THE RELATIONSHIP BETWEEN TAXES AND INCOMES OF PETROLEUM COMPANIES

A CASE STUDY OF CALTEX OIL (U) LTD

BY

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JULY 2006
DECLARATION

I ABANIS TURYAHEBWA do hereby declare that this report is my original work and has never been presented for any award of Bachelors degree, diploma, or certificate to any institution before. Where work of others has been cited, due acknowledgement has been given.

Signature ........................................ Date ................................

ABANIS TURYAHEBWA
This dissertation entitled "The Relationship between taxes and incomes of petroleum companies in Uganda". Case study: Caltex Oil (U) Ltd was done under my supervision and is now ready to be submitted to the School of Business and Management in partial fulfillment of the degree of Bachelor of Business Administration of Kampala International University, by Abanis Turyahebwa.

Signature: Mr. MUSANA MICHAEL

Date: 20/07/2006
DEDICATION

I dedicate this work to my father Mr. Geoffrey Turyatemba and my mother Mrs. Gertrude Kabesiime and also to my brother Mr. Babyecwera Edson for their invaluable support, in terms of school fees, care, love and advice as well as for their kindness.

May God bless them abundantly.
ACKNOWLEDGEMENT

First and foremost, I wish to express my appreciation to my supervisor Mr. Musana Michael for his guidance and comments that were not only informative but also thoughtful.

I would like to thank my great friends, Lois Kessio, Erinah Mudondo, Ali Mambo and Mr. Adupa Richard for their support in discussions and their cooperation and strong advice. Without them, I would not have made it.

Warmly thanks go to my aunt Jovah Turyamureeba for her financial assistance and moral advice.

I would like to acknowledge the support that was given to me by URA officials and Employees of Caltex Oil (U) Ltd for their time, and willingness to respond to my questionnaires.

Lastly, I acknowledge the financial and moral support given to me by my parents Mr. Geoffrey Turyatemba, Mrs. Getrude Kabesiime and my brother Mr. Babyecwera Edson as well as my great friend Mr. Mugume Aloysius Kabaijamu and the entire family for their support.
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<th>Description</th>
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<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>Ushs</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>No.</td>
<td>Number</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Services</td>
</tr>
</tbody>
</table>
ABSTRACT

The study was about the relationship between taxes and incomes of petroleum companies and the case study was Caltex Oil (U) Ltd.

The purpose of the study was to establish whether there is a relationship between tax rates and the incomes of petroleum companies.

The objectives of the study were; to identify the various taxes levied on petroleum products in Uganda, to ascertain the extent to which an increase in tax rates affects the incomes of petroleum companies, to identify the relationship between taxes and incomes of petroleum companies.

The instruments used to collect data were questionnaires and interviews. Samples were selected both randomly and systematically. The sources of data were both primary and secondary sources. The data was typed using Microsoft word, analyzed using Microsoft Excel and SPSS.

Tax rates greatly affect the incomes of Caltex Oil (U) Ltd

The various taxes charged on petroleum products are excise duty and largely import duty.

The taxes have a great impact on the incomes of petroleum companies. The continuous tax rates increase on petroleum products have affected the sales of Caltex Oil (U) Ltd, this has affected its income. The only way Caltex Oil is left with is to shift the whole tax
burden to the consumers of petroleum products like any other petroleum company does here in Uganda.

The recommendations were that the government should adjust the excise duty on petroleum products and that it should harmonize the taxes with those of neighboring countries to avoid smuggling.

The URA should always consult the petroleum companies and inquire on the major problems they are facing so as to reduce on the burden imposed on such companies.
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CHAPTER ONE

1.0 INTRODUCTION

The study was to deal with taxes and their influences on incomes of different petroleum companies like Caltex Oil (U) ltd in a period of 2003/04/05 financial years. Most scholars have done a lot of investigation and researches about taxes charged on different petroleum products. However, no findings have indicated the actual relationship between taxes and income of such oil companies. The main emphasis of this study was mostly on excise taxes, which is the kind of tax that is affecting mostly the oil companies, right from the boarders of the country and even within in the country.

The researcher intended to find out what happens when there is an increase in taxes on petroleum products, whether it has a direct effect on the incomes of petroleum companies and much more to have an alternate effect on the incomes of the citizens of the country. Because of the Burden of heavy taxes put on petroleum companies, such companies may end up shifting and directing the burden to consumers of petroleum products, this will first affect the economy with increased prices of their commodities, reason being that, transport costs will go up and at the end of the day, there will be a large public outcry.

The study tried to identify the conflicts that arise during the process of taxation on petroleum products. This was because it has become a routine that every financial year, as the budget is read, there has to be an increment in tax rates on petroleum
products. This was reflected in background to Budgets 2004/2005 as well as 2005/2006. Take an example of the budget that was read few days ago on Thursday 15th June, 2006 (2006/2007 financial year budget), there was an increment on taxes of petroleum products.

According to URA published financial bulletins of financial year 2004/2005, it shows that petroleum companies are the major source of revenue to the government since they contribute 26% to the total revenue of the country. Thus it is important to seriously assess the impact of taxation on such companies because if taxes end up having a heavy impact on them, some would be forced to close down which would affects negatively the revenue of Uganda. This is because the affected companies would decide to establish themselves in the neighboring countries like Kenya, Tanzania and Rwanda. Since Uganda has the highest tax component as compared to other countries in East Africa.

1.1 BACKGROUND TO THE STUDY
The British colonial masters introduced taxation in 1904; they defined tax, as a Non- Quid proquo payment of wealth by individuals and companies to the government.

Musgrave (1989) defined a tax as any leakage from the circular flow of income into the public sectors expecting loan transactions and direct payments for publicly produced goods and services.

In almost every economy, taxation remains the major source of government revenue. It's obviously known that petroleum companies contribute greatly to the
total revenue collected by government. Petroleum products being the second contributor as far the Uganda’s economy is concerned, petroleum products are the second on agricultural products, thus they need special attention, most especially when the government is preparing the national budget. This is because transport is a major factor in the day to day businesses prosperity, however, with the increase in taxes on petroleum products, transport costs also Shoots up. This later affects all the prices of all commodities, which hinders growth of the economy as well as increasing the cost of living to the Nationals.

Basing on the agrarian nature of Uganda’s economy, which is characterized by the agricultural products, small scale and medium scale industries, their tax base is small thus petroleum products being the major provider of industrial and commercial activities attract the highest tax rate from the physical policy. This was revealed from background to the budgets 2003/2004.

The excise duty, imposed on fuel is an indirect tax and contributes an average of over 31.62 % in 2004/2005. In Uganda, over 75.82% of total tax revenue is obtained from indirect taxes of which petroleum products are the major components of the tax base.(Background to the budget 2003/2004,2004/2005).

As per the study, the researcher conducted research on petroleum companies that is in Caltex Co. ltd. The research was based in Kampala City. The research was to internalize the relationship of taxes and petroleum companies.
Despite of complaints raised by various petroleum companies, because of the highest tax rates on their products, the Uganda Revenue Authority (URA) has refused to reduce on the tax rates claiming that taxes do not have a lasting effect on the incomes of petroleum companies. In Uganda, every financial year, there is an increase made on the tax rate for example 2003/2004, the increase on the tax rate of petrol was by shs 50 and diesel by shs 30 per litre. Thus a contradiction arises between objectives of increased revenue on the government side and promotion of growth and expansion through increased incomes on the side of petroleum companies.

1.2 STATEMENT OF THE PROBLEM

There has been continuous public outcry on the increasingly high price of goods and services of which the oil companies continue to claim that it's caused by the increase in taxes on fuel products. The impact of taxes has been felt by almost all petroleum companies on their incomes.

Although there has been a persistent increase in fuel tax rates, the proportion of petroleum tax revenue to total GDP continues to decline year after year [Background to the budget 2004/2005]. As a result of such high taxes, incomes of petroleum have been affected. This has forced the petroleum companies to shift the tax burden to consumers.
1.3 **PURPOSE OF THE STUDY**

The purpose of the study was to establish the relationship between the various types of taxes and their impact on incomes of petroleum companies.

1.4 **OBJECTIVES OF THE STUDY**

- To identify the various taxes levied on petroleum products in Uganda.
- To investigate the extent to which increase in taxes would affect the incomes of petroleum companies.
- To identify the relationship between taxes and incomes of petroleum companies.
- To analyze the impact of tax rate increase on the petroleum companies and its impacts on consumers of petroleum products.

1.4 **RESEARCH QUESTIONS**

- What relationship exists between taxes and incomes of petroleum companies?
- What effect does taxation have on incomes of petroleum companies?
- To what extent does the increase in tax rate affects the consumers of petroleum products?
- What are various taxes charged on petroleum products?
1.6 SIGNIFICANCE OF THE STUDY

- The study was aimed at showing the impact of taxes on income of petroleum companies so as to enable the managers of such companies to plan accordingly.

- The study was to provide information concerning the dis-harmony between fiscal authorities and petroleum companies. This would enable them understand the relative impact of taxes on petroleum companies incomes.

- Academicians interested in evaluating the various tax rates may learn from and expand upon the research.

- The study was to benefit future researchers who will be trying to find out more about the influence of taxes on incomes of petroleum companies.

- The study was to benefit the policy makers to correct the possible effects that may have a negative implication on the growth of petroleum companies.

1.7 SCOPE OF THE STUDY

The study was carried out in Kampala city. The study basically looked at the relationship between taxes and petroleum company’s incomes. The research covered financial year’s period of 2003/2004-2004/2005.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Under this chapter, the researcher analyzed and gave critical reviews on issues that have been put forward by academicians on excise taxes as well as consumption tax, which largely covers taxes charged on petroleum product. The issues have been reviewed under the following headings: review of taxes and their related relative effect, fiscal policy, tax reforms in Uganda, VAT, excise taxes, effect of tax imposition on petroleum companies as well as consumers of the products.

2.1 REVIEW OF TAXES AND THEIR RELATIVE EFFECTS

Seligman (1972) defined a tax as a compulsory non-quid pro-quo payment of wealth by individual and companies to the government. Musgrave (1989) defined a tax as any leakage from the circular flow of income into the public sector expecting loan transaction and direct payments for publicly produced goods and services.

John, due (1970) stressed the importance of heavy taxes on consumption and lighter taxes on business profit in order to realize a profit maximizing tax base in developing countries.
Dr. J Bakibinga (1986-1994) wrote on taxation measures and their effects in Uganda. He identified the rationale for taxation and tax reforms in form of legal and economic perspective. Bakibinga wrote on the introduction of value added tax (VAT), which replaced sales tax and CTL (commercial transaction levy) in 1996. He went ahead highlighting on the merits and demerits of VAT but he never stressed clearly the importance of VAT to the economy and the public. His work fell short of a thorough discussion on the causes of declining proportion of petroleum tax revenue to total GDP year after year.

Sekwala (1993) wrote, saying that taxes maybe levied with an aim of achieving various objectives say macro-economic stability, rising government revenue, and improving income distribution amongst the proportion, protection of local industries and protection of the community from consumption of harmful products. However, he does not appreciate the principle of equity or equality principle, which promotes justice in the taxation system. The government could be highly ambitious in achieving its objectives as mentioned while in the actual fact its discouraging petroleum companies because of high tax imposed on them. However, Sekwala (1993), he failed to internalize the real effect of tax on petroleum companies. Tax rate increase is a real burden, which may either be direct or indirect. Indirect real burden of a tax is where a consumer pays a tax unknowingly i.e. when one purchases the commodity with a tax compound without him/her feeling that tax burden. Where as a direct real burden is in form
of economic sacrifice of welfare on the part of the taxpayer. For example income
taxes paid by both individuals and companies.

Thus any increases in tax rates, the petroleum products prices follow the same
trend. For example an increase in tax rate by 10% on petroleum products, means
that petroleum companies will increase the prices of petroleum companies will
increase the prices of petroleum products by the same percentage since they can
easily shift the tax burden to the last consumers of the product. Thus reducing on
the real income of the consumers of petroleum products who may end up reducing
their daily consumption, which affects the incomes of petroleum companies.

Balunywa Waswa (1996) in his paper entitled income tax administration in
Uganda, outlined tax laws as they appeared in the income tax decree of 1974 and
he went ahead describing the structure of income tax administration as it was by
that time. However, he never discussed whether the laws were ideally applicable
in Uganda and whether it could enhance revenue collection.

2.2 **FISCAL POLICY**

According to Parthararath (2000), the justification of taxes lies in the
government’s need for resources to carry out its essential functions. Governments
seem to regard fiscal policy as their fundamental policy with in the mix of Macro-
economic policies. This is because fiscal policy is more amenable to direct action,
its results are more often more clearly visible, and its impact is felt more quickly.
Nicholas, Kaldor (1998), argues that there is need for taxation of petroleum companies since they carry out a profitable business. He emphasized that such an argument is justifiable in the sense that agricultural sector cannot be taxed highly as the industry sector should be. However, he failed to stress out the extent which petroleum companies as well as petroleum products should be taxed.

2.3 REVIEW OF TAXES PAID BY PETROLEUM COMPANIES

2.3.1 Excise taxes
Wagner, Richard et al (1991), define excise taxes as those taxes imposed on the consumption of selected goods; such as alcoholic beverages, tobacco products as well as petroleum products.

Excise tax rates may be defined in either specific or advalorem terms and they are usually much higher than the rates applied under VAT. Excise tax is the tax charged highly on petroleum companies’ products. This kind of tax is basically levied on petroleum products that is, petrol super, and diesel, kerosene as well as brake fluid. (USAID presto project 1998).

Excise tax rates charged on petroleum products in Uganda are far more different from those products in neighboring countries like Kenya, Tanzania and Rwanda. Ugandan petroleum duty rates are higher than those in neighboring countries.

Petroleum products are charged high tax mainly because they are seen as the most important source of revenue to the government and much more they have a relatively inelastic demand (IMF 2000).
2.3.2 Import Duty
This is a tax imposed on imported goods. It also affects petroleum products since Uganda imports all petroleum products. If the rate is high it has a big effect on the cost of production, which would eventually increase the price and thus lower sales, which affects the company’s income. This tax is charged on petroleum products imported into the country at a rate of 6% (Oruk Patrick, 2000).

2.3.3 Value Added Tax (VAT)
This tax was introduced on July 1 1996. It replaced sales tax and commercial transaction levy (CTL). It ideally taxes the value added on every stage of production and distribution, which implies that the taxpayer would have to be given credit for the taxes he pays on his purchase. Petroleum companies are also affected by V.A.T. products of which are affected by VAT include jet A1 fuel, packet jet 1 (drums), packed lubricants and black products. However other petroleum products like petrol, diesel and kerosene are exempted from VAT.

2.3.4 Corporation tax
This is the tax charged on incomes of the company. It’s actually the tax charged on the profits after interest and depreciation of any company. Corporation tax is standard for all companies’ profits and the rates are at 30% in Uganda, this corporation tax has an impact on the incomes of petroleum companies since it reduces on the retained earnings of the company.
2.3.5 Environmental taxes and user chargers

Environmental taxes apply whenever there are environmental objectives. They are termed “Pigouvian taxes” after Pigou, the classical economist who first enunciated the design of factors that bring up externalities, for example pollution. A pigouvian tax would reduce and in extreme case eliminate the level of pollution.

In recent years, industrial countries have begun to impose environmental taxes that are labeled excises. These are imposed to reduce the negative externalities of certain goods and also to raise revenue. Uganda, however, does not take into consideration the externality factor of the excise but concentrates on raising revenue. Almost all countries impose excise taxes on gasoline and diesel. If gasoline is taxed, the issue is how other petroleum products like diesel; kerosene aviation fuel and petrol should be taxed in order to realize revenue and maximizing product mix.

2.4 TAX POLICY REFORMS

The rationale of a tax reform should be in position to ensure that the tax payers are not left with the highest burden. For example, the government of Uganda needs to come up with an appropriate tax reform on the tax rates charged on petroleum since it leaves the users of such products with little money if the tax rates remain as they are currently. The reform should ensure that companies with the lower tax base should be charged lower taxes in order to enhance equality, so as to avoid such companies from shifting the whole incidence to the users of the
products. (Barigye 1995). However, Barigye (1995) did not suggest possible ways to widen tax base and how to enhance quality and measures against tax evasion.

2.5 EFFECTS OF TAX IMPOSITION
The effects of imposing a tax by the government on business firms vary, depending on whether the tax is lump sum or specific tax. (Dalton public finance, 2000)

2.5.1 Imposition of a specific tax
A specific tax, is a tax of affixed amount per unit of output sold. An example of a specific tax is the sales tax levied on petrol, diesel and kerosene. This kind of tax increases the marginal and average cost of the production which forces the short run average cost curve and marginal cost curve to shift upwards. The upward shift is the per unit cost curve for all petroleum companies. (Dalton public finance 2000).

Figure 1: The curve explaining the impact of a specific tax.
Figure 1 above shows clearly that P represents price, S represents Supply and D represents demand. The price RM1 rises fully to cover the incidence of tax RT due to perfectly elastic supply curve. The incidence of a tax is fully on the buyer.
CHAPTER THREE
METHODOLOGY

3.0 INTRODUCTION
This chapter puts forward and describes how the research was conducted. It shows the methods that was used in the study and the reasons why such methods where chosen. These methods were used to collect data upon which findings, the interpretation and conclusion were made.

3.1 RESEARCH DESIGN
The study was conducted using both quantitative and qualitative design. Evaluation and analysis of data was undertaken as well. Thus the design was a combination of exploratory and descriptive design.

3.2 SAMPLE SIZE AND SELECTION
The selection of respondents was based on random and non-random sampling methods. Members of Caltex Oil (U) Ltd were selected using random technique. Identification of geographical locations of possible respondents was also done. The following areas were selected that is, Caltex Namirembe Road Caltex Bugolobi and Caltex Kamwokya it's where major respondents came from as well as from industrial areas where Caltex headquarters are located.
3.3 SOURCES OF DATA
The sources of data were both primary and secondary data, which assisted the researcher to make a thorough analysis of the study problem at hand.

3.3.1 Primary data
Primary data refers to the raw data collected through personal interviews, through questionnaires so as the respondents to give their views towards the research being conducted. Primary data was collected from over five outlets through distributing questionnaires, personal interview.

3.3.2 Secondary data
Secondary data refers to the data obtained through the existing literature from libraries, data from published bulletins and newspapers. Secondary data was largely obtained from accounting department and pump attendant of Caltex Oil (U) Ltd, URA financial years bulletins, world Bank publication on ministry of finance, of economic development and planning, URA, tax news, newspapers, public libraries, text books.

3.4 METHODS AND TOOLS OF DATA COLLECTION
The following are the techniques and instruments that were used to collect data.

3.4.1 Questionnaires
This refers to the collection of items to which the respondent is required to fill in the questions asked by the researcher. This technique was used to help the
The researcher collected primary data through a survey based on self-administered structured questionnaires with both open and close end questions. The questionnaires were administered to two categories of respondents that’s Caltex Oil (U) Ltd Uganda as well as URA officials.

3.4.2 Interviews

Interview method refers to where there is person to person verbal communication in which one person or a group of persons asks the questions intended to obtain information or opinions. Interview schedule were also used. The main respondents here were Caltex officials as well as pump attendants. The second group of respondents was URA officials.

3.5 DATA PROCESSING AND ANALYSIS

The data collected was recorded and analyzed both manually and through use of computer by use of descriptive statistics. Computer packages like SPSS and Microsoft excel were used to produce tables and pie charts as well as bar graphs.

3.6 LIMITATIONS OF THE STUDY

- The research was expensive to the researcher in terms of money for transport, photocopying, printing and Internet surfing among others.
- There was a problem of information being denied to the researcher by petroleum companies for fear of increased taxes by the tax authorities, and the fear of their information being used by the competitors.
• The targeted population was so busy throughout the day and by the time they leave work, many of them are exhausted. This posed a threat since some of the respondents failed to get time to respond to the questionnaires. Thus the study was delayed.

3.7 EXPECTED RESULTS

• Various taxes levied on petroleum products in Uganda were identified.
• There is a relationship between taxes and income of petroleum companies.
• The trend showing effects of taxes on the incomes of the petroleum companies was obtained.
CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS OF FINDINGS

4.0 INTRODUCTION
This chapter addresses the presentation and analysis of the field data. The researcher examined the empirical data so as to find out how the change in the trade tax rate structure may affect the incomes of petroleum companies. Tables, figures, frequency distribution, graphs and pie charts were used in the presentation, interpretation and discussion of findings.

4.1 CATEGORIZATION OF THE RESPONDENTS
The sample covered 56 respondents who were 100% willing to respond to the questions put to them. The questionnaires were administered in Caltex Oil Head quarters as well as its outlets and in URA Head offices. The following was the response rate in table 4.1.1.
### 4.1.1 TABLE SHOWING RESPONSE RATES

<table>
<thead>
<tr>
<th>Department</th>
<th>Number of questionnaires issued</th>
<th>Response received</th>
<th>Response rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail manager</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>Assistant retail manager</td>
<td>14</td>
<td>10</td>
<td>71.4%</td>
</tr>
<tr>
<td>Chief accountant</td>
<td>1</td>
<td>1</td>
<td>100%</td>
</tr>
<tr>
<td>Accounts</td>
<td>10</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Senior principle</td>
<td>9</td>
<td>6</td>
<td>66.7%</td>
</tr>
<tr>
<td>Revenue officer</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>Principle revenue officer</td>
<td>9</td>
<td>6</td>
<td>66.7%</td>
</tr>
<tr>
<td>Senior revenue officers</td>
<td>6</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>Revenue officers</td>
<td>5</td>
<td>4</td>
<td>83.3%</td>
</tr>
<tr>
<td>Pump attendants</td>
<td>10</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>41</td>
<td>73.2%</td>
</tr>
</tbody>
</table>

*Source: primary data*

The researcher obtained information from 75% of the retail manager, 71.4% from the assistant retail managers, 100% from the chief accountant, 80% from the Accounts department of different outlets of Caltex company, 66.7% from the
senior principle revenue officer of URA, 75% from senior revenue officer of URA, 66.7% from senior revenue officer, 50% from revenue officers and 83.3% from pump attendants. On the general analysis, the researcher obtained information from 73.2% from the staff of Caltex Company as well as staff of the research and development of the URA.

Thus the researcher was able to identify that the respondents were aware of the impact of an increase in tax rates of petroleum products and the impact, such an increase has on the economy as well as their daily consumption of the petroleum products.

4.2 EFFECTS OF TAXES ON INCOMES OF PETROLEUM COMPANIES

100% of the respondents that were interviewed said that the various taxes levied on petroleum products have a great effect on the incomes of petroleum companies since they reduce on the sales of the company.

4.2.1 TABLE SHOWING THE EFFECT OF TAXES ON INCOMES OF PETROLEUM COMPANIES

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affirmative</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>Non affirmative</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total respondents</td>
<td>56</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data
From the table above, it's clearly shown that all the respondents agreed unanimously that taxes have a great impact on the incomes of petroleum companies.

The researcher found out that the tax rates imposed on petroleum products affects greatly the incomes of Caltex Oil (U) ltd. This was through the analysis and follow up made by the researcher as well as comparing different financial years. The impact of this was that the company would end up shifting the tax to the consumers of petroleum products. This explains why there has been fluctuating prices of fuel products. This has affected greatly the economy of Uganda since petroleum products contribute a lot on the development of the economy. The researcher came to a conclusion that as the tax rates increases, the incomes of petroleum companies are affected negatively and such petroleum companies end shifting the whole burden to the users of petroleum products.

4.3 TAXES LEVIED ON PETROLEUM PRODUCTS
The researcher found out that the tax levied on the essential petroleum product that is petrol, diesel and kerosene is excise duty. There are different taxes that are levied on the above mentioned products.
### 4.2.2 TABLE SHOWING THE VARIOUS TAXES LEVIED ON PETROLEUM PRODUCTS

<table>
<thead>
<tr>
<th>Petroleum product</th>
<th>Taxes</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lubricants</td>
<td>Import duty</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>COMESA duty</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Excise duty</td>
<td>12%</td>
</tr>
<tr>
<td>Jet spirit kerosene type</td>
<td>Exempt</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Value added tax</td>
<td>18%</td>
</tr>
<tr>
<td>Industrial diesel</td>
<td>Import duty</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>COMESA Duty</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Value Added Tax</td>
<td>18%</td>
</tr>
<tr>
<td>Fuel oils</td>
<td>Value added tax</td>
<td>18%</td>
</tr>
<tr>
<td>Petroleum</td>
<td>Import duty</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>COMESA duty</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Value added tax</td>
<td>18%</td>
</tr>
</tbody>
</table>

*Source: oil assessment report 2003*

The table above clearly shows different kind of taxes charged on petroleum products. It shows that Uganda charges 18% VAT on fuel oils. This is a high tax component on such products as compared to the neighboring countries. This kind of tax rate has made the prices of fuel products to be high and this has ended up squeezing the incomes of the people and companies that use the fuel products. The import duty of 16% on industrial diesel has made the price of diesel to be high. This has affected negatively the progress of the industries in Uganda since
most industries rely on diesel as the source of power. The end result of such a high tax component is that such industries that use diesel with a high tax component produce products at a higher cost and this forces such companies to charge high prices for their products and this affects the local people.

4.4 THE EXTENT TO WHICH AN INCREASE IN TAX RATE AFFECT THE INCOME OF PETROLEUM COMPANIES

The findings from retail managers, assistant retail managers, as well as the pump attendants described how increased taxes affect sales of petroleum products which affect largely the incomes of petroleum companies.

4.4.1 TABLE SHOWING SALES VOLUME AT 3 CALTEX OUTLETS

<table>
<thead>
<tr>
<th>Retail</th>
<th>Location</th>
<th>2003/4 Average sales (liters)</th>
<th>2004/2005 Average sales (Litres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>NAMIREMBE</td>
<td>58,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>B</td>
<td>BUGOLOBI</td>
<td>42,000,000</td>
<td>4,100,000</td>
</tr>
<tr>
<td>C</td>
<td>KAMWOKYA</td>
<td>5,100,000</td>
<td>47,600,000</td>
</tr>
</tbody>
</table>

Source: Caltex Oil (U) Ltd head offices

The researcher identified that different outlets of Caltex Oil (U) Ltd have different sales. The researcher was able to obtain reasons why the sales were different at these outlets. For example, Namirembe had 58,000,000 liters in 2003/2004 because that area has many car owners and it’s a busy area where the outlet is able to attract many customers than in Bugolobi where it is only a residential area. The second reason was that in 2003/2004, the tax rate on petroleum products was
lower than in 2004/2005 that is why the sales of Caltex Oil (U) ltd reduced in all
the three outlets. The reason is that the petroleum product prices were higher in

4.4.2 TABLE SHOWING PETROLEUM DUTY RATES APPLIED ON

<table>
<thead>
<tr>
<th>Retail outlet</th>
<th>2003/2004 (Tax rates per litre in shs)</th>
<th>2003/04 (Tax rates per litre in shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>Shs. 896</td>
<td>Shs. 1,000</td>
</tr>
<tr>
<td>Diesel</td>
<td>Shs. 735</td>
<td>Shs. 890</td>
</tr>
<tr>
<td>Kerosene</td>
<td>Shs. 536</td>
<td>Shs. 650</td>
</tr>
</tbody>
</table>

Source: Uganda Revenue Authority Financial Bulletin 2004/ 2005

As reflected in the above table, the researcher identified the rates charged on essential petroleum products. The researcher identified that there has been a continuous increase in the tax rates charged on petroleum products. This explains why there has been a continuous decrease in the incomes of Caltex Oil (U) ltd. This is because in 2003/2004, the rates of tax on petrol were shs 896, but in 2004/2005 it increased by shs 104 per litre. This is a lot of money since it is charged on every litre sold of petrol by Caltex Oil ltd. With reference to table 4.4.1, it was revealed that sales were much higher when the petroleum duty rates were low, and sales were low when petroleum duty rates were high. Thus, from the findings, it was proved that out of the operating outlets of Caltex Oil
Company experienced lower sales when the tax rates were high thus reducing the sales which eventually reduced the incomes of Caltex Oil (U) Ltd. These lower sales made by Caltex Oil (U) Ltd, drastically reduced its income. This forced Caltex Oil to start on shifting the tax burden to the users of the petroleum products so as for the company to continue earning a profit that would enable it to survive in the competitive business. This explains why there are always high prices of fuel products every. It's not only Caltex that shifts the tax burden to the consumers, but all the Oil companies in Uganda. This has affected the economy negatively and it has increased the cost of products which has resulted into high prices of the products produced locally here in Uganda.

4.4.3 TABLE SHOWING FINDINGS ON WHETHER HIGHER INCOMES WERE OBTAINED DURING PERIODS OF LOWER PETROLEUM DUTY RATES (2003/2004)

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequencies</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: primary data*

The researcher found out that all respondents agreed that higher incomes of Caltex Oil (U) Ltd were obtained when the rates of petroleum duty were low in 2003/2004.
4.5 THE VARIATION IN CONSUMPTION TREND OF PETROLEUM PRODUCTS FROM 2003/04 TO 2004/05 FINANCIAL UNDER CONSIDERATION OF TAXES

The researcher found out that financial budgets 2003/2004, 2004/2005, the rates of taxes charged on petroleum products affected the general operations on the income of Caltex Oil (U) Ltd as follows.

4.5.1 TABLE SHOWING HOW 2003/04 – 2004/05 BUDGETS AFFECTED THE OPERATIONS OF INCOMES OF PETROLEUM COMPANIES

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations of petroleum</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>No effect</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data.

Table 4.5.1 indicate that the researcher found out that the general operations of incomes of Caltex Oil (U) Ltd are normally better off when the tax rates are lower and Caltex outlets improved in their operations especially when tax rates were lower that was in the financial year 2003/2004. However, in the financial year 2004/2005, the incomes of Caltex Oil (U) Ltd were lower because of high tax rates. Thus, expressing on indication that when tax rates are high, the incomes of companies goes down. Unlike when the tax rates were low as reflected in the table 4.4.1.
From the researcher's perspective, it was revealed that the government of Uganda was charging high tax rates on petroleum companies and this has threatened their going concern operations. This is because some oil companies will end up choosing transacting in neighboring countries since their rates are lower.

4.5.2 TABLE SHOWING HOW FINANCIAL BUDGET 2003 / 2004 AFFECTED THE SALES OF CALTEX OIL (U) LTD

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequencies</th>
<th>Percentages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative</td>
<td>14</td>
<td>25%</td>
</tr>
<tr>
<td>Positive</td>
<td>26</td>
<td>46.4%</td>
</tr>
<tr>
<td>Neutral</td>
<td>16</td>
<td>28.6%</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: primary data*

From the researcher's analysis and perspective through respondents confirmed that that is 46.4% that, the taxes levied in 2003 / 2004 were positive on the income, the researcher has a divergent view, because there was an increase in tax rate from the previous financial year that is, 2002 / 2003. This was true because Uganda’s tax rates are always increasing every financial year.

Thus the 25% of the respondents who were pessimistic should not be underestimated. Thus the government needs to revise their tax structure and possibly reduce the tax rates on petroleum products. This is because as the rates of taxes charged on petroleum products are raised, the prices of petroleum products
increases and this has a negative impact on the consumers of petroleum products as well as the incomes of petroleum companies are negatively affected.

4.6 THE RELATIONSHIP BETWEEN TAX RATES AND INCOMES REALIZED FROM SALES

4.6.1 TABLE SHOWING RATES OF TAXES CHARGED (ON PETROLEUM PRODUCTS)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>Shs. 896</td>
<td>Shs. 1000</td>
</tr>
<tr>
<td>Diesel</td>
<td>Shs. 735</td>
<td>Shs. 890</td>
</tr>
<tr>
<td>Kerosene</td>
<td>Shs. 536</td>
<td>Shs. 650</td>
</tr>
</tbody>
</table>

*Source: URA*


*Source: URA*
From the bar graph above, it's clearly indicated that the petroleum duty rates on petroleum product were low in 2003/2004 and they increased in 2004/2005 financial year. The researcher was able to ascertain that, as the rates of taxes were low, the sales of Caltex Oil Ltd were more and this increased its income. However, with the policy of Uganda where tax rates are increased every year, the income of Caltex reduced in 2004/2005, this is because the tax rates on petroleum products were high.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>896</td>
<td>Petrol</td>
<td>136,000,000</td>
<td>124,936,430</td>
<td>1000</td>
</tr>
<tr>
<td>735</td>
<td>Diesel</td>
<td>147,596,891</td>
<td>139,634,232</td>
<td>890</td>
</tr>
<tr>
<td>536</td>
<td>Kerosene</td>
<td>68,736,494</td>
<td>55,641,596</td>
<td>650</td>
</tr>
</tbody>
</table>

Source: primary data
As per the researcher’s analysis, it was clearly indicated from the above graph that as the tax increased in 2003/2004 – 2004/2005 the sales of Caltex Oil (U) Ltd went down. This is because in 2003/2004, the rate for petrol was shs. 896, it increased to shs. 1,000 in 2004/2005, which reduced the sales from 136,000,000 litres of petrol to 124,936,430. This had a big impact on the incomes of Caltex. It was also clearly observable that the sales of diesel were high in 2003/2004 when the tax rates were low and the sales reduced when the tax rates increased in the financial year 2004/2005.

Therefore, the relationship between tax rates and incomes of petroleum companies is that as the tax rates increase, the incomes go down and as the tax rates are reduced, the incomes increases.
4.7 FACTORS THAT AFFECT THE INCOMES OF PETROLEUM COMPANIES

As the researcher conducted the study, it was found out that there other factors that affect incomes of petroleum products other than taxes charged on petroleum products. The findings are summarized in the table below.

TABLE 4.7.1 SHOWING FACTORS THAT AFFECT INCOMES OF PETROLEUM OTHER THAN TAXES

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequencies</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

From the above table, it was revealed that all the respondents accepted that though taxes affect sales of petroleum companies, there are also other factors. For example, the location of an outlet, say if it’s located in a slum area where there few customers (vehicles), the sales becomes low.

As per the researcher’s analysis, the increase in number of different oil companies that have managed to penetrate the market, have also reduced the sales of Caltex Oil (U) Ltd and this has affected its income of these past years.

Further as the researcher interviewed the pump attendants, it was revealed that small items for promotional purposes were necessary to attract customers.
However, Caltex Oil (U) Ltd did not have such gifts like soap, omo among other elements. This forced some of the customers to go to places where such were being offered.

**THE PIE CHART SHOWING THE RESPONSE RATE ABOUT WHETHER GIVING ITEMS INCREASES IN SALES OF PETROLEUM COMPANIES**

![Pie Chart]

*Source: primary data*

It is clearly identified that 80% of the respondents agreed that promotion activities and giving of items like soap and omo affected the sales activities. However, 20% of the respondents disagreed saying that such items do not have any effect on sales. Thus, it should always be noted that, customers need something to attract them and look for ways of retaining them and this is through offering them such items.
CHAPTER FIVE
SUMMARY, CONCLUSION AND
RECOMMENDATIONS

5.0 INTRODUCTION
This chapter discusses the summary of main findings of the study, conclusion in line with the study objectives as well as the recommendations made by the researcher.

5.1 SUMMARY
The study was carried out to determine the relationship between taxes and incomes of petroleum companies that is Caltex Oil (U) LTD. The findings from the study revealed that taxes have a tremendous effect on the incomes of petroleum companies. It further revealed that taxes adversely affected the income of petroleum companies. This was because as the tax rates were increased in financial year 2004 / 2005, the income of Caltex Oil (U) Ltd went down. The study revealed that among the various taxes charged on petroleum products include excise duty, import duty, and value added tax and corporation tax. The researcher found out that, the petroleum products of Caltex Oil (U) Ltd are mostly affected by Excise duty. The findings of the study revealed that taxes have a tremendous effect on incomes of petroleum companies that is of Caltex Oil (U) Ltd. This was evidenced in table 4.2.1 and table 4.4.1.
5.2 CONCLUSION

The findings of the study indicated that taxes greatly affect the incomes, profitability of Caltex Oil (U) Ltd. Also the findings indicated that the kind of tax that greatly affects the operations of Caltex Oil (U) Ltd is Excise duty. Though tax rates is the major factor that affects the incomes of petroleum companies, there are other factors like promotion, number of customers as well as competition from other companies.

5.3 RECOMMENDATIONS

From the findings, the researcher made the following recommendations:

- The Uganda revenue authority (URA) should always contact petroleum companies and discuss on how the tax rates on petroleum products affect their operations before imposing the taxes as to avoid adverse effects.

- The Ministry of Finance should always put in mind the effect of taxes on petroleum companies, and they should not charge a high tax. This is because petroleum companies if they are continued to pay high taxes, they will be forced out of business.

- Caltex oil (U) Ltd should always encourage the system of offering items like soap, omo, sugar among others, so as to attract customers and retain them to avoid them from being taken by competitors.
The government of Uganda should adjust the excise duty imposed on the petroleum products with those of neighboring countries so as to discourage smuggling of petroleum.

Areas suggested for further study

- The impact of taxes on incomes of small businesses
- The impact of smuggling petroleum products on the incomes of oil companies in Uganda
REFERENCE

Ministry of finance and economic planning; Background to the budgets 2002/03, 2003/04/2004/05


Uganda Revenue Authority bulleting FY 2002/2003


Dixit, Annaish K (1975), welfare effects of Tax and price changes, Journal of public economics
APPENDIX A.

RESEARCH QUESTIONNAIRE:

Dear Respondent

I am Abanis Turyahheba, a student of Kampala International University, i am glad to have you selected as one of the Respondents as regards the topic of;

THE RELATIONSHIP BETWEEN TAXES AND INCOMES OF PETROLEUM COMPANIES IN UGANDA. Your observation, experience and opinion is very important. This research is purely academic and the information obtained will be treated with confidentiality.

SECTION: BACKGROUND INFORMATION:

1. Position held

2. Length of service

☐ Less than a year.

☐ 1-5 years

☐ More than 5 years

3. Education Qualification

☐ Diploma

☐ Degree
4. Gender.

Male ☐  Female ☐

SECTION B: COMPANY:

1. Name of the firm

2. Geographical Location of firm

3. How long has your company been in business?

4. Products sold and price per unit.

<table>
<thead>
<tr>
<th>Products</th>
<th>Price per litre (shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Petrol</td>
<td></td>
</tr>
<tr>
<td>b) Diesel</td>
<td></td>
</tr>
<tr>
<td>c) Kerosene</td>
<td></td>
</tr>
</tbody>
</table>

5. Average capacity sold daily (Tick in the Appropriate)

<table>
<thead>
<tr>
<th>PRODUCTS</th>
<th>CAPACITY IN LITRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Petrol</td>
<td>100-1000 1000-5000 5000 and Above</td>
</tr>
<tr>
<td>b) Diesel</td>
<td>100-1000 1000-5000 5000 and Above</td>
</tr>
<tr>
<td>c) Kerosene</td>
<td>100-1000 1000-5000 5000 and Above</td>
</tr>
</tbody>
</table>

6. What is the nature of ownership of the company
a) Holding company ..............................................................................

b) Others (percentage shares) ..............................................................


<table>
<thead>
<tr>
<th>Financial year</th>
<th>Type of taxes</th>
<th>Effect on Incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>2003-2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-2005</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. How did 2003-2004, Budget affect the following items of the Business? (Please tick in the appropriate box).

<table>
<thead>
<tr>
<th></th>
<th>Adverse</th>
<th>Positive</th>
<th>Neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Output sold</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Level of profits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Operations of your business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Final cost of the products</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. If adverse, state in what ways, that is in the scale of 10%-100%

(Tick in the appropriate box).

<table>
<thead>
<tr>
<th>Items</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales decrease</td>
<td>10-40</td>
</tr>
<tr>
<td></td>
<td>40-70</td>
</tr>
<tr>
<td></td>
<td>70-100</td>
</tr>
<tr>
<td>Profit decrease</td>
<td></td>
</tr>
<tr>
<td>Sales increase</td>
<td></td>
</tr>
<tr>
<td>Total cost income</td>
<td></td>
</tr>
<tr>
<td>Others (please specify)</td>
<td></td>
</tr>
</tbody>
</table>

3. If positive, please indicate in what ways, that is should the positive effects.

4. Do any of your products experience form of double taxation?

   YES  ☐  NO  ☐

5. Incase of increased tax rate, what immediate Action would you take?


6. Is there need for the Government to give you some incentives, so as to improve on the Efficiency productivity etc?
If yes, what kind of incentives do you wish to get?

__________________________________________________________________________

14. Is there any factor(s) that could lead to increase in sales?

YES □  NO □

If yes outline those factor(s) below.

__________________________________________________________________________

7. Do taxes charged on petroleum products in Uganda differ from those charged in neighboring countries?

YES □ NO □

If yes, what could be the possible cause of the difference?

__________________________________________________________________________

8. Do you have any opinions/comments to make about the tax rates in Uganda of petroleum products in Uganda?

THANK YOU.
INTERVIEW GUIDE.

RELATIONSHIP BETWEEN TAXES AND INCOMES OF PETROLEUM COMPANIES IN UGANDA.

Case study: Caltex Co.ltd.

1. What are various types of petroleum products taxed by URA?
2. What taxes are levied on these petroleum products?
3. How are the above taxes assessed?
4. What impact does taxes have on incomes of your company?
5. How would you rate the tax performance, in terms of Revenue collection?
   - [ ] Below target   - [x] Above target
6. If the performance is below target, what are the possible causes?
7. How can the incomes of petroleum companies are enhanced.
8. Do taxes have a large impact on the incomes of petroleum companies in Uganda?

THANK YOU