THE STOCK EXCHANGE

This is a market where already issued shares and stocks are bought and sold.

Stocks. These are fixed interest loans comprising of government bonds, public bodies loans, and public companies debenture stocks, etc.

In Uganda, the market where shares are bought and sold is referred to as the Uganda Securities Exchange (USE).

The Uganda Securities Exchange is licensed and regulated by the Capital Markets Authority. The Uganda securities exchange (stock exchange) was formed in May 1997 upon receiving its license from the Capital Market Authority.

ROLES/FUNCTIONS OF THE STOCK EXCHANGE

1. It provides ready market to those who want to buy and sell shares.
2. It sets prices for securities i.e. shares of different companies listed on the stock exchange.
3. It provides companies with the facility to raise capital for expansion through selling shares to the investing public.
4. It helps to direct a large part of savings by members of the public to invest in joint stock companies which help in the mobilization of domestic savings.
5. It provides investors with an opportunity to sell their shares when they find a more attractive security to buy.
6. It publishes useful information in statistical and summary form about various companies for guidance of booth the investors and the relevant companies.
7. It is used as a measure of a countrys economic progress i.e. stock indices is taken as indicators of economic progress.
8. It provides the opportunity for small investors to own shares of the same companies as large investors.
9. It facilitates growth of the related financial institutions like insurance companies and other financial institutions encourage and support savings.
10. It provides an avenue for divestiture of state owned enterprise e.g. Uganda Clays, New Vision Publication Ltd, etc.

11. It enables government to raise capital for development projects by selling securities known as bonds.
12. It facilitates company growth through takeover bid or merger agreement through the stock market.
13. It enables companies to get long-term finances through selling shares than getting loans with high interest.
14. It is a source of employment to those who work in it e.g. brokers and jobbers.

MEMBERS OF THE STOCK EXCHANGE

1. Brokers. These are people who buy and sell shares on behalf of others.

Anybody wishing to buy shares must approach a broker, who will brief him/her on various matters and offer advice on different types of shares his customer is interested in buying.

Similarly, a person who wishes to sell his/her shares must also approach a broker who will try to get him the best possible price. A broker is paid for his services on a commission basis.

2. Jobber. This is a middleman in the exchange of stocks and securities among brokers.

He is a middleman who buys and sells shares on his own account.

He trades in shares in much the same manner as a wholesaler deals in merchandise.

However, a jobber does not intend to hold shares for investment purposes.

His/her intention is to buy them when they are cheap and sell them as soon as prices rise, but not to hold them and earn dividends against them.

Note. A broker must buy and sell shares through a jobber. No member of the public is allowed to sell his shares directly to a jobber.

This is so because if jobbers were allowed to deal directly with the members of the public, who are not well versed in share prices and related matters, jobbers might exploit them.

Hence by having a broker in between, who acts mainly on behalf of the members of the public, their interest is protected.

The difference between the price a jobber pays for the shares he buys and the price he charges for the same shares when he sells them is called the jobbers turn and this constitutes his profit.

TYPES OF JOBBERS

1. Bulls. These are jobbers who buy shares when they are cheap expecting to sell them at a high price.

2. **Bears.** These are jobbers who sell shares at a high price and wait to buy back cheaply when the price falls.

3. Stags. These are jobbers who deal in new issues (stag) and they buy shares in the hope that prices will soon rise and sell them at a profit within a short period of time.

SPECULATION

The activities of bulls, bears and stages are called speculation.

This is because they all buy or sell shares with a view to make profit when prices change.

They use their expertise to judge as to which shares value is likely to increase or decrease in the coming few days and accordingly make their moves.

To an ordinary person, the activities of bulls, bears and stages appear very similar to gambling, except that whereas a jobber puts his money on stake on the basis of his judgment, a gambler has no means of predicting the outcome of the bet and relies on luck.

SECURITIES/PRODUCTS TRADED IN STOCK EXCHANGE

A security. This is any document that gives its holder a right to money or other property not actually in possession for example a share certificate.

These are;

1. Bearer securities. These are securities that can be transferred by mere delivery without a transfer form being made out or the transfer being registered by the issuing company.

2. Blue chips. These are shares in companies of high repute and sound financial history.

3. Bonds. A bond is a loan security issued by a government, nationalized corporation or a company that carries a fixed rate of interest.

Note. Company bonds are also called debentures.

4. Gilt-edged. This is a security that is absolutely safe in respect of both the capital redemption and payment of interest. The best example here is bonds issued by governments.

5. Portfolio. A portfolio is a collection of various securities held by an investor or institution.

6. Stock. This a bond issued by a government of local authority signifying a debt.

COMMON TERMS USED IN STOCK EXCHANGE

1. **Par Value of Shares/Nominal/face Value of Shares.** Par value of a share refers to the value written on its face.

Or; is the amount for which the shareholder is responsible in the event of a companys inability to meet its liabilities.

Note. The total par value of a companys shares represents its share capital.

2. Market Value of Shares. This refers to the value at which a share sells on the stock exchange.

3. Dividends. A dividend is the amount paid out of profits by a company to its shareholders. Usually, dividends are paid in cash and represent the shareholders return on the investment held by them.

4. Bonus Shares. These are shares issued usually free by a company to its members out of accumulated reserves.

It means conversion of distributable profits (reserves) into a permanent share capital. The effect of the issue of these shares is that the reserves are converted into share capital and hence rendered a permanent status. They can no longer be distributed as dividends.

Note. The act of issuing bonus shares is called capitalization of reserves and a bonus issue is called scrip issue.

5. To Go Public. This is an act of converting a private company into a public company, thereby enabling it to obtain a stock exchange quotation and sell its shares to the general public.

6. Institutional investor. This is an institution that makes a business of investing its funds in various securities, aiming to make profits both by earning dividends or interest and by selling its investments at a higher price at an opportune moment e.g. insurance companies.

7. Issuing House. This is a bank that specializes in launching of new issues.

8. Underwriter. This is an institution, or a person who guarantees to a company launching a new issue that all its shares will be sold.

If any portion of the underwritten issue remains unsubscribed, the underwriter buys that portion himself.

Note. The underwriter is paid a commission called underwriting commission.

9. Yield rate. This is the rate that shows the true return to an investor on his investment. It is calculated by expressing the amount of interest or dividend received in a year from a security as a percentage of its market value.

For example, if a share in Uganda Clays Ltd is being quoted at Shs. 120 but has a par value of only Shs. 80, with 20% dividend, the yield rate would be arrived at as follows:

Dividend amount = 20% of par value of share

= 0.2 x 80

= Shs. 16

$$\text{Yield rate} = \frac{\text{Dividend amount}}{\text{Market value}} \times 100$$

$$= \frac{16}{120} \times 100$$

$$= \underline{\mathbf{13.3\%}}$$

10. Rights Issue of Shares. This is where the existing members in a company are given a "right" to buy shares out of the new issue. This right is proportionate to their present shareholding.

A company that has profitably operated for some years and now wishes to raise more capital by selling new shares is likely to command a market price higher than its par value. Such a company may decide to benefit its members by restricting the new issue to members only, or by selling the new issue at two prices i.e. a lower price for existing members and a higher price to other applicants.

However, the shareholders can transfer their right to buy new shares to anybody they desire (outsiders) at a higher price so as to earn profit.

SELLING PRICES

Shares may be bought and sold at the stock exchange at cum-div or ex-div, cum-rights or ex-rights, cum-cap or ex-cap prices.

1. **Cum-div.** Cum-div stands for "with dividend". After a company has declared dividends but has not yet paid them, a seller may offer his shares at cum-div price. Here, the buyer becomes entitled to the dividend that has already been declared.

2. **Ex-div.** Ex-div stands for without "dividend". After a company has declared dividends but has not yet paid them, a seller may offer his shares at ex-div price. Here, the seller receives the already declared dividend when it is paid by the company and the buyer becomes entitled only to subsequent dividends, but not to the one that may have been declared before the date of purchase of shares by him.

Note. A seller would ask for a higher price if he sells shares cum-div than when he sells them ex-div.

If a security carries interest instead of dividend, for example debentures, the terms may be modified as **cum-interest** and **ex-interest.**

3. Cum-rights. Cum-rights implies with the "right to buy shares out of the new rights issue" i.e. when a company has announced a rights issue, the buyer becomes entitled to the right to buy shares out of the new rights issue.

4. Ex-rights. Ex-rights implies without the “right to buy shares out of the new rights issue” i.e. the seller retains the right to buy shares out of the new rights issue.

Note. A seller would ask for a higher price if he sells shares cum-rights than if he is selling them ex-rights.

5. Cum-cap. Cum-cap stands for cum-capital. If a company has declared a bonus issue but has not yet issued the free bonus shares, the seller may sell his shares cum-cap. Here, the buyer will get the free bonus shares in addition to the ones he is now buying when the company actually issues them.

6. Ex-cap. Ex-cap stands for ex-capital. If a company has declared a bonus issue but has not yet issued the free bonus shares, the seller may sell his shares ex-cap. Here, the seller retains the right to receive the free bonus shares, hence the buyer only getting the shares he is now buying.

QUOTED & UNQUOTED COMPANIES

A quoted company. This is one whose shares are bought and sold on a stock exchange. Members of the stock exchange are allowed to deal in shares of only those companies that are approved by the stock exchange council.

A company wishing to be approved by the stock exchange council must make a formal application giving all the relevant details of its business and financial position. If it is approved, its name will be listed on the stock exchange list and the price of its shares quoted, hence the term quoted company.

Note. Only public companies can be quoted at the stock exchange because their shares are freely transferable. .

Unquoted companies. This is one whose shares are not traded on a stock exchange.

Note. All private companies are unquoted, while some public companies may also decide not to obtain a stock exchange quotation.

Obtaining a Quotation. This is the act by a company of applying to the Stock Exchange Council to allow its shares to be included in the Stock Exchange list.

ADVANTAGES OF QUOTED COMPANIES

1. Shareholders find ready market if the want to dispose of their shareholdings.
2. A quoted company stands a better chance of obtaining loans because creditors view quoted companies more favorable.
3. A quoted company is always aware of the market value of its shares, which serves as a guide to the investors about the company.
4. A company quoted serves as a guarantee to a new investor who is not fully conversant with share dealings.
6. They are required to submit their final accounts to the stock exchange council and from these accounts useful statistics are prepared by the council and made available to the quoted companies.

STEPS INVOLVED IN THE PURCHASE OF SHARES

1. Approaching a broker. A member of the public wishing to buy shares approaches a broker who is known as a buying broker.

2. Making inquiries. This is where the buying broker inquires from other brokers if they have any client who wishes to sell the particular type of shares.

3. Negotiating for the price and writing out a contract note to be sent to the client by the buying broker.

The contract note gives information about; price of share, brokerage, amount of stamp duty, or transfer duty, registration fee of the new shareholders name and details of shares to be bought.

4. Making out a stock transfer form by the selling broker and getting it signed by the seller for whom he is acting.
5. Issuing the stock transfer form and share certificate by the selling broker to the buying broker.
6. Making payment by the buyer to the buying broker.
7. Paying the selling broker by the buying broker.
8.Paying the seller by the selling broker after deducting the selling brokers commission and tax on capital (if any) on the sale of the shares.

TYPES OF MARKETING BOARDS

1. Commodity marketing board. This is a marketing board which handles only one commodity or agricultural produce e.g. coffee marketing board.

2. Produce marketing board. This is a marketing board that handles a number of crops.

3. Statutory marketing boards. These are marketing boards set up governments by Act of parliament.

4. Voluntary marketing boards. These are marketing boards set up producers themselves. They are registered as corporate bodies and their powers and areas of operation are defined by their articles and memorandum of association.

5. Advisory marketing boards. These are marketing boards set up to provide expert advice to the farmers.

FUNCTIONS OF MARKETING BOARDS

1. Buying produce from farmers at reasonable prices hence enabling them to make some profits.
2. Collecting produce from shambas of farmers where it grows from and storing it thereby saving them transport and storage costs.
3. Carrying out research into agricultural and marketing problems i.e. conducting control through research.
4. Giving assistance to farmers in form of fertilizers, pesticides, farming tools, best etc. at reduced prices; quality seeds, loans, etc.
5. Stabilizing prices for agricultural produce which protects farmers from losses that may result from price fluctuations.
6. Controlling production by use of quotas so as to control over and under production.
7. Selling produce to local processors or auctioning it thereby providing ready market for farmers produce.
8. Extending advisory services e.g. expert advice and training to farmers.

PROBLEMS FACED BY MARKETING BOARDS

1. Poor quality produces where farmers mix poor grades with the quality ones.
2. Transport problems due to bad roads and weather which make movement difficult.

3. Over production where farmers harvest in excess/surplus leading to price fluctuations.

4. Competition from businessmen who privately offer better pay for farmers.

5. Price fixing is difficult where prices fluctuate with the world price market price.

6. Natural disasters like floods, droughts which at times lower yields.

7. Political intervention whereby unskilled administrators may be nominated and the mess up the board.

8. Corruption and embezzlement of funds by managers which distort the smooth running of business.

9. Insufficient finance to buy produce from farmers.

10. Inadequate storage facilities which limit output.

11. Political instability in some parts of the country which makes production by farmers difficult.

REASONS FOR GOVERNMENT PARTICIPATION IN BUSINESS ACTIVITIES (Reasons for setting up public enterprises)

1. To provide essential services which if left to the private sector would lead to consumer exploitation e.g. water, electricity, etc.

2. To minimize foreign ownership through nationalization of industry i.e. buying shares in these businesses.

3. To reduce profit repatriation whereby profit earned by government can be ploughed back into business.

4. To provide services that are not profitable but are essential e.g. garbage collection.

5. To provide employment opportunities for the citizens.

6. To promote regional balance by setting up enterprises in rural areas that are usually neglected by the private sector.

7. To minimize wasteful competition due to duplication of services e.g. railway.

8. To ensure national security e.g. through production and supply of arms, money, etc. i.e. certain activities are risky to be left to the private sector

9. Certain investments require large sums of capital/money which private sectors may not afford.

ADVANTAGES OF PUBLIC ENTERPRISES

1. They provide essential services which if left to the private sector would lead to consumer exploitation e.g. water, electricity, etc.
2. They help to minimize foreign ownership through nationalization of industry i.e. buying shares in these businesses.
3. They reduce profit repatriation whereby profit earned by government can be ploughed back into business.
4. They provide services that are not profitable but are essential e.g. garbage collection.
5. They provide employment opportunities for the citizens.
6. They minimize wasteful competition due to duplication of services e.g. railway.
7. They help to promote national security e.g. through production and supply of arms, money, etc. i.e. certain activities are risky to be left to the private sector
8. They undertake investments that require large sums of capital/money which private sectors may not afford.

DISADVANTAGES OF PUBLIC ENTERPRISES

1. The government is forced to provide essential services to all citizens and the loss sustained is passed on to the general public in the form of increased taxes.
2. They discourage private investment especially when operating in a field where private business also operates.
3. They encourage monopoly power which s characterized by poor services to the public due to lack of competition e.g. inefficiency in water supply.
4. Government enterprises are usually large organizations hence suffer from diseconomies of scale.
5. The performance of public enterprises is often poor since there is no profit motive and employees are not directly answerable to the real owners of the business.
6. The management of public enterprises is usually in the hands of politicians who may make decisions that are economically unsound due to little or no knowledge of business techniques.

PROBLEMS FACED BY PUBLIC ENTERPRISES

1. Political interference whereby political employees without required skills may be appointed.
2. Corruption and embezzlement of funds by managers which distort the smooth running of business.
3. Lack of personal initiative since there is no profit motive and employees are not directly answerable to the real owners of the business.
4. Stiff competition from private companies which discourages government effort.
5. Inadequate funds to finance the business activities as services are provided at zero or little profit.
6. They suffer from slow and expensive decision making due to bureaucracy
8. Lack of skilled manpower to run the affairs of the business.
9. Political instability in some parts of the country where they face theft of their assets during periods of war and this has discouraged their operation.

MEASURES THAT CAN BE TAKEN TO IMPROVE THE PERFORMANCE OF PUBLIC ENTERPRISES

1. Ensuring political stability in the country so as to encourage commercial activities.
2. Fighting corruption and embezzlement of funds.
3. Improving management through training more labour in the public sector.
4. Soliciting for more funds to be invested in the public enterprises.
5. Improving on the existing infrastructure like roads, railway lines, etc.
6. Encouraging privatization of public enterprises.

PRIVATISATION

This is the transfer of ownership and management of publics enterprises from the government to private individuals.

REASONS FOR PRIVATISATION/SALE OF PUBLIC ENTERPRISES

1. To bring about efficiency as a result of competition from private firms.
2. To cut down government expenditure on public enterprises.
3. To generate government revenue from the sale of public enterprises.

4. To eliminate corruption and embezzlement of government funds.
5. To create more employment opportunities in the private sector.
6. To attract private investment by attracting foreign investors hence increasing foreign inflow.
7. To encourage private initiative due to competition that encourages creativity by private individuals.
8. To expand the tax base through increased investment and production in the private sector.
9. To allow the government to concentrate on provision of essential services that cannot be provided by the private sector e.g. security, education, health, etc.
10. To reduce unnecessary bureaucracy in service delivery which is common in the public sector?

ADVANTAGES OF PRIVATIZATION OF PUBLIC ENTERPRISES

1. It brings about efficiency as a result of competition from private firms.
2. It helps to cut down government expenditure on public enterprises.
3. It generates government revenue from the sale of public enterprises.
4. It helps to fight corruption and embezzlement of government funds.
5. It creates more employment opportunities in the private sector.
6. It attracts private investment by attracting foreign investors hence increasing foreign inflow.
7. It encourages private initiative due to competition that encourages creativity by private individuals.
8. It expands the tax base through increased investment and production in the private sector.
9. It enables the government to concentrate on provision of essential services that cannot be provided by the private sector e.g. security, education, health, etc.
10. It helps to reduce unnecessary bureaucracy in service delivery which is common in the public sector.

DISADVANTAGES OF PRIVATIZATION

1. It increases consumer exploitation due charging high prices by the private firms.
2. It leads to unemployment in the short run as some workers are cutoff in the privatized firms in a bid to reduce the cost of production.
3. It increases foreign dependency especially when most enterprises are sold to foreigners.
4. It leads to irrational exploitation of resources because private firms are profit motivated.
5. It reduces provision of essential goods and services that are less profitable to the private businesses.
6. It leads to price fluctuations as prices in the private sector depend on the forces of demand and supply.
7. It results into profit repatriation as most enterprises are sold to foreigners.
8. It increases income inequality as some people in the private sector exploit others and become rich.
9. It increases product duplication that results into resource wastage.

LIMITATIONS/PROBLEMS FACED IN PRIVATIZATION OF PUBLIC ENTERPRISES

1. High rates of corruption in the privatization unit by government officials.
2. Underdeveloped capital market that limits sale of shares in public enterprises.
3. High administration costs in the form of advertisement, the many people employed in the privatization unit, high cost of repairing the enterprises before they are sold, etc.
4. Political sabotage from some politicians who oppose the government programmes of privatization in order to fail it.
5. Existence of a small market that discourages potential of the public enterprises.
6. Political instability in some areas which discourages potential buyers.
7. High levels of poverty among nationals which results into selling of public enterprises to foreigners, hence promoting economic dependency.

8. High opposition from the public due to high levels of ignorance about the benefits of privatization.

CONTROL OF THE PRIVATE SECTOR

Government is responsible for the control of the private sector in order to protect the well-being of its citizens.

If this is not done, the objective of the private business to maximize profits would soon start hurting the general public.

WAYS OF CONTROLLING THE PRIVATE SECTOR

1. Setting up national bureaus of standards responsible for setting standards for quality of various products made or imported into the country.
2. Instituting price controls on all the essential goods and services so as to minimize consumer exploitation by profit motivated sellers.
3. Through consumer protection whereby government enforces laws that ensure that a consumers interest is protected.
4. Exchange control whereby the government restricts the amount of foreign currencies to be purchased by domestic traders.
5. Through instituting financial control measures such as import restrictions aimed at maintaining the value of a countrys currency.
6. Through trade licensing where no trader is allowed to conduct business without holding a trade license.

WAYS IN WHICH THE GOVERNMENT CAN SUPPORT THE PRIVATE SECTOR

1. Funding research and development in those areas where the private sector cannot afford.
2. Funding the development of infrastructure like transport and communication net work.
3. Encouraging privatization of formally state owned enterprises so that the public sector does not compete with the private sector.
4. Formulating and enforcing laws that protect private property rights in place.

5. Ensuring political stability in the country so as to encourage commercial activities.

6. Providing a guaranteed initial customer buy helping the private sector to get market for their output at profitable prices.

7. Organizing and participating in international trade exhibitions and trade fares.

8. Encouraging government sponsored insurance so as to enable private businesses to access insurance protection at affordable costs.

8. Extending financial assistance to private businesses at zero or affordable interest rates.

CONSUMER PROTECTION

This consists of the various laws enforced by the government to ensure that a consumers interest is protected, and he/she is not cheated of his/her hard-earned money.

REASONS FOR CONSUMER PROTECTION

1. To protect consumers against high prices especially during scarcity of goods and services.

2. To guard against consumption of harmful/dangerous/expired goods.

3. To protect consumers from being cheated by use of standardized weights and measures.

4. To protect consumers from misleading and persuasive advertisements.

5. To protect consumers from consuming any type of imports dumped from other countries.

METHODS OF CONSUMER PROTECTION

1. Weight and measures Act/Law. This is a business law that ensures that entrepreneurs use the recommended weighing scales and measurements when selling goods to consumers.

2. Food and Drugs Act. This Law ensures that expired drugs and bad foods are not sold to consumers.

3. Trade description Act. This Law emphasizes specifications for goods produced e.g. warnings on consumption of certain goods like tobacco.

4. Encouraging formation of business associations to ensure satisfactory standards of business products e.g. Uganda Manufacturers Association.

5. Instituting price controls on all the essential goods and services so as to minimize consumer exploitation by profit motivated sellers.

6. Encouraging formation of consumers Associations to protect consumers interests.

7. Issuing licenses to only approved traders to conduct business.

GOVERNMENT REVENUE

Governments provide a number of free or subsidized services to their people e.g. education, health, maintenance of law and order, defense, assistance to farmers and businessmen.

These services require a lot of finance which comes from different sources.

SOURCES OF GOVERNMENT REVENUE

1. Use of taxation where government imposes taxes on economic activities to raise income.

2. Use of fees where people pay for certain services rendered by government.

3. Use of fines and penalties imposed on crime makers like drink drivers on the road.

4. Use of rates imposed on urban private property like land and buildings in strategic locations of the city.

5. Use of grants and gifts dominated by good Samaritans both within and abroad to finance certain projects like famine or drought.

6. Use of market dues imposed on traders who put their goods in markets constructed by government.

7. The government can get loans from either within or abroad to finance its development programmes.

8. Government can engage in gambling like betting and lotteries to get money.

9. Sale of government securities like stock, shares, treasury bills and bonds to get money for public use.

10. Profits from government enterprises that export goods abroad.

11. Money got through compulsory saving schemes like NSSF, insurance companies and pension scheme to finance expenditures.

12. By privatization where government enterprises are sold off to private individuals to get money.

13. Rent on government property such as government buildings, spaces and residences.

14. Use of licenses paid by traders to public authorities to get permission for operating businesses within the country.

TAXATION

This is the process through which governments obtain money from eligible persons by application of the law.

Or; this is the legal compulsory transfer of funds from the public to the fiscal authority irrespective of the exact amount of benefits rendered to the tax payer by the government.

A tax. This is a compulsory charge levied by the government or any other competent authority on persons (individuals, corporations or other legal entities) or on businesses in order to finance government activities.

Or; this is the amount of money paid by a business to the tax authority. Taxes are usually collected by a government agency.

In Uganda, this role is preformed by Uganda Revenue Authority (URA) for the central government revenue and Local administrations for local government taxes.

REASONS WHY GOVERNMENT IMPOSES/LEVIES TAXES

1. To raise government revenue by imposing direct and indirect taxes on different economic activities in the country.
2. To redistribute income through progressive taxation in which rich people pay more than the poor.
3. To protect infant industries imposing high taxes on imports to make them expensive.
4. To correct balance of payment by imposing high taxes on imports to limit
5. To ensure price stability by imposing high taxes to limit consumption.
6. To discourage consumption of undesirable commodities by imposing high taxes on such goods.
7. To control monopoly by imposing lump sum and specific taxes on such firms.
8. To regulate economic activities in the country by lowering or raising taxes.

9. To promote forced saving for the people in the country.

10. To ensure steady economic growth by providing tax incentives to traders.

11. To discourage dumping by imposing high taxes on cheap imports to limit them.

12. To create more employment by imposing low taxes to local traders.

13. To achieve balanced regional development by imposing high taxes on developed regions to develop poor areas.

MERITS/ADVANTAGES/IMPORTANCE OF TAXATION IN A COUNTRY

1. It is a source of government revenue to finance tits expenditures.
2. It protects infant industries by making imports expensive on the local market.
3. It improves on the balance of payment by limiting expenditure on imports.
4. It discourages consumption of harmful products like drugs, spirits, cosmetics, etc.
5. It reduces income inequality through progressive taxation.
6. It checks on the rate of inflation by ensuring stable prices in the economy.
7. It regulates on the level of economic activities in the country.
8. It controls monopoly power through imposing high taxes on such activities.
9. It limits exportation of scarce goods to make it available on the local market.
10. It promotes the level of employment in the country.
11. It is used as a means of forced savings like NSSF and pension.

DISAVANTAGES OF TAXATION

1. It reduces peoples welfare because it reduces peoples incomes.
2. It reduces peoples saving due to limited income.
3. It discourages investment due to high taxes on traders.
4. Some taxes discourage hard work like progressive taxes.
5. Taxes divert resources from highly taxed to non-taxed activities.
6. It creates resentment towards government especially high taxes on incomes.
7. Some taxes worsen income inequalities like regressive taxes in which the poor pay more taxes than the rich.
8. It increases the costs of production especially high taxes on raw materials.
9. It reduces the benefits and volume of trade especially high taxes on imports.

10. Taxation tends to be inflationary due to high cost of production.

11. Taxation promotes trade malpractices like smuggling.

PRINCIPLES OF TAXATION

This refers to the rules (guidelines) followed when devising a tax system. These include the following:

1. Equity or fairness. This suggests that a tax payer should pay a tax according to his level of income.

2. Economy or efficiency or cheapness. This states that the cost of tax collection should low not exceeding 5 % of the tax revenue collected.

3. Comprehensiveness. This suggests that taxes should cover a wide range of economic activities to raise enough revenue for government.

4. Certainty. This states that the nature of tax, amount to be paid, when to pay and where to pay should be well known to the tax payer.

5. Convenience. This states that the time, place and method of tax payment should be favorable to the tax payer.

6. Consistency. This is where the tax carries the same meaning for many years so as to avoid public resentment.

7. Productivity. This suggests that a good tax should promote hard work in the economy.

8. Flexibility. This suggests that a good tax should change according to the prevailing economic conditions in the country.

9. Simplicity. This suggests that a good tax should be simply understood by both tax payers and tax collectors.

10. Neutrality or impartiality. This suggests that taxes should be paid by everybody so long as one qualifies to do so.

Explain the features of a good tax system.

1. A good tax system should promote equity or fairness.
2. A good tax system should be efficient or cheap.
3. A good tax system should be comprehensive.

4. A good tax system should be certain.
5. A good tax system should be convenient.
6. A good tax system should be consistent.
7. A good tax system should be productive.
8. A good tax system should be flexible.
9. A good tax system should be simple.
10. A good tax system should be neutral or impartial.

CLASSIFICATION/TYPES OF TAXES

a) Classification of taxes according to one's income paid as tax

1. Proportional Tax. This is one where the tax rate is constant regardless of the different levels of income. eg. corporation tax which is currently 30%.

2. **Progressive tax.** This is where the tax rate increases with the increase in the tax payers income.

3. Regressive tax. This is one where the rate of tax decreases with the increase in the tax payers income.

b) Classification of taxes according to method/mode of calculation of tax

1. Advalorem tax. This is a tax imposed as a percentage of the price/value of the commodity. E.g. items like jewelry, cosmetics, cellular phones, etc.

2. Specific tax. This is a tax imposed on a fixed amount of each unit of a tax base or commodity like per bag or per litre. eg. 100,000/= per tonne of maize flour.

c) **Classification of taxes according to method/mode of payment**

Under this classification, there are two broad categories of taxes i.e. direct and indirect taxes.

DIRECT TAXES

These are the taxes levied on the income and property of individuals and business entities. The burden of the tax is directly borne by the person paying it.

TYPES/FORMS OF DIRECT TAXES

1. Income tax. This is a tax levied on profits or incomes earned by an individual or business. It is either personal income tax or corporation tax.

2. Personal income tax. This is a tax levied on the income of individuals. It is normally a progressive tax.

3. Corporation tax. This is a tax imposed on the profits of a company.

4. Wealth Tax. This is a tax imposed on accumulated wealth, capital or savings of an individual or business. It may be levied on land, buildings, shares or other investments.

5. Capital gains tax. This is a tax imposed on financial assets that increase in value between the time of purchase and sale. eg. stocks, bonds, precious metals, etc.

6. Estate duty. This is a duty levied on the estate of the deceased person.

7. Gift Tax. This is a tax imposed on gifts or gratuitously acquired property.

Explain the merits of direct taxes in Uganda.

1. Direct taxes provide] revenue to government imposed on economic activities.
2. Direct taxes promote fair distribution of income since are progressive in nature.
3. Direct taxes control inflation by reducing consumption.
4. Direct taxes promote hard work since are compulsory to the tax payer.
5. Direct taxes regulate the level of economic activities in the country.
6. Direct taxes regulate monopoly power through taxes on such firms.
7. Direct taxes are flexible in nature since can be increased or reduced any time.
8. Direct taxes are certain since the amount paid is known in time.
9. Direct taxes are simple to understand by tax payers due to the simple language used.
10. Direct taxes promote economic growth by increasing production of goods.
11. Direct taxes protect infant industries by making imports expensive.

Outline the demerits of direct taxes.

1. They discourage saving due to reduced incomes of people.

2. They reduce peoples welfare as it reduces peoples incomes.

3. Direct taxes discourage hard work especially progressive taxes.

4. Direct taxes promote resentment towards government like high taxes.

5. Some direct taxes increase income inequalities like regressive taxes.

6. Direct taxes lead to high costs of administration due expensive collection costs.

7. Direct taxes are not convenient in nature since are paid at once.

8. Direct taxes are discriminative in nature like progressive taxes.

9. Forces people to divert production from highly taxed goods to avoid paying taxes.

10. They discourage investment especially high taxes on raw materials.

11. They increase the cost of production due to high taxes on raw materials.

INDIRECT TAXES

These are taxes that are levied on goods and services, paid by an individual or business entity and shifted to the final consumer.

These taxes are voluntary in the sense that you can pay them if you opt to buy the goods or consume services on which they are levied.

TYPES/FORMS OF INDIRECT TAXES

1. Customs duty. This is a tax imposed on either imports or exports of a country.

Note. Tax on imports is referred to as import duty while tax on exports is export duty.

2. Excise duty. This is a tax imposed on locally produced goods and services.

3. Sales tax. This is a tax levied as a percentage on goods or services sold.

4. Value Added Tax (VAT). VAT is a tax paid by a customer at the time of purchase of a commodity.

Or; this is a tax on consumption of goods and services. VAT is levied on value added at every stage in the chain of production or distribution of goods and services.

State the merits of indirect taxes.

1. They cover a wide range of economic activities in the country.

2. They are only paid when people buy goods and services.

3. They improve on balance of payment by limiting expenditure abroad.

4. Indirect taxes discourage consumption of undesirable goods.

5. They are less felt and resented since one pays when buying goods.

6. They are impartial in nature because are paid by anyone who buys a commodity.

7. They are economical in collection because companies pay direct on government accounts.

8. They promote hard work especially regressive taxes.

9. They protect local infant industries by making imports expensive.

10. Indirect taxes regulate the level of economic activities in the country.

11. Source of government revenue as imposed on different economic activities.

Outline the merits of indirect taxes in Uganda.

1. They increase income inequality especially regressive taxes.

2. They tend to be inflationary due to high cost of production.

3. They reduce peoples welfare to high prices of goods and services.

4. They result into malpractices. This is because they force people to engage in smuggling as a way of dodging taxes.

5. They misallocate resources due to fear to avoid high taxes.

6. They promote public resentment since it makes life expensive.

7. They result into inefficiency like production of poor quality goods.

8. They discourage investment due to high cost of production.

9. They increase the cost of production due to high cost of raw materials.

11. Revenue collection is uncertain due to unstable prices.

Define the following terms.

1. Tax evasion. This is a deliberate refusal by the tax payer to pay the tax assessed on him. It is illegal and punishable in courts of law for example, smuggling.

2. Tax avoidance. This is where the tax payer exploits the loopholes in the tax system to pay less or no tax at all.

3. **Taxable capacity**. This is the ability of the tax payer to pay the tax assessed on him and remains with enough disposable income to live a standard of living is accustomed to.

4. **Tax base**. This is an economic entity (activity, income, person, firm, property, etc) on which a tax is imposed.

5. **Dead weight tax**. This is the tax which leads to closure of an economic activity which forms the tax base.

Outline the factors that affect the level of tax revenue in Uganda.

1. Level of tax avoidance.
2. Level of tax evasion.
3. Level of skilled manpower.
4. Level of taxable capacity.
5. Level of development of infrastructure.
6. Level of political climate.
7. Level of tax base.
8. Degree of political interference.
9. Level of economic stability.
10. Size of the industrial sector.

FACTORS FOR LOW TAX REVENUES IN UGANDA

1. High levels of tax avoidance where some tax payers exploit the weak tax laws to pay lesser taxes.

2. High rates of tax evasion where many people use illegal means to refuse to pay taxes imposed on them.

3. High levels of corruption due to tax officials who use part of the revenue for their private benefits.

4. Limited tax sources due to limited range of economic activities which are taxed.

5. Poor tax administration due to lack of required skills by people who assess and collect taxes in the country.

6. High costs of administration due to a lot of money put on tax assessment and collection.

7. Low taxable capacity where most people are poor and hence cannot pay taxes imposed on them.

8. Political instability which prevents tax collectors from accessing taxable sources.

9. Poor infrastructure due to high cost of transport that makes it difficult for tax collectors to assess taxes.

10. High levels of tax exemptions due to many people who are freed from taxes.

11. Frequent tax exemptions due to many people who are freed from taxes.

12. Shortage of skilled personnel to handle effective tax collection.

13. Political interference especially from opposition politicians on some taxes.

WAYS OF IMPROVING ON TAXES IN UGANDA

1. Fight corruption through imprisonment of officials who steal public funds.
2. Ensure political stability to allow tax collectors assess taxes effectively.
3. Sensitize the masses on the importance of taxes to increase tax payments.
4. Encourage use of fair tax system on all income groups.
5. Encourage proper use of taxes to attract more people pay taxes.
6. Improve on a countrys infrastructure to ease movement of tax collectors.
7. Develop a tax payers friendly system of tax collection for all types of tax payers.
8. Train personnel with necessary skills of effective tax assessment.
9. Strengthen and implement tax laws to limit tax dodgers.
10. Improve and strengthen tax administration to encourage more people pay taxes.

UGANDA REVENUE AUTHORITY (URA)

This was set up in 1991 by the URA statute No. 6 of 1991 as a central body for the assessment and collection of taxes in the country.

FUNCTIONS/ROLE OF URA

1. To assess and collect taxes for government expenditure.
2. To give accountability to the Ministry of Finance for all the revenue collected.
3. To facilitate trade and investment in the country.
4. To advise government on matters of policy related to tax administration.
5. To reduce dumping of goods in the country.
6. To discourage production and/or consumption of harmful products e.g. cigarettes, alcohol etc.

7. To protect domestic infant firms against foreign and local competition.

8. To regulate the level of economic activities in the country.

9. To re-distribute income and wealth among individuals or firms or sectors.

REVISION QUESTIONS FOR SENIOR THREE

1. (a) Define a stock exchange

   (b) Explain any five securities traded on a stock exchange in Uganda

2. (a) Identify the role of the stock exchange market in Uganda

   (b) What are the problems experienced by the stock exchange market in Uganda

3. (a) What is consumer protection?

   (b) Explain the methods used by your country to protect consumers

   (c) What are the reasons for consumer's protection?

4. (a) Give reasons why Uganda should continue taxing the different activities of investments.

   (b) Identify the different roles of the Uganda Revenue Authority.

   (c) What are the measures taken by URA to encourage the payments of taxes by Ugandans?