

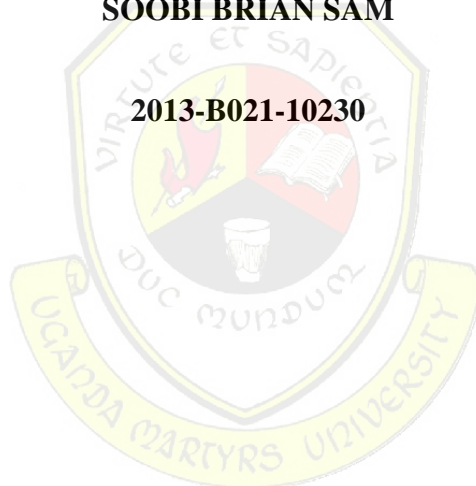
**THE BUSINESS ENVIRONMENT AND TAX COMPLIANCE AMONG SMALL AND
MEDIUM ENTERPRISES IN UGANDA**

**CASE STUDY: MBUYA PARISH IN NAKAWA DIVISION OF
KAMPALA DISTRICT**

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Dedication

I dedicate this dissertation to my parents Mr. & Mrs. Soobi, my dear brothers Timothy Soobi Wasikye, and twins Stephen Wangwe Mukhwana and Silas Soobi Wamono.

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List of Abbreviations

AFDB: African Development Bank

BA: British Airways

BOU: Bank of Uganda

CBR: Central Bank Rate

GCI: Global Competitive Index

GDP: Gross Domestic Product

GOU: Government of Uganda

HON: Honorable

KACITA: Kampala Capital City Traders Association

LDCs: Low Developing Countries

MTN: Mobile Telecom Network

MFPEd: Ministry of Finance Planning and Economic Development

OECD: Organizations for Economic Development

PAYE: Pay As You Earn

PSIS: Private Sector Investment Survey

PSFU: Private Sector Foundation Uganda

SMEs: Small and Medium Enterprises

SPSS: Social Package for Social Scientists

UBOS: Uganda Bureau of Statistics

UGX: Ugandan Shilling

UIA: Uganda Investment Authority

UNBS: Uganda National Bureau of Standards

URA: Uganda Revenue Authority

USD: United States Dollar

USSIA: Uganda Small Scale Industries Association

VAT: Value Added Tax

WB: World Bank

Abstract

The study focused on the Business Environment and the level of Tax Compliance among SMEs in Mbuya parish of Nakawa division. A cross sectional survey design that was quantitative and qualitative in nature was used on owners and employees of SMEs. A purpose built self-administered questionnaire that comprised of both close ended and open ended questions was used to collect data and was administered on 76 respondents who were sampled from a population of 80 SMEs. Collected data was crosschecked, coded and summarized into frequencies, percentages, pie charts, means, and standard deviations. It was analyzed using the statistical package for social scientist (SPSS) Pearson's correlation coefficient (r) was used to test for the significance of the research questions.

The study revealed that there was a significant relationship between the Ugandan Business Environment and the level of Tax Compliance among SMEs. The key study recommendations were that state should reshuffle the main URA body and employ competent and ethical tax officials, URA should also put up more stringent rules on bribery, corruption and non-compliance and Small and Medium Enterprises should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth.

The owners and managers of SMEs also expressed challenges that they usually face during registration of their businesses as well as complying to taxes and gave their views on how the government and other stakeholders can mitigate the challenges associated with the business environment and tax compliance.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This study focused on establishing a relationship between the Ugandan business environment and tax compliance among small and medium enterprises. The Ugandan business environment was the independent variable and it had dimensions such as bureaucratic bribery, the regulatory framework and public capital efficiency. On the other hand tax compliance was the dependent variable with dimensions such as correctly filing returns, filing returns intime and reporting comlete information. The moderating variable in this study that influenced the dependent and independent relationship comprised of dimensions such as tax payers morale, personal norms and ethics and self integrity. This chapter basically introduces the study background, statement of the problem, broad objectives, specific objectives, research questions, scope of the study, significance of the study, justification of the study, definition of key terms and the conceptual frame work.

1.1 Background of the study

Taxation is a major source of revenue for most Governments of the world. It provides the needed resources for government developmental projects at local, state and federal levels. The importance of taxation is well acknowledged globally as a vehicle for economic development and transformation. Considering the importance of taxation, non-compliance is usually treated as a great offence in most nations of the world (Richardson, 2009). The compliance level in developed economies has been very high while compliance level in developing countries is generally poor. Uganda has recorded impressive economic growth rates over the last two decades. However despite the sustained period of growth, the tax

effort measured by the tax-to-GDP ratio has stagnated between 10-13 percent of GDP over the same period (Torgler, 2009). Non-empirical evidence has identified the pervasiveness of the informal sector and narrow tax base as some of the factors that might explain the inelastic tax system in Uganda (African Development Bank 2010; Matovu 2010; Ssenoga et al. 2009) and the effect of the tax breaks variously given out by the government (Gauthier and Reinikka 2006; Tax Justice Network-Africa and Action Aid International 2012). Moreover, tax compliance attitudes in Uganda are low. One of the drivers of low tax compliance is the low perception about the quality of public services among tax payers (Ali et al., 2013). This might imply that firm owners would have incentives to fulfil their tax obligations in return for a conducive business environment (for example; efficient legal and regulatory framework, unambiguous tax regimes, and efficient public infrastructure among others). However, where the business environment is unfriendly (for example; red tape, infrastructural deficiency, and legal and regulatory framework inefficiency among others) tax payers could develop incentives to evade taxes. The arising question that we investigate, therefore, is; to what extent does Uganda's business environment account for the low level of tax compliance or high level of tax evasion. Indeed, using the 2006 World Bank dataset of a cross-section of Ugandan firms, this study shows that an adverse business environment characterised by: inadequate Government provision of public capital; bureaucratic bribery, and an inefficient legal environment could potentially induce a firm's behaviour towards tax evasion. Our results are consistent with empirical investigations by Hanousek and Palda (2004), Torgler (2005), Frey and Torgler (2007) and Alm and McClellan (2012) who also show that the incentive to pay tax decreases with a decreasing quality of public services. Our study implies that one of the ways to mitigate tax evasion in Uganda could be through enhancing the business environment. Through ensuring a streamlined and efficient legal

system, adequate and efficient public infrastructure, and mitigating bureaucratic red tape and bribery the government of Uganda could go a long way in minimising tax evasion.

Ishengoma and Kappel (2011) examined the trends of some of the factors in the Ugandan Business Environment between 1994 and 2010 and concluded that the business climate has been deteriorating over the past years. Using the 2006 world bank report dataset of a cross section of Ugandan firms, the study reveals that the unfriendly environment which is characterized by bureaucratic bribery, inefficient legal systems and inadequate public infrastructure could potentially induce a firm to be less or non-compliant. Firm owners and managers would have incentives to fulfill their tax obligations in return of a conducive business environment. However where the business environment is unfriendly, tax payers tend to develop a non-compliant behavior. Since its inception in 1991, a number of initiatives have been undertaken by URA in order to improve revenue collections, including provision of sufficient information to tax payers through education and public relations drives (URA, 2007). A self-assessment policy in tax administration requiring tax payers to assess their tax payable on their returns has also been introduced (Kangave, 2005). Education efforts have been nourished with the introduction of taxation and tax management in the Ugandan school curriculum, as well as translation of tax education material into eight local languages. The educational programs are intended to enhance citizen's ability to understand tax policies and also increase their confidence in fulfilling their tax obligations as tax payers (Kasipillai and Mustafa, 2000).

Mbuya is a hill in southeastern Kampala, the capital city of Uganda. The hill rises 1,300 metres (4,300 ft) above sea level. The name also applies to the upscale residential neighborhood that sits on that hill, as well as the government military installations located there. Mbuya is located in Nakawa Division, one of the five administrative divisions of Kampala. It is bordered by Kyambogo to the north, Kinawataka and Kireka to the northeast.

Over the years Mbuya has converted into an upscale residential and commercial area with a number of businesses consistently coming up in this parish.

1.2 Statement of the problem

Over the last two decades, despite significant government effort, Uganda's Business Environment has declined persistently (Ishengoma, 2000). This is in agreement with more recent studies by Mawejje (2010) which still show that the business environment in Uganda is still very weak. Up to this very date, persistent business constraints such as credit access constraints, poor work ethics, ambiguous tax regimes, insufficient infrastructure and inefficient legal systems still characterize the Ugandan business environment. Perhaps the most inherently difficult challenge among small businesses in Uganda is how to find the optimal balance between a tight tax regime that is not business and investment friendly, while at the same time leveraging enough revenue for survival (Sebigunda, 2009). In terms of revenue efficiency, re-basing of the GDP in Uganda has seen the tax-to-GDP ratio drop by 1.6 percentage points from 13.3% to 11.7%. This suggests that a number of economic activities are still outside the tax net. In Kenya upon re-basing, the tax ratio dropped by 3.8% from 23.1% to 19.3%, while in Tanzania the ratio dropped by 4.3% from 16.9% to 12.6% (URA, 2015). This implies that tax compliance attitudes within the region and Uganda in particular are still lacking. Though previous studies have attempted to examine the predictors of tax compliance like social norms, correct filing, timely reporting and taxpayers morale using models from a developed world context, however little empirical evidence on tax compliance in the developing economies like Uganda has been available (Alm & Torgler, 2006). This shows that there is a gap that needs to be narrowed between tax compliance studies in more developed economies and those in developing economies. The main reason for carrying out this study is to examine further the relationship between the Ugandan business environment and tax compliance so as to bridge the missing gap in literature.

1.3 Objectives of the study

1.3.1 Major objective

To examine the relationship between the Ugandan Business Environment and Tax Compliance.

1.3.2 Specific objectives

(i) To investigate the relationship between Bureaucratic Bribery and Tax Compliance among SMEs.

(ii) To examine the relationship between the Regulatory Framework and Tax Compliance among SMEs.

(iii) To assess the relationship between Public Capital Efficiency and Tax Compliance among SMEs.

1.4 Research Questions

(i) What is the relationship between Bureaucratic Bribery and Tax Compliance among SMEs?

(ii) To what extent does the Regulatory Framework relate with Tax Compliance?

(iii) Is there a relationship between Public Capital Efficiency and Tax Compliance among SMEs?

1.5 Scope of the study

The scope of this study will take into consideration the content, geographical and time scope.

1.5.1 Content Scope

The study mainly focused on the relationship between the business environment and tax compliance among SMEs. Under the business environment, dimensions including; legal or regulatory frame work, public capital efficiency, and bureaucratic bribery were investigated. Correct filing of returns, filing returns in time and reporting complete information were key performance indicators that were measured to assess tax compliance levels among SMEs. There was also a moderating variable that had dimensions such as tax payers morale, personal norms and ethics and self integrity. The study was guided by specific objectives on which the methodology was based on such as examining the relationship between public capital efficiency and tax compliance among SMEs. Other objectives were to investigate the relationships between the legal framework and bureaucratic bribery with tax compliance among SMEs.

1.5.2 Geographical Scope

The study was conducted among SMEs within Mbuya parish in Nakawa division of Kampala district. More emphasis was placed on this division, because a number of eligible and registered tax payers operate within Nakawa division. In addition, not many studies on tax compliance have been done in this specific area and a number of SMEs are located in Nakawa divison (Kisaame, 2007).

1.5.3 Time Scope

The period under which the study was conducted was for three years from the year 2013 to the year 2016. Like most research projects, it is important to note that, a time constraint is inevitable, as the researcher attempts to adequately study within the specified time period.

However considerable effort has been asserted in getting significant and relevant data required for this study.

1.6 Significance of the study

The study intends to make contributions through the findings which are a useful source of information for the URA to review the areas which need improvements and enhance compliance to taxes

Secondly, the conclusions and recommendations drawn from this study would assist in coming up with suggestions that would help the GOU to improve the business environment and encourage more tax compliance.

To SMEs the results generated from this study will avail knowledge on how to manage their tax issues effectively through proper compliance to URA in a timely and efficient manner, and will therefore assist in proper decision making by owners and managers of SMEs.

The study reveals necessary knowledge to tax administrators and policy makers, as it provides relevant data on the cost incurred by eligible tax payers when complying with taxes.

The study may also assist government officials and other stake holders in finding possible remedies in order to mitigate the constraints associated by the Ugandan business environment.

This research paper also serves as partial fulfillment of the requirements for the award of Bachelor's degree in Business Administration and Management of Uganda Martyrs University.

In conclusion, this study adds on the existing literature on the Ugandan business environment and tax compliance among SMEs, and will thus avail more information to assist future researchers and academicians. They can extend their efforts in the areas which have not been covered by this study.

1.7 Justification of the study

Uganda is one of the countries that is experiencing high failure rates of SMEs although it is ranked as one of the most entrepreneurial countries in the world (GEM, 2009). Many Ugandans tend to start businesses in all spheres of operations, unfortunately many of these businesses, shutdown before even completing a year in operation (Brüderl et al. and Sserwanga, 2009). This study was mainly conducted because of the persistent business constraints that are increasingly hampering the operations of many SMEs in Uganda.

Whereas previous studies have attempted to examine the predictors of tax compliance like social norms, correct filing timely reporting and taxpayers morale using models from a developed world context (James, Barbour & Stern, 2007; Alm & Torgler, 2006), Little empirical evidence on tax compliance in the developing economies like Uganda is available and policy makers have not yet taken such factors into consideration to confirm these findings in Uganda (Nakiwala, 2010). Most of the existing literature is provisional. The purpose of this study is to examine what constitutes tax compliance of SMEs in complying with the tax requirements within the ugandan business environment most especially among SMEs in Mbuya parish thereby drawing implications and conclusions for Developing Countries. Therefore this study aims in bridging the missing gaps in studies that have been published before as well as narrowing the wide disparity between both less developed and more developed economies.

1.8 Definition of key terms

Tax Compliance: Degree to which a tax payer complies or fails to comply with the tax rules in his or her country. According to Peter and Dijke (2007) Tax compliance refers to the willingness of the people to comply with tax authorities by paying taxes. Tax compliance is described by attributes like; correct reporting, timely filing of returns and payment of tax liability plus other obligations (Plumley, 2002).

Business Environment: According to Sjurssen (2012) this refers to the combination of internal and external factors that affect the business. It is important to keep in mind that both external and internal factors can influence each other and work together to affect a business.

SMEs: To date there is no globally accepted definition of small and medium enterprises (IFAC, 2011). According to (MFPED, 2010) these are business firms employing 5 – 50 people (small scale) and 51 -100 people (medium scale).

Bureaucratic Bribery: Bribing of authorities in order to reduce bureaucracy or avoid certain activities involved in a procedure (Sebigunda, 2006).

Public Capital Efficiency: According to Gauthiera (2010) this refers to the extent to which public capital is available.

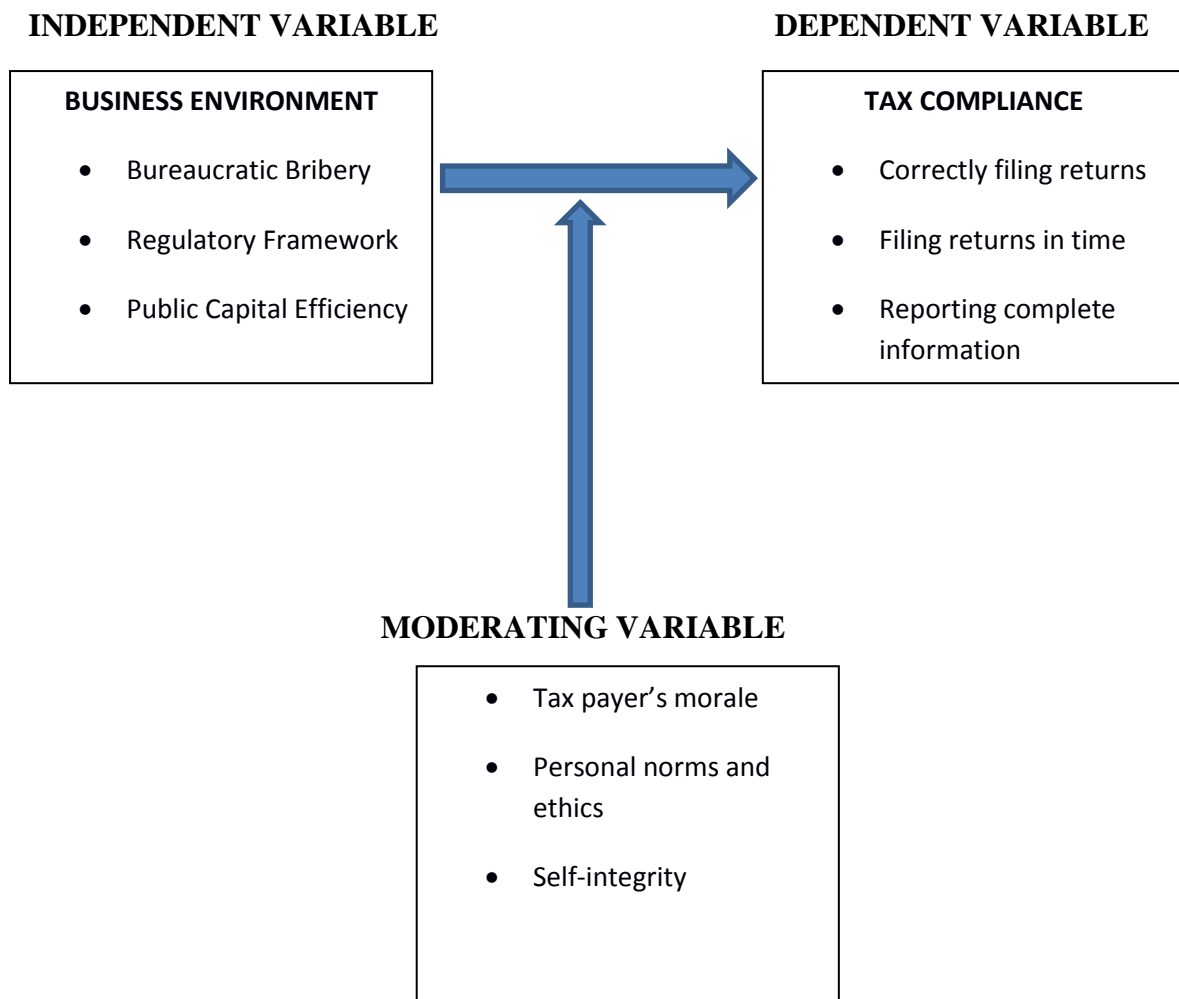
Regulatory Framework: Model enacted by the state that constitutes of policies, rules and laws that individuals are obliged to abide to (Bradley, 2008).

1.9 The conceptual framework

The conceptual framework shows the relationship between the variables. The business environment (independent variable), tax compliance (dependent variable) and the moderating variable which constitutes other factors affecting the dependent and independent variables relationship. Dimensions under the business environment; included; legal or regulatory framework, bureaucratic bribery and public capital efficiency. The aim was to relate the dimensions to tax compliance dimensions.

Under tax compliance, dimensions measured include; correctly filling returns, filing returns in time and reporting complete information. However there were other factors that constituted the moderating variable including; personal work ethics, tax payer's morale, level of enforcement and social norms of tax payers. These were found to influence the relationship between the business environment and tax compliance among SMES.

Figure 1: The Conceptual Framework



Source: Adapted and modified from a journal of tax evasion and the business environment in Uganda by Mawejje and Okumu (2014) and from Pricewaterhousecoopers report on paying taxes 2016

The above conceptual model shows the linkage between indicators of tax compliance and the business environment dimensions. Findings have shown that the extent of compliance among eligible tax payers is associated with bureaucratic bribery, public capital efficiency and the quality the legal system. When traders find it convenient and cost effective to bribe tax officials, so as, to pay less or no tax at all, then they tend to be less compliant. For instance a tax payer may find it more convenient and timely to bribe willing tax officials, so as to register his/her business for tax purposes on time as required by the law.

Secondly, the legal or regulatory framework also plays a role in terms of compliance, for instance where the system is very bureaucratic and lengthy, for example; it takes a number of days to register a business in Uganda hence surging up business related costs. In Uganda business men are also subjected to a number of constraints as they try to access financial credit, such as; collateral security constraints, among others. All these burdens associated with the framework, encourage less or non-compliance. However in more developed economies, where legal systems are efficient, such as; in Singapore, the level of compliance is quite reasonable. This is because the legal framework encourages smooth business operations, making traders see no viable reason for non-compliance.

Thirdly, if the government does not provide adequate capital such as; electricity, communications, health and transport infrastructure, then tax payers do not see any reason for paying their taxes. In essence if citizens do not see value in the taxes they pay, in form of public capital, then they don't see the reason to comply with taxes. The inadequate public capital that is presently characterized in developing countries, Uganda inclusive makes business men operate at very high costs, hence reducing on their profits, thus individuals report incomplete information in form of reduced tax liability. The state of ICT infrastructure, for example; the newly introduced online system is ineffective since it is at times slow, which makes individuals reluctant to pay taxes.

The level of enforcement that is exerted by the tax authorities, the tax payer's morale, personal norms/ethics and the society in which the tax payers resides, all have an effect on compliance attitudes of tax payers. For instance, if the tax payers are residing in a non-compliant community, there is a high probability of non-payment of taxes. For example; an individual who operates in an industry that is less or non-compliant, say; a beverage industry, may induce such an individual to adapt the current trends of non-compliance.

An individual with good personal norms and work ethics highly values compliance to rules and is therefore likely to be more compliant, and even act as a whistle blower, as compared to unethical tax payers who do not value taxes.

The tax payer's morale also plays a role in compliance; where management motivates its employees and instills an ethical culture and code of conduct throughout the organization, and then compliance rates are high as compared to situations where employees are demotivated. Similarly, when URA motivates tax payers, through tax exemptions, offering favorable rates and tax education so as to encourage compliance, then compliance to taxes is likely to improve as compared to reluctance of the tax body in motivating tax payers.

Though URA has recently enhanced on its effort towards compliance, there still remains a challenge of compliance since prominent individuals take advantage of the loopholes in the tax system, so as to avoid paying taxes.

1.10 Conclusion

The major objective of this chapter was to equip readers with the relevant background of the study. It intended to disclose the problem at hand which was why more businesses are becoming less compliant due to the adverse business environment. It also stressed out the objectives, hypotheses, significance, scope, justifications and the research questions that the study intended to answer. It ends with a well explained conceptual model that illustrates the relationship that subsists between the different variables.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter critically reveals the existing literature on the Ugandan business environment and tax compliance among SMEs. It is an assessment of the available literature on the variables and therefore provides a summary, classification and comparison between the different variables. Empirical review attempts to explain the gaps identified from different studies done on a similar subject and hence try to bridge those gaps. More emphasis has been placed on the relationship between the two dependent and independent variables as well as their dimensions to assess how the different dimensions relate with each other.

2.1 Overview of the Ugandan Business Environment and Tax Compliance

2.1.1 The nature of the Ugandan business environment

A Business environment is the sum total of all external and internal factors that influence a business. It is important to keep in mind that both external and internal factors can influence each other and work together to affect a business. For example, a health and safety regulation is an external factor that influences the internal environment of business operations. Additionally, some external factors are beyond control. These factors are often called external constraints (Sjursen, 2012). A conducive environment for business is one of the pillars of business competitiveness. The Ugandan business capacity is very critical for competitiveness on the global stage. Businesses that operate on efficient business practices and in an environment that encourages growth and investment are likely to be more tax compliant (Ayoki, 2009).

The business environment in Uganda has deteriorated over the last two decades (Ishengoma and Kappel, 2011). Despite government effort to improve on the business climate, the situation has persistently deteriorated over the years. Recent studies indicate that the business environment in Uganda is still very weak (Mawejje and Nampewo, 2012). However Uganda boasts of over 20 years of conservative macroeconomic management, which has delivered economic growth averaging 6 percent per annum and poverty reduction from 53 percent of the population living on less than \$1 a day in 1992 to 20 percent currently (AFDB, 2015; MFPED, 2015). In spite of some macroeconomic instability in 2011/12, economic growth recovered to 5.8 percent in 2012/13 from a low of 3.4 percent in 2011/12; but fell back to 4.7 percent in 2013/14, and was projected at 4.5 percent in 2014/2015 (AFDB, 2015).

Uganda is still characterized as a factor driven economy, implying that key drivers for competitiveness are still the basic requirements including; adequate infrastructure, health care, macro-economic factors and education among others (World Bank, 2013). Persistent business constraints such as credit access constraints, poor work ethics, ambiguous tax regimes, insufficient infrastructure, inefficient legal and regulatory frame works among others are all characteristics of the Ugandan business environment. With a young and rapidly growing population, extremely productive agricultural lands, a nascent oil sector, and a strategic location in the heart of East and Central Africa, Uganda offers great economic potential. However the country was ranked 150th out of 189 economies in the 2015 report on the overall ease of doing business. This ranking is similar to the 2014 report in which the country ranked 152nd and 2013, ranked 150th. The current worrying trend in ranking provides sufficient evidence that the business environment in Uganda has negatively impacted on businesses over the years (World Bank, 2015).

The most recent 2014-2015 edition of Global Competitiveness Report assesses 144 economies. The report is made up of over 110 variables, of which two thirds come from the Executive Opinion Survey representing the sample of business leaders, and one third comes from publicly available sources such as the United Nations. The variables are organized into twelve pillars with the most important including: institutions, infrastructure, macroeconomic framework, health and primary education and higher education and training. The GCI score varies between 1 and 7 scale, higher average score means higher degree of competitiveness. In a survey on competitiveness, Uganda was ranked 122nd out of 144 economies, findings also cite terrorism as a real threat to doing business. In addition, the failure by the police to curb terrorism and the unreliability of the force contribute significantly to the overall cost of doing business. The Uganda police ranks highest in the region in terms of bureaucratic bribery and stands at 96th out of 144 economies in terms of reliability (World Bank, 2014).

Macro-economic factors such as inflation, tax rates and the central bank rate (CBR) have also been attributed to non-compliance attitudes. The Ugandan Shilling is the currency of Uganda. Currency rankings show that the most popular Uganda Shilling exchange rate is the UGX TO USD rate. The currency code and symbol for Shillings is UGX. The Ugandan shilling has consistently depreciated over the past few months and had stagnated between \$3330 - \$3750, with no signs of improving. Head line inflation stagnated between 4.8 - 5.4 percent for periods between July and August 2015. The CBR remained between 14.5 and 16 percent over the same period (Central Bank, 2015). However it is notable that while all currencies in the region struggled against the dollar, the Ugandan shilling posted the least decline-only 0.2 percent since January 2014, compared to Rwanda's 1 percent. The Kenya and Tanzanian units are the weakest performers losing 1.3 and 1.7 percent respectively in the wake of falling exports and concerns over insecurity (AFDB, 2014).

The high costs of accessing credit from financial institutions, which are forced to raise the lending rates, by the central bank, has prompted a number of SMES to borrow at a high cost which negatively impacts on their profitability, and hence they tend to become non or less compliant to URA. In addition, some of these traders operate in dollars through the importation of goods that have to be sold costly in order to cover costs of production (Dabla-Norris, 2008). Uganda must enhance its business competitiveness in order to make a global market economically. Creation of an environment conducive for business is vital for businesses to be able to harness opportunities for growth and investment. It is there for the mandate of the responsible authorities in government to create the most conducive environment for SMES to thrive (Mbaye, 2010). The Government of Uganda has over the years come up with new interventions to mitigate the challenges business firms face in the environment and more especially the SMES since they employ the majority of the citizens both in the rural and urban setting. Such initiatives include; the integration of the east African community, which will enhance trade through the removal of a number of trade barriers, introduction of a single customs duty and encouraging free trade across all borders (Kiwauka, 2011).

2.1.2 Tax compliance

In the words of Oliver Wendell Holmes, U.S. Supreme Court of Justice in 1904, “Taxes are what we pay for a civilized society.” Tax compliance refers to the willingness of the people to comply with tax authorities by paying taxes (Peter and Dijke, 2007). Tax compliance is described by attributes like; correct reporting, timely filing of returns and payment of tax liability plus other obligations (Plumley, 2002). James and Alley (2002) define tax compliance as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application

of enforcement activities. Otherwise, it can be construed as the degree to which a taxpayer obliges to tax rules and regulations.

Franzoni (2000) and Chatopadhyay and Das-Gupta (2002) see tax compliance as involving the true reporting of the tax base; correct computation of tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behaviour by the taxpayer, contrary to the above constitutes non-compliance. Tax non-compliance is the failure of the taxpayer to meet tax obligations, irrespective of whether this is committed intentionally or not (James and Alley 2002). Tax compliance is a process that consists of many sub activities that need to be performed in a systematic manner. It therefore is a self-initiative for all capable and registered tax payers to fulfill their obligations with honesty and integrity (Kangave, 2011).

Uganda has recorded impressive economic growth rates over the past two decades. However despite of the sustained growth, the tax collected as measured by tax to GDP ratio has stagnated between 10 - 13 percent of GDP over the same period (AFDB, 2010; Matovu, 2011). Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory (Delavallade, 2008). Put simply, GDP is a broad measurement of a county's overall economic activity. After re basing the county's GDP figures, the tax to GDP ratio scored 11.7 percent in the financial year 2013/14. this is very low in respect to regional and international standards, with Kenya's tax to GDP ratio placed at 19.3 percent while Tanzania was placed at 12.6 Percent (MFPED, 2015).

Current reports indicate that there is a lot to be done if the country is to realize higher GDP-tax revenue ratios. The reports also indicate that Ugandan citizens 'rank 104th out of 189

countries surveyed, in terms of paying taxes. This follows a drop from 101st in the FY 2014, providing evidence that the level of tax compliance within the country is slightly below average at the global stage (World Bank, 2010). Faced with growing financial needs and reduction in aid, the government started thinking of collecting more domestic revenue. The first step aimed at increasing revenue was the creation of the semi-autonomous body Uganda revenue authority (Fjelstad, 2005). In its bid to create a more compliant atmosphere, URA, has over the past years made reforms aimed at increasing awareness and benefits of tax compliance. Tax payers who cannot access sophisticated tax specialist and information find additional challenges in compliance (Obberholzer, 2008).

The Uganda Revenue Authority (URA) was established by a Uganda Revenue Authority Statute of 1991 and set up in September of the same year as a central body for the assessment and collection of specified revenue, to administer and enforce the laws relating to such revenue and to provide for related matters. This statute incorporated all the laws that were in force then regarding tax collection. The new organization (URA) amalgamated the three tax administration departments that were responsible for all the taxes collected by the Central Government of Uganda. These Departments were Customs & Excise, Inland Revenue and Income Tax Department. With over 36 million Ugandans being supported by only 279,689 registered tax payers, (as of October 2013), URA has embarked on a campaign to look out for businesses and individuals that are dodging taxes. This campaign aims at encouraging the non-compliant, those who don't know their tax obligations and those who are intentionally evading taxes to voluntarily declare their income and pay their tax debt. It also targets those who are already on the tax register but are paying less than they should be paying (Akol, 2014).

In the budget speech which was delivered by the then finance minister, Hon Maria Kiwanuka, new reforms were put in place and a number of exemptions were waived off in

order to increase domestic revenue, as the Ugandan government still struggled to finance over 80 percent of the national budget, prior to withholding of aid by a number of donors and development partners, on different grounds, corruption, inclusive (Kasuga, 2013). Some of the new reforms geared towards tax compliance included; introduction of a withholding tax on gaming and sports betting companies, introduction of a new stamps duty and excise duty, and a number of exemptions were waived off, such as; exemptions on the supply of agricultural seeds, inputs and fertilizers, supply of computer software , among others (MFPED, 2014). According to Kiwanuka, all new proposals were aimed at increasing revenue as well as the overall objective of compliance. Recently, Uganda has tremendously improved, contrary to the past compliance statistics and a notable improvement has been registered, with the country ranking 2nd only after Rwanda in terms of overall compliance (AFDB, 2014). This has been attributed to the considerable efforts exerted by URA, in partnership with MFPED in increasing awareness, revenue and overall compliance over the past few years.

2.2 Small and Medium Enterprises

To date there is no globally accepted definition of small and medium enterprises (IFAC, 2011). SMEs definition ranges across many sectors and economies. Particularly in Uganda, Small and Medium Enterprises are mainly defined on the basis of both the number of people employed and the annual turnover of the enterprise (Ernst and Young, 2011). According to the Ministry of Finance, Planning and Economic Development, a small enterprise is one that employs a minimum of 5 people and a maximum of 50 people; and also has an annual sales/revenue turnover of a maximum of Ugandan Shillings 360 million and total assets of a maximum of Ugandan Shillings 360 million, while a medium enterprise is defined as an enterprise employing between 50 and 100 people; and/or has an annual sales/revenue

turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million (MFPED, 2008).

The contribution of SMEs to Uganda economy cannot be over emphasized since SMEs contribute over 90% of total non-farm private sector employment, constitute approximately 20% of the national GDP, contribute over 20% of incomes of the labor force, and have great potential for reducing poverty levels (UIA, 2008). This implies that SMEs are the biggest employers in the Ugandan business environment, estimated to have created employment for over 2.5 million people, improving standards of living and ensuring political stability (Hatega, 2007). Small and medium size Enterprises (SMEs) are the key drivers of economic growth in LDCs (Rwakakamba, 2011; Ocici 2006). Therefore efforts directed towards enhancing their survival and growth, directly impact on the economic development of LDCs.

The range of businesses operated by SMEs in Uganda include setting up and managing carpentry workshops, boutiques, general merchandise shops, operating health clinics, selling fresh foods, riding motor cycles (commonly known as boda-bodas), selling telecoms Airtime and vending cooked food among others. Namatovu et al. (2010) notices that majority of the enterprises are found in restaurants and food processing, garages for motorcars and motorcycles, retail and whole sale trade, metal fabrication, furniture assembling, schools and transport services.

The biggest culprits' as far as low tax compliance is concerned in Uganda are mainly traders and businesses in the informal sector which largely constitutes of SMEs (Kamulegeya, 2007). SMEs are less compliant because of the constraints of the business environment. The recently enacted SME policy is meant to enhance the performance of SMEs (Balunywa et al 2010). Despite the fact that the policy was to make SMEs thrive in the environment, most of them do not survive for more than two years (Wannenburger and Dejager, 2009).

In studies done by Liedholm and Mead (1993), it was observed that the number of small and medium enterprises was increasing annually with a birth rate of about 20% per annum. However, the studies did not note that the death rate was also increasingly high. Recently traders found to smuggle in un taxed goods were fined, However URA issued a new directive to arrest all those found to smuggle in untaxed goods, prompting traders , under their Umbrella body KACITA to protest, by closing all their shops , amid tight police patrol, in down town Kampala (Kiwanuka, 2010).Traders claimed that most times it is not their fault to default taxes but rather, the problem originates from the shippers, whom they purchase their commodities. The traders asserted that the shippers who do the packing and delivery of consignments, at times pack untaxed goods. However the main challenge remains that majority of SMEs operate informally, which has been identified by experts as one of the drivers of non-compliance (Kasuga, 2011).

2.3 Review of literature in line with Specific Objectives

Specific objectives for this study were to examine relationships between the bureaucratic bribery, the regulatory framework and public capital efficiency and how these dimensions relate with tax compliance. Presented below is the literature and empirical evidence for the study.

2.3.1 Bureaucratic Bribery and Tax Compliance

The literature identifies corruption and bribery of government officials, as some of the important impediments of firm performance and growth (Kasuga 2013; Fisman and Svensson 2007; and Méon and Weill 2010). The motives for corruption and bribery have now received much attention in the literature, with inconclusive evidence on the implications for firm performance. Fisman and Svensson (2007) were able to show that corruption captured as the propensity to pay bribes is negatively associated with firm growth. However

this finding was contrasted by Kasuga (2013) who shows that paying bribes and corruption generally reduces bureaucratic red tape and improves firm productivity. Meon and Weill (2010) are consistent with Kasuga's findings and show that corruption is efficiency enhancing economies characterized weak institutional frame work.

Wide spread bribery among tax officials has largely contributed to a non-compliant culture among citizens. The revenue authority was ranked 2nd out of seven institutions surveyed on bureaucratic bribery (Afro barometer, 2012). The bureaucratic and red tape procedures encourage non-compliant attitudes, among tax payers as they find it effective to pay bribes to willing officials, in order to quicken the procedure involved in compliance. Citizens avoid paying taxes due to being faced with bribery demands from tax officials.

Economies characterised by a great extent of bureaucratic bribery are argued to be plagued by substantial tax evasion activities as well (Tanzi and Davoodi 2009). Since bribery and tax compliance are, by nature, difficult to measure, the empirical evidence for an according relationship is scarce. However, with the exception of fiscal bribery, there are also relatively few theoretical investigations. Chu (2005) and Bowles (2009), for example, find that corruption among tax enforcement agents increases income tax evasion since the effective penalty declines, providing a theoretical argument for a positive link between tax evasion and corruption. Sanyal (2002), Hindriks et al. (2009), and Besley and McLaren (2003) investigate the impact of alternative reward schemes on the behaviour of corrupt tax officials and the level of bureaucratic bribery. In addition, Chander and Wilde (2002) and Sanyal et al. (2010) show that tax revenues may decline with the income tax rate in the

presence of corrupt tax officials. Since tax evasion entails corruption, this 'Laffer-curve' effect is also compatible with a positive relation between the two illegal activities.

Svensson (2003) finds that a majority of Ugandan firms pay bribes, and the amounts are on average large (8% of total costs), depending on the extent to which a firm has to deal with public officials. Everest-Phillips (2009) reports that evidence from taxpayer surveys indicate that bribe ranges between 25%-40% of the total assessed tax amount, and that paying a bribe can lower the tax assessment by 50%. The level of corruption is deeply rooted into a number of institutions in Uganda and the Uganda Revenue Authority is no exception. To date, there are a number of sagas that have been reported in the tax authority, that relate to bureaucratic bribery.

Also using an aggregate measure of efficiency, Méon and Weill (2010) show that corruption is efficiency enhancing in economies characterised by a weak institutional framework. In the case of North African firms, Delavallade (2012) shows that tax evasion and administrative corruption could be either complements or substitutes, depending on the probability of fraud detection. The payment of bribes to circumvent business environment constraints such as an ambiguous tax regime and red tape could amount to resource misallocation. Since money spent on bribery and time spent negotiating how much bribes to pay could have been invested in enhancing a firm's productive investments. Besides there is a likelihood that a corruptible public official could increase the size and number of corruption transactions. Under such circumstances, corruption might result in a net loss in firm efficiency or productivity (Myrdal 2008).

In conclusion, majority of managers and owners of SMES find it more efficient and effective to pay bribes in order to lessen on their tax liability and also quicken the procedure that is usually lengthy and bureaucratic.

2.3.2 The Legal or Regulatory Framework and Tax Compliance

In 1995, the government restored the legal system to one based on English common law and customary law. At the lowest level are three classes of courts presided over by magistrates. Above these is the chief magistrate's court, which hears appeals from magistrates. The High Court hears appeals from the lower courts and has full criminal and civil jurisdiction. It consists of a chief justice and a number of justices. The three-member Court of Appeal hears appeals from the high court. This is briefly the nature of Uganda's legal system, which businessmen encounter on almost a daily basis. The regulatory frame work plays a crucial role in creating an environment conducive for business. Tax compliance tendencies are influenced by the strength of the legal system that is deterrent enough to make non compliance unattractive (Ali et al. 2013)

Amidst tight legal frame works, it is inevitable for business men to engage in tax compliance. Those that comply with taxes take advantage of the loop holes in the legal system, so as to beat bureaucracy through bribing corrupt and willing justices. Regulations on starting and maintaining an enterprise usually involve lengthy procedures such as pre-registration, verification and post registration. The time involved measured in calendar days and the costs involved all have contributed to less or non-compliance (World Bank, 2014).

It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally (Pope & Abdul-Jabbar, 2008). Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness.

Using a sample of 41 developing and transition countries, with the aid of a general equilibrium model, Dabla-Norris et al (2008) find that the quality of the legal framework affects the size of the informal sector, as well as taxes, regulations, and financial constraints. Using firm level data capturing both formal and informal enterprises from Benin, Burkina Faso and Senegal, Benjamin and Mbaye (2010) show that the emergence of the informal sector is aided by the lack of robust enforcement mechanisms. Similarly, while examining correlates of tax-compliance tendencies between Kenya, Tanzania, Uganda and South Africa, Ali et al. (2013) show that tax compliance tendencies are influenced by the strength of the legal system. They argue that a strong legal system is sufficient to make tax evasion unattractive. Furthermore, Ali et al. (2013) show that the citizens perception about the quality of public services influences their decision to engage in tax evasion. The better the perception about the quality and quantity of public services the more likely citizens shall fulfil their tax obligation. On the contrary, the lower is the citizen's perception about the quality of public services, the higher will be the incentive to engage in tax evasion.

Singapore which has been consistently been ranked first in the World Bank's doing business report, it takes merely three working days to register a new business, however in Uganda ,it could take up to 32 days , which makes it more costly and time consuming (World Bank, 2015). Uganda was ranked 166th out of 189 economies studied in terms of starting a business is concerned (World Bank, 2014). This indicates that a number of traders find it costly , lengthy and difficult to start and maintain an enterprise in Uganda, hence end up understating gross income in order to cover upstart up costs, through less or non-compliance.

Uganda thus needs to borrow a leaf from developed legal systems like Singapore's legal framework so as to assist its own citizens, adapt to a more favorable environment. The most pressing constraints to business development are legal and regulatory challenges as well as challenges in identifying, attracting and retaining of appropriate labor force (PSFU, 2012).

Other regulatory challenges include non-tariff barriers to trade, tax burden and constrained credit access (Mawejje, 2012). In other words, legal and regulatory barriers rank amongst the top five drivers of high operational costs that further induce firm owners to become non or less compliant. In conclusion, regulatory burdens have kept a number of SMES in the informal sector, hence most of them continue facing constraints in credit access which limits their ability to grow, create employment and contribute to the national economy.

2.3.3 Public Capital Efficiency and Tax Compliance

One of the drivers of low tax compliance is the low perception about the quality of public services among tax payers (Ali et al. 2013). Citizens are more likely to fulfill their tax obligations in return of adequate and efficient goods and services. On the contrary, where value for money is not exhibited by the government, citizens become less compliant. The main concern for tax payers lies in what they get directly in return for tax payment. The incentive to pay taxes decreases with a decrease in the quality of public services (Alm and Mclellan 2012). In addition citizens living in regions that are less prioritized by the state in terms of economic regional development are likely to become less compliant. This has prompted government to scale up its public investment program, so as to reduce the infrastructure deficit and encourage private investment as an engine of growth.

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner (Moore 2004). Alm et al. (2008) note that compliance increases with (perceptions of) the availability of public goods and services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo). In this perspective, taxation and the provision of public goods and services are interpreted as a

contractual relationship between taxpayers and the government (Moore 2004).

Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja 2011). The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Richupan 2007). It is then reasonable to assume that a taxpayer's behavior is affected by his satisfaction or lack of satisfaction with his or her terms of trade with the government.

Public spending was about 20 percent of GDP and up to 29 percent of the recent budget was allocated to infrastructure, especially, road works, rehabilitation of ferries, and most significantly, the first phase of design standard gauge railway and commencement works on the construction of the 600 MW Karuma hydro power dam (MFPED, 2015; Kiwanuka, 2014). All these new developments adopted by the government were intended to provide quality and efficient public capital that is a necessity for SMES to thrive. SMES operate more efficiently when there is an efficient transport network, as well as constant supply of adequate electricity.

Electricity which is very crucial for business operations is notably insufficient throughout the nation, associated with constant black outs and load shedding. This has induced most small businesses to invest in expensive sources of energy, such as; bio gas, generators, and thermal energy, among others. This has as a result increased on the overall business costs, amidst a tough business environment, prompting most SMES to develop a non compliant attitude. The country was ranked at a poor 181st position out of 189 economies surveyed in terms of

the ease of getting electricity in 2014 and dropped to a disappointing 184th position in 2015 (World Bank, 2015). Uganda still ranks lowly in terms of infrastructure especially road and electricity infrastructure that are very critical for smooth operations of SMES. The country was ranked 105th out of 144 economies surveyed in terms of road infrastructure (World Bank, 2015). The poor state of roads across the country, have greatly hampered business operations, since the roads become impassable especially during the rainy seasons and also goods and services are destroyed during transit, hence most SMES incur great losses.

2.4 Social, Personal Norms and Self-Integrity and Compliance

Personal norms play an important role in determining tax payer's compliance behaviors (Murphy, 2009). An individual with good social norms, self-integrity and good work ethics is likely to comply more to taxes in conditions of an unfriendly environment, poor service delivery, and inefficient legal frameworks, since he perceives compliance as ethical and thus an obligation. The effect of tax breaks that are given out by the government also directly contributes to non-tax compliance (Gauthier and Reinika, 2006). According to experts, the Government of Uganda has persistently and notably awarded most of its national development projects to foreign and multinational firms at the expense of local firms, hence creating a feeling of isolation and unfairness in the business environment, hence non compliance. Moreover, most of these multinational companies operate in foreign currency and hence require importation of equipment used in these projects and hence increase the overall cost of government projects, repatriate profits to their countries and also employ fellow national in higher positions leaving lower posts to local Ugandans. Citizens perceive this as unjust, and wastage of tax payer's money and hence develop a non-compliant attitude.

2.5 Conclusion

The main aim of the review of literature was to establish the relationship that exists between the variables, so as to find out the missing gaps, and provide a well structured ground for future research in the field of tax compliance and the Ugandan business environment. a thorough investigation has been done to ascertain already existing information on the research and also acknowledge the work of others. Effort has thus been taken to fill in missing gaps that relate to the field of study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section reveals the methodology that was used while conducting the study. It comprehensively covers the research design, study area, study population, sample size and sampling techniques, data collection instruments, quality control methods, data management and processing methods, analysis of data, ethical considerations and limitations of the study.

3.1 Research design

A research design refers to the framework on which the whole research process is built. It is a model on which the research findings are collected, analyzed and interpreted. According to Saunders (2007) a research design may be defined as a framework on which the survey may be conducted. A cross sectional survey design that is both quantitative and qualitative was used since such a design was likely to give maximum results. Data was collected qualitatively by grouping it into themes and analyzing responses. The study also used an interview guide thereby aiding comprehension of participants. Quantitatively the research generated descriptive statistics by generation of means and standard deviations. It also presented tables in percentage and frequency form that were discussed with pie charts and bar graphs.

3.2 Area of the Study

The study was conducted in Mbuya parish which is located in Nakawa division, one of the five divisions of Kampala district. This parish was chosen because of the observable trends in non-tax compliance levels among SMEs in this parish. In addition, such an area has a number of SMEs that are constantly engaging in issues relating to tax compliance and are

subjected to daily constraints of the business environment. Similarly not many studies on tax compliance have been conducted in this area, hence the study aims at narrowing this missing gap.

3.3 Study population

A study population refers to the collection of individuals or items that the study uses in generating the sample size. According to KCCA data set and other key informants, the study population constituted of owners and employees of 100 SMEs covering virtually all forms, including; sole proprietorship, partnerships, private, services and family owned businesses, which are registered in Mbuya Parish. In this study, we took on the classification of SMEs by the Government of Uganda basing on the number of people employed by the firms; 5- 50 people (small) and 51- 500 people (medium) (Schiffer and Weder, 2001; UBOS, 2003).

3.4 Sampling Procedures

3.4.1 Sample Size

Basing on the Krejcie and Morgan (1970), sample size determination criteria, a sample size of 80 SMEs is appropriate for the population of 100. We therefore took a sample of 80 SMEs in order to make it possible to randomly sample the firms.

3.4.2 Sampling Techniques

In line with Rooks and Sserwanga (2009) argument that a robust sample is difficult to attain in studies involving small and medium businesses in Uganda since most of them are not registered and lack a clear structure, the study sample was generated using purposive and simple random sampling techniques. In order to ensure that all participants are fairly chosen, the researcher used simple random sampling technique. Under this technique, respondents were chosen without basing on any particular feature or characteristic. The firms were listed

in alphabetical order and after the first SME was chosen randomly, every fifth SME was chosen to give the total sample size. Purposive sampling was also used so as to get more specific information from the respondents. While Purposive sampling was used to target only those key respondents like business owners, random sampling technique was used to select employee respondents.

3.5 Data sources

3.5.1 Primary data

Primary data refers to data collected for the first time and has never been reported anywhere else (Amin, 2005). Owners and managers of SMEs in Mbuya Parish of Nakawa division were given structured questionnaires from which primary data was obtained.

3.5.2 Secondary data

Secondary data is data that is already in existence, and has already been reported by other academicians (Amin, 2005). Secondary data was collected through the review of literature on; journals, government publications and performance reports, published by professional bodies, such as URA, AFDB and World Bank.

3.6 Data collection methods and instruments

The study employed two methods of data collection. The first instrument used was an interview guide that guided respondents on the most efficient and appropriate way of answering questions in the questionnaires. The second mode used was a self-administered and structured questionnaire that contained both open and closed ended questions. The questionnaire in particular was comprised of questions relating to the business environment and questions relating to tax compliance which were answered using a 5 point scale ranging from 1- strongly disagree to 5-strongly agree.

3.7 Quality Control Methods

3.7.1 Validity of the instrument

According to Amin (2005) validity is the extent to which the research instrument is important in measuring what it is supposed to measure. A pretest of the research instrument to establish validity was carried out. The instrument was given to two experts who gave their opinions using a 5 point scale ranging from relevant to not relevant. It was further pretested by administering it to probable respondents so as to test their understandability of the items. Items found to be irrelevant were eliminated and those not well understood were adjusted for understandability.

3.7.2 Reliability of the instrument

Reliability is the degree to which the research instrument measure consistently what it is supposed to measure. It may also be referred to as the degree to which the instrument is trusted or dependable (Amin, 2005). Questionnaires were taken to respondents at a specific date and time and primary data was obtained, analyzed and recorded. After a lapse of time, the questionnaires were given to the same respondents. The data obtained in the latter was consistent with the primary data. It was thus held that the instrument is reliable.

3.8 Data Management and Processing

Data was managed and processed using both quantitative and qualitative modes. Quantitatively, data from the field survey was entered into a computer for computation and generation of descriptive statistics. Descriptive statistical methods and comparison techniques were used to analyze and interpret the findings of the study that were presented in tables and charts from which frequencies, means and standard deviations were computed. Data was collected and entered into a data handling tool that generated descriptive statistics.

Lastly collected data was manipulated using Microsoft excel that aided in the computation and generation of bar graphs and pie charts. During final edition, the researcher ensured that errors and omissions were detected and handled appropriately.

3.9 Data Analysis

With the help of a research assistant, data that was generated using SPSS (17.0) was used in analysis in order to come up with relationships and conclusions. Data analysis was done with the aid of the social package for social scientists so as to generate descriptive statistics. SPSS was very helpful in the analysis of correlations. Data analysis covered theme analysis through grouping data into themes. The study employed both content and theme analysis so as to interpret findings together with descriptive statistics.

3.10 Ethical considerations

This study was conducted as a pre requisite of award of degree of Business Administration and Management, and in accordance with the university policy. Before setting out to the field, a letter of introduction was obtained from the faculty of Business Administration and Management (BAM) of Uganda Martyrs University (UMU).

The researcher acknowledges use of literature already in existence and the study endeavors to cite all authors and publishers of the relevant data for this study.

Privacy and confidentiality of all responses was handled in a professional manner and all participants were assured and convinced about the integrity of the whole research process. The researcher ensured confidentiality and safety of all the data collected from the respondents through not exposing filled in questionnaires to an unauthorized individuals who wished to inquire about the responses offered by participants.

With the help of research assistants, effort was taken to seek participation wholly entirely throughout the research process. However Respondents were not forced to fill in questionnaires rather they were given adequate timefill in the questionnaires on a voluntary basis. This assisted respondents to fill in what best represented their choices without third party influence.

3.11 Limitations to the study

A cross sectional study was conducted for the first time, and within a short period of time. Therefore a comprehensive survey was not conducted due to this constraint. However the study generates significant data set that was examined for potential relationships between the variables.

There was a limitation in finances, as the researcher had to source for funds to cover up various expenses such as printing and photocopying, welfare of researcher and assistant, transport expenses, and binding expenditures. However the scarce finances that were available were planned and budgeted for so as to be used in the most optimal way hence generate a thorough research report.

The results from the study cannot be over generalized due to the fact that the geographical scope was limited to only Mbuya Parish in Nakawa division of Kampala district. Studies in future can extend to other parts of the country, because the results may vary. However it can be noted that Kampala district has the highest number of registered tax payers in Uganda, and the Nakawa division holds the a number making it representative of others.

There was also a limitation of language barrier, as some of the participants were not well conversant with the English language that was strictly used throughout the entire research process. In order to overcome this challenge, the researcher hired a research assistant and

also used a guide so as to translate specific information to ensure understandability of all questions.

Lastly most of the respondents were hesitant in giving out some specific information because of fear of such information being leaked to relevant authorities. This limitation was handled through assurance of confidentiality and privacy of all responses.

3.12 Conclusion

The main aim of this chapter was to unveil the data collection tools and how sampling was undertaken. Results obtained from the research using the data tool are presented, analyzed and discussed in the next chapter.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter describes the analysis of data, followed by a discussion of the research findings. The findings relate to the research questions that guided the study. Data has been analyzed to identify, describe and explore the relationships between bureaucratic bribery, public capital efficiency and regulatory frame work, with tax compliance. Demography of respondents, correlations, frequencies, percentages, pie charts and challenges faced by respondents has also been presented. Data was obtained from self-administered questionnaires. A total of 80 questionnaires were given out to managers and employees of SMEs. However only 78 questionnaires were received back and 76 questionnaires were usable. This represented a response rate of 95%

$$= 76/80 * 100 = 95\%$$

Although neither the refusal to participate were known, the relatively high response rate was considered appropriate for the study.

4.1 Demography of respondents

The tables below show the background information about the respondents that included; gender, age bracket, nature of business, level of formal education and marital status.

4.1.1 Gender of Respondents

Respondents were required to reveal whwther thwey were male or female. Below is a tbale shpwing their responses.

Table 1: Gender of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid MALE	39	51.3	51.3	51.3
FEMAL E	37	48.7	48.7	100.0
Total	76	100.0	100.0	

According to the research, it was established that the majority of respondents were male who were 39 in total representing 51.3% as compared to females who were 37 in number accounting for 48.7%. The above information is also illustrated in the figure below

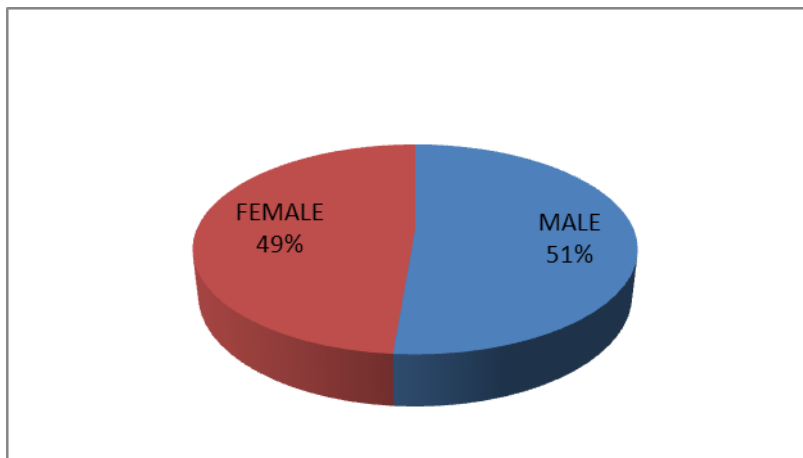


Figure 2: Pie Chart showing gender of respondents

4.1.2 Marital Status of Recesspondents

The table below shows the marital status of respondents. They were required to answer whether they were married, single, divorced, widowed or had separated with their partners.

Table 2: Marital status of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid SINGLE	22	28.9	28.9	28.9
MARRIED	28	36.8	36.8	65.8
WIDOWED	13	17.1	17.1	82.9
DIVORCED	8	10.5	10.5	93.4
SEPARATED	5	6.6	6.6	100.0
Total	76	100.0	100.0	

Most of the respondents were married and were 28 in number (36.8%), and those who were still single accounted for 28.9% and were 22 in total. These were followed by widowed respondents who were 13 in number (17.1%), followed by 8 divorced respondents (10.5%) and the least respondents were separated from their partners and were 5 in number (6.6%). This is illustrated in the figure below.

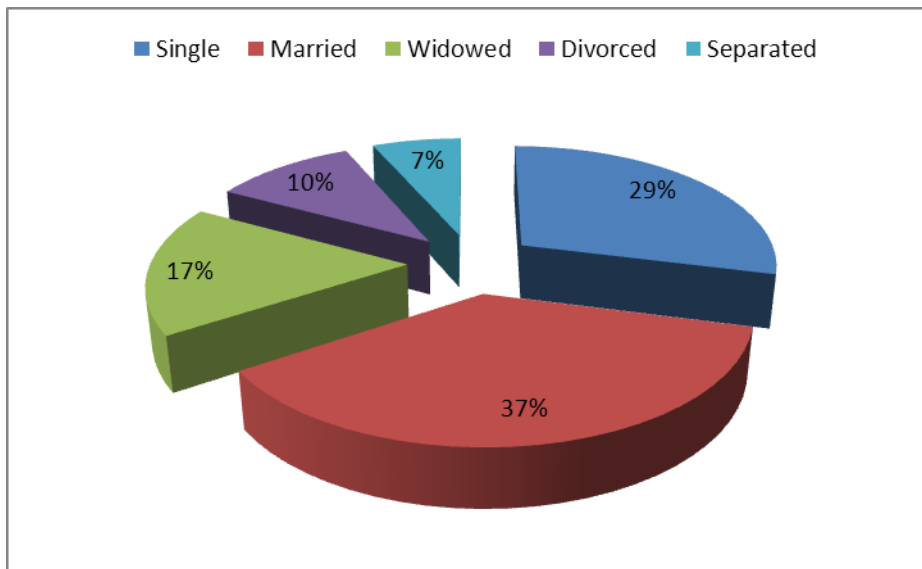


Figure 3: Pie Chart showing Marital Status of Respondents

4.1.3 Age Bracket of Respondents

Respondents were asked to reveal their age group through answering whether they were between 18 – 24 years, 25 – 34 years, 35 – 44 years, 45 – 54 years, 55 – 64 years and over 65 years of age. The table below presents the findings from the field.

Table 3: Age Bracket of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24	11	14.5	14.5	14.5
	25-34	13	17.1	17.1	31.6
	35-44	24	31.6	31.6	63.2
	45-54	12	15.8	15.8	78.9
	55-64	5	6.6	6.6	85.5
	OVER 65	11	14.5	14.5	100.0
	Total	76	100.0	100.0	

Most of the respondents were aged between 35-34 years (31.6%) and were 24 in number; they were followed by 13 participants who were aged between 25-34 years (26.3%). These were closely followed by Respondents aged between 45-54 years who were 12 in number and accounted for 15.8%. Respondents over 65 years and those between 18-24 years were both 11 in number accounting for 14.5% of the total respondents. The least number of respondents belonged to 55-64 year age group and were only 5 in number (6.6%). This is further shown and illustrated in the bar chart below.

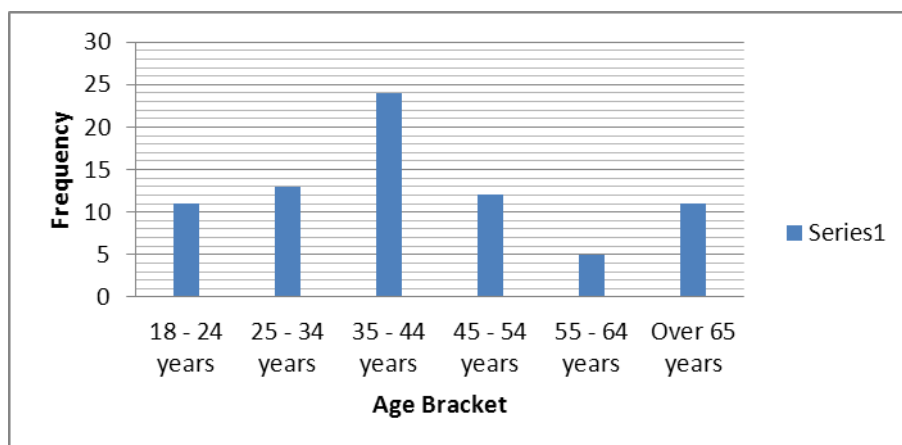


Figure 4: Bar Graph showing Age Bracket of Respondents

4.1.4 Formal Education of Respondents

Respondents also expressed the level of education they had attained. They answered on whether they were university graduate, diploma holders, certificate holders, secondary level certificate and primary level certificate holders. Below are the responses from the field survey.

Table 4: The level of formal education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid UNIVERSITY DEGREE	43	56.6	56.6	56.6
DIPLOMA HOLDER	23	30.3	30.3	86.8
CERTIFICATE HOLDER	4	5.3	5.3	92.1
SECONDARY	3	3.9	3.9	96.1
PRIMARY	3	3.9	3.9	100.0
Total	76	100.0	100.0	

With regard to education, majority of the respondents had attained a university degree and were 43 in number (56.6%), these were followed by 23 respondents who had obtained diploma (30.3%), followed by 4 certificate holders (5.3%). The least number of respondents were 3 in number and had attained either primary level or secondary level certificate (3.9%).

This has also been illustrated in the figure below.

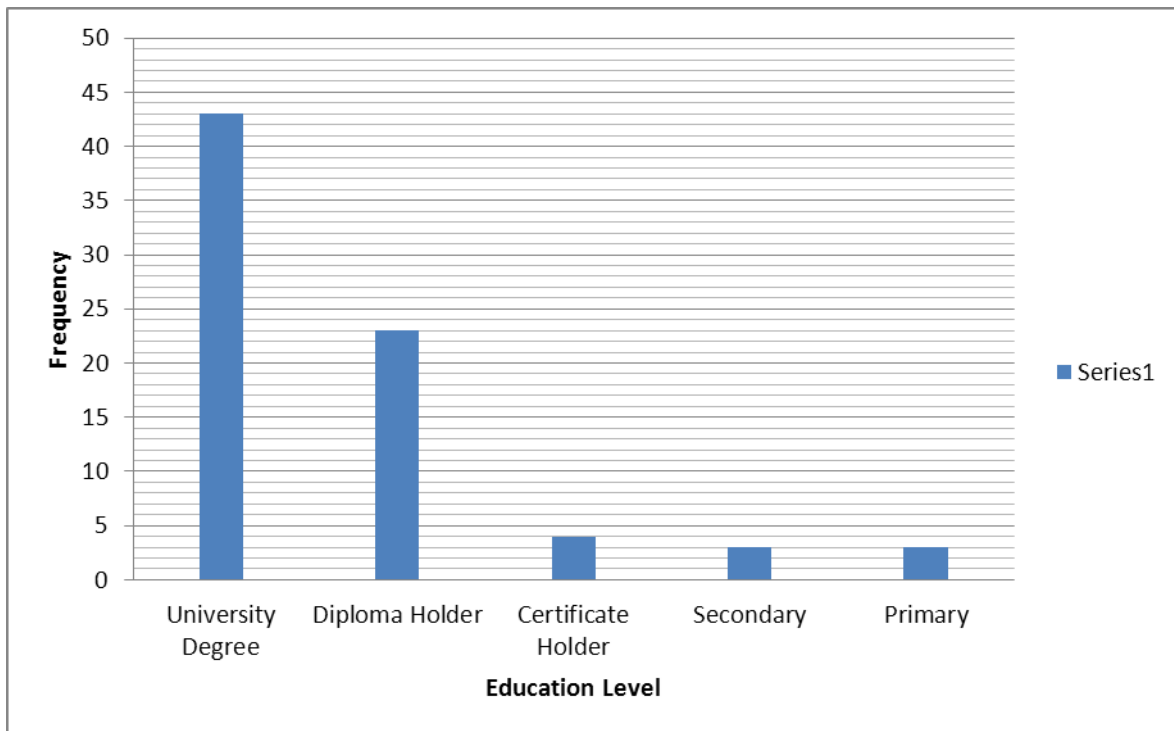


Figure 5: Bar Graph showing Formal Education of Respondents

4.1.5 Nature of the Business

Respondents also revealed the nature of their respective businesses, in terms of Sole Proprietorship, Partnership, Manufacturing, Services and Family Owned business. The table below presents their responses.

Table 5: Nature of Business

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Sole proprietorship	32	42.1	42.1	42.1
Partnership	18	23.7	23.7	65.8
Manufacturing	7	9.2	9.2	75.0
Services	8	10.5	10.5	85.5
Family owned	11	14.5	14.5	100.0
Total	76	100.0	100.0	

Majority of the respondents were 32 in number and operated businesses that were in the form of sole proprietorship (42.1%). These were followed by owners who were in a

partnership who were 18 in total accounting for 23.7%. 11 respondents (14.5%) had family owned businesses and 8 operated businesses in form of services (10.5%). The least number of respondents came from the manufacturing sector (9.2%) and were only 9 respondents.

This is further illustrated in the bar graph below.

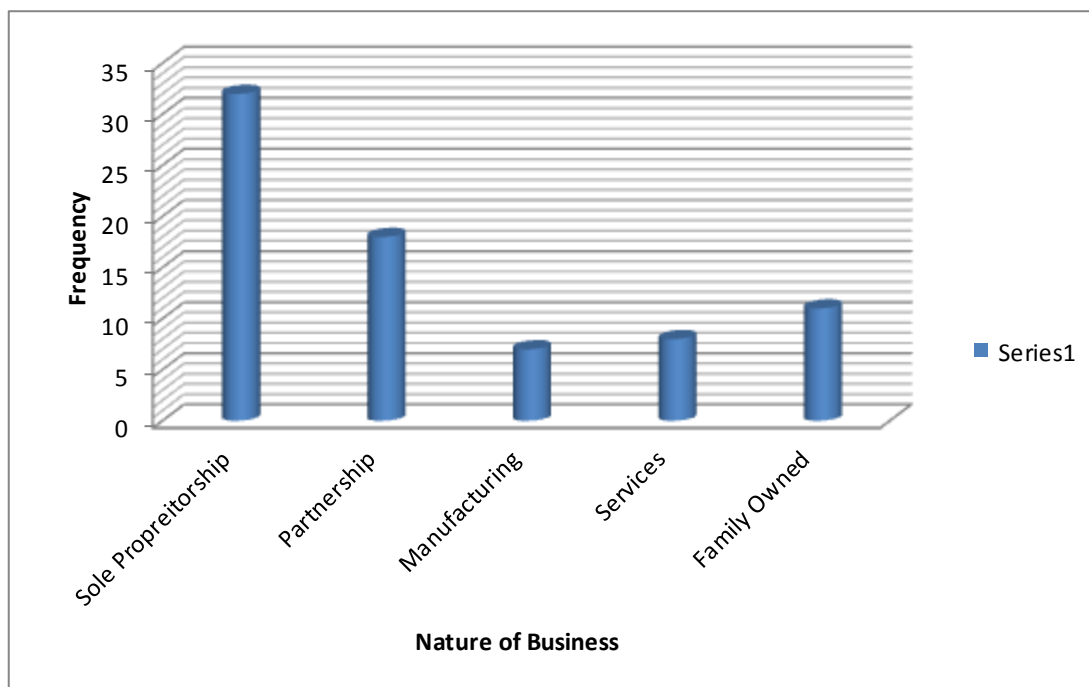


Figure 6: Bar graph showing Nature of Business of Respondents

4.2 Bureaucratic Bribery

The table below shows the respondents view on bureaucratic bribery in relation to its effect on compliance.

Table 6: Showing Responses on Bureaucratic Bribery

<i>Item</i>	<i>Strongly Disagree</i>		<i>Disagree</i>		<i>Neutral</i>		<i>Agree</i>		<i>Strongly Agree</i>	
	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>
Sometimes paying bribes to willing tax officials reduces on bureaucracy and improves on business operations	3	3.9	5	6.6	5	6.6	26	34.2	37	48.7
Majority of Ugandan firms pay bribes depending on the extent to which a firm has to deal with public officials	-	-	2	2.6	14	27.6	21	43.4	39	51.3
Government has exerted significant effort in order to reduce bureaucratic bribery among its officials	6	7.9	28	36.8	22	28.9	14	18.4	6	7.9
There is a high level of bureaucratic bribery deeply rooted in a number of government institutions	5	6.6	9	11.8	22	28.9	31	40.8	9	11.8
Tax payers pay bribes to willing officials mainly because they are constantly faced by bribery demands	3	3.9	2	2.6	14	18.4	23	30.3	34	44.7
Most citizens pay bribes because of the weak system that encourages bribery of officials	7	9.2	9	11.8	16	21.1	34	44.7	10	13.2

From the above table, majority of the respondents strongly agree that sometimes paying bribes reduces on bureaucracy and these were 37 in number accounting for 48.7%, 26 respondents agree (34.2%), 5 respondents are neutral on the statement. 5 respondents were in disagreement while the least number of respondents strongly disagreed (3.9%).

39 respondents (51.3%) strongly agreed that indeed firms pay bribes depending on the extent to which they deal with public officials. These were supported by 21 respondents (17.1%) that simply agreed, 14 respondents (28.9%) were neutral on this and only 2 respondents (2.6%) were in disagreement. None of the respondents strongly disagreed.

Majority of the respondents (N=28; 36.8%) disagreed that government had exerted significant effort in order to reduce bureaucratic bribery among government officials. 6 respondents also strongly disagreed on this claim. 22 respondents (28.9%) were neutral on this claim, 14 respondents agreed that government had tried reducing on bribery while another 6 respondents (7.9%) strongly agreed on the statement.

Most of the respondents (N=31; 40.8%) agree that indeed bureaucratic bribery is deeply rooted in a number of government institutions. 9 respondents strongly agree with this argument, 22 respondents are neutral (28.9%), 9 respondents were in disagreement while the least number 5 in total strongly disagreed (6.6%).

Majority of the respondents strongly agreed that tax payers are constantly faced with bribery demands and hence pay bribes to willing officials. These were 34 in number representing 44.7%. 23 respondents agreed with the statement, 14 respondents were neutral on the matter (18.4%), only 2 respondents disagreed on this claim and 3 respondents strongly disagreed.

4.3 Public Capital Efficiency

The table below represents the views of respondents in relation to the public capital and tax compliance.

Table 7: Showing Responses on Public Capital Efficiency

<i>Item</i>	<i>Strongly Disagree</i>		<i>Disagree</i>		<i>Neutral</i>		<i>Agree</i>		<i>Strongly Agree</i>	
	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>
The government in the last few years has improved on the level of public service delivery in terms of public capital	8	10.5	26	34.2	22	28.9	16	21.1	4	5.3
There is low perception about the quality of public capital among Ugandan citizens	2	2.6	4	5.3	12	15.8	23	30.3	35	46.1
Infrastructure especially road and electricity infrastructure are very critical for smooth operations of SMEs	0	0	2	2.6	4	5.3	22	28.9	48	63.2
The government has less prioritized some regions in terms of public capital efficiency	3	3.9	10	13.2	14	18.4	31	40.8	18	23.7
New developments adopted by the government are intended to provide quality and efficient public capital necessitated for SMEs to thrive.	2	2.6	3	3.9	5	6.6	20	26.3	46	60.5
Over all I am satisfied with the quality of public capital in Uganda	9	11.8	35	46.1	22	28.9	8	10.5	2	2.6

From the above table, 26 respondents who were the majority disagreed that indeed the government had improved on public capital, 8 respondents (10.5%) strongly disagreed, 22 respondents (28.9%) were neutral on this assertion, and 16 respondents agreed that the government had tried improving on public capital while only 4 respondents (5.3%) strongly agreed with the statement.

Majority of respondents who were 35 in number (46.1%) strongly agreed that there is a low perception about the quality of public capital; while another 23 respondents supported this claim by agreeing. 12 respondents (15.8%) were neutral on this claim with another 4 respondents in disagreement (5.3%) and only 2 respondents (2.6%) strongly disagreed.

None of the respondents (0%) strongly disagreed whether road and electricity infrastructure are very critical for smooth operations. However only 7 respondents (9.2%) think such infrastructure is not critical. 11 respondents were neutral and not sure on this statement. Majority of the respondents amounting to 34 in number (44.7%) consider such infrastructure important for smooth operations of SMEs and these are supported by 24 respondents (31.6%) who strongly agreed with this claim.

Majority of the respondents think the government has less prioritized some regions in terms of public capital (N=31; 40.8%). These are supplemented by more 18 respondents (23.7%) who strongly agree with this statement. 14 respondents are neutral while 10 respondents (13.2%) disagree. The least number of respondents is 3 that strongly disagreed (3.9%).

46 respondents (60.5%) strongly agreed that the new government developments are intended to support growth of SMEs. 20 respondents (26.3%) agreed with the statement. 5 respondents (6.6%) were not sure on this claim, 3 respondents disagreed with this while only 2 respondents strongly disagreed (2.6%).

Most of the respondents disagreed that they were satisfied fully with the quality of public capital (N=35; 46.1%). 9 respondents strongly disagreed and 22 respondents (28.9%) were neutral on the matter. 8 respondents (10.5%) agreed that they were satisfied and only 2 respondents (2.6%) strongly agreed with this claim.

4.5 The Legal or Regulatory Framework

The table below represents the responses of the participants on the legal framework showing their frequencies and related percentages.

Table 8: Showing Responses on the Regulatory Framework

<i>Item</i>	<i>Strongly Disagree</i>		<i>Disagree</i>		<i>Neutral</i>		<i>Agree</i>		<i>Strongly Agree</i>	
	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>	<i>N</i>	<i>%</i>
I am satisfied with the URA regulatory framework	13	17.1	34	44.7	15	19.7	12	15.8	2	2.6
Integration of the East African Community will improve on the regulatory frame work within the region	4	5.3	-	-	8	5.3	17	22.4	47	61.8
The Ugandan legal frame work is characterized by a number of loopholes	1	1.3	2	2.6	8	10.5	13	17.1	52	68.4
Regulations on starting and maintaining an enterprise in Uganda usually involve lengthy procedures	2	2.6	2	2.6	3	3.9	27	35.5	42	55.3
One of main pressing constraints to business development in Uganda are the legal and regulatory challenges	4	5.3	2	2.6	9	11.8	15	19.7	46	60.5
Regulatory burdens have kept a number of SMES in the informal sector	13	17.1	17	22.4	20	26.3	20	26.3	6	7.9

From the above table, majority of the respondents were not satisfied with the URA regulatory framework. These were 34 in total accounting for 44.7%. 13 respondents (17.1%) also strongly disagreed that they were satisfied with the framework. 15 respondents (19.7%) were neutral on the matter, 12 respondents (15.8%) agreed while only 2 respondents strongly agreed with the assertion (2.6%).

47 respondents (61.8%) who were the majority strongly agreed that the EAC integration is likely to improve on the regulatory framework. 17 respondents (22.4%) agreed with the statement. 8 other respondents (10.5%) were not sure and hence neutral, 4 respondents (5.3%) strongly disagreed.

Majority of respondents (N=52; 68.4%) strongly agreed that the legal framework was characterized by a number of loopholes, 13 respondents agreed (17.1%), 8 were neutral (10.5%), 2 disagreed with this argument (2.6%) and another only one strongly disagreed.

Respondents amounting to 42 respondents (55.3%) strongly agreed that the regulations in Uganda are often too lengthy. These were supported by another 27 respondents (35.5%) who agreed. 3 respondents (3.9%) were not sure, 2 respondents were in disagreement with the statement and another 2 respondents (2.6%) strongly disagreed.

Most respondents (N=46;60.8%) strongly agreed that the regulatory challenges are one of the main hindrance to business development. 15 respondents (19.7%) also strongly support this claim by agreeing, 9 respondents (11.8%) are neutral while 2 respondents (2.6%) disagree as well as other 4 respondents who strongly disagree.

20 respondents are neutral on whether indeed regulatory burdens have kept SMEs within the informal sector. 20 respondents (26.3%) agree to this claim, 6 respondents (7.9%) strongly agree. 17 respondents do not agree while another significant 13 respondents (17.1%) strongly disagree with this argument.

4.7 Descriptive Statistics of Variables

This section presents the descriptive statistics of responses on Bureacratic Bribery, Public Capital Efficiency, Regulatory Frame work and Tax Compliance. It has been presenstd with the Number of responses, minimum values, maximum values, means and standard deviations of the different varaiables. It is from these descriptive statistics that correlations will be established between the variables. The following scale has been used to explain the mean values of responses.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.0 – 1.9	2.0 – 2.9	3.0 – 3.9	4.0 – 4.4	4.5 – 5.0

4.7.1 Descriptive statistics of Bureaucratic Bribery

Table 9: Descriptive Statistics of Bureaucratic Bribery

	N	Minimum	Maximum	Mean	Std. Deviation
sometimes paying bribes to willing tax officials reduces on bureaucracy and improves on business operations	76	1.00	5.00	4.1711	1.07565
majority of ugandan firms pay bribes according to the extent to which a firm has to deal with public officials	76	2.00	5.00	4.2763	.85788
government has exerted significant effort in order to reduce bureaucratic bribery mong its officials	76	1.00	5.00	2.8158	1.07964
there is a high level of bureacratic bribery deeply rooted among a number of government institutions	76	1.00	5.00	3.3947	1.05929
tax payers pay bribes to willing officials mainly because they are constantly faced by bribery demands	76	1.00	5.00	4.0921	1.04789
most citizens pay bribes because of the weak system that encourages bribery of officials	76	1.00	5.00	3.4079	1.14517
Valid N (listwise)	76				

From the above descriptive statistics, majority of the respondents were in agreement that sometimes paying bribes to tax officials reduces on bureaucracy. These had a mean value of 4.1711 and a high standard deviation of 1.07565. The high standard deviation implied that some responses were widely varied from the mean figure. The agreement could have resulted from the fact that most of the respondents had engaged in bribery before and had ascertained that indeed it reduced on the lengthy procedures involved during compliance.

Most respondents agreed that majority of Ugandan firms pay bribes according to the extent a firm has to deal with public officials. These were represented by a mean value of 4.2763 and a standard deviation of 0.85788 showing that responses were slightly deviating from the mean figure. This may be true to some extent because firms are obliged to deal with different

public institutions when registering their businesses, complying to taxes and daily operations in the business. Due to the nature of Uganda's public officials who are willing to take bribes, a firm that encounters more officials on a daily basis may engage in constant bribery.

Most respondents disagreed that government had exerted significant effort in order to reduce bribery among its officials. They had an average value of 2.8158 and a standard deviation of 1.07964 implying that other respondents were highly deviated from the average value. The disagreement could have resulted from the fact that Uganda still ranks highly in terms of corruption and bribery within the region and across the continent.

Most respondents were neutral on the fact whether indeed bureaucratic bribery was deeply rooted in a number of government institutions. These had a mean figure of 3.3947 and a standard deviation of 1.05929 implying that some respondents were very deviant from the mean figure. Most of the respondents could have been not sure probably because they had not engaged in their activities in a number of institutions and could not assess the level of bribery in other government institutions.

Majority of the respondents agreed that tax payers pay bribes because of constant bribery demands from officials, with a mean value of 4.0921 and a high standard deviation of 1.04789 implying that others were highly deviant from the mean value. Ugandan public officials are characterized by constant bribery demands from Ugandan citizens. This could explain the agreement in responses.

Majority were neutral on whether firms pay bribes because of the weak system, represented by a mean value of 3.4079 and a standard deviation of 1.14517 meaning that other respondents had other varying views. Neutrality could have resulted from ignorance about the system in a number of Ugandan public institutions.

4.7.2 Descriptive Statistics of Public Capital Efficiency

Table 10: Descriptive Statistics of Public Capital Efficiency

	N	Minimum	Maximum	Mean	Std. Deviation
The government in the last few years has improved on the level of public service delivery in terms of public capital	76	1.00	5.00	2.7632	1.06919
There is low perception about the quality of public capital among ugandan citizens	76	1.00	5.00	4.1184	1.03237
Infrastructure especially road and electricity infrastructure are very critical for the smooth operation of SMEs	76	2.00	5.00	4.5263	.72062
The governmnet has less prioritized some regions in terms of public capital efficiency	76	1.00	5.00	3.6711	1.10016
New developments adopted by the governmnet are intended to provide quality and efficient caoital neccesitated for SMEs to thrive	76	1.00	5.00	4.3816	.96564
Overall i am satisfied with the quality of public capital in Uganda	76	1.00	5.00	2.4605	.93010
Valid N (listwise)	76				

Majority disagreed that the government in the last few years had improved on the level of public service delivery. These had an average value of 2.7362 and a standard deviation of 1.06919, implying that other responses were widely varied from the mean value. Most respondents disagreed probably because they were still dissatisfied by the quality of public service delivery in the country, which is notable with the poorly constructed roads and other infrastructure which is normally characterized by a number of corruption sagas.

Most respondents agreed that Ugandan citizens have a low perception of the public capital quality in the country. These had a standard deviation of 1.03237 and a mean value of

4.1184. The high standard deviation showed a wide variance between responses. Ugandan public capital infrastructure still ranks lowly within the region, which could probably have explained the agreement in responses.

Majority of the respondents strongly agreed that road and electricity infrastructure are very critical for the smooth operation of SMEs. These had a strong mean value of 4.5263 and a standard deviation of 0.72062 showing a slight deviation implying that most respondents were very close to agreement. Road and Electricity infrastructure is very critical for business because most machinery works with the aid of electricity and roads are very essential for the transportation of business goods and services.

Most of the respondents were neutral on whether government has less prioritized some regions in terms of public capital. These showed a mean value of 3.6711 and a standard deviation of 1.10016 implying that there was a wide variance in responses. Most respondents were not sure on this assertion probably because they had not assessed most regions within the country in terms of public capital infrastructure.

Majority of the respondents agreed that the new developments were meant for provision of better quality public capital so as to enable SMEs thrive. These had a mean value of 4.3816 and a standard deviation of 0.96564 implying that there was a slight deviation in responses. Agreement could have resulted from the fact that the new developments being adopted by government have indeed improved public capital in some sectors of the economy.

Lastly on the matter of public capital efficiency, most of the respondents disagreed that they were satisfied with the level of public capital in Uganda. These has an average figure of 2.4605 and a standard deviation of 0.93010 showing slight variation in responses. The level of

public capital in the country remains notably poor, and this may serves to explain the dissatisfaction among respondents.

4.7.3 Descriptive Statistics of the Regulatory Framework

Table 11: Descriptive Statistics of the Regulatory Framework

	N	Minimum	Maximum	Mean	Std. Deviation
I am satisfied with the URA regulatory frame work	76	1.00	5.00	2.4211	1.03619
integration of the EAC will improve the regulatory framework within the region	76	1.00	5.00	4.3553	1.04184
the ugandan legal framework is characterized by a number of loopholes	76	1.00	5.00	4.4868	.88684
regulations on starting and maintaining an enterprise in uganda usaully involve lengthy procedures	76	1.00	5.00	4.3816	.89394
one of the main constraints of businesss development in uganda are regulatory and legal challenges	76	1.00	5.00	4.2500	1.12101
regulatory burdens have kept a number of SMEs in the informal sector	76	1.00	5.00	2.8553	1.21879
Valid N (listwise)	76				

Majority of the respondents disagreed that they were satisfied with the URA regulatory framework. These had an average value of 2.4211 and a standard deviation of 1.03619 implying there was a wide variance in responses. The disagreement could have been because URA services are still lacking in terms of assisting the tax payer achieve effectiveness during tax compliance.

Most of the respondents agreed that the integration of the EAC is likely to improve on the regulatory frame work. They had a mean value of 4.3553 and a standard deviation of 1.04184 showing a wide deviation from the mean figure. It is very evident and viable that all

incentives adopted by the East African Countries are intended to improve business operations within the region.

Majority of the respondents strongly agreed that the Ugandan regulatory frame work is characterized by a number of loop holes. These had a mean figure of 4.4868 and a standard deviation of 0.88684 meaning that there was a very slight deviation from the mean value and most respondents were close to agreement. The agreement could have resulted from the fact that the Ugandan regulatory framework is characterized by bribery and bureaucracy which firms encounter on a daily basis.

Majority of the respondents agreed that regulations on starting and maintain enterprises in Uganda usually involve lengthy procedures. These had a mean value of 4.3816 and a standard deviation of 0.89394 showing a slight deviation from the agreement value. This is true to a large extent and evident as most individuals usually involve themselves in lengthy procedures and costs during registration of their businesses which impacts highly on timeliness and cost effectiveness of the firm.

Most of the respondents agreed that legal and regulatory challenges are one of the main constraints to business development in Uganda. These had a mean value of 4.2500 and a standard deviation of 1.12101 implying that there was a wide deviation in responses. This is true to some extent since these challenges indeed inhibit the progress of the enterprises in terms of profitability and growth.

Majority of the respondents were in disagreement that regulatory barriers had kept SMEs in the informal sector. These had a mean value of 2.8853 and a standard deviation of 1.12879 showing that there was a wide deviation in responses. Most of them were in disagreement maybe because they were not quite conversant with the meaning of the informal sector and could not freely express their views.

4.8 Descriptive Statistics of Tax Compliance

Table 12: Descriptive Statistics of Tax Compliance

	N	Minimum	Maximum	Mean	Std. Deviation
I have filed tax returns and am satisfied with services offered by the tax body	76	1.00	5.00	2.1447	1.13964
I always report complete and accurate information to URA	76	1.00	5.00	4.0000	1.08321
Low risk of getting caught is one of main reasons for non-compliance among SMEs	76	1.00	5.00	4.1579	1.09609
In Uganda, deliberate non compliance is a minor crime	76	1.00	5.00	2.1316	1.21482
Tax compliance is very important for both the business and government	76	1.00	5.00	4.3553	1.00272
Majority of SMEs are compliant because they are concerned that the firm name will be published in the URA list of defaulters	76	1.00	5.00	2.1184	1.05789
URA has exerted significant effort through embarking on campaigns to minimize non-compliance	76	1.00	5.00	2.3816	1.11913
Most SMEs in Uganda are well informed regarding their own tax affairs and obligations	76	1.00	5.00	2.3289	1.01177
It is only the accounts department that is responsible for ensuring tax compliance	76	1.00	5.00	3.2763	.82622
I always file my tax returns in time	76	1.00	5.00	2.3947	1.07181
I am well conversant with the tax system and can correctly file my tax returns	76	1.00	5.00	2.4737	1.05165
The new reforms in the Ugandan budget are geared towards improving tax compliance	76	1.00	5.00	3.6447	1.24047
Valid N (listwise)	76				

Most respondents disagreed that they had filed tax returns and had been satisfied by URA services. These had a mean value of 2.1447 and a standard deviation of 1.13964 implying that there was a wide deviation from the mean value. Respondents disagreed probably because URA services that aid in compliance are still lacking for example the poor URA portal system.

Majority of the respondents agreed that they always reported complete and accurate information to the tax authority. These were represented by an average value of 4.0000 and a standard deviation of 1.08321, showing a wide deviation in responses. Most respondents agreed probably because of fear of being implicated for not filing complete and accurate information to the tax body.

Most of the respondents were in agreement that the low risk of getting caught is one of the main reasons for non compliance. These had a mean value of 4.1579 and a standard deviation of 1.09609, showing that there was a wide deviation from the mean value. In Uganda most regulatory systems are still very easy to manipulate and ensuring tax compliance is still a major challenge to the the tax authority. This may serve to explain the agreement.

Most of the respondents disagreed that deliberate non compliance is a minor crime in Uganda. These had a mean value of 2.1316 and a standard deviation of 1.21482 showing that there was a wide deviation from the disagreement mean value. Deliberate non compliance is not a minor crime in the country and culprits are punishable by imprisonment. This probably explains the disagreement expressed by respondents.

Majority of the respondents were in agreement that tax compliance is important for both the government and business. These had a mean value of 4.3553 and a standard deviation of 1.00272 showing that there was a wide deviation from the mean value. Most respondents agreed on this claim probably because with taxes, government is able to raise revenue in order to provide quality public services that may enable firms to thrive in this tough business environment.

Most of the respondents were in disagreement that firms are compliant because of fear of being published in the media. They had a mean figure of 2.1184 and a standard deviation of

1.05789 showing wide variances in responses. The disagreement could have arisen because most firms believe that they can easily manipulate the system through paying bribes and beating the loopholes in the tax system in order to avoid being published.

Majority were also in disagreement on whether URA had exerted a significant campaign and effort in order to avert non compliance. These had an average value of 2.3816 and a standard deviation of 1.11913 showing wide variations among responses. Majority could have disagreed because probably because they are not yet satisfied with URA efforts in ensuring tax compliance.

Most of the responses were in disagreement on whether most SMEs in Uganda were informed about their own tax affairs and obligations . These accounted for a mean value of 2.3289 and a standard deviation of 1.01177, showing wide deviations from the mean value. This disagreement could have been as a result that most firms are not yet satisfied by the sensitization that is done by the tax authority in creating more awareness on tax compliance issues.

Majority were neutral on the matter whether it was only the accounts department that was responsible for tax compliance in the organization. These had a neutral mean value of 3.2763 and a standard deviation of 0.82622 implying that there was a slight deviation from neutrality as most respondents were not sure on this assertion. Most respondents were not sure probably because they were placed in different departments and could not assess whether it was only the accounts department responsible for tax compliance.

Majority of the respondents disagreed on whether they always filed their tax returns in time. These had a mean value of 2.3947 and a standard deviation of 1.07181 showing that there were wide variations in responses. The responses were in disagreement probably because the

compliance procedure usually involves many bureaucratic processes that impact on timeliness during compliance.

Most respondents disagreed that they were well conversant with the tax system and could correctly file tax returns. These had a mean value of 2.4737 and a standard deviation of 1.05165 which showed that other responses were widely deviated from the mean value. Most of the respondents disagreed on whether they were well conversant with the tax system probably because URA had not done adequate sensitization and education of tax payers.

Lastly in regards to tax compliance, most respondents were neutral on the matter whether the new reforms in the budget were geared towards improving tax compliance, with a mean value of 3.6447 and high standard deviation of 1.24047 showing wide variations in responses. Most respondents could have not been sure on this matter maybe because they did not adequately comprehend the new reforms that had been introduced in the new budget and could also not assess how such reforms related to tax compliance.

4.9 Correlation Analysis of Variables

From the generation of descriptive statistics on the different variable, correlations have been generated so as to establish relationships between bureaucratic bribery, public capital efficiency, regulatory framework and tax compliance. Presented below are the correlations between the variables.

4.9.1 Correlation Analysis between Bureaucratic Bribery and Tax Compliance

In order to establish a relationship between Bureaucratic Bribery and Tax Compliance, Pearson's Correlation Coefficient has been computed as shown below.

Correlations

		Bureaucratic bribery	Tax compliance
Bureaucratic bribery	Pearson Correlation	1	-.587
	Sig. (2-tailed)		.150
	N	76	76
Tax compliance	Pearson Correlation	-.587	1
	Sig. (2-tailed)	.150	
	N	76	76

The results from the above table show that there is a negative significant correlation between Bureaucratic Bribery and Tax Compliance ($r = -0.587$).

4.9.2 Correlation Analysis between the Regulatory Framework and Tax Compliance

To establish a relation between the Regulatory Framework and Tax Compliance Pearson's Correlation Coefficient was computed as shown below.

Correlations

		Regulatory framework	Tax compliance
Regulatory framework	Pearson Correlation	1	.672**
	Sig. (2-tailed)		.003
	N	76	76
Tax compliance	Pearson Correlation	.672**	1
	Sig. (2-tailed)	.003	
	N	76	76

** . Correlation is Significant at the 0.01 level

From the above table, it has been observed that there is a significant positive relationship between the Regulatory Framework and Tax Compliance ($r = 0.672$).

4.9.3 Correlation Analysis between Public Capital Efficiency and Tax Compliance

Pearson’ s Correlation Coefficient was computed from descriptive statistics in order to establish a relationship between Public Capital Efficiency and Tax Compliance

Correlations

	Public capital efficiency	Tax compliance
Public capital efficiency	1	.475**
Pearson Correlation		.028
Sig. (2-tailed)		
N	76	76
Tax compliance	.475**	1
Pearson Correlation	.028	
Sig. (2-tailed)		
N	76	76

** . Correlation is Significant at the 0.01 level

There was a significant positive relationship between Public Capital Efficiency and Tax Compliance ($r = 0.475$).

4.12 Challenges Faced During Registration

Respondents were also asked to expree any challenges that they experieciend during registration of their businesses. Theses have been presented basing on the number of times the challenge has been expressed by diffrent respondents.The table below shows the challenges experienced by owners during registration of their businesses.

Table 13: Showing the Challenges Experienced During registration

Items	Frequency	%
High initial start-up capital	12	25.5
Bureaucracy	16	34.0
Poor infrastructure	8	17.1
Bribery demands from officials	11	23.4
Total	47	100.0

From the above table, majority of the respondents faced a challenge of Bureaucracy during registration (34.0%). These were followed by respondents who claimed they faced high initial start up costs (25.5%). Others faced challenges of bribery demands (23.4%) and poor infrastructure (17.1%).

4.13 Legal barriers encountered during normal business operations

The table below stipulates the barriers the respondents usually encounter during normal business operations. They are represented in terms of frequencies and percentages.

Table 14: Legal barriers faced by respondents

Item	Frequency	%
Fluctuating currency	15	20%
Lack of proper documentation	12	16%
Difficulty in paying KCCA fees	7	9.3%
Filing tax returns	14	18.6%
Bureaucracy	12	16%
Complexity of the system	8	10.6%
Inadequate sensitization	7	9.3%
Total	75	100.0

From the results established above, it is observed that the most common legal barrier that the respondents encountered during normal business operations was the fluctuating currency which accounted for 20 %.The second is difficulty filing tax returns (18.6%) and lack of proper documentation from the authorities (16%). Other barriers were complexity of the system (10.6%), Bureaucracy (16%), difficulty in meeting KCCA fees and inadequate sensitization (9.3%).

4.14 Challenges faced during tax compliance

In summary, individuals were also given an opportunity to express the challenges that they face during tax compliance. Individuals were then asked to give their own views on the

possible solutions to mitigate the mentioned challenges. The table below thus presents some of the challenges expressed by respondents as well as the possible solutions.

Table 15: Challenges in compliance and possible solutions

Challenges	Number of times challenge was expressed	Remedies
It is costly	12	Minimize on costs by reducing rates. Revise tax rates. Employ competent individuals. Subsidization by the government
Bureaucracy	14	Employ experts.
Political influences	11	Reshuffle URA body.
Complexity in filing returns	18	More sensitization.
Corruption	16	Proper funds allocation. Increased supervision of officers. Reinforce internal controls. Put stringent measures in place.
Fluctuation of the shilling	8	Encourage more exportation.
Lack of commitment among URA officials	16	More training of officials. Employ qualified officers.
URA web portal is sometimes very slow	15	Reinforce the website. Avail tax payer more time to file returns.
Losses incurred and yet still file returns	11	Revise system.

4.15 Conclusion

In this chapter, data analysis methods, study results and a discussion of findings have been presented. Findings from this study have been found to be quite consistent with the findings of several related studies on the business environment and tax compliance among SMES. Data findings were described as correlations to the study variables and presented as tabulations. In the next chapter, the implications of these findings shall be discussed.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The previous chapter dealt with analysis and interpretation of data obtained. In this chapter, a brief summary on the research will be presented. The findings from the literature review will also be presented. The recommendations that will serve as guidelines to assist tax authorities, eligible tax payers and future researchers have also been suggested.

5.1 Summary of findings

The purpose was to probe and establish a relationship between the business environment and tax compliance among SMEs. In light of the literature review and responses from owners and employees of SMEs, research findings shall be prepared in two categories namely; findings from literature and findings from the field.

5.1.1 Findings from literature review

From the research, it was found from literature that the business environment is characterized by a number of dimensions including; bureaucratic bribery, public capital efficiency, suppliers, customers, technology, economy and the regulatory framework. The study however focused on only three dimensions of the business environment.

Literature review also availed information on tax compliance including; correct filing, recording accurate information, filing tax returns in time among others. Review also revealed that there are other factors that affect the dependent and independent variables, such as personal norms, ethics and self-integrity of the tax payer.

5.1.2 Findings from the field

An analysis of data collected from the field revealed the following findings:

Bureaucratic Bribery and Tax Compliance

The first research question asked was if there was any relationship between bureaucratic bribery and tax compliance among SMEs. According to the research, it was established that there was a significant negative relationship between bureaucratic bribery and tax compliance. ($r = - 0.587$). This is because in essence tax payers do pay bribes in order to lessen on their tax liability or completely become less compliant. This means as bureaucracy increases tax compliance decreases, as this tends to explain the negative relationship.

The red tape procedures actually encourage non-compliance, since individuals pay bribes to willing tax officials in order to smoothen up and quicken up business operations since tax compliance involves a number of dimensions; such as, accurate reporting, filing correct returns and file tax returns in time. So to some extent these findings are true, since bribery is intended to minimize on tax debt and beat bureaucracy, rather than fully comply with taxes.

Public Capital Efficiency and Tax Compliance

The second research question was to examine whether there was a relationship between public capital efficiency and tax compliance. The findings indicated that there was a significant positive relationship between public capital efficiency and tax compliance attitudes of tax payers. ($r = 0.475$). The research question was thus answered.

These results make sense, since heavy government expenditure on public capital improves on compliance attitudes. This is true to some extent, because when the state invests tax payers money into development projects such as; ICT, roads, railway projects and electricity among others, then tax payers see the economic and real value of paying taxes to URA.

In addition if government favors particular regions in terms of capital distributions, then research shows that individuals that are less prioritized tend to be isolated and develop non-

compliance attitudes. This is in contrast with the taxation principle of non-quid pro quo, where citizens are obliged to pay their taxes with no expectation of equal payment in form of capital.

The Regulatory frame work and tax compliance

The third research question that this study intended to answer was, whether there was any relationship between the regulatory frame work and tax compliance. According to the findings, it was revealed that there is a significant positive relationship between the regulatory frame work and tax compliance. ($r = 0.672$).The research question was answered.

To some extent the results give a true reflection, since individuals that are faced with complex and unfair legal and regulatory frame works, do not see any value in paying taxes. This is because their tax payments end up being absorbed by selfish individuals within the ambiguous frame works.

Since its inception in 1993, URA has embarked on a wide range of campaigns aimed at improving on the frameworks. One of the major steps taken was to incorporate all its tax information on a single web portal. However in respect to all these efforts individuals still find the tax framework so complex, ambiguous and unreliable. In essence one of reasons for non or less compliance is because at times individuals are ignorant of their obligations

5.2 Conclusions

Bureaucratic bribery and tax compliance had a significant negative relationship, because the research clearly illustrated that the main reason for bribery is to smoothen business operations and reduce on red tape measures rather than compliance. At times individuals also prefer to pay their taxes voluntarily and not being forced by the ambiguous tax system.

Public capital efficiency had a significant positive relationship with tax compliance, because as clearly stated out individuals main concern is what they get directly from paying taxes. This implies that where the government fails to provide adequate and efficient public capital, then citizens are less compliant to taxes. In other words heavy government expenditure on adequate, reliable and efficient capital, may instill a spirit of compliance.

The regulatory framework and tax compliance also generated a significant correlation figure. Research also stipulates that where individuals are faced with complex and ambiguous frameworks, as they attempt to comply with taxes, then they tend to become less compliant. However where the state installs easy and quick frame works individuals tend to be more compliant.

5.3 Recommendations

Recommendation 1

Considering bureaucratic bribery and tax compliance and basing on challenges expressed by respondents during tax compliance, the study does recommend that the government revises the income tax act so as to come up with new amendments that are favorable for both individuals and corporate bodies.

Recommendation 2

The state should also reshuffle the main URA body and employ competent and ethical tax officials. In addition the study suggests that URA should concentrate on instilling an ethical culture among its tax payers as well as staff.

Recommendation 3

URA should also embark on a wider sensitization program extending to rural Uganda, so as to equip its tax payers with the relevant skills and knowledge, in terms of filing tax returns, whistle blowing.

Recommendation 4

Training of tax officials in order to improve on their expertise. URA should also reinforce its website, since a number of respondents claimed it was unreliable at times. Though it was a good initiative by the tax body to come up with a web portal, so as to make it convenient for tax payers, more needs to be done by the body to enhance the site and make it more user friendly.

Recommendation 5

Tax payers should also be availed more autonomy and time in order to correctly file their tax returns. Since one of the challenges expressed by respondents was that during filing of returns, it was difficult to compute tax payable, tax payers should then be availed more time to inquire and file correct returns.

Recommendation 6

The body should also put up more stringent rules on bribery, corruption and non-compliance. This can be done by publishing defaulters in the media, seeking legal action and more sensitization of the public on the dangers of non-compliance.

Recommendation 7

Reinforcement of internal controls in order to minimize unethical behaviors. This can be backed up by close supervision and monitoring of all URA activities. Internal controls should be revised and all loopholes and missing gaps be addressed so as to minimize bribery and bureaucracy during compliance.

Recommendation 8

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

Reccomendation 9

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

5.4 Suggestions for further research

This study was limited by a number of factors; firstly, the lack of a comprehensive sampling frame meant that the sample chosen may have not been representative. Secondly, the limited resources could not enable us spread our survey around a wider area. Also, the study was cross-sectional and as such, results need to be applied with prudence in informing long term actions in terms of tax compliance and the business environment could have revolved. Further studies therefore need to take a longitudinal study design to avert this worry. Overtime the Government of Uganda has been making strides towards improving tax compliance among SMEs; an extensive study covering all the interventions it has set up needs to be conducting to establish the impact they have had on business survival and growth.

The study suggests further research on areas such as bureaucracy bribery, and how it impacts on tax compliance. This is because from the findings, it was identified that there was a significant but negative relationship between the two. More empirical evidence thus needs to be gathered, on whether indeed bribery reduces bureaucracy. Emphasis should be put, on whether a firm can operate efficiently and earn profit without paying bribes. In essence, more research should be conducted to ascertain whether, the rigid and complex system characterized by unnecessary and excessive requirements creates an incentive to bribe willing authorities in order to reduce bureaucracy.

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5. What nature of business do you operate?
- a) Sole proprietorship
 - b) Partnership
 - c) Manufacturing
 - d) Services
 - e) Family owned

PART B

THE BUSINESS ENVIRONMENT

You are required to express your opinion on the nature of the business environment in Uganda through ticking in the space provided on the choice that best represents your answer.

Please rate basing on the criteria given below

<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>

No	Item	1	2	3	4	5
	<i>Bureaucratic Bribery</i>					
1	Sometimes paying bribes to willing tax officials reduces on bureaucracy and improves on business operations					
2	Majority of Ugandan firms pay bribes depending on the extent to which a firm has to deal with public officials					
3	Government has exerted significant effort in order to reduce bureaucratic bribery among its officials					
4	There is a high level of bureaucratic bribery deeply rooted in a number of government institutions					
5	Tax payers pay bribes to willing officials mainly because they are constantly faced by bribery demands					
6	Most citizens pay bribes because of the weak system that encourages bribery of officials					
	<i>Public Capital Efficiency</i>					

1	The government in the last few years has improved on the level of public service delivery in terms of public capital					
2	There is low perception about the quality of public capital among Ugandan citizens					
3	Infrastructure especially road and electricity infrastructure are very critical for smooth operations of SMEs					
4	The government has less prioritized some regions in terms of public capital efficiency					
5	New developments adopted by the government are intended to provide quality and efficient public capital necessitated for SMEs to thrive.					
6	Over all I am satisfied with the quality of public capital in Uganda					
	<i>Regulatory Framework</i>					
1	I am satisfied with the URA regulatory framework					
2	Integration of the East African Community will improve on the regulatory frame work within the region					
3	The Ugandan legal frame work is characterized by a number of loopholes					
4	Regulations on starting and maintaining an enterprise in Uganda usually involve lengthy procedures					
5	One of main pressing constraints to business development in Uganda are the legal and regulatory challenges					
6	Regulatory burdens have kept a number of SMES in the informal sector					

PART C

TAX COMPLIANCE

To what extent do you agree with the following statements on tax compliance? Rate yourself by choosing the option that best represents your choice

Please rate basing on the following criteria

<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly agree</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>

No	Item	1	2	3	4	5
1	I have filed tax returns and am satisfied with services offered by the tax body					
2	I always report complete and accurate information to URA					
3	Low risk of getting caught is one of main reasons for non-compliance among SMES					
4	In Uganda, deliberate non compliance is a minor crime					
5	Tax compliance is very important for both the business and government					
6	Majority of SMEs are compliant because they are concerned that the firm name will be published in the URA list of defaulters					
7	URA has exerted significant effort through embarking on campaigns to minimize non-compliance					
8	Most SMEs in Uganda are well informed regarding their own tax affairs and obligations.					
9	It is only the accounts department that is responsible for ensuring tax compliance					
10	I always file my tax returns in time					
11	I am well conversant with the tax system and can correctly file my tax returns					
12	The new reforms in the Ugandan budget are geared towards improving tax compliance					

PART D

CONCLUSION

Please feel free to provide any additional information in the spaces provided below

What are the major challenges that you face while filing tax returns?

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.....
.....
.....

What advice would you give to the government so, as to mitigate the above challenges?

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.....
.....

What are the major challenges that you experienced during registration of your business?

.....
.....
.....

What are some of the regulatory barriers that you encounter during normal business operations?

.....
.....
.....

THANK YOU SO MUCH FOR YOUR COOPERATION