MAKERERE UNIVERSITY

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TAX MORALE, BUSINESS FORMALIZATION, AND TAX COMPLIANCE AMONG SMALL BUSINESSES IN MBARARA CITY

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A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL (FACULTY OF GRADUATE STUDIES AND RESEARCH) IN PARTIAL FULFILLMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE OF MAKERERE UNIVERSITY

PLAN A

NOVEMBER 2024

DECLARATION

I hereby declare that this dissertation is the result of my original ideas and it has never been presented anywhere for academic purposes.

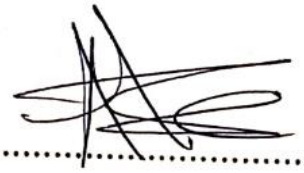
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APPROVAL

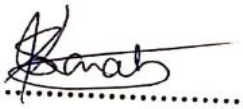
This dissertation has been submitted for examination with the approval of my supervisors whose signatures are appended against their respective names below.



Signed.....

Prof. Arthur Sserwanga

Date.....08/NOV/2024.....



Signed.....

Ms. Sarah Kyejjusa

Date.....06/11/2024.....

DEDICATION

I dedicate this dissertation to my family: my wife Mrs. Aijuka Judith, my son Aijuka Nathan Bainomugisha, and my daughter Aijuka Nicole Kwezi.

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LIST OF ACRONYMS

CVI	Content Validity Index
EFRIS	Electronic Fiscal Reporting and Invoicing Solution
SPSS	Statistical Package for Social Sciences
TIN	Tax Identification Number
TREP	Taxpayer Register Expansion Project
URA	Uganda Revenue Authority

ABSTRACT

Tax compliance remains a prerequisite of every government, although it remains one of the major challenges that continues to be encountered worldwide. The purpose of this study was to examine the relationship between tax morale, business formalization, and tax compliance among small businesses in Mbarara City. In this study, the objectives were to; examine the relationship between tax morale and tax compliance; examine the influence between business formalization and tax compliance; and examine the influence between tax morale and business formalization among small businesses in Mbarara City. The study was a cross-sectional research design, which applied a quantitative research approach. The sample constituted 291 small business enterprises. A questionnaire was used to obtain data used herein, analyzed using SPSS v. 25, and interpreted based on correlation and regression analysis. The study found a positive relationship between morale and tax compliance; and a positive relationship between business formalization and tax compliance. The study established that both tax morale and business formalization influence tax compliance. It also found that tax morale is the better predictor of tax compliance among small business enterprises. This study concludes that tax morale and business formalization cannot be taken for granted as far as boosting tax compliance among small businesses is concerned. The research recommends Uganda Revenue Authority; intensify tax education programs; roll out a TIN registration campaign; continue enforcing the implementation of the EFRIS; and encourage the government to increase tax accountability.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Tax compliance is inevitable because it instigates a civic duty amongst taxpayers to comply with all tax rules and regulations by timely and accurately. Compliant taxpayers will truthfully report all incomes and expenditures, file returns, remit taxes, and pay all the necessary tax obligations by self-will (Asiimwe, 2022; Nalukenge, 2022). This is crucial to the business because it minimizes hefty fines and penalties, and increases business growth and sustainable operations (Kiconco, Gwokyalya, Sserwanga & Balunywa, 2019; Sadress, Bananuka, Orobia & Opiso, 2019). Tax compliance also simplifies it for the government to able to operate, and deliver by its mandate since tax revenue is the main source of revenue (Nkundabanyanga, Mvura, Nyamuyonjo, Opiso & Nakabuye, 2017). For those reasons, tax compliance has undeniably received extensive considerable attention in research and continues to represent a core issue for many governments around the world.

Despite that, tax compliance of small businesses remains enormous globally. Gallien, Moore, and van den Boogaard (2022) of the International Center for Taxation and Development (ICTD), 2020) indicate that an average of 63.7% of small businesses globally do not comply with tax obligations at all. These operate without a tax identification number (TIN) which implies they cannot be mandated to file returns or make tax payments because they are not in the taxpayers' database. This is costing countries over US$400 billion in lost revenue annually (Organisation for Economic Co-operation and Development, 2022, Whalen, 2020). On the other hand, 82.7% of small businesses that bother to file returns and subsequently remit payment acknowledge submitting inaccurate incomes when filing (World Bank Group, 2022). In Africa and the Middle East, much as small businesses constitute more than 90% of all businesses within the region, they only contribute 25-35% taxes, the majority of which have

deliberately maintained an informal status of operation (65.9%), doing business without neither a tax registration number (TIN) or legal registration (World Bank Report, 2019).

In Uganda, the level of tax compliance among small businesses remains a serious concern. It is revealed that more than 7 million small businesses but not meeting their tax obligations (The Independent, 2022). This is affecting the country's national tax-to-GDP ratio to just 14%, compared to sub-Saharan African countries average of 18% (Kayemba, 2022; WIDER, 2021). Mbarara City is one of the areas where numerous businesses are tax non-compliant. Over 52% of businesses in the area are informal and are operating without a TIN. This also implies they are not engaging in any tax compliance activity such as filing returns and paying taxes since they do not have any record. It is also further revealed that most businessmen switch between businesses purposely with the intention of evading taxes. Between 2018 and 2019, more than 72% changed a business line, evading previous tax obligations (Ayoreka, 2022; Uganda Revenue Authority, 2022).

The underlying reasons for low tax compliance in Uganda, in particular, Mbarara City remain unclear despite URA initiatives such as the taxpayer register expansion project (TREP), introduction of the electronic system, and Electronic Fiscal Receipting and Invoicing System (EFRIS) among others (Ayoreka, 2022; United States University, 2021). According to the theory of planned behavior, the willingness to exercise a specific behavior is a matter of belief, where; one will intrinsically evaluate the behavior, and subjectively evaluate the prevailing norms and perceived behavioral control (Ajzen, 2011). It indicates that when a taxpayer evaluates tax, he/she develops attitude, perception, and moral sentiments that define their overall tax morale. Moreover, it emphasizes that one will always ascribe to an intention and behavior which others ascribe as important. This implies that one's decision to formalize a business legally and fiscally calls for a taxpayer's intrinsic and subjective assessment of its

relevance (Bosnjak, Ajzen & Schmidt, 2020). From this theory, tax morale, and formalization have been identified as factors that can explain tax compliance variances. The morale expressed by a taxpayer is in response to the evaluation made. Coupled with personal evaluation and subjective norm assessment, the theory expresses a taxpayer can decide to formalize their business so that they are easily identified by tax authorities and they comply. In other words, there is a possible mediation of formalization between tax morale and tax compliance.

In Uganda, a couple of scholars have authored about tax compliance, although the focus has been on other factors other than tax morale and formalization (Fredrick & Peter, 2019; Kiconco et al., 2019; Musimenta et al., 2019; Musimenta, 2020; Sadress et al., 2019). Moreover, Kabakama, (2022) and Verberne (2017) deduce that much as small businesses are a major tax base given that they constitute more than 90% of all enterprises in Uganda, their informality is affecting the ability of URA to collect taxes from them. The purpose of this research was to contribute to the answer to this question by establishing the relationship between tax morale, formalization, and tax compliance of small businesses in Mbarara City.

1.2 Statement of the problem

Tax compliance of small businesses has consistently declined in Mbarara City (URA Performance Assessment Report, 2020). This has mainly manifested in the deteriorating number of businesses that are filing, remitting, paying, and reporting accurate records to URA. As expressed by Uganda Revenue Authority (2022) more than 72% of small businesses in Mbarara City are not filing returns as much as they are operational. On the other hand, 43.9% of small businesses in Mbarara file returns, but do not go ahead to remit assessed taxes, attributed to low morale indicating the taxes are unfair (Ayoreka, 2022; Mbarara City Commercial Business Officer, 2022). In addition, 33.8% of small businesses have failed to formalize and, hence do not possess a TIN or trading license, which signalizes they are

operating without fulfilling their tax obligations (URA, 2022). If this is not checked, the government likely find difficulty in providing the necessary services to the citizenry. Tax compliance among small businesses in Mbarara city may likely be attributed to tax morale and business formalization. This propels the researcher to seek further inquiry.

1.3 Purpose of the study

The study was to examine the relationship between tax morale, business formalization, and tax compliance among small businesses in Mbarara City.

1.4 Research Objectives

i.) To examine the relationship between tax morale and tax compliance among small businesses in Mbarara City

ii.) To examine the influence between business formalization and tax compliance among small businesses in Mbarara City

iii.) To explore the influence between tax morale and business formalization on tax compliance among small businesses in Mbarara City

1.5 Research Questions

i) What is the relationship between tax morale and tax compliance among small businesses in Mbarara City?

ii) What is the relationship between business formalization and tax compliance among small businesses in Mbarara City?

iii) What is the relationship between tax morale and business formalization on tax compliance among small businesses in Mbarara City?

1.6 Scope of the study

Content Scope

This study concentrated on three variables, namely; tax morale, business formalization, and tax compliance. Tax morale and business formalization were studied as independent variables, whereas tax compliance was the dependent. Herein, the study focused on examining how studied variables relate with and predict the dependent variable.

Geographical scope

The study was conducted among small businesses in Mbarara City. This area was selected because it was ranked among the districts with the highest number of small businesses that were not complying with tax obligations (Uganda Revenue Authority, 2022).

1.7 Significance of the study

This study is expected to have managerial, policy, and empirical contributions.

From a management perspective, the study will provide information explaining the relevance of formalizing business and tax compliance. This could propel entrepreneurs to formalize businesses and understand the value of tax compliance, which could propel them to start complying with tax obligations.

Policymakers, especially URA will be able to understand how the morale of taxpayers and business formalization are affecting small businesses from complying with tax obligations. This information could be important in guiding URA in developing strategies that can enhance tax morale and encourage small business owners to formalize to comply with the tax.

The findings could be used by future researchers as a source of reference by extracting information related to tax morale, business formalization, and tax compliance.

1.8 Conceptual framework

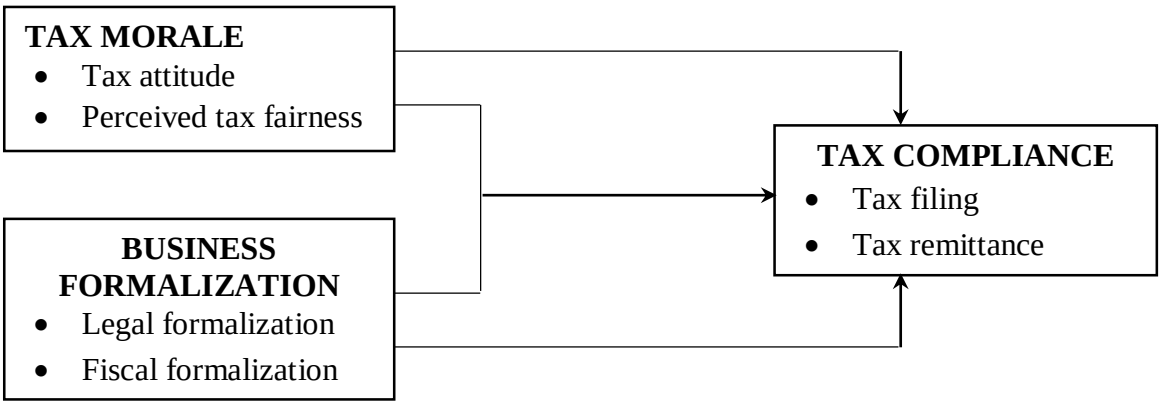


Figure 1.1: Conceptual framework

Source: *Adopted and modified from literature review (Agbetunde, Akinrinola & Odinakachi, 2020; Boly, 2020; Horodnic, 2018; Jouste, Nalukwago & Waiswa, 2021; Mugarura, Kaberuka, Tweheyo & Muramuzi, 2021; Nakitende, 2023; Timothy & Abbas, 2021).*

It revealed that tax compliance is the dependent variable, and it is conceptualized in terms of tax filing and tax remittance (Muturi & Kiarie, 2015; Night & Bananuka, 2020; Nkundabanyanga et al., 2017; Twum et al., 2020). Tax morale was comprehended in terms of tax attitude, tax fairness, and moral sentiments. The dimensions used have been endorsed by previous scholars (Agbetunde et al., 2020; Bruno, 2019; Ibrahim et al., 2015; Timothy & Abbas, 2021). The framework links tax morale to tax compliance demonstrating that tax attitude, perceived tax fairness, and moral sentiments surrounding tax can influence taxpayer's decision to file and remit tax (Andini & Rahmiati, 2020; Sadress et al., 2019).

On the other hand, the model indicates that business formalization is conceptualized in terms of legal formalization and fiscal formalization (Boly, 2020; McCaig & Nanowski, 2019; Archer, 2021). It demonstrates that businesses that are legally and fiscally formalized are bound to become more tax-compliant (Archer, 2021; McCaig & Nanowski, 2019). Lastly, the model suggests the manifestation of tax morale and business formalization can jointly influence tax compliance (Kustiawan et al., 2019; Radulovic, 2019).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is elaborate in three areas including the theoretical, conceptual, and empirical perspectives. Under the theoretical, the chapter explains the theory which was applied to guide the study. Under the concept, the chapter concentrates on explaining the key concepts as studied herein. The empirical on the other hand indicates thoughts from previous research regarding their understandability of the relationship between variables.

2.2 Theoretical Review

This study was informed by the theory of planned behavior (Fishbein, 2008; Fishbein & Ajzen, 1975). This theory postulates that behavior entirely depends on the availability of information human possess because of their rationality. Secondly, the theory assumes that individuals opt for particular actions after thoroughly considering the outcomes of these actions (Fishbein, 2008). According to Fishbein and Ajzen (1975), the most important predictor of volitional behavior is intention. Moreover, behavioral intention is a function of both behavioral attitude and normative attitude. Behavioral beliefs serve as the underlying influence on an individual's attitude toward performing a particular behavior, while normative beliefs influence the subjective norm about undertaking a decision to perform a behavior (Bentler & Speckart, 1979; Langer, 1989). The theory of planned behavior indicates that behavioral and normative beliefs initiate from various springs such as personal experience, formal education, newspapers, TV, the internet and other media, and interactions with family friends, and relatives.

The theory of planned behavior has been widely used by several scholars in their studies to explain individuals' intention to comply with tax procedures (Ofori, 2020). In the context of this study, the theory of planned behavior explains why tax morale and business formalization

predict tax compliance. Given the theory, a taxpayer with realistic morale tends to exhibit positive behavioral intentions toward tax compliance behavior. Secondly, taxpayers with formalized businesses tend to consider tax filing, remittance, and payment as a civic behavior which eventually augments their tax compliance behavior. This theory suggests that people are driven to act by what they believe. Based on this assertion, it can strongly be reasoned out that those small business taxpayers who believe to have the necessary moral sentiments and formal requirements exhibit a lot of desire to comply, which propels them to report, file, remit, and pay the actual taxes expected of them.

2.3 Tax Morale

Tax morale has emerged as a common terminology in recent literature (Arhenful, Kwaning & Asare, 2023). Much as this is the case, tax morale has not been universally defined. Originally, this concept was first defined as the "attitude of a group or the whole population of taxpayers regarding the question of accomplishment or neglect of their tax duties" (Schmőders, 1960; p. 5). Since then, several definitions of tax morale have been proposed. In some instances, it is well-defined as the positive or negative attitude expressed by taxpayers in terms of either acceptance or neglect of tax duties (Horodnic, 2018; Timothy & Abbas, 2021). Others define tax morale as the intrinsic drive that prompts individuals or businesses to pay tax duties (Agbetunde, Akinrinola & Odinakachi, 2020; Ibrahim, Musah & Abdul-Hanan, 2015; Owusu, Bart-Plange, Koomson & Arthur, 2021).

Meanwhile, Bruno (2019) defines tax morale as the voluntary desire to meet tax obligations. Despite the various definitions, the researcher notices that the resemblance inclined in the above definition is the fact that tax morale evaluates the internalized obligation within the taxpayer regarding the fulfillment of tax responsibilities. The behavior expressed may either be positive, which prompts taxpayers to consider tax payment a moral thing. From this

reasoning, this research defines tax morale as the internalized or intrinsic motivation to consider tax payment an appropriate deed.

Preceding studies have expressed and analyzed the terminology of tax morale from the psychological point of view, especially understanding the moral aspects and sentiments; tax attitude, and tax fairness (Agbetunde et al., 2020; Bruno, 2019; Timothy & Abbas, 2021). It is widely demonstrated moral aspects determine the personal integrity to pay taxes (Horodnic, 2018; Ibrahim et al., 2015). Taxpayers with high morals and sentiments show a high level of guilt and civic duty to pay taxes, which shapes the decisions they make (Horodnic, 2018; Owusu et al., 2021). Likewise, it is expressed that taxpayers want to be sure that the taxes they pay are properly used and collected reasonably. Otherwise, taxpayers display low morale whenever they feel that taxes are mishandled. This argument springs from the dimension of tax fairness (Bruno, 2019; Ibrahim et al., 2015). Attitude on the other hand demonstrates the intrinsic or emotional stimulus that biases individuals while making final decisions. Naturally, no one wants to pay tax. Accordingly, it is generally agreed that the tax morale remains low unless actions to enrich taxpayers about the relevance of paying tax are consistently carried out (Agbetunde et al., 2020; Night & Bananuka, 2020).

2.4 Business Formalization

The concept of business formalization has been differently described by many scholars. For instance, Gallien and Boogaard (2023) describe formalization as a process through which businesses acquire an official legal status. Meanwhile, Balashova et al., (2018) define business formalization as a process through which a business is fully registered, regulated, and protected by a legal framework. On the other hand, Nguyen, Verreynne, and Steen (2014) define business formalization as a progression under which enterprises adhere to formal rules and regulations that govern formal markets. Certainly, business formalization could be perceived as a course through which enterprises switch from informal to formal business proceedings and dealings.

The general finding from the above definitions shows that business formalization is a process that involves the valediction of business operations and procedures to observe legal and formal business frameworks. A growing body of literature has revealed that business formalization is a remarkable strategy for every business because it increases value addition (Boly, 2020, capitalization (Pesch, Endres & Bouncken, 2021) and access to credit (Florida, Demena &Wagner, 2020). Similarly, Xheneti, Madden, and Thapa Karki (2019) observed that business formalization is an important business strategy since it greatly develops explicitness and openness in every business procedure and process.

Empirical evidence by Skorková (2020) also indicated that business formalization allows firms to deal with emerging market instabilities. Moreover, Boly (2020) stressed that business formalization increases revenue and as well reinforces a culture of respecting the rule of law. Besides, it also allows business enterprises to obtain higher business membership. Scholars seem to settle that business formalization could be an important move in the process of managing various business operations (Piza, 2018), but what remains indistinct is the way it is conceptualized. Equally, Gallien and Boogaard (2023) resounded that even though business formalization has gained considerable attention, its conceptualization is still disappointing. Most studies have concentrated on explaining what it is, and have consistently sidelined its conceptualization (Moaaz & Mansour, 2023). In some studies, legal formalization and fiscal formalization are considered principal aspects of business formalization (Boly, 2020; McCaig & Nanowski, 2019; Archer, 2021). Also, Campos, Goldstein, McKenzie, and Campos (2015) agree with the proposed dimensions since they are appropriate requirements that guide business formalization procedures and activities. The current study conforms with the anticipated dimensions because they consider tax compliance a behavioral concept driven by business formalization.

Legal formalization involves the conversion of a business' legal framework into sound representation with active conservation of legal guidelines. Legal formalization entails adherence to key elements such as business laws, policies, and regulations as well as requirements related to general business registration and licensing (Balashova et al., 2018). Fiscal formalization on the other hand encompasses the directness and disclosure of an enterprise's fiscal information regarding business accounts and projections (Sikayu, Rahmat & Chan, 2022). Capasso, Cicatiello, De Simone, Gaeta, and Mourão (2021) also discoursed that fiscal formalization contains the exhaustive revelation of a business's financial material in terms of its obtainability, allocation, and expenditure. Overall, it is clear that fiscal formalization entails the degree of inclusiveness, precision, consistency, and suitability of business reporting on the state of business financials.

2.5 Tax Compliance

Critical analysis of the various tax compliance descriptions designates that tax compliance is a terminology that seeks to explore whether or not a taxpayer is obedient and diligent enough as far as meeting tax duties and requirements is concerned. Notably, Musimenta (2020) defines tax compliance as the degree to which a taxpayer conforms to all tax obligations as stipulated. On the other hand, Nasution, Santi, and Husaini, et al., (2020) define tax compliance as the range to which a taxpayer fulfills all the necessary tax obligations freely and completely as specified by law. In essence, this definition emphasizes that a taxpayer should voluntarily remit, pay, or file returns and truthfully be considered tax-compliant. In the same context, Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, and Nakabuye (2017) demonstrate that tax compliance is the willingness of a taxpayer to abide by all tax laws by declaring correct incomes and expenditures to establish the right tax liability and subsequently remit such taxes within the law margins.

Overall, it is clear that tax compliance is an expression of voluntary behavior and action toward tax. Guided by the definitions presented by Nasution et al., (2020) and Nkundabanyanga et al., (2017), this study will define tax compliance as the willingness and accurate fulfillment of all tax obligations as stipulated by law. In Uganda, small and medium enterprises are supposed to pay among others; presumptive tax; income tax; and local service tax. About the definitions presented, it can be argued that small and medium enterprises are considered compliant when they report the right tax, pay the right tax in accordance with the law, and report the actual tax duties.

Several scholars demonstrate that tax compliance is a concept that can be thoroughly evaluated from four perspectives, namely; tax payment; tax remittance, tax reporting; and tax filing. This is because the concept intends to explain how taxpayers are committed to fulfill obligations openly and totally (Muturi & Kiarie, 2015; Night & Bananuka, 2020; Nkundabanyanga et al., 2017; Twum et al., 2020). This study will equally adopt the same measures in comprehending tax compliance because a couple of studies concur that the above are appropriate dimensions of tax compliance. Filing returns involves providing the income and expenditure status of the business in a particular year. It is the mandate of every small business taxpayer registered with revenue authorities to submit a return for the tax period defined by the respective tax law (Tusubira & Nkote, 2013). Taxpayers are supposed to access return forms electronically from the web portal, fill and finally upload them. When successful, the taxpayer receives auto-generated feedback acknowledging receipt. On the other hand, tax payment examines the extent to which a taxpayer is willing to remit tax as prescribed by law while tax reporting explores the extent to which a taxpayer fully reports information that is necessary for assessing tax liability (Night & Bananuka, 2019).

2.6 Tax Morale and Tax Compliance

Numerous tax-related studies and literature have greatly discoursed the changeable tax compliance behavior among taxpayers. This enigma has attracted the attention of numerous scholars and academia to dig into the subject matter. According to existing empirical findings, it is identified that tax morale is one concept that greatly determines tax compliance behaviors. Although this is the case, the association between tax morale and tax compliance has been subject to debate. One of the studies conducted by Mat Jusoh, Mansor and Abd Razak et al., (2021) in Malaysia indicated that tax morale arouses positive attitudes among taxpayers which eventually prompts a desirable tax-compliant behavior. Likewise, an empirical study by Ghani, Abd Hamid, Sanusi, and Shamsuddin (2020) that focused on establishing the effect of tax morale on tax compliance revealed that tax morale plays an integral role in addressing tax compliance mysteries. Ofori (2020) maintained that high tax morale modifies taxpayers' insights which eventually prompts them to perceive that tax compliance is their moral obligation. Much as the above studies revealed a positive relationship between tax morale and tax compliance, it is not conclusive since results were generated from elsewhere.

From a Ugandan perspective, a study conducted by Sadress, Bananuka, Orobia, and Opiso (2019) among small business enterprises also maintained that high levels of tax morale arouse taxpayers' emotional ties and loyalties which intrinsically reinforces tax compliance. A cross-sectional study conducted by Kiconco, Gwokyalya, Sserwanga, and Balunywa (2019) across 210 financial services firms in a Ugandan setting also concluded that tax morale significantly influences taxpayers' reporting and remittance behavior. Much as the above study findings reveal a positive significant relationship between tax morale and tax compliance in Uganda's setting, results ascertained herein were limited by the following knowledge gap. Originally, the earlier study was not so direct, and above all it measured tax morale differently thus twisting the direction of the study. Secondly; the findings of the latter also concentrated much on

financial firms in Uganda which cautions against the generalizability of the results across small-scale business enterprises.

Additionally, an empirical study conducted by Andini and Rahmiati (2020) indicated a positive significant relationship between tax morale and tax compliance. Results from the above empirical study stressed that tax morale is an intrinsic motivational drive that prompts taxpayers to meet tax demands on time. Therefore, the decision to pay or evade tax greatly depends on the level of morality among taxpayers. Consistent with the above, Hardika, Wicaksana, and Subratha (2021) argued that improvement in tax morale has a positive and significant impact on tax reporting, remittance, and payment. However, the effect of tax morale on tax compliance is contested. The above study mainly used close-ended questionnaires that might not capture further information regarding the understandability of tax regulations and other non-compliance determining factors. Previous study findings by Dwenger, Kleven, Rasul and Rincke (2016) that focused on studying tax compliance in a Bavarian metropolitan area observed that amidst inadequate tax enforcement, a realistic number of tax payers voluntarily met their tax demands and requirements, and this was closely attributed the improved tax morale among taxpayers.

Accordingly, an empirical study conducted by Musimenta, Naigaga, Bananuka, and Najjuma (2019) from a developing economy perspective established that tax morale predicts up to 20.6 percent of the variance in tax compliance. On the contrary, empirical findings by Saddaf, Mehmood, Pitafi & Husain (2022) contend that improved tax morale does not guarantee improved tax compliance behaviors. Accordingly, an empirical study conducted by Sebele-Mpofu (2020) across informal sector firms in Zimbabwe maintained that high levels of tax compliance result into reduced levels of tax evasion. Although Sebele-Mpofu's study revealed a positive significant relationship between tax morale and tax compliance, the data based on to

derive such conclusions was purely qualitative something that limited the generalization of the study findings above. This knowledge gap offers a clear justification for more quantitative techniques to statistically test the relationship between the same. The above contradiction therefore further communicates that the association between tax morale and tax compliance is not an obvious one, and subsequently making conclusive remarks must depend upon an empirically derived connection. Therefore, the question of how tax morale relates to tax compliance among small business enterprises is justified.

2.7 Business Formalization and Tax Compliance

Business formalization is constantly being considered as one of the greatest determinants of tax compliance (McCaig & Nanowski, 2019). Although, a review of the existing literature on tax compliance has left a major research gap regarding the link between business formalization and tax compliance. However, proponents and theorists such as Boly (2020) have greatly revealed that business formalization is vital in improving tax compliance among tax payers. Results obtained indicated that business formalization significantly increases business profits and investments which allows for prompt tax payment, remittance and reporting. Thus, the study concludes that business formalization is so important in improving tax compliance behavior. Similarly, Pesch et al., (2021) stressed that business formalization results into improved business capitalization and firm productivity which encourage effective reporting, remittance and payment of taxes. Much as the above studies indicate a positive relationship between the business formalization and tax compliance, analyzing the impact of business formalization is still contested due to the heterogeneity amongst businesses.

Nonetheless, a study conducted by McCaig and Nanowski (2019) emphasized that business formalization doesn't guarantee tax compliant behavior. Findings obtained under the above study assert that business formalization negatively affects firms' earnings and other business outcomes which instead prompt tax non-compliance behavior. Moreover, Floridi, Demena and

Wagner (2020) concluded that business formalization increases access to external credit which comes along with circumstances such as obtainability of tax compliance certificate hence encouraging improved compliance behaviors. Therefore, the higher the business formalization, the greater the chances of promptly filing tax returns and requirements. Accordingly, Boly (2020) maintained that increased business formalization minimizes information asymmetry which eventually improves tax reporting, remittance and payment. Moreover, an empirical study by Archer (2021) also concluded that business informality is a cost to businesses simply because it affects public revenues which eventually triggers high levels of tax non-compliance.

Furthermore, Pesch et al., (2021) indicated that with business formation, firms are capable of dealing with vulnerabilities to market instabilities, obtain higher business association membership which enforce tax compliance. Additionally, empirical findings by Floridi et al., (2020) maintained that business formalization enhance protection and improved business conditions which eventually fortify tax compliance behaviors. The study further postulated that actual business formalization enhances fair business competition; improved business sustainability which greatly influence tax remittance, reporting and payment among enterprises. Nevertheless, Muhika, Njeru and Waiganjo (2017) observed a reverse relationship between business formalization and tax compliance. Results obtained under this study instead revealed that tax compliance is an indispensable tool in fostering business formalization.

Empirical evidence ascertained by Cisi, Devicienti, Manello and Vannoni (2020) from Italian SMEs also established that business formalization increases a firm's gross margin ratio which are key in prompting improved tax compliance. Moreover, Archer (2021) emphasized the implication of business formalization in fostering improved tax compliance behavior. Findings of the above study assume that business formalization provides clear structures and systems through which industrialists are reinvigorated to excellently report, remit and pay their tax

duties. From an empiricist view, Boly (2020) indicated that business formalization increases tax compliance behavior by about 20%. From the above, it is evident that much as significant number of empirical evidence to indicate a positive relationship between business formalization and tax compliance, the number of authors in disregard of the same cannot be underestimated. Moreover, there is relatively little recent literature to elaborate the issue further more especially in Uganda's context, resulting in a gap that could be addressed by conducting more recent research about the same.

2.8 Tax Morale, Business Formalization and Tax Compliance

There is a general paucity of literature to explain how a combination of tax morale and business formalization can influence tax compliance (Radulovic, 2019). This is further contented by Cisi et al., (2020) who reveals that while tax compliance is affected by different factors, there is a lack of evidence to show how a group of factors are able to predict this behavioral concept. This can explain why scholars are lately expressing and devoting much attention towards compliance in a more complex manner. Notably, Thoto et al., (2021) proposes that tax compliance is determined by many factors. Importantly, the study highlights that morale and formalization are becoming highly instrumental in explaining why economies are variations in tax compliance. On the other hand, findings by Shahid et al., (2022) notes that while tax morale and business formalization are paramount, the latter stands a higher magnitude of affecting tax compliance especially when it comes to the informal sector. Nonetheless, Nasution et al., (2020) argues that tax morale more critical. They explain that tax morale constitutes important attributes which affects taxpayers cognitive and affective evaluation of tax, which are fundamental in determining the attitudinal perspective towards tax. This is consistent with Kiconco et al., (2019) who revealed that tax morale is one of the most important factors which affect tax compliance. In the same context, the researcher contends that attitudinal factors are inevitable in tax compliance because they take a large part in evaluating and assessing behavior.

Notwithstanding, Kustiawan at al., (2019) observed that business formalization is more important because it guarantees that the business is fully registered which makes it easy to be tracked. This is supplemented by Pesch et al., (2021) who reveals that when formalization is the basic stage which demonstrates taxpayer's willingness to pay tax. Although Cisi et al., (2020) argue that formalization does not guarantee tax compliance. Rather, businesses formalize to increase on their opportunities to do business (Twum et al., 2020). In congruence, Kustiawan et al., (2019) stressed that business formalization cannot be emphasized as a factor which stimulates tax compliance much as it is important. These scholars indicate there are many businesses which have TINs, yet they do not file returns unless taxpayers enforce them. In view of the above, this research suggests that both tax morale and business formalization are important factors which have the potential to enhance tax compliance. The underlying reason for tax morale is the fact that it shapes attitude and emotions towards tax. These are crucial in shaping how individuals think and perceive tax in general. Business formalization on the other hand facilitates tax authorities to be able to identify potential taxpayers. This is likely to create fear among taxpayers, which could persuade tax compliance.

2.9 Conclusion

Tax compliance has received a lot of prominence because taxation is widely recognized as the major source of revenue to governments. One of the factors that have been recognized as fundamental in stimulating tax compliance include tax morale and business formalization, more so in developed countries. Because of this, the empirical gap regarding the relationship between tax morale, business formalization and tax compliance remains scanty. Accordingly, the current research is sought important in addressing this missing link.

CHAPTER THREE

INTRODUCTION

3.1 Introduction

In this chapter, the methodology used in pursuing the study was highlighted. It describes the research design that was used, indicates the population, sample and how it was arrived, and the data collection instrument that was used to collect data, among other important issues.

3.2 Research design

This study applied a cross-sectional research design and a quantitative approach. The research design was selected because it sticks to the natural view of the phenomenon under investigation (Creswell & Creswell, 2018). Moreover, it is recommended for studies with short time frames, making it a perfect fit for this study (Saunders, Lewis & Thornhill, 2016). This study opted for a quantitative approach because it provides results to show nature but also how variables predict (Dupin & Borglin, 2020).

3.3 Study population

This study population targeted a total of 1,367 small business enterprises in Mbarara City in Uganda (Mbarara City Commercial Business Officer, 2022). This study concentrated on these small businesses because of the poor tax remittance and tax filing records amongst them, which amplified tax non-compliant behavior.

3.3.1 Unit of Analysis

Small business enterprises were considered as the unit of analysis.

3.3.2 Unit of Inquiry

The researcher sought information from the business owner or the business manager. These accordingly served as the unit of inquiry.

3.4 Sample Size

A sample size of 291 was used, determined by the Krejcie and Morgan (1970) table for selecting samples from a given population. To obtain this sample, the study applied a simple random sampling technique. The researcher obtained a list of businesses and with the help of the commercial business officer, wrote each business on a separate piece of paper before putting them together to form the sampling frame (Saunders et al., 2016). The researcher then applied a simple random sampling technique to select businesses by way of picking without replacing them until the required number of businesses were selected (Creswell & Creswell, 2018). Simple random sampling was used because it is associated with minimal bias in sample size selection. It ensures that every element of the population stands the same chance of being considered (Creswell, 2014).

3.4.1 Response Rate

This study was anticipated to collect data from a total of 291 small business enterprises. In reality, the study obtained results from a total of 172 small-scale enterprises. This number reflects a 59.1% response rate. The relatively low response rate is explained by the sensitivity of the subject matter that was conducted. Most respondents were skeptical to participate in anticipation that the data was intended to expose them to the taxman (Kabakama, 2022; Kayemba, 2022).

3.5 Data Source

The study relied on primary data sources. Primary data sources were used because they facilitate the establishment of recent data about the subject matter (Creswell & Creswell, 2018). More so, primary data sources provide fully customized data that is related to the subject matter under investigation (Creswell & Guetterman, 2018).

3.6 Data collection instruments

The study used a questionnaire tool during the data collection process. This instrument was used because of its effectiveness in obtaining large data from a dispersed sample (Creswell, 2014). The instrument was structured and contained only closed-ended questions. These were anchored on a 5-point Likert scale ((strongly disagree (1), disagree (2), not sure (3), agree (4) and strongly agree (5)). The scale was selected because it provides respondents with an array of options from which to choose their response, hence increasing the accuracy of responses (Likert, 1961).

3.7 Measurement of variables

Tax morale was conceptualized in terms of tax fairness and tax attitude (Agbetunde et al., 2020; Bruno, 2019; Ibrahim et al., 2015; Timothy & Abbas, 2021). The items under tax morale were adopted from different works (Musimenta et al., 2019; Timothy & Abbas, 2021). The study modified the Items to fit the study context and subsequently anchored them on the scale.

Business formalization was measured using constructs of legal formalization and fiscal formalization. These constructs had been applied in previous research and emphasized as key constructs for comprehending business formalization (Boly, 2020; McCaig & Nanowski, 2019; Archer, 2021). Some of the items used under this variable were adopted from Balashova et al., 2018), while others were personally developed under guidance from the literature.

Tax compliance was measured using a two-dimensional construct of tax filing, and tax remittance. There is a consensus that tax compliance is measured using these highlighted constructs (Muturi & Kiarie, 2015; Night & Bananuka, 2019; Nkundabanyanga et al., 2017; Twum et al., 2020). The researcher adopted constructs from the previous work of Nkundabanyanga et al., (2017) which were subjected to a 5-point Likert scale after being modified to fit the study context.

3.8 Validity and Reliability

Validity

Validity of the instrument was determined using expert judgment and content validity index. Upon developing a draft questionnaire, it was presented to the supervisors to provide guidance on how best the Items could be amended to make them understandable. Content Validity instrument involved distributing the questionnaire to different people who understood the subject matter. This included; researchers, and accountants to check on the validity of items. The study used the results they provided to compute Content Validity Index (CVI). It is recommended that a minimum index of 0.7 (70%) should be achieved for a questionnaire to be regarded a valid tool (Taherdoost, 2016). The results obtained in relation during this exercise are presented in table 3.1.

Reliability

Pretesting and Cronbach Alpha coefficient were used to test reliability of the questionnaire instrument. The researcher pre-tested 15 questionnaires before embarking on the actual data collection exercise. Cronbach Alpha on the other hand was extracted from pretested results to establish consistence. According to Nunnally and Bernstein, (1994), at least 0.7 should be obtained under each measure under scrutiny for a questionnaire to be considered reliable This study presents the results obtained for Cronbach under table 3.1.

Table 3.1: Validity and Reliability

Variable	Content Validity Index	Cronbach's Alpha	N of Items
Tax morale	0.82	0.883	11
Business Formalization	0.73	0.82	11
Tax Compliance	0.75	0.890	10

Source: Primary Data

Table 3.1 indicated that the content validity index values obtained under each of the variables of study were above 0.7, the minimum recommended ratio. This meant that the instrument used

contained items which were understandable and good enough to measure the intended variables. Therefore, it is conclusive that the instrument was fit to be used to extract data regarding the subject matter. Similarly, the Cronbach Alpha coefficients obtained under each of the variables was above 0.7, which is considered acceptable in basic research. This implied that the results obtained were consistent and therefore good enough to inform the status quo of the variables in the area of study.

3.9 Data processing and analysis

Analysis of data obtained from the field was with the help of Statistical Package for Social Scientists (SPSS v 25). Obtained results were presented using frequency table, and inferential statistics which constituted correlation and regression. The frequency tables were used for results related to demographic characteristics. Correlation analysis was used to establish how variables associate, while regression was applied to test the depth of the association between variables.

3.10 Ethical Considerations

This study was carried out after the research proposal had been accepted and a letter for data collection issued to that effect. The study made sure that all data obtained was used strictly for academic purposes. Participation in this study was voluntary, and the study made sure that those who accepted to participate were ensured the ultimate confidentiality they deserved. To ensure this, the study did not give or promise to give any form of financial or nonfinancial benefits to any respondent as a way of enticing them to participate. The instrument used in data collection did not also contain any sensitive information such as respondent's name, or telephone number which would compromise confidentiality.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter entails a presentation and interpretation of results obtained herein. It seeks to address the research objectives and questions that were highlighted as core in this research. Before then, the chapter highlights demographic characteristics.

4.2 Demographic Characteristics

In this study, two forms of demographic characteristics were obtained, namely; respondents characteristics and business characteristics.

4.2.1 Respondents Characteristics

This included sex of respondents, age bracket and education level. The results obtained in relation to these demographics is presented in table 4.1 below.

Table 4.2: Demographic Characteristics

Demographic Characteristic	Frequency	Percent
Gender		
Male	109	63.4
Female	63	36.6
Age		
Below 25 yrs	22	12.8
26-35yrs	56	32.6
36-45yrs	64	37.2
46-55yrs	23	13.4
Above 55yrs	7	4.1
Education		
Never attended	23	13.4
Primary	51	29.7
Secondary	71	41.3
Certificate	14	8.1
Diploma	6	3.5
Bachelor's	7	4.1
Note: n=172		

Source: Primary Data

Results indicated that majority of the respondents who participated in the study were male. These comprised 63.4% of all respondents compared to 36.6% female. These findings meant that most small businesses in Mbarara City are managed by males. This could imply that males are more enterprising in Mbarara City compared to females. On the other hand, majority of the respondents were aged between 36-45 years of age (37.2%). It is also worth noting that 45.4% were either below 25 years (12.8%) or between 26-35yrs (32.6%). The findings meant that much as most of the small businesses in Mbarara City are owned by relatively old people, there is a high influx of young people who have ventured into the same. The implication to that effect is that young people are becoming risk takers and determined to exploit a range of business opportunities. Young people are known for exhibiting determination to take risks. It is therefore likely that one of the reasons tax compliance issues are manifesting in Mbarara City is because many of the youth are trying to exploit the opportunity of noncompliance. As far as education is concerned, table 4.1 indicated that most respondents had acquired secondary level education

(41.3%). The number of those who had neither attended or acquired up to the primary level was also significant consisting of 43.1%. This meant that most of the people engaged in businesses in Mbarara City were less educated. This could further depict a lack of adequate knowledge, skills, and abilities among small businesses in Mbarara City which could be exacerbating tax compliance.

4.2.2 Business Characteristics

The business characteristics obtained included nature of business, years of operation, number of employees, annual turnover and status of registration. The results obtained in relation to business characteristics are presented in table 4.2 below.

Table 4.3: Business Characteristics

Demographic Characteristic	Frequency	Percent
Nature of Business		
Trade	104	60.5
Service	54	31.4
Manufacturing	14	8.1
Years of operation		
Less than 2 years	25	14.5
Between 2-4yrs	51	29.7
Between 5-7yrs	76	44.2
Between 8-10yrs	11	6.4
11yrs above	9	5.2
Number of employees		
5-10	84	48.8
11-20	59	34.3
21-30	14	8.1
31-40	10	5.8
41-49	5	2.9
Annual turnover		
10-30 million	91	52.9
40-60 million	52	30.2
70-99 million	29	16.9
Status of registration		
Yes	63	36.6
No	109	63.4

Source: Primary Data

Results in table 4.2 revealed most of the small businesses that participated in the study were of trade & commerce by nature (60.5%). The findings meant that the predominant businesses in Mbarara City are engaged in trade & commerce. The table also showed that most of the small businesses which participated in this study had been in existence for a period between 5-7 years (44.2%). Those that had been in existence for a not more than 4 years comprised 44.2% (14.5% less than 2 years, 29.7% between 2-4 years), whereas less than ¼ (11.6%) had made 8 plus years. From these findings, it meant most small enterprises in Mbarara City are generally young enterprises. It could be likely that small businesses in the area are not complying with tax obligations because they consider themselves that they are still young to fulfill tax obligations.

Results further indicated that most of the small enterprises employed between 5-10 employees (48.8%). The findings therefore meant that most enterprises are employing a small number of employees. This could suggest low growth and expansion potential of most of the enterprises in the area. Results in relation to turnover revealed that most of the small businesses revealed earning turnover ranging between 10-30 (52.9%). These results meant the annual turnover for most of the small businesses in Mbarara City was low. This is bound to compromise tax compliance by such enterprises for fear that the practice would result in loss of significant financial resources. Results in table 4.2 further indicated that most small businesses were not registered (63.4%). This meant that most small businesses are operating informally, and therefore they cannot be tracked by tax authorities. The implication to that effect is that most of the businesses are non-tax noncompliant.

4.3 Results on relationships between studied variables

To address objectives one and two, namely; examine the association between tax morale and tax compliance among small businesses; and examine the influence between business formalization and tax compliance among small businesses in Mbarara City, Pearson

Correlation Analysis was used. The results under this analysis were interpreted based on the Pearson Correlation Statistic (r). The results are presented in Table 4.3.

Table 4.4: Pearson Correlation Analysis

Variable/Construct	1	2	3	4	5	6	7
Tax Morale (1)	1						
Tax Attitude (2)	.727**	1					
Perceived Fairness (3)	.617**	.250**	1				
Business Formalization (4)	.521**	.313**	.535**				
Legal Formalization (5)	.284**	0.107	.291**	.773**	1		
Fiscal Formalization (6)	.534**	.307**	.567**	.677**	.319**	1	
Tax Compliance (7)	.606**	.272**	.582**	.552**	.354**	.674**	1

Notes: n=172, ** p<0.01 level (2-tailed).

Source: Primary Data

4.3.1 Tax Morale and Tax Compliance among Small Businesses

Results in Table 4.3 revealed that there is a significant and positive association between tax morale and tax compliance (r=.606, p<.01). With these results, it meant that tax morale has a high propensity of determining tax compliance among small businesses. The results implied that as tax morale among small businesses improves, their willingness to become tax-compliant is equally bound to improve. As indicated by Table 4.3, the components of tax morale also indicated a significant and positive association with tax compliance. Notably, tax attitude revealed (r=.272, p<.01), while perceived fairness expressed (r=.582, p<.01). As such, the results meant that enhanced tax attitude and perceived fairness of taxes increases the possibility of tax compliance among small businesses.

4.3.2 Business Formalization and Tax Compliance among Small Businesses

Table 4.3 expressed that there exists a significant and positive association between business formalization and tax compliance (r=.552, p<.01). This was similar to the constructs of tax morale with tax compliance, more especially fiscal formalization (r=.674, p<.01). In this case, these results meant that enhancing business formalization is bound to stimulate tax compliance

among small businesses. In particular, the results meant that such enhancement in tax compliance is more likely to manifest when small businesses improve their compliance with fiscal formalization.

4.4 Results on regression between study variables

The study used regression analysis to examine the relationship between tax morale, business formalization, and tax compliance. Regression was also relied upon to establish which independent variables were significant in predicting the dependent variable and establishing the most significant one. These results are presented in Table 4.4 below.

Table 4.5: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.616	0.211		7.640	0.000
	Tax Morale	0.326	0.050	0.437	6.514	0.000
	Business Formalization	0.272	0.056	0.324	4.831	0.000
		R	R^2	Adjusted R^2	F	Sig.
		.667[a]	0.444	0.438	67.577	.000[b]

Note: *n=172; Predictors: Business Formalization, Tax Morale; Dependent Variable: Tax Compliance*

Source: Primary Data

Results in Table 4.4 revealed F-value=67.777 along with significance value=.000. The significance of <0.05, affirmed a manifestation of a statistically significant predictability between tax morale, business formalization, and tax compliance. In this case, the results meant the regression model presented results that were good enough to be based on for concluding the predictability between variables. As indicated, the regression model obtained Adjusted R^2=0.438 between tax morale, business formalization, and tax compliance among small

businesses. This result meant that joint tax morale and business formalization predicted tax compliance to a tune of 43.8%. In this case, the results implied that the willingness of small businesses to comply with tax is influenced by their tax morale and degree of business formalization.

Furthermore, the corresponding standardized coefficients relating to tax morale revealed a beta= .437, and sig=0.000 <sig=0.05. Likewise, business formalization revealed beta=0.324, and sig=.000<sig=0.05. With sig<0.05, it meant that both tax morale and business formalization were significant predictors of tax compliance among small businesses. In other words, any unit positive change that occurred to either tax morale or business formalization had a significant contribution towards tax compliance. More so, a comparative analysis revealed a higher corresponding beta for tax morale (.437) compared to business formalization (.324). This meant that tax morale was a better predictor of tax compliance compared to business formalization. This implied tax compliance among small businesses is more determined by the extent of tax morale as opposed to business formalization.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a comprehensive discussion of findings, conclusions and recommendations. It is aimed at creating a linkage between the previous and current research extracting where it agrees or disagrees and subsequently providing an explanation to that effect. The chapter also goes ahead to highlight the limitations of this research and subsequently suggests areas for further research.

5.2 Discussion of Findings

5.2.1 Tax Morale and Tax Compliance among Small Businesses

It was established herein that tax morale is positively associated with tax compliance among small businesses, more so those operating in Mbarara City. These results meant that the enhancement of tax morale can increase tax compliance among small businesses. According to this research, tax morale is inevitable because it shapes individuals' intrinsic drive regarding tax matters. Individuals who exhibit a positive tax morale tend to perceive taxation with high value which is likely to increase their willingness to comply with tax obligations. Enhanced tax morale is also expected to increase individuals' consideration and acknowledgment of taxation as a civic responsibility. This is also expected to enhance the desire to participate in tax matters such as filing returns, as well as remitting all taxes as assessed. This explanation complements the theory of reasoned action which builds on the notion that belief and attitude are core in shaping behavior (Fishbein, 2008; Fishbein & Ajzen, 1975). In line with these findings, it can be concluded that tax morale vests on attitude and belief, whose manifestation propels the desire of taxpayers to exhibit tax compliance behavior.

The findings are consistent with Mat Jusoh et al., (2021) who emphasized that tax morale arouses positive attitudes among taxpayers which eventually prompts desirable tax-compliant behavior. Likewise, Ghani et al., (2020) revealed that tax morale plays an integral role in addressing tax compliance mysteries. This study therefore informs us of the need to undertake strategies that can promote tax morale among taxpayers, especially those running small businesses. It notifies that such initiatives are likely to enhance taxpayers' willingness and desire to comply with their obligations because of their ability to shape taxpayers intrinsically.

Importantly, the findings reveal that tax attitude is an essential attribute whose manifestation is bound to bring about positive tax morale and subsequently culminate in tax compliance. In congruence, this research emphasizes that tax attitude is a core ingredient for determining one's mindset towards tax. Expression of a positive attitude increases one's willingness to become tax accountable, perceive taxation as the right thing to do, and easily identify social benefits associated with tax compliance. These mindsets are more likely to serve as a motivation for owners of small businesses to comply with their tax obligations hence promoting tax compliance. In congruence, a study by Sadress et al., (2019) pointed out that high levels of tax morale arouse taxpayers' emotional ties and loyalties which intrinsically reinforces tax compliance. Similarly, Musimenta et al., (2019) obtained that tax morale is inevitable in enhancing the mindset of taxpayers, which contributes towards compliance. Despite the consistency, the current research provides a clearer finding highlighting that tax morale, especially that driven by tax attitude plays an indispensable role in stimulating tax compliance. More so, this research provides more recent literature, and therefore more practical to explain the prevailing status quo.

Based on the results, this research argues that a positive tax attitude is crucial since it enhances the willingness and desire of the taxpayer to provide accurate information, instigating a sense

of responsibility and accountability. This is essential because it increases accurate filing of returns which also culminates in proper assessment. Tax attitude also remains indispensable in propelling taxpayers to perceive electronic filing as an easy and simple thing to do. This could prove crucial in increasing confidence and self-confidence to increase the willingness of the taxpayer to file returns. This line of thinking complements Hardika et al., (2021) who explained that morality intensifies positive attitude which propels taxpayers to show a strong commitment to fulfilling tax obligations. Therefore, this research informs us that boosting tax morale necessitates instituting mechanisms that enrich taxpayers' attitudes. Once this is attained, taxpayers will express positive morale towards taxation, which will culminate in tax compliance.

Further still, it was established that perceived tax fairness is positively linked with tax compliance. In other words, the findings postulated that improved perceived tax fairness is bound to enhance tax compliance, more so among small businesses in Mbarara City. With the same line of thinking, this research argues that perceived tax fairness is bound to shape the actions and behavior of taxpayers as they deal with taxation issues. For instance, an enterprise would find it prudent to comply with tax obligations if it consider the prevailing rates as fair. In this case, such enterprises would not be worried about releasing a lot of financial resources to compromise their operational ability. Similarly, this research suggests that enterprises are more likely to be driven to comply with tax obligations especially where they perceive diligent management of taxes they pay. They want to be sure that the taxes they pay are properly accounted for and used for the right cause.

The findings are in line with scholars such as Horodnic (2018), and Timothy and Abbas (2021) who deposit that tax morale determines whether a taxpayer expresses positive or negative feelings towards taxation which also results in either acceptance or neglect of tax duties. Unlike

these studies which focus on tax morale in its complex form, the current research provides findings that are clearer and more precise. It expounds knowledge by expressing how the perception of tax fairness can result in tax compliance. Importantly, this research is more customized to Uganda's context, unlike previous studies which explain the subject matter in a different environment.

5.2.2 Business Formalization and Tax Compliance among Small Businesses

This study found that business formalization is positively associated with tax compliance among small businesses, more so those in Mbarara City. These findings meant that the more businesses formalize, the more they are likely to become tax-compliant. In congruence, this research emphasizes that business formalization serves as the foundation for tax compliance. Enterprises that undertake a formalized operation undertake activities such as registering a business or company name, and tax identification number (TIN), and establishing an official location that provide a clear ground for the tax authorities to levy taxes.

The relevance of business formalization and how it enhances tax compliance has been explained with different views. Notably, Boly (2020) indicates that formalization increases profitability which propels businesses to consider taxation as a relevant thing to do. With a different line of thinking, Pesch et al., (2021) stressed that business formalization results in improved business capitalization and firm productivity which encourages effective reporting, remittance, and payment of taxes. Irrespective of the perspectives, the current research along with the previous studies acknowledges that business formalization is essential and that its manifestation is bound to stimulate tax compliance. Therefore, this study sends a signal to policymakers to establish which motives encourage small businesses to formalize.

Specifically, the findings obtained that legal formalization is positively associated with tax compliance. These findings, it meant that improving the legal formalization of small businesses enhances tax compliance. Likewise, this research indicates that legal formalization is associated with the acquisition of important business/company documents that not only validate its operations but also affirm its existence and hence consideration by the tax authorities. For instance, through legal formalization, businesses are propelled to get registered with the registrar of companies to acquire a certificate of incorporation to affirm their legal existence. On the other hand, the acquisition of a trading license for the business is an affirmation to the tax authorities that the enterprise is actively engaged in commercial activities, which provides ground to remind it of its judicial obligation to pay taxes. This research also contends that legal formalization, especially registering for a post office address simplifies the tax authority's work to track and carry out tax audit which would propel the business to start complying with tax obligations.

Surprisingly, some of the previous scholars demonstrate that business formalization doesn't guarantee tax-compliant behavior since it affects firms' earnings and other business outcomes which instead prompt tax non-compliance behavior (Floridi et al., 2020; McCaig & Nanowski, 2019). The current research however regards this line of thinking by revealing on two grounds. First, when an enterprise formalizes, it exposes itself to tax authorities because of the documentation that comes along with it. Therefore, the business will be expected to file returns irrespective of whether it has traded or not. Otherwise, failure to file would result in penalties and fines. On that note, it can be argued that as long as a business formalizes, it is immediately recognized as a taxable entity which will immediately be monitored by the tax authorities. Equally, Cisi et al., (2020) established that business formalization serves as the foundation for propelling tax compliance. On that note, this research informs policymakers to put mechanisms

that support and encourage small businesses to formalize their businesses because this will enhance their compliance issues.

Findings further obtained that fiscal formalization of small businesses is positively associated with tax compliance. These findings, meant that enhancing the fiscal formalization of small businesses is likely to increase the possibility of tax compliance. This is supported by the fact that fiscal formalization results in the acquisition of a TIN, which exposes the business to consistently file annual returns. In addition, fiscally formalization prompts businesses to issue tax invoices and capture tax receipts which makes it easy for the tax authorities to track expenditures and incomes of the business. This is bound to increase on accurate filing and assessment of tax obligations by the business.

This is in line with Florida et al., (2020) who revealed that business formalization puts enterprises at a level where they have to comply with tax compliance. Similarly, fiscal formalization motivates businesses to ensure that every income received by the enterprise goes through the bank. This plays a commendable step in promoting tax compliance because it propels businesses to accurately report income in anticipation that they can easily be audited. Moreover, the move to ensure that every member within the enterprise gets a TIN creates a favorable environment where the business can remit taxes such as pay as you earn (PAYE) and fulfill statutory deductions such as the National Social Security Fund (NSSF).

Consistent with these findings, Archer (2021) notes that business formalization is important in fostering improved tax compliance behavior. In the same manner, Muhika et al., (2017) observed that business formalization promotes tax compliance because it increases the firm's exposure to the database of taxpayers. These remarks are consistent with the theory of reasoned action which emphasizes that actions and behavior are driven by the anticipated outcomes resulting from a specific behavior (Fishbein, 2008). It corresponds in the sense that findings

reveal that when businesses formalize, they will be propelled to comply because they understand the consequences associated with their decision to formalize (Fishbein & Ajzen, 1975).

5.2.3 Tax Morale, Business Formalization and Tax Compliance

The study found that tax morale and business formalization predict tax compliance among small businesses, especially those in Mbarara City. These findings envisage two important issues which need to be clarified. First and foremost, it affirmed that tax morale is inevitable in stimulating tax compliance among small businesses in Mbarara City. This therefore implied that one of the reasons explaining variations in tax compliance is tax morale. Small businesses which show positive tax morale comply with tax obligations by ensuring that they file returns and remit due taxes while those with negative tax morale tend not to comply with this judicial obligation. To supplement, this research emphasizes that tax morale is a core component in determining attitude and perception toward tax compliance behavior. Moreover, these attributes are important in influencing actions and behavior. The findings are in line with Thoto et al., (2021) who expressed that morale and formalization are becoming highly instrumental in explaining why economies are variations in tax compliance. The findings are also in congruence with the theory of reasoned action, especially where it acknowledges that there are specific intrinsic drives that propel individuals to perform specific behaviors (Ofori, 2020).

Based on this premise, it can be argued that small businesses that exhibit positive attitudes and perceptions toward tax are motivated to comply with tax obligations and therefore endeavor to file returns and remit tax dues. They do this because the positive attitude and perception towards tax makes them consider taxation as the right thing to do, recognize taxation as their judicial obligation, and have a collective responsibility of ensuring they contribute to the development of social services. These findings are consistent with Radulovic (2019) who

revealed that tax morale is indispensable in stimulating tax compliance. Similarly, Cisi et al., (2020) emphasize that tax compliance is mostly driven by intrinsic factors. This research is unique in such a way that it points out one of the intrinsic factors which seem which the previous study was unable to identify.

Secondly, the findings depict that business formalization is paramount in guaranteeing improved tax compliance. This is supported by the fact that formalization includes both fiscal and legal, which increase a business's visibility to the tax authorities. For instance, when an enterprise decides to legally formalize, it registers a business/company name, and a postal address, and consistently renews its trading license. These initiatives task enterprises to file annual returns with URSB and URA to maintain their legality. On the other hand, fiscal formalization is paramount because it is associated with increased use of tax invoices and tax receipts which can easily be tracked by tax authorities through the Electronic Receipting and Invoicing System (EFRIS). This increases accuracy in reporting expenditures and receipts which culminates in the assessment of realistic taxes.

These results are consistent with Shahid et al., (2022) who established that tax morale is essential because it predicts behavior which is a key precondition for exercising a specific practice. Likewise, Kustiawan et al., (2019) observed that business formalization is more important because it guarantees that the business is fully registered which makes it easy to be tracked. Despite the consistency, it is evident that this study provides empirical evidence to confirm the relevance of business formalization in stimulating tax compliance from Uganda's perspective. Most of the studies earlier conducted were conducted in other countries.

Worth noting, the study found that the better predictor of tax compliance is tax morale as opposed to business formalization. In this case, the findings proposed that the manifestation of tax morale causes more significant variations in tax compliance as compared to business

formalization. This can be justified by the fact that the decision to formalize business is a matter of attitude and perception of the prevailing tax system. Therefore, much as business formalization finally translates into tax compliance, the decision to take this strategic decision is dependent upon the morale and perception that taxpayers express towards taxation. Accordingly, it is right to say that formalization is a practice that depicts the positive attitude and desire of the taxpayer to comply with tax obligations. These findings therefore inform policy makers that the main issue they should focus on is to enhance the tax morale of taxpayers. This will not only enhance tax compliance but will also drive specific behavioral tendencies and actions such as the desire to formalize which is also fundamental in boosting tax compliance.

While prior research by Nasution et al., (2020), and Thoto et al., (2021) acknowledge that tax attitude and business formalization influence tax compliance, this research is distinct in such a way that it highlights which particular variable is more influential. Even the theory of reasoned action simply acknowledges that behavior and actions are determined by aspects that drive attitude and perception (Fishbein, 2008; Fishbein & Ajzen, 1975). In this case, it can be argued that the current research contributes significantly to research and theory because other than acknowledging the influence of tax morale and business formalization, it provides empirical evidence to show which factor is more important. This is important because it provides a more realistic managerial basis for making appropriate decisions regarding which issue should be accorded special attention. From a theoretical perspective, this research complements and affirms that behavior is intrinsically driven. Indeed, tax morale and the decision to formalize business operations are a true reflection of intrinsic decisions.

5.3 Conclusion

As governments seek to increase tax compliance, they should bear in mind that tax morale and business formalization are exceptionally important and, hence should not be taken for granted. A positive tax morale is paramount, especially in transforming tax attitude, and perception of tax fairness which increases the desire of taxpayers to become more responsive and compliant with tax obligations. Business formalization is a prerequisite because it is the only way tax authorities can know about the existence of a business, and remind it to pay taxes. Without any formalization, the business will not be totally visible making it practically impossible for tax authorities to serve any form of tax reminders. Exceptionally, it is obtained that tax morale plays a better role in stimulating tax compliance compared to business formalization. In other words, much of the concentration by policymakers should be directed toward identifying mechanisms of how they can stimulate tax morale to record drastic improvements in tax compliance.

5.4 Recommendations

Uganda Revenue Authority should intensify tax education programs throughout the country. These campaigns should be extended through mass media talk shows, sending foot soldiers to busy business areas, as well as organizing free training and seminars for traders. These campaigns will enrich taxpayers' knowledge of taxation, and provide them with the necessary basic skills that are relevant in filing returns which will in return enhance tax planning and compliance.

The government should increase its tax accountability to enhance tax compliance. It should do this by ensuring transparency in the way public resources are spent, identifying areas of public interest and subsequently spending on them, and fighting mismanagement of public funds. This

will increase trust among the general public which will enhance tax morale and tax compliance hence encouraging the taxpayers to comply with tax regulatory requirements.

Uganda Revenue Authority should roll out a TIN registration campaign for all businesses and companies. They should employ foot soldiers to move from one premise to another registering businesses and providing them with TIN. This agency needs to work closely with the Uganda Registers Services Bureau (URSB) to ensure this campaign is a success.

Uganda Revenue Authority should continue enforcing the implementation of the Electronic Fiscal Receipting and Invoicing System (EFRIS) among the business community. This system will enable the agency to track transactions by businesses and minimize tendencies of underreporting.

In addition, Tax morale could be increased through tax incentives, tax holidays, awards, and recognition of outstanding taxpayers. This is likely to motivate noncompliant small businesses to emulate complying enterprises.

5.5 Limitations of the Study

This research applied strictly quantitative research subsequently obtaining predetermined responses from respondents. It did not provide an approach that could allow respondents to share their views and opinions while investigating tax morale which is more of an intrinsic concept.

This research covered a small study scope focusing only on small businesses in Mbarara City. As such, it could be argued that the results obtained may not be fit for generalization in other areas across the country where tax compliance remains a challenge.

5.6 Areas for further study

Future researchers are suggested to undertake research in the following areas;

1) Qualitative research to obtain in-depth information on tax morale, business formalization, and tax compliance among small businesses.
2) Comparative analysis of the relationship between tax morale, business formalization, and tax compliance among small in other cities.
3) Comparative analysis of the relationship between tax morale, business formalization, and tax compliance among small and medium enterprises.

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Appendix I: Questionnaire Form

Dear Respondent,

I am a student at Makerere University Business School pursuing a Master of Science in Accounting and Finance (MSc. Acc & Fin). As one of the requirements for being awarded this qualification, I am conducting a study on the topic, *"Tax Morale, Business Formalization and Tax Compliance Among Small Businesses in Mbarara City."* You have been identified as one of the resourceful people to participate in this study. You are requested to answer the questions as honestly as possible to enable reliable conclusions and recommendations. All your responses will be used strictly for research purposes and treated with anonymity and utmost confidentiality!

SECTION A: Demographic characteristics

Please tick the option that best describes you.

1. Gender

Male	Female
1	2

2. In which age bracket do you fall?

Less than 25	25-34	35-44	45-54	55 yrs above
1	2	3	4	5

3. Education background

Never attended	Primary	Secondary	Certificate	Diploma	Bachelor's	Others
1	2	3	4	5	6	7

4. Nature of business

Trade	Service	Manufacturing
1	2	3

5. Years of the business

Less than 2 years	2-4 years	5-7 years	8-10 years	11 years above
1	2	3	4	5

6. Number of employees in your business

5-10	11-20	21-30	31-40	41-49
1	2	3	4	5

7. Average Annual turnover

10-30 million	40-60 million	70-99 million
1	2	3

8. Is your business registered for tax purposes?

Yes	No
1	2

SECTION B:

You are requested to respond to the following Items guided by the scale provided to you.

1=Strongly disagree, 2-Disagree, 3-Not sure, 4-Agree, 5-Strongly Agree

	STATEMENTS	**SD**	**D**	**N S**	**A**	**SA**
	TAXPAYER MORALE					

	Tax attitude					
TA1	I think it is necessary for my business to pay tax.	1	2	3	4	5
TA2	I think it important to provide accurate information for tax purposes.	1	2	3	4	5
TA3	I think tax evasion is a serious crime.	1	2	3	4	5
TA4	I think my business benefits a lot from paying tax.	1	2	3	4	5
TA5	I think a tax return is easy and simple to complete.	1	2	3	4	5
TA6	I think tax authorities can easily know if my business is complying with tax obligations.	1	2	3	4	5
	Perceived tax fairness					
PF1	I think by my business is subjected to a fair tax rate.	1	2	3	4	5
PF2	I think the procedure in which my business pays or remits tax is fair.	1	2	3	4	5
PF3	I think the duration which is allocated my business to comply with tax is reasonable.	1	2	3	4	5
PF4	The manner in which the tax burden is distributed is fair.	1	2	3	4	5
PF5	I believe the tax paid by my business is handled diligently.	1	2	3	4	5
	BUSINESS FORMALIZATION					
	Legal Formalization					
LF1	This business has a certificate of incorporation.	1	2	3	4	5
LF2	My business has a valid trading license.	1	2	3	4	5
LF3	The trading license is consistent with the business it engages in.	1	2	3	4	5
LF4	This business has an official address where it operates.	1	2	3	4	5
LF5	My business has a running post office address (P.O Box) number.	1	2	3	4	5
	Fiscal Formalization					
FF1	Our business has a Tax Identification Number (TIN)	1	2	3	4	5
FF2	This business issues tax invoices to creditors.	1	2	3	4	5
FF3	This business issues tax receipts whenever it engages in trading.	1	2	3	4	5
FF4	All incomes received by this business are made through the bank.	1	2	3	4	5
FF5	All members in this business have a TIN.	1	2	3	4	5
FF6	This business has acquired licenses with other statutory agencies (eg. PPDA, NSSF)	1	2	3	4	5
	TAX COMPLIANCE					
	Tax Filing					
FL1	My business files tax returns annually.	1	2	3	4	5

FL2	My business uses accurate reports when assessing tax liability.	1	2	3	4	5
FL3	My business files timely tax returns.	1	2	3	4	5
FL4	My business file returns within the allocated period as prescribed by law.	1	2	3	4	5
FL5	My business frequently receives tax filing reminders.	1	2	3	4	5
	Tax Remittance					
TR1	My business remits taxes annually.	1	2	3	4	5
TR2	My business remits taxes timely.	1	2	3	4	5
TR3	My business remits the actual tax assessed.	1	2	3	4	5
TR4	My business has outstanding tax assessments that are yet to be paid.	1	2	3	4	5
TR5	My business often receives penalty assessments for failure to pay tax.	1	2	3	4	5

Thank you for your co-operation!