

Govt rejects IMF calls for higher taxes on the rich

Justification. The International Monetary Fund argues that taxing the rich people would reduce the high level of income inequality.

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KAMPALA. The ministry of Finance has rejected calls by the International Monetary Fund (IMF) for higher taxes on the rich as a measure to reduce high level of income inequality in the country.

In asking government to balance the books on the backs of the rich, the IMF reasoned that raising tax rates on the richest people would not damage growth, in defiance of conventional economic thinking.

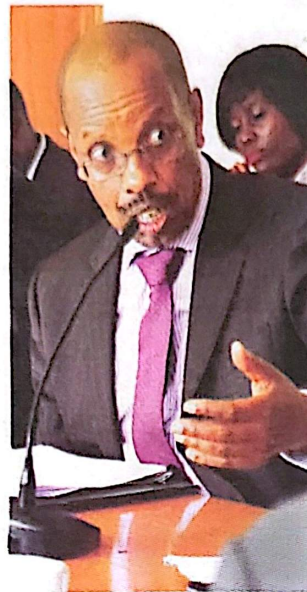
In an interview with *Daily Monitor* from Washington DC yesterday, Secretary to the Treasury Keith Muhakanizi said: I am aware of what you

are talking about, I have seen it here in Washington DC in the IMF Fiscal Monitor report. For Uganda's case, we are not proposing to increase the income tax rate. We are leaving the rate where it is."

Mr Muhakanizi said whereas the IMF Fiscal Monitor report is a global document, which is relevant to all countries on matters of fiscal policy execution, it is upon countries to go with what they feel is appropriate for their people.

In Uganda, the income tax rate applicable to the chargeable income of companies is 30 per cent with the exception of resident companies whose turnover does not exceed Shs150 million, to whom presumptive tax applies.

The Deputy Secretary to the Treasury, Mr Patrick Ocaalap, told *Daily Monitor* that "increasing tax for the rich or big companies such as MTN



Defiant. Mr Keith Muhakanizi, the Secretary to the Treasury

and Mukwano can only increase amount of money needed to funding infrastructure projects such as energy, roads and health but it cannot automatically reduce income inequality."

Alarming rate

The gap between the rich and the poor has continued to widen at an alarming rate, according to Oxfam's March 2017 study on inequality in the country.

The Oxfam report shows the richest 10 per cent of Ugandans have had their income grow by an impressive 20 per cent per year.

This has meant that these 10 per cent richest Ugandans now own 35.7 per cent of the country's wealth, leaving the remaining 90 per cent of Ugandans to share the remaining 64.3 per cent of national income.

In its Global Fiscal Monitor report, IMF has called for higher income taxes on the rich to help balance budgets and arrest the political threats posed by inequality in a sharp break with its prevailing orthodoxy.

Revelation

The IMF report released on October 11 shows that the rising inequality and slow economic growth in many countries have focused attention on policies to support inclusive growth. While some inequality is inevitable in a market based economic system, excessive inequality can erode social cohesion, lead to political polarisation, and ultimately lower economic growth.

"This Fiscal Monitor discusses how fiscal policies can help achieve redistributive objectives. It focuses on three salient policy debates: tax rates at the top of the income distribution, the introduction of a universal basic

income, and the role of public spending on education and health," the IMF report reads in part.

Global inequality—measured across all citizens of the world by abstracting from national borders—has been declining in recent decades, reflecting strong income growth in some large emerging market economies such as China and India.

"However, the picture of inequality within countries is mixed: while income inequality has increased in most advanced economies, trends in other economic groups have been more varied. In fact, inequality has declined in almost half the countries for which data are available. The forces underlying rising inequality also vary across time and regions. A key source has been technological change favouring higher skills," the Fiscal report states.

Releasing the report in Washington DC, Mr Vitor Gaspar, the IMF director in the fiscal affairs department, said: "In the Fiscal Monitor, we document trends in equality around the world. We argue that fiscal policy is powerful in tackling inequality."

He added: "We engage in three policy debates which are very salient about fiscal policy: progressive taxation, basic income, and public spending on health and education."

VIEW FROM IMF

Justification. Mr Vitor Gaspar, the IMF director of the fiscal affairs department, explained that if one looks at inequality country by country, one sees increases in inequality.

Most people live in countries where inequality has increased. He added that countries with

large populations such as China, India, and the US have recorded increases in inequality.

The Fiscal Monitor's estimates show that for advanced economies, redistribution through taxes and transfers reduces inequality by one third.



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