

Full Length Research Paper

Taxation of pentecostal churches in Africa: paradigm of pentecostals in Uganda

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The study sought to determine if Pentecostals in Uganda were qualified to maintain their status quo as tax exempt organizations considering their vast financial resources. The study also investigated the impact of such exempt status on the principle of equality. Purposive sampling technique was used to draw a sample of 250 and they were categorized into membership structure in four districts (Kampala, Kira, Luwero and Mukono). Descriptive survey design was employed for the study. Also, descriptive and inferential analyses were used. The findings revealed two distinct opinions with regard to taxation of Pentecostals. First, the Pentecostal members indicated that Pentecostals should not be taxed. Second, non-members of Pentecostals opined that they should be taxed. With regard to the principle of equity, the findings also identified two different considerations. First, maintaining the status quo of Pentecostals tax wise was considered as tax inequality between Pentecostals and business organizations in the country. Second, taxation of Pentecostals without taxation of other faith based institutions in the country was also considered as tax inequality. Recommendations were made that the revenue authority should screen all environmental variables in their tax planning process before the derivation of tax policy with regard to taxation of Pentecostals in the country. Also, numbers of other recommendations have been made based on the findings.

Key words: Business, pentecostals, public character, taxation, tax equality.

INTRODUCTION

Taxation is an integral part of public finance and public finance deals with the public expenditure and revenue. Public expenditure is determined by the amount of revenue generated by the government of a country. The main sources of public revenue are taxes, prices (Jhingan, 2004), fees, fines, state property (Saleemi, 2001), special assessments, deficit financing, loans and earning a surplus from gambling and lottery (Ddumba-Ssentamu, 2004). Although these sources are all important in raising revenue to finance the ever increasing government responsibilities but taxation is considered the most efficient and effective means of raising revenue for the government (Gberegbe, 2007). According to Madeo et al. (1995), a tax is "any nonpenal yet compulsory transfer of resources from the private to the public sector, levied without receipt of a special benefit of equal value and on the basis of predetermined criteria, enforced to accomplish some of a nation's economic and social objectives." This definition clearly distinguished a tax from a penal transfer such as criminal or civil penalty, usually a, usually a fine. A tax is the imposition of a compulsory levy

by the government on income, profit, property or the expenditure of an individual, family, community, firms, or corporate bodies so as to enable the government carry out its economic and social responsibilities to the citizenry (Opuene, 2006). It therefore means that taxes are levied for governments around the world to use in attaining economic and social goals. A tax is considered a non-quid pro quo because it is not levied in return for any corresponding service rendered by the government to the taxpayer. This means that taxpayer cannot claim something equivalent to tax paid (quid pro quo) from the government. The management of tax system is the responsibility of the government. The constitution of any country empowers the government to levy taxes and the taxes imposed are obligatory upon all taxpayers who come within the jurisdiction of the taxing government. A good tax system is composed of taxes which conform to the canons of equity, certainty, convenience and economy as propounded by Adam Smith (Gberegbe, 2007).

In addition to that, a good tax system maintains economic stability, equalizes the distribution of income

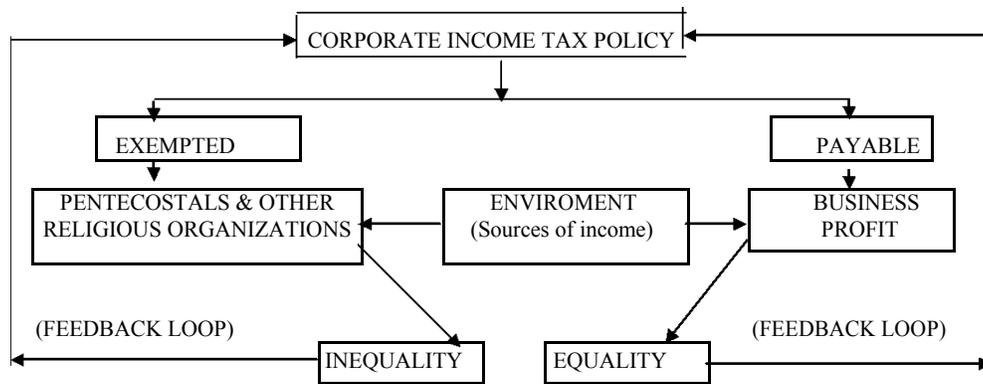


Figure 1. Conceptual frame work of Pentecostal tax exempt status. Source: Research Concept 2007.

, and increases the rate of economic growth (Saleemi, 2001). Finally, a good tax administration requires economic, social and political considerations in order to satisfy most of the criterions of the canons.

In Uganda, all registered corporations are under obligation to pay income tax, and the legitimate authority in charge of collection of taxes in the country is the Uganda Revenue Authority (URA). Corporation tax is payable at the corporate rates by business (Christine, 2006), and the taxability for a year of the business income is on gains or profits from the business. However, Uganda's corporate Income Tax Act establishes a category of exempt organizations. Tax exempt organizations include charitable, educational and religious institutions of a public character (1st schedule of Income Tax Act, Cap. 340). Therefore, Pentecostals being a religious institution is exempted from income tax.

The problem is that in the past, countries exempt religious organizations like the Pentecostals from income tax but of recent, citizens and corporations in most countries of the world plagued by a seemingly endless tax load consider it as tax inequality and began to ask why rich religious organizations with vast financial resources should enjoy a special status, tax wise (Heaps, 1971). In Uganda, Pentecostals are exempted from corporation tax because they are regarded as organization of a public character (Bahemuka, 2006) and a non-profit organization (Non-Governmental Organization Registration Act). But of recent citizens and corporations in the country ask why Pentecostals should maintain tax exempt status because they are perceived to be business oriented organizations. The situation also prompted the Uganda Revenue Authority to propose the imposition of income tax on Pentecostals in 2007. Business is an activity by which men earn profit (Shukla, 2003). This implies that Pentecostals are profit oriented organizations and the taxability of business tax is on profits or gains (Christine, 2006). Also, Pentecostals source for income without tax liability from the same environment with business organizations which many taxpayers regard as tax inequality

(Figure 1). Therefore, this study aims at investigating if Pentecostals are different from business organizations, and also to determine the impact of their tax exempt status on the principle of tax equality. The rationale behind this study is to create avenue for the Uganda Revenue Authority (URA) to initiate a good tax policy that could accomplish tax neutrality with regard to taxation of Pentecostals in the country. Tax neutrality is a concept that tax policy should not favor one economic and or social decision over another (Madeo et al., 1995).

To investigate taxation of Pentecostals in Uganda, the following questions serve as a guide to the investigation:

1. Are Pentecostals different from business organizations in Uganda?
2. What are the characteristics that make an organization of a public character?
3. Should Pentecostals pay corporate tax in Uganda?
4. What is the impact of taxation of Pentecostals on the principle of tax equality in Uganda?

Relevant literature

Taxes have existed since the beginning of human history. Biblically, it dates back from the era of King Solomon to the period of Christ ministry (Gberegbe, 2007). Historians opined that elementary forms of income taxation were imposed by the Roman Empire even before the birth of Christ. Also, archaeological evidence dating from 1900 B.C. includes a Mesopotamian clay tablet recording a tax for public works (Heaps, 1971). This implies that income tax has conceptual roots that are over 2000 years old.

Wherever taxes have been imposed, the machinery for collecting them has been developed and as governments became more complex, larger centralized administrations for revenue systems were required. Their evolution and why taxes are paid indicate how the popular conception of taxation has gradually changed from one of involuntary contribution to one of obligation. Taxation is a compulsory levy on the income, goods, services and properties of individuals, partnership and limited liability companies payable to governments, guided by various statutes, le-

gislation such as Decree and Acts of parliament (Weris, 2000) to accomplish some of nations economic and social objectives (Madeo et al., 1995).

Modern government derives majority of its revenue for financing public services from taxation. Therefore if a tax's primary purpose is not to raise revenue, it might not be a tax but rather a way of balancing negative externalities (Horner, 1989). Taxation is the imposition of compulsory levy by the government, paid by those (persons and corporations) who come under its jurisdiction, and not levied in return for any specific services rendered to the taxpayers. That is, there is no direct relationship between the exaction of revenue by the government and any benefit to be received by the taxpayers. The payments made by the taxpayers are used by the government for the benefit of all the citizens. Raising government revenue is the most obvious, but not the only reason for imposing taxes. Other purposes of taxation include maintenance of economic stability, fair distribution of income, protection policy, social welfare, higher employment level and optimum allocation of resources (Saleemi, 2001). Apart from taxes, the governments also utilize other sources of public revenue which include: Fees which are the amounts received by the government against any direct services rendered by the government like road license fee, import license fee etc. Fines and penalties which are imposed to punish the people for the laws infringed like overloading a lorry, driving without permit etc. Prices which are the amounts received by the government for commercial services and provision of public utilities like railway fare, postage and telephone charges etc. Special assessments which are compulsory contributions levied in proportion to the special benefits, derived to defray the cost of a specific improvement to property undertaken in the public interest. For example, when the government charged a specific amount from the residents of a particular area for the establishment or provision of certain facilities like drainage, roads, schools, etc., in that particular area, then it is a special assessment. A special assessment resembles a tax in that it is a compulsory payment but differs from it in that the payer has received a definite and direct benefit (Ddumba-Ssentamu, 2004).

A good tax policy requires accomplishing various economic and social objectives while improving equity in the distribution of tax burden. Conflict often arises in trying to meet these goals simultaneously. The use of tax policy to achieve specific economic and social goals inherently conflicts with the concept of tax neutrality. Also, a good tax structure should be effective and efficient. The objectives of an effective tax system other than to supply adequate revenue to pay for government expenses are to maintain economic stability, to equalize the distribution of income, and to increase the rate of economic growth (Saleemi, 2001). However, a tax is efficient if the cost of collection is relatively low because there is no sense in imposing a tax of which the net yield after collection cost

is almost zero. One of the earliest attempts to identify the criteria for designing a good tax structure is credited to Adam Smith who in 1776 suggested that a good tax system ought to be equitable, convenient, certain and economical. He called these criteria the "canons of taxation." Smith's criteria are still useful in modern tax administration. The canon of equity or justice is the most important canon of taxation. Smith stated in his theory of equity that the citizens of every nation should contribute towards the support of the government, as nearly as possible and in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the State. Tax equity is usually defined along two dimensions; horizontal equity and vertical equity (Ddumba-Ssentamu, 2004). Horizontal equity holds that taxpayers in the same economic circumstances should pay equal taxes while vertical equity holds that taxpayers in unequal economic circumstances should pay appropriately different taxes. The canon of equity seeks to establish economic justice in taxation system. In Smith's canon of convenience he opined that every tax ought to be levied at the time or in the manner which is convenient for the contributor to pay. This means that a tax should be easily assessed, collected and administered. This canon places much emphasis on administrative simplicity and protects the taxpayer from the hardship that the inconvenient time and manner of payment will cause. By canon of certainty, Smith opined that the tax which each individual is bound to pay ought to be certain, and not arbitrary. That is, the time of payment, the manner of payment and the amount to be paid ought to be clear and plain to the contributor and to every other person. This implies that taxpayers can predict their tax liabilities with relative accuracy. Smith's canon of economy stated that every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State. An economical tax involves a minimum cost of compliance by taxpayers and administration by the government. This principle has dual implications. First, tax should be economical for the government to collect and secondly, it should be economical to the taxpayers (Jhingan, 2004). Because of the dynamic nature of the society and the demand for objectivity in public finance, more principles have been developed and added to the initial four canons such as the canons of productivity, elasticity, diversity, simplicity, expediency, coordination (Vaish, 1996) and visibility (Madeo et al., 1995). For instance, a productive tax produces relatively large amounts of revenue; a tax is elastic if it can be able to raise the rates of taxes when it is in need of more revenue; a tax is diverse when there is variety in taxation; and the visibility of a tax is measured in terms of taxpayers ability to understand the amount of taxes they pay and the public benefits obtained. The major problem associated with the principles of taxation is to find a sufficient number of taxes that could satisfy all the criterions.

Taxes are classified by administrative arrangements as direct or indirect taxes. A direct tax is really paid by the person on whom it is legally imposed. Some of the merits of direct taxes include creation of civil consciousness, relatively low cost of collection, certainty in terms of time of payment and the amount to be paid (Vaish, 1996), simplicity and flexibility (Ddumba-Ssentamu, 2004). Some disadvantages include possibility of evasion, inconvenience (Hajela, 1999), discouragement of savings and investments, and imposition of burden to taxpayers (Ddumba-Ssentamu, 2004). While an indirect tax is imposed on one person but paid partly or wholly by another owing to some consequential change in the terms of some contract or bargain between them. Indirect taxes are taxes on outlays or consumptions as opposed to taxes on income or earnings. For example, Value Added Tax (VAT), import duty, export duty, excise duty are all indirect taxes because their burdens will be shifted to the consumers. Some of the advantages of indirect taxes include convenience in payment, less evasion, wide coverage (because it covers variety of goods and services), checks the consumption of harmful goods, and the protection of home industries. Some demerits of indirect taxes are that they are regressive in nature, unreliable source of revenue (it is not possible to accurately estimate effect of indirect taxes on the demand for products), and they have adverse effects on production and employment (Ddumba-Ssentamu, 2004). It is difficult to conclude that direct taxes are superior to indirect taxes, or vice versa because both types of taxes compliment each other and are regarded as essential sources of revenue to modern governments.

Every tax has two important parts. These are the tax base and the tax rate structure. The tax base is the measure or value upon which the tax is levied like income, sales, capital and consumption. The three leading elements for the best tax base are income, consumption and wealth (Case and Fair, 1999). The tax rate structure determines the proportion of the tax base that must be paid. The wise selection of a tax base presents a very difficult task because it requires administrative considerations, social consequences and yield or the amount of tax revenue derived (Madeo et al., 1995). Taxes are also classified according to the behavior of their rates or related to the tax base such as proportional tax, progressive tax and regressive tax. A tax is proportional where every taxpayer pays the same proportion of his income so that the high income earner pays more than a low income earner. That is, it applies a constant or flat tax rate to every possible level of any tax base. A progressive tax is one which provides that a taxpayer with a higher income should represent a larger proportion of the tax base as the tax base expands. That is, percentage tax rate increases as the tax base increase, and vice versa. A tax is regressive if it represents a small proportion of the higher income earners than it represents of the lower income earners. That is, it is a tax whose rates take

a decreasing proportion of the tax base as the tax base expands.

Tax administration in Uganda

Income tax was introduced in Uganda in 1940 by ordinances which also covered Kenya and Tanganyika (now Tanzania). It was administered by a joint income tax department on behalf of the three states, and in 1952 the ordinances were replaced by the East African Income Tax Management Act (Bahemuka, 2006). The East African Income Tax Management Act of 1952 was repealed and replaced by the East African Income Tax Management Act of 1958. The last comprehensive revision of East African Income Tax Management Act was in 1970. The Income Tax Decree No. 1 of 1974 replaced the East African Income Tax Management Act of 1970 in Uganda. The Income Tax Decree of 1974 with extensive amendments in the subsequent annual financial statutes remained the main income tax law in Uganda until the enactment of the Income Tax Act 1997 which was later re-titled the Income Tax Act Cap.340 of the Laws of Uganda in the 2000 consolidation of the laws.

Prior to the establishment of the Uganda Revenue Authority (URA) in 1991, income tax unit was a direct department in the Ministry of Finance and was headed by the commissioner of income tax. Under the commissioner were two deputies: The chief assessor of income tax and the chief collector of income tax. These were the key positions in the administration of income tax in the country. The chief assessor headed the assessment functions and the duty of the chief collector was to collect tax due and account for it. Under this system, Uganda's tax administration was characterized with an ineffective tax collection, massive evasions and arrears, corruption and low work morale among the staff (Uganda Revenue Authority Corporate Plan, 1996/97 – 2000/2001). The system was being run on ad hoc programs without a full central authority responsible for collection of taxes. This system was inefficient and had caused the government lost substantial revenue (Ddumba-Ssentamu 2004).

Based on the need for the government to be responsive to taxpayers in terms of accountability and genuine tax structure, a central agency known as the Uganda Revenue Authority (URA) was established on 1st September 1991 under the Statute No.6 of the parliament of Uganda. It is a semi-autonomous government institution under the general supervision of the ministry of finance (Bahemuka 2006). Uganda Revenue Authority uses the Income Tax Act, Cap.340 to administer the collection of taxes from the public on behalf of the government. According to report from the Uganda Revenue Authority profile, the authority was established with the responsibility to assess and collect specified tax revenue, to administer and enforce laws relating to such revenue, to ac-

Table 1. Types of taxes in Uganda.

Taxes on international trade	Indirect taxes on domestic transactions
<ol style="list-style-type: none"> 1. Petroleum products 2. Import duty 3. Excise duty on imports 4. VAT on imported goods 5. Withholding tax on imports 6. Temporary road license 7. Commission on imports 8. Coffee stabilization tax 	<ol style="list-style-type: none"> 1. Excise duty on locals <ol style="list-style-type: none"> (a) Cigarettes (b) Beer (c) Uganda waragi/spirits (d) Soft drinks (e) Phone talk time (f) Mineral water 2. VAT on local goods <ol style="list-style-type: none"> (a) Cigarettes (b) Beer (c) Uganda waragi/spirits (d) Soft drinks (e) Others 3. VAT on services
Direct taxes on income and profits	Fees and License
<ol style="list-style-type: none"> 1. P.A.Y.E. 2. Corporate tax 3. Presumptive tax 4. Other non-corporate income tax 5. Withholding tax 6. Rental income tax 7. Tax on interest in banks 8. Tax on interest on treasury bills 9. National lottery/casino 	<ol style="list-style-type: none"> 1. Fees and licenses (Traffic Act) 2. Drivers permits 3. Stamp duty and embossing fees

Source: Adapted from John Ddumba-Ssentamu, Basic Economics for East Africa: Concepts, Analysis and Applications, Fountain Publishers, Kampala, 2004.

count for all the revenue to which the laws apply, and to advise the government on matters of policy relating to all revenue (whether or not this revenue is specified in Statute No.6). Uganda's principal taxes are income tax on individuals and companies, VAT, customs and excise duty levied by the central government through the Uganda Revenue Authority (URA), and graduated tax and land rates, which are levied by local authorities. The tax structure in the country is composed of direct and indirect taxes (Ddumba-Ssentamu 2004). The major categories of tax in Uganda are taxes on international trade, indirect taxes on domestic transactions, direct taxes on income and profits, and, fees and licenses (Table 1). All registered corporations in Uganda are under obligations to pay income tax. Corporation tax is payable at the corporate rates by companies. According to Section 2 of the Act, a company means a body of persons incorporated or unincorporated, whether created or recognized under the law in force in Uganda or else where, and a unit trust, but does not include any other trust or a partnership. A company is liable to tax separately from its shareholders (Section 74[1]), and the tax rate of a company is 30% of the chargeable income (Christine, 2006). A chargeable income of a company for a year of income is the gross income less total deductions allowed under the Act. Gross income includes business income like trading receipts and capital gains, property income like dividends, interest, natural resources payments, rents and royalties. Deductions allowed under the Act include both capital

and revenue which must be incurred purely in production of income. Some of the deductions are wear and tear allowances, initial allowances, startup costs, utility expenses etc. Exemptions under the Act are granted to Tax Exempt Organizations (TEOs). According to the Act, a tax exempt organization is any company, institution, or irrevocable trust, which includes an amateur sporting association; a religious, charitable or educational institution of a public character; or a trade union, employees' association, an association of employers registered under any law of Uganda, or association established for the purpose of promoting farming, mining, tourism, manufacturing or commerce and industry in Uganda. These qualified organizations must have been issued with a written ruling by the commissioner currently in force stating that it is an exempt organization and none of its income or assets should confer a private benefit on any person.

Religion in Uganda

The legal system in Uganda provides for freedom of religion. The two major religions in the country are the Christianity and Islam. These religions were introduced in the country by Christian missionaries and Muslim traders in the 1860s. According to an official website of the government (myuganda.co.ug), the Christians constituted 70% of the population. Among the Christian denominations, Roman Catholic constituted 28%, Protestants 22%, Pentecostals 20%. The Muslims constituted 15%, indige-

Table 2. Membership structure of sample by districts.

Districts	Membership status		n=250
	Members	Non-members	
Kampala	60 (24.0%)	40 (16.0%)	100 (40.0%)
Kira	30 (12.0%)	20 (8.0%)	50 (20.0%)
Luwero	30 (12.0%)	20 (8.0%)	50 (20.0%)
Mukono	30 (12.0%)	20 (8.0%)	50 (20.0%)
Total	150 (60.0%)	100 (40.0%)	250 (100%)

nous believe 10% and others 5%. Religious institutions in the country are categorized as tax exempt organizations. Pentecostals emerged from the church and the movement is connected with a group of Christians that emphasize the gifts of the Holy Spirit. The free dictionary by Farlex described Pentecostals as any fundamentalist protestant church that uses revivalistic method to achieve experiences comparable to the Pentecostal experience of the first Christian disciples. The growth of Pentecostals in Uganda has been dramatic because according to Robert Kayanja, leader of Kampala's charismatic miracle center cathedral, three quarter of the Christians in Uganda are Pentecostal members. They are also called the balokoles or born again. The reason for active participation in Pentecostalism as opined by Dr. H. Wayne House (Charts of Cults, Sects and Religious Movements) is to derive satisfaction from the feelings of joy, of fiesta, and of sensational miracles, tongues, healings that thrills and excites the humble believers. They are considered important because of their growing influence in raising issues to the public agenda based on their beliefs and for the delivery of public services (Denhardt and Denhardt, 2006). The Pentecostals in Uganda are registered under Section 1(d) of the Non-Governmental Organizations (NGOs) Registration Act of 1989, amended 2006. The Act established a National Board for NGOs under the ministry of internal affairs with the power to grant or refuse registration, and revoke registration once granted if the board deems it in the public interest to do so. The amendments made include updating fines imposed on violators and providing the NGOs board with the discretion over duration and conditions of the permit.

Methodology

To investigate taxation of Pentecostals in Uganda, this study employed the descriptive survey research design. This method was used because the study was interested in describing the state of affairs as it exists at present (Kothari, 1990) without any attempt to manipulate or control the sample subjects (Asika, 1991).

Sample

A total of 250 samples were drawn from both taxable members and taxable non-members of Pentecostals in four districts namely, Kampala, Kira, Luwero, and Mukono. The study used taxable res-

pondents because of their knowledge in taxation policy and administration. Also, the reason for choosing the districts in the sample was because they are not far from the capital city and majority of the Pentecostals in the country are established in and around the capital city and in those areas. Kampala being the capital city was allocated the highest sample size. The samples selected were in the ratio of 3:2 according to the membership structure (members of Pentecostals {150}, and non-members of Pentecostals {100}). The reasons for dividing the sample elements into membership structure were to solicit diverse views from the respondents and to make the study to be objective and comprehensive. A higher proportion of Pentecostal members were selected because they represent the direct subject under investigation. The non-members were chosen from respondents who are not balokoles or born again Christians. A break down of the membership structure of sample by districts is summarized in Table 2. This study employed the judgment (purposive) sampling method. Judgment sampling method was employed because the survey was guided by what it considers typical cases which are most likely to provide the requisite data or information in choosing the sample elements of the problem under investigation (Asika, 1991). The purposive sampling technique was also employed in order to conveniently elicit responses from willing sample members since the sample size is large (250). This attributed to 100% response rates. It is notable from Table 2 that out of the 250 questionnaires sent out and received, 150 (60%) were from Pentecostal members while 100 (40%) were from non-members. The sample responses for Pentecostal members according to the respective districts were Kampala 60 (24%), Kira 30 (12%), Luwero 30 (12%) and Mukono 30 (12%). While the sample responses for non-members according to the respective districts were Kampala 40 (16%), Kira 20 (8%), Luwero 20 (8%) and Mukono 20 (8%).

Data collection

Data were collected mainly by the questionnaire survey and the personal interview methods. Questionnaires were administered to the entire membership structure of the sample by their respective districts as shown in Table 2. The study employed the structured response questions to solicit responses in the questionnaires.

Personal interviews were also used to solicit responses from some of the respondents in the sample and also from some officials of the Uganda Revenue Authority (URA). In order to make the research instrument valid, the questions were adequately designed to cover the scope of the problem under investigation and subsequently given to two senior professional colleagues to assess its suitability before it was administered. For reliability of the research instrument, the test-re-test method was employed. The same questions in the questionnaire were administered to 50 respondents in the sample after three months. This method affected the time of completion of this study. Only 50 respondents were used for the re-test because of convenience and willingness of the respondents in the sample to respond twice to the same schedule at different times. Out of the 50 respondents, 30 (60%) were Pentecostal members and 20 (40%) were non-members. The reliability coefficient for the re-test was 0.93, indicating perfect correlation.

Data analysis

The study processed the questionnaire responses before analysis by editing, coding, and classifying the data according to the membership structure by districts. The data were subsequently tabulated. Descriptive (percentages and charts) and inferential (Z-test) statistics were employed for the analysis.

Table 3. Pentecostals as business enterprises.

Factors	Membership status		n=250
	Members	Non-members	
Yes	00 (0.00%)	68 (27.20%)	68 (27.20%)
No	150 (60.00%)	32 (12.80%)	182 (72.80%)
Total	150 (60.00%)	100 (40.00%)	250 (100%)

Source: Survey research 2007.

FINDINGS AND DISCUSSION

Pentecostals as business enterprises

To analyze whether Pentecostals are business oriented organizations in Uganda, respondents were asked to state if Pentecostals are business oriented organizations. The two-way (Yes or NO) structured question was employed, and a summary of the responses is presented in Table 3.

The total response rates as seen in Table 3 showed that 182 (72.8%) respondents indicated that Pentecostals are different from business organizations. All the 150 members of Pentecostal opined that Pentecostals are different from business organizations. This opinion could have been attributed to the dogmatic attitude of the Pentecostal members. However, 68% of the non-members indicated that Pentecostals are business oriented organizations. Clearly, this survey suggested that the response rates with regard to Pentecostals as business oriented organizations vary significantly according to the membership structure.

Statistical analysis was also employed to test the response data. Specifically, the Z- test was used at 5% level of significance to test the difference in the response proportions of the membership structure.

The test statistic

$$Z = \frac{p1 - p2}{\sqrt{\frac{p1q1}{n1} + \frac{p2q2}{n2}}}$$

Where p1 = Proportion of positive (Yes) response of members of Pentecostals

p2 = Proportion of positive (Yes) response of non-members of Pentecostals

$$q1 = 1 - p1$$

$$q2 = 1 - p2$$

n1 = size of sample one (members)

n2 = size of sample two (non-members)

$$\sqrt{\frac{p1q1}{n1} + \frac{p2q2}{n2}}$$

Where the denominator

is the standard error of the difference between the two samples proportions. In order to test the sample responses on whether Pentecostals in Uganda are business enterprises, the null hypothesis (Ho) was stated as:

Ho: There is no significant difference between Pentecostals and business enterprises (Ho: p1 = p2).

$$n1 = 150$$

$$p1 = 0/150 = 0$$

$$q1 = 1 - p1 = 1$$

$$n2 = 100$$

$$p2 = 68/100 = 0.68$$

$$q2 = 1 - p2 = 0.32$$

The test statistic Z thus:

$$Z = \frac{0.00 - 0.68}{\sqrt{\frac{(0)(1)}{150} + \frac{(68)(.32)}{100}}} = -14.58$$

At 5% level of significance for a two-tailed (Z) test, the critical regions = ±1.96. The test statistic result (-14.58) is in the rejection region; therefore the null hypothesis (Ho) is rejected.

Conclusively, the test result established that there is significant difference between Pentecostals and business enterprises in Uganda.

Difference in characteristics between pentecostals and business organizations

Respondents were asked to state whether there are significant differences between Pentecostals and business organizations with regard to advertising (Coen, 1997), discrimination (Bahemuka, 2006), pricing (Kotler, 2003), profit (Agbonifoh et al., 1999), and the provision of service (Certo et al., 1987). The two-way structured question was employed, and a summary of the responses is presented in Table 4. The responses (Table 4) from both Pentecostal members and non-members indicated that there are no differences in the characteristics between Pentecostals and business organizations with regard to advertising (85.3% for members and 100% for non-members), and the provision of services to the public (66% for member and 92% for non-member). However, responses from Pentecostal members indicated that Pentecostals are different from business organizations with regard to discrimination in the provision of services 150(100%), pricing 148 (98.7%) and profit orientation 109 (72.7%).

Table 4. Difference in characteristics between pentecostals and business organizations.

Characteristics	Membership status			
	Members		Non-members	
	Difference between Pentecostals and business		Difference between Pentecostals and business	
	Yes	No	Yes	No
Advertising	22 (14.7%)	128 (85.3%)	00 (00.0%)	100 (100%)
Discrimination	150 (100%)	00 (00.0%)	13 (13.0%)	87 (87.0%)
Pricing	148 (98.7%)	02 (01.3%)	41 (41.0%)	59 (59.0%)
Profit orientation	109 (72.7%)	41 (27.3%)	32 (32.0%)	68 (68.0%)
Provision of service	51 (34.0%)	99 (66.0%)	08 (08.0%)	92 (92.0%)

Source: Survey data 2007.

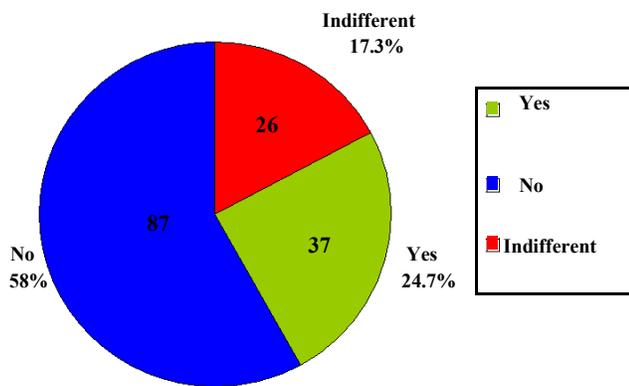


Figure 2. Taxation of Pentecostals (Members) n=150. Source: Survey data 2007.

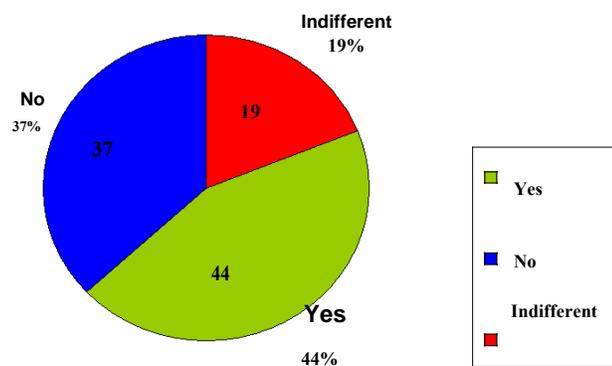


Figure 3. Taxation of pentecostals (Non-members) n = 100. Source: Survey data 2007.

But in contrast, significant responses from the non-members indicated that Pentecostals are not different from business organizations in relation to discrimination in the provision of services 87 (87%), pricing 59 (59%) and profit orientation 68 (68%). The response rates from non-members clearly indicated that Pentecostals are not different from business organizations with regard to all

to all the characteristics identified in Table 4.

Taxation of pentecostals

Respondents were asked in a three-way (Yes or NO or Indifferent) structured question whether Pentecostals should be taxed. Charts were employed to analyze the responses, and they are displayed in Figures 1, 2 and 3. Figures 1 and 2 were respective responses from Pentecostal members and non-members displayed in the form of pie charts. Figure 3 responses was the combination of Pentecostal members and non-members displayed in the form of a bar chart.

The responses revealed that out of 150 Pentecostal members, 87 (58%) were against imposition of income tax on Pentecostals in the country (Figure 2), while of the 100 respondents in the non-member status, 44 (44%) were in support of taxation of Pentecostals, 37 (37%) were against the imposition and 19 (19%) were indifferent (Figure 3). The combined response rates for both the Pentecostal members and non-members revealed that 124 (49.6%) respondents objected to taxation of Pentecostals, 81 (32.4%) supported it and 45 (18%) were indifferent (Figure 4). The combined response rates indicated that Pentecostals should not be taxed in Uganda. Though, significant proportion of non-members opined that Pentecostals should be taxed.

In respect of Pentecostals as a business organization, the hypothesis test result revealed that Pentecostals are different from business organizations. This result sustained the responses of Pentecostal members. This implied that Pentecostals in the country should maintain their status quo tax wise. In contrast, 68% (Table 3) of non-members indicated that Pentecostals are not different from business organizations. Since corporation tax is imposed on business organizations, it implied that Pentecostals should be taxed. To define business, three important questions must be asked: 1. Who are our customers? 2. What needs are being satisfied? 3. How are the needs satisfied? (Abell 1980). The study observed that the target customers of Pentecostal are the devotees and

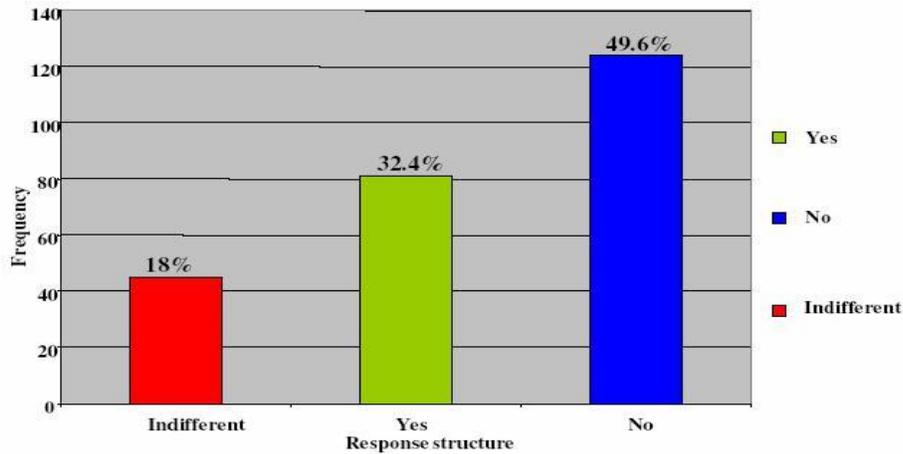


Figure 4. Taxation of Pentecostals (Members and Non-members) n =250
Source: Survey data 2007.

attendees. It was also observed that Pentecostals provide services (as indicated by all the respondents) that create intrinsic satisfaction, and that could have contributed to the reason why their devotees were assertive. Based on that, it was observed that the devotees would not be absolutely rational in their questionnaire and interview responses. According to Nickels et al. (1999), a business is “any activity that seeks profit by providing needed goods and services to other.” By this definition, profit motive is an essential characteristic of a business. Profit as an important objective of a business is to generate income that exceeds the expenditures it incurs (Certo et al., 1987).

Pentecostals are registered under the Non-Governmental Organization Act with other Not-for-Profit-Organizations (NPOs) in Uganda. That is, Pentecostals are considered as non-profit organizations which significantly contributed to their qualification as tax exempt organizations. This sustained the responses of Pentecostal members that Pentecostals are not profit oriented organizations. Personal interview responses from Pentecostal members also revealed that Pentecostals differ from business ventures because their income is derived not from the sales of any product or service, but from voluntary tithes and offering. It sustained that Pentecostals should maintain their status quo, tax wise in Uganda. In contrast, non-members revealed that Pentecostals are business oriented organizations. Their responses corroborated with the responses of all the URA staff interviewed. The URA staff interviewed indicated that the profit motive of Pentecostals and the activities of their pastors induced the authority to propose the imposition of income tax on them in 2007. However, the study observed that Pentecostals like any other non-profit organizations could strive for profit in order to survive and operate effectively. But such profits should be used to meet the obligations of the organization and not to enrich the pastors or the owners (Nickel et al., 1999). But it was revealed through per-

sonal interviews that Pentecostal pastors in the country enrich themselves at the expense of the church. For instance, Gideon Munaabi (a journalist and public relations practitioner with Ultimate Media Consult in Uganda) opined that Pentecostal pastors selfishly enrich themselves while impoverishing hundreds of thousands of their followers who because of their social and economic problems rush to them for miracles and healings. The unethical practices of Pentecostal pastors as observed in the study contributed to the reason why the URA proposed the imposition of income tax on them, and also influenced the reason why the non-members strongly perceived that Pentecostals de-emphasize the propagation of their beliefs in favor of business.

With regard to advertisement as a characteristic to differentiate between Pentecostals and business organizations, both Pentecostal members and non-members indicated that there is no difference in the ways Pentecostals and business organizations advertise their goods and services. The members revealed that there is absolute need for Pentecostals to advertise their services in order to create awareness. They responded that it has nothing to do with profit motive. But the non-members opined that there is no need for Pentecostals to employ aggressive advertising strategy because such an activity indicated that they are competing amongst themselves. Personal interview responses revealed that such activity is not a common phenomenon among the other religious institutions in the country. The study also established that the aggressive advertising methods employed by Pentecostals in the country could be regarded as conduct incompatible with the status of a religious organization. It manifests element of competition. Some organizations have found a competitive edge by focusing on making high-quality products (Harmon, 1997), and they use aggressive advertising to create awareness. In operating under competitive pressures, the profit motive largely determines which goods and services are produced

(Certo et al., 1987), which means that competition is thus a major component of business. This sustained the consistent responses of non-members that Pentecostals in Uganda are business oriented, and therefore should be taxed.

In respect of pricing as a characteristic that differentiates between Pentecostals and business organizations, Pentecostal members revealed that there is significant difference between Pentecostals and business organizations. They claimed that church services are available to all devotees and attendees free of charge. In contrast, non-members revealed that some special programs are designed by Pentecostals which are paid for. Some of these programs as indicated by non-members are healing and counseling, selling of holy water and anointing oil. When asked how they knew about such designed services which are paid for since they were non-members, the responses from significant number of them indicated that such services are designed for only people who can afford the price irrespective of the person's religious status. Therefore, the study established that Pentecostals employ the value pricing strategy because their special products are designed to suit the perception of people for a price. This also contributed to the reason why Pentecostals were perceived as business organizations in the country, therefore, inducing the agitation for the withdrawal of their tax exempt status.

The Uganda Income Tax Act established that Pentecostals are of a public character which qualified them to be tax exempt organizations. According to (Bahemuka, 2006), organizations of a public character are established for the benefit of all the people without any discrimination. However, the study's findings established two contrary opinions with regard to discrimination in the provision of services. First, 87% (Table 4) of the non-members indicated that there is no difference between Pentecostals and business organizations with regard to discrimination in the provision of services. It was revealed that these responses were based on the fact that Pentecostals offer special products for a price. The price fixed on these services becomes the basis for discrimination since not all attendees could have the same opportunity to benefit from such services and programs. Second, all the members of Pentecostals indicated that Pentecostals are different from business organizations in Uganda in relation to discrimination in the provision of services. According to them, their programs and services are organized for people without any form of discrimination. It was observed that the dogmatic approach of Pentecostal members influenced their responses. However, significant number of Pentecostal members still accepted in personal interviews that some programs are actually paid for but without accepting that such payments could be basis for discrimination in the provision of services. Also majority of the URA staff interviewed admitted that Pentecostals fixed prices for some of their special services. Therefore, the study established that Pentecostals in

Uganda are not absolutely of a public character because of the price they fix on their special programs and services. This could also affect their tax exempt status.

With regard to taxation of Pentecostals in the country, the combined responses (Figure 4) indicated that Pentecostals should not be taxed as opined by Pentecostal members. That is, Pentecostals should maintain their status quo tax wise. However, responses from non-members indicated that the tax exempt status of Pentecostals in Uganda should be repealed. This is because Pentecostals are regarded as business oriented organizations with vast income and properties. But the study observed that it would be difficult for the country to achieve tax neutrality in trying to satisfy the two contrary opinions. Non-taxation of Pentecostals in Uganda as opined by 58% of Pentecostal members and 49.6% of the total respondents was considered as tax inequality between Pentecostals and business organizations in the country by significant number of non-members. The reasons as observed in the study were that Pentecostals have the ability to pay taxes and secondly, they source for revenue without tax liability in the same environment with other business organizations. Also, taxation of Pentecostals as revealed by 44% of non-members of Pentecostals was equally considered as tax inequality between Pentecostals and other religious institutions in the country by majority of the Pentecostal members. This is because the study established that the other major religious institutions in the country also have vast income and properties which are sourced from the same environment. All faith based institutions in the country are primarily established for the purpose of propagating their respective beliefs. Therefore, imposition of taxes on Pentecostals without taxing other religious institutions implied that Pentecostals are treated unequally tax wise with other organizations of similar economic and social circumstances.

Because Pentecostals in Uganda have the ability to pay income tax, the imposition of income tax on them would contribute to increased revenue for the government to accomplish some of its economic and social objectives since the country's budget is highly dependent on donor assistance. It would also distribute and reduce the tax burden of other non-tax exempt organizations in the country. However, such levy could be regarded as economic and social injustice when compared to the privilege other faith based institutions in the country would continue to enjoy tax wise. It was established that such situation could result to social crisis with religious dimensions because it was identified that Pentecostal members are Christian extremists in the country. They could regard such policy as oppressive and regressive plan against them in favor of other religions in the country. This situation could induce ethnic conflicts since the country is a multi-religious and multi-ethnic nation with the several regions helping to accentuate regional and ethnic distinctions. (USAID website).

The study's findings revealed that Pentecostals would consider the imposition of income tax on them as a political maneuver against them instead of an economic policy. This sustained a long held view that taxation of churches would constitute government interference in church affairs (Heaps, 1971). Considering the increasing number of Pentecostals in the country, such view could result to political crisis. The country has a history of several years of civil and political unrest since after independence. Therefore, any provoked religious crisis as a result of taxation policy would affect not only the social structure but also the economy, especially now that the government is maintaining political stability and promoting economic growth and development. Finally, the study established that repealing the tax exempt status of Pentecostals without taxing other religious institutions in the country could also result to complicated legal tangles. Because of the dogmatic approach of the members, they would defend their legitimate autonomy from unreasonable government interference and undue action against them.

Conclusion and Recommendations

In conclusion, the study findings established two contrary opinions with regard to taxation of Pentecostals in Uganda. First, non-members revealed that Pentecostals are business oriented organizations in Uganda and that they have done much to deserve losing their tax exempt status. Second, Pentecostals members opined that Pentecostals are different from business organizations which sustained the hypothesis test result. The study established that the unethical attitude of Pentecostal pastors in the country and the discriminatory activities of the churches in service delivery contributed to a great extent the reason why Pentecostals were regarded as business oriented organizations. Non-taxation of Pentecostals was regarded as tax inequality between Pentecostals and business organizations in the country. Also, taxation of Pentecostals was also regarded as tax inequality between Pentecostals and other faith based institutions in the country. Although, taxation of Pentecostals would increase government income and also reduce the tax burden of other non-tax exempt organizations in the country. However, it was established that it could also lead to political, social and economic crises.

Based on the study's findings, it was recommended that tax planning in the country should not focus only on the economic benefit but should be done after taking into consideration other factors like political stability, cultural benefit and religion (Christine, 2006). This will enable the government to properly evaluate the economic and social consequences while improving equity in the distribution of tax burden. It was also recommended that the country should provide legislation that would make Pentecostals operate in an environment of increasing regulation and scrutiny. This will check the unethical conducts

of Pentecostal pastors. Finally, Pentecostals should be registered and governed under the Trustee Incorporated Act. The trustees should be people of impeccable character other than the pastors. According to the Act, the trustees are responsible for the properties that come into their hands and are answerable and accountable for their own acts, receipts, neglects and defaults. This will impose strict regime of accountability and protect the active-ty and integrity of Pentecostals in the country.

NOTES

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