MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

RELIGIOSITY, ETHICAL ORIENTATION 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 OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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PLAN A

DECLARATION

I Atukwatse Bridget, declare that this research dissertation entitled "Religiosity, Ethical Orientation and Tax Compliance among Small Businesses in Mbarara City" is my original work and it has never been presented to any academic institution of higher learning for the award of any academic qualification.

Sign:..... Date: 23rd Nov, 2023

Atukwatse Bridget

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APPROVAL

This is to certify that this dissertation titled "Religiosity, Ethical Orientation and Tax Compliance among Small Businesses in Mbarara City" has been submitted in partial fulfillment of the requirements for the award of a degree of Master of Business Administration of Makerere University with our approval as supervisors.

Signature..... Date..... 7th Dec 2023

Prof. Twaha Kigongo Kaawaase (PHD)

Signature..... Date..... 27/11/2023

Ms. Nturaninshaba Racheal

DEDICATION

This research work is dedicated to my family members, for the prayers and support and my friends for the encouragement rendered towards accomplishing this research study. May the Almighty bless you.

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First, I thank the lord God almighty for his enduring grace, guidance and protection that he has bestowed upon us during this research project.

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LIST OF ACRONYMS

URA	Uganda Revenue Authority
GDP	Gross Domestic Product
SB	Small Businesses

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ABSTRACT

This study examined the relationship between religiosity, ethical orientation and tax compliance among small businesses in Mbarara City.

The study adopted a cross-sectional research design. The study involved a sample size of 372 small businesses in Mbarara City. Data from the field were processed and analyzed using Statistical Package for Social Scientists (SPSS v26). Given the nature of the research objectives and hypotheses, Pearson correlation was conducted to test the associations, while multiple regression was performed to test the contribution effect of each variable in explaining tax compliance.

Findings from the study indicate religiosity, has a significant relationship with tax compliance. The findings also indicated that ethical orientation has a significant relationship with tax compliance among small businesses in Mbarara City. All the variables under study explained 49% of the variations in tax compliance among small businesses in Mbarara City.

Therefore, the study recommends that policy makers should, develop targeted tax education programs that integrate religious and ethical dimensions, emphasizing the importance of tax compliance within the context of religious values and ethical principles, Collaborate with religious institutions and leaders to disseminate tax compliance messages and provide guidance to small businesses. Further research should be done to identify and understand other factors that influence tax compliance beyond religiosity and ethical orientation. This will enable the development of comprehensive compliance strategies that encompass a broader range of influences.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covers the background to the study, problem statement, research objectives, research questions, scope of the study, significance of the study and conceptual framework.

1.1 Background of the study

Governments are able to invest in development, eradicate poverty, provide public services, and create the physical and social infrastructure necessary for long-term progress through tax compliance from the public (Taing & Chang, 2021). This is because, complying with taxation increases the resource envelope from which goods and services are supplied to all citizens by national governments (Werekoh, 2022). It therefore follows that, without tax compliance, countries cannot effectively raise resources to provide public services for all. Tax compliance according to Lestary, Sueb, and Yudianto (2021) is the willingness of tax payers to act in accordance with the formal obligations of the tax law in absence of enforcement actions.

According to Roman et al. (2023), Denmark, France, and Austria had the highest top statutory personal income tax rates in Europe among OECD countries in 2022. These countries also had the highest tax compliance rates among European nations. There is however low tax compliance rates in African countries. According to Vincent (2021), People know they won't be caught, according to a very small percentage of respondents (1% in South Africa, 2% in Kenya, and 1% in Uganda). However, Uganda has a significant prevalence of tax evasion among small businesses, with a non-compliance rate of 66.89% as of 2022. (Deus & Pascal 2023). Low tax

compliance in Uganda has led to a national tax-to-GDP ratio of 14%, which is significantly lower than the sub-Saharan African average of 18% (Kimea, Mkhize & Maama, 2023).

In the tax literature, the word "tax morale" is now frequently used to refer to the inner drive to pay taxes. The term "religiosity" is becoming more widely acknowledged and utilised in relation to the role that tax morale plays in deciding tax compliance (Castañeda, 2023). An individual's willingness to act in accordance with the law without being forced could be motivated by their religiosity. This is because, the strength of a person's faith, the extent to which they involve religion into their personal lives and their participation in organized religious activities may influence their tax compliance actions (McGee, Benk, Yüzbaşı, & Budak, 2020). This idea is crucial since a lot of tax literature examines how people's moral principles affect their tax compliance (Carramar & Abbam 2020). Religious practices and beliefs have a significant impact on economic development. The amount to which religiosity reacts to economic development and the extent to which religiosity drives economic performance are two ways that religion and economy are seen to interact (Squicciarini, 2020). Therefore, a person's desire to comply with the tax requirements without being coerced may be influenced by their religious beliefs. This is due to the possibility that an individual's level of religious observance, the extent to which their daily lives are influenced by their religion, and their involvement in organized religious activities may have an impact on how they comply with tax laws. (McGee, Benk, Yüzbaşı, & Budak, 2020).

D'attoma, Volintiru, & Malézieux (2020) investigated the connection between ethical orientation and tax compliance, and they contend that moral action is frequently situation and context-specific. Every person has a unique set of moral principles. As a result, not all tax payers will have a high moral standard when it comes to tax compliance (Salé, Muharremi & Hoxhaj 2021). Individual taxpayer ethics and morality and their compliance with tax laws are strongly and

directly correlated. A higher ethical standard will lead to better tax compliance, (Sale, Muharremi & Hoxhaj 2021). Morality and Ethics are sometimes used interchangeably. “Ethics” came from the Ancient Greek word “ethikos” derived from “ethos” which suggests custom or habit (Weinstein 2018) Compliance with relevant tax laws is argued to be a function of morality and religiosity of taxpayers. Anecdotal evidence reveals that a taxpayer with a high moral standard is more probable to comply with tax laws than those who do not possess ethics. Moralists are bothered that even though the citizens go to worship places, the extent of moral standards is questionable. It is expected that Nigerian is one of the most populous religious countries in the world ought to show a high standard of morality in their tax compliance as suggested (Iwuagwu, 2018). Iwuagwu (2018) opines that moral crisis is being experienced in our contemporary world despite the multiplicity of religious domination, raised a greater objection with regards to the impact of religion on morality. If religion has such great influences on morality, one may ask, why the moral decadence beclouding our present-day society where moral values have being discarded despite the very loud, clear and sustained preaching by uncountable religious denomination in virtually every corner of our contemporary society.

According to URA, (2019), during the ground examination of businesses in Central and Western Uganda, it was noted that most SBs that fell under the presumptive tax bracket did not pay taxes to Uganda Revenue Authority (URA). In Mbarara City the level of non-tax compliance has been increasing whereby, 33 percent of the 13,999 SBs registered and having operating license in Mbarara City were non-complaint for the FY 2019/2020 (URA Internal Report, 2020). This has been in terms of failure to file returns and pay taxes. The report further indicates that 23 percent

in FY 2016/17, 25.3 percent for the FY 2017/18, 28 percent for FY 2018/19 didn't comply with their tax obligations.

Much research has been done in relation to religiosity, ethical orientation and tax compliance (Novitasari & Sukirno, 2016; W Irawati, 2021; S Benk; 2016) though the current study intends to examine the joint effect of religiosity, ethical orientation and tax compliance among small businesses in Mbarara city.

1.2 Statement of the problem

Tax compliance allows government to raise revenue for financing public expenditures including providing social amenities for citizens (Olatunji & Ekundayo, 2019). Some of the important sources of tax revenues for government are the private businesses. However, non-tax compliance among Small Businesses is a long standing concern in Uganda (Nawawi & Salin, 2018). The issue is likely to affect the emergence of new cities like Mbarara City. According to the Mbarara City Local Government budget estimate report, the total budget of about 31.6 billion is only supported up to 4% from local sources (Mbarara City Local Government Budget Estimates, 2022). Although over 700 businesses are registered for presumptive tax in Mbarara City, only 71% managed to pay their taxes by end of the financial year 2020/2021 (URA Internal Revenue Report, 2021). This implies that 29% of small businesses in Mbarara City are non-tax compliant. Had all registered businesses been compliant, they would be able to finance an extra 20% of its budget from local revenue, however this is not the case. Efforts to raise tax compliance among small businesses have frequently been undertaken by both government and Mbarara City including educating traders and introducing online tax payment options, but compliance does not seem to improve. Empirical literature today seems to suggest that tax compliance is linked to several behavioral factors (Obaid & Ibrahim, 2020; Rashdan, 2020). This study therefore will set

out to examine whether and how religiosity and ethical orientation explain tax compliance in Mbarara City. A failure to understand the reasons for low tax compliance would mean that Mbarara City will continue losing tax revenue.

1.3 Purpose of the study

The purpose of the study was to examine the relationship between religiosity, ethical orientation and tax compliance among small businesses in Mbarara City.

1.4 Objectives of the study

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

ii. To examine the relationship between ethical orientation and tax compliance among small businesses in Mbarara City

iii. To examine the joint contribution of religiosity and ethical orientation on tax compliance among small businesses in Mbarara City

1.5 Research questions

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

ii. What is the relationship between ethical orientation and tax compliance among small businesses in Mbarara City?

iii. What is the joint contribution of religiosity and ethical orientation on tax compliance among small businesses in Mbarara City?

1.6 Scope of the study

The scope of the study was determined in three forms as explained below

1.6.1 Subject scope

The study was confined to the concepts of tax compliance, religiosity and ethical orientation as conceptualized.

1.6.2 Geographical scope

The study was confined to Mbarara City. Mbarara City is the second largest commercial town of Uganda and with the highest number of small business establishments in western Uganda.

1.6.3 Time scope

Since the study used cross sectional research design, the research took a period of one month (July 2023) to collect the necessary data.

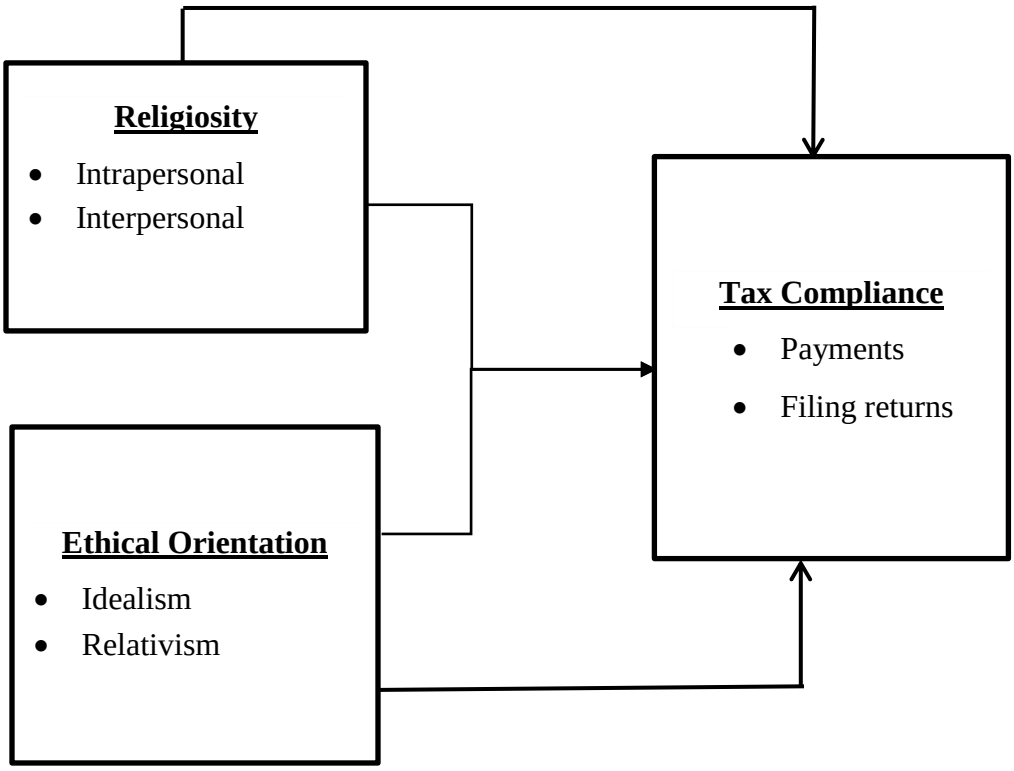
1.7 Significance of the study

The study will be of importance to the tax policy makers in Uganda since it will highlight influential factors that determine tax compliance among small businesses. In pointing out religiosity, the study will bring out how personal religious beliefs influence tax compliance. It will therefore be much easier to understand whether higher levels of religiosity improve tax compliance or not.

By testing for the joint contribution of religiosity and ethical orientation on tax compliance, the study will reveal the extent to which people's ideal convictions in terms of their religious and moral beliefs inform their tax compliance behavior.

The findings on religiosity, ethical orientation and tax compliance among small businesses will help the owners of these enterprises as they will be able to adopt some of the recommendations of the study in sustaining and supporting their firms and individuals working for them.

1.8 Conceptual Framework



Source: Adapted from Saragih and Putra (2021) and McGee, Benk, Yüzbaşı and Budak (2020).

The study conceptualizes tax compliance in form of tax payments and filing of returns. As a dependent variable, tax compliance is influenced by religiosity and ethical orientation individually and jointly. Religiosity is composed of intrapersonal and interpersonal components whereas ethical orientation is composed of idealism and relativism. This study therefore conceptualizes that a tax payer's decision to make tax payments and file returns is dependent on

the extent to which they involve religion into their personal lives as well as their participation in organized religious activities. Similarly, if a tax payer considers tax compliance an idealistic or relativistic choice, then their decision to pay taxes and file returns will be affected.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter of the study reviews existing literature on religiosity, ethical orientation and tax compliance. The chapter is arranged following the objectives of the study.

2.1 Definitions of key concepts

2.1.1 Tax compliance

Tax compliance refers to the willingness of tax payers to act in accordance with the formal obligations of the tax law in absence of enforcement actions (Lestary et al., 2021). The willingness to act can be observed through the tax payers' timely payment of assessed taxes as well as submission of tax returns within the stipulated period (Sadress, Bananuka, Orobia, & Opiso, 2019). Small businesses have limited resources and inadequate expertise to comply with diverse and complicated regulation (Thabani & Richard, 2020). There are also high enforcement costs given their nature (Sadress et al., 2019). This study therefore only defines tax compliance in the two components of tax payments and filing of returns that relate more to the small businesses.

In order to ensure tax compliance and increase income, Uganda Revenue Authority was founded as a tax administration authority in 1991. According to Musimenta et al. (2017), an individual or business in Uganda is deemed compliant if it registers with the URA, submits all tax returns, fully settles all tax liabilities, and withholds all necessary taxes in accordance with the Act. However, if a person or business fails to file their tax returns within the allotted time frame, understates their income, overstates their deductions, or fails to pay the assessed taxes by the due date, they are in non-compliance (Kasipillai & Abdul Jabbar, 2006). One instance of tax non-compliance is tax evasion, which social scientists typically view as a type of "white-collar crime" (Sutherland, 1939). Research has revealed how pervasive the issue of tax avoidance is (Kasipillai & Abdul Jabbar, 2006). Similar to their findings, Fagbemi, Uadile, and Noah (2010) discovered that it is pervasive in emerging nations and that it impedes progress, which causes economic stagnation and other socio-economic issues.

2.1.2 Religiosity

Religiosity refers to the strength of a person's faith as well as the extent to which they involve religion into their personal lives (McGee et al., 2020). Examining the effects of religiosity on tax compliance behaviour of small businesses is imperative since 97% of Uganda's population is religious (UNHS, 2021). The strength of a person's faith, the extent to which they involve religion into their personal lives and their participation in organized religious activities may influence their tax compliance actions.

2.1.3 Ethical orientation

Ethical orientation refers to the extent to which an individual considers morality to be based on universally applicable moral standards or on particular individual situations (Helmy, 2018;

Saragih & Putra, 2021). Morality based on universally applicable moral standards is idealism while morality based on particular individual situations is relativism. A tax payer's relativistic or idealistic ethical (moral) view of tax compliance may determine his tax payments and filing of returns. According to Etzioni (1988), ethical concerns and values have a moderating impact on the traditional economic decision-making model of maximizing self-interest and utility. However, Scholz (1985) argues that in addition to self-interested objectives, individual utility functions must also take into account societal responsibility. In any case, ethical principles influence decision-making and can influence tax compliance choices by encouraging tax payers to refrain from non-compliance and illegal avoidance methods (Baldry, 1987, Jackson and Milliron, 1986; Trivedi et al., 2003)

Carroll (1987), Smith (1990), and Etzoini (1988) contend that a person's ethical tendency influences their tax compliance behavior by giving them a wide range of options and constraints within which to make decisions (Grasmick and Bursik, 1990; Reckers et al., 1994; Sheffrin and Triest, 1992). Accordingly, high ethical standards have an impact on decision-making by restricting the options available to tax payers as well as the method to be employed to achieve a particular result (Reckers et al., 1994), and may thus take precedence over a "rational" consideration of self-interest utility maximization.

2.2 The context of Small Businesses in Uganda

The definition of small businesses varies from one country to another and from one industry to another, there is no universally accepted definition (Eltahir, 2018). However, the most common measures used include number of employees, annual turnover, industry, ownership and value of non-current assets (Sadress et al., 2019). According to Ministry of Finance, Planning and Economic Development (MFPED), (2015), a Small Business Enterprise is one employing

between 5 and 50 people, with an annual sales/revenue turnover of 360 million Uganda Shillings. Sebikari (2019) argues that in Uganda Small business enterprises constitute 90% of the private sector contributing 75% of GDP and creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability. Previous taxation studies argue that tax compliance among several small business enterprises in developing economies is still low in spite of major reforms (Naeem & Gulzar, 2021; Night & Bananuka, 2019). This is because small business enterprises conveniently find their way out of the tax collectors' net, because the costs of administration would surpass the potential tax revenue collected from them. With this problem accompanied with the complex taxation systems, led to the introduction of the presumptive tax system to simplify income tax collection and widen the income tax base in Uganda (Kiconco et al., 2019).

2.3 Theoretical foundation of the study

2.3.1 Theory of planned behavior

TPB is a social psychology theory that describes human behavior through behavioral intention affected by attitudes towards behavior, subjective norms, and perceived behavioral control (Ajzen, 1991). Generally, the intention to practice a particular behavior implies the greater likelihood of performing that behavior. Bobek, Hatfield, and Wentzel (2007) and Ramayah, Yusoff, Jamaludin, and Ibrahim (2009) apply TPB to the study of tax compliance, confirming that all of the components of TPB (attitude, subjective norms, and perceived behavisor control) have an impact on tax compliance intention. An extension of TPB to tax compliance by Efebera, Hayes, Hunton, and O'Neil (2004) that examines factors influencing tax compliance intentions of individual taxpayers shows that all components (equity perception, normative expectations, and legal sanctions) have a positive effect on tax compliance intentions. Similarly, Benk,

Cakmak, and Budak (2011) adopt the Efebera et al. (2004) study to investigate factors for tax compliance intentions in Zonguldak, Turkey. They arrive at a different result from that of Efebera et al. (2004), who find that normative expectations and legal sanctions have a significant impact on tax compliance intention, but equity perception has no effect.

2.3.2 The Theory of Moral Sentiments

The Theory of Moral Sentiments, Adam Smith (1759) analyzed religiosity from a rational point of view and noted that religiosity acts as a kind of internal moral enforcement mechanism (see Anderson 1988, for a broad discussion). Religion can be seen as a moral commitment to acting in a determinate way. Religious organizations provide moral constitutions for a society. Religion provides a certain level of enforcement to act along the lines of accepted rules and acts as a 'supernatural police' (Anderson and Tollison 1992). Similar to habits, religiosity has the function of economizing and simplifying our actions. It makes our social life more predictable and provides a sense of security to counteract the anxiety associated with uncertainty (Heiner 1983). Hull and Bold (1994) analyze the role of religious organizations in encouraging the production of social goods as moral behavior, which we can find, for example, in the Ten Commandments.

The relative costs for religious inputs to produce social goods are quite low. According to Hirschi and Stark (1969), religion might inhibit illegal behaviour because religion is a sanctioning system that legitimizes and reinforces social values. Empirical studies have shown that states and counties with higher rates of religious memberships have significantly less violent

and non-violent crime (see, e.g. Hull 2000; Hull and Bold 1989; Lipford, McCormick, and Tollison 1993).

There are several studies that analyse the relationship between religiosity and tax fraud acceptability or tax morale. Torgler (2006) studies the effect of religiosity on tax morale, which he defines as the intrinsic motivation to pay taxes. With data from the World Values Survey 1995–1997, he finds strong evidence that religiosity factors exert a systematic influence on tax morale. This effect tends to persist even after controlling for factors such as corruption, trustworthiness, age, economic situation, education, gender, marital status and employment status. Stack and Kposowa (2006) test whether religiosity has an effect on tax fraud acceptability in their cross-national study. They use data on 45,728 individuals in 36 nations from the World Values Survey and find that religiosity is one of the most important correlates of tax fraud acceptability. McGee and Smith (2006) conduct a survey on two groups in a university, one of which is Latter-day Saints, the other being non- Latter-day Saints. The survey asked students questions about whether tax evasion is justified in different scenarios. They find that Mormons are significantly more opposed to tax evasion than are non-Mormons. However, these studies just analyse tax morale or tax fraud acceptability, not actual tax compliance or evasion behaviour.

2.4 Empirical literature review

2.4.1 Relationship between Religiosity and tax compliance

According to researchers De-Neve et al (2021), taxpayers might be more compliant through a stronger enforcement. But, another researcher Giumelli & Onderco (2021), highlights that ethics show a significant effect in increasing tax compliance compared to fines and tax sanctions. In

addition, taxpayers' compliance is affected by the ethical dimension, justice, an equivalent economic exchange, and trust (Mangoting, Tangkelobo, & Sina, 2019).). In another study, Oladipupo and Obazee (2016) examine the small and medium enterprises in Nigeria, regarding the effects of tax payers' knowledge and penalties on tax compliance. The outcomes highlight that tax knowledge has a positive significant influence on tax compliance, whereas tax penalty has insignificant positive influence on tax compliance. As a result, the researchers recommend that government should increase public's tax knowledge and to include tax education in school curricula.

The researcher Nsor-Ambala (2016) conducts a study on the correlation between ethical orientation and tax compliance. The researcher discovers that ethical individuals are more affected by tax rate and withholding positions and usually more tax compliant than unethical individuals as well. Individuals with higher tax moral and hence more comply with tax obligations are going to generate more tax revenue to government. Therefore government has enough resources to enhance the living standard of the societies. The researchers conduct the study to survey the moral of business income tax payers and their tax compliance behaviour in Ethiopia. The result indicates that the association between moral of tax payers and their compliance behaviour is significant (Redae & Sekhon, 2017). Similarly, the recent study also highlights that tax morale has a positive relationship with the tax compliance level, i.e. higher tax morale will lead to higher level of tax compliance among selfemployed in Malaysia (Ghani, Abd Hamid, Sanusi & Shamsuddin, 2020).

Chinese individual taxpayers' ethics in China are greatly influenced by their strong belief in Confucianism, especially filial piety (Ho, Ho, & Young, 2013). The findings further supported by researchers (Young, Wong & Kwok, 2016). The researchers highlighted that Confucianism

and Legalism influence both Chinese social and individual ethical beliefs, hence nurture greater tax compliance in China. It is important to base on legalism to design the tax regulations, prompting individuals to fulfil with their tax responsibilities. An individual's ethical beliefs is closely related to their tax compliance. The reason is their ethicality influences their willingness to fulfil with their tax responsibilities.

Religiosity is considered influential on all individuals across demographic groups. Measuring religiosity with empathy and altruism, several studies confirmed the existence of a significant relationship between religiosity and human behaviour. Some studies found a positive relationship between religiosity and happiness (Gross-Manos & Massarwi, 2022), religiosity and general life satisfaction as well as a sense of belonging and living a purposeful life (Dobrakowski et al, 2021). In addition, Pöhls, Schlösser, & Fetchenhauer (2020) highlighted many aspects of religiosity that influence morality. Similarly, Agbetunde, Raimi & Akinrinola (2022) established a strong correlation of religiosity with value systems, such as volunteering work/working for the poor. Moreover, religiosity is found to be correlated with moral development and value systems (Agbetunde, Raimi & Akinrinola, 2022). Altruistic prosocial behaviour, especially compliance with social norms, rules/ regulations and laws, was found to correlate with the level of religiosity by Sulaiman et al (2022).

With a specific focus on tax compliance, Mohdali, Benk, Budak, MohdIsa, and Yussof (2017) examined religiosity's influence on tax compliance among Turkish and found that there is a significant effect of religiosity on tax compliance among Turkish. Other studies such as Dularif & Rustiarini (2022) in Australia and Bani-Khalid, Alshira'h, & Alshirah (2022) in the United States found that there exists a correlation between religiosity and tax compliance

Additionally, religiosity is able to influence tax compliance for several reasons. Religious teachings are believed to inculcate empathy in individuals and motivate them to care for the less privileged and contribute to assisting society (Torgler, 2006; Mckerchar et al., 2013). Religious values are effective in creating the required social integration that helps prevent deviant behaviours such as crime, fraud and curb other social ills (Bani-Khalid, Alshira'h, & Alshirah 2022). Another claim is that belonging to a "supra-kinship" institution that major world religions offer to members entrenches a set of norms and values that govern interrelationships among unrelated persons (Mckerchar et al., 2013).

2.4.2 Relationship between ethical orientation and tax compliance

An individual's response to a situation that has an ethical dilemma depends on differences in their respective ethical orientations (Sidani, Ghanem, & Rawwas, 2014). Saragih & Putra (2021) states that the ethics of idealism and the ethics of relativism represent two separate dimensions. Idealists care about the well-being of others and assume that this can happen with the right action. Relativists view the situation from a variety of perspectives in addition to universal moral principles. Relativists think that certain situations may require actions that deviate from actions that are considered universally correct. Previous research has shown that there is a link between ethical ideology and ethical decision-making processes. Verwey and Asare (2022) researched to see how ethical philosophy affects an individual's moral judgment. He finds absolutists (low relativism, high idealism) are judged to be crueler toward someone who performs actions with negative impacts than receptionists (low relativism, low idealism). The study of the influence of ethical philosophy in the context of moral judgment on tax evasion is very limited. Recent

research that discusses the influence of ethical philosophy is (Saragih & Putra, 2021; Stefanidis, Banai, & Dagher, 2022).They explain that idealism is negatively related to tax avoidance that comes from self-interest, while relativism is positively related to that attitude. Idealism also deals positively with attitudes to tax avoidance stemming from concerns about the fairness of the tax system (Dewi, Surya, & Yudha, 2021; Khalil & Sidani, 2022).

Alshehri, Fotaki, & Kauser (2021) mentioned that ethical orientation is a major factor that explains the differences in the ethical judgment of individuals. Eddleston and Mulki (2021) also mentioned that ethical orientation as a strong influential factor in explaining the ethical judgment of individuals in unethical dilemmas. This was supported by previous studies such as Abou Hashish and Ali Awad (2017); Liu et al (2021) who found that the significant differences in ethical judgments were due to ethical orientation in scenarios judged as most unethical.

On the other hand, Johari, Mohd. Sanusi and Vincent (2017); Douglas et al. (2001) evaluated the effects of ethical orientation on ethical judgment among accountants and found that ethical orientation is related to ethical judgment in high-moral intensity situations. Therefore, they concluded that ethical orientation could influence ethical decisions or ethical judgments made by individuals depending on the severity of the ethical dilemma.

According to Anderson & Burchell (2021) ethical perceptions are influenced by two factors: demography (gender, age and education level) and psychological (spiritual and locus of control). In childhood, men are accustomed to being taught rules, justice, and individual rights, while girls are accustomed to relationships, affection, and inclusiveness. This causes men to have a higher self-centered value, believing that goals can be achieve in various ways, tend to pursue success and stronger competitive qualities than women. This led to the general belief that women should

be polite, and men should emphasize their achievements (Hogue et al., 2013). Gender differentiates psychologically between men and women, known as gender stereotypes, which is, the belief that men and women are separate groups (Westbrook, Steven Arendall, & Padelford, 2011). Gender comprises of feminine and masculine characteristics: the former is more sensitive to others while the latter is perceived as risk-taker and competitive. Feminine more shows love, warmth, tenderness, sympathy, and sensitive to others. Masculine is inversely proportional to feminine with a risk-taking nature, "competitive rough-housing", attracted to "inanimate objects", firm and independent (Hogue et al., 2013). Previous research found that perception on ethics differs between men and women. Women are better on ethics while men ignore ethics to get what they want (Valente et al., 2021).

2.4.3 Joint contribution of religiosity and ethical orientation on tax compliance

The interaction between revelation and reason is at the heart of the link between religion and ethics. Religion is largely predicated on the notion that God (or some other god) provides revelations regarding life's deeper meanings. The Bible, the Torah, the Koran, and other writings contain collections of these revelations. Then, people will use these writings as a foundation from which to draw logic and establish the rules and values that will govern their behavior (Al Ayub Ahmed et al 2022). Religiosity undoubtedly has something to give business, particularly in terms of corporate ethics, but it also provides a backdrop against which the ethical aspects of business, such as marketing and consumer behavior lean (Bukhari et al 2020). For instance, respect for others, care, and love are essential in Christianity. Religion in this context emphasizes a sense of fairness in business, including the strict observance of work ethics, trust in contracts, following regulations, and working for the common good (Schloemer 2022). Highly religious communities have strong ethics and comply highly with the tax regulations (Kumar 2022).

Additionally, religious institutions run businesses and file taxes. The organizations uphold the reputation by adhering to moral and ethical norms that do not conflict with their religious beliefs by paying their taxes on time (Hanifah & Yudianto, 2019). Many religious sects' adherents set a fantastic example for their congregations by honoring their tax obligations and upholding moral principles and religious moral standards (Dabor et al 2021). For instance, the Bible instructs Christians to uphold the laws of their country, and this is one part of Christianity that adherents fiercely uphold (Foluke, 2021). Religious sects are defined by their ethical principles and voluntary legal compliance, even though religious people generally do not follow religious teachings to the letter. Depending on one's level of religious practice, compliance is a key characteristic of religious sects (Dabor et al 2021).

Religion and ethics do not wholesomely directly correlate with tax compliance. However, depending on one's level of religiosity, a religious person's ethics are important since they have a reputation to uphold. This can be seen in religious leaders who willingly follow tax laws and pay their fair share of taxes to stay out of direct controversy that can result in media attention or legal repercussions ((Hanifah & Yudianto, 2019). The influence of religious teaching to uphold ethics, uphold the law, and uphold the tax compliance of religious organizations like schools, hospitals, and any other religious leaning enterprises is therefore inherent in the relationship between religiosity and ethics in influencing tax compliance (Bukhari et al 2020). The connection will either be found in the religious organizations themselves or in fervent believers who, as a result of their religious convictions, construct ethical principles upon which they base their compliance with tax responsibilities. However, it is not incumbent that all members of a religious group do possess ethics that compel them to honor their tax duties. There are situations where someone

may adamantly become a tax defaulter regardless of their religious identity yet another may become tax compliant without any religious based conviction (Dabor et al 2021).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides a detail of the methodology was used for this study. The chapter describes the research design, the study population, sample size, sampling procedures, data collection tool, validity and reliability, measurement of study variables, data processing, and data analysis.

3.1 Research Design

This study used a survey cross sectional research design, which involved analysis of data collected from the sample at a specific point in time. This research design was chosen because it allows the researcher to form an opinion of a cross section of the population about a subject in a highly economical way and data collected using this design can be analyzed quantitatively using inferential statistics (Saunders & Bezzina, 2015).

3.2 Target population

The population consisted of small businesses operating in Mbarara City estimated at 13,999 as per the Business and Licensing department on 30th December 2022. The Small business definitions applied in various countries are based upon various criteria such as number of employees, value of assets, sales and volume of output (Cunningham & Rowley, 2008). In

Uganda, Small Enterprises employ between 5 to 49 people and have total assets between UGX: 10 million but not exceeding 100 million. Mbarara City is further sub-divided into divisions of Kamukuzi, Nyamitanga, Kakoba, Nyakayojo, Biharwe and Kakiika.

The Small businesses formed the unit of analysis and business owner/manager formed the unit of inquiry.

3.3 Sample Size and sampling techniques

The study population as extracted from the Business and Licensing department on 31st August 2021 comprised of 13,999 Small businesses registered for tax purposes in North and south Mbarara City. The procedure for determining sample size was based on the (Krejcie & Morgan, 1970) table of sample determination which considered a sample size 372 SBs.

The study adopted disproportionate sampling to cover all the divisions and stratified simple random sampling was used to select a representative sample of the SBs from each division as shown below to ensure that all the divisions are fully represented.

Table 1: Sample size.

Division	No	%	Sample size
Biharwe	1,049	7	26
Kakiika	1,346	10	37
Kakoba	6,319	45	167
Kamukuzi	2,732	20	74
Nyakayojo	646	6	23
Nyamitanga	1,655	12	45

TOTAL	13,999	100	372

Source: Mbarara City licensing department (2022)

A lottery method will be employed to select the number of businesses required from each division, where license numbers of businesses from each division will be written on different small pieces of paper, then placed in a box, and picked one by one without replacement until the required number is achieved.

3.4 Data Source and Collection

Primary data for the study was collected directly from the respondents. This data was collected using a self-administered structured questionnaire which contained close-ended questions relating to the variables of the study. Questionnaires are efficient and the most common method of collecting data especially in instances when large groups of respondents located in different places are to be reached Sekaran et al. (2016). The respondents answered basing on the extent to which they agree or disagree with the close-ended statements in the research instrument.

3.5 Measurement of Variables

For all variables, a structured and standard questionnaire was used and all variables were measured on interval scales assessing all items on a five-point scale, where 1 represents “strongly disagree” and 5 represents “strongly agree”.

Table 2: Operationalization and measurement of variables

Global Variable	Definition	Dimensions	Measurement	Sample questionnaire items
Tax compliance	The willingness of tax payers to act in accordance with the formal obligations of the tax law in absence of enforcement actions	Payments	Respondents' mean score of the 7 items included on the questionnaire on a five-point Likert scale	We pay actual tax assessed to URA
		Filing returns	Respondents' mean score of the 6 items included on the questionnaire on a five-point Likert scale	We file returns on the due date
Religiosity	The strength of a person's faith as well as the extent to which they involve religion into their personal lives (McGee et al., 2020)	Intrapersonal religiosity	Respondents' mean score of the 6 items included on the questionnaire on a five-point Likert scale	My religious beliefs lie behind my whole approach to life
		Interpersonal religiosity	Respondents' mean score of the 4 items included on the questionnaire on a five-point Likert scale	I enjoy spending time with others of my religious affiliation.

Ethical Orientation	The extent to which an individual considers morality to be based on universally applicable moral standards or on particular individual situations (Saragih & Putra, 2021).	Idealism	Respondents' mean score of the 5 items included on the questionnaire on a five-point Likert scale	Tax evasion is unethical even if everyone is doing it
		Relativism	Respondents' mean score of the 5 items included on the questionnaire on a five-point Likert scale	Tax evasion is ethical if the tax system is unfair

Source: Author's compilation

3.6 Validity and Reliability of the Instruments.

The validity of the instrument was ensured by using a Content Validity Index (CVI). The questionnaire was given to the experts to rate the different constructs and thereafter a CVI was run to see if all the questions were relevant or not. Questions that were found irrelevant were dropped basing on the values that were obtained. The values above 0.65 were deemed valid. This was supported by Kothari (2014), who argued that an instrument is deemed valid if the values obtained are greater than 0.65. $CVI = \frac{Number\ of\ items\ rated\ relevant}{Total\ number\ of\ items}\ x\ 100\%$

Reliability of the instrument.

Reliability of the questionnaire items was tested using the Cronbach's alpha coefficient. The variables needed to have reliability values above 0.7, which is the minimum value that is statistically recommended.

Table 3: Validity and reliability results

Variable	CVIs	Cronbach's Alpha
1. Religiosity	0.884	0.817
2. Ethical orientation	0.869	0.778
3. Tax compliance	0.922	0.839

3.7 Data Processing and Analysis.

Data from the field was processed and analyzed using Statistical Package for Social Scientists (SPSS version 21). The data was cleaned by checking for missing values and outliers. Given the nature of the research objectives, inferential statistics (Pearson's correlation and regression) was used to answer the research questions. The results were presented in form of tables and interpreted.

3.8 Data Cleaning

This step involved checking for missing values and outliers.

3.8.1 Detection of Outliers

Outliers are values that are out of the range compared to the measurement scale (Field, 2009). An outlier check was conducted using minimum and maximum frequency counts, means and scatter plots. A few identified outliers were due to data entry error and they were traced and corrected.

3.8.2 Missing value analysis (MVA)

Data can be missing at the point of questionnaire filling or data entry, and if not handled, it distorts the analysis and results. MVA helps address several concerns caused by incomplete data (Field, 2009). Thus, MVA in this study was performed to establish whether there was any missing value and the respective magnitude of how data was missing and deciding how to deal with the missing values.

After running descriptive statistics, the missing data were identified, and it was established that the omissions were made by respondents and not at data entry point. It was further established that the missing data constituted less than 1% of the data; and thus, considered too small and could not suppress the standard deviation (Field, 2009). Nonetheless, the missing data were replaced using the linear interpolation method.

3.9 Tests for Parametric Assumptions

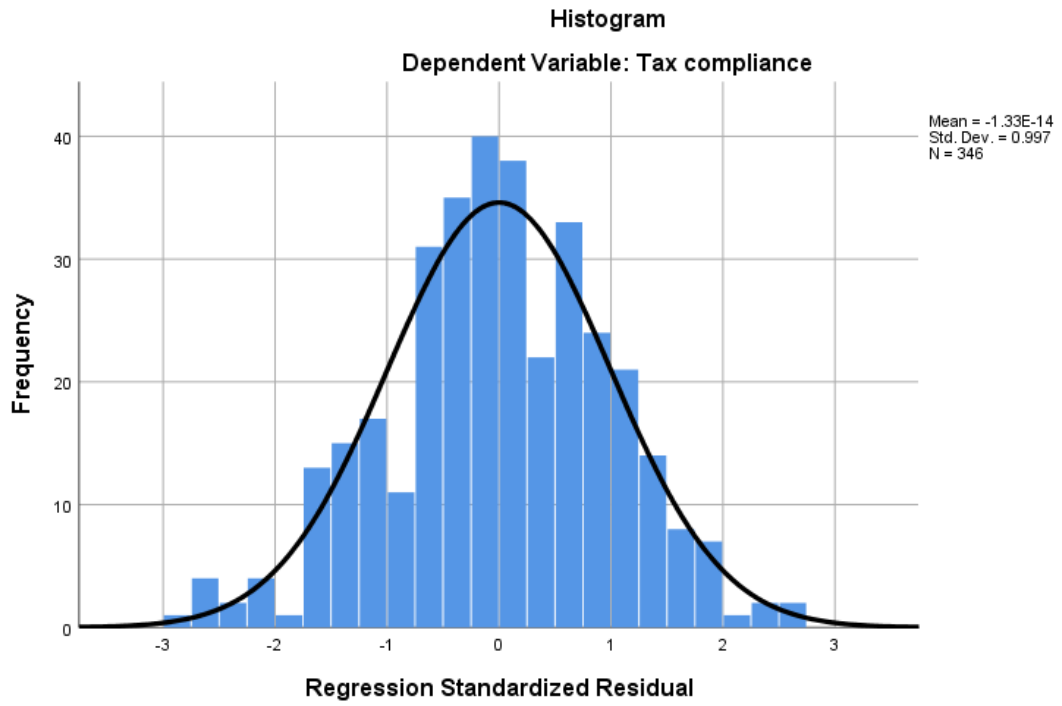
The conceptualization of this study coupled with the methodology adopted calls for diagnostic tests such as correlation and regression. This meant that the data had to be tested to see whether they meet the assumptions for parametric tests. Specifically, normality, linearity and

homogeneity were tested. This can be done using statistical and/or graphical approaches as detailed below.

3.9.1 Normality Assumption Test

A normality test was conducted to determine whether the distribution of the data deviates from a comparable normal distribution. Tabachnick and Fidell (2001, p. 73) recommend inspecting the shape of the distribution (e.g. using a histogram). Thus, graphically, normality in this study was tested using histograms. A bell-shaped histogram indicates that data is normally distributed. The results in this study reveal a fairly bell-shaped histogram, thus upholding the normality assumption.

Figure 1: Histogram showing results on normality test

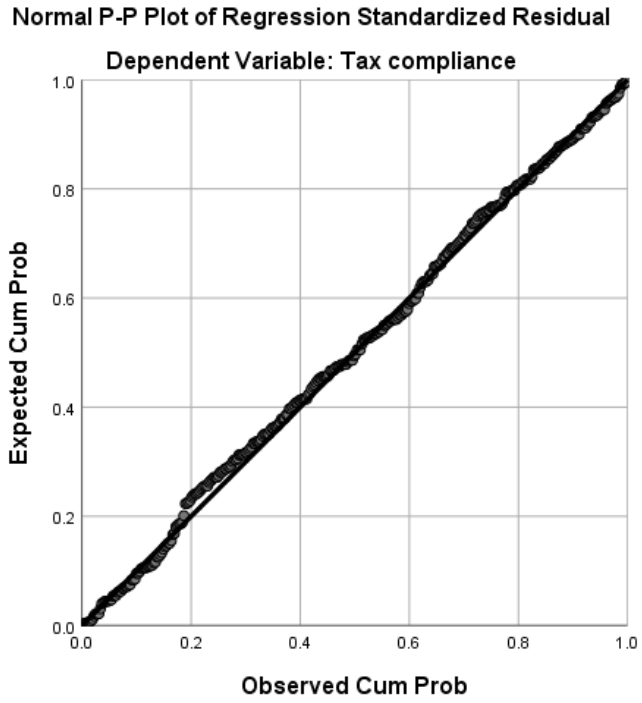


Source: Primary data

3.9.2 Linearity Assumption Test

Linearity refers to the presence of a straight-line relationship between two variables. Graphically, linear data is obtained when the scores are seen to be in the form of fairly straight line, not a curve. A normal probability plot (normal Q-Q plot) was used in this study to plot the residual against the predicted scores. The results in fig 3 revealed a fairly straight line thus the data passed the linear assumption test.

Figure 2: Normal Q-Q plot showing results on linearity test

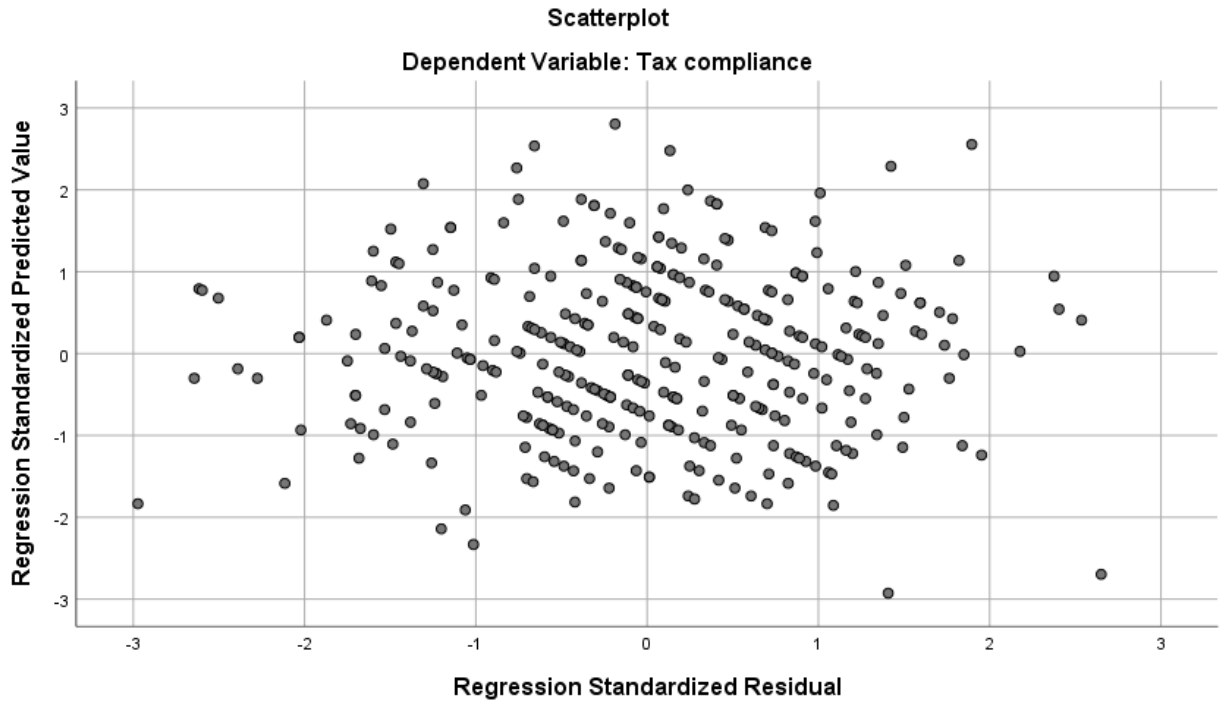


Source: Primary data

3.9.3 Homogeneity Assumption Test

Data is said to be homogeneous if the variance of one variable is stable at all levels of the other variables (Field, 2009). Graphically, a scatter plot was drawn plotting the residual against the dependent variable. The results of the scatter plot (figure 4) shows that the points are dispersed around zero and there is no other clear trend in the distribution; an indication that homogeneity assumption was met.

Figure 3: Scatterplot showing results on homogeneity test



Source: Primary data

3.9.4 Multicollinearity

Multicollinearity exists if the regressors correlate highly when regressed against each other. A collinearity diagnostic test under regression analysis was utilized. Under this procedure, two values are given, the tolerance and the variance inflation factor (VIF). The tolerance value is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variables in the model. The VIF is the inverse of the tolerance value. Basing on the tolerance figures, various scholars indicate different cut off points for the

accept/reject standard. According to Menard (1995), if the tolerance values are below .2, that shows the existence of multicollinearity. While VIF values above 10 indicate serious concern (Myers, 1990; Bowwerman & O'Connell, 1990). The results in this study reveal tolerance values one (1). This is supported by VIF values below 10, therefore implying non-multicollinearity among the variables, and thus the assumption was met (tolerance value above .2 and VIF below 10).

Multicollinearity results

	Collinearity Statistics	
	Tolerance	VIF
Religiosity	0.697	1.435
Ethical orientation	0.697	1.435

a. Dependent Variable: Tax compliance
Source: Primary Data

3.10 Ethical considerations

The major ethical problem anticipated this study was the privacy of the respondents and confidentiality of their information. To ensure privacy, the respondents were informed upfront that indeed their names were not required (Mugenda & Mugenda, 2003). To ensure confidentiality, the respondents were informed upfront that the information given was solely to be used for academic purposes and data obtained on private matters would be treated with maximum confidence (Amin,

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

In this chapter, the study provides two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the researcher to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation to measure the degree of association between variables under consideration and the regression analysis to estimate the contribution of religiosity and ethical orientation on tax compliance. This chapter also deals with demographic characteristics of the respondents from the study and those of the firm.

4.1 Response rate

The researcher targeted to collect data from 372 small businesses but managed to collect data from 346 small businesses thus making a response rate of 93%. This is deemed sufficient enough to represent the entire population based on Oman (2003) who recommended 70% response rate.

4.2 Demographic Characteristics of the respondents

Respondents were asked to provide information regarding their demographic profile which included gender, age bracket, level of education, marital status as follows.

Table 4: Demographic Characteristics of the respondents

Characteristics	***Item***	***Frequency***	***Percent***
Category of respondent	Owner of enterprise	206	59.5
	Manager	140	40.5
	Total	346	100.0
Gender of the respondents	Male	194	56.1
	Female	152	43.9
	Total	346	100.0
Age bracket	Below 30 years	114	32.9
	30-39 years	126	36.4
	40-49years	47	13.6
	50 years & above	59	17.1
	Total	346	100.0
Religious faith	Protestant	103	29.8
	Catholic	168	48.6
	Moslem	62	17.9
	Others	13	3.8
	Total	346	100.0
Highest level of education	None educated	13	3.8
	Primary	44	12.7
	Secondary	137	39.6
	Certificate	105	30.3
	Diploma and above	47	13.6
	Total	346	100.0

Source: Primary data

The results of the analysis show that the majority of the respondents in Mbarara City are business owners, accounting for 59.5% of the total and the 40.5% are the managers. This implies that

these business owners do manage businesses themselves and they do use less of other employees in handling their business activities

In terms of gender distribution, the results indicate a relatively balanced representation, with 56.1% of respondents being male and 43.9% being female. This suggests that both men and women contribute to tax compliance in Mbarara City, and it is important to ensure gender equality in tax compliance initiatives. Providing equal support, resources, and guidance to both genders can help promote a fair and inclusive tax system.

The analysis of age brackets reveals a diverse distribution among respondents. The largest group consists of individuals below 30 years old (32.9%), followed by those in the 30-39 years bracket (36.4%). Additionally, there are respondents in the 40-49 years (13.6%) and 50 years & above (17.1%) brackets. To promote tax compliance in Mbarara City, it is essential to design targeted awareness campaigns and educational programs that cater to the specific needs and preferences of individuals in different age groups. Tailoring the approach based on age can help address the unique challenges faced by each demographic.

Regarding religious faith, the analysis shows that the majority of respondents identify as either Catholic (48.6%) or Protestant (29.8%), while 17.9% are Muslim and 3.8% belong to other religious groups. These findings suggest that religious institutions can play a vital role in promoting tax compliance among their members. Collaborating with religious leaders and organizations to disseminate information and educate their congregations about tax obligations can contribute to improved tax compliance rates in Mbarara City.

In summary, the results highlight the importance of engaging owners of enterprises, ensuring gender equality, considering different age groups, and leveraging religious institutions to

enhance tax compliance in Mbarara City. By tailoring strategies and initiatives to these characteristics, tax authorities and policymakers can foster a culture of compliance and improve overall tax revenue collection in the city.

4.3 Small Business characteristics

The characteristics of the Small Businesses were distributed as indicated in Table 5

Table 5: Characteristics of the small businesses

Business characteristics	***Items***	***Frequency***	***Percent***
Age of the business	1-5years	163	47.1
	6-10 years	60	17.3
	11-15 years	80	23.1
	above 15 years	43	12.4
	Total	346	100.0
Level of your monthly business income	Under Shs 60,000/-	2	0.6
	Shs 60,000/- to less than shs 166,000/	20	5.8
	Shs 166,000/- to less than Shs 833,000/-	89	25.7
	Shs 833,000/- to less than shs 4,166,000/-	210	60.7
	Shs 4,166,000/- or more	25	7.2
	Total	346	100.0
Number of employees	5 and above	247	71.4
	Above 10	99	28.6
	Total	346	100.0
Location of the business	Kakoba	160	46.2
	Kamukuzi	65	18.8
	Nyamitanga	48	13.9
	Kakiika	28	8.1
	Biharwe	25	7.2
	Nyakayojo	20	5.8
	Total	346	100.0

Source: Primary data

The analysis of business characteristics reveals several insights regarding tax compliance in the context of Mbarara City. Firstly, when examining the age of businesses, the majority of respondents (47.1%) reported that their businesses have been operating for 1-5 years. This indicates a relatively high number of new businesses in the area. The implication for tax compliance is that these businesses may require additional support and guidance to understand and fulfill their tax obligations effectively.

When examining the level of monthly business income, the majority of respondents (60.7%) reported earning between Shs 833,000/- to less than Shs 4,166,000/-. This indicates that a significant number of businesses in Mbarara City fall within this income range. The implication for tax compliance is that tax authorities should focus on ensuring that businesses in this income bracket are aware of their tax obligations and have the necessary support and resources to meet them. Tailoring tax education and providing accessible tax-related information can help improve compliance among businesses in this income category.

The results indicate that the majority of small businesses in Mbarara have a number of employees ranging from 5 to 10, accounting for 71.4% of the total businesses surveyed. Additionally, 28.6% of businesses have more than 10 employees. This distribution suggests that the majority of small businesses in Mbarara operate with a relatively small workforce. With a significant portion of businesses having a small number of employees, it is likely that they may have limited resources and capacity to handle complex tax-related tasks. This could include tasks such as maintaining accurate financial records, preparing tax returns, and understanding and fulfilling tax obligations.

In line with the location of the businesses, the results indicate that most of the businesses are located in Kakoba (46.2%) followed by those in Kamukuzi divison (18.8%) and the least group are those in Nyakayojo (5.8%). This implies that Kakoba is the most business hub and more revenue should be generated from it.

4.4 Pearson correlation results

Pearson's Correlation analysis was conducted to measure the strength of linear associations between the study variables, denoted by "r."

The Pearson correlation coefficient "r," ranges of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, meaning that as the value of one variable increases, so the value of the other variable. A value less than 0 indicates a negative association, implying that as the value of one variable increases, the value of the other variable decrease.

Table 6: Pearson correlation matrix

Variables	1	2	3	4	5	6	7	8	9
Intrapersonal religiosity-1	1								
Interpersonal religiosity-2	.291*	1							
Religiosity-3	.750**	.852**	1						
Idealism-4	.449**	.518**	.604**	1					
Relativism-5	.120*	.207**	.209**	0.064	1				
Ethical orientation-6	.384**	.491**	.550**	.711**	.747**	1			
Regulatory compliance-7	.260**	.538**	.515**	.278**	.489**	.530**	1		
Payment compliance-8	.536**	.272**	.482**	.456**	0.055	.343**	.191**	1	
Tax compliance-9	.500**	.538**	.646**	.465**	.376**	.574**	.814**	.725**	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

4.4.1 Religiosity and tax compliance among small businesses in Mbarara City

The results in Table 6 indicate that there is a positive significant relationship between Religiosity and tax compliance among small businesses in Mbarara City (r =.646, p<.01). The results further indicate that the indicators of religiosity which are; Intrapersonal religiosity and Interpersonal religiosity have a positive significant relationship with tax compliance among small businesses in Mbarara city.

4.4.2 Ethical orientation and tax compliance among small businesses in Mbarara City

The results in Table 6 indicate that there is a positive significant relationship between ethical orientation and tax compliance among small businesses in Mbarara City (r =.574, p<.01). The results further indicate that the indicators of ethical orientation which are; idealism and relativism have a positive significant relationship with tax compliance among small businesses in Mbarara city.

4.5 The joint contribution of religiosity and ethical orientation on tax compliance among small businesses in Mbarara City

The contribution of religiosity and ethical orientation on tax compliance was achieved by running a regression analysis which provides adjusted coefficient of determination which provides the contribution of the two variables on the dependent variable. The results are presented in Table 7.

Table 7: Multiple regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.267	0.175		1.530	0.127
	Religiosity	0.565	0.054	0.480	10.425	0.000
	Ethical	0.369	0.054	0.312	6.774	0.000

	orientation
R	.702[a]
R Square	0.493
Adjusted R Square	0.490
F	166.763
Sig.	.000[b]

a. Dependent Variable: Tax compliance

The results in Table 7 indicate that religiosity is a significant predictor of tax compliance among small businesses (Beta = .480, p<.01). This implies that a unit increase in religiosity would result in to 0.48 units increase in tax compliance among small businesses. The results further confirm that ethical orientation is a significant predictor of tax compliance (Beta = .312, p.01). This implies that a unit increase in ethical orientation would result in to 0.312 units increase in tax compliance among small businesses.

Finally the results indicate that the contribution of religiosity and ethical orientation on tax compliance is 49% (Adjusted R Square = .490). This implies that the remaining 51% is explained by other factors not considered in this study.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses all the findings reported in chapter four based on the research questions and objectives, draws conclusions and suggests recommendations for the findings, limitations of the study and also proposes some areas for further research.

5.1 Discussion of Results

5.1.1 Religiosity and tax compliance among small businesses in Mbarara City

The results suggest that religious beliefs and practices play a role in influencing tax compliance behaviors among small business owners. To promote tax compliance among small businesses in Mbarara City, tax authorities and policymakers could consider leveraging religious institutions and working collaboratively with religious leaders to emphasize the importance of fulfilling tax obligations. Additionally, fostering partnerships between tax authorities and religious organizations can help facilitate the dissemination of accurate and relevant tax-related information to small business owners, reinforcing the positive relationship between religiosity and tax compliance.

These findings are in line with De-Neve et al (2021), taxpayers might be more compliant through a stronger enforcement. But, another researcher Giumelli & Onderco (2021), highlights that ethics show a significant effect in increasing tax compliance compared to fines and tax sanctions.

In addition, taxpayers' compliance is affected by the ethical dimension, justice, an equivalent economic exchange, and trust (Mangoting, Tangkelobo, & Sina, 2019).

5.1.2 Ethical orientation and tax compliance among small businesses

The findings highlight the importance of ethical orientation in influencing tax compliance behavior among small businesses in Mbarara City. This implies that fostering and promoting ethical values and principles within the business community can contribute to improving tax compliance rates. This further implies that improvement in idealism which is in form of informing the tax collectors the reason for not paying taxes in time, and ensuring that the payment of taxes is morally right, this would improve tax compliance. In addition improvement in relativism in terms of finding it easy in business to get ahead without cutting corners here and there when complying with taxes and tax payers being humble and honest when paying taxes, this improve tax compliance.

The findings coincide with Saragih & Putra (2021) who stated that the ethics of idealism and the ethics of relativism represent two separate dimensions. Idealists care about the well-being of others and assume that this can happen with the right action. Relativists view the situation from a variety of perspectives in addition to universal moral principles. Relativists think that certain situations may require actions that deviate from those considered universally correct. Another researcher Giumelli & Onderco (2021), highlights that ethics show a significant effect in increasing tax compliance compared to fines and tax sanctions. Previous research has shown that there is a link between ethical ideology and ethical decision-making processes. Verwey and Asare (2022) researched to see how ethical philosophy affects an individual's moral judgment.

He finds absolutists (low relativism, high idealism) are judged to be crueler toward someone who performs actions with negative impacts than receptionists (low relativism, low idealism). The study of the influence of ethical philosophy in the context of moral judgment on tax evasion is very limited. Recent research that discusses the influence of ethical philosophy is (Saragih & Putra, 2021; Stefanidis, Banai, & Dagher, 2022).They explain that idealism is negatively related to tax avoidance that comes from self-interest, while relativism is positively related to that attitude. Idealism also deals positively with attitudes to tax avoidance stemming from concerns about the fairness of the tax system (Dewi, Surya, & Yudha, 2021; Khalil & Sidani, 2022).

5.1.3 The joint contribution of religiosity and ethical orientation on tax compliance

The interpretation of the results suggests that both religiosity and ethical orientation significantly predict tax compliance among small businesses. Religiosity has a positive and significant relationship with tax compliance, indicating that higher levels of religiosity are associated with greater tax compliance. Similarly, ethical orientation also demonstrates a positive and significant relationship with tax compliance, implying that businesses with a stronger ethical orientation are more likely to comply with tax obligations. The findings emphasize the importance of considering religiosity and ethical orientation in promoting tax compliance among small businesses.

The findings are in line with Dabor et al (2021) who indicated that many religious sects' adherents set a fantastic example for their congregations by honoring their tax obligations and upholding moral principles and religious moral standards. For instance, the Bible instructs Christians to uphold the laws of their country, and this is one part of Christianity that adherents fiercely uphold (Foluke, 2021). Religious sects are defined by their ethical principles and

voluntary legal compliance, even though religious people generally do not follow religious teachings to the letter. Depending on one's level of religious practice, compliance is a key characteristic of religious sects (Dabor et al 2021).

Religion and ethics do not wholesomely directly correlate with tax compliance. However, depending on one's level of religiosity, a religious person's ethics are important since they have a reputation to uphold. This can be seen in religious leaders who willingly follow tax laws and pay their fair share of taxes to stay out of direct controversy that can result in media attention or legal repercussions ((Hanifah & Yudianto, 2019). The influence of religious teaching to uphold ethics, uphold the law, and uphold the tax compliance of religious organizations like schools, hospitals, and any other religious leaning enterprises is therefore inherent in the relationship between religiosity and ethics in influencing tax compliance (Bukhari et al 2020).

5.2 Conclusion

In conclusion, the analysis of the correlation coefficients reveals a positive relationship between religiosity and tax compliance among SBs in Mbarara City. The findings suggest that individuals who demonstrate higher levels of religiosity are more likely to engage in tax compliance behaviors. This implies that religious beliefs and practices can serve as influential factors in shaping tax compliance attitudes and actions. These findings showed that taxpayers' intrapersonal and interpersonal religiosity, such as the inner values of an individual which are developed from the religious rituals and strong faith, appeared to have a significant impact on voluntary tax compliance. These findings were strongly supported by the interview findings. These inner values are probably derived from nearly all religious teachings in cultivating the values of giving to the needy and at the same time contributing to the development of the nation.

These findings might indicate the similarity between the religious values held by most taxpayers and the values of citizenship or the sense of responsibility towards the country.

When faced with tax moral dilemmas, it is generally believed that ethics can serve as guidelines for taxpayers on how to act rightly and justly. Several major findings are noted. First, the probability that an individual will commit an unethical behavior might depend on the expected gain from behaving unethically, the individual's perception of the likelihood of being caught for the unethical act, the individual's attitude to risk, and the individual's ethical reasoning levels. Also ethical choices in tax matters are essentially based on the personal moral philosophy of the taxpayers.

In conclusion, the results indicate that both religiosity and ethical orientation have a significant impact on tax compliance among small businesses. Religiosity, characterized by higher levels of religious beliefs and practices, and ethical orientation, associated with strong ethical values, are positively correlated with tax compliance behavior. This highlights the relevance of considering these factors in efforts to enhance tax compliance rates. However, it is important to note that while religiosity and ethical orientation contribute significantly to tax compliance, there are other unexplored factors that also play a role in shaping compliance behavior.

5.3 Recommendations

The tax authority should take advantage of religious gatherings and events by developing tax education programs that align with religious values and beliefs to educate the people about tax compliance through collaborating with religious leaders.

Tax collectors should have an appealing approach that includes motivations, and ethics by encouraging small businesses to adopt codes of conduct or ethical policies that explicitly include tax compliance as a core component and also explain why people need to pay taxes.

I recommend that effort should be made by tax authority at all levels to engage in activities that indicate their sense of accountability to the citizens.

5.4. Limitations of the study

The current study adopted a quantitative design leaving out the qualitative aspects that would provide an explanation for the situation.

The current study also adopts a cross sectional approach where a single period data was considered hence the chronological aspects of religiosity and ethical orientation affecting the tax compliance of small businesses in Mbarara City.

The current study only consider small businesses in Mbarara city leaving out other small businesses in the whole of Mbarara district which does not make a conclusive report about the tax compliance of small businesses in the entire Mbarara district.

5.5. Areas of further research

i. The study adopted a cross sectional design where data is collected at one point in time and the findings from such studies are always limited to the current period only hence future studies should look at a longitudinal research design where tax compliance of small businesses in Mbarara City is monitored for a long period of time

ii. The study was restricted to a quantitative approach using a structured questionnaire to elicit information from the respondents meaning that other features that can be observed were not included in the findings and thus future research should incorporate qualitative factors using for example observations and interview guide.

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APPENDICES

Appendix 1: Questionnaire

Makerere University Business School

Dear Respondent,

I am Atukwatse Bridget, a Master's student of Makerere University Business School conducting research on **"Religiosity, Ethical Orientation and Tax Compliance among Small Businesses in Mbarara City".** Kindly answer these questions as objectively as possible so that the results of the data analysis are fairly accurate. All the information given will be used for academic purposes. Thank you very much for your cooperation.

SECTION A: Respondent's demographic characteristics.

Please select by **ticking** your most appropriate response to the following issues.

A1 Category of respondent

1) Owner of enterprise ☐ 2) Manager ☐

A2 Sex category of respondent

☐

1) Male ☐ 2) Female

A3 Which of the following age bracket best suits you?

1) Below 30 years ☐ 2) 30-39 years ☐ 3) 40-49years ☐
4) 50 years & above ☐

A4 What religious faith do you pray or believe in?

1) Protestant ☐ 2) Catholic ☐ 3) Moslem ☐ 4) Others ☐

A5 What is your highest level of education?

1) None educated ☐ 2) Primary ☐ 3) Secondary ☐

4) Certificate ☐ 5) Diploma and above ☐

A6 For how long has this business been in existence?

1) 1-5years ☐ 2) 6-10 years ☐ 3) 11-15 years ☐ 4) above 15 years ☐

A7 What is the level of your monthly business income?

(1) Under Shs 60,000/- ☐ (2) Shs 60,000/- to less than shs 166,000/ ☐

(3) Shs 166,000/- to less than Shs 833,00 ☐ (4) Shs 833,000/- to less than shs ☐ 4,166,000/-

(5) Shs 4,166,000/- or more ☐

A8 Number of employees

(1) Less than 2 ☐ (2) 2-5 ☐ (3) 5-10 ☐ (4) Above 10 ☐

A9 Location of the business

(1) Kakoba ☐ (2) Kamukuzi ☐ (3) Nyamitanga ☐ (4) Kakiika ☐
(5) Biharwe ☐ (6) Nyakayojo ☐

SECTION B

Please respond to the following statements by indicating the extent to which you agree or disagree. Base on the following;

1-Strongly Disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A) and 5-Strongly Agree (SA).

RELIGIOSITY

Intrapersonal religiosity

Code	Statements	SD	D	N	A	SA
Ir1	My religious beliefs help me in tax compliance.	1	2	3	4	5
Ir2	Reading books and magazines about my faith helps me in tax compliance.	1	2	3	4	5
Ir3	My religion guides me in tax compliance.	1	2	3	4	5
Ir4	The periods of time I spend in private to think and reflect on my religion are important to me when complying with business taxes.	1	2	3	4	5
Ir5	Spending time trying to enhance my understanding of my faith contributes to my willingness in complying with taxes of my business.	1	2	3	4	5
Ir6	Religious beliefs influence most of my dealings in tax compliance.					

Source: Worthington et al. (2003)

Interpersonal religiosity

Code	Statements	SD	D	N	A	SA
Inr1	Spending time with others of my religious affiliation helps me in business and tax compliance.	1	2	3	4	5
Inr2	When I join the activities of my religious organization, am influenced to comply with taxes of my business.	1	2	3	4	5
Inr3	I keep well informed about my local religious group which have some influence on my business decisions and tax compliance.	1	2	3	4	5

Inr4	Making financial contributions to my religious organization encourages me to also pay my business taxes					

Source: Worthington et al. (2003)

ETHICAL ORIENTATION

Idealism

Code	Statements	SD	D	N	A	SA
Id1	I always tell anyone about my business and to the tax collectors the real reason I did something unless it is useful not to do so	1	2	3	4	5
Id2	The best way to handle the tax matters in my business is to tell the tax collectors what they want to hear	1	2	3	4	5
Id3	I try to take action in business and tax payment only when sure it is morally right.	1	2	3	4	5
Id4	I am basically good and kind when doing business and tax matters	1	2	3	4	5
Id5	Honesty is the best policy in my business and tax related issues	1	2	3	4	5
Id6	I tell the tax authority truth about my business activities tax returns	1	2	3	4	5

Relativism

Code	Statements	SD	D	N	A	SA
re1	It is possible to be good in all aspects of business and tax compliance	1	2	3	4	5
re2	I find it easy in business to get ahead without cutting corners here and there when complying with taxes.	1	2	3	4	5
re3	In business, am humble and honest and pay taxes than dishonest	1	2	3	4	5

re4	Generally speaking, men work hard in business and comply with taxes even when they're not forced to do so					
re5	Leading clean and moral life in business helps me in tax compliance					

Source: "Studies in Machiavellianism" by Richard Christie and Florence L. Geis;

TAX COMPLIANCE

Regulatory compliance

Code	Statements	SD	D	N	A	SA
RC1	I declare all business income for tax assessment to URA	1	2	3	4	5
RC2	I receive a notice of assessment for my business from URA	1	2	3	4	5
RC3	I prepare my tax return correctly following the regulations	1	2	3	4	5
RC4	I file business returns on the due date	1	2	3	4	5
RC4	Upon filing business returns, I register for payment and proceed to pay	1	2	3	4	5
RC5	I pay business taxes on time	1	2	3	4	5
RC6	It is immoral not to pay taxes to the government					

Payment compliance

Code	Statements	SD	D	N	A	SA
PC1	It is my duty as a citizen to pay taxes as required by the regulations.	1	2	3	4	5
PC2	In my business, I pay actual tax assessed by URA	1	2	3	4	5
PC3	In business, I pay the tax dues first before any other bills	1	2	3	4	5

PC4	Paying tax in my business is the right thing to do	1	2	3	4	5
PC5	I pay my taxes as required by the regulations because of a sense of responsibility.	1	2	3	4	5

Source: Kirchler and Wahl (2010)

THANK YOU

Appendix IV: 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	256	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361

45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384

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

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