IMPACT OF CHANGING FROM COMMERCIAL TRANSACTION LEVY (CTL) AND SALES TAX TO VALUE ADDED TAX (VAT) ON ECONOMIC GROWTH IN UGANDA FOR THE PERIOD 1987-2012

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A DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL IN PARTIAL FULFILMENT FOR THE AWARD OF MASTER OF STATISTICS DEGREE OF MAKERERE UNIVERSITY

OCTOBER, 2015

ABSTRACT

The main thrust of this study is to investigate the effect of VAT on economic growth after its introduction having replaced CTL and Sales tax in Uganda covering the period 1987-2012.In the study GDP growth rates were used as a proxy measure of economic growth. The study employed the double log models to measure the elasticity between economic growth and other economic variables. A combination of Co-integration and Granger causality tests were applied after a series of diagnostic tests which helped to check the adequacy of a specified model. The data set was split into two parts i.e. before and after VAT introduction.

The results before VAT introduction, revealed that a positive and significant relationship between CTL and sales tax, private investment and economic growth. While a positive and insignificant relationship existed between public investments, government consumption and economic growth and a negative and significant relationship existed between aggregates of other taxes and economic growth with labour supply having a negative but insignificant relationship with economic growth.

The findings after VAT introduction revealed a positive and significant relationship between VAT, government consumption, labour supply, private investment and economic growth but a positive and insignificant relationship existed between aggregates of other taxes and economic growth. A negative but insignificant relationship existed between public investment and economic growth. The findings also revealed that the introduction of VAT in 1996 did not lead to a structural break in the economy.

The casual relationships obtained revealed a unidirectional causality between VAT and economic growth while the rest of the economic variables had a bilateral relationship (double causation) with economic growth.

The major policy recommendations included; introduction of subsidies for both the local and foreign investors and thereby increasing the level of private investment which will by extension improve economic growth and VAT collections, the VAT rate of 18% be left intact any increment above this rate makes a negligible contribution to economic growth.Goverment should also continue investing in areas that crowd in private investment like roads, schools and Agriculture.