

**AFTERNOON SEMINAR:  
A REVIEW OF IGC RESEARCH FOR THE UGANDA REVENUE AUTHORITY**

**DATE & TIME:** 15<sup>th</sup> April 2021 (Thursday), 3 - 5 pm  
**Zoom link for registration:** <https://cutt.ly/EcCpMvo>

Time	Session/title	Speakers
3:00 – 3:05 pm	Opening remarks by the chair	Milly Nalukwago (Assistant Commissioner of Research, URA)
3:05 – 3:10 pm	Remarks by the Country Director of the IGC	Dr. Richard Newfarmer (Country Director, IGC)
<b>3:10 – 4:50 pm: Presentations, response and discussions</b>		
3:10 – 3:25 pm	<i>What is the fiscal cost of tax incentives in Uganda?</i>	Prof. Nada Eissa (Georgetown/IGC)
3:25 – 3:40 pm	<i>Messaging Matters: The effects of different messages on individual tax payment</i>	Isabelle Cohen (Berkeley/IGC) and Nicholas Musoke (URA)
3:40 – 4:00 pm	- Expert response to studies and input on priorities (5-10 minutes): Commissioner Domestic Tax, Mr. Patrick Mukiibi Questions and answers (10 minutes, to be sent in the chat and presented by the moderator)	<b>Moderator:</b> Tina Kaidu, Manager Research (URA)
4:00 – 4:15 pm	<i>Using statistical methods to combat tax evasion: The case of Uganda's customs</i>	Prof. Sandra Sequeira (LSE/IGC)
4:15 – 4:30 pm	<i>Managing trade in clunkers: Evidence from Uganda</i>	Dorothy Nakyambadde (URA) and Felix Forster (Warwick/IGC)
4:30 – 4:50 pm	- Expert response to studies and input on priorities (5-10 minutes): Commissioner Customs, Mr. Abel Kagumire Questions and answers (10 minutes, to be sent in the chat and presented by the moderator)	<b>Moderator:</b> Tina Kaidu, Manager Research (URA)
<b>4:50 – 5:00 pm: Next steps and closing remarks</b>		
4:50 – 4:55 pm	Next steps for the IGC/URA research agenda	Dr. Richard Newfarmer, (Country Director, IGC)
4:55 – 5:00 pm	Key takeaways and closing remarks by the chair	Milly Nalukwago

## RESEARCH PROJECTS TO BE PRESENTED

### ***What is the fiscal cost of tax incentives in Uganda? (Nada Omer Eissa, Priya Manwaring, Nicole Ntungire and Jakob Rauschendorfer)***

Tax incentives - provisions in country's tax system that reduce a company's tax payments - are a vital tool to promote and attract investment in Uganda. These incentives are used to encourage specific kinds of economic activity and investment the government deems desirable, often with a promise to create new jobs and raise economic growth rates. Still, they come at a cost to taxpayers, not only in terms of direct costs in terms of tax revenue foregone, but also indirectly through distortions to economic activity. Assessing if tax incentives are justified, therefore, requires calculating their cost. In this note we provide static estimates of the direct fiscal costs of Uganda's Corporate Income Tax as well as customs tax incentives using administrative data provided by the Uganda Revenue Authority. Cumulatively, we estimate that revenue foregone due to tax incentives amounted to about 2,411 billion Uganda Shilling (approximately 652 million USD) over the fiscal years 2014/15 to 2017/18, with approximately one third of this figure stemming from Corporate Income Tax incentives and two thirds incurred from tax incentives in place in Uganda's customs system. Due to various data limitations, this figure is likely to be a lower bound estimate for the fiscal cost of tax incentives in Uganda.

### ***Using statistical methods to combat tax evasion: The case of Uganda's customs (Michael Carlos Best, Nada Omer Eissa, Parijat Lal, Joseph Okello, Jakob Rauschendorfer and Sandra Sequeira)***

Developing countries are constrained by a lack of resources to fund growth enhancing public investments (education, infrastructure etc.). Trade taxes are one important source of tax revenues for almost all of these economies. Uganda is no exception: In fiscal year 2017/18 revenues from import duties alone contributed about 8.5 percent to total tax collection. Research from other countries shows that tax evasion in customs is pervasive and sizeable, suggesting a large potential of raising revenues by combatting tax evasion in customs. However, no study to date explore this topic in Uganda, despite abundant anecdotal evidence about fraudulent practices in customs and the importance of trade taxes to the countries revenue performance. In this presentation we will demonstrate stylized facts about tax evasion in customs in Uganda along with first insights about the role of firm-level factors that explain observed evasion and provide a direct avenue for policy reform, such as the question which Customs Clearing Agents is handling a shipment, the role of individual importers as well as product categories.

***Messaging Matters: The Effects of Different Messages on Individual Tax Payment (Isabelle Cohen and Nicholas Musoke)***

How can low-cost methods of encouraging tax compliance in developing countries be most effectively constructed to encourage tax payments? A careful review of existing evidence suggests that simple messages can encourage tax payments. Generally, threats of audit have been found to be the most effective; messages which appeal to taxpayers' civic duty have, historically, had more mixed effects. To date, however, most of the research on this subject has been in OECD countries, with the capacity to pursue noncompliant taxpayers, a capacity which is often lacking in developing countries. For example, Uganda has over 700,000 active taxpayers, but conducts fewer than 400 audits per year, roughly 1/60th of the audit rate in the United States. Low-cost encouragement methods, such as education and information campaigns, are to increasing tax revenue. Early evidence from Rwanda suggests that a variety of types of messages can be highly effective in improving tax compliance. The study explores the efficacy of text message reminders with different content in Uganda, focusing on individual taxpayers. These taxpayers are largely small business owners, often with a tax burden of \$100 USD or less. Nevertheless, these taxpayers pay inconsistently (for example, skipping years) and there is considerable evidence that they underreport their annual turnover in order to pay less in taxes. We ask: Does receiving a text message make taxpayer more likely to pay their taxes? Is there any difference in effectiveness between neutral messages, benefit-focused messages, and punishment-focused messages? Do individuals' beliefs about taxation and the government affect their tax payment behavior, and, if so, which beliefs matter?

***Managing Trade in Clunkers: Evidence from Uganda (Felix Forster, Dorothy Nakyambadde)***

Many low-income countries around the world rely on age-based import restrictions to reduce the inflow of old, highly polluting used vehicles. These policies are particularly important as they are typically one of only few policies to curb local vehicle emissions. This study examines the impact of one such policy in Uganda – a tariff called the “environmental levy” – by analysing imports and first-time registrations surrounding the sharp increase of this levy in July 2015. The study finds that the environmental levy is effective in reducing imports of vehicles in the targeted age groups. It also shows, however, that the levy's effectiveness is undermined by two key factors. First, the existing vehicle inventory among intermediary traders acts as a buffer, so that overall first-time registrations are unaffected by the policy in the short run. Second, there is evidence of end-users' substitution towards even older vehicles following the levy increase. These findings point to highly progressive levies or outright bans (as recently implemented in Uganda) for an effective policy. In addition, these are ideally complemented by domestic regulation to reduce the adverse effect of substitution towards vehicles already in country.