

TAX COMPLIANCE COSTS FOR SMEs

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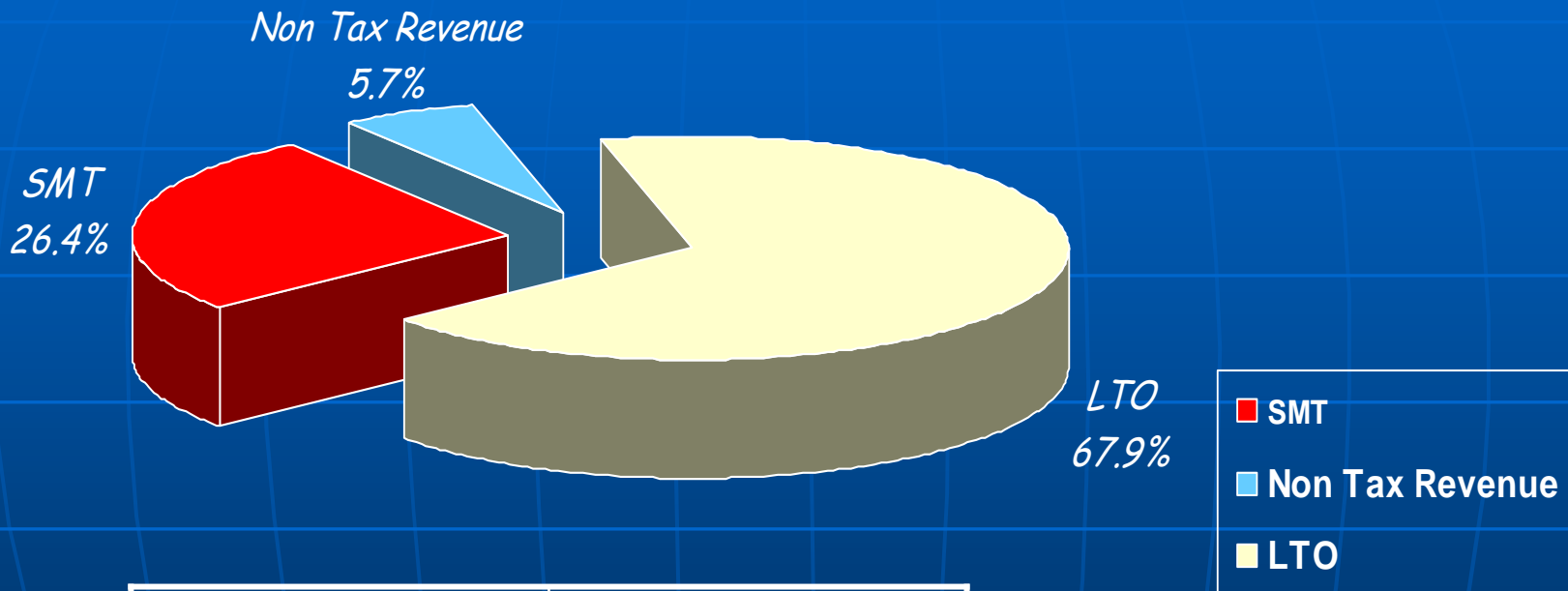
Definition of SMEs by segmentation

(Illustration 1)

	Segment 2005/2006	No. of Taxpayers	Turnover / Sales
			(UGX)
1	Large Taxpayers	474	>5 bn
2	Medium Taxpayers (SMEs)	990	900m - 5bn
3	Small Taxpayers (SMEs)	5,850	200m- 900m
4	Micro & presumptive taxpayers (SMEs)	32,000	0- 200m

Revenue contributions (2005/6)

(Illustration 2)



Category	UGX Billions
LTO	819.7
SMT	317.8
Non Tax	69.7
Total	1,207.2

Tax administration -

Manpower distribution per category of taxpayers

(Illustration 3)

	LTO	SMT
Manpower *	65	500
Taxpayer population (excluding employment)	474	40,000
Tax officer: taxpayer ratio	1:7	1:80

SM taxpayer total is an average estimate

Characteristics of SMEs

- High tax evasion levels.
- Mainly under informal sector.
- Poor records keeping.
- High mobility rates.
- High collapse rates.
- Mainly sole proprietors, partnerships and NGOs.
- Generally have a negative attitude to taxation.
- High levels of illiteracy and innumeracy

Compliance costs – *Tax administration view*

- **High compliance costs manifestate in the following forms.**
 - ❖ Big tax education programmes with low effect.
 - ❖ Maintenance of huge tax administration manpower force for revenue mobilisation.
 - ❖ Cumbersome to establish the correct tax for every taxpayer.
 - ❖ Costly tax recovery methods are employed e.g. Agency notices, distraint warrants and prosecution.

Compliance costs — *The taxpayers' view*

- Taxpayers' compliance costs are exhibited in the following areas:
 - ❖ The generally accepted perception over high tax rates
 - ❖ Long and manual processes
 - ❖ Highly bureaucratic systems
 - ❖ Prohibitive enforcement measures
 - ❖ Lengthy and cumbersome tax reconciliation and arbitrations
 - ❖ Corruption by tax administrators
 - ❖ High professional and audit costs
 - ❖ Non or irregular payment of taxes by the majority of SMEs

Current Compliance Drive Initiatives

- The current compliance drive initiatives include:
 - ❖ Tailored tax education programs
 - ❖ Re-engineered tax administration systems
 - ❖ Liberalized direct banking for self assessments.
 - ❖ Fast Track Refund System
 - ❖ Joint Customs and Domestic Taxes audits
 - ❖ Implementation of the new prosecution policy

Current Compliance Drive Initiatives

- The current compliance drive initiatives include:
 - ❖ Segmentation of the SMEs
 - ❖ URA hosts the annual taxpayers' appreciation days.
 - ❖ Integrity enhancement declaration with a collective responsibility.
 - ❖ URA Client Service Standards
 - ❖ Relief by Commercial banks to pay taxes on behalf of taxpayers
 - ❖ Use of specialist trade associations.

Thank You