

Why are businesses in the capital area of Uganda not paying their taxes? Combining tax data and Google Street View images

The issue of tax non-compliance among businesses is pervasive in many developing economies, including Uganda. But to what extent do businesses comply with their tax obligations in the capital city, Kampala? Can the local environment and geographic information help predict the risk of tax non-compliance?

Prevalent non-compliance with the tax system poses a major challenge to state capacity and inclusive growth. It undermines the ability of governments to finance public goods and services. In Uganda, the country's tax-to-GDP ratio remains low at 11.4%, whereas net official development assistance stood at 8.3% in 2020, a net increase from 7.5% in 2016.

Addressing non-compliance of incorporated firms is essential for state capacity-building as governments seek ways to build trust and legitimacy among taxpayers, hoping for it to lead to increased voluntary compliance and reduced tax evasion. At best, this will, in turn, lead to a more sustainable and equitable tax system that promotes economic growth and social welfare.

An analysis taking advantage of digital tax administrative data available at the secure research lab of Uganda Revenue Authority (URA) provides valuable insights on non-compliance for evidence-based policymaking. It also sheds light on essential concerns for taxation in Uganda more generally and in the capital area of Kampala in particular: the identification of taxable identities, the issues of parallel taxpayer registries by different authorities and inefficient monitoring of firms across registries.

Non-compliance is alarmingly high

Businesses operating in Kampala are levied at the local level by the Kampala Capital City Authority (KCCA) and at the national level by the Uganda Revenue Authority (URA). Both agencies have been operating independently in their enforcement of business taxes despite recent initiatives aiming at improving taxpayers' registration

FINDINGS

Less than 15% of the firms in Kampala pay both the national corporate income tax and local trade license fee

Neighborhoods with inadequate public infrastructure are more likely to have businesses that do not pay local taxes

Overall, the aggregated estimated revenue loss due to non-compliance in Kampala by businesses amounts to approximately USD 2.675 million in 2022, exceeding 2% of the Kampala Capital City Authority's total budget for the financial year 2022/23

and ensuring coherence across registries. This context provides an ideal setting for understanding the compliance patterns of firms in a context of limited vertical coordination in enforcement.

The analysis studies the two above-mentioned registries and covers the period of 2015–2021. To these administrative tax registries, digital maps and geo-coded information drawing from Google Street View imagery were adjoined at village level to assess the relevance of public infrastructure in shaping patterns of compliance.

The findings of the analysis reveal alarmingly high non-compliance rates among businesses in Kampala, even among larger corporate firms. Less than 15% of all firms are found in both registries on an annual basis and across the period of 2015–2021. Of those parent firms that are fully compliant with corporate income tax payment (with the URA), on average, more than half have not renewed trade licenses with KCCA for all their branches across the same period, resulting in a loss of more than UGX 16.1 billion (USD 4.31 million) in 2020–2021 combined. Fully informal firms are not included in the non-compliance estimates, which means that in reality the loss is even higher.

Underlying rationales for why large, incorporated firms are not complying with local payments in Kampala remain to be investigated in extended projects. However, there is a high spatial correlation between clusters of non-compliance and areas characterized by poor public infrastructure in the city. This suggests that neighborhoods with inadequate public infrastructure are more likely to have businesses that are non-compliant with local tax payments for their own or their respective branches, despite filing their corporate income taxes.

Overall, the aggregated estimated revenue loss due to non-compliance in Kampala by businesses amounts to approximately UGX 10 billion (USD 2.675 million) in 2022, and thus exceeds 2% of the KCCA's total budget for the financial year 2022/23. This significant shortfall in tax revenue has severe implications for public finance and the provision of essential public goods and services.

What does this mean for policymaking?

The findings of the analysis emphasize the need for closer coordination between tax authorities at the local and national levels. Strengthening communication and information sharing between the KCCA and URA can help detect non-compliance practices and improve revenue collection. Thus, policymakers should consider mechanisms for enhanced collaboration and information exchange between the authorities.

The findings also indicate that non-compliance rates are prevalent even among larger corporate firms. Policymakers should focus on raising awareness about tax obligations across the board and the benefits of compliance among businesses. Implementing targeted

education and outreach programmes, particularly in areas with lower compliance rates, can help improve the overall tax culture and reduce non-compliance.

Lastly, the study highlights the value of data-driven approaches in understanding tax compliance patterns and revenue losses. Policymakers should leverage technological advancements and data analytics to improve tax administration and identify non-compliant businesses more accurately. Integrating different data sources and conducting regular audits can provide valuable insights for policymaking and enforcement efforts. New data sources such as street view or satellite imagery can help monitor compliance and improve tax collection efficiency.

IMPLICATIONS

Policymakers in Uganda should take into use mechanisms for enhanced collaboration and information exchange between the authorities

To improve tax compliance of businesses, decision-makers should implement targeted education and outreach programmes, particularly in areas with lower compliance rates

Technological advancements and data analytics should be utilized to improve tax administration. New data sources, such as street view or satellite imagery, can help monitor compliance and improve tax collection efficiency

This Research Brief is based on WIDER Working Paper **Compliance rates with local and national business taxes: Evidence from Kampala, Uganda** by Rose Vincent Camille, Kyle McNabb and Stephan Dietrich, prepared as part of the UNU-WIDER project **Building up efficient and fair tax systems – lessons based on administrative tax data**

