

**THE EFFECT OF TAX EDUCATION ON TAX COMPLIANCE OF SMALL AND
MEDIUM ENTERPRISES
CASE STUDY IN RUBAGA DIVISION**

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DEDICATION

This is dedicated to my beloved parents Mr.Lwanja Alex and Mrs.Lwanja Jennifer and my siblings like Bonitah, Barbarah, Esther, Lillan, Patience, Gloria, Ambrose and Jovia.

Thank you for mentoring me and being there for me throughout my education and I am very proud of you my dear family.

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LIST OF ABBREVIATIONS

URA	Uganda Revenue Authority
OECD	Organization for Economical
SAS	Self- Assessment System
SMES	Small and Medium Enterprises
IRS	Internal Revenue Service
ATO	Austria Tax Office
TCC	Tax Credit Certificate
DTSR	Domestic Tax Statistical Report
ITA	Income Tax Act
SPSS	Statistical Package for Social Scientists
TIN	Tax Identification Number
VAT	Value Added Tax

ABSTRACT

The study was about the effect of Tax Education on Tax Compliance of small and medium enterprises, case study was small and medium enterprises in Rubaga division, Mengo. The general objective was to analyze the relationship between tax education on tax compliance of SMEs. The specific objectives were; to determine the effect of tax awareness on tax compliance of SMEs, to establish how tax assessment system affects tax compliance of SMEs and to find out how tax complexity impacts on tax compliance of SMEs.

The research employed a cross sectional research design which was descriptive in nature basing on different scholars literature. Data collected was mainly from the field using questionnaires and interview guide. Data was summarized, coded, edited and also analyzed using SPSS 16.0.

Findings revealed that tax awareness, tax assessment system has a positive relationship with tax compliance. Most respondents agreed that sensitization of tax payers encourages them to comply and pay taxes. The study showed that there was a positive relationship between tax assessment and tax compliance. Most respondents agreed that SAS enabled them to comply and pay taxes. The study also revealed that there is a relationship between tax complexity and tax compliance. The respondents agreed the more complex the tax laws, the more people failed to comply. The findings revealed that there is a positive and significant relationship between tax education and tax compliance. This is evidenced by a correlation analysis of ($r=0.989$, $p<0.01$) which showed a strong and positive relationship.

Recommendations on tax education were that the local tax revenue authority should adopt a more pro-active approach rather than reactive approach in trying to sensitize the taxpayers. This would go along in minimizing administrative and compliance costs since voluntary compliance will be enhanced through this sensitization programs, improvements should be made in the assessment of taxpayers, transparency, fairness and well stipulated guidelines should be followed by staff of URA, sensitization of taxpayers regarding the importance of paying taxes, quality and timely information should be availed to taxpayers and also encourage feedback from the taxpayers. Therefore there is need for the tax authority to improve on the tax education methods and policies of sensitizing taxpayers to strengthen compliance.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

This chapter covers the background of the study, statement of the problem, the variables, purpose of the study, research objectives, research questions and the scope of the study, significance of the study and limitations to the study.

1.1 BACKGROUND TO THE STUDY

Tax education is a component of tax administration system that ensures whether tax laws are effectively enforced and taxpayer are aware of them (Bahuneka, 2001).

Tax education refers to the sensitization of the tax payers about the tax system and all the penalties thereof (Bhatia, 2007). Torgler (2007) pointed out that there are three types of education; fiscal knowledge, the degree of knowledge involving evasion or avoidance, opportunities, and knowledge of the necessity of tax collection.

Tumuhimbise (2000) asserts that the basis of efficient tax sensitization lies in the choice of appropriate technology, good administrative procedures, and good methods of conducting audits, enforcement, and increasing compliance by way of higher penalties imposed on the tax defaulters.

The level of education received by taxpayers is an important factor that contributes to the understanding of tax requirements, especially regarding registration and filing requirements.

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 and also minimizing complexity.

Kimingu and Kileva (2007) reported that, the education component is expected to deal with non-compliance practice among the Small and Medium Enterprises (SMEs). Therefore it is expected that tax education will enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude (Normala, 2007; Roak and Stephen, 1994).

Schulz and white (1989) defines tax compliance as a situation where the taxpayer complies with the gender, age, education levels and existence. Schmulder (2006) contends that tax compliance is only possible through a process of education extending over several generations.

Schulz and Witte (1989), contends that tax compliance as a situation where the taxpayer complies with the fiscal setup by registering with the revenue authority, filling 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 is the value of taxpayers' own timed resources, along with any out of pocket costs paid to tax preparers and other advisors, invested to ensure compliance with the laws (Holtzman, 2007). Compliance with the tax laws typically means true reporting of the tax base, correct computation of the liability, timely filing of the return and timely payment of the amounts due Stiglitz, J.E (1985). Tax compliance is the provision of tax information, at the proper time and ensuring that returns accurately report the tax liability¹ (Carroll, 2007).

Tax non- compliance is an area of concern for all government and tax authorities and it will continue to be an important issue that must be addressed as stated by (Andreoni, et al 1998), "the problem of tax compliance is as old as taxes itself. Kasipillai (1997) noted that deliberate non -

compliance is a perennial problem in many countries. It is a substantive problem that transcends cultural and political boundaries (Hasseldine and li, 1999).

Alm and Sanchez (1995), explains compliance as a concern of governments around the world. For instance in United States of America, non-compliance is estimated to cost the federal government over 300 billion dollars annually.

Therefore, regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers with the regulations of the tax system. Compliance is a constant challenge for all companies in terms of accurate computation and timely payment of tax.

Non-compliance with tax laws may take a variety of forms. for example non-compliance occurs when individuals and firms under-report their income sales or over-claim deductions, exemptions or credits resulting in tax evasion or fail to file appropriate tax returns or to make tax payments in accordance with the tax laws. In short, government should pursue a range of approaches in its efforts to promote compliance, Alm et al, (1992).

Tax compliance can be achieved when tax educators use the most appropriate information and method in order for the tax payers to get informed about the entire responsibility to pay taxes, its benefits and even the penalties thereof in order to avoid or reduce revenue loss (Byaruhanga, R. 2007). If tax payers are frequently sensitized then the chance of non-compliance would reduce (Andreoni, et al 1998) include a time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap definition. A popular indication of the magnitude of evasion is the tax gap the difference between the federal income taxes households actually owe and what they report and pay voluntarily on a timely basis.

In Kenya and Tanzania, a comparative analysis was carried out that demonstrates that political factors largely the variations in tax compliance. This is to the extent that popular pressure in transitional democracies compliance (Whitaker, 2010).

URA Report (1998) notes that, the organization (URA) established a large taxpayer unit within the tax administration to monitor the activities of tax payers that pay a significant share of total taxes to ensure compliance among the largest taxpayers.

URA as a tax administration body has in the past year carried out several sensitization campaigns to ensure tax compliance. It is currently using various sensitization campaigns such as tax payers day, radio talk shows tax simplified tax literature, cartoon magazine, improved customer care, posters on tax issues among others to improve on the same in order to achieve its objective in maximizing revenue.

Despite the tax regulations put in place by the URA, it has also come up to find out that there is need for thorough sensitization of tax payers in small and medium enterprises. In this, Uganda revenue authority has continued with the sensitization process. This is done through different ways such as the media, internet among others. It is also planning to put in place several tax instruments such a tax clinics, web portals, booklets of frequently asked questions, corporate mails among others in order to sensitize taxpayers and ensure tax compliance. This will act as a way of informing the taxpayers about the registration, filing, assessment, collection, and laws governing taxation. Uganda revenue authority is doing all this to ensure it works out best.

Small and medium business owners are responsible for collecting as well as remitting taxes Christensen et al (2001). Therefore they are important players in a country's tax system. Though, the evidence is not unequivocal (Hanlon et al 2007). Sakumis et al (2007) small business owners not only pay their income tax but need to take account of various types of business taxes such as

corporate tax, property taxes, and payroll taxes; they need to collect sales taxes such as VAT; and they need to withhold taxes such as personal income taxes in the case of having at least one employee.

Most research suggests that small business owners are more likely to cheat than other groups of tax payers (Joulfaian and Rider, 1998; Kirchler et al, 2006; Schuetze, 2002). Even the (OECD, 2004) considers small business owners a high risk group in terms of tax compliance. However according to Terkper, (2003) many small and medium 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. Hence in the small business context, opportunities for evasion are high and resources are often scarce for field auditing. Even when high investments are made in auditing, uncovering 'hidden cash' is not going to be an easy task without an adequate audit trail (Ahmed & Braithwaite 2005).

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; Kangave, 2005; Bird, 2004). Many of such governments have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2007), which have still failed to yield. Uganda's income tax compliance was very low at 38% by the end of 2005 (Ayoki, 2007), yet the tax regime is oriented more towards consumption taxes rather than income taxes as income taxes account for only 27% of net revenue collections (URA, 2006/07).

This in many cases makes it impossible to prove non-compliance. Although, Uganda Revenue Authority has initiated several programmes aimed at educating the small and medium enterprises in tax. Their tax compliance still remains wanting in Kampala district.

Generally this research seeks to explain the relationship between taxpayer education and compliance in small and medium enterprises.

1.2 PROBLEM STATEMENT

The value of education on improving the tax compliance attitude is perceptible as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Research observes that, educating taxpayers about tax systems has a direct impact on reducing the propensity to evade (OECD, 2004), thus improving compliance.

However, in many developing countries, Uganda inclusive, overall tax levels are low, and large sectors of the informal economy escape the tax net entirely (Brautigam ,2008). The tax gap is a visible sign of non-compliance in Uganda, there has been a problem of short falls, and the collected revenues being lower than the targeted revenues (New Vision, June 12th, November 2nd, 2009 and March 16th, June 4th, 2010) for instance in march 2010, the revenue collected was 310 billion yet the targeted value was 339.3 billion hence forming a shortfall of 29.3 billion. Overall net revenue collections for the financial year 2012/2013 were at 7.1 trillion Uganda shillings from a target of 7.28 trillion Ugandan shillings forming a shortfall of 0.18 trillion (URA, 2013).Irrespective of the tax reforms to include small and medium enterprises in Uganda's tax system, the non-compliance rate among the SMEs has remained high (Sserwanga, 2003).

The government of Uganda through URA has tried to ensure effective tax compliance however the success of this system depends on the level of tax compliance by tax payers. It is therefore important for a tax body to put in place measures to improve tax compliance levels.

However, despite the several sensitization campaigns by URA to improve tax compliance levels through tax education such as advertisements through the radio, television sets, internet, among others, the compliance levels still remains low in SMEs. This has resulted in low revenue collection and high costs of tax administration.

Therefore there is need for this research to be carried out, because if neglected the tax base of Uganda as a country will drop. The study will attempt to explain the effect of tax education on tax compliance of SMEs.

It is for this reason that the researcher will seek to find out, the effect of tax education on tax compliance of small and medium enterprises in Rubaga division.

1.3 OBJECTIVES OF THE STUDY

1.3.1PURPOSE

To analyze the relationship between the taxpayer education and tax compliance in Small and Medium Enterprises in Rubaga division.

1.3.2 SPECIFIC OBJECTIVES

- To determine the effect of tax awareness on tax compliance in Small and Medium Enterprises.
- To establish how tax assessment system affects tax compliance of the Small and Medium Enterprises.
- To find out how tax complexity impacts on tax compliance in Small Medium Enterprises.

1.4 RESEARCH QUESTIONS

- What is the effect of tax awareness on tax compliance in Small and Medium Enterprises?
- What is the effect of tax assessment system on tax compliance in Small and Medium Enterprises?
- How does tax complexity impact on tax compliance in Small and Medium Enterprises?

1.5 SCOPE OF THE STUDY

1.5.1 Content scope

Tax education is being viewed in the following dimensions; tax awareness, tax assessment system and tax complexity whereas, tax compliance is being viewed in the following dimensions; attitude, perception, and perceived opportunity.

1.5.2 Geographical scope

The research is going to be carried out in Rubaga division specifically in Mengo.

1.5.3 Time scope

The research is going to be carried out in a time lag of three years from 2012 to 2015.

1.6 SIGNIFICANCE OF THE STUDY

The study is intended to help the researcher to acquire practical skills and deep understanding of tax education and tax compliance aspects.

The study will add knowledge and information on tax education and tax compliance and academicians will base on for further research.

The study may also help policy makers to formulate appropriate sensitization campaigns for small and medium enterprise in order to enhance tax compliance.

1.7 DEFINITION OF TERMS

Tax education is a component of tax administration system that ensures whether tax laws are effectively enforced and taxpayer are aware of them (Bahuneka, 20001).

Tax education refers to sensitization of tax payers about the tax system and all the penalties thereof (Bhatia.2007).

According to Wenzel (2002), tax education involves tax identification and registration of the taxpayers, assessment, collection, enforcement and monitoring and sensitization.

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni et al (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes.

A wider definition of tax compliance, defined in 1978 by Song and Yarbrough tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (IRS, 2009; ATO, 2009; IRB,)

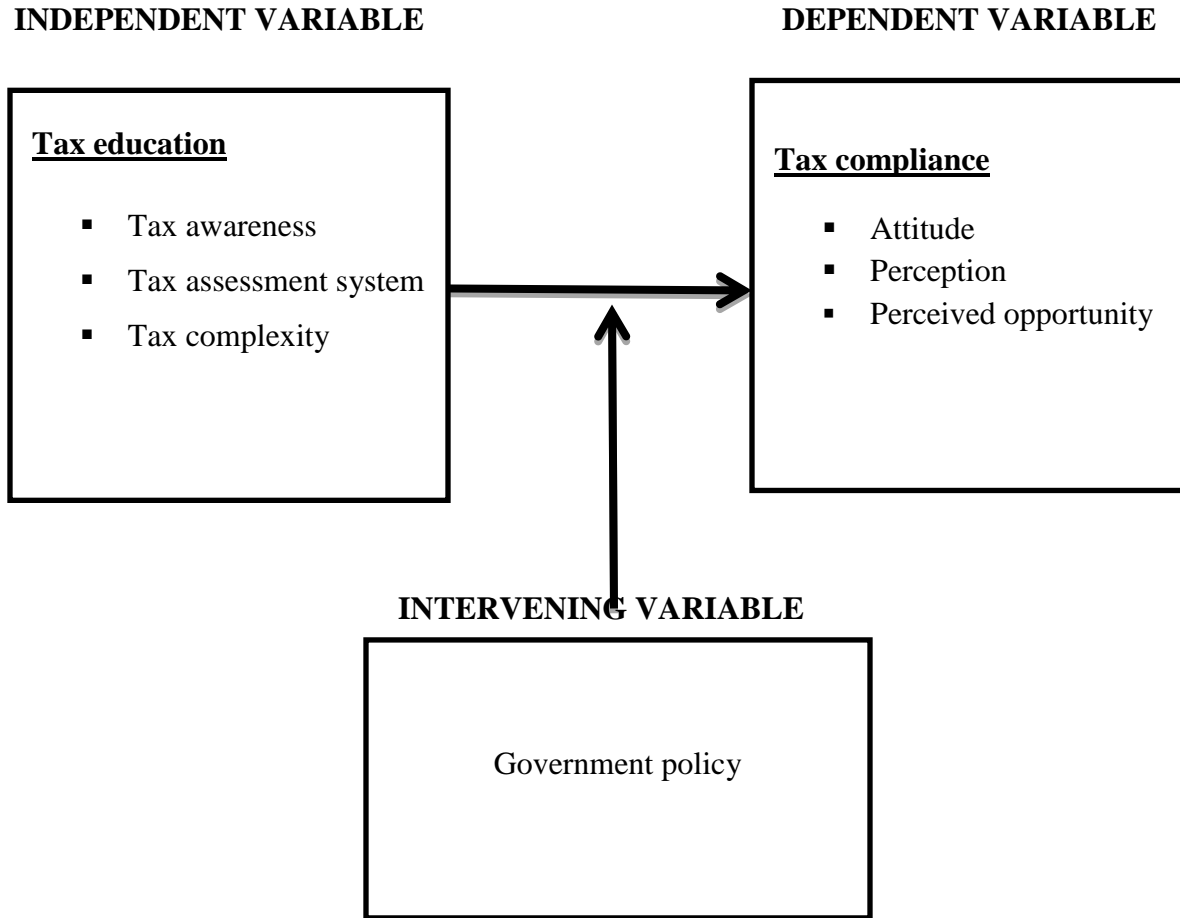
Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments.

Another definition of tax compliance is a person's act of filing their tax returns, 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).

Allingham and Sandmo (1972) described tax compliance as an issue of 'reporting an actual income' and also claimed that tax compliance behaviour was influenced by a situation whereby taxpayers have to make a decision under uncertainty tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time.

1.8 CONCEPTUAL FRAMEWORK

Figure 1: Showing the conceptual frame work.



SOURCE:

Lin and Carrol (2000), conducted a study to determine how enhanced tax knowledge and tax attitudes, affects the compliance behavior among the taxpayers in New Zealand.

Rasshid and Noor (2004) carried out research to evaluate the influence of tax knowledge on the tax compliance behavior among the taxpayers in Malaysia.

Normala (2007) also conducted a study to examine the influence of tax education, as a proactive approach to enhance the voluntary tax compliance, among the taxpayers, in Malaysia

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter covers the literature on tax education and tax compliance, how each specific objectives influence tax compliance as stated; to determine the effect of tax awareness on tax compliance in SMEs, to establish how tax assessment system affects tax compliance of the SMEs, to find out how tax complexity impacts on tax compliance in SMEs and the relationship between tax education on tax compliance of SMEs.

Concept of Taxation

According to Tumuhimise (2000), taxation refers to a compulsory and non-refundable contribution enacted by government for public purposes. Taxation encompasses the process through which government implements the tax regulations and laws in order to benefit from its application. Taxation is not only an instrument of raising revenue for government, but also a tool for administering social justice (Jhingan, 2006). This payment is not followed by concurrent benefit in return the charge or levy is instituted by law. A tax on the other hands is defined as a compulsory levy imposed by government up on assessment of various categories. This definition means that a tax is paid by the assess, without a corresponding return in form of goods and services on government hence it is referred to as a non-*quid-pro-quo* payment (Balunywa, 1998). Justine (1999) defined tax as a price of civilization and this is the most appropriate definition considered by Uganda revenue authority (URA).

Economics also stated that “a tax is leakage from the circular flow of income in to the public sector with the exception of loan transactions and direct payment of publicly produced goods and services”. Saleemi (1996) contends that a tax is a compulsory contribution which is levied on

persons to meet the expenses which are incurred for a common cause. Khalizadh (1999) agrees with Saleemi he adds that a tax is considered to be a compulsory contribution imposed on individuals or persons to meet the expenses incurred by the state to help pay its operations.

However, Kanyunyuzi (2001) believes that the definition of a tax is just like other definitions within the academic world.

This draws us to a general conclusion that taxes are non-quid-pro-quo compulsory levy imposed on assesses and on which the tax payer does not expect a direct return.

2.1 TAX EDUCATION

Tax education refers to sensitization of tax payers about the tax system and all the penalties thereof (H.L.Bhatia.2007). According to Wenzel (2002), tax education involves tax identification and registration of the taxpayers, assessment, collection, enforcement and monitoring and sensitization. According to Braithwaite (2009) information about taxation should be well publicized.

Byaruhanga (2007) asserts that tax education involves giving taxpayers right information concerning their obligation to pay tax and the importance.

Tax education comprises of codification and drafting of the law, administrative procedures, capable officials and overall management (Kalibala, 2003). Tax education is a component of tax administration system that ensures whether the tax laws are effectively enforced and tax payers are aware of them (Bahenuka 2001).

According to Tumuhimbise (2000), tax education has increasingly been viewed as a tax policy, indeed in most countries the crucial importance of the effectiveness of tax education is too often

overlooked when ambitious statements are made about efficiency, equality, neutrality and effects of alternative taxes on savings, work effort, and risk taking.

Tax education involves a number of functions namely; planning, taxpayer's identification, staff training on sensitization, auditing, inspection, enforcement, investigation and accountability (Domestic Statistical Report, 2006). All these functions require facilitation in terms of equipment, technology, personnel and finance, which in turn affect the performance tax collection.

It is expected that tax education will enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude (Normala, 2007; Roak and Stephen, 1994).

ROLE OF TAX EDUCATION

Since the inception of the human community, the problem of financing community services was difficult. Some taxpayers did not value their contribution of resources to be equivalent to what they receive from the community. Their non-compliance eroded the compliance of others and the government would suffer in overall collections and planned community services.

Trough tax education, there is compliance which leads to improved national budget through maximization of revenue collection (Holtzman, 2007). Tax education is vital in that it influences taxpayers' compliance in fulfillment of their rights of paying taxes, hence increasing government revenue collection.

Newberry and Stern (1998), observed that the main focus of taxation policy in Uganda is revenue collection. He further noted that tax education is important part of the tax system. Its efficiency and effectiveness will help in solving the problem of non-compliance. The center for tax policy and administration (2001) described the role of tax education, which is to ensure compliance

with the tax laws. The effectiveness of the tax education depends on a variety of factors such as the methods used, public support for the priorities of the government and the willingness of the taxpayers to comply with the tax laws as sensitized.

Taylor (2001) and Wenzel (2001) noted that tax education should ensure that taxpayers do not perceive tax revenue to be used inappropriately and the burden to be shared unequally, because this will reduce the compliance levels and results into less revenue.

Promotion of voluntary tax compliance should be the primary concern for the tax administrators during sensitization programs. The ways the tax administrators interact with public impacts on the perception of the tax system and the degree of compliance.

2.1.1 AWARENESS

Singh (2003) contends that knowledge is one of the significant predictors of income tax compliance, influences taxpayers' ability to understand laws and regulations and comply appropriately. As a result this has triggered the move in developing countries like Uganda to emphasize the need to enhance awareness among small and medium taxpayers in order to encourage compliance (Boyatzis, 2008).

1. Radio and Television Talk Shows

In 2006, URA undertook a client satisfaction survey which indicated that radio programs were more effective in the tax sensitization drive. Consequently in 2007 URA launched the live interactive radio talk show program in the central region (Kampala, Entebbe and Mukono) with the highest number of potential and actual tax payers. A minimum of 4 talk show programs are conducted in each of the selected 23 upcountry town since 2009 (booklet on fulfilling the tax education mandate by URA 2010).

According to the amended Income Tax Act (ITA) 2001, Radio and television shows will be used to educate taxpayers in Uganda. Tax payer sensitization is one of the tasks performed by tax administrators, when tax administrators inform taxpayers about their obligation to pay taxes and the punishment thereof, the rate of compliances increases (Emurut E.S, 2008). In Uganda, sensitization of taxpayers is not so much emphasized by the concerned body. Hence, the sensitization methods are complex (Fred and Charles 2000).

Byaruhanga (2007) asserts that tax education involves giving taxpayers right information concerning their obligation to pay tax and the importance. However in Uganda tax sensitization is still low with the biggest potential taxpayers remaining unaware (Domestic Tax Statistical Reports, 2006). This affects taxpayer compliance in the sense that the uninformed taxpayers cannot comply hence leading to loss of revenue.

2. Holding of quarterly press conference

This involves educating taxpayers in order to orient their attitudes towards meeting their obligation of paying taxes. According to Hotzman (2007), the interactions of educational products and taxpayer assistance services are intended to increase awareness of who should pay what taxes and to increase voluntary compliance across the taxpaying population, however the effectiveness of these interactions are limited by the costs involved.

Byaruhanga (2007), taxpayer education is sometimes conducted through education sessions in seminars and quarterly press conferences. Hawkins (1999) asserts that enforcing the collection procedures requires creating awareness (education) and advising taxpayers about their obligations as partners in the tax administration system. However, the tax authority has not created enough public relations about its tax education.

3. Designing, airing and publishing advertorials

A good tax administration system must have a good way of designing, airing, and publishing advertorials to reach tax payers in order to get current information about rates and changes made to fulfill their obligation. Bird et al (1992) assert that tax compliance can be achieved when tax administrators advertorials in order to sensitize their taxpayers about relevant information and the penalties thereof. James et al (2006) noted that if taxpayers are frequently sensitized through this method, then the chance of evading taxes would reduce. The tax authority sometimes relies heavily on simple physical coercion to obtain resources from their subjects and to ensure compliance (Makanga, 2004).

Neil (2001) argues that taxes may be viewed as a coerced obligation but through such a sensitization method, it can be taken as moral duty that must be fulfilled beyond the compliance minimum

4. Production of a quarterly newsletter

This helps in the sensitization of various groups of tax payers and improves on tax compliance.

(URA Tax report on tax sensitization 2010)

5. Redesigning our website

A variety of updated information and laws are hosted on the websites for benefit of both the external and internal clients. Relevant information for tax payers can also be got or accessed through the internet to. This is done to meet the needs of tax payers and improve on compliance.

(URA Tax report on tax sensitization 2010)

6. Erecting bill boards nation-.wide

This is done all over as it can even be viewed at Kampala road and other several billboards all over. (URA Tax report on tax sensitization 2010)

MEASURES OF ENSURING TAX AWARENESS

1. Empower taxpayers and take holders through increased tax awareness creation of the tax information desk.

URA is responsible for producing simplified tax reading materials for the tax payers and the general public. It has published several materials both in English and vernacular languages targeting potential and actual tax payers to enhance their knowledge about various tax issues and to subsequently improve compliance levels amongst the taxpaying community (report on tax education mandate).

2. URA call centers

A toll free call center service aimed at providing free and prompt services to her clients. This service is available from 0800 am to 0500pm Monday to Friday via the toll free helpline 0800117000.the call center I currently manned by 05 staff with a plan to deploy more in future. The call center I a useful tax sensitization and feedback medium. The free service has also benefited taxpayers who are now able to access vital information relating to URA business process on telephone instead of physical visits to URA premises. This has ultimately impacted positively on compliance levels. (Report on tax education mandate)

3. Production of simplified tax information

These tasks address a wide selection of tax-related information and have been achieved in four ways;

4. Pamphlets

Various pamphlets on specific tax matters or law are published in a simplified and easy to understand format. A minimum of 20 different brochures are updated and about 9 new ones

produced within a year. Massive production is handled in house ensuring that information for the clients is readily available. (Report on tax education mandate)

5. Taxpayer cartoon magazines

AcuOcolo is published on a quarterly basis. It addresses a specific topic in detail and targets adult readers. It is an easy read publication for tax payers with cartoon illustrations to lighten the tax subject matter through cartoons and texts. Two other cartoon magazines namely Toto and Teeny target the young readers in primary and secondary schools were introduced and are published every year on a quarterly basis. (Report on tax education mandate)

6. Booklets of frequently asked questions (FAQs)

This is compiled on a regular basis. An analysis of the questions frequently received via the toll free helpline, public debates and tax clinics during a given period are incorporated into a booklet. This is utilized as a hand book for informing both the taxpayers and staff manning the taxpayer service desk. (Report on tax education mandate)

7. Posters on topical tax issues

This is a campaign to advertise specific tax matters or law for benefit of tax payers. Specific topical issues e.g. the tax payer's charter rights and obligations are also published and distributed to inform the public. (Report on tax education mandate)

8. Translation of tax information into vernacular languages

Tax information has been translated into nine major local languages. These are Lumasaba, Luganda, Luo, Runyankole, Ateso, Lugbara, Runyoro and Swahili for the benefit of sections of our tax payers not in a position to read the English language. This is done on a monthly basis. (report on tax education mandate)

9. Tax information availed via the web portal and corporate mail

A variety of updated tax information and laws are hosted on the URA web portal and intranet for the benefit of external and internal client respectively. The URA web portal access on <http://ura.go.ug>. Additionally, the web portal enhances the management of electronic business transactions. (Report on tax education mandate)

On the other hand, the corporate intranet serves to educate and update staff on new processes and information. Staff can also share experiences from various stations countrywide.

Simplified tax information I generate, published in electronic format and dispatched to various needs of the corporate mail addresses on a monthly basis. Request for specific information are received and responded to by the staff manning the call centers.

10. Increase taxpayer and stakeholders interaction

This has been done by URA campaign to pattern with the public through tax sensitization programs. URA embarked on the strategy to partner with taxpayers and selected stakeholders to educate tax payers and the general public about taxes. This has been through increased interactions both on radio talk shows and workshops in addition to physical courtesy visits to tax payer's premises. (Report on tax education mandate)

11. Tax clinics

These were launched by URA. The staff meets the members of the business community in their respective segments and trains them on topics of their choice to enhance compliance.

12. Tax payers' day

This is a designated day headed by URA management to educate taxpayers countrywide and to also get feedback from the taxpayer about URA services. (Report on tax education mandate)

13 Tax clinics

For business sectors, special interest groups and business associations. This business sectors include agriculture, forestry, fishing, manufacturing among others. Special groups here are also extensively involved and embraced in order to reach out to other key stakeholders with in the business community; another approach was devised targeting special interest groups. Examples here include;

-Diplomats

-Professional community like bankers

-Foreign trading community

-Opinion leaders. (Tax education package on the mandate of tax education Uganda revenue authority 2010)

14. Partnerships

URA has embarked on a number of partnerships with well-established bodies and key stakeholders i.e. Uganda investment authority, Uganda national chamber of commerce, Uganda small scale industrialists association, and Uganda investment authority in sensitizing their members and entrepreneurs. Those bodies in partnership with URA organize workshops for their members. URA is allocated sessions where their technical staffs deliberate on a number of pertinent topics about taxation. These gatherings are also used as venues for receiving taxpayers complaints and queries on various taxation issues. This interaction has enabled URA improve its policies on customer care and enhance compliance. (URA booklet on the mandate of tax education page 20).

2.1.2 TAX ASSESSMENT

Tax Education to the SMEs becomes necessary when the objective of raising tax revenue, at the changing environment; particularly from the official tax assessment is considered (Normala, 2007). While Dalton and Gangi (2007), those who perceive current taxes as relatively high tend to report relatively high fair tax assessments.

Experience shows that voluntary compliance is best achieved through a system of self-assessment. (Okello, 2014), there are two approaches to income tax assessment; (i) Administrative Assessment System and (ii) self-assessment system.

Administrative Assessment System.

(Okello, 2014), contends that the onus is on the tax administrator to examine tax returns and financial statements, calculate the amount of tax payable, and also notify the taxpayers of the tax liability.

Direct assessment is different from the self-assessment system because under direct assessment, it is a taxpayers' statutory duty to declare all the necessary particulars pertaining to their income and expenses for that particular year of assessment and submit the necessary returns together with all required supporting documents to the tax administrator therefore it is the tax administrator's duty to assess all tax returns and issue a notice of tax stating the tax liability (Palil 2010).

Features of administrative assessment system in accordance with (Okello, 2014).

- Taxpayers report on their activities on an annual basis.
- Reporting consists of completion of a tax return and filing financial statements, and other supporting information to the tax administration.

- Tax returns and the supporting financial statements are reviewed and verified by tax officials.
- The tax administration makes the decision on the tax liability and informs the taxpayer of what to pay, typically through a notice of assessment.
- Taxpayers pay the tax due or object to the assessment.
- The tax administration reconciles assessment notices and payments.

Palil (2010), Under the Official Assessment System, the filing rate of tax returns and the level of compliance by taxpayers are regarded as unsatisfactory due to delays and lost revenue collections that may result. Furthermore, it is assumed that individual taxpayers might not possess the sufficient knowledge to compute their tax payable.

Palil (2010) while quoting Allingham and Sandmo (1972) and Lewis (1982), contends that taxpayers are likely to comply if the probability of being audited is high.

The Administrative Assessment System is still common in many countries in the Middle East and some countries in South East Asia (Okello, 2014). However, there have been attempts to shift to a Self- Assessment System but the bulk of assessments are still carried out using an official assessment system (Sarker2003). it should also be noted that some of these countries have largely automated their return processing operations and risk assessment procedures so that only a small proportion of tax returns are identified for technical scrutiny before a formal notice of assessment is sent to the taxpayer (OECD, 2013).

Self-Assessment System

Sarker (2003) defines, Self-Assessment System as system where a taxpayer is required to assess his tax liability using a tax return form in which he declares his gross income, allowable

deductions, etc. This tax return must then be filed with the tax authority together with a payment for the tax liability computed in said return.

James and Alley (2004) while quoting (Barr et al 1977), defines self-assessment as the responsibility of the taxpayer rather than the revenue authority to calculate the relevant tax liability and to ensure that the requirements regarding payment and so on are met.

The growing concern of tax administrations throughout the world is on how to simplify the tax assessment system to encourage voluntary compliance, and many countries have adopted the self-assessment system as a solution (Sarker 2003). Self-assessment system (SAS) has become the key administrative approach for both personal and corporate taxation in developed countries including the USA, UK and Australia. It emphasizes both the taxpayers' responsibility to report their income and the need for them to determine their own tax liability (Palil 2010).

Okello (2014) self-assessment is based on the idea of voluntary compliance where the taxpayers calculate and pay their own taxes without the intervention of a tax official. However if it's not done appropriately and within the prescribed timeframes, the tax administration detects this failure and takes appropriate enforcement action, including applying the penalties provided for in the law. Under Self-Assessment System, the tax authority's responsibilities are particularly on assessing the tax return and determining tax liabilities that have been shifted to taxpayers, (Palil2010). It also recognizes that taxpayers themselves with appropriate assistance from the tax department are in the best position to determine their tax liabilities, given that they have firsthand knowledge of their business affairs and financial transactions, and have ready access to underlying accounting records (Okello, 2014). The basic feature of a Self-Assessment System is that it is the taxpayer rather than the tax authority that is responsible for the assessment of tax liability. Loo (2006) claims that, in general the reasons for implementing SAS are to simplify the

tax collection system and increase voluntary compliance. In addition, Palil (2010) it seems that voluntary compliance, administrative efficiency and improving fairness and equity are the key motivating factors for introduction of Self -Assessment System.

James and Alley (2004), the danger is that the unnecessary application of penalties might provoke taxpayer resistance and undermine compliance behavior on the part of responsible citizens which would seem to be the basic question for tax compliance policy in an era of self-assessment. Self-assessment increases the risk that a revenue service might resort too readily to a penalty driven compliance policy, (James and Alley 2002).

In line with Singh and Bhupalan, Somasundram (2003, 2005a and 2005b) claimed that the wider perspective of compliance becomes a major issue in a self-assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behavior they face otherwise for example, through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education.

2.1.3 TAX COMPLEXITY

Many taxpayers perceived that the tax system itself was too complex, difficult to understand and the terminology used was unfamiliar to taxpayers (Hansford, 1999; Brodie, 1999; Hinks, 2000). For example, taxpayers might get confused between 'tax allowance' and 'tax credit' as well as 'relief' and 'deductions'. To help overcome this confusion the tax authorities have engaged in a variety of activities to help educate taxpayers in the details they need to know in order to be tax compliant. Clearly, tax complexity is a challenge for the tax administrator, (IRS 2007).

Also, tax practitioners acknowledge that the complexity of taxation is making compliance especially difficult to achieve for many small businesses, (Berkery and knell 1992).

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. 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.

“Complexity is an unwanted feature of a tax system as it enhances the opportunity to avoid taxes” (Coskun and Savasan, 2009). The complexities in the system especially the use of legal verbiage could be an added ingredient in the milieu of noncompliance. It was argued that because complexity increased the cost of complying with the law it increased non-compliance, (Slemrod1989).tax complexity provides an opportunity or causes (groups of) taxpayers to over comply and the various relationships based on distinguishing attributes may also help determine appropriate reform targeted at specific taxpayer types and/or types of complexity(IRS, 2007).

The Ralph Review described complexity as having three aspects: technical, structural, and compliance. Technical complexity arose where ascertaining the meaning of the legislation was less than straightforward. Structural complexity referred to the poor structuring of provisions and to the unintended or in- consistent interaction of different provisions. Compliance complexity

arose where there was an excessive burden of recordkeeping, tax form completion, or other compliance activity placed on the taxpayer.

Complex law has consequences for judicial interpretation, and this in turn has an impact on the costs of compliance and of administration. However, the complexity of the law is only one dimension of the systemic problem. This continued attention by government is indicative that the problem of tax complexity, at least from the perspective of taxpayers and tax practitioners, is not easing. Tax complexity may not have reduced, but the burden of responsibility for it seems to be inexorably shared.

In the face of such complex tax regulations, compliance may well be enhanced when individuals view their interactions with the tax authority in amore positive light.

2.2 TAX COMPLIANCE

Tax compliance has been defined by Harvard law school (2000) as paying taxes on time, and timely reporting of correct tax information. Compliance means that the taxpayer provides tax information at the proper time and that the returns accurately report the tax liability. Tax compliance is also defined as the accurate (i.e. no under reporting of income, overstatement of deductions or rebates) and timely lodgment of income tax returns together with the payment of taxes when due (Torgler 2007). According to Loo &Keng (2005), an appropriate compliance can only be realized when taxpayer's liability is correctly computed, after taking into account all factors that have a bearing on the tax liability.

Holtzman (2007) states that tax compliance is the value of taxpayer's own time and resources, along with any out of pockets paid to tax preparers and other advisors, invested to ensure

compliance with the laws. While Carrol (1987) pointed out, that “tax compliance is the provision of tax information at the proper time and ensuring that returns accurately report the tax liability”. According to Shane (2003) tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of their country, for example by declaring income, filing a return, and paying the tax due in a timely manner.

It may be as, (James and Alley 2004: 29) pointed out, that “tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise”

In contrast with tax compliance, tax non-compliance is defined as taxpayer’s failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure (Jackson and Milliron, 1986: Kesselman, 1994: Kasipillai and Jabbar, 2003).

Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 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 al2003).

James and Alley (2004) asserted that non-compliance is more than tax evasion and it is also includes some forms of tax avoidance. James and Alley define tax evasion as ‘the attempt to reduce tax liability by illegal means’ while tax avoidance is defined as ‘reducing taxation by legal means’. Lewis (1982) perceived tax evasion as ‘any legal method of reducing one’s tax

bill' and tax evasion is 'illegal tax dodging'. Similarly, Kasipillai et al (2003) perceived tax evasion as actions which result in lower taxes than are actually owed while tax avoidance, denotes the taxpayers' creativity to arrange his tax affairs in a proper manner based on law and regulation (any provision not violated) so as to reduce his tax bill, and this is (or should be) acceptable in view of the tax administrator.

However, non-compliance is believed to have corrosive effects on tax compliance. If compliant taxpayers believe that everyone else is paying his or her fair share of the taxes, they are most likely to remain compliant (Olson, 2007). If the compliant taxpayers feel like they are over paying, some will reach a point where they resent it and stop complying or comply at a lower level.

Tax compliance depends on the economic incentives embedded in the tax structure and the effectiveness in detecting and penalizing incompliance. At the margin, people engage in tax evasion when the expected benefit (lower costs) are equal to the expected costs that is bribes, punishments (Reinikka, 1992) whether or not firms or individuals are entered with their own level of taxes they clearly feel disadvantaged when they see their competitors escaping taxation.

Tax compliance can either be through voluntary compliance or involuntary compliance. Voluntary compliance involves obeying the tax laws without any state enforcement actions that leads to maximizing revenues because administration costs are low in both economic and psychic sense. The government wastes little money and time in collecting the tax and taxpayers suffer little alienation in parting with their money from tax authority'. Singh (2003) described tax compliance as voluntary action 'without having to wait for follow up actions'. Terkper,(2003) contends that many small and medium 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. Hence in the small business context, opportunities for evasion are high and resources are often scarce for field auditing. Even when high investments are made in auditing, uncovering 'hidden cash' is never going to be an easy task without an adequate audit trail (Ahmed & Braithwaite 2005). When compliance is not achieved on voluntary basis it means revenue performance will be poor than expected therefore tax administrator must identify and address the risks associated with non-compliance by developing strategies targeted (Centre for Tax Policy and Administration, 2001).

Voluntary compliance is not only promoted by the awareness of rights and expectations but also by clear simple and user friendly administrative systems and procedures (Gray and Wadhavan, 1998). Mohani (2001) asserts that one of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility.

In the instance when voluntary compliance cannot be achieved, tax administrators must identify and address the risks associated with non-compliance by developing strategies targeted at addressing the risks (Makanga, 2004).

According to the Neo-classical economic view, people obey laws when it is in their interest to do so. Compliance results from the individual's rational choice aimed at maximizing individual's income. Compliance builds an atmosphere of trust and cooperation because a person feels that others are accounting in a reciprocal manner.

According to Centre for Tax Policy and Administration (2001), good revenue performance is achieved when compliance is maximized and that is as a result of tax authorities getting aware of developments and trends in business and legislative environment and bulky to respond to their implications on tax education and compliance.

LEVELS OF TAX COMPLIANCE AMONG SMALL AND MEDIUM TAXPAYERS

1. Willingness to pay

Taxpayer's willingness to pay depends on the expected benefit in terms of service provision (Kaweesa, 2004 and Ayoki et al 2005). This implies that for taxpayers to voluntarily pay the tax dues their expected benefit from the government must be in line with the actual tax liability. An inefficient tax education program weakens the willingness of the taxpayers to comply and creates room for political manipulation and in the process government loses revenue (Bird, 1992).

The willingness of the taxpayers to comply with the tax laws depends on the perception they have towards the funds collected from them and how it is put to use. Taxpayers become compliant with tax authorities when the government provides adequate returns to them from the taxes collected.

According to Torgler (2005) if taxpayers trust the government dealings, the legal system and public officials, they will be more willing to be honest in payment of taxes due. Wenzel (2004) argues that the willingness to pay taxes is borne by one's behaviors and perception of the tax administrative system put in place. Therefore, taxpayers become compliant when the government provides adequate returns to them from taxes collected.

2. Timely Payment

Tax compliance also demands that taxpayers should be in position to settle their tax dues as and when they fall due (Kasimbazi, 2003). This may depend on the existing policies in place. The due settlement may be done on a daily, monthly, semi-annually or on an annual basis depending on the arrangement of taxpayer and the tax collector. According to Income Tax Act (ITA) 2001 of the amended sec 93 (5), states that a taxpayer is required to furnish a return of income for the year of income upon which tax liability assessment is made.

3. Levels of Penalties and Disputes

The taxpayer's attitude towards tax payment is always negative (Taylor, 2001). Thus there is need to influence taxpayers into voluntary tax compliance. Penalty rate is the rate at which the tax administrators punish taxpayers who have defaulted in submitting returns and paying the taxes due, or involved in tax fraud. Taxpayer behavior is influenced by a high probability of fraud detection and punishment.

In Uganda, enforcement of tax compliance is done using several methods like tax education through public sensitization seminars, payment of fines, and in extreme non-compliance armed personnel (Anti -smuggling unit and special protection service), (Uslaner 2005). However, this has not reduced non tax compliance among taxpayers.

Uganda Revenue Authority has a tax tribunal department in which all tax complaints are channeled. This department also handles issues pertaining to fines and tax arbitrations (Temu, 2004).

2.2.1TAX PAYERS' ATTITUDE

The problem of attitude can be linked to inadequate tax knowledge (Byaruhanga, 2007). According to Ajzen's (1991) Theory of Planned Behavior, attitude relates to one's own personal

views about a behavior. 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 may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and negative view is tax non-compliance. Attitude towards tax compliance can be improved through the improvement of taxation knowledge (Litze, 2007).

The extent 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) contends 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.

These views may be explained by Psychology-based theories which reveal that taxpayers' attitude may be influenced by the following factors which eventually influence taxpayers' behavior. Commitment in paying taxes, Commitment reflects beliefs about the desirability of the tax systems and feelings of moral obligation to act in the interest of the collective and pay one's tax with goodwill, (Braithwaite,2001), Our attitude would be shaped by whether or not you think doing something is likely to be relevant to your work (the outcome of the behavior) and whether or not you think learning something new that could be relevant to your work would be beneficial to you and to your organization (your evaluation of the outcome). (Schmolders 1989), Taxpayers have separate views with respect to looking after their self-interest as opposed to contributing to community interests. In this regard, the more positive a taxpayer's attitude towards paying tax and working with the tax authorities, the greater their willingness to pay tax.

From the URA perspective, the important aspect of your attitude is whether or not it is positive, negative, or neutral. For example, if you strongly believe that doing something (whatever the behavior might be) will lead to a desirable outcome, then one could say that you have a positive attitude toward that behavior. Likewise, if you strongly believe that the behavior will lead to an undesirable outcome, you are likely to have a negative attitude about it. Attitude involves judgment of whether the behavior is good or bad and whether the actor is in favor of or against performing it (Leonard et al, 2004).

Attitudes affect intentions and intentions affect behavior. Attitudes are formed in a social context by such factors as the perception in the tax system, the perceived fairness of the tax structure, its complexity and stability, Government policies affecting any of these factors may influence taxpayer attitudes and hence the observed level of taxpayer compliance. Tax attitudes can be improved through better tax knowledge' and thus this will in turn increase compliance and reduce the inclination to evade taxes, (Eriksen and Fallan, 1996). 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).

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).

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. The willingness to pay taxes or comply with the tax laws or to engage in the given behavior in general terms is informed by the overall attitude of the individual given certain coperant factors (Pickens, 2005).

Yitzhaki examined taxpayers' attitude to risk and indicated that where a taxpayer had an absolute risk aversion that decreased with income, then an increase in the tax rate would result in a decrease in evasion. Hence, it was argued that attitude to risk was determined by the taxpayer's level of income, (Mckerchar, 2003). Schmolders also concluded that attitudes were a reflection of cultural differences and the tax systems in which they were formed, (Schmolders, 1959).

Attitude towards tax payment is an individual attribute and therefore management may see no purpose in paying taxes.

PERCEIVED OPPORTUNITY

Business owners are often mentioned as a high-risk group in terms of tax compliance because their opportunities to evade are high. Opportunity has often been documented as a major explanatory factor in non-compliance (Webley,2004) In particular, if incomes are not subject to automated third-party reporting, or if taxes are not withheld at source (in cases of receiving gross incomes or cash payments), opportunities to evade taxes exist (Shane, 2003). The link between

opportunity and non-compliance seems to have at least two different facets. First, in cases where people do not deliberately capitalize on opportunities, the specific circumstances leading to evasion opportunities might still lead to non-compliance. Opportunities usually come about when tax filings are not entirely automated. Through the lack of automation tax filing procedures are more likely to become error prone even without intent to capitalize on the entailed opportunities. Consequently, opportunities may lead to an increase in intended as well as unintended non-compliance. For instance, Robben et al. (1990) show that an experimentally induced opportunity to cheat (more possibilities to deduct non-deductible expenses) increased non-compliance regardless of whether the participants actually intended to be non-compliant or not.

Second, assuming that people are willing to capitalize on opportunities, they are able to do so only if the opportunities are recognized in the first place. However, opportunities to evade often tend to remain unnoticed. While many taxpayers perceive opportunities for evading small amounts, only a minority perceives opportunities for evading larger amounts (Antonides and Robben, 1995). Such failure to perceive opportunities even persists in laboratory experiments explicitly manipulating opportunity. Whereas controlling for intended evasion annihilated the effect of opportunity on evasion, simultaneously controlling for intended evasion and perceived opportunity re-established the main effect of opportunity on non-compliance, (Robben et al 1990). Indeed, it has been shown that those actually evading perceive increased opportunities to do so (Ashby et al. 2009; Wallschutzky, 1984).

Overall, actual opportunities can increase both intentional and unintentional evasion. Lewis (1982) outlined two major distinctions in intentional tax evasion: (1) evasion by commission and (2) evasion by omission. Evasion by commission requires an action by taxpayer, for example

claiming deductions or rebates which mean that if a taxpayer is making a false claim, he will get a tax saving (a commission on top of his evading actions). Conversely, evasion by omission is intentional and should be classified as seriously as evasion by commission (Lewis, 1982). This kind of evasion requires taxpayers to do nothing in the tax return (i.e. miss something out deliberately); for example, one would not report his casual income or any cash-basis income. Based on the definitions and explanation of tax evasion and avoidance, Lewis (1982) asserts that the dividing line between evasion and avoidance still remains unclear.

Although such a distinction is theoretically and practically meaningful, it is also difficult to determine whether filing errors were intentional or not. For example, in a study by Slemrod et al (2001), taxpayers were informed that their tax files would be closely examined. Those with considerable opportunities to evade, including small business owners, reacted to this message by increasing their tax payments significantly. Even though this might indicate severe tax evasion – as assumed by Slemrod et al (2001) increased tax payments in response to the prospect of being audited may also originate from increased willingness to avoid errors. Those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly and consequently, threats may also elicit partly unintentional over-reporting: just to be on the safe side (Ahmed and Braithwaite, 2005).

To conclude, opportunity is a key constituent of small business tax compliance and its role is moderated by its perceptual correlates. Given the opportunity to evade, those unwilling to evade may become involuntarily non-compliant and those willing to evade may fail to perceive the chance to do so. In order to determine the actual effect of opportunity, it is necessary to control for compliance intention as well as opportunity perception.

PERCEPTION

Since the initiative began, there has been a very large increase in the perception that taxpayers are treated fairly and transparently by the tax administration, as well as a great increase in the number of taxpayers who believe that the government spends their tax money wisely. However, this initiative is considered to have only slightly increased the perception that other taxpayers are paying their fair share. (OCEA, 2014).

More positive perceptions and greater tax literacy, the initiative has significantly increased people's sense of moral obligation to pay taxes "voluntarily" (OCEA, 2014).

Perceived fairness of the tax system is an important factor that is likely to affect individuals' tax compliance decisions. Equity theory helps explain how individuals make fairness judgments. Equity theory suggests that individuals continuously evaluate their inputs. Perceptions of fairness are based on an individual's evaluation of a situation. If the individual perceives that the inputs contributed and outputs received are equal they will perceive the situation as fair (Walster et al. 1978). An individual's evaluation of the situation may be influenced by his personal norms. The taxpayers indeed are willing to pay taxes even though they were not given the exact value of public goods, as compared to the taxes they have paid, if they perceived the political process as fair and 1) This may be because certain taxpayers' decision making are mostly affected by equity (Kim, 2002). Lawful (Feld & Frey, 2007). and the outputs they receive (Walster et al. 1978).

Fairness is the standard for evaluating differences in the tax treatment of different individuals (Murphy & Nagel, 2002). Equity theory posits that people normatively expect a comparable rate of inputs and outcomes across all parties to an exchange (e.g. exchange equity between the taxpayer and the government and horizontal and vertical equity across taxpayers) and will be

motivated to alter the distribution if a comparable rate is not perceived to exist (Cuccia and Carnes, 2001).

Equity and exchange based theories view individuals as rational, self-interested and goal oriented actors who evaluate justice in terms of proportionality of output to inputs among the participants to an exchange. In this perspective, a fair distribution is one that rewards people according to their contributions towards providing outcomes (Kinsey, Grasmick, and Smith 1991). Based on equity theory, the taxpayer should become less (more) compliant when they are victims (beneficiaries) of tax inequity.

Note that: equity theory (Adams, 1965; Lewis, 1982; Walster, Walster, & Berscheid, 1978) deals with two issues: what is perceived to be equitable, and how people act upon this perception of equity. With respect to the first issue, a relationship is defined as equitable when all participants receive equal relative gains from the relationship, which represents the difference between the participants' contribution to and rewards from the relationship. The second issue deals with the consequences of equity perception. Walster et al (1978) predict that when individuals find themselves in inequitable relationships, they become distressed and attempt to restore equity either by altering their own or their counterparts output or input, or by convincing themselves that the inequitable relationship is, in reality, equitable. In addition, Kinsey et al (1991) demonstrate that taxpayer's assessments of the fairness of their tax burdens are framed by two dimensions of their perceptions of the status quo as suggested by traditional equity theory: the benefits received for taxes paid (exchange equity) and the distribution of tax burdens across taxpayers (vertical equity).

However Gerbing (1988) developed a survey instrument which was designed to supply structure to the operational definition of tax fairness by identifying the various dimensions of tax fairness.

Taxpayers are more willing to pay tax when the government is spending more on public goods and services that bring more direct benefits to them than those perceived to benefit others. Stern and Barbour (2005) reported that SME taxpayers would not pay tax when they perceive that the benefits of compliance are outweighed by the costs.

Public opinion indicators are the perceptions of people towards the taxation systems and taxes (Roak and Stephen, 1994).

According to Kamala et al (2008), taxpayers' perception on the tax system is important because fairness of the tax system will instill compliance among taxpayers. On the other hand, taxpayers are less compliant when they perceive the tax system to be unfair (Spicer and Becker, 1980 and Mustafa, 1997).

Alm (1991) noted that there are potential mechanisms whereby perceptions of tax fairness could be improved. He reported that individuals who voted on the way their tax payments would be used had a higher likelihood of compliance even when the tax liability was the same as those that did not vote. This finding suggests that changes in perceptions of fairness can change compliance. However, if taxpayers perceive that a tax system lacks fairness they will be able to rationalize evasion (Davis et al. 2003)

2.3.0 RELATIONSHIP BETWEEN TAX EDUCATION AND TAX COMPLIANCE

There is a positive relationship between taxpayer education and voluntary tax compliance

(Kassipillai, 2003). Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes towards tax compliance (Machogu and Amayi, 2013).

Efficient tax education ensures taxpayers' compliance with minimal evasion as Makanga and Torgler, (2004) reported. An effective tax system should reduce the compliance burden and increase the compliance rates. The tax administrators should have the ability to identify, register, monitor, detect and penalize taxpayer non-compliance, provide assistance to the taxpayers by publishing relevant literature and articles to enlighten the taxpayers.

OECD (2013) notes that such taxpayer education campaigns can be an efficient and effective way of building trust and increasing public engagement.

Efficient tax education lies in the choice of good administrative procedures, good methods of conducting sensitization, appropriate technology, enforcement, increasing compliance by threats of higher penalties imposed on the tax defaulters and minimizing complexity (Musgrave, 1989). There a number of implications if the societies are not sensitized about their rights and obligations under the tax system.

According to Willis (2006) the cost of enforcing an effective tax sensitization system may seem realistic but may raise others. Sensitization costs may reduce and basically lowers on the compliance burden to taxpayers. However, other aspects like enforcement costs may increase because the tax authority would no longer be able to rely on withholding and information returns as enforcement tools. The way the tax sensitization is administered can affect tax compliance.

A good tax system should not be wasteful and the compliance cost to the tax should not be unnecessary high (Teera, 2005). Small and medium taxpayers being high contributors of tax

should have a very high degree of compliance and administrative convenience. Factors like the good sensitization programs, degree of professionalism by staff carrying on the program and honesty of tax payers greatly determine the tax revenue.

Carroll (1999) taxation takes place in an atmosphere of distrust and fear between the taxpayers and the tax authority. Measures that improve transparency in the taxpayer-tax authority reduce opportunities for irregularities in the tax transactions thus shaping the taxpayer towards compliance and this can be met through tax education.

Tax education is a component of tax system that ensures whether the tax laws are effectively enforced in order to improve compliance among taxpayers (Mulindwa, 2000). Tax education is a major tool in a government's effort to achieve a sound fiscal policy, optimum tax levels and establish appropriate structure (Makanga, 2004).

Surrey (1974) observes that consequently, tax authorities must arrange systematically to check on compliance of an effective examination which both safeguards the government from major revenue loss and instills in the tax payers' respect for vigilances of the authorities. All matters of legal rules, better compliance can be secured either by threatening a higher penalty of the offenders caught or by increasing the probability of being caught.

The level of compliance depends on how taxpayers fully and timely pay their tax dues to the tax authorities (Brostek, 2005). On the other hand Reinkka (2001) observed that limited improvement in service delivery continues to adversely affect tax compliance and this could be attributed to inconsistency and ambiguity in tax laws, lack of knowledge about tax, high rates and political influence. At the same time, achieving tax compliance and improving revenue

generation is not an easy task. However, this problem can be minimized through tax education (Kimungu and Kileva, 2007).

Efficiency can be examined in terms of tax education and tax distortions in economic choices (Teera, 1994). In order for tax education to be efficient, it should not be wasteful; also the compliance cost for the taxpayer should not be unnecessarily large. In other words, the desired quality of service should be offered at minimum cost.

Good sensitization methods highly determine the number of taxpayers who comply (Stlitz, 1985). The effectiveness of sensitization methods is gauged from the level of compliance. Because of the poor sensitization programs in developing countries, tax evasion and avoidance are predominant, thus, there is need to strengthen tax education efficient sensitization programs so as to increase compliance.

Newberry (1985) explains the relationship between the tax sensitization and the level of tax compliance; the more efficient the tax sensitization program, the greater is the incentive to paying the tax. The end result of this program is that a significant proportion of the country's most able and highly trained people also need information about tax to be included in the tax fight. Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). The influence of knowledge on compliance behavior has been proven in various researches, (Mohammad et al., 2007). Harris (1989) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. 'Tax

attitudes can be improved through better tax knowledge' and thus this will in turn increase compliance and reduce the inclination to evade taxes (Eriksen and Fallan, 1996).

Chan et al (2000) also contends that greater education is directly linked to a likelihood of compliance. The educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Chan et al(2000) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

It is expected that tax education will enable the taxpayer to understand tax laws and procedures as well as creating positive tax compliance attitude (Normala, 2007).

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.

2.4 CONCLUSION

The study will aim at establishing how effective tax education is being carried out in Uganda Revenue Authority being an autonomous agency for collecting taxes in order to improve efficiency and effectiveness of tax compliance among taxpayers to increase revenue collection to finance economic development.

However, empirical research reveals that despite of government's effort of reforming tax sensitization programs in URA, tax compliance is still low with evidence that tax authorities have not addressed the loopholes in the administrative system and also the destiny of collected

taxes has often been in the hands of a few tax administrators through administrative malpractices like corruption (Byaruhanga, 2007).

Richardson (2008) also asserts that there is a negative association between education and compliance. Collins et al (1992) in his research found that tax knowledge and the level of education were negatively correlated with compliance behavior, knowledge about tax law is assumed to be of importance for preferences and attitudes towards taxation.

Therefore, there is need to improve on the sensitization methods of tax payers in the tax system in Uganda to ensure more satisfactory results in revenue are realized. The great deal of attention should be paid to critical aspects of tax education which reach small and medium tax payers such as local radio talk shows, seminars, lectures by Uganda revenue authority staff through meetings, frequency of adverts on the televisions and use of the right language and information to improve tax compliance among small and medium taxpayers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology against the study that was conducted. This section discusses the method and procedure that was employed in carrying out the research and it also discusses the research design, area of the study, study population, sampling procedures, sample size, sampling techniques, data analysis, ethical considerations, reliability of the instrument, method that was employed for data analysis and limitations encountered.

3.1 RESEARCH DESIGN

The research design used is a cross-section approach combined with descriptive and analytical research designs to establish the relationship between tax education and tax compliance.

3.2 AREA OF STUDY

3.3 STUDY POPULATION

The study was conducted in Kampala district. The study comprises of the small and medium enterprises along various streets in Kampala district. The study population consisted of 50 respondents as small and medium tax payers in Kampala district on various streets.

3.4 SAMPLING PROCEDURES

The researcher selected the respondents from small and medium taxpayers in Kampala district.

3.4.1 SAMPLE SIZE

A population of 60 respondents whose minimum sample size is 52 was considered in the study. The sample size was adopted from the sample size table constructed by Krejcie and Morgan (1970).

3.4.2 SAMPLING TECHNIQUES

The researcher employed both purposive sampling technique and simple random sampling. Purposive sampling was used in the study when selecting the study sample where the targeted population was knowledgeable about taxes. A simple random sampling was used by the researcher to sample respondents on a probability. The research was based more on purposive sampling district and basically the respondents had appropriate information pertaining to the study.

3.1.4 DATACOLLECTION SOURCES

The researcher made use of both primary and secondary sources of data

Primary data sources

This type of data was obtained from small and medium scale entrepreneurs of Kampala district who came up with relevant information about the study. The information was obtained by self-administered questionnaires and interviews.

Secondary data sources

This information was obtained from published materials, which include text books, journals, URA reports, magazines, internal reports, minutes and newspapers, unpublished reports

3.1.5 DATA COLLECTION INSTRUMENTS

1. Questionnaires

This tool targets the small and medium taxpayers in Kampala district. The questionnaires were designed in line with the topic and research objectives. It entails both closed and open ended questions. The questionnaire was designed according to the objectives and study variables and responses to the questions was anchored on a five (5) point Likert scales ranging from 5 – strongly agree to 1 - strongly disagree. Part one of the questionnaires was used to gather biographic information. This instrument was adopted because it allows a systematic collection of information about the objective of the study, provides collect detailed and accurate information compared to other tools, lastly it is also cheaper to administer.

2. Interview Guide

This tool specifically was used to target some illiterate tax payers. It is instrumental in collecting strategic data from tax payers who are not willing to fill the long questionnaires.

3.6 QUALITY CONTROLS METHODS

Validity

Validity refers to how well a test measures what it is purported to measure (Phelan and Wren, 2005). Validity encompasses the entire experimental concept and establishes whether the results obtained meet all of the requirements of the scientific research method. This was done through making analysis of the problems being faced and ensuring that the research is relevant to the field of concern.

Reliability

Reliability is the degree to which an assessment tool produces stable and consistent results (Phelan and Wren, 2005).

Parallel form of reliability was used where reliability was obtained by administering different versions of an assessment tool to the same group of individuals. The scores from the two versions can then be correlated in order to evaluate the consistency of results across alternate versions. With the aid of the supervisor, the questions on the questionnaires were reviewed to ensure consistency and reliability.

3.1.6 MEASUREMENT OF VARIABLES

Tax education and tax compliance was measured by adopting a five-point Likert scale ranging from Strongly Agree to Strongly Disagree.

3.1.7 DATA PRESENTATION AND ANALYSIS

1. Data presentation

The data gathered was edited and checked to ensure uniformity, accuracy, consistency and comprehensiveness. The structured questionnaires were coded, questions grouped, tabulated and frequencies run according to the objectives of the study. The data was then analyzed and the information generated was interpreted to establish the relationship between Tax education and Tax compliance.

2. Data analysis

The researcher used (SPSS) 16.0 program Statistical Packages for Social Scientists and descriptive statistics instruments like correlation analysis and developed the relationship between the variables and also determined the strength of the relationship between variables under study. There was a full description of data collected from the interviews and questionnaires in the form of charts, graphs and tables.

3. Ethical consideration

In this study ethical consideration is anything that would cause physical or emotional harm to the respondent. This could be something as simple as being careful how your word sensitive or difficult questions during your interviews. So in this study the researcher only asked questions related to the research objectives and avoiding those that can impair emotions of respondent.

4. Limitations of the Study

Due to the small sample size used for this study, results got cannot be generalized beyond the specific population from which the sample was drawn.

Disclosure of information was a problem. The researcher had to emphasize that the study was solely for academic purpose and information obtained would be treated with ultimate confidentiality.

Sampled respondents may not have answered all questions with sincerity, and therefore the results of this research based on the opinions of the sampled group might not accurately reflect the opinions of all members of the included population. This is more so because, people generally feel reluctant to provide correct information about their incomes and tax positions.

The time given to carry out the study was too short to achieve an in depth interview with the respondents. This was overcome by administering structured questionnaires.

The finances required to carry out this study were to be paid by the researcher out of personal savings. Therefore, they may not be sufficient for the undertaking of an in-depth study. This will be overcome by sampling Small and Medium taxpayers in Rubaga division and a few staff of Uganda revenue authority in the sensitization department.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSIONS OF FINDINGS

4.0 Introduction

This chapter presents a detailed discussion of the findings and interpretation of the data collected from the field; these findings are described by use of tables, graphs and charts. It also presents discussions on the detailed profile of entrepreneurs who are the sole beneficiaries of the services of tax education, the contribution of tax education on the entrepreneurial activities that lead to voluntary tax compliance.

4.1. Response rate

Out of the 52 questionnaires issued out to the field, 44 usable questionnaires were returned and 8 questionnaires were missing giving a percentage response rate of 84.6 %.

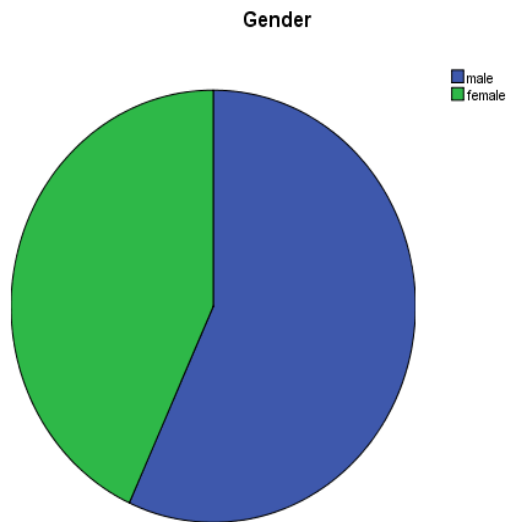
4.2. Back ground information

Respondents were required to state their gender, age group, education level and the period worked with micro finance institutions. The following were the results;

4.2.1 Gender

The figure below clearly shows the gender of the entrepreneurs since the researcher was interested in knowing the gender of her respondents who solely participated in the study and the results were presented as follows;

Figure 2: Showing the gender of the respondents



In figure above, the findings revealed that the male had consisted of 56.8% whereas the female had a percentage of 43.2%.

4.2.2 Age group

Table 1: Shows the age group of the respondents

Age group		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25 years	3	6.8	6.8	6.8
	26-35 years	13	29.5	29.5	36.4
	36-50 years	16	36.4	36.4	72.7
	Above 50	12	27.3	27.3	100.0
	Total	44	100.0	100.0	

Source: primary data, 2015

According to the findings as indicated in the table 1 above, most entrepreneurs are between the age of 36 and 50 years (36.4%), only (6.8%) of respondents fall in the age group of 18-25years

well as (29.5%) of the respondents fall in the age group 26-35 years and finally(27.3%) fall above the 50 years.

The above table shows that a big percentage of the entrepreneurs are of the middle age (36-50 years), with a very small percentage of the young population between the age of 18-25 in comparison to the old people who have engaged in business for a very long time, and with family responsibilities.

4.2.3 Marital status

Table 2: Shows the marital status of the respondents

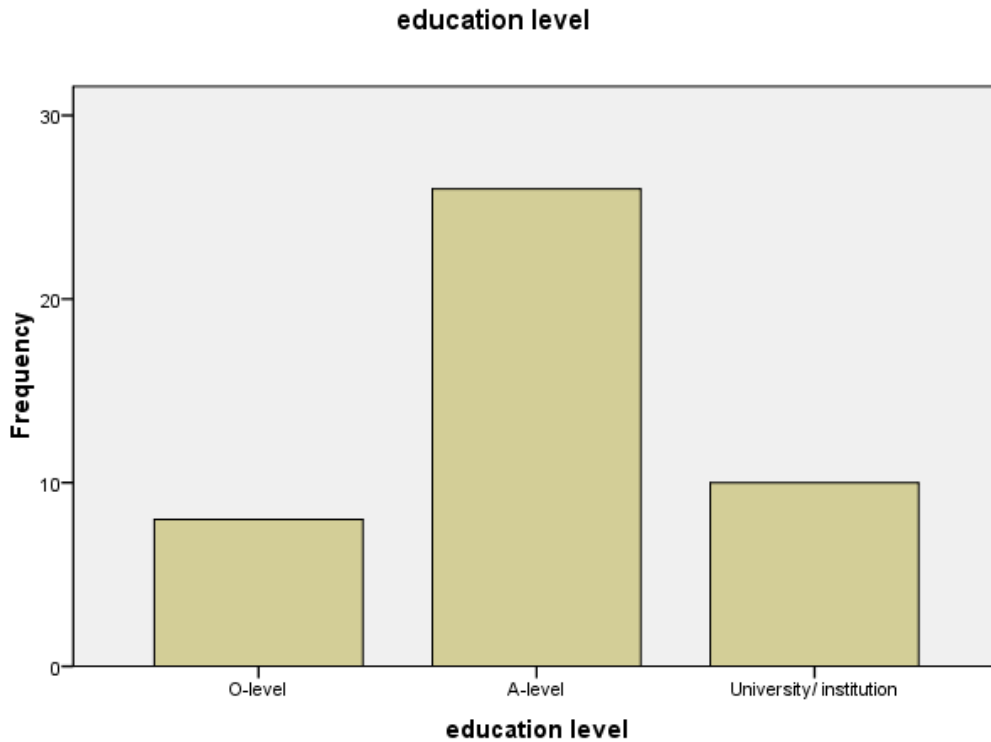
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid single	18	40.9	40.9	40.9
married	26	59.1	59.1	100.0
Total	44	100.0	100.0	

Source: primary data, 2015

The researcher also wanted to find out whether marital status is a factor contributing to the tax compliance. The findings showed that most of the entrepreneurs were married with a 59.1% and followed by the singles with a percentage of 40.9%. The findings implied that the married respondents were the people most involved in business and these have got a lot of commitments.

4.2.4 Education level

Figure 3: Showing the education levels of the respondents



Basing on the fig.3 above, it was found out that most of the farmers had attained their A-level with a percentage of 59.1%, followed by those who had attained university with a percentage of 22.7% and lastly those with a o-level had 18.2% giving a total of 100%.

4.2.5 Awareness and tax compliance

Objective 1 was to determine the effect of tax awareness to tax compliance in small and medium enterprises in Kampala district.

Table 3: Shows the descriptive statistics of the effect of tax awareness on tax compliance;

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax administrators come to the premises and sensitize about tax.	44	1	5	3.57	1.283
Tax payer sensitization is one of the tasks performed by the tax administrators	44	1	5	3.66	1.509
Massive sensitization of tax payers increases on the tax collected by URA	44	1	5	2.80	1.488
Sensitization of tax payers encourages me to comply with tax obligations	44	1	5	2.66	1.569
Tax authorities have not created enough public relations about its tax systems and their obligations.	44	1	5	3.45	1.389
Valid N (listwise)	44				

Source: primary data, 2015

The findings on the descriptive statistics were analyzed basing on a key stated below; less than 3 = disagree, 3= not sure and above 3 = agreed. In the table 3 above, the statements are about how

awareness contributes to tax compliance under different key statements was obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed below in line with their corresponding statements:

The respondents were required to reveal that tax administrators come to the premises and sensitize them about tax. (Mean values of 3.57 and a standard deviation of 1.283) implied that the respondents agreed with wide variation in their responses.

The respondents were required to disclose that tax payer sensitization is one of the tasks performed by the tax administrators. (Mean value of 3.66 and a standard deviation of 1.509) indicated that the respondents agreed with a wide variation in their responses.

The respondents were required to unveil that massive sensitization of tax payers increases on the tax collected by URA. (Mean value of 2.80 and a standard deviation of 1.488) implied that the respondents disagreed; this is evidenced by a small variation in their responses.

The respondents were required to disclose that sensitization of tax payers encourages me to comply with tax obligations. (Mean value of 2.66 and a standard deviation of 1.569) indicated that the respondents disagreed with a small variation in their responses.

The respondents were required to reveal that tax authorities have not created enough public relations about its tax system and their obligations. (Mean value of 3.45 and a standard deviation of 1.389) implied that the respondents agreed however with a wider variation in their responses.

This finding was consistent with what Emurut (2008) pointed out that, Tax payer sensitization is one of the tasks performed by tax administrators, when tax administrators inform taxpayers about their obligation to pay taxes and the punishment thereof, the rate of compliances increases. On the other hand, Hawkins (1999) asserts that enforcing the collection procedures requires creating

awareness (education) and advising taxpayers about their obligations as partners in the tax administration system. However, the tax authority has not created enough public relations about its tax education. The two authors, Emurut (2008) and Hawkins (1999) were in line with the findings stated above.

4.2.6 Tax assessment system and tax compliance.

Objective 2 was to establish how tax assessment system affects tax compliance.

Table 4: Showing a descriptive statistics of how tax assessment system affects tax compliance.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
I file tax assessment forms with the tax authorities	44	1	5	3.82	1.369
Self -assessment system has enabled me to pay taxes on time	44	1	5	3.57	1.301
Tax returns and the supporting financial statements are reviewed and verified by tax officials	44	1	5	3.43	1.283
I normally comply to pay tax if the probability of being audited is high.	44	1	5	3.84	1.380
My business pays actual tax assessed whenever it is due	44	2	5	3.59	1.064
Valid N (listwise)	44				

Source: primary data (2015)

In the table 4 above, the statements are about how tax assessment system affects tax compliance, under different key statements was obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed below in line with their corresponding statements:

The respondents were required to disclose that, i file tax assessment forms with the tax authorities. (Mean value of 3.82 and a standard deviation of 1.369) implied that the respondents agreed however with a wider variation in their responses.

The respondents were also required to reveal that, Self –Assessment System has enabled me to pay taxes on time. (Mean value of 3.57 and a standard deviation of 1.301) indicated that the respondents agreed with a wider variation in their responses.

The respondents were required to reveal that, tax returns and the supporting financial statements are reviewed and verified by tax officials. The respondents agreed with a mean value of 3.43 however, the corresponding standard deviation revealed a significant value of 1.283 this means that the respondents had a variety of responses to choose from hence a wider variation in their responses.

The respondents were also required to unveil that, I normally comply to pay tax if the probability of being audited is high. The respondents agreed with a mean value of 3.84 and a standard deviation of 1.380 which showed a wider variation in their responses.

The respondents were required to reveal that, my business pays actual tax assessed whenever it is due. Mean of 3.59 with a standard deviation of 1.064 indicated that the respondents agreed however with a wider variation in their responses.

According to Okello(2014) he states that, the onus is on the tax administrator to examine tax returns and financial statements, calculate the amount of tax payable, and also notify the taxpayers of the tax liability.Okello(2014) also pointed out that, tax returns and the supporting financial statements are reviewed and verified by tax officials.

Palil (2010) also asserts that taxpayers are likely to comply if the probability of being audited is high. These two authors were in line with what was stated in the findings above.

4.2.7 Tax complexity and tax compliance

Objective 3 was to find out how tax complexity impacts on tax compliance in Small Medium Enterprises.

Table 5: Showing a descriptive statistics of how tax complexity impacts on tax compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax laws and regulations are complex	44	2	5	3.95	1.120
Tax complexity leads to improper book keeping and laziness to government	44	1	5	3.61	1.368
Tax complexity is a possible reason for non-tax compliance	44	2	5	4.39	.813
Tax complexity burden is an avoidably shared	44	1	5	3.59	1.226
Reducing tax complexities leads to increased views on fairness of tax systems	44	1	5	2.91	1.460
Valid N (listwise)	44				

Source: primary data (2015)

In the table 5 above, the statements are about how tax complexity impacts on tax compliance, under different key statements was obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed below in line with their corresponding statements:

The respondents were required to disclose that, tax laws and regulations are complex. The respondents agreed with a mean value of 3.95 however, the corresponding standard deviation also revealed a significant value of 1.120 which showed a wide variation in their responses.

The respondents were also required to reveal that, tax complexity leads to improper book keeping and laziness to government. (Mean value of 3.61 and a standard deviation of 1.368) indicated that the respondents agreed with a wide variation in their responses.

The respondents also were required to reveal that tax complexity burden is an avoidably shared. The respondents agreed with a mean value of 4.39 however the corresponding standard deviation revealed a significant value of 0.813 which showed a wide variation in their responses.

The respondents were required to disclose that reducing tax complexities leads to increased views on fairness of tax systems. (Mean value of 2.91 and a standard deviation of 1.460) indicated that the respondents disagreed with a small variation in their responses.

According to Beck et al. (1991) 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. Coskun and Savasan (2009) also assert that, "Complexity is an unwanted feature of a tax system as it enhances the opportunity to avoid taxes."

In addition Jackson and Milliron (1986) contended that the complexity of tax system has been considered as a possible reason for tax non-compliance. Slemrod (1989) also asserts that, it was argued that because complexity increased the cost of complying with the law it increased non-compliance.

However 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. The views demonstrated by the different authors were also in line with the findings above.

4.2.8 Tax education and Tax compliance

The effect of tax education on tax compliance of small and medium enterprises

Table 6: Showing a descriptive statistics of the effect of the tax education and tax compliance

	Minimum	Maximum	Mean	Std. Deviation
Tax authorities audit the books of accounts and any other records to ensure compliance within the necessary laws	1	5	3.70	1.091
Assessment system by URA determines the total taxes collected	1	5	3.75	1.314
Tax education methods and procedures have a direct influence on tax payers' compliance	1	5	3.64	1.102
Effectiveness of sensitizing tax payers affects the revenue collected by URA	1	5	3.73	1.020
Tax payer education provides tax knowledge to comply with tax matters	1	5	3.43	1.404
I pay my URA bills first before any other bills	1	5	3.05	1.257
I do not have any outstanding tax debt	1	5	3.36	1.542
Valid N (listwise)				

Source: primary data (2015)

In the table 6 above, the statements are about the effect of tax education on tax compliance of Small and Medium Enterprises, under different key statements was obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed below in line with their corresponding statements:

The respondents were required to disclose that, tax authorities audit the books of accounts and any other records to ensure compliance within the necessary laws. (Mean value of 3.70 and a standard deviation of 1.091) indicated that the respondents agreed with the statement however with a wide variation in their responses.

The respondents were also required to unveil that, assessment system by URA determines the total taxes collected. The respondents agreed with a mean value of 3.75 however the corresponding standard deviation revealed a significant value of 1.314 which showed a wide variation in their responses.

The respondents were also required to reveal that, tax education methods and procedures have a direct influence on tax payer's compliance. (Mean of 3.64 and a standard deviation of 1.102) indicated that the respondents had agreed however with a wide variation in their responses.

The respondents were obligated to disclose that, effectiveness of sensitizing tax payers affects the revenue collected by URA.(Mean of 3.73 and a standard deviation of 1.020) indicated that the respondents had agreed with a wide variation in their responses.

The respondents were required to disclose that, tax payer education provides tax knowledge to comply with tax matters. (Mean of 3.43 and a standard deviation of 1.404) indicated that the respondents had agreed however with a wide variation in their responses.

The respondents were obliged to reveal that, I pay my URA bills first before any other bills.(Mean of 3.05 and a standard deviation of 1.257) indicated that the respondents had agreed with a wide variation in their responses.

The respondents were required to reveal that, I don't have any outstanding tax debts.The respondents agreed with a mean value of 3.36 however the corresponding standard deviation revealed a significant value of 1.542 which showed a wide variation in their responses.

According to Newberry (1985) he explains the relationship between the tax sensitization and the level of tax compliance; the more efficient the tax sensitization program, the greater is the incentive to paying the tax. (Machogu and Amayi, 2013)asserts that taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes towards tax compliance. However this is in line the findings above.

Correlation analysis

Correlation analysis was conducted to establish the effect of tax education on tax compliance of SMEs and the following are the results;

Table 7: Showing the relationship between tax education and tax compliance of SMEs

		Correlations	
		V	G
V	Pearson Correlation	1	.989**
	Sig. (2-tailed)		.000
	N	44	44
G	Pearson Correlation	.989**	1
	Sig. (2-tailed)	.000	
	N	44	44

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

From above table, results showed that there is a positive and significant relation between tax education and the tax compliance ($r=0.989$, $p< 0.01$) these results imply that they are more favorable to the effect of tax education the higher will be tax compliance among the business owners.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents summary of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on the study findings. This was presented using the study variables as follows; to determine the effect of tax awareness on tax compliance of small and medium enterprises, to establish how tax assessment system affects tax compliance of small and medium enterprises and to find out how tax complexity impacts on tax compliance in Small Medium Enterprises.

5.1 Summary of findings

5.1.1 Effect of tax awareness on tax compliance of small and medium enterprises

From the findings, respondents revealed that tax administrators came to the premises and sensitized them about tax, respondents revealed that tax payers sensitization was one of the tasks performed by the tax administrators, respondents disagreed that massive sensitization of tax payers increases on the tax collected by URA, respondents disagreed that sensitization of tax payers did not encourage them to comply with tax obligations and the respondents revealed that tax authorities have not created enough public relations about its tax system and their obligations.

5.1.2 Effect of tax assessment system on tax compliance of small and medium enterprises.

From the findings, the respondents revealed and agreed that they file tax assessment forms with the tax authorities, the respondents also agreed that, Self –Assessment System enabled them to

pay taxes on time, more still they agreed that tax returns and the supporting financial statements were reviewed and verified by tax officials, the respondents also agreed that they normally comply to pay tax if the probability of being audited is high, respondents revealed that, their businesses pay actual tax assessed whenever it is due.

5.1.2 Impact of tax complexity on tax compliance of small and medium enterprises.

From the findings, the respondents disclosed and agreed that, tax laws and regulations are complex, the respondents also revealed that, tax complexity leads to improper book keeping and laziness to government, more still the respondents also agreed that tax complexity burden is an avoidably shared, however the respondents disagreed that reducing tax complexities leads to increased views on fairness of tax systems.

5.1.3 Effect of tax education on tax compliance of small and medium enterprises.

From the findings, the respondents revealed that, tax authorities audit their books of accounts and any other records to ensure compliance within the necessary laws, respondents agreed that assessment system by URA determines the total taxes collected, the respondents also revealed that tax education methods and procedures had a direct influence on tax payer's compliance, The respondents also revealed and agreed that, the effectiveness of sensitizing tax payers affected the revenue collected by URA, the respondents also reviewed that tax payer education provides tax knowledge to comply with tax matters, more still the respondents agreed that, they pay their URA bills first before any other bills, the respondents agreed that, they don't have any outstanding tax debts.

5.2 Conclusions

5.2.1 The study showed that increase in tax awareness by carrying out sensitization programmes on radios, television and also publishing booklets and brochures enhances tax compliance among business owners. This showed that there is a significant relationship between tax awareness and tax compliance.

5.2.2 The study also revealed that tax assessment system impacted on tax compliance. The introduction of SAS by URA improved on the tax compliance of the business owners as they are able to assess their own taxes. This showed that, there is a relationship between tax awareness and tax compliance.

5.2.3 The study also showed that tax complexity also influenced tax compliance. The research showed that the more complex the tax laws, the more business owners fail to comply to pay taxes. This showed that there was a significant relationship between tax complexity and tax compliance.

5.2.4 The research revealed that there was a positive and significant correlation between tax education and tax compliance ($r=0.989$, $p < 0.01$). This showed that an increase in the tax education also results into a corresponding increase in tax compliance. Therefore, the researcher concludes that there is a positive relationship between tax education and tax compliance.

5.3 Recommendation

With much gratitude given to Uganda Revenue Authority in terms of educating taxpayers in form of improvements in the tax administration process and amendments in the tax laws and policies, the findings in the study justify the following recommendations;

URA should adopt a more pro-active approach rather than reactive approach in trying to sensitize the taxpayers. This would go along in minimizing administrative and compliance costs since voluntary compliance will be enhanced through this sensitization programs.

Further recommendations concern the expertise and skills of the Uganda Revenue staff. Regular training programmes should be instituted to equip the staff with necessary skills especially with regard to interpretation of the tax law and how best they sensitize the taxpayers in all categories in order to meet their intended objective.

More still, the researcher recommends improvements should be made in the assessment of taxpayers. Transparency, fairness and well stipulated guidelines should be followed by staff of Uganda Revenue Authority. It should involve taxpayers in the exercise in order to avoid resentment and dissatisfaction.

The researcher recommends that sensitization of taxpayers regarding the importance of paying taxes and their obligations be given more emphasis than it is at the present. Quality and timely information should be availed to taxpayers and also encourage feedback from the taxpayers.

The research indicates that there is need for the tax authority to improve on the systems and methods of sensitization of taxpayers' if compliance is to be strengthened.

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APPENDIX I

INTERVIEW GUIDE

- 1) How often do you get sensitized?
- 2) Which methods does the URA use to sensitize you?
- 3) How do you get information about taxes?
- 4) How do you get to know about the taxes you are supposed to pay?
- 5) How do you benefit from sensitization programmes?
- 6) Does the sensitization team give you the right information?
- 7) How do you pay your taxes?
- 8) When do you pay your taxes and where?
- 9) How do you get to know about your obligation to pay taxes?
- 10) What do you think URA should do to avail you with appropriate information?

APPENDIX II: INTRODUCTORY LETTER

Uganda
Martyrs
University



making a difference

**Office of the Dean
Faculty of Business Administration and Management**

Your ref.:

Our ref.:

Nkozi, 24th February, 2015

To Whom it may Concern

Dear Sir/Madam,

Re: Assistance for Research:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you _____ who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a dissertation which involves a field research on a selected case study such as a firm, governmental or non governmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

Moses Kibrai

Dean



**APPENDIX III: TABLE FOR 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

“N” is population size

“S” is sample size.

UGANDA MARTYRSUNIVERSITY
FACULTY OF BUSINESS AND ADMINISTRATION

APPENDIX IV: QUESTIONNAIRE

Dear Sir/Madam,

I am **ACHEN LWANJA VIVIAN** a student of Uganda Martyrs University pursuing a bachelor's degree in Business Administration and Management. I am carrying out a research on **“THE EFFECT TAX EDUCATION ON TAX COMPLIANCE OF SMALL AND MEDIUM ENTERPRIZES.”** All information given is for academic purposes and your response on this questionnaire will assist me in completion of this research. Please spare a fewminutes of your time and answer the following questions precisely. I have identified you as the best person to help me through this study.

All the information provided will be kept confidential. Thank you very much for your time.

INSTRUCTIONS:

- I kindly request you to tick or fill in the given space.
- Each box will be ticked once and not twice.

SECTION A: BACKGROUND INFORMATION: (please tick)

i. Gender: Male Female

ii. Age group:

18-25 25-35 35-50

Above 50

iii. Marital Status: Single Married

iv. Education Level:

O-level A-level university/ institution

SECTION B

Please indicate the number which best suits your answer using the key below;

Strongly agree	Agree	Not sure	Disagree	Strongly disagree
5	4	3	2	1

Objective (1) to determine the effect of tax awareness on tax compliance in Small and Medium Enterprises

No.	statement	5	4	3	2	1
1.	Tax administrators come to the premises and sensitize about tax.					
2.	Tax payer sensitization is one of the tasks performed by the tax administrators					
3	Massive sensitization of tax payers increases on the tax collected by URA					
4	Sensitization of tax payers encourages me to comply with tax obligations					
5	Tax authorities have not created enough public relations about its tax systems and their obligations.					

Objective (2) to establish how tax assessment system affects tax compliance of Small and Medium Enterprises.

No.	statement	5	4	3	2	1
1.	I file tax assessment forms with the tax authorities					
2.	Self- assessment system has enabled me to pay taxes on time					
3	Tax returns and the supporting financial statements are reviewed and verified by tax officials					

4	I normally comply to pay tax if the probability of being audited					
5	My business pays actual tax assessed whenever it is due					

Objective (3) how does tax complexity impact on tax compliance of Small and Medium Enterprises.

No.	statement	5	4	3	2	1
1.	Tax laws and regulations are complex					
2.	Tax complexity leads to improper book keeping and laziness to government					
3.	Tax complexity is a possible reason for non-tax compliance					
4.	Tax complexity burden is an avoidably shared					
5.	Reducing tax complexities leads to increased views on fairness of tax systems					

The effect of tax education on tax compliance of small and medium enterprises

No.	Statement	5	4	3	2	1
1.	Tax authorities audit the books of accounts and any other records to ensure compliance within the necessary laws					
2	Assessment system by URA determines the total taxes collected					
3.	Tax education methods and procedures have a direct influence on tax payers' compliance					
4.	Effectiveness of sensitizing tax payers affects the revenue collected by URA					
5	Tax payer education provides tax knowledge to comply with tax matters					
6	I pay my URA bills first before any other bills.					
7	I do not have any outstanding tax debt.					

Thank you for your cooperation. God bless.