

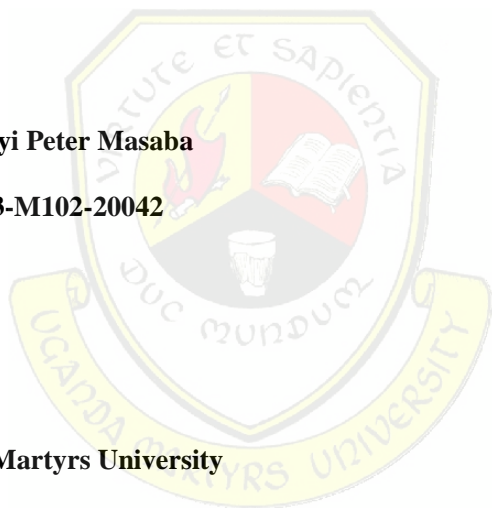
Taxpayer's Attitude and Tax Compliance among small Income Businesses

In Uganda's Urban Councils.

Case Study: Kampala Capital City Authority-Central Division

Nangayi Peter Masaba

2013-M102-20042



Uganda Martyrs University

September, 2016

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**A Post Graduate Dissertation Submitted to Graduate School in Partial
fulfillment of the Requirements for the award of Masters Degree in Business**

Administration Uganda Martyrs University

Nangayi Peter Masaba

2013-M102-20042

September, 2016

Dedication

This dissertation is dedicated to the Masaba Nangayi Family and to all those who sacrifice for the livelihood of others.

I also dedicate this research report to my dear father, Mr. Hamilton Masaba Nangayi, my mother Ms. Betty Nambuba who laid for me an academic foundation that has led me to this level.

I also owe special dedication to my beloved and best friend Ms. Daria Mukite who greatly missed me throughout my study period.

Lastly to all my friends for their motivation and developmental ideas.

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The respondents from Kampala capital City Authority (KCCA) Central Division Tour and Travel Companies staff, URA staff, members of KACITA executive who took part in this study, I salute them for their courage, commitment and pioneering spirit.

My sincere thanks go to the management and fellow staff members of Strategic Friends International Limited (SFI) and Pride Microfinance Uganda Limited (PML) who accorded me both financial and moral support during my course.

Above all, the Almighty God, whose blessings offered me the privilege of completing this study, Without His compassion, generosity and love I can do nothing.

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List of abbreviations/acronyms

KCCA-	Kampala Capital City Authority
URA-	Uganda Revenue Authority
AfDB-	African Development Bank
WB-	World Bank
VAT	Value Added Tax
ITA	Income Tax Act
UMU	Uganda Martyrs University
URSB	Uganda Registration Services Bureau

Abstract

The study examined Taxpayer's Attitude and Tax Compliance in Urban Councils, Uganda. Case Study: Kampala Capital City Authority-Central Division. The study was underpinned by Psychology theories of tax compliance. The objectives were; To assess the relationship between perception of tax payers and tax compliance among small income businesses in Kampala Capital City Authority, to establish the relationship between the social norms of tax payers and tax compliance among small income businesses in Kampala Capital City Authority, to establish the relationship between taxpayers' knowledge and tax compliance among small income businesses in Kampala Capital City Authority. The study population was 122 where a sample size of 120 was selected for the study. Out of these, 86 responded making a response rate of 71.66%. Data was collected using the questionnaire, and documentary review. The findings of the study revealed that there is a positive weak and insignificant relationship between Perception and tax compliance. Social norms have a significant positive relationship with tax compliance and tax knowledge had a significant positive relationship with tax compliance. The study concluded that perception has a weak positive relationship with tax compliance, it was also concluded that social norms and tax knowledge have a positive significant relationship with tax compliance. The study recommends that Uganda Revenue Authority, KCCA and partner bodies should establish a harmonious working relationship with all stakeholders and vigorous public relations to reverse the negative image of the institutions and there should be massive sensitization programs to increase awareness, educate the public and remind them that they are partners, as opposed to mere subjects forced to pay taxes.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

This chapter seeks to examine the relationship between taxpayer attitude and tax compliance among small income businesses in Kampala Capital City Authority Central Division. Clearly, understanding taxpayer compliance has remained a challenging and unresolved problem (McKerchar & Evans., 2007); as well as complex and multi-dimensional whose standard solution has eluded tax administrators globally. It was traditionally held that individuals pay taxes because and only because of economic consequences of detection and punishment (Becker, 1968, Allingham and Sandmo, 1972 and Cowell, 1990). This has been rendered less applicable by empirical and experimental findings (Alm.J, Jackson.B.R & McKee.M. 1992, & Torgler, 2002), where the gap between risk aversion and the level of compliance has been wide.(Frey & Feld, 2002, Alm, McClelland & Schulze, 1992), thus too little compliance and far too much tax evasion, the study thus intends to address the gap.

This chapter therefore covers the background, statement of the problem, objectives of the study, scope of the study, significance of the study, justification of the study, definition of the key terms and the conceptual framework.

1.1 BACKGROUND OF THE STUDY

Income taxes are important source of revenue to government in both developing and developed countries (Teera and Hudson 2004). But the amount of revenue to be generated by government from such taxes for its expenditure programme depends among other things, on the willingness of the taxpayers to comply with tax laws of a country (Eshag, 1983). The failure to follow the tax provisions suggests that a taxpayer may be committing an act of noncompliance (Kirchler, 2007). Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Roth et al., 1996; Soos, 1991).

Hostility towards tax compliance date back to the History of Taxation. “Taxes are considered a problem by everyone. Not surprising, taxation problems date back to the earliest recorded history” (Director, Tax world Organization, April 7, 1999). According to the Director, Tax world Organization, (1999), during the Roman empire, in 60A.D, Boadecia queen of East Anglia led a revolt that can be attributed to corrupt tax; in Great Britain, the 100 years war (1337-1453) between England and France was renewed in 1369 by among other key factors, the rebellion of the nobles of Aquitaine over the oppressive tax policies of Edward, The Black Prince and in Post-Revolution America, Tax Act of 1864 was challenged several times.

The United States’s federal income tax system depends, to a large degree, on “voluntary compliance.” It may, therefore, not be surprising that the federal income “tax gap”—the portion of federal income taxes due but not paid each year—is estimated to exceed \$150 billion. The non-compliance this reflects stems from a variety of sources, including innocent mistakes, as well as intentional evasion (Leandra Lederman, 2003).

Laws and law-enforcement certainly are not the only determinants of behavior. With respect to tax compliance, empirical evidence supports the role of other factors, particularly the influence that other members of society have. For example, a study of the Tax Reform Act of 1986 in the United States of America found that “those who encountered others who expressed positive attitudes toward the Tax Reform Act displayed greater commitment to complying with it themselves, whereas those who encountered others who expressed negative attitudes displayed less commitment.” Similarly, “one of the most consistent findings in survey research about taxpayer attitudes and behaviors is that those who report compliance believe that their friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat.”(Leandra Lederman 2003)

Song and Yarbrough (1978) conducted a sample study in North Carolina in 1975 to explore both attitudinal and behavioral aspects of ethics. Scores for the statements that they received were summed and converted into a percentage. They asserted that scores higher than fifty percent indicate positive tax ethics, and scores below fifty percent indicate negative tax ethics. They found unsurprising results because little over two thirds of the respondents revealed

positive tax ethics, one fifth had negative tax ethics, and the rest exhibited neutral tax ethics. It appears that, whilst most people feel that the tax laws should be obeyed, they do not regard violations as serious crime meriting a severe punishment.

Raising more domestic revenue is a priority for most Sub-Saharan African countries (Drummond *et al.* 2012). Mobilizing revenue is a way for governments' to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence. However, the domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion (IMF 2011). Although taxpayer non-compliance is a continual and growing global problem (McKerchar and Evans 2009), many indications suggest that developing countries, many of them in Sub-Saharan Africa, are the hardest hit (Cobham 2005; Fuest and Riedel 2009).

Dean, Keenan and Kenny (1980) also conducted a survey on taxpayers' attitudes in Fife (Scotland) in 1977. The vast majority of respondents (ninety three percent) thought that 'income tax in this country is (much/little) too high' while a substantial proportion (sixty two percent) did not think that the government spends taxpayers' money wisely. On this latter point many thought there was evidence of considerable waste and inefficiency in the public sector, which combined with what they regarded as incorrect spending priorities, caused dissatisfaction.

In many developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance. Despite the various tax reforms undertaken by governments to increase tax revenue over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total revenue remained consistently low and is relatively shrinking (Alabede *et al.*, 2011). However, from all the taxes, personal income tax has remained the most disappointing, inefficient, unproductive and problematic tax system (Asada, 2005; Kibiel&Nwokah, 2009; Nzotta, 2007; Odusola, 2006; Sani, 2005).

Empirical evidence on the ground in Kenya shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance- how about tax evasion cases reported daily in our local newspaper (Daily Nation, July 7, 2006, pg 3) and outward resistance from taxpayers for example the recent protest by taxpayers over implementation of Electronic Tax Registers.

Hostile taxpayer's behavior implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers' behavior in terms of factors which influence their attitude towards tax compliance and how to influence the very factors would be a solution to this "jigsaw puzzle" (Lumumba Omweri Marti et al. 2011).

In Kenya, taxpayers exhibit varying levels of tax compliance. Apart from unpublished study by Simiyu (2003) whose objective was to identify factors influencing taxpayers' voluntary compliance among local authorities, the researcher was not aware of any other study that has been carried out to establish how taxpayers' attitudes influence tax compliance behavior. The challenge of lack of knowledge on tax Compliance behaviour towards a tax system is serious on the grounds that it may have played part in the Ksh. 3.4 billion short fall in 2005/2006 (Daily Nation, August 5, 2006) even after aggressive marketing by KRA in the print and electronic media.

A study on the relationship between the taxpayers' attitudes and tax compliance in Kenya, in order to test the hypothesis of the study that "Taxpayers' attitudes do not encourage tax compliance in Kenya", It was found that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya i.e. taxpayers' attitudes encourages tax compliance in Kenya with a correlation of $0.846 \cong 1$. And all that influence the taxpayers' attitudes, equally affect the taxpayers' compliance with the tax requirement i.e. taxpayers' attitudes encourages tax compliance in Kenya (Lumumba Omweri Marti et al. 2011).

In many countries Uganda inclusive, overall tax levels are low and large sectors of the informal economy escape the tax net entirely (Brautigam, 2008), and it is evident that non-compliance is wide spread (Torgler *et.al*, 2006). Since tax compliance has remained unresolved and multidimensional, and deterrence theory cannot adequately explain this puzzle, and fiscal reforms built on tax morale findings (fiscal psychology model) have proved effective in Spain, Russia, Australia and other developed countries and the reverse has been observed in Puerto Rico, may be, it could be the case for the Uganda's small taxpayers.

In Uganda, a business entity is eligible to pay Presumptive Tax to URA if it has a sales turnover of more than UGX 5m to 50m per year (the income tax Act Section 4 (5)),which states “ Where the gross turnover of a resident taxpayer for a year of income is derived from carrying on a business or businesses is less than fifty million shillings, the income tax payable by the tax payer for the year of income shall be determined in accordance with the schedule below. (Second schedule of the income tax Act) unless the tax payer elects by notice in writing to the commissioner”. This is a form of income tax but on businesses for which URA does not have sufficient data. The term “presumptive” means it is a presumed income tax. Such businesses are many, they also pay licenses to LGs and the latter are within easy reach and already have some information about these businesses.

Table: 1 Small business tax payers’ tax rates.

Gross turnover	Tax
Where the gross turnover of the tax payer exceeds Shs 5 million but does not exceed Shs 20 million per annum	Shs 100,000
Where the gross turnover of the tax payer exceeds Shs 20 million but does not exceed Shs 30 million per annum	Shs 250,000 or 1% of gross turnover whichever is lower
Where the gross turnover of the tax payer exceeds Shs 30 million but does not exceed Shs 40 million per annum	Shs 350,000 or 1% of gross turnover whichever is lower
Where the gross turnover of the tax payer exceeds Shs 40 million but does not exceed Shs 50 million per annum	Shs 450,000 or 1% of gross turnover whichever is lower

Income Tax Act ,Cap 340.

This tax is believed to have a big potential of UGX 100 billion but URA had failed to effectively collect enough from the source due to its (URA) being thin on the ground yet the tax-base is the businesses that are spread all over the countryside in Local Governments. While URA has better and tested strategies in tax collection, LGs are better placed to handle this tax as they have important data and can effectively reach and collect from the respective businesses. Therefore, a

collaborative arrangement between the LGs and URA would be the answer to this challenge.(SEATINI & Oxfam, December 2013)

In May 2013, a collaborative arrangement was initiated by Ministry of Finance Planning and Economic Development (MoFPED) to have Uganda (URA) and Local Governments (LGs) work together to ease collection of Presumptive Tax and raise approximately UGX 7 billion in the FY 2013/14 up from UGX 2 billion in FY 2012/13. This is one of the strategies aimed at funding the country's budget for FY2013/14. (SEATINI & Oxfam, December 2013) this clearly explains the high levels non-compliance despite the efforts by the both the state and non-state actors to increase compliance levels in Uganda.

Efforts to enforce compliance have been witnessed where Uganda Revenue Authority (URA) and Kampala Capital City Authority (KCCA) signed a Memorandum of Understanding (MoU) allowing them to jointly hunt down people or traders who refuse to pay taxes. The MoU between the two institutions was also meant to increase the number of people paying taxes, especially those in the informal sector. "With this collaboration, many traders are becoming visible on the system. And it is also exposing landlords who evade taxes," Ms Allen Kagina said (Daily Monitor Friday, May 23 2014) The Taxpayer Registration Expansion Project (TREP) was targeting 100,000 taxpayers into tax bracket, outreach and enforcement activities around Kampala in conjunction with Kampala Capital City Authority and URSB. TREP is already in high gear aiming at widening the tax base, increasing revenue collections, minimising cost of doing business and improving tax compliance and so far Shs4billion has been collected though despite these efforts more research is needed so as to devise means of having compliance in Kampala Capital City Authority improve further.

A study on relationship between perceived tax fairness and tax compliance in Uganda the case of small and medium income taxpayers in Kampala central division found a positive and significant relationship to exist between taxpayer's perceptions of tax fairness and their compliance with taxes ($r=0.329$, $P\text{-value} < 0.01$). Similarly, this may indicate that, the more the taxpayer perceives the taxes to be fair, then he/she is more likely to comply with the tax regulations.(Joseph Mukasa 2011)

1.2 PROBLEM STATEMENT

Taxpayer's non-compliance is a continual and growing global problem that is not readily addressed (McKercher & Evans, 2007). Despite the fact that efforts through introduction of online Tax Identification Number registration, collaboration between KCCA URA and URSB in educating taxpayers about tax laws, awarding most compliant taxpayers geared at improving compliance, there is no much noticeable improvements in compliance (URA, 2014). In many developing countries, Uganda inclusive, overall tax levels are low, for instance KCCA in the first financial quarter, where the authority collected only sh16b against the target of sh24b. In property rates alone, KCCA collected sh437m, about 18% of the total revenue, which is poor performance according to the financial report (New Vision January 06 2013). The non-compliance has clearly been further illustrated as reported in New Vision of Friday, May 23 2014 , "Uganda Revenue Authority (URA) and Kampala Capital City Authority (KCCA) have signed a Memorandum of Understanding (MoU) that will allow them to jointly hunt down people or traders who refuse to pay taxes" (New VSION, May 23 2014). Despite the fact that this effort has gone a long way in enhancing compliance, more needs to be done to further reduce non-compliance levels as reported, "According to URA, traders have already started complying and about Shs4 billion, out of about Shs13 billion expected out of this arrangement, has been collected," Said Ms. Kagina (New Vision, May 23 2014). This non-compliance level by taxpayers evidently leads to low revenue collection resulting in poor service delivery. It is not clear as to whether non-compliance could be as a result of negative attitude of the taxpayers towards tax compliance. Writers such as Fischer et al.(1992) have emphasized that taxpayers' attitude could easily explain the level of compliance and majority of the studies for instance, Esag (2003) have been carried out in developed countries, which is in line with the ideal of KCCA,URA, and URSB to have taxpayers fully compliant at all times. It has become imperative therefore for the researcher to carry out the study here in Kampala Capital City authority on small income businesses to find out whether and how taxpayers attitude relate to tax compliance.

1.3 OBJECTIVES OF THE STUDY

1.3.1 General Objective

This study seeks to examine the relationship between taxpayer attitude and tax compliance among small income businesses in Kampala Capital City Authority.

1.3.2 Specific Objectives

Specifically; the study intends to address the following objectives;

- i. To assess the relationship between perception and tax compliance among small income businesses in Kampala Capital City Authority.
- ii. To establish the relationship between social norms and tax compliance among small income businesses in Kampala Capital City Authority.
- iii. To establish the relationship between tax knowledge and tax compliance among small income businesses in Kampala Capital City Authority.

1.4 RESEARCH QUESTIONS

- i. What is the relationship between perception and tax compliance among small income businesses in Kampala Capital City Authority?
- ii. What is the relationship between social norms and compliance among small income businesses in Kampala Capital City Authority?
- iii. What is the relationship between tax knowledge and compliance among small income businesses in Kampala Capital City Authority?

1.5 SCOPE OF THE STUDY

1.5.1 Geographical Scope

The study covered small income businesses tax payers in Kampala Capital City Authority, the Capital City of the Republic of Uganda a country in East Africa where URA and KCCA have had a lot of activities to curb non-compliance.

1.5.2 Content Scope

The study covered the relationship between tax payer attitude and tax compliance among small income business tax payers in Kampala Capital City Authority. In this study tax payer attitude was studied in the dimension of perception, social norms and knowledge. Tax compliance was measured in concept of filing returns, promptness of payment and accurate determination of liability .Other factors influencing compliance are to be held constant.

1.5.3 Time Scope

The study covered a period of six years that is from 2010 to 2015 of tax payers of small income business tax payers in Kampala Capital City Authority which is the period in which much effort has been witnessed in trying to make strides in tax compliance.

1.6 SIGNIFICANCE OF THE STUDY

The study may be of great importance in laying ground for researchers as a basis for further research on taxation.

It may also guide policy makers on insights into how citizens experience and perceive the tax administration and enforcement, so as to have a more systematic and coherent information for better analysis and a more informed tax policy design

The study may through recommendations made to Kampala Capital City Authority, Central Division as the case study further improve revenue collections among small income businesses in Kampala.

The study may enable the researcher attain the Masters in Business Administration degree and improve on his research skills through exposure gained through this research undertaken.

1.7 JUSTIFICATION OF THE STUDY

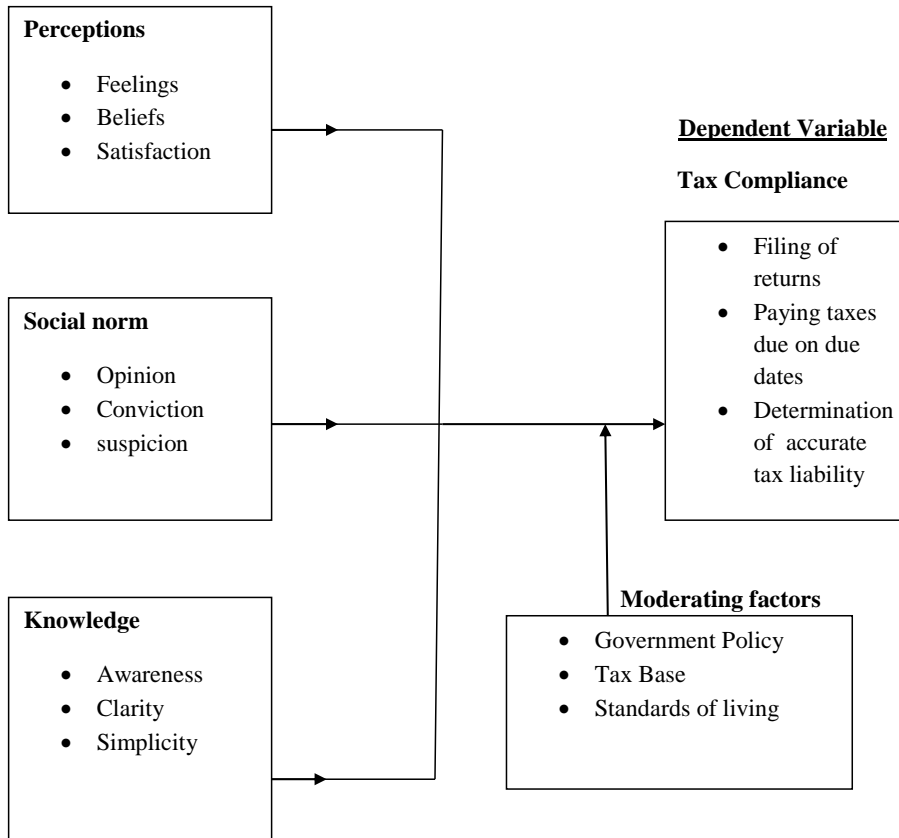
This study is based on the reports on rampant closure of small income businesses in various arcades in Kampala Capital City Authority due to non-compliance. Also recommendations by various researchers for some research to be done so as to come up with recommendations for a better analyzed and more informed tax policy design and revenue administration in Kampala.

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1.8 CONCEPTUAL FRAMEWORK

Independent Variable

Tax Payer's Attitude



Source: (Ambrecht, 1998) (Braithwaite,2001) As adopted and modified by the researcher

Figure 1: Showing the relationship between Tax payers attitude and Tax Compliance

This conceptual framework is adopted and modified from existing literature. The conceptual framework is to guide the study on the relationship between tax payer's attitude (independent variable) and tax compliance (dependent variable) of tax payers.

This is explained by Psychology-based theories which reveal that taxpayers' attitude may be influenced by the following factors which eventually influence taxpayers' behavior. Taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm (Toumi, Hasseldine, Hite, James & Conner, 2000); taxpayers' understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); However it is worth to note that other factors which may influence tax payers attitude and eventually influence taxpayers behavior includes; motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection (Allingham & Sandmo); difference across - culture; perceived behavioral control (Trivedi & Shehata) and Protestant Work Ethics (PWE) (Furnham, 1983); ethics / morality of the taxpayer (Trivedi & Shehata) and tax collector; equity of the tax systems (Trivedi & Shehata); of the government based on whether it is achieving the tax objectives under prescribed principles of taxation (Le Baube); Demographic factors such as sex, age, education and size of income (Jackson & Milliron, 1986; Murphy, 2004) and Use of informants (Le Baube).

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

In this chapter the researcher reviewed the views and findings of other scholars in related fields of study. The researcher compared his view with the views of related literature from other authors about the relationship between taxpayer's perceptions, taxpayer's social norms, taxpayer's knowledge and tax compliance among small income businesses. This chapter therefore presents the introduction, conceptual review, theoretical review, actual review done objective by objective and the conclusion of the literature review.

2.1 Theoretical Review

The evolutionary pattern of taxes, otherwise known as tax structure development is cardinal to the assessment of the growth and performance of the various strands of taxation in virtually all economies of the world. In most part of Africa, the bulk of income tax revenue comes from large business firms and from government employees. The extension of the tax to small traders, artisans or professional persons meets with serious administrative difficulties as there is no way of ascertaining income where no proper books are kept, and no regular accounts are prepared or audited (Kaldor, 1970). The theory of tax structure development is a representation of an historical legacy, exhibited in the policy and practices of several nations of the world overtime. Tanzi (1969); Webber and Wildavsky (1986); and Peters (1991) reviewed the experience of several nations of the world with respect to the introduction, stoppage or re-enforcement of various tax handles according to the dictates of economic condition.

The theory of tax structure development as advanced by Hinrichs (1966); Thorn (1967); Braun (1975); Webber and Wildavsky (1986) and several others posits as at the early stages of economic development, the basic features of taxation are the narrowness of personal income tax base, the operation of poll tax, the scarcity of train tax administrators and the commanding height of indirect taxation on foreign trade in the tax structure. In addition, the tax revenue to GDP ratio

is low. However, these basic features move in opposite directions as the positive measures by government propel the economy sooner or later beyond the stagnation level. Over-time, therefore, some taxes are likely to grow in importance while others are almost certain to decline. Personal Income Tax (PIT) provides a good example of the former since PIT revenue is expected to increase as per capita income rises. Consequently, the progressive tax system revenue has a high degree of elasticity in terms of income

All over the world, governments strive to achieve development goals that are set out in either their annual fiscal budget or in their medium term plans. These goals require huge capital outlay to be met from taxation and other revenue sources. Certainly, taxes are generally seen as the most convenient means through which the cost of governments is met albeit from the standpoint of government (Eshag, 1983). However, taxpayers' views appear not to take in with this notion. This assertion could be justified in the light of the various concerns regarding non-compliance to tax in the form of avoidance at the very least and outright evasion at the extreme (Coskun et al., 2009). Tax compliance has therefore generated huge international concerns for tax authorities and policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue (Gerald et al., 2009). Developing and emerging economies are particularly vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations... as the tax losses arising in course of tax evasion and avoidance activities do largely contribute to the poor performance of the state revenue mobilization in these countries. (GIZ, 2010).

In this regard, several attempts have over the years been made by both practitioners and academics to examine the issue of tax compliance from various angles including the behaviour of the taxpayer. For instance, Eshag (1983) argues that, the amount of tax revenue generated by a government for its expenditure programmes depends among other things, upon the willingness of the taxpayer to comply with the tax laws of the country. This willingness could also be attributed to the attitude that taxpayers demonstrate at any given point in time on the one hand and the purpose of the tax on the other hand (Noami and Joel, 2009).

Some of the empirical researches on tax compliance and evasion undertaken from various angles in the context of the business and economic environments of the developed countries of the world include those of: Andreoni, et al., (1998); Torgler (2003); Wenzel (2002); Diego and Luca

(2011); Serdan et al. (2011) and Coskun et al. (2009). It has been argued that the findings of these works could not be favourably applied within the context of developing countries due mainly to the noticeable differences in the socio-political, cultural and even demographic constitution of the developed and developing economies (Alabede et al., 2011). Likhovsk (2010) also criticised some of these studies for their reliance on risk based neoclassical economics approaches to model the compliance decisions of individuals, particularly with reference to: (i) the level of actual income (ii) tax rate (iii) audit probability, and (iv) the magnitude of fines. Kircher et al. (2007) and Young et al. (2013) both faulted the economic approach to assessing tax compliance for its inability to provide extensive empirical explanations regarding tax compliance decisions on the one hand, and the constraint in methodology and the narrow scope applied to explain complex compliance behaviour on the other hand.

This gap therefore ushered in a new dimension to tax compliance research, aimed at identifying and explaining the other critical “*actors in the field*”) which influence the individual’s compliance decision (Alm et al., 2011). In line with this, Fischer et al. (1992) resorted to different non-economic factors such as demographic; non-compliance opportunity; tax payers’ attitude and perceptions of tax system fairness; and various features of the tax system fairness have been proposed to affect tax compliance. Following the lead of Fischer et al. (1992), the Inland Revenue Service of USA outlined 64 factors that are related with tax compliance by taxpayers or companies (Young, 1994). Other behavioural based studies of tax compliance include that of: Modeo et al. (1987) and Harwood et al. (1993). Also moral reasoning was studied by Singh (2003) and tax penalty and sanctions by Davis et al. (2002) and Tittle (1997).

Economic theories of tax compliance are also referred to as deterrence theory. According to Trivedi and Shehata (2005), economic theories suggest that taxpayers “play the audit lottery,” i.e. they make calculations of the economic consequences of different compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after taxreturn/ profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are a moral utility maximizers hence, economic theories emphasize increased audits and penalties as a solution to compliance problems. Economic based studies suggest that taxpayers’ behaviour is influenced by economic

motives such as profit maximization and probability of detection (Trivedi & Shehata, 2005), underreporting (Erard & Ho, 2002; Cobham, 2005), business income taxpayers operating in informal economy (Etchberry, 1992) among many factors.

Psychology theories of tax compliance assume that psychological factors – including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system.

Trivedi and Shehata (2005) concluded that some taxpayers' behaviour may follow economic theories while others may follow the psychological theories and a mixture of the two is also possible.

2.2 Conceptual Review

2.2.1 Taxpayer's Attitude

An attitude is "a relatively enduring organization of beliefs, feelings, and behavioral tendencies towards socially significant objects, groups, events or symbols" (Hogg, & Vaughan 2005, p. 150)

"..a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly, & Chaiken, 1993, p. 1)

Attitudes structure can be described in terms of three components that is affective component: this involves a person's feelings / emotions about the attitude object, behavioral (or conative) component: the way the attitude we have influences how we act or behave and cognitive component: this involves a person's belief / knowledge about an attitude object. This model is known as the ABC model of attitudes.

According to Ajzen's (1991) Theory of Planned Behaviour, attitude relates to one's own personal views about a behaviour. Attitude may also be defined as positive or negative views of an "attitude object"; i.e. a person, behavior or event. In relation to taxation, taxpayers' attitudes

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may be defined as positive or negative views of a tax compliance behaviour. The outcome of positive views is tax compliance and a negative view is tax non compliance.

Individual attitudes toward compliance have been shown to be a function of social and cultural norms (Elster, 1989; Naylor, 1989). If such attitudes would carry over to actual compliance, enhancing these norms, as through increasing overall trust in government, is a desirable policy instrument to complement the usual enforcement options. The attitude of taxpayers varies considerably. Some comply to the fullest extent required, irrespective of whether the IRS is actively auditing them or their industry. Other taxpayers essentially play the audit lottery and either do not prepare contemporaneous documentation or prepare the absolute minimum with the hope of avoiding the imposition of penalties (Turner, 2003).

2.2.2 Taxpayer's Perception

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Apart from individual tax payers' perception about the fairness of the tax system, its complexity or otherwise influences the compliance of tax payers. The extent to which the tax payers perceive a tax system to be fair influences their attitude to pay their taxes (Coskun, 2009; Alm, et al., 2011). Alabede et al. (2011) postulated that, a tax payer whose motive is to demonstrate his beliefs in a system will evaluate the fairness of the systems with objectivity whereas the taxpayer whose attitude is motivated by what benefit to derive from the system may label the tax system fair only if he is benefiting from it. Also Richardson (2006) indicated that perceived fairness of tax system is significantly related to tax non-compliance. Roth et al. (1989) and Jackson and Milliron (1986) found that tax payers concerns about fairness have links with attitudes and behavioral intentions about tax compliance. Therefore, to understand a particular individual tax payer's behavior, it is important to identify the determining variable of behavioral intentions (Hanno and Violette, 1996).

2.2.3 Taxpayer Social Norms

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The concept of social norms has attracted the attention of scholars and practitioners given its strategic significance in shaping tax compliance. Social norms refer to injunctive norms (Cialdini and Trost, 1998), that is, normative prescriptions regarding tax compliance or, conversely, the normative acceptability of noncompliance. Likewise, it has been argued that social norms,

namely, the perceived practice or endorsement of evasion among a reference group, impact tax compliance (Wenzel, 2004). Social norms, if internalized, should reduce the perceived opportunity structure and thereby reduce the desire to cheat on taxes.

Social norms are usually studied as the perceived prevalence or acceptance of tax evasion among a reference group (Alm, McClelland & Schultze, 1999; Chan-Gyun, Hyun & Yoo, 2000) or as naturally varying between different cultural or sub cultural groups (Alm, Sanchez, & DeJuan, 1995). We regard social norms as a total pattern of relationships among individuals, groups of individuals and organizations acting to achieve an explanation and to justify the behavior.

2.2.4 Taxpayers' Knowledge

Terkper (2007) advanced the reason that tax payers demonstrate various degrees of compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government. Jackson and Milliron (1986) contended that the complexity of tax system has been considered as a possible reason for tax non-compliance. To Young et al. (2013), the rules should be simple and clear allowing taxpayers to read and understand the requirement and the rules they need to follow easily and quickly.

2.2.5 Tax Compliance

Scholz and Witte, (1989), define tax compliance as a situation where the tax payer complies with the fiscal set up by registering with the revenue authority, filing required returns in time, accurately reporting tax liability according to law, paying any outstanding taxes as they fall due and maintaining all records required.

Tax compliance refers to the willingness of people to comply with tax authorities by paying their taxes (Peter & Dijke, 2007). According to Alm (1991), the scope of tax compliance includes, reporting income and paying all taxes in accordance with the applicable laws, regulations, and court decision. Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due (timeliness) (Franzoni, 1999).

Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Roth et al (1989) explain that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the needs of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise are considered as having committed an offence. Tax non-compliance or evasion on the other hand, happens when taxpayers intentionally or unintentionally fail to comply with their tax obligations.

2.3 Actual Review

2.3.1 Taxpayers' perceptions and Tax Compliance

The extent to which the tax payers perceive a tax system to be fair influences their attitude to pay their taxes (Coskun, 2009; Alm, et al., 2011). Alabede et al. (2011) postulated that, a tax payer whose motive is to demonstrate his beliefs in a system will evaluate the fairness of the systems with objectivity whereas the taxpayer whose attitude is motivated by what benefit to derive from the system may label the tax system fair only if he is benefiting from it. Also Richardson (2006) indicated that perceived fairness of tax system is significantly related to tax non-compliance. Roth et al. (1989) and Jackson and Milliron (1986) found that tax payers concerns about fairness have links with attitudes and behavioral intentions about tax compliance. Therefore, to understand a particular individual tax payer's behavior, it is important to identify the determining variable of behavioural intentions (Hanno and Violette, 1996).

Taxpayers' expectations are that the revenue generated from taxes should be spent and accounted for meaningfully by the state, (Young et al., 2013). Where this is lacking it can cause a slack in tax payers' commitment to pay their taxes. This is corroborated by Thorndike (2009) as he posited that citizens must comply with their obligations as part of their bargains, while governments are expected to secure the safety and security of individuals including the right to property. Braithwaite (2001) contended that the taxpayers' evaluation of local tax bureau's

performance is proposed to affect tax compliance. Thus, the extent to which the tax office is delivering on its charter is suggested to be a factor affecting compliance. Young et al. (2013) concurred to this as they put it that as tax authority is fulfilling its promise their willingness to follow tax requirement may be higher.

Individual taxpayers had concern for the amount of taxes they pay. Female taxpayers were more sensitive to the amount of taxes they pay as pointed out earlier. A strong positive correlation exists between perceived levels of tax burden and compliance decisions. The policy implication of this is for the tax authorities to adopt strategies towards making the tax system more equitable taking the taxpayers views into account. After all, the issue of equity is one of the cardinal cannons of taxation identified by Adams Smith, an 18th century economist and political philosopher whose cutting edge economic and political economy theories have remained relevant till this day. Taxpayers perceive that, they were receiving some benefits from the government. They indicated that they may continue to comply with their tax obligations if the perceived benefits from government increased, even though their tax burdens were high. This conclusion was reflected in the inter-item correlation coefficient between burden of tax and perception of government's accountability. The partial correlation coefficient between burden of tax and perceive level of benefits derived (0.325) is significant.

As regards Perception of Government's Accountability, Levels of accountability and transparency in governance are matters that taxpayers have less regard for in their compliance decisions. This conclusion is in line with Atuguba (2006). That study concluded in part that people doubted the real benefits of paying taxes. Tax education is very crucial as the levels of transparency in the government use of revenue affects tax compliance. Atubuga (2006) captured this notions succinctly when he concluded in part "the transparency of the tax system is directly proportional to people's willingness to pay taxes and hence the amount of taxes that may be mobilised"

Lewis and Cullis (1985, 1988) put forward the concerns of individual and concerns of authorities. From the individual perspective factors such as fiscal attitudes and perceptions (which include the individual's support for government policies, perceptions of the tax system

and burden feelings of alienation and inequity); perceptions of enforcement and opportunity; and characteristics of taxpayers (demographics and personal traits), determine individual decision whether to evade tax or not. As far as the authorities are concerned, three factors are identified. These are government's fiscal policy and tax enforcement policy (which affect each other) and the policy maker's assumptions about taxpayers. These assumptions are affected by enforcement structure and themselves weakly influence fiscal policy. The tax enforcement structure also affects the perceived opportunities for evasion. Vogel (1974) also identified the individual's exchange relationship with the government (tax burdens minus services received) as factors having effect on tax evasion. However, he shows that, knowing others who evade tax is also an important factor.

This a survey by Dean, Keenan and Kenny (1980) which included questions concerning perceptions of opportunities for evasion and it is interesting that two thirds of respondents thought that all or most taxpayers would exploit an opportunity for small scale evasion if they thought they could get away with it. Likewise, nearly a quarter of respondents thought that all or most taxpayers would attempt large scale evasion if they felt that it would go undetected.

2.3.2 Social norm and Tax Compliance

The concept of social norms has attracted the attention of scholars and practitioners given its strategic significance in shaping tax compliance. Social norms refer to injunctive norms (Cialdini and Trost, 1998), that is, normative prescriptions regarding tax compliance or, conversely, the normative acceptability of noncompliance. Likewise, it has been argued that social norms, namely, the perceived practice or endorsement of evasion among a reference group, impact tax compliance (Wenzel, 2004). Social norms, if internalized, should reduce the perceived opportunity structure and thereby reduce the desire to cheat on taxes.

Social norms are usually studied as the perceived prevalence or acceptance of tax evasion among a reference group (Alm, McClelland & Schultze, 1999; Chan-Gyun, Hyun & Yoo, 2000) or as naturally varying between different cultural or sub cultural groups (Alm, Sanchez, & DeJuan,

1995). We regard social norms as a total pattern of relationships among individuals, groups of individuals and organizations acting to achieve an explanation and to justify the behavior.

According to Wenzel's (2004) view of the logic of the moral/social actor, social norms influence taxpaying behavior and thus tax compliance through the process of identification with a relevant social group. The causal effect is mediated by the internalization of the social norms that become part of the taxpayer's own individual make-up. From a sociological perspective, human behavior is determined by social norms to a considerable degree, which improves tax compliance (Etzioni, 1988). Social norms make information sharing possible amongst taxpayers, which then improve tax compliance.

Alm, McClelland & Schultze (1999) established that social tax norm relationships among taxpayers in Uganda's population result in improved tax compliance. They assert that the taxpaying population develops relationships with relevant others that form a basis for compliance or noncompliance behavior by the relevant others, which means tax evasion or tax compliance is determined by prevailing social tax norms to a substantial extent. Alm et al. (1999) turned to the social norms of tax compliance to understand why underreporting is not higher considering the low likelihood of detection and the weak penalties for tax cheating in most countries.

From the foregoing, we can infer that tax compliance by taxpayers affects the overall tax compliance and tax revenue. Reciprocity is necessary for voluntary tax compliance and requires every participant in the tax system to perform duties effectively and in harmony with others' interests (Edlund & Åberg, 2002). Smith and Stalans (1991) establish that norm commitment is the most important factor in the decision to comply with or evade legally mandated taxes. Frey & Weck-Hanneman (1984) conclude that governments increase tax revenue dependent on tax compliance based on the social cooperation that exists amongst taxpayers.

The reasons why people evade taxes can also be viewed from the social psychological point of view. For psychologists, social psychological variables such as stigma, reputation and social norms have a great impact in taxpayer's decision to comply or not. Grasmick and Scott (1982) found that while the relationship between the threat of legal punishment (detection probability)

and intention to evade taxes in the future was statistically significant, anticipated feelings of guilt and possible social stigma attached to tax evasion were more strongly associated with deterrence. They concluded from their data that policies increasing the public's sense of moral duty to comply should be the most effective strategy for improving compliance. In a similar vein, Mason and Mason (1992) have drawn on the moral development literature to argue that an appeal to conscience or civic duty, if correctly targeted should improve compliance over and above a fear of sanction or threat. This implies that people will pay taxes because they; are morally committed to, and out of fear of stigma which may involve informal sanctions like ridicule or ostracism.

2.3.3 Taxpayers' Knowledge and Tax Compliance

Terkper (2007) advanced the reason that tax payers demonstrate various degrees of compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government. Jackson and Milliron (1986) contended that the complexity of tax system has been considered as a possible reason for tax non-compliance. To Young et al. (2013), the rules should be simple and clear allowing taxpayers to read and understand the requirement and the rules they need to follow easily and quickly. Otherwise, tax payers' intentions of compliance may reduce. Beck et al. (1991) also concurred with this view by arguing that reducing tax complexity may lead to an increased perception of fairness on tax system and subsequent reduction of tax non-compliance.

Apart from individual tax payers' perception about the fairness of the tax system, its complexity or otherwise influences the compliance of tax payers. The Internal Revenue Act 2000 of Ghana (Act 592) as amended stated in section 1 (i) that "a person who has a chargeable income shall pay subject to this Act, for each year of assessment income tax as calculated in accordance with this Act"(Ghana, 2000). As a civic duty, the expectation is that citizens may comply with the Act, but that is not the case with some citizens (Alabede et al., 2011). Terkper (2007) advanced the reason that tax payers demonstrate various degrees of compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government. Jackson and Milliron (1986) contended that the complexity of tax system has been considered as a possible reason for tax non-compliance. To Young et al. (2013), the rules should be simple and

clear allowing taxpayers to read and understand the requirement and the rules they need to follow easily and quickly. Otherwise, tax payers' intentions of compliance may reduce. Beck et al. (1991) also concurred with this view by arguing that reducing tax complexity may lead to an increased perception of fairness on tax system and subsequent reduction of tax non-compliance.

In a study conducted by Abubakari Abdul – Razak and Christopher Jwayire Adafula, September 2013 in Tamale Ghana it was established that taxpayers did not clearly understand the tax laws. The tax laws are written in a language that is very difficult to understand and to apply . The levels of understanding of the tax laws influenced to a significant degree the attitudes of taxpayers. Taxpayers' levels of understanding positively correlated to a significant degree with their tax compliance decisions. These conclusions had confirmed the evidences in extant studies (Alabede et al., 2011; Atubuga, 2006; Everest, 2008).

Tax education is very crucial as the levels of transparency in the government use of revenue affects tax compliance. Atubuga (2006) captured this notions succinctly when he concluded in part “the transparency of the tax system is directly proportional to people’s willingness to pay taxes and hence the amount of taxes that may be mobilised”. This further showed the relevance of taxpayer education programmes towards enhancing taxpayer tax compliance levels.

2.4 Conclusion

It can be observed from this chapter that there is a relationship between attitude of taxpayers and tax compliance where the various indicators of attitude as addressed objective by objective have a relationship with tax compliance basing on evidence adduced by the various scholars and researchers in the literature review.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This section presents the methodology that was used to carry out the study on examining the relationship between taxpayer attitude and tax compliance among small income businesses in Kampala Capital City Authority- Central Division. It includes the research design, area of study, study population, sampling procedure, data collection methods and techniques, data analysis, management and processing methods that were used. It also includes the data analysis methods that were used in making meaningful conclusions.

3.1 RESEARCH DESIGN

A case study research design was used given that, the respondents were the employees of small income businesses in Kampala Capital City Authority-Central Division, Representatives of City traders, and Revenue administrators at Division level and the data collection was done in the month of May 2015. The approach was qualitative and quantitative, involving descriptive and inferential analysis of the relationships between Perception, social norms, tax knowledge and tax compliance of small income businesses. The quantitative approach was used because of its flexibility form of multiple scale and indices focused on the same construct which allowed many responses from different respondents (Ahunja 2005).

3.2 AREA OF STUDY

The area of study was Kampala Central division which is one of the five administrative units making up Kampala Capital City Authority which serves as the capital city of Uganda an East African state.

3.3 STUDY POPULATION

The study population comprised of small income registered taxpayers that is small income business tax payers as per the income tax Act Section 4 (5), that guides on a business entity that is eligible to pay Presumptive Tax to URA operating in Kampala central division represented by registered Tour and Travel firms. There were 38 registered Tour and Travel firms representing the small income taxpayers in Kampala central division however only 13 were operational and these were all taken up whose staff then participated in the study , 9 members of the Kampala City Traders Association, and 2 administrators of the small income taxpayers department (list obtained from URA tax register). This population was sought for in this study, because it had been exposed most, to URA’s tax education programme, registration drive targets as well as to filing of income tax returns.

3.4 SAMPLING PROCEDURE

3.4.1 SAMPLE SIZE

The sample size of the study will be 120. This was obtained by use of Krejcie & Morgan, (1970), Table to reduce bias. This study will be broken down into three groups that are: a sample of about 2 senior staff small tax payers department of URA who assess the tax payers, 109 staff of tour and travel firms representing the entire KCCA-Central Division. Small income taxpayers for tour and travel firms have for a long time complained of unfair taxation hence knowledgeable enough and able to give us required data for our analysis and 9 KACITA executive members who are at the fore front of presenting taxpayers interests in Kampala will be used in the analysis as in the table 1 below;

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Table1: Population and sample

Category	Population	Sample size	Sampling technique
AIRMASTERS TRAVEL LTD	8	8	Simple random
UGANDA ECO TOURS COMPANY LTD	10	10	Simple random
ULTIMATE AIR SHUTTLES LIMITED	9	9	Simple random
LONDON TAXI U LIMITED	15	14	Simple random
DISTINCT TRAVELS AND TOURS LIMITED	5	5	Simple random
AUGUR TOURS AND TRAVEL LIMITED	9	9	Simple random
TWILIGHT SAFARIS LIMITED	12	11	Simple random
GLOBAL LINES SUPPLIES LIMITED	6	6	Simple random
BIIDII TOURS AND TRAVEL LIMITED	7	7	Simple random
EVER BASED TOURS AND TRAVEL LIMITED	9	9	Simple random
JEHOVAH TOURS AND TRAVEL LIMITED	5	5	Simple random
ALLESCO TOURS AND TRAVEL LIMITED	7	7	Simple random
UTB-2004 LIMITED	9	9	Simple random
KACITA EXECUTIVE	9	9	Purposive
URA ADMINISTRATORS-SMALL INCOME TAXPAYERS	2	2	Purposive
Total	122	120	

3.4.2 SAMPLING TECHNIQUES

Techniques were chosen and applied during sampling as and when deemed fit in addressing the need to have necessary sample to address the objectives of the study and therefore purposive sampling will be vital in acquiring data from specific population so as to address the existing gap. Simple random sampling technique will also be used in selecting taxpayers to be interviewed.

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3.5 DATA COLLECTION METHODS AND INSTRUMENTS

The study used both primary and secondary data sources

3.5.1 Questionnaire

The study adopted the questionnaire method of data collection because it enable it was the most suitable method to address the objectives of the study. The researcher was able to give the respondents an opportunity to respondents to respond during their free time and the researcher was also able to collect the questionnaires at a convenient time. In addition, large amounts of information were collected from a large number of people in a short period and in a relatively cost effective way. More still this method enabled the researcher to carry out the analysis with objectivity and ease since they were easily quantifiable.

3.5.2 Questionnaire

Self-administered questionnaire was used for data collection. The questionnaire was designed according to the objectives of the study with mostly close-ended questions using a 5 point scale ranging from 1- Strongly agree to 5- Strongly disagree. The questionnaire was in English.

3.5.3 Documentary Review

The study reviewed taxpayer's attitude and tax compliance documents. The study also used a review of existing literature related to the study problem and variables in form of reports, published and unpublished research, journals, electronic journals, websites and databases to gain more information on the study problem. Sekaran (2003) classifies these documents as secondary

sources of data collection method and asserts that this method saves time and reduces the cost of gathering information.

3.5.4 Documentary Review checklist

The researcher used this instrument in order to capture secondary data and first-hand information relevant to the study. These documents helped the researcher by revealing the relationship between attitude of taxpayers and tax compliance through a review of the analysis reports and other archival or file records.

3.6 QUALITY CONTROL TECHNIQUES

3.6.1 Reliability

To ensure accuracy, internal consistency and completeness, reliability of the instrument was established using Cronbach's alpha coefficient test (Cronbach, 1946). The choice of this indicator was influenced by the simplicity and its prominence in tax compliance literature.

Table 2: Reliability analysis

Variable	Alpha Cronbach's coefficient
Social Norms	0.7431
Perception	0.9324
Tax Knowledge	0.7432
Tax compliance	0.8421
Total average	0.8152

A high Cronbach's coefficient Alpha above 0.72 is considered to indicate high reliability hence acceptable for social research (Mugenda and Mugenda, 1999). The Cronbach's Alpha reliability Coefficient (α) was calculated by running a statistical test using Statistical Package for Social Scientists (SPSS). Therefore, for this study, the measurements in the instrument were found to be 0.8152, the instrument was considered reliable to use. The results and conclusions of this study

can be significant for decision making. Other researchers in future can use the instrument for data collection in the same area and/ or field of study.

3.6.2 Validity

A pre-test of the research instrument to establish its validity was done. The instrument was given to four experts who gave their opinions on the relevance of the questions using a 5- point scale of relevant to not relevant. It was further pre-tested by administering it to probable respondents (n=4) and tested their understandability of the items. Content Validity Index (CVI) of 0.983, 0.872, 0.651, 0.784, 0.693, 0.821, 0.691 and 0.722 were attained. This gave an average Content Validity Index (CVI) of 0.78. According to Lynn's (1986), the instrument was deemed acceptable for data collection. Items that were found not to be relevant were eliminated and those found not to be understood were adjusted for understandability for the final research instrument that was used.

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3.7 DATA ANALYSIS, MANAGEMENT AND PROCESSING

3.7.1 Quantitative Analysis

Quantitative data was collected from close ended questions. Quantitative data analysis process involved; editing, coding classification and presentation in form of tables and graphs so that data was liable for analysis. The analysis entailed computation of descriptive statistics, through which relationships supporting or conflicting with the hypotheses were subjected to statistical tests to determine the extent to which data was said to have indicated any conclusions (Kothari, 2004).

The data collected through questionnaires was analyzed using Statistical Package for Social Sciences (SPSS) because this is the most recommendable package for analyzing social sciences

researcher data (Sekaran, 2003). The statistics focused on the measures of central tendencies (percentages and frequencies) and relational statistics to measure the Direction, form and degree of the relationship (regression and correlation) between Taxpayer's attitude and tax compliance, which was provided by SPSS.

3.7.2 Qualitative Analysis

Qualitative data was obtained by conducting interviews with key informants using open ended questionnaires. Qualitative analysis involved categorizing data and then attaching it to the appropriate categories. The data from open ended questionnaires was analyzed by listing all the respondents' views under each question category. Where necessary, quotes from respondents were used to strengthen the interpretation.

3.8 ETHICAL CONSIDERATION

The researchers obtained permission from relevant respondents before required data was obtained and put to use by the researcher.

Furthermore for information obtained from research carried out by other personalities and agencies, the researcher acknowledged them through citations.

3.9 LIMITATIONS OF THE STUDY

The study required a lot of time to look for data, process and analyze data and later on discuss the study findings to come to the conclusion. The researcher however adhered to the activity schedule to accomplish the study in time.

The study was a case and conducted in a limited timeframe. This could have left out certain critical respondents who may not have been readily available at the time of the research.

CHAPTER FOUR:

DATA PRESENTATION, ANALYSIS, AND DISCUSSION OF FINDINGS

4.0 INTRODUCTION

This chapter contains presentation and interpretation of the study findings. The chapter also contains findings on characteristics of respondents and these findings are represented and interpreted in line with the following study objectives set at the start of the study; to assess the relationship between perception of tax payers and tax compliance among small income businesses in Kampala Capital City Authority, to establish the relationship between the social norms of tax payers and tax compliance among small income businesses in Kampala Capital City Authority, to establish the relationship between taxpayers' knowledge and tax compliance among small income businesses in Kampala Capital City Authority.

4.1 RESPONSE RATE

A total of 120 questionnaires were distributed to employees of small income businesses being represented by Registered Tour and Travel companies in Kampala Capital City Authority Central Division, URA Administrators and Members of Traders umbrella body, KACITA (Kampala City Traders Association).

After the exercise, 86 questionnaires were collected leading to a response rate of 71.66% which was good and acceptable for the researcher to continue with the analysis.

4.2 DEMOGRAPHIC CHARACTERISTICS

The researcher studied the characteristics of the respondents which were presented in form of category of respondents, gender, age, the education levels, and existence of business.

4.2.1 Gender of respondents.

The study analyzed information about the gender distribution of the respondents and the results are presented in table 4.

Table 3: Distribution by Gender.

	Frequency	Percent	Valid Percent	Cumulative Percent
MALE	52	60.5	60.5	60.5
FEMALE	34	39.5	39.5	100.0
Valid Total	86	100.0	100.0	

Source: Primary data 2015

It can be observed from the table 3 above that there were more males employed in Tour and Travel Companies (60.5%) than females (39.5%). This implies that most Tour and Travel are run by males. This means that due to the nature and demands of the sector that requires a lot of movements and working overnight, more males are involved than females. This may guarantee some low levels of compliance since males are less compliant compared to females as per the findings. (Kornhauser, 2007, Wenzel 2003)

4.2.2 Distribution by Age

The study analysed information about the age distribution of the respondents and the results are presented in table 5

Table 4 : Distribution by age

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	19 Years and Below	3	3.5	3.5	3.5
	20-30 Years	43	50.0	50.0	53.5
	31-40 Years	37	43.0	43.0	96.5
	41-50 Years	3	3.5	3.5	100.0
	Total	86	100.0	100.0	

Source: Primary data 2015

Results from table 4 above revealed that according to distribution by age majority of the respondents were between 20-30 (50%) followed by those between 31-40 (43%) then followed by those between 41-50 years and those between 19 Years and below at 3.5% each. This means that majority of respondents were in the age bracket of 20-30 years which implies that these belong to the energetic group that can be useful in the long term plans for tax compliance.

4.2.3 Distribution by level of Education

The study analysed information about distribution by level of education of the respondents and results are presented in table 6

Table 5: Distribution by level of education.

		Education			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	8	9.3	9.3	9.3
	Secondary	38	44.2	44.2	53.5
	Higher	40	46.5	46.5	100.0
	Total	86	100.0	100.0	

Source: Primary data 2015

Results from the table 5 also revealed that most of the respondents had attained degrees and above (47.1%) followed by diploma holders (41.2%) then lastly followed by secondary school graduates. This implies that there are higher chances of these small income businesses being able to pay their taxes due to their awareness of taxation since all respondents had a reasonable level of education. Documentary review indicates that educated people are more compliant than less educated as they avoid embarrassment and shaming. This may also imply that this education level can be useful in formulating partial tax policies that may lead to improved tax compliance

4.2.4: Distribution by length of existence of business.

The study analyzed information about distribution by length of existence of business of the respondents and the results are presented in table 7

Table 6: Distribution by length of existence of business.

BExistence				
	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 Years	27	31.4	31.4	31.4
6-10 Years	42	48.8	48.8	80.2
Valid 11-15 Years	14	16.3	16.3	96.5
Above 15 Years	3	3.5	3.5	100.0
Total	86	100.0	100.0	

Results from the table 6 revealed that most of the respondents were from businesses that have been in existence for a period of 6-10 years (48.8%) followed by 1-5 years (31.4%), 11-15 years (16.3) then lastly followed by those above 15 years in existence. This implies that there is needed experience that can be useful in forming response to tax laws and procedures

4.2.5: Distribution by Religion.

The study analysed information about distribution by religion of the respondents and the results are presented in table 8

Table 7: Distribution by Religion.

		Religion			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Muslim	36	41.9	41.9	41.9
	Christian	48	55.8	55.8	97.7
	Others	2	2.3	2.3	100.0
	Total	86	100.0	100.0	

Results from the table 7 revealed that most of the respondents were Christians by religion (55.8%) followed by Muslims (41.9%), and then lastly followed by those others (2.3%). This implies that there is need to involve religious institutions in forming tax laws and procedures since majority of respondents are aligned to religions which could play a major role in advocating for compliance.

4.3 To assess the relationship between perception of tax payers and tax compliance among small income businesses in Kampala Capital City Authority

Objective one was to assess the relationship between taxpayer’s perception and tax compliance.

The findings on this objective are presented below using descriptive statistics and correlations

Table 8: Perception and tax compliance

		N	Min	Max	Mean	Std.
1	I feel that the income compliance system is fair for the average taxpayer	86	1	5	2.99	1.279
2	The burden of income taxes is fairly distributed to all tax payers	86	1	5	3.31	1.249
3	I believe that the income tax compliance system is fair	86	1	5	3.17	1.210
4	Some legal tax deductions are not fair because only the wealthy are in position to use them	86	1	5	2.47	1.070
5	I get fair value for my income taxes in terms of benefits received from Government	86	1	5	2.83	1.391

6	Because the benefits received from the taxes I pay, I report my income and deductions honestly	86	1	5	2.91	1.175
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Source: Primary data

- 1- Strongly agree
- 2- Agree
- 3- Neutral = mean
- 4- Disagree
- 5- Strongly disagree

On finding out whether the respondents felt that the income compliance system is fair for the average taxpayer, it is indicated from the table 9 above with mean 2.99 that majority of respondents agreed with the statement. This implies that the income tax system was fair for the average taxpayer. This means that taxpayers will comply. This is in line with the statements of Ajzen (1991) and Fishbein and Ajzen (1975), Kirchler et al. (2008) which suggested that taxpayer who has favorable attitude towards tax evasion is expected to be less compliant and equally taxpayer with unfavorable attitude is likely to be more compliant.

In addressing the question whether the burden of income taxes is fairly distributed to all tax payers, as indicated in table 9 above with a mean of 3.31 the respondents disagreed with the statement. This means that the distribution of the burden of income taxes is unfair. This therefore means the taxpayers will not comply as regards declaring returns and paying taxes due.

In regard to the belief among taxpayers that the income tax compliance system is fair, most respondents did disagree since inline with the table 9 above, the mean was 3.17 which means that the income tax compliance system is not fair. This means that the taxpayers will most likely not comply in regard to payment of tax.

In giving their views on whether some legal tax deductions are not fair because only the wealthy are in position to use them, the respondents agreed with the statement meaning that the legal tax deductions in place are unfair thus the likelihood of non compliance since the taxpayers feel cheated by those responsible for formulation and implementation of the tax laws. This shows that it is therefore imperative for those responsible for policy formulation and implementation to involve all stakeholders through all possible avenues.

On finding out whether taxpayers get fair value from their income taxes in terms of benefits received from Government, majority of the respondents agreed with a mean of 2.83 which means that most respondents believe that the benefits that accrue from the taxes that they pay are sufficient. This means that the respondents will comply since they feel that the taxes do contribute to services extended to them by government.

To address the question as to whether because the benefits received from the taxes of taxpayers, they report their income and deductions honestly, most respondents did agree with the statement. This means that the respondents are encouraged by the services realized from the taxes paid to comply with payments. Therefore this calls for effective utilization of revenue from taxes by those tasked with the responsibility of allocating resources since it motivates taxpayers to comply.

Correlations

		PERCEPTION	TAXCOMPLIAN CE
PERCEPTION	Pearson Correlation	1	.147
	Sig. (2-tailed)		.176
	N	86	86
TAXCOMPLIANCE	Pearson Correlation	.147	1
	Sig. (2-tailed)	.176	
	N	86	86

Results from the table above revealed a positive weak and insignificant relationship between Perception and tax compliance ($r=.147$, $p < .01$) which means that with favorable Perception, the higher is tax compliance. This result is in tandem with prior research for example, (Alabede et al., 2011; Serdan et al., 2011; Torgler, 2003; Alm, et al., 2011; Atubuga, 2006) whose works concluded among others thing that, tax payers have concerns for fairness and take seriously their burden of tax in forming their tax compliance attitudes.

4.4 To establish the relationship between taxpayers’ knowledge and tax compliance among small income businesses in Kampala Capital City Authority.

The objective was to assess the relationship between taxpayers’ knowledge and tax compliance and the findings on this objective are presented below using descriptive statistics and correlations

Table 9: Taxpayer’s knowledge and tax compliance

		N	Min	Max	Mean	Std.
1	I know why I pay taxes to URA	86	1	4	1.79	.883
2	Because I know why I pay taxes, I declare all my returns	86	1	5	2.37	1.006
3	All taxes charged are clear to me	86	1	5	3.09	1.184
4	I pay all my dues because of clarity of taxes	86	1	5	3.08	1.054
5	There are penalties for failure to pay taxes	86	1	4	2.23	1.014
6	Tax can be charged basing on the profit	86	1	5	2.90	1.106

- 1- Strongly agree
- 2- Agree
- 3- Neutral = mean
- 4- Disagree
- 5- Strongly disagree

On finding out whether taxpayer’s know why they pay taxes to URA, it was indicated from the table above that to a large extent with the mean of 1.79 that respondents know why they pay taxes to URA. This means that according to the responses taxpayers know the obligations and importance of paying tax. This implies that they will comply with paying of tax. This in line with studies by Eriksen and Fallan (1996) who note that the level of tax knowledge is one of the best devices to reduce the tax evasion among taxpayers, given that as the level of tax knowledge increases, the rate of tax evasion is decreased and the level of tax compliance becomes much higher. Lewis (1982) further observes that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation is expected even if the subject’s basic ideology and values remain unchanged and the tax law is unchanged.

In addressing the question whether because taxpayers know why they pay taxes, they declare all their returns, majority of the respondents agreed with the statement with a mean of 2.37. This means that because the respondents know why they should declare their returns, they will comply with payment

of tax. This therefore calls for massive dissemination of tax information to taxpayers by the URA, KCCA and other responsible stakeholders to enhance compliance

On whether all taxes charged are clear to tax payers, it was indicated from the table above that taxes charged are not clear to majority of the respondents with a mean of 3.09. This means that according to the respondents since the taxes charged are not clear, there is likelihood of non-compliance calling for more effort through stakeholder workshops and education drives to be able to improve compliance levels.

To address the question whether taxpayers pay all their dues because of clarity of taxes, majority of the respondents disagreed with the statement with a mean of 3.08. This means that majority of the respondents think that taxes are not clear and hence are not likely to comply. This calls for more tax education drives by KCCA, URA and other partner bodies enhance clarity of taxes so as to enable compliance.

On inquiring whether there are penalties for failure to pay taxes, the respondents agreed with the statement with a mean of 2.23. This means that taxpayers are aware of penalties and will comply since they do not want to be penalized as a result of failure to comply with filing returns, and paying of taxes due highlighting the role of education efforts carried out jointly by URA, URSB and KCCA in Kampala.

In finding out the taxpayer's view on whether tax can be charged basing on the profit, the respondents agreed with the statement with a mean of 2.90. This means that majority of the respondents think that tax can be charged basing on profit. This therefore means that since the taxpayers are aware that tax can be charged basing on profit, they are likely to keep proper sales records and declare their returns.

Correlations

		TAXKNOWLEDGE	TAXCOMPLIANCE
TAXKNOWLEDGE	Pearson Correlation	1	.515**
	Sig. (2-tailed)		.000
	N	86	86
TAXCOMPLIANCE	Pearson Correlation	.515**	1
	Sig. (2-tailed)	.000	
	N	86	86

** . Correlation is significant at the 0.01 level (2-tailed).

Results also revealed a significant relationship between tax knowledge and tax compliance ($r=.524^{**}$, $p < .01$) which means that with favorable knowledge, the higher is tax compliance. The positive relationship implies that as tax knowledge increases, compliance also increases. This may indicate that, it is probable that where a taxpayer has good knowledge about taxes, and then he/she is more likely to comply. This affirms literature by other researchers which has shown an existing relationship between tax knowledge and tax compliance. Tax education such as the importance of voluntary compliance and undesired consequences of tax evasion and accompanying underground economy, turns out to be a very useful tool to encourage tax compliance (Chang-Gyun & Jin 2003). Therefore the components of tax knowledge, that is awareness, clarity and simplicity were found that to relate positively and significantly to paying on due dates, filing of returns and determination of accurate tax liability. This therefore implies that dissemination of tax information positively affects taxpayer’s compliance.

4.5 To establish the relationship between the social norms of tax payers and tax compliance among small income businesses in Kampala Capital City Authority

The objective was to assess the relationship between social norms of taxpayers and tax compliance and the findings on this objective are presented below using descriptive statistics and correlations

Table 10: Social norms and tax compliance

		N	Min	Max	Mean	Std
1	I feel morally obliged to disclose all our tax liabilities honestly	86	1	5	2.38	1.019
2	As a taxpayer, I report all my incomes and deductions honestly	86	1	5	2.33	1.089
3	Taxpayers in KCCA are suspicious of tax enforcement officers	86	1	5	2.29	1.050
4	Because of suspicion taxpayers do not declare and pay their tax dues	86	1	5	2.59	1.045
5	We expect a lot from URA in return of the taxes that we pay	86	1	5	2.17	1.190
6	URA helps us when we face problems	86	1	5	3.15	1.244

- 1- Strongly agree
- 2- Agree
- 3- Neutral = mean
- 4- Disagree
- 5- Strongly disagree

When addressing the question whether taxpayers feel morally obliged to disclose all their tax liabilities honestly, most respondents agreed with the statement with a mean of 2.38. This means that most respondents feel they are morally obliged to disclose their tax liabilities honestly. This shows that these taxpayers most likely will comply. This therefore calls for enhancing morals among taxpayers since these encourage compliance among taxpayers. This is in line with Alm, Sanchez & Juan (1995) and Alm, McClelland & Schulze (1999) who suggested that social norms regarding taxes could play an important role in determining compliance behavior.

In regard to finding out whether as taxpayers, they report all my incomes and deductions honestly, most respondents agreed with the statement with a mean of 2.33. This means that these taxpayers do comply by reporting their incomes and deductions honestly to URA. This therefore means that these taxpayers need to be encouraged to continue declaring returns and deductions through offering certificates of recognition and being referred to in tax education drives in turn motivating the non-compliant so as to have more taxpayers complying.

To address the question whether taxpayers in KCCA are suspicious of tax enforcement officers, the respondents agreed with the statement with a mean of 2.29. This mean that taxpayers are suspicious of tax collectors and are thus likely not to comply since they view tax collectors as rivals and not partners in tax compliance involving timely declaration of returns, and paying taxes due. Therefore this calls for massive taxpayer education drives to change their mind set in regard to tax compliance enlisting them as partners whose collaboration with is vital.

On inquiring whether because of suspicion taxpayer do not declare tax pay their tax dues, the respondents agreed with the statement with a mean of 2.59. This means that taxpayers are likely not to comply because the suspicion they have towards tax collectors they don't comply thus calling for the need to create an environment of a collegial relationship as stakeholders in tax compliance by encouraging voluntary compliance from taxpayers through holding tax education workshops involving taxpayers, tax collectors and service delivery bodies such as KCCA. According to the World Values Survey, social norms reflected in higher levels of trust in the state lead to higher tax morale. Cummings et al., (2004) and Odd-Helge (2005) contend that the more citizens trust the government, the higher their intrinsic motivation to pay taxes will be. If individuals notice that many others evade taxes, their willingness to pay taxes may decrease,

crowding out their intrinsic motivation to comply with taxes; hence, taxpayers may believe that they can be opportunistic and any moral costs of evading taxes decrease (Alm & Martinez-Vazquez, 2003; Frey & Torgler, 2004). Frey & Torgler (2004) and Torgler (2005) found evidence of such an effect.

In regard to finding out whether taxpayers expect a lot from URA in return of the taxes that they pay, the respondents agreed with the statement with a mean of 2.59. This means the respondents with high expectations from URA which is tasked with administering tax and not revenue allocation is as a result of information gap where taxpayers think it's the mandate of URA to deliver services to the taxpayers in return for the taxes collected from them yet URA does not have the mandate of allocating these resources. Therefore it is important that through education drives taxpayers are informed of the bodies responsible for provision of services supported by the taxes collected.

When addressing the question whether URA helps us when we face problems, the respondents disagreed with the statement with a mean of 3.15. This highlights the gap between the taxpayers and tax collectors where incase of disagreement the traders resort to strikes by closing shop expressing dissatisfaction with actions of URA. The taxpayers are likely not to comply with filing of returns and paying of taxes due. This calls for the need to have representatives of traders through the KACITA umbrella body of the traders to negotiate with URA and KCCA officials in trying to have solutions to traders' problems so as to enhance tax compliance.

Correlations

		SOCIALNORMS	TAXCOMPLIAN CE
SOCIALNORMS	Pearson Correlation	1	.389**
	Sig. (2-tailed)		.000
	N	86	86
TAXCOMPLIANCE	Pearson Correlation	.389**	1
	Sig. (2-tailed)	.000	
	N	86	86

** . Correlation is significant at the 0.01 level (2-tailed).

The results in the table above showed that there a positive significant moderate relationship between social norms and tax compliance ($r = .3898^{**}$, $p < .01$). These results imply that the more social norms are emphasized, the higher will be the tax compliance. In the context of Uganda, these findings uncover a significant positive relationship between social norms and tax compliance, supporting previous studies asserting that social norms and tax compliance are positively related (Cialdini and Trost, 1998; Wenzel, 2004; Etzioni, 1988). Alm, McClelland & Schultze (1999) correspondingly argued that tax compliance or noncompliance is determined by prevailing social tax norms to a substantial extent. The study results strengthen the assertions of Alm et al. (2006) that the existence of social norms implies that citizens will comply as per their belief that compliance is widespread and an accepted social norm. Social norms are usually studied as the perceived prevalence or acceptance of tax evasion among a reference group (DeJuan, Lasheras, & Mayo, 1994; Alm, McClelland & Schultze, 1999) or as naturally varying between different cultural or sub cultural groups (Alm, Sanchez, & DeJuan, 1995; Chen and Li, 2009). The results, however, contrast the findings of Wenzel (2005), who asserts that taxpayers may estimate others' acceptance of tax evasion as being greater than their own, a self-other

discrepancy in tax ethics that could undermine taxpayers' compliance as they conform to misperceived social norms. The point about the self-other discrepancy could correct the misperception and improve compliance.

4.6 Taxpayer's attitude and tax compliance in Kampala Capital City Authority.

Correlations

		ATTITUDE	TAXCOMPLIAN CE
ATTITUDE	Pearson Correlation	1	.481**
	Sig. (2-tailed)		.000
	N	86	86
TAXCOMPLIANCE	Pearson Correlation	.481**	1
	Sig. (2-tailed)	.000	
	N	86	86

** . Correlation is significant at the 0.01 level (2-tailed).

The results in the table above showed that there a positive and moderate relationship between attitude and tax compliance $r = .481^{**}$, at level of significance $p = 0.000 < .001$. This implies that attitude has a relationship with compliance, therefore KCCA, should enhance taxpayer's attitude if compliance is to be ac

CHAPTER FIVE:

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS OF THE STUDY

5.0 INTRODUCTION

This chapter provides the discussion for the research findings, conclusions and the recommendations from the study. The discussions, conclusions and recommendations were made in accordance with the research objectives.

5.1 SUMMARY OF FINDINGS

5.1.1 Relationship between Taxpayer's Perception and Tax compliance.

Furthermore, Results revealed a positive weak and insignificant relationship between Perception and tax compliance ($r=.147$, $p < .01$) which means that with favorable Perception, the higher is tax compliance since the dimensions of perception did show a positive relationship with tax compliance.

5.1.2 Relationship between Social Norms and Tax compliance.

The findings revealed that there is a significant positive relationship between social norms and tax compliance ($r= .3898^{**}$, $p<.01$). The study has supported previous literature by other scholars and researchers that personal norms and tax compliance have a relationship and are extremely influential in the creation of a voluntarily compliant population because, for the most part, they interact well with laws and government.

The dimensions of social norms showed a significant positive relationship with tax compliance: opinion, conviction and suspicion positively influence tax compliance in terms of, paying taxes

on due dates, Filing returns, and tax liability. This finding indicates that URA must strengthen efforts in ensuring that changes are made to the construct of social norms to significantly improve national revenues.

5.1.3 Relationship between Tax Knowledge and Tax compliance.

According to the findings, there exists a significant positive relationship between tax knowledge and tax compliance ($r=.515^{**}$, $p < .01$). This implies that, it is most likely that taxpayers' better understanding of tax matters will compel them to fulfill their tax obligation and hence do away with tax evasion tendencies. This affirms literature by other researchers which has shown an existing relationship between tax knowledge and tax compliance.

5.2 Conclusions

In Conclusion, the relationship between perception of taxpayers and tax compliance is positive and therefore to enhance tax compliance among small income taxpayers, Uganda Revenue Authority, KCCA and partner bodies should establish a harmonious working relationship with all stakeholders and vigorous public relations to reverse the negative image of the institutions which will go a long way in encouraging compliance.

In a nutshell social norms influence taxpaying behavior and thus tax compliance through the process of identification with a relevant social group which is in line with Wenzel's (2004) view of the logic of the moral/social actor. The causal effect is mediated by the internalization of the social norms that become part of the taxpayer's own individual make-up. From a sociological perspective, human behavior is determined by social norms to a considerable degree, which improves tax compliance (Etzioni, 1988). Social norms make information sharing possible amongst taxpayers, which then improve tax compliance. This study provides policy makers with

insights into ways of encouraging social norms amongst taxpayers by giving back to society, with flexibility and integrity from the government so that trust is built to taxpayers' satisfaction

In regard to the relationship between tax knowledge and taxpayer compliance, it is positive and significant and therefore an increase in one causes an increase in another and the same is true for a decrease in one of the two variables. There should be massive sensitization programs to increase awareness, educate the public and remind them that they are partners, as opposed to mere subjects forced to pay taxes.

5.3 Recommendations

- URA should put more emphasis on dissemination of concrete tax knowledge (technical knowledge) when conducting its tax education campaign given that it has been found to positively affect taxpayer's compliance behavior. URA should utilize more of the expertise of the educational institutions like universities in its tax education activities given that they are better placed to provide the required technical knowledge.
- The small business taxpayers should also be encouraged to seek tax advisors' services, as they might not be able to understand the technical taxation issues given the need for specialized training.
- The government of Uganda should ensure that taxpayers take confidence of its service provision as being effective, efficient and economical, and making fair accountability for the resources entrusted to them by the taxpayer. This will improve taxpayers' perception of taxes i.e. having an equitable exchange with government.

- The government of Uganda and URA should step up efforts of using more behavioral (noneconomic) measures of encouraging small income business taxpayers to comply than concentrating on using deterrence (economic) measures to encourage compliance.

5.4 AREAS OF FURTHER STUDY

More studies can be done to assess the magnitude of taxpayer Perception effects on tax compliance as it has not clearly been studied in here and as well, because of the mixed findings by different researchers.

- The effects of Social norms on the small business taxpayers' understanding of taxation issues and there compliance.
- The current study can be expanded further by increasing the population studied to include all Uganda's small and medium business taxpayers.
- The effect of tax knowledge on perception of tax fairness. The will help clarify further the continued mixed findings by the different researchers.

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Appendix I: Questionnaire for taxpayers

Dear Respondent,

I am a student of Uganda Martyrs University, undertaking a Masters degree of Business Administration. I am carrying out a research on the “**relationship between taxpayer attitude and tax compliance**”.

This questionnaire has been designed purposely for data collection on taxpayer perception and tax compliance among small income businesses in Kampala Capital City Authority Central Division. You have been carefully identified as a potential person who can provide useful and reliable data that will help policy makers and implementers to improve on taxpayer perception and tax compliance among small income businesses. The information generated will be handled with utmost confidentiality and will be used for academic purposes.

Thank you in advance for your cooperation by giving your valuable time and effort to fill the questionnaire.

Your kind response is highly appreciated.

Yours sincerely

Peter Masaba Nangayi

Researcher/Student

PART A: DEMOGRAPHIC CHARACTERISTICS

Please, tick your appropriate view in the box

1. Gender of the respondent: Male Female

2. Age of the respondent

19 years and Below 20 – 30 years 31 – 40 years 41 – 50 years 50 years and Above

3. What is your level of education?
 Primary Secondary Higher

4. How long has this business been in existence?
 1 – 5 years 6 – 10 years 11 – 15 years Above 15 years

5. What is your religion?
 Muslim Christian Others

Tax payer’s attitude and tax compliance

Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	2	3	4	5

Please use the above scale to respond by ticking one appropriate answer to show your opinion on how you agree or disagree with the following statements below.

PART B: Taxpayers Perceptions and Tax Compliance

		1	2	3	4	5
	Feelings					
1	I feel that the income compliance system is fair for the average taxpayer					
2	I feel the income tax is a fair tax, thus pay my taxes					
3	The burden of income taxes is fairly distributed to all tax payers					
4	Tax rate is fair to everyone, regardless of their income					
	Beliefs					
5	I believe that the income tax compliance system is fair					
6	I believe that there is fair distribution of income tax burden across taxpayers					
7	Current tax laws don’t require me to pay more than my fair share of income taxes					
8	Some legal tax deductions are not fair because only the wealthy are in position to use them					
9	The share of the total income taxes paid by high income earners is not too high					
	Satisfaction					
10	I get fair value for my income taxes in terms of benefits received from Government					
11	Income taxes I pay are reasonable, considering the benefits provided by the government					
12	Because the benefits received from the taxes I pay, I report my income and deductions honestly					
13	Because of better perception about taxes, I pay all taxes assessed to me					

Do you have any comment(s) you wish to advance on how taxpayers' perception relates to compliance? Please specify

.....

PART C: Social Norms and tax compliance in Kampala Capital City Authority (KCCA)

		1	2	3	4	5
	Opinion					
1	I feel morally obliged to disclose all our tax liabilities honestly					
2	I feel morally obliged to pay all our taxes due.					
	Conviction					
3	I am always fair to URA when meeting my obligations					
4	As a taxpayer, I report all my incomes and deductions honestly					
5	Our loyalty to URA is outstanding					
	Suspicion					
6	Taxpayers in KCCA are suspicious of tax enforcement officers					
7	Because of suspicion taxpayer do not declare tax pay their tax dues					
8	We expect a lot from URA in return of the taxes that we pay					
9	Our relationship with URA is beneficial to both of us					
10	URA is interested in improvements that benefit our business					
11	URA helps us when we face problems					

Do you have any comment(s) you wish to advance on how tax payers social norms relates to compliance? Please specify

.....

PART D: Taxpayer Knowledge and tax compliance in Kampala Capital City Authority (KCCA)

		1	2	3	4	5
	Awareness					
1	I know why I pay taxes to URA					
2	Because I know why I pay taxes, I declare all my returns					
3	I pay all my tax dues					
4	It's the taxpayer's obligation to file tax returns					
	Clarity					
5	All taxes charged are clear to me					
6	All tax rates are clear to me					
	I pay all my dues because of clarity of taxes					
	Simplicity					
7	There are penalties for failure to pay taxes					
8	Tax can be charged basing on the profit					
9	Tax can be charged basing on the gross revenue					

Do you have any comment(s) you wish to advance on how taxpayers knowledge relates to compliance? Please specify

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PART E: TAX COMPLIANCE

		1	2	3	4	5
	Paying taxes due on due dates					
1	I have never cheated on my taxes					
2	I am satisfied with the amount I always pay to URA					
3	I always pay the actual tax assessed					
5	I always pay my taxes in time					
6	I always pay my taxes before any other outstanding bill					
7	My business has no outstanding debt with URA					
8	Paying tax is the right thing to do					
9	URA officials have never come to my business to demand tax due					
10	My business has never been penalized due to tax non-payment					

11	It is disappointing that some people do not pay their tax					
	Filing of returns					
12	Misunderstandings on tax returns filing are solved in time					
13	I always file my tax returns before the due date					
14	I have never received warnings from URA related to tax returns filing.					
15	I have never attempted to avoid taxes by not filing returns					
	Determination of accurate tax liability					
16	I have never under declared my incomes for tax purposes					
17	My business has never been penalized due to under declaring my tax liability					
18	It is disappointing that some people under declare their tax liability					

Do you have any comment(s) you wish to advance on tax compliance? Please specify

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THANK YOU FOR YOUR CO-OPERATION AND TIME

Appendix 11 SPSS OUTPUTS

Perception and Tax Compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Feelingscompliance	86	1	5	2.99	1.279
Feelingsincometax	86	1	5	2.91	1.280
Feelingsburden	86	1	5	3.31	1.249
Feelingstaxrate	86	1	5	3.28	1.395
Beliefscompliance	86	1	5	3.17	1.210
Beliefsburden	86	1	5	3.42	1.142
Beliefstaxlaws	86	1	5	2.94	1.162
Beliefstaxdeductions	86	1	5	2.47	1.070
Beliefshighincome	86	1	5	2.83	1.180
Satisfactiontaxes	86	1	5	2.83	1.391
Satisfactionbenefits	86	1	5	2.84	1.282
Satisfactionreport	86	1	5	2.91	1.175
Satisfactionpayment	86	1	5	2.69	1.161
Valid N (listwise)	86				

Social norms and Tax compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Opiniondisclosure	86	1	5	2.38	1.019
Opinionpayment	86	1	5	2.33	1.089
ConvictionObligations	86	1	5	2.29	1.050
Convictionreport	86	1	5	2.59	1.045
Convictionloyalty	86	1	5	2.50	1.003
Suspicionenforcement	86	1	5	2.17	1.190
Suspiciondeclaration	86	1	5	2.38	1.108
Suspicionreturns	86	1	5	2.09	.990
Suspicionrelationship	86	1	5	2.66	1.080
Suspicionimprovements	86	1	5	2.93	1.115
Suspicionhelp	86	1	5	3.51	1.244
Valid N (listwise)	86				

Tax knowledge and Tax Compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Awarenesspaymentreason	86	1	4	1.79	.883
Awarenessdeclare	86	1	5	2.62	1.076
Awarenesspay	86	1	5	2.37	1.006
Awarenessfiling	86	1	5	2.58	.976
Claritytaxcharge	86	1	5	3.09	1.184
Claritytaxrates	86	1	5	3.30	1.117
Claritypayment	86	1	5	3.08	1.054
Simplicitypenalty	86	1	4	2.23	1.014
Simplicityprofit	86	1	5	2.90	1.106
Simplicitygrossrevenue	86	1	5	3.10	1.063
Valid N (listwise)	86				

Appendix 111: Cronbach Alpha

Perception

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.848	.843	13

Social Norms

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.758	.764	11

Tax Knowledge

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.710	.708	10

Tax Compliance

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.781	.785	17

APPENDIX IV: Documentary review check list

- I. Compliance Audit reports
- II. Reports, minutes of meetings and other archival or file records
- III. Documents related to tax compliance
- IV. Government Policy guidelines on tax compliance
- V. Annual tax Compliance reports
- VI. Tax Compliance plans

Appendix V: Table determining sample size from a given population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.