led to an additional 383.58 billion in revenues compared to the previous financial year.

There was also a slight increase in recruitment in government, on top of salary enhancements for scientists which have reportedly led to an increase in revenues by 123.78 billion. Rental income tax posted a surplus of Ushs 20.44 billion and temporary road licenses registered a surplus of 15.52 billion shillings in the reviewed financial year. Overall, domestic revenue in financial year 2022/23, was estimated at Ushs 25.55 trillion; about 13.7% of Gross Domestic Product (GDP). According to URA projections, the Tax Authority plans to collect Ushs 29.67 trillion in the next financial year 2023/24. However, it's worth noting that while setting various tax measures/ reforms to attain set revenue targets by MOFPED, more focus is put on increasing revenue collections instead of addressing inefficiencies in tax administration.

1.10 Tax Administration

At the national level, taxes are centrally assessed and collected by Uganda Revenue Authority (URA) headed by a Commissioner General. Within the organizational structure of URA, two operational departments (Domestic Taxes and Customs) headed by Commissioners are directly responsible for the assessment and collection of revenues resulting from tax laws such as Customs Tariff Act, Cap. 337, Income Tax Act, Cap. 340, Excise Tariff Act, Cap.338, Value Added Tax Act Cap.349, and East African Customs Management Act among others. Regressive taxes collected by URA increments on duties and taxes on basic goods and services such as fuel, salt, sugar, cement and others have continued to place the tax burden on low income earners who form the biggest proportion of these commodity consumers.

It's important to note that currently there are no specific tax regime/ reforms which have been constitutionalized to guide taxation of their wealth. Consequently, majority of the HNWIs are not paying their fair portion of taxes to generate revenue for improved service delivery including multinational corporations who are enjoying tax exemptions. Although various reforms/ measures have been made to improve tax compliance and enhance enforcement mechanisms, including electronic tax collection and filing systems to increase efficiency and transparency, there are still challenges related to tax evasion and avoidance.

At the local government (LG) level, the Department of Finance which is responsible for local revenue in most district local governments does not have professional revenue officers. The ones recruited are professional accountants and are assigned the duties of revenue officers but have no technical knowledge on how to advise the LG to develop progressive tax reforms that have the potential to generate local revenues. Note that, the challenges of low staffing are largely due to Government's ban on staff recruitment and the high levels of qualifications required by the government for the position of revenue officers, despite a very low remuneration. Additional challenges include: poor facilitation of officials involved in local revenue mobilization; lack of basic transport means to effectively reach the taxpayers; lack of the requisite capacity; and skills in taxation, especially assessment of taxpayers have impacted on tax administration efforts.

1.11 Progressive Taxation in Uganda

The concept of progressive taxation in Uganda has its roots in the post-independence era. After gaining independence from British colonial rule in 1962, Uganda started developing its own tax policies and systems. In the early years of independence, Uganda had relatively simple taxation policies, including taxes on income and property. These early policies laid the foundation for a progressive taxation system, where higher-income individuals and corporations were expected to contribute more to government revenue.

During the 1970s, Uganda underwent significant political and economic changes, including the expulsion of Asians and the nationalization of industries. These events had implications for the country's taxation system, with an emphasis on state control and economic planning. In the late 1980s and throughout the 1990s, Uganda implemented a series of economic reforms, including liberalization and privatization. These reforms aimed to modernize the economy and attract foreign investment. As part of these reforms, the tax system was adjusted to become more progressive considering that indirect tax is 67% of total tax revenue while direct tax is 32%. In 1996, Uganda introduced a Value Added Tax (VAT) at 18% to replace the old Sales Tax although VAT is generally considered a regressive tax, as it affects lower-income individuals more than higher-income individuals. To mitigate the regressive nature of VAT, Uganda maintained progressive elements in its income tax system such as commissions EPRC Research Report, 2018.

Uganda's income tax system has multiple tax brackets with progressively higher tax rates for higher income levels. This progressive structure ensures that individuals with higher incomes pay a larger share of their income in taxes, promoting income redistribution.

Progressive taxation in Uganda has evolved over the years, reflecting changes in economic and political circumstances. The tax system has shifted from its early post-independence simplicity to a more progressive and diversified approach, which aims to reduce income inequality, generate government revenue, and fund public services. Ongoing reforms and efforts to address tax evasion and informality remain essential aspects of Uganda's progressive taxation system.

It is important to note that Uganda has introduced taxes with specific social and environmental objectives to raise revenue for national development plans. For

example, taxes on plastic bags and an education levy have been implemented to fund education and address environmental concerns. Although still a challenge, leveraging progressive taxation to fund education remains a critical tool to comply with its human rights obligations.

Whereas studies by the World Bank and MOFPED in 2020 discuss that direct Taxes have often been thought of as more progressive, their contribution to the TTR has oscillated around 32% over the last five financial years. Uganda's direct domestic taxes include: Personal Income Tax (especially through Pay As You Earn), corporate tax, presumptive tax, rental tax, withholding tax, tax on bank interest, casino and lottery tax and tax on agricultural products. The point here is that direct taxes are viewed as progressive, as they affect those with greater earnings more as a proportion of income than those with less. This implies that failure to strengthen equitable domestic resource mobilization will compel Government to make difficult choices, which will likely entail imposing austerity measures, cutting spending for vital public services such as education and health.

Although the Government has implemented various reforms to make the tax system progressive, there's need to reduce over-reliance on regressive taxes like VAT, Excise Duties, and adopted innovative taxes such as wealth tax on the richest and withholding tax on capital gains could be a potential source of government revenue for education financing. In addition, analysis of MOFPED's tax expenditures reports for 2019/20, 2020/21 and 2021/22, it was established that that Uganda had lost over Ushs 6.4 trillion in revenues owing to some of these incentives. Note that this could provide 40% more resources for education in the medium term.

Chapter 2

2.0 Analysis of Progressive Tax Reforms in Uganda

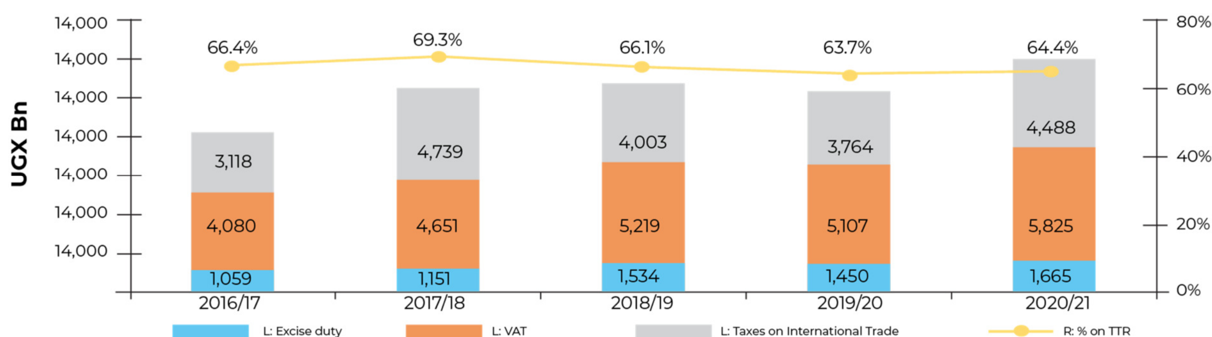
Progressive tax reforms/ measures in Uganda are designed to ensure that individuals with higher incomes contribute a larger share of their earnings to government revenue, while those with lower incomes pay a proportionally smaller share. These measures aim to reduce income inequality, promote social equity, and provide funding for public services such as education and health in addition to other national development programs. These reforms have included changes to tax rates, increasing the tax base, and improving tax administration.

One of the most significant tax reforms in Uganda has been the introduction of a progressive income tax system. Under this system, individuals with higher incomes are subject to a higher tax rate than those with lower incomes. This has helped to ensure that those who have more ability to pay contribute a greater share of their income to increase revenue for the Government. In addition to changes in income tax, Uganda has also implemented reforms in other areas of taxation for example, the government has increased tax rates on luxury goods such as cars among others.

Analysis of Cross-Cutting Progressive Tax Reforms

Indirect Taxes

Figure 4: Trends in Indirect Taxes



Source: Oxfam FTM Report, 2021

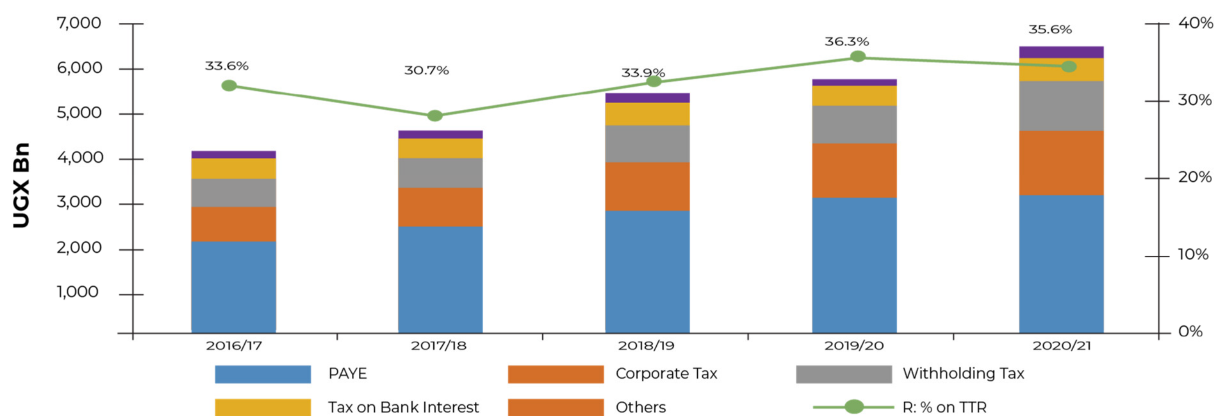
The above figure shows that Uganda collects most of its revenue from direct taxes (in the form of excise duties, VAT and taxes on international trade. The share of indirect taxes in total tax revenue (TTR) excluding non-tax revenues reduced by two percentage points, from 66.4% in FY 2016/17 to 64.4% in FY 2020/21.

Although the above table shows that Uganda's taxation is becoming less regressive, the high reliance on indirect taxes makes Uganda's tax system regressive, since these taxes are based on the value of goods, services and assets, rather than people's ability to pay. Indirect taxes also tend to disproportionately affect low-income earners, especially women, because they spend a higher proportion of their income on consumer goods for their families. Women tend to spend more of the income under their control on goods that contribute to the social reproduction of labor, including healthcare, education, food, childcare and elder care.

Direct Taxes

Uganda's direct domestic taxes include personal income tax (PAYE), corporate tax, presumptive tax, rental tax, withholding tax, tax on bank interest, and casino and lottery tax.

Figure 5: Trends in Direct Taxes



Source: Oxfam FTM Report, 2021

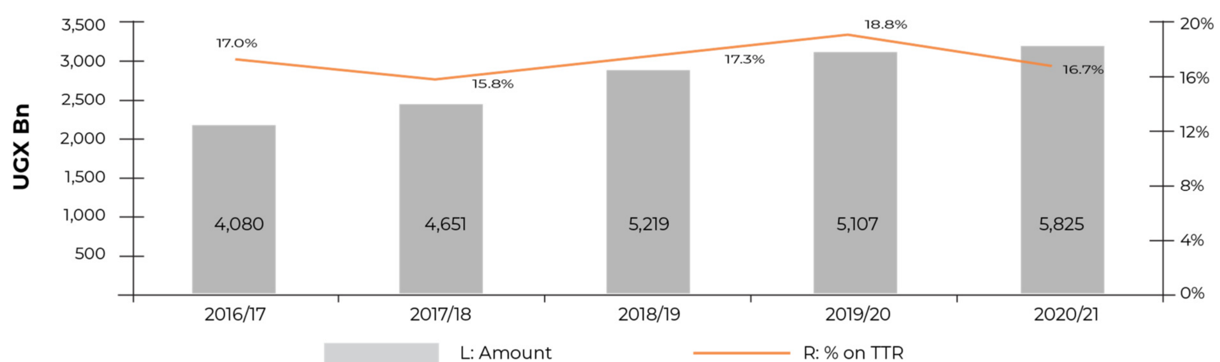
The above figure shows that for the last five years, this reform registered a positive increase from 30% in FY 2017/18 to 36.3% in FY 2019/20. However, there was a slight decrease in FY 2020/21. This reform has been reported to be

progressive because direct taxes are perceived to be more progressive, as they affect those with greater earnings more, as a proportion of income, than those with lower earnings.

Personal Income Tax

Personal income tax (PIT) is levied on both residents' and non-residents' employment income (wages and salaries) and other personal income (from business and property ownership). In Uganda, PIT is mainly collected by URA using the Pay As You Earn (PAYE) method, where salaried employees are taxed based on their salary and allowances, as shown in Table 6. PAYE has a threshold of UGX 235,000 (US$62.9) for residents and UGX 335,000 (US$89.6) for non-residents, where anyone earning below that amount is exempted. Note that business owners and directors are charged at 30% of earnings.

Figure 6: Trends in PAYE



Source: Oxfam FTM Report, 2021

From the above figure, PAYE collections have been fluctuating for example they were high at 18.8% in FY 2019/20 and reduced to 16.7% in FY 2020/21. One of the reasons for this decline was negative effects of the COVID-19 pandemic. Nevertheless, this reform has been strengthened to ensure that income tax is collected progressively, with higher earners contributing a larger share of their income. In addition, this reform has made Uganda's income tax system more progressive, featuring multiple tax brackets with increasing tax rates for higher income levels and corporate income tax rates assessed based on the level of income, with higher rates for larger corporations. It is equally important to note

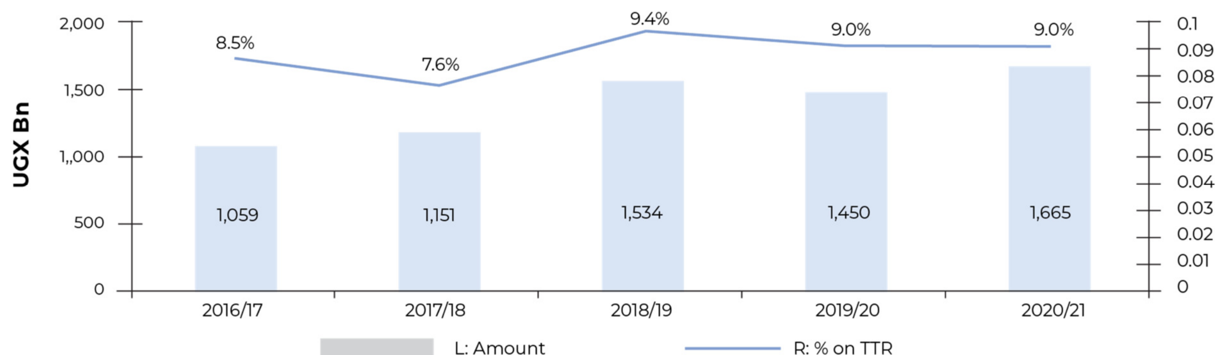
that although PAYE is perceived to be progressive, it is more or less a flat tax. Also PAYE collections were below target by an average of UGX 30bn (US$8.2m)

Excise Duties

Excise tax in Uganda is imposed on specified imported or locally manufactured goods and services. The applicable rates may be specific (ad quantum) or ad valorem. The tax is imposed on the value of the import; in the case of locally manufactured goods, the duty (local excise duty) is payable on the ex-factory price of the manufactured good.

Uganda's excise duty regime has a degree of progressivity, as households in the top deciles pay more excise duty as a percentage of their consumption than households in the bottom deciles. However, in some cases excise duties are regressive because they are usually flat-rated (such as a 0.5% levy on mobile money withdrawals, 12% excise duty on internet data and others on petrol These tend to affect low-income earners more and especially women, who spend a higher portion of their income on consumption of these items.

Figure 7: Trends in Exercise Duty



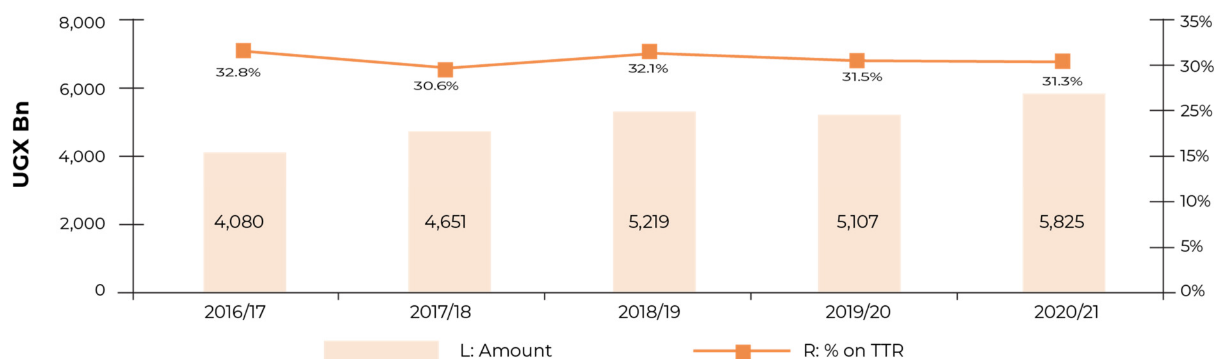
Source: Oxfam FTM Report, 2021

The above diagram illustrates excise duty collections increased by 57% between 2016/17 and 2020/21. However, compared to the target, actual excise duty collections were not good such that between 2016/17 and 2020/21, excise duty collections were below target by an average of Ushs 244.6bn (US$66.8m). Nevertheless, this reform is seen as being more progressive although in some incidents the flat rates tend to affect low-income earners especially women.

Value Added Tax (VAT):

Value added tax (VAT) is collected by URA and is borne by final consumers of goods and services, including those that have been imported. The standard VAT rate is 18%, and does not differ for different goods/services; however, many goods and services are VAT-exempt. This provides some progressivity in the VAT system, since most exempt goods and services (such as sanitary towels, education materials etc.) are consumed mainly by poor households and women

Figure 8: Trends in VAT

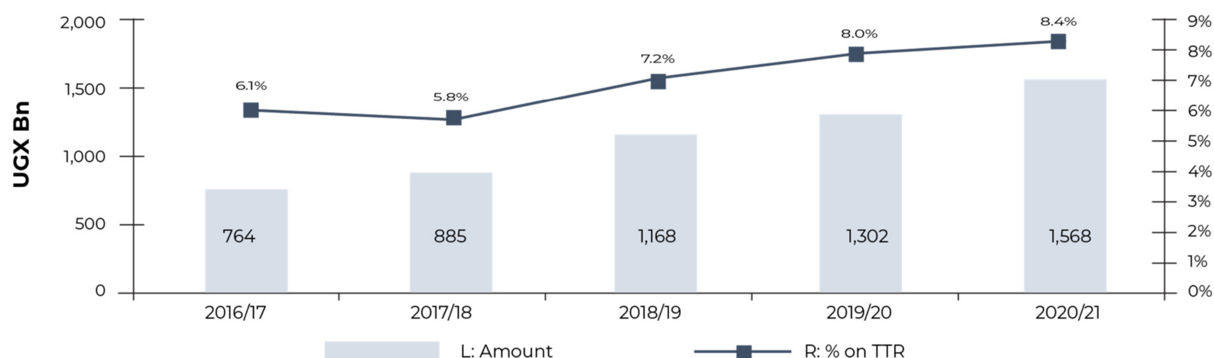


Source: Oxfam FTM Report, 2021

From the above figure, VAT collections increased by 48% between 2016/17 and 2020/21. However, compared to the target, actual VAT collections were not good between 2016/17 and 2020/21. Note that whereas VAT is generally a consumption tax, Uganda has implemented exemptions on essential goods and services to reduce the tax burden on low-income individuals by excluding items like unprocessed food, healthcare, and educational services from VAT.

Corporate Income Tax: Government introduced the 30% income tax rate applicable to the chargeable income of companies with the exception of resident companies whose turnover does not exceed Ushs 150 million and to who presumptive tax applies subject to availability of accounting records.

Figure 9: Trends in Corporate Income Tax



Source: Oxfam FTM Report, 2021

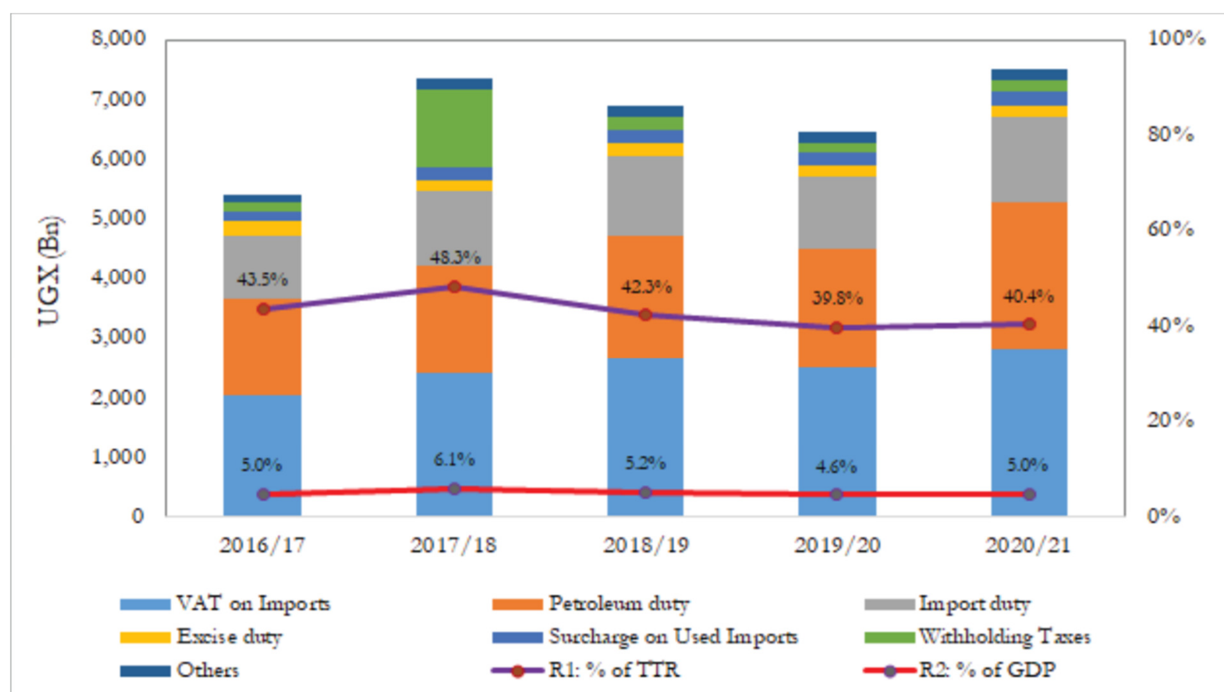
The above diagram shows that CIT collections increased by 105% between 2016/17 and 2020/21 such that it increased, from 6.1% in 2016/17 to 8.4% in 2020/21. However, CIT collections are still below target by an average of UGX 10.5bn (US$2.9m). It is important to note that the effective rate of tax is lower than that stated in the law (30%) this is driven by a combination of tax incentives, tax discrimination and preferential treatment. This implies that local companies pay more taxes than multinational corporations

International Taxes

Uganda's international trade taxes include: import duty (ranging from 0% to 25%), environmental levy (0% to 50%), excise duty (10%), VAT on imports 16(18%), infrastructure levy (6%) and withholding tax (10%). Custom duties are collected through URA and are levied based on the classification of commodity and country of origin. Uganda is a member of various trade blocks including the East African Community (EAC).

The EAC adopted a Common External Tariff (CET), which led to reductions in import duty rates for commodities originating from partner states. These reductions can affect women through three key routes: as workers in sectors whose goods are traded internationally (e.g. garment workers); as traders of such goods (e.g. women cross-border traders); and as consumers of these goods (e.g. baby formula milk).

Figure 10: Trends in International Taxes



Source: Oxfam FTM Report, 2021

In terms of performance, the above figure illustrates that international trade tax collections increased by 39% between 2016/17 and 2020/21, this is still below target of an average of UGX 200bn (US$54.6m). It is crucial to note that for the last five years, international trade taxes have contributed an average of 43% to total tax revenues representing 5.2% of GDP.

Other progressive tax reforms being implemented by Government are the following:

Rental Tax collected by URA is at 30% for individuals and entities, with up to 75% deduction of gross rental income; this means that the rental income effective tax rate is 7.5%. A non-resident who derives income from renting property in Uganda is charged withholding tax at a rate of 15% on gross rent received.

Property Tax is levied by the local governments (LGs), and the tax base is the property's ratable value (which takes into account the nature of the property concerned and the value of improvements). Tax rates are determined by the local authorities, but at a maximum of 2%. A stamp duty (1.5% on the value of

land) is charged by URA at transfer or purchase of land. These taxes often apply to higher-value properties and real estate transactions, making them more progressive.

Capital Gains Tax is collected by URA and taxed at the standard rate of 30%. Capital gains tax applies to all economic sectors, forms of corporation and individuals. Capital gains tax arises from the disposal of business assets, such as stock investments, land and buildings

Gaming Tax: Government introduced reforms to imposed tax on every promoter of gaming and pools promoted within Uganda and on every principal agent of every promoter of gaming and pools promoted outside Uganda. This implies that a person who makes payment for winnings of betting or gaming shall withhold tax on the gross amount of the payment at a rate of 15 %.

Environmental Taxes: Uganda has introduced taxes on environmental pollutants and harmful products, such as plastic bags. These taxes encourage sustainable behavior and consumption while generating revenue from higher-income individuals who may use such products.

Overall, Uganda has made some milestones in the fight against inequality and poverty in the past few years, including Uganda's tax system regime being relatively progressive. However, there are still prevailing challenges to be addressed, including improving tax compliance, avoidance, fair taxation and reducing the tax burden on low-income earners.

2.2 Analysis of the Most Appropriate Progressive Tax Reforms/ Measures to Generate Revenue for Education in the Medium Term

Fair and progressive taxation presents rather a more reliable and sustainable means to fund public services. Reduced tax earnings due to evasion or failure to tax taxable funds directly impact pupil's access to education and disproportionately affect marginalized groups like women who bear the brunt when public services are inadequately financed. Therefore, implementing the following appropriate progressive tax measures/ reforms will generate revenue to fund the education sector adequately while addressing income inequality.

The following proposed interventions are categorised to be achieved in the short-term, medium term and long term because those that can for example be

implemented in the short term and medium terms is because of existing favorable legal and regulatory frameworks which need to be strengthened to ensure compliance. On the other hand, the long terms proposed reforms will require amendments for existing tax measures or introducing new tax measures that have to go through a series of engagements with key stakeholders before implementations

No.	Short Term	Medium Term	Long Term
1.	**Imposing a 15% withholding tax on profits** (interests or dividends) paid to members whose contributions exceed one billion shillings and 5% to members whose total contributions do not exceed Ushs 100 million. This will ensure that only high net-worth individuals who have made substantial investments in unit trusts are taxed, while smaller investors are not. The revenue generated by this tax could aid the government in funding education intervention, social welfare programmes and other public services.	**Introduce a 5% digital services tax** on online multinationals such as Facebook and Netflix that currently derive income from providing digital services to Ugandans. With the digital economy evolving much faster than anticipated and its share of the overall economy growing each year, it has become more important than ever to bring online multinationals into the tax bracket. For several years, these companies have continued to do business within the country without a single penny in taxes leaving smaller local businesses shoring up the tax burden. The taxes collected will contribute revenues for education in the medium term.	The Government through its Income Tax Act, has always imposed a capital gains tax on the transfer of business assets such as shares, land, or buildings situated in Uganda, and is imposed at a rate of 30 percent. However, there's need to follow through the new proposal on **replacing the existing 30% capital gains tax with a 15% withholding tax**. This will broaden the scope of assets liable to this tax to now include all assets, even personal ones like homes, cars and personal land among other to generate revenue for education and its related interventions. Also note that this progressive tax reform will be applicable regardless of whether the said asset is disposed/sold at a loss or gain.
2.	**Reduce unnecessary tax incentives for the wealthy and corporate entities:** Uganda's wealthy make most of their earnings and fortunes in financial and insurance services; real estate; construction; manufacturing; high value farms and ranches; and the public sector. Many of	**Reduce corporate tax exemptions.** In 2018, the World Bank estimated that Uganda loses around 3% of GDP to both corporate tax incentives, and in exemptions. Based on a study done by ActionAid International Uganda in 2020, the calculated tax	**Establish Annual Wealth Taxes:** Note that whereas capital gains tax is imposed on earnings realized from the value of an asset after it is sold, a wealth tax is rather assessed annually on the value of the asset itself and is levied irrespective of the

No.	Short Term	Medium Term	Long Term
	these sectors however, to date remain the biggest beneficiaries of tax incentives from the Ugandan Government. By so doing, Government has over time foregone significant revenue collections from these individuals and corporations which has presented major implications for the country's resource envelop and consequent ability to deliver public services i.e. education. An analysis of MOFPED's tax expenditures reports for 2019/20, 2020/21 and 2021/22, it was established that that Uganda had lost over Ushs 6.4 trillion in revenues owing to some of these incentives. Note that this could provide 40% more resources for education in the medium term.	exemptions amounted to US$922.6 million. It's worth noting that if 20% of these revenues are allocated to education as per international recommendations, they have the potential to construct 10,000 classroom block, feed 1 million disadvantaged pupils and pay salaries for about 20,000 new qualified teacher hence reducing the pupil-teacher gap.	returns the assets generated. Taxes on the holding of wealth, known as comprehensive wealth taxes, are fairly rare around the world. They tax a person's 'net worth' (assets minus liabilities). These assets can include (but are not limited to) cash, bank deposits, shares, personal cars, assessed value of real property and pension plans among others. The wealth tax will be used to encourage more productive use of assets since wealth tax is levied regardless of what returns are made on the asset including generating additional revenue for education or at minimum alleviate the tax burden from lower income classes.
	Strengthening income tax compliance by **High Net-Worth Individuals** to generate much needed revenues to adequately finance education interventions. Low compliance by high net worth individuals can indeed result in regressive revenue outcomes. By taking advantage of tax dodging schemes or even evading their obligations by virtue of their political or elite status high net worth individuals are able to avoid contributing to personal income tax, defeating the original objective of a progressive personal income tax: that those who earn more, pay more.	**Introduce Financial Transactions Taxes (FTTs) on large transactions.** Financial transaction taxes (FTT) are levied on different kinds of financial transactions. It is a small tax applied each time the transaction in question has taken place. Some of these range from tax on trading financial instruments like derivatives (value or performance derived from the performance of an asset like a bond, currencies, interest rates); to large bank transactions. Taxes levied can run from as low as 0.0001% to 2% depending on the kind of transaction under consideration. FTTs already	**Strengthen and expand the existing graduated income tax system** to ensure that higher-income individuals pay a higher percentage of their income in taxes. This could be through increasing the number of tax brackets for individuals with progressively higher tax rates on higher income levels to raise the much needed revenue for education. This should include regularly review and adjusting income thresholds to account for inflation and changes in the cost of living.

No.	Short Term	Medium Term	Long Term
		exist in some form in around 40 countries and in 2012 raised about US$48 billion. It's worth noting that they provide an interesting avenue to tax high net-worth individuals as their resources flow through the financial system. Therefore, developing countries like Uganda that do not use such taxes yet could benefit from exploring them to finance education in the medium term.	
	Enhance taxes on luxury items and services that are primarily consumed by high-income individuals, such as high-end cars, luxury real estate, or premium services. These taxes will generate revenue for education in the medium term while targeting discretionary spending by the wealthy and also address issues of unfair taxation.	**Increase number of people paying property taxes and make them more Progressive.** Property taxes are especially important to sustaining vulnerable local government budgets and services. In OECD countries, more than 2% of GDP is raised from property taxes, while in Africa it averages a mere 0.4%. Again, this discrepancy is mainly a problem of weak administration and enforcement targeting the rich. Property markets across the country have been booming. But the high-value properties of wealthy individuals (which make up the great majority of taxable value), are regularly severely undervalued, omitted from tax rolls, or the tax bills simply go unpaid. Most Local Governments charged with this responsibility lack the finances and human	

No.	Short Term	Medium Term	Long Term
		resources to conduct the property evaluation exercise. Recent experiences as documented by ActionAid International Uganda demonstrate that there is huge potential to collect far more revenue, in a more equitable manner, from property taxation in LICs.	
	Increase taxes on environmentally harmful products and activities, such as fossil fuels, carbon emissions, and plastic packaging in addition to tobacco, alcohol, and other products that are often considered "sin taxes. The progressive taxes from these will generate additional resources for public spending on education in the medium term and promote philanthropy and corporate social responsibility initiatives aimed at education funding.		

The above progressive tax reforms/ measures if effectively administered, have the potential to increase Uganda's tax revenue collections which holds enormous potential for funding government programs geared toward improved service delivery in the education sector. This would also partly embrace the vertical taxation principles where more income-privileged persons could pay more taxes, thus increasing their tax contributions and consequently increasing the progressivity of Uganda's tax regime. In addition, implementing the above progressive tax reforms requires a comprehensive approach, strong political will, and effective tax administration. Public support and collaboration among stakeholders, including policymakers, educators, and the public, are critical for the successful implementation of these reforms.

Chapter 3

3.0 Uganda's Education Budget Allocations in Comparison with other East African Community Member States

In Kenya, education plays a central part in a household's consumption budget, with education being the second priority after food, at 30.2% compared to food which had a priority of 31.8%, according to the Kenya National Bureau of Statistics Finances Household Survey report. The Kenyan government continues to make significant allocations towards education expenditure in every fiscal year. In FY 2023/2024, the education sector received the second largest share of the government expenditure, with the government increasing its allocation to the sector by 15.5% to Kshs 628.6 billion from Kshs 544.4 billion in FY'2022/2023. The allocation represented 4.3% of the GDP, up from 4.0% of GDP in FY 2022/2023 (Cytonn, 2023).

In Rwanda, the Government continues to prioritize the education sector in national budgeting, reflected by a budget increase for the sector of nearly 20%, from FRW 479.1 billion in 2021/22 to FRW 573.5 billion in 2022/23. As a share of GDP, the education budget increased from 4.2% in 2021/22 to 4.5% in 2022/23. This increase demonstrates the government's commitment to strengthen human capital development through the education of Rwandan children and young people, (UNICEF, 2023).

Tanzania spends about 3.5% of its GDP on education and 17.7% share of the total budget. Between FY 2019/20 and FY 2021/22, the share of the government's budget allocated to the education sector grew by 17%, increasing from TShs 4,512 billion to TShs 5,257 billion (equivalent to 17.9 and 18.9% of the total government budget, respectively). The increase in education financing is indicative of increased government and donors' willingness to support investments in the education sector for better education outcomes (UNICEF, 2022)

On the other hand, The Education sector budget has continuously trended below international targets. As percentage of GDP, Uganda has been consistently spending 2.3%, on average, against the Incheon Declaration target of 5% of GDP, since 2018/19, and this eased slightly to 2.2% in 2023/24 Approved Budget. This is below the recommended UNESCO Education for All Global Monitoring Report that requires governments to allocate 5.4% percent of the GDP to the Education sector. In addition, as a proportion of the approved National Budget, the education sector has been allocated 8.4% of the FY2023/24 total budget, which is a decrease from 8.7% in FY 2022/23. The decline in the proportion, despite an increase in nominal value terms, is mainly on account of a higher increase in the Total National Budget from UGX48.131Trillion in FY 2022/2023 to UGX52.736Trillion in FY 2023/2024, implying growth in education spending increasing at a slower rate than the total budget (UNICEF, 2023).

Chapter 4

4.0 Challenges

1) Uganda's tax regime predominantly depends on indirect taxes, commonly known as consumer-based taxes, including Value Added Tax (VAT), Excise-Duty, and Customs Duty, among others. These taxes contributed on average in FY 20202/21 64.4% to the total tax revenue collections, according to Oxfam's Fair Tax Monitor report 2021. This makes the tax regime highly regressive because people with less disposable income spend a significant proportion of their incomes on consumption.

2) Underdeveloped registries and the absence of enabling legislation in Uganda have impeded the utilization of third-party information by URA. Good quality national databases, including company, property and vehicle registries, as well as enabling legislation, would enable URA to use third-party information to improve compliance and enforcement.

3) Challenges of tax avoidance and evasion due to tax exemptions given especially to foreign investors, weak tax administration in addition to the large informal sector continue to hinder increase in revenues. According to the World Bank, about 70% of local businesses are informal and transact in cash. The World Bank also reports that up to 5% of GDP is lost annually in tax leakages which affects revenue generation, this makes it difficult to track and assess them for tax.

4) Inadequate or weak policy innovations and prescriptions, lack vigorous and comprehensive research and analysis of the tax policy environment, which partly explains the minimal impact of the reforms on tax revenue as a percentage of the GDP. Majority of the existing progressive tax reforms are neither focused nor driven by specific performance outcomes such as improved tax enforcement or increasing the tax base. They have been mainly focused on meeting revenue targets and not enough has been done to embed non-revenue performance objectives and indicators.

5) Inadequate government funding to education in Uganda pushes the burden onto households, who are major funders of education in Uganda and increases out-of-pocket-expenditure to fund half of all education spending. This helps to top up very low spending per pupil by the government (i.e. at primary level this is just US$38 per child per year). Pre-primary education is almost entirely funded by households, which, as the UN have pointed out; "may have an impact on equity if poorer households are unable to pay".

6) GoU continues to provide excessive tax incentives to foreign investors. A study by the African Development Bank estimated that Uganda was losing at least 2% of GDP in revenues due to tax incentives. For example, in 2015, URA reported total revenues foregone as a result of tax exemptions in FY 2013/14 amounted to UGX 1.6 trillion, which is equivalent to 2 per cent of GDP.

7) There are a number of the exemptions in the Income Tax Act (ITA) for instance, Officers and Militants employed by the Uganda People's Defense Forces, the Uganda Police Force, or the Uganda Prisons Service, Judges and staff under the Office of Directorate of Public Prosecutions (ODPP) are exempt from PAYE. Also in 2016, Members of Parliament amended the ITA to exempt themselves from paying taxes on their benefits, transport allowances and all other reimbursements. Some of the above employed personnel have over the last five year had their salaries enhanced, therefore, such exemptions not only violate the principle of equity but also lower the tax revenues for Government expenditure on delivering critical services in the education sector.

4.2 Actionable Recommendations

1) Policy Advocacy: Advocacy is needed to raise awareness on progressive tax reforms that effectively generate revenue to finance education areas with inadequate funding, such as preprimary education, special needs education and learning infrastructure among others.

2) To strengthen progressive tax reforms/ measures targeted towards increasing total tax revenue collections and reducing leakages, URA, MOFPED, CSOs and Development Partners, should invest heavily in mass

tax education to raise awareness of the high cost of non-compliance to the tax payers business as the heavy penalties could suffocate many businesses, which in turn could sabotage the intended purpose of the amendment potentially reducing the tax base further. The mass awareness should also be targeted towards raising the taxpayers' interest in voluntary disclosure of tax information, especially the High-Net-Worth Individuals, enhancing trust in government and respect for legal tax obligations. This will cause quasi-voluntary compliance, which is less costly than enforcement measures as dictated by the new amendments.

3) MOFPED should strengthen progressive tax reforms and domestic resource mobilization strategies to set targets to increase the tax-to-GDP ratio to reach at least 20%. This is based on the IMF recommendation that most developing countries should aim to meet an ambitious (but realistic target) of increasing the tax-to- GDP ratio by 5% in the medium term (3-5 years) to finance critical public services such as education. To achieve this, MOFPED should: (i) end harmful incentives which affect revenue collections; (ii) review tax and royalty agreements in the natural resource / extractive sector to generate foregone revenues; (iii) close loopholes which enable tax avoidance and evasion in the private and the informal sector; and (iv) promoting and enforcing progressive taxes on personal income and wealth to generate much needed revenues for education interventions.

4) Introduction of electronic tax filing and payment systems to streamline tax administration and reduce the opportunities for corruption and fraud. Educating the public about the importance of progressive taxation for education funding and encouraging support for proposed reforms/ measures through awareness campaigns and public forums.

5) URA, Parliament and MOFPED should strengthen measures to conduct regular reviews on effectiveness and impact of progressive tax reforms in generating revenue and reducing income inequality. In addition adjust policies as needed based on evaluations and changing economic conditions to effectively raise revenues to fund education in the medium term.

6) MOES should work with MOFPED and other key stakeholders to develop a strategy to effectively finance interventions needed to improve education

outcomes. This will include effectively preparing budgets and plans for education priority areas which will be funded under Government of Uganda Medium-Term and Long-Term Expenditure Framework as well as finances mobilized from other sources such as PPPs.

7) Increasing the size of the overall budget, maximizing the availability of resources for investment in public education through mitigating effects of macro-economic policies that limit the amounts available for public spending on education interventions. These include reducing debt and borrowing, seeking restructuring or cancellation on debt servicing.

8) Raising additional revenue by increasing the amount received in taxes from corporations, particularly in the natural resource extraction industry including implementing measures to prevent profit shifting and tax evasion by multi-national corporations. This would go together with strengthening tax administration and enforcement to ensure that progressive tax measures are effectively implemented and tax evasion and avoidance is minimized.

5.0 Conclusion

The study emphasized that tax progressivity mainly assesses how well a country's tax policies and their implementation are reducing inequality using the three indicators that is:

i. progressivity of tax policies, which looks at whether the burden falls more on those who can afford to pay,
ii. Implementation of tax policies which examines the success of tax collection for the main taxes both in policy and practice and
iii. Impact of tax on inequality looking at the effect of tax on reducing income inequality.

A key finding of this study is that the system is mostly regressive since majority of tax is collected through indirect taxation, and there is therefore a need to strengthen more progressive forms of revenue generation.

The study underscored that progressive taxation is only effective if compliance is enforced. Although Uganda has made efforts to combat tax evasion and informality, including through improved tax administration and digital tax collection systems, challenges remain in terms of enforcement, tax evasion, and the large informal economy in Uganda. Therefore, regular evaluation and potential reforms are necessary to ensure that progressive tax measures effectively generate revenue for education financing, reduce income inequality and promote social equity. These measures involves a combination of progressive income taxes, targeted exemptions, and taxes on specific goods and activities. However, effective implementation strategies to address compliance challenges are essential for the success of progressive taxation in Uganda.

The study emphasized fair and progressive taxation presents rather a more reliable and sustainable means to fund public services. Reduced tax earnings due to evasion, exemption or failure to tax taxable funds directly impact people's access to education and disproportionately affect vulnerable groups like women who bear the burden when public services are inadequately financed.

The study was instrumental in identifying education funding gaps in Uganda and lessons learnt from a comparative analysis of education budget allocations between Uganda and other EAC member States. The funding gaps necessitate interventions needed to generate additional resources for education financing.

It's time for the government to make the tax system progressive through i.e. reducing its reliance on regressive taxes such as VAT and implementing innovative progressive taxes such as wealth tax on the richest could be a potential source of government revenue. Capital income such as dividends, capital gains and property income should be taxed at a higher rate than labor income. Tax loopholes should be sealed to avoid tax evasion and avoidance while unnecessary tax breaks and holidays should be scrapped. Greater international cooperation is needed to reduce erosion and profit shifting especially by multinational corporations and the wealthy.

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