

THE EFFECTS OF TAXATION ON TAX COMPLIANCE OF SMEs

Case Study: REGISTERED SMEs IN KAYABWE

BIRUNGI JONATHAN

2014-B021-10018



**A DISSERTATION SUBMITTED TO FACULTY OF BUSINESS
ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT
FOR THE AWARD OF A BACHELOR OF BUSINESS ADMINISTRATION
AND MANAGEMENT UGANDA MARTYRS UNIVERSITY**

APRIL 2017

DEDICATION

I dedicate this research project to my beloved parents Mr. Rwamutwe John and Mrs. Monica Kebirungi, my brother Joel, sister Joan, best friend Dr. Allan Kasozi who has been so supportive and guided me to fulfill my dreams. Thank you for your courageous words and your prayers, which taught me to live a blessed life.

ACKNOWLEDGMENT

I thank the almighty God for the gift of my life and for having brought me thus this far to enable me accomplish this research project. I would like to acknowledge the assistance and role played by all persons mentioned here under for providing an enabling environment for the success of this research work. My sincere thanks go to my supervisor Mr. Nalela Kizito for providing me with professional advice, encouragement and for having sacrificed his time whenever I called on him for supervision.

Special gratitude goes to my parents Mr. Rwamutwe John and Mrs. Monica Kebirungi for having continuously guided me, encouraged me and supported me financially throughout my education. , I thank you for sacrificing the little you had, in thick and thin and invested in my education. Thank you for looking after me and enabling me to acquire a lifelong investment.

Not forgetting my brother Joel and my sister Joan, Judith and Janice who have also supported me financially and morally throughout my study. I also appreciate the support rendered by the business community in Kayabwe town council for having provided me with right full information for this dissertation.

I also thank the support and encouragement of my group members, Adriko Leonard, Kisakye Reagan and Kabuura John to mention but a few, thank you for the team work and may God bless you.

TABLE OF CONTENTS

DECLARATION	ii
APPROVAL	i
DEDICATION.....	iii
ACKNOWLEDGMENT	iv
LIST OF TABLES	viii
LIST OF FIGURES.....	ix
LIST OF ACRONYMS	x
ABSTRACT	xi
CHAPTER ONE	1
GENERAL INTRODUCTION	1
1.1 Introduction	1
1.2 Background to the Study	1
1.3 Statement of the Problem	3
1.4 General Objective of the Study	4
1.4.1 Specific objectives.....	4
1.5 Research Questions	4
1.6 Scope of the Study.....	4
1.6.1 Geographical scope	4
1.6.2 Content scope	5
1.6.3 Time scope.....	5
1.7 Significance of the study	5
1.8 Justification of the study	5
1.9 Conceptual Framework	6
Figure 1: Conceptual Framework of the study.....	6
1.9 Definition of terms.	7
1.10 Conclusion.....	8
CHAPTER TWO.....	9
LITERATURE REVIEW	9
2.0 Introduction	9
2.1 Review of the key variables	9
2.1.1Tax administration.....	9
2.1.2Tax compliance.....	10
2.2 Tax education on tax compliance levels	12
2.3 Tax administration on tax compliance.....	15
2.4 E-tax on tax compliance	17
2.5 Summary of the identified gaps	20
CHAPTER THREE.....	21
RESEARCH METHODOLOGY	21
3.0 Introduction	21
3.1 Research design.....	21

3.2 Study Area	22
3.3 Study Population	22
3.4 Sample size.....	22
3.4.1 Sampling Techniques.....	23
3.5 Data Sources.....	23
3.5.1 Data collection instruments	24
3.6 Validity & Reliability of instruments	26
3.7 Data Analysis and Presentation	26
3.8 Measurement of Variables	27
3.9 Ethical Issues.....	27
3.10 Limitations expected in the study.....	28
3.11 Conclusion.....	28
CHAPTER FOUR.....	29
PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS	29
4.0 Introduction	29
4.1 General findings	29
4.1.1 Age of respondents	29
4.1.1 Age of the respondents	29
4.1.2 Response on the level of education of the respondents.....	30
4.1.3 Findings on the gender of respondents.....	32
4.1.4 Findings on the marital status of the respondents	34
4.2 Findings on Tax education on tax compliance levels of SMEs.....	35
4.2.1 Tax payer education is a tool designed to enable tax payers understand tax laws	35
4.2.2 Effective tax education reduces tax penalty	36
4.2.3 Tax authorities give special attention to SMEs	37
4.2.4 Awareness of Tax payer obligations.	38
4.3 Tax administration on tax compliance of SMEs.....	39
4.3.1 Tax authorities are aware of the market conditions of your business.....	39
4.3.2 Tax administration is effective on ensuring high tax compliance by tax payers.....	41
4.3.3 Businesses have ever been assessed for tax purposes.	42
4.3.4 Low tax impacts on education and tax compliance.....	43
4.4 E-tax on tax compliance of SMEs.....	44
4.4.1 E- tax promotes voluntary compliance.....	44
4.4.2 Use of tax amnesties can prove useful by enhancing administration and compliance... 45	
4.4.3 E-tax exposes the laws and regulations and enables identification of areas of the law. 46	
4.4.4 Tax collection and administration has been improved by E-tax systems.....	47
CHAPTER FIVE.....	48
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	48
5.0 Introduction	48
5.1 Summary of Findings	49
5.1.1 To evaluate the effectiveness of taxation education on tax compliance of SMEs.....	49
5.1.2 To examine the level of Tax administration on tax compliance of SMEs	50
5.1.3 To establish the effectiveness of E-tax on tax compliance of SMEs.....	50
5.2 CONCLUSION	51

5.3 RECOMMENDATIONS.....	51
REFERENCES:.....	53
APPENDICES.....	59
APPENDIX I.....	59
APPENDIX II	62

LIST OF TABLES

Table 1: Findings on the age of respondents	29
Table 2: Findings on the level of education	31
Table 3: Shows gender of respondents	33
Table 4: Shows marital status of the respondents.....	34
Table 5: Shows Tax payer education is designed to enable tax payers understand laws	35
Table 6: Shows whether Effective tax education has reduced tax penalty.	36
Table 7: Showing whether Tax authorities give special attention to SMEs	37
Table 8 Awareness of Tax payer obligations	38
Table 9: Showing Tax authority awareness of the market conditions.	40
Table 10: Tax administration is effective on ensuring high tax compliance by tax payers.	41
Table 11: Showing if the businesses have ever been assessed for tax purposes.	42
Table 12: Showing if the Low tax affects education and voluntary tax compliance.....	43
Table 13: Showing if E- tax promotes voluntary compliance.	44
Table 14: Use of tax amnesties can prove useful by enhancing administration and compliance.	45
Table 15: showing if E-tax exposes the laws and regulations and enables identification of areas of the law	46
Table 16: Tax collection and administration has been improved by E-tax systems	47

LIST OF FIGURES

Figure 1: A graph showing Findings on the age of respondents	30
Figure 2: A bar graph showing the level of academic qualification.	32
Figure 3:A pie chart showing gender of respondents	33

LIST OF ACRONYMS

%	Percentage
E-tax	Electronic tax
GDP	Gross Domestic Product
MoF	Ministry of finance
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
SSBs	Small Scale Businesses
OECD	Economic Co-operation and Development
PAYE	Pay As You Earn
TIN	Tax Identification Number
URA	Uganda revenue authority
VAT	Value Added Tax

ABSTRACT

This study was to establish the effects of taxation on tax compliance of SMEs: A case study selected SMEs in Kayabwe Town Council. The study aimed at establishing the effect of taxation on tax compliance of SMEs; finding the influence of tax education on compliance levels of tax payers, know the effect of tax administration on compliance levels of SMEs, the role of electronic tax on tax compliance of SMEs. The study was guided by the following research objectives; to evaluate the influence of tax education on compliance levels of tax payers in Kayabwe Town Council, to determine the level of effectiveness of revenue collection, to determine the role of electronic

The study applied both qualitative and quantitative research designs where interviews and Questionnaires were used. Data was collected from both primary and secondary sources. Data was processed and analyzed using formal tables, pie charts, graphs, narrative text. A total of 50 respondents were considered out of the entire population in the selected SMEs in Kayabwe Town Council. Findings, the study focused on establishing the effectiveness of E-tax on voluntary tax compliance, since there methods that have been put in place and tax payers easily reach access them, E-tax has promoted voluntary tax compliance and thus while interviewing some of the respondents, many of them clear their bills on mobile money systems. Tax payers are given less attention by the tax authorities and thus do believe that more tax education was enable them understand more tax laws. The researcher also found out that selected SMEs in Kayabwe Town Council disagreed on the fact that tax administrators are aware of their market conditions, since large volumes of sales help generate more revenues as excises increase, despite tax-induced reduction in sales. Thus by the mere fact the tax administrators give tax payers less attention they are not aware of the market conditions.

In conclusion, therefore, when it comes to taxation of SMEs, high tax rates are the primary problem of entrepreneurs. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. Hence, SMEs are deprived of the benefits that arise if the government had enough tax revenue to embark on some development projects provision of amenities such as electricity and good roads which are tools that create an enabling environment for SMEs to thrive.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction

Taxation is one among other means of revenue generation of any government to meet the need of the citizens some of which have been pointed out above. According to Public Finance General Directorate (2009) the purpose of taxation as is for the maintenance of public force and administrative expenses. Miller and Oats (2006) maintained, taxation is required to finance public expenditure. It is worthy of note however, that there are other sources of revenue generation by the government like borrowing and grants. This chapter presents the background of the study, problem statement, objectives of the study, scope and significance of the study. It also presents the conceptual framework developed for this study and defines the key terms used in the report. This study examines the effect of taxation on performance of SMEs in Kayabwe

1.2 Background to the Study

Across the globe, governments are grappling with the obligation of providing infrastructures for their people. Among these are the provisions of schools, hospitals, construction of roads, bridges, railway lines, Airports and seaports. More so is the security of the life and properties of the citizens in the country against foreign and or local aggression. Banage (2012) argued that the people working in the informal sector (SMEs) of Uganda economy evade tax payment yet they are a great proportion of the economy. Osunkoya (2009) argues that these want public employees to be the only ones paying tax on their earnings. Consequently, this ensues in inconsistency in tax administration in the country. It is popularly held that even the

revenue collection officers seem to be lenient or even connive with those in the informal sector during enforcement of tax policies. All this leads to revenue loss.

There is no doubt that taxation affects the performance of SMEs in Uganda. The stabilization of the economy, the redistribution of income and the provision of services in the form of public goods are among other functions or obligations government may owe the citizens. Miller and Oats (2012) noted that due to the inefficiency of tax compliance by SMEs, the provision of public goods such as security of life and property which the public might not be prepared to pay for directly, are left in the hands of the government rather than the private market. Lyme and Oats (2011) explained that taxes are used to raise revenue to finance government expenditure, redistribution of wealth and income to promote the welfare and equality of the citizens and regulation of the economy thereby creating enabling environment for business to thrive.

Batley (2013) argues that taxation is important for financing the government budget. It is worth noting however, that there are other sources of revenue generation by the government such as borrowing, grants and the like. If taxation is for public expenditure, public goods ought to have been consumed equally. The elites in the society have entourage of security men and women attached to them for protection especially in emergency cases but not the common man whose safety is just by implication even when they represent a higher percentage of the taxpaying population. Since the use of most of the facilities for which the general tax revenue is raised as a right for some compared to others, tax therefore remain a punitive levy on the deprived of these services. Compliance to tax obligations by SME owner does not mean that government must do something within the locality of the taxpayer

(Mookherjee, 2015). This may account for the seemingly high tax evasion rate as tax is assumed exploitative instead of development.

1.3 Statement of the Problem

There is no doubt that tax has positively affected the economic development of Uganda. Popoola (2013) noted that Ugandan tax administration and practice be structured towards economic goal achievement since government budget for the year centers on the business sector. While decrying the low productivity of the tax system, deficiencies in the tax administration and collection system, complex legislations and low education of taxpayers on the part of those are identified as some of the root causes of low tax collection from SME section (Mugambe, 2014). Besides, those in informal sector in Kayabwe who are taxpayers do not register voluntarily, while those who do register often fail to keep adequate records, file tax returns, and settle their tax liabilities promptly. The revenue collection officers are lenient or connive with SME owners during enforcement of tax which increases the chances of tax evasion leading to revenue loss.

Ahmed and Braithwaite, (2014) explained that taxpayers operating small businesses are non-tax compliant since they cannot easily be located by tax administration, yet they pay less tax than their fair share of tax. Inadequate knowledge and skills about tax procedures are the major qualities of most tax payers in Kayabwe, as most owners hire incompetent family members to keep proper financial records. Many taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency and one of the chief features of taxpayers is the lower level of the specialist tax expertise and this call for taxpayers to search for assistance from experts (Nakiwala, 2010). The Ugandan governments has adopted tax compliance administrative measures like penalties, rates and tax audits to

ensure tax enforcement instead of compliance which have still failed to yield. In order to reawaken the consciousness of Uganda government and citizens on the effective use of taxation as a developmental tool, and examine the effect the tax system have so far on the economy; this research work becomes very relevant.

1.4 General Objective of the Study

The general objective of the study is to establish the effect of taxation on tax compliance of SMEs

1.4.1 Specific objectives

1. To assess the effect of tax education on tax compliance of SMEs
2. To examine the effect of tax administration on tax compliance of SMEs
3. To assess the effect of electronic tax on tax compliance of SMEs

1.5 Research Questions

- i) What is the influence of tax education on compliance levels of tax payers?
- ii) What is the level of effectiveness of revenue collection in Uganda?
- iii) What is the role of electronic tax in Uganda

1.6 Scope of the Study

The scope of this study entails the geographical, content and time scope.

1.6.1 Geographical scope

The geographical scope of the study is Kayabwe town in Mpigi district

1.6.2 Content scope

The content scope is effect of taxation on tax compliance of SMEs in Kayabwe Town Council.

1.6.3 Time scope

The study has been carried out in researcher considered a period of two years 2016 and 2017. This period was selected to enable the researcher come up with coherent information from the respondents as this is the most recent period and thus was give up to date information on effect of taxation on tax compliance of SMEs.

1.7 Significance of the study

The information gathered through this study was be useful to planners, administrators and policy makers on matters of effect of taxation on tax compliance of SMEs.

The study findings were cause relevant policy makers and stakeholders to address loopholes in taxation and to ensure compliance.

It is anticipated that the study contributes to the existing body of knowledge about taxation and revenue performance as well as stimulate further researchers into this field. The findings may be used as reference for further researcher in the related field of the study.

1.8 Justification of the study

The purpose for this research is to find better taxation policies such that compliance by SME owners improves.

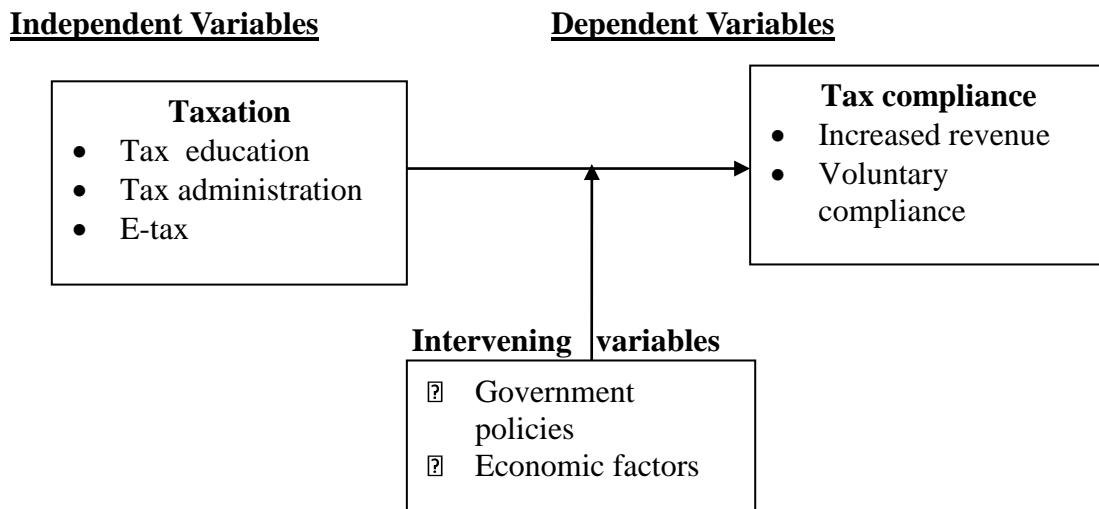
The research intends to find out whether taxation highly considered by the firm would be able to increase the performance of revenue.

The study seeks to determine how taxation result in improved compliance in terms of increased revenue effectiveness.

1.9 Conceptual Framework

The conceptual framework below shows the relationship between tax administration and revenue performance. A general conceptualization diagram as shown below illustrates that tax administration is the independent variable and revenue performance is dependent variables while the Government policies, Economic factors and Culture have a moderating effect on the relationship between tax administration and revenue performance. This is well portrayed in the in the diagram shown below;

Conceptual Framework of the study



Source: Lopez and Kadar (2001) and modified by researcher

The conceptual framework shows the relationship between the independent, dependent and intervening variables. In this study, taxation constitutes the independent variable which affects tax compliance (the dependent variable). In taxation would be involved tax payer education, tax administration and E-tax filing. These affect tax compliance. Among the tax compliance variable are considerations like increased revenue and voluntary compliance. These are affected by the taxation practices. On the contrary, there are variables that intervene in the relationship that occurs between the dependent and independent variables referred to as intervening variables. In this study, government policies and economic factors would intervene in the relationship among the variables as shown in the framework above.

1.9 Definition of terms.

Taxation: Is referred to as a process of planning, administering and collection of taxes, fines and fees in the economy consistently according to the set goals of economic growth.

Tax compliance: making tax payments and producing and submitting information to the tax authorities on time in the required formats

Tax education: service which involves passing on tax information to citizens through publication of tax payer guides and leaf lets

Tax administration: Is the administrative organization structure whose basic task is to implement tax regulations and regulations concerning the payment of obligatory contributions.

E-tax: the process of submitting tax returns over the internet using tax preparation software that has been pre-approved by relevant tax authority

1.10 Conclusion

The chapter has given an insight into the aim of the study and stated clearly the problem that led to this study. The first section is the background to the study which helps create a better understanding of the variables involved in this study. The second part identifies the gaps which exist in literature that has led to this study and clearly discuss these gaps.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the related literature. The content of the literature was based on studies conducted by scholars and authorities in tax administration and revenue performance. The review of literature was guided by the specific objectives and gaps therein were highlighted. The gaps identified were further shown to the need for the current study.

2.1 Review of the key variables

2.1.1 Tax administration

Taxation

Atawodi and Ojeka (2012) explained that, the choice of tax policy to employ depends on the use of one or both two groups of instruments. The first being the use of special tax preferences and the other incentives to support start-up and growth of small companies (Atawodi and Ojeka, 2012). These incentives comprise of the lowering of corporate income tax rates, special tax exemptions or tax holidays and relieves for small businesses. The underlying reason for all these is to effectively raise revenue through measures that suit a country's circumstances and administrative capacity (Atawodi and Ojeka, 2012). Uganda is usually struggling in terms of raising internal revenues for development. In order to solve this issue, scholars have discussed among others that the widening of the tax net is the way to go.

The government has the urgency to provide infrastructure, create jobs and reduce unemployment, expand the productive sectors of the economy and to significantly raise

public revenues from the SMEs. Tax policies are to aim at bringing all taxable adults into the tax bracket with a graduated rate that should ensure that the well-off pay their own share while the low income earners are given savings incentives. An effective and efficient tax administration system should be integral to any country's well-being (Atawodi and Ojeka, 2012). It is with this notion that (Baurer, 2005) argues that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The authorities and the administrators of taxes should seek to balance their educational and assistance role with the enforcement role.

According to Atawodi and Ojeka (2012), the rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the Ability-to-Pay Principle and the Equal Distribution Principle. The two principles stress equality and fairness. The Ability-to-Pay theory is of the view that individual should be taxed based on the individuals' ability to pay while on the other breadth, the Equal distribution Principle proposes that the incomes, wealth as well as the monetary transactions of the individuals should be taxed at a fixed percentage. This implies that, the individuals who earn more and buy more should pay more taxes, but was not pay a higher rate of taxes (Atawodi and Ojeka, 2012).

2.1.2 Tax compliance

In Uganda Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 4.5 million, improving standards of living and ensuring social and political stability (Hatega, 2011). It has been observed however, from previous taxation studies that several SMEs in developing economies are non-tax compliant in spite of major reforms (James et al, 2007), since they cannot easily be located by tax administration, yet

they pay less tax than their fair share of tax (Ahmed & Braithwaite, 2005). Inadequate knowledge and skills about tax procedures are the major qualities of most SMEs in Uganda, as most owners hire incompetent family members to keep proper financial records (Kiwanuka, 2004).

Many SME taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency (Nakiwala, 2010). According to MoF (2007) one of the chief features of SMEs is the lower level of the specialist tax expertise and greater owner-involvement in day-to-day management and this call for them to search for assistance from experts (Bertolini et al, 2010). Consequently, countries like Uganda are still characterized by the low income tax compliance levels, in the face of the numerous advocacies for voluntary tax compliance (Ayoki, 2008). The governments have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance which have still failed to yield (Kayaga, 2007). Besides, the low compliance level in Uganda has been deep-rooted in incessant stagnation of income taxes at 25.8% from 13.2% with high rates of tax avoidance and evasion (Mugambe, 2007).

The tax potential of SMEs is partially exploited as most enterprises have small profits from the inaccurate financial records hence having presumptive tax revenue contribution towards total tax revenue in Uganda as less than 0.5% of total tax (Nakiwala, 2010). It is suspected that low income tax proficiencies among tax payers may be responsible for the low levels of income tax compliance. Whereas previous research has attempted to examine the predictors of tax compliance like social norms, taxpayers' morale and nature of tax system, using models from a developed world context (Alm and Torgler, 2006). Little empirical evidence

on tax compliance is available and policy makers have not yet taken such factors into consideration to confirm these findings in Uganda.

2.2 Tax education on tax compliance levels

Tax payer education program is one of the strategies of improving service delivery to the tax payers. Improving service delivery is critical to enhance voluntary tax compliance. Lack of voluntary tax compliance compels revenue authorities to use costly and coercive methods for tax enforcement (Fjeldstad and Ranker, 2003). Thus, tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments, for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers. The education component is expected to deal with non-compliance practice among the SMEs (Kimingu and Kileva, 2007).

Tax payer education enormously impacts on the tax payers' compliance (Ameh and Odusami, 2011). To improve tax compliance and tap benefits of tax compliance and minimize repercussions of non-compliance, tax authorities could educate tax payers using the media, leaflets, and billboards. (Kirchler, 2007) conducted a study to determine the effect of increase in tax knowledge and tax attitudes on compliance behavior among the tax payers in Cairo. It was found out that acquisition of tax knowledge did not affect the tax compliance behavior. As such, a similar study is necessary in the Ugandan context given the differences in environments and times. Besley and McLaren (2014) assert that many tax payers though willing to comply are unaware of their rights and obligations which could hamper their compliance. Besides, in spite of understanding their obligations, the tax payers may be

ignorant about the way they can meet their obligations or may fail to fulfill them because of other reasons.

The non-compliance and may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes (Christina et al, 2003). It is expected that tax education was enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude. The tax authorities have to give special attention on the SMEs, by simplification of the tax laws procedures, associations, annuals taxpayers' appreciation day, and integrity enhancement as among the strategies (Kimungu and Kileva, 2007). Tax Education to the SMEs becomes necessary when the objective of rising tax revenue, at the changing environment; particularly from the official tax assessment is considered (Normala, 2007). At the same time, achieving tax compliance and improving revenue generation is not an easy task (Kimungu and Kileva, 2007). However, this problem can be minimized through tax education.

It is argued that primarily, educating tax payers is for fostering voluntary compliance and minimization of enforcement costs on non-compliance (Taxman, 2012). Further, tax education leads to a knowledgeable public that can easily comply with tax regulations as they are aware of the idea behind levying or paying taxes. Ultimately, this increases tax payer compliance. Machogu and Amayi (2013) confirmed that those with tax knowledge had a higher chance of compliance than those without. The results indicated a significant relationship between tax knowledge and tax payer compliance. However, it is important to understand that there is need to carry out a similar study presently because the area of study

was different and only behavior of those with tax knowledge and those without was compared.

Tax payer education program is one of the strategies of improving service delivery to the tax payers. Improving service delivery is critical to enhance voluntary tax compliance. Lack of voluntary tax compliance compels revenue authorities to use costly and coercive methods for tax enforcement (Fjeldstad and Ranker, 2003). Thus, tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments, for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers. The education component is expected to deal with non-compliance practice among tax payers (Kimumu and Kileva, 2007). The non-compliance and may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes (Christina et al, 2003). It is expected that tax education was enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude

The tax authorities have given special attention on the SMEs, by simplification of the tax laws procedures, associations, annuals taxpayers appreciation day, and integrity enhancement as among the strategies (Kimumu and Kileva, 2007). Tax compliance level can be identified by looking on the compliance indicators; here one can examine the percentage of the tax revenue to the GPD (OECD, 2004). An increased percentage of tax revenue in relation to the GDP signifies an increase in the level of tax compliance. Public opinion indicators are the perceptions of people towards the taxation systems and taxes (Roak and Stephen, 1994).

Other compliance indicators are; percentage of income that is reported for the taxation purposes and the program impact indicator. Here, one may assess the impact of specific programs or initiatives on the compliance (Denis and Mehila, 2002). Education changes the behavior of an individual by affecting the way he or she makes decisions

2.3 Tax administration on tax compliance

The objective of tax administration is to ensure compliance with tax laws and to improve taxpayers' customer service experiences (Jensen and Wöhlbier, 2012). Better understanding of the motives of taxpayers and their attitudes towards taxation can improve both voluntary compliance and the efficiency of the tax administration. Tax compliance is determined in the literature⁴ by five broad factors: deterrence; norms; complexity of the tax system; the broader economic environment; and fairness and trust in the tax administration (Kidd, 2010). This means that the tax administration has to adhere to procedures that are fair in dealing with taxpayers and retributive fairness. Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected (Khadijah, and Pope, 2011). This means that setting tax rates for SMEs, the aspect of fairness should be considered.

Good tax administration requires strong technical capacity by the administrative agency but also a well-designed tax for SMEs (Kirchler, 2007). The administrative agency should be able to identify and evaluate the effects of both current tax policies and tax policies under consideration, be able to simplify the current tax system if needed, within the economic and political spectrum, be aware of any law changes and emerging avoidance practices by SMEs, and maintain a connection between the rule of law and tax administration (Murphy, 2006). When generating higher revenue by SMEs is the goal, the administrative agency should aim

at increasing taxes on goods that have large sales volumes and few producers hence making it easy to collect taxes, with inelastic demand, a low share of tax on retail prices, easy definability, and a lack of close substitutes (Hauptman, 2011) These goods provide a relatively sustainable and profitable revenue stream for SMEs.

Tax authorities should be aware of the market conditions SMEs operate under and the factors affecting consumer purchasing behavior (Belak, et al, 2010). From a revenue perspective, large volumes of sales help generate more revenues as excises increase, despite tax-induced reduction in sales. However, a positive relationship between income and tobacco consumption can level off the expected tax-induced reductions in sales, leading to higher revenues for the government but smaller reductions in consumption. Designing the tax structure and determining the level of tax increase for SMEs should be evaluated carefully by taking into account the price and income sensitivity of consumers, so that tax policy serves both SMEs owners and revenue objectives (Congdon et al, 2011). A well-designed tax policy exhibits transparency and easy definability, increasing efficiency by reducing administrative costs.

Lopez and Kadar (2001) posit that tax administration among SMEs is uniformly geared towards efficiency, increased tax revenue, equity and enforceability. Tax administration is therefore, one among other means of revenue generation of any government to meet the need of the citizens some of which have been pointed out above. According to Public Finance General Directorate (2009) the purpose of tax administration is maintenance of public force and administrative expenses. Miller and Oats (2006:3) maintained that if tax administration is for public expenditure, public goods ought to have been consumed equally. This implies that more revenue can be collected if taxes are well administered

Since the use of most of the facilities for which the general tax revenue is raised as a right for some compared to others, tax therefore remain a punitive levy on the deprived of these services. Osunkoya (2009) warned that Payment of tax does not mean that government must do something within the locality of the taxpayer. This may account for the high evasion rate as tax is assumed exploitative instead of development. Popoola (2013) noted that people do not pay tax because of the culture of give and take. The epileptic services of some of the social amenities financed with tax revenue in developing and underdeveloped countries left much to be deserved. Popoola (2013) asserts that electric supply and social infrastructure need to be financed with taxpayer's money. Ordinarily, nobody would want to make compulsory payment for substandard goods or bad services. Gordon (2010) argued that corporate and personal income taxes create distortion.

High tax rate distort the demand and supply of labour hence productivity is impaired. Some countries tax system is structured purely towards revenue generation and that has negative effect on the economy. Very low tax may impact on education as a larger population was prefer to work than school but a very high tax might reduce productivity as people would prefer longer leisure hours. This does not enhance economic development. Laffer (2009) cautioned that a government simply cannot tax a country into prosperity. As important as tax revenue is to a nation, many people still find it difficult to comply with their tax obligation. According to Nightingale (2002), no one really likes paying taxes yet they are inevitable for the provision of social welfare.

2.4 E-tax on tax compliance

E-tax is an information system for the management of all domestic taxes and duties such as Income tax, withholding tax, PAYE, excise duty among others. This software which is web

enabled has modules for effecting and monitoring key activities of tax administration such as registration, de-registration, assessment, tax payer accounts, audit, compliance, objections and appeals integrating international practices and security features. The role of e-tax in Uganda are as highlighted by (Baumol and Blinder, 2011) are as below; the electronic tax system enhances generation of intelligence. E-tax may reveal the information on tax non-compliance and dodging schemes involving large numbers of tax payers that can be used to mount major counter abuse projects. The electronic tax system enables identification of areas of the law that need clarification. It may expose parts of the tax law and regulations that confound large numbers of tax payers and need further efforts by the revenue body to explain the laws and thus to better position tax payers to understand what the law requires of them hence eventual improvement in tax payer compliance.

The central role of e-tax is promotion of voluntary compliance by the tax payers with the tax laws. It makes attempts to arrive at this by reminding tax payers of the risks of non-compliance and by boosting confidence in the wider community that serious abuses of tax laws are detectable and according penalized. E-tax also enables detection of non-compliance at individual level. Emphasis on the major areas of risk like unreported cash and the individual tax payers suspected to be evading their obligations, e-tax may expose significant understatements of tax liabilities and addition tax revenue collections (Colander and Gamber, 2012). The system also enables education of tax payers. Electronic tax can aid clarify the application of the law for individual tax payers and identify improvements required to the management of records. Consequently, this perhaps contributes to tax payer compliance improvements.

Tax collection and administration can be improved through measures such as; shifting towards an electronic tax payer registration system where a uniform TIN would apply regardless of whether a tax payer is registering for Personal Tax, Corporate Tax or VAT (Sheikh, 2015). Simplify the tax code since income tax and VAT rates are punitive and lack in-built mechanisms that would enhance self-assessment, there is need to simplify tax laws, forms and procedures developing systems that can enhance access to third-party sources of information (Seelmann et al, 2011). URA still lacks adequate and frequently updated information systems on registered taxpayers. There is need to develop systems that can access third party sources of information, such as withholdings, bank transactions, foreign exchange transactions, transactions in securities and large transactions which involve real estate, cars, tax-deductible transactions, customs payments (Ayodeji, 2014).

Use of tax amnesties can prove useful by enhancing administration through measures such as entrusting sensitive negotiations to special teams; minimizing contacts between tax payers and tax collectors and reducing the discretionary powers of tax officers; setting up supervisory systems with at least three hierarchical levels to reduce opportunities for collusion; and devise incentive systems that match public and private interests. There is the possibility of relying on banks in collecting taxes (Moyi, 2006) The Authority aims to continue on the path towards financial administration excellence through surpassing set financial targets at least cost. Under this perspective, a key strategy to be pursued is the strengthening of the Enforcement function. URA acknowledges that the majorities of taxpayers are honest and law abiding and deserve efficient, professional and fair tax administration. Therefore enforcement programs must rest on sound foundation of observing taxpayer rights. The Electronic tax system endeavors to provide the balance between quality service delivery and enforcement to enhance voluntary compliance (Waweru, 2013).

According to Harold (2011), computer-generated returns, transmitted electronically, generally are easier to process than paper returns; since the information on the forms doesn't have to be keyed in, number by number, by IRS staff into the Service's computers hence there is less chance of errors. However, electronic tax systems' biggest advantage, from the taxpayer's point of view, is that it shortens the time for refunds (Kun, et al, 2008). Refunds can even be deposited directly into taxpayers' bank accounts. As an added incentive, some vendors that provide electronic filing services for tax preparers also offer a service in which clients due a tax refund can apply for an immediate bank loan equal to the expected IRS check (Kirchler, 2007). As a result, a client could receive the refund (less bank and preparer fees) within three days of the filing (Harold, 2011). URA therefore has put in place those measures to reduce the leakages. They invariably include segregation of duties, custody of assets, strict authorization procedures, internal audit, and the use of passwords, proper record digital controls and management supervision.

2.5 Summary of the identified gaps

According to the literature discussed above, it majorly talks about tax administration issues from a broad perspective while the research intends to find out the tax administration activities Harold (2011). The authors have discussed about tax administration in terms of tax compliance, revenue collection methods, e-tax and how they affect revenue performance thus the researcher's aim is to identify the major drawbacks in tax administration and how they implement the practices as discussed in the reviewed literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methods and procedures that were used in the study. The research methodology encompassed; research design, study population, sample size and selection, sampling techniques and procedure, data collection methods, data collection instruments, the procedure to be used to ensure validity and reliability of the questionnaire, procedure of data collection, procedure and techniques to be used in data analysis and measurement of variables.

3.1 Research design

A research design is the selection of methods for collection and analysis of data in a manner that aims to combine relevance to research purpose with economy in procedure. It constitutes the blueprint for the collection, measurement and analysis of data (Cooper, 2003). The study employed a cross sectional approach as the data was collected on occasional basis and represent a snapshot of respondents' responses at specific point in time; the research study is designed as cross sectional study in which the researcher studied a particular phenomenon at a particular time (Saunders, Lewis and Thornhill, 2009).

The research was carried out under field conditions as it was conducted under actual environmental conditions, that is, the respondents were interviewed in their business.

3.2 Study Area

The study was carried out in Kayabwe Town Council. The study area is located in the southwest of Kampala in Mpigi district. As noted by Saunders (2012), this area is chosen because of its easy accessible to both respondents and data collection.

The study targeted the different SMEs in Kayabwe Town council. This is because the presence of taxation has created a substantial effect on its business performance especially small scale medium enterprises. Therefore, the case study enabled the researcher to measure the variables under study.

3.3 Study Population

The study comprised of a cross-section of SMEs such Mobile money outlets, Restaurants, Hardware stores, second hand cloth outlets among others operated by managers, owners and employees of the SMEs in Kayabwe Town council, Mpigi District. This population was chosen because it provided relevant information to the problem under study.

Out of the SMEs in Kayabwe, the study targeted a normal population of 100 SMEs and employees directly employed by SMEs. The target population of the study was composed of men and women with different cultural and educational backgrounds.

3.4 Sample size

The research targeted a normal population of 100 people under their different categories. The sample size was selected by use of Slovins Formulae.

Slovins Formulae is given as $n=N/(1+N(e)^2)$; n represents the sample size, N represented the population and $(e)^2$ represented the margin of error which was 0.1.

Therefore from

$$n = \frac{N}{(1+N(e)^2)}$$

$$n = \frac{100}{(1+100(0.1)^2)}$$

$$n \approx 50$$

Therefore, the sample size n, was 50

The sample selection method was chosen specifically because it is scientifically calculated and proven.

3.4.1 Sampling Techniques

A sampling technique is a methodical process through which a given study or population is selected (Newman, 2002; Kothari, 2004). It's therefore a procedural chain that guides the selection criterion. There are many ways of selecting samples and these include the following, simple random sampling, is the type of sampling which provides equal chance to every member in the population to be included in the study.

A simple random sampling technique was applied on the general employees as this created a probability for each respondent and this technique which also eliminated chances of creating bias in the sample chosen.

3.5 Data Sources

The data was collected from both primary and secondary sources.

Secondary Data

Secondary data as that kind of data that is available, already reported by some other scholars (Roston,2001).Secondary data for this study was got from published literature like books, journals, records of selected SMEs, government publications, online information, text books and consultations from scholars. This was because it was easier to understand, as it comprised of extensively researched work.

Primary Data

Primary data is that kind of data that has been gathered for the first time, it has never been reported anywhere according to (Roston, 2001). A self-administered questionnaire was used and this enabled the researcher to cover a large population quickly and at small cost. Interviews and group discussions were also used in obtaining data.

3.5.1 Data collection instruments

In this study, the researcher used data collection instruments which included; questionnaire, observation, interviews and document analysis as primary sources of gathering data and documentary analysis as secondary method. The first two tools were preferred because questionnaires and interviews were the best in determining the affective domain of the respondents.

Questionnaire

The questionnaire was used to obtain the quantitative information because it was specific for the respondents to explain the exact situation without giving room for unnecessary and irrelevant information for the study topic. The questionnaire was used on the basis that the

variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. More so, questionnaire was equally used because the information had to be collected from a large sample in a short period of time since the respondents could read and write. Self-administered questionnaires were formulated, covering all the aspects of the study variables.

Observation Method

This involved viewing directly using the researchers own eyes and senses to obtain the data, it reduced on the impact of bias and hence the researcher was able to obtain firsthand information for example looking at the status of the people, the conditions of living. The researcher was able to collect data using this method by simply looking at some documents such as receipts since most of them are normally hang on walls in shops,. The researcher was able to draw up conclusions basing on what he saw.

Interviews

An interview is a conversation between two or more people where questions are asked by the interviewer to elicit facts or statement from the interviewee. During interviews the researcher was in close contact with the respondents and asked them about the subject under the study, the researcher used personal interviews were he encountered with the respondents asking them questions following the order.

Data analysis:

Reviewing the documents of the respondents was done regarding its compliance to the tax administration.

3.6 Validity & Reliability of instruments

Validity

Validity is the most important idea to consider when preparing or selecting an instrument for use. According to Bordens et al. (2011) validity is the extent to which a measuring instrument measures what it's designed to measure. It aimed at planning and structuring the research project in such a way that the literature review and empirical study were valid in terms of the variables in this study.

Reliability

Reliability refers to the consistency of the scores obtained, how consistent they are for each individual from one administration of an instrument to another and from one set of items to another.

Reliability and validity emphasized the honesty, believability, expertise and integrity of the researcher. The researcher ensured that any inferences drawn were based on data obtained through the use of instruments that were appropriate, credible, and backed up by evidence of the sort as described.

3.7 Data Analysis and Presentation

Data was coded and analyzed using the SPSS version 16.0. The results produced by SPSS were tabulated and presented in Pie Charts and graphs. Percentages and frequencies were used to present the findings in a descriptive and explanatory way. Qualitative data was reviewed and analyzed using content analysis whereby key statements were used to backup numerical data analyzed.

3.8 Measurement of Variables

The researcher used an interval type of scale to measure different variables. A nominal scale was used for all the variables in the background section where individuals were categorized into mutually exclusive categories. In this study, this type of scale was of great importance because the generated information that was used to determine the particular percentages in the samples of respondents, which was very useful to the researcher in drawing inferences. The questions in the questionnaires were close-ended. A 5 point Linkert Scale of strongly agree (5), agree (4), uncertain (3), disagree (2) and strongly disagree (1) was applied. The questionnaire was divided into major sections to address specifically every variable in the model.

3.9 Ethical Issues

Before carrying out the research, the researcher fully explained the objectives of the study to all the respondents. In addition, their consent was sought and their right to confidentiality was assured.

The researcher first of all sought and gained permission from the university authority concerned and presented the relevant documents like the reference letter from the dean of the faculty in order to get information from the community members.

The researcher gave all the relevant and expected sources of data by citing those which were of help providing evidence and appreciation of the work done by others. This helped the researcher to avoid any forms of plagiarism in the academic context.

3.10 Limitations expected in the study

The major limitations were the scope of the study which could not allow the researcher to get a general view as the data collected was not apply to all the districts in Uganda.

During the research study, many problems were encountered among which included the following;

Information concealment; This came about by the respondents mistaking me and my assistants as a revenue agent from the Uganda Revenue Authority since most of the SMEs lacked the necessary documents like trade licenses and tax slips that authorize them into business.

Most respondents did not have time to answer questions due to the busy schedule yet this was the core of the study. This was because of fear from the Business Owners who reserve the rights to take on any action for the control of employee activities. Nevertheless the need to attend to customers also limited my study.

For data about the SMEs in the libraries for review may be old and sparse since it was only information far back as 10 years ago yet there are so many changes that have taken place that render the information inapplicable to current situations.

3.11 Conclusion

This chapter helped the researcher to understand the design to be used, an insight on how data was collected and analyzed during the study. The researcher was also in position to know the population and the sample size that was sampled. Therefore through these methods, the researcher was sure of the information which was presented, was reliable and valid.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents findings on effects of taxation on tax compliance of SMES in Kayabwe town. The findings were from both primary and secondary sources.

4.1 General findings

The researcher sought to establish the general characteristics of the respondents who did fill the questionnaires and this section presents the findings.

4.1.1 Age of respondents

In order to attest the credibility of the responses, the respondents were asked to indicate their age bracket and the response was shown below;

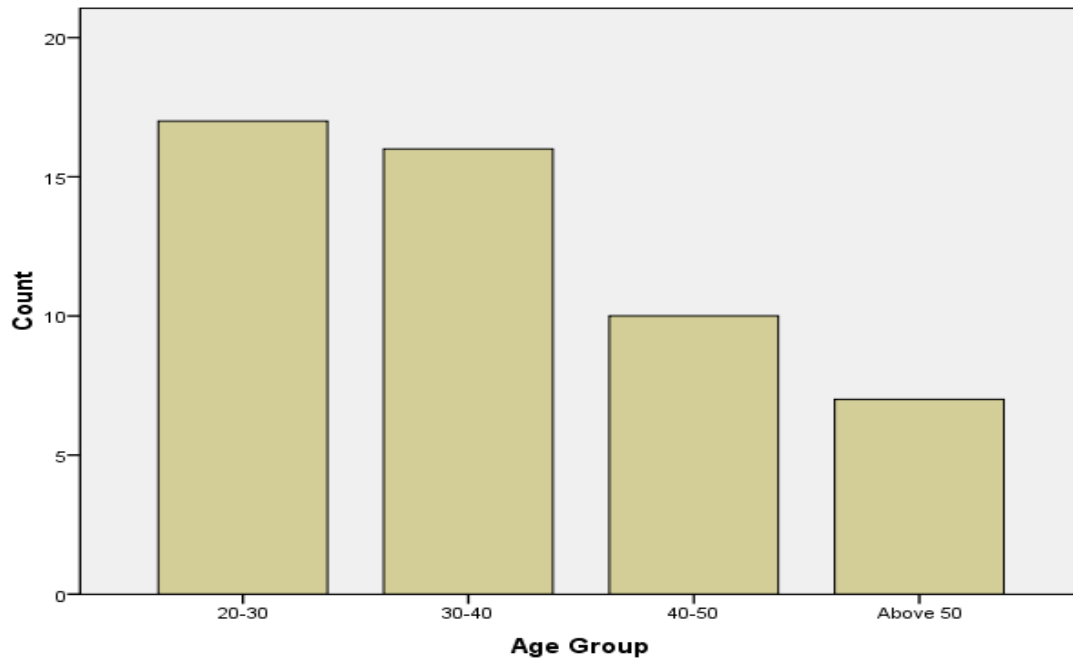
4.1.1 Age of the respondents

Table 1: Findings on the age of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-30	17	32.7	34.0	34.0
30-40	16	30.8	32.0	66.0
40-50	10	19.2	20.0	86.0
Above 50	7	13.5	14.0	100.0
Total	50	96.2	100.0	

Source: Primary data

Figure 1: A graph showing Findings on the age of respondents



From the table above, 34% of the respondents range between 20-30 years, 32% were between 31-40 years, 20% were between 41-50 years while 14% were above 51 years. This meant that most of the SMEs were operated by people who were between 20-30 years.

4.1.2 Response on the level of education of the respondents.

Here respondents were asked about their highest level of education that is those with Certificates, Degree, Diploma and others. The results were as follows;

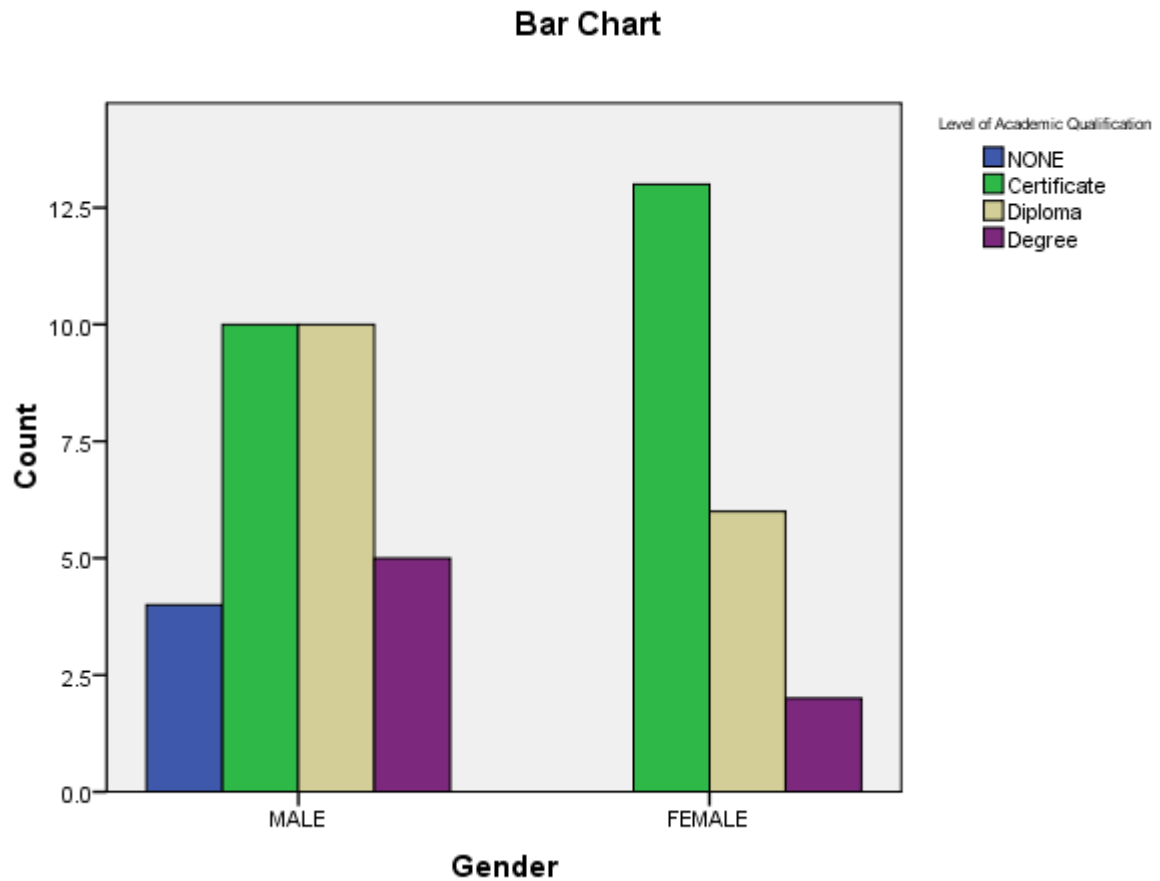
Table 2: Findings on the level of education

	Frequency	Valid Percent	Cumulative Percent
Valid NONE	4	8.0	8.0
Certificate	23	46.0	54.0
Diploma	16	32.0	86.0
Degree	7	14.0	100.0
Total	50	100.0	

Source: Primary data

From the table, 8% had attained a lower level of education such as primary, 46% had certificates, 32% had diplomas, and 14% had acquired degrees. This means that the majority of respondents were literate and able to understand and internalize the contents of the questionnaires distributed to them.

Figure 2: A bar graph showing the level of academic qualification.



From the bar graph above, males are more educated than the females.

4.1.3 Findings on the gender of respondents

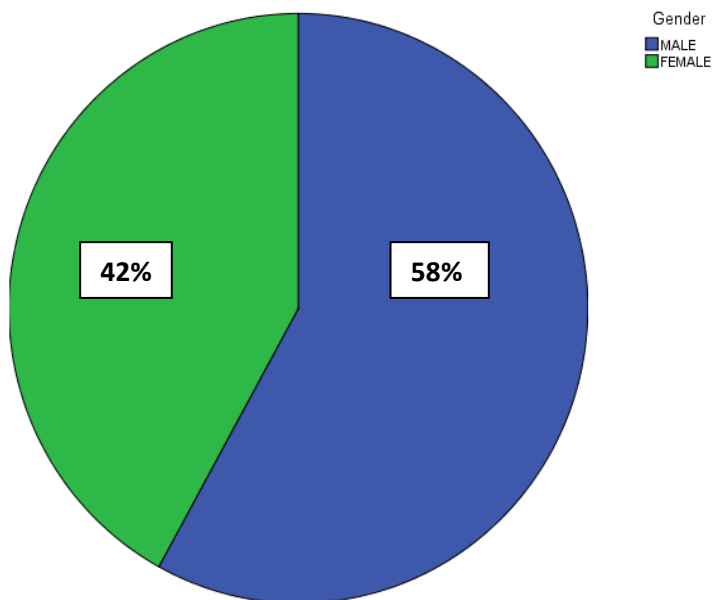
Here respondents were asked their gender whether male or female and the following results were obtained.

Table 3: Shows gender of respondents

	Frequency	Valid Percent	Cumulative Percent
Valid MALE	29	58.0	58.0
FEMALE	21	42.0	100.0
Total	50	100.0	

Source: Primary data

Figure 3:A pie chart showing gender of respondents



From table 3, majority of the respondents, 58% were male while 42% were female. This is well presented in the pie chart in figure 3. Therefore, this means that most of the SMEs in Kayabwe town council were operated by male.

4.1.4 Findings on the marital status of the respondents

Here respondents were asked if they were married, single, separated or widowed and the results were as follows;

Table 4: Shows marital status of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Married	18	34.6	36.0	36.0
single	9	17.3	18.0	54.0
separated	11	21.2	22.0	76.0
Widowed	12	23.1	24.0	100.0
Total	50	96.2	100.0	
Total	50	100.0		

Source: Primary data

From table 36% were married, 18% were single, 22% were separated, while 24% were widowed. This implies that most of the SMEs in Kayabwe Town Council were operated by married people, widowed and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of funding for their families including opening up SMEs.

4.2 Findings on Tax education on tax compliance levels of SMEs

Here respondents were asked whether tax education has helped them in their businesses as regards complying with taxes is concerned, if tax education has helped them understand the procedures and laws, their obligations as tax payers and finally knowledge on skills and knowledge about tax authorities.

4.2.1 Tax payer education is a tool designed to enable tax payers understand tax laws and procedures

Table 5: Shows Tax payer education is designed to enable tax payers understand laws

	Frequency	Valid Percent	Cumulative Percent
Valid	Strongly disagree		
	Disagree		
	Neutral		
	agree		
	strongly agree		
	Total		

Source: Primary data

From table 5 above, 6% said they strongly disagreed to the fact that tax education enables tax payers understand tax laws, 20% disagreed that tax payers are not helped by tax education to understand the tax laws, 30% kept a neutral position that tax education helped them understand the tax laws and procedures while 30% agreed to the fact that tax education enables tax payers understand tax laws and procedures finally 14% strongly agreed that tax education has helped them to understand tax education.

4.2.2 Effective tax education reduces tax penalty

Respondents were asked if Effective tax education has reduced tax penalty and the results were as follows;

Table 6: Shows whether Effective tax education has reduced tax penalty.

	Frequency	Valid Percent	Cumulative Percent
Valid strongly disagree	1	2.0	2.0
disagree	8	16.0	18.0
neutral	10	20.0	38.0
agree	17	34.0	72.0
strongly agree	14	28.0	100.0
Total	50	100.0	

Source: Primary data

From table 6 above, most of the respondents said that they have been helped by tax education to avoid tax penalties. This was agreed to by 62% respondents who agreed as compared to 20% who were neutral and 18% who disagreed.

4.2.3 Tax authorities give special attention to SMEs

Respondents were asked if Tax authorities give special attention to SMEs and the findings are indicated below.

Table 7: Showing whether Tax authorities give special attention to SMEs

	Frequency	Valid Percent	Cumulative Percent
Valid strongly disagree	13	26.0	26.0
disagree	15	30.0	56.0
neutral	8	16.0	72.0
agree	10	20.0	92.0
strongly agree	4	8.0	100.0
Total	50	100.0	

Source: Primary data

From table 7, above, 8% strongly agreed that tax authorities give special attention to SMEs, 20% agreed that tax authorities give special attention to SMEs, 16% kept a neutral position and 30% disagreed that tax authorities give special attention to SMEs finally 26% strongly disagreed that tax authorities give special attention to SMEs since the Only time they come is to close shops of the defaulters. This means that most of the SMEs in Kayabwe Town Council don't agree to the fact that tax authorities given special attention.

4.2.4 Awareness of Tax payer obligations.

Respondents were asked if they are aware of their obligations and the results were as follows.

Table 8: Awareness of Tax payer obligations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	5	9.6	10.0	10.0
neutral	8	15.4	16.0	26.0
agree	17	32.7	34.0	60.0
strongly agree	20	38.5	40.0	100.0
Total	50	96.2	100.0	

Source: Primary data

According to table 8, of all the SMEs sampled, 10% disagreed that they were aware of their tax obligations, 16% maintained a neutral position, 34% agreed that they knew their tax obligations, 40% strongly agreed that they knew their tax obligations. This means that most of the SMEs in Kayabwe Town Council know their tax obligations.

4.3 Tax administration on tax compliance of SMEs.

Respondents were asked if the tax administration is effective on ensuring high compliance by tax payers, Tax authorities are aware of the market conditions of your business. Tax incentive help businesses to recover capital expenditures, Tax compliance and administration is uniformly geared efficiency, Low tax affects education and administration compliance

4.3.1 Tax authorities are aware of the market conditions of your business

Respondents were asked if Tax authorities are aware of the market conditions of. The table below illustrates the results.

Table 9: Showing Tax authority awareness of the market conditions of tax payers businesses.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
	strongly disagree			12
	disagree			20
	neutral			10
	agree			8
	Total			50

Source: Primary data

From table 9, above, 24% strongly disagreed that Tax authorities are aware of the market conditions of the SMEs, 40% disagreed that Tax authorities are aware of the market conditions of the SMEs, 20% kept a neutral position and 16% agreed that Tax authorities are aware of the market conditions of the SMEs. This means that most of the SMEs in Kayabwe Town Council don't agree to the fact that Tax authorities are aware of the market conditions of the SMEs.

4.3.2 Tax administration is effective on ensuring high tax compliance by tax payers.

Respondents were asked if tax administration is effective on ensuring high compliance by tax payers and the results were as follows;

Table 10: Tax administration is effective on ensuring high tax compliance by tax payers.

	Frequency	Valid Percent	Cumulative Percent
Valid	strongly disagree		5
	disagree		7
	neutral		11
	agree		20
	strongly agree		7
	Total		50

Source: Primary data

From table 10, above, 10% strongly disagreed that Tax administration is effective on ensuring high compliance by tax payers of the SMEs, 14% disagreed that Tax administration is effective on ensuring high compliance by tax payers of the SMEs, 22% kept a neutral position and 40% agreed that Tax administration is effective on ensuring high compliance by tax payers of the SMEs finally 14% strongly agreed that Tax administration is effective on ensuring high compliance by tax payers of the SMEs This means that most of the SMEs in

Kayabwe Town Council agree to the fact that Tax administration is effective on ensuring high tax compliance by tax payers of the SMEs

4.3.3 Businesses have ever been assessed for tax purposes.

Respondents were asked if they have ever been assessed for tax purposes, the table below illustrates their responses.

Table 11: Showing if the businesses have ever been assessed for tax purposes.

	Frequency	Valid Percent	Cumulative Percent
Valid disagree	3	6.0	6.0
neutral	7	14.0	20.0
agree	22	44.0	64.0
strongly agree	18	36.0	100.0
Total	50	100.0	

Source: Primary data

Table 11 shows that 36% of the business entrepreneurs strongly agreed that their businesses have ever been assessed for tax purposes, 44% agreed, 14% indicated that they were not

certain, 6% disagreed. In all, majority 55.0% agreed that their businesses had been assessed for purposes of paying taxes. This implies that Kayabwe Town Council carries out assessments of the SMEs before the tax they are meant to pay is levied.

4.3.4 Low tax affects education and tax compliance.

Respondents were asked whether Low tax affects education and tax compliance, the table below illustrate their responses.

Table 12: Showing if the Low tax affects education and voluntary tax compliance.

	Frequency	Valid Percent	Cumulative Percent
Valid disagree	4	8.0	8.0
neutral	2	4.0	12.0
agree	20	40.0	52.0
strongly agree	24	48.0	100.0
Total	50	100.0	

Source: Primary data

Table 12 shows that 48% of the business entrepreneurs strongly agreed that Low tax affects education and voluntary tax compliance, 40% agreed that Low tax affects education and

voluntary tax compliance, 4% indicated that they were not certain, 8% disagreed. In all, majority agreed that Low tax affects education and voluntary tax compliance.

4.4 E-tax on tax compliance of SMEs

Respondents were asked if E-tax has promoted voluntary tax compliance levels of SMEs, Use of tax amnesties such as reducing discretionary powers of tax officers, setting up supervisory systems can prove useful by enhancing administration and compliance.

4.4.1 E- tax promotes voluntary compliance

Table 13: Showing if E- tax promotes voluntary compliance.

	Frequency	Valid Percent	Cumulative Percent
Valid strongly disagree	1	2.0	2.0
disagree	12	24.0	26.0
neutral	15	30.0	56.0
agree	15	30.0	86.0
strongly agree	7	14.0	100.0
Total	50	100.0	

Source: Primary data

From table 13 above, 2% strongly agreed, 24% agreed, 30% were not sure, 30% agreed, 14% strongly agreed to the fact that e-tax promotes voluntary compliance and that it has on a bigger scale made work easy as regards remitting taxes in time.

4.4.2 Use of tax amnesties can prove useful by enhancing administration and compliance

Table 14: Use of tax amnesties can prove useful by enhancing administration and compliance.

		Frequency	Valid Percent	Cumulative Percent
Valid	disagree	8	16.0	16.0
	neutral	10	20.0	36.0
	agree	15	30.0	66.0
	strongly disagree	17	34.0	100.0
	Total	50	100.0	

Source: Primary data

From the above table, 16% disagreed to the fact that Use of tax amnesties can prove useful by enhancing administration and compliance 20% were not sure as to whether Use of tax amnesties can prove useful by enhancing administration and compliance, 30% agreed that the Use of tax amnesties can prove useful by enhancing administration and compliance, 34% strongly agreed that the Use of tax amnesties can prove useful by enhancing administration and compliance. From interviews held, measures such as minimizing contacts between tax payers and tax collectors has led to an increase in voluntary tax compliance since its now upon an individual to collect the given taxes.

4.4.3 E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification.

Table 15: showing if E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification.

		Frequency	Valid Percent	Cumulative Percent
Valid	strongly disagree	12	24.0	24.0
	disagree	10	20.0	44.0
	neutral	15	30.0	74.0
	agree	9	18.0	92.0
	strongly agree	4	8.0	100.0
	Total	50	100.0	

Source: Primary data

From table 15 above, 24% strongly disagreed that E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification. 20% disagreed that E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification. 30% were not sure if E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification. 18% of the respondents agreed that E-tax exposes the laws and regulations and enables identification of areas of the law that need

clarification. 8% strongly agreed that E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification. This came about the fact that most people use banks while paying their dues and a few that use the remitting offices are able to know the laws and regulations.

4.4.4 Tax collection and administration has been improved by E-tax systems

Table 16: Tax collection and administration has been improved by E-tax systems

	Frequency	Valid Percent	Cumulative Percent
Valid strongly disagree	5	10.0	10.0
disagree	7	14.0	24.0
neutral	11	22.0	46.0
agree	20	40.0	86.0
strongly agree	7	14.0	100.0
Total	50	100.0	

Source: Primary data

From table 16 above, 10% of the respondents strongly disagreed that Tax collection and administration has been improved by E-tax systems, 14% of the respondents disagreed that Tax collection and administration has been improved by E-tax systems, 22% of the respondents were not sure if Tax collection and administration has been improved by E-tax systems, 40% of the respondents agreed that Tax collection and administration has been

improved by E-tax systems 14% of the respondents strongly agreed that Tax collection and administration has been improved by E-tax systems.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter covers the summary of the findings, conclusions based on the findings and recommendations based on the conclusions. To evaluate the effectiveness of taxation

education on tax compliance of SMEs in Kayabwe Town Council, to examine the level of Tax administration on tax compliance of SMEs in Kayabwe Town Council and to establish the effectiveness of E-tax on tax compliance of SMEs in Kayabwe Town council.

5.1 Summary of Findings

5.1.1 To evaluate the effectiveness of taxation education on tax compliance of SMEs in Kayabwe Town Council.

From the review of the study, tax education helps tax payers to understand tax laws.

The findings of the study showed that tax payers are given less attention by the tax authorities and thus do believe that more tax education was enable them understand more tax laws. The findings further more revealed that tax education reduces on the tax penalties since most people are ignorant about the tax reforms that have been put in place to either help them remit less tax or pay more tax depending on the nature of their business. The findings also revealed that the tax authorities give less attention to the tax payers, one on one interviews also indicated that many tax payers got to learn about e-tax systems through their business partners and thus has since enabled them remit most of their taxes in time.

Given the fact that Kayabwe Town council is comprised mostly of SMEs, most of the tax payers are aware of their tax obligations and usually remit them in time to avoid inconveniences during working hours by the tax authorities.

5.1.2 To examine the level of Tax administration on tax compliance of SMEs in KayabweTown Council.

The researcher found out that selected SMEs in Kayabwe Town Council disagreed on the fact that tax administrators are aware of their market conditions, since large volumes of sales help generate more revenues as excises increase, despite tax-induced reduction in sales. Thus by the mere fact the tax administrators give tax payers less attention they are not aware of the market conditions.

From the findings, Tax administrators are keen on collecting taxes since these taxes are remitted and help in the improvement of social welfare. Thus from the findings still, many businesses have been assessed for tax purposes thus due to the active tax administration that plays a critical role in the tax collection. From the research findings too, interviews and questionnaires indicate that Low tax also affects the voluntary tax compliance given the different market conditions in the area. Due to the different taxes levied on SMEs, many tax payers remit wrong figures at times due to the market conditions.

5.1.3 To establish the effectiveness of E-tax on tax compliance of SMEs in Kayabwe Town council.

From the findings, the study focused on establishing the effectiveness of E-tax on voluntary tax compliance. The following is the summary of the major findings; since there methods that have been put in place and tax payers easily reach access them, E-tax has promoted voluntary tax compliance and thus while interviewing some of the respondents, many of them clear their bills on mobile money systems.

The findings of the study showed that the use of amnesties enhancing measures such as minimizing contacts between tax payers and tax collectors and reducing the powers of tax officers. Most respondents also disagreed that E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification. This came about the fact that most people use banks while paying their dues and a few that use the remitting offices are able to know the laws and regulations. Most of the respondents agreed that Tax collection and administration has been improved by E-tax systems

5.2 CONCLUSION

Based on the findings above, it can be concluded that when it comes to taxation of SMEs, high tax rates are the primary problem of entrepreneurs. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. Hence, SMEs are deprived of the benefits that arise if the government had enough tax revenue to embark on some development projects provision of amenities such as electricity and good roads which are tools that create an enabling environment for SMEs to thrive.

5.3 RECOMMENDATIONS

Recommendations

Based on the finding of the study, it is recommended that Uganda Revenue Authority has to work on educating the young generation about the tax systems and the benefit it has to the society as a whole as the study shows older people comply more to the tax more than the younger one. It has to work also making the whole tax system as fair as possible with regard to the benefits received it. The other area that Uganda Revenue Authority should work is to expand and make more regular and consistent auditing still putting in mind the cost

associated with it, work on bringing a good reputation in providing public service and making the tax system simple in general and the law, the forms, the filling, the paying and appeal system in particular in order to increase the tax compliance

Small and Medium Enterprises should be levied lower amounts of taxes so that they was have enough funds for other activities that was lead to business growth. Furthermore it was help SMEs get better equipped to survive in a competitive market.

The tax body should also sensitize the people about tax laws and regulations could increase their voluntary compliance and extending the period of income tax return could improve on the profitability of small-scale enterprises without necessarily adjusting the income tax rate

The government should consider increasing tax incentives and exemptions as this was not only attract investors who are potential tax payers, it was also encourage voluntary compliance

The URA should reach out and educate the business community about its different tax rates and mode of payment. The study revealed that the biggest problem with the tax paid is in fact that the SSBs community does not understand how the tax is arrived at as well as how it is paid but not because it is too high.

REFERENCES:

Ahmed, E., and Braithwaite, V. (2005). Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and work practices. *International Small Business Journal*; 23, 539-568.

Alm, J. and Torgler, B. (2006). Culture Differences and Tax Morale in United States and Europe. *Journal of Economic Psychology*, 27, 224-246.

Ameh, O. J. and Odusami, K.T. (2011). Professionals Ambivalence towards Ethics in the Nigerian construction industry. *Journal of professional Issues in Engineering Education and practice*, Volume 136, No.1 January.

Atawodi, O. W. & Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in north central Nigeria.. *International journal of business and management*, 7(12).

Ayoki, M. (2008). Tax Administration in Poor Countries: Country Report Uganda; IPRA Working paper, 20.

Babbie, E. (2007). *The practice of social research* (11th Ed). Belmont, USA: Thomson high Education.

Baker., T. L. (1999). *Doing social research*. New York: McGraw-Hill companies.

Banage, S. (2012). Uganda Revenue Authority Taxman.

Batley, R. (2013). *The Politics of service Delivery reform*. 2nd ed. London: Blackwell Publishing.

Baumol, W. J. and Blinder, A. S. (2011). *Macroeconomics: Principles and Policy*. 11th ed. London: Cengage Learning.

Baxter, P. and Jack, S. (2008). Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers. *The Qualitative Reports*, 13 (4), pp. 544-559

Berg, B. L. (2001). *Qualitative Research Methods for the Social Sciences*. 4th ed. London: Pearson Education Company.

Besley, T., and McLaren, J. (2014). Taxes and bribery: The role of wage incentives. *The economic journal* 103 (416): 119-41.

Blumberg, B. and Cooper, D. R., Schindler, P. S. (2008). *Business Research Methods* (2nd ed.). London: McGraw-Hill.

Braithwaite, V and Ahmed, E. (2005). A threat to tax morale: the case of Australian higher education policy. *Journal of Economic Psychology*, pp.523–540.

Bryman, A., (2012). *Social Research Methods*. 4th ed. Oxford: Oxford University Press

Colander, D.C. and Gamber, C.J. (2012). *Macro economics*. 3rded. New York: McGraw-Hill Companies.

Cooper, D.R. and Schindler, P.S. (2006). *Business Research Methods*. 9th Edition. New York: The McGraw-Hill Companies, Inc.

Creswell, J.W. (2014). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*. London: Sage Publications.

Gerxhari, K. (2012). Tax evasion and the source of income: 2nded. An experimental study in Albania and Netherlands.

Glenn, P.J. and Rup, K. (2000). Modernisation of tax administration in Low income Countries. The case of Nepal.

Gordon, H. R. (2010). Taxation and Corporate Use of Debt: Implication for Tax Policy”. National Tax Journal 63, no. 1, 1st March, 151-174. Available from: https://auth.athensams.net/?ath_returnl=http%3A%2F%2Fpqathens.umi.com%2Fcgibin%2FALL_callback.cgi%3FCERT%3DcHFyZXR1cmw9aHR0cDovL3Byb3F1ZXN0LnVtaS5jb20vcHFkd2ViLz9SUVQ9NTA0&ath_dspid=PROQUEST.

Hasse-biber, S.N. (2010). Mixed Methods Research: Merging Theory and Practice. The Guilford Press, London, UK.

Hatega, G. (2007). SME development in Uganda, www.uiri.org/uir.org/e773/e813/SMEDevelopment.pdf

James, S., Barbour, P., and Stern, R. (2007). SME Taxation: SMEs – specific problems and opportunities, on-going reforms and challenges; IFC Private Sector Development, FIAS Cairo, Egypt June 20th, 2007

Kangave, J. (2011). Tax administration in Kampala. Journal of African law, 49(02), pp.145-176.

Kassipillai, J. (2009). A Comprehensive guide to Malaysian taxation-under self assessment, 4th, Kuala Lumpur. Mc Graw-Hill.

Kayaga, L. (2007). Tax policy challenges facing developing countries: A case study of Uganda, A thesis for the Master of Laws Queen's University, Kingston, Ontario, Canada.

King, N. and Horrocks, C. (2010). Interviews in Qualitative Research. London: Sage Publication Ltd.

Kiwanuka, C. K. (2004). Tax Compliance, Taxpayer Service & Customer Care: A Case of Uganda Revenue Authority (1991-2004). URA Presentation to the First Management Meeting, Abuja, Nigeria (Monday 30th August 2004)

Laffer, A. (2013). Taxes, Depression, and Our Current Troubles. Wall Street Journal, 22nd Sept. Eastern Edition. <http://www.proquest.com/>.

Lamb, M. et al. (2005). Taxation: an Interdisciplinary Approach to Research, New York, Oxford publication.

Leigh, N.G. and Blakely, E.J. (2013). Planning Local Economic Development: Theory and Practice. California. Sage Publications.

Lin, M. T. and Carrol, C. (2000). The impact of tax knowledge on the perception of tax fairness and attitudes towards compliance. Asian Review of accounting, 8(1), 44-58.

Lymer, A. and Oats, L. (2010). Taxation Policy and Practice, 16th ed. Birmingham. Fiscal Publication

Miller, A. & Oats, L. (2006). Principles of International Taxation 3 rd Ed, Tottel Publishing, London.

Mookherjee, D. and PNG. I.P.L. (2015). Corruptible tax administrators. How should they be compensated? *Economic journal* 105 (January).

Mugambe, K. (2007). *Tax Policy and Administration: Case of Uganda*

Nakiwala, A. (2010). *Tax competencies, compliance costs and income tax compliance among SMEs in Uganda; Masters Dissertation*

OECD FTA, *Compliance risk Management: Managing and improving tax compliance*, Paris: OWCD, 2004

Ogbonna, A. (2010). "Nigeria Tax System has not Come of Age – Kunle Quadri, CITN President. *Daily Sun*, Friday August, 13. Available from: <http://www.sunnewsonline.com/webpages/features/ceomagazine/index.htm>.

Okello, K. (2015). *Principles of Taxation*. 2nd ed. Kampala.

Onyeukwu, H. (2010). "Business Tax in Nigeria: The Controversy of Multiple Taxation" *Corporate Governance*. Available from: http://works.bepress.com/cgi/viewcontent.cgi?article=1008&context=humphrey_onyeukwu.

Oso, W. K. and Onen, D. (2009). *Writing Research Proposal and Report*. Nairobi: The Jomo Kenyatta Foundation.

Osunkoya, D. (2009). "Nigeria Tax system needs autonomy". *Next*, 19th Dec. Available from: <http://234next.com/csp/cms/sites/Next/Money/Finance/5499086-147/story.csp>.

Accessed 20/04/10.

Popoola, N. (2013). "A Good Tax System'll Enhance Economic Development". Punch, 31st Jan. Available from: <http://www.punchng.com/Articl.aspx?theartic=Art20090131654450>.

Public Finance General Directorate. (2009). The French Tax System. Available from: http://www.impots.gouv.fr/portal/deploiement/p1/fichedescriptive_1006/fichedescriptive_1006.pdf. Accessed 20/03/10

Republic of Uganda. (1997). Income Tax Act Cap 340

Saunders, M.N., Lewis,P. and Thornhill, A. (2012). Research Methods for Business Students. London: Pearson.

Snavely, K. (2011). Innovation in state Tax Administration. Public Administration Review PP. 903-910 in Lubega, J., 2013.

Taxman, C.K. (2012). Regulation, Awareness, Compliance and SME Performance in Cameroon's Manufacturing and Retail Sectors.. International Journal of Social Economics, 39(12).

Waweru, H. (2013). Tax compliance costs of small and medium enterprises in Malasia: Policy Implications.

Yin, K.R. (2009). Case study research: Design and methods. 4th ed. London: Sage Publications.

APPENDICES

APPENDIX I

QUESTIONNAIRE

Dear respondent,

I am a third year student of Uganda Martyrs University pursuing a bachelor's degree in Business Administration and Management. As part of my academic requirement, I am carrying out research on a topic **“the effects of taxation on tax compliance of SMEs** “You have therefore been identified as a resourceful person in providing the required information. The purpose of this research is purely academic and the information you give was be confidential.

SECTION A: BACKGROUND INFORMATION

1. Gender:

- a) Male b) Female

2. Level of academic qualification

- a) None b) Certificate
c) Diploma d) Degree

3. In which age group do you lie?

- Between 20-30years Between 30-40 Between 40-50
Above 50 years

4. What is your marital status?

- a)Married
b) Single
c) Separated
d) Widowed

In the section below, you are required to tick your opinion on the following statements about Conscientiousness, Openness to experience and Agreeableness on a scale of 1 for strongly disagree , 2 for disagree 3 for neutral 4 for agree and 5 for strongly agree.

Section B: Tax education on tax compliance levels of SMEs

Statement	1	2	3	4	5	
Is Tax payer education a tool designed to enable tax payers understand tax laws and procedures?						
Effective tax compliance reduces tax penalty						
Is the tax payer aware of his obligations?						
Tax authorities give special attention to SMEs						
Taxpayers are equipped with skills and knowledge on tax by tax authorities.						

Section C: Tax administration on tax compliance of SMEs

Statement	1	2	3	4	5	
Tax administration is effective on ensuring high compliance by tax payers						
Tax authorities are aware of the market conditions of your business						
Tax Administration provides incentives for investment						
Businesses have ever been assessed for tax purposes						
Low tax affects education and administration compliance						

Section D: E-tax on tax compliance of SMEs

Statement	1	2	3	4	5	

E- tax promotes voluntary compliance	
Low tax effects education and voluntary tax compliance	
E-tax exposes the laws and regulations and enables identification of areas of the law that need clarification.	
Tax collection and administration has been improved by E-tax systems.	

Thank you for your co-operation

APPENDIX II

INTRODUCTORY LETTER