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Equity in Uganda's Withholding Tax on Resident Employment Incomes:

A Systematic Review

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Abstract
Public policy must consider the intricate relationship between social justice, economic fairness, and taxation equity. Uganda's employment income withholding tax policy aims to efficiently raise revenue, but its impact on equity remains underexplored. This systematic review investigates the equity implications of Uganda's withholding tax policy across different income groups, examining its alignment with principles of fairness. Comprehensive searches were conducted across multiple databases, including PubMed, Scopus, JSTOR, and Google Scholar, using keywords such as "equity," "withholding tax," "employment incomes," "Uganda," and "tax policy." Studies were selected based on predefined inclusion criteria, focusing on those addressing equity within the context of Uganda's tax policy. Standardized tools were used for data extraction and quality assessment, and the findings were synthesized qualitatively. The review encompasses 12 studies, providing diverse insights into the equity effects of Uganda's withholding tax policy. Results indicate a mixed impact on various income groups, with some studies highlighting progressive elements of the policy, while others reveal regressive outcomes disproportionately affecting lower-income earners. The review identifies key areas for policy enhancement, such as improved targeting of tax rates and brackets to foster greater equity. This systematic review underscores the complexity of achieving equitable tax policy. To enhance fairness in Uganda's withholding tax system, policymakers must pursue comprehensive reforms addressing both structural and implementation challenges.

Keywords
Equity, Withholding tax, Employment incomes, Uganda

INTRODUCTION

Background on Uganda withholding tax policy

The first British colonial administrators imposed taxes on East Africans by enforcing a system of mandatory public works, which included clearing forests, establishing administrative buildings and schools, and building roads (Tarus, 2004). The first formal tax, the hut tax, was introduced in 1900. This is when the first common tariff arrangements were established between Kenya and Uganda (Jørgensen, 2023). Customs duty was first imposed on products entering East Africa through the port of Mombasa and intended for Uganda. It was an indirect tax that Ugandans had to pay (Mirembe & Musoke, 2023). For products intended for Uganda that reached East Africa through the ports of Dar es Salaam and Tanga, a similar agreement was later struck with German East Africa (Tanganyika). Revenue resulted from this, and it was sent to Uganda.

The Protectorate government financed its projects mostly through customs taxes. The majority of native Africans were not involved in any activity that would contribute to the expansion of the financial industry. In light of this, the government levied a flat rate poll tax on all adult males adults (Fredrick & Peter, 2019). Native Ugandans were compelled to enter the market sector of the economy by selling their agricultural products or providing services in order to meet the tax payment requirements. Later, a new tax was added to the burden of taxes in order to fund local governments. The Local Authorities' Ordinance, which was the result, produced the first tax laws in 1919 (Natukunda, 2022).

Uganda implemented income tax in 1940 under a Protectorate decree. Initially, only Europeans and Asians could pay for it, but subsequently, Africans were also required (Onek, 2009). The East African Income Tax Management Act, which established the fundamental legal principles of the present income tax legislation, superseded the ordinances in 1952. Jackson & Rosberg, (2022) state that the East African Income Tax Management Act of 1958 superseded the East African Income Tax Management Act of 1952.

Up to its dissolution, the East African Community's (EAC) agencies handled the administration of both income tax and customs duties. Regional taxing legislation and uniform administration were part of the EAC arrangement, but the national governments also referred to as partner states retained the authority to set tax rates.

The Income Tax Department was moved to the Ministry of Finance in 1974, while the Customs Department was transferred in 1977, following the collapse of the EAC (Mukani, 2021).

The Uganda Revenue Authority, a corporate organization created by an Act of Parliament, took over the role of managing taxes for the Central government in 1991, replacing the Ministry of Finance. Tanzania, Kenya, and Uganda re-established the EAC in 1999. The EAC was joined in 2007 by Rwanda and Burundi. As stated by Atuhairwe, Tugume & Ainebyona., (2020), the East African Community Customs Management Act 2004 (EAC-CMA) was passed by the EAC in December 2004.

The Uganda Revenue Authority Act (Cap 196) oversees the management of the East African Customs Union, encompassing legal and administrative matters and operations in Uganda (Nagadya, 2017). Article 152 (1) of the Ugandan Constitution mandates that "No tax shall be imposed except under the authority of an Act of Parliament". Consequently, this Act was established to supply the administrative structure for collecting taxes as outlined in various Acts.

A comprehensive review of Uganda's tax history is essential to understand the fairness of the withholding tax policy. Uganda's tax system has undergone several transformations due to obstacles faced after independence, post-colonial legacies, current economic changes, and various stages of reform and adjustment (Wanyande & Okumu-Ojiambo, 2023). The tax system initially served as a colonial framework designed to advance the interests of the British Empire, and it later evolved into a post-colonial structure aimed at addressing the needs of local development.

Since the 1980s, Uganda has implemented significant economic reforms, such as the liberalization of its economy and the introduction of various tax reforms aimed at broadening the tax base and improving revenue collection (Mawejje & Odhiambo, 2021). Despite these efforts, concerns over equity persist, with debates focusing on whether the tax system effectively addresses income disparities and promotes fairness among different socioeconomic groups. It is crucial to examine equity within the context of Uganda's tax history to create a fair, efficient, and sustainable tax system. This analysis provides insights into the successes and failures of past policies, informs ongoing reform efforts, and ensures that future tax policies contribute to social justice and economic stability. By addressing the equity implications of Uganda's withholding tax policy, policymakers can work towards a tax system that generates necessary revenue while promoting fairness and reducing income inequality.

Employment and Self-Employment Income

The Income Tax Act in Uganda governs the taxation of income from work and self-employment. Despite the fact that both forms of income are taxable, the legal treatment of them differs significantly.

Employment Income

Employment income refers to all earnings received by an individual from an employer. This includes salaries, wages, bonuses, allowances, benefits in kind, and other remuneration related to employment (Reddy, 2020).

Pay-As-You-Earn (PAYE) a withholding tax mechanism requires the Employers to withhold income tax from their employees' salaries and remit it to the Uganda Revenue Authority (Jouste et al., 2023). This is a form of withholding tax. The tax rates for employment income are progressive, meaning they increase with the level of income. As of the latest tax regulations, the rates are structured in brackets, with higher income levels being taxed at higher rates.

Benefits in Kind: Non-cash benefits provided by the employer, such as housing, company cars, and medical insurance, are also taxable and included in the employee’s taxable income. Deductions and Allowances: Certain deductions and allowances may apply, such as pension contributions and social security contributions, which can reduce the taxable income.

Self-Employment Income

Self-Employment Income refers to earnings generated by an individual from their own business activities. This includes income from sole proprietorships, partnerships, and other forms of independent business operations.

Individuals engaged in self-employment are obligated to submit annual tax returns and remit taxes on their income through a self-assessment process. They bear the responsibility for determining their tax liability and making the requisite payments to the Uganda Revenue Authority (URA). The tax rates applicable to self-employment income are progressive, akin to those for employment income. However, self-employed individuals may incur additional taxes contingent upon the nature of their business and the total income generated. To ascertain their taxable income, self-employed individuals are permitted to deduct business-related expenses from their gross income, including expenditures on rent, utilities, supplies, and other operational costs. Furthermore, self-employed individuals are required to pay provisional tax in installments throughout the fiscal year. These installment payments are calculated based on an estimate of their annual income and serve to distribute the tax burden more evenly over the year.

CONCEPTION OF THE STUDY

A rigorous examination of fairness within Uganda's individual income withholding tax policy was undertaken through the establishment of a clear comprehension of equity in the context of tax policy, the delineation of the scope and objectives of the review, and the construction of a robust theoretical framework. The systematic review's objective was to offer a thorough and evidence-based assessment of the equity of Uganda's individual income withholding tax policy, with the intention of informing and enhancing equitable tax policy formulation within the nation.

OBJECTIVES

To explore and evaluate the concept of equity in Uganda's withholding tax policy on employment incomes.

Research Questions

1. What is the definition and scope of equity in tax policy?
2. How does Uganda's withholding tax policy address equity among employment income earners?
3. What are the impacts of the withholding tax policy on different income groups in Uganda?

KEY CONCEPTS

- **Equity in Taxation:** Equity in tax policy refers to the fairness and justice with which tax burdens are distributed among different individuals and groups. It encompasses both horizontal equity (taxpayers with similar ability to pay should pay the same amount) and vertical equity (taxpayers with greater ability to pay should pay more).
- **Withholding Tax:** This is a method of tax collection where tax is deducted at the source of income. In Uganda, withholding tax applies to various forms of income, including salaries, dividends, and interest, among others.
- **Employment incomes** refer to the total compensation or earnings that an individual receives as a result of their employment. This includes all forms of remuneration or benefits provided by an employer to an employee in exchange for the employee's labor or services. For example, wages, salaries, dividends, and other forms of personal income subject to taxation.

Scope and Objectives

The systematic review aims to comprehensively examine the equity of Uganda's withholding tax policy on individual incomes. The specific objectives include:

- **Defining Equity in the Context of Tax Policy:** Understanding what equity means within the framework of Uganda’s tax system and how it is measured.
- **Evaluating the Current Withholding Tax Policy:** Analyzing how the withholding tax policy affects different income groups in Uganda.
- **Assessing the Impact on Different Socio-Economic Groups:** Identifying which groups are most affected by the withholding tax and how the policy influences income distribution and inequality.
- **Providing Policy Recommendations:** Offering evidence-based suggestions to improve the equity of the withholding tax system.

EQUITY AND ITS IMPORTANCE IN A TAX POLICY

An essential goal of equity in tax policy is to guarantee that various population groups receive equitable treatment when it comes to the allocation of tax benefits and responsibilities (Ozai, 2020). Due to its implications for social fairness, economic efficiency, and the legitimacy of the tax system, this concept is important for a number of reasons (McCulloch, Moerenhout & Yang 2021). Using sources as proof, the following are important points on the significance of equality in tax policy:

Economic Efficiency. Equitable tax policies contribute to economic efficiency by minimizing distortions in economic behavior. When taxes are perceived as fair, individuals and businesses are more likely to comply voluntarily, reducing the need for costly enforcement measures (Van den Noord & Heady, 2002).

Social Justice. Tax policy equity promotes social cohesion and lowers economic inequality by ensuring that each person pays their fair contribution toward the financing of public goods and services (Piketty, 2014).

Horizontal and Vertical Equity. Horizontal equity means that taxpayers with similar abilities to pay should bear the same tax burden. Vertical equity suggests that taxpayers with greater ability to pay should contribute more, often achieved through progressive taxation (Verbist & Van Lancker, 2016).

Legitimacy and Public Trust. A tax system perceived as equitable fosters trust in government and its institutions. When citizens believe that the tax system is fair, they are more likely to support public policies and comply with tax laws (Hartley & Jarvis, 2020).
Redistributive Effects. Equitable tax policies can help redistribute wealth, reducing poverty and promoting economic stability. Progressive taxation, for example, can be used to finance social programs that benefit lower-income groups (Causa & Hermansen, 2020).
Policy Implications and Reform. Understanding the importance of equity in tax policy helps inform tax reforms aimed at creating a more balanced and just society. Policymakers use equity principles to design tax systems that mitigate adverse effects on vulnerable populations.

The impacts of the withholding tax policy on different income groups in Uganda
Analyzing how the withholding tax policy affects different income groups in Uganda involves examining the structure and impact of the policy on various segments of the population. Withholding tax is a prepayment of income tax, deducted at the source from employees' salaries and wages.

Structure of Withholding Tax on employment income in Uganda
Uganda's withholding tax policy on employment is meticulously crafted to ensure efficient tax collection and enforce compliance at the point of payment. The key features of this policy include:

1. **Progressive Tax Rates:** Uganda employs a progressive income tax system wherein higher income brackets are subjected to higher tax rates. This means that the withholding tax rates escalate with increasing levels of income, aligning with the principle of vertical equity in taxation.
2. **Tax Bands:** The policy delineates different income groups into distinct tax bands, each associated with a specific tax rate. For instance, lower-income earners are placed into lower tax bands, which are subject to minimal tax rates, whereas higher-income earners fall into higher tax bands with correspondingly elevated rates.
3. **Allowances, Benefits, and Deductions:** The policy also accommodates various allowances, benefits, and deductions, which can significantly impact the net taxable income. These provisions are designed to ensure that the withholding tax reflects an individual's actual taxable capacity, thereby promoting fairness in the tax system.

Withholding tax implications on Different employment income earners
According to Uganda Revenue Authority, (2022) Uganda's employment income is tax according to income bands.
First Band of Income Earner. According to the income tax of Uganda this group earns from 0 to 235,000 per month or 0 to 2,820,000 per annum**.** Employees under this category nil tax liability, meaning that they do not pay any income tax on their earnings. This scenario typically arises due to the structure of Uganda's tax system, which incorporates progressive tax rates and various allowances, deductions, and exemptions.
Second band of Income Earners. This income band encompasses individuals earning between Shs.235,000 and Shs.335,000 Ugandan Shillings per month, or between Shs.2,820,000 and Shs.4,020,000 Ugandan Shillings per annum. The tax liability for this group is calculated at a rate of 10% on the amount by which their chargeable income exceeds Shs.235,000 per month or Shs.2,820,000 annually. The tax to this band generally falls within the lower tax bands, leading to a smaller proportion of their income being withheld as tax. Consequently, the tax liability for this group is relatively lighter, thereby minimally reducing their disposable income. This allows low-income earners to retain a larger share of their earnings, which is essential for meeting their daily living expenses. The comparatively lower tax burden helps sustain their purchasing power, thereby supporting their basic consumption needs.
Third Band Income Earners. This income band is made income earner between Shs.335,000 and 410,000 per month or Shs.4,020,000 and 4,920,000per annum. The tax liability for this band is Shs,120,000 (shs.10,000 pm) plus 20% of the amount by which chargeable income exceeds shs.4,020,000 (shs.335,000 pm). This tax band of income earners fall into higher tax bands compared to low-income earners, resulting in a higher percentage of their income being withheld. The disposable Income under this group experiences a more significant reduction in their disposable income due to higher withholding tax rates. Therefore, savings and investments under this band are affected by an increased tax burden which impact their ability to save and invest, as a larger portion of their income is allocated to taxes.
Fourth band Income Earners. Income earners under this band are those from above 410,000 per month or 4,920,000 per annum and above. The tax liability for this band calculated as:

a) Shs 300,000 (Shs.25,000 pm) plus 30% of the amount by which chargeable income exceeds shs.4,920,000 (shs.410,000) and
b) Where chargeable income of an individual exceeds shs.120,000,000 (shs.10,000,000 pm) and additional 10% charged on the amount by which chargeable income.

Under this band High-income earners are subject to the highest tax rates. A substantial portion of their income is withheld as tax. Despite higher tax rates, income earners under this band typically still have a significant amount of disposable income due to their higher earnings.
The withholding tax policy in Uganda has a significant impact on different income groups, with the aim of promoting equity through a progressive tax system (Ayago, 2015). While low-income earners benefit from a lighter tax burden,

middle- and high-income earners contribute a larger share of their income. Ensuring the policy's effectiveness and equity requires continuous efforts to improve tax administration, broaden the tax base, and enhance public awareness.

THEORETICAL FRAMEWORK

Social equity and public finance theories serve as the foundation for the theoretical framework that underpins this analysis. It references many important theories:

- The ability-to-pay concept, which holds that taxes should be imposed according to a person's financial situation, suggests that those with greater earnings should be required to pay a larger share of the tax burden. This idea serves as the foundation for the vertical equity notion.
- Marginal utility theory suggests that the value or satisfaction gained from each additional unit of income decreases as income increases.
- Redistributive Justice: Progressive taxation can increase overall societal welfare by reallocating resources from those with less need for additional income to those with more.

METHODOLOGY

- **Search Strategy.** A thorough search plan was created, which was necessary to carry out a systematic review. All pertinent material was found and included in the review thanks to the search method. The databases to be searched, the keywords and search strings to be utilized, the inclusion and exclusion criteria, and the procedure for organizing and documenting search results are all described in this section.
- **Databases to Search.** To ensure a broad and comprehensive search, the following databases will be used: PubMed, Scopus, JSTOR, Google Scholar, Web of Science, EconLit, ProQuest Dissertations & Theses, Government and Policy Databases (e.g., Uganda Revenue Authority publications, World Bank, IMF)
- **Keywords and Search Strings.** A combination of keywords and search strings using Boolean operators will be employed to capture all relevant literature. Keywords are divided into three main categories: equity, withholding tax, and Uganda. Keywords included equity, fairness, social justice, equality, inequality, withholding tax, tax policy, income tax, taxation, tax system, Uganda, East Africa, developing countries, sub-Saharan Africa.

Inclusion and Exclusion Criteria

Inclusion Criteria:

- Scope 2009 to 2024
- Studies focusing on tax policy in Uganda.
- Articles discussing equity in tax systems.
- Publications in English.
- Peer-reviewed articles, government reports, and policy papers.

Exclusion Criteria:

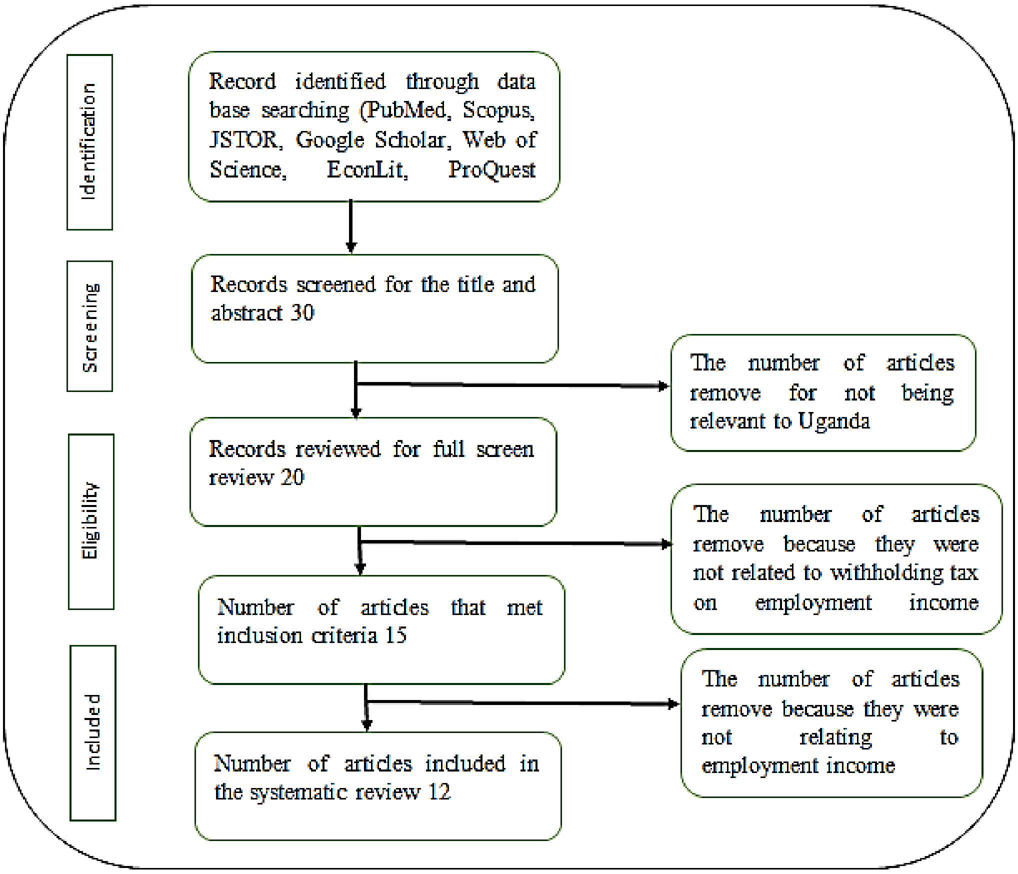
- Studies not related to tax policy.
- Articles not addressing equity.
- Non-English publications.
- Opinion pieces without empirical data.

Data Extraction

A standardized data extraction form was created to systematically collect relevant information from each article that was included in this study. The form capture, Bibliographic details (author, year, title, journal), Study design and methodology, Key findings related to equity in tax policy, Data on the impact of withholding tax on different income groups and Policy recommendations and conclusions

Recording Search Results

- Search Log: we maintain a detailed search log documenting the databases searched, search strings used, date of search, and the number of results obtained.
- PRISMA Flow Diagram: Use the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) flow diagram to record the number of studies identified, screened, eligible, and included in the review.



Summary of selection search for the evaluated Articles in the systematic Review

- Reference Management: Use a reference management tool Zotero to organize and manage all references.

FINDINGS/ RESULTS

The systematic review included twelve studies focusing on the equity of Uganda's withholding tax on resident employment incomes, published between 2009 and 2024 this is because major tax reform has taken place within this period. The studies employed various methodologies, including qualitative, quantitative, and mixed methods approaches, and utilized data from surveys, statistical analysis, policy analysis, and government reports.

In the working paper titled "Boosting Revenue Collection through Taxing High Net Worth Individuals: The Case of Uganda" Kangave, Nakato, Waiswa, and Zzimbe., (2016), the authors address the enhancement of tax revenue collection by focusing on high net worth individuals (HNWIs) in Uganda. This study sets out several key objectives included the Assessment of Wealth Accumulation: This involves a comprehensive examination of the mechanisms through which wealth is accumulated in Uganda. By understanding the sources and economic dynamics influencing asset accumulation among HNWIs, the study aims to identify critical factors and trends in wealth accumulation. The paper evaluates the current legal framework governing individual taxation and significant cash transactions. The objective is to identify legal gaps and deficiencies that hinder effective taxation of HNWIs and propose necessary amendments. However, this paper did not evaluate the impact of withholding tax policy address equity among employment income earners.

The study conducted by (Agaba, Tieu, Jouste, and Arinaitwe., (2023) utilizes the Uganda Revenue Authority Pay-As-You-Earn (PAYE) data with several key objectives were, To evaluate the personal income tax reform implemented in 2012. To investigate the income distribution of top earners in Uganda. To assess data quality through rigorous checks and adjustments, including the identification and exclusion of anomalies within the datasets. To analyze discrepancies and anomalies in tax liabilities within the Returns and Assessments datasets. To explore potential applications of the PAYE data for studying employment status, wage income distribution, firm survival, hiring trends, and broader income distribution within Uganda. to determine if it would be possible to combine PAYE data with other tax datasets at the Uganda Revenue Authority in order to do more thorough analysis. to comprehend the PAYE schedule's progressivity and monitor changes in PAYE income over time. Unfortunately, this study did not assess a primary goal of the research, which was to assess how the withholding tax policy affects fairness among employment income earners and how it affects various income categories in Uganda.

Jouste, Kaidu, Okello, Pirttilä, and Rattenhuber., (2021), in their study on the effects of personal income tax reform on employees' taxable income in Uganda, their aim was to evaluate the impact of the 2012-13 personal income tax reform in Uganda by analyzing the effects on employees' taxable income. Specifically, the objectives included assessing the impact of the new top tax bracket on the top one percent of taxpayers, examining responses to tax rate changes across different income levels, evaluating the elasticity of taxable income in Uganda post-reform, investigating the revenue implications considering taxpayer behavior, and contributing to the limited literature on personal income tax reform in low-income countries, particularly in Africa. Through these objectives, the study sought to provide valuable insights into the consequences of tax policy adjustments on taxable incomes and revenue outcomes, thereby enhancing the understanding of tax systems in developing nations However, this article does not consider the issue of equity in terms of allowable deduction and tax credit on employment income of an individual.

In another study conducted by Mawejje & Odhiambo, (2021) titled "Uganda's fiscal policy reforms: What have we learned?" provided insights into the evolution of fiscal policy objectives, the challenges faced, and the outcomes of the reform programs implemented in Uganda over the years. The methodology includes examining the historical context of fiscal policy reforms in Uganda, analyzing trends in fiscal deficits, revenue collection, budget execution efficiency, public investment management, and debt management. The study also explores the impact of external factors such as aid inflows on fiscal deficits and debt accumulation in Uganda the interventions discussed in the document regarding Uganda's fiscal policy reforms. These interventions reflect Uganda's ongoing efforts to address fiscal challenges, promote economic growth, and enhance fiscal sustainability through various policy reforms and initiatives. This study focused on the macro-economic position of Uganda which makes the on equity on taxing employment of resident taxpayer relevant.

Ninah Marjorie Nakiyimba (2023), in her article "Social Inequality: How Governments' Tax Policies Impede SDG Achievement," explores the complex interplay between governmental tax policies, social inequality, and the hindrance of progress towards the Sustainable Development Goals (SDGs). The study employs a multifaceted methodological approach, including a comprehensive literature review to establish a foundational knowledge base, the analysis of case studies from various countries to illustrate the impact of tax policies on social inequality and SDG progress, and data analysis to quantify the effects of corruption and fund misallocation on public services. Furthermore, the study conducts comparative analyses of taxation systems and public service provision practices, culminating in policy recommendations aimed at promoting progressive taxation, transparency, accountability, and international cooperation for sustainable development. When combined, these techniques improve our knowledge of how tax laws may either worsen social inequality and make it harder to achieve the SDGs, or they can promote inclusive growth and help us get closer to these objectives. This article, however, does not take Ugandan employment income equity into account.

Mukoki, Mukisa, Ssebulime, and Musoke., (2024) conducted a study titled "Asymmetric Analysis of the Impact of Taxation on Unemployment in Uganda," which primarily focuses on analyzing the relationship between taxation and unemployment using the nonlinear autoregressive distributed lag (NARDL) model. The study did not explicitly address objections or counterarguments within the provided text but rather concentrated on examining both the short-run and long-run effects of taxation on unemployment, considering the nonlinear nature of this relationship.

Tonui, (2022) in his paper, "An Evaluation of Uganda's Tax System Using the Criteria of a Good Tax System," the aim of this article was to assess Uganda's tax system against the established principles of an effective tax system and compare its tax effort and performance with those of other sub-Saharan African countries. The criteria used in this evaluation include effective administration, equity and fairness, convenience of payment, certainty, transparency and accountability, simplicity, efficiency, neutrality, and minimizing the tax gap. The data sources for this study encompass Uganda's fiscal policy environment, legal framework on taxation, and recent tax reforms. Based on the evaluation presented, several interventions are recommended to address the challenges and enhance the effectiveness of Uganda's tax system.

Markus, Nalukwago and Waiswa., (2022) conducted a study titled "Income Distribution in Uganda Based on Tax Registers: What Do Top Incomes Say?" The study aim was to analyze income distribution in Uganda using data from tax registers. Investigate the insights top incomes can provide regarding income distribution in the country. Explore trends and patterns of income distribution among different population segments. Contribute to understanding income inequality and poverty in Uganda. Provide valuable information for policymakers and researchers to develop effective strategies for poverty alleviation and economic development in Uganda. The methodology involved analyzing income data from the Uganda Revenue Authority (URA) tax registers from 2011 to 2017 to estimate top income inequality, focusing on the top percentiles of the income distribution. The study specifically concentrated on the top 1%, 0.1%, and 0.01% of the income distribution to examine trends in income concentration at the very top.

The study conducted by Agaba, Tieu, Jouste, and Arinaitwe., (2023) on the Uganda Revenue Authority Pay-As-You-Earn (PAYE) data aims to achieve several objectives which included Evaluating Personal Income Tax Reform: Assessing the impact of the 2012 reform on personal income tax. Investigating Income Distribution: Analyzing the distribution of top incomes within Uganda. Assessing Data Quality: Implementing checks and adjustments to ensure data quality, including the identification and removal of anomalies. Analyzing Tax Liability Discrepancies: Examining discrepancies and anomalies in the Returns and Assessments datasets. Exploring PAYE Data Utilization: Investigating the potential applications of PAYE data for studying employment status, wage income distribution, firm survival, hiring trends, and overall income distribution in Uganda. Understanding PAYE Progressivity and Revenue Trends: Evaluating the progressivity of the PAYE schedule and monitoring PAYE revenue trends. These objectives are designed to yield valuable insights into the PAYE system's functionality, enhance tax administration, and contribute to the development of efficient and equitable tax systems in Uganda.

The study conducted by Jouste, Barugahara, Okello, Pirttilä, and Pia Rattenhuber., (2021) on taxpayer response to increased progressivity in Uganda the study aims were to evaluate the Effects of Personal Income Tax Reform, Assess the impacts of a significant personal income tax reform implemented in Uganda during 2012-13, Analyze Labor

Income Reporting: Examine the effects of the tax reform on reported labor incomes using comprehensive pay-as-you-earn (PAYE) administrative data from the Uganda Tax Authority. Investigate Behavioral Reactions: Explore behavioral responses among taxpayers, particularly focusing on high-income workers across various taxpayer offices. Assess Revenue Implications: Evaluate the revenue consequences of the tax reform and its impact on after-tax income inequality. These objectives guide the analysis and findings of the study, focusing on the impact of personal income tax reform on taxpayer behavior and revenue outcomes in Uganda.

In their study Kangave, Nakato, Waiswa, Nalukwago, and Lumala Zzimbe., (2018) titled What Can We Learn from the Uganda Revenue Authority's Approach to Taxing High Net Worth Individuals? Uganda Revenue Authority (URA) developed a strategic approach to taxing high net worth individuals (HNWIs) with the following objectives. (1) Engagement and Education: The URA emphasizes engaging HNWIs, providing them with comprehensive education and services to ensure compliance with tax regulations, while informing them about their rights, obligations, and commercial activities. (2) Enhancing Compliance: The URA aims to improve compliance levels among HNWIs through a combination of education, service provision, and enforcement actions, fostering a culture of voluntary compliance. (3) Efficient Operations: By restructuring tax offices, such as the Large Taxpayer Office and Politically Sensitive Operations, the URA seeks to enhance operational efficiency to better serve various taxpayer segments, including government organizations and HNWIs. (4) Building Trust and Cooperation: The URA prioritizes trust and cooperation, establishing strong relationships with HNWIs through regular interactions, a mutual understanding of tax issues, safeguarding sensitive information, and ensuring a robust legal framework to encourage voluntary compliance and proactive issue resolution.

James R. Repetti from Boston College Law School Repetti, (2019) in his article "The Appropriate Roles for Equity and Efficiency in a Progressive Individual Income Tax"

The primary objectives of the article are to underscore the importance of balancing equity with efficiency in the formulation of tax policy. The article emphasizes the significant, measurable costs of inequality on health, social well-being, intergenerational mobility, and the democratic process. Repetti argues that while the efficiency gains from low individual tax rates are often speculative, the clear and demonstrable harms caused by inequality justify prioritizing equity over efficiency. This prioritization is especially pertinent given the high levels of inequality in the United States and the current low and flat tax rate structure. The article posits that prioritizing equity in a progressive individual income tax system is advantageous for public health, economic mobility, and the stability of democratic institutions.

DISCUSSION AND CONCLUSIONS

Equity in taxation is a principle that ensures a fair distribution of tax burdens among individuals, considering their ability to pay (Frecknall-Hughes, 2020). Evaluating the existing system's compliance with this concept is critical in light of Uganda's withholding tax on resident employment incomes. Using a thorough analysis of the body of prior research and empirical data, this conversation examines the implications of Uganda's withholding tax system for fairness.

Understanding Uganda's Withholding Tax System

Uganda's withholding tax on resident employment incomes is a mechanism where employers deduct a portion of an employee's salary at source before it reaches the employee. This tax aims to streamline tax collection and ensure compliance. The tax rates are typically progressive, meaning that higher income earners pay a higher percentage of their income in taxes.

Vertical equity is a principle of taxation that suggests individuals with higher incomes should pay more in taxes, both in absolute terms and as a percentage of their income, compared to those with lower incomes (Douenne, 2020). This principle is often operationalized through progressive tax systems, where tax rates increase with income. Tax bands, or tax brackets, are a common mechanism used to implement vertical equity in tax systems. Uganda's progressive tax system theoretically upholds vertical equity. However, the practical implementation can sometimes deviate due to loopholes, tax evasion, and enforcement challenges.

In Uganda context, Vertical equity is implemented through progressive tax bands which ensures that taxpayers with higher incomes contribute a larger share of their income in taxes, promoting fairness and aligning with the ability-to-pay principle. While this approach helps redistribute income and reduce inequality, it also presents challenges related to economic incentives, administrative complexity, and tax compliance. Policymakers must carefully design and manage tax bands to balance the goals of equity, efficiency, and revenue generation. According to Kindermann & Krueger, (2022) the theory marginal utility suggests that the utility or satisfaction gained from each additional unit of income decreases as income increases. In this regard the Ugandan Fourth band Income Earners (i.e., 410,000 and above). The ability-to-pay principle is a foundational concept in taxation, suggesting that taxes should be levied according to an individual's capacity to pay. This principle supports progressive tax brackets where higher income earners pay a higher percentage of their income in taxes. In the context of Uganda, this principle is defied by categorizing lower income earner with higher income earners i.e. (410,001 and above) tax brackets.

Horizontal equity necessitates that taxpayer with comparable incomes should incur similar tax liabilities. In Uganda, discrepancies in enforcement and the prevalence of informal sector employment can compromise horizontal equity. Individuals employed in the informal sector frequently evade the tax system altogether, leading to disparities between individuals with equivalent earnings across different sectors (Gonzaga, Moser, & Olivieri., 2022). The application of horizontal equity in Uganda's employment income tax system, without accounting for employment Tax deductions and tax credit reliefs, challenges the fundamental principle of the taxpayer's ability-to-pay. This principle asserts that taxation should be based on an individual's capacity to pay.

Tax benefits or reliefs according to Bastian & Jones, (2021) are provisions in the tax code that provide taxpayers with various forms of relief, leading to a reduction in their tax liabilities. These benefits are designed to incentivize certain behaviors, support specific activities, or provide relief to certain groups of taxpayers.

Tax relief on employment income relating to horizontal equity:

Tax relief on employment income typically includes measures like tax deductions, tax credits, and exemptions that reduce the taxable income or tax liability for individuals. Common forms of tax relief include:

1) Standard Deductions. A fixed amount that all taxpayers can deduct from their gross income.
2) Employment tax Deductions. Specific expenses that can be deducted, such as mortgage interest, charitable donations, and medical expenses.
3) Tax Credits. Direct reductions in tax liability, such as credits for childcare, education, or earned income.
4) Exemptions. Allowances for dependents, which reduce taxable income based on the number of dependents a taxpayer supports.

The equity of Uganda's withholding tax on resident employment incomes is influenced by multiple factors, including income levels, enforcement efficiency, and sectoral disparities. While the progressive nature of the tax system aligns with vertical equity principles, practical challenges and disparities undermine both vertical and horizontal equity. Addressing these issues through targeted policy measures can enhance the fairness and effectiveness of Uganda's tax system, ensuring a more equitable distribution of the tax burden across all income groups.

RECOMMENDATIONS

To enhance equity in Uganda's withholding tax on resident employment incomes, several policy measures can be considered.

1) Employment allowable tax deductions and tax benefits or reliefs should be incorporate in the employment income tax.
2) Broadening the Tax Base. Incorporating informal sector workers into the tax system can distribute the tax burden more equitably.
3) Progressive Tax Adjustments. Regular adjustments to tax brackets and rates can ensure that the tax system remains responsive to inflation and income distribution changes.
4) Strengthening Tax Enforcement. Improved tax enforcement mechanisms can reduce evasion and ensure that all eligible incomes are taxed fairly.

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