

**AN EVALUATION OF TAX ASSESMENT AND REVENUE  
COLLECTION IN LIRA DISTRICT. THE CASE  
OF LIRA MUNICIPALITY**

**BY**

**AMITO RITA MALI**

**REG NO.BBA/24667/81/DU-LR**

**ARESEARCH REPORT SUBMITTED TO FACULTY OF  
BUSINESS PARTIAL FULLFILMENT OF THE  
REQUIREMENT FOR AWARD OF ADEGREE  
IN BUSSINESS ADMISTRATION OF  
KAMPALA INTERNATION  
UNIVERSITY.**

**AUGUST 2011**

## Declaration

I **AMITO RITA MALI** do here by declare that this research report is my own work and has never been presented in any institution of higher learning for award of degree, diploma or certificate.

Sign.....

**AMITO RITA MALI**

**(STUDENT)**

Date.....

## APPROVAL

This research report has been under my supervision and is ready for submission to Kampala international university with my approval.

Sign.....

**Mr. ODONGO MIKE**  
**(SUPERVISOR)**

Date.....

# TABLE OF CONTENT

## CHAPTER ONE

### 1.0 Introduction

1.1 Background of the study.....	1
1.2 statement of the problem.....	2
1.3 Purpose of the study.....	3
1.4 General objective of the study.....	4
1.4.1 Specific objective.....	5
1.5 Scope of the study.....	6
1.6 Research Question.....	7
1.7 Significance of the study.....	8

## CHAPTER TWO

2.0 Introduction.....	10
2.1 Theoretical review .....	10
2.2.0 Actual review of related review.....	11
2.2.1 Tax assessment and revenue generation.....	12
2.2.2 Tax assessment and revenue generation.....	13
2, 2,3 Sensitization and revenue generation.....	13

## CHAPTER THREE

3.0 Introduction .....	16
3.1 Research design.....	16
3.2 Study population.....	17

3.3 Data collection method .....	18.
3.4 Data instrument used .....	19
3.5 Research procedures .....	19
3.6 Data analysis.....	20
3.8 Reliability and validity .....	21
3.9 Reseach gap.....	22

#### CHAPTER FOUR

3.0 Introduction.....	25
4.1 Finding an effectiveness of individual tax assessment.....	25
4.2 Effectiveness of tax assessment.....	27
4.3 Payment of individual tax .....	27
4,4 Finding amount on individual tax.....	27

#### CHAPTER FIVE

5.0 Summary, Conclusion, Recommendation.....	33
5.1Introduction.....	33.
5.2 Summary .....	34
5.3 Conclusion .....	34
5.4 Recommendation .....	36

# CHAPTER ONE

## 1.0 Introduction

In this research special consideration will be given to the background of the study, objectives of the study, research question, significant of the study, limitation and conceptual framework

### 1.1 Background to the study.

Taxation started as far back in the ancient time as a way of raising funds in the time of war. Taxes on property would be temporarily imposed, and for a long time those taxes were confined to real property but later extended to other assets and other businesses.

In the middle ages many of these ancient taxes especially the direct levies vanished and gave way to variety of obligatory service system of aids of which most amounted to gifts. The main indirect taxes were transit duties and market fee in cities. The concept developed a tax obligation encompassing all the residents. The burden of taxes on certain food and beverage was intended to be born partly by producers and traders (Britannica Macropaedia).

Taxation in Uganda traces its roots to the hut tax that was introduced some time back in 1900 and enacted in 1919 under the Local Authorities Ordinance .Since then, series of taxation laws have been introduced (New vision, Nov 2005).

The imposition of Income Tax in Uganda is based on the Income Tax Act 1997.

According to this Act, Income Tax shall be charged for each year of income and hereby imposed on every person who has a chargeable income for the year of income.

Government like any other economic entity needs funds to finance its activities. Such funds are raised among other sources from individual Income Tax paid by resident and non-resident individuals earning taxable income within the geographical boundaries of Uganda. Income tax administration in Uganda involves two distinct functions which include the assessment of tax payable and the collection of tax due.

In Uganda, individual tax is assessed by the Uganda Revenue Authority (U.R.A). This is a semi-autonomous institution established by Uganda Revenue Authority statute No. 6 of 1991 to improve revenue collection.

Business income is defined under section 18 of the Income Tax Act cap. 130. The income to be chargeable must be derived from business.

According to the Income Tax Act 1997, individual Income Tax only applies to activities of individuals like sole traders who carry out businesses such as beauty salon, spare parts, and grocery among others and the business owners pay taxes according to the size of their stock.

Income tax takes the biggest portion of the final tax on business income of the small scale businesses. Tax payers pay the following as their tax as a result of gross turn over (section 4(5)) of the income tax Act 1997 as amended to date.

(4<sup>th</sup> minutes report of the Councilors of the budget estimated). Since the Uganda Revenue Authority was established in 1991, the revenue from Income Tax in Lira municipality has persistently fallen short of the estimated revenue.

Such a big deficit makes it inevitable to question the way Income Tax is being assessed by Revenue Authority, Lira municipality office.

Lira municipal like any other municipality faces problems in particularly income generations low. This perhaps is attributed to poor assessment of the tax payers. This has affected not only the municipality but also the tax payers. There is greatly low income, misappropriation of revenue hence affecting production and development. For example lira municipality failed to send district team (athletics match 2011) due to lack of finance

The government have attempted to solve this problem by training local officials, use of legal instrument such as tax act (1997, local government act of 1997. There is also anti corruption organization, equitable tax assessment among others.

Despite the above interventions, the problem still persist this is why the research intent to investigate the effect of tax assessment on income generation in lira municipality.

### **1.3 The general objective of the study.**

The purpose of the study is to examine the effect of tax assessment on revenue generation in lira municipality.

#### **1.4.0 Specific Objectives.**

1.4.1 To examine how methods of tax assessment affect revenue generation in lira municipality.

1.4.2 To fine out how low income house hold earners affect revenue generation in lira municipality.



1.4.3 To find out the extent to which sensitization affect revenue generation in lira municipality.

#### **1.5.0 Research Questions.**

1.5.1 How does assessment method affect revenue generation in Lira Municipality?

1.5.2 To what extent does low income house hold affect revenue generation in lira municipality

1.5.3 To what extend does sensitization affect revenue generation?

#### **1.6.0 Scope of the study**

1.6.1 The study Will be carried out in Lira municipality it will cover four divisions of Adyel Railways,Central and Ojwina division lira District

1.6.1 Scope of the study.

This study shall specifically focus on method of tax payment tax inequality, sensitization, and it will take a period of six mouths

The period of study will be cover from 2006 to 2011. Because this is the period Uganda is experiencing high rate of inflation.

#### **1.7.0 Significance of the study**

The study will help to benefit the following groups of people.

1.7.1. The research will provide empirical state for policy making that would assist towards formulating appropriate policy for tax assessment in lira municipality

1.7.2 It will also provide information to the policy makers on effect of income inequality in on revenue generation.

1.7.3 This study will add more knowledge on the individuals and the entre business community in lira municipality as far as tax is concern.

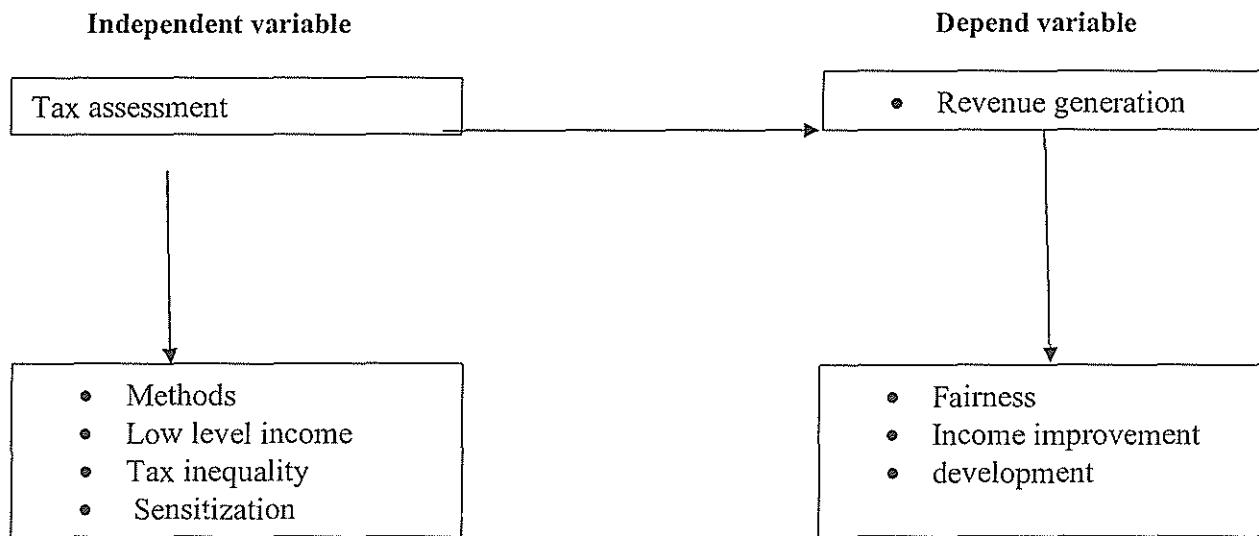
1.7.4 It will act as literature review for further research to take place in the area of taxation in lira Municipality.

#### **1.8.0 Limitation**

- 1.8.1 Time will be a limited factor in the sense that carrying out all research activities can be time consuming. Besides, the researcher also has other activities and duties to perform.
- 1.8.2 Money. This will also be a limiting factor since money is a scarce resource and therefore obtaining it will be a difficult thing.
- 1.8.3 Non-response from the respondents due to lack of interest.  
However this will be overcome through
- 1.8.4 The researcher will plan to use the available time appropriately so that all research activities can be carried out effectively.
- 1.8.5 The researcher will have to operate according to the budget with the little money available
- 1.8.6 The researcher shall create a good report with the respondents in order to open up their minds to respond to the questions asked.

## 1.9 Conceptual framework for the study.

**FIG. 1:** *A CONCEPTUAL FRAMEWORK OF SHOWING THE RELATIONSHIP BETWEEN MICRO FINANCE LOAN AND PRODUCTIVITY OF SMALL SIZE BUSINESS*



In the conceptual framework above tax assessment is considered as independent variable with the tax method, low level of income, tax inequality, and sensitization. This is believed to have innumerable effect on revenue collection in lira municipality

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

Under this chapter, the *researcher* presents a review of related literature according to various scholars and these will include the definition of tax, income tax assessment, small businesses, the relationship between income tax assessment methods and the level of income tax revenue, other causes of low revenue collection from income tax and finally conclusion on the chapter.

#### 2.1.0 Theoretical review

Song and Yar Brough, (1978) defined a tax as 'a compulsory levy by the government on people's income or wealth without a direct quid-pro-quo'.

H.L Bhatia, (1996) defined a tax as "a compulsory levy, and those who are taxed have to pay the sum irrespective of any corresponding returns of services or goods by the government."

According to Justice Holmes, tax is "the price of civilization".

Economic theory defines a tax as "a leakage from the circular flow of income into the public sector with exception of loan transaction and direct payment of publicly produced goods and services."

According to Waswa Balunywa, (1988) income tax is "a tax levied on incomes raising from business profit (trade), profession, vocation, employment or service rendered, use of property, dividends or interest pension, annuity and royalties."

Tax can also be defined as a compulsory levy imposed upon the taxpayers by the body of authority. These may be individuals, groups of individuals or other legal person. The tax is paid without corresponding returns in terms of goods and services from government to a particular tax payer. However one of the reasons for levying tax is to collect revenue to use in provision of public goods and services for the benefits of all irrespective of whether one paid or not.

A tax is a legislated amount (fraction or percentage) of the value of the item subjected to taxation, such as private income, sales or property, which is due to the government by owners of factors or business.

Taxes are calculated by multiplying the tax base, the value placed on the item for the purpose of taxation, by the tax rate. For personal income tax, the tax base is taxable income which is actual income adjusted for allowable deductions and exemption.

Meanwhile taxation is the process of administering and collecting taxes. Taxation is concerned with public revenue, public expenditure and public debt.

The concept of taxation in Uganda owes its origin to the British colonial government that took over the administration of Uganda as a country at

the turn of the century. Since that time the tax system in the country has developed in close association with the evolution of political and administrative frame work.

According to Song and Yar Brough (1978) and Tumuhimbise Manasseh (2005), tax Revenue collection should observe the requirements of a good tax structure as seen below;

### **2.2.2 Tax assessment and revenue generation**

#### **Fairnes**

Person should pay tax according to their ability. A tax burden should be matched with the benefits that tax payers receive.

In Uganda, taxes that make a higher effective percentage are considered unfair, for instance, an import duty imposed on an essential commodity, like medicine of say 60% can put it out of reach of the common person causing undue suffering to the majority.

#### **Certainty**

A tax should be certain and clear to every body concerned. A tax, which is not certain, causes low compliance among tax and this leads to low level of Revenue collection.

### **2.2.3 Tax assessment and revenue generation**

#### **Efficiency and effectiveness**

Fair tax administration should be flexible and efficient. The collection and compliance costs should be appropriate for its geographical jurisdiction. It should be neither easy to avoid nor too costly to enforce.

## **Convenience**

The convenience of the tax payer should be studied as regards tax payment. A tax should be convenience to pay, with billing dates that coincide with the income flow of tax payers. This means that the more the convenience involved in paying a given tax the revenue collection.

## **Equity**

According to Tumuhimbise Manasseh (2000) and Bird Richard (1989), matching tax liability with tax payers' income and expenditure levels is an important criterion of levying taxes. However, equity is more of a political issues rather than an economic one because it seeks justice in tax policy formulation and implementation: that is the public desires to be treated fairly while the government aims at no tax paying person to escape the tax net.

Tumuhimbise, (2000) states that, equity has two dimensions: horizontal and vertical equity.

### **Horizontal equity**

Horizontal equity can be defined as the taxing of all persons at the same level of income or consumption uniformly. Equity tax treatment implies that taxes should be arbitrary in nature or discriminatory in practical application in essence, tax payers in identical economic circumstances should be taxed the same amount. If income is the tax base, then the equal treatment principle is violated when tax payers with the same taxable income pay different amounts of tax.

Similarly, if spending is the tax base, an equal amount of spending should result in equal tax payment. The horizontal equity rule merely applies the basic principle of equity under the law.

### **Vertical equity**

Vertical equity can be defined as the treatment of people with different income levels accordingly: that is, people at a higher income bracket

should be taxed highly and people at a lower income bracket should be taxed highly. This implies proportionality and progressiveness of the tax system. This vertical equity concept gauges the relationship between income and effective tax rates.

#### **2.2.4 Sensitization and revenue generation**

##### **Simplicity**

Simplicity refers to understanding the structure of the tax law and its administration. This minimizes resentment by tax payers and maximizes compliance to the tax authorities, they further that a good tax should be the one which is easy to understand, that is amount to pay and where to pay without any difficulty.

If the tax legislation is so complex to understand by the common man, this increases the level of recruitment, paving a way to tax evasion and avoidance. Complex tax legislation will always require a lot of man power and facilities to implement.

#### **2.2.5 OTHER CAUSES OF LOW REVENUE COLLECTION FROM INCOME TA**

##### **Tax compliance**

No tax can work efficient especially income tax unless the tax administrators check on the correctness of the tax payer's action in respects to compliance (surrey 1967). Since the early 1970's however, a number of studies have been conducted from a different perspective to investigate tax payer compliance.

Clotfeller, (1983), with Boud Woodbury (1985) have attempted to measure actual tax payer compliance using aggregate internal revenue service (IRS) data.



### **Tax payers' attitude**

Surrey (1967) argues that voluntary compliance depends on national attitude towards the tax system and tax administration and that: national attitudes can be affected by the administration and vice versa.

Bird (1989), argues that the willingness of tax payers to comply with their obligations depend, to a large extent, upon the perception that the funds taken from them are put to some good use.

Income recent theoretical advances the tax payer behavior towards tax compliance depends entirely on his /her attitudes towards risks. Unless the perception that the tax system is unfair can be reversed, taxpayers' morale is under mined and evasion may become un controllable (Tauzi and Shome, 1993).

### **Tax payers' education**

Tax education is an important component of tax administration in many issues which tax payers would wish to know in the process (Kaweesa, 2003).

There should be an improved flow of information (Bird ,(1980), Surrey (1967) ) emphasizes the need for professional group that under stand tax system and can interpret that system to the public, which interpretation include, writing of articles, formation of professional organizations, trade and business association to give advice to clients.

### **Compliance cost**

Compliance costs are those costs incurred by tax payer or third parties as business in meeting requirements laid upon them in complying with a given tax structure.

Sand ford (1989) categorized compliance costs into 3 parts as follows;

Regular costs

..  
-  
-

These are costs, which continue to be incurred in the normal operations of a tax after the business has become used to it.

Tauzi, (1993), also confirms that tax payers do incur compliance costs in some countries and some taxes, compliance costs tend to be enormous ,especially if the tax payer have to stand in a line for long or sometimes days perhaps several times in a year to meet their tax obligations. Compliance costs are likely to be higher if tax laws are complicated and require the tax payer to hire an expert.

Slemrod, (1992), states that the cost of compliance with business taxation is also large, according to one estimate approximately twice as large as the cost of compliance with individual income taxation. (Arthur D. Little, 1988).

### **Start up costs**

These are costs incurred when a new tax is introduced for instance value added tax which included time and money incurred.

### **Temporary costs**

These are costs incurred because of unfamiliarity with the tax and reflect existence of a learning curve.

### **Tax law complexity**

Long and Swingen (1987) and million iron (1985), Long S.B and Swingen J.A(1987).An approach to the measurement of tax law complexity journal of American taxation spring; page 22-36,million VC (1985), Autum, a behavioral study of the meaning and influence of tax complexity, journal of accounting research,(page 79-816,states that ,an item on income tax return is to be considered complex if tax payer and or return prepares,

must use considerable time and effort to determine the correct amount of report to the appropriate rule of law to apply.

Song and Yar Brough (1970), disregard the importance of tax compliance factor. In their problem, they concluded that tax complexity in comparison with other problem is only a minor concern for most tax payers.

### **Tax inequality and revenue generation**

In lira municipality income distribution affects tax system and income generation this is common because tax rates vary arbitrarily across commodity, an occurrence demonstrate a wide prevalent for official levels of market due in the municipality.

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introductions

This chapter deals with how data shall be collected and analyzed. It describes which research design to be used, the researcher instrument, study population, sampling and data collection methods to be used.

#### 3.1 Research Design

The case study research design was used . This research design was chosen because it provides the opportunity for the researcher to collect an in-depth information from the respondents.(Amin,2005).

#### 3.2 Study population

This study was conducted in lira municipally with tax authority. Individuals, institution, and be selected from within the division and 120 respondents will be targeted.

#### 3.3 Data collection methods

These includes question are size was comprising of different categories of respondents including all categories of people who pay tax and the tax authority in lira municipality.

**Table I sample size**

<b>Respondent</b>	<b>Number</b>
Key information Town clerk, assistant town clerk, mayor	05
Client	30
Business community	10
Municipal officials	02
Security	10
Local communities	43

The researcher was interested in studying the population shown below

The targeted population were from the head of department town clerk business community leaders, bank managers

The researcher was adopt a method of Random method since all the staffs are involved in the task of service delivery to the community.

**Table II.** Target population

<b>Respondents</b>	<b>Number</b>	<b>Percentage %</b>
Key informers (Town clerk Mayor,	06	02
Low enforcement officers	25	02
L.cv councilors	15	30
Business communities	33	66
<b>Total</b>	<b>50</b>	<b>100</b>

The sample will be determined in accordance to the table designed by Krejeie and Morgan (1997). This sample will represent 46.4% of Lira Municipality.

### **3.5 Data instruments used**

#### **(i) Questionnaires**

The respondents were required to fill in the spaces in the questionnaires which were designed in the simple way to enable easy understanding.

#### **(ii) Interviews**

The researcher obtained information from the selected respondents by means of face to face interaction, mainly on issues they are not able to understand well.

**Tab III** Showing sampling method

Respondent	Sample size	Method
Town clerk	06	Purposive
Lc iv councilors	19	Stratified
Business community	48	Systematic
Mayor	35	

A purposive sampling design was employed by the researcher for the selected enterprises. Sample design was conducted in as selection of respondents is concerned

### **3.6 Research Procedure**

Upon submission of final proposal to the supervisor, the researcher obtained a letter of introduction from the Head of Department business and management of Kampala International University to the town clerk officer who introduced the researcher to the field

### **3.7 Data analysis**

During the process of analyzing data, the researcher engaged in organizing, manipulating and interpreting of data collected from the field. Tables will be made using charts and graph as way of analyzing quantitative data, in the analysis of qualitative data, the researcher will describe data collected using words

### **3.8 Reliability and validity**

The research will help lira municipality and other tax authority to improve on tax collection method, assessment, and sensitization they need hence boosting the revenue as collection. Shown by pre test done in the division of Adyel and Railways.

### **3.9 Research gap**

The areas of further studies include the impact of tax assessment on the revenue collection in lira municipality .The impact of tax inequality on revenue collection in Lira Municipality.

## CHAPTER FOUR

### 4.0 PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS:

#### 4.1 INTRODUCTION

In this chapter, the researcher presents the findings and analysis of the study using tables, frequencies and percentages. The discussion of the findings has been organized under the following:

Findings on an evaluation of tax assessment, effectiveness of the income tax assessment methods, findings on the level of revenue collection from income tax for the last four consecutive years. Findings on the relationship between income tax collection and findings on other factors that affect the level of income tax collection other than income tax assessment.

#### SAMPLE SIZE

**TABLE 3: BUSINESS ACTIVITIES IN THE SAMPLE:**

<b>Nature of the business</b>	<b>Frequencies</b>	<b>Percentages</b>
Grocery	07	14.3
Shoe making	09	18.4
Hardware	02	04.0
Carpentry	05	10.0
Metal fabrication	07	14.3
Spare parts dealers	04	08.0
Food and beverages	01	02.0
Beauty saloons	12	25.0
Timber dealers	02	04.0
<b>TOTAL</b>	<b>49</b>	<b>100.0</b>

**Source: Researcher**



**TABLE 4: COMPOSITION OF LOCAL GOVERNMENT RESPONDENTS  
CONSIDERED FOR ANALYSIS:**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Tax assessors	5	50
Tax collectors	5	50
<b>TOTAL</b>	<b>10</b>	<b>100</b>

**Source: Researcher**

The researcher collected information from 65 respondents, 55 tax payers public within Bar-dege division, and 10 tax authorities. Of these respondents, however, only 49 questionnaires from respondents' taxpayers, 10 from tax authorities were complete and thus included for the analysis. The 49 Small business firms, which are owned by individual tax payers, were grouped in to 9 categories as in the table (Table 3). Beauty saloons had the highest number of respondents (20.4%), followed by shoe making 18.4% and metal fabrications with 16.4%.

The researcher also collected information from 10 local government officials from Bar-dege division office .The 10 local government officials were grouped in to two (Table 4) tax assessors made 50% of the respondents and also tax collectors made 50% of the respondents.

**4.2 FINDINGS ON THE EFFECTIVENESS OF INDIVIDUAL INCOME TAX**

**ASSESSMENT METHODS:**

The researcher found out that the methods, which were used by the local government in income tax assessment in order to discuss their effectiveness properly.

On methods used in income tax assessment, the researcher found out that the following methods /procedures involved;

Field assessment of tax payable and

The collection of tax due.

#### 4.2.1 EFFECTIVENESS OF INCOME TAX ASSESSMENT METHODS:-

To find out whether there was effectiveness in income tax assessment methods; respondents were requested to state when assessments were received for income tax and when income tax was paid for the year 2006/2007.

##### 4.2.1.1 NUMBER OF ASSESSMENTS RECEIVED BY INDIVIDUAL INCOME

###### TAXPAYER FOR THE YEAR 2006/2007:

**TABLE 5: NUMBER OF ASSESSMENTS RECEIVED BY INDIVIDUAL INCOME TAXPAYERS FOR THE YEAR 200/2007.**

Quarter	Frequency	Percentage
1 <sup>st</sup> quarter	10	20.4
2 <sup>nd</sup> quarter	13	26.5
3 <sup>rd</sup> quarter	9	18.4
4 <sup>th</sup> quarter	9	18.4
Never received any assessment	8	16.3
<b>TOTAL</b>	<b>49</b>	<b>100</b>

**Source: Researcher**

The number of assessments received in the year 2006/2007 ranged from 20.2% in the 1<sup>st</sup> quarter, 20.5% in the 2<sup>nd</sup> quarter, 18.4% in the 3<sup>rd</sup> quarter and 18.2% in the 4<sup>th</sup> quarter 12.5% never received any assessments in the year 2006/2007 (Table 5).

Failure of the 12.5% of the respondents to receive income tax assessments is an indication of the inefficiency in the income tax assessment methods and the likely cause of the problem of under collection of the income tax revenue. This is because no payment of tax is expected unless assessments are first raised.

#### 4.2.1.2. PAYMENT OF INDIVIDUAL INCOME TAX;

**TABLE 6: PAYMENT OF INDIVIDUAL INCOME TAX FOR THE YEAR 2006/2007**

Quarter	Frequency	Percentage
1 <sup>st</sup> quarter	10	20.4
2 <sup>nd</sup> quarter	13	26.5
3 <sup>rd</sup> quarter	9	18.4
4 <sup>th</sup> quarter	9	18.4
Never paid any tax	8	16.3
<b>TOTAL</b>	<b>49</b>	<b>100</b>

**Source: Researcher**

The payment of the individual income tax for the year 2006/2007 was analyzed according to the quarter of the year in which the tax was paid (Table 6). Table 8 above, shows that 26.5% of the respondents paid their individual income tax in the second quarter, followed by 20.4% who paid in the first quarter, 18.4% in the third quarter and 4<sup>th</sup> quarter. However, 12.4% never paid any 16.3% never paid any tax in the year 2006/2007.

From the above analysis, it can be concluded that 16.3% of the respondents who never paid any individual income tax in the 2006/2007 comprised of 16.3% who never paid received any assessment (Table 6).

**TABLE 7: WHETHER THE INCOME TAX ASSESSMENT METHODS ARE EFFECTIVE OR NOT**

Response	Frequency	Percentage
Yes	0	0
Average	4	40
No	6	60
<b>TOTAL</b>	<b>10</b>	<b>100</b>

**Source: Researcher**

Table 7 above shows that, 40% of the respondents are of the opinion that the methods of administering income tax used by the local government are ineffective because the revenue collections from income tax can not meet the set targets, while 60% are of the view that the methods are averagely effective.

**TABLE 8: RESPONSE ON THE REVENUE COLLECTION FROM INCOME TAX COMPARED TO THE TARGET LEVELS OVER FOUR YEARS.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Over collection	0	0
Under collection	10	100
Actual collection	0	0
<b>TOTAL</b>	<b>10</b>	<b>100</b>

**Source: Researcher**

From the above 8:100% of the tax collectors agreed that the income tax has been under collected over the past four years. This implies that there has been in efficiency in the assessment of income tax.

**TABLE 9: TAX PAYERS WILLINGNESS TO PAY TAX**

<b>Compliance Response</b>	<b>Frequency</b>	<b>Percentage</b>
Voluntary compliance	1	10
Forced compliance	3	30
Both voluntary and forced compliance	6	60
<b>TOTAL</b>	<b>10</b>	<b>100</b>

**Source: Researcher**

The above table shows that only 10% of the taxpayers pay their taxes voluntarily.30% of the taxpayers only complies by force from the tax collectors. The majority of the tax collectors (respondents) said that income tax is sometimes paid voluntarily and others taxpayers only pay with forced compliance.

#### **4.3 FINDINGS ABOUT THE AMOUNT OF THE INCOME TAX COLLECTED FOR LAST FOUR YEAR.**

To establish how much revenue is collected from income tax each year, the researcher had to establish the revenue collection figures from income tax for the last four years and compared them with their annual

targets (Table 10). A percentage performance ratio was established to help the researcher determine whether there was an over collection.

**TABLE 10: REVIEW OF ESTIMATES AND COLLECTIONS FROM INCOME TAX FOR THE LAST FOUR YEARS.**

<b>Fiscal Year</b>	<b>Revenue Collection</b>	<b>Target Collections</b>	<b>Percentage Performance Ratio</b>
2004/2005	<b>8,857,096</b>	<b>17,976,731</b>	<b>42.3</b>
2005/2006	<b>9,770,540</b>	<b>19,871,300</b>	<b>49.2</b>
2006/2007	<b>9,987,700</b>	<b>20,911,500</b>	<b>48.0</b>
2007/2008	<b>10,389,110</b>	<b>23,765,990</b>	<b>44.0</b>

**Source: Researcher**

From table 10, it is evident that revenue collections from individual income tax for the last four years, has a fallen short of the collection targets each year. In 2003/2004, revenue collection was 76% of collection target, in 2004/2005, revenue collections were 63% of the collection target, in 2005/2006, and revenue collections were 45% of the collection target and.... This shows that individual more tax assessment methods employed by the local government were inefficient.

**4.4 FINDINGS ABOUT THE RELATIONSHIP BETWEEN INDIVIDUAL INCOME TAX ASSESSMENT AND THE LEVEL OF INDIVIDUAL INCOME TAX REVENUE FROM SMALL BUSINESS TAX PAYERS.**

**TABLE 11: THE RELATIONSHIP BETWEEN THE NUMBER OF ASSESSMENT RECEIVED AND THE AMOUNT OF TAX PAID**

<b>QUARTER</b>	<b>Assessment received</b>	<b>Assessments never received</b>	<b>Assessments received and paid</b>	<b>Assessments receive but not paid</b>
1 <sup>st</sup> quarter	10	-	8	2
2 <sup>nd</sup> quarter	13	-	12	1
3 <sup>rd</sup> quarter	9	-	11	2
4 <sup>th</sup> quarter	9	5	8	1
<b>TOTAL</b>	<b>41</b>	<b>5</b>	<b>39</b>	<b>6</b>

**Source: Researcher**

The data collected from table 11 indicates that, there is a strong relationship between the number of assessments made in a given quarter of the year and the amount of tax collected in the same quarter of the year. According to table 11 above, it is clearly indicated that, the more the assessments rose in a given year, the more the income tax collected.

In table 11 above, from the information collected from 49 respondents, only 41 respondents received assessment for the year 2006/2007. And out of 41 respondents who received assessment, only 39 respondents paid the taxes assessed. However, 3 respondents who received assessments never paid any tax and 5 respondents out of 49 never received assessments at all. This simply explains the fact that there is under collection of income tax assessment methods used. This is due to lack of enough staff to enforce payments in the 4<sup>th</sup> quarter of the year when more taxpayers receive assessments.

#### 4.5 OTHER FACTORS WHICH AFFECT THE LEVEL OF INCOME TAX

##### REVENUE OTHER THAN INCOME TAX ASSESSMENT

The researcher found out that the following were other various factors that affected the level of income tax revenue collection from small business taxpayers.

##### COMPLEXITY OF THE INCOME TAX LAW.

**TABLE 12: RESPONSES ON THE INCOME TAX LAW**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Complicated	30	61.2
Not complicated	9	18.4
Have never read it	10	20.4
<b>TOTAL</b>	<b>49</b>	<b>100</b>

**Source: Primary Data**

From the table above, 61.2% of the respondents were of the view that the income tax laws of Uganda is very complicated, 18.4% of the respondents were of the view that the income tax laws of Uganda is not complicated ; however, 20.4% of the respondents were non commercial as they had never had income tax law. The researcher was of the view that complexity of the income tax law affects the tax payer's ability to pay tax as the tax payers' uses considerable time and effort to determine the amount of tax or the appropriate rules of law to apply.

The taxpayers reported that, they normally use considerable time and effort to determine the correct amount of tax or the appropriate rules of law to apply.

**COMPLIANCE COSTS:**

**TABLE 13: RESPONSES ON COMPLIANCE COSTS:**

Response	Frequency	Percentage
Employ advisors	20	40.8
Do not employ advisors	29	59.2
<b>TOTAL</b>	<b>49</b>	<b>100</b>

**Source: Primary Data**

From the table above, 40.8% of the respondents employed advisors to determine their income tax liability whereas 59.2% did not. The researcher found out that, employing of the advisors was to help the tax payers to determine correct amount of tax to be paid due to complexity in the income tax law. The researchers view was that, the higher the tax compliance costs, the more it becomes difficult for taxpayers to pay tax.

**TAX PAYER'S ATTITUDE:**

**TABLE 14: RESPONSES ON TAX PAYER'S ATTITUDE**

Taxpayers attitude towards tax attributes	Strongly agreed (%)	Agree (%)	Either agree or disagree (%)	Strongly disagree (%)	Disagree (%)	Percentage
1."Tax evasion " hurts no one but government	12.3	9.2	19.0	37.4	22.1	100
2.Tax evasion "is not a serious offence	8.3	8.8	4.1	38.6	41.2	100
3.In dealing with local government ,the main thing is not to be caught	12.0	27.6	20.6	14.1	28.3	100
4.Income tax is	40.8	28.6	8.2	8.1	14.3	100



a fair tax						
5.Less benefit is received from government than is paid in tax	60.7	14.3	5.6	17.4	2.0	100
6.Paying Income tax is a punishment	10.2	26.4	8.2	41.4	40.2	100
7.The local government effective tax collection	30.2	27.2	15.1	14.4	14.0	100

**Source: Primary Data**

In establishing the relationship between the tax payer's attitude and the level of revenue collection from income tax, the researcher drew up a set of seven statements concerning taxpayer's attitude towards paying income tax.

According to the first state, "Tax evasion hurts no one but government" 59.5% of the respondents totally disagreed where 21.5 % of the respondents totally agreed to the statement. However, 19.0% of the respondents either agreed or disagreed to the statement.

According to the second statement, "Tax evasion is not a serious offence", majority (79.8%) of the respondents totally disagreed to the statement whereas a mere 17.2 % agreed to the statement .however, 4.1 % of the respondents were not sure.

On the third statement," in dealing with the local government, the main thing is not to get caught" 39.6 % of the respondents totally agreed to the statement and 42.4% of the respondents disagreed to the statements. However, 20.6% of the respondents either agreed or disagreed.

On the forth statement ," income tax is a fair tax" 69.4% of the respondents totally agreed to the statement and 22.4% of the respondents totally disagreed with the statement .Only 8.2% either agreed or disagreed to the statement.

According to the statement," less benefits are received from government than is paid in taxes", an overwhelming 75% totally agreed to the

statement whereas 19.4% of the respondents totally disagreed .However, a mere 5.6% either agreed or disagreed to the statement.

An overwhelming 81.6% of the respondents totally disagreed to the statement that, "paying income tax is a punishment", 36.6% of the respondents totally agreed to the statement and 8.2% of the respondents either agreed or disagreed to the statement.

Lastly, according to the statement that," Local government is effective in tax collection", an overwhelming 57.5% totally agreed to the statement and 28.4% totally disagreed to the statement. However, 15.1% of the respondents either agreed or disagreed.

According to the researcher, the above analysis of the taxpayers attitude on paying income tax, it can be concluded that taxpayers attitude on payment of income tax has a strong bearing on the level of revenue collection from income tax .

## TAX EDUCATION:

**TABLE15: RESPONSES ON TAX EDUCATION:**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Newspapers	2	4.1
Radio	4	8.2
Seminars	-	-
Television	10	20.4
At school	2	4.1
Enquiries at local government	20	40.8
Through other tax payers	9	18.4
<b>TOTAL</b>	<b>49</b>	<b>100</b>

### **Source: Primary Data**

From the table above, the majority 40.8% of the respondents received their tax education from the local government office, 20.4% from television, 18.4% through other taxpayers, 8.2% through radio and 4.1% through the newspapers. However, there is no taxpayer who received tax education from seminars.

According to the researcher, most taxpayers expressed their view that, tax education from the revenue authority is poor which leaves the taxpayers ignorant of income tax law, yet taxpayer's awareness of the income tax law greatly affects the level of income tax revenue.

## CHAPTER FIVE

### 5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 INTRODUCTION:

This chapter presents the summary of the major findings of the study,

Conclusions and recommendations as forwarded by the researcher.

#### 5.2 SUMMARY:

It was found out in the study that, the methods used in income tax assessment by the revenue Authority include, field assessments of income tax and payment of income tax due.

- On the effectiveness of the income tax assessment methods, the researcher found out that the methods were inefficient as far as the last four years; Revenue Authority (Bar-dege division) had persistently failed to meet the set targets.
- On whether there was any relationship between income tax assessment and the level of revenue collection, the researcher established that the more effective the income tax assessment methods, the more the revenue collection and vice versa. This is because the more assessments rose, the more the tax paid (table 13).
- The researcher also established that other than the income tax assessment methods, there are other factors that affect the level of income tax collection.

These include:

Tax law complexity

Compliance cost

Tax payers attitude and,

Tax payer's education.

### **5.3 CONCLUSIONS:**

From the findings established in 5.2 of this chapter, it can be concluded that the level of

Income tax revenue is affected by income tax assessment methods.

All the respondents from revenue Authority contacted expressed their view that the persistent under collection of the income tax Laroo-division is, to a large extent, due to inefficiency in the income tax assessment methods used by the Revenue Authority.

From table 12 and 13, it can be concluded that the amount of income tax paid greatly depend on the number of income tax assessed.

### **5.4 RECOMMENDATIONS:**

In light of the above conclusions, the researcher forwards the following recommendations:

- Revenue Authority should recruit more staff that will ensure that all the qualifying income tax payers have their taxes assessed in time and at the same time monitor the payments of the amount due.
- To increase tax payer's compliance, the income tax law should be made simple by translating it into local languages so as to reach and capture the internal sector and the illiterate population.
- In order to increase revenue collection, Revenue Authority should provide more facilitation to staff, in for of vehicles and allowance, to ensure that all the tax payers are reached with ease.
- In order to increase voluntary compliance and payment of income tax among the tax payers, other than being forced by tax officials, more tax educations should be carried out to change the negative attitude of the tax payers towards pay

## REFERENCES

- Background to the budget, 2004/2005
- Bahemuka, 2001, **Income Tax in Uganda**, 2<sup>nd</sup> Edition, Fountain Publishers Ltd Kampala
- Bhatia, 1996, **Public Finance**, 19<sup>th</sup> Edition, Vicas Publishing House, Delhi
- Bird, 1989, **The administrative Dimension of tax reform in developing Countries**, Edited by Gills, Duke University Press, Durham and London
- Dalton, 1985, **Principles of public Finance** 3<sup>rd</sup> Edition, Routedege Keganpall Ltd London
- Income tax ACT** ,1997, Laws of Uganda
- Long and Sweigen, 1987, **An approach to the measurement of tax law Complexity**, the journal of America Taxation Spring, page 22
- Malcom, 1989, Tax **Reform in Developing countries**; based on papers Presented at conference held in Washington in April 1988, Duke University press
- Milliron, 1985, Autumn; **Abehaviour of study of the meaning and intelligence of tax completely**, Journal of accounting Research, page 79-816
- Musgrave A. Richard and Musgrave B. Reggy, 1989, **Public Finance in theory and practice**, 5<sup>th</sup> Edition. MC grace-Hill book, international Editions finance services Singapore
- Newbery and Stem, 1987, **The theory of Taxation for Developing countries**, 2<sup>nd</sup> Edition, Oxford University Press, New York
- Shalizi, 1998, **Tax policy in Sub-Saharan Africa**; The World Bank, Washington D.C.
- Song and Yarbrough, 1975, **Tax Ethics and Taxpayers attitudes a**

**Survey of public administration review** Vol.38, page 442-457

Surray and Stanley, 1974, **Tax administration in undeveloped countries**

on taxation in developing countries page 497-523 edited by Bird R.M and Oldman O; The Hopkins, press, Baltimore

Tanzi, 1991, **Public Finance in Developing countries**, 1<sup>st</sup> Edition, Andershot, Edward publishing Ltd England, London

Tanzi and Shome, 1993, **A premier Vol. 40 No.4 page 550.**

Tumuhimbise, 2000, **An introduction to taxation in Uganda**: 1<sup>st</sup> Edition,

Uganda

Waswa Balunywa, 1988, **Income Tax administration in Uganda** , 1<sup>st</sup> Edition published by the Author, Kampala

**QUESTIONNAIRE FOR SMALL BUSINESS OWNERS AND MICRO FINACE  
AUTHORITY IN LIRA MUNICIPALITY LIRA DISTRICT**

I'm AMITO RITA a student of Kampala International University currently perusing a study leading to the award of bachelor degree in business administration. The purpose of this is to request you to provide your own view about this study ticking or circling the relevant response.

The study is purely academic and all responses shall be treated with the confidence it deserves

**Section A**

**Back ground information**

- 1 Gender (a) Male (b) Female
2. Age bracket  
(a) 21 – 30 years (b) 31 – 40 years (c) 41 – 50 years and above
- 3 Marital status  
a) Married (b) Divorce (c) Single

**SECTION B**

	Agree	Not sure	Disagree
<b>ASSESMENT ON OF TAX EFFECT ON REVENUE GENERATION</b>			
We are normally sensitized about tax repayment			
Is tax payment favorable to you			
Tax assessment normally favors clients			



Client are reworded on payment of their taxes			
<b>AN ASSEMENT ON INCOME HOUSE HOLD EARNER</b>			
The mode of tax payment is clearly spelled clients			
Clients are closely monitored and advised on how to pay their tax			
Do client pay their tax regularly			
Taxes are collected without problem			
There is no penalty for late payment of tax			
<b>ASSEMENT ON SENSISITIZATION EFFECT ON REVENUE COLLECTION</b>			
Are you normally sensitized about tax payment			
Are you normally informed about amount of tax you are suppose to pay			
Terms and conditions of paying tax are clearly spelt out during tax assessment			

**THANK YOU FOR YOUR CONTRIBUTIONS**