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LOCAL TAXATION IN UGANDA, KENYA, AND ZAMBIA

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This study examines the existing local government tax structures in Uganda, Kenya, and Zambia. The taxes are then evaluated with respect to their effectiveness in furthering central government development goals, and recommendations are offered for achieving more optimal tax structures. Some attention is given to the role of autonomous local governmental units in each nation's political and economic structure. Few studies have been conducted of local government taxation in African countries, yet activities of local governments can greatly affect a country's development process.

Studying three countries rather than one allows for greater comparison of various taxes and methods, and by this approach, it is hoped each country can draw on the experiences of the other two in determining the efficacy of various tax structures.

The major portion of this dissertation is concerned with describing and evaluating the taxes currently employed by local governments in the three countries. Historically, the major revenue source for local governments has been the graduated personal tax, a unique type of income tax levied in many African countries. It is still the major tax for most local units in Uganda. Other taxes examined are assessment rates (property taxes), cesses, licences, and school fees.

Taxes are evaluated on the basis of revenue potential, progressivity, effect on resource allocation, and costs of collection. The effect of taxation on growth of GDP is discussed only superficially; growth of

GDP is a major development aim of the three countries, but it is affected primarily by central rather than local government taxation. Since each of the countries is concerned with replacing expatriates with nationals in both industry and government, a tax structure that can be administered by citizens is desirable.

Information for this paper was obtained from governmental records and publications and interviews with central and local government officials in each country. Certain taxes were found to be more effective than others in meeting each country's aims. In general, cesses were found to be an undesirable tax. Of major requirement is the necessity of designing tax structures to meet the specific needs of each individual country, rather than simply incorporating features from the tax structures of developed countries or other LDCs.

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CHAPTER I

INTRODUCTION

In the years since independence, African countries have been striving to increase total and per capita income and to achieve other, more difficult to define, measures of development. Uganda, Kenya, and Zambia are no exception to this. One important instrument in achieving a nation's goals is the tax structure, which helps directly by affecting the allocation of resources and economic activity and indirectly by providing funding for various projects.

Taxation is undertaken by both central and local governments. Activities of both levels of government affect economic activity. In addition, the formation of an autonomous local government structure can be a national objective in itself. Fewer studies have been made of local government than of central government financing; consequently, more information is needed on local government financing, particularly through taxation.

One aim of this study is to examine local government taxes in Uganda, Kenya, and Zambia. An additional objective is to show that local governments are the best vehicles through which to collect broad based taxes that meet standards of equity and still collect substantial revenue. Besides the obvious benefits of revenue, there are advantages to broad based taxes (see Chapter II). To assure that the tax structures of local governments help foster the aims of each nation, the existing and potential tax structures of local governments need to be examined.

Studying three countries rather than one allows for greater comparison of various taxes and methods. By this approach, it is hoped each country can draw on the experiences of the other two in determining the efficacy of differing tax structures. Often officials in one area do not know of existing programs in neighboring areas.

Certain precautions are necessary when attempting to draw parallels between the countries because of their differing aims and needs, which will be discussed more fully in Chapter II. The backgrounds and goals of the countries are similar enough to allow for some comparisons, however. The three countries are all former British colonies, and although they had different colonial experiences, they inherited similar political, economic, and social structures. In addition, the three have predominately capitalistic structures.¹

Background of the Three Countries

Uganda and Kenya are two of the three members of the East African Community and Common Market (Tanzania is the third member). The member countries are politically autonomous, with each having its own laws and legislatures. Certain services are provided jointly by the East African Community, among them being post and telecommunications, railways, airlines, meteorology, and certain medical services and other research projects, including viral control and programs for tuberculosis and leprosy. There is a common customs department, though a country may deviate from the common tariff with permission of the other two nations. A common market allows for free movement of goods between countries. Until July, 1973, the countries shared a common income tax department, though each country determined its own tax rates

and personal exemptions. Many features of the Community were instituted prior to independence.

In the past, 20% of total income tax collections have been turned over to a common fund, which channeled the money into development projects. Because Kenya has been determined as the most developed of the countries, having more industry and a higher per capita income, Community funds have been channeled into Uganda and Tanzania. When the countries gained independence in the early 1960's, it was suggested that they unite to form one nation. This was not achieved as the countries desired more political autonomy. The formation of the community was the solution. Currently the countries have been moving further apart; the separation of income tax into three separate departments in 1973 is one stage in this split.

Zambia, formerly Northern Rhodesia, is in central Africa. Prior to independence, the country was part of a federation with Southern Rhodesia and Nyasaland, now Malawi. There are no longer any formal ties among the three countries. Rhodesia issued a Unilateral Declaration of Independence (UDI) from Great Britain in 1964 and since that time, relations between Rhodesia and Zambia have been strained, culminating in a closing of the border between the two in January, 1973.

Zambia is land-locked, and until the completion of the TanZam railway, the only rail links between Zambia and the coast go through white dominated countries: Rhodesia, South Africa, and the Portuguese colonies of Mozambique and Angola. Since the closing of the border with Rhodesia, Zambia has been exporting copper by rail and road through Tanzania to the Indian Ocean. When the railway is completed, most of the copper will be shipped by rail. Currently a small percentage of



Map 1. The countries covered by the study.

goods goes through Angola to the port at Benguela. This route has the advantage of ending on the Atlantic rather than Indian Ocean. If Angola gains her independence from Portugal, this route may be utilized more.

Consideration has been given to Zambia's joining the East African Community, at least as a partial member sharing the common services. Many Zambian officials and economists express strong sentiment against Zambia's partaking in the Common Market as there is little manufacturing in Zambia and Zambian industry currently needs protection against goods from other countries. Table 1 gives a summary of some of the major statistics and other information for the three countries.

Uganda

Uganda gained independence in 1962. The country had been a British protectorate since 1894. The first President, elected the year following independence, was Edward Mutesa III, who in addition to being President, had been the Kabaka (king or ruling leader) of the Baganda, one of the major Uganda tribes. At that time Uganda was essentially subject to two sets of laws: one for the Buganda region and another for the remainder of the country. In 1966, Prime Minister Obote overthrew the Mutesa, established a new constitution and became the second President. In 1971, General Idi Amin became President through a second coup and established a military State.

Uganda is predominantly a rural nation, with nearly 90% of the population relying on the land for a living. Agriculture provides more than half of all export income.² The major export crop is coffee, which contributed to the foreign exchange surplus in the first half of

Table 1
General Features of the Countries

Item	Uganda	Kenya	Zambia*
Population 1969 census	9,548,847 9,806,400	10,942,709 11,225,000	4,057,000 n.a.
Land Area	236,860 sq. km	582,646 sq. km	746,260 sq. km
Unit of Currency	Shillings	Shillings and Pounds	Kwacha
Exchange Rate in 1972	\$1. = shs. 7.14	\$1. = shs. 7.14 \$1. = £.35	\$1. = K.71
GDP at Factor Cost 1969			
Monetary	shs. 5,235,000,000	shs. 7,198,000,000	n.a.
Non Monetary	shs. 2,246,000,000	shs. 2,294,000,000	n.a.
Total	shs. 7,481,000,000	shs. 9,492,000,000	shs. 9,789,000,000
GDP at Factor Cost 1970	shs. 8,487,000**	shs. 10,488,000,000	shs. 9,740,000,000**
Per Capita GDP 1969 1970	shs. 783/45 shs. 865/45**	shs. 867/43 shs. 934/34	shs. 2,412/86 n.a.

Sources: Uganda, Statistics Division, Ministry of Planning and Economic Development, 1971 Statistical Abstract (Entebbe: Uganda Government Printer); Kenya, Central Bureau of Statistics, Ministry of Finance and Planning, Statistical Abstract: 1972 (Nairobi, 1972); Zambia, Central Statistical Office, Statistical Year-book: 1970 (Lusaka: Zambia Government Printer, 1971).

* Monetary values for Zambia have been converted to shillings to facilitate comparisons with Uganda and Kenya.

** Based on central government estimates.

1973, despite the exodus of the Asian populace.³ Uganda is worlds fifth largest coffee producer. Other exports are raw cotton, tea and copper.

Uganda has a strong system of local government. In 1972, there were 20 rural districts and 19 autonomous urban areas. (In 1973, the number of districts was increased by about 50%, but this occurred after the scope of this study.) At independence, there were only 18 rural districts; two of these were split in 1972. The districts comprise four regions.

Each district and urban area is an autonomous governmental unit headed by a District Commissioner or Town Clerk. Certain taxes are levied solely by local areas; graduated tax, licences, and school fees are used by all local governments, and assessment rates and property taxes by urban areas and 4 districts. The District Commissioner and District Treasurer have responsibility for administration and collection of taxes in rural areas and the Town Treasurer assumes responsibility in urban jurisdictions. Local governments in Uganda are under the authority of the Ministry of Local Government. Tax revenues collected by local governments, however, are under local control; the revenues are used to finance such activities as education and health services.

The present districts in Uganda correspond largely to those established in colonial days, and developed initially along lines of tribal authority. There is strong identification in Uganda with one's home district.

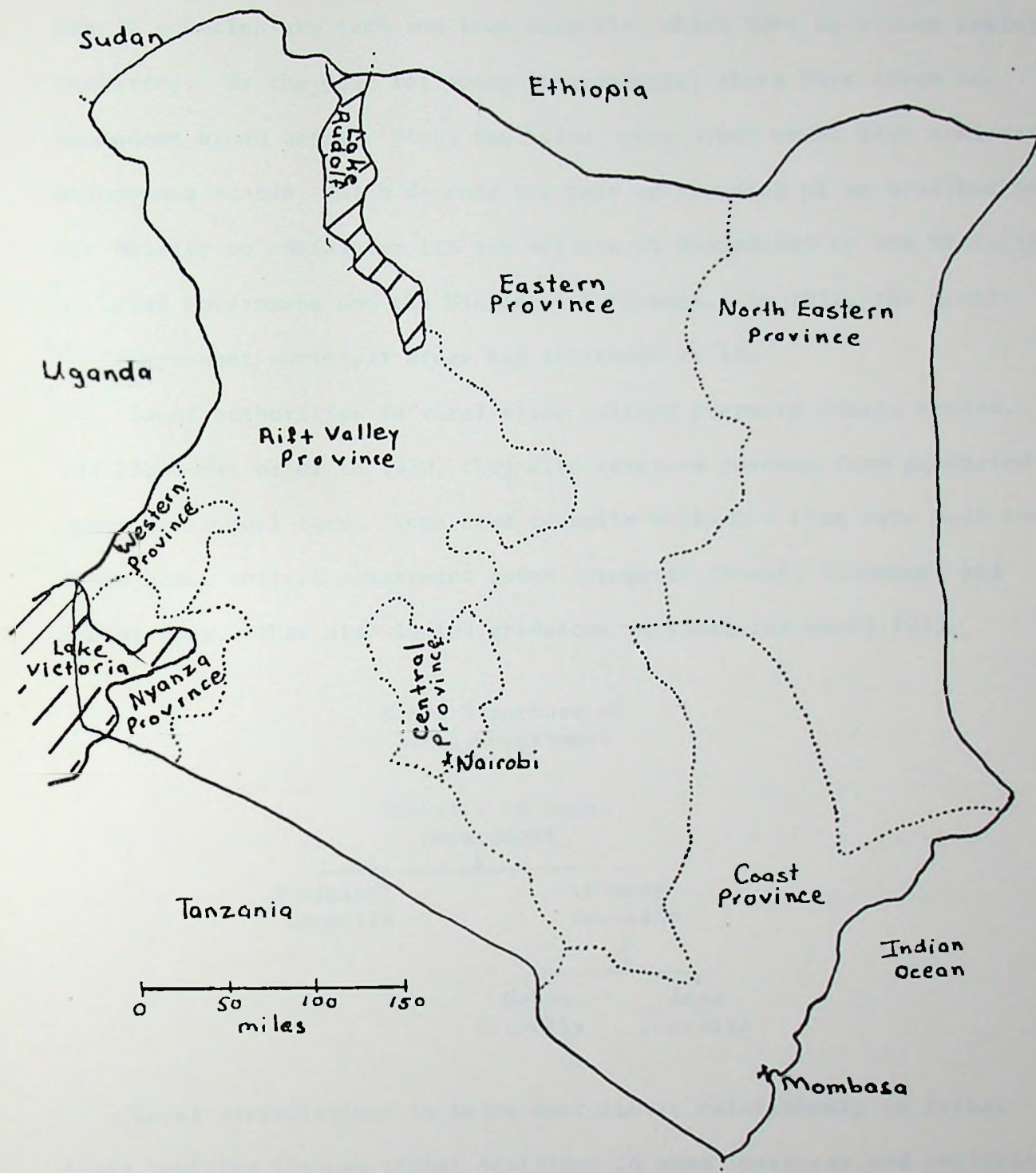
Kenya

Kenya gained independence in 1963 and Jomo Kenyatta has been President since that time. Kenya's struggle for independence was more violent than Uganda's. Most of Kenya was administered as a colony. Only the Mombasa area was a protectorate. This differs from Uganda, which was administered entirely as a protectorate. Much of the finest land was reserved for Europeans, and since this land had formerly belonged to Africans, portions of several tribes were displaced.

Prior to independence, the area of Kenya was divided into Crown lands and Native lands. Crown lands in the Highlands and areas outside municipal townships or native reserves could be alienated only to Europeans. Leases were for 999 years. Crown lands within municipalities or townships could be alienated to any race; native lands were reserved for Africans and were regulated under native customary law.⁴

The Highlands, somewhat north of Nairobi, contained some of the best lands in the nation, both climatically and agriculturally; some of the land had previously belonged to the Kikuyu, one of the major tribes in the country and one of the most active in the struggle for independence. During this fight for independence, the British required identity cards of all Africans travelling or residing in certain areas. Africans were also prohibited from engaging in various activities. The culmination was a stormy struggle for independence, called the Emergency or MauMau period.

Like Uganda, Kenya is still predominately agricultural, with agricultural activities, including forestry and fishing, providing around 40% of GDP. The primary export crops are coffee, tea, sisal, and pyrethrum. Kenya has more industry than Uganda.⁵

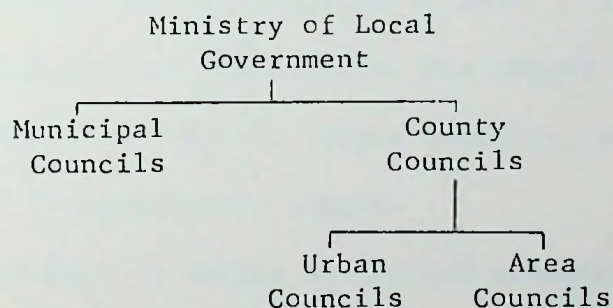


Map 3. Kenya Provinces

At independence there were seven provinces in Kenya and 33 counties. (In 1909, there were six provinces and 24 districts.) Under the 33 counties are area and town councils, which also have some taxing authority. By the year following independence, there were seven independent urban areas. Since that time, more urban areas have achieved autonomous status, which depends not only on the size of an area but on its ability to administer its own affairs as determined by the Ministry of Local Government and the Ministry of Finance. In 1971, the number of independent municipal areas had increased to 11.

Local authorities in rural areas collect property taxes, cesses, and licences; prior to 1970, they also received revenue from graduated taxes and school fees. Some area councils collect a flat rate poll tax. Urban areas collect assessment rates (property taxes), licences, and school fees. They also levied graduated personal tax until 1973.

Kenya Structure of Local Government



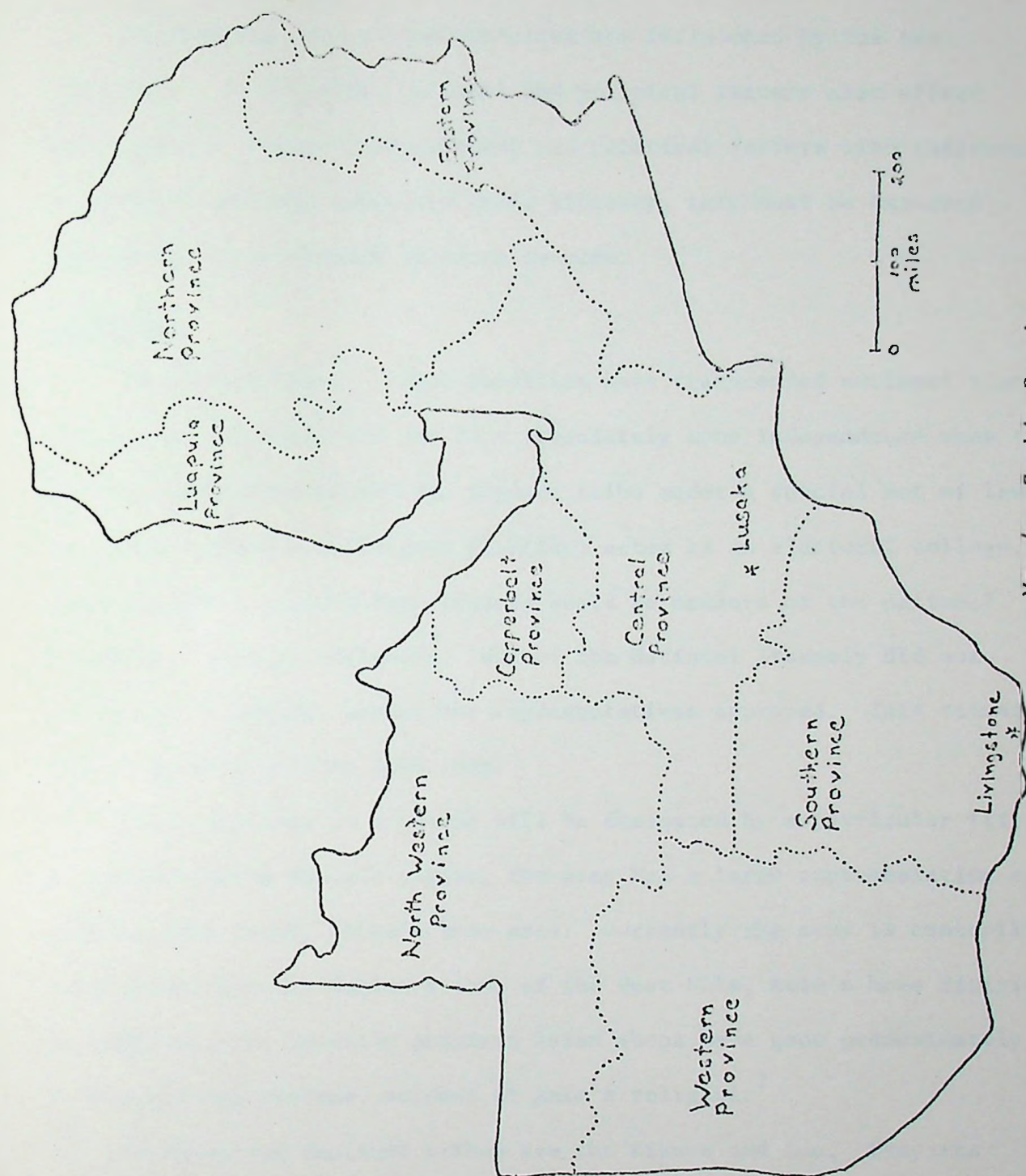
Local jurisdictions in Kenya bear little relationship to tribal lines, cutting through tribal divisions in some instances and enclosing more than one tribe in others. There is less identification with local government areas in Kenya than in Uganda, though there is strong tribal identity.

Zambia

Zambia was the last of the three countries to gain independence, achieving it in 1964. Though the majority of persons in Zambia, like Uganda and Kenya, derive their livelihoods from agriculture, the Zambian economy is dominated by the copper industry. In 1970, copper provided 95% of the nations exports, more than 40% of GDP, 16% of employment, and 64% of the tax revenues. These figures do not include tax revenues indirectly provided by the copper industry, such as personal income tax paid by persons working in the industry or corporate income tax on transportation and other companies dependent primarily on copper activities.

In 1971, copper provided only 44% of the nation's tax revenues. The decrease did not result from increased reliance on other sources of funding, but rather in a decline in world copper prices, not offset by an increase in other revenues (copper prices have since risen). In addition, the government had granted tax concessions to the copper companies when they were nationalized in 1970.⁶ The country has attempted to diversify to some extent, but copper profits are still largely channeled back into the copper industry, and other revenue sources are not being actively sought.

Local government in Zambia is divided between urban areas (three city councils, five municipal councils, and 24 townships) and the 34 rural areas. Townships are small incorporated suburban areas on the outskirts of cities and municipalities. Each of the local areas has the power to tax. All collect licences and personal levy. Municipalities also levy assessment rates.



Map 4. Zambia Provinces

Cultural and Political Factors Influencing Development

Development aims of the countries are influenced by the tax structure. In addition, cultural and political factors also affect development. Since these cultural and political factors also influence a nation's possible taxes and their efficacy, they must be examined before any consideration of taxes is made.

Tribalism

At various times, tribal loyalties have transcended national ties. In Uganda, the situation was felt immediately upon independence when the first constitution placed the Buganda tribe under a special set of laws. The former Buganda Parliament (lukiiko) acted as an electoral college, deciding which persons from Buganda would be members of the national assembly. In many instances, laws of the National Assembly did not apply to the Baganda unless her representatives approved. This situation helped precipitate the 1966 coup.

Often the army in a nation will be dominated by a particular tribe. In Uganda during Obote's regime, the army had a large representation of persons from Lango, Obote's home area. Currently the army is controlled by persons from the Nubian tribes of the West Nile, Amin's home district. In addition, the recently acquired Asian shops have gone predominately to Nubians and Moslems, persons of Amin's religion.⁷

In Kenya the dominant tribes are the Kikuyu and Luo. Kenyatta is a Kikuyu and the group holds many of the important political and business positions, especially in Nairobi. The two groups have often placed tribal interests above national interests.

Racialism

There are varying sentiments toward non Africans and nonnationals in the three countries, which are based somewhat on colonial experiences. In the three countries there are few Europeans, and most are non-citizens. Except for recent actions in Uganda, the three countries have shown little propensity to act directly against Europeans who are citizens; they have been refusing to renew work permits for some non-citizens, though. (The Uganda government recently nationalized several farms owned by persons from Great Britain, however.)

Stronger sentiments apply to persons of Indian, Pakistan, and Goan ancestry, called Asians, collectively. Many of these persons were born in Africa. Large groups were originally brought to Africa by the British to work on the railways. At independence, these persons were offered either British citizenship or citizenship of the African country. Many are therefore nationals of the African countries.

Since independence, all three African countries have been denying work permits each year to a number of noncitizen Asians, thus essentially forcing them to leave the country. Generally, Asians holding citizenship of the African nation have not been directly affected. In August of 1972, the Uganda government gave noncitizens 90 days in which to leave. The injunction affected several citizen Asians and left Uganda with a serious lack of trained professionals and businessmen. (This study is concerned with the period in Uganda prior to the expulsion of the Asian populace.) Activities directed against Asians began prior to independence. Uganda has experienced several boycotts against Asian traders and businessmen.⁸

Land Policies and Agricultural Methods

Land has often been owned or controlled by the tribe or clan. Persons have rights of use, but not ownership. Land can therefore not easily be used as collateral for loans, and the willingness of persons to add improvements to the land may be limited, though security of tenure is fairly strong. Lack of land ownership and registration have inhibited the extension of property taxation. (Chapter V gives a more complete description of the laws regarding land tenure and their effects.)

Many agricultural techniques are primitive by Western standards. In each country there are aspects of a dual economy; alongside areas employing traditional agricultural techniques are modern farms using capital intensive methods. These latter are usually in former European areas. Often cultural views dominate agricultural activity. The growing of crops is considered to be women's work. Though output might be increased were both sexes to till the land, cultural views preclude this. The growing of cash crops is considered a task for men, however.

Extended Family System

In most African tribes, persons assume responsibility for the needs of brothers, sisters, aunts, uncles, and cousins. As incomes increase, so do family financial commitments. Often, the wealthiest member of the extended family is expected to provide money for school fees for the entire group. The result may be a lessening of incentives to increase work effort and income. There is also danger that the burden of certain taxes may be borne by the wealthiest member of the family, not by the person on whom the tax was levied. As mentioned, this frequently results when school fees are used.

Education

The governments of all three nations have recognized the benefits to be gained from education. Individual families are also aware of the benefits that will accrue privately from education of family members. There are currently not enough schools or funds to provide universal primary education. Space in secondary schools and universities is even more limited. There are needs for more primary, secondary, and post-secondary educational facilities. Currently the countries are placing more emphasis on primary education to increase the literacy rate.

Education in all three countries follows the British system instituted in colonial days. Many schools, including primary grades, train persons in strictly academic areas, with the eventual goal being the attainment of a school leaving certificate or entrance to the University. Uganda and Kenya are presently experiencing unemployment of University liberal arts graduates. Currently the three countries need more persons trained in technical and scientific fields, at both secondary and university levels. More emphasis is being given in primary and secondary schools to agricultural and homemaking skills. Persons at the university level are being encouraged to enter scientific fields.

Summary

The future development of Uganda, Kenya, and Zambia will depend on a variety of factors. The cultural and political influences mentioned above can constrain development as well as promote it. The local government structure can also affect the attainment of a nation's development goals. Local government taxes are influential in active

and passive ways. Chapter II will detail the objectives desired by each of the three countries and the methods by which local government taxation can influence these goals; criteria for evaluating these taxes will be established.

The chapters which follow describe and evaluate various local taxes. Chapters III and IV are devoted to graduated tax, a form of income tax which is a major revenue raiser, both actually and potentially. It is an almost uniquely African tax, and in addition to raising revenue, has affected resource allocation, by design and by chance. A discussion of assessment rates and rural property taxes follows in Chapter V. Assessment rates are a major urban revenue source. Chapter VI covers three taxes: licences, cesses (agricultural levies), and school fees. A final evaluation of local tax structures is given in the last chapter.

FOOTNOTES FOR CHAPTER I

¹The governments of Uganda and Zambia have recently nationalized several industries. The Zambian government, though, still prefers a system of private enterprise, and the decisions for the recently nationalized copper companies continue to be made by original management (now controlling 49% of each company). Uganda was predominately capitalistic at the time of this study.

²The East African Community, Information Division, E. A. Community (1972), pp. 32-42.

³Jonathan Rollow, "Uganda's Amin's Economic Revolution," Africa Report, May-June, 1974, p. 38.

⁴East African Community, pp. 7-20.

⁵Ibid.

⁶For further information of tax changes regarding the copper industry see Charles Harvey, "Tax Reform in the Mining Industry," in Economic Independence and Zambian Copper-A Case Study of Foreign Investment, ed. by Mark Bostock and Charles Harvey (New York: Praeger Publishers, 1972), pp. 131-144.

⁷Rollow, "Uganda's Amin's," pp. 36-38, 42.

⁸John F. Due, Taxation and Economic Development in Tropical Africa (Cambridge, Mass.: M.I.T. Press, 1963), p. 11.

CHAPTER II

ROLE OF LOCAL GOVERNMENTS IN ATTAINING
NATIONAL DEVELOPMENT GOALS

Local governments serve a variety of functions. In addition to providing a layer in the political frameworks of the countries, they perform various services. In Uganda, the most important of these services are frequently educational and medical. In municipalities in Kenya, and formerly in rural areas, too, the provision of education is a prime function of local governments. In Zambia, education is financed and operated by the central government, but the provision of housing, roads, and health services is under local control.

Virtually all services provided by local governments in any country could also be provided by central governments. Often, however, the central government and the citizenry desire more regional control over activities and seek to engage more persons in the decision making processes. In such instances, a local government system is beneficial.

Local governments can be funded by grants from central governments or from autonomous revenue sources. The strength of local governments depends to some extent on the number and scope of services provided and on the degree of revenue autonomy. The three countries differ greatly in these regards.

In the Buganda Region of Uganda, which includes the districts of East and West Buganda, Masaka, and Mbarara, less than 1% of district revenue is provided by central government grants. Over 90% comes from taxes. Most other districts receive from 2% to 25% of their total revenues from central government block grants; taxes provide from 75%

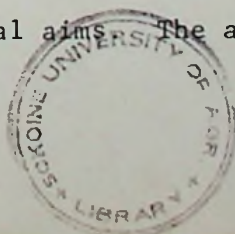
to 90% of the revenue. North and South Karamoja, however, receive the majority of their revenues in the form of grants. In 1970, before the two districts split, 67% of total revenue came from the central government. According to the 1972 estimates, North Karamoja was to receive 82% of its revenue from grants and South Karamoja, 71%.

For urban areas, less than 6% of total revenue comes from grants. There are wide variations between areas, however. Entebbe received no revenue in grants from 1970 to 1972. In 1972, Tororo received 5%, Mbarara 10%, and Masaka 40% of revenue in the form of grants.

In Kenya, rural districts received 6% of their revenue in grants in 1971. Prior to 1970, they received around 35%. The decline came in 1970 when the central government undertook the financing and operation of schools and medical services in rural areas. Prior to that time, the central government needed to subsidize these two activities (see Chapters III, IV, and VI). Urban areas in Kenya receive around 3% of total revenue from grants and 35% from taxes.

Importance of Local Governments

From consideration of efficiency, the number and size of possible local governmental units are limited. As can be seen below, administrative costs form a sizeable percentage of local government expenditures. In other instances, central governments wish to limit the scope of local governments because the central governments do not wish to relinquish controls. It is not the intent of this study to prove the necessity of a strong local government structure or discover the optimal size. The intent here is to determine the role of local governments and their tax structures in achieving national aims. The ability of local governmental



units to affect development goals bears some relationship to their size and strength and the activities that are undertaken. The relative importance of local governments in the overall tax structures of Uganda and Kenya are given in Tables 2 and 3. The scope of local expenditures in the three countries is given below.

There are many similarities between the activities undertaken by local governments in the three countries, probably indicating some consensus as to the role of local units. The major expenditures of all local governmental units in Zambia in 1969 were as follows:

<u>Classification</u>	<u>% of Total Expenditure</u>
General Administration	25%
Roads & Waterways	14
Sanitation, Water Supply & Fire Protection	6
Education	1
Health	9
Housing	11

Total expenditures by local governments in Zambia in that year were 17 million kwache, or approximately 24 million dollars.

Information is not available for all districts of Uganda. In the East Buganda District, however, total estimated expenditures in 1972 were shs. 19,155,370. Of this total, the percentages spent on major expenditures were as follows:

<u>Classification</u>	<u>% of Total Expenditure</u>
Administration	13%
Prisons	10
Treasury Department	9
Education	11
Medical Services	17
Public Works	20

Table 2

Tax Revenue by Level of Government, Uganda, 1970/71
Shs. '000

	Central Gov't	Local Government	
		Municipal	District
<hr/>			
DIRECT TAXES			
Income Tax	253,172		
Graduated Tax		33,777	129,017
Export Duties	262,779		
Rates & Property Tax		35,604	392
School Fees	<u> </u>	<u>522</u>	<u>*</u>
Total	515,951	69,903	129,409
INDIRECT TAXES			
Import Duties	283,592		
Excise Duties	206,042		
Sales Tax	190,000**		
Licences	22,498	2,910	8,922
Other	<u>21,264</u>	<u>1,672</u>	<u> </u>
Total	723,396	4,582	8,922
TOTAL	1,239,347	74,485	138,331

Sources: Uganda, Statistics Division, Ministry of Planning and Economic Development, 1971 Statistical Abstract (Entebbe: Uganda Government Printer); Quarterly Economic and Statistical Bulletin (Entebbe: Uganda Government Printer, March, 1971); District Administration Estimates (1970-1971); Municipal Abstracts (1970-1971); and records from Ministry of Regional Administration and Local Government.

* The total amount of revenue collected in school fees is not known.

** Estimate based on tax collections for first three quarters of the fiscal year.

Table 3

Tax Revenue by Level of Government, Kenya, 1970/71
K£'000*

		Local Government	
	Central Gov't	Municipal	County Council
DIRECT TAXES			
Income tax	37,784		
GPT	2,683	2,468	
Poll Tax			287
Estate Tax	351		
Export Duties	486		
School Fees		550	90
Rates & Property Tax		3,360	450
	<hr/>	<hr/>	<hr/>
Total	41,304	6,378	827
INDIRECT TAXES			
Import Duties	28,720		
Excises	15,268		
Cesses			590
Licences	1,954	130	340
Other	5,117		
	<hr/>	<hr/>	<hr/>
Total	51,059	130	930
TOTAL	92,363	6,508	1,757

Sources: Kenya, Central Bureau of Statistics, Ministry of Finance and Planning, Statistical Abstract: 1972 (Nairobi, 1972); and records from Statistics Division, Ministry of Finance and Planning.

* One Kenya pound equals 20 Kenya shillings.

** Data for municipalities and county councils are an average of 1970 and 1971 data.

Table 4
Percentage of Income From Various Taxes for Central
and Local Governments

	Uganda 1970/71	Kenya 1970/71	Zambia 1971
Personal Income Tax			15.2
Corporate Income Tax	17.4	37.5	45.8
Graduated Tax	11.2	5.1**	.6
Export Taxes	18.1	.5	
Rates & Property Taxes	2.5	3.8	
Import Duties	19.5	28.5	13.3
Excises	14.2	15.2	13.8
Sales Taxes	13.0*		
Licences and Fees	2.4	2.4	
Mineral Taxes			9.9
Other	3.0*	6.7	

Totals do not add to 100.0 because of rounding.

Sources: Uganda, Statistics Division, Ministry of Planning and Economic Development, 1971 Statistical Abstract (Entebbe: Uganda Government Printer); _____, District Administration Estimates (1970-1971); _____, Municipal Abstracts (1970-1971); and records from Ministry of Regional Administration and Local Government. Kenya, Statistical Abstract: 1972 (Nairobi, 1972); _____, Files on urban and county revenue sources from Statistics Division, Ministry of Planning and Economic Development. Zambia, Central Statistical Office, Financial Statistics of Government Sector 1965-1969 (Lusaka, 1972).

* Estimates based on tax collections for first three quarters of the fiscal year.

** Includes revenue from poll tax as well as GPT.

Tax revenue for the district in that year was estimated at approximately shs. 20,000,000. Other districts examined appeared to have similar relative expenditures.

Expenditures of local governments in Kenya changed in 1970 when the central government undertook the financing of educational and medical services for rural areas. Consequently expenditures for rural Kenya for both 1969 and 1970 are given below:

<u>Classification</u>	<u>% of Total Expenditure</u>	
	<u>1969</u>	<u>1970</u>
Administration	22%	30%
Roads	4	6
Sanitary Services	1	3
Health	5	-
Education	40	1
Misc. Social Services	5	13
Water Undertakings	3	6

Total expenditures on all undertakings for 1969 and 1970 were £5,979,000 and £3,727,000 respectively.

Expenditures in Municipalities in Kenya did not change greatly from 1969 to 1970. Municipalities continue to provide health and educational services for their residents. Kenya municipal expenditures for 1970 were as follows:

<u>Classification</u>	<u>% of Total Expenditure</u>
Administration	9%
Roads	10
Sanitary Services	11
Health	6
Education	18
Misc. Social Services	8
Water Supplies	10
Housing	22

Total expenditures for the year were £13,423,734. In 1969, expenditures were £13,232,000.

As mentioned above, local governments require autonomous revenue sources if they are to provide services for their residents and are to be autonomous governmental units. Of the three countries, the local governments in Uganda are the strongest when considering political and economic autonomy. The Uganda central government has always encouraged a strong local government system. Local autonomy is an outgrowth of a system existing prior to colonialism. The area that is now Uganda contained several independent kingdoms, including the Kingdoms of Buganda, Bunyora, and Toro. Local governments in rural Kenya have declined in importance since 1970, though municipal governments in Kenya still have a fair degree of political and economic strength. In Zambia, only the largest urban centers have important local governmental units.

The strength of local governments bears a certain direct relationship to the percentage of total, all governmental tax revenue raised by local governments. In Uganda, where the local government structure is strong, 15% of total tax revenue comes from local governments. In Kenya, the figure is 8%. Tax revenue from local governments in Zambia comprises less than 1% of total tax revenue.

Development Aims

A nation's development aims must be defined before criteria for an optimal tax structure can be established since an optimal tax structure is one that helps attain a nation's goals. The governments of Uganda, Kenya, and Zambia publish periodic and extensive development

plans describing the current performance of various sectors of their economies and detailing the objectives for the future. The plans also indicate each country's view of the role of the government in attaining national aims and goals. Since these goals often conflict, priorities must be established. National goals and priorities are generally determined by central government officials. Decisions of these officials sometimes follow the consensus of the citizenry, if such a consensus exists; often decisions are based on political expediency.

The major development goals of Uganda, Kenya, and Zambia are similar, although the countries differ in the methods used in achieving these goals. Since a country's objectives are extremely important in determining policies, it is worthwhile to examine each nation's objectives separately.

Uganda¹

In its Third Five-year Development Plan, the Uganda government has outlined its primary development goals. The major aims are an increase in total and per capita income, Ugandanization of industry, a more even distribution of income, and a general increase in employment opportunities. The Uganda government was particularly concerned with lessening rural to urban migration, exacerbated by the great disparity between rural and urban wage rates. The result of high urban wages and consequent migration to cities has been substantial unemployment in urban areas. Additional development objectives were better educational opportunities, a higher literacy rate, encouragement of export activities, and a positive balance of payments.

Although the Uganda government did not consider the existing income distribution in that nation to be as unequal as in other developing countries, it still sought a more even distribution with the hope that this would produce greater equity and would lead to increased growth in GDP by stimulating domestic markets for Ugandan produced goods and services. Taxation was considered to be a major weapon for equalizing the distribution of income.

Discovering a nation's priorities is difficult. They are rarely stated explicitly. The Uganda government probably placed less emphasis on equalizing incomes than on other objectives since the government has been reasonably satisfied with the existing income distribution.² Lessening the disparity between urban and rural wages, though, is considered extremely important, and the government has instituted programs to provide additional economic incentive for rural activities.

Programs of the government in the past two years would indicate that Ugandanization is currently being given highest priority. The government has expelled almost all Asian residents without assuring that there are trained Ugandan Africans to fill their places. Many of the expelled Asians were former Ugandan citizens.

Kenya³

The goals of the Kenya government are similar to those of Uganda. The government desires a steady and rapid increase in total and per capita national income as well as a more even distribution of this income. Like Uganda, the Kenya government is particularly concerned with lessening the inequality between rural and urban incomes to inhibit migration to urban areas. One method employed to reduce the

movement to the cities would be an increase in employment opportunities in rural areas and the nation as a whole. Like Uganda, Kenya views progressive taxation as a tool for equalizing the distribution of income. The Kenya government also seeks to ensure that all children receive a primary education and is placing greater emphasis on technical, agricultural, and homemaking skills in the secondary schools.

Kenyanization of industry is a long term goal, to be accomplished by denying work permits each year to a specified number of non citizens. With regard to land resources, the government seeks registration and consolidation of holdings. Agricultural extension programs are aiming at better utilization of land. The Kenya government is also concerned with a positive balance of payments.

If one can assume that the government listed its objectives in the order of priority, Kenya gives less emphasis than Uganda to replacing noncitizens with citizens. Kenyanization was one of the last objectives mentioned. Certainly, the actions of the Kenya government would indicate that it has not pursued the task of replacing citizens with noncitizens as actively as Uganda. At present, the practice of the Kenya government has been to replace only those noncitizens whose jobs can be undertaken now by Kenyan citizens and to retain key noncitizen technical personnel, especially if they directly or indirectly provide substantial employment for citizens.

Zambia⁴

The goals listed in Zambia's development plans were more specific than those of Uganda and Kenya. One of the primary aims of the government is eventual free education for all citizens. Along with this, the

government places heavy emphasis on Zambianization of all industry, which it seeks to hasten by increased educational opportunities. Like Uganda and Kenya, a major concern in Zambia is rural to urban migration, which the government hopes to retard by increasing employment opportunities in rural areas and lowering the wage differential between urban and rural areas. From 1963 to 1969, there was a net migration of 9.6% of the total population and 14% of the rural population into the copper-belt, Lusaka, and Kabwe. Although the government hoped to remedy this by channeling more funds into rural areas, this has been difficult. Approximately 50% of the population lives along the line of rail,⁵ but from 1963 to 1969, this area received 82% of central government capital expenditures; the areas along the line of rail are more able to absorb funds because of their greater level of development.

Another major objective of Zambia is less economic dependence on Rhodesia and the Portuguese colonies.⁶ The country is close to achieving this with the building of the railroad to Dar Es Salaam. Zambia also seeks to reduce its economic dependence on copper by diversifying more. The list of development objectives also included were growth in real and per capita GDP and a surplus in the balance of payments account. With respect to land policies, the Zambian government views land as something belonging to all persons and currently will sell land only to citizens. Nonnationals can only lease land.

Criteria for Evaluating Taxes

It is difficult to define objectively a good tax or tax structure. Theoretically, a good tax is one that conforms to a nation's prevailing standards of equity, promotes economic efficiency, and is easy to

administer. The first of these criterion - equity - is almost totally subjective, and the second rests somewhat on the goals sought by each individual country. In general, maintaining and promoting economic efficiency implies that a tax will not alter or distort the allocation of any resource; in some instances, though, a government seeks to favor one activity over another or alter the distribution of certain resources, and in such instances a tax structure that helps achieve these ends is desirable. The third criterion - administrative ease - is more objective. A tax that is impossible to administer loses both equity and efficiency; in addition, resources expended in collection of taxes can generally be used more efficiently elsewhere.

Considering the above, a good tax structure is one that helps a country achieve its development goals. The three countries have specifically viewed the tax structure as a tool for raising revenue for development projects and redistributing income. The Ugandan Development Plan is more specific about the role to be played by the tax structure. The Ugandan government considered the overall tax level to be relatively high but thought it possible to raise additional, necessary revenue by widening the tax base, increasing collection efficiency, and making the tax base more elastic. In addition to providing revenue, taxation is viewed in Uganda as a means of distributing income more evenly, providing for the earlier mentioned development goals, stimulating export production, inducing private investment in priority areas (which were not mentioned), and promoting greater employment opportunities.⁷ Since these goals are also desired by the governments of Zambia and Kenya, a tax structure that helps achieve these goals would be regarded as beneficial. Considering this, the tax structures in Uganda, Kenya,

and Zambia, and to a limited extent the individual taxes in the three countries, can be judged by performance in the following areas.

Revenue Potential and Income Elasticity

The need for revenue is obvious and does not require further explanation. There are theoretical and practical limits to the amount of revenue that can be raised through borrowing and money creation, even for central governments. Potential sources for domestic borrowing are few. Foreign borrowing can often be found only for specific projects and can lead to political and economic dependence. Local governments are virtually precluded from foreign borrowing. The alternative is to raise money through taxation. Local governments can be financed through central government grants, but these, too, reduce autonomy and produce political and economic dependence.

Having a tax structure that is income elastic is particularly important for LDC's. Government expenditures as a percentage of GNP generally increase as GNP increases. If the tax structure is not income elastic, as the nation develops the government must either curtail desired government expenditures or continuously revise the tax structure. Both alternatives may be unnecessary if the tax structure is income elastic.

Equity in Income Distribution and Tax Burden

All three governments desire greater equality in the income distribution than currently exists; there is general concensus that the wealthy should pay proportionately more toward financing the government than the poor. A good tax structure for Uganda, Kenya, and Zambia, then, is one with some degree of progressivity.⁸ This is one area in which it

is necessary to evaluate the tax structure as a whole rather than examining each tax individually. All that can be determined individually is whether a given tax does or does not contribute to the overall progressivity of the structure.

In addition to progressivity, equity in the tax burden implies a wide tax base. Though the three governments desire the poor to pay proportionately less than the wealthy toward financing the government, they nevertheless believe that as large a number of persons as possible should make some contribution to the costs of government. Uganda has gone furthest toward widening the tax base. With few exceptions, all adult males are subject to some form of direct taxation. This is not the case in Zambia and Kenya, but both countries have been attempting to widen the scope of income tax (see Chapters III and IV). In addition to the equity benefits of a wide tax base, the economic impact of a tax will be greater the larger the number of persons affected by that tax (this can be a benefit or hindrance).

Optimal Resource Allocation

Resources of land, skilled labor, and capital are scarce, and they may be allocated in numerous ways. Sometimes governments wish to encourage certain types of activities, and this can be accomplished by direct measures or indirectly by giving preferential treatment to incomes from the preferred resources or types of activities.

Capital. The allocation of capital in Uganda, Kenya, and Zambia is affected primarily by central, rather than local government taxation. Labor is abundant and capital is scarce, so a tax that encourages labor is beyond the scope of this study, but belongs, rather, in a study of central government taxation.

Labor. The allocation of labor involves many facets; the allocation of labor between urban and rural activities, between monetary and non-monetary ones, and among various other employment and occupational activities. The extreme desire of the three governments to discourage rural to urban migration has already been mentioned. At present, taxes giving preferential treatment to rural activities might be desirable. It is doubtful, however, whether the countries wish to continue such a practice indefinitely; the result could be similar to that of a protective tariff, which if extended for too long can foster noncompetitive activities. Nevertheless, a good tax in the three countries should certainly not discriminate against rural activities.

Initially graduated taxes were imposed to induce persons into the monetary sector and sometimes into European owned businesses and mines (see Chapters III and IV). This is not the specific practice today, especially since there are many unemployed wage earners in urban areas. The countries do wish, however, to channel more resources through the monetary sector; and more efficient use of labor is desired. Though not inducing persons into the urban wage sector, a good tax should encourage more effective utilization of labor in existing occupations.

Heavy unemployment in urban areas, including unemployment of university graduates with liberal arts degrees, has led to programs to encourage training in technical and scientific fields. There has been little attempt to accomplish this through the tax structure, though, and it is doubtful whether preferential tax treatment would have much effect. Differentials in wages appear to have little influence in this instance since there are already more job openings

for persons with technical and scientific skills, often at higher wages. The liberal arts fields seem to carry a great deal of prestige. (At the primary and secondary school levels, the governments also seek more emphasis on technical than purely academic training.) The tax structure is not the best method through which to encourage technical and scientific activities.

Land. Regarding the use of land, countries have been attempting to encourage better methods of cultivation, cooperatives where large scale is necessary, access to land for all, and registration of certain existing holdings, though not necessarily all. These goals can be accomplished through the legal system and agricultural extension programs. Land taxes, cesses, and to some extent graduated taxes can also affect land utilization.

With the exception of the areas specifically mentioned above, the tax structures in the three countries should be neutral with respect to the allocation of resources. When certain resources or activities are favored, allocation may be distorted from the optimum.

Minimization of Administration and Collection Costs

The resources expended in the processes of tax collection and administration often provide substantial employment, but the country can generally find more productive uses for these resources. To the extent that resources are used in tax administration, they cannot be utilized elsewhere in the economy in development projects. In addition, the revenue raising benefits of a tax are reduced if administrative and collection costs form a substantial percentage of total revenue.

Growth

All three countries seek sufficient growth in GDP to insure an increase in per capita income. Taxation policies can affect growth by channeling investment into priority areas, increasing the ratio of savings to income, releasing funds for foreign exchange by discouraging import consumption, and promoting more efficient use of resources. All except the latter are affected primarily by central, not local government taxation policies. The effect of taxation on the efficient use of resources has already been discussed. Taxation policies can have a major influence on growth, but the subject will not be discussed further since growth is influenced more by central than local government taxes. The effect of taxation on growth would be a major criterion when evaluating central government tax structures.

Africanization-Nationalization

Since independence, one of the major aims of all African countries has been to replace expatriates in business and other economic activities with nationals of the individual country. Nations will sacrifice short term growth, efficiency in resource allocation, and some aspects of equity to replace noncitizens with citizens. These objectives often conflict and the government officials must decide which goals to emphasize.

Except for discriminatory taxes on noncitizens, the tax structure can have little effect on the employment of citizens versus non citizens. It is desirable, though, that the administration and collection of taxes be carried out by citizens. This is not always the case. A good tax, therefore, is one that can be easily administered by nationals.

Other Aids to Development

LDCs have realized the benefits of a trained labor force and electorate, and all three countries in this study seek to increase the literacy rate and achieve universal, primary education. At present none of the countries has sufficient funds to provide free primary education for all desiring it, but this is an eventual goal. Until this goal is achieved, the aim is to provide as much education as possible. This requires revenue, and a tax that can provide funds specifically for education is desirable (see Chapter VI for a discussion of school fees.)

Preventing or reducing a deficit in the balance of payments account is a goal for all three countries, but is essentially a function of central government activities and will not generally be considered in evaluating local government taxes. The balance of payments account is affected by export production, though, and this can be influenced by local taxation policies. A good tax should not discourage, and should possibly encourage, export activities. This is an aspect of resource allocation, and has already been discussed.

Many goals are conflicting. To the extent that unbalanced growth furthers growth in GDP, a high rate of growth can conflict with achieving a more equal income distribution. A program for replacing noncitizens with citizens can result in sacrificing other goals if the program is undertaken extremely rapidly or extensively. Where goals conflict, the final decision is often based on expediency and political considerations. Frequently, the result is an attempt to achieve a portion of each goal, e.g. a policy of balanced growth.

Individual taxes and tax structures can be evaluated on how well they achieve the above outlined goals. With possible conflicts of goals

reconciled, a good tax structure is one that best helps a country achieve its aims.⁹ An evaluation will follow the discussion of each tax or group of taxes. To the extent that the efficacy of a tax depends on the entire tax structure and the role of the individual tax within that structure, evaluation will be left to the final chapter. The first tax to be discussed will be graduated tax which has been an important tax since colonial days, both in terms of its revenue potential and its effects on a nation's taxpayers.

FOOTNOTES FOR CHAPTER II

¹ Much of the information for this discussion comes from Uganda, Third Five-Year Development Plan 1971/2 - 1975/6 (Entebbe: Uganda Government Printer), ch. 1.

² Although per capita GDP is lower in Uganda than in Kenya and Zambia, it appears that the "average" Ugandan is better off economically than the average Kenyan or Zambian; in addition, there does appear to be less inequality of incomes in Uganda than in the other two countries.

³ Much of the information for this discussion comes from Kenya, Development Plan: 1970-1974 (Nairobi: Kenya Government Printer, 1969), ch. 1.

⁴ Much of the information for this discussion comes from Zambia, Ministry of Development Planning and National Guidance, Second National Development Plan 1972-1976 (Lusaka: Zambia Government Printer, 1971).

⁵ The "line of rail" is the area of Zambia along the principal railroad line from the copperbelt in the North through Lusaka to Livingstone.

⁶ Mozambique will soon gain independence from Portugal. It is possible that Angola will soon become independent also. With the independence of these two countries, the only white-dominated country bordering Zambia will be Rhodesia, and Zambia will have rail links to both coasts through independent countries. Undoubtedly, fewer decisions will be directed by political considerations (e.g., the cessation of rail traffic through Rhodesia in January of 1973).

⁷ Uganda, Development Plan.

⁸ The exact degree of progressivity desirable cannot be determined from the information disseminated by the countries. All that can be stated is that some degree of progressivity is sought.

⁹ It would be difficult to determine which is preferable: a tax structure attaining a small portion of all goals or one achieving a larger percentage of a fewer number of goals. It is undoubtedly more beneficial, however, to have a tax structure that attains portions of several goals than one that attains all that is desired of one goal to the exclusion of all others. The actual decisions regarding the trade-offs reached must be left to the political sphere.

CHAPTER III

GRADUATED TAX: HISTORY AND STRUCTURE

A graduated personal tax or personal levy is a combination of a poll tax and a low level income tax. It also bears some relationship to a property tax as income is frequently estimated on the basis of income producing wealth. Substantial amounts of revenue can be raised from such taxes and they exert considerable influence on development in other ways. A graduated tax is also a good method of introducing direct taxation during development, thereby expanding revenue sources and enlarging the tax base. The simplified nature of these taxes makes them uniquely suited to the needs of lesser developed countries where much income is subsistence, the majority of persons earn too little for regular income taxation, and records are too incomplete for a sophisticated type of direct tax. The graduated tax can be incorporated into the income tax structure as the country develops.

Official names for the tax vary from country to country. In Zambia the tax is called Personal Levy; Kenya refers to it as Graduated Personal Tax; and in Uganda, it is Graduated Tax. The general features of the three taxes are fairly similar, though. Graduated taxes characteristically have the following features:

- 1) Taxable income includes both monetary and non-monetary income, with no exemptions or deductions, except the possible exemption of persons with incomes at or below subsistence levels.

- 2) The tax is regressive within each bracket, with marginal rates exceeding 100% as one moves from one bracket to another (see Tables 5, 6, 7 and Figure 1).

Table 5
Schedule of Uganda Tax Rates, 1972

Income (shillings)	Tax (shillings)	Tax as Percentage of Income	
		Lower end	Upper end
0 - 500	20) Persons partially		
0 - 500	40) exempt from tax		
0 - 500	65	-	13.0%
501 - 1,000	80	16.0%	8.0
1,001 - 1,500	90	9.0	6.0
1,501 - 2,000	100	6.7	5.0
2,001 - 2,500	120	6.0	4.8
2,501 - 3,000	160	6.4	5.3
3,001 - 3,500	200	6.7	5.7
3,501 - 4,000	250	7.1	6.2
4,001 - 5,000	300	7.5	6.0
5,001 - 6,000	350	7.0	5.8
6,001 - 7,000	400	6.7	5.7
7,001 - 8,000	450	6.4	5.6
8,001 - 9,000	500	6.2	5.6
9,001 - 10,000	550	6.1	5.5
10,000 & over	600	6.0	-

Table 6
Schedule of Kenya Tax Rates, 1972

Income (shillings)*	Tax (shillings)	Tax as Percentage of Income	
		Lower end	Upper end
Below Shs. 960	Nil		
Above 960 to 1,920	48	5.0%	2.50%
Above 1,920 to 2,880	72	3.75	2.50
Above 2,880 to 4,080	108	3.75	2.64
Above 4,080 to 6,240	156	3.82	2.50
Above 6,240 to 8,400	240	3.84	2.85
Above 8,400 to 10,320	360	4.28	3.48
Above 10,320 to 12,000	480	4.65	4.00
Above 12,000	600	5.00	-

*Kenya and Uganda shillings are equivalent.

Table 7
Schedule of Zambia Tax Rates, 1972

Income (Kwacha)*	Tax (Kwacha)	Tax as Percentage of Income	
		Lower end	Upper end
Below K120	Nil		
120 - 199.99	1.25	1.04%	.63%
200 - 299.99	2.50	1.25	.83
300 - 399.99	4.00	1.33	1.00
400 - 599.99	8.00	2.00	1.33
600 - 799.99	12.00	2.00	1.50
800 - 999.99	16.00	2.00	1.60
1,000 & over	20.00	2.00	-

*One kwacha equals ten Uganda or Kenya shillings.

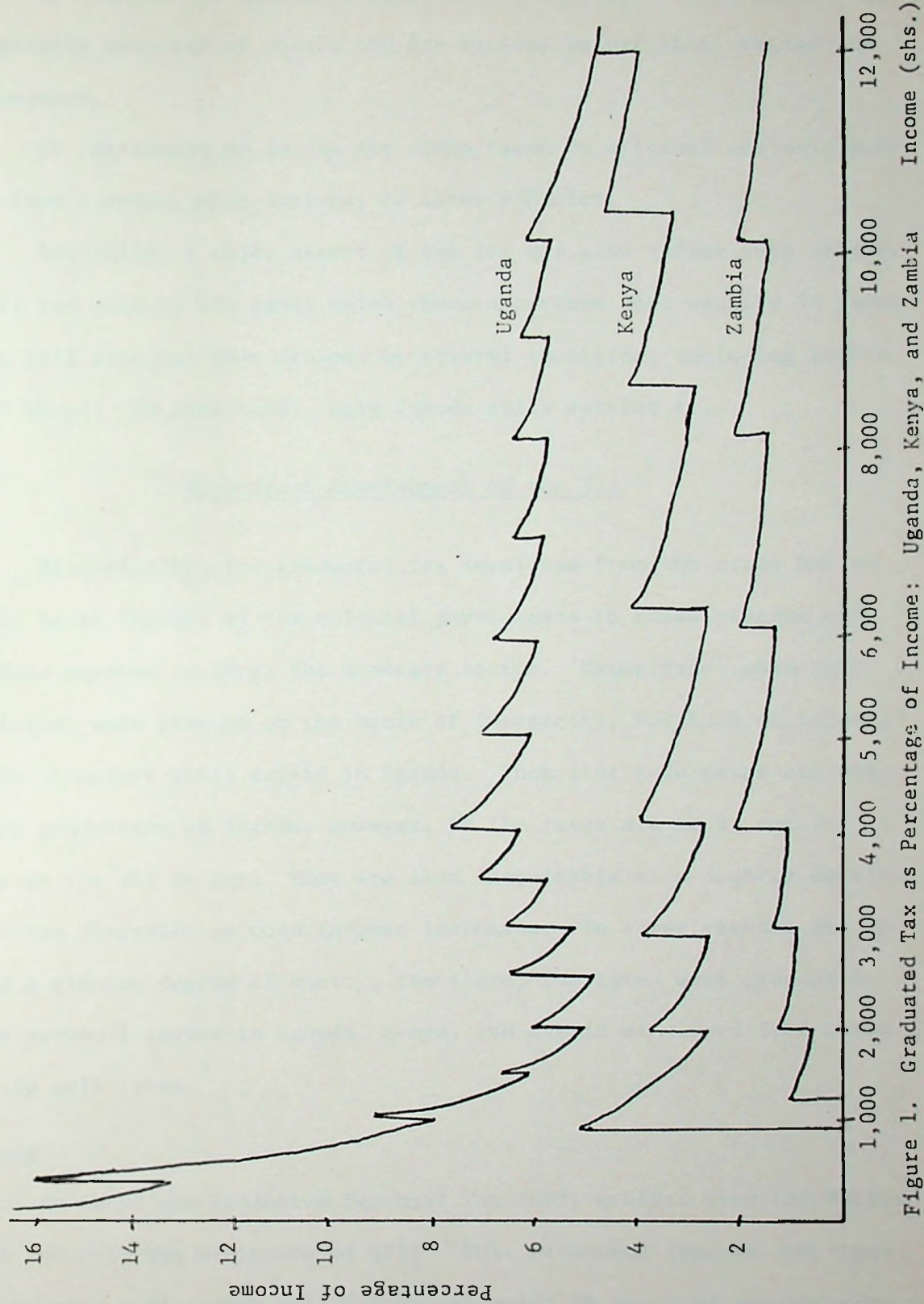


Figure 1. Graduated Tax as Percentage of Income: Uganda, Kenya, and Zambia

3) Income for non salaried persons is estimated by a committee, generally composed of chiefs and lay persons rather than trained tax assessors.

4) Estimates of income are often based on external criteria such as land acreage, shop footage, or motor vehicles.

Initially, a major aspect of the tax was also a flat rate head or poll tax paid by all adult males above a certain age, usually 18 years; the poll rate has been dropped by several countries, including Zambia and Kenya. In this study, only Uganda still retains it.

Historical Development of the Tax

Historically, the graduated tax developed from the crude hut or poll taxes imposed by the colonial governments to raise revenue and induce persons to enter the monetary sector. Exemptions, when they existed, were granted on the basis of incapacity, not lack of income; this situation still exists in Uganda. Such flat rate taxes are not very productive of income, however, if the rates are to be set low enough for all to pay. They are also inequitable as a country develops and the disparity between incomes increases. To raise revenue and to add a greater degree of equity, therefore, the taxes were graduated. The personal levies in Uganda, Kenya, and Zambia developed from these early poll taxes.¹

Kenya

In Kenya the Graduated Personal Tax (GPT) evolved from the Native Hut and Poll Tax Ordinance of 1910. This ordinance imposed two types of taxes: a flat rate poll tax on all males 16 years of age and over

and a hut tax which was graduated according to the number of units a person owned. An individual was subject to either of the two taxes but not both. A certain degree of graduation was introduced into these hut taxes since the number of huts a man owned was generally positively correlated with his income. Later, a poll tax on nonnatives was also introduced.² At the time of independence in 1964, the hut tax ceased to exist, but African District Councils levied flat rate poll taxes and the central government levied a mildly graduated personal tax.

In 1964, the old poll taxes, African District Council taxes, and government personal levies were replaced by GPT. Since then, most of the changes in the tax have been jurisdictional. At independence, GPT was solely a local government levy, with local districts having responsibility for assessing and collecting the tax on their residents. The Ministry of Local Government assumed responsibility for coordinating activities. In 1970, collection of the tax in rural areas was taken over by the central government, which also assumed responsibility for financing schools, roads, and medical services; the urban areas continued to collect and retain tax from their residents.

The income and rate schedule changed little from 1964 through 1973 when the tax was abolished. The major change in that period was the abolition of the minimum rate in 1968. Prior to then, all adult males were subject to a minimum tax of shs. 48/=-, regardless of income. This poll rate was dropped when it was deemed unfair to tax persons with no monetary income; since 1968, persons with an annual income below shs. 960/- have paid no graduated tax.³ Per capita annual income in 1970 was around shs. 900. With the exception of the lowest bracket, the

income and rate schedule of 1964 was very similar to that of 1973, shown in Table 6. Since the repeal of the minimum or poll rate on GPT, no attempt has been made in Kenya to assess subsistence and barter income; most persons in rural areas have paid no graduated tax since 1968.

GPT never raised much revenue when compared with total government resources; since independence it has provided only about 5% of total government tax revenue. GPT was a major revenue source for local governments, though, especially municipalities, where it provided around 40% of tax revenue.⁴ The central government cited regressivity as a major reason for abolishing graduated tax. GPT also has vestiges of colonialism. To recoup the lost revenue, a 10% sales tax has been introduced by the central government. The government also set aside £2 million for grants to municipalities in the first half of 1974. The Ministry of Finance promised that the grants would continue for five years, after which time the municipalities were expected to have found alternative revenue sources.⁵

Uganda

Uganda's present graduated tax (GT) is an outgrowth of a flat rate poll tax levied under the African Administration Tax Ordinance. Since 1954, it has been graduated. The tax is a major source of revenue for local governments, especially rural districts. It provides around 50% of district revenue from all sources, including central government grants, and over 75% of district tax revenue. GT provides almost as much revenue for the 19 urban areas, which have been separate taxing jurisdictions for graduated tax since 1968. Only assessment rates,

which are property taxes, provide as much urban revenue as GT; assessment rates yield around 50% of urban revenue, while the figure for GT is closer to 40%. Graduated tax is also a major tax when compared with total government receipts; it provides 12% of total government tax revenue, more than the income tax on individuals. A major feature of the Uganda tax is its utilization of potential income, as discussed more fully in the next chapter.

Since GT is a local government levy, each district and urban authority is responsible for its own assessments, collections, and enforcement. Until recently, the tax rates and income brackets were also set by individual districts, with the result that a person's tax liability could be altered by changing his place of residence. In 1970, the central government standardized income brackets and tax rates. Only the lowest rate was left to the discretion of local areas, and this, too, was standardized in 1972. Overall, the tax is better administered and coverage greater in Uganda than in Kenya or Zambia, and of the three countries, Uganda is the only one that attempts to include all income, including subsistence.

Zambia

The Zambian Personal Levy developed from the colonial hut taxes of the early 1900's, introduced to raise revenue and to induce Africans to work in the European owned mines. The tax, shs. 2/= to shs. 6/=: was equivalent to about two weeks work in a Southern Rhodesian or South African mine, but when travelling time and incidental expenses were included, it amounted to several months work. It was customary for one man to provide the tax money for several of his tribesmen while they

covered his responsibilities at home; consequently, many men were away from home a majority of each year. Exposure to the monetary sector increased the incentive for market goods and induced further labor migration.⁶

Personal levy is now slightly graduated. It is a local government tax, although the central government determines the income brackets and tax rates, which have been set so low as to be almost negligible. The minimum rate or poll rate was abolished soon after independence, partly a result of its association with colonialism. The repeal of the minimum rate has removed many persons from the tax base. In addition, little attempt is made to assess low income, self employed persons, particularly in rural areas. Many persons in rural areas are not assessed at all, though their incomes often exceed those of some low income persons in cities who do pay tax. Low tax rates and incomplete assessments result in extremely low revenue collections. In many rural areas and small towns, even trading licences provide more revenue than personal levy.

Structure

Since independence, graduated tax in Uganda, Kenya, and Zambia has been collected on a current year basis, with assessments made at the beginning of a year on income to be earned and tax paid during that year. The tax year for graduated tax is January 1 through December 31. For wage earners, income estimates are based on records of the previous year's income; where records do not exist, or income is subsistence in nature (in Uganda), estimates are based on income producing wealth and other guidelines (see Chapter IV).

Revenue goes to the city or district of residence, not the area in which income originated. None of the countries has provisions for splitting tax when a taxpayer resides in one district and his family resides in and uses the services of another district. In addition, urban areas derive no revenue from the many persons working in the city but living outside.

Uganda

In rural Uganda, assessments are made at the beginning of each year by a tax assessment committee consisting of the sub-county chief and two parish chiefs, one from the parish of the taxpayer concerned and the other appointed by the county chief. In urban areas assessments are made by the City Treasurer or his assistants. The committees assess both wage earners and the self-employed. For wage earners, tax is based on wages being earned at the time of assessment, with little attempt made to determine whether this wage will continue throughout the year. Once an assessment is made, it is altered only under extreme circumstances and by petition. Any person is free to appeal if he feels he has been unfairly assessed, though appeals must be made within 30 days of the date of assessment. Appeals are made to the Assessment Appeals Tribunal in rural areas and the Assessment Appeals Committee in urban jurisdictions. A payment of 10% of the assessed tax must be paid; this is refunded if the taxpayer wins the appeal.

Technically, tax is due on January 1 of each year, but is not considered in default until after June 30 and is rarely paid before March or April. The June 30 deadline gives officials six months in which to obtain late taxes before beginning the next year's assessments.

In rural areas persons pay tax to the county chief's office; in urban areas the tax officers collect the money and issue receipts. Uganda has procedures for collecting tax through employers, similar to the Pay As You Earn (PAYE) system in income tax. It is not very extensive, however. The system does not apply to any subsistence or self-employed income, and among wage earners, only those working for employers hiring 10 or more persons are covered. This is a small percentage.

The Ministry of Local Government, an agency of the central government, has the primary administrative responsibility for graduated tax. The Ministry has standardized tax rates and income brackets for the country and has established some guidelines for assessment. Since central government grants to local areas are inversely related to the revenue each can gain from other sources, the Ministry is also very concerned that local officials make every attempt to assess and collect tax from all potential taxpayers.

The Ministry of Local Government has two divisions: the District Administration Section which oversees actions of the 20 rural districts and the Urban Section which regulates the activities of municipalities, cities, and towns. Under these two divisions are District Commissioners and Treasurers; it is their staffs, composed of tax officers, chiefs, and clerks, who are responsible for actual assessment, collection, and enforcement of graduated tax.⁷

In Uganda tax compliance is good, especially in urban areas where more of the tax is collected and paid through employers. Approximately 73% of adult males are assessed for tax, and around 69% actually pay some tax. This is fairly high when compared with other countries.⁸ Enforcement is not difficult; to ensure compliance the government

establishes road blocks, requiring tax receipts from all adult males. Persons not carrying receipts are placed in jail. Besides being subject to imprisonment, those not paying tax on time are also subject to a 10% surcharge or penalty payment and may be excluded from government services.

Kenya

The formal assessment procedure in Kenya was similar to that in Uganda, but coverage of the tax was never as extensive. In urban areas the Municipal Councils were responsible for assessments. In rural areas there was an assessment committee consisting of the District Revenue Officer and two nongovernmental persons appointed by the District Commissioner. The latter two were usually businessmen and were expected to have a good knowledge of all persons in the area. The chief and sub-chief of the person being assessed acted as non-voting members of the committee, which followed the same procedures as committees in Uganda except that no attempt was made in Kenya to assess subsistence income.

The GPT Act required each adult male to complete an assessment form giving his name and marital status and an income declaration. All sources of income for both husband and wife were to be listed separately, including income from employment, business, and all agricultural activities, including barter. In practice, many persons have not completed assessment forms since 1968 when the minimum tax rate was discontinued. Since that date, barter income has seldom been listed. Assessments for wage earners were generally based solely on statements made by their employers, who were required to register and obtain a tax card and number for all new employees with a monthly income exceeding shs. 160/=.

Unlike Uganda, all wage earners in Kenya paid tax through their employers. Even domestic servants had tax deducted from wages and paid directly to the government. Tax was paid in 12 monthly installments, and the amount deducted each month depended on that month's wages; therefore, tax liability could change if wages increased or decreased during the year. Self-employed persons were assessed at the beginning of the year, and tax was payable in two installments, due no later than March 31 and June 30, respectively. Self-employed persons could request to pay in 12 monthly installments as did wage earners. Anyone wishing to appeal his assessment was required to do so within 30 days of the date of assessment. Appeals were made to the tax collector or assessment committee and usually resulted in a new, higher assessment.⁹

Enforcement was the responsibility of each local area. Road blocks, though sometimes utilized, were not as effective in Kenya as in Uganda since it was impossible to discern whether a person lacking a receipt was a defaulter or a tax exempt individual. If all adult males had completed assessment forms, as required by the GPT Act, persons could conceivably have been required to carry either tax tickets or exemption certificates. Identity cards were required during colonial days, however, and any mention of reinstituting the procedure has met with stiff opposition. Enforcement in urban areas was always easier than in rural districts since more urban residents are wage earners, and therefore both the employer and employee were responsible for assuring payment of tax.

Prior to 1970, administration of the tax was under the Ministry of Local Government. Under it were the District Commissioners in rural areas and Municipal and City Councils in urban ones. After 1970, the

Ministry of Finance coordinated activities for rural areas; it served mainly as a regulatory agency. Assessments, collections, and basic administrative work were carried out by District Officers, District Commissioners, county chiefs, and other local officials. The Ministry of Local Government retained responsibility for the tax in urban areas. Since independence, tax rates and income brackets as well as rules regarding jurisdiction of the tax have been set by Parliament, acting on advice from the Ministry of Finance.

Zambia

Since the minimum income necessary for tax is set well above average income and subsistence income is not included, very few persons in Zambia are assessed to pay tax at all. For those that do pay tax, the government often relies on some form of self-assessment. Near the beginning of each year, every taxing jurisdiction published notices in the Gazette stating the rates of personal levy and the particular rules of the district. Self-employed persons are then required to give notification of their incomes. For wage earners, incomes are reported and taxes withheld by employers. The City Council in Lusaka relies solely on self-assessment for wage earners. Forms are sent to all persons on the city water register (the list of persons receiving city water service). Persons are then requested to list the incomes of all employees; self-employed persons are required to report their own incomes. The City Council makes no attempt to verify these assessments; it only checks to assure that all forms are returned. Tax is paid to the City Council by the employer (by the individual if self-employed). In Lusaka, tax may be deducted from wages beginning any time after

January 1, and the government encourages businesses to deduct the tax as soon as possible. Tax must be paid to the City Council by March 31. Persons with incomes greater than K400, requiring a tax greater than K6, may pay in two installments: March 31 and June 30.

Appeals to assessment are rare in Zambia. Tax rates are extremely low compared with other countries. In areas using self-assessments, appeals are obviously unnecessary. Tax is administered by the Ministry of Local Government. Tax rates and income brackets have been standardized by the Ministry. Assessment and enforcement are left to the discretion of local governments. Lusaka officials only check to be sure all persons return the self-assessment forms and that tax payments correspond to declared income. Only persons paying tax are issued receipts, and consequently Zambia has the same difficulty as Kenya in distinguishing between defaulters and those who are exempt from tax.

More detailed information of the procedure and operation of graduated tax in Uganda, Kenya, and Zambia will be given in the next chapter.

FOOTNOTES FOR CHAPTER III

¹For further discussion of graduated taxes see John F. Due, Taxation and Economic Development in Tropical Africa (Cambridge, Mass.: M.I.T. Press, 1963), ch. 5 and Edward A. Arowolo, "The Taxation of Low Incomes in African Countries," International Monetary Fund Staff Papers, XV (July, 1968). Arowolo considers graduated taxes to be among the easiest taxes to collect in countries with large subsistence sectors. Administrative costs are also low relative to other taxes. The extreme regressivity at the lowest income levels raises questions of equity, however, and if tax rates are high for persons at low income levels, the tax may create hardships, pp. 339-341.

²Lord Moyne, Report of the Financial Commission in Kenya (His Majesty's Stationery Office, 1932).

³Some local councils still levied a separate poll tax, different from GPT; this tax applied to all adult males and ranged in rate from shs. 2 to shs. 26.

⁴Prior to independence, poll taxes provided from 10% to 31% of local revenues. This is lower than for the other two East African countries. Ursula Hicks, Development From Below (Oxford: Oxford University Press, 1961), p. 299.

⁵Kenya, Ministry of Finance and Economic Planning, Budget Speech for the Fiscal Year 1973/74 (Nairobi: Kenya Government Printer, 14 June, 1973), p. 5.

⁶Lewis H. Gann, A History of Northern Rhodesia (New York: Humanities Press, Inc., 1969), pp. 100-111.

⁷For further discussion of administration and collection of graduated tax in Uganda, see Kenneth J. Davey, Taxing a Peasant Society (London: Charles Knight & Co., Ltd., 1974), ch. VII.

⁸This runs contrary to Davey's views of the tax. He considers the high default rate to be the greatest defect in graduated tax, though he admits it is low when compared with other African countries. Ibid., pp. 134 and 197.

⁹Interviews with A. A. Brent, Ministry of Finance and Planning, Kenya, November, 1972.

CHAPTER IV

GRADUATED TAX: PROCEDURE AND OPERATION

When graduated taxes were first introduced, the intent was to raise revenue and induce persons into the labor market. The tax was extremely uncomplicated. Since that time, graduated taxes and the entire tax structures of Uganda, Kenya, and Zambia have become more complex. As graduated tax has become more complicated, the range of possibilities for its affecting a country's development objectives has expanded.

The problems associated with graduated tax are unique, especially regarding the use of presumed income. The experiences of the three countries with respect to the tax have been extremely different. The emphasis given graduated tax differs among the countries, and the tax is formulated and administered differently. The potential and actual effects of graduated taxes can be seen only by examining the exact operation of the tax in each of the three countries. Two of the major problems of a graduated tax are those of determination of income and establishment of tax rates and brackets; these will be examined first.

Assessment of Income

Since a person's tax liability depends on his taxable income, the method of determining income is important in evaluating a tax, especially when incomes are nonwage, and the assessor has discretionary power. Even in Kenya and Zambia where subsistence income has been ignored, assessment committees have had some leeway. The three countries have expressed a desire to attain equity in assessments, reduce administrative

costs, and minimize distortion of economic activity. The following procedures help to achieve these goals.

1) Assessors should be unbiased and have a thorough knowledge of the persons and incomes being assessed.

2) There should be guidelines to follow in estimating income so that assessments will be as free as possible from personal values of assessors.

3) All potentially eligible taxpayers should be assessed, even if income is expected to fall below the minimum liable for tax (for Kenya and Zambia).

4) Except to the extent the governments wish to favor certain activities, assessments should be based on all sources of income, from every occupation, and should affect urban and rural residents equally.

5) The number of assessors and the time required for assessment should be minimized.

6) Taxpayers should have the right to appeal assessments; in such instances reassessments should be made by other than the original committee.

7) Complete records should be maintained, listing every source of income for each taxpayer and the corresponding tax.

Such procedures will result in more horizontal and vertical equity in assessments and should create less unwanted reallocation of resources.

For persons earning wages, determination of wage income is automatic. Information is derived from employers. When one has other types of income, such as self-employment and subsistence income, assessment committees are necessary. In both Kenya and Uganda, most of these committees do seem to have an intimate knowledge of the persons within

their jurisdictions, including information on business activities and land holdings of each taxpayer. With few exceptions, persons on the committees live in the areas in which they assess and are acquainted with the residents. There is evidence, though, that in the Buganda districts of Uganda not all chiefs are well acquainted with their areas. When Obote was President, he appointed several Buganda chiefs who are residents of Kampala, have never lived in the rural districts they control, and have no real knowledge of the residents.¹ This seems to be the exception rather than the rule.

A more major problem would seem to be a lack of objectivity of the assessors, who are often close friends or relatives of those whom they assess. There are numerous instances of assessments being altered to aid friends. A man in Kenya was permanently exempted from the tax rolls in his district by the "gift" of one cow to the assessor.² Further difficulties occur when chiefs have to face election by taxpayers. In the spring of 1970, Obote announced that henceforth chiefs would be subject to election instead of being appointed, and assessments and collections of graduated tax dropped immediately. Collections returned to normal in the following year when Idi Amin became President and returned the position to one of appointment.³

Even when committees attempt to remain impartial and to keep their decisions objective, the process is subjective in nature due to the necessity of relating property and occupational information to an income level. Lack of guidelines makes the task more difficult. Neither Kenya nor Zambia has provided any guidelines for assessors, and it is very unlikely that two groups of assessors in these countries will arrive at similar findings. Uganda, which has the greatest need for standards

because subsistence income is included, does have guidelines, and the discussion of standards and guidelines will be based on the Ugandan experience.

Although tax grades and income brackets are uniform within Uganda, rules for estimating incomes are not. There is no standardization between districts as to assessment of income from property and certain low income occupations. With few exceptions, any guidelines that exist are purely local; each district establishes its own rules. Even within a given district, there is often little effort made to correlate assessments with actual average income per acre as estimated by the Ministry of Agriculture. In South Busoga a person is assessed shs. 250 per annum for each acre of cotton. This is very different from the assessment in Masaka (Table 8). It is doubtful that productivity varies that greatly between the two districts.

When guidelines exist, they are often formulated into tables, similar to that in Table 8, where guidelines are in the form of brackets, correlating amounts of property with ranges of income. Many anomalies result when using brackets, almost all of which are illustrated in Masaka.

1) Acreage brackets overlap, leaving final assessment to the discretion of the individual chief. A person with two acres of land could be placed in either of the first two presumed income brackets. It is the assessor's decision whether to place income between shs. 0 and 1,000 or shs. 1,000 and 1,500 (see Table 8).

2) The brackets for "Presumed Income" overlap the income brackets for GT itself (compare Tables 5 and 8). In this instance, there are

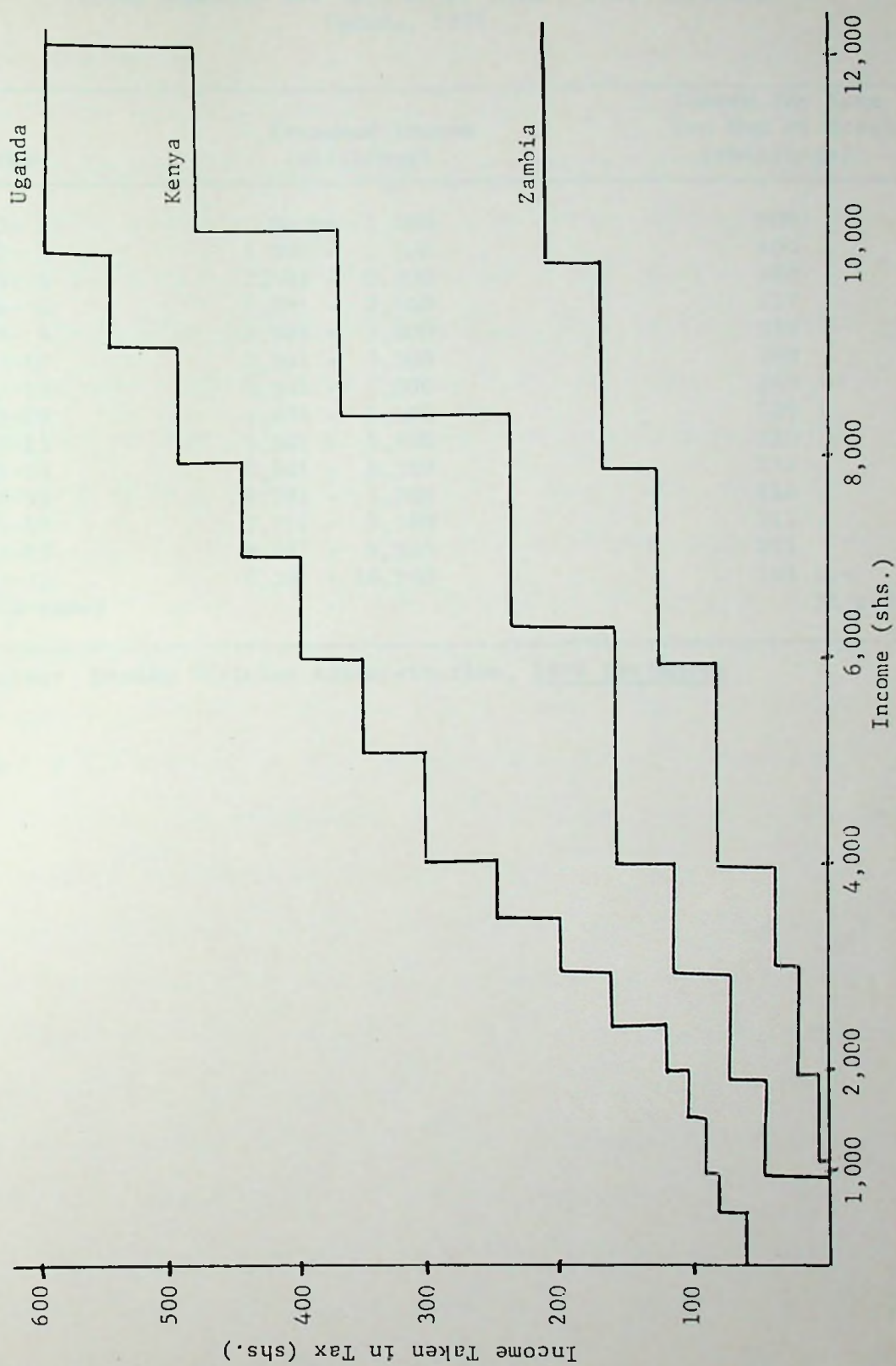


Figure 2. Income Taken in Graduated Tax: Uganda, Kenya, and Zambia

Table 8
Income Schedule for Land Other Than Coffee, Masaka,
Uganda, 1972

Acres	Presumed Income (shillings)	Income Per Acre Top End of Bracket (shillings)
0- 2	Up to 1,000	500
2- 3	1,000 - 1,500	500
3- 4	1,501 - 2,000	500
4- 6	2,001 - 2,500	417
6- 8	2,501 - 3,000	375
8-10	3,001 - 3,500	350
10-15	3,501 - 4,000	269
15-20	4,001 - 4,500	225
20-25	4,501 - 5,500	220
25-30	5,501 - 6,500	217
30-35	6,501 - 7,500	214
35-40	7,501 - 8,500	212
40-45	8,501 - 9,500	211
45-55	9,501 - 10,500	191 for
& above		55 acres

Source: Masaka District Administration, 1972 Estimates.

not even the same number of brackets: 15 for tax grades (Table 5) and 14 for estimating income in Masaka. Chiefs are granted a large amount of discretionary power. According to Table 8, a person with 28 acres should have income somewhere between shs. 5,501 and shs. 6,500. This could place him in either the tenth or eleventh income group. If the chief places him at the lower end of the range, his tax liability of shs. 350; if he is assessed at the upper end, he must pay shs. 400 in tax. It is possible that each individual chief will be consistent in his own application of rules, but it is unlikely that chiefs in different parishes will follow the same procedure; this violates all standards of horizontal equity.

3) It is difficult to give a precise estimate of income for a person whose income falls within a bracket. This poses problems when someone has income from more than one source and earnings must be aggregated. Consider a person with 13 acres of land and five cows (cattle are assessed at shs. 50 per head in Masaka). Income from 13 acres of land lies between shs. 3,501 and 4,000. If the lower figure is taken, total income is shs. 3,751 and tax is shs. 250. If the person is assessed at the upper end, income is shs. 4,250, with a tax liability of shs. 300. Logically, the acreage should be prorated throughout the range, but according to District Treasurers, chiefs, and other officials in three districts, standard procedure was to assign persons arbitrarily to either the upper or lower end, generally the upper one. Examination of tax registers confirms this.

4) As often happens when estimates are forced into brackets, assessed income per acre varies widely between brackets. In Masaka,

two acres of land are assumed to yield shs. 500 per acre, whereas a person holding 45 acres is assumed to derive only shs. 211 per acre.

Some of these difficulties are inherent in the use of brackets. Others result when brackets are poorly designed, as in Masaka. Busoga avoids these difficulties with land income by not using brackets. Each acre of land is assumed to yield shs. 250 per annum in south Busoga and shs. 200 in north Busoga.

The Busoga District does utilize brackets in determining income from cattle. Some of the difficulties encountered by Masaka are avoided by assigning brackets and rates more scientifically; income brackets in the presumed income schedule correspond exactly to those in the government tax schedule (see Table 9). Nevertheless, the major difficulty still exists; too much is left to the discretion of individual tax assessors. The central government has set guidelines of shs. 50 per head of cattle, and the Busoga schedule averages to this amount. According to the District Treasurer and one of the tax clerks, however, this average is not followed. A person with two cows would be assessed at shs. 500. (Examination of assessment registers confirms this.) This creates difficulties only when a person also has income from cattle and other sources. If the person with two cows also has one acre of land in south Busoga (shs. 250 per acre), his assessed income will be shs. 750 and his tax liability shs. 80, instead of the shs. 65 in tax that would result if cattle were assessed at shs. 50 per head as intended.

East Buganda also faces most of the above difficulties, among them being problems in aggregation and the overlapping of brackets (see Table 10). There is the additional question of how to assess someone

Table 9

Income Schedule for Cattle, Busoga, Uganda, 1972

No. of Cattle	Grades of Tax (shillings)	Tax Payable (shillings)
1 - 10	50 - 500	65
11 - 20	550 - 1,000	80
21 - 30	1,050 - 1,500	90
31 - 40	1,550 - 2,000	100
41 - 50	2,050 - 2,500	120
51 - 60	2,550 - 3,000	160
61 - 70	3,050 - 3,500	200
71 - 80	3,550 - 4,000	250
81 - 100	4,050 - 5,000	300
101 - 120	5,050 - 6,000	350
121 - 140	6,050 - 7,000	400
141 - 160	7,050 - 8,000	450
161 - 180	8,050 - 9,000	500
181 - 200	9,050 - 10,000	550
201 & above	10,001 and above	600

Source: Busoga District Administration, Estimates: 1972.

Table 10

Guidelines for Estimating Agricultural Income, East
Buganda, Uganda, 1972

Coffee Land		Other Land	
Acres or Trees	Presumed Income (shillings)	Acres	Income Per Acre (shillings)
201 - 500 trees	1,200 - 1,800	1	1,200
501 - 650	1,800 - 2,400	2	1,200 - 1,800
651 - 800	2,400 - 3,600	4 - 6	1,800 - 2,400
800 trees-4 acres	3,600 - 4,800	6 - 10	2,400 - 3,600
5 - 7 acres	4,800 - 7,200	10 - 20	3,600 - 4,800
8 - 12	7,200 - 9,600	20 - 30	4,800 - 7,200
13 - 17	9,600 - 12,000	30 - 40	7,200 - 9,600
18 & above	12,000 & above	40 - 50	9,600 - 12,000

Source: East Buganda District Administration, 1972 Estimates.

with less than 200 coffee trees. According to assessors in that district, income from fewer than 200 coffee trees is ignored, and examination of records confirms this is the practice.

Assessors also need to estimate business income in many instances. Small traders and shopkeepers generally keep insufficient records for use by assessors. Guidelines for business income are usually similar to those in Table 11. By necessity, assessors must be left more discretion when estimating business income than when determining income from agricultural activities. It is more difficult to establish guidelines for businesses as there are more potential categories and fewer similarities between them.

Tax Rates and Income Brackets

It is in the rate structure and its application to income brackets that some major differences between graduated tax and income tax occur. Graduated taxes traditionally have a unique type of rate structure, caused by the need to introduce graduation and still maintain simplicity. The unusual use of income brackets results from the necessity of estimating income. To achieve national goals regarding income distribution and resource allocation, a country should aim for the following:

- 1) Minimize the inequities caused by inexact assessments;
- 2) Reduce the regressiveness within brackets;
- 3) Maintain as much progressivity (or as little regressivity) as possible in the whole tax structure;
- 4) Keep marginal rates as low as possible when moving from one bracket to another. (Marginal rates will always exceed 100% when moving to a higher bracket.)

Table 11

Guidelines for Estimating Business Income, East Buganda,
Uganda, 1972

Occupation	Income Range (shillings)
Businesses	
1) Small shops	2,500 and over
2) Big shops in trading centers	6,001 and over
3) Shops in small trading centers	4,000 - 5,000
4) Big shops in big trading centers	8,000 - 10,000
Cattle Traders	
1) Small	1,200 - 1,600
2) Butchers	800 - 1,200
3) Traders in hides and skins	2,400
Cobblers	1,000
Bicycle repairers	2,500
Hair dressers	1,000
Farmers	
1) Small forest of trees	800 - 1,200
2) Sugar cane to sell to factories	500/acre
3) Matoke banana trees	500/acre
4) Cotton	250/acre
5) Tobacco	500/acre
Fisherman	
1) With motor boat	5,000 - 6,000
2) Boat with engine	1,600 - 2,000
3) Canoe	800 - 1,200
4) Fisherman	3,500
(Above categories are added to obtain income. If a man is a fisherman and owns a motor boat, income is 3,500 + 5,000)	
5) Fishmonger	1,500
Buildings	
1) Bldg. for hire - semi-permanent	500
2) Bldg. for hire - permanent	2,500
3) Eating house	1,000
4) Bar	2,000
5) Bldg. selling local beer	5,000
Vehicles owned	
1) Big lorry	10,000
2) Small bus	15,000
3) Taxi	5,000

Source: East Buganda District Administration, 1972 Estimates.

A compromise is necessary as it is impossible to devise a tax accomplishing all the above objectives.

When self-employed persons do not keep accurate records or a country attempts to tax subsistence income, estimates are necessary, and these estimates will never be exact. Placing income within brackets, with everyone falling within a bracket paying the same tax, helps reduce the inequities caused by inexact assessments. When income brackets are wide, one can make a very crude estimate of income with little loss of equity. With a regular income tax, if a person is assessed incorrectly, his corresponding tax will be too high or low. A person living in Masaka in 1968 and earning shs. 759, however, could have been assessed as low as shs. 500 or as high as shs. 1,800 with no change in tax liability (see Table 12). In either instance the tax liability was shs. 66. The wider the tax brackets, the greater the room for error in assessment without affecting tax liability. Since the tax brackets have now been narrowed, the same difference in assessment would now increase tax liability from shs. 65 to shs. 100 (see Table 5).

Wide brackets make the task of assessment committees easier, but they also increase the regressiveness within brackets. For any given rate, the narrower the brackets, the less the variation in the ratio of tax to income within a bracket. With this narrowing of brackets, though, the necessity for more accurate income appraisals increases. As a country develops, however, record keeping improves, the percentage of income derived from subsistence activities decreases, and the need for estimation diminishes.

When income is placed in brackets, with the same tax liability for all incomes within that bracket, the marginal rate must necessarily be

Table 12

Schedule of Tax Rates for Masaka, Uganda, 1968

Income (shillings)	Tax (shillings)	Tax as Percentage of Income	
		Lower end	Upper end
0 - 1,800	66	-	3.7%
1,801 - 2,400	100	5.6%	4.2
2,401 - 3,600	150	6.2	4.2
3,601 - 4,800	220	6.1	4.6
4,801 - 7,200	330	6.9	4.6
7,201 - 9,600	440	6.1	4.6
9,601 - 12,000	550	5.7	4.6
12,000 & over	600	5.0	-

Source: Masaka District Administration, 1968 Estimates.

greater than 100% as one moves from one bracket to another. Not only does this lessen incentives for work, but it violates prevailing standards of equity since a person earning more than another could actually have less after tax income. Assessors are therefore reluctant to place a person into a new bracket until his income is well above the minimum level for that bracket. This option of underestimating income is not available for wage income, though; and when income is deducted from wages each month, as in Kenya, a person notices immediately when a pay raise places him in a new bracket and lowers his after tax income. In Kenya, as yearly income rose from shs. 1,920 to shs. 1,930, take-home pay dropped from shs. 1,872 to shs. 1,858, and monthly income dropped from shs. 156 to shs. 154/75. This type of situation will remain until graduated tax is transformed into a regular form of income tax (see section on Taxing Jurisdiction for income tax tables and a discussion of coordination of the two taxes). While graduated tax remains in its present form, the marginal rate may be lessened by increasing the number of brackets or decreasing the jump in tax when changing brackets. The government might also rule that a person's after tax income could not be reduced by a pay increase. The tax brackets in Uganda are narrower now than in 1968. As a consequence, there is now less regression within brackets, but the need for accurate appraisals is greater.

Taxpaying Unit

A country's definition of a taxpaying unit can affect tax liability. When persons can change their liabilities by redistributing income among various members of the family unit, altering the location

where income is earned or taxed, or by altering the geographic or occupational source of that income, much time and effort are expended in the process of change, and revenue is lost; inequities may also be created between persons who are able to manipulate their incomes and those who are not. In general, such benefits are only available to persons with property and investment incomes. The special treatment accorded some income earned by women can also have a distorting effect. Such situations are good only if the government wishes to favor or encourage certain groups or occupations. Rural activity, however, is the only type the three governments have shown any great desire to favor.

Family Unit

Graduated tax differs markedly from income tax in the treatment of both the family unit and income earned by wives. Unlike income tax in the three African countries and the United States, graduated tax has no provisions for dependency allowances. These were avoided to simplify assessment and administration of the tax and to preserve revenue sources. The absence of birth registration, together with the African concept of the extended family, could result in virtually no revenue. (For these reasons, income tax in the three countries limits the number of child allowances to four in Kenya and six in Uganda and Zambia.)

Another major difference between graduated tax and income tax (and one between income tax in the three African countries and that in the United States) is the taxpaying unit. In Uganda, Kenya and Zambia, the taxpaying unit for income tax is the married couple, with the wife's income added to that of her husband. Unlike the United States, income

splitting is not allowed. A wife begins paying tax at her husband's marginal rate. Married persons are not allowed to file separately. (In some instances, though, a working wife is allowed a slight deduction.) The result is that a married couple, where both persons are working, will have a higher total income tax liability than if both were single. None of the countries applies the same philosophy to graduated tax as to income tax.

Zambia chose perhaps the simplest method and taxes each wage earner on his individual income, regardless of his place in the family unit. For purposes of personal levy, the taxpaying unit is not the family, but each individual. In Uganda and Kenya, the unit has essentially been the family. In Uganda, the wife's income is added to that of her husband, and then he is assessed on the total, as with income tax. In Kenya the situation was slightly more confused, and there may be a difference in the way the law was stated and the manner in which it was applied. The law stated that "a husband and wife living together shall not be required to pay any tax on their joint income in excess of the tax which would be payable by an individual in respect to that income."^{4,5} No family in Kenya, then, paid a tax greater than shs. 600. Whether one was taxed on total family income as in Uganda or individually as in Zambia should have depended on the particular case and families should have used whichever method resulted in a lower tax.⁶ In both Kenya and Zambia, regardless of the income of the primary wage earner, income of a secondary worker has been ignored if it was below the minimum of shs. 960 for Kenya and K120 for Zambia.

Table 13 illustrates the differences in total family tax liability that can result using the same tax schedule but the different regulations

Table 13

Taxes* Paid by Family Unit Under Alternative Regulations (shillings)

	Income	Tax	Income	Tax	Income	Tax
<u>Case A</u>	<u>Case A1</u>		<u>Case A2</u>		<u>Case A3</u>	
Head of House	15,000	600	12,100	600	8,000	240
Spouse	0	0	2,900	108	7,000	240
Family Income	15,000		15,000		15,000	
Family Tax Liability						
Uganda		600		600		600
Kenya		600		600		480
Zambia		600		708		480
<u>Case B</u>	<u>Case B1</u>		<u>Case B2</u>		<u>Case B3</u>	
Head of House	8,500	360	7,550	240	4,500	156
Spouse	0	0	950	0	4,000	108
Family Income	8,500		8,500		8,500	
Family Tax Liability						
Uganda		360		360		360
Kenya		360		240		264
Zambia		360		240		264
<u>Case C</u>	<u>Case C1</u>		<u>Case C2</u>		<u>Case C3</u>	
Head of House	11,500	480	10,500	480	6,000	156
Spouse	0	0	1,000	48	5,500	156
Family Income	11,500		11,500		11,500	
Family Tax Liability						
Uganda		480		480		480
Kenya		480		480		312
Zambia		480		528		312

* Tax is calculated using Kenya's 1972 income and rate schedule (Table 6) and the regulations for calculating family income of the individual countries.

in the countries regarding family income. The tax schedule used is that for Kenya. The results would be similar were either of the other two schedules used.

In Case A, if the shs. 15,000 is earned by one wage earner, the tax liability would be shs. 600, regardless of which country's rules are applied. It would remain shs. 600 in Uganda regardless of how the income is split between the husband and wife. Tax in Kenya and Zambia varies depending on the distribution of income within the family. This is obvious for Zambia since each person is taxed separately. According to Kenya law, tax liability could be lowered by a "favorable split" of income, but not raised by an unfavorable one. The result in Zambia, and to some extent in Kenya, is that two families with the same total income may have different tax liabilities. (This is not true for income tax.) It is also possible that a family with a higher income than another could pay less graduated tax (see Cases B1 and C3 in Table 13). This occurs most often at the upper limits of the income schedule. When one family member is already paying shs. 600 tax (in Kenya or Uganda), it does not matter at all how much the spouse earns; tax will not increase.

Tax liability can vary depending on how income is distributed, and redistributing income can lower total liability. This probably happens rarely, and the gains are usually not great. For Kenya, once family income reached slightly above shs. 16,000 per annum, there was no method of splitting income to reduce tax liability below the maximum of shs. 600. For each of the three countries, the method of treating the family unit for graduated tax sometimes results in a savings in tax and sometimes not. This differs from income tax where adding the income

of the wife to that of her husband will never result in a lower tax liability.

Tax Treatment of Working Women

In Africa most women are considered to be the responsibility of some man, either a husband or male relative. The right of women to own property, retain earnings from work, or engage in work outside the home has often been restricted. Regulations governing taxation of working women developed from native traditions regarding women's roles. For this reason, taxation of working women is being discussed within the framework of taxation of the family unit.

Historically, graduated or personal taxes did not apply to women. Women were never subject to the original poll taxes, and even today where countries have a minimum rate or poll rate in conjunction with graduated tax, it is not applicable to women. If faced with any form of direct taxation, it is only on positive income.

In Kenya women faced essentially the same GPT as men. No person, man or woman, paid tax if he earned less than shs. 960 per year. For any income above shs. 960, both sexes faced the same income and rate schedules. Since no attempt was made to assess subsistence income, women were generally not taxed on income from shambas (subsistence farms).

Like Kenya, Zambia taxes neither women nor men on subsistence income. The treatment of working women in Zambia does differ from that of men, though. It is the responsibility of each individual district to determine whether female income is to be taxed at all. Generally, women are allowed a higher minimum income than men before being made subject to tax. In Lusaka a woman must earn over K400 a year before

being subject to personal levy, while men begin paying tax at a third of that income, or K120. Once they begin paying tax, women in Lusaka are subject to the same rates as men.

In Uganda, decisions regarding the taxation of female income are also the responsibility of individual districts. Kigezi and Karamoja tend to exclude women entirely from the tax structure, and although most districts do tax women, their incomes must exceed a certain minimum, generally shs. 1,800 per annum. As mentioned above, when a married woman is liable for tax, all districts follow central government regulations by adding her income to that of her husband and then applying the appropriate tax rate.

In Masaka, a woman pays GT only if at least one of the following conditions is met:

- 1) her wage income is greater than shs. 1,800 per annum;
- 2) she owns more than 350 coffee trees; or
- 3) she has more than 25 head of cattle.

There is no procedure for combining income from various sources. Thus a woman with no property or cattle, but a salary of shs. 1,801 per annum would be paying shs. 100 in tax, whereas a woman with shs. 1,800 in salary, and income from 350 coffee trees and 25 cows would not be liable for tax, a situation definitely not providing horizontal equity.

Taxing Jurisdiction

A tax on income may be levied by either the area of residence of the taxpayer or the area in which his income originated. There is justification for each approach since persons utilize services in both areas. Graduated taxes are not strictly income taxes, though; the hut

taxes from which they evolved were levied on the person, not his income. Revenue went to the area of residence, and as the hut tax evolved into a graduated tax, residency remained the criterion. In Zambia and Uganda, tax still goes to one's area of residence.

With some exceptions, tax in Kenya also went to the area of residence, though tax was initially collected by the area in which income originated, and officials in this area were to remit the revenue to each taxpayer's area of residence. Unfortunately, local governments were reluctant to relinquish any funds they had collected. Nairobi and Mombasa generally retained all the revenue for persons working in those cities, regardless of residency. Prior to 1973, Nairobi's tax collection records did not even list the residence of taxpayers. Consequently, it was impossible for the city council to remit tax to other areas. Except for the year 1973, Nairobi and Mombasa also retained tax for the majority of military and central government personnel since government payrolls were prepared in these two cities. In 1973, tax for central government and military personnel living outside Nairobi and Mombasa was paid into the consolidated fund, a central government fund that finances grants to local areas. From 1968 to 1972, Nairobi and Mombasa were required to pay half their GPT revenues into the consolidated fund; the central government contended that these two municipalities received a disproportionate share of revenue, retaining tax from non residents and persons whose residency was questionable.

Given the prevalence of persons migrating to cities for work, while leaving families and land in the country, residency in all three countries has been difficult to define; men sometimes migrate to cities solely to raise revenue for taxes or school fees, returning frequently

to their rural homes. Ugandan assessors typically define residence as the area in which the taxpayer spends most of his nights, though this, too, is often difficult to ascertain. For a time, Kenya had provisions for an equal division of tax when a taxpayer and his wife had more than one residence between them, but this section in the GPT Act was superseded by another in 1969. It was a little used provision, anyway.

Certain areas of the three countries have been more deeply affected than others by this migration of males to cities and the consequent disappearance of the rural tax base. In Zambia, there are more males than females in the urban districts, the Copperbelt Province which contains the mines, and the Central Province. All other areas have a greater percentage of females, who are less likely to be paying personal levy. The majority of African town dwellers maintain ties with some rural area, and in the Copperbelt in the 1950's, almost 60% of the Africans were classed as migrants. Less than 13% considered the Copperbelt to be home.⁷ Personal levy for these workers went to the Copperbelt, but many had families elsewhere.

In Kenya the migration of men to cities has left some rural areas with insufficient revenue to provide services. Machakos has had an especially large out migration of males, leaving the county council to provide medical and educational services for their families.⁸ The financial difficulties that migration created for rural areas were eased somewhat in Kenya in 1970 when the central government began providing the most expensive local services: schools, health, and roads. In Uganda and to some extent in Zambia, though, most of these services must still be provided by local areas.

Theoretically a person cannot alter his tax liability by changing his place of residence since tax rates in each of the countries are established by the central government and are identical for all districts. In Uganda prior to 1970, tax rates did vary greatly between districts and liability could be altered by changing districts (see Table 14). Persons often voluntarily paid tax in a district with lower rates, hoping this would discharge their liabilities in their home districts.⁹

Tax liability can no longer be altered legally by changing residence, but a person can often escape tax on property income by claiming urban rather than rural residence. This occurs more easily in Uganda since rural areas there include some measure of subsistence income, while urban areas customarily assess only monetary income. It is one's area of residence that conducts assessments, and urban assessment committees are often unaware of a person's agricultural income.

The Ministry of Local Government and the Ministry of Finance in Kenya indicated that similar situations occurred there. Since persons with yearly incomes below shs. 960 were not subject to tax, it was likely that a person with income from different geographic areas might lower his liability or escape tax altogether if at least one of the incomes were less than shs. 960. Employers did not need to report incomes below this figure, and therefore a person's total earnings might remain secret. Similar difficulties would arise if a tax went to the area in which income originated rather than the area of residence. Tax liability would then vary depending on how different sources of income were divided between taxing areas.

Table 14

Schedule of 1966 Tax Rates, Selected Areas, Uganda

Income (shillings)	Tax (shillings)	Tax as Percentage of Income	
		Lower end	Upper end
<u>Toro District</u>			
Partial rate	25		
0 - 600	45	-	7.5%
601 - 1,000	55	9.2%	5.5
1,001 - 1,200	70	7.0	5.8
1,201 - 1,600	85	7.1	5.3
1,601 - 2,000	120	7.5	6.0
2,001 - 3,000	170	8.5	5.7
3,001 - 4,000	220	7.3	5.5
4,001 - 6,000	310	7.7	5.2
6,001 - 8,000	410	6.8	5.1
8,001 - 10,000	510	6.4	5.1
10,001 & over	600	6.0	-
<u>Bunyoro District</u>			
Partial rate	25		
0 - 400	50	-	12.5
401 - 800	60	15.0	7.5
801 - 1,000	80	10.0	8.0
1,001 - 1,600	100	10.0	6.2
1,601 - 2,000	130	8.2	6.5
2,001 - 3,000	200	10.0	6.7
3,001 - 4,000	250	8.3	6.2
4,001 - 5,000	300	7.5	6.0
5,001 - 6,000	350	7.0	5.8
6,001 - 8,000	450	7.5	5.6
8,001 - 10,000	550	6.9	5.5
10,000 & over	600	6.0	-

Sources: Toro and Bunyoro, 1966 District Reports.

Collections

In line with the basic objectives established by the countries, it is desirable to achieve as high a rate of collection as possible, while minimizing the amount of time and money expended in the process. Tax can be collected individually or through employers, and in one payment or in installments. Personal income tax in the three countries is collected in installments through employers, in a system called Pay As You Earn (PAYE). The three countries have similar systems for graduated tax. Though it has no formal name, it will also be referred to as PAYE.

To achieve their goals outlined earlier, countries should attempt the following:

- 1) As much tax as possible should be collected through employers. Under this procedure tax evasion is made more difficult; collection costs are also reduced as time spent tracing defaulters is lessened and the number of taxpaying units is reduced.

- 2) Whenever possible, tax should be collected in installments, thereby lessening the burden of payment for the taxpayer. When tax rates are high, installment payments also lessen variations in economic activity since tax payments do not alter monthly buying habits as drastically.

- 3) To the extent that tax is collected in installments, care should be taken to insure the correct amount will be collected, with as little need as possible for year end adjustments. Making such adjustments requires administrative time. When adjustments are not made, as often happens, equity is lost.

Of the three countries, PAYE was the most extensive in Kenya, covering all employees. Tax payments were also made over a greater period of time than in the other two countries. Uganda made the least use of PAYE. There was less need for year end adjustments in Uganda and Zambia, however.

Procedure

In all three countries self-employed persons pay directly to the tax authorities: city councils in urban areas and the District Commissioners, county clerks, or other local officials in rural ones. A tax receipt is issued as soon as payment is made. In Uganda persons are encouraged to pay the entire sum at one time, though provisions can be made for paying in installments. Jinja Municipality issues temporary tax tickets, good for three months, for persons paying on a schedule acceptable to the city council. In Zambia, persons earning over K400, whether self-employed or not, can pay in two installments. Kenya was the only one of the countries extending the possibility of installment payment to all persons, including the self-employed.

The three countries differ most in the method of taxing wage earners. The difficulty of maintaining records over a period of months for myriad small employers has limited the spread of PAYE in many African countries. Kenya succeeded in circumventing this difficulty by using a special collection method for small employers. Persons with fewer than five employees were required to purchase stamps each month for the correct amount of tax for each employee. Stamps were purchased from the District Commissioner, county council, or city council and were affixed to each employee's tax card. At the end of each year

completed cards were exchanged for tax tickets. Anyone leaving employment during the year was given his partially completed card, which was to be submitted to his new employer if he found another job, or submitted to tax authorities at the end of the year for adjustment.

The issuance of cards and stamps for small employers eliminated the necessity of the government's maintaining and updating monthly records. By checking tax tickets at the end of each year, officials could verify whether persons had paid the correct tax. By this procedure Kenya was able to collect tax in installments through employees with little need for sophisticated bookkeeping by either the government or employers.

For large establishments, the procedure was similar to that for income tax. At the beginning of each year, employers were required to obtain tax numbers for all employees. Monthly tax deductions were then remitted to the government, together with a listing of employees, their tax numbers, and their wages. Persons changing jobs during the year were expected to retain the same tax numbers. The greatest difficulty for the government came in handling the duplication of tax cards and numbers for persons changing employment during the year and neglecting to inform new employers of previous tax status. In such instances it was often impossible for the taxing authorities to maintain accurate records.

In Uganda establishments hiring 10 or more persons are covered by PAYE and follow the same collection procedures as large employers in Kenya, with the exception that tax in Uganda is deducted in only four monthly installments, January through April. This allows authorities two additional months in which to process records and issue receipts

before the June 30 deadline for tax payments. Very few employers hire as many as 10 persons, and consequently the coverage of PAYE is not extensive. In Zambia collection procedures vary depending on the city or region. In Lusaka, as in Kenya, all employers are responsible for remitting the tax of their employees. A large percentage of wage earners in the countries are employed by governmental units. In Zambia, 70% of wage earners in 1971 were in public service. (Persons in domestic service were excluded from the statistics.)¹⁰ In Uganda, 42% of the wage earners were in public service in 1970.¹¹ The public sector in Kenya (including parastatal bodies) employed 38% of that nation's wage earners in 1970.¹²

Advantages in Installment Payments

With tax rates higher in Uganda than elsewhere and deductions from wages coming in only four installments, the percentage of monthly income taken in taxes can be quite high, even for persons covered by PAYE. A person with a monthly wage of shs. 130 has over 19% of his wages deducted in tax each month from January through April. (Were he covered by PAYE, a person earning shs. 501 per year would have half his income taken in taxes during the first four months, but few wage earners earn less than shs. 1,501 to 1,600 per year.) Self-employed persons and wage earners not under PAYE are subject to greater hardships as they are expected to pay their entire taxes at one time.

In most of Zambia, persons pay tax in a maximum of two installments. In the one or two months in which tax is due, the percentage of income taken in tax could be quite high if tax rates were not so low. Even with low rates, persons with an income of K300, at the lower end of

the third bracket, pay 16% of monthly income in tax during March. (The option of paying in two installments begins with an income of K400.)

Kenya greatly reduced the impact of taxes in any given month by expanding the number of installments to 12. For all wage earners and any self-employed persons electing to pay in installments, the percentage of monthly income taken in taxes never exceeded 5%.

Year End Adjustments

In each of the countries, tax liability for a self-employed person is determined by an assessment committee and is based on expected earnings. Tax liability is not altered if actual earnings exceed or fall short of the estimate. For Uganda, the same is generally true for wage earners. Tax liability is based on wages being earned at the time of assessment, usually January. The government assumes that this wage will continue throughout the year. If a man quits or loses his job following assessment, his tax liability is unchanged since the government assumes he will obtain a new job at a comparable salary. Consequently, for a person in Uganda under PAYE, one-fourth of assessed tax is deducted each month from January through April, regardless of actual wages in those months. Neither deductions nor tax liability are affected by a change in wages, and no adjustments need to be made at year end. For Zambia the situation is similar, but tax liability is changed if wages change prior to the payment of tax. In both countries, once tax is paid, liability will be altered only under extreme circumstances.

In Kenya, the amount of tax deducted each month depended on that month's wages, and consequently, any overtime, casual employment, or wage raise could result in an under or overpayment of the year's tax

liability. A person with a monthly wage of shs. 150 would have had a monthly tax liability of shs. 4 (Table 14). By working 11 months at the normal wage and one month with overtime, at shs. 170, yearly income would have been shs. 1,800, with a total tax of shs. 48. However, shs. 6 would have been deducted during the month of overtime, raising the yearly tax payment to shs. 50. Similarly, a person working only two months during the year, at a wage of shs. 80 for each month, would have had shs. 4 deducted in tax each month. Since yearly income would have been only shs. 160 the person should have been exempt from GPT. In both instances, too much tax would have been deducted, necessitating year end adjustments.¹³

According to government officials in Kenya, adjustments were rarely made when an incorrect amount of tax has been paid. There were no tax returns to complete for GPT, and consequently most individuals were unaware of over or under payments. Government officials customarily made no changes when a refund was due; adjustments were made only when persons had under paid tax. Many officials and taxpayers did not even realize that refunds could be made.¹⁴

Enforcement

Regardless of the excellence of assessments or rate structures, both revenue and equity are lost if persons can avoid payment. It is important to assure that as many eligible taxpayers as possible are assessed and that those assessed actually pay tax. These aims can be accomplished directly through some systematic check of all individuals, such as a complete census or canvas, or indirectly by such activities as roadblocks, checks on persons using government services, and reviews

of employment lists. Any systematic location of all adult males is difficult and must be done through local officials since they are the only persons really capable of finding and identifying all taxpayers, many of whom are very mobile. Chiefs in rural Uganda conduct such checks at the time of assessment. Follow-ups are sometimes made to ensure collection. Little attempt is made for complete checks in urban areas because the population is more mobile and harder to locate. Neither Kenya nor Zambia has made hut checks for several years.

Complete, direct checks of all potential taxpayers are costly, and governments are interested in minimizing collection and enforcement costs; consequently, indirect checks on taxpayers are more common. Road blocks can be effective only to the extent that they can filter larger numbers of persons and that officials can distinguish between defaulters and tax exempt persons. To accomplish the latter, it is necessary for every potentially eligible taxpayer (primarily adult males) to carry identification.

Uganda begins establishing road blocks on July 1 of each year. Road blocks are fairly effective since all adult males are required to carry tax tickets. Nevertheless, persons who have already paid their taxes are often jailed because they cannot produce tax tickets when checked. Kenya stopped using road blocks several years ago. There was opposition by taxpayers to the requirement of carrying tax tickets, which seemed similar to the identity cards of the colonial era. The central government also opposed the methods used in certain rural areas; some road blocks refused to honor tax tickets from other districts, demanding tax payments from nonresidents. Zambia does not use road blocks, probably because so few persons are liable for tax. Road blocks

would be feasible, however, since all Zambians are required to carry national identity cards and tax information could be included on these.

Sometimes tax defaulters can be discovered by such incidental methods as requesting tax tickets from persons using government services. At various times, both Kenya and Uganda have refused government housing, medical services, and educational facilities to persons not producing proof of tax payment or exemption. In Kenya a defaulter himself could be denied schooling or medical services if he failed to produce a tax receipt, but his family could not be thus penalized. Medical personnel, though, were reluctant to withhold services. Uganda will deny some government services to tax defaulters. Jinja municipality requires GT receipts of all persons living in government housing. Bursaries (scholarships) are denied to primary and secondary school children if their parents cannot produce tax receipts. The city council does not consider this to be unfair to the children. Scholarships are few and many persons are in need of them. The officials felt they should go to families who have made the greatest effort to pay taxes and exhibited the most need.¹⁵ (Parents are generally quite willing to pay school fees; see Chapter VI.) Medical officials in Uganda rarely ask for tax tickets. Requiring tax receipts of persons using government services assures that persons using these services actually help pay for them, but it has the disadvantage of discriminating against certain classes of defaulters and not others.

When checking tax tickets, officials must be able to ensure that the ticket is genuine and that the ticket holder is the same person to whom the ticket was issued. The latter can be extremely difficult. Jinja municipality in Uganda temporarily solved the problem of exchanged

tickets. In 1968, municipalities became autonomous taxing units for graduated tax, and from that year until 1972, Jinja issued tax cards with polaroid pictures attached. The card was semi-permanent and included a record of all sources of income and assessed tax for each year since its issuance. Pictures were discontinued in 1972 when the central government would not release foreign exchange funds for film. According to the city treasurer, the money saved in enforcement more than offset the cost of film.¹⁶

Kenya experienced some difficulty with forged tax stamps in 1972, particularly in the Nairobi area. At the end of the year, persons turned in these forged stamps for tax receipts. The forged stamps could only be detected through ultra-violet and infra-red lights.

Another method of insuring compliance with tax laws is to work through businesses and other employers. Under this method, the genuineness of tickets and ticket holders is immaterial. Kenya experienced good tax compliance for wage earners since both the employee and employer were responsible for payment of tax. The default rate in both Kenya and Uganda was lower for persons under PAYE, and costs of collection and enforcement were also less. For self-employed persons, tax officials can check graduated tax lists against lists of persons issued trading licences or those using municipal or county water and electrical services.

Penalties for default are not severe. Uganda is the only one of the three countries to impose a penalty for late payment: 10% of the assessed value. All three countries have provisions for imprisoning defaulters, though these are seldom invoked as persons in jail cannot earn the funds to pay tax and are a cost to the government while

interned. The threat of imprisonment does not always appear to be a great deterrent. A Uganda District Commissioner claims tax defaulters come to him requesting to be placed in jail.¹⁷ Road blocks do appear to be somewhat of a deterrent in Uganda, though not necessarily against persons deliberately intent on avoiding tax. Though possibly costly, enforcement in Uganda is good, as shown by the high percentage of adult males paying tax. Tax avoidance is greatest at the lower income levels, where the percentage of income taken in tax is highest and the amount of tax collected through employers is lowest.

Staff Requirements and Administration

The Ministries of Local Government in Uganda, Kenya, and Zambia have been responsible for coordinating the activities of graduated tax. (The Ministry of Finance assumed this responsibility in rural Kenya from 1970 through 1973.) Each local taxing jurisdiction in the three countries also maintains an administrative staff. Jinja Municipality in Uganda maintains the following staff solely for GT:

- Principal GT Officer
- Tax Assessment Officer
- Tax Officer
- 2 Tax Collectors
- 4 Assistant Tax Collectors
- 4 Junior Officers
- 2 Cashiers

The population of Jinja in 1969 was 52,509. The top three officials, together with the Treasurer, determine assessment and collection policy. Other major cities in Uganda, Kenya, and Zambia have similar staffs. In the towns, staffs are smaller, often consisting of an assessor and a few clerks.

Urban areas require smaller staffs relative to population than do rural ones. Less time needs to be expended on assessment and collection in urban areas since a larger percentage pay through employers, records are better, there is less need for estimation of income, and taxpayers are more concentrated. In rural areas of Uganda, the District Commissioner and Treasurer have administrative responsibility for the tax. The collection and assessment staffs were described earlier and need not be mentioned here. Until 1970, the District Commissioner in Kenya administered tax in each local area. After 1970, the District Officer, a central government employee, assumed responsibility.

The size of the staff in the Ministry of Local Government depended on the amount of central government regulation of the tax. In Uganda central government direction was greatest. Officials in the Ministry required monthly tax statements from all districts and scrutinized them closely.

Among the greatest costs associated with graduated tax are those of staff salaries, particularly those of chiefs, District Officers, and other officials. These persons perform other governmental functions too, however, so it is difficult to determine what percentage of their salaries should be allocated to graduated tax. There has been no systematic survey in any of the countries. One study of the Mbere District in Kenya estimated that 30% of the time of the District Officer in 1969 was devoted to tax related activity.¹⁸ Figures in this study were based solely on information provided by the District Officer, with no corroboration; it is also not known whether Mbere can be considered a typical district.

The experience in Kenya between 1969 and 1970 when administration of graduated tax was assumed by the central government may yield some information on administrative costs, though it reveals nothing about the costs of assessment and collection staffs. The Treasury was certain that centralization of administration had reduced the number of required personnel. After 1970, the Treasury hired 120 clerks in local areas and 14 in the Treasury. The reduction in staff may not have resulted in any reduction in total wages if the Treasury clerks were more skilled and received higher wages than the county personnel they replaced. These were assumed to have replaced 600 clerks from rural areas. The reduction was attributed to centralization and consolidation of work and to computerization of records. (The computer center had a staff of 15 operations persons and six keypunchers.)¹⁹ Actual assessments and collections continued to be conducted by local government personnel. Expenditures on salaries by local rural areas did not decline in 1970. It is likely that they maintained the same sized staffs and that there was some duplication between central and local governments.

Coordination of Graduated Taxes and Income Taxes

Graduated taxes have been criticized for being regressive in the upper ranges. This criticism is somewhat unfair. Graduated taxes are only one of the two major direct taxes on income in each country. A look at Tables 15, 16, 17, and 18 shows that when income and graduated tax are taken together, the tax structure is extremely progressive in the upper ranges. The tables also illustrate, however, that there is a gap in all three countries between the top level of graduated tax and the level at which income tax begins.

Table 15

Percentage of Income Taken in Tax for Single Persons,
1972*

Income (pounds)	Income Tax (in percentages)			Income and Graduated Taxes (in percentages)		
	Kenya	Uganda	Zambia	Kenya	Uganda	Zambia
300	3.5	3.5	1.3	6.1	9.3	3.3
400	5.8	5.8	2.8	8.8	11.4	4.8
500	7.1	7.1	3.8	10.7	12.6	5.8
600	8.0	8.0	4.8	12.0	13.0	6.5
700	8.6	8.6	5.5	12.9	12.9	7.0
750	8.9	8.9	5.8	12.9	12.9	7.2
800	9.1	9.1	6.3	12.9	12.8	7.5
900	10.2	9.5	6.9	13.5	12.8	8.1
1,000	11.2	9.8	7.5	14.2	12.8	8.5
1,200	12.7	10.3	8.8	15.2	12.8	9.6
1,250	12.9	10.8	9.0	15.3	13.1	9.8
1,400	13.7	12.5	10.2	15.8	14.7	10.9
1,500	14.7	13.5	10.8	16.7	15.1	11.5
1,750	16.9	15.5	13.6	18.6	17.2	14.1
2,000	18.5	17.0	15.6	20.0	18.5	16.1
2,250	20.3	18.3	17.2	21.6	19.7	17.7
2,500	21.8	20.3	19.0	23.0	21.5	19.4
2,750	23.2	21.8	20.5	24.3	22.9	20.8
3,000	24.6	23.1	21.7	25.6	24.1	22.0
4,000	30.4	28.7	25.9	31.2	29.4	26.2
5,000	35.5	33.2	29.8	36.1	33.8	30.0
6,000	40.2	37.1	34.4	39.1	37.6	34.5
7,000	44.6	40.6	38.0	45.0	41.0	38.2
8,000	48.4	43.8	41.1	48.8	44.2	41.2
9,000	51.4	46.4	44.3	51.7	46.8	44.4
10,000	53.7	48.5	46.9	54.0	48.8	47.0
12,000	57.7	52.4	51.5	57.9	52.7	51.5

* Tax rates for Zambia are for the fiscal year 1972/73.

Table 16

Percentage of Income Taken in Tax for Married Couples
with No Children, 1972*

Income (pounds)	Income Tax (in percentages)			Income and Graduated Taxes (in percentages)		
	Kenya	Uganda	Zambia	Kenya	Uganda	Zambia
300	-	-	-	2.6	5.8	2.0
400	-	-	-	3.0	5.6	2.0
500	.5	1.7	-	4.1	7.2	2.0
600	2.5	3.5	1.3	6.5	8.5	2.9
700	3.9	4.8	2.1	8.2	9.1	3.6
750	4.5	5.3	2.5	8.5	9.3	3.8
800	5.0	5.8	3.0	8.8	9.5	4.2
900	5.8	6.5	3.8	9.2	9.8	4.9
1,000	6.5	7.1	4.4	9.5	10.1	5.4
1,200	8.3	8.0	5.7	10.8	10.5	6.6
1,250	8.7	8.2	6.0	11.1	10.6	6.8
1,400	9.9	8.6	7.0	12.1	10.8	7.7
1,500	10.6	9.6	7.5	12.6	11.6	8.2
1,750	12.3	12.1	9.3	14.1	13.9	9.9
2,000	14.6	14.1	11.9	16.1	15.6	12.4
2,250	16.3	15.6	13.9	17.6	15.9	14.3
2,500	18.1	17.0	15.5	19.3	18.2	15.9
2,750	19.6	18.9	17.3	20.7	20.0	17.6
3,000	21.1	20.4	18.8	22.1	21.4	19.1
4,000	27.1	26.1	23.4	27.9	26.9	23.7
5,000	32.3	31.0	27.3	32.9	31.6	27.5
6,000	37.2	35.0	31.9	37.7	35.5	32.0
7,000	41.8	38.6	35.9	42.3	39.1	36.0
8,000	45.9	42.0	38.9	46.3	42.4	39.0
9,000	49.2	44.8	42.4	49.5	45.1	42.5
10,000	51.8	47.1	45.1	52.1	47.4	45.2
12,000	55.9	51.1	49.9	56.2	51.4	50.0

* Tax rates for Zambia are for the fiscal year 1972/73.

Table 17

Percentage of Income Taken in Tax for Married Couples
with Four Children, 1972*

Income (pounds)	Income Tax (in percentages)			Income and Graduated Taxes (in percentages)		
	Kenya	Uganda	Zambia	Kenya	Uganda	Zambia
300	-	-	-	2.6	5.8	2.0
400	-	-	-	3.0	5.6	2.0
500	-	-	-	3.6	5.5	2.0
600	-	-	-	4.0	5.0	1.7
700	-	-	-	4.3	4.3	1.4
750	-	-	-	4.0	4.0	1.3
800	-	-	-	3.8	3.8	1.3
900	-	1.2	.3	3.3	4.5	1.4
1,000	.5	2.3	1.1	3.5	5.3	2.1
1,200	2.5	4.0	2.3	5.0	6.5	3.1
1,250	2.9	4.4	2.6	5.3	6.7	3.4
1,400	3.9	5.2	3.5	6.1	7.4	4.2
1,500	4.5	5.7	4.1	6.5	7.7	4.7
1,750	6.5	6.7	5.5	8.2	8.4	6.1
2,000	8.2	8.8	7.0	9.7	10.3	7.5
2,250	9.9	10.9	9.1	11.2	12.2	9.5
2,500	11.9	12.5	11.2	13.1	13.7	11.6
2,750	13.5	13.9	12.9	14.1	15.0	13.3
3,000	15.3	15.6	14.6	16.3	16.6	14.9
4,000	21.1	21.6	19.8	21.9	22.3	20.1
5,000	26.9	26.9	23.9	27.5	27.5	24.1
6,000	32.2	31.3	28.3	32.7	31.8	28.4
7,000	37.6	35.2	32.8	37.5	35.6	33.0
8,000	41.4	48.7	36.2	41.8	39.1	36.3
9,000	45.2	41.9	39.6	45.5	42.3	39.7
10,000	48.2	44.5	42.6	48.5	44.8	42.7
12,000	52.7	48.8	47.6	53.0	49.1	47.7

* Tax rates for Zambia are for fiscal year 1972/73.

Table 18

Percentage of Income Taken in Tax for Married Couples
with Six Children, 1972*

Income (pounds)	Income Tax (in percentages)			Income and Graduated Taxes (in percentages)		
	Kenya	Uganda	Zambia	Kenya	Uganda	Zambia
300	-	-	-	2.6	5.8	2.0
400	-	-	-	3.0	5.6	2.0
500	-	-	-	3.6	5.5	2.0
600	-	-	-	4.0	5.0	1.7
700	-	-	-	4.3	4.3	1.4
750	-	-	-	4.0	4.0	1.3
800	-	-	-	3.8	3.8	1.3
900	-	-	-	3.3	3.3	1.1
1,000	.5	1.1	-	3.5	4.1	1.0
1,200	2.5	3.0	1.0	5.0	5.5	1.8
1,250	2.9	3.4	1.3	5.3	5.8	2.4
1,400	3.9	3.4	2.1	6.1	6.5	2.8
1,500	4.5	4.9	2.7	6.5	6.9	3.3
1,750	6.5	6.0	4.0	8.2	7.7	4.6
2,000	8.2	7.5	5.3	9.7	9.0	5.8
2,250	9.9	9.7	6.9	11.2	11.0	7.3
2,500	11.9	11.5	9.0	13.1	12.7	9.4
2,750	13.5	12.9	10.9	14.1	14.0	11.3
3,000	15.3	14.4	12.5	16.3	15.4	12.9
4,000	21.1	20.4	18.1	21.9	21.2	18.3
5,000	26.9	25.9	22.4	27.5	26.5	22.6
6,000	32.2	30.4	26.5	32.7	30.9	26.7
7,000	37.0	34.4	31.3	37.5	34.8	31.4
8,000	41.4	37.9	34.9	41.8	38.3	35.0
9,000	45.2	41.2	38.2	45.5	41.5	38.3
10,000	48.2	43.8	41.3	48.5	44.1	41.4
12,000	52.7	48.2	46.5	53.0	48.5	48.7

* Tax rates for Zambia are for fiscal year 1972/73.

For single persons, income tax begins before the top level of graduated tax is reached, and the structure of the two taxes together is progressive throughout. (This analysis ignores the regressivity within brackets for graduated tax, but assumes, rather, an average tax rate for each bracket:.) For married persons with children, there is a range in which the two taxes together are regressive. For a married couple with four children in 1972, the tax structure was regressive from shs. 12,000 to shs. 19,200 in Kenya, shs. 10,000 to shs. 16,320 in Uganda and K1,000 to K1,720 in Zambia. These salaries, while low by United States standards, are considerably higher than the average salaries in the three countries.

The gap between the two taxes can be reduced or eliminated by lowering the personal exemptions for income tax or raising the income level at which the maximum rate of graduated tax is paid. Either method would result in a structure for direct taxes that is progressive throughout. If one is considering the tax structure as a whole, this is the relevant comparison. Graduated tax is a local tax and personal income tax is a central government one, however. To the extent that persons feel the wealthy should pay proportionately more than the poor toward financing each layer of government graduated tax must be examined alone, and it is regressive. The tax could easily be made proportional, but graduated taxes are limited in the amount of progression that should be used at upper income levels since the taxes allow no exemptions or deductions. If the countries desire it, graduated taxes could be made proportional at upper income levels. Rather than persons with incomes in the upper bracket being subject to a flat rate, they could be charged a percentage of income. The necessity of estimating income at the lower

income levels and the crude estimation techniques employed preclude using this approach at all income levels. Estimation should not be necessary at upper income levels. Many persons with incomes above shs. 10,000 are already subject to income tax, especially single persons; most self-employed persons keep adequate records or have the capability of doing so.

It is expected that as the countries develop, graduated taxes will be replaced by other taxes. If the local governments wish to raise the same revenue from direct taxes, they can replace graduated taxes with regular income taxes. As graduated tax is designed at present, its entire structure would need revision to change it to an income tax. It would be possible to modify the graduated tax structure in each country, though, so that it gradually transforms itself into an income tax as income levels rise over time. This can be accomplished easily by the same method suggested above for reducing regressivity; levying tax as a percentage of income at upper levels. As average incomes in the countries rise over time, successively more persons will enter the upper bracket and will be subject to a levy similar to a flat rate income tax. Since tax is a percentage of income, these persons will be required to keep accurate income records, a necessity for "sophisticated" taxation. (Currently, even in the top bracket, it is not mandatory for persons to maintain records.) By such a procedure, there would be no need to abolish graduated tax when it becomes outdated; it would gradually disappear. Exemptions and deductions could easily be added at a later date, as could a progressive rate structure.

Costs of Administration

Many persons are employed in the processes of assessing, administering, and collecting graduated taxes. In Uganda and formerly in Kenya, each local area employs an assessment staff. In rural Uganda, there are at least three persons involved in the assessment of every taxpayer: the sub county chief and two parish chiefs. In Kenya, there were five committee members, including the two non-voting persons -- the chief and sub-chief. In urban areas, fewer persons are employed in the process of assessment. (Lusaka essentially requires no assessment personnel since the city relies on self assessment.) Payments are made to personnel in the offices of city or town clerks and treasurers. There are additional persons in the Ministries of Local Government in the three countries who devote their time to the administration of graduated taxes.

All the persons mentioned above must receive wages and salaries from local or central governments, and these salaries are costs that are associated with graduated tax. Virtually none of these persons, however, devotes his full time to graduated tax; most have other duties also. The county, sub-county, and parish chiefs serve in the general political framework. Clerks are involved with collection work for other taxes, including the issuance of licences. It would be extremely difficult to determine what fraction of salaries and wages should be apportioned to graduated tax.

Some information is available on costs of graduated tax as a percentage of revenue collections. An official in the Kenya Ministry of Finance estimated that costs of assessing and collecting GPT in that

country were approximately 25% of tax revenue.²⁰ In East Buganda District of Uganda, in 1971, salaries for the five county chiefs were estimated at shs. 99,040. Estimated salaries for the 40 sub-county and 286 parish chiefs were shs. 378,920 and shs. 534,800 respectively. In addition to the chiefs, there is a county Tax and Revenue Section. The Tax Officer received an estimated salary of shs. 13,140 in 1971 and the four clerks received a total of 12,920. Revenue from GT in that year was estimated at shs. 15,548,000.²¹ Were the time of all the chiefs and Tax Section personnel devoted to graduated tax, their wages and salaries would comprise 6.8% of tax revenue.

In addition to salaries, there are other expenses associated with tax collection, most of which are incidental. The major non-incidental expense is rent or maintenance on office space. In addition to normal office supplies, incidental expenses include printing of tax tickets books for tax records, and in Jinja Municipality, Uganda, Polaroid pictures for use on tax tickets. Information on some of these expenses is supplied in the Jinja Municipal Council Abstract of Accounts.²²

Actual expenses of the Graduated Tax Department for 1971 were as follows:

Salaries	shs. 234,973
Pension & Allowances	28,966
Travelling & Transport	15,583
Leave Pay Passage	10,000
Printing and Stationery	10,752
Material and Equipment	11,517
Incidentals	<u>2,579</u>
	314,370

Tax collections for that year were shs. 3,410,422, making expenses 9.2% of revenue. The above does not include salaries of persons in the Town Treasurer's Department, some of whom are undoubtedly engaged in work related to GT. Kenneth Davey estimated costs of collection and

administration to be 10.9% of tax revenue. This is based on the assumption that chiefs spend half their time on activities relating to graduated tax. No independent information is available regarding the allocation of chiefs' time among various activities. By Davey's admission, the decision to allocate half their salaries to GT was arbitrary. An IMF study Davey mentions arrived at similar findings and regards Uganda's costs of collection as favorable when compared with other countries.²³

Although it cannot be stated with certainty, expenses relative to revenue are probably lower for urban areas than rural. More revenue is collected through employers, thus reducing costs of collections. Assessments are customarily made by only one or two persons. The geographic area to be covered is smaller. In cities like Lusaka relying solely on self-assessment, costs of assessment should be limited to postage, stationery, and staff time involved in mailing and filing self-assessment forms.

Evaluation

Graduated taxes in all three countries meet many of the criteria listed earlier for a good tax. For each of the three countries there are areas in which the tax falls short of furthering development objectives.

Revenue and Income Elasticity

Graduated taxes have raised substantial amounts of revenue for Uganda, parts of Kenya, and major cities in Zambia. The tax in Uganda raises the most revenue when compared with national income. In most of Zambia, the tax is a poor source of revenue. Revenue in Zambia could

be increased by raising the tax rates, which are substantially lower than in Kenya prior to 1973 or in Uganda today. Revenue could be increased still more were the lowest income levels not exempted from tax, but these persons were excluded for equity considerations which the country has placed above the need for revenue. Kenya made the same decision.

Davey questions the degree of local autonomy that remains since the central government of the three countries have control of tax rates, brackets, and other important considerations. Local government revenue is now dependent on the sometimes arbitrary decisions of central governments. The vulnerability of local governments in Kenya to central government domination was shown when the minimum rate was abolished and later when the central government assumed total authority over tax in rural areas.²⁴ Municipalities suffered a loss of autonomy when GPT was abolished at the end of 1972. Municipalities are now dependent of central government grants for financing many of their expenditures, and within the next four or five years they must find other revenue sources.

At present, the income elasticity of graduated tax depends largely on which income groups receive the increases in national income. In all three countries, tax will be most income inelastic if increased income accrues predominately to persons in the highest tax bracket. These persons are already paying the maximum rate of tax, and at the current rate structure, revenue will not increase at all as their incomes increase. At current stages of development, however, it is unlikely that increases in national income will accrue predominately in the highest income levels. Nevertheless, as average incomes in the three countries rise, a larger percentage of persons will be receiving

incomes above shs. 10,000 in Uganda, shs. 12,000 in Kenya, and K1,000 in Zambia, and graduated tax will become more income inelastic. Zambia is likely to reach this stage first as average income of African wage and salary earners was already K984 in 1971.²⁵ If tax in the highest bracket were a flat (or increasing) percentage of income, revenue would increase proportionately (or more than proportionately) with increases in income. Presently, if changes in income accrue to persons in all but the lowest and highest tax brackets, tax revenues should rise about in proportion to income for the three countries; this, of course, assumes no concomitant changes in tax rates, income brackets, and assessment procedures.

Graduated tax in its current form is designed for countries where incomes are subsistence in nature and records are poor. The tax would not be needed after national and average incomes increase and record keeping improves. If the local governments are to maintain their revenue sources, new taxes will have to be introduced. It would be more desirable if graduated taxes could easily be transformed into income taxes. None of the countries has made any attempt to coordinate the structures of the two taxes or to devise a graduated tax structure that can still be used (with few modifications) as the country develops further. This is regrettable.

Equity

To the extent that an equitable tax implies progression, GPT alone does not meet the standards of equity set by the three countries. The tax does contribute to the overall progressivity of the tax structure in the middle income ranges. Over 75% of the graduated taxpayers in Uganda are assessed at incomes below shs. 1,500 (see Tables 19 and 20).

Table 19

Uganda Graduated Taxpayers and Revenue by Tax Grade,
1972*

Income Group (shillings)	Number of Taxpayers		Tax Revenue (shs. '000)	
	Rural	Urban	Rural	Urban
Partial Rates	54,345	428	1,560	13
0 - 500	719,750	17,055	46,809	1,109
501 - 1,000	368,689	18,404	29,494	1,472
1,001 - 1,500	172,905	2,350	15,562	212
1,501 - 2,000	90,779	26,709	9,077	2,671
2,001 - 2,500	34,661	9,548	4,159	1,146
2,501 - 3,000	20,722	10,238	3,315	1,638
3,001 - 3,500	10,590	4,959	2,118	992
3,501 - 4,000	9,611	4,568	2,403	1,142
4,001 - 5,000	9,967	7,482	2,990	2,245
5,001 - 6,000	8,160	5,367	2,925	1,878
6,001 - 7,000	3,636	2,411	1,454	964
7,001 - 8,000	3,068	2,090	1,381	941
8,001 - 9,000	1,549	2,167	775	1,084
8,001 - 10,000	1,052	2,178	579	1,198
10,000 & over	<u>7,895</u>	<u>21,345</u>	<u>4,737</u>	<u>12,807</u>
	1,517,379	137,299	129,337	31,410

Source: Uganda, Ministry of Regional Administration and Local Government.

* Does not include late payments.

Table 20

Uganda Graduated Taxpayers and Revenue by Tax Grade,
in Percentages, 1972

Income Group (shillings)	Taxpayers			Revenue		
	Rural	Urban	Total	Rural	Urban	Total
Partial Rates	3.6	.3	3.3	1.2	-	1.0
0 - 500	47.4	12.4	44.5	36.2	3.5	29.8
501 - 1,000	24.3	13.4	23.4	22.8	4.7	19.3
1,001 - 1,500	11.4	1.7	10.6	12.0	.7	9.8
1,501 - 2,000	6.0	19.4	7.1	7.0	8.5	7.3
2,001 - 2,500	2.3	6.9	2.7	3.2	3.6	3.3
2,501 - 3,000	1.4	7.5	1.9	2.6	5.2	3.1
3,001 - 3,500	.7	3.6	.9	1.6	3.1	1.9
3,501 - 4,000	.6	3.3	.9	1.9	3.6	2.2
4,000 - 5,000	.7	5.4	1.1	2.3	7.1	3.3
5,001 - 6,000	.5	3.9	.8	2.3	6.0	3.0
6,001 - 7,000	.2	1.8	.4	1.1	3.1	1.5
7,001 - 8,000	.2	1.5	.3	1.1	3.0	1.4
8,001 - 9,000	.1	1.6	.2	.6	3.4	1.2
9,001 - 10,000	.1	1.6	.2	.4	3.8	1.1
10,000 & over	.5	15.6	1.8	3.7	40.6	10.9

Source: Uganda, Ministry of Regional Administration and Local Government.

Therefore, persons with incomes above this amount are in the upper 25%. Persons with assessed incomes above shs. 4,000 per annum are in the upper 5% of graduated taxpayers. Persons in this top 5% will not begin paying income tax until an income of shs. 4,320 if single and shs. 16,320 if married with four children. These persons are in the upper income brackets by Ugandan standards. Similar situations exist in Kenya and Zambia. The countries have expressed a desire for progressive taxation, but this progression does not begin until very high income levels. In all three countries, the structure of direct taxes is regressive for married couples with children from an income of shs. 10,000 in Uganda, 12,000 in Kenya and K1,000 in Zambia until the levels at which income tax begin. This situation is contrary to the desires of the countries and due in part to the low level at which graduated taxes reach a maximum.

The Ugandan tax is regressive in the extreme in the lowest tax bracket, but this is due to the nature of tax. This regressivity does not necessarily go against the country's standards of equity. Persons considered unable to raise money for taxes are given partial or total exemptions. In other instances, the country believes that equity requires that a person should not be able to reduce his tax liability by reducing work effort. In the lowest income bracket, this has been accomplished. Government officials consider it possible for persons in most areas of Uganda to raise the shs. 65 tax without extreme effort; if this is true the minimum rate is not inequitable. For a few areas such as Kigezi in the South-west, there is insufficient wage employment and land is scarce. For many persons in this area, raising the shs. 65 per annum tax is a hardship.

If one considers only the midpoints of each income bracket, tax in Kenya and Zambia is essentially proportional up to the top bracket; then it is regressive. For Uganda, the tax is regressive up to an income of about shs. 2,000, then slightly progressive until shs. 4,000. After that, the tax is proportional to mildly regressive.

Equity in the tax structure requires that it meet traditional criteria of horizontal and vertical equity. For persons with wage incomes, the three countries achieve this: persons with equal income pay equal amounts of tax and a person with more income than another pays more in tax, unless he happens to fall within the same tax bracket, in which case he pays the same tax. For wage and salary earners, a person with a higher income than another will not legally pay less in tax (unless this results from the method in which income is distributed within the family unit).

For persons with self-employed and subsistence income it is quite possible for persons with equal incomes who reside in the same area to be paying differing amounts of tax. It is also possible for a person to be paying less in tax than a neighbor with a lower income. As mentioned previously, both situations are known to have occurred in Uganda. It is likely they have occurred in Kenya and Zambia. The situation results from a lack of guidelines for assessors and improper structuring of guidelines that do exist. None of the countries has sufficient regulations for assessors to follow in estimating income.

The same situations as described above can occur with regard to the incomes of working women. The regulations are not consistent between districts, and where guidelines exist, as in Masaka described

earlier, there is no provision for aggregating incomes. Kenya is the only one of the three countries that had consistent laws regarding the taxation of working women.

In all three countries, the tax treatment of the family unit differs in income tax and graduated tax. The result in Kenya and Zambia is that two families with equal incomes can have unequal tax liabilities. Zambia allows some tax advantages for working women under income tax to avoid discouraging wives of high income persons from working. To the extent the governments view the family as the income and taxpaying unit, the situation violates national standards of horizontal equity. It is not clear, however, whether the countries wish the family or the individual to be the taxpaying unit. Since none of the countries appears to have a definite reason for regarding the family unit differently in graduated tax than income tax, it would be desirable to apply the same concept for both taxes.

Another feature desired in an equitable tax was a wide tax base. This is accomplished more in Uganda than Zambia and Kenya. Kenya and Zambia, however, did not express as great an interest as Uganda in a wide tax base; these two governments also specifically desired the lowest income levels to be exempt from tax on grounds of equity. Graduated taxes in Kenya and Zambia have had a wider tax base than personal income tax and certain excises. The new sales tax in Kenya, however, will undoubtedly have a wider tax base than the recently abolished GPT. The lowest income levels were exempt from GPT, but they will undoubtedly be paying some sales tax, even though many goods are exempt.

Resource Allocation

Graduated tax is not neutral with respect to the allocation of resources. Self-employed and subsistence incomes are likely to be under assessed. This will not occur, though, with wage income. Since rural incomes are predominately subsistence or self-employment, there is likely to be a tendency to favor rural activities as opposed to urban. Since the three governments are trying to increase the attractiveness of rural activities and prevent migration to urban areas, the unconscious favoring of rural incomes may be desirable. Richard Bird warns against heavy taxation of the agricultural sector in countries which are predominately agricultural and which rely largely on agriculture as a source of export.²⁶ This preferential treatment should not continue indefinitely, however, and care should be taken that such a bias is not permanently built into the tax structure.

In Uganda, the existence of the minimum rate can result in a more efficient utilization of labor. Almost 50% of the taxpayers pay at the lowest rate. For two such persons with equal quality land and similar physical and intellectual abilities, the one exercising the most effort (if still assessed at an income of less than shs. 500) will have the lowest average tax rate. For increases in income within a given tax bracket, this phenomenon applies to Kenya and Zambia also. To the extent that the rise in income would place a person in a higher tax bracket, the effect in the three countries on work effort should be negative if the substitution effect exceeds the income effect.

The use of presumptive income in Uganda should result in more intensive utilization of land. Since tax liability is based on what

the government assumes to be potential income from land, the use of more intensive cultivation or scientific methods should result in the same absolute tax liability but a higher income.

Costs of Administration and Collection

Costs associated with graduated tax, when taken as a percentage of revenue, appear to be lower in Uganda than they were in Kenya. This conclusion is based on rough estimates, however. Costs of collection and assessment could be reduced further. This will be discussed below.

Africanization

The administrative, assessment, and collection procedures of graduated tax do not require sophisticated techniques. Consequently, persons associated with the tax are not required to have educational backgrounds not available to the average African. As far as could be seen, all persons involved in the actual assessment and collection procedures in the three countries were nationals. (In some instances in Uganda, they were non citizen Asians.) All persons in the Ministry of Local Government in Uganda who were associated with GT were Ugandan. In Zambia, some officials in the Ministry of Local Government were expatriates. In Kenya, the person in the Ministry of Finance in charge of GPT in rural areas was an expatriate. In both Kenya and Zambia, administrative personnel in individual local areas appeared to be nationals.

Recommendations

Several modifications could be made to the graduated taxes in the three countries to make them conform more closely with the goals of the

respective governments. Certain recommendations apply to all three countries and will be discussed as a unit. Others apply to only one or two countries. For these recommendations, the countries will be discussed separately.

Progression

The gap between the top level of graduated tax and the beginning of income tax should be eliminated. Persons with incomes above shs. 10,000 in Uganda and K1,000 in Zambia pay only shs. 600 and K20, respectively, in tax. Certainly, over time, the income tax exemptions should be reduced. Regardless, it is recommended that the top bracket for graduated tax begin at shs. 16,000 (K1,600 for Zambia), rather than at the present income level. Beyond this point, graduated tax should be a flat percentage of income rather than a flat rate. Since persons with incomes above shs. 10,000 (K1,000) should be keeping accurate records, persons with incomes between shs. 10,000 and shs. 16,000 could also pay a percentage of income. The recommendation is for 6% of income for persons whose income falls between shs. 10,000 and shs. 16,000 and 8% of income for persons with incomes above shs. 16,000. Some sort of gradual change will be necessary as one moves into the top bracket to avoid facing a marginal rate greater than 100%.

These procedures will introduce more progressivity into the tax structure and eliminate the gap between graduated tax and income tax for all persons. Graduated tax should not be made progressive, for reasons stated earlier. This is the province of income tax. Making the tax less regressive, however, and raising the top income level will make the tax more palatable to the majority of taxpayers. For these reasons

alone it is desirable. Taxpayer compliance depends largely on the populace believing a tax to be fair. Graduated tax, especially in Uganda which still retains the minimum rate, would be virtually impossible to administer if taxpayers practiced wide scale evasion. The major purpose in making the tax rate proportional to income at the upper levels, however, is to facilitate later conversion to an income tax, which will be discussed next.

Coordination with Income Tax

Graduated tax should be coordinated with the income tax structure to maintain revenue as a country develops and to avoid the necessity of wholesale revisions of the nations' tax structures. Instituting a tax rate in the upper brackets that is directly related to income will facilitate the eventual transfer to an income tax and will preserve revenue sources.

Guidelines

Assessors need more guidelines on which to base assessments. Those that exist should be more scientifically formulated. Uganda is especially in need of standards for assessment because of the inclusion of subsistence income in the tax base.

Working Women

There should be consistent treatment within each country concerning the taxation of women. Guidelines that exist should be more rational, unlike those mentioned above in Masaka in Uganda. There appears to be some justification for allowing women a higher minimum income before being subject to tax to avoid discouraging wives from working. When

the woman is married, however, and the income is from property, such a procedure allows the family to avoid tax by placing property in the wife's name.

Uganda

There is greater necessity for revision in the Uganda graduated tax structure than in the other two countries. This is not a result of poor management at present, however. On the contrary, graduated tax in Uganda appears better formulated and administered than in Kenya and Zambia. The inclusion of subsistence income in the tax base creates difficulties not incurred in the other two countries. In addition to the recommendations listed above, the Uganda government should make greater use of the PAYE system. It is recommended that the Kenya procedure be implemented as it will allow for the inclusion of small employers in the PAYE structure without unduly complicating administration. The placing of all employees under PAYE should reduce both collection and assessment costs. Assessors in large cities in Uganda generally only include primary employment. Since subsistence income of wage earners in the city is customarily ignored, assessments for wage earners could be based on employer statements. Certain areas such as Kigezi should either have a lower minimum tax rate or should allow more liberal assessments.

Since subsistence agricultural income is included in the tax base, there is need for information from the Ministry of Agriculture regarding acreage yields for various areas of the country. These, along with information on sales prices of various crops, should be used to formulate guidelines for assessors. Provisions should be made for

temporary revision of guidelines for years in which crop yields or prices change.

Many of these recommendations coincide with those of Davey, who favors greater reconciliation and coordination of income and graduated tax rates, payment in 12 monthly installments, and a total review of assessment criteria and procedures. Davey thinks greater effort must be made to include all sources of income, and he also favors more frequent reevaluation of assessment guidelines.²⁷

Davey's evaluation of graduated tax is less optimistic than that of this author. He considers the default rate to be high and serious. In addition, the cost of collection as a percentage of tax revenue (approximately 10%) is high compared with developed countries. (As mentioned earlier, however, it is low when compared with many other African countries.) Like this author, Davey considers the base rate of tax (shs. 65) to be too high for some nonwage earners in areas with land shortages or infertility, and he favors a lower minimum rate in certain areas.²⁸ (Kigezi was mentioned earlier as an area in which it was difficult for persons to raise money for tax.)

Previously, local governments in Uganda has more control over administration of graduated tax. Tax rates and brackets were determined by each local district. These are now controlled by the central government, which also restricts enforcement procedures. Central control also exists over appointment and discipline of local staffs. Central government controls have increased to avoid loss of potential revenue. Without central government regulation, local authorities might become lax in their assessment and collection procedures; the central government

would then need to increase grants to local areas or necessary services would need to be curtailed. The result, however, has been a loss of local autonomy.²⁹

Zambia

The tax in Zambia raises very little revenue. Tax rates as a percentage of average income are considerably lower than in Uganda or Kenya. Tax rates should be raised to correspond more to those of Uganda with the minimum rate dropped. If self-assessments continue to be used (they do save time and money) some cross checks should be made with the Income Tax Department and the licence section of the city clerk's office to verify assessments.

Currently, Zambia raises such large amounts of revenue from the copper industry that an increase in personal levy rates and collection efficiency would hardly be noticed when considered as a percentage of total government receipts. It would increase local autonomy, however. (Whether local autonomy is an aim of the Zambian Central Government is uncertain.) Local governments in Zambia appear to need autonomous revenue sources. Most areas in Zambia receive a larger percentage of revenue in the form of central government grants than do Uganda and Kenya. An increase in revenues from personal levy could result in either a decreased need for grants from the central government or an increase in services provided.

Kenya

The decision of the Kenya government to abolish GPT appears to have been a mistake. The decision was based partly on reports that were erroneous.³⁰ Municipalities are currently having to rely on central

government grants to recoup the lost revenue. This reduces local government autonomy. The central government has stated these grants will continue for only five years, after which time the urban areas must find alternative revenue sources. This task will be difficult.

Most of the objections to GPT (other than those that were purely political) involved poor administrative techniques; they were not inherent problems of the tax. Except within each bracket, the tax was not regressive until an income of shs. 12,000 was reached. When taken in conjunction with income tax, GPT is regressive for only a small income segment and this can be corrected by the changes in brackets and tax rates suggested above. The sales tax introduced to recoup GPT revenues will undoubtedly be more regressive than GPT, despite exemptions for certain raw foods and other necessities.

Other objections to GPT result mainly from poor administrative procedures. Complaints have been made concerning the ability of some persons to avoid tax altogether, but this results from poor assessment and collection techniques.

Talk of reinstituting GPT is academic, however. For political reasons, the tax will not be used again. The tax is associated with colonial days. Because of its apparent regressivity and the fact that the tax is not hidden, it is disliked by the majority of low income persons -- a large percentage of the voting population. The new sales tax is more hidden, especially since tax is not quoted separately, but, instead, is included in the price of the product.

FOOTNOTES FOR CHAPTER IV

¹ Interview with M. Kyalimpa, Asst. District Treasurer, West Buganda District, Uganda, 31 August, 1972.

² Interview with A. A. Brent, Ministry of Finance, Kenya, November, 1972.

³ Interviews with Nicholas Kebbe, Principal Tax Officer, Uganda Ministry of Public Lands and Local Government, August, 1972.

⁴ Kenya GPT Act, 1967, Cap 470, p. 17.

⁵ Where plural wives exist, the legal wife for purposes of income tax and graduated tax is the first or primary wife.

⁶ Interviews with government officials indicate that no general procedure was followed.

⁷ Lewis H. Gann, Central Africa: The Former British States (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1971), pp. 29-30.

⁸ J. Heyer, D. Ireri, and J. Moris, Rural Development in Kenya (Nairobi: East African Publishing House, 1971), pp. 31-32.

⁹ See Y. Z. Kyesimira, Tax Assessment Survey Report, prepared for Ministry of Regional Administrations, Uganda Government, 1968.

¹⁰ Zambia, Central Statistics Office, Monthly Digest of Statistics (Lusaka, October, 1972), p. 5.

¹¹ Uganda, Statistics Division, Ministry of Planning and Economic Development, 1971 Statistical Abstract (Entebbe: Uganda Government Printer), p. 111.

¹² Kenya, Central Bureau of Statistics, Ministry of Finance and Planning, Statistical Abstract: 1972 (Nairobi, 1972), p. 211.

¹³ If following a monthly tax schedule would result in too great a deduction, there were provisions in the law instructing employers to deduct a lesser amount. These provisions were seldom invoked as employers could not be sure that wage changes were temporary.

¹⁴ Interview with A. A. Brent, October, 1972.

¹⁵ Interview with H. M. K. Kasigwa, Treasurer, Jinja Municipality, Uganda, 24 August, 1972.

¹⁶ Ibid.

¹⁷ Interview with Solomon A. Jubilee, District Commissioner, and George Kinto, Assistant Treasurer, East Buganda District, Uganda, 21 August, 1972.

¹⁸ David Brokenwhaw and J. R. Nellis, "Administration in Mbere: Portrait of a Rural Kenyan Division," Institute for Development Studies, University of Nairobi, Discussion Paper No. 114, 1971.

¹⁹ Interview with A. A. Brent, November, 1972.

²⁰ Ibid.

²¹ East Buganda District Administration, 1972 Estimates (Kampala: Nakasero Printery Ltd.), pp. 12-18, 26.

²² Jinja Municipal Council, Abstract of Accounts (for year ended December 31, 1971).

²³ Kenneth J. Davey, Taxing a Peasant Society (London: Charles Knight & Co., Ltd., 1974), pp. 153-154.

²⁴ Ibid., pp. 194-196.

²⁵ Since subsistence income is not included, the figures overstate average income in the country.

²⁶ Richard M. Bird, Taxing Agricultural Land in Developing Countries (Cambridge, Mass.: Harvard University Press, 1974), ch. 2.

²⁷ Davey, Taxing a Peasant Society, ch. IX.

²⁸ Ibid.

²⁹ Ibid.

³⁰ A report of the International Labour Office, Employment, Incomes, and Equality (Geneva, ILO, 1972) recommended abolition of GPT based on information provided in an article by John R. Nellis, Who Pays Tax in Kenya?, Research Report No. II (Upsala: Scandinavian Institute of African Studies, 1972). Much of Nellis' conclusion is based on the assumption that revenue figures for 1970 were only £2,170,000. This figure is the amount of revenue collected from rural districts. It does not include the £1,990,000 collected in municipalities in 1970 (£2,638,000 in 1971). From the erroneously small revenue estimates it was concluded that costs were too high relative to revenue. Nellis also assumed that 73% of the tax revenue came from Nairobi and Mombasa; this calculation was based on knowledge of actual collections from those two cities and the incorrect information on total collections. With such a small amount of revenue attributed to rural areas, the tax was assumed inconsequential.

CHAPTER V

PROPERTY TAXATION

Property taxation in most African countries is primarily an urban tax. Only limited use of property taxes is made in rural areas. In Zambia only municipalities and the surrounding suburbs, called townships, use property taxes; they are not used in rural areas. In the few rural sections of Uganda and Kenya that do levy property taxes, they provide negligible revenue. In contrast, urban property taxes are a major source of revenue, providing over 50% of total urban tax revenue for each of the three countries. Following the British custom, the African countries generally refer to property taxes as assessment rates, especially in urban areas.

Land Tenure

The land tenure system sometimes creates difficulties when levying property taxes. There is little private ownership of land in the Western sense in Uganda, Kenya, and Zambia. Most land is owned or controlled by either the central governments or tribes. Historically, all land was controlled by the tribe or clan, and individual use was regulated by tribal custom. More recently, some land has come under the ownership of central governments, which then lease the land to individuals. Rents are usually nominal and of very long term. Kenya is somewhat an exception to this. Approximately one-third of the land is now registered and privately owned.

When land is under the authority of the tribe or clan, individuals have rights of occupancy, and these rights are often inheritable. Any

additions to the land, including buildings and crops, belong to the individual. Land generally cannot be sold without tribal approval, however. In addition, the individual's right to the land is often dependent on effective use. Specific customs vary from country to country and even within a given country, though. In the Bugisu District of Uganda, individuals may leave land uncultivated for long periods without relinquishing tenure. The only authority exercised by the clan is the right to approve any sale of land.¹ In addition to tribal ownership, land fragmentation is also common. Within any area there is often great variation in the quality of land, and in recognition of this, tribes often allot each person small holdings of land in various locations. Under customary land law in Africa, land belongs to the entire community, not any one or group of individuals. Efforts are made to ensure that no individual is without land, and security of tenure is assured, but private ownership is typically unauthorized.²

In Uganda, the only large amounts of freehold land are in the Buganda Region, though recently Kigezi and Ankole have begun granting freehold status. Land in Buganda has been under something called the Mailo system since colonial days. In exchange for certain favors, the British government alienated large tracts of land to local chieftains, who usually lease the land. Rent on most mailo land is shs. 10/= per annum. Until recently, much of the land in other areas of Uganda has been under the control of tribes and local districts. In the past two years, the central government has assumed ownership of large tracts of land which it leases to individuals.

In Kenya, much land is also held by the tribe or clan, and as such is subject to customary land law. In many instances, individual holdings

are fragmented. The government has begun a program to encourage both consolidation and registration of some tribal lands in the hopes of encouraging better land use. According to Kamarck, Kenya has made the greatest progress among African countries in shifting to a system of individual land tenure. The process began prior to independence. In the 1950's under the Swynnerton scheme, the government converted about 2.5 million acres of land into permanent, individual farms. This land was in the Central, Rift Valley, and Nyanza provinces. Where climate and soil conditions so permitted and when demand existed, the program was extended to other areas of Kenya. In the 1960's, the settlement schemes concentrated on farms formerly owned by Europeans.³ At independence, much of the best land was owned by Europeans. "Less than 4,000 European farmers still owned some 3 million hectares of the best land -- four-fifths of the total area of the country with reasonable and reliable rainfall."⁴

By 1971, less than 2% of the total land area in Kenya was freehold. Nineteen percent of the nation's land belonged to the government, and approximately one-fourth of this land had been alienated. Over 70% of the country's land was not yet registered, but was available for small holder registration.⁵ At present, a substantial portion of land continues to remain under tribal authority, as in Uganda.

Most land in Zambia is owned by the central government. In some areas this land is leased to individuals, either directly or through city councils. The leases are generally of long term. In most instances, there are no formal leases, but persons have the same rights as on tribal lands in Uganda and Kenya. Land use is essentially under tribal

authority. In the Barotse region in western Zambia, land is technically owned by tribes, not the central government. The tribes then allocate land among individuals. There is some freehold land in Zambia, most of which is along the line of rail from the copperbelt to Livingstone.

Communal ownership and land fragmentation have complicated the usage of property taxation in the three countries. Governments have been reluctant to tax the tribe -- the actual landowner -- since the ultimate burden of the tax might well be determined by tribal politics, not land use. Fragmentation of land has complicated assessment and administrative tasks, and inadequate registration of land has proved an even greater difficulty, particularly in rural areas. Tribal units often prefer a system with no titles or registration because it facilitates a program of shifting cultivation. In urban areas, most land is registered, and records generally include the names of persons holding both freehold and leasehold titles. In rural areas, records regarding land use are often unavailable.

Urban Assessment Rates

In Kenya, all of the municipalities levy assessment rates. In 1970, rates were the largest single source of tax revenue for five of the country's seven municipalities. Revenue estimates for 1971 listed rates as the greatest tax source for seven of the 11 municipalities in existence at that time. In contrast, few of the urban councils levy rates. (Urban councils are administratively under the county councils. They are small, urban areas which have not achieved autonomous governing status. Municipalities are autonomous, local government units.) In

1965, rates were levied by only nine of the 17 urban councils, and little revenue was collected.⁶

In Uganda all 19 independent urban authorities levy rates.⁷ For most of these areas, graduated tax is the largest single source of revenue and assessment rates are second. In 1971, rates were the largest source of tax revenue for only Kampala and Mbale, two of the largest urban centers. Rates were the second greatest tax source for 15 areas (see Table 21). In Zambia revenue figures were not available for all individual areas, but for seven of those for which estimates were available -- Lusaka, Livingstone, Kitwe, Ndola, Luansha, Kabwe, and Mbala -- rates were the major tax. For five of these areas, rates provided three to four times as much revenue as personal levy (graduated tax).

Valuation Methods⁸

Assessment rates are solely local government levies in the three countries, but the central governments have set maximum percentages that may be levied and have established standards for valuation. The central governments have also dictated the exact form of assessment to be used by individual local areas. The most common bases on which to assess are annual rental value of property, capital value, and land area.⁹ In addition countries have the option of authorizing the taxation of the site value alone or both land and improvements. The Zambian and Kenyan Rating Acts provide for assessment on a capital value basis. Zambian townships and municipalities may assess on annual value if they wish, but in such instances, property must be assessed on a capital basis first; then annual value is calculated at 10% of the capital sum.

Table 21

Percentage of Urban Tax Revenue Derived From Assessment
Rates in Uganda and Kenya, 1971

Uganda				Kenya	
Area	Rates as Tax Revenue	Area	Rates as Tax Revenue	Area	Rates as Tax Revenue
Moyo	9.3%	Kabale	24.2%	Kisumu	35%
Kitgum	13.8	Fort Portal	24.5	Thika	35
Gulu	16.9	Masaka	25.7	Nakuru	38
Moroto	18.2	Entebbe	26.5	Mombasa	43
Soroti	19.2	Tororo	29.0	Kitale	49
Arua	19.9	Jinja	40.4	Nairobi	55
Mbarara	20.8	Njeru	40.5	Nyeri	80
Hoima	22.0	Mbale	54.0		
Lira	23.4	Kampala	56.8		
Masindi	23.6				

Sources: Kenya, Statistics Division, Ministry of Finance and Planning; Uganda, Abstracts for Municipalities (1971).

In Uganda, the four municipalities of Kampala, Mbale, Jinja, and Masaka employ capital valuation, while the other urban areas use annual value. Zambia and the four municipalities in Uganda assess both land and improvements, though common practice has led to improvements being assessed at a much lower rate than land. Municipalities in Kenya tax only site value, though Kenya law provides for taxation of both site value and improvements.

Theoretically, capital value, which is usually defined as the market value of property and improvements, should be reciprocally related to annual rental value by using the appropriate rate of interest on capital. In practice, the two methods differ. Annual rental value is usually based on some sort of notional value. Under both techniques assessors are guided by estimation techniques since there is a lack of data on rentals and sales, and where information is available, it is often erroneous.

Rents on properties of equal value may differ due to varying lengths of leases, differences in security of tenure, unequal bargaining strength of the various parties, and the absence of competitive markets; further difficulties arise when payment is in kind. Use of capital valuation creates similar problems since sales of property are usually infrequent and markets imperfect. Because actual rental and sales values can be temporarily distorted, valuers must arrive at some measure of normal value, based on the value that would exist under more perfect market conditions.

Since the relative valuation of properties will differ, depending on whether assessors employ annual value or capital value, it is of

considerable significance which approach is used. A Commission studying the fiscal system of Venezuela recommended the retention of annual value in that country because of tradition, familiarity to taxpayers of the approach, and the greater prevalence of data on rental values than sales.¹⁰ Preference in Latin America for use of annual rental valuation as opposed to capital valuation may result from poor assessment and administrative procedures associated with the use of capital valuation there.¹¹ Other studies in developing countries, particularly in Africa, favor capital valuation.¹²

Ursula Hicks feels that from an economic viewpoint there are many disadvantages to annual valuation. When rent controls exist, revenues are generally lower if the government taxes on the controlled value. Taxing on the rent that would exist under normal supply and demand conditions, however, increases administrative work and often results in taxpayer opposition. A more serious deficiency in an annual rental approach is its failure to capture speculative increases as rapidly as capital valuation. In a rapidly developing city persons will be buying land for speculative purposes. The selling price, and therefore the valuation under capital assessment, will be influenced by this anticipated value. Rental value, however, being generally based on the value of property in current use, is likely to be far less than the true value. By assessing on an annual value basis, the tax base will not increase as rapidly as property values.^{13,14}

There is controversy concerning the merits of site value taxation as opposed to a system of taxing both land and improvements. Taxation of improvements tends to discourage new building, whereas taxation on

a site value basis does not.¹⁵ Since the incentive for building is indiscriminate, however, this is a questionable advantage. Not all new buildings or improvements to old ones can be classed as development. The desirability of derating improvements and encouraging new building depends on the nature and stage of development of the area involved. In an area that is already highly built up, there are few land sales to use for comparison and attempting to calculate site value becomes difficult and artificial. In addition, the appearance of new buildings necessitates increased social services, the burden of which is unlikely to be borne by the building owners. The governments could institute charges for such services, but these may be difficult to calculate and collect.¹⁶

The Kenya government has always favored site valuation as an encouragement to development and only taxes on that basis; there is some feeling that while this practice is beneficial in small and as yet undeveloped towns, it is impractical in such highly developed areas as Mombasa and Nairobi.¹⁷ As early as the 1950's, Ursula Hicks stated that it would be difficult to calculate site value accurately in Mombasa since the city was almost completely developed and there were few sales of land for comparison.¹⁸ Some persons consider it difficult to calculate the value of improvements separately from the value of land, though sentiment varies among countries and valuers. In addition to giving indiscriminate encouragement to new building, the derating of improvements constitutes a significant reduction in total value of rateable property, and unless higher percentage rates are used, site valuation will not provide as much revenue. There are alternatives to

site valuation which still give some impetus to building but do not create as much loss of revenue. One approach, advocated by Ursula and John Hicks, is the institution of a system of declining deductions, whereby certain or all improvements would not be taxed for a set number of years. After this time, the tax rate would rise either immediately or in steps to the full value. The recommendation for Jamaica was a three year grace period, after which 50% of the value of improvements would be taxed for another three years. It was suggested that only certain classifications of buildings be given this deduction, and that some commercial buildings like shops, offices, and banks should pay at the full rate immediately. These buildings were considered to contain elements of a luxury nature; the desire was to encourage "productive industries," those likely to increase employment or contribute to export.¹⁹ Under this approach the government has some control over the types of improvements that are being encouraged, and the loss of revenue is not as great as under site valuation. Administrative work is increased, though, as the government must now classify buildings as to use and charge differential rates depending on the type of building and age of improvements.

Another approach, used in Zambia and parts of Uganda, is to tax improvements at a lower percentage rate than the site value, hopefully still encouraging some new construction while providing additional revenue for the services that will be required. The Zambian experience illustrates some advantages to this approach. The tax rate on unimproved land is four or five times that on improvements, yet the latter provides one-third more revenue (see Table 22). To raise the same revenue from

Table 22

Percentage Rates Levied on Land and Improvements and
Revenue Raised for Selected Areas in Zambia, 1972

Area	Tax Rate (percentages)		Amount of Revenue (in Kwacha)	
	Land	Improvements	Land	Improvements
Chingola	5.0	1.0	305,096	582,161
Kabwe	4.2	1.4	117,163	278,728
Kafue	5.5	1.5	48,182	161,887
Kitwe	4.9	1.2	863,710	1,167,273
Livingstone	7.5	1.2	195,457	258,710
Luanshya	5.0	1.0	118,478	117,191
Lusaka	3.0	.8	889,194	1,488,156
Mufilira	5.0	1.0	168,265	160,400
Ndola	4.2	.8	708,358	665,776

Source: Zambia, Ministry of Local Government.

site valuation, percentage rates would have to more than double. If the resulting tax increases fell mainly on a few large landowners, the majority of the population might favor such an approach. African countries typically do not have large landowners, however, and the increase in tax rates would more likely affect the general populace.

It is possible that a shift to site valuation would place a greater relative burden on the poor. Unless the ratio of unimproved property to improvements is the same for all holdings, and this is unlikely, the relative burden of a site value tax will differ from one on both property and improvements. Assuming no shifting of tax, persons owning the most expensive buildings benefit the most from site valuation.²⁰

"There is likely to be some tendency for the value of buildings to be highest in the case of the wealthiest property-owners, so that a de-rating of buildings would reduce taxation on those who are more able, and raise it on those who are less able to pay."²¹ Consequently, were Zambia to raise the same revenue from site valuation, the new rates would undoubtedly be politically untenable.

In Uganda the four municipalities follow the Zambian procedure and tax improvements at a lower percentage rate than unimproved property. Prior to 1948, all urban areas in Uganda assessed on an annual rental basis. At that time the four municipalities began assessing on capital value. The government hoped to encourage development and sought to overcome valuation difficulties caused by the Rent Control Restrictions Act. A recent government commission recommended returning the municipalities to an annual rental basis. They felt capital value was difficult to determine as there is almost no free

market sale of land in cities; in addition, since much urban land is owned by the government and rented to individuals, the commission contended that annual value could more easily be calculated.²²

Assessment of Public Land

The central and local governments in the three countries are often the major landowners. Unless public land is accorded special treatment, the governments may be the major ratepayers. This situation has arisen in many areas of Uganda since the central and local governments own a large portion of urban land, including municipal housing. With respect to land owned by the central government, the payment of rates is in the nature of a local government grant, the size of which the central government cannot easily control.

To counteract this difficulty, government land is often assessed on a different basis than other land. In Uganda, public utilities which are owned or sponsored by the Ugandan central government or the East African Community, are not assessed on the value of the property. For railroads and electrical works, rates are a percentage of profits, with the result that when the East African railway earns no profit, the urban areas receive no revenue, though they are still required to provide services. In Kenya, land being used for a public purpose may be exempted from rates. In addition, the law specifically excludes from tax any land used exclusively for religious purposes, cemeteries, medical services, education, outdoor sports, and National Parks. Any other property owned and used by the Kenya government or East African Community pays a contribution in lieu of rates. A similar situation applies in Zambia. Central government land being used for public

purposes is not levied for rates, though the Minister may make grants to the townships involved.

Valuation of Property

When land and improvements are taxed at different percentage rates, assessors must arrive at separate measures of value for each. Consequently, the three governments require valuers to record both the unimproved value of all land, which is the amount of land would realize at sale were there no improvements on it, and some measure of the value of improvements.

Valuers in Uganda record three measures: unimproved value, the value of improvements, and "improved value." The value of improvements is the estimated replacement cost of improvements. Improved value in Uganda is the capital sum that the land and improvements would realize at sale. By law, the sum of unimproved value and the value of improvements must not exceed the improved value.

Valuation rolls in Zambia are required to show both the value of the unimproved land and the value of any buildings or other improvements thereon. Unimproved value is determined by the sales prices of vacant lands, and in highly developed areas with little vacant land, valuers have difficulty in ascertaining this figure. The value of improvements is calculated by taking the difference between the site value and the total value. The latter is the market value of both land and improvements and is estimated from the actual selling prices of similar properties. Since there are few sales of land in some areas, and many of these sales occur within families, valuers sometimes experience difficulty in calculating total value.

Kenya valuation rolls list the value of land (unimproved value), value of unimproved land, and the value of improvements. The Valuation for Rating Act requires that the value of improvements must not exceed the value of the land minus the value of unimproved land. The value of improvements is supposed to reflect replacement costs and is perhaps the most difficult of the three to calculate. For all three countries, this separate valuation of property and improvements poses problems, even when valuation staffs are highly trained, as they are in most of East and Central Africa.

Appeals to Assessment

Persons may appeal what they deem to be unfair assessments. In Kenya and Zambia, notice of the completion of valuation rolls must be published, and appeals to assessment may only be made within a certain period following that publication. In Kenya appeals must be lodged within one month of the notice; in Zambia any notice of objection must be made at least fourteen days before the date appointed by the court for such hearings, which may take place no sooner than twenty-one days after the notice in the gazette. When Kabwe was reassessed in 1972, no appeals were made. The valuation team attributed the lack of appeals to the general accuracy of assessments and lack of knowledge on the part of ratepayers of appeals procedures.

Valuation Staffs

Most local areas assess too infrequently to warrant maintaining full time valuation staffs. To gain economies of scale and maintain standards of quality, central governments often provide valuation staffs. In Zambia the central government valuation department assessed all areas

except the cities of Lusaka, Ndola, and Kitwe, which retain their own staffs. Cities and towns using the central government staff reimburse it for approximately the marginal cost of assessment.

Even the central governments have had difficulties in maintaining desired staff levels. Table 23 gives the actual and proposed staffs for Zambia's central government valuation office. To acquire the present staff the government has had to rely largely on expatriates. The only Zambians on the central government staff in 1972 were the two learner valuation assistants, and one of them was in Britain for training. As of January, 1973, the Lusaka City Council had no Zambian assessors on its staff.

Table 23

Staff Requirements for Zambia's Central Government
Valuation Office, 1972

Desired Staff	Position	Actual Staff
1	Senior Valuation Officer	1
7	Valuation Officers	3
2	Senior Valuation Assistants	1
6	Valuation Assistants	3
6	Learner Valuation Assistants	2

Source: Zambia, Ministry of Local Government.

Staffing difficulties are partly attributable to the high educational standards required. Persons with a position of valuation officer or above must either have a degree in land economics or be members of the Royal Institute of Chartered Surveyors, which requires evidence of competence in property valuation. Lower level personnel

receive either on-the-job training or short academic course; they are also encouraged to acquire degrees. The three cities that maintain their own valuation staffs have tried to achieve the same educational standards for personnel as the central government.

Zambianization has been a primary aim of the government, but to place more Zambians on valuation staffs, the government would have to lower skill requirements and increase salaries. At present, there are not enough Zambians in the country with the necessary training to become valuers, and when ones are found, they are often lost to private industry, which pays higher salaries. The Lusaka City Council lost its only trained Zambian assessor to a parastatal enterprise. Since there is no degree course in land economics at the University of Zambia, prospective valuers must go to Nairobi or Great Britain for training.

Regarding staffing difficulties and training requirements, the Ugandan experience has been similar to that of Zambia. The central government maintains a valuation staff in Kampala for use by local areas. The desired and actual staffs as of 1970 are given in Table 24.²³

Table 24

Staff Requirements for Uganda's Central Government
Valuation Office, 1970

Desired Staff	Position	Actual Staff
1	Valuer General	1
1	Deputy Valuer General	0
3	Senior Valuers	1
6	Valuers	0
51	Valuation Assistants (technician grade)	16
1	Rating Officer	0

Source: Uganda, Ministry of Regional Administrations,
Ad Hoc Administrative Committee, Rating in
Uganda, Z.R.M.E.T. Morenas, Chairman, 30 June 1970.

The minimum training required to become a valuer is seven years, with two of these being practical experience following academic study. Training for urban valuers frequently consists of a three year B.A. course in Land Economics, followed by two years of postgraduate study to attain professional status and an additional two years of practical experience. There is no degree course in land economics at Makerere University in Uganda; as in Zambia, prospective valuers must study at the University of Nairobi.

Valuation assistants have received their training within the department since 1970. The government Commission recommended implementation of some form of registration of all valuation assistants and the institution of a training course in the Uganda Technical College. They were interested in maintaining the high level of training in the department. Lack of qualified valuers has been resulting in either valuation by assistants or the placing of less qualified persons in positions of valuers.

Quality of Assessments

Despite the high training of valuers, the need to value improvements and property separately makes it unlikely that assessors will arrive at an exact value on either a capital or annual rental basis. If the relationship between properties is generally accurate, however, there will be relatively good horizontal and vertical equity between taxpayers. Since valuation officers are highly trained and are generally civil servants rather than political appointees, there is likely to be a high degree of relative accuracy in assessments. Uganda has had to build her valuation staff since independence; Kenya and Zambia had skilled valuers

even in preindependence days, though the staffs were composed of expatriates. All land in Zambia was registered in the Government Department of Surveys and Lands prior to independence. In addition to the cadastral survey, the city of Lusaka also kept a complete register of property sales for comparison by valuers. Such information was not available to valuers in most other cities in the three countries.²⁴

Central government valuers in Zambia believed that current assessments were equal in quality to those before independence. The city of Kabwe was reassessed in 1972; while the assessment officer did not feel that the rateable value of property and improvements equaled the open market capital value, he did think that assessments were accurate in relation to each other, that similar properties were assessed equally, and that relative differences in rateable value reflected relative differences in actual value. To aid in assessment, a rough formula was used, based on the type of building and its location, size, and age. Further adjustments were made for such additions as central heating and an attached garage.

Tax Liability

In Uganda and Kenya, the property owner is liable for payment of tax. The Zambian law has provisions for taxing either the owner or occupier; these provisions were placed in the law to provide for the Kingdom of Barotse, in which the tribe owned the majority of land. Zambian towns and cities have rarely rated the occupier, however. It is the property owner who has generally been assessed for tax, though he is allowed to pass the tax on to the occupier.

In Kenya, any rate due acts as a charge against the land. If tax is delinquent, the rating authority may institute civil proceedings for recovery of the rate and interest. If a decree is granted in favor of the rating authority, the authority may apply to the Supreme Court for an order directing the sale of the property. In respect of property being leased, the government may direct that the rent payment be made directly to the rating authority until the arrears and interest have been paid.

In Zambia if rates are not paid, the township or municipality may institute civil procedures to recover the amount due. Where the tax is on the owner, the authority may recover tax from the occupier, who may deduct the tax payment from any rent due the owner. When tax is on the occupier, it may be recovered from the owner. If rates remain unpaid for three years, the rating authority may direct the sheriff to raise the amount due by sale of the property involved. In addition, ownership of property cannot be transferred without proof that all rates have been paid.

Frequency of Assessment

A major requisite of a good property tax is accurate valuation rolls. Original assessments in the three countries are relatively accurate since valuers are highly trained, but if the length of time between assessments is long and relative property values change greatly, vertical and horizontal equity are lost. Certain types of economic activity might also be favored over others when this is not the intent of the government.

Regulations in the three countries provide for reassessment every five years; in some areas, property is reassessed more often than this. Because of a shortage of trained valuers and the high cost of valuation, however, some areas are not reassessed on schedule. Jinja Municipality in Uganda was due for reassessment in 1972, but was not revalued at that time. In Zambia a city may postpone revaluation by petitioning the government. This is an easy process and in several major cities, more than five years have elapsed since the last valuation. Following are the last assessment dates for several major cities in Zambia.

<u>City</u>	<u>Last Assessed</u>
Chipata	1964
Choma	1961
Kiloma	1963
Lusaka	1964
Livingstone	1959
Musekuke	1964
Monza	1962
Pemba	1963

Livingstone has not been revalued for 14 years. The City Council is not eager to revalue for political and financial reasons. The estimated cost of revaluation for Livingstone is K10,000, around \$15,000. This is a large expense. In addition, property values in the city have declined and percentage rates would need to be increased appreciably for the city to maintain the same revenue. This is hardly attractive politically. Livingstone is on the Zambia-Rhodesia border, and government valuers estimate that property values decreased drastically after Rhodesia's Unilateral Declaration of Independence in 1965; less traffic moved to the coast through Livingstone and Rhodesia. Recent difficulties between the two countries have undoubtedly aggravated the problem. Failure to revalue would not affect relative

tax burdens if property values had all decreased in the same proportion. Each individual would be contributing the same percentage to total tax revenues before revaluation as after. Were the rating authority to retain the same revenue by an appropriate increase in tax rates, each ratepayer would be subject to the same rate payment. The central government valuation staff, however, thought that relative property values had changed and that relative tax burdens would be quite different were the city to revalue.

Rural Property Taxes

Few rural areas are subject to property taxation. Land registration is less complete in rural areas, creating difficulty in determining whom to assess. As mentioned earlier, land in many instances is owned and controlled by tribes, not individuals. In Kenya, there is additional fear that rural taxation might hinder land consolidation, an aim of the government.²⁵

Zambia

In Zambia, only townships and cities have the power to levy property taxes. Consequently, the only rural land subject to taxation is agricultural land at the outskirts of rateable cities, falling within city limits. The agricultural land surrounding Lusaka became subject to tax as the city expanded its boundaries. Central government valuers, however, thought the city neglected to assess much of this land. In many instances valuers wanted to avoid rating agricultural land near cities when the majority of agricultural land was not subject to taxation.

Rural property taxation is hindered by incomplete land registration. In the future, registration of freehold and leasehold titles will probably become more complete. The government's decision concerning private ownership of property, however, is more in question. "Zambian humanism" does not preclude private ownership of land, but the prevailing feeling is that land should remain for the use of all persons, not just a few. President Kaunda expressed the views of many Zambians when he stated that "[l]and, obviously, must remain the property of the State today.... Land was never bought. It came to belong to individuals through usage and the passing of time. Even then the chief and elders had overall control although...this was done on behalf of all the people."²⁶ Under certain circumstances the government will grant freehold titles to citizens, though aliens are precluded from holding freehold title. More frequently, long term leasehold title is granted, and the majority of land continues to be owned by the central government.

Kenya

Taxation of rural land in Kenya can be based on site value, land area, or agricultural rental value. Under area rating, there is no need to measure the monetary value of land, and therefore expert valuers are not required. All that are necessary are measures of land area and, sometimes, economic use. The rating authority may then levy flat or graduated rates based on land area or a differential rate based on land use.

Rating on agricultural rental value first began in 1963 under the former Nyanza County Council and is used only on lands that are held under the Government Lands Act, Cap. 280 (formerly the Crown Lands

Ordinance). All lands held on lease under this act were valued on a site value basis, after which rent for the lease period 1961 to 1990 was set at one percent of unimproved site value. Counties then based their assessment rate on the value of this rental. Historically, rural areas have not utilized property taxes as much as urban ones. Prior to independence, rates were levied by all municipalities. Rural areas were divided into county councils, which were predominately European areas, and African District Councils, and only the former levied property taxes. At independence, new counties were formed, comprised of the former county and African districts. Many of the former county council areas continued to levy rates, but the government made no attempt to extend rating to new areas.²⁷ Today, few of the 33 counties levy rates, but many town and area councils within each county levy them.

In 1965, only four of the 33 counties and 12 to 60 area councils levied rates. In that year, all but one of the municipalities levied rates. In 1969, 1970, and 1971, rates were levied by only three, eight, and five counties, respectively. Rates were levied by all municipalities during that period. Revenue from rates is lower in rural areas than urban. As shown in Table 25, rates provided 35% of total council tax revenue in 1970 and 18% in 1971.²⁸ In contrast, rates provide more than 50% of municipal tax revenue. Then considering only those counties in which rates are levied -- by the county council or area and urban councils under the county -- rates provided 38% of revenue in 1970 and 22% in 1971. These percentages are deceptively high. In 1970, two major sources of county council revenue -- graduated tax and school fees -- were appropriated by the central government. In 1969, prior to this, rates comprised only 7% of county tax revenue (9%

Table 25

Assessment Rates as Percentage of Total Tax Revenue
in Kenya County Councils*

	1969		1970		1971	
	Revenue (pounds)	% of Tot.Tax	Revenue (pounds)	% of Tot.Tax	Revenue (pounds)	% of Tot.Tax
Central Province						
Nyeri	21,112	9.3	45,470**	13.2	3,019	3.3
Muranga	-		10,700	9.4	-	
Kirinyaga	1,826	1.4	2,000	2.9	3,100	4.6
Kiambu	6,290	.9	7,530	4.3	6,230	3.0
Nyamdarua	1,400	16.2	2,400	13.0	20,000	47.8
Eastern Province						
Masaku	10,188**	1.8	18,155**	10.2	22,763**	14.0
Meru	8,838	5.4	72,595	49.7	3,280	2.1
Marsabit	-		-		1,500	7.6
Embu	52,936	38.1	3,300	7.6	5,400	14.1
Kitui	11,826**	32.3	-		26,990**	45.2
Rift Valley Province						
Oklejuado	2,185	33.0	1,350**	9.8	1,700	17.1
Kipsigis	6,586	15.9	144,560**	80.2	19,705**	30.2
Sirikwa	3,352	1.4	2,837**	3.3	39,440	52.5
Laikipia	10,723	67.3	10,220	61.8	11,345	55.5
Central Rift	49,828**	63.5	48,000	57.3	65,110**	63.5
Narok	-		6,500**	63.1	-	
Coast Province						
Kilifi	19,980	10.6	182,804	87.2	40,000	53.2
Taita/Kaveta	497	.1	3,500	14.7	3,500	13.4
Nyanza Province						
Gusii	-		35,550**	65.8	150**	.5
Kisumu	-		2,605	5.6	4,500	32.0
Western Province						
Busia	-		2,000	27.6	850	10.1
Bungoma	-		525	4.2	5,246	13.1
Kakamega	-		4,600**	27.2	-	
Total (areas levying rates)	207,567	7.9	607,201	37.5	283,828	21.7
Total Tax Revenue (all cc's)	3,048,393		1,737,470		1,576,816	
Rates as % Tax Revenue - all cc's)		6.8		34.9		18.0

Source: Kenya, Statistics Division, Ministry of Finance and Planning; 1970 and 1971 estimates of revenue; 1969 records for actual revenue.

* Revenue from assessment rates includes urban and area council rate as well as county council rates.

** Areas levying county council rates. Revenue from assessment rates in all other counties comes from urban and area councils within the county's jurisdiction.

if school fees are not included as taxes). Individual councils do vary considerably as to the importance of rates in the revenue structure. As shown in Table 25, rates can be a significant source of revenue in some areas, particularly in the Rift Valley Province. For councils in the other provinces, licences and cesses generally provide more revenue. (Prior to 1970, graduated tax was the primary source of tax revenue.)

Uganda

In Uganda only the four Buganda Districts have been subject to rural property taxation. The tax dates from preindependence days when this area was part of the Buganda Kingdom and was subject to the Buganda Native Laws. After independence, many of these laws remained in force, including the Land Tax Law. Under this law, all tenants and landowners must pay property tax. Little revenue is raised, however (see Table 26).

By law there are four grades of tax, with the amount payable by landowners being dependent on both the amount of land owned and the number of tenants. In certain instances, tax liability is also influenced by the geographic area of the land. Persons owning less than 10 acres of land are supposed to pay shs. 1/50 in tax per annum. Landowners with more than 10 acres, but having five or less tenants, are liable for shs. 5 in tax. All other landowners should pay either shs. 15 or shs. 25 depending on the county in which the land lies. All tenants pay a land tax of 1/50 per annum, which may be deducted from yearly rent which is usually 10/=.²⁹ The land tax on tenants does not depend on the number of acres farmed.

Application of land tax in the four districts varies considerably from the procedures stated in the law. As can be seen from Table 27,

Table 26

Land Tax in Buganda Region of Uganda

District	1970		1971	
	Land Tax Revenue (shs.)	% Total Tax Revenue	Land Tax Revenue (shs.)	% Total Tax Revenue
East Mengo*	51,000	.32%	51,000	.29%
West Mengo*	60,000	.58	70,000	.62
Masaka	120,900	1.39	154,595	1.56
Mubende	45,210	.78	45,000	.77

Sources: District Administration, 1971 Estimates for Masaka, Mubende, East Mengo, and West Mengo.

* East and West Mengo were changed to East and West Buganda in 1972.

Table 27

Land Taxpayers and Revenue by Tax Grade, Masaka District, Uganda, 1971

Tax Grade	Acres	Tax Rate (sh.s)	Number of Taxpayers	Amount of Revenue (shs.)
1	0-10	1/50	85,447	128,170
2	10-25	5/00	2,240	11,200
3	26 & over	25/00	609	15,225

Source: Masaka District Administration, 1971 Estimates.

tax on landowners in Masaka is based solely on the amount of land owned. According to the District Commissioner and Assistant Treasurer of the East Buganda District, tax on landowners in that district is as follows:

<u>Acres Owned</u>	<u>Tax</u>
1 - 5	shs. 5
5 - 10	10
over 10	25

In both districts tenants each pay shs. 1/50 in tax per year, as stated in the land tax law, and this sum may be deducted from the 10/= yearly rent to landlords. These provisions apply whether the landlord is a private individual or the government. Officials have experienced little difficulty in collecting tax from tenants. Tax is customarily paid at the same time as graduated tax, and tax tickets are similar.

Land tax is extremely unpopular, especially among tenants. This is undoubtedly because land owners may escape tax more easily. Liability remains, regardless of whether the landowner lives in the taxing district, but it is difficult to collect revenue from absentee owners. More importantly, the Muluka chiefs who collect the tax often do not know who owns the land. All land must be registered with the land office, and when land is sold, files must be updated. According to officials in East Buganda and the Ministry of Local Government, however, information on ownership is not readily available to chiefs and other county officials. Further difficulties arise when persons own land in several areas.

Administrative Costs of Urban Rates

Urban assessment rates raise substantial revenue, and the three countries need revenue to finance development projects. As important as the amount of revenue raised are the costs incurred in the process of obtaining the revenue. A tax that is expensive to collect and administer wastes revenue. It is impossible to calculate all the costs connected with assessment rates, but to the extent they can be estimated, costs are low relative to revenues.

The major expenses should come in the processes of assessment and reassessment. Collection costs should be minimal. It is the responsibility of each individual taxpayer to assure his payment is made and none of the three countries has experienced any great difficulty with defaulters. Tax payments are generally made to the office of the city or town clerk. Collection expenses consist primarily of salaries in the clerks' offices and costs associated with assessment notification.³⁰

Expenses incurred in assessment and reassessment are personnel salaries, travel and per diem expenses for assessors, rent or maintenance on office space used by assessment staffs, and clerical expenses. Assessment personnel are provided by the central government. The staff in Zambia is housed in the Ministry of Local Government in Lusaka, and in government offices in Kabwe. (The staffs for Lusaka, Ndola, and Kitwe reside in the city council offices.) No information is available on costs of maintaining offices. The clerical staff for the assessment office in Zambia is small, and the Ministry of Local Government in Uganda also has a small clerical staff.

The largest expenses associated with assessment should be salaries for the assessment staffs, and it is possible to estimate an upper limit for possible salaries in Zambia and Uganda. The present and desired staff sizes have been given by the governments and were listed earlier. Average salaries are also available for comparison for various occupations. To aid in estimating possible salaries of key administrative personnel, the Ugandan Rating Committee gives the salaries in the United Kingdom for comparable positions. With this information it should be possible to estimate salaries that would be sufficiently high to attract and maintain a desired staff.³¹

In 1969, the Ugandan Rating Committee estimated that salaries in the United Kingdom for trained valuers with two years post graduate experience were between shs. 27,000 and shs. 41,900.³² For Uganda to attract expatriate valuers, the government must pay salaries at least that high. To attract Ugandans a lower salary can be paid as average salaries in Uganda are considerably below those in the U.K. In 1970 in Uganda, a salary of shs. 27,000 exceeded the salaries of 99% of wage and salary earners in both public service and private industry. To avoid underestimation of necessary salaries, income for the valuer general and deputy valuer will be assumed to be shs. 41,900 -- the top end of the U.K. range. Senior valuer's salaries are estimated at the middle of the range, around shs. 35,000, and valuers at the lower end, or shs. 27,000.

Information is not available concerning U.K. salaries for valuation assistants and rating officers. Such information would not be extremely valuable anyway. The important consideration is the opportunity cost

for these persons, and that is comparable salaries in Uganda. The Statistical Abstract lists percentages of persons in various occupational classifications with incomes falling within given ranges. Valuation assistants and rating officers are technician grades and require approximately two years postsecondary school training. It is unlikely the government would need to pay more than 3,600, which exceeded more than 70% of all public service salaries and 80% of the salaries of local government employees and persons in private industry.³³ If the government had had the staff desired in 1970, salaries would need to have been no higher than as follows:

1	Valuer General	shs. 41,900
1	Deputy Valuer General	41,900
3	Senior Valuers @ 35,000	105,000
6	Valuers @ 27,000	162,000
51	Valuation Assts. @ 3,600	183,000
1	Rating Officer	<u>3,600</u>
		538,000

Receipts from rating in 1970 were over shs. 35,000,000. Had the government had a staff of the desired size and paid salaries sufficient to retain personnel, salaries for the assessment staff would have constituted only about 1.5% of the year's receipts.

It is a little more difficult to estimate salaries for Zambia. Government statistics list only average salaries for various occupations. There is no information on the distribution of salaries. Average salaries of Africans in almost all fields are between three and four times those in Uganda, however.³⁴ Revenue from rates in Zambia was K7.5 million (75 million shillings) or a little over twice that of Uganda. It cannot be assumed that salaries for assessment staffs in Zambia are three to four times the salaries in Uganda since not all

salaries would need to be tripled, especially those at the top levels, which correspond to U.K. salaries. The staff needs of the two countries are also different. Zambia requires fewer persons of technician grade, even when including the needs of the cities of Lusaka, Ndola, and Kitwe. Since the three major cities have their own staffs, however, Zambia requires more senior level personnel.

Staffing requirements are available only for the central government department, not for those of the cities of Lusaka, Ndola, and Kitwe. These three cities receive about 60% of the rate revenue in the country. Of the K7.5 million in revenue, then, approximately K2,250,000 was received by cities and towns using the central government staff. Costs of assessment as a percentage of revenue undoubtedly exceed those in Uganda for the areas in Zambia using the central government staff; they are probably lower for the cities of Lusaka, Ndola, and Kitwe. Revenue for the Zambia towns and cities using the central government staff is lower absolutely than revenue for Uganda, and the desired central government staff in Zambia has more top level personnel (those requiring two years postgraduate training) than Uganda. The three Zambian cities with their own staffs, on the other hand, receive considerably more revenue than Uganda, and their staffing requirements should be enough less to offset the higher salary level.

Incidental Assessment Expenses

The central governments in Zambia and Uganda pay the salaries of their assessment staffs. The cities and towns in Zambia reimburse the central government for only the marginal costs of assessment: primarily traveling and lodging expenses for assessors. The government estimates

that the cost to the city of Livingstone of reassessment would be K10,000. Revenue in Livingstone in 1972 was estimated to be K425,000. The major incidental costs of reassessment, then, would be slightly under 2.5% of one year's revenue for the city or .5% of five year's revenue, five being the number of years that is supposed to elapse between reassessments. Since Livingstone's property values are expected to have fallen, if percentage rates of tax are not raised, revaluation costs as a percentage of revenue would be greater than estimated.

Neither the Zambian nor Ugandan governments has assessment staffs of the desired size, and wages sufficient to retain personnel are not being paid. For both these reasons, current costs of assessment are less than those estimated above, and costs of taxes as percentages of revenues are currently lower. The above estimated salaries should be sufficient to attract and retain African personnel, and the countries are desirous of Africanizing their staffs. With desired staff sizes and adequate salaries, costs of tax relative to revenues should still be low.

Evaluation and Recommendations

Assessment rates and rural property taxes cannot be evaluated as easily as graduated taxes. Rates and rural property taxes are more limited in scope, and to some extent the taxes must be evaluated in relationship to other taxes and the entire tax structure.

Urban Assessment Rates

The overall structure of rates in Uganda, Kenya, and Zambia is very good. Standards for assessment are high, as is the quality of most

personnel. In general, the application of rates in the three countries is better than in the United States. There are limitations, of course, to any form of property tax. The tax is not based on current income and therefore does not reflect present ability to pay. For businesses, the tax is often passed on to the consumer, and hence the incidence of the tax may not be what the taxing authorities desired. Some disincentive effects of the tax are avoided since improvements are not taxed at as high a rate as site value in Zambia and parts of Uganda and are not taxed at all in Kenya. This lessens the disincentive effects on new building and on capital intensive methods of production.

The following evaluation reflects the performance of rates with respect to the criteria established in Chapter II.

Revenue

On the basis of revenue potential, assessment rates are a very satisfactory tax for urban areas. Even in Uganda where graduated tax has an extremely wide scope, rates raise more urban revenue overall than GT. Income elasticity of the tax depends on the frequency of reassessment, the valuation basis employed, and the relationship of increases in income to increases in property values. As property values rise, there will be no increase in revenue unless property is revalued or percentage rates increased. As a city develops, there are likely to be speculative increases in property values. These will be captured more easily if property is valued on a capital basis than an annual rental basis. In general, property taxes are not as income elastic as taxes on income, and the structure of rates in Uganda, Kenya, and Zambia makes the tax more inelastic. The countries have derated improvements to

encourage new building on property, but the loss in revenue is substantial, both now and as national income increases.

Although rates will not provide as much revenue as a percentage of national income in the future, in other respects the tax will be as good in later years as it is now. The administration of the tax is highly sophisticated. There is little in the structure that would necessitate alteration in later years.

Costs of Collection

As shown in the previous section, costs of collection for rates are relatively low as a percentage of revenue. In general, the amount of resources that are expended in the collection of tax is slight. The centralization of assessment staffs under the central government helps reduce costs.

Equity

Horizontal and vertical equity depend on the quality of assessments and frequency of reassessments. On the first point, the tax in the three countries is extremely good. There is a high degree of accuracy in assessments. This equity is lost after several years if property is not reassessed, and reassessments are not conducted sufficiently often in many cities. Consequently, current valuation rolls are likely to be inaccurate.

Property taxes of any sort are likely to be regressive since the assessed value of property generally decreases as incomes rise. Since many low income persons live in municipal housing, which is subject to rates, the tax is not levied on the wealthy alone. Persons living in shacks or grass huts are likely to be excluded from the tax base, however.

Resource Allocation

Taxation on a site value basis should encourage more intensive use of land, which is becoming scarce in some central cities. The valuation basis employed will have some effect on the use of capital in the production processes and on the size and nature of businesses in general. More capital intensive methods are likely to be used under the current structures than if improvements, including equipment, were taxed at the same rate as unimproved property. Since much labor is unemployed and capital scarce, this may be undesirable.

Africanization and Nationalization

Currently there are many non nationals in the three countries employed in the assessment and administration of rates. In Zambia, the use of expatriates is especially prevalent. To some extent, the use of expatriate staffing reflects the sophisticated requirements of the tax and the technical knowledge required of personnel. The shortage of technically trained nationals in the three countries is exacerbated by the failure of the governments to pay salaries commensurate with those in private industry. In addition, Uganda and Zambia have inadequate training facilities for top level assessment personnel. Uganda has given consideration to a formal, in-country training course for persons of technician grade. Neither Zambia nor Uganda has directed a sufficient number of university students into land economics: the degree used as a background for assessors. (The situation in Kenya is not known, though it is possible to attain a degree in land economics from the University of Nairobi.) The countries seek to further Africanization not just in business, but in government as well. If

the nations do not wish to reduce the quality of assessments and general standards of performance, expatriates will be replaced by nationals only if the governments increase staff salaries and make more concerted efforts toward training citizens.

Recommendations

For reasons given in the second section, valuation on a capital value basis is preferable to annual rental valuation. The reasons will not be reiterated. It would be beneficial for the Uganda government to assess all urban areas on a capital basis, not just the four municipalities.

Instead of site valuation, the proposal of Ursula and John Hicks whereby only certain classifications of "improvements" are derated appears to have merit, as does their proposal that improvements be derated on a system of declining deductions. By these methods, the countries would enlarge their tax bases while retaining more controls over the types of buildings encouraged.

Of extreme importance is the need for cities to revalue as frequently as the law requires: every five years. Currently, cities can petition to postpone reassessment and petitions are granted as a matter of course. As a result, the high quality of initial assessments is lost.

To increase employment of citizens, more training programs are needed. Zambia should institute a course in land economics at the University of Zambia. Officials in the rate section of the Ministry of Local Government have been trying to institute such a program, but with no success. The three East African countries have attempted some

degree of specialization in their respective universities and desire not to duplicate specialized programs. Ugandan students have fairly easy access to the University of Nairobi, and consequently it is not necessary to institute a course in land economics at Makerere University. The course proposed for valuers at the Uganda Technical College should be instituted, if this has not already been done.

To retain personnel, the government of Zambia should increase salaries to compete with those in private industry. (It is uncertain whether the governments of Uganda and Kenya are losing personnel because of inadequate salaries. If they are, the suggestions apply to them as well.) The cost estimates for rates that were given above indicate that competitive salaries could be paid and still keep costs as a percentage of revenue low.

With the exception of the above recommendations, the framework for assessment rates in all three countries is quite satisfactory. Any other difficulties are inherent in the nature of property taxes.

Rural Property Taxation

Taxation of property in rural areas is not extensive. Tax rates, at least in Uganda, are quite low. The tax is used in few areas in both Kenya and Uganda, and not at all in Zambia. Consequently, the impact of rural property taxes is slight, and the tax is difficult to evaluate. Because it is not used extensively and percentage rates are often low, the tax is not an important one with regard to revenue and effect on the economy.

The incidence of rural property taxation depends on such factors as the competitiveness of land and product markets and the method of

valuation employed. In certain instances, land taxes can affect returns on labor and capital.³⁵ Richard Bird considers it very likely that a land tax on tenants will be shifted to landowners; it is unlikely, however, that the reverse will occur.³⁶

In the Buganda District of Uganda, the tax takes on the nature of a head tax, with all its disadvantages. Each renter is charged shs. 1/50, without regard to size of the plot or its value. Presumably the tax can be deducted from the shs. 10 in rent to be paid each year, with the result that tax falls on landowners. (The government has also set rent on all mailo plots at shs. 10; as a result, effective rent for landowners is shs. 8/50.) Landowners in Buganda never pay more than shs. 25 in tax. Tax is sufficiently low as to have no effect on a person's decisions. There is sufficient registration of land in the Buganda Region for property taxation. Land in other areas of the country is not always registered, and property taxation cannot be extended readily to these areas.

More use is made of rural property taxation in Kenya than in Uganda; as in Uganda, however, few areas levy the tax. For these areas, revenue can be substantial, although it varies from year to year. For rural areas in Kenya, finding additional revenue sources is extremely important, but many areas will not be able to levy property taxes. Land that is under tribal authority cannot be taxed easily. (Theoretically, however, it would be possible to tax the tribe itself and let the tribal leaders allocate the tax on whatever basis they desire.) In areas under tribal control, individual ownership of land is not always the goal. Under customary land law there is still security of tenure, and a system of shifting cultivation is facilitated.

Property taxation could be introduced into those rural areas of the three countries where land is currently registered or where registration will be conducted in the future. If property taxation is to be undertaken in such areas, a method of land valuation must be determined.

Rating on an area basis is administratively easy and avoids the need for trained assessors. Valuation can be carried out by nationals without much training. This procedure is used in parts of Kenya and for landowners in Uganda. Area rating, however, does not reflect differences in quality of properties and hence earning capacity. At present, there are not enough trained personnel to value rural property. If rural property taxation is to be extended to more areas immediately, then, area rating must be employed. It would not be desirable to retain such a valuation basis for long, however.

Rural property taxation, regardless of the basis used for valuation, should encourage more intensive utilization of land. This is an aim of all three governments. Though the governments currently seek to favor rural activities, extension of rural property taxation would not hasten migration to urban areas.

There is need in rural areas of Kenya and Zambia for additional revenue sources. Property taxation could be used to raise this revenue in areas where land is or will be registered. To hasten the extension of rural property taxation to these additional areas, the countries should continue their efforts to consolidate and register land.

Richard Bird favors taxes on agricultural land over other taxes as a method of obtaining additional revenues from the agricultural

sector. (A tax based on the "presumed income" from land could be considered a tax on agricultural land.) Taxes on agricultural land are viewed as preferable to export taxes and cesses. Bird recognizes, however, that land taxes may be administratively or politically difficult to introduce, and at present, few developing countries have effective land taxes.³⁷

Land taxes can produce significant revenues, perhaps especially for local purposes; they can, if properly designed and set up, be administered relatively simply; they can tax farmers in a roughly equitable fashion without unduly damaging incentives. That they now do none of these things in most countries reflects choice as much as necessity.³⁸

FOOTNOTES FOR CHAPTER V

¹Beverly Brock, "Customary Land Tenure, 'Individualization' and Agricultural Development in Uganda," East African Journal of Rural Development 2 (1969), 6-8.

²Irving Gershenberg, "Customary Land Tenure as a Constraint on Agricultural Development: A Re-evaluation," East African Journal of Rural Development 4 (1971), 54-59.

³Andrew M. Kamarck, The Economics of African Development (New York: Praeger Publishers, 1971), pp. 146-148.

⁴International Labour Office, Employment, Incomes and Equality (Geneva: ILO, 1972), p. 86.

⁵Kenya, Central Bureau of Statistics, Ministry of Finance and Planning, Statistical Abstract: 1972 (Nairobi, 1972), pp. 4 and 5.

⁶Cherry Gertzel, Maure Goldschmidt, and Donald Rothchild, Government and Politics in Kenya (Nairobi: East African Publishing House, 1972), p. 407.

⁷Assessment rates are also levied by the numerous small towns which are not autonomous units, but data are not available for these.

⁸Much of this section is adapted from Haskell P. Wald, Taxation of Agricultural Land in Underdeveloped Economies (Cambridge, Mass.: Harvard University Press, 1959), ch. 1 and Richard M. Bird, Taxing Agricultural Land in Developing Countries (Cambridge, Mass.: Harvard University Press, 1974), ch. 7.

⁹Property taxes based on land area are used primarily in rural areas and will be discussed later.

¹⁰Carl S. Shoup, The Fiscal System of Venezuela (Baltimore: Johns Hopkins Press, 1959), p. 335.

¹¹See Bird, Taxing Agricultural Land, p. 156 and Wald, Taxation of Agricultural Land, p. 27.

¹²See Ursula K. Hicks, Development From Below (Oxford: Oxford University Press, 1961), ch. 16 and John F. Due, Taxation and Economic Development in Tropical Africa (Cambridge, Mass.: M.I.T. Press, 1963), ch. 7.

¹³Ursula Hicks, Development From Below, p. 356.

¹⁴Proponents of site valuation often suggest as one if its benefits the discouragement of speculation; this advantage, though, applies to all properties valued on a capital basis, whether on property and improvements or site value alone. For a discussion on this point regarding Jamaica, see J. R. Hicks and U. K. Hicks, "The Taxation of the Unimproved Value of Land," in Readings on Taxation in Developing Countries, ed. Richard M. Bird and Oliver Oldman (Baltimore: Johns Hopkins Press, 1967), 433-434.

¹⁵Theoretically, site valuation can apply under rental valuation as well as capital valuation, though practically, it rarely does. The Uganda Urban Authorities Act, 6th Schedule provides for separate assessment of sites and premises on an Annual Value basis, but according to a government commission, the schedule has never been applied. Uganda, Ministry of Regional Administrations, Ad Hoc Administrative Committee, Rating in Uganda, Z.R.M.E.T. Morenas, Chairman, 30 June, 1970. No evidence was found of any country actually applying site valuation on an annual rental value basis.

¹⁶U. Hicks, Development From Below, pp. 356-359.

¹⁷Gertzel, Government and Politics, p. 408.

¹⁸U. Hicks, Development From Below, pp. 360-361.

¹⁹Hicks and Hicks, "Unimproved Value of Land," pp. 437-439.

²⁰The Venezuelan Commission felt that the same situation held when comparing capital and annual rental valuations. "Compared with a capital value tax, a tax on gross rents would be relatively higher on inferior properties and lower on higher grade properties. Since average incomes of owners and tenants of inferior properties probably tend to be lower than average incomes of owners and tenants of high grade properties, the gross rents tax may tend to be more regressive than the capital value tax." Shoup, Fiscal System, p. 335.

²¹Hicks and Hicks, "Unimproved Value of Land," p. 435.

²²Morenas, Rating in Uganda.

²³The 16 valuation assistants currently on the staff are under-employed because there are insufficient Valuers. The number of valuation assistants cannot be increased to the desired amount until more valuers and senior valuers are obtained. Morenas, Rating in Uganda.

- ²⁴U. Hicks, Development From Below, pp. 354-355; 365-366.
- ²⁵Gertzel, Government and Politics, p. 408.
- ²⁶Kenneth J. Kaunda, Humanism in Zambia (Lusaka: Government Printer), p. 14.
- ²⁷Gertzel, Government and Politics, p. 408.
- ²⁸These data include revenue from urban councils, which are administratively under county councils but should properly be considered as urban areas. Separate revenue data for county and area councils are not available. Urban councils are comparatively small, however.
- ²⁹Uganda, Buganda Native Laws, "The Land Tax," 1 July, 1939, in Laws of Uganda, Vol. 16, 1964.
- ³⁰In 1970 in Jinja Municipality, Uganda, total salaries for Town Clerks and Town Treasurers' Departments were shs. 363,184 and 350,327. Total income from rates was 2,916,300. It is not possible to ascertain what percentage of time in the clerks' offices was spent on administration or rates. Salaries of clerks in Kenya, Zambia, and other areas of Uganda are not available. Jinja Municipal Council: Abstract of Accounts (for year ended December 1971).
- ³¹Neither Uganda nor Zambia has been able to maintain this desired staff size, partially because present salaries are inadequate. Other reasons are undoubtedly lack of training facilities and failure of the governments to encourage persons to train in these fields. This will be discussed further when the tax is evaluated.
- ³²Morenas, Rating in Uganda.
- ³³Uganda, Statistics Division, Ministry of Planning and Economic Development, 1971 Statistical Abstract (Entebbe, Uganda Government Printer), p. 111.
- ³⁴Zambia, Central Statistics Office, Monthly Digest of Statistics (Lusaka, October, 1972), p. 5.
- ³⁵For further discussion of the shifting, incidence, and economic effects of land taxation, see Bird, Taxing Agricultural Land, chapters 8 and 9.
- ³⁶Ibid., pp. 175-179.

³⁷Ibid., pp. 75 and 273-275.

³⁸Ibid., p. 75.

CHAPTER VI

SCHOOL FEES, LICENCES, AND CESSSES

The importance of various taxes in the revenue structures of local governments is influenced by the legal structures (tax law, specifically) and general conditions in each individual local areas. There are often considerable differences between the levies used by rural areas and those in urban ones. Assessment rates and graduated tax are generally the most important sources of revenue for urban areas. Rural areas exhibit more variation, but graduated tax is often the major tax. Additional sources of local revenue are school fees, cesses, and licences, and for some local governments, these are more important than graduated tax and property taxes. In rural areas of Kenya, school fees and cesses have provided substantial revenue. In Zambia, many rural districts derive more revenue from licences than from personal levy.

Licences are issued by both local and central governments in Uganda, Kenya, and Zambia. Governments issue licences to raise revenue and to regulate certain activities. Cesses, which are taxes on agricultural produce, are currently levied only in Kenya and are essentially rural taxes. Persons attending government schools are sometimes required to pay school fees, which are often considered to be charges for services rather than taxes, but unless otherwise stated will be considered as taxes in this chapter. School fees are an alternative or supplement to the financing of schools through taxes. The intent of the countries is to provide education for as many persons as possible and eventually to provide all education free, financed primarily through taxation. In this regard, education is not strictly

like other services for which the government charges fees. To account for this, school fees will be discussed with taxes.

School Fees

Both Uganda and Kenya rely on school fees to defray some costs of primary and secondary education. The fees are customarily based on the number of children in the family attending school and the quality of the school building and equipment. Zambia does not levy school fees, relying instead on central government funding for all education. The central governments of all three countries provide close to 100% subsidization of university education. In addition to paying tuition, room and board, the governments also provide university students with money for books and incidental expenses.

Education is a basic aim of all three governments, but primary education is neither universal nor required. There are an insufficient number of buildings, teachers, and general supplies to provide education for all desiring it, even when government funds are supplemented by school fees. Enrollments are further decreased as some families either do not desire education or live too far from schools to make attending feasible. In Zambia, less than 30% of the five to nine year age group and 67% of the 10-14 year old children were attending school in 1969.¹ In Kenya, approximately 61% of primary school-aged children were attending school in 1968.² In Uganda in 1971, 39% of the primary school aged children were in government schools. The number attending private schools is uncertain.³

Officials in Uganda and Kenya consider school fees to be an easy levy to collect. Education is somewhat of a status symbol, and many

parents make great efforts to enable their children to attend school. This desire for education varies somewhat throughout a country, however, and is less among the more traditional tribes like the Karamajong in Uganda. The percentage of primary school-aged children attending government schools is only 14% in Karamoja.⁴ Data are not available regarding private school enrollment, but there are few private schools in the Karamoja districts.

In all three countries the percentage of school-aged females attending school is less than males. District officials in Uganda attributed this phenomenon to the use of school fees, assuming that parents are more reluctant to pay fees to educate daughters than sons. School fees cannot bear the entire responsibility, though, since Zambia also has a lower percentage of school-aged females than males attending school.

Uganda

Technically, all schools in Uganda charge fees. In practice, certain areas such as North and South Karamoja have free schooling since the central government has remitted school fees to encourage education.⁵ With the exception of a few scholarship students, persons in other areas of Uganda who wish to attend school must pay fees, which help finance some recurrent costs of education. Capital and other recurrent costs are financed by local and central government grants.

Information regarding revenue from school fees is not available for most districts. Of the five for which it is -- East Buganda, Busoga, Ankole, Kigezi, and Toro -- school fees provided less than 2% of total local government tax revenue. The total amount of revenue collected

in school fees by these five districts was shs. 985,000. Local governments spend considerably more on schools than they collect. Busoga District expected to collect shs. 250,000 in school fees in 1971. In that year, the district estimated expenditures on education to be over two million shillings, more than 1.4 million of this being recurrent costs. Graduated tax contributes more to the costs of education than school fees.

Kenya

School fees provide more revenue in Kenya than Uganda, both per capita and as a percentage of revenue. Like GPT, school fees are no longer solely a local government levy. The central government began funding education in rural areas in 1970, and county councils ceased collecting school fees in that year. Municipalities still retain their school fees. In 1969, school fees provided 27% of county council tax revenue and 9% of municipal tax revenue. They continue to provide about the same percentage of municipal revenue (see Tables 28 and 29).

In general, school buildings in Kenya are provided and maintained by local communities. Recurrent teaching costs are provided by local governments in municipalities and the central government in rural areas. Since most buildings are provided by communities, not the government, educational opportunities are distributed unevenly throughout the country. The number of school-aged children attending school varies from 10% in some areas to close to 100% in others.⁶ School fees finance a greater proportion of education in Kenya than Uganda. They provided 32% of the recurrent costs of primary education in 1971/72 and 31% in 1972/73. School fees from all levels of education provided £1,333,000 in 1969 and £592,918 from urban areas in 1971.

Table 28

School Fees, Licences, and Cesses as Percentage of
Total Revenue in Kenya County Councils

Year	Cesses		Licences		School Fees	
	% Tax Revenue	% Total Revenue	% Tax Revenue	% Total Revenue	% Tax Revenue	% Total Revenue
1968	7.3	4.1	3.0	1.7	48.0	27.5
1969	20.2	9.2	7.0	3.2	27.4	12.6
1970	30.5	14.7	17.4	8.4	-	-
1971	41.6	18.5	23.6	10.5	-	-

Source: Kenya, Statistics Division, Ministry of Finance. Figures
for 1970 and 1971 are government estimates.

Table 29

School Fees and Licences as Percentage of Total
Revenue in Kenya Municipalities

Year	Licences		School Fees	
	% Tax Revenue	% Total Revenue	% Tax Revenue	% Total Revenue
1968	1.4	.6	10.7	4.4
1969	1.6	.7	8.7	3.8
1970	2.1	.9	8.5	3.9
1971	1.9	.6	8.6	2.6

Source: Kenya, Statistics Division, Ministry of Finance. Figures
for 1970 and 1971 are government estimates.

In addition to the Ministry of Education schools (those sponsored and partially financed by governmental funds), Kenya also has what are called "Harambee" schools.⁸ These are established and maintained by groups within an area. The schools are unaided by either the local or central government. The Harambee schools experience difficulties in obtaining adequate teaching staffs as they lack sufficient funds for salaries. The schools are also short of equipment. The Harambee schools charge higher fees than Ministry of Education schools because the former are not subsidized by governments. Harambee schools are not established in competition with Ministry schools, but as a supplement to them in areas where the government has not established schools. The willingness of parents to pay the higher fee charged by Harambee schools indicates demand for education.⁹

Zambia

Education in Zambia is free, financed by the central government. There are insufficient funds to provide facilities for all wishing education, however, and private schools supplement Ministry of Education schools in some areas. The government has encouraged the construction of school buildings by local areas when the Ministry has been consulted in advance. The Ministry of Education will often assume the recurrent costs after buildings are completed. There are other locally sponsored schools that do not have Ministry approval since they are staffed by unqualified persons. Zambia has fewer self help schools than Kenya. The Zambian Ministry of Education attributed this to a greater degree of ethnic competition in Kenya than Zambia.¹⁰

Licences and Other Trading Levies

Licences are customarily required of persons conducting trading activities or utilizing city or county markets. In certain instances these licences serve a regulatory function, limiting the number of persons engaged in a given occupation or controlling the quality of the product. In other situations the licences reimburse the authority for the services it provides the trader. Many licences are issued purely to raise revenue. Licences providing the largest sources of revenue are trading licences, market dues and the various licences and fees associated with the sale and production of liquor. Often a trading licence is required of any person wishing to sell a product within city, municipal, or town limits. The city of Lusaka has such a regulation. In other areas, trading licences are required only of persons engaged in specified occupations. The amount of the licence generally varies with the type of activity, but is often unrelated to the size of the establishment or the turnover. Market dues are collected from traders using the services of council markets.

Licences on the production and sale of beer and other liquor are levied by most local governments (see Tables 30 and 31). In Zambia, in addition to local government licences required to persons engaged in the sale and production of alcoholic beverages, the central government levies an excise on native beer (locally brewed liquor), the revenue from which is distributed to local governments in the form of a grant. This revenue forms a portion of the "deficiency and beer grant" listed in Table 31.

Table 30

Revenue (in shillings) from Licences in Two Uganda
Districts, 1970

	Busoga	East Buganda
Market Fees	shs. 390,670	876,080
Trading Licences	333,290	201,680
Beer Permits	155,520	14,970
Liquor Licences	17,980	46,810
Kisoga Beer Bar Licences	6,990	
Enguli Licences (Native liquor)	2,100	
Fishmongery Licences		17,930
Other	13,150	5,700
Total	919,700	1,163,170
Total Tax Revenue	14,052,720	15,746,420
Total Revenue	16,009,320	17,728,470

Sources: East Buganda, District Administration, 1972 Estimates
and Busoga, District Administration, Estimates: 1972.

Table 31

Revenue (in kwacha) from Selected Districts in
Zambia, 1971

	Mbala	Chipata rural	Lundazi	Chinsale
Rates	K 50,800	2,047		
Personal Levy	8,000	33,165	14,776	8,500
Trading Licences		20,196	9,265	9,000
Liquor Licences & Sales		2,219	9,893	
Beer Levy	3,600			
Other Licences			5,032	1,000
Deficiency & Beer Grant	32,456	226,658	164,259	23,750
Total Revenue	106,356	288,045	217,760	55,783

Source: Zambia, Ministry of Local Government, District Reports
(1971).

Licences provide a very small percentage of revenue in Uganda, around 4% in urban areas in 1970/71 and 6% in rural areas. For Kenya licences provided 2% of municipal revenue in 1971 and 24% for rural areas (see Tables 28 and 29). For individual local areas in Kenya, receipts from licences ranged from 2% to 78% of county council revenue in 1969 and from 6% to 91% in 1971.

Cesses

Taxes on agricultural products are not used in Uganda and Zambia. Kenya does levy cesses; Tanzania levies them also. In 1961, cesses provided 14% of Tanzanian District Council revenue.¹¹ They are an alternative to a rural property tax and were originally levied by the African District Councils. Since the ADC's were not allowed to levy a graduated tax, the cess became a major source of financing. Initially, the central government intended that cesses be levied at uniform rates throughout the Territory, with the revenue distributed among the ADC's. However, demands by local councils for autonomous revenue sources resulted in tax rates being set by individual districts, with little uniformity in percentage rates throughout the country.¹² After independence county councils in former ADC areas continued levying cesses.

Cesses are levied on a variety of products, including coffee, tea, pyrethrum, maize, sugar, fresh fruits, and poultry. In addition to the cesses on produce, levies are also placed on hides and skins. The individual counties determine the articles to be levied and the rates of tax, which can be either specific or ad valorem. The tax on hides

and skins is generally specific, approximately -/20 per skin and shs. 1/= per hide.¹³ To make collection and enforcement easier, cesses are usually levied on products sold through marketing organizations. The cess is collected by the marketing board by deducting the amount of the tax from the price paid the producer.

As shown in Table 29, cesses have been increasing in importance as a percentage of rural tax revenues. In 1968, cesses provided only 7% of total rural tax revenue (14% not counting school fees). In 1971, the tax provided 42% of rural tax revenue. Much of the increase results from the loss to rural areas of two other revenue sources: graduated tax and school fees. (Some districts stopped collecting graduated tax in 1969, rather than 1970.) The actual revenue from cesses has not exhibited the same upward trend. Cesses provided £614,941 in 1969, £529,428 in 1970, and £655,959 in 1971.

There is wide variation between counties as to the importance of cesses. Of 33 individual counties in 1968, nine received less than 2% of tax revenue from cesses. (Four of these nine counties did not levy any cesses in that year.) Cesses provided from 20% to 30% of tax revenue for three areas. In 1971, one county council did not levy cesses. For the other 32 county councils, the percentage of tax revenue provided by cesses ranged from 2.5% in the Central Rift Province to 87% in Wajir. Often, one product in a district will provide most of the revenue from cesses. In 1969, Kiambu received £132,673 from cesses, and more than 90% of this was from the cess on coffee.¹⁴

In addition to local government cesses, coffee and sisal were also subject to a central government export tax prior to 1973. In June of

1973, the export tax was repealed and the government began subsidizing certain exports.

The incidence of a cess varies somewhat depending on the crop on which it is levied and the type of market in which it is sold. Cesses on certain types of crops can be passed on to the consumer more easily than those on others. On products like coffee and tea, which are grown primarily for export, price is determined by world markets; since Kenya is not the dominant producer of any of these goods, the tax is borne almost entirely by the producer. On the many domestic products sold through marketing boards, the price of the product is determined by the marketing board. In these instances, too, the tax is borne by the producer. In the long run, farmers producing items sold domestically on an open market can pass part of the tax on to the consumer by reducing supply. Many cesses, however, are on products whose prices are controlled by the central government.

Evaluation and Recommendations

Licences and school fees serve different functions than most taxes. Like other taxes, school fees and licences are levied to raise revenue. Unlike most taxes, school fees are directly related to a person's use of a particular government service. In this regard, the tax is somewhat like an excise on a particular commodity; unlike some excises in developing countries, school fees are quite often regressive with respect to income. The wealthy as a group undoubtedly send a larger percentage of their children to school and the schools tend to have more equipment, which can increase the fees. The number of children educated and the increase in the price of that education, however, are

less than proportional to the increase in income. Licences are levied partially to raise revenue, but they serve an additional function of regulating activities. To some extent, the price of the licence reflects the cost to the government of issuing the licence and regulating the industry. With respect to market dues, the governmental body often provides services. Cesses are levied by Kenya primarily to raise revenue. In the process of raising funds, cesses affect economic activity. All three taxes discussed in this chapter have limitations as potential revenue raisers, either currently or in the future.

School Fees

School fees provide substantial revenue in Kenya; the revenue is somewhat less in Uganda. Income elasticity of the tax is irrelevant since the countries do not intend to continue the tax in the distant future. The intent of the tax is to increase the funding available for education; this is obviously accomplished. Whether the tax is desirable or not depends on the impact of the tax on other areas. The regressivity of the tax is not in accord with the goals set by Uganda and Kenya. In addition the number and distribution of persons "purchasing" education is affected by the price, in this instance, the amount of the school fee. If the result of the fee is that only the wealthy can provide their children with an education, additional equity requirements of the countries are violated, and the existing income distribution will be perpetuated. Even where school fees do not exist, however, children are often denied an education. The greatest bar to education in Uganda, Kenya, and Zambia is a lack of buildings and teachers. The use of school fees can increase the total amount of revenue available for

education in a country, as well as the total number of children attending school.

Costs of collection are minimal. There is no problem of assessment; payment of the tax is totally the responsibility of the taxpayer; persons not paying are simply barred from entrance to schools.

School fees are unlikely to be employed as national incomes increase since the governments of both Kenya and Uganda intend to provide free education in the future. As matters of governmental policy, school fees will eventually be abolished on grounds of equity and economic efficiency. In addition to the view that free education is a right for all persons, the governments fear that charging a price for education lessens the number of persons attending school and retards economic progress. In the future, then, the governments view school fees as undesirable charges. This does not mean that they are undesirable at present, however. One must consider the alternatives when evaluating a tax. It is possible that school fees deter parents in Uganda and Kenya from sending their children to schools. Without school fees, however, more children might be denied an education.

Recommendation

Despite their regressivity, school fees are a desirable tax. Parents are extremely willing to pay the fee, and where such fees do not exist, as in Zambia, the poor are also denied an education because of a lack of equipment. With the use of fees, persons willing to make the sacrifice of payment can receive education. The governments of Kenya and Uganda have indicated approval of school fees as a method of financing education. These fees are a good supplement to general

revenue funds. When school fees are used, however, they should be maintained sufficiently low to ensure education does not become solely the province of the wealthy; when other sources of funding are available to provide universal, free education, school fees can be discontinued. The Zambian government believes very strongly in the principle of free education and is unlikely to introduce school fees.

Licences

Trading licences and market dues generally bear little relationship to the income potential of the establishment. Sometimes the amount of the licence varies depending on whether the establishment is considered to be small, medium, or large; this is generally the only graduation. If licence levies are not passed on to the consumer, they are regressive with respect to the incomes of the licence holders. It would be possible to introduce more graduation into the rate structure of licences if licences for each occupation were graded into five or six categories according to the size or income of the establishment. If the tax is actually borne by the consumer, however, this charge will have little effect on the shopkeepers. In all likelihood, a portion of the tax is shifted. The tax then takes on the nature of a sales tax, which would probably also be regressive. Sales taxes are not as regressive in LDC's as in developed countries, but small shops and businesses are frequented by low income persons, and many of the items sold, such as sugar, are considered by the citizens to be necessities.

Licences do not provide large amounts of revenue, though they do defray the costs of licencing and regulating. Trading licences and market dues are easy levies to collect. It is the responsibility of the

licencee to obtain his licence, which is issued by the city council in urban areas and the county and area governments in rural ones. Costs of collection are minimal. Enforcement of market dues is easier than enforcement of trading licences since defaulters are easier to locate, but neither levy is difficult to collect. More revenue could be raised if the levies were increased, and were graduated according to size of establishment. This is not desirable, however. If the tax is passed on to consumers, the incidence of the tax is somewhat indeterminate. If the tax is not shifted and is graduated, it bears some relationship to an income tax. In Uganda and Zambia, traders are already subject to local income taxes (graduated tax and personal levy). If trading licences are graduated according to size of establishment, and therefore potential income, traders become subject to two income taxes.

The levies on alcoholic beverages raise few objections. They are good sources of revenue, and if they provide a possible discouragement to the consumption of beer and other liquor, this is not undesired. In a further effort to encourage other forms of recreation than drinking, Uganda has severely restricted the hours during which establishments selling liquor may be open. With regard to the production and sale of alcoholic beverages, the governments do wish to alter economic activity.

Recommendations

Licencing is necessary to control the numbers of persons in various activities and their quality. There are costs to the government incurred in this process. If these costs are not to be paid by general revenue funds, charges must be made for these licences. The

procedure should be continued. Since a portion of the charge is probably shifted to the consumer, the amount of the fee should not be high unless it involves an activity the government wishes to discourage, such as the consumption of alcoholic beverages. Under these circumstances, the tax becomes similar to an excise. The present structure of licencing in the countries is satisfactory. Revenue is incidental, but the taxes serve other functions. (The licences levied on the alcoholic beverage industry have the potential for raising satisfactory amounts of revenue, but not if they serve their function of drastically curtailing alcoholic consumption).

Cesses

Cesses provide a great deal of revenue in Kenya, but the tax cannot be considered a stable source of revenue since revenue fluctuates with changes in product prices. Countries require not only large amounts of revenue, but stable sources. Since the tax is only on agricultural production, revenue is not likely to increase proportionately with national income. To the extent that prices increase from inflation, tax revenues will increase. Nonetheless, the lack of stability makes the tax a poor revenue source.

The relationship of tax to income is not always easy to determine. Cesses are based on sales prices of products, not on profits, and if they are not shifted to the consumer, they favor persons with relatively lower costs of production. This may result in a tendency to favor the larger, and probably wealthier producers if there are economies of scale. Such is likely to be the case. (Offsetting this may be some tendency for the large scale, wealthier products to incur heavier average costs because they can afford to be inefficient.)

Cesses have been criticized for various reasons, some more valid than others. Some individuals have objected to cesses because they see no direct relationship between the revenue collected and services provided by local governments. The most "necessary" services of education, health, and roads are now provided by the central government.¹⁵ Other criticisms are based on the selectivity of the tax. A cess discriminates against producers of selected crops, only, and encourages black market sales of products.¹⁶ Cesses are easy to evade and fraud is prevalent.¹⁷ The last two criticisms are serious. Whenever taxes can be evaded, equity is lost. In addition, cesses can be a disincentive to the production of cash crops. The government has been trying to encourage rural activities and export industries. Cesses, therefore, are likely to influence economic activity in the opposite direction of that desired and to reduce food supplies to cities.

Richard Bird prefers taxes on agricultural land to cesses and export taxes. The latter two taxes are administratively easy to collect but offer disincentives to agricultural activity and provide unstable revenues. Since costs of production are not considered in determining tax liability, the effective tax rate on net income will vary depending on the quality of the land.¹⁸

Recommendations

Cesses are an undesirable tax and should be abolished in Kenya. Local governments have had difficulty finding revenue sources since they lost graduated tax revenues, however, and are not likely to relinquish this revenue source easily. Cesses are not a reliable revenue source, since the receipts are unpredictable and expenditures cannot be planned

accordingly. The tax also has extremely undesirable effects on resource allocation.

FOOTNOTES FOR CHAPTER VI

¹ Zambia, Central Statistical Office, Statistical Year-book: 1970 (Lusaka: Zambia Government Printer, 1971), pp. 6 and 36.

² Kenya, Development Plan 1970-1974 (Nairobi: Kenya Government Printer, 1969), p. 453.

³ Uganda, Third Five-Year Development Plan 1971/2 - 1975/6 (Entebbe: Uganda Government Printer), p. 99.

⁴ Ibid., ch. 7.

⁵ Ibid.

⁶ J. Heyer, D. Ireri, and J. Moris, Rural Development in Kenya (Nairobi: East African Publishing House, 1971), p. 77.

⁷ Kenya, Development Plan.

⁸ The word "Harambee", the Swahili term for "pulling together" is used in Kenya to describe any local area self help project, including local schools and medical facilities.

⁹ Heyer, Rural Development, p. 79.

¹⁰ Interview with Trevor Coombs, Zambia Ministry of Education, January, 1973.

¹¹ Eugene Lee, Local Taxation in Tanzania (Nairobi: Oxford University Press, 1965), p. 15.

¹² Ursula K. Hicks, Development From Below (Oxford: Oxford University Press, 1961).

¹³ Cherry Gertzel, Maure Goldschmidt, and Donald Rothchild, Government and Politics in Kenya (Nairobi: East African Publishing House, 1972), p. 409.

¹⁴ Diejomach, Financing Local Government in Kenya, Institute for Development Studies, University of Nairobi, Discussion Paper No. 96, 1970.

¹⁵ Godwin Wachira, "This Tax is Unfair to Kenya Farmers," Nairobi Kenya Sunday Nation, 17 September, 1972, p. 9.

¹⁶Gertzel, Government and Politics.

¹⁷Hicks, Development From Below, p. 336.

¹⁸Richard M. Bird, Taxing Agricultural Land in Developing Countries (Cambridge, Mass.: Harvard University Press, 1974), pp. 52-54 and ch. 13.

CHAPTER VII

EVALUATION AND RECOMMENDATIONS

In the preceding chapters, valuations were made concerning the effectiveness of various taxes, and several recommendations were offered. Certain taxes were considered to be more effective than others in furthering government development objectives and maintaining the autonomy of local government units -- another central government aim for several local areas. In this chapter, a summary of evaluations and recommendations will be offered. This final evaluation depends on the ability of the local government taxes as a group to foster government aims. The same evaluative criteria will be employed as before, but the efficacy of the entire tax structure, not the individual taxes, will be examined.

It is quite possible that a tax when considered alone might meet most of the criteria described in Chapter II, while still fostering a less than optimal tax structure. A good tax structure is one that, among other criteria, provides a steady source of revenue in the present and future. It is important that revenue not be subject to drastic changes from outside influences. These influences can be such factors as domestic and world price changes and central government political activities. A local government (or any government) that relies almost solely on one tax for revenue is more vulnerable to outside influences; therefore a government that has diverse revenue sources is more likely to have a good tax structure. The urban areas in all three countries are less likely to have revenue changed as a result of outside influences since the urban areas generally have two major revenue sources: graduated taxes and assessment taxes.

In some instances, a nation can formulate a very satisfactory tax structure from individual taxes that are less than optimal. Such situations can occur frequently when considering progressivity. A progressive tax structure can be comprised of taxes that in themselves are not progressive throughout.

To a limited extent, evaluation of tax structures depends on separate evaluations of individual taxes enumerated in previous chapters. In such instances, further evaluation does not need to be given here. If individual taxes have undesirable influences on resource allocation, the tax structure as a whole is likely to be less than optimal. There is a possibility that the harmful influences of various taxes will cancel out, but this is not very probable, and it would be better to modify the taxes so they do not alter the allocation of resources. With regard to the effect of taxation on Africanization, little more needs to be said beyond the evaluations given earlier.

Urban and rural areas in the countries rely on different groups of taxes; consequently, the two areas must be evaluated separately. Regarding the criterion of progressivity, evaluation of a local tax structure depends on its effect on the progressivity of the nation's tax structure. It is possible that a nation's concept of equity requires progressivity at all government levels; a more likely possibility is that equity only requires progressivity of the entire tax system for the nation.

Uganda

The tax structure for the entire country is quite progressive once persons become subject to income taxes. From incomes of shs. 500 to shs. 10,000, graduated tax is roughly proportional. Below and above this range, graduated tax is regressive. Income tax for persons with children does not begin until incomes rise well above shs. 10,000, leaving a range of incomes that are high by Ugandan standards in which the structure of "income taxes" is regressive. When other local taxes are included, the result is likely to be more regressive since licences and rates tend to be regressive.

Licence fees do not increase proportionately with the size of the establishment being licenced. If such taxes are not shifted to the consumer, they will be regressive with respect to the incomes of the traders or businessmen. If they are shifted, the incidence becomes similar to a sales tax. Though sales taxes are not generally as regressive in LDC's as in developed countries, they would certainly be regressive for incomes above shs. 10,000 (where GT becomes regressive), and they are likely to be regressive for incomes much lower. School fees, too, are regressive.

Assessment rates affect both business and personal properties. The assessed value of personal property rarely increases even proportionately with income. Most residences in urban areas, including government housing projects, are subject to rates, and their incidence is likely to be regressive. Assessment rates on business property assume a similar incidence to that of licences. To the extent that

the tax is shifted, it has the effect of a sales tax. At least a portion of the tax is likely to be shifted to the consumer.

For incomes below shs. 10,000, the high rates of graduated tax outweigh the effects of other taxes on most persons in rural areas, where assessment rates are not levied. At extremely low income levels, equity does not require progression, but as incomes become high by Ugandan standards, progression should begin. Median income for wage and salary earners in Uganda is about shs. 2,000. Certainly the tax structure should exhibit some progression at incomes beyond this point. There is no need for greater progression in the income ranges that are subject to personal income tax, but there is a need for greater progression at many income levels below this. Urban areas probably have even less progressive tax structures than rural ones because of the great use of assessment rates.

Rural Uganda

Graduated tax provides over 50% of all revenue for 18 of the 20 rural districts in Uganda. Only North Karamoja and South Karamoja receive less than half their revenues from GT. Graduated tax provides over 75% of tax revenue for the 18 districts. Any decrease in GT revenues would severely cripple these local governments and would critically restrict the services that could be provided. Any evaluation of rural taxation in Uganda hinges almost solely on an evaluation of graduated tax.

The dangers associated with extreme reliance on one tax were described earlier. Local governments in Uganda, however, are not as vulnerable to outside influences as they might appear. The method of

income estimation employed results in a tax base that does not change as readily as prices or demand conditions. (It was suggested earlier that this estimation procedure be altered to reflect yearly price and yield conditions; if methods of assessment are thus changed, local governments will lose some control over revenue yields, but revenue from GT will still not be as vulnerable to change as revenue from cesses in Kenya.)

The central government currently has no direct control over assessment and collection procedures, although the central government does restrict enforcement activities. Parliament also determines tax rates; and rural districts in Uganda would be pressed for revenue sources were Parliament to lower tax rates. The trend, though, has been toward increasing tax rates, not lowering them, and every local government in all countries is subject to the influence of changes in tax laws. Currently, the Uganda central government is no more likely to lower tax rates than to alter the entire local tax structure, and it is outside the scope of this study to consider the probabilities of such political actions. Revenue from all local taxes, not just GT, depends on central government regulations and laws.

Current Revenue Potential

Regarding current revenue potential, the tax structure in rural Uganda is quite satisfactory. Rural local governments in Uganda collect more per capita tax revenue than either Kenya or Zambia. With the exceptions of North and South Karamoja, which have not collected their potential taxes as estimated by the central government, the districts receive most of their revenues from taxes. Only a small percentage

comes from central government grants and charges for services. More revenue could be obtained if an additional major tax were introduced, however, and more stability would be introduced into the tax structure. Were the government able to raise additional revenue, a greater amount of educational and other service could be provided. (This, however, could be said of any government at any stage of development.) Aside from a vulnerability to central government changes in tax rates and laws, 18 of the 20 districts possess quite a degree of revenue autonomy.

Income Elasticity

Greater problems for rural areas are income elasticity of the tax structure and its viability in future years. When considering these, the extreme reliance on graduated tax produces difficulties. Given the current tax structure (all taxes), revenue for rural governments will not rise in proportion to income, and the tax structure is composed primarily of a tax that will not be employed in future years. If graduated tax were a minor tax in the revenue structure, the situation would be less critical. As it is, local governments will need to revise their entire tax structures in the future.

Tax Base

The equity considerations regarding a progressive tax structure were discussed above. The Ugandan government also desired a wide tax base. Because of the wide scope of graduated tax, this objective has been achieved. All phases of tax administration in rural Uganda (assessment, collection, enforcement) are undertaken almost exclusively by Ugandan citizens. Consequently, the tax structure has fostered Africanization or nationalization as much as is possible.

Allocation of Resources

The tax structure does alter the allocation of resources. Agricultural and other self-employment incomes are more likely to be under than overestimated. (Persons can appeal GT assessments they deem to be unfair and they are more apt to appeal on overassessment than underassessment.) Agricultural income is given further preference since traders and businessmen may be subject to licencing while most agricultural activities are not. (If licences are shifted to the consumer, farmers will bear some of the burden when they purchase articles from shops and markets.) With the exception of the Buganda Region, rural areas are not subject to property taxation, while urban ones are. Even if the tax is shifted, fewer traders and shopkeepers in rural areas are subject to property taxation than in urban ones, and therefore there is less tax to shift.

Since the central government is currently trying to discourage persons from moving into large urban centers, preferential tax treatment for rural areas may be warranted. It is risky, however, to use the tax structure to achieve temporary encouragement of certain economic activities. The likelihood is strong that the favoritism will remain long after it is needed. Other methods than the tax structure should be used to encourage rural activities. The current tendency of GT to underestimate rural incomes, however, need not be changed since this method of estimation will be altered in the future, anyway, as income records become more complete; this preferential treatment of rural incomes is therefore not likely to remain after the need disappears.

Urban Uganda

Urban areas in Uganda attain almost equal amounts of revenue from graduated tax and assessment rates. (All other sources of revenue are minor.) Like rural areas, urban areas of Uganda also raise more revenue per capita than local governments in Kenya and Zambia. Reliance on two major taxes rather than one tax lessens the possibility of needing to alter the entire tax structure in the future. The current framework of assessment rates should be satisfactory in later stages of development.

Income elasticity of the tax structure will prove a problem in the future. In this regard urban areas face the same difficulty as rural ones, and the tax structure is not satisfactory. Assessment rates and licences are income inelastic taxes. Revenue from graduated tax, given the present tax rate and income structure, will also increase less than in proportion to increases in national income. Regarding such considerations as resource allocation and a wide tax base, evaluation follows that given in the above discussion of rural taxes.

Recommendations

It is advisable for local governments in rural Uganda to reduce their dependence on graduated tax. In some regions this can be accomplished by introduction of rural property taxation. Areas under customary land law cannot easily levy property taxes. Since graduated tax in rural areas is currently based partially on land area and use, care should be taken that property taxes on agricultural land are not merely a duplication of graduated tax. This might prove difficult since the most feasible method of land valuation at present would be based on

land area. Uganda has an insufficient number of trained assessors to accurately assess large amounts of rural land on the basis of value. A property tax would also pose a heavy burden on subsistence farmers who are already subject to a minimum of shs. 65 in graduated tax. In Masaka, anyone farming more than two acres of land is assumed to have an income exceeding shs. 1,000. Subsistence farmers could be removed from property taxation if the tax were applicable only to persons owning more than one or two acres of land. (This would exclude the majority of persons and reduce revenue potential, but it would also lessen the tendency for property taxation to be just a disguised form of GT.) When the country has enough assessors, valuation of rural land could gradually shift to a capital value basis, rather than land area. In areas where property taxation can be used, valuation of property in small towns and trading centers should begin as soon as possible.

Urban and rural areas alike need tax structures that will continue to provide revenue in the future. To accomplish this, the suggestions in the last section of Chapter IV regarding changes in the rate structure of graduated tax should be implemented.

School fees currently serve a desirable function and should remain until the country is able to provide universal, free primary education. Bursaries (scholarships) should continue to be given in instances of extreme need.

Kenya

Kenya's tax structure is likely to be regressive until one reaches the income levels at which personal income tax becomes applicable.

With the exception of personal income tax, existing local and central government taxes -- sales and excise taxes, customs duties, cesses, and property taxes -- tend to be regressive.

The Kenya tax structure does not favor rural income to the extent the Uganda one does, but some preference was given to rural and self-employment incomes before the abolition of GPT. The lowest income levels were exempt from the tax and it was customary for assessors to ignore most rural incomes; generally, only the large landowners were assessed. Unlike Uganda where only the Buganda Region is subject to land taxation and the rates are low, many rural areas of Kenya are subject to property taxation. Rural areas in Kenya also levy cesses. While Uganda's tax structure tends to favor rural activity, the situation appears somewhat the reverse in Kenya.

Rural Kenya

Revenue

The position of local governments in rural Kenya has changed since 1970 when graduated tax and school fees were removed from the control of these local governments. Revenue for rural governments in Kenya is extremely unstable, as well as being too low to provide many services. The central government now finances and administers education and health services. Revenue from rural property taxes increased from £207,567 in 1969 to £607,201 in 1970; in 1971, it dropped back to £283,828. Total revenue from licences and cesses remained fairly constant during those years, but revenue for individual counties showed the same variation as total revenue from property taxes. In Bungoma County, revenue from cesses dropped from £30,780 to £4,750 between 1969 and 1970.

Unlike Uganda, rural governments in Kenya do have several sources of tax revenue of about equal importance. Currently, however, these taxes do not raise sufficient revenue to provide major services, and with the drastic changes in yearly receipts described above, the county councils cannot count on a steady stream of revenue to meet expenditures. (Since the central government now provides major services in rural areas, this will be a problem only if persons consider it desirable to have more local government autonomy.) As GDP increases, though, the central government is likely to find it beneficial to have more decentralization of decision making. The tax structure in rural Kenya appears to be inelastic with respect to increases in income; if so, the revenue difficulties of rural local governments will be exacerbated in the future.

Allocation of Resources

Cesses greatly distort the allocation of resources in rural areas. Since they are levied only on certain agricultural goods, they tend to favor nonagricultural activities. They also discriminate between producers of cessed and uncessed items. If the government levied cesses only on items whose production they sought to discourage, the tax might be justified. Decisions regarding which items to cess, however, are made with respect to the ease of collection. Often the items cessed are those produced for export. These are the very activities the government wishes to encourage.

Urban Kenya

Since the central government has abolished GPT, urban governments have lost an important revenue source. They still collect assessment

rates, however, and these were a larger source of revenue than GPT. Nevertheless, for the next five years, urban areas will be dependent on central government grants to provide many of the services that were formerly financed by GPT, and these grants will cease after five years. It is difficult to conceive of a tax which urban areas can institute that will provide as much revenue as GPT and not have harmful effects on resource allocation and the nation's concept of equity. Some of the revenue can be recouped by increasing percentage rates on property taxes and by commencing to value improvements. The second measure should have been instituted regardless of the fate of GPT.

Introduction of a city, personal income tax is not desirable at this time. Currently income taxes cannot be levied on low (and middle) income persons in Kenya (or Uganda and Zambia), and upper income levels are already subject to income taxation with rates that are as progressive or more progressive than those of many developed countries.

The central government instituted a sales tax to recoup its lost revenue from GPT. A good, immediate solution to the revenue needs of urban governments would be to return to them a portion of the sales tax revenue; this could be apportioned on the basis of population or some other measure. Even more desirable would be a local tax related to income, though this is not likely. (As mentioned, income taxation at low income levels is currently undesirable because of inadequate records and the need for unsophisticated taxes; and the central government will not institute another tax similar to GPT.) Taxes related directly to income are most likely to be income elastic, something the current urban tax structure is not, but which the governments desire.

Recommendations

Additional revenue sources for rural Kenya would be desirable. In areas where such a tax can be levied -- areas where land is privately owned and registered -- a property tax should be considered. Requirements for revenue may necessitate its use in the future, and it would be wise to begin the process of land valuation early. With respect to valuation, Kenya will encounter the same difficulties as Uganda, and it may be necessary to value on an area basis initially. Since Kenya no longer has any graduated tax, the problem of duplication of existing taxes does not exist, and Kenya could begin taxing on a land area basis immediately. Although there is justification in valuing improvements at a lower rate than site value, all areas of the country, urban and rural, should place some tax on improvements. Currently, potential revenue is being lost, and encouragement is being given to some buildings and capital intensive production methods that are not desired. (See the final section of Chapter V for recommendations concerning the derating of improvements.) Some areas of Kenya will not be able to use property taxation. Where land is owned by the tribe, tax incidence might depend upon tribal politics.

Cesses should be abolished. They have too many undesirable effects on resource allocation. Other revenue sources must be discovered for rural governments, however, unless they are to receive an even larger percentage of their funding from the central government grants or relinquish the services they still provide.

Although political considerations preclude this, some form of taxation related to income would be desirable at local levels, to raise

revenue, contribute to the progressivity of the national tax structure, and achieve a growing revenue source over the years. Regarding school fees, the same comments apply as for Uganda.

Zambia

Local governments in Zambia do not raise much revenue. Assessment rates raise large amounts of revenue in major urban areas, but not in smaller ones. Personal levy shows similar tendencies. Rural areas receive substantial revenues only from the central government, and occasionally from levies on alcoholic beverages. Revenues are likely to be even more deficient in the future as the taxes appear to be income inelastic. The difficulty in urban areas is partially attributable to low yields from personal levy, created by low tax rates and the low level of income at which tax reaches a maximum. Rural areas also suffer from a lack of alternative revenue sources to personal levy and licences, since only urban jurisdictions levy property taxes. Local governments in Zambia do not receive sufficient revenue to provide services without large grants from the central government. (Local areas in Uganda and Kenya subsidize education more than do local governments in Zambia.)

The overall tax structure in Zambia is regressive (at best proportional) up to levels at which income tax begins. These latter income levels are very high by Zambian standards. Personal levy is approximately proportional up to incomes of K1,000. Then it becomes regressive. The rates of personal levy are extremely low, however. The highest percentage of income taken in tax is 2%. Since licences and assessment

rates tend to be regressive, also, the local government tax structures add to the regressivity of the nation's taxes; this is contrary to what the government seeks. To some extent rural activities are favored over urban ones. Rural areas are not subject to property taxation, and little attempt is made to assess rural traders and farmers for personal levy.

Large amounts of additional revenue could be collected by applying similar rates for personal levy as Uganda has for graduated tax. (The lowest income level could be exempt in Zambia since the central government has expressed a desire for this on grounds of equity.) Property taxes for urban areas require no changes other than the few mentioned at the end of Chapter V, but property taxation could be extended to several rural regions. To make the tax structure more income elastic, personal levy should be made proportional to income in the upper brackets.

Comparisons Between Countries

In all three countries there are differences between the overall effectiveness of rural and urban tax structures. In general, the urban areas have more stable sources of revenue. There are also differences between the countries. All these differences are roughly correlated with differences in the importance of local areas in the colonial political structures and with the present central governments' decisions regarding adequate services for local areas. Uganda had a stronger local government network in colonial and pre-colonial days than Kenya; currently local areas in Uganda have the most satisfactory tax structures, except for the heavy reliance on only one tax in rural areas; Ugandan local governments also raise the largest amounts of revenue.

The Ugandan central government has designated a large number of social services as ones to be provided by local governments. The central governments of Kenya and Zambia have relegated similar functions to their urban, local governments, though not necessarily to rural areas. On the average, urban governments exhibit more revenue autonomy and stability than rural ones; in Kenya, they also enjoy more political autonomy.

Revenue Potential and Expenditures

The willingness of persons to pay tax is often related to their ability to see a direct connection between taxes and desired services. Few persons in Uganda and Kenya complain about school fees. (There are many complaints concerning graduated tax.) There is a direct, visible relationship between the fee and the attainment of the desired good. The Uganda government would probably receive more complaints than it does concerning GT if it were levied by the central government since central government services are less apparent than local government ones. Most persons use some of the medical and educational services provided by local governments.

In an article in the Kenya Sunday Nation, cited earlier, one Kenya resident showed that his willingness to pay tax was related to the amount and desirability of services provided. The author considered cesses to be undesirable because they provided substantial revenue for local governments, while the majority of services -- educational and health -- were currently provided by the central government (see Chapter VI). There was strong indication that the tax would be

considered tolerable were it levied by the central government or were educational and health services still provided by local governments.

In general, persons should be more willing to pay local government taxes than central government ones since local government services are most readily apparent. This applies more to Uganda than to rural Kenya or Zambia, where the central government subsidizes education. If local governments wish to collect taxes with greater ease, the services they provide should be made more apparent, and, if possible, a more direct connection should be made between the imposition of a tax and the desired expenditure.

Optimal Tax Structure

An optimal tax structure for local governments is one that obtains revenue from diverse sources and utilizes the advantages inherent to local governments. Officials in local areas have a greater knowledge of the individuals and property in their jurisdictions than do central government personnel. Taxes whose assessment, collection, or enforcement require intimate knowledge of the area are best administered at the local level. Graduated tax is such a tax since adequate records are not available, and therefore, intimate knowledge of individuals and their properties is required. When the central government in Kenya undertook collection of GPT in rural areas, the actual procedures of assessment and collection were left to residents in the various local areas. In fact, some members of each assessment committee were local government personnel.

An optimal tax structure has diverse revenue sources. To achieve this, urban local governments should levy some form of property tax and graduated tax. Recommendations regarding these have already been given.

A tax structure containing taxes similar to the types listed below should give local governments stable sources of revenue that continue to increase as national incomes increase, and would produce a minimum of distortions to the economy.

Some form of graduated personal tax should be introduced that is similar to the present GT in Uganda at low income levels yet levies tax as a percentage of actual income at upper income levels. Such a tax would be easy to administer at low levels of income where records are poor and unsophisticated techniques necessary. Charging a percentage of income in the upper bracket(s) will preserve revenue sources as incomes rise, reduce the regressiveness of the tax, and evolve into a tax that is equally satisfactory at later stages of development.

Property taxation in urban areas is desirable, and the tax could be extended to more rural areas than at present. By levying both property and graduated personal taxes, local areas would have two major and stable sources of revenue. Valuation should be on a capital value basis in urban areas. Rural areas levying the tax could initially use area valuing, but this should be discontinued as soon as possible. Site valuation alone should not be used. A partial derating of improvements is all right. The situation advocated by John and Ursula Hicks, whereby only certain, designated improvements are derated, and these are derated more initially than later, is optimal. Rural areas where land

will remain under tribal authority will need to find an alternative to property taxation.

At current stages of development, additional revenue raisers that are linked directly to desired services -- such as school fees -- are beneficial. They supplement the funding available from other taxes. Additional, minor levies such as licences, sumptuary excises, or excises on articles that are considered luxuries would supplement the major taxes.

Local government taxes should be designed so the majority of administrative activities (including assessment, collection, and enforcement) can be performed by citizens in each local area. Currently, this situation exists for all taxes except assessment rates. It is undoubtedly more efficient for valuation to be conducted by a central government staff; each local government need not retain local valuers. It is preferable, however, for this central government staff to be composed of nationals.

The three countries in this study have achieved a great deal since independence. Per capita incomes have risen; a larger percentage of persons are attending primary, secondary, and post-secondary schools. More positions in business and government that were originally held by expatriates are now being filled by nationals. Still more needs to be accomplished before the governments achieve the goals set forth in their development plans. The local government tax structures can influence the course of development, and hopefully the institution of some of the above suggestions will have a positive affect toward attaining the desired goals.

Application for Other African Countries

A major requisite of a good tax structure is that it be designed to meet the needs of the individual country concerned. To accomplish this, one must have information as to economic and social conditions in each country, as well as the development aims of the governments. As a consequence, any extension of the observations of this study to other countries must be superficial. Some generalizations can be offered, however. Most of the sub-Saharan African countries share certain characteristics: the populations are predominately agricultural; a large percentage of income is subsistence in nature; and the majority of persons have incomes too low, and records are inadequate for a sophisticated form of direct taxation. For these reasons, certain observations offered earlier regarding taxation in Uganda, Kenya, and Zambia can be extended to other sub-Saharan African countries.

The Ugandan experience with graduated tax has shown that it is possible to have a broad based direct tax which raises substantial amounts of revenue. Such a tax could be used by other countries that cannot apply an ordinary income tax to the majority of the population. It should be recognized, though, that such a tax can present political and administrative difficulties. "Whereas a relatively sophisticated and onerous indirect sales tax could be introduced virtually overnight in 1968 [in Uganda], it has taken fifteen years for modern concepts of liability, procedure and assignment to be applied fully to graduated tax."¹

Many countries currently have some form of personal tax, or had such a tax prior to independence. Among the African countries which

have used personal taxes are Ghana, Malawi, Nigeria, Sierra Leone, Guinea, Ivory Coast, and Chad. These countries include both former French and British colonies. Depending on the individual country, taxes can go to central, regional, and local governments, although actual collections in all countries have been carried out by local authorities. Prior to independence, tax in former French West Africa went to the central government. Nigeria is the only country which has totally coordinated personal tax with income tax. In that country, the method of estimating income and collecting tax depends on the level of income.² Many of the conclusions given earlier regarding graduated taxes in Uganda, Kenya, and Zambia could be extended to these other countries. The taxes must be simple to administer, and some method of estimating subsistence and self-employed income must be employed. The Ugandan use of "presumed income" is satisfactory in this regard. Graduated taxes can be extended to other African countries if political considerations do not preclude direct taxation of low income persons. Current drought conditions in many West African countries would necessitate exemptions for many low income persons as tax could present hardships for low income persons in drought stricken areas.

The criticisms levied earlier concerning cesses and export taxes are applicable to almost all countries. Bird attributes several problems in Nigeria to cesses and export taxes; use of the taxes has resulted in loss of production incentives, increased rural to urban migration, and a general decrease in investment in agriculture.³ The Tanzanian government has sought to increase production in agriculture and to encourage rural activities. Since export taxes and cesses in that country are likely to discourage intensive rural production, it

might be advisable to replace them with other sources of revenue. In general, it would be advisable for countries using export taxes and cesses to replace them with other taxes.

Most African countries currently have some form of urban property taxation. At independence, urban property taxes in British West Africa did not have the high degree of sophistication found in East Africa. "Property titles are often obscure, and there are in many instances no sharp, clearly defined distinctions between private and community ownership, or between leasehold and freehold. Boundaries are not surveyed and specified."⁴ How extensively urban property taxation can be used in a country depends on the current state of land ownership and registration. Nevertheless, urban property taxation has considerable merit.

Many constraints have been placed on the extension of property taxation to rural areas of Uganda, Kenya, and Zambia. The same warnings are applicable when discussing rural property taxation in other African countries. To employ some form of land taxation, it is generally necessary that land be held under freehold or leasehold status and that titles be registered. Where possible, however, the use of rural property taxation would be preferable to cesses and export taxes, though some other form of taxation might be even more desirable.

More specific recommendations regarding optimal taxes cannot be offered without careful study of conditions in and needs of each country. Where conditions in other African countries are similar to those in Uganda, Kenya, or Zambia, the observations given earlier concerning taxes in those three countries are applicable. It is extremely

important, however, that taxes be designed for the conditions and needs in each given country. African nations should avoid adopting a tax solely because it is beneficial in a developed country or in another LDC.

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FOOTNOTES FOR CHAPTER VII

¹ Kenneth J. Davey, Taxing a Peasant Society (London: Charles Knight & Co., Ltd., 1974), p. 190.

² Edward A. Arowolo, "The Taxation of Low Incomes in African Countries," International Monetary Fund Staff Papers, XV (July, 1968), 326-337.

³ Richard M. Bird, Taxing Agricultural Land in Developing Countries (Cambridge, Mass.: Harvard University Press, 1974), p. 49.

⁴ John F. Due, Taxation and Economic Development in Tropical Africa (Cambridge, Mass.: M.I.T. Press, 1963), p. 103.

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