RELATIONSHIP BETWEEN TAX ADMINISTRATION AND LOCAL REVENUE COLLECTION PERFORMANCE IN LIRA DISTRICT LOCAL GOVERNMENT

Okello Apollo

Department of Accounting and Finance, Uganda Martyrs University

Corresponding Author: Okello Apollo, Department of Accounting and Finance, Uganda Martyrs University, P.O. Box 5498 Kampala (U). Tel: +256392995571/+256754092598. Email: apokello@umu.ac.ug/apollookello2010.ao@gmail.com

Abstract

The study was to assess the relationship between tax administration and local revenue collection performance in Lira District Local Government. Correlational research design and quantitative approach was used in the study. The study population was 140 people and the sample size was 103 people, which was chosen using a purposive and random sampling technique. The findings revealed that there is a strong positive significant correlation between tax administration and local revenue collection performance in Lira District Local Government (r = 0.779, p < 0.01) and the model summary for the regression shows an adjusted R^2 of 0.604 which means that 60.2% of the variation in Local Revenue Collection Performance can be explained by tax administration. The study therefore concludes that tax administration has a relationship with local revenue collection performance in Lira District Local Government. The study recommends improvement in tax administration in Lira district local Government in order to achieve stronger enforcement which will in return improve local revenue collection performance.

Key Words: *Tax administration, Tax Identification, Tax assessment, Tax Collection Procedure and Local Revenue Collection Performance*

1.Introduction

1..1 Background

Globally, the cardinal responsibility of any government is to provide infrastructural, social and economic developments and to safeguard the lives and properties of its citizens (Soetan, 2017; Pantamee & Mansor, 2016). Consequently, the government levies various taxes on its citizens, properties and companies that fall within the tax net in order to provide the needed developmental and social programs (Soetan, 2017). Tax administration is therefore one of the key requirements for significant development and economic stability is the ability to raise resources domestically sufficient to meet a country's budget needs (Maria, Milly, & Ronald, 2021).

In Uganda, tax administration can be traced back to the early 18th and late 19th centuries, when Great Britain began some of its projects that required a continuous flow of resources from the subjects in the form of taxes (Agwang, 2019; SEATINI-Uganda, KIWEPI, USAID, & DFID, 2017; Rose, 1950; Matovu, 2018). The need for public revenue necessitated the imposition of additional taxes, and many people were concerned about how tax was administered compared to other countries (Ssenjala, 2017; Sylvester & Ade, 2017).

According to Organization for Economic Cooperation and Development (OECD), Uganda's tax-to-GDP ratio in 2018 (11.8%) was lower than the average of the 30 African countries in Revenue Statistics in Africa 2020 (16.5%) by 4.7 percentage points and also lower than the Latin America and the Caribbean (23.1%) (OECD, 2020). In the 2018/19, compared with other Eats African Community (EAC), Uganda recorded a tax to GDP ratio of 15.1%. Kenya, at 16.5% generates more revenue domestically, followed by Rwanda (15.2%), Uganda (15.1%), Tanzania (13.2%) and Burundi (13.4%). Uganda, like many other developing countries, has struggled with ineffective revenue

administration for decades, with brief periods of improvement along the way (Andema & Astrid, 2017; Katerina & Ljupco, 2019; Maria, Milly, & Ronald, 2021).

In the pursuit of local governance, most local governments in Sub-Saharan African Countries have followed the concepts of decentralization and devolution, a sequence of political, administrative, and fiscal decentralization – making raising local revenue to become a priority for most Local Governments in Sub-Saharan African countries as a result of decentralization (Manual Rodriguez Bolivar, Laura, & Maria, 2015; SEATINI-Uganda, KIWEPI, USAID, & DFID, 2017).

In Uganda, the Constitution of the Republic of Uganda provides for a system of decentralization and Local Governments, which is further consolidated in the Local Governments Act 1997, Cap 243. Similarly, Chapter 11, Article 176(1) of the Constitution of the Republic of Uganda provides for a decentralized system of local government. However, the inadequacy of locally generated revenue has remained a major challenge for LGs over the last decade, and its slow collection has threatened to undermine the gains achieved so far under Uganda's decentralization strategy (SEATINI-Uganda, KIWEPI, USAID, & DFID, 2017).

Local revenue collection performance has remained low, for instance, according to Uganda Bureau of Statistics (UBOS) report, during the FY 2016/17, locally raised revenue accounted for only 4.4 percent of the total Local Government (UBOS, Statistical Abstract, 2018) and during the FY 2017/18, Locally raised revenue accounted for only 4.7 percent of the total Local Government revenue of which raised taxes accounted for 1.8 percent while the other non-tax revenue accounted for 2.9 percent (UBOS, 2019). The persistent low revenue collection performance could be as a result of ineffective Tax Identification, Tax Assessment, and Collection Procedures (Musoke, 2017; Okello, 2017). As a result, the study was conducted to examine the relationship between tax administration and local revenue performance in the Lira district.

1.2 Statement of the Problem

Despite the quest to improve local revenue collection performance, many local government local revenue collection performance has remained poor (Okello, 2017). The low revenue collection performance could be due to ineffective tax administration (Musoke, 2017). It is against this background that the study examined the relationship between tax administration and local revenue performance in the Lira district.

1.3 Research Objectives

To assess the relationship between tax administration and local revenue collection performance in Lira District Local Government

1.4 Hypotheses of the study

The study was based on the null hypothesis no relationship between tax administration and local revenue collection performance in Lira District Local Government.

2. Literature Review

Effective tax administration is critical for long-term development because of the following factors: (a) the ability to mobilize domestic tax bases as a key mechanism for developing countries to avoid relying on foreign aid or a single resource, and (b) the reinforcement of government legitimacy by promoting government accountability to the public, who are the tax payers (Atuhairwe, Tugume, & Ainebyona, 2019; GAPP, 2017; Musoke, 2017). Revenue collection is one of the most important functions of local government. According to the MOLG publication, (2003) LGA, 1997, section 8(4), the annual budgets of local governments must reflect all revenues to be collected or received for each financial year. Local government revenues shall be regulated as provided for in the fifth schedule, according to Section 79. These legal provisions give certain people and institutions, such as the council, the Chief Administrative Officer (C.A.O), and the Resident District Commissioner (R.D.C), roles and responsibilities there is effective tax administration to enhance local revenue collection performance.

The important aspect of tax administration includes tax payers identification, tax assessment, and tax collection procedures which enhance revenue performance (Andema & Astrid, 2017; Matovu, 2018; Atuhairwe, Tugume, & Ainebyona, 2019; Okello, 2017). As one of the most important aspects of tax administration is tax payer identification (Andema & Astrid, 2017; Matovu, 2018; Atuhairwe, Tugume, & Ainebyona, 2019). This is because as more taxpayers are identified and reported, the number of people who would otherwise evade

taxes decreases as a result (Musoke, 2017; Okello, 2017) noted revenue collection would improve if taxpayers were known and tracked, as was the case in Bolivia. As a result, the focus should be on finding new local tax bases, which also includes identifying taxpayers (Nagujja, 2019; Okello, 2017)

Assessment is another aspect of tax administration (Okello, 2017; Andema & Astrid, 2017) which is the procedure for calculating or measuring a tax liability. Any tax formula is made up of two parts: the assessment object and the function (Atuhairwe, Tugume, & Ainebyona, 2019). This function relates the amount of revenue to be raised from individual tax payers to the number of assessable objects in their possession, i.e. the revenue-to-tax-base relationship. There will be no way to increase the collection of local revenue to overall budget revenue without such interventions (Matovu, 2018; Okello, 2017).

Revenue collection procedures are the most significant aspect of tax administration and its target, when violent and intimidating methods are used in tax collection, taxes can be unpopular, which emphasizes the idea that tax collection practices should be straightforward and equal to tax payers (Andema & Astrid, 2017). It was made clear that the key reason for graduate tax non-compliance was a bad collection process. Tax administration should be improved in order to achieve stronger enforcement. He claims that countries should improve tax administration operations, including collection procedures, in order to achieve better revenue collection performance (Atuhairwe, Tugume, & Ainebyona, 2019; Okello, 2017).

3. Materials and Methods

3.1 Research Design and approach

The researcher used a correlational design. This design enabled the researcher to establish the relationship between tax administration and local revenue performance in the Lira district. The study adopted a cross-sectional research design because it enabled the researcher to collect data on tax administration and local revenue performance just once that is in a snapshot at a particular point in time. The study adopted a quantitative approach because it enables the researcher to measure responses and describe the phenomenon in numerical terms.

3.2 The study population

The study population was 140 which comprised of both technocrats and political leaders. The technocrats included; CAO, staff from Audit department, Planning Unit, , Finance and Sub accountant. The political leaders included district chairperson, chairpersons of sub counties of Wiodyek, Itek, Barr, Amach Town Council, Agali, Ogur, Ayami, Agweng Town Council, Agweng and Aromo and district councilors.

3.3 Sample Size and Sampling Methods

103 respondents were considered using the R.V. Krejcie and D.W. Morgan (1970) table. To shape a sample, a purposive sample was used to select Chief Administrative Officers, Sub county Chiefs, District Chairperson, and Sub County Chairpersons. Simple random sampling used to choose elected representatives such as Accounts Personnel, and Local Councilors. This method was used because it is impartial and allows for results to be generalized.

3.4 Data collection instruments
A questionnaire was used to collect the data. The questionnaire was structured in such a way that respondents were able to complete it with little supervision hence self-administered. To measure variables, these questions were constructed using a five-point Likert-type scale of 5"Strongly Disagree", 4"Disagree", 3"Not Sure, 2"Agree" and 1"Strongly Agree" (Cooper and Schindler, 2008). The scale was used because it offers multiple choices so the respondents simply had to select answers from the already predetermined feedback.

3.5 Data analysis
Data was analyzed using SPSS 20 for Windows. Bivariate analysis in form of Pearson's product moment correlation was used to show the direction and strength of the relationship between each dimension of tax administration and local revenue collection performance. Regression analysis was also used to test the effect of tax administration on local revenue collection performance in Lira District Local Government. In testing the significance of the model, adjusted R^2 was used to measure the extent to which the variation in local revenue collection performance explained each construct of tax administration. F-statistics was computed at 95% confidence level to test whether there was significant relationship between tax administration and local revenue collection performance.

4. Results

The result is provided in relation to the null hypothesis of no relationship between tax administration and local revenue collection performance in Lira District Local Government. A correlation was performed to assess whether there was a relationship between tax administration and local revenue collection performance in Lira District Local Government. The result of the bivariate are summarized in the table 1 below;

Table 1: Bivariate Correlations between Tax Administration and Local Revenue Collection Performance in on LDLG

		Tax Administration	Local Revenue Collection Performance
Tax Administration	Pearson Correlation	1	.779**
	Sig. (2-tailed)		.000
	N	103	103
Local Revenue Collection Performance	Pearson Correlation	.779**	1
	Sig. (2-tailed)	.000	
	N	103	103

**. Correlation is significant at the 0.01 level (2-tailed).

The results in table 1 above, show that there is a strong significant correlation between tax administration and local revenue collection performance of Lira District Local Government (r = 0.779, p < 0.01). The implication is that tax administration enhances local revenue collection performance. Therefore, it can be argued that tax administration must be improved so as to enhance local revenue collection performance of local government.

The regression analysis was also carried out to test the objective of the study which was to assess the relationship between tax administration and local revenue collection performance in Lira District Local Government. The results for the regression are shown in table 2

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779a	.607	.604	.41004

a. Predictors: (Constant), Tax Administration

The model summary for the regression in table 2 above, shows an adjusted R^2 of 0.604 which means that 60.2% of the variation in Local Revenue Collection Performance can be explained by tax administration.

In order to establish whether there was a one slope coefficient of a simple regression model that is not equal to zero and therefore infer on the overall significance of the model, an analysis of the variance (ANOVA) (F-test) was performed. The results are shown in table 3

Table 3: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.283	1	26.283	156.318	.000b
	Residual	16.982	101	.168		
	Total	43.264	102			

a. Dependent Variable: Local Revenue Collection Performance
b. Predictors: (Constant), Tax Administration

The F-test of 156.318 with a significance of 0.000 means that there is a significant relationship between tax administration and Local Revenue Collection Performance in Lira District Local Government because the probability occurring by chance was less than 0.05 (p < 0.05) at a 95% significant level. A test for tax administration and Local Revenue Collection Performance in Lira District Local Government and the results are shown in table 4

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.479	.372		-1.289	.200
	Tax Administration	1.061	.085	.779	12.503	.000

a. Dependent Variable: Local Revenue Collection Performance

From the coefficient 4 above, the t-test results for tax administration was 8.498 with the probability of this occurring by chance of being 0.000, that is, (p < 0.05) 95%, confidence interval, two tails) implying this was statistically significant.

5. Discussion

The study findings revealed that there is a strong positive significant correlation between tax administration and local revenue collection performance of Lira District Local Government (r = 0.779, p < 0.01). The implication is that tax administration enhances local revenue collection performance and therefore, it can be argued that tax administration must be improved so as to enhance local revenue collection performance of local government. This finding is in line with study that the important aspect of tax administration includes tax payers identification, tax assessment, and tax collection procedures which enhance revenue performance (Andema & Astrid, 2017; Matovu, 2018; Atuhairwe, Tugume, & Ainebyona, 2019; Okello, 2017).

The model summary for the regression shows an adjusted R^2 of 0.604 which means that 60.2% of the variation in Local Revenue Collection Performance can be explained by tax administration. As a result, the focus should be on finding new local tax bases, which also includes identifying taxpayers (Nagujja, 2019; Okello, 2017). The same study also asserts that there will be no way to increase the collection of local revenue to overall budget revenue without such interventions (Okello, 2017). According to Andema & Astrid (2017), revenue collection procedures are the most significant aspect of tax administration and its target, when violent and intimidating methods are used in tax collection, taxes can be unpopular, which emphasizes the idea that tax collection practices should be straightforward and equal to tax payers.

6. Conclusion

The study was meant to assess the relationship between tax administration and local revenue collection performance in Lira District Local Government. The findings revealed that there is a strong positive significant correlation between tax administration and local revenue collection performance of Lira District Local Government (r = 0.779, p < 0.01) and the model summary for the regression shows an adjusted R^2 of 0.604 which means that 60.2% of the variation in Local Revenue Collection Performance can be explained by tax administration. The study therefore concludes that tax administration has a relationship with local revenue collection performance in Lira District Local Government.

7. Recommendation

The researcher recommends improvement in tax administration in Lira district local Government in order to achieve stronger enforcement which will in return improve local revenue collection performance. The researcher specifically recommends Lira district local Government to enhance its tax administrative capacity in tax identification, tax assessment and tax collect procedures, this is because local revenue collection performance will improve if taxpayers are known and tracked.

References

Agwang, C. (2019). *Tax Administration and Local Revenue Generation in Tororo District Local Government a Case Study of Malaba Town Council.* Kampala: Kamapala International University.

Amin, M. (2005). *Social Science Research Conception: Methodology and Analysis* . Kampala: Makerere University Printery.

Andema, F., & Astrid, R. (2017). *Eicient and effective Municipal tax Administration:A case study of the Kampala Capital City Authority.* International Growth Center.

Atuhairwe, O., Tugume, P., & Ainebyona, S. (2019). Tax Administration And Tax Revenue Performance Of Kiboga District Local Government Uganda . *International Journal of Advance Research and publication*.

Avis, W. (2017). *Mapping donor activities in support of tax capacity.* K4D Helpdesk report Brighton, UK: Institute of Development studies.

Balunywa, W., Nangoli, S., Mugerwa, G., Teko, J., & Mayoke, K. (2014). Journal of Research in International Business and Management. *An analysis of fiscal decentralization as a strategy forimproving revenue performance in Ugandan Local governments*, 28-36.

Bird, R. (1992). Tax Policy and Economic Development. *Research Paper for Linlcon Institute for Land Policy*.

Bird, R. M. (1992). *he administrative dimension of tax reforms in developing countries. In taxation reform in Developing Countries.* Durham and London: Duke University press .

Bird, R. M. (2015). Improving Tax Administration in developing countries. *Journal of Tax Administration*.

Cacciattolo, M. (2015). Ethical considerations in research. The Praxis of English Language Teaching and Learning (PELT): Beyond the Binaries: Researching Critically in EFL Classrooms . 55–73.

Drummond, P. W., Daal, N. E., & Oliveira. (2012). *Mobilizing revenue in sub Saharan.* Washington D.C: International Monetary Fund: IMF.

Fjeldstad, O., & K.H, H. (2012). Local government revenue mobilisation in anglophone Africa. *International Centre for Tax and Development*.

Freire, Maria, E., & Garzon, H. (2014). *Chapter 4: Managing LocalRevenues.* Washington D.C: World Bank.

GAPP. (2017, May 30). Local Revenue Mobilization and Management in Local Governments. *Presentation made at the Training on Local Revenue Mobilisation in Kitgum*.

Ghuman, K., & Aswathapa, K. (2010). *Management: Concepts, Practice & Cases.* Newdelhi: Tata McGaw Hill Education Private Limited.

Katerina, K., & Ljupco, D. (2019). *Challenges in modern management and modern business that Macedonian organizations face in gaining competitive advantage.* Goce Delcev Univesity-Stip.

Khurana. (2009). *Scientific Management: A Management Idea to Reach a Mass Audience.* New Delhi: Global India Pulication PVT LTD.

Kogler, C., Batrancea, L., Nichita, A., Pántya, J., Belianin, A., & Kirchler, E. (2012). . (). Trust and Power as Determinants of Tax Compliance: Testing the Assumptions of the Slippery Slope Framework in Austria, Hungary, Romania and Russia. . *Journal of Economic ychology*.

Kothari, C. R. (2009). *Research Methodology, 2nd revised edition. New Delhi: .* New Delhi: New Age International Publishing Ltd.

Krejcie, R., & D.W, M. (1970). Determining Sample Size for Research Activities. *Economic Psychological Measurement*, 607 - 610.

Magumba, M. (2019). *Tax Administration Reforms: Lessons from Georgia and Uganda.* ICTD African Tax Administration.

Manual Rodriguez Bolivar, A. N., Laura, A. M., & Maria, D. L. (2015). Risk Factors and Drivers of Financial stability in Local Government.

Maria, J., Milly, N., & Ronald, W. (2021). *Do tax administrative interventions targeted at small businesses improve tax compliance and revenue collection? Evidence from Ugandan administrative tax data.* United University Development World Institute for development Economic Research.

Mascagni, G., Santoro, F., & Mukama, D. (2019). *Teach to Comply? Evidence from a Taxpayer Education Programme in Rwanda.* ICTD Working Paper 91. Brighton: Institute of Development Studies.

Matovu, F. (2018). *Efects of Local Revnue Mangement on Service delivry in Bukomero Town Council, Uganda.* Kampala: Uganda Mangement Institute.

Mohajan, H. K. (2017). Two Criteria for Good Measurements in Research: Validity and Reliability. *Annals of Spiru Haret University. Economic Series*, 59–82.

Musoke, P. (2017). Kampala Financial Recovery Journey. *Presentation given in Hargeisa.*

Nagujja, J. (2019). *The effect of Public Revenue Management on service Delivery in the case of Mpatta Subcounty Mukono District.* Mukono: Mukono Christian University.

OECD. (2020). *Revenue Statistics in Africa 2020 ─ Uganda.* OECD.

okelllo. (2012). *ddff.* lira: nnnn.

Okello, A. (2017). Monitoring Taxpayers' Compliance and Local Revenue Performance in Local Government: A Case of Lira District Local Government. *Research Journal of Finance and Accounting, 8*(22). Retrieved from www.iiste.org

Pantamee, A., & Mansor, M. B. (2016). A modernize tax administration model for revenue generation. *International Journal of Economics and Financial issues*, 192-196.

Robbins, S., & Coulter, M. (2012). *Management* (11 ed.). USA: Prentice Hall.

Robbins, S., & Coulter, M. (2012). *Management.* USA: Prentice Hall.

Rose. (1950). *Revenue management in the railway industry in the USA.*

SDS, & USAID. (2016). *Local Revenue Enhancement Participant Handbook.*

Seatini-Uganda, & Oxfam. (2017). *Taxation in Uganda: Review and Analysis of National and.* Kampala.

SEATINI-Uganda, KIWEPI, USAID, & DFID. (2017). *Local Government Revenue Mobilisation, Allocation and Utilisation.* Kampala: SEATINI-Uganda, KIWEPI, USAID and DFID.

Soetan, T. (2017). Tax Administration and Tax Revenue Generation in Nigeria: Tax payers Perspective. *International Journal of Latest Engineering and Management Research*.

Sridhar, M. (2017). Schools of Management Thought,.

Ssenjala, A. (2017). *Automation of revenue services and revenue generation in Uganda Revenue Authority.* CBC Entebbe and Kampala Office.

Steven, E. (2018). The Impact of Tax Administration on Revenue Generation in Gombe State, Nigeria: Scholedge. *International Journal of Management & Development.*

Storey, J. (1987). *Development in the Management of Human Resources.* University of Warwick.

Sylvester, O., & Ade, O. (2017). Fiscal Federalism and Economic Growth Nexus: Empirical Evidence From Nigeria. *International Journal of Economics, Commerce and Management United Kingdom*, 2. Retrieved from http://ijecm.co.uk/

Tumushabe, G., Elijah, L. M., Daniel, L., & Eugene, S. (2010). . (). *Mornitoring and Assessing performance of Local Government Councli in Uganda; Background , Methodology and Score.* ACODE.

UBOS. (2018). *Statistical Abstract.* Kampala: Government of Uganda.

UBOS. (2019). *Statistical Abstract.* Kampala: Government of Uganda.

URA. (2011). *Taxation handbook: A guide to taxation in Uganda.* Kampala: Fountain Publishers.

Legislation and Regulations

The Income Tax Act, of 1 July 1997, Cap 340 of the Laws of Uganda 2000.

The Income Tax (Amendment) Act 2003, of 1 July, The Uganda Gazette, Volume XCVI, No. 3, of 17 January 2004.

The Income Tax (Amendment) Act 2014, of 1 July, The Uganda Gazette, Volume CVII, No. 61, of 24 October 2014.

The Income Tax (Amendment) Act 2015, of 1 July, The Uganda Gazette, Volume CVIII, No. 38, of 10 July 2015.

The Income Tax (Amendment) Act 2016, of 1 July, The Uganda Gazette, Volume CIX, No. 88, of 30 December 2016.

Local Governments Act 1997 (Cap. 243). Of 24 March, The Uganda Gazette