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Sustainability Of Tax Reforms In Developing Countries: The Ugandan Case

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Abstract

In developing countries such as Uganda, tax reforms play a critical role in driving economic growth and ensuring the delivery of public goods and services. However, the sustainability of these reforms depends on establishing and maintaining a strong social compact between the government and its citizens. This study is premised on social contract theory and institutional theory, explores Uganda's tax reform dynamics with a focus on their long-term impact on democratic governance, social justice, and economic development. This paper explores the sustainability of tax reforms in Uganda through a comprehensive analysis of key factors influencing the effectiveness and long-term viability of tax policies. Tax reforms have a specific role in shaping the economic landscape of any nation when it comes to development policy. By analyzing the interplay between tax policies, public perceptions, and democratic participation, the study sheds light on the factors influencing the sustainability of tax reforms in Uganda. The findings contribute to theoretical understanding and practical policy recommendations for fostering a sustainable social contract through taxation, thereby advancing the goals of inclusive development and good governance in the region. Additionally, the study analyzes the institutional capacity and governance structures underpinning tax administration and policy implementation, highlighting areas for improvement to ensure the continued effectiveness and resilience of the tax system. By offering insights into the sustainability challenges and opportunities facing Uganda's tax regime, this research informs policymakers, practitioners, and stakeholders engaged in fiscal management and economic development strategies.

Keywords: Tax reforms; Development policy; Sustainable tax systems; Low developing countries

INTRODUCTION

In Uganda, tax reform is essential to both fiscal policy and economic growth. The Ugandan government has realized over time how critical it is to preserve a strong and fair tax structure in order to fund public services, encourage investment, and promote long-term economic progress (Kayaga & Lahey, 2007). Uganda has implemented several tax reforms with the objective of improving the effectiveness, fairness, and transparency of its fiscal system in response to changing global trends, demographic changes, and economic circumstances. In the recent past, scholars, policymakers in developing nations, and the international community have given increasing attention to concerns related to the mobilization of domestic resources, particularly tax income (Hujo & Bangura, 2020).

Uganda has undertaken significant reforms to its tax laws to enhance revenue mobilization and attract investor interest. These reforms include adjusting tax rates, introducing new tax bands and categories, and revising tax incentives and exemptions. These measures align with the recognition that tax revenues are a critical pillar of the structural transformations necessary to achieve the Sustainable Development Goals (SDGs). Indeed, tax revenues constitute a vital source of funding for the implementation of National Development Plans (NDPs) in alignment with the SDGs, underscoring their centrality to sustainable economic development.

Considering its significance, a number of nations have put policies and changes into place to effectively raise tax revenue mobilization. (Bayale et al., 2022). As one of Africa's top fiscal achievers, Uganda offers a fresh and interesting context for analyzing the long-term economic impacts of fiscal policy reform. It is not farfetched to state that developing countries face unique challenges in designing and enacting tax policies that promote economic growth while upholding fiscal justice (Malla & Pathranarakul, 2022). Like many other developing nations, Uganda has problems with a small tax base, high rates of tax evasion, and ineffective tax administration. This study looks into how well tax reform works to mobilize tax revenues in order to promote sustainable development and equitable growth.

Political upheaval, economic mismanagement that weakened the economy's basis, and violent political cycles all contributed to Uganda's economy's downfall after independence. Despite being steady and even doing well at initially, the economy witnessed debilitating reverses in the years that followed, even if the GDP per capita climbed from 130 USD in 1962, the year of independence, to 160 USD in 1970. (Mawejje & Odhiambo, 2021). The economy faced both external terms of trade shocks and internal political difficulties between 1971 and 1979. As a result, the economy had significant foreign exchange shortages

and saw a sharp decline in economic growth, which worsened the budgetary situation (ALANI, 2021). All the advances made after independence were reversed during this period as the economy plummeted.

The International Monetary Fund (IMF) supported the first reform program initiatives in 1980, but they were quickly abandoned because the government could not adhere to the program's goals (Archibong et al., 2021). Not until a new administration took office in 1986 did the planned structural reform program really take off. At the time, mismanagement and conflict had destroyed the economy, leaving it in ruins. The economy was marked by low growth and persistently high budget deficits that resulted in the accumulation of significant debt burdens. These factors were exacerbated by high military spending, a restricted tax base, and unpredictable spending patterns.

The World Bank and the IMF helped the government Uganda to launch a massive Economic Recovery Program (ERP) that began in 1987. With stabilization, poverty alleviation, and liberalization as its main pillars, the program aimed to assist in setting the nation on a course toward recovery (Yindenaba Abor, 2023). With these changes, the government implemented macroeconomic policies that aimed to lessen the role of the government in the economy, eliminate direct controls on exchange rates, prices, and interest rates, and open up the economy to participation from the private sector. The mid-1990s saw a surge in changes as the government implemented tax and public spending cuts, which aided in managing the fiscal crisis (Twesigye, 2023). With the adoption of the Income Tax Act (the Income Tax Act of 1 July 1997, Cap 340 of the Laws of Uganda), presumptive tax was imposed in Uganda in 1997. Subsequent modifications have been made to the presumed tax policy with the aim of streamlining it even more, enhancing adherence, and augmenting revenue acquisitions (Waiswa et al., 2021).

The establishment of Uganda Revenue Authority (URA) in 1991 as a semi-autonomous tax collection organization with the goal of enhancing revenue administration. Sales tax and the Commercial Transaction Levy (CTL) were replaced in 1996 by the introduction of the value-added tax (VAT). In 1997, a new Income Tax Act was passed (Harriet, 2023). The Act removed the majority of optional tax exemptions and tax incentives and expanded the scope of taxable income. The URA has increasingly used technology to improve efficiency and compliance. The introduction of electronic systems for filing and paying taxes has reduced bureaucracy and made it easier for businesses and individuals to comply with tax regulations (Jouste et al., 2021).

The implementation of a streamlined e-filing system and an enlargement project for the taxpayer register, among other administrative modifications aimed at presumed taxpayers, have occurred concurrently with the most recent amendments to the tax law (Basoga, 2019).

In the early 2000s, Uganda enacted a number of important tax reforms, one of which replaced the sales tax with the Value Added Tax (VAT). A lot of work was also put into modernizing and automating the customs and VAT administration (Akandwanaho, 2019). In addition, a number of new initiatives were put into place, such as the Tax Identification Number (TIN), the Large Tax Payer Department (LTD), pre-shipment inspections, the Tax Appeal Tribunal, the General Agreement on Tariffs and Trade (GATT) valuation system, and a method for paying taxes through commercial banks. This led to an increase in revenue, which went from 7.82 percent of GDP in 1990–1991 to 12.6 percent in 2003–2004. (Twesigye, 2023).

Literature Review

Taxation, equity, and development are deeply interconnected concepts in economics and public policy. According to Resnick, (2021) Government operations, including the provision of public goods and services like infrastructure, healthcare, education, and social welfare programs, are mostly financed by taxes. Kouam & Asongu, (2022) narrated that tax policies are crucial for economic growth because they foster an atmosphere that makes it possible for people to engage in the economy and for businesses to prosper. Tax revenues are also utilized to fund investments and development initiatives that promote economic expansion.

Schechtl & Tisch, (2024) defined equity in taxation as fairness and just distribution of the tax burden among different segments of society. Tax systems can be designed to promote equity by ensuring that those who have greater ability to pay contribute proportionally more in taxes. Progressive taxation, where tax rates increase as income levels rise, is one way to achieve this. Additionally, targeted tax breaks or credits for low-income individuals and families can help mitigate the regressive nature of certain taxes.

According to Brys et al., (2016)A well-designed tax system can contribute to both equity and development goals simultaneously. Mujeri, (2022) affirms that by redistributing wealth and income through progressive taxation and social spending, governments can reduce inequality, enhance social cohesion, and foster inclusive growth. In turn, greater equity can lead to more stable and sustainable

economic development by expanding opportunities for education, healthcare, and entrepreneurship among marginalized groups.

Wenjuan & Zhao, (2023) however, state that there are challenges in achieving this balance. Tax policies must strike a delicate equilibrium between raising sufficient revenue for government expenditures and avoiding disincentives to work, save, and invest. van Brederode, (2020) emphasizes that tax systems can be complex and prone to loopholes, evasion, and avoidance, which can undermine both equity and development objectives. Therefore, policymakers need to continuously evaluate and refine tax policies to ensure they align with broader economic and social goals.

Tax reform a pivotal role in driving sustainable development within developing countries, in the same line Ibrahim, (2023) tax reforms delves into various dimensions, including the utilization of taxation as a tool for state-led development, the level significance of fair and equitable tax systems, and the importance of tailoring reforms to address specific developmental needs. According to Ulucak et al., (2020) the analysis how taxation policies can be strategically employed by governments to foster economic growth, reduce inequality, and finance essential public services and infrastructure projects.

According to Bejaković, (2020), examining the principles of fairness in taxation its implication on the how progressiveness of tax structures, can contribute to more equitable wealth distribution and social justice within developing nations. Magwape, (2022) emphases that customizing tax reforms to address developmental challenges is a necessity while tailoring tax reforms to suit the unique socio-economic contexts and developmental priorities of individual countries, considering factors such as informal economies, agricultural sectors, and governance capacity.

Anomah et al., (2024) narrates that capacity building and institutional strengthening plays an important role in enhancing administrative capabilities and governance frameworks to effectively implement and enforce tax policies, thereby improving revenue collection and fostering fiscal sustainability. As also observed by Michelmore, (2022) that addressing the significance of international collaboration and regulatory frameworks in combating tax evasion, illicit financial flows, and harmful tax competition, which can undermine the developmental efforts of countries is very important.

(Qi et al., 2020) states that evaluating the efficacy and potential drawbacks of tax incentives and exemptions in attracting investment and promoting industrialization, while also considering their implications for revenue mobilization and economic diversification should be undermined.

Building public trust and accountability of the tax authority, Kumar, (2024) emphases that exploring strategies for enhancing transparency, accountability, and citizen engagement in the formulation and implementation of tax policies must be given priority, thereby fostering public trust in government institutions and promoting sustainable development outcomes. By examining these themes, the tax authorities would provide insights and recommendations for policymakers, development practitioners, and stakeholders seeking to leverage taxation as a catalyst for inclusive and sustainable development in the context of developing countries.

Theoretical Framework

The study is underpinned by two main theories: Social contract theory and institutional theory of taxation

The Relationship Between Social Contract Theory, Institutional Theory And Tax Reforms

Social Contract Theory postulates that individuals within a society implicitly agree to abide by certain rules and obligations in exchange for the benefits of living in that society. In the context of tax reforms, Social Contract Theory provides a framework for understanding the relationship between citizens and the government regarding taxation. This theory offers a valuable framework for analyzing the reciprocal relationship between citizens and the government concerning taxation.

As Manning, (2023), asserts that according to Social Contract theory emphases mutual Obligations, citizens agree to pay taxes as part of their obligation to contribute to the common good and support the functioning of the state. In return, the government commits to providing public goods and services, such as infrastructure, education, healthcare, and security. Tax reforms are therefore viewed through the lens of renegotiating and reaffirming this social contract, ensuring that tax policies align with the needs and expectations of citizens while promoting the collective welfare.

Social Contract Theory emphasizes the importance of fairness and equity in taxation Wilkinson & Hageman, (2023). The impartial distribution of taxes among residents and the advancement of social justice are the two main criteria used to assess tax policies. Given that progressive taxation represents the notion of asking those who benefit most from society to contribute proportionately more to its upkeep, progressive taxation where tax rates rise with income is sometimes considered as being consistent with the concepts of Social Contract Theory.

Tax compliance relies heavily on trust and perceived legitimacy of the tax system. Social Contract Theory according to Hasan et al., (2024) suggests that tax reforms should aim to maintain or enhance citizens' trust in the fairness and effectiveness of taxation. Transparent and accountable tax policies, clear communication about how tax revenues are used, and equitable enforcement of tax laws contribute to building and sustaining trust between citizens and the government.

Social Cohesion and Solidarity: Taxation is not just about raising revenue; it also serves as a mechanism for fostering social cohesion and solidarity. Mazzucato, (2024) state that social contract theory highlights the role of tax reforms in promoting a sense of shared responsibility and collective action towards common goals. By ensuring that tax policies benefit all members of society and address socio-economic inequalities, tax reforms can contribute to strengthening social bonds and reducing social divisions.

Social Contract Theory emphasizes the importance of democratic participation in shaping tax policies. Manning, (2023) says that tax reforms should be informed by public deliberation, consultation, and engagement to ensure that they reflect the preferences and interests of citizens. Participatory approaches to tax policy-making can enhance the legitimacy of reforms and foster a sense of ownership among taxpayers, reinforcing the social contract between citizens and the government.

Institutional Theory**,** in the context of tax reform, examines how formal and informal institutions shape the design, implementation, and outcomes of tax policies. Institutions encompass a wide range of structures, rules, norms, and practices that govern human behavior within a society or organization. In the realm of tax reform, Institutional Theory helps us understand how various institutional factors influence the process and effectiveness of tax policy changes. Institutional theory provides a nuanced lens for understanding tax reform, highlighting the importance of both formal and informal institutions, historical contexts, and the interplay of various institutional logics. By considering these factors, policymakers can design more effective and sustainable tax reforms that align with societal values and institutional realities.

Institutional Structures and Tax Policy

Formal Institutions. These comprise tax-related legislation, rules, government organizations, and formal decision-making procedures. The study of institutional theory looks at the effects of modifications to formal institutions, such as administrative procedures or tax legislation, on the results of tax policy.

For instance, modifications to tax laws intended to increase compliance or streamline the tax code may have a significant impact on the actions of taxpayers and the amount of tax revenues collected.

Informal Institutions: These refer to social norms, cultural values, and informal practices that shape behavior but may not be codified in formal rules or laws. In the context of tax reform, informal institutions can influence compliance behavior, perceptions of fairness, and attitudes towards taxation. For instance, widespread informal practices such as tax evasion or corruption can undermine the effectiveness of formal tax reforms. In countries where tax evasion is culturally tolerated, reforms focusing on enforcement might face resistance.

Path Dependency and Historical Context

Institutional Theory also is used to examine how institutions evolve over time in response to internal and external pressures as observed by Burdon & Sorour, (2020). In the context of tax reform, Gangl & Torgler, (2020) emphases that the evolution involve changes in political ideologies, shifts in public attitudes towards taxation, or pressures from international organizations or donors to adopt certain tax policies. Understanding the dynamics of institutional change is crucial for assessing the sustainability of tax reforms and predicting their long-term impact.

Institutional Isomorphism. This concept refers to the tendency of organizations or societies to mimic the structures and practices of others in their environment. In the context of tax reform, Institutional Theory explore how developing countries like Uganda adopt tax policies and practices from more developed economies or international best practices. However, such mimicry may not always lead to successful outcomes if the institutional context differs significantly.

Power and Politics. Institutional Theory recognizes that power dynamics and political interests play a central role in shaping institutions and policy outcomes. In the context of tax reform, Hasan et al., (2024) narrates that power struggles between different interest groups, such as taxpayers, businesses, government agencies, and international actors, can influence the design and implementation of tax policies. Understanding these power dynamics is essential for analyzing the feasibility and sustainability of tax reforms.

Methodology:

The research is based on the social contract and institutional theories. According to the Social Contract theory, those who live in a society implicitly consent to follow certain laws and duties in return for the privileges of doing so. Social Contract Theory offers a framework for comprehending the interaction between citizens and the government about taxes in the context of tax reforms. Sebele-Mpofu, (2023), this theory examines tax reforms in terms of mutual obligations, where citizens agree to pay taxes as part of their obligation to contribute to the common good and support the functioning of the state. In return, the government commits to providing public goods and services, such as infrastructure, education, healthcare, and security. Tax reforms are therefore viewed through the lens of renegotiating and reaffirming this social contract, ensuring that tax policies align with the needs and expectations of citizens while promoting the collective welfare, whereas according to Kafouros et al., (2022) Institutional Theory, is used to examine how formal and informal institutions shape the design, implementation, and outcomes of tax policies. Institutions encompass a wide range of structures, rules, norms, and practices that govern human behavior within a society or organization. In the realm of tax reform, Institutional Theory helps us understand how various institutional factors influence the process and effectiveness of tax policy changes.

Discussion and Conclusion

Uganda's tax system has historically faced difficulties like poor compliance rates, limited revenue bases, and a significant reliance on indirect taxes, much like the tax systems of many developing nations. This has frequently led to a lack of revenue production, which has an effect on the government's capacity to pay for development initiatives and public services. Tax structures in developing countries are characterized by a reliance on indirect taxes, challenges in taxing the informal sector, administrative and compliance issues, and efforts to attract investment through tax incentives. These countries are actively pursuing reforms to improve tax collection, broaden the tax base, and enhance the efficiency of their tax systems, often with support from international organizations.

Features of Tax Structures in Developing Countries

Significant Dependency on Indirect Taxes. Indirect taxes like Value Added Tax (VAT) and customs fees are more common in developing nations. In general, Indirect taxes are prevalent in developing nations due to their administrative simplicity, broad base, and ability to generate stable revenue. While these taxes offer significant benefits, they also pose challenges such as regressive impacts and the need for robust administrative systems. Balancing these factors is crucial for developing nations to optimize their

tax systems and support economic growth. A large amount of Uganda's government revenue comes from trade taxes and VAT.

Narrow Tax Base. (Mpofu, 2023) says that the limited tax base is a prevalent problem, mostly brought on by a sizable unorganized sector that is challenging to tax. A sizable portion of Uganda's economy is informal, with a large number of small-scale companies and dealers that are not tax-registered. In Uganda, the government through Uganda Revenue Authority has attempted to address the limited tax base, with some degree of success. It is still a work in progress, though, and maintaining attention to these sectors is essential to the long-term economic success of the nation.

The agricultural sector is subject to limited taxes. Lipton, (2023) observed that although it is sometimes undertaxed, agriculture plays a significant part in the economies of many developing nations. Due to numerous exclusions and the challenges associated with overseeing and obtaining taxes from numerous smallholder farms, Uganda's agriculture industry, which employs a sizable fraction of the labor force, makes up very little of the country's tax revenue.

Challenges with Tax Administration. Mtonga, (2023) highlights that tax administration in developing countries often struggles with inefficiency, corruption, and limited capacity. This results in poor taxpayer services, low compliance rates, and difficulties in enforcing tax laws. In the case of Uganda KAMOGA, (2024) observed that the government has been working on improving its tax administration by adopting digital technologies and strengthening the Uganda Revenue Authority (URA).

Tax Evasion and Avoidance. Developing countries face substantial issues with both tax evasion and avoidance. Weak enforcement mechanisms, inadequate legislative frameworks, and sometimes a lack of international cooperation contribute to these challenges.

Limited Direct Tax Revenue. Direct taxes, such as personal income tax and corporate tax, constitute a smaller proportion of total tax revenue. This is due to a smaller formal sector, widespread tax evasion, and lower levels of individual and corporate incomes. The informal economy, which is large in many developing countries, remains largely untaxed.

Specific Challenges For Uganda

Uganda has a number of unique obstacles to overcome according Kayaga & Lahey, (2007), before enacting meaningful tax reforms. These problems are complex and have political, social, administrative, and economic roots. These are a few of the main obstacles:

Economic Challenges

Informal Economy. The majority of Uganda's economic activity is conducted in an informal manner. As a result, it is difficult to ensure compliance and broaden the tax base because informal businesses usually operate outside of the law.

Agricultural Sector: Agriculture forms a large part of Uganda's economy, and it is typically harder to tax due to the dispersed nature of farming activities, low-income levels, and lack of formal record-keeping.

Revenue Mobilization: The capacity to mobilize domestic revenue is limited. This is exacerbated by low-income levels and a narrow tax base, which makes it difficult to generate sufficient tax revenues.

Administrative Challenges

Tax Administration Capacity: The Uganda Revenue Authority (URA) often struggles with limited resources, inadequate staffing, and insufficient training, which hinders effective tax collection and enforcement.

Technological Infrastructure: There is a need for improved technological infrastructure to support efficient tax collection, processing, and data management. Current systems are often outdated and prone to inefficiencies and corruption.

Compliance and Enforcement: Ensuring compliance is challenging due to the lack of robust enforcement mechanisms and widespread tax evasion. Improving taxpayer education and simplifying the tax process are necessary but difficult to implement.

Political Challenges

Political Will and Corruption: Ensuring sustained political will to push through reforms is challenging. Corruption within the political and administrative systems can undermine reform efforts, as vested interests may resist changes that threaten their benefits.

Policy Consistency: Frequent changes in tax policy and lack of consistency can create uncertainty, making it difficult for businesses and individuals to plan and comply effectively.

Social Challenges

Public Perception and Trust. Afolabi, (2024) observed that tax compliance and morale are often low because of people's mistrust of the government and how it uses tax money. If taxpayers feel their contributions are not being used efficiently, they are more likely to avoid paying taxes.

Equity and Fairness: Addressing perceptions of fairness in the tax system is crucial. Regressive tax policies that disproportionately affect the poor can lead to social unrest and further evasion.

International Challenges

Globalization and tax evasion. Through complicated international transactions and offshore accounts, globalization has made it simpler for wealthy individuals and businesses to engage in tax avoidance and evasion. Uganda must bolster its procedures for international tax enforcement and collaboration.

Reliance on Assistance. Like the majority of developing nations, Uganda is comparatively more dependent on foreign aid, which reduces the urgency of changing the local tax code right now. To promote a shift toward greater self-reliance, effective tax measures must be put into place. Dagold & Stimers, (2024), state that Ethiopia was the recipient of the greatest net official development assistance (ODA) from official donors in Sub-Saharan Africa in 2022, with an approximate total of five billion US dollars. The Democratic Republic of the Congo came in second place as the biggest receiver, followed by Nigeria. Ukraine received the largest net amount globally. According to the USA embassy website, Uganda receives more than £95 million (Shs 442.5 billion) in aid from the United Kingdom each year. Additionally, the United States donates $1 billion (Shs 3.6 trillion) annually to Ugandan communities through 13 agencies.

The Significant Aspects Of Tax Reforms In Uganda

Tax reform in Uganda has been an ongoing process, aiming to enhance revenue collection, support economic development, and improve efficiency and fairness in the tax system. Uganda's tax system is managed by the Uganda Revenue Authority (URA), which was established in 1991 to improve tax collection and administration. Tax reforms in Uganda have been ongoing, aiming to improve revenue mobilization to support the country's development goals. Uganda, like many other developing countries, faces challenges such as a narrow tax base, tax evasion, and inadequate tax administration systems. Here are some of the significant aspects of tax reforms in Uganda:

Expanding the Tax Base. One of the key objectives of recent tax reforms in Uganda is to broaden the tax base. This includes formalizing more sectors of the economy to bring them into the tax net. Efforts such as registering more small and medium enterprises (SMEs) and integrating informal sectors into the formal economy are part of this strategy. Uganda Revenue Authority (URA) has also been working on improving the efficiency of tax collection from existing sources.

Digitalization of Tax Collection. Uganda has been implementing digital solutions to enhance tax collection and compliance. The introduction of electronic fiscal devices for businesses is an example, which helps in tracking transactions and ensuring that the correct amount of tax is paid. The URA has also been enhancing its online systems to make it easier for taxpayers to file returns and make payments electronically, reducing the opportunities for corruption and increasing convenience for taxpayers.

Policy and Administrative Reforms. Uganda has reformed various tax policies to align them with current economic realities. Reforms in tax policy involve revising tax rates, amending tax laws, and creating incentives for investment in certain sectors. For instance, Uganda has offered tax incentives to attract investments in agriculture and manufacturing, sectors deemed vital for economic growth and employment creation.

Handling Tax Evasion and Avoidance. The government has been actively working to curb tax evasion and avoidance, which significantly dent its revenue collection efforts. Measures include tightening legislation, enhancing the capacity of tax officials, and cooperation with international bodies to tackle cross-border tax evasion.

International Tax Cooperation. Uganda participates in international tax cooperation efforts to address issues like profit shifting and tax avoidance by multinational corporations. It is part of global discussions on how to ensure that multinational companies pay a fair share of taxes on profits earned within the country.

VAT Reforms. Value Added Tax (VAT) reforms have been a significant focus, with efforts to simplify VAT administration and improve compliance rates. This includes measures to limit VAT exemptions, which have historically narrowed the tax base.

COVID-19 Pandemic Response. In response to the economic impacts of the COVID-19 pandemic, Uganda implemented tax relief measures to support businesses and individuals. This included deferrals and reductions in certain tax rates to help mitigate the economic hardship caused by the pandemic.

Conclusion

According to the social contract idea, tax changes in underdeveloped nations like Uganda essentially aim to enhance and redefine the unspoken agreement that exists between the government and its people. According to the social contract, people agree to pay taxes in return for the government's provision of public goods and services. But this dynamic is hampered by a number of significant obstacles. From the perspective of institutional theory, the importance of formal and informal institutions in influencing tax compliance and the success of tax reforms is highlighted. In this context, "institutions" refers to the laws, customs, and establishments that control the administration and collection of taxes. Organizational Ability. The ability of organizations like the Uganda Revenue Authority (URA) to carry out tax reforms is a major factor. Building institutional capacity involves improving administrative efficiency, training personnel, and investing in technology to enhance tax collection and management.

Tax reforms in low developing countries like Uganda require a dual approach that integrates insights from both social contract and institutional theories. Effective reforms should aim to rebuild the social contract by enhancing trust, transparency, fairness, and participation. Simultaneously, strengthening institutional capacity, integrity, and the regulatory framework is crucial.

Tax reforms in low developing countries like Uganda must navigate complex socio-political and institutional landscapes. By addressing these challenges comprehensively, governments can create a more effective and equitable tax system that supports sustainable development and enhances the legitimacy and functionality of the state.

The paper concludes that while Uganda has made significant strides in reforming its tax system, substantial challenges remain. It emphasizes that tailored fiscal policies, informed by a nuanced understanding of both local conditions and global best practices, are essential for achieving equitable and sustainable development.

Recommendations

1. A holistic approach that addresses both the socio-political dimensions and the administrative-institutional aspects of tax reforms is necessary. This involves not only improving tax collection mechanisms but also ensuring that the use of tax revenues is transparent and beneficial to citizens.

2. Community Engagement: Engaging with communities and leveraging informal institutions can help bridge gaps between formal tax systems and local practices, fostering a culture of compliance and shared responsibility.
3. Long-Term Commitment: Building an effective tax system is a long-term endeavor requiring sustained political will, continuous capacity building, and adaptive policies that respond to changing economic and social conditions.

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