RELATIONSHIP BETWEEN TAXATION AND MACROECONOMIC INDICATORS IN UGANDA FOR THE PERIOD OF 1991-2016.

CASE STUDY: UGANDA REVENUE AUTHORITY (URA).

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ABSTRACT

This study analyses the relationship between taxation and other macro-economic conditions in Uganda. The specific objectives of this study were: to examine the relationship between the level of interest rate and taxation, to examine the relationship between foreign exchange rate and taxation, to examine the relationship between the level of exports and imports and taxation and lastly to examine the relationship between the real Gross Domestic Product and taxation. Secondary Data was analyzed using the Regression analysis. Findings revealed that, macroeconomic indicators positively and significantly predict taxation at Uganda Revenue Authority with R^2 value 60.7%, and Sig. value 0.05. This implies that, 60.7% variability in taxation is explained by macroeconomic indicators, while the remaining 39.3% is the unexplained variables. The researcher therefore, concludes that, macroeconomic indicators highly predict taxation. Furthermore, the findings revealed that; GDP, foreign exchange rate, exports, imports and interest rate on average explain 57.6 percent total variation in the total revenue collected (Adjusted R-squared=0.576). The F-statistics indicate that the model was well specified (F-statistic=19.2, P<0.05). On the whole; the researcher concluded that macro-economic indicators positively and significantly predict taxation. The study recommends that there is need for URA to initiate policies that moderate the interest rate in the economy and create a favorable investment climate that will in turn increase revenue collected. The study also recommends that there is also need for the Bank of Uganda to control the money supply in Uganda as there is some evidence to suggest appreciation in the value of the exchange rate increases the revenue collected inform of taxes. This may be attributed to the increase in the value of imports that in turn increase the revenue collected through taxes. Lastly, the study recommends that the decisions of policy makers in regard to taxation should be made based upon the best available evidence from a wide range of sources. Looking at GDP alone may not be good enough while determining the tax rate. As much as a high GDP shows an increase in taxes; GDP is not a measure of the overall standard of living or well-being of a country. The researcher therefore conclusively recommends a holistic approach. An approach that focuses on all the macro-economic indicators while formulating tax policies.