

**ABOLITION OF GRADUATED TAX AND LOCAL  
GOVERNMENTS' ADMINISTRATION PERFORMANCE IN  
SELECTED LOCAL GOVERNMENTS IN UGANDA**

**CASE STUDY: KIRYANDONGO DISTRICT LOCAL  
GOVERNMENT**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF  
EDUCATION, OPEN AND DISTANCE LEARNING AS A  
PARTIAL FULFILLMENT FOR THE AWARD OF A  
BACHELOR OF PUBLIC ADMINISTRATION  
OF KAMPALA INTERNATIONAL  
UNIVERSITY**

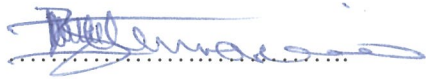
**OCTOBER, 2012**



## DECLARATION

I declare that the material in this book has been done entirely by my effort and has not been presented elsewhere for any academic qualification.

Signed

A handwritten signature in blue ink, appearing to read 'BiHEMAISO DAVID', written over a dotted line.

BIHEMAISO DAVID

Date: 23/10/2012

## APPROVAL

This research report is submitted for examination with my approval as a university supervisor.

Signed

.....

MR. SENDAGI MUHAMED

SUPERVISOR

DATE: .....

## DEDICATION

This book is dedicated to my beloved wife Catherine Atugonza and our children; Lillian, Ernest, Hazle and Hilda for their patience and understanding during the period of study.

## ACKNOWLEDGMENT

My gratitude first goes to God who has given me the strength and courage to undertake this research.

I also owe a lot of appreciation to all those who assisted me in carrying out this research. I am grateful to my supervisor Mr. Sendagi Muhamed who tirelessly went through my work and inspired me to dig deeper in to the core of the matter. His kind criticism, patience and understanding, assisted me a great deal.

I wish to thank my family most especially my wife Catherine and my children for their love, financial support and inspiration during my stay in Kampala International University. (K.I.U)

Finally, I would like to thank all my respondents and those who helped within a short notice without which this will not have been possible.

## DEFINITION OF TERMS

According to the study, the following terms are to be defined;

### **Abolition of graduated tax:**

The ending/stopping/scrapping off of payment of tax levied on every able male of working age bracket (18-65 years) and all working class women but excluding those still studying.

### **Local governments:**

These are body corporate. They can sue or be sued in their own names. They are focused at identifying local problems and provide solutions to the problems bearing in mind the national priority.

### **Administration:**

The harmonious combination of women, men and material is called administration. Administration is a collective activity directed towards the attainment of a common goal. Therefore it is a rational action. It is a group of activity that involves rational organization and management of women/men and material. It is concerned with the means to achieve given ends.

In conclusion, administration is “the systematized ordering of the affairs and the calculated use of resources aimed at making those things happen which we want to happen and simultaneously prevent developments that fail to square with our intention.”

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## **ABSTRACT**

The major purpose of this study was to determine the relationship between local governments' administration performance and graduated tax in Kiryandongo district, Uganda.

Specifically the study aimed at determining the impact of abolition of graduated tax on the local governments' administration performance, to investigate the causes of challenges due to the abolishment of graduated tax in Kiryandongo district and identify solutions to the problem of low locally raised revenue in the district and the entire country.

The methods used for data collection were questionnaires to the district technical staff and interviews with the district political leadership. The findings of study revealed that low local revenue base has negatively affected local governments' performance.

Poverty, ban of graduated tax, tax payers misunderstanding and large public demand are the major causes of low local revenue.

The study recommended that central government should operationalize local services tax and hotel tax, property tax be levied, sensitize the public about the benefits of paying taxes, government should provide subsidies on agricultural inputs so that production is enhanced which subsequently will raise on local revenue. Finally, graduated tax should be re-instated but the mode of collection should be streamlined so that tax payers pay it with ease.

## **CHAPTER ONE**

### **1.0 Introduction**

This chapter represents; background of the study, statement of the problem, objectives of the study, research questions, and scope of the study and significance of the study.

### **1.1 Background of the study**

Poor service delivery by local government is a serious concern of most citizens who are interested in the bright future of their nation. This is because other development aspects such as education, health, agriculture and infrastructure among others are largely dependant on efficient and effective local government administration, performance.

Local governments are comprised of a district as a unit under which there are lower local governments and administrative units.

According to the local governments Act Cap 243 sec. 3, 4 and 5 the local governments in a district rural area include the following; the district council the sub county councils and town councils, which are equivalent of the sub county council.

The local governments in a city are the city council and the city division councils.

The local governments in a municipality include; the municipal council and the municipal division councils.

Municipality and town councils are lower governments while the district and city councils are higher local governments.

According to the 1995 Ugandan constitution 176 (2) the following principles apply to the local government system:

It ensures that functions, powers and responsibilities are devolved and transferred from the central government to local government units in a coordinated manner.

Decentralization is a principle applying to all levels of local government and in particular from higher to lower local government units to ensure people's participation and democratic control in decision making.

There is to establish for each local government unit a sound financial base with reliable sources of revenue.

Appropriate measures need to be taken to enable local government units to plan, initiate and execute policies in respect of all matters affecting the people within their jurisdictions.

This therefore means many sectors within the local governments compete for the few resources in terms of finances and personnel, this tantamount to huge inadequate service delivery. In addition, less than half of the local governments raise enough local revenue to finance for their activities.

This implies that there are factors contributing to this poor performance of these local governments. Some of the factors affecting the performance of these local governments administration include; political pronouncement; for example the abolition of graduated tax, low local revenue base, inadequate employment opportunities, political instability, natural disasters and a lazy population which does not want to work. This research will specifically look at abolition of graduated tax, apolitical pronouncement and local government administration performance.

## **1.2 Statement of the Problem**

Poor local governments' performance has become a national problem, most especially due to the abolition of graduated tax payment ends up hindering service delivery. Leading to inadequate provision of safe drinking water, de-motivating the local Government staff such as the health and education staffer; the teachers, poor road network among others.

Unclean towns, municipalities and the city, full of rubbish heaps and pot holes, ever striking Government workers, such as teachers and health workers, impassable rural roads, among others in the country are key indicators of insufficient service delivery by the local governments, which is mainly caused by inadequate funds.

Consequently, these unsatisfied social services lead to people (citizens) blaming the central government as the poor service delivery by the local government negatively impacts onto the local people.

For example, when medical personnel strikes many patients die and for the teachers, pupils are given half baked knowledge, hence poor performance.

For the farmers in the country side, they sale their produce at very low prices since the poor road network can not make them access the markets in other areas with ease.

It is against this background that there is a serious need to conduct this research on whether the abolition of graduated tax affected local government administration.

### **1.3 Objectives of the Study**

1.2.1 **General:** To investigate the relationship between local governments administrations' performance and graduated tax in Kiryandongo district, Uganda.

1.2.2 **Specific:** This study intends to:

- (i) To determine the problems associated with the scraping of graduated tax in local government.
- (ii) To determine whether graduated tax abolition challenge has a significant effect on local governments' administration.
- (iii) To establish how local governments deal with low local revenue base coupled with the abolition of graduated tax.

### **1.4 Research Questions**

- 1) What are the problems associated with the abolition of graduated tax in Kiryandongo district local government?
- 2) What significant effect does the abolition of graduated tax have on the administration of local governments?

- 3) How does local governments' administration deal with the challenges associated with abolition of graduated tax?

### **1.5 Scope of the Study**

The study was carried out in Kiryandongo district local government. It investigated the factors affecting service delivery to the people; like provision of safe water, health, and education services and construction of roads among others by the local governments' administration.

The study is to take place between 1<sup>st</sup> August and 30<sup>th</sup> September 2012.

### **1.6 Significance of the Study**

The research findings exposed the problem under study to the development partners and the entire society at large. This will go a long way to entice the various stakeholders to take corrective measures for adequate service delivery.

The findings of the study will posed a challenge to the current tax system, procedures and means of control, therefore imposing their work methods and systems, monitoring and evaluation procedures of local governments' administration.

The findings and recommendations will also help local government administrators and the policy makers in the entire local government system in the country to establish realistic targets and seek the most effective ways of reaching them based on researched information geared towards achieving set national standards for pupils' academic performance.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter represents the review of literature related to the objectives of the study; that is to say literature focused at the relationship between Local Governments' Administration performance and graduated tax in Kiryandongo district.

#### 2.1 Definition of Graduated Tax

According to income tax in Uganda, 2001, 2004 and 2006 by Pius K. Bahemuka graduated tax is an income which is assessed and levied on individuals on the basis that that the tax has to be divided into regular intervals according to ones level of income.

According to the Carter Commission (Canada, 1966),

The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair the social and political fabric of a country is weakened and can be destroyed.

Equity has two dimensions; horizontal equity requires that individuals and families in similar circumstances bear the same taxes; Vertical equity requires that those in different circumstances bear appropriately different taxes.

Local governments in Uganda used to levy graduated tax on every able man aged between 18-64 years excluding students and the working class women were included.

The payers would be assessed and later, the tax would be collected. However due to the challenges associated to the tax the ruling party, NRM in 2006, it scraped graduated tax in its manifesto.

## **2.2 Local Governments' Administration's Performance and the Abolition of Graduated tax**

Most Ugandans first learnt about abolishment of graduated tax in 2005 when President Yoweri Museveni pledged to provide graduated tax compensation to the local government in the country.

According to the Masindi District Local Government Revenue enhancement plan 2007/2008 by the revenue and budget unit, finance department, the abolition of graduated tax as a program was launched with the 2005/2006 financial year. In that financial year, Masindi district just like other districts did not budget for collections from graduated tax as political pronouncements had made them null and void.

With the abolished graduated tax in 2006, Central Government started sending graduated tax compensation to local governments. Since then, the programme has enjoyed political and social support through out the country.

According to new vision Monday, august 15<sup>th</sup> 2011 ministry of finance, planning and economic development first quarter (July-September) shs. 650 billions released to ministries, districts.

Central government has-been among other transfers, sending graduated tax compensation not until around 2009 when it stopped it and parliament introduced total tax and local service tax

However, according to the local governments taxes from the above sources are in adequate, there by limiting the capacity of local governments, administration to deliver efficient and effective services.

According to the Daily Monitor newspaper release on Monday, April 23, 2012 it was stated that parliament was set to review a proposal by local government leaders to revive payment of graduated tax to widen the local revenue base for districts, speaker Rebecca Kadaga said.

This followed concerns raised by the leaders recently that the central government's conditional grant to the local governments is unable to deliver services to priority areas because it has strings attached.

However, Ms. Kadaga said the ideas of graduated tax must be subjected to discussion in parliament.

“Even people in my village in Kamuli are talking about reviving graduated tax. They told me that some villages have become idle and redundant. They want parliament to draft a law to ensure that at least every citizen, by obligation, lives a responsible life and pays allegiance to the state but we can not do that unless we discuss it in the parliament,” Ms. Kadaga said

As regards other revenues, she said graduated tax was not the only solution to widening local governments' revenue but the central government can also consider reinstating graduated tax compensation through the Ministry of Finance.

Kumi District boss Ismail Orot had earlier told eastern region parliamentary forum sitting in Mbale District that local Governments are incapacitated and can not allocate resources to priority areas due to minimal revenue base yet they can not divert conditional grant to fund emergencies.

“By the time graduated tax was being collected, local governments were able to fully fund their budgets and service delivery was appropriate. The central government scrapped it. As a result, local governments are grappling to fund their budgets, Mr. Orot said.

### **2.3 Causes of Abolished Graduated Tax Challenges in Local Governments Administration**

Raising local revenue faces many challenges. It is therefore important that all stake holders play their roles. These challenges include the following: political pronouncements, inadequate funds lack of transport and grooming laziness.

According to the Masindi District Local Government Revenue enhancement plan 2007/2008 some political pronouncements are made when district local governments have already made and approved their budgets. Therefore these pronouncements come like a blow as the districts will never meet their targets and besides these pronouncements, completely change the attitude of tax payers to be negative on all other taxes.

The process of revenue collection and mobilization requires funds to purchase fuel, have allowances like lunch and transport in case of no transport and further go on to sensitize the masses on radio. With meager fund it becomes hard to mobilize revenue. This is because with scrapping off of graduated tax, local governments remained with low local revenue base that can not support the multi-sectoral activities of local government administration.

Most of the local revenue is supposed to be mobilized at lower local government levels especially the parish but all parish chiefs have no transport means. Some of these Parish Chiefs cover a very big area which can not be adequately handled without quick transport means.

If graduated tax had not been abolished it would have been highly contributing to the local revenue, hence acquiring adequate transport means because even when government replaced it with graduated tax compensation, it was short-lived and it was replaced with hotel tax and local service tax which are yet to be properly/fully collected.

Last but equally important, according to Masindi District Local Government Revenue enhancement plan, 2007/2008, finance department, scrapping of graduated tax did not only deny local government the revenue from them but it has also affected other sources of revenue. This is majorly because; most people have become reluctant to work.

According to the daily monitor of 23/4/2012, some families have no food for their households and consequently no surplus that can be taken to the local markets where by the district local

governments can charge market dues. This is because the citizens now, no longer work hard since they know that they can not be arrested for defaulting graduated tax payment.

## **2.4 Solutions to Challenges Facing Abolished Graduated Tax**

Tax is a major economical, political and social commitment. But on the part of the government the participation of stake holders in enhancing national and local revenue remains crucial. Unless the nation addresses problems caused by graduated tax abolition, the problem of poor service delivery and lack of numerous social services will continue to hinder development.

In abid to provide solutions to the gaps left behind by the abolishment of graduated tax, local government Act Cap. 243 (as at 31/December 2010) mandates local government to levy taxes.

Local governments may levy and collect fees and taxes including rates, rents, loyalties stamp duties and registration and licensing fees:

The taxes that local government may levy, charge and collect include the following:

Local government hotel tax to be charged on all hotels and lodge room occupants and to be collected and paid by hotel owners and the local service tax to be levied on all persons in gainful employment or who are practicing any profession or on business persons and commercial farmers producing on large scale.

Besides the above solutions provided by the local governments Act Cap. 243, the Masindi District Local Government Revenue enhancement 2007/2008 emphasizes strategies for improved revenue collection, management and accountability of local government funds. In order to improve on revenue collection, the following strategies have been laid; management, accountability and collection.

Monthly budget desk meetings should be held to ensure that the collected local revenue is put to the best priority areas.

The revenue should only be collected by those officers designated officially to collect revenue and handle government funds.

The revenue collected should be banked intact, where banking facility are available, or kept in strong safes where there are no banking facilities until it is banked. Government revenue should only be collected during day time to ensure its safety and confidence among tax payers. Only those staff that are mandated to collect revenue should be allowed to handle revenue collection.

To ensure accountability, all revenue collected should be reflected in the official books of accounts right from the receipt book both at lower local governments and at the district headquarters.

All these mechanisms if well put in to operation can go along way to help local government administration raise the local revenue needed for their operations in their areas of operations.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter discusses the operational frame work within which the facts of the study were gathered. It covers sections on study designs, scope of the study, nature and compositions of respondents. Instruments of data collection, sampling design, data collection procedures and statistical treatment of data.

#### **3.1 Research Design**

This study employed a cross section survey. The objectives of descriptive research was to accurately portray a profile of person, situation or exerts (Saunders et al, 2000) it was not possible to access all the information in the entire district.

So the research obtained information from a representative sample from Kiryandongo district local government head quarters.

#### **3.2 Instruments of Data Collection**

Questionnaires were used to get raw data from the chief administrative officer, chief finance officer, and senior accounts assistants at the district, the political wing especially the secretary for finance, planning, investment and administration

A documentary review guide was also used.

The instruments were developed basing on the research questions.

#### **3.3 Sample Size and Sampling Procedures**

The number of political leaders that took part in the study was 15 and the number of technical staff was 15 and the ratio was 1:1 and Kiryandongo district local government will be the scope of study and the category of political leaders will be all the district councillor, the speaker and the deputy speaker and the district executive.

The research used purposive sampling to select the respondents. Kiryandongo district local government was the scope of the study and the category of political leaders was the district councilors and the executive members.

### **3.4 Statistical Treatment of Data**

Quantitative analysis: data was edited and categorized according to research variable.

Quantitative data generated from questionnaires was computed into frequency counts and percentages.

Qualitative analysis; data from semi structural observations and in-depth interviews did not require categorization hence was not categorized. Such data was presented in a descriptive form and was used to discuss the results of Quantitative.

### **3.5 Data Collection Procedure**

After the research proposal was approved, the researcher obtained a letter of introduction from the college of education, open and distance learning to facilitate him in the data collection exercise. The letter was presented to the district council authorities before the questionnaires were administered.

Participants were assured of confidentiality. Questionnaires were administered and interviews conducted. The data was sorted, analyzed and categorized, conclusions and recommendations were made.



## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

The chapter is a presentation, interpretation and discussion of the findings.

The results are presented in form of tables, frequency counts and percentage. It focuses on graduated tax and local government administrations' performance in Kiryandongo district, Uganda.

#### 4.1 Profile of the Respondents

**Table 4.1: Profile of the Respondents**

Respondents	Frequency	Percentage
<u>Sex</u>		
Male	18	<u>60</u>
Female	12	40
<b><u>Total</u></b>	<b><u>30</u></b>	<b><u>100</u></b>
<u>Category</u>		
District councilors	15	50
Civil servants at the district	15	50
<b><u>Total</u></b>	<b><u>30</u></b>	<b><u>100</u></b>

Respondents	Frequency	Percentage
Age		
30 years and below	4	13.3
31-44 years	18	60
45 years and above	8	26.7
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

Table 4.1 indicates that thirty (30) questionnaires were distributed to the district officials and all the 30 were filled and returned. This therefore represents 100% of the total number of questionnaires that were distributed.

The study covered 30 randomly selected district officials of whom 18 (60%) were male and 12 (40%) were female.

The officials were selected from district councilors and the district civil servants. 15 (50%) were selected from district councilors and 15 (50%) from district civil servants.

The age category of the respondents was divided into three categories, that is 30 years and below were 4 (13.3), 31-44 years were 18 (60%) and 45 years and above were 8 (26.7%) of the total number of the respondents.

Interviews were carried out with the district officials both male and female.

#### **4.2 Graduated tax abolition and local government's administration performance.**

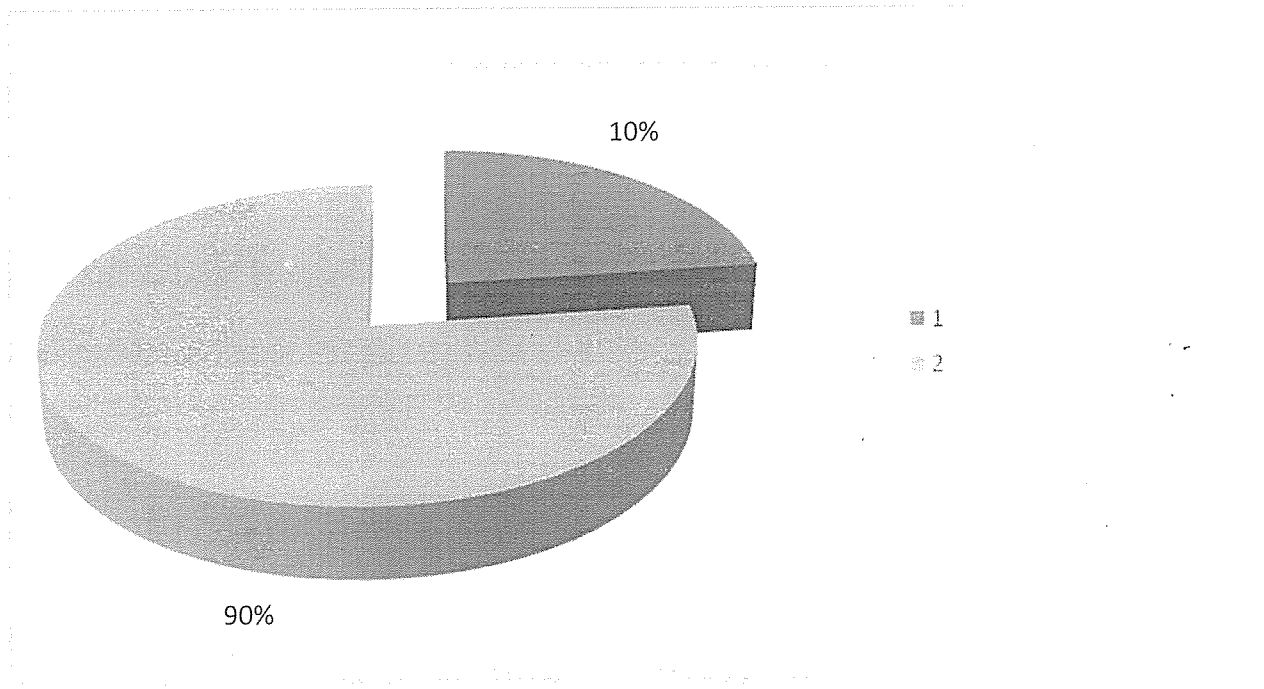
The respondents were asked whether they have challenges in their operations emanating from abolishing graduated tax and this was their response:

**Table 4.2: Existence of challenges emanating from abolition of graduated tax**

Response	Frequency	Percentage
Yes	27	90
No	3	10
Total	30	100

**Source: Field Data**

**Figure 4.1: There are challenges associated with abolition of graduated tax.**



**Source: Field Data**

The table 4.2 and figure 4.1 indicate that 27(90%) of the respondents agreed that they have challenges associated with abolishing graduated tax while 3(10%) disagreed.

This implies that in almost all districts there are local government administration performance challenges.

In interviews held with the district officials, they revealed that almost every financial year, budgets have to be cut down due to inadequate funds and some of the planned activities are always rolled over to the next financial year.

The respondents were asked what challenges do they face as a result of graduated tax abolition and this was their response.

**Table 4.3: Challenges experienced as a result of abolishing graduated tax.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Non- responsive	3	10
Low local revenue base leading to low revenue	12	40
Inadequate service delivery	06	20
It has discouraged tax payers from paying other forms of taxes	06	20
People have become less productive since they now know that no one is compelling them to pay tax.	03	10
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

The table 4.3 shows that 3 (10%) of the respondents did not give any challenges as regards graduated tax abolition, 12 (40%) said low local revenue base leading to low revenue, 6 (20%) said inadequate service delivery, another 6(20%) said it has discouraged tax payers from paying other forms of taxes and 3(10%) stated that people have become less productive since they now know that no one is compelling them to pay tax.

The district officials revealed that most local government's administration performance face the challenges of low local revenue base leading to low revenue.

“.....local governments' performance are not only faced with low revenue challenges but almost all the challenges.....” (Interview by a district civil servant).

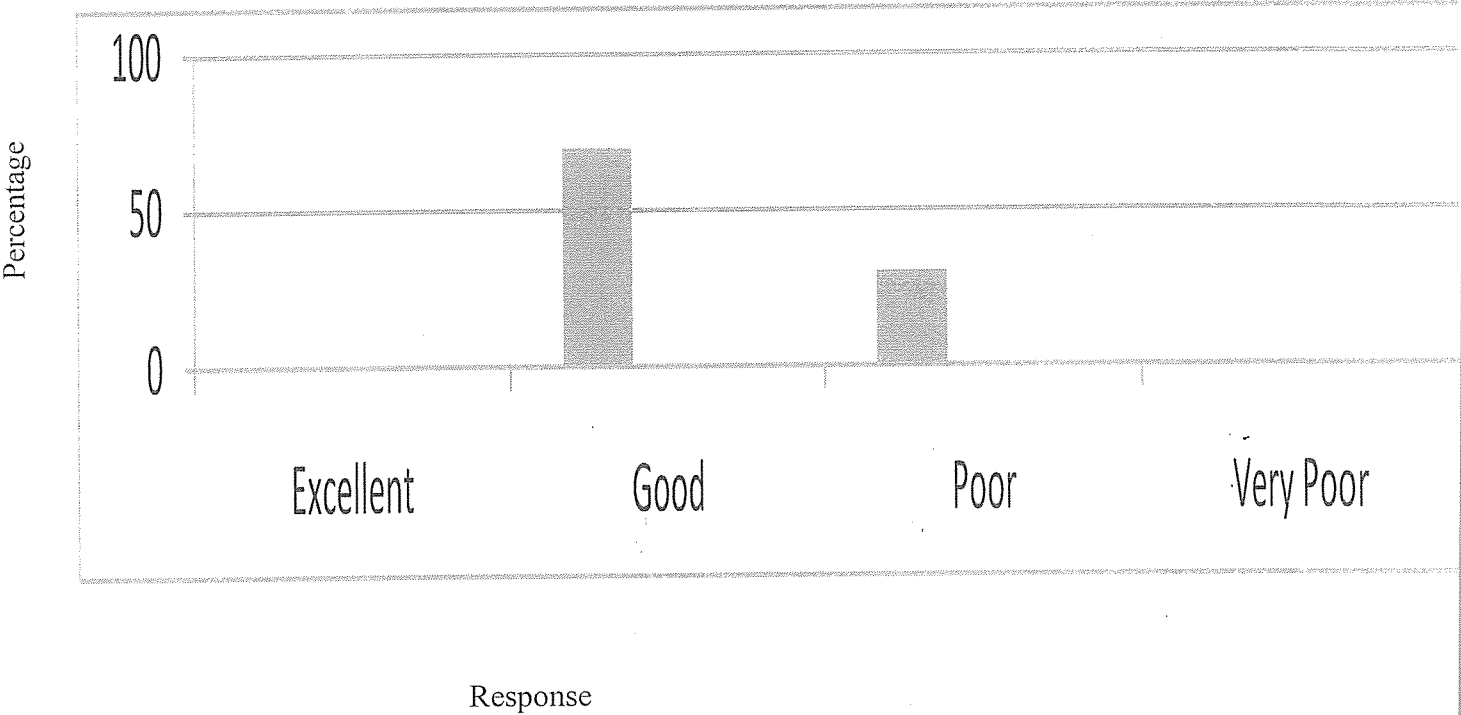
The respondents were asked how local government administration perform and this was their response:

**Table 4.4: performance of local government administration with abolition of graduated tax**

<b>Response</b>	<b>frequency</b>	<b>Percentage</b>
Excellent	-	-
Good	21	70
Poor	9	30
Very poor	-	-
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

**Figure 4.2: shows local government administration performance under the abolished graduated tax in the district**



**Source: Field Data**

According to table 4.4 and figure 4.2, 21(70%) of the respondents said that the district performance is good while 9 (30%) said they perform poorly.

According to the district officials, the district performs better through the use of the central government releases but due to the inadequacy of the funds the district at lesser extent performs poorly in service delivery.

The respondents were asked how the challenge of abolition of graduated tax affects their performance and this was their response.

<b>Response</b>	<b>frequency</b>	<b>Percentage</b>
Most staff lack transport facilities	12	40
There are very few incentives in terms of motivating staff.	12	40
Most social services like education, health, safe water and road constructions are inadequately provided	06	20
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

Table 4.5 shows that 12 (40%) and another 12 (40%) of the respondents said that abolition of graduated tax affect local government administration staff in a such a way that most staff lack transport facilities and there are very few incentives in terms of motivating the staff respectively. While 6(20%) said that most social services like education, health, safe water and road constructions are inadequately provided.

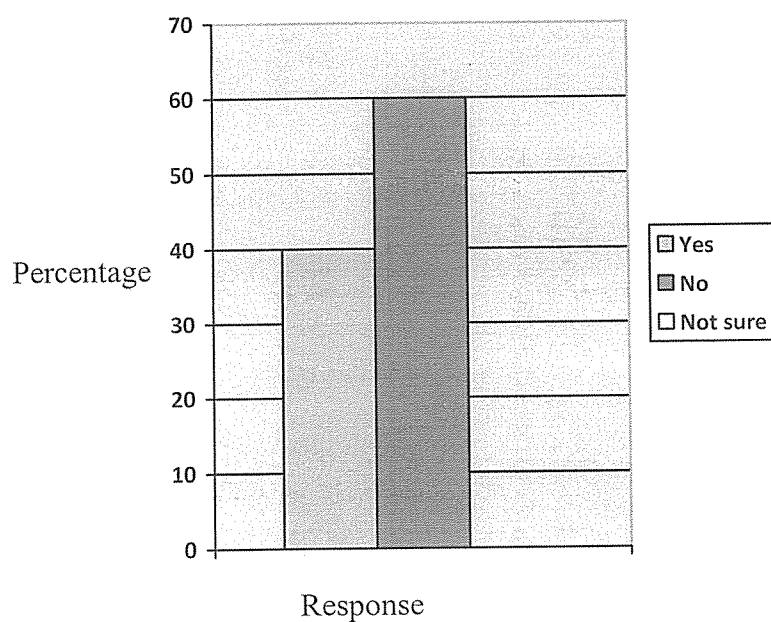
The respondents were asked whether they finish their planned activities in time and this was their response.

**Table 4.6: whether local government's administration finish their planned activities in time with the abolition of graduated tax.**

Response	frequency	Percentage
Yes	12	40
No	18	60
Not sure	0	0
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

**Figure 4.3; whether local governments under abolished graduated tax finish their planned activities in time.**



**Source: Field Data**



According to figure 4.3 12 (40%) of the respondents agreed that they finish their planned activities in time while 18(60%) disagreed and not sure was nil. This implies that most local governments with abolition of graduated tax do not finish their planned activities in time.

“The district officials complained that local governments do not finish their planned activities in time for no good reason, even when the centre replaced graduated tax with graduated tax compensation, the releases themselves are not done in time” (interview with the district officials)

### 4.3 Causes of challenges of abolished graduated tax

The respondents were asked whether a tax payer misunderstanding leads to tax challenges and this was their response.

**Table 4.7 tax payers misunderstanding and tax challenges.**

<b>Response</b>	<b>frequency</b>	<b>percentage</b>
Strongly agree	6	20
Agree	15	50
Strongly disagree	3	10
Disagree	6	20
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

Table 4.7 shows that 6(20%) strongly agreed that tax payers misunderstanding leads to tax challenges 15(50%) agreed. While 3(10%) strongly disagreed and 6(20%) disagreed that tax payers misunderstanding leads to tax challenges.

It was found out that in most cases, the district officials agreed that tax payers misunderstanding leads to tax challenges.

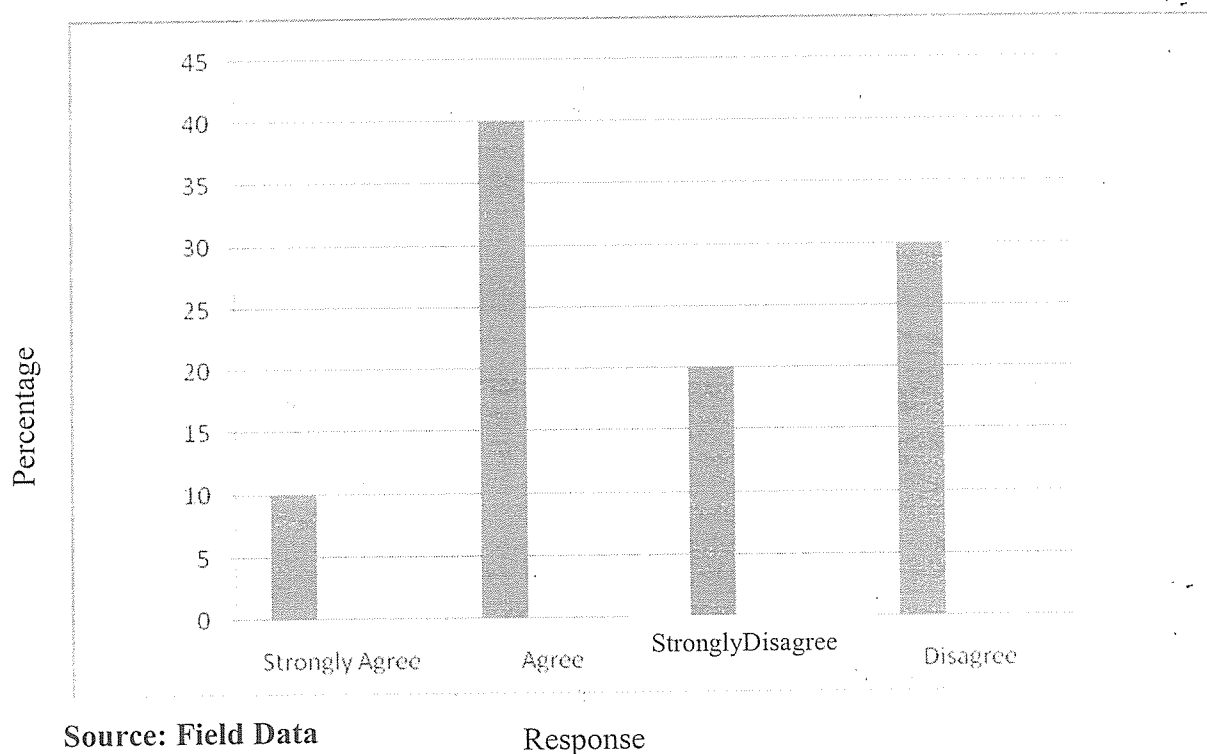
The respondents were asked whether because of poverty, tax payers can not meet their tax obligation and this was their response.

**Table 4.8: Effects of poverty on the tax payers' obligation to pay taxes**

Response	Frequency	Percentage
Strongly Agree	3	10
Agree	12	40
Strongly Disagree	6	20
Disagree	9	30
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Field Data

**Figure 4.4; poverty and inability of tax payers to meet their obligation to pay taxes.**



Source: Field Data

Table 4.8 shows that 3 (10%) of the respondents strongly agreed that because of poverty tax payers cannot meet their tax obligation payment, 12 (40%) agreed while 6 (20%) strongly disagreed and 9(30%) disagreed.

According to the district officials, poverty is not the main cause of tax payers not to meet their obligation of tax payment.

The respondents were asked whether ban of graduated tax has led to the rise of local revenue challenges and this was their response.

**Table 4.9: ban of graduated tax and the rise of local revenue challenges**

Response	Frequency	Percentage
Strongly Agree	21	70
Agree	09	30
Strongly Disagree	-	-
Disagree	-	-
Total	30	100

Table 4.09 shows that 21(70%) of the respondents strongly agreed that the ban of graduated tax has led to increase in local revenue challenges, 9(30%) agreed. While none of the respondents either strongly disagreed or disagreed at all.

The district local government officials revealed that graduated tax payment was the only way local governments could boost their local revenue.

“.....I do not support harassing tax payers all the time but I think a fairly assessed tax will enhance better quality service delivery.....”

(Interview with a district councilor)

The respondents were asked whether large public demand leads to increased revenue challenges and this was their response.

**Table: 4.10 Large public demand and increased revenue challenges**

Response	Frequency	Percentage
Strongly Agree	12	40
Agree	12	40
Strongly Disagree	-	-
Disagree	6	20
Total	30	100

**Source: Field Data**

According to the findings of the study 12(40%) strongly agreed. While another 12(40%) agreed and 6(20%) disagreed that large public demand leads to increased revenue challenges.

#### 4.4 Solutions to the challenges of low locally raised revenue

The respondents were asked what the district should do to the challenges originating from graduated tax abolition and this was their responses.

**Table 4.11 dealing with challenges originating from abolition of graduated.**

Response	Frequency	Percentage
Up Grading Of Markets	06	20
Revenue Mobilization Workshops	03	10
Establishing a Revenue Data Bank	12	40
Conducting Revenue Source Survey	09	30
Total	30	100

**Source: Field Data**

According to table 4.11 6(20%) of the respondents said the district upgrades the markets, 3(10%) said that they carryout revenue mobilization workshops, while 12(40%) said they establish a revenue data bank and 9(30%) said that they conduct revenue sources survey.

#### **Solution to the challenges of low locally raised revenue**

The respondents were asked how the local government administrators at the district deal with tax payers who do not contribute any thing at the treasury and this was their response.

**Table 4.12: dealing with those who do not want to pay any thing at the treasury.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Their business are closed down	6	20
They are forced to pay surcharge	9	30
Advice them to pay in time and the importance of tax payment	15	50
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

According to table 4.12, 6(20%) of the respondents said that the district local government closes down their businesses, while 9(30%) said that the district forces them to pay surcharge and (15%) of them said that they advise the tax payers to pay in time and also sensitizing them on the importance of paying taxes.

The district officials revealed that they first assess the tax payers, inform them of what their businesses are supposed to pay, they are given grace period under which they should pay and

when the grace period ends, they are warned and when this fails, other tough measures are applied.

The respondents were asked whether because of poverty tax challenges are on the rise and this was their response:

**Table 4.13: Poverty and rise in challenges of taxes**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly Agree	3	10
Agree	9	30
Strongly Disagree	6	20
Disagree	12	40
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data**

Table 4.13 shows that 3(10%) of the respondents strongly agreed that because of poverty tax challenges are on the rise, 9(30%) agreed while 6(20%) strongly disagreed and 12(40%) disagreed.

The respondents were asked whether all the solutions were successful and this was their response:

**Table 4.14 success of solutions to tax challenges**

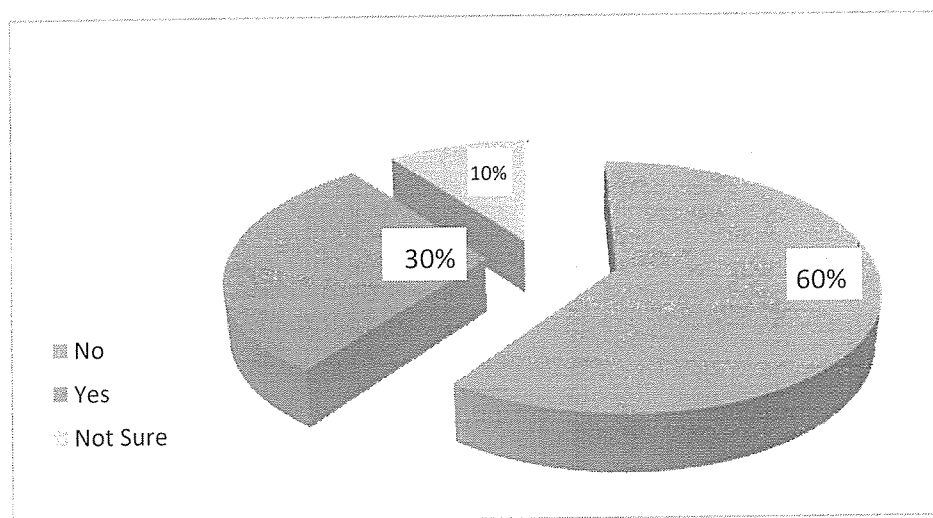
Response	Frequency	Percentage
Yes	9	30
No	18	60
Not sure	3	10
<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Data.**

According to the table 4.14, 9 (30%) of the respondents said that solutions to the challenges of tax were successful and 18 (60%) said no. while 3 (10%) were not sure.

The district officials revealed that at a greater extent these solutions are not a success.

**Figure 4.5: success of tax challenge solutions**



**Source: Field Data**

The table 4.14 and figure 4.5 show that 9(30%) of the respondents agreed that all solutions are successful while 60% disagreed and 3(10%) were not sure.

According to the district officials, sometimes the solutions work but the problem still remains that social service needs surplus the locally raised revenue.



## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introductions**

In this chapter, the conclusions from the study and the recommendations made are presented. The study used both qualitative and quantitative methods of analysis.

#### **5.2 Discussion of findings**

Respondents were asked to answer questions on the impact of graduated tax abolition on local government administration performance. 70% of the respondents said the performance of local government with abolished graduated tax, was good, and 30% said their performance was poor. While none of the respondents neither said excellent nor very poor.

Respondents also had to answer questions regarding the causes of challenges of local tax.

The respondents named poverty, ban of graduated tax, tax payers misunderstanding and large public demand as the major causes of low local taxes.

According to the new vision of 6/6/2012 district local government leaders said that the removal of graduated tax in local governments has caused even more local revenue problems to provide services to the community.

These district leaders from the north were of the view that graduated tax be reinstated for the smooth running of the local government.

#### **5.3 Conclusions**

The aim of this report was to investigate abolition of graduated tax and local governments' administration performance in Kiryandongo district local government, Uganda.

The first objective sought to investigate the impact of abolition of graduated tax on the local governments' administration performance.

According to the findings, the study concluded that abolition of graduated tax negatively affects local governments' administration performance.

The second objective sought to investigate the causes of challenges of local tax. According to the study findings, it was concluded that tax payers' misunderstandings, poverty, ban of graduated tax and large public demand as the major causes of low taxes in the district.

Lastly the solutions to the problem of low tax base as a result of graduated tax abolition were investigated and it was concluded on that aspect that, establishing revenue data bank and conducting revenue survey are the most effective solutions to the abolition of graduated tax.

#### **5.4 Recommendations**

Basing on the findings and the conclusion of the study, the following recommendations were drawn:-

Introduction and operationalising of local service tax and hotel tax.

Property tax was another strategy to widen the tax base.

Government should increase funding to the districts in terms of graduated tax compensation and the releases should be done in time.

Sensitize the public about the benefits of paying taxes.

Open up community access roads so that small scale traders/farmers can have access to bigger markets and even traders can move in remote areas to purchase the produce.

Increasing unconditional grant non wage allocation to the districts by the central government.

Government should provide subsidies on agricultural inputs so that production is enhanced which subsequently will raise on local revenue.

Graduated tax should be re-instated but the mode of operation should be streamlined so that tax payers pay it at ease.

Provide transport facilities to people heavily involved in revenue collection as they seem to be neglected yet not all the taxes are collected because of lack of transport.

#### **5.5 Areas for further studies**

Further research should be conducted and carried out in the study of abolition of graduated tax and the effects it has on local governments' administration performance. Few researchers have ventured on the topic.

## REFERENCES

1. Constitution of the Republic Uganda (as at 15 february2006)
2. Local governments act cap243 (as at 31december 2010)
3. Income tax in Uganda by pius k. Bahemuka 2001, 2004 and 2006
4. Carter commission report (Canada, 1966)
5. Masindi District Local Government Revenue enhancement plan, 2007/2008
6. Daily monitor

MONDAY,

APRIL 23, 2012

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## APPENDIX I

### QUESTIONNAIRE TO THE PUBLIC OFFICERS

Dear civil servants, the purpose of this research is to determine nonpayment of graduated tax and local government's administration in Kiryandongo district, Uganda and you have been randomly selected to participate in the study. Answer the question by ticking the boxes and giving opinion where necessary.

Do not write your name anywhere on this question paper and the answers you give will be treated with confidentiality.

#### Personal information

Glenda

Male ☐

Female ☐

#### Employed as;

An elected public officer ☐

An appointed public officer ☐

#### Public officer's job

Chief Administrative officers ☐

Town clerk ☐

Sub county chief ☐

Chief finance officer ☐

Senior accounts assistant ☐

An accounts assistant ☐

### **Abolished graduated tax and local governments administration**

1- Do you have challenges with abolishing graduated tax in your operation?

Yes ☐

No ☐

2- If yes for 1 above, what are the challenges that you have faced?

(i) Low local revenue base leading to low revenue ☐

(ii) Inadequate service delivery ☐

(iii) It has discouraged tax payers from paying other forms of taxes ☐

(iv) People have become less productive since they now know that no one is compelling them to pay tax ☐

3- How does the local government administration perform?

Excellent ☐

Good ☐

Poor ☐

Very poor ☐

4- How do these challenges affect your operations?

(i) Most staff lack transport facilities ☐

(ii) There are very few incentives in terms of motivating the staff ☐

(iii) Most social services like education, health, safe water and road constructions are inadequately provided ☐

5 Do you finish your planned activities in time?

Yes ☐

NO ☐

Not sure ☐

Below are statements in relation to causes of the challenges, please tick the one you most agree with.

**Causes of challenges of abolished graduated tax**

6- Tax payers misunderstanding leads to tax challenges.

Strongly agree ☐

Agree ☐

Strongly disagree ☐

disagree ☐

7- Tax payers do not have the money to meet their tax obligation.

Strongly agree ☐

Agree ☐

Strongly disagree ☐

disagree ☐

8- Because of poverty tax challenges are on the rise.

Strongly agree ☐

Agree ☐

Strongly disagree ☐

disagree ☐

9- Ban of graduated tax has led to the rise of local revenue challenges.

Strongly agree ☐

Agree ☐

Strongly disagree ☐

disagree ☐

10- Large public demand leads to increased local revenue challenges.

Strongly agree ☐

Agree ☐

Strongly disagree ☐

Disagree ☐

## SOLUTIONS TO THE PROBLEMS OF LOW TAX BASE RESULTING FROM GRADUATED TAX ABOLISHMENT.

11- What does the local government administration do to the abolished graduated tax challenges?

- (ii) Up grading of markets ☐
- (iii) Revenue mobilization workshops ☐
- (iv) Conducting revenue based radio talk show ☐
- (v) Carrying out revenue sources survey ☐
- (vi) Ensuring good sanitation in markets ☐
- (vii) Establishing of a Revenue data bank ☐
- (viii) Valuation of properties in order to levy property tax ☐
- (ix) Operationalize local government service tax and hotel tax which substituted graduated tax ☐

12- How do those local governments' administrations deal with tax payers who do not contribute any thing at the treasury?

- (i) Their businesses are closed down ☐
- (ii) They are forced to pay for surcharge ☐
- (iii) Advice them to pay in time ☐

13- Are the solutions in 12 above successful?

Yes ☐

NO ☐

Not sure ☐

14- What do you think are the solutions to the abolished graduated tax challenges?

.....

.....

.....

.....

.....

.....



## APPENDIX II

### INTERVIEW GUIDE FOR THE LOCAL GOVERNMENTS' POLITICAL LEADERS

1. Do you have challenges associated with abolishing of graduated tax in your local government?
2. If yes, what are they?
3. What do you think are the solutions to the challenges?
4. How does your local government perform in service delivery?
5. Is service delivery finished in time planned and budgeted for?
6. Do you agree with the statement that abolished graduated tax challenges to performance problems?
7. Do you agree with the statement that tax payers do not have money to meet their tax obligation?
8. Do you think that because of poverty local revenue challenges are on the rise?
9. Does huge public demand of social services lead to increased local tax challenges?
10. What does the local government do to the local abolished graduated tax challenges?
11. How do the local governments deal with challenges that disrupt service delivery?
12. Are the above solutions successful?

## APPENDIX III

### TRANSMITTAL LETTER



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COLLEGE OF EDUCATION, OPEN AND DISTANCE e-LEARNING  
OFFICE OF THE DEPUTY PRINCIPAL

16<sup>th</sup> May, 2012

#### TO WHOM IT MAY CONCERN

Dear Sir/Madam,

**SUBJECT: PERMISSION TO CONDUCT A RESEARCH STUDY IN YOUR ORGANISATION**

With reference to the above subject, this is to certify that **Mr. Bihemaiso David** Reg. No. **BPA/23075/81/DU** is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Public Administration.

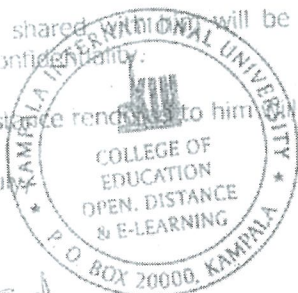
He is currently conducting a field research entitled, "*Abolition of Graduated Tax and Local Governments' Administration Performance*", a case study of Kiryandogo District Local Government.

This area has been identified as a valuable source of information pertaining to his research project. The purpose of this letter therefore is to request you to avail him with the pertinent information as regards to his study.

Any data shared with him will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,



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