Direct Tax Revenue and its Contribution to Uganda's Economic Growth

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ABSTRACT

Uganda registered a tremendous increase in total tax revenue collections from US$2.05 million in 1987 to US$2,860 million in 2011. However, the economy is still highly indebted and is currently faced with a public debt of over US$1,960 million, translating into about 69% of total tax revenue collections. While there have been considerable changes in policy and adoption of Structural Adjustment Programs, in particular, the liberalization of trade in the early 1990s, the adoption of Universal Primary Education in 1997 and Universal Secondary Education in 2007 among others, the current focus of government includes the improvement of tax administration and enhancement of tax compliance. The study explores the impact of changes in various macro-economic indicators on direct tax revenue collections, highlighting the distinctive ways through which these interact to determine the level of tax revenue and thus how it could be boosted. The variables include; inflation rate, public investment, private investment, and labor force. A multiple regression model was estimated using Ordinary Least Squares method. The distributions of the major variables of interest were reviewed using the Jacque-Bera statistic before drawing final conclusions, although it is assumed in multiple regressions, that the residuals are normally distributed. The results confirm normal distribution of variables, the existence of a strong multicollinearity among the variables, and trended series of the different direct tax components. Also according to the findings, investment has the biggest impact on the level of direct taxes in the economy, with private investment having a positive effect and public investment having a negative impact. The presentation shall focus on discussion of the analytical outputs and emerging policy recommendations

Key words: Multiple regression model, public investment, changes in policy, Jacque-Bera statistic