

**TAX AWARENESS AND TAX COMPLIANCE OF SMALL
AND MEDIUM ENTERPRISES IN NAKAWA DIVISION
KAMPALA, UGANDA**

BY

**ABDALLAH TEMBO
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DECLARATION

I Abdallah Tembo, hereby declare that this copy is the original of my dissertation. I further declare that it is being presented to Uganda Martyrs University for the first time and that no other party has ever presented it in any other institution for whatsoever reasons.

DEDICATION

I dedicate this Dissertation to my family that has tirelessly rendered their moral support throughout my studies and my MBA student's 2014-2016 that has made it possible for me to accomplish the course especially the Eagles group.

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My sincere gratitude goes to my parents for their constant prayers and support towards my education, encouragement and support all through my course of study; to my wife Rahma Nannyanzi, daughters Fatihah Tembo and Afrah Tembo the your prayers and encouragement, to all my sisters and brothers for the moral and spiritual support; to my discussion group (The Eagles Two) and all the SMEs taxpayers in Nakawa Division who responded to the questionnaires. To my supervisors, Dr. Mukokoma M. Maurice Nalwoga and Mr. Segawa Edward, for the constructive academic guidance offered throughout the research process.

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TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	ix
LIST OF FIGURES	x
ABBREVIATIONS AND ACRONYMS	xi
ABSTRACT.....	xii
CHAPTER ONE.....	1
GENERAL INTRODUCTION.....	1
1.1 Introduction.....	1
1.2 Background of the Study	2
1.2.1 Back ground to the case study	5
1.3 Statement of the Problem.....	6
1.4 Major Objective	7
1.5 Specific Objectives	7
1.6 Research Questions	7
1.7 Scope of the study.....	8
1.7.1 Geographical scope.....	8
1.7.2 Content scope.....	8
1.7.3 Time scope	8
1.8 Justification of the study	8
1.9 Significance of the study.....	9
1.10 Conceptual framework.....	9
1.11 Operational Definitions.....	11
1.12 Conclusion	12

CHAPTER TWO	12
LITERATURE REVIEW	12
2.0 Introduction.....	12
2.1 Theoretical frame work.....	13
2.1.1 Economic Based Theories.....	13
2.1.2 Psychology Theories.....	14
2.2 Small and Medium Enterprises and taxation in Uganda.....	16
2.3 Tax awareness.....	17
2.4 Tax Compliance.....	18
2.5 Compliance costs	23
2.6 The effect of tax payer’s knowledge/education on tax compliance.....	26
2.7 The effect of tax awareness campaigns on tax compliance among SMEs	34
2.8 The effect of Religiosity (tax morale/ethics) on Tax Compliance.....	37
2.9 SUMMARY	42
CHAPTER THREE	43
METHODOLOGY	43
3.0 Introduction.....	43
3.1 Research Design.....	43
3.2 The Study Population.....	44
3.3 Sample Size.....	44
3.4 Sampling Techniques.....	45
3.5 Data Collection	45
3.5.1 Sources of Data	45
3.5.2 Methods of data collection.....	46
3.6 Measurement of Variables	46
3.7 Quality Assurance.....	47
3.7.1 Validity	47

3.7.2 Reliability.....	48
3.8 Data processing and analysis	49
3.9 Ethical consideration.....	49
3.10 Limitations of the study	49
CHAPTER FOUR.....	52
PRESENTATION, ANALYSIS AND DISCUSSION OF RESEARCH FINDINGS	52
4.1 Introduction.....	52
4.2 Presentation of findings on background information of the respondent.....	52
4.3 Presentation of findings on tax awareness	54
4.4 Presentation of findings on tax compliance	68
4.5 Presentation of findings on correlation relationship between the study variables.....	74
4.5.1 Relationship between taxpayer’s education/ knowledge and tax compliance	74
4.5.2 Relationship between religiosity (tax morals/ethics) and tax compliance.....	75
4.5.3 Relationship between tax awareness campaigns and tax compliance	76
4.6 Regression Analysis.....	76
4.7 Conclusion	Error! Bookmark not defined.
CHAPTER FIVE	79
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	79
5.1 Introduction.....	79
5.2 Summary of Research Findings	79
5.2.1 Taxpayer’s education/knowledge on tax compliance among SMEs in Nakawa Division	79
5.2.3 Tax awareness campaigns on tax compliance among SMEs in Nakawa Division.....	79
5.2.3 Religiosity (tax morale/ethics) on tax compliance among SMEs in Nakawa Division..	80
5.3 Conclusions from findings.....	80
5.4 Implications of the findings	81
5.5 Recommendations.....	81

5.6 Areas for further research	84
REFERENCES	84
APPENDICES	89
Appendix i: Table for determining sample size from a given population	89
Appendix ii. Questionnaire	90
Appendix iii. Introductory letter	91

LIST OF TABLES

Table 3. 1: Population category, Total population per category, sample size and sampling method.....	44
Table 3. 2: Cronbach Alpha Value for reliability of the study tools.....	48
Table 4. 1. Background information of the respondents.....	52
Table 4. 2: Summary Statistics of Tax payer's education/ knowledge (N=228).....	54
Table 4. 3: Summary statistics of religiosity (tax morals/ethics) (N=228).....	59
Table 4. 4: Summary statistics of tax awareness campaigns (N=228)	64
Table 4. 5: Summary Statistics of (Correct reporting, timely filing, tax debts and timely tax payments) (N=228)	68
Table 4. 6: Pearson's Correlation Analysis.....	74
Table 4. 7: Multiple Regression Analysis	77

LIST OF FIGURES

Figure 1. 1: Conceptual framework	10
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ABBREVIATIONS AND ACRONYMS

SMEs	:	Small and Medium Enterprises
SPSS	:	Statistical Package for Social Sciences
TIN	:	Tax Identification Number
URA	:	Uganda Revenue Authority

ABSTRACT

The study investigates the relationship between tax awareness and tax compliance among Small and Medium Enterprises in Nakawa Division so that tax compliance can be improved. The Specific objectives were; to establish the effect of taxpayer's education/knowledge on tax compliance among SMEs in Nakawa Division, to examine the effect of tax awareness campaigns on tax compliance among SMEs in Nakawa Division and to examine the effect of religiosity (tax morals/ethics) on tax compliance among SMEs in Nakawa Division.

The research design was a cross sectional with a quantitative approach. Data was collected using stratified random sampling method, by distributing questionnaires to SMEs in Nakawa Division. The study population involved wholesalers, retailers and service providers with a population of 750 and a sample of 256 respondents. Data was analyzed through the use of SPSS Version 19.

The findings showed that, there was positive relationship between taxpayer's education/knowledge and tax compliance, a significant positive relationship between tax awareness campaigns and tax compliance and a significant positive relationship between religiosity (tax morals/ethics) and tax compliance among Small and Medium Enterprises in Nakawa Division. This implies that tax awareness is a critical predictor of tax compliance.

The researcher made the following conclusion. The more effective implementation of the taxpayer's education/knowledge, tax awareness campaigns and changing taxpayers' attitude towards tax system, the higher the tax compliance will be among the SMEs in Nakawa Division.

The researcher recommends that, tax authority should simplify the taxation process through improved tax education, improved tax awareness campaigns as this will help to change Small and Medium Enterprises' attitude (morals/ethics) towards the tax system hence comply with tax laws and regulations.

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Introduction

This study is about the tax awareness and tax compliance in small and medium Enterprises in Nakawa division. The taxpayer's awareness of tax rules depends on the salience of taxes. Inadequate knowledge and skills about tax procedures are the major qualities of most SMEs in Uganda, as most owners hire incompetent family members to keep proper financial records (Kiwanuka, 2004). Many SME taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency (European Commission, 2007; Nakiwala, 2010). Consequently, countries like Uganda are still characterized by the low tax compliance levels, in the face of the numerous advocacies for voluntary tax compliance (Ayoki, 2008; Kangave, 2005; Bird, 2004). Many of such governments have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2007), which have still failed to yield. Uganda's income tax compliance was very low at 38% by the end of 2005 (Ayoki, 2007), yet the tax regime is oriented more towards consumption taxes rather than income taxes as income taxes account for only 27% of net revenue collections (URA, 2006/07). This chapter presents the background to the study, statement of the problem, major objective, specific objectives of the study, research questions/ hypotheses, scope of the study, significance of the study, definition of the key terms and conceptual framework.

1.2 Background of the Study

Perceptions of taxpayers closely related with knowledge and experience, thus tax awareness matters did influence the level of tax compliance (Chan, Troutman and O'Bryan (2000). Tax awareness enables to understand well the tax system. Eriksen and Fallan (1996) believed that with reasonable understanding of the tax laws, people are willing to respect the tax system; consequently they are more compliant to pay tax instead of evading it. Furthermore, individuals become educated, which is knowledgeable in the aspect of tax planning and tax laws. At the same time, tax knowledge improved individual's tax awareness and ethics towards reducing their tendencies of tax non-compliance (Kasipillai et al. 2003).

An early model that attempted to explain why taxpayers avoid paying taxes was put forward by Allingham and Sandmo (1972). They formulated a simple (classic) model based on the assumption that people are influenced by the rate of tax and the probability of detection. This model predicts, not surprisingly, that an increase in the penalty rate and an increase in the probability of detection will result in more income being declared. However, simultaneously, given that people tend to 'evade' penalties on tax rather than conceal income, the model predicts that non-compliance will decrease even with rising tax rates. The model also incorporates the non-monetary variable of 'reputation', as well as risk aversion, and predicts that where the discovery of non-compliance can lead to the auditing of past tax returns, more income will be declared in following years. Vogel (1974) indicates that penalties may be less of a deterrent than the probability of being caught. Klepper and Nagin (1989) show that perceived probabilities of detection vary according to the nature of the particular kind of declaration made.

In order to increase level of tax compliance, Richardson, (2006): Kirchler et al., (2008), believed that tax knowledge plays the important role. Hence, people should be equipped with the tax education so that everyone has a sufficient knowledge towards competent taxpayers. Park & Hyun (2003) suggested that tax education is one of the effective tools to induce taxpayers to comply more. On the other hand, if the taxpayers well understand basic concept of taxation, they are willing to comply (Marziana et al., 2010). Tax compliance can be defined as the degree to which a taxpayer fulfills or fails to comply with the tax rules of their country (Marziana et al., 2010). The goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties. Within literature of tax compliance, the perception of the taxpayers about the fairness of the tax system is recognised as an important factor that can have significant influence on tax compliance. If tax system is perceived as unfair by the citizens, it is likely to be less successful and this will encourage the taxpayers to engage in noncompliant behaviour. The term compliance costs with its numerous related concepts have been given a variety of definitions (Lignier, 2006). Compliance costs are defined as “those costs incurred by tax payers in meeting the requirements laid on them by the tax law and the revenue authorities over and above the actual tax payment (Standford, 1995).

The relationship between tax awareness and tax compliance among small and medium enterprises tax payers explained by a simple (classic) model of Allingham and Sandmo (1972) based on the assumption that people are influenced by the rate of tax and the probability of detection. This model predicts, not surprisingly, that an increase in the penalty rate and an increase in the probability of detection will result in more income being declared. However, simultaneously, given that people tend to ‘evade’ penalties

on tax rather than conceal income, the model predicts that non-compliance will decrease even with rising tax rates. The model also incorporates the non-monetary variable of 'reputation', as well as risk aversion, and predicts that where the discovery of non-compliance can lead to the auditing of past tax returns, more income will be declared in following years. Vogel (1974) indicates that penalties may be less of a deterrent than the probability of being caught. Klepper and Nagin (1989) show that perceived probabilities of detection vary according to the nature of the particular kind of declaration made.

Globally, there are low compliance levels for example Income taxes account for only 27 per cent of net URA Collections (URA, 2010/11). This has been accompanied by lower ratio of tax revenue to GDP of 13.5% as compared to that of Namibia (31%), Kenya (21.2%), Mauritius (19.6%), Zambia (19.4%), Burundi (19%), Ghana (17.2), and Malawi (15.9%) in Sub-Saharan African countries with similar tax structure in 2010/11 (Ayoki, 2011). This problem of compliance levels has also been deep-rooted in continuous stagnation of income taxes at 25.8% for the past three years (Nicholas, 2006). Besides the tax potential of the informal sector (SMEs) in developing countries is partially exploited given the fact that most enterprises have small profits and do not keep accurate financial records (Bonjean and Chambas, 2001), hence the tax revenue contribution made by these enterprises especially the small enterprises in terms of presumptive tax to total tax revenue in Uganda is insignificant (i.e. less than 0.5% of total tax). The education programmes organized are needed to enhance taxpayers' ability to understand assessment policies and to increase their confidence in fulfilling their responsibilities as taxpayers (Kasipillai & Mustafa, 2010). Educating tax payers about tax systems has a direct impact on reducing the propensity to evade (OECD,

2004), thus improving compliance. Similarly, citizens who access greater tax education may be aware of compliance opportunities (Kasipillai, Aripin&Amran, 2003).

1.2.1 Back ground to the case study

In Uganda Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega, 2007). It has been observed however, from previous taxation studies that several SMEs in developing economies are non tax compliant in spite of major reforms (James, Barbour & Stern, 2007; Ayoki, 2007; Terkper, 2003), since they cannot easily be located by tax administration, yet they pay less tax than their fair share of tax (Ahmed & Braithwaite, 2005). Also, the composition of SMEs dominated by the informal sector than the formal sector, mainly made up of trade, agro-processing and small manufacturing. Hatega (2007) estimated that the number of SMEs in Uganda is more than 1,069,848 which constitutes more than 90% of Uganda's private sector. SMEs are very important for a developing economy like Uganda because they provide employment opportunities up to approximately 2.5 million people and are a basis for developing new ideas, as well as contributing to economic growth and sustainable development (Hatega, 2007).

Unfortunately, Gauthier and Reinikka (2001) noted that more SMEs find it easier to slip out of the tax collectors' net, because the enforcement costs would exceed the potential tax revenue collected hence making it uneconomical. SMEs can easily remain outside the tax net because they can remain un-noticeable to the tax administration. In addition to the above problems, complicated taxation methods led to the introduction of the presumptive incometax system, in order to streamline income tax collection and

widen the income tax base in Uganda (Sserwanga, 2003). However, non-compliance of SMEs has remained a puzzling issue to the tax administrators given the dedicated efforts that have seemingly not yielded as expected.

Therefore, despite the services introduced by URA, URA still faces some challenges in as far as tax collection is concerned. These challenges include; late payment of taxes, failure to use electronic tax services provided by URA due to ignorance by the tax payers to use the online tax services, limited internet access and lack of electricity in some areas of the country, smuggling and corruption by both the tax payers and the tax collectors in order not to pay the actual tax assessed (Auyat, 2013).

1.3 Statement of the Problem

URA has created an impact in increasing tax compliance and the level of awareness through intensive taxpayer education programs such as proactive information dissemination, seminars, workshops, tax-clinics, live radio talk shows, tax literature and URA website (URA, 2015).

While there have been improvements in net revenue collections by 14.32% (UGX261.56Bn) for first quarter of FY 2014/15 compared to first quarter FY 2013/14, UGX 2,088.25Bn against a target of UGX 2,115.48Bn was collected, hence a performance below the target of UGX 27.23Bn deficit for first quarter FY 2014/15. Despite the effort put in by the tax authority such as tax clinics, workshops, increasing number of URA offices, Uganda has remained one of the lowest in Sub-Saharan Africa as illustrated by the low Tax/GDP ratio of 13% (Mugambe, 2013). Probably tax awareness could be the cause of low tax compliance among Small and Medium Enterprises.

1.4 Major Objective

The study sought to establish the relationship between tax awareness and tax compliance among Small and Medium Enterprises in NakawaDivision.

1.5 Specific Objectives

- i. To establish the effect of taxpayer's education/knowledge on tax compliance among SMEs in NakawaDivision
- ii. To examine the effect of tax awareness campaigns on tax compliance among SMEs in NakawaDivision
- iii. To examine the effect of religiosity (tax morale/ethics) on tax compliance among SMEs in NakawaDivision

1.6 Research Questions

- i. What is the effect of tax payer's education on tax compliance among SMEs in NakawaDivision?
- ii. What is the effect of tax awareness campaigns on tax compliance among SMEs in NakawaDivision
- iii. What is the effect of religiosity (tax morale/ethics) on tax compliance among SMEs in NakawaDivision?

1.7 Scope of the study

1.7.1 Geographical scope

The study focused on the SMEs in Nakawa Division Kampala, Uganda. This was because there are a reasonable and growing number of the SMEs in Nakawa division and it forms the area of most forms of businesses.

1.7.2 Content scope

The study covered tax awareness (tax payer's education/knowledge, tax awareness campaigns and religiosity/ "tax morale/ethics") as independent variable and tax compliance (correct reporting, timely filing, tax debts and timely tax payment) in SMEs as Dependant variable.

1.7.3 Time scope

The research covered a period of three years from 2012 to 2015. The three financial years are chosen to take a critical analysis of the data and more so, during this period, URA took a series of tax awareness campaigns to improve people's attitude towards URA and maximize tax compliance through enhanced service delivery to the taxpayers.

1.8 Justification of the study

Small and Medium Enterprises taxpayers constitute above 80% of the taxpayers in Uganda. Despite of the all effort put in by Uganda Revenue Authority in terms of conducting seminars, workshops, setting tax clinics, live radio talk shows, providing tax literature and the URA web site to improve tax compliance among the SMEs in terms of accurate declarations, timely filing of returns, timely tax payments and

fulfilment of debt obligations, tax compliance levels still remain low and tax collections are below expected from Small and Medium Enterprises. The cause of these events is yet to be found hence necessitating this study.

1.9 Significance of the study

The study gives an understanding of what drives taxpayers' motivation which will guide when developing tax policies and strategies that can influence tax compliance in order to have more revenue collected at minimum administrative costs to the tax authority.

Government benefits from this study as it will give it an understanding of the process by which taxpayers perceive fairness of tax and more importantly, to explore the characteristics of those taxpayers whose tax reporting behavior is more likely to be influenced.

Findings of this research add to the existing knowledge of tax compliance in Uganda which will further guide tax authorities in the development of strategies that will strengthen tax compliance or fight non-compliance.

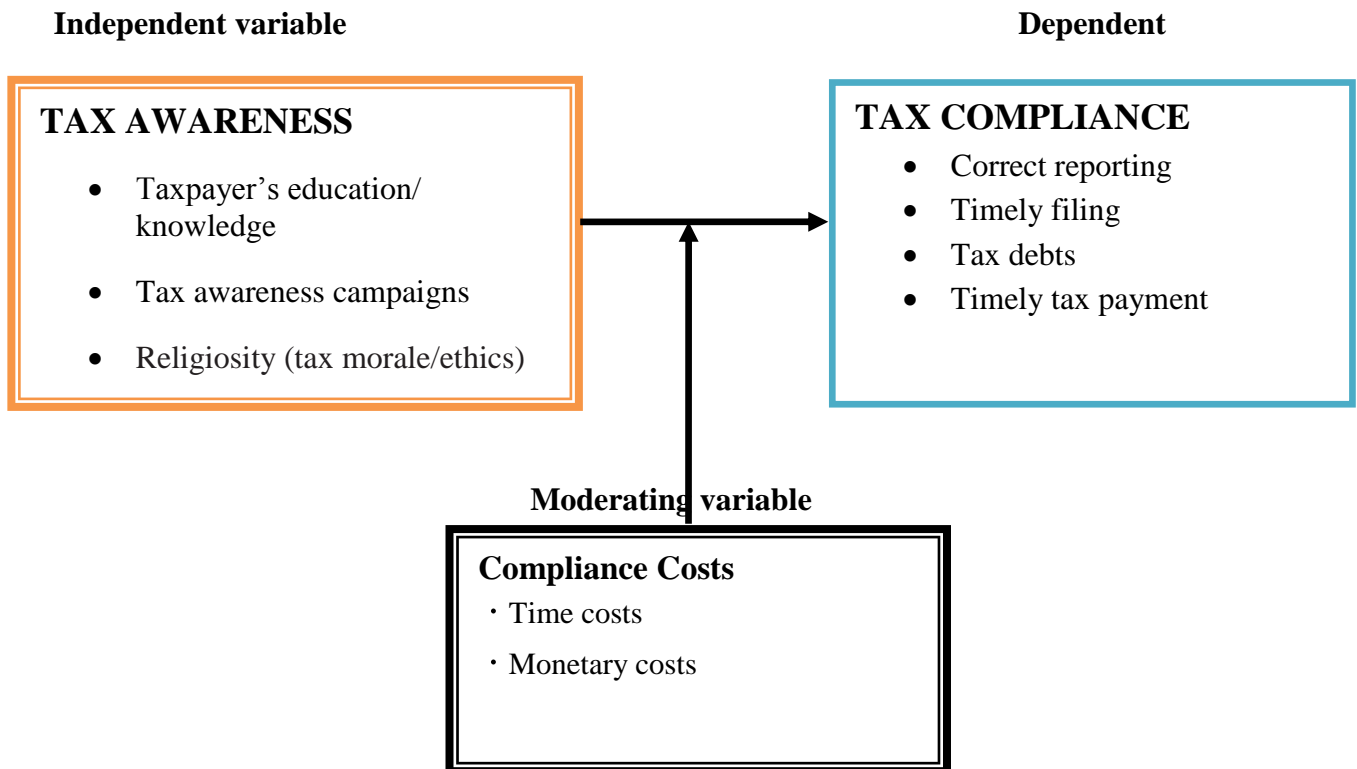
Tax administration improves through fostering voluntary compliance and hence reduce tax gap, that is, the difference between taxes paid and owed for all tax heads by all SMEs taxpayers

1.10 Conceptual framework

The taxpayer's awareness of tax rules depends on the salience of taxes (Chetty, Looney, and Kroft, 2009; Finkelstein, 2009). Slowness in adoption to changing income levels or procrastination may also explain why not all individuals respond to tax incentives (Jones, 2012, Kopczuk, 2012). Tax compliance refers to the willingness of people to comply with tax authorities by paying their taxes (Peter & Dijke, 2007). According to

Alm (1991), the scope of tax compliance includes, reporting income and paying all taxes in accordance with the applicable laws, regulations, and court decision

Figure 1. 1: Conceptual framework



Source:Based on theories by Allingham and Sandmo (1972); Murnich, (2004); Schmidt et al., (2006).

A theoretical economic model introduced by Allingham and Sandmo (1972); Murnich, (2004); Schmidt et al., (2006) has clearly indicated that tax awareness has an impact on the tax compliance in terms of correct reporting, timely filing, tax debts and timely tax payment. Also that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non-compliant taxpayers, they might reduce their tendency to evade tax. The conceptual framework shows tax awareness as the independent variable whose indicators include Tax

education/ knowledge and religiosity (tax morale/ethics) while Tax compliance is the shown as the dependent variable measured in terms of correct reporting, timely filing, tax debts and timely tax payment. The assumption is that high-levels of tax awareness will result into better Tax compliance while poor tax awareness will result into non-Tax compliance.

1.11 Operational Definitions

Tax compliance refers to the willingness of people to comply with tax authorities by declaring correct tax. According to Marti (2010) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations such as timely filing of tax returns, correct declarations and timely tax payments as specified by the law freely and completely.

Tax awareness is a universal knowledge in order to help each citizen with potential liability of paying tax. Tax awareness enables tax payers to well understand their responsibilities to comply with tax laws and regulations.

Compliance costs are defined as “those costs incurred by tax payers in meeting the requirements laid on them by the tax law and the revenue authorities over and above the actual tax payment.

Small and Medium Enterprises (SMEs) have varying definitions based on different fundamentals of measurement. They can be defined basing on the value of assets, capital employed, sales turnover or number of employees. For example; UNCTAD (2000) defined SMEs as a business involving one to five persons, with simple activities to be managed directly on a person-to-person basis

UIA (2008) defined then as enterprises employing maximum 50 people with annual sales/revenue turnover of maximum Ugandan Shillings 360 million and total assets of

maximum Ugandan Shillings 360 million. For this research, an SME is one that employs between 5 and 50 employees.

1.12 Conclusion

Chapter one established the fundamental bases on which other chapters of this study relied, particularly chapter two on establishing empirical studies and the theoretical framework of the study. It clearly put into light the key concepts and issues of the study as regards the variables to be studied

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter critically presents the review of the existing literature related to tax awareness, compliance costs and tax compliance among SMEs in Nakawa Division; it

also includes the relationships between taxpayer's education/knowledge, Tax awareness campaigns together with religiosity (tax morale/ethics) to tax compliance of SMEs.

2.1 Theoretical frame work

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way to increase incentives is to increase penalties. Tax compliance theories can be broadly classified into two. They are; economics based theories and psychology based theories (Palil, 2010).

2.1.1 Economic Based Theories

They are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are moral utility maximizers - they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk. This process is referred to as "playing the audit lottery" (Trivedi and Shehata, 2005). Therefore according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased (Prakoso and Nurswandari, 2012). Thus, there is a theoretical positive relationship between tax penalty and tax compliance. Increase in tax penalty would lead to increase in tax compliance.

There is a vast body of literature on tax compliance that details various attempts to describe tax resistance and to identify and explain the factors which influence

compliance. Cowell (1990), Kinsey (1984) and Roth and Scholz (1989) offer comprehensive reviews of some of the seminal studies in this regard. Researchers have also highlighted several elements of financial self-interest, of which the most important are the possibility of detection, penalties for non-compliance, the tax rate structure and the taxpayer's level of income. The main problem with economic models is, however, that people pay more tax than these models predict. This realisation has led researchers to turn to sociology and psychology in an attempt to explain taxpayer behaviour. This type of research has prompted the construction of interactive behavioural models that recognise the fact that taxpayers are individuals and that they do not make decisions in isolation. A taxpayer's inherent character and situation, as well as the behavior of other taxpayers and the authorities, may have an impact on the compliance decisions of taxpayers. Therefore, social psychological variables like stigma, reputation and social norms should also be taken into account when one tries to predict non-compliance (Vogel 1974; Lewis 1982:169-172; Webley et al. 1991:21). The literature also includes contributions regarding the importance of selected background factors (Torgler & Schneider 2001), enforcement (Allingham & Sandmo 1972; Cowell 1985), equity, fairness (Cowell 1990) and taxpayers' attitudes, beliefs and norms (Niemiowski, Baldwin & Wearing 2003).

2.1.2 Psychology Theories

Psychology theories state that taxpayers are influenced by psychological factors to comply with their tax obligations. They focus on the taxpayers' morals and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing

individual attitudes towards tax systems (Siregar et al., 2012). It is assumed that improved tax education would increase tax compliance. Thus, one instrument of changing taxpayers' attitude to tax matters is tax education.

An early model that attempted to explain why taxpayers avoid paying taxes was put forward by Allingham and Sandmo (1972). They formulated a simple (classic) model based on the assumption that people are influenced by the rate of tax and the probability of detection. This model predicts, not surprisingly, that an increase in the penalty rate and an increase in the probability of detection will result in more income being declared. However, simultaneously, given that people tend to 'evade' penalties on tax rather than conceal income, the model predicts that non-compliance will decrease even with rising tax rates. The model also incorporates the non-monetary variable of 'reputation', as well as risk aversion, and predicts that where the discovery of non-compliance can lead to the auditing of past tax returns, more income will be declared in following years. Vogel (1974) indicates that penalties may be less of a deterrent than the probability of being caught. Klepper and Nagin (1989) show that perceived probabilities of detection vary according to the nature of the particular kind of declaration made (Berhane, 2011).

Therefore, the most applicable model is covered under the psychology theories especially an early model that attempted to explain why taxpayers avoid paying taxes was put forward by Allingham and Sandmo (1972) and formulated a simple (classic) model based on the assumption that people are influenced by the rate of tax and the probability of detection. This model predicts, not surprisingly, that an increase in the penalty rate and an increase in the probability of detection will result in more income

being declared. This model is in line with the study in that, tax penalties and tax audits are aimed at increasing tax compliance

2.2 Small and Medium Enterprises and taxation in Uganda

According to Beyene, (2002), small and medium enterprises are universally acknowledged as effective instruments for employment generation and economic growth, and in Africa where the private sector is not well developed, SMEs are playing a critical role in stimulating development and alleviating poverty. Although some authors argue that there is no universal agreed definition in Africa (Beyene, 2002 and Mutula&Brakel, 2006) SMEs are widely defined in terms of employee size and income turnover. These are small and medium enterprises which constitute 90% of the private sector and are mainly informal (Hatega, 2007). They are mainly trade, agro-processing and small manufacturing. 80% is located in urban areas. In Uganda, a small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US\$ 30,000), and the annual income turnover of between Ugshs.10-50 million (US\$6,000-30,000), while a medium sized enterprise is considered a firm, which employs between 50-100 workers. This is generally a standard for SMEs in developing countries. For this research, an SME is that one that employs between 5 and 99 employees.

According to the ITA (2005) income tax is a tax charged for each year of income on every person who has chargeable income for the year of income. The chargeable income of a person for a year of income is the gross income of the person for the year less total deductions allowed under the Act for the year. Uganda is believed to have the highest tax gap of about 50% because of the difference between the tax that the URA

should collect from all eligible taxpayers in the country, and what they actually collect from the few that are compliant. This tax gap is as result of taxpayers failing to file their tax returns, underreporting or understating their income, and in some case as a result of complete failure to pay what is genuinely owed to the URA. The biggest culprits as far as tax evasion is concerned in Uganda are mainly the traders and businesses in the informal sector of the economy who are the SMEs (Kamulegeya, 2007).

2.3 Tax awareness

A growing literature emphasizes tax awareness as an explanation as to why some taxpayers engage in legal tax avoidance activities while others does not. The taxpayer's awareness of tax rules depends on the salience of taxes (Chetty, Looney, and Kroft, 2009; Finkelstein, 2009). Slowness in adoption to changing income levels or procrastination may also explain why not all individuals respond to tax incentives (Jones, 2012, Kopczuk, 2012). Further, the ability to process the available tax information varies across individuals and may depend on the flow of information through informal networks (Alstadsæter, Kopczuk, and Telle, 2012, Alstadsæter and Jacob, 2013). However, these arguments do not necessarily explain why we observe less illegal tax evasion than we would expect from standard economic models. Kleven et al. (2011) show that not everyone with access to tax minimization actually chooses to participate in such activity. Nonpecuniary factors such as morale, norms, social conscience, and attitudes towards government can all explain non-participation in tax evasion (Andreoni, Erard, and Feinstein, 1998, Slemrod, 2003, and Sandmo, 2005).

While most of these arguments relate to the conscious decision to evade taxes, some taxpayers may accidentally file erroneous tax returns. Complexity of the tax system can increase unintended as well as intended non-compliance (Kopczuk, 2006, Slemrod,

2007). The mere design of the tax return form can result in tax evasion if taxpayers have difficulties to comply with tax rules. At the same time, taxpayers may deliberately take advantage of complex rules and tax forms if they perceive a low probability of detection. Therefore, the organization of the tax administration and the strength of tax enforcement additionally affect non-compliance of taxpayers. For example, if control routines of tax authorities are not adjusted following a tax reform that changed incentives, neither accidental nor intended tax evasion can be detected (Rustiyaningsih, 2011).

2.4 Tax Compliance

Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of their country (Marziana et al., 2010). Tax compliance refers to the willingness of people to comply with tax authorities by paying their taxes (Peter & Dijke, 2007). According to Alm (1991), the scope of tax compliance includes, reporting income and paying all taxes in accordance with the applicable laws, regulations, and court decision. Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due (timeliness) (Franzoni, 1999). Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

Tax compliance is defined by the Harvard law school (2000) as paying taxes on time and timely reporting of correct tax information. Therefore, tax compliance means seeking to pay the right amount of tax (but no more) in the right place at the right time. Where right means that the economic substance of the transaction undertaken coincides

with the place and the form in which they are reported for tax purposes. Tax compliance can either be through voluntary tax compliance or involuntary tax compliance. Voluntary tax compliance involves obeying the tax laws and regulations without any state enforcement actions that leads to maximizing revenues because administration costs are low in both the economic and psychic sense. The government wastes little money and time in collecting the tax and tax payers suffer little alienation in parting with their money (Muwonge, 2011).

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.

Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects. Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may give rise to incorrect filling of their tax returns and loss of revenue to the government. An unduly complex regulatory system and tax regime enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of small and medium scale enterprises (SMEs) as they are tempted to change into forms that offer a lower tax burden or no tax burden at all, and as such results in a tax system that imposes high expenses on the society (Chetty and Looney 2009).

A poorly executed tax system also leads to low efficiency, high collection charges, and waste of time for taxpayers. SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs when scaled by sales or assets. The compliance costs of SMEs are higher than the larger businesses. This leads to limited capacity of developing countries to raise revenues for development purposes. A lot of factors affect the low level of tax compliance in developing countries, such as attitudes, penalty, income, education, knowledge, gender and age of the taxpayers, corruption, high marginal tax rates, lack of availability of information and accounting systems, a large informal sector, weak regulatory systems, ambiguity in the tax law, the existence of non-adherent culture, and the ineffectiveness of tax administration. The objectives of this paper therefore are to assess the degree of compliance of the relevant tax laws by taxpayers and find out the effects of tax knowledge and tax penalty over tax compliance. The rest of the paper is divided into four parts. Beside this introduction, Section two is a review of literature while Section three is on methodology. Section four presents the results and discussion while the last section is on summary and conclusion (Finkelstein, 2009).

Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. A wider definition of tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply

with tax laws, declare the correct income in each year and pays the right amount of taxes on time. Some authors have viewed tax compliance from a different perspective. For example, Allingham and Sandmo (1972) described tax compliance as an issue of 'reporting an actual income' and also claimed that tax compliance behavior was influenced by a situation whereby taxpayers have to make a decision under uncertainty (see also Clotfelter, 1983) that is, either taxpayers would enjoy tax savings due to under-reporting income or have to pay tax on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time. The wider perspective of tax compliance was also illustrated in the definition provided by Andreoni et al. (1998) in which they included the desired outcome as a result of obedience to tax laws 'to obtain an economic equilibrium'; Allingham and Sandmo (1972) and Spicer and Lundstedt (1976) 'enjoy tax saving' or 'penalty'. Singh (2003) described tax compliance as voluntary action 'without having to wait for follow up actions from tax authority'. Apart from these, Song and Yarbrough (1978) included some factors of compliance in their definition that is, 'determined by ethics, legal environment and other situational factors'. Since there have been many empirical study attempts that have been made to define tax compliance, for the purpose of this study, tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes.

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).

There are a number of reasons why studying tax compliance of SMEs is important. First, SMEs are less tax compliant in comparison to large businesses (Giles and

Caragata 1999). They collect employment and value added taxes on behalf of the government. Therefore, SMEs operators' tax compliance affects the amount of tax revenue collected which affects the government's ability to fulfil its fiscal, economic and social objectives (Alley et al. 2004; Chittenden, Kauser, and Poutziouris 2003). Second, SMEs are known to participate in the cash economy due to the greater opportunity available to them (Ashby and Webley 2008; Bajada 2002; Morse, Karlinsky, and Bankman 2009; Noble 2000). They have 'unregistered income with no third party reporting' (Gerxhani and Schram 2006) and consequently, they are considered the 'hard to tax group from the informal sector' (McGee, Ho, and Li 2008). Collected in 2011 was spent in the course of collecting income tax from small taxpayers in Uganda (Rwahigi 2012).

The goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties. Within literature of tax compliance, the perception of the taxpayers about the fairness of the tax system is recognised as an important factor that can have significant influence on tax compliance behavior. The tax system is perceived as unfair by the citizens may likely to be less successful and this will encourage the taxpayers to engage in noncompliant behaviour. Perceptions of taxpayers closely related with knowledge and experience, thus awareness on tax matters and tax knowledge did influence the level of tax compliance (Palil, 2010).

Relatively few tax compliance studies have been conducted in South Africa since 1994. Alm and Martinez-Vazquez (2001) and Cummings, Martinez-Vazquez, McKee and Torgler (2004) analysed tax compliance in South Africa, using laboratory experiments conducted in 1999, field data collected for the World Values Survey in 1996 and the

Afro barometer in 2000. Their findings confirm that tax compliance exceeds predictions using the conventional economic models and they indicate that compliance is closely related to how tax institutions and government behaviour are perceived. Alm and Martinez-Vazquez (2001) conclude that social norms play an important role in compliance decisions in South Africa, but they point out that these issues are not fully understood.

2.5 Compliance costs

Compliance costs are the value of resources expended by taxpayers in meeting their tax obligations. The first attempt to measure tax compliance costs (Haig 2005) only took place a little over 60 years ago, in spite the fact that the issue of tax compliance costs was explicitly discussed at the birth of modern economics. However, there has been a steady growth of international interest, particularly among OECD countries, in tax compliance costs, both by academic researchers and by governments. Sandford (2008) identifies a number of reasons for the growth in interest in compliance costs and SMEs can compute the income tax liability of the business with ease. These include: changes in technology (facilitating large-scale computer driven surveys), the introduction of value added tax (VAT) regimes in a number of countries (with high and visible compliance costs), the growth of enterprise cultures involving the small business sector (where compliance costs are particularly onerous) and the increasing complexity of tax systems.

The term ‘tax compliance cost’ is capable of different interpretations; a consensus as to the precise meaning and measurement of compliance costs only began to emerge in the literature about 25 years ago. According to the most authoritative source, tax

compliance costs are defined as those costs “incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax where business know how to treat the expenses incurred in relation to income” (Waples and Darayseh, 2009). In the same source, the cost of tax compliance is also referred to as a private sector cost. An important convention in this vein of literature, which is relevant to this paper, is the distinction between gross and net compliance costs where net compliance costs are equal to gross compliance costs minus the value of tax compliance benefits. The main quantifiable form of tax compliance benefit is the cash flow advantage which arises when businesses have the use of tax revenues for a period before they must be remitted to tax authorities (Waples and Elaine, 2009). It may thus be written as $\text{Net compliance costs} = \text{Gross compliance costs} - \text{Cash flow benefits}$. Taxpayer compliance costs are equal to social compliance costs minus the aggregate tax deductibility of certain types of costs and the aggregate cash flow benefits/costs that derive from certain aspects of the tax system. For full details of various computational formulae refer to Evans et al (Bahari and Ling, 2007). High compliance costs, i.e., the costs the taxpayer has to bear to gather the necessary information, fill out tax forms etc, can be an additional reason for tax evasion and avoidance (Brautigam, Fjeldstad, and Moore 2008). The complexity of procedures needed to pay taxes and the rates applied to businesses may be a proxy for formal enterprises’ incentive to undervalue business transactions.

Small and medium sized enterprises (sme), in particular, suffer from high compliance costs, with value added tax (vat) being perceived as the most problematic in South Africa. As a coping strategy in South Africa, about 18 percent of SMEs simply try to avoid or evade taxes (Small Business Project 2005). The main reasons for high tax

compliance costs of small businesses are: (1) Frequent changes of tax laws; (2) Complexity of tax systems (tax systems are more geared to large enterprises); (3) Existence of different tax administrations; (4) Incomprehensible language of tax laws, including incomprehensible forms; (5) Short and inflexible deadlines for tax payments (resulting in cash flow problems); (6) Costs of tax consultants; (7) Registration procedures (European Commission 2007).

Blumenthal & Slemrod, (1992) explained that compliance costs are part of the total cost of any tax system, which is also composed of the resources expended on collecting the revenues. He further emphasized that whereas some of the "collection" costs are born directly by the tax-administering agency, taxpayers shoulder much of them, in guise of time and money spend filing returns and complying with (or avoiding) the rules. Further still Slemrod and Yitzhaki (1996) identify compliance costs as one of the five component costs of taxation; the others are administrative costs, deadweight efficiency loss from taxation, the excess burden of tax evasion and avoidance costs. Although many of the authors have identified time and monetary (financial) costs to be the major components of compliance costs (Munnich, 2004; Slemrod, 2005; Chattopadhyay and Das-Gupta, 2002; Bankman 2004, Lassila and Smith, 1997), Talib (1996) and Chan et al. (1999) decompose these costs into computational costs and planning costs, as well Talib (1996) added a third category of advisory costs. Computational costs are routine in nature and up to a point necessary.

Considering the different stages of implementation of tax legislation group compliance costs are also grouped as commencement costs, temporary costs and regular (or recurrent) costs (Sandford, Godwin and Hardwick, 1989; Evans and Walpole, 1997).

Eland (1995) divides compliance costs arising from these actions into two broad categories: recurrent and non-recurrent. Tracy and Scott, (2005) further categorized compliance costs into mandatory costs and voluntary costs. Mandatory costs are those costs that taxpayers must incur to meet their statutory obligations, while voluntary costs are those additional costs that the taxpayer may choose to incur to determine or minimize their tax liability. Whereas most of the authors have analyzed compliance costs as a dependent variable in relation to tax reforms, tax administration, complexity and bureaucracy of the tax systems in developed countries (Saxton, 2005; Blumenthal & Slemrod, 1992; Chattopadhyay & Das-Gupta, 2002; Lassila and Smith, 1997), literature on compliance costs and its influence on income tax compliance behaviour especially in developing countries is still limited.

2.6 The effect of tax payer's knowledge/education on tax compliance

Previous researches state that there is positively significant relation between tax payer's knowledge and tax compliance. For example research by Palil (2010), he found that in Malaysia tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents. Research conducted by Berhane (2011) in Africa, also resulted that tax compliance is influenced by tax education. There are several studies in Indonesia that seek how the understanding of tax can increase tax payers' compliance, for instance Siregar et al (2012); Prakoso and Nurswandari (2012). Bahari and Ling (2007) conducted a research that aimed to seek the importance of tax education. They have found that 64% of the non business respondents wish to learn about tax. Basic tax principles, personal taxation, tax planning for individuals and taxation for small business and company are the topics of interest

for respondents. The author emphasized to insert tax as knowledge in the curriculum for non accounting program in higher education.

Furthermore, individuals become educated, which is knowledgeable in the aspect of tax planning, tax law and the likes. At the same time, tax knowledge improved individual's awareness and ethics toward reduce their tendencies of tax noncompliance. It proved the study by Kasipillai et al. (2003) among Malaysian undergraduates; they found that tax education influenced the attitudes and mind sets of Malaysian students (the future taxpayers) towards tax avoidance and tax evasions. Studied by Amrizah and Nero (2005) about the level of tax knowledge among working salaried adults in particular East Malaysia found that survey respondent had average knowledge of personal taxation. Meanwhile, Loo and Ho (2005) also studied working salaried individual in Malacca found that respondents did not possess sufficient tax knowledge pertaining to personal taxation even though they had tertiary education. Surprisingly, they were not fully aware of personal tax reliefs, rebates, entitlements and exemptions. The impact is that majority of Malaysian salaried might have filed incorrect tax returns.

In order to increase level of tax compliance, Richardson, 2006: Kirchler et al., 2008, believed that tax knowledge plays the important role. Hence, people should be equipped with the tax education so that everyone has a sufficient knowledge towards competent taxpayers. Park & Hyun (2003), suggested that tax education is one of the effective tools to induce taxpayers to comply more. On the other hand, if the taxpayers well understand basic concept of taxation, they are willing to comply (Marziana et al., 2010). For example, continuous efforts done by the Japanese National Tax Administration (NTA) contributed for the high tax compliance in Japan. The government of Japan

introduced the Self Assessment System in 1947 plays an important role for taxation learning process. To promote the principles of voluntary compliance, they were created a lot of activities such as public relation, tax education tax consultant, guidance and examinations (Rani, 2005). Tax knowledge also reduce the potential of tax evasion.

In general, studied by Loo and Ho (2005) toward a group of salaried individuals in Melaka, founded that the taxpayers' competency level is quite low even though most of them have tertiary education. By looking for this situation, it is alarming button because it might impact their readiness to exercise appropriate compliance under the new self-assessment system (Marziana et al., 2010). Junainah (2002) in her studied towards the implementation of SAS among individual taxpayers in Kota Kinabalu also founded the most of the taxpayers unwilling to participate in SAS because of the burden some of the aspects, such as difficulties of filling up tax return and calculating income tax payable. Bahari and Ling (2007) conducted a research that aimed to seek the importance of tax education, that SMEs correctly classify supplies as standard rated zero rated and exempt in line with Correct Reporting and have to file tax returns with tax authorities by the due date.. They have found that 64% of the non business respondents wish to learn about tax. Basic tax principles, personal taxation, tax planning for individuals and taxation for small business and company are the topics of interest for respondents. The author emphasized to insert tax as knowledge in the curriculum for non-accounting program in higher education.

The influence of knowledge on compliance behaviour has been proven in various researches (Mohamad Ali et al., 2007). Harris (1989) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In

the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996).

Previous studies have shown evidence that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). Given the evidence that tax knowledge affects understanding of taxpayers, an obvious issue that has been raised by previous researchers (Singh, 2003; Eriksen and Fallan, 1996; Harris, 1989) is whether enhancement of tax knowledge will increase tax compliance. Thus, the relationship between tax knowledge and tax compliance is described here. Eriksen and Fallan (1996) claimed that 'knowledge about tax law is assumed to be of more importance for preferences and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a self-assessed system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws (Lewis, 1982). Eriksen and Fallan's study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behavior among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behavior because in self-assessed system, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system. Eriksen and Fallan (1996) attempted determining

the relationship between the level of tax knowledge and attitudes toward taxation; whether specific tax knowledge influences attitudes in general.

Tax knowledge can be learnt by self-learning, taking formal education, and taking the informal ones. The government also takes many actions to socialize tax rules and policies where taxpayers can learn from. Education attainment is an important determinant of tax evasion (Richardson, 2006). The influence of tax knowledge behaviour has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and fallan, 1996). Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh and Bhupalan, 2001).

It usually relates to a taxpayer's ability to comprehend and comply or not comply with income tax laws (Jackson & Milliron, 1986). Enhancing the level of general fiscal knowledge, tax compliance improves because of more positive perceptions about taxation. Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. However, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education (Richardson & Sawyer, 2001). Higher tax knowledge is also assumed to lead to higher compliance rates (Carnes & Cuccia, 1996). According to Eriksen and Fallan (1996), as the level of tax knowledge increases, the rate of tax evasion is decreased, and the level of tax compliance becomes much higher. Without any tax education, there might be inconsequent tax planning that leads to tax noncompliance (Rustiyaningsih, 2011).

Tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information. The level of formal general education received by taxpayers is an important factor that contributes to the understanding of tax requirements, especially regarding registration and filing requirements. Generally, citizens have very limited knowledge on government true expenditures and the cost of public services provided by the government. Hence, those taxpayers without tax knowledge are compelled to solicit the service of tax professionals. One of the fundamental ways to increase public awareness is for taxpayers to have knowledge about taxation. Reference observes that general education level is significantly related to tax evasion. High awareness by the society would encourage people to fulfil their obligations to register as taxpayer reporting and paying taxes properly are forms of national and civic responsibility. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is. Reference states that tax knowledge reveal that there is a relationship with taxpayers' ability to understand the laws and regulation of taxation and their ability to comply. In this study, SMEs did not consider local authority levies to be different from government taxes because they lacked tax knowledge. This misconception has an impact on their compliance decision because when they pay council levies they might consider that they have A. O. Oladipupo, U. Obazee 3 paid tax and complied. Reference found that SMEs did not pay their tax obligations because of their inability to understand tax law requirements. Increase awareness and knowledge of a tax initiative is essential to gain public acceptance and confidence. Awareness has to be spread in order to inform all consumers about the direction and objectives the authorities wish to achieve by administering taxation policy. References conclude that tax knowledge has a significant

impact on tax compliance in meeting their tax obligations. Similarly, Reference also opines that knowledge of taxation can affect the perceived fairness of tax by the taxpayers. For taxpayers to accurately compute his tax liability reasonable tax knowledge is required. From the foregoing, it is observed that previous studies have evidenced that tax knowledge play an important role in increasing tax compliance. Tax knowledge could potentially encourage taxpayers to be more prudent in completing their tax returns. Hence, we hypothesized that there is a significant relationship between tax knowledge and tax compliance.

Furthermore, Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others' tax evasion and thus suggesting that: "...a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system. "...it would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools."

Awareness is an element in human beings to understand reality and how they act or behave towards reality. Jatmiko (2006) explains that awareness is a state of knowing or understanding. Irianto (2005) in Widayati and Nurlis (2010) outline some form of awareness to pay taxes that encourage taxpayers to pay taxes. Firstly, the realization that tax is a form of participation in supporting the country's development. Knowing this, taxpayers want to pay taxes because they are not harmed when tax collection is done. Secondly, the awareness that postponement of tax payments and the reduction of the tax burden are very detrimental to the country. Taxpayers want to pay taxes because it understands that the delay in payment of taxes and the reduction of the tax burden impact on the lack of financial resources, which can lead to delays in development of

the country. Thirdly, the realization that, taxes are set by law and can be enforced. Taxpayers will pay after they have realized a strong legal foundation and the absolute duty of every citizen. In Jatmiko (2006), Sumarso (1998) stated that low public awareness of taxation often be one of the many potential causes of tax that cannot be captured. Still in Jatmiko (2006), Larche (1980) also suggests that awareness of taxation is often a constraint in the problem of collecting taxes from the people. Also it been demonstrated empirically that higher taxation taxpayer's awareness will be higher than the level of tax compliance (Suyatmin 2004 in Jatmiko, 2006). Taxpayer's Awareness is very important to remember that the tax system, we uphold the self-assessment system. Conversely, lack of awareness causes many potential taxes resident tax cannot be realized. Meanwhile, according to ManikAsri in Rahayu (2010), the taxpayer is recognized as having awareness if they: (1) recognize the existence of the tax laws and regulations, (2) knowing that the tax function is to finance state, (3) understand that the task taxes must be paid in accordance with the applicable rules, (4) calculate, pay, and report their taxes voluntarily and accurately. Tax Moral according to Andreoni, Erard and Feinstein (1998), moral factors and social dynamics in relation to the model of a Tax Compliance unspoiled areas in the study. Tax morality is described by a factor of eight indicators: 1) Citizen Participation, 2) Confidence, 3) Regional Autonomy and Decentralization, 4) Pride, 5) Demographic Aspects, 6) Economic, 7) Aspects of Tax Evasion, and 8) System Taxation. Morality Tax determining factors are the most dominant demographic factor where education levels taxpayer very big role to determine compliance with the tax. Other indicators such as demographic, income level, gender, marital status and religion, was not so dominant in determining the morality of a person to adhere to the tax. Factors smallest role in shaping tax morality is the deterrence factors, among others, the implementation of sanction's taxation and

extortion. This phenomenon is very interesting and deserves further scrutiny, whether the taxpayer perceives tax penalties as a factor that can be ignored and the collusion and corruption as something that can be accepted. If that is true, then this could explain that tax corruption cannot be separated from the strong urge of taxpayers to pay taxes' nicety in any way, even if it is illegal. In other words, the occurrence of cases of corruption in tax, not only explain the moral behavior of tax officials, but also the moral as well the behavior of the taxpayer. Therefore, prevention of leakage of tax revenue on the tax authorities is not enough to repair the system and effective supervision but also at the same time by educating the taxpayer in order to pay taxes properly. It is not solely the responsibility of the tax authorities, but all parties need to be exemplary. In addition, law enforcement needs to be more firmly against mandatory tax non-compliance among others, by giving more authority to the tax authorities within easy access to the data bank and have the authority to arrest criminal's taxes. That is, the tax system needs to be monitored closely but at the same time are granted better too.

2.7 The effect of tax awareness campaigns on tax compliance among SMEs

A taxpayer compliance campaign is a high level plan which brings together in a single document a description of the most significant compliance risks identified in the tax system and sets out the broad detail of how the revenue agency intends to respond to those risks (Palil and Rizal, 2010). It does not attempt to cover every aspect of a revenue agency's operational activities. Compliance campaigns are commonly structured around major taxpayer segments (e.g., large businesses, medium-size enterprises, small and micro enterprises, and individuals) and address compliance risks relevant to these segments and citizens are informed about tax laws and guidelines about taxation (Waples, Elaine, 2009).

Tax agencies are required to manage within a finite budget which is never enough to deal with all risks in the system at one time. As a result, they require an intelligence-led and evidenced based methodology for identifying the most severe risks in the system and determining the most rational allocation of their resources. The development of a targeted compliance campaign on a cyclical basis allows a revenue agency to systematize its compliance risk identification, risk prioritization, and compliance strategy planning and delivery in a way that ensures a focus on the most significant issues and makes best use of available resources across competing functional departments. It also provides a transparent and defensible record of the process by which the revenue agency's compliance plans have been formulated (Alstadsæter, Annette and Martin Jacob, 2013).

Internal publication of the compliance campaigns within the revenue agency provides important context for front-line delivery staff by clearly articulating the main risks in the system and the mix of strategies to be employed in managing them. Ideally, there should be a clear line-of-sight from the revenue agency's high level strategic plan down through all levels of operational plans to the team level. By ensuring clear linkages between each tier of the plans, managers and staff are better able to understand what they are required to do and why they are doing it, while the organization's statement of values informs staff about how they should approach their work. This can be a powerful motivational tool as well as providing a framework for better operational decision making and tax authorities inform taxpayers whenever there is new development in the Tax system (Bovens and Mark, 2005).

External publication of the compliance program enables the revenue agency to be open and transparent about compliance risks, and demonstrates to the government and broader community the rationale behind the deployment of its resources where tax authorities inform taxpayers about the risks of non-compliance(Singh, 2003). This approach can generate significant media coverage of the revenue agency's concerns and intended actions "free" publicity of this kind can significantly enhance the deterrent effect of the program. It enables people and businesses to understand the issues under scrutiny and helps them and their advisors manage their tax affairs more effectively, resulting in better overall compliance. It is also a mechanism for raising community awareness of the depth of compliance activities undertaken by the revenue agency and improving community confidence in the administration of the tax system. Documenting risks in the system in this way can also assist a revenue agency in lobbying the government for increased resources where the extent of identified severe risks is beyond its current capacities (Bajada 2002; Morse, Karlinsky, and Bankman 2009; Noble 2000).

Ashby and Webley (2008) tax authorities normally reminds me about my tax obligations and conduct trainings for tax payers about taxation

The majority of tax clients in SMEs own mobile phones, and some are connected to computers. The revenue authority can improve the awareness of clients about tax laws by disseminating educative information through the use of mobile phones. The online system must allow clients to subscribe for educative messages; the information should be provided freely or at a low price. Currently, there are two main services to which the revenue authority supports users of ordinary mobile phones; they make online payments and make direct calls to the institution. More services are needed in the area of tax education. Low business experience is reported to affect the ability of clients to

make decisions pertaining voluntary compliance by SMEs. The use of e-transparent services can uplift the knowledge of individual taxpayers through allowing them to inquire and access the information that positively improves their understanding of the benefits of voluntarily submitting tax returns (Albrecht and Simon, 2002).

Training is essential because it provides clients with the skills necessary in raising their attitude of voluntarily complying with taxation systems. In the Tanzanian revenue authority, employees organize seminars to educate stakeholders about the benefits of voluntary tax compliance. However, many respondents admitted that they never received training from tax officers. This is partly due to inadequate members of staff. The mobile technologies can be useful in providing trainings to SMEs through the use of text messages. The use of mobile phones could be extended to include the provision of educative information to clients. SMEs represent the largest group of business operators in the country. It is unfortunate that the majority of SMEs' has never been visited by tax officers for business assessment. This is due to inadequate number of employees. The reason for such visitation is to provide education necessary for voluntary compliance plus other tax related administrative activities. The use of ICTs enable clients to access these services without being visited by employees. Rustiyaningsih (2011) the SMEs have to be taught how to file tax returns, about the incomes on which am to pay taxes and are informed where I can access tax laws and Employees would essentially provide these services while in their offices

2.8 The effect of Religiosity (tax morale/ethics) on Tax Compliance

For instance, Reckers et al. (1994) investigated the influence of ethics on tax compliance decisions. They used ethics, tax rates and withholding as an independent variable. The results suggested that moral issues are highly significant in tax

compliance decisions. Furthermore, Islamic work ethics is one of the ways to conclude it. Saiyyidah (2010) defined Islamic work ethics as the idea that by working hard you fulfil your duty to God, and watching how you spend your salary as a way to seek salvation from your Lord. It means the work as productive use of time, doing something that will benefit the world or the hereafter'. Religion is seen as an important tool to develop the attitude, behaviour and character of the people. Therefore, a strong belief forms the ethics in daily life journey as well as work ethics.

Molero and Pujol (2011) argue that traditional models of tax evasions have primarily focused on economic factors and have ignored the wider perspective of including human behaviours. Since human behaviour cannot be fully understood without taking into account the ethical aspects, the traditional models have not yielded satisfactory answers to the question why people evade taxes. Human behaviour can be influenced by norms that can act as internal constraint (Buchanan, 1995). That the government spends a reasonable amount on welfare and a person's attitude or behaviour may determine a person's readiness to pay or evade taxes (Nerre, 2008). In this regard, tax morale is defined as 'intrinsic motivation to pay taxes' (Torgler and Werner 2005: 460). Thus, to understand why people pay or do not pay taxes, both economic and non-economic factors should be considered together (Molero and Pujol, 2011).

Economic factors might include tax rates, penalty imposed, and probability of being caught, among others. Non-economic factors might include complaints, sense of duty and solidarity, personal and business ethics, altruism and country. (Buchanan 1995; Gintis et al., 2003; Torgler and Werner, 2005; Alm). Torgler, (2006) that all organisations need to disclose all income earned for tax purposes.). On the empirical

front, limited number of studies exists that have looked into factors which might increase tax morale.

Wenzel (2005) who contends that every citizen must pay actual tax liability and also tax ethics as “one’s belief that there is a moral imperative that one should be honest in one’s tax dealings. Therefore, even though studies in other social disciplines have explored and confirmed that personal ethical considerations affect decision matrixes, the findings of such studies cannot be automatically assumed to hold in behavioral studies on tax compliance. Following on from the deterrence theory and the classical economic theory of rational utility maximizing behavior, Smith and Kinsey (1987); Carroll (1992; 1987) Tax is an obligation that every citizen must comply with and that tax payers do a cost-benefit-analysis of noncompliance by comparing the value of the marginal satisfaction from the monetary rewards of noncompliance with the potential cost and/or risk of sanctions (and other disutility) from non-compliance. This traditional economic model of decision making, suggests that tax payers choices are made solely from a perspective of self-interest (Hodgson, 1988). Therefore, the ‘rational pursuit’ of self-interest allows tax payers to consider taxation as a cost that they must avoid or reduce and hence a taxpayer is likely to evade tax unless the likelihood that he will be caught and the severity of punishment makes evasion an unattractive option (Wenzel, 2005). Proponents of this theory therefore argue that deterrence is an effective means of enforcing tax compliance (Allingham and Sandmo, 1972; Cowell and Gordon, 1988; Andreoni et al., 1998). Alm et al. (1992) and Henderson and Kaplan (2005) have however criticized the deterrence theory as being narrow and limited in its explanation power of the generally wide level of compliance among various taxpayers particularly as tax audits, and penalties for tax evasion, as well as the cost of other detection mechanisms are generally very low.

Indeed studies on the impact of audit probabilities on tax compliance have provided weak and inconclusive results Fischer et al., (1992) Evidence of the relationship between penalties (such as fines) and tax compliance also provides inconsistent results (Fischer et al., 1992; Park and Hyun, 2003; Friedland et al., 1978). Wenzel (2005) and Henderson and Kaplan (2005) find that tax compliance is influenced by a complex mix. Taxation individual ethical propensities and other social norms (James et al., 2001; Tyler, 1990). Etzioni (1988) proposes that ethical considerations and values are an interference with a moderating effect on the classical economic decision-making model of self-interest utility maximization. Scholz (1985) however contends that individual utility functions necessarily incorporate considerations of social responsibility as well as self-interest goals. Either-way ethical values affect the decision making process and can affect tax compliance decisions by causing tax payers to avoid non-compliance and illegal avoidance practices (Baldry, 1987, Jackson and Milliron, 1986; Trivedi et al., 2003). Carroll (1987); Smith (1990); and Etzoini (1988) argue that an individuals' ethical propensity affects tax compliance behaviour by providing a broad framework of possibilities and boundaries from which choices can be made (Grasmick and Bursik, 1990; Reckers et al., 1994; Sheffrin and Triest, 1992). Therefore high ethical values affect the decision making process by limiting choices available to the tax payer as well as the process to be used to achieve a given outcome (Reckers et al., 1994) and hence may override a 'rational' consideration of self-interest utility maximization. Kohlberg (1976) argues that each individual has a different set of ethical values. Therefore not all tax payers will view tax evasion with a high sense of morality (Reckers et al, 1994; Henderson and Kaplan 2005). Accepting Kohlberg's (1976) proposal that individuals have different ethical propensities where citizens honestly state the financial data, tax payers can be assumed to differ on an 'honesty characteristics' and can be grouped into

different categories (Clotfelter, 1983). Hessing et al. (1992) for instance identify three types of tax payers; tax payers who never evade tax; tax payers who will occasionally try to evade tax; and tax payers who will regularly try to evade tax. Clotfelter (1983) confirms that evidence exists that some tax payers never evade tax. Smith (1990) suggests that perhaps, compared to traditional economic considerations based on the deterrence theory, evidence exist to suggest that personal ethical values have a stronger effect on tax compliance behavior. Therefore, compared to deterrence factors, individual ethical beliefs have been confirmed to have a relatively more significantly verifiable relationship with tax compliance (Etzioni, 1988).

Religiosity is one of the important aspects of tax morale, because it could be heartfelt motivation for tax payment, voluntary recognised the income, aware with tax system and the likes. Religiosity has been gauged in various ways such as religious education, being an active member of a religious organization, they pay their tax obligations in time, tax authorities treat all taxpayers fairly and citizens pay about the same amount of taxes as others making the same income (SennurSezgin et al., 2011).

Meanwhile, trustworthiness might be explained what is tax morale all about. Moral judgments form the basis of the ethical aspects of non-compliance. Moral appeal might be feasible and could be effective on attitudes towards compliance. Furthermore, when tax is considered a burden or where tax fraud is very common, these might be perceived as acceptable justifications for non-compliance. Keenan & Dean (1980) carried out a study on the possible justification for non-compliance suggested that tax evasion is justified for ordinary people. They believed and perceived that the rich and famous cheat the government, or that the income tax system is unfair to them personally. Others feel that it is morally right, though legally wrong not to pay taxes if taxpayers' money

has been immorally or illegally wasted. Tax evasion behaviour may also depend on taxpayers' perceptions of the behaviour of others. This implies that moral commitments to tax compliance would depend on the moral behaviour, ethical values and attitudes of other taxpayers as well as those non-tax payers who may have enjoyed benefits paid out of taxpayers' money and also on the ethical and moral behaviour of those who administer taxpayers' money.

2.9 SUMMARY

The study has reviewed both the theoretical and empirical literature in relation to taxation and tax compliance. However, most of the reviewed empirical studies reveal that tax compliance increases with a fair government that aims at tax education/knowledge and religiosity (tax morals/ethics). Thus, it is beneficial for governments to understand the process by which taxpayers' perceive fairness in tax and, more importantly, to explore the characteristics of those taxpayers whose tax reporting behaviour is more likely to be influenced by equity and fairness. Voluntary compliance aims at ensuring correct reporting/declaration, timely filling of returns, fulfilling tax debts obligations and timely tax payments. They further noted that, sensitization of taxpayers can improve tax compliance and thus revenue performance of a country. Therefore, high levels of tax awareness will result in better tax compliance while poor tax awareness will result in non-tax compliance.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section presents the methodology that will be used in understanding the study. It presents the research design of the study, area of the study, target population of the study, sampling size and selection techniques, data collection tools and methods, data processing and analysis and finally the limitations experienced during the study.

3.1 Research Design

Across sectional research design was used for this study. Across section research design refers to a research designed where the data on the study variables is collected at the same point in time (Gujarati, 2009). This research design was selected because the researcher wants to get information from the SMEs in Nakawa Division. Therefore according to Gujarati (2009) this necessitates a cross sectional research design and that is why the present study will select a cross sectional research design. Many other previous studies such as (Aguti, 2011; Alm&Torgeler, 2011; Auyat, 2013) among others that have collected their data from the correspondents, have used a cross sectional research design. The approach will be purely quantitative that allows the researcher to solicit information that will be quantified, involving descriptive and inferential analysis of the relationships between tax awareness and tax compliance among the SMEs using a questionnaire.

3.2 The Study Population

The Population refers to all people or items with the characteristics a researcher wishes to understand (Groves, 2010). Therefore, there are 31,326 SMEs in Uganda (Bureau of Statistics, 2013). However, only 750 SMEs were within Nakawa division (URA, 2015). The researcher believed that, it was the right group to use in order to assess how tax awareness influences tax compliance among SMEs.

Table 3. 1: Population category, Total population per category, sample size and sampling method

Population category of SMEs.	Total population	Sample size	Sampling method
1. Wholesalers (eg. Distributors)	120	41	Stratified random sampling
2. Retailers(eg Shops)	550	188	Stratified random sampling
3. Service providers (eg. Saloons, clinics)	80	27	Stratified random sampling
Total	750	256	Stratified random sampling

Source:URA Report on SMEs in Nakawa Division, (2015).

3.3 Sample Size

A sample was a selected representative of the population since it was usually difficult to study the entire population due to time and cost thus a sample was a sub set of the population (Gujarati, 2009). The sampling method refers to sampling procedure or the selection process of the sample to represent the population under study (Groves, 2010). Sample size refers to the number of people or items selected to represent the population

under study (Gujarati, 2009). The sample size was determined using Krejcie and Morgan table, (1970). Thus, the sample included 256 respondents firms.

3.4 Sampling Techniques

Astratified random sampling was used in an attempts to restrict the possible samples to those which are "less extreme" by ensuring that all parts of the population are represented in the sample in order to decrease the error in the estimation. In stratified sampling, the population of N units was first divided into disjoint groups of N₁, N₂ and N_L units, respectively. These subgroups called strata, together they comprise of the whole population, so that N₁+N₂+N_L=N. From each stratum, a sample of pre-specified size was drawn independently in different strata. Then the collection of these samples constitutes a stratified sample. Then a simple random sample selection scheme was used in each stratum thus a stratified random sample.

3.5 Data Collection

3.5.1 Sources of Data

Data was mainly primary data. Primary refers to the first hand information obtained from the field for a particular purpose (Groves, 2010). This data was collected using primary data collecting instrument called the questionnaire. This source was preferred from other data sources because it gives first-hand information making the work more interesting and original (Aguti, 2011).

Secondary data which is defined as the second hand information was got from the available URA records such as report, internet and books of various authors.

3.5.2 Methods of data collection

The questionnaire was the only instrument used to collect primary data from the SMEs taxpayers in Nakawa Division. A questionnaire is simply a formalized set of questions for eliciting information (Gilligan & Grant). The questionnaire translates the research objectives into specific questions; answers to such questions will provide the data for hypothesis testing (Aguti, 2011). As such therefore, the function of a questionnaire is measurement and it is the most common form of measurement in research (Alm&Torgler, 2011). It is generally associated with appropriate, reliable and convenient tool for cross sectional data collection (Auyat, 2013), the present study comfortably uses the questionnaire as the only data collection instrument.

The questionnaire was divided into sections including the title, the purpose of the study, explanation about the research and the researcher; a section concerning the respondent's demographics, for instance their age, level of education, period taken as a tax payer. The main section contained questions and statements designed to collect data on the effect of tax awareness and tax compliance among the SMEs in Uganda targeting the wholesalers, retailers and service providers using scored five Likert scale ranging from 1 for strongly disagree, 2= disagree, 3 = neutral, 4 = agree to 5 for strongly agree was used, focusing on tax awareness and tax compliance of SMEs.

3.6 Measurement of Variables

Tax awareness was measured using taxpayer's education/knowledge, tax awareness campaigns and religiosity (tax morale/ethics) as described by (Alstadsæter, Kopczuk, and Telle, 2012, Alstadsæter and Jacob, 2013). Compliance costs were measured by considering the level monetary cost and time costs incurred by taxpayers (Blumenthal & Slemrod, (1992); Murnich, (2004); Schmidt et al, (2006)). Tax compliance was

studied basing on correct reporting/declaration, timely filing of returns, fulfilling Tax debt obligations and timely payment of tax due. These variables was measured using a five point likert scale ranging from strongly disagree (1), Disagree (2), neutral(3), Agree (4) and to Strongly Agree (5) (Franzoni, 2008; Plumley, 1996 and Erard, 2007).

3.7 Quality Assurance

3.7.1 Validity

The questionnaire was tested for content validity, using the content validity index (cvi) to ensure that it enabled us collect the desired data relevant to our study. Further, the instrument was tested for reliability using the Nunnally's alpha coefficient (Nunnally, 1978).

Validity, in contrast, refers to how well the assessment tool actually measures the underlying outcome of interest. First of all, the instrument was discussed with content URA/ SMEs experts and practitioners in the field of tax awareness and compliance in small and medium income in particular. The experts was specifically requested to indicate whether the items used to study tax awareness and tax compliance in small and medium income taxpayers are adequate and appropriate. The resulting draft questionnaire was submitted to the supervisors for further review. The final instrument was developed upon incorporating all comments from the pilot study, the experts and the supervisors.

Validity measures the extent to which the instrument was relevant in measuring what it is supposed to measure. The validity of the instrument was tested using the Content Validity Index (CVI). This involved experts scoring the relevance of the questions in the instrument in relation to the study variables and a consensus judgment was given

on each variable and taking only variables scoring above 0.70 as suggested by Nunnally and Bernstein (1994). The CVI was arrived at using the following formula.

$$\text{CVI} = \frac{\text{Number of items declared valid}}{\text{Total number of items}} = \frac{63}{63} = 1 * 100 = 100\%$$

Therefore based on the above, the tools were valid.

3.7.2 Reliability

In order to ensure the degree to which questionnaires were produce consistent results if used under the same conditions, they was pilot tested on few respondents and the results were subjected to Cronbach alpha reliability. Using alpha coefficient of less than 0.5 (<0.5) would mean the relevance and reliability of our questionnaire in getting us information for our study is less than desirable.

Table 3. 2: Cronbach Alpha Value for reliability of the study tools

Variables	Number of items	Cronbach's Alpha
Tax payer's education/ knowledge	13	0.836
Religiosity (tax morale/ethics)	14	0.843
Tax awareness campaigns	14	0.845
Correct Reporting	04	0.759
Timely Filing	04	0.735
Tax debts	04	0.610
Timely tax Payments	06	0.686

Source; Primary Data (2016)

Table 3.2 above shows that all the dimensions of the independent variable as well as dependent variable gave Cronbach's alpha values above 0.6 when reliability test was

conducted. This implied the tools used in the study were reliable for data collection as asserted by (Sekaran 2011).

3.8 Data processing and analysis

After collecting data from respondents using self administered questionnaires, it was edited, entered into computer data base, coded and analyzed using Statistical Package for Social Sciences (SPSS). Correlation and regression approaches were used to investigate the relationship between the variables and the extent to which the independent variables explained the dependent variable.

3.9 Ethical consideration

The researcher obtained an introductory letter from the University which was presented to Nakawa Division Office to seek clearance and permission to interview the SMEsTaxpayers in Nakawa Division Kampala where the research was conducted. Data/information gathered was treated with confidentiality and used solely for the purpose of this research.

3.10 Limitations of the study

The study involved 256 respondents and this was costly to the researcher in terms of cost of stationery. This was overcome by the use of a budget.

Some respondents were too busy which made it difficult for the researcher to access them with ease. This was minimized by the use of a simple tool which was delivered to them to be filled at their convenience and was to be collected later.

The sensitivity of the study also made data collection a bit harder as respondents thought it was for URA information. This was minimized by the use of a letter of

introduction from the University and clearly stating in the questionnaire that it is for academic work and that information obtained will be handled with high level of confidentiality.

The study was on an area that requires specific knowledge on tax matters, therefore some respondents didn't have information pertaining tax matters hence limiting the number of observations.

Given that the study involved collecting information from the individuals respondents, it was a cross-sectional study and therefore, data collection was limited to a single time point hence changes over time was not assessed, and estimates of how quickly generated a significant data set that was examined for potential relationship between the tax awareness and tax compliance.

The results of the study were not generalized because the geographic scope was limited to only one division in Uganda which is Nakawa Division. However, it was noted that Nakawa Division holds sufficient number of registered taxpayers in Uganda.

The study faced challenges in collecting data especially getting the questionnaires back from the field as many taxpayers sometimes didn't give information on tax matters. This however was overcome by the use of field assistants and a clear statement on the questionnaire requesting respondents to fill the questionnaire.

3.11 Conclusion

This chapter discussed methods that were used in undertaking the research. It clearly indicated the research design, population, sample size and sampling techniques, data

collection, analysis and presentation methods, validation and reliability of the methods that were applied to establish the relationship between tax awareness and compliance of small and medium income taxpayers. Furthermore it indicated ethical considerations, and the constraints that were faced by the researcher in accomplishing the study and how he overcame them in order to minimize those limitations so as to improve the quality of the study

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF RESEARCH

FINDINGS

4.1 Introduction

This chapter deals with the presentation and interpretation of the findings of the study, it was done on the basis of specific objectives of the study and in relation to the reviewed literature. The findings were presented with the help of tables for purposes of easier understanding, clarity and interpretation of tax awareness and tax compliance. The response to the study consisted of 228 Small and Medium Enterprises in Nakawa Division and the data was analysed using SPSS.

4.2 Presentation of findings on background information of the respondent

Table 4. 1. Background information of the respondents

Sex of the respondents	Frequency	Percent	Cumulative Percent
Male	127	55.7	55.7
Female	101	44.3	100
Total	228	100	
Time been a taxpayer in URA under SMEs			
1 Year	62	27.2	27.2
Between 2 and 5 years	99	43.4	70.6
Between 6 and 10 years	51	22.4	93.0
Above ten years	16	7.0	100
Total	228	100	
Education Level			
Primary	39	17.1	17.1
Secondary	93	40.8	57.9
Certificates and Diplomas	65	28.5	86.4
Degrees and Above	31	13.6	100
Total	228	100	
Category of SMEs			
Wholesalers	63	27.6	27.6
Retailers	121	53.1	80.7
Service providers	44	19.3	100.0
Total	228	100.0	
<i>Source: Primary Data(2016)</i>			

The background information includes information on sex, time been a taxpayer in URA under SMEs, and the highest level of education and category of SMEs of the respondents. The information is presented in the Table 4.1 above.

The Table 4.1 shows that majority of the respondents were male representing 127 (55.7%) of the respondents, and 101(44.3%) of the respondents were females. This implies that majority of respondents are males who are well versed with tax awareness and compliance compared to female respondents.

The Table 4.1 also reveals that most of the respondents 99 (43.4%) have been a taxpayer in URA under SMEs for two to five years compliant to tax laws, 62(27.2%)of respondents have been tax payers for one year, 51(22.4%) of respondents have been a tax payers in URA under SMEs for six and ten years whereas 16(7.0%)of respondents have been tax payers in URA under SMEs above ten years. This implies that 43.4% of the respondents have been tax payers with URA under SMEs for two and five years hence aware of taxes and compliant.

It is also noted that most of the respondents 93(40.8%) had attained secondary level education, 65 (28.5%) respondents had attained certificates and diploma level of education, 31 (13.6%) respondents had attained degrees and above level of education whereas (17.1%) respondents had a primary level of education. This implies that the ability to respond to the questionnaire without interpretation by the enumerator and also under tax related issues in regards to compliance and education.

More so, most of SMEs respondents were retailers 121(53.1%) who are operating small retail shops with the variety of different products for final consumers,63 (27.6%) of respondents are operating wholesale shops with the variety of different products and 44(19.3%) respondents where service providers. This implies that such people it they

hardly know about tax and hence presumed non compliant since it is quite difficult to collect tax from them as they can easily change location.

4.3 Presentation of findings on tax awareness

Table 4. 2: Summary Statistics of Tax payer’s education/ knowledge (N=228)

Tax payer’s education/ knowledge of respondents	N	Min	Max	Mean	Std. Dev
1. Am aware of the tax heads am obliged to pay.	228	1	5	4.01	.799
2. I know my rights and obligations as a taxpayer.	228	1	5	3.98	.868
3. Am aware of the due date of declaring my tax obligations.	228	1	5	3.92	.970
4. I know am obliged to calculate my own tax liability.	228	1	5	3.81	1.068
5. I know how to pay my tax obligations to the tax Authority.	228	1	5	3.57	1.014
6. Am aware of how to declare actual income received from all sources to the tax authority.	228	1	5	3.56	.944
7. I know which income should be included or excluded in determining the taxable income.	228	1	5	3.43	1.126
8. I know I should obtain a taxpayer identification number (TIN).	228	1	5	3.39	1.212
9. I know am obliged to report my own tax liability.	228	1	5	3.20	1.074
10. I understand the tax system of Uganda.	228	1	5	3.10	1.092
11. I have formal knowledge in taxation.	228	1	5	2.83	1.063
12. The tax return is easy and simple to complete.	228	1	5	2.80	1.184
13. Am aware about keeping my records/documents pertaining to income and expenditure for a period of five years after submission of the Tax Return.	228	1	5	2.57	1.168

Source: Primary Data (2016)

The above Table 4.2 provides the summary statistics for the responses under study on the Tax payer’s education/ knowledge. It specifically presents the mean, standard

deviation, the minimum and the maximum scale of the responses. The minimum scale which is one, indicates that the respondents strongly disagree with the statement while the maximum which is five indicates that the respondents strongly agree with the statement (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree). Findings in Table 4.2 indicated that the respondents agreed with Mean value of 4.01 and the standard deviation of .799 that they are aware of the tax heads are obliged to pay. This therefore implies that tax payers are well informed about the tax obligations a head of them. This was in line with Palil (2010), he found that in Malaysia tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents.

Findings in Table 4.2 revealed that the respondents agreed that they know their rights and obligations as taxpayers which were indicated by the mean value of 3.98 and the standard deviation of 0.868 showed dispersion in the responses. This implies that SMEs in Nakawa Division know their rights and obligations.

Finding in Table 4.2 revealed that the respondents were aware of the due date of declaring my tax obligations with the mean value of 3.92 and the standard deviation of .970 indicating dispersion in the responses. The implication is that the SMEs are aware of the due date of declaring their tax obligations.

These two views were in agreement with Berhane (2011) in Africa, also resulted that tax compliance is influenced by tax education where the people know their rights and obligations as tax payers and aware of the due date of declaring their tax obligations

Table 4.2 findings revealed that the SMEs know they are obliged to calculate their own tax liability this was indicated by the mean value of 3.81 indicating that they agreed. The standard deviations of 1.068 indicated dispersion in the responses. This implies

that the SMEs know they are obliged to calculate their own tax liability. This concurred with Jatmiko (2006) explains that awareness is a state of knowing or understanding and also citizen knowing how to calculate their own tax liability.

Table 4.2 findings showed that they know how to pay their tax obligations to the tax Authority this was indicated by the mean value of 3.57 where the respondents agreed to the view. The standard deviation of 1.014 indicated dispersion in the responses. This implies that the SMEs know how to pay their tax obligations to the tax authority. This concurred with Bahari and Ling (2007) conducted a research that aimed to seek the importance of tax education where people know how to pay their tax obligations to the tax authority

Furthermore, the findings revealed that they are aware of how to declare actual income received from all sources to the tax authority, where the respondents agreed with the mean value of 3.56 and the standard deviation of 0.944 respectively indicating mid position. This implies that the SMEs in Nakawa Division are aware of how to declare actual income received from all sources to the tax authority. This was in line with Kasipillai et al. (2003) where staff declares actual income received from all sources to the tax authority in with the attitudes and mind sets of Malaysian students

In line with the above, the SMEs know which income should be included or excluded in determining the taxable income and know they should obtain a taxpayer identification number (TIN). This was showed where the respondents were in the mid position of means 3.43 and 3.39 indicating the not sure position. The standard deviations of 1.126 and 1.212 indicated a wide dispersion in the responses. This implies that the SMEs in Nakawa Division either know which income should be included or excluded in determining the taxable income and know they should obtain a taxpayer

identification number (TIN) or not. This was in line with Amrizah and Nero (2005) about the level of tax knowledge among working salaried adults in particular East Malaysia found that survey respondent had average knowledge of personal taxation where adults know which income should be included or excluded in determining the taxable income and know they should obtain a taxpayer identification number (TIN) or not

Table findings indicated that they are obliged to report their own tax liability and they understand the tax system of Uganda. This was indicated where the respondents were not sure with the mean values of 3.20 and 3.10. The standard deviations of 1.074 and 1.092 indicated wide dispersion in the responses. This implies that the SMEs in Nakawa Division are either obliged to report their own tax liability and they understand the tax system of Uganda or not.

Analysis of Table 4.2 findings revealed that the respondents were not sure that they have formal knowledge in taxation and that the tax return is easy and simple to complete with the mean values of 2.83 and 2.80. The standard deviations of 1.063 and 1.184 indicated a wide dispersion in the responses and a deviation from the mean respectively. This implies SMEs in Nakawa Division either have formal knowledge in taxation and that the tax return is easy and simple to complete or not. This was in tandem with Loo and Ho (2005) also studied working salaried individual in Malacca found that respondents did not possess sufficient tax knowledge pertaining to personal taxation even though they had tertiary education have formal knowledge in taxation and that the tax return is easy and simple to complete

Finally Table 4.2 results indicated that the respondents disagreed with the mean value of 2.57 and the standard deviation of 1.168 that they are aware about keeping their

records/documents pertaining to income and expenditure for a period of five years after submission of the tax return. This implies that most SMEs in Nakawa Division implies they are either aware about keeping my records/documents pertaining to income and expenditure for a period of five years after submission of the tax return or not. This was in line with Rani (2005) that to promote the principles of voluntary compliance there is need for keeping their records/documents pertaining to income and expenditure for a period of five years after submission of the tax return

Table 4. 3: Summary statistics of religiosity (tax morals/ethics) (N=228)

Religiosity (tax morale/ethics) of respondents	N	Min	Max	Mean	Std. Dev
1. I feel satisfied when I fulfil my tax obligation.	228	1	5	4.40	.816
2. The government spends a reasonable amount on welfare.	228	1	5	4.16	1.017
3. I disclose all income earned for tax purposes.	228	1	5	4.05	1.074
4. I pay actual tax liability amount assessed.	228	1	5	3.96	.965
5. Tax is an obligation that every citizen must comply with.	228	1	5	3.86	1.058
6. Higher income earners should pay more taxes than lower income earners.	228	1	5	3.56	.983
7. By paying right amount of tax, I believe that other people especially the poor will benefit from it.	228	1	5	3.47	1.036
8. I have never attempted to avoid taxes.	228	1	5	3.44	1.004
9. When I delay to pay my tax liability, URA penalizes me.	228	1	5	3.37	1.081
10. I honestly state the financial data (revenue, expense, asset, and liability).	228	1	5	3.36	.978
11. I do not think it is ethically wrong if I exclude small amounts of income when completing the tax returns.	228	1	5	3.36	1.100
12. I pay about the same amount of taxes as others making the same income.	228	1	5	3.19	1.281
13. I pay my tax obligations in time.	228	1	5	3.15	1.244
14. Uganda Revenue Authority treats all taxpayers fairly.	228	1	5	3.01	1.343
<i>Source: Primary Data (2016)</i>					

Table 4.3 findings revealed that the respondents feel satisfied when they fulfil their tax obligation where the respondents agreed with the mean value of 4.40 and the standard deviation of 0.816 indicating dispersion in the responses. This implies that the SMEs in Nakawa Division feel satisfied when they fulfil their tax obligations. This was in line with Reckers et al. (1994) the influence of ethics on tax compliance decisions where people feel satisfied when they fulfil their tax obligations.

Findings in Table 4.3 revealed that the government spends a reasonable amount on welfare. This was indicated where the respondents agreed with the mean value of 4.16. The standard deviations of 1.017 indicated a wide dispersion in the responses. This implies that the government spends a reasonable amount on welfare. This was in line with Nerre (2008) that the government spends a reasonable amount on welfare and a person's attitude or behaviour may determine a person's readiness to pay or evade taxes

The finding in Table 4.3 revealed that they disclose all income earned for tax purposes where the respondents agreed with the mean value of 4.05 and the standard deviation of 1.074 indicating a wide dispersion in the responses. This implies that SMEs disclose all income earned for tax purposes. This was in agreement with Alm and Torgler, (2006) that all organisations need to disclose all income earned for tax purposes.

Additionally, the Table 4.3 results indicated that the respondents pay actual tax liability amount assessed where they agreed with the mean value of 3.96. The standard deviation of 1.058 indicated dispersion in the responses. This implies that the SMEs in Nakawa Division pay actual tax liability amount assessed. This was in line with Wenzel (2005) who contends that every citizen must pay actual tax liability and also tax ethics as "one's belief that there is a moral imperative that one should be honest in one's tax dealings

Findings in Table 4.3 revealed that the tax is an obligation that every citizen must comply with where the respondents agreed with the mean value of 3.86 and the standard deviation of 1.958 indicating dispersion in the responses. This implies that SMEs in Nakawa Division know that tax is an obligation that every citizen must comply with. This was in agreement with Carroll (1992; 1987) tax is an obligation that every citizen must comply with and that tax payers do a cost-benefit-analysis of noncompliance by

comparing the value of the marginal satisfaction from the monetary rewards of noncompliance with the potential cost and/or risk of sanctions (and other disutility) from non-compliance.

Table 4.3 findings indicated that the higher income earners should pay more taxes than lower income earners where the respondents were in the mid position with the mean value of 3.56 and the standard deviation of 0.983. This implies that higher income earners should pay more taxes than lower income earners. This was in line with Wenzel (2005) and Henderson and Kaplan (2005) find that tax compliance is influenced by a complex mix and higher income earners should pay more taxes than lower income earners.

Findings in Table 4.3 indicated that by paying right amount of tax, they believe that other people especially the poor will benefit from it where the respondents were not sure with the mean value of 3.47 and 1.036 respectively. This implies that by paying right amount of tax, they either believe that other people especially the poor will benefit from it or not.

Findings in Table 4.3 showed that the respondents were in the mid position of 3.44 and standard deviation of 1.004 that they have never attempted to avoid taxes. This implies that they either have never attempted to avoid taxes. This was in line with

Findings in Table 4.3 showed that the respondents were in mid position of 3.37 and standard deviation of 1.081 when they delay to pay their tax liability, URA penalizes them. This implies that when the respondents delay to pay their tax liability, URA penalizes them or not.

These two views were in line Trivedi et al. (2003) that once citizens ever attempted to avoid taxes and who they delay to pay their tax liability, tax authorities penalizes them.

Findings in Table 4.3 showed that they honestly state the financial data (revenue, expense, asset, and liability) where the respondents were not sure with the mean value of 3.36. The standard deviations of 0.978 showed dispersion in the responses. This implies the SMEs in Nakawa Division honestly state the financial data. This was in line with Kohlberg's (1976) proposal that individuals have different ethical propensities where citizens honestly state the financial data

Findings in Table 4.3 revealed that the respondents were not sure that do not think it is ethically wrong if they exclude small amounts of income when completing the tax returns with the mean value of 3.36 and standard deviation of 1.100 showing dispersion in the responses. This implies that the SMEs in Nakawa Division do not think it is ethically wrong if they exclude small amounts of income when completing the tax returns.

The respondents pay about the same amount of taxes as others making the same income and Uganda Revenue Authority treat all taxpayers fairly. This was indicated where the respondents agreed with the mean values of 3.19. The standard deviation of 1.281 indicated dispersion in the responses. This implies that they pay about the same amount of taxes as others making the same income.

The findings in Table 4.3 revealed that the respondents were not sure that they pay their tax obligations in time which is indicated by the mean value of 3.15 and the standard deviation of 1.244. This implies that they either pay their tax obligations in time or not.

Finally the findings in Table, 4.3 indicated that Uganda Revenue Authority treats all taxpayers fairly where the respondents were not sure with the mean values of 3.01 and the standard deviation of 1.343 indicating dispersion in the responses. This implies that Uganda Revenue Authority either treats all taxpayers fairly or not.

These views were in line with SennurSezgin et al. (2011) religiosity has been gauge various way such as religious education, being an active member of a religious organization, they pay their tax obligations in time tax authorities treat all taxpayers fairly and citizens pay about the same amount of taxes as others making the same income.

Table 4. 4: Summary statistics of tax awareness campaigns (N=228)

Tax awareness campaigns of respondents	N	Min	Max	Mean	Std. Dev
1. I was informed about tax laws and guidelines about taxation.	228	1	5	4.10	.538
2. URA informs taxpayers whenever there is new development in the Tax system.	228	1	5	3.95	.809
3. URA informs taxpayers about the risks of non-compliance.	228	1	5	3.91	.819
4. URA normally reminds me about my tax obligations.	228	1	5	3.91	.842
5. Uganda Revenue Authority conducts trainings for taxpayers about taxation.	228	1	5	3.90	.902
6. URA makes publications for public use.	228	1	5	3.89	.854
7. It is easy to approach a URA officer or/and office.	228	1	5	3.89	.751
8. It is easy to access tax literature on the URA website.	228	1	5	3.83	.984
9. URA officer has ever visited our premises to provide tax education.	228	1	5	3.81	1.003
10. I normally get quick response for my tax queries.	228	1	5	3.81	.801
11. Uganda Revenue Authority taught how to make tax payments.	228	1	5	3.78	.925
12. Revenue Authority taught how to file tax returns.	228	1	5	3.75	.923
13. I was taught about the incomes on which am to pay taxes	228	1	5	3.62	1.027
14. I was informed where I can access tax laws.	228	1	5	3.06	1.271
Source: Primary Data (2016)					

Table 4.4 findings indicated that the respondents are informed about tax laws and guidelines about taxation where they agreed with the mean value of 4.10 and standard deviation of 0.538 indicated limited deviation from the mean. This implies that SMEs are informed about tax laws and guidelines about taxation. This concurred with Waples, Elaine, 2009 who address compliance risks relevant to these segments and citizens are informed about tax laws and guidelines about taxation.

Table 4.4 findings indicated that URA informs taxpayers whenever there is new development in the tax system where the respondents agreed with the mean value of 3.95. The standard deviations of 0.809 indicated a deviation in the responses. This implies that URA informs taxpayers whenever there is new development in the tax system. This was in line with Bovens and Mark, (2005) can be a powerful motivational tool as well as providing a framework for better operational decision making and tax authorities inform taxpayers whenever there is new development in the Tax system

Findings in Table 4.4 where the respondents agreed that it informs taxpayers about the risks of non-compliance with the mean value of 3.91 and standard deviation of 0.819, indicating dispersion in the responses. This implies that URA informs taxpayers about the risks of non-compliance. This concurred with Singh (2003) broader community the rationale behind the deployment of its resources where tax authorities inform taxpayers about the risks of non-compliance

Findings in Table 4.4 revealed that URA normally reminds them about my tax obligations with the mean value of 3.91. The standard deviations of 0.842 and 0.902 showed dispersion in the responses. This implies that URA normally reminds me about my tax obligations.

Additionally, Table 4.4 revealed that URA conducts trainings for tax payers about taxation where the respondents agreed with the mean value of 3.90 and the standard deviation of 0.902 indicating dispersion in the responses. This implies that URA conducts trainings for tax payers about taxation

These view were in line with Ashby and Webley (2008) that tax authorities normally remind taxpayers about tax obligations and conduct trainings for tax payers about taxation

Table 4.4 results indicated that URA makes publications for use and It is easy to approach a URA officer or/and office where the respondents agreed with the mean value of 3.89. The standard deviations of 0.854 and 0.751 showed dispersion in the responses. This implies that URA makes publications for use and It is easy to approach a URA officer or/and office. This was in line with Albrecht and Simon (2002) improves their understanding of the benefits of voluntarily submitting tax returns and tax authorities make publications for use and It is easy to approach a tax authorities officer or/and office

Findings in Table 4.4 showed it is easy to access tax literature on the URA website and where the respondents agreed with the mean values of 3.83. The standard deviations of 0.984 showed dispersion in the responses. This implies that it is easy to access tax literature on the URA website.

Findings in Table 4.4 showed that URA officer has ever visited their premises to provide tax education where the respondents agreed with the mean value of 3.81 and the standard deviation of 1.003. This implies that URA officer has ever visited their premises to provide tax education.

The findings in Table 4.4 showed that the respondents normally get quick response for my tax queries and Uganda Revenue Authority taught how to make tax payments where the respondents agreed with the mean value of 3.81. The standard deviations of 0.801 showed dispersion from the responses. This implies that Nakawa Division SMEs normally get quick response for my tax queries.

Table 4.4 indicated that Uganda Revenue Authority taught how respondents how to make tax payments where the respondents agreed with the mean value of 3.78. The standard deviation of 0.925 showed dispersion from the responses. This implies that Uganda Revenue Authority taught SMEs how to make tax payments.

Finally, the Respondents said Revenue Authority taught how to file tax returns, they were taught about the incomes on which am to pay taxes and they are informed where they can access tax laws. This was indicated where the respondents agreed with the mean values of 3.75, 3.62 and 3.06. The standard deviations of 0.923, 1.027 and 1.271 showed dispersion in the responses. This implies that the SMEs in Nakawa Division have been taught how to file tax returns, about the incomes on which am to pay taxes and are informed where I can access tax laws.

This was in line with Rustiyaningsih (2011) the SMEs have to be taught how to file tax returns, about the incomes on which am to pay taxes and are informed where I can access tax laws and Employees would essentially provide these services while in their offices

4.4 Presentation of findings on tax compliance

Table 4. 5: Summary Statistics of (Correct reporting, timely filing, tax debts and timely tax payments) (N=228)

Correct reporting (Grad. Mean=3.54)	N	Min	Max	Mean	Std. Dev
1. I can compute the income tax liability of the business with ease.	228	1	5	3.36	1.254
2. I know how to treat the expenses incurred in relation to income tax in Uganda.	228	1	5	2.89	1.400
3. I declare all of my income for tax purposes.	228	1	5	3.80	.933
4. I correctly classify supplies as standard rated, zero rated and exempt	228	1	5	4.14	.776
Timely filing (Grad. Mean=3.34)					
1. I always file tax returns with URA by the due date.	228	1	5	3.39	1.299
2. I normally request for extension to file returns.	228	1	5	3.23	1.230
3. I always get estimated tax assessments from URA.	228	1	5	3.15	1.279
4. Am always penalised for late submission of tax returns.	228	1	5	3.60	1.161
Tax debts (Grad. Mean=3.76)					
1. I pay all my taxes including interest and penalty to nil.	228	1	5	3.71	1.049
2. It is cheaper in terms of interest payment to delay tax payment than looking for the equivalent amount for the business.	228	2	5	3.94	.952
3. The potential consequences (eg. Interest, publication of names, prosecution, confiscating property) for delaying tax payments are not serious enough to stop the vice.	228	1	5	3.84	1.007
4. I always fulfil the memorandum of understanding of my tax debts.	228	1	5	3.56	1.183
Timely tax payments (Grad. Mean=3.54)					
1. I pay my tax liability in time.	228	1	5	3.47	1.209
2. It is easy to make a tax payment by use of mobile phone and various banks.	228	1	5	3.59	1.046
3. Am always cautious about the tax payment due date.	228	1	5	3.41	1.068
4. I have never been penalised for late payment of tax.	228	1	5	3.66	1.087

5. I pay in full the tax assessed by the due date.	228	1	5	3.38	1.033
6. I pay tax first before considering other bills when financially constrained.	228	1	5	3.77	.962
<i>Source: Primary Data (2016)</i>					

The findings in Table 4.5 revealed that as regard correct reporting the respondents can compute the income tax liability of the business with ease where the respondents agreed with the mean value of 3.36 and standard deviation of 1.254 showing dispersion in the responses. This implies that as the SMEs can compute the income tax liability of the business with ease. This was in line with Sandford (2008) identifies a number of reasons for the growth in interest in compliance costs and SMEs can compute the income tax liability of the business with ease

Findings in Table 4.5 revealed that they know how to treat the expenses incurred in relation to income tax in Uganda where they disagreed with the mean value of 2.89 and standard deviation of 1.400 respectively. This implies that SMEs in Nakawa Division do not know how to how to treat the expenses incurred in relation to income tax in Uganda.

This was not in agreement with Waples and Darayseh, (2009) in meeting the requirements laid upon them in complying with a given structure and level of tax where business know how to how to treat the expenses incurred in relation to income”

Table 4.5 indicated that the respondents know they declare all of their income for tax purposes where the respondents agreed with the mean values of 3.80. The standard deviations of 0.993 showed dispersion in the responses. This implies that know the SMEs in Nakawa Division declare all of their income for tax purposes.

Finally the findings in Table 4.5 indicated that the respondents can correctly classify supplies as standard rated zero rated and exempt with the mean value of 4.14 and standard deviation of 0.776 showing dispersion in the responses. This implies that SMEs in Nakawa Division can correctly classify supplies as standard rated zero rated and exempt in line with Correct Reporting.

As regards Tax filling, the findings in Table 4.5 revealed that the respondents can file tax returns with URA by the due date where the respondents were not sure with the mean values of 3.39. The standard deviations of 1.299 showed dispersion in the responses. This implies that the SMEs in Nakawa Division can either file tax returns with URA by the due date or not.

These two views concurred with Bahari and Ling (2007) conducted a research that aimed to seek the importance of tax education that SMEs correctly classify supplies as standard rated zero rated and exempt in line with Correct Reporting and have to file tax returns with tax authorities by the due date.

Table 4.5 findings revealed that the respondents were not sure with the mean value of 3.23 that they normally request for extension to file returns and standard deviation of 1.230 showing dispersion in the responses. This implies that they either normally request for extension to file returns or not.

Table 4.5 in line with tax filing, the responses agreed that they always get estimated tax assessments from URA. This showed by the mean values of 3.15 the standard deviation of 1.279 showed dispersion in the responses. This implies that the SMEs always get estimated tax assessments from URA.

The findings in Table 4.5 indicated that the respondents always penalised for late submission of tax returns where the respondents agreed with the mean value of 3.60 and the standard deviation of 1.161. This implies that the SMEs are always penalized for late submission of tax returns.

In view of tax debts as a dimension of tax education, the respondents agreed in Table 4.5 that they pay all their taxes including interest and penalty to nil. This was showed by the mean value of 3.71 where the respondents agreed. The standard deviation of 1.049 showed dispersion in the responses. This implies that the SMEs pay all their taxes including interest and penalty to nil.

Table 4.5 findings indicated that it is cheaper in terms of interest payment to delay tax payment than looking for the equivalent amount for the business where the respondents agreed with the mean value of 3.94 and the standard deviation of 1.007 indicating dispersion in the responses. This implies that it is cheaper in terms of interest payment to delay tax payment than looking for the equivalent amount for the business

Table 4.5 findings indicated that the respondents agreed with the mean value of 3.84 and the standard deviation of 1.007 where the potential consequences (eg. Interest, publication of names, prosecution, confiscating property) for delaying tax payments are not serious enough to stop the vice and. This implies that the potential consequences (eg. Interest, publication of names, prosecution, confiscating property) for delaying tax payments are not serious enough to stop the vice.

Table 4.5 findings indicated that the respondents always fulfil the memorandum of understanding of their tax debts as regards tax debts where the respondents agreed with the mean value of 3.56 and the standard deviation of 1.183 indicating dispersion in the

responses. This implies that they always fulfil the memorandum of understanding of my tax debts.

Finally in regards to tax payment, the respondents were not sure that they pay their tax liability in time where the respondents were not sure with the mean value of 3.47 and the standard deviation of 1.209 in Table 4.5 indicating dispersion in the responses. This implies that the SMEs in Nakawa Division pay their tax liability in time.

The findings in Table 4.5 continued to indicate that is easy to make a tax payment by use of mobile phone and various banks where the respondents agreed with the mean value of 3.59 and the standard deviation of 1.046 respectively showing dispersion in the responses. This implies that it is easy to make a tax payment by use of mobile phone and various banks.

Table 4.5 findings revealed that they pay in full the tax assessed by the due date, they pay tax first before considering other bills when financially constrained. This is indicated by the mean value of 3.38 showing the not sure position. The standard deviations of 1.033 indicated dispersion in the responses. This implies that the SMEs in Nakawa Division either pay in full the tax assessed by the due date or not

Table 4.5 revealed that the respondents pay tax first before considering other bills when financially constrained where they agreed with the mean value of 3.77 and the standard deviation of 0.962 indicating dispersion in the responses. This implies that the SMEs in Nakawa Division pay tax first before considering other bills when financially constrained

4.5 Presentation of findings on correlation relationship between the study variables

Table 4. 6: Pearson’s Correlation Analysis

VARIABLE	1	2	3	4
Tax payer’s education/ knowledge (1)	1			
Religiosity (tax morale/ethics) (2)	.160*	1		
Tax awareness campaigns (3)	.162*	.243**	1	
TAX COMPLIANCE(4)	.108	.533**	.288**	1

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

Primary Data (2016)

4.5.1 Relationship between taxpayer’s education/ knowledge and tax compliance

In Table 4.6, Correlation results indicated positive relationship between tax payer’s education/knowledge and tax compliance ($r = .108$, $p < 0.01$). This implies that a change in taxpayer’s education/knowledge is associated with changes in tax compliance.

This is in line with the study by Kasipillai et al., (2003) among Malaysian undergraduates; they found that tax education influenced the attitudes and mind sets of Malaysian students (the future taxpayers) towards tax avoidance and tax evasions. Meanwhile, Loo and Ho (2005) also studied working salaried individual in Malacca

and found that respondents did not possess sufficient tax knowledge pertaining to personal taxation even though they had tertiary education.

This relationship is further explained where most of the respondents were educated hence can interpret the tax related documents. Therefore SMEs should be educated to be knowledgeable in the aspect of tax returns, tax payments and the application of tax laws in general. At the same time, tax knowledge improves individual's awareness and ethics towards reducing their tendencies of tax non-compliance.

4.5.2 Relationship between religiosity (tax morals/ethics) and tax compliance

Correlation results indicated a significant positive relationship between religiosity (tax morals/ethics) and tax compliance ($r = .533^{**}$, $p < 0.01$). This implies that any change in religiosity (tax morals/ethics) has an effect on tax compliance.

This was in with SennurSezgin et al. (2011) Religiosity is one of the important aspects of tax morale, because it could be heartfelt motivation for tax payment, voluntary declaration of the income, aware of the tax system and the willingness to learn more about taxation. Religiosity has been gauged in various ways such as religious education, being an active member of a religious organization.

This is further explained where the analysis of demographic statistics indicated more males compared to females, and also respondents having some level of education where educated people is presumed have some morals hence in line with tax morals/ethics and tax compliance.

Further moral commitments to tax compliance would depend on the moral behaviour, ethical values and attitudes of taxpayers as well as those non taxpayers who may have

enjoyed benefits paid out of taxpayers' money and also on the ethical and moral behaviour of those who administer taxpayers' money.

4.5.3 Relationship between tax awareness campaigns and tax compliance

Correlation results indicates a significant positive relationship between tax awareness campaigns and tax compliance ($r = .288^{**}$, $p < 0.01$). This implies that a change in tax awareness campaigns is associated with changes in tax compliance. This enables people and businesses to understand the issues under scrutiny and helps them and their advisors manage their tax affairs more effectively, resulting in better overall tax compliance.

This concurred with Alstadsæter, Annette and Martin Jacob (2013) that tax awareness is essential to aid tax compliance where it is also a mechanism for raising community awareness of the depth of tax compliance activities undertaken by the revenue authority and improving community confidence in the administration of the tax system. The development of a targeted compliance campaign on a cyclical basis allows a revenue authority to systematize its tax compliance risk identification, risk prioritization, and tax compliance strategic planning and delivery in a way that ensures a focus on the most significant issues and makes best use of available resources across competing functional departments hence the relationship.

4.6 Regression Analysis

A regression analysis was run to establish the predictive qualities of dependent variable (tax compliance) in relation to the independent variable (tax awareness). The results are indicated below in Table 4.7

Table 4. 7: Multiple Regression Analysis

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.557 ^a	0.310	0.301	0.36966		
a. Predictors: (Constant), Taxpayer's education/knowledge, Religiosity (tax morals/ethics) and Tax awareness campaigns						
Coefficients^a						
	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.009	.455		.020	.984
	Tax payer's education	.004	.087	.002	.041	.968
	Religiosity(Morals/ethics)	.689	.081	.491	8.521	.000
	Awareness campaigns	.277	.095	.168	2.908	.004

a. Dependent Variable: Tax Compliance

Primary Data (2016)

Based on the results in Table 4.7, the adjusted R square shows the variation in dependent variable that is explained by variation in the independent variables. In this case, the variation in tax awareness explains variation in tax compliance up to (0.301*100%). This implies that tax awareness is a critical factor for explaining tax compliance. In other words, the more effective application of tax awareness among SMEs, the tax compliance level will be higher. This suggests that the better tax awareness services by URA towards SMEs, the higher the level of tax compliance.

However, it was discovered that religiosity (tax morals/ethics) was a better predictor of tax compliance ($\beta=.491$; $p/< 0.01$) compared to taxpayer's education/knowledge ($\beta=.002$; $p/< 0.01$) and tax awareness campaigns ($\beta=.168$; $p/< 0.01$) in SMEs. Therefore, the tax authority should improve on ways of changing taxpayers' attitude towards adherence to tax laws and regulations.

This was in line with Muwonge (2011) tax compliance means seeking to pay the right amount of tax (but not more) in the right place at the right time. Where right means that the economic substance of the transaction undertaken coincides with the place and the form in which they are reported for tax purposes.

4.7 Conclusion

Chapter four covered the presentation of results and interpretation of findings in relation to the study objectives. The findings were summarized in form of tables, (showing percentages and frequencies) and qualitative statements. In addition, descriptive statistics was done, statistical analysis namely correlation and regression analyses were undertaken to examine the relationship between tax awareness and tax compliance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary of findings, conclusion and recommendations based on the findings of the study. The study has in general achieved its aims and objectives. The major aim of the study was to establish how tax awareness affects tax compliance in SMEs in Nakawa Division. The study reviewed several pieces of literature and gathered information from respondents directly using a well-designed questionnaire. Results from the study largely are in agreement with already written materials and in general the tax awareness dimensions (taxpayer's education/ knowledge, religiosity (tax morals/ethics) and tax awareness campaigns) can influence tax compliance.

5.2 Summary of Research Findings

5.2.1 Taxpayer's education/knowledge on tax compliance among SMEs in Nakawa Division

The first objective was to examine the effect of taxpayer's education/knowledge on tax compliance among SMEs in Nakawa Division

Correlation results indicated positive relationship between taxpayer's education / knowledge and tax compliance ($r = .108, p < 0.01$). This implies that a change in tax payer's education/ knowledge is associated with changes in tax compliance.

5.2.3 Tax awareness campaigns on tax compliance among SMEs in Nakawa Division

The second objective was to examine the effect of tax awareness campaigns on tax compliance among SMEs in Nakawa Division. Correlation results indicated a

significant positive relationship between tax awareness campaigns and tax compliance ($r = .288^{**}$, $p < .01$). This implies that a change in tax awareness campaigns is associated with changes in tax compliance.

5.2.3 Religiosity (tax morale/ethics) on tax compliance among SMEs in Nakawa Division

The third objective was to examine the effect of religiosity (tax morale/ethics) on tax compliance among SMEs in Nakawa Division. Correlation results indicated a significant positive relationship between religiosity (tax morals/ethics) and tax compliance ($r = .533^{**}$, $p < .01$). This implies that any change in religiosity (tax morals/ethics) has an effect on tax compliance.

From the regression Table 4.6.1, the adjusted R square shows that the variation in dependent variable is explained by variation in the independent variables. In this case, the variation in tax awareness explains variation in tax compliance up to ($0.301 * 100\%$). This implies that tax awareness is a critical factor in explaining tax compliance.

However, it was discovered that religiosity (tax morals/ethics) was a better predictor of Tax Compliance ($\beta = .491$; $p < 0.01$) compared to taxpayer's education/ knowledge ($\beta = .002$; $p < 0.01$) and tax awareness campaigns ($\beta = .168$; $p < 0.01$) in SMEs. Likewise, adjusted R square indicated how well the dependent variable was influenced by independent variables.

5.3 Conclusions from findings

The more effective implementation of the taxpayer's education/knowledge, tax awareness campaigns and changing taxpayers' attitude towards tax system, the higher the tax compliance will be among the SMEs in Nakawa Division. However, more effort

should be put on religiosity that is, changing taxpayers' attitude towards tax system as this was discovered to be a better predictor of the dependent variable.

5.4 Implications of the findings

URA provides tax education to its clients through organizing seminars, tax clinics and the website among other avenues and this practice has availed taxpayers with relevant information about taxation in general.

If the tax system is perceived as unfair by the taxpayers then it is likely to be less successful and this encourages the taxpayers to engage in non-compliant behaviour in terms of incorrect declarations and non-payment of tax liabilities.

Tax awareness among SMEs affects tax compliance and this affects the amount of tax revenue collected hence affects the government's ability to fulfil its fiscal, economic and social functions.

All in all, the findings of the study imply that increased tax awareness improves tax compliance as from the findings we have noted that independent variables such as taxpayers' education/knowledge, religiosity (tax morals/ethics) and tax awareness campaigns all improve the tax compliance of the tax payers.

5.5 Recommendations

The tax authority should simplify the taxation process through improved tax education; improved tax awareness campaigns as this will help to change Small and Medium Enterprises' attitude (morals/ethics) towards the tax system hence comply with tax laws and regulations. This will improve on tax compliance hence more taxes will be collected from the public.

Tax authority should be client centric and improve quality of service delivery so that taxpayers appreciate the benefits for being tax compliant although one is expected to pay tax without expecting something in return. One of the driving forces behind the concept of tax awareness is to focus on the ever changing needs of taxpayers and other stakeholders. This can only be achieved when the Uganda Revenue Authority narrows the gap between its staff and the taxpayers in terms of accessibility of URA staff, response to taxpayers' queries and service delivery. This also requires adequate human capital to administer and monitor taxpayers especially those in remote areas who are in the tax bracket and are earning taxable income and they are not taxed.

The tax authority should ensure that most of its processes are simplified for the taxpayers in terms of making it easy for taxpayers to file and pay taxes. The e-tax is still sophisticated for taxpayers who are mostly in the informal sector with limited capacity to hire experts.

URA should always make the public aware in case there are amendments in tax laws and tax regulations. This can be through increased publications, taking tax education to taxpayers to their place of work as many taxpayers have limited time to attend seminars, go to tax clinics and some may have no time to read literature by themselves. This will improve the image of the tax authority thus improve tax compliance.

The common problem in tax collection in developing economies is corruption and corrupt tax collectors. To cover this hurdle, some tax reforms can be introduced including incentives in the shape of bonuses for the efficient tax collectors. Even if bonuses as a reward for efficient tax collection were low in monetary value as compared to bribes, they are more motivating as they are legal and contribute in the promotion and fame of the tax collectors.

There is a general consensus that developing economies need better infrastructure to foster economic growth and hence wider taxation base is crucial. The problem is how the tax base can be broadened. Traditional models have focused more on punitive choices to increase tax collections. However, these deterrence models have performed poorly, especially in countries where corruptions are rampant and legal frameworks are weak. Resultantly, in recent times, more emphasis is placed on increasing the intrinsic motivation to pay taxes (tax morale). Theoretical and empirical research show that factors such as transparency, participative approach where taxpayers are given a chance to vote in tax issues, empathy and consideration, respectful treatment, advertising in the form of reference group functions, and education can play significant roles in increasing tax compliance.

Uganda Revenue Authority should launched more online service platforms to ease compliance and access to information about services such as services catalogue, which offers information about all URA services and payment of taxes among the informal sector and help taxpayers meet their obligations timely and conveniently. This will enable the reduction of turnaround time for the taxpayers and hence increase their efficiency and profitability.

The URA service catalogue, on the other hand, will enable taxpayers to access information and knowledge for self-serve and act as a single platform to view all the services and products offered by URA.

In this same spirit, URA should continue to embark on a sustained transformation drive to become more clients centric and improve its quality of service delivery. One of the driving forces behind the concept of tax administration is to focus on the ever changing needs of clients and stakeholders.

5.6 Areas for further research

Basing on the findings of the study, the researcher notes that it is worth researching more on the following areas: Benefits of improved tax compliance; Taxation and Service Delivery in Uganda; Record Keeping and Effective Tax Assessment in Uganda;

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APPENDICES

Appendix i: Table for determining sample size from a given population

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

Note: "N" is population size "S" is sample size.

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

Appendix ii. Questionnaire

UGANDA MARTYRS UNIVERSITY NKOZI

A Questionnaire on Tax Awareness and Tax Compliance in Small and Medium Income Taxpayers in Nakawa Division Kampala, Uganda

Dear respondent,

This questionnaire is to be filled in by the SME's in Nakawa Division Kampala. You are kindly requested to fill in the following questions to enable the researcher accomplish the study about **tax awareness and tax compliance in Small and Medium Enterprises**, leading to the award of a Degree of Masters of Business Administration of Uganda Martyrs University. This study is an academic work and thus the information given will be treated with the highest level of confidentiality and used for academic purposes only. Therefore you are kindly requested to spare your valuable few minutes to give your views, as no response is wrong and you do not need to disclose your name.

SECTION A: BACKGROUND INFORMATION

1. Sex

a. Male

b. Female

2. How long have you been a taxpayer in URA under SMEs (please tick what applies to you)

a. 1 year

b. Between 2 and 5 years

c. Between 6 and 10 years

d. Above 10 years

3. What is your highest level of education?

a. Primary

b. Secondary

c. Certificate and Diplomas

d. Degree and above

4. Category of SME of the respondent

a. Wholesalers

b. Retailers

c. Service providers

SECTION B: TAX AWARENESS

Please respond by ticking one answer in each line across as to how you feel about Tax Awareness (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree)					
Tax Awareness	SD	D	N	A	SA
A). Tax payer's education/ knowledge					
1) I have formal knowledge in taxation.					
2) I know am obliged to calculate my own tax liability.					
3) I know am obliged to report my own tax liability.					
4) I understand the tax system of Uganda.					
5) I know I should obtain a taxpayer identification number (TIN).					
6) I know which income should be included or excluded in determining the taxable income.					
7) Am aware about keeping my records/documents pertaining to income and expenditure for a period of five years after submission of the Tax Return.					
8) Am aware of the tax heads am obliged to pay.					
9) The tax return is easy and simple to complete.					
10) Am aware of how to declare actual income received from all sources to the tax authority.					
11) Am aware of the due date of declaring my tax obligations.					
12) I know how to pay my tax obligations to the tax Authority.					
13) I know my rights and obligations as a taxpayer.					
B). Religiosity (tax morale/ethics)					
14) I pay about the same amount of taxes as others making the same income.					
15) I do not think it is ethically wrong if I exclude small amounts of income when completing the tax returns.					
16) I pay actual tax liability amount assessed.					
17) I feel satisfied when I fulfil my tax obligation.					
18) The government spends a reasonable amount on welfare.					
19) I disclose all income earned for tax purposes					
20) Higher income earners should pay more taxes than lower income earners.					
21) By paying right amount of tax, I believe that other people especially the poor will benefit from it					

22) I honestly state the financial data (revenue, expense, asset, and liability)					
23) Tax is an obligation that every citizen must comply with.					
24) I have never attempted to avoid taxes.					
25) When I delay to pay my tax liability, URA penalizes me.					
26) I pay my tax obligations in time.					
27) Uganda Revenue Authority treats all taxpayers fairly.					
C). Tax awareness campaigns					
27). I was informed about tax laws and guidelines about taxation.					
28). I was informed where I can access tax laws.					
29). I was taught about the incomes on which am to pay taxes.					
30). It is easy to access tax literature on the URA website.					
31). URA normally reminds me about my tax obligations.					
32). I normally get quick response for my tax queries.					
33). Revenue Authority taught how to file tax returns.					
34). Uganda Revenue Authority taught how to make tax payments.					
35). URA informs taxpayers about the risks of non-compliance.					
36). URA informs taxpayers whenever there is new development in the Tax system. (eg. Change of tax rates, tax status of supplies, use of mobile phones to make tax payments among others)					
37). It is easy to approach a URA officer or/and office.					
38). URA makes publications for public use.					
39). Uganda Revenue Authority conducts trainings for taxpayers about taxation.					
40). URA officer has ever visited our premises to provide tax education.					

SECTION C: TAX COMPLIANCE

Please respond by ticking one answer in each line across as to how you feel about Tax Compliance (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree)					
	SD	D	N	A	SA
Tax Compliance					
<i>A). Correct reporting</i>					
1) I can compute the income tax liability of the business with ease.					
2) I know how to treat the expenses incurred in relation to income tax in Uganda.					
3) I declare all of my income for tax purposes.					
4) I correctly classify supplies as standard rated, zero rated and exempt					
<i>B). Timely filing</i>					
5) I always file tax returns with URA by the due date.					
6) I normally request for extension to file returns.					
7) I always get estimated tax assessments from URA.					
8) Am always penalised for late submission of tax returns.					
<i>C). Tax debts</i>					
9) I pay all my taxes including interest and penalty to nil.					
10) It is cheaper in terms of interest payment to delay tax payment than looking for the equivalent amount for the business.					
11) The potential consequences (eg. Interest, publication of names, prosecution, confiscating property) for delaying tax payments are not serious enough to stop the vice.					
12) I always fulfil the memorandum of understanding of my tax debts.					
<i>D). Timely tax payments</i>					
13) I pay my tax liability in time.					
14) It is easy to make a tax payment by use of mobile phone and various banks.					
15) Am always cautious about the tax payment due date.					
16) I have never been penalised for late payment of tax.					
17) I pay in full the tax assessed by the due date.					
18) I pay tax first before considering other bills when financially constrained.					

Thank you so much for your cooperation and time

Appendix iii. Introductory letter

Uganda
Martyrs
University



making a difference

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

Your ref.:

Our ref.:

Nkozi, 10th March 2016

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

Re: Research Work Assistance

Greetings from Uganda Martyrs University.

This is to introduce to you ABDALLAH TEMBO who is a student of this University. As part of the requirements for the award of the Master of Business Administration and Management of this University, the student is required to carry out field research for the submission of a Project paper.

I therefore request you to render the student such assistance as may be necessary for the research.

Thank you in advance.

Yours Sincerely,

Edward Segawa
Associate Dean

