MAKERERE UNIVERSITY

DEPARTMENT OF CONSTRUCTION ECONOMICS AND MANAGEMENT

SCHOOL OF THE BUILT ENVIRONMENT

COURSE: BSC. LAND ECONOMICS

EXAMINING THE EFFECT OF CAPITAL GAINS TAX ON REAL ESTATE DEVELOPMENT IN UGANDA.

'CASE STUDY: NALUMUNYE WAKISO DISTRICT'

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"RESEARCH SUBMITTED TO THE DEPARTMENT OF CONSTRUCTION ECONOMICS AND MANAGEMENT FOR THE AWARD OF A DEGREE OF BACHELOR OF SCIENCE IN LAND ECONOMICS OF MAKERERE UNIVERSITY"

MAY 2018

DECLARATION

I Bahiizi Michael declare that the information provided here forth is my own and that it has never been presented in any institution of higher learning.

SIGNED:.....................................   Date....02/10/2018..........

APPROVAL

This report by Bahiizi Michael entitled "Examining the effect of capital gains tax on real estate development in Uganda" was compiled under my supervision and is now ready for submission for the award of the Degree of Bachelor of Science in Land Economics of Makerere University.

Signed: .... Date: 02/10/2018

Miss WANDERA MARION

DEDICATION

I would like to dedicate this report to my parents Mr and Mrs Bahiizi, my siblings and Mr Oriana Patrick for the great love and strength you gave me to move on during my level stages of academics. Thank you very much and may the lord reward you abundantly. The choice I took was never a waste and that was all because of your good guidance and support. God bless you abundantly.

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ABSTRACT

Taxation of property transfer has become an issue of great concern in Uganda since it has significant fiscal and economic implication to the government. Most government problems are associated with the budget deficit since cash flows have a narrow tax base. Capital Gains Tax is the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Uganda. The rate of the tax is 30 per cent on the capital gains made on the sale of the property. The main objective of the study was to examine the relationship between the capital gains taxes and the reduction in real estate development. The main determinants of the reduction in real estate development were the lock in and capitalization effect. The high capital gains tax rates have continued to reduce the desire of the sellers from selling property on fear of falling in losses. The reason for people being reluctant to sell their property was the increase in transfer costs which led to reduced net gains from the sale of the properties. High priced properties were found to discourage buying decisions, most buyers attributed this to the high taxation rates they forecasted in the future and so they were offering low prices for on sale properties. It is recommended that the rates for CGT to be reduced. Reduced rate for CGT will reduce the negative effects of CGT on real estate development hence increased economic growth.

CHAPTER ONE

1.0 Introduction

The study aims at examining the effect of capital gains tax on real estate development in Uganda. This chapter provides an insight into the background, problem statement, purpose of the study, objectives of the study, research questions, scope, significance of the study, justification and operational definition of terms.

1.1 Background of the study

Capital Gain Tax (CGT) refers to the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Uganda (Uganda Revenue Authority, 2015).

CGT is significant since it has great effect to the economy. Through the CGT, the government can expand its tax base hence increasing its amount of revenue from taxes. It also influences investment in the property since the profit generated from the exchange of properties is charged tax. (O & Erosa, 2007) argue that the impact of CGT can be measured through the lock in effect and capitalization effect. The lock-in effect concept views the impact of capital gain taxes from the perspective of the seller. The theory seeks to discuss the impacts of capital gain taxes on the supply of properties. The lock-in effect measures how the CGT affects the supply of properties in the property market. Lock in effect is measured by the reduction in the supply of some property in the market.

The capitalization effect concept analyzes the capital gain tax effect from the perspective of the buyers. It discusses the impact of capital gains tax on demand for property. (Dai, Douglas, & Zhang, 2008) argue that where capital gain taxes are charged, people buying properties will negotiate to acquire the properties at a lower price to be compensated for the future tax liability. This effect is known as the capitalization effect. The increased process of properties due to the presence of capital gain taxes leads to decreased demand of the properties among the buyers. It is measured using the reduction in the demand for properties in the market.

INVESTMENT IN REAL ESTATE DEVELOPMENT

Real estate development, or property development, is a business process, encompassing activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of developed land or parcels to others. Real estate developers are the people and companies who coordinate all of these activities, converting ideas from paper to real property. Real estate development is different from construction, although many developers also manage the construction process.

Developers buy land, finance real estate deals, build or have builders build projects, create, imagine, control, and orchestrate the process of development from the beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate and receive the greatest rewards. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approval and financing, build the structures, and rent out, manage, and ultimately sell it (Wikipedia, The free encyclopedia, 2018)

During the past 20 years, especially in recent years, with the reforming forward of urban housing system, the accelerated process of urbanization and the implementation of the proactive fiscal policy, Uganda's real estate industry has seen significant development. The real estate industry which is an important component of the big socio-economic system, as the basic national economy carrier, is the main forces to promote economic growth, and speed up the industrialization and urbanization. A deeper understanding of the effect of capital gains tax on real estate development have a great meaning to promote the development of the real estate industry in a better way (Kyanda, 2014).

CAPITAL GAINS TAXES AND REAL ESTATE DEVELOPMENT.

Capital gains taxes apply to real estate development. Therefore, it is expected that the introduction of capital gain taxes will have an effect on real estate development. The theoretically expected effect of CGT on real estate development is reduced investment in real estate development. CGT is expected to affect real estate development from the perspective of the suppliers and the demand perspective.

From the supply perspective, CGT affects real estate development through the lock in effect. In this case, those people who hold property take long before selling them. The frequency of selling property in the market is affected negatively. Consequently, the rate at which property changes hands in the real estate market reduces, hence reduced investment property.

From the perspective of demand, CGT affects investment in real estate development through capitalization. The buyers are reluctant to buy the properties as they demand lower prices to be compensated for future tax liability. On the other hand, the suppliers are not willing to sell the property at a lower price since they also want to be compensated for CGT charged. Therefore, the demand for property reduces. Consequently, the number of properties reduces leading to reduced investment in properties (Ngaruiya, 2012).

CAPITAL GAINS TAX IN UGANDA

The Uganda Revenue Authority (2015) defines Capital Gain Tax as the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Uganda.

This tax is due and payable on a profit or capital gains made by a property owner or developer, when they sell their property. The rate of the tax is 30 per cent on the capital gains made on the sale of the property. The capital gain is computed by deducting the cost the developer or owner incurred in developing, buying or constructing the property, from the price the owner or developer sells his property, and any profits of gains made by the seller are then taxed on him or her as a capital gain. The eight schedule of the Income Tax Act defines properties to include marketable securities, buildings, and land.

Taxation of property transfer has become an issue of great concern in Uganda since it has significant fiscal and economic implication to the government. Most government problems are associated with the budget deficit since cash flows have a narrow tax base. There are also massive reliefs and exemptions from taxation that reduce cash flow from taxation. These factors among others have contributed to a deficit in the Ugandan budget. The budget deficit has attracted excessive attention and studies from international and local persons. For example, the World Bank (2013) has produced an update on Uganda's economy quoting the budget deficit and how it can be financed while many of the economic issues regarding the tax effects of corporate and individual capital gains are similar, the possible distortions in the corporate and individual settings differ along some dimensions. For example, taxing corporate capital gains can impede asset sales and reorganizations that reallocate capital between firms. If such reallocations raise the productivity of assets, then discouraging these transactions reduces the pretax rate of return. In contrast, for most assets held by individuals, the identity of the owner is unlikely to affect asset returns (Gentry & Desai, 2003). However, this tax system has faced stiff opposition from lawyers and investors community among others. Those opposing the capital gains tax cite its negative impacts to the investors and the overall Ugandan economy. There is need to shed more light on the impacts of capital gains on real estate development in an economy. The current study seeks to examine the effects of capital gains tax on real estate development in Uganda in Nalumunye Wakiso district.

1.2 Research Problem

Real estate development is affected by many factors among them CGT. CGT taxes have a significant impact on the development of real estate. This is through lock in effect and capitalization.

In the past, there has been a debate by the business community especially property developers in Uganda on the introduction of a new tax. The heightened debate is caused by lack of adequate knowledge of how the CGT can affect real estate development. Expressed as a question, the statement problem of the current study is "does capital gains tax lead to a reduction in the development of properties hence reduction in investment?"

Investment is significant in the development of a country. Taxes are charged to increase the government's income for the government to meet its expenditure. However, there is a need to assess the effect of capital gains tax on real estate development. Ingles (2009) argue that there is a structural deficit in the tax system that lacks Capital Gain Taxes. Ingles (2009) consider CGT as a means to widen the tax base of a government hence increased tax revenue. A similar argument was made in support of CGT tax in the United Kingdom by the HM Revenue and Customs (2014).

However, there are different arguments noted from other scholars. For example, (Smith, 2008) conducted a study and observed that increase in CGT rates does not lead to increased income to the government. Besides, Coleman (2009) also observed that the tax on capital gains had negative impacts on the economy since it discourages investments. As different scholars argue differently, there exists a research gap to identify whether CGT leads to reduced investment in real estate development. The current study aims at conducting an empirical study to find out whether CGT has negative effects on real estate development. Therefore, the case to be considered is Nalumunye wakiso district. This study will aim at answering the question as to whether CGT leads to reduced real estate development in Uganda.

1.3 Objectives of the study

1.3.1 General objective

The main objective of the study is to examine the effect of capital gains tax on real estate development in Uganda.

1.3.2 Specific objectives

1. To establish the relationship between capital gains taxes and lock in effect.
2. To establish the relationship between capital gains taxes and capitalization effect.

1.3.3 Research questions

1. What is the relationship between capital gains taxes and lock in effect?
2. What is the relationship between capital gains taxes and capitalization effect?

1.4 Scope of the study

1.4.1 Geographical scope

The study covered views of real estate agents, business men, tax officers from URA and property owners in Nalumunye Wakiso District Uganda. More still views from government officials from Ministry of Lands, Housing & Urban Development will be heard out. These views highlighted the plight of each vis-a-viz the expected effects of capital gains tax on real estate development.

1.4.2 Conceptual/ Theoretical Scope

The study examined the theories of lock in effect and capitalization theory as the main determinant of real estate development.

1.4.3 Durational Scope

The research study examined previous years from 2011 to 2017.

1.5 Significance of the study

- This study added to the existing body of knowledge about the impacts of various types of taxes on investment. Therefore, scholars will find it useful in advancing their knowledge and identify future gaps for study. By bridging the gap identified in the literature review, the study will add more knowledge in the field of taxation and finance.
- The study will also benefit in spurring investments in real estate development through the identification of the effects of CGT on real estate development, the government can spur investment in real estate development and other properties through avoiding the wrong channels of imposing CGT on the public or reducing the rate at which it is taxed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this section, past pieces of literature about the capital gains tax effects on real estate development is discussed. The section analyzes the studies conducted by past scholars and compares them in order to vividly identify the effects that capital gains tax has on investors. Through this literature review, the research gap to be bridged by the current study is identified. The literature review analyzes various theories that are related to CGT and real estate development.

2.2 Theoretical Literature Review

There are various theories discussed by past scholars in relation to capital gains tax. These theories seek to shed more light on the impacts of capital gain taxes and the relationship between the capital gain taxes and investment. The major theories include the Lock-in Effect and the Capitalization theories. (Dai, Douglas, & Zhang, 2008) conducted a study on the capital gains tax and the assets prices. The study revealed that for equilibrium price of assets to be determined with presence of CGT, the capitalization effect and the lock-in effect are significant.

2.2.1 Lock in Effect Theory

Lock in Effect determines investment in properties from the point of view of the sellers (O & Erosa, 2007). In the case of lock in effect the sellers are reluctant to float their properties for exchange. It is caused by increase in transactional costs. Therefore, the sellers hold on their properties since the cost of transfer is high. The high cost of transfer reduces their profits. The sellers are also reluctant to rebalance their portfolio after selling their existing properties. Therefore, the supply for properties in the market reduces. The supply of properties in the property market is a great determinant of investment in properties. The Lock In Effect theory considers the effect of the CGT from the perspective of the seller. When supply is high there is likely to be high investments and vice versa.

2.2.2 Capitalization Effect Theory

This theory views the impacts of CGT from the perspective of the buyer (Dai, Douglas, & Zhang, 2008). According to this theory, people buying property will negotiate to acquire the properties at a lower price to be compensated for the future tax liability. Therefore, buyers push for lower prices.

On the other hand, sellers are pushing for higher prices to be compensated for the high cost of transfer and the subsequent costs of portfolio rebalancing.

The market forces play a significant role in determining the investment in securities. The market forces are the demand and supply. Capitalization has great influence on demand for securities. Capitalization effect influences the intention of buyers to buy properties (Sialm, 2009). The buyers prefer to buy properties at a lower price to be compensated for tax and other transactional costs while selling them in the future. Therefore, the demand of the properties is affected. The affected demand for properties reduces the level of trading in properties since there are fewer buyers.

2.3 Relationship between capital gains tax and Lock In Effect.

The Lock In Effect theory considers the effect of the CGT from the perspective of the seller. Ricardo and Erosa (2007) conducted a study to test the applicability of this theory on the effects that CGT has on investment. In their study, Ricardo and Eros (2007) observed that where capital gain taxes were high, people were reluctant to sell their property. The reason for people being reluctant to sell their property was the increase in transfer costs which led to reduced net gains from the sale of the properties.

The study conducted by Ricardo and Eros (2007) is similar to a study conducted by Tahar, Soner and Touzi (2005) who observed that capital gains tax contributed a significant portion of transaction costs hence limiting investors to sell their properties. The increased transaction costs hindered sellers from selling the properties since they incurred the costs while transferring the properties to the buyers. Consequently, the seller obtained lower returns from the sale than they expected.

In addition to increase in cost of transfer that contributes to lock in effect, (Jones, 2010) noted that the CGT also contributed to the increase in cost of portfolio rebalancing. Jones (2010) noted that those who were holding properties were reluctant to sell them and buy other properties since they did not want to incur the high cost of portfolio rebalancing caused by CGT. Therefore, CGT leads to the lock in effect hence reducing the supply of property in the market.

(Chyz & Oliver, 2012) examined the Lock in Effect of CGT on investors. The focus of the study was to establish the relationship between capital gain taxes and the lock in effect on investors' decision making in short term and long term. (Chyz & Oliver, 2012) used 1400 institutional investors in this study. The results from the study indicated that increase in capital gains tax had negative lead to lock in effect. The investors were observed to hold on to their current properties to avoid the high costs of transaction that arise as result of high CGT. However, with reduction of CGT, the investors were willing to sell their current properties and acquire more securities in their portfolio.

2.4 Relationship between capital gains tax and Capitalization Effect.

This theory views the impacts of CGT from the perspective of the buyer (Dai, Maydew, Douglas & Zhang, 2008). According to this theory, people buying property will negotiate to acquire the properties at a lower price to be compensated for the future tax liability. Therefore, buyers push for lower prices. On the other hand, sellers are pushing for higher prices to be compensated for the high cost of transfer and the subsequent costs of portfolio rebalancing.

Sialm (2009) conducted a study to investigate on the capitalization effect of capital gain in the United States. The study sought to investigate on the tax burden on equity securities. In this study Sialm analysed the compensation for tax burden between the years 1913 to the year 2006. Results indicated that over this period, the CGT varied over time. A cross section study revealed that increase in capital gain taxes contributed to the capitalization effect. When capital gain taxes were high, buyers were observed to prefer low prices on the property. The low prices were preferred since buyers wanted to be compensated for the capital gain taxes they would pay while selling the property later. Adam Smith Institute (2009) also analysed the relationship between the rates of capital gain taxes in the United Kingdom. In his analysis he collected data on the rates of CGT since 1990 to 2004 and compared it with the government's revenue. It was expected by the government that increase in CGT rates would lead to increase in government's income. However, this was not case. Adam Smith Institute (2008) observed that when the capital gain tax rates reduced in the years 2002 and 2003 the government revenue from capital gain tax increased. Therefore, high rates of CGT do not translate to increased government income from taxation.

2.5 Summary of the Literature Review

(Edwards, 2012) asserts that government imposing capital gain tax should abolish it. Edwards (2012) argue that Fisher had advocated for the abolishment of capital gain taxes due to its negative effects on the economy. Capital gain taxes are attributed to causing retardation in the economic growth. In Uganda, the business community knows less about capital gains taxes and are discouraged from buying and selling hence the capitalization and lock in effect leading to low real estate development. There is limited knowledge on what the effects of capital gains tax would do on real estate development in Uganda. There is need to carry out the study and establish the relationship between the CGT and investment in real estate development in Uganda hence the need for the study.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents research methods that were used while carrying out research. The chapter therefore looks at the research design, area of the study, study population, sample size, sampling techniques, data collection methods and instruments, data management and analysis, gaining access to the field, ethical considerations and limitations of the study.

3.1 Research Design

Research design means connecting research questions to data. **Invalid source specified.** says that it involves how research questions were connected to data and procedures to use in answering them. The research was based on both quantitative and qualitative approach while employing a case study design. The design involved gathering information about a particular area, social setting or group to understand how it works (Berg, 2001). A case study design focused on choosing property owners within Nalumunye village wakiso district, tax officers, real estate buyers and officials from ministry of lands, housing and Urban development within which questionnaires were distributed to get a comparison on figures in relation to taxes, development and related issues. Both primary and secondary data sources were utilized.

3.2 Area of Study

The study was conducted in Nalumunye wakiso district by sampling property owners (sellers), tax officials, business men (buyers) and officials from ministry of lands, housing and urban development . This was so in that we got rich results leaving no area un-represented. This gave more clear findings in the study.

3.3 Study Population

The study population included property owners (sellers), tax officials, business men/ real estate buyers and officials from ministry of lands, housing and urban development. This is so because all parties were heard and therefore it was easy to get solutions to the prevailing effects of capital gains tax on real estate development.

3.4 Sample Size

(Michael Bloor, 2006) define a sample as a representative of the population from which it is selected. Therefore a sample of 60 respondents was chosen. 25 respondents from the buyers, 25 respondents from the sellers and 10 respondents from tax officials, this was done so as to get rich and satisfying results.

3.4.1 Sampling techniques and procedure

The study undertook a non-probability sampling technique called cluster sampling, after the clusters were made in regions, purposive sampling was done in each region by picking the properties needed with their corresponding owners and buyers in that region. This avoided limitations that come along with respondents who have limited knowledge on the subject of study. Through this the researcher together with the research assistant were able to identify respondents who are more knowledgeable on the research subject. The sampling methods were chosen because they save time compared to other methods.

3.5 Data Collection Methods and Instruments

Since the study is partly qualitative in nature which according to (Walliman, 2011) is based on data expressed in form of words, descriptions, opinions and feelings. Data was collected using both Primary data and secondary data.

3.5.1 Primary Data

Primary data is that data collected through observation or direct communication with the respondents in one form or the other. While carrying out research, primary data from the field was collected using questionnaires and interviews. This is because the methods are face to face and therefore interactive hence yielding rich and first-hand information.

Inquiries were done to both the government officials and the buyers & sellers in real estate development. (C R Kothari, 2004) states that interview method involve presentation of oral verbal stimuli and reply in terms of oral verbal responses either face to face or through telephone. In this case the researcher used face to face interviews to get elaborations and information that would not be included in the questionnaires. Semi structured interviews were used meaning that some guiding questions were predetermined but also some questions outside were employed for more probing about certain information that was not clear. The instrument used was a questionnaire which consists of themes which the researcher used to generate questions.

3.5.2 Secondary Data Collection Methods

According to C R Kothari, (2004), secondary data refers to data which has been already collected and analyzed by someone else meaning that data is already available. Since secondary data is either published or unpublished the researcher used previous research work related to the subject of study which include newspaper articles, journals, unpublished thesis and dissertations using the library and internet sources. (C R Kothari, 2004) warns that we should be careful in using secondary data as the data may not be unsuitable or inadequate for the problem being studied, however the researcher overcame this by reading thoroughly the data so as to test the suitability and quality of evidence presented in the arguments. The essence of using secondary data is to review literature on the existing tax policies and issues arising from taxation and real estate development.

3.6 Data management and Processing

The questionnaires including data and notes from interview guides were entered in Microsoft word, Microsoft excel and then an analysis was made.

3.7 Data Analysis and Presentation

The research used statistical analysis using MS excel, thematic and comparative analysis. While using thematic analysis data is presented and discussed through the themes emerging from data collected. Comparative analysis was used to analyze data by comparing the responses emerging from different respondents as emphasized by (Dawson, 2009). Since the study is partly qualitative in nature meaning some data was in form of words, opinions and descriptions, data was analyzed while reflecting on what other authors had written about the subject before so as to make the analysis comprehensive. Quantitative analyses was in form of tables and charts produced from Microsoft excel. This was done to ensure the research problem is answered and the gaps encountered in the field are filled.

3.8 Gaining access

The researcher got an introductory letter from the university asking for assistance from the buyers & sellers in real estate and government authorities to allow the researcher do the research and the letter showed the reasons as being purely academical and that the findings would not be published anywhere at any case.

3.9 Ethical Considerations

Every participant was first briefed about the intentions of the research and participants were participating at their own will.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter focuses on the description and interpretation of data analyzed in correspondence with the study variables. Questionnaires were distributed among buyers, sellers and tax officials in real estate development. Responses were noted, then data analyzed and presented using thematic & comparative analysis.

4.1.1 Background information analysis.

In Nalumunye, 25 property owners were interviewed=41.667%. The investment company interviewed was Luba property consultants and individual property holders. 25 property buyers were interviewed=41.667%. These included business investment groups namely Luba property consultants, kato propery developers and individual buyers. 10 tax officials were reached=16.667% to give a brief view about capital gains taxation. The targeted sample number was 60 and all respondents were obtained since all the questionnaires were purposively distributed to the respective respondents. Response rate=100%. This helped us get rich and satisfactory results.

4.1.2 Number of year in real estate development

Years	**Number**	**Percentage (%)**
Less than 1 Year	**09**	**15**
2-3 years	**14**	**23.333**
4-5 years	**34**	**56.667**
Over 6 years	**3**	**5**
Total	**60**	**100**

Table 1: Number of year in real estate development

The figures above indicate that the highest number of surveyed respondents was between the age of 4-5 years=56.667% and the least was over 6 years=5%. This showed that the data analyzed was got from experienced people who had enough experience hence rich and satisfactory results.

4.1.3 Level of knowledge on capital gains tax

Response	**Number**	**Percentage (%)**
Good knowledge	20	33.333
Moderate knowledge	30	50
Very little knowledge	10	16.667
Have no knowledge on CGT	0	0
Total	60	100%

Table 2: Level of knowledge on capital gains tax

50% of the respondents indicated that they had moderate knowledge on capital gains tax, 33.333%=good knowledge and 16.667% had little knowledge. This showed a good results to our next findings since respondents were informed about capital gains taxation in Uganda.

4.2 CAPITAL GAINS TAX AND LOCK IN EFFECT.

30% tax on capital gains is unexplainable

Response	Count	Percentage (%)
Yes	31	51.667
No	5	8.333
Not sure	24	40
Total	**60**	**100**

Table 3: 30% tax on capital gains is unexplainable

Respondents were asked whether the 30% capital gains tax was explainable according to them and results indicate that 51.667% of them declared that the taxes were unexplainable. These were mostly business men heading investment groups and dealing in real estate development. The responses they conveyed was that government collects taxes which them as dealers don't benefit from and these are liabilities to us. "All the roads we need to access our real estate are constructed by us. We end up in debt during financing of these infrastructures. If we buy land in a village, it becomes our responsibility to make sure electricity reaches that area and these are high costs on us which government does not consider and yet they conclude that we make a lot of profits. The 30% capital gains tax is undesirable." These were some of the major responses received from the real estate dealers.

Respondent who concluded with a no response were 8.3% and these were tax officials who noted that the capital gains tax were used to better infrastructures for the realtors and this was a contradiction with the realtors themselves.

40% of respondents were not sure of whether capital gains tax was explainable, some noted that government on a small scale had built some infrastructure, others noted that government is planning to better the infrastructure which will enable them grow and develop the real estate industry.

Due to high CGT taxes, my desire to sell my property is reduced

Response	Count	Percentage (%)
Yes	45	75
No	5	8.333
Not sure	0	0
Not applicable	10	16.667
Total	**60**	**100**

Table 4: Due to high CGT taxes, my desire to sell my property is reduced

Table 4 above shows that 75% of the respondents concluded that their desire to sell is reduced because of the high capital gains taxes (Yes=75%). This shows that high capital gains taxes contribute to a lock in effect. This is in line with (O & Erosa, 2007) findings which observed that where capital gain taxes were high, people were reluctant to sell their property.

However, 8.3% of the respondent responded that their desire to sell is not reduced because of high CGT (No=8.3%). These investors noted that when their taxes increase they also increase their prices in their sell of properties. They noted that they have to wait if it needs to wait for a good time to sell to the willing clients. But however, these were found to be foreign investors and only one local investor was within this category.

16.667% were tax officials who were not either buyers or sellers of real estate and therefore withdrew from answering the question.

Limited information about the Importance of capital gains tax.

Response	Count	Percentage (%)
Yes	40	66.667
No	14	23.333
Not sure	06	10
Total	**60**	**100**

Table 5: Limited information about the Importance of capital gains tax.

Table 5 above shows that 66.667% of the respondents say there is limited information about the way capital gains tax is beneficial. They noted that there was no clear information showing accountability and benefits as to why they would continue paying this tax. “All these additional expenses we pay, stamp duty, capital gains tax, etc show us no clear benefits to us, why should government enforce these taxes with no accountability?” These were the responses taken from the real estate dealers and developers.

23.333% noted that there was information available to the public. These were mainly tax officials and they noted that when dealers in real estate reach their offices, they are given information required from the information desk. They however noted that they just need to disseminate the information for the public to easily understand and also to send it to the masses on the easiest communication means inform of adverts.

10% were not sure and they stated that the information on taxes was available but not clear.

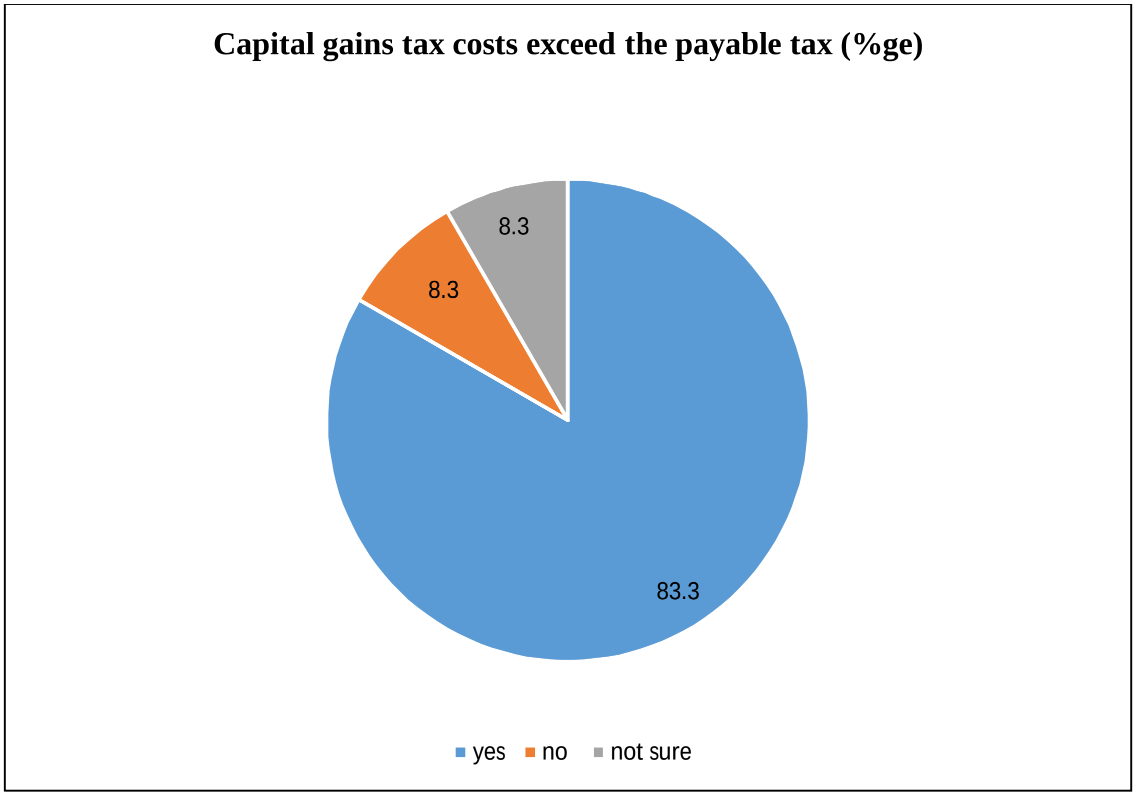

Figure 1: Capital gains tax cost exceed the payable tax.

From the findings above, 50% of the respondents show that capital gains cost do not exceed beyond the payable tax by property owners. This therefore does not discourage their selling habits basing on the statistics in figure 1 above.

Though 41.667 show that capital gains tax cost exceed the payable tax by property owners. Respondents noted that the taxes imposed on their capital gains exceeded because the profits earned were used to do infrastructures like roads and power supply to the real estate.

8.3% of the respondents were not sure and this was due to the fact that they were property buyers and mainly capital gains tax was on sellers.

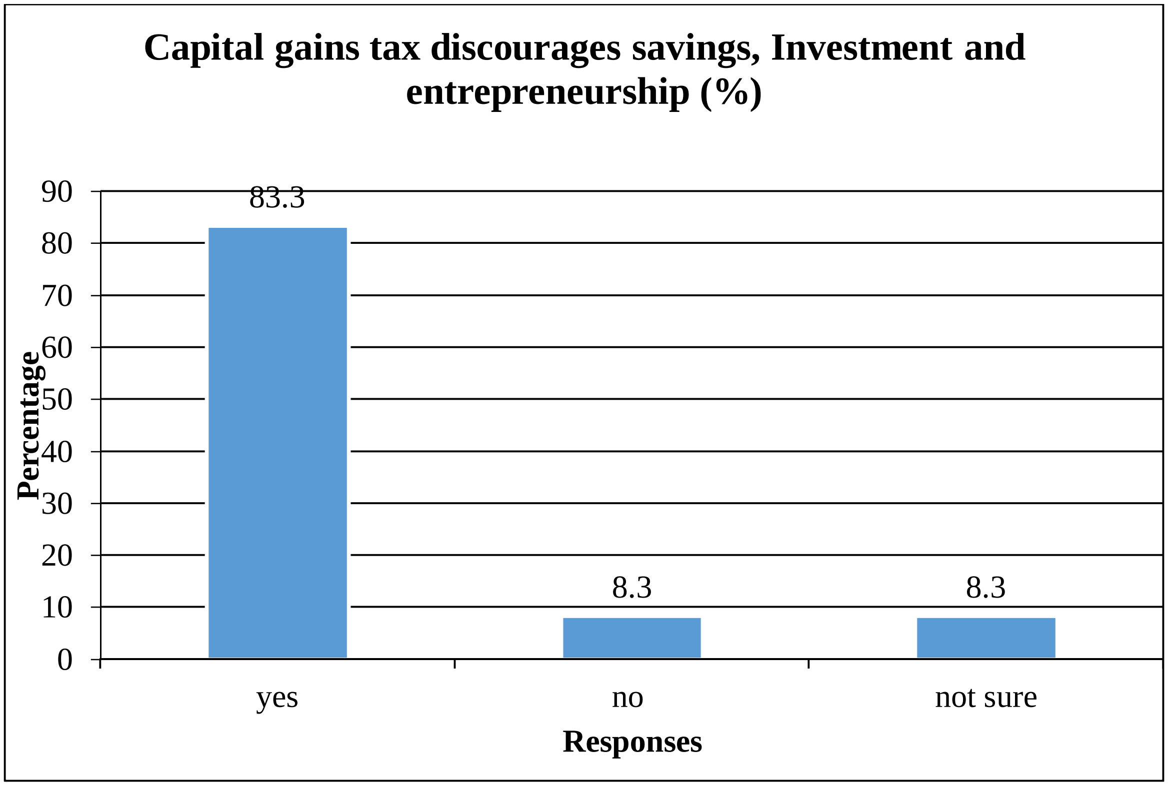

Figure 2: Capital gains tax discourages savings, Investment and entrepreneurship

Results indicate that capital gains tax discourage savings, investment and entrepreneurship (Yes=83.3%). “We ask government to help us waive away that tax since it hinders our expansion and growth in our industry” Noted one of the respondents in answering the questionnaire.

8.3% gave a response of no and not sure as seen in figure 2 above. Their reasons were that taxes taxed were moderate. These were tax officials who were giving these responses because they felt the taxes were fair to the real estate developers.

60% of the respondents noted that CGT plays a huge role in determining how much of a portfolio an investment group gets to keep up. This concludes and shows that capital gains have a significant contribution to the lock in effect of property sales and therefore low development. 10% of the respondents said CGT does not play a huge role in determining how much of a portfolio an investment group gets to keep but this was not significant. 30% were not certain due to the limited information they had during the survey.

4.3 CAPITAL GAINS TAX AND CAPITALIZATION EFFECT

Descriptive Statistics					
	N	Mean	Std. Deviation	Minimum	Maximum
High priced properties discourage buying decisions by investors	60	1.00	.000	1	1
Decissions to buy property are hugely influenced by the prevailing rate of CGT	60	1.25	.571	1	3
Prevailing rate of CGT discourages my participation in real estate devt hence opting for other business ventures	60	1.30	.462	1	2
CGT education is not done among the business community	60	1.33	.629	1	3

Table 6: Relationship between capital gains tax and Capitalization effect

From the table above, a likert scale analysis was used and a response of agree=1, not sure=2 and disagree=3. N=Sample number

Looking at the mean value column, an average response of approximately equal to 1 was got implying agree, this concludes a result that capital gains taxes significantly influence capitalization effect. In this case buyers, buyers are discouraged from buying when prices are high, the prevailing CGT rate influences buying decisions of real estate property, the prevailing rate of CGT discourages buying decisions and last but not least, CGT tax education is not done among the business community. Looking at the standard deviation column, this measures precission of results, a figure tending to zero shows a strong response and a figure further away from zero is a weak response. The strongest response was high priced properties discourage buying decisions (standard deviation=0.00) and the weakest was CGT education is not done among the business community (standard deviation=0.629) All these findings are as seen in table 6 above. (Sialm, 2009) findings in a cross section study revealed that increase in capital gain taxes contributed to the capitalization effect, this supports our findings in table 6 above.

In summary, respondents were asked to state their views on capital gains taxes and they stated that capital gains taxes should be reduced from 30% to at least 15% in order to realize profits from real estate development. Other respondents noted that awareness should be increased by airing talk shows on radio and TV such that people get to know the benefits of capital gains tax. And last but not least, there should be total erasing of capital gains taxation because some respondents felt they were doubly taxed.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents discussions of data analyzed in relation to the objectives and questions of the study. In this chapter conclusions about the study and recommendations were made so as to close the review gaps, improve the findings which might be used for further research.

5.2 Summary findings

Findings collected gave meaningful results since most of the data was got from experienced personnel of mostly 4-5 years of experience as seen in table 1 chapter 4. The respondents sampled were of mostly of moderate knowledge on capital gains taxation. This meant that participants had a clue on what we were talking about. The total sample number was 60 from Nalumunye Wakiso district.

5.2.1 Discussion of results on research question one.

Looking at the relationship between capital gains and lock in effect, respondents were very clear on saying that the 30% tax on capital gains was un explainable (Yes=51.667). This caused a lock in effect and sellers were reluctant to sale their properties due to high taxes and hence a reduced development rate. The tax officials' responses who said they bettered the infrastructures like roads and electricity were just defending the government which they were part of. A small but not significant work done by government can be mentioned like road construction with less maintenance plans.

The high capital gains tax rates have continued to reduce the desire of the sellers from selling property on fear of falling in losses. Ricardo and Eros's findings (2007) back up our results that the reason for people being reluctant to sell their property was the increase in transfer costs which led to reduced net gains from the sale of the properties. The lock in effect seems to be real as a result of high CGT taxes. Limited information about the importance of CGT is also a significant contributor to the lock in effect, CGT taxes exceeding payable tax, all these as seen in table 5 and figure 1 respectively in chapter four of this research. CGT taxes were conclusively viewed to discourage savings, Investment & Entrepreneurship (Yes=83.3%) as seen in figure 2 chapter 4.

5.2.2 Discussion of results on research question Two.

The results on capital gains tax and capitalization effect were as below;

High priced properties were found to discourage buying decisions, most buyers attributed this to the high taxation rates they forecasted in the future and so they were offering low prices for on sale properties. This has significantly contributed to the capitalization effect. (Sialm, 2009) findings in a cross section study revealed that increase in capital gain taxes contributed to the capitalization effect. This result corresponded with the findings discovered and this serves as an eye opener to the rate at which capitalization effect contributes to real estate development.

Business investment groups and individual investors noted that opting for different businesses besides real estate was a solution to them and therefore withdrew from the high priced properties which in their view they were not willing to buy. Investment in securities was one of the options they noted and this retarded real estate development.

The limited education schemes to teach the investors on how CGT was beneficial and important was not efficiently done and this led to diversion by investors to other businesses. Proper thorough explanation was required for our investors to exactly understand how taxes were to their benefit and hence compliance and acceptance could be gained from the business investors.

The 30% capital gains tax in Uganda is a bitter pill to swallow for them, they concluded that this tax is supposed to be waived out since they pay a lot of tax during transactions like stamp duty, VAT, and this other tax imposed on their profits earned is un explainable. This therefore makes investors decline from full participation in real estate development and hence leading to low growth in real estate.

5.3 Challenges to the Study

The researcher encountered the following limitations;

- Access to some of the respondents was a challenge but the researcher overcame this by making appointments in time and being patient and waiting for the respondents.
- Financial constraints was a challenge in the whole research process but the researcher tried to minimize costs, plan ahead and solicit for more funds from the family members.

- Problems in finding the required taxation literature. The researcher managed to solve this by making full use of the library, internet, newspapers, magazines, etc.

5.4 Conclusion

The study focused on examining the effects of CGT on real estate development in Uganda. The study examined the effects of CGT using the Lock in effect theory and Capitalization effect theory. Reduced number of transactions indicated a reduced level of development in real estate. Both primary and secondary data was used for the study.

Results from the study indicated that there was a negative relationship between CGT and lock in effect, CGT and capitalization effect and therefore the study concluded that the CGT have negative effects on real estate development. The study established a negative relationship between the number of real estate transactions done and capital gain taxes. CGT is attributed to reduce the number of transactions done through lock-in effect and capitalization effect. It affects both the buyer and the seller of real estate hence affecting the supply and the demand for real estate property. It is worth to note that there are other factors that affect real estate development in Uganda.

5.5 Recommendations

It is recommended that the rates for CGT to be reduced. Reduced rate for CGT will reduce the negative effects of CGT on real estate development. Consequently, economic growth will be spurred.

Awareness campaigns should be increased because a lot of business investor companies and individuals are miss informed on the benefits and importance of capital gains taxes.

Well trained tax officials should be employed to examine who should & should not pay capital gains taxes.

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APPENDICES

APPENDIX 1

TABLE 7: RESEARCH WORK SCHEDULE

Year	**2017**				**2018**				
Activity	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Topic identification	■								
Proposal writing	■	■	■						
Proposal presentation			■						
Literature review	■	■	■	■	■	■			
Submission of proposal				■					
Design of data collection tools					■				
Data collection					■	■			
Data analysis						■			
Identify recommendations						■			
Progress stamp presentation							■		
Submission of draft report								■	
Final presentation								■	
Edit draft report								■	
Submission of final report									■

APPENDIX 2:

TABLE 8: PROJECT BUDGET

Expenses	**Cost(ugx)**
Prinnting final report	30000
Binding final report	10000
Stationary	35000
Communication	20,000
Transport	30000
Internet	20000
Flash disk	20000
TOTAL COSTS	**165,000**

APPENDIX 3

MAKERERE UNIVERSITY

QUESTIONNAIRE

Introduction:

I am Bahiizi Michael, a fourth year student from Makerere University offering B.Sc in Land Economics. This questionnaire is for purposes of generating knowledge about the effect of capital gains tax on real estate development in Uganda. All information provided will be kept confidential and only used for purposes of this study. Thanks in anticipation of your cooperation.

Instructions: Please tick where applicable and explain briefly to your answer in the given questions.

The topic is: Effect of capital gains tax on real estate development in Uganda.

SECTION A: Background Information.

1. Please indicate the category where you belong;
   - i) Property owner (seller) [ ]   iii) Business Person/ realtor (Buyer) [ ]
   - ii) Tax/ Gov't official [ ]   iv) Others……..…………..(specify) [ ]
2. Indicate the number of years in real estate development
   - i) Less than 1 year [ ]   iii) 2- 3 years [ ]
   - ii) 4-5 years [ ]   iv) Over 6 years [ ]
3. Please indicate your level of knowledge on capital gains tax (CGT)
   - i) Good knowledge [ ]   iii) Very little knowledge [ ]
   - ii) Moderate knowledge [ ]   iv) Have no knowledge on CGT [ ]

SECTION B: Capital gains tax and Lock in effect

4. A) The 30% tax on capital gains is un explainable hence property owners are discouraged from selling

   i) Yes [ ] ii) No [ ] iii) Not sure [ ]

   B) Give reasons to support your answer above.

   ………………………………………………………………………………………………

5. Due to high CGT taxes, my desire to sell my property is reduced, Give reasons to support your answer

   i) Yes [ ] ii) No [ ] iii) Not sure [ ] iv) Not Applicable [ ]

   ………………………………………………………………………………………………
   ………………………

6. There is limited information about the way capital gains tax is important to us the real estate developers

   i) Yes [ ] ii) No [ ] iii) Not sure [ ]

7. Sometimes capital gains tax costs exceed the payable tax by property owners or investment groups and this discourages them from selling. Briefly explain your answer;

   i) Yes [ ] ii) No [ ] iii) Not sure [ ]

   ……………………………………………………………………………………………….

8. Capital gains tax discourages savings, Investment and entrepreneurship.

   i) Yes [ ] ii) No [ ] iii) Not sure [ ]

   ……………………………………………………………………………………….

9. Capital gains tax plays a huge role in determining how much of a portfolio an investment group gets to keep

   i) Yes [ ] ii) No [ ] iii) Not sure [ ]

SECTION C: Capital gains tax and capitalization effect

10. High priced properties discourage buying decisions by investors

    i) Agree [ ] ii) Not sure [ ] iii) Disagree [ ]

11. My/our decisions to buy property are hugely influenced by the prevailing rate of capital gains tax. Explain briefly your response

    i) Agree [ ] ii) Not sure [ ] iii) Disagree [ ]

    ……………………………………………………………………………………………...

12. A) The prevailing capital gains tax rate discourages my participation in real estate development hence opting for other business ventures besides investing in real estate.

    i) Agree [ ] ii) Not sure [ ] iii) Disagree [ ]

    B) Give reasons to support your answer in 12 (A) above

    ……………………………………………………………………………………………

13. Effective capital gains tax education is not done among the business community

    i) Agree [ ] ii) Not sure [ ] iii) Disagree [ ]

14. In summary state your view on capital gains taxation in Uganda;

    ………………………………………………………………………………………………

    ……………………………………………………………………………………………..

"THANK YOU FOR YOUR TIME AND COOPERATION"