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MAKERERE UNIVERSITY BUSINESS SCHOOL

**TAXPAYERS' ATTITUDE TOWARDS THE TAX SYSTEM, COMPLIANCE COSTS AND
TAX COMPLIANCE IN UGANDA: A CASE OF SMALL AND MEDIUM ENTERPRISES
IN KAMPALA**

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RESEARCH IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
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PLAN A

JUNE 2024

DECLARATION

I, Olinga Peter declare that this dissertation is my original work. It has not been submitted anywhere for any other degree award to any other University or Institution of Higher Learning.

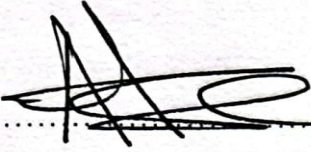
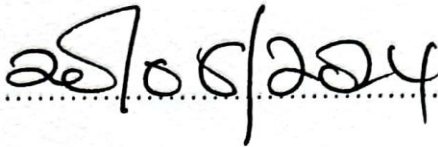
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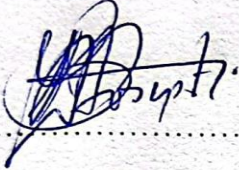
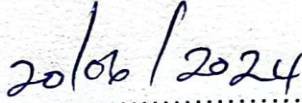
APPROVAL

This dissertation has been submitted for examination with our approval as supervisors.

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DEDICATION

This dissertation is dedicated to my dear wife Lucy Amulen and children, Miriam Asianut, Brighton Ajokis, Praise Amunot and Divine Esiana for the support, encouragement and sacrifice they offered me before and during the study.

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ABSTRACT

This study investigates the relationship between taxpayers' attitudes towards the tax system, compliance costs, and tax compliance among SMEs in Uganda. The findings reveal a strong positive correlation between Taxpayers' attitudes towards the tax system and tax compliance ($r = .755, p < .01$). Additionally, the study identifies significant positive associations between tax compliance and perceived fairness, perceived benefits, and willingness to pay ($r = .685, .616$, and $.692$, respectively). Conversely, there is a strong negative correlation between compliance costs and tax compliance ($r = -.738, p < .01$), with higher administration and specialist costs linked to lower compliance ($r = -.700$ and $-.675$). Regression analysis shows that taxpayers' attitudes and compliance costs predict 61.8% of the variance in tax compliance, with attitudes being a slightly stronger predictor ($\beta = .457$) compared to compliance costs ($\beta = .374$). The findings suggest that improving taxpayers' attitudes and reducing compliance costs could significantly enhance tax compliance among SMEs in Uganda.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

Tax compliance is an important issue for nations around the world as governments search for revenue to meet needs of public (Sadress et al., 2019). A country like Uganda greatly depends on taxation as a major source of income as government collects revenue to meet various needs of the public (Verberne, 2017). The main sources of revenue being the export duties on coffee and cotton, import duties, income and profit taxes, excise taxes, and sales taxes (Sadress et al, 2019). Currently, URA has set its revenue target for financial year 2023/2024 at 29.7 trillion and one of the ways of achieving this is if all entities and individuals are tax compliant (URA 2022/2023). Thus, the need for all taxpayers to ensure they comply by paying all taxes due in order to achieve the set revenue target. According to Ibrahim et al., (2015) improving tax compliance could increase government revenue and enable government in development of the country. In the same way, for government to be able to provide public goods and reallocate wealth, there is a need for taxpayers to pay taxes promptly (Musimenta et al., 2017; Nkundabanyanga et al., 2017)

According to the OECD and the IMF (2022), an SME is an enterprise employing up to 249 persons. They further divide the category into micro (1-9 employees), small (10-49 employees) and medium (50-249 employees) enterprises. Lower income economies more frequently use 50 or 100 employees as a threshold for defining an SME with an annual turnover ranging between US\$ 50 million to 70 million in high-income economies, and between US\$ 1 million and 5 million US\$ in lower income developing countries.

Given that small and medium enterprises in Uganda, constitute 90% of the private sector and contribute 75% of GDP, there is a need to ensure tax compliance in small and medium enterprises (Hatega, 2019). However, this is not the case as Uganda has continuously registered low levels of tax compliance among SMES (Musimenta et al., 2017). For instance, in the FY2017/18, the actual

revenue from presumptive tax was 5.3 billion against a target of 28.4 billion, 7.2billion below the target of 16.2 billion shillings in FY2018/19, 5.2 billion below the target of 25.2 billion in FY2019/20 while in FY 2020/21, revenue was 6.5 billion below the target of 27.6 billion.

Extant studies have continuously explored the various explanations of tax compliance (Kasipillai et al. 2006; Doran, 2009; Tusubira & Nkote 2013; Musimenta et al., 2017; Sadress et al, 2019; Deyganto, 2018). According to Sadress et al, 2019 study on antecedents of tax compliance of Small Business Enterprises, results indicated that attitude towards electronic tax system, adoption of electronic tax system and isomorphic forces significantly contribute to tax compliance to the extent of only 57.4%. This means that there are other factors such as compliance costs that could influence tax compliance. Similarly, a study by Maseko (2014), on the impact of personal tax knowledge and compliance costs on tax compliance behavior revealed that tax payers have difficulties in interpreting the law and the high compliance costs pushed tax payers to opt for bribery to officials than being tax compliant. However, the study findings relate to a developing country of Zimbabwe. Another study on tax compliance in SMEs was conducted in Ghana where Susuawu, Ofori-Boateng, & Amoh, (2020) found out that service quality was significant predictor of tax compliance.

Despite the numerous studies on factors affecting Tax compliance, authors have continuously called for further studies on tax compliance to explore the unexplained tax compliance gap in various studies. (Sadress et al., 2019; Musimenta et al., 2019). Thus, the study examines the contribution of Tax payers' attitude towards the tax system and compliance costs on tax compliance among Small and Medium Enterprises in a developing country using evidence from Uganda. Where a tax payer is benefiting from the tax system he/she will have a positive attitude which makes it easy to be tax compliant (Alabede et al., 2011). Thus, the attitude of an individual towards a tax system may predict his/her tax compliance behavior.

Furthermore, compliance costs such as professional fees, general accounting services, managerial advice and computerized accounting software used in business increases the operation costs which in the end affects the willingness of taxpayers to comply fully with all tax laws and regulations (Hansford & Hasseldine, 2020). Thus, based on the above discussion, it is expected that compliance costs are associated with tax compliance. Whereas different scholars like Mongen (2021) and Gazan and Hashim (2022) and have studied tax compliance among small and medium enterprises, most of them related tax compliance to variables like firms' willingness to pay, tax procedures, awareness, tax size and tax fairness. Even of those more than 85% of that research has been done in developed countries where conditions for tax compliance may be different from those in developing countries.

This study was informed by the theory of reasoned action which was advanced by Martin (2014). The theory assumes that behavioural intention is determined by two variables. These are attitudes and subjective norm (Jackson 2015)

This study therefore examines the contribution of Taxpayers' attitude towards the tax system and compliance costs on tax compliance among Small and Medium Enterprises in a developing country like Uganda.

1.1 Problem Statement

Despite the numerous efforts by Uganda Revenue Authority such as taxpayer's education services, loosening tax restrictions, allocation of resources to sustain and facilitate the operation of the compliance department (URA, 2021) and adjustment of the tax policies to improve tax compliance, SMEs have continued to register low tax compliance levels. This is evidenced by the low revenues collected from SMEs as compared to target revenues. For instance, in the FY 2020/21, revenue was 6.5 billion below the target of 19.6 billion. In 2021/2022FY the target was 22.42 trillion Uganda shillings and URA failed to hit the target. According to Kahuma (2021) over 50% of SME are poor at book keeping, have a negative attitude towards the way how tax payers' money is used by

government and unfair taxation system. Extant studies have attributed Tax compliance to factors such as attitude, (Alm et al., 2006), isomorphic forces (Musimenta 2018), governmental effectiveness (Nkundabanyanga et al., 2017), religiosity (Mohdali and Pope, 2014) and compliance costs (Faiday et al., 2014; Muzainah et al., 2004; McKerchar, 2019). However, the studies were conducted in other sectors. Therefore, this study explores how tax payers' attitude towards the tax system and compliance costs may contribute to tax compliance among SMEs in Uganda.

1.2 Purpose of the Study

The study aims to establish the relationship between Tax payers' attitude towards the tax system, compliance costs and tax compliance among Small and Medium Enterprises in Uganda.

1.3 Objectives of the study

- i) To examine the relationship between Tax payers' attitude towards the tax system and tax compliance among Small and Medium Enterprises in Uganda.
- ii) To examine the relationship between compliance costs and tax compliance among Small and Medium Enterprises in Uganda.
- iii) To examine the effect of Taxpayers' attitude towards the tax system and compliance costs on tax compliance among Small and Medium Enterprises in Uganda.

1.4 Research Questions

- i) What is the relationship between Tax payers' attitude towards the tax system and tax compliance among Small and Medium Enterprises in Uganda?
- ii) What is the relationship between compliance costs and tax compliance among Small and Medium Enterprises in Uganda?
- iii) What is the effect of taxpayers' attitude and compliance costs on tax compliance among Small and Medium Enterprises in Uganda?

1.5 Significance of the study

- i. The study provided information to policy makers to help them put in place strong measures for mitigating non-compliance behavior with respect to Tax compliance among SMEs.
- ii. The study provided the tax authority an understanding of the factors that drive the taxpayer's tax compliance so as to reduce on the administrative costs and have more revenues collected.
- iii. The research findings added to the existing knowledge on tax compliance behavior among SMEs in Uganda
- iv. The findings of the study also contributed to the existing body of knowledge and may form the basis for further research in the area of Tax payers' attitude towards the tax system, compliance costs and tax compliance among Small and Medium Enterprises in Uganda.
- v. This study uniquely contributes to the literature by highlighting the significant interplay between taxpayers' attitudes and compliance costs in influencing tax compliance among SMEs in a developing country context. It highlights the importance of psychological and economic factors, providing insights specifically relevant to Uganda's unique tax environment.

1.6 Scope of the study

Subject Scope

Taxpayers' attitude towards the tax system, compliance costs as independent variables and tax compliance among Small and Medium Enterprises in Uganda as the dependent variable. The theory of reasoned action by Martin Fishbein and Jacek Ajzen in 1975 was used in this study.

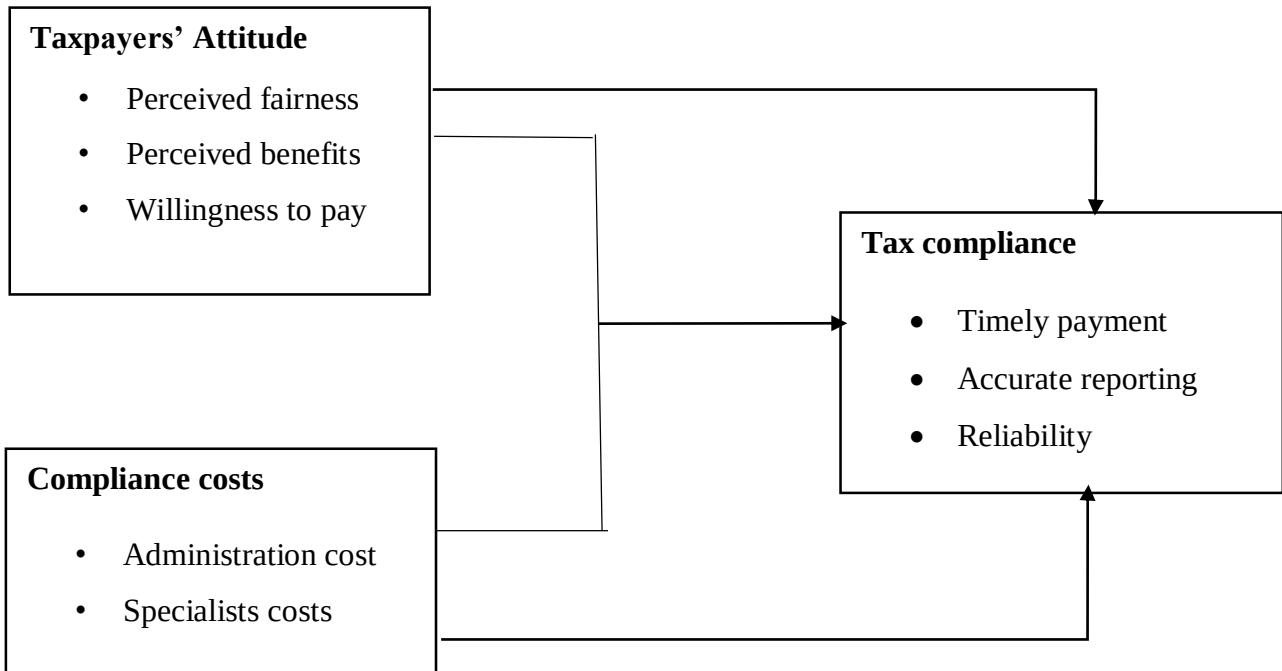
Geographical scope

The study was carried out in Kampala. The reason for choosing Kampala was because according to Uganda manufacturers association 2021, Kampala had the biggest number of SMEs in Uganda. This provided the researcher with a good population to draw the sample size.

Time Scope

The study was conducted for a period of January 2023 to October 2023.

1.7 The conceptual Framework



Sadness et al., 2019; Musimenta et al., 2020; Lestari and wanono 2017; Hansford and Hasseldine, 2012; Alabede et al., 2011; Ojochogwu, 2012, Braithwaite, 2009; Kirchler, 2007)

This conceptual framework was adopted and modified from the works of (Musimenta et al., 2019; Sadness et al., 2019; Musimenta et al., 2020; Lestari and wanono 2017; Hansford and Hasseldine, 2012; Alabede et al., 2011; Ojochogwu, 2012, Braithwaite, 2009; Kirchler, 2007)

The conceptual framework above shows the hypothesised relationships between tax payers' attitude and compliance costs. From literature, it is thought that the tax compliance may be influenced by tax payers' attitude and compliance costs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section covers the theoretical framework, the views and perspectives of different scholars on the subject variables as well as on the interrelationships among them as per the laid-out objectives.

2.1 Theoretical Background

This study employs the theory of reasoned action to explain the contribution of Tax payers' attitude and compliance costs towards the tax system on tax compliance.

Theory of Reasoned Action

Modern compliance theories suggest that a number of factors influence an individual's decision of whether to comply with the law. Traditional economic or deterrence theories assert that the decision to comply depends on a cost-benefit or expected-utility analysis. Compliance under that model largely depends on the existing penalties for noncompliance and a person's perceived likelihood of that malfeasance being discovered. Other models rely on psychological or sociological factors that impact compliance, like social norms or perceptions of equity. Behavioral sciences question the assumption of rationality that has underscored much of our understanding of the deterrence model, and governments worldwide are evaluating how behavioral factors influence citizen behavior as well. The study employs the social-psychology Models which expounds on the theory of reasoned action.

The theory of reasoned action is concerned with behavior intentions of different individuals basing on personal and social factors (McKerracher and Evans, 2019). Behavioral performance in the theory is predicted from people's intentions which latter influences behavior. According to Hanno & Violette 2019, an individual will behave a certain way depending on various determinants of behavior, such as attitude and subjective norms. According to the theory of reasoned action, attitudes are believed to have a direct effect on behavioural intention (Machogu and Amayi, 2013). This study

therefore adopts attitude as one of the predictors of tax compliance. The researcher assumes that an individual is most likely to comply with tax requirements if he perceives the tax system to be fair and expects benefits. A study by Loo et al 2017 also reported that attitudes towards tax system positively influenced compliance behaviour. They hypothesized that a positive attitude towards the tax system would encourage taxpayers to comply. Thus, it was anticipated that taxpayers with favourable perceptions of the tax system were more likely to have positive attitudes towards the tax system and consequently encourage them to comply. According to Mugume (2019), attitudes relate to one's own personal views about behaviour. Attitudes are generally assumed to influence compliance behaviour because they represent taxpayer's propensity to respond positively or negatively to a particular situation (Amoh, & Ali-Nakyee, 2019,). The study therefore employs the theory of reasoned action to explain tax compliance basing on the theory's assumption that maintains that volition and intention predict behavior.

2.2 Tax Compliance

Tax compliance has been defined in its simple form to mean the degree to which taxpayers comply with the tax law. Niemirowski & Wearing (2016) defined tax compliance as filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed including the provision of required documents and explanations required by the tax authority promptly (Oyedele 2009). According to (Boll, 2014) tax Compliance entails timely filing of tax returns by declaring all incomes accurately and paying the exact tax liability.

For this study Tax compliance is defined to mean Timely payment, accurate reporting and reliability. Timely payment involves assessment of taxes to be paid for a specific period and payment of the taxes to tax authorities at the required time. Accurate reporting involves proper book keeping and reporting accurate information for each entity. Reliability refers to the capability of the taxing authorities to deliver excellent service to taxpayers dependably and accurately.

Tax compliance has remained a major concern across the globe because of a short fall in revenue collection. This later affects the governments' ability to provide services like social facilities to the citizens (Makula, 2020)

Extant studies have attributed Tax compliance to factors such as attitude, (Alm et al., 2006), isomorphic forces (Musimenta et al., 2017), governmental effectiveness (Nkundabanyanga et al., 2017), religiosity (Mohdali and Pope, 2014) and compliance costs (Newman et al., 2018). Section 118A of the Income Tax Act 1997, Cap 340 and Domestic Tax Laws (2015) of Uganda stipulates that a person or a company is deemed to have complied if he/it is registered with URA, has submitted all returns for the company, has fully settled all the taxes, has fully complied with the obligation to withhold tax under the Act, has entered and honors an arrangement to pay any URA arrears of tax due and has complied with any notice or any requirements to provide information under the Act. However, drawing from the theory of reasoned action as suggested by Siamena and Sabijono (2017), one's choice to pay tax depends on the morale he or she has.

2.3 Taxpayers Attitude

According to Ajezen's (1991), attitudes relates to one's own personal views about behaviour. Attitudes are generally assumed to influence compliance behaviour because they represent taxpayer's propensity to respond positively or negatively to a particular situation (Eagly & Chaiken, 1993; Ajzen, 1993). The attitudes are important for both the power and the trust dimension. On the one hand, favourable attitudes will contribute to trust in authorities and so will enhance voluntary tax compliance. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as generous or malevolent.

There is a manifold of ways to operationalize and measure attitudes towards taxation starting from general judgments of the government and state (Schmölders, 1960), subjective assessments of tax evasion (Porcano, 2010), ending with moral attitudes towards tax evasion (Orviska & Hudson, 2012).

Several empirical studies show a statistically significant link between attitudes and self-reported behaviour (Chan et al., 2010; Trivedi et al., 2014; Akol, 2019). Nevertheless, because the link is weak in most of the studies, i.e., attitudes cannot be fully perceived as a convincing proxy for behaviour, results have to be cautiously interpreted (Mayega et al., 2019; Waiswa et al., 2020).

Perceived fairness of tax system that citizens most often communicate is referring to tax system fairness concerns (Rawlings, 2013; Taylor, 2013). On a personal level, taxpayers are concerned about the fairness of their outcomes, and they want to be treated relative to their merits, efforts, and needs. If an individual's tax burden is heavier than that of comparable other people, tax compliance is likely to decrease. Other social and psychological studies have found that the fairness and equity of a tax system also impact upon compliance levels (Akol, 2019). In particular, the notion of "exchange equity" (where taxpayers believe they are not receiving the benefits from the government in exchange for taxes paid) can affect compliance.

2.4 Compliance Costs

Compliance costs refer to a compliance burden of an individual or a firm to act as expected by tax Authorities (Marcuss et al., 2023). Faiday et al., (2014) conceptualized compliance costs as commencement, temporary and recurrent costs. According to the authors, commencement costs are those incurred at the introduction or modification of a new tax law, temporary costs incurred at the point of learning new laws while recurrent costs are costs incurred continuously while operating tax system. According to Marcuss et al., (2023), compliance costs is a function of resources paid out plus the cost of hiring a tax specialist. Evans, 2008 defined compliance costs to include cost of labour involved in record keeping, fees paid to professional tax advisers, incidental costs such as cost of software. For this study, compliance costs is conceptualized as administration costs and specialist costs. Administration costs involve cost of hiring skilled labour, money spent on acquiring tax software, time spent on filing returns and interpreting complex laws. The specialist costs include fees paid to professional tax advisers to guide, advise and interpret tax laws.

Evans, 2008 argued that these compliance costs are either avoidable or unavoidable where taxpayers will only incur these costs when required to meet specific legal requirements and avoidable where tax payers choose not to incur tax planning costs. However due to the complicated tax systems, tax payers find it difficult to comply with the policies and procedures thus the need to incur compliance costs such as administration costs and specialist costs (Bird and Wallace, 2004). Compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns, and the number of levels of government involved in levying and collecting tax. For example, in most countries, businesses must contend with a VAT system (unless the business falls under a VAT exemption threshold) not faced by an employee. Business income tax also introduces complexities not relevant to an employee that pays tax only on labour income and non-business investment income. Complexities may multiply where more than one level of government is involved in levying and/or administering a tax and rules and procedures are not well coordinated.

Given differences across countries in the number and types of taxes on business, the complexity of the rules, and the levels of government involved, it is not surprising that compliance burden assessment is very much country specific and difficult to compare. Compliance costs are difficult to measure (making difficult a comparison of the total tax burden), but certain comprehensive studies may be found. Past studies of business compliance costs in the U.S. include Blumenthal and Slemrod (1992), Hall (1995), Slemrod (1996), and Slemrod and Venkatesh (2002). Studies by Ariff, Loh and Talib (1994), Ariff, Loh and Ismail (1997) and Chan, Cheung and Ariff (1999) consider business compliance costs in Hong Kong, Malaysia and Singapore. Pope (1995) and Sandford and Hasseldine (1992) study business compliance costs in Australia and New Zealand. As a broad finding, such studies systematically conclude that while total business tax compliance costs tend to be higher for large companies, as a percentage of sales they are significantly higher for SMEs. Another interesting finding is that tax-planning accounts for a larger proportion of total compliance cost for large firms.

2.5 Taxpayers Attitude and Tax Compliance

Compliance with taxation regimes is a matter of both knowing one's obligations and ably meeting them with a positive attitude (Ali, Fjeldstad, & Sjursen, 2014). The attitudes are important for both the power and the trust dimension. On the one hand, favourable attitudes will contribute to trust in authorities and so will enhance voluntary tax compliance (Akol, 2019). On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as generous or malevolent. Attitudes represent the positive and negative evaluations that an individual hold of objects (Mayega et al., 2019). It is assumed that attitudes encourage people to act according to them. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Following factors may influence taxpayers' behaviour on Tax compliance. Attitudes towards tax evasion are often found to be quite positive (IMF, 2019).

The attitude of taxpayers towards tax payment is seen to have an influence on their tax compliance. Fallan (2021) also agree that taxpayer's attitude towards the tax system has an influence on the tendency to either evade or comply with tax payment. Chan et al. (2010) reported that Hong Kong taxpayers have a less favourable attitude towards tax system, and as a result, lower level of compliance. Business owners are often mentioned as a high-risk group in terms of tax compliance because their opportunities to evade are high. Also, it agrees with Oriviska and Hudson (2012) that attitudes to tax evasion are condoned by a large number of people who are particularly benefiting from it. These studies, however, have a contextual gap in that they were conducted in the developed economies it remains to be seen if subjective norms would have the same effect on tax compliance in a developing economy like Uganda where most businesses are informal and they do not pay taxes (Magumba, 2019)

Alma (1992) shows that attitudes can explain taxpayers' prospects of evading taxes or complying with the tax requirements of a given tax. That is to say, an individual taxpayer can use a non-linear transformation of probabilities to overweigh the probabilities of a tax audit which provides for an

obvious deterrence to tax evasion. Similarly, a satisfaction approach of transforming probabilities is that of risk dependent expected utility. This involves the rank-dependent expected utility of a paradoxically comparative statistics of model behaviours with non-model behaviours of tax evasion (Saka, Waiswa & Kangave, 2018).

According to Waiswa, Akol and Isingoma (2020) and Akol (2019), the rate of occurrence of tax evasion is higher in Uganda than in the rest of East Africa. Where the taxpayer has latitude to decide whether or not to be compliant, as in the case of income taxes, Ugandans seem to be less compliant than other East Africans. Uganda collects less in domestic taxes than other countries in the region. They add that very little has been done to build taxpayer morale. IMF (2019) reports that there are widespread concerns over the poor use of tax money, missing or poor government services and some sections of society being shielded from paying their share, because of their connections or roles in government. The URA is also not highly trusted and corruption is still a major problem among tax collectors.

2.6 Compliance Costs and Tax Compliance

An efficient tax has low compliance costs which are the costs borne by tax payers as they try to comply with the tax laws. -Non-tax compliance continues to be a serious challenge for Uganda Revenue Authority, according to Begumisa (2018), the commissioner incharge of internal audit and compliance. “A taxpayer who understands the importance of tax revenue in own state economy does not need stringent policies, regulations and administration, they will be willing to declare and settle their statutory obligations truthfully, *“Taxation of Income & Consumption in Uganda”* (Okuja, Joseph O, 2016).

ADB (2014) notes that the simplicity criterion of the tax policy of a country means that tax rules should be understandable, accessible, and not complicated. The tax system should be understandable to the people to whom it applies. The application of the tax system to particular transactions should

be determinable, predictable, and reasonably certain. Complying with the tax system shouldn't be laborious and finally the tax system should offer minimal opportunity for noncompliance (Waiswa et al., 2018).

While the compliance tax burden facing an SME is case specific and thus difficult to measure, a broad conclusion to be drawn is that the burden is high relative to large companies and relative to the tax compliance burden for payroll employees. This suggests that if the statutory tax burden on a given amount of labour and capital income is roughly the same for an employee as for a self-employed individual, then the higher compliance burden for the latter would mean that the tax system is non-neutral, tending to discourage SME creation.

A study conducted by Faiday (2022) on tax compliance of SMEs in Bangladesh found out that compliance costs are positively related with tax compliance. Results indicated that compliance costs are higher in manufacturing sector than for other sectors. According to the authors, compliance costs greatly arise from hiring external accountants and bribery given to officials to avoid termination which in the end affects compliance. Similarly, Munsimenta et al, (2020) results revealed a positive link between compliance costs and tax compliance of financial services firms in Uganda. The authors debate that for taxpayers to remain tax compliant, they will incur administrative costs and specialist costs in order to be guided on how much taxes to pay. However, the study was limited to financial services firms in Uganda.

By reducing tax compliance costs and thereby lowering the overall tax burden on small businesses, simplification provisions help achieve more neutral tax treatment of firms of varying sizes, implying efficiency gains, and encourage compliance with (adherence to) the tax laws of a country, including operating in the „formal“ rather than informal (underground) economy, and full reporting of all amounts required to determine the true tax base (Waiswa et al., 2020). Based on the above discussion, it is expected that compliance costs have a strong positive relationship with tax compliance.

2.7 The effect of Taxpayers' attitude and compliance costs on Tax compliance

The growing body of literature on tax compliance (for extensive reviews see Braithwaite, 2009; Kirchler, 2007) shows that both economic and psychological variables need to be considered to understand compliance. These include taxpayer attitudes and compliance costs. In an effort to increase its domestic revenue, Uganda is currently focusing on making further improvements in tax administration, building a culture of tax compliance and mitigating costs of compliance and public attitudes through improved service delivery than making tax rates adjustments (Magumba, 2019; Ladu, 2021). Uganda Revenue Authority (URA) has put in place tax compliance enhancement programs for the presumptive taxpayers, which include; holding tax seminars, the annual Tax Appreciation Week, simplifying processes (e.g. the removal of tax returns for small business taxpayers), re-engineering to a client-based approach to taxation, publishing tax information online and in print, automating services, rewarding exemplary taxpayers and penalizing non-compliance. These have all been aimed at improving presumptive tax compliance (URA, 2018).

The factors that cause non-compliance behaviour among the SMEs like high costs and attitude are modifiable factors, and taxpayer education is expected to change this behaviour (Denis & Mehila, 2002). It has the significant positive impact on the behavioral change of an individual (Waiswa et al., 2020).

Scholars have examined the factors affecting Tax compliance to include attitude, (Alm et al., 2006), isomorphic forces (Musimenta et al., 2019), governmental effectiveness (Nkundabanyanga et al., 2017), religiosity (Mohdali and Pope, 2014) and compliance costs (Faiday et al., 2014; Muzainah et al., 2004; McKerchar, 2003). According to Helhel and Ahmed (2020) survey carried out in Yemen among tax payers showed that the most important factors affecting tax compliance are negative attitude towards tax system where taxpayers perceive the tax system to be unfair and considering high tax rates. Torgler (2021), further affirms that one of the external factors affecting tax compliance is

the tax payer' perception of how he is treated by government in areas, such as payment of taxes, return of public services, responsibility of state decisions. Other studies have examined tax compliance using cost of compliance (Faiday et al., 2014; McKerchar, 2003 and Musimenta 2020). A study by Omondi (2019), revealed that cost of compliance has a significant effect on the level of tax compliance. Net compliance costs are defined as the difference between gross compliance costs less the compliance benefits. Thus, where Tax payers perceive greater compliance benefits compared to gross compliance costs, increases compliance of taxpayers. (Omondi, 2019). Therefore, where tax payers have positive attitudes towards the tax system with low compliance costs it increases tax compliance

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter addresses how the study was undertaken. It highlights the study design, population, sample size, sampling procedure, data collection instruments, measurement of the variables, ethical considerations, reliability and validity, units of inquiry and analysis, as well as the data collection sources and activities.

3.1 Research design

The study used a cross sectional and quantitative research design, which involves analyzing of data collected at a specific point in time. This research design was chosen because it allows the researcher to collect data at a specific point of time. The researcher adopted a cross section research design because it is quick to conduct and enables data on all variables to be collected at once, thus, allowing the researcher to measure prevalence of all variables under investigation on spot (Sedgwick, 2019). Scarte (2018) indicated that quantitative research is preferred because it allows a broader study which involves a greater number of subjects. This can also provide summaries of data that can be used to generalize phenomenon under the study.

3.2 Study Population

The population of this study was 7,526 small and medium taxpayers in Kampala from the wholesale and retail whose list was obtained from the domestic taxes department of the Uganda Revenue Authority. Small and medium taxpayers considered in this study are those earning a turnover between 10 Million UGX and 100 Million UGX specifically in the wholesale and retail. Focus was on only those businesses in the retail and whole sale since according to URA (2021), they are the largest subsector in terms of revenue collection targets.

3.3 Sampling Design

According to Krejcie and Morgan Table of 1970 for sample size determination, from a population of 7,526, a sample size of 364 SMEs were selected. This study used simple random sampling without replacement since only those businesses in wholesale and retail were selected for this study. Simple random technique was used in order to give every member of the population an equal chance of being included in the sample and avoid bias. Given that the list of small and medium tax payers was obtained, it was easy to reach out to those sampled taxpayers. The unit of inquiry was any person responsible for handling the financial matters of an SME. This is because, these people are involved in the daily activities, they are responsible for providing accounting and tax services and are competent about tax matters in the entity. The study only chose one respondent from each entity. The researcher used purposive sampling to choose the unit of inquiry since there may not be a specific title for those individuals handling the finances of the SMEs

3.4 Measures of the study

Research variable	Dimensions	Source literature
Tax compliance	● Timely payment ● Accurate reporting ● Reliability	- Musimenta et al (2019)
Compliance costs	● Administrative costs ● Specialist costs	- Sadress et al (2019)
Tax payers' attitude towards the tax system	● Perceived fairness ● Perceived benefits ● Willingness to pay	- Lestari and Wanono (2017)

3.5 Data Collection instrument

Primary data was obtained through the use of a questionnaire to the respondents following systematic procedures. The questionnaires were used for the collection of data from respondents. The questionnaire instrument was used because it is quick to administer, can easily be filled by the

respondents, convenience and above all, it is cost effective and can be used to collect data from a wider number of respondents. The questionnaire consisted of closed ended questions.

The questionnaires were distributed by the researcher. All variables were measured using a five-point Likert scale, responses ranging from strongly disagree (1) to strongly agree (5).

3.6 Reliability

Sekaran (2003) indicated that reliability measures the consistence of the instrument used to collect data. If the findings from the research are replicated consistently, they are reliable. In this study, reliability was assessed using Cronbach's Alpha values.

According to Elgon (2012), Cronbach's alpha values of 0.7 and above depict acceptable levels of reliability of the measures of the research variables. Reliability results are shown below in table 1.

Table 1

Reliability Results

Variable	No of Items	Cronbach's Alpha
Taxpayer Attitudes	17	.892
Compliance Costs	16	.888
Tax Compliance	20	.920

Source: primary data

3.7 Validity

Validity looks at the extent to which the scores from a measure represent the variables that they are intended to. The questionnaire was presented to 3 professional experts to also check how valid the instrument is before rolled out for data collection. Variables were considered valid if the respective CVI is greater than 0.65 (Kothari, 2020). In this study, the researcher considered factors with Eigen values above 1 and item loading above 0.5 to be converging in explaining the dimension of a variable used in the study. The results for CVI are shown in table 2 below:

Table 2:

Content Validity Index (CVI Results)

Expert	CVI Score
Expert 1	0.704
Expert 2	0.811
Expert 3	0.857

Source: primary data

As seen in the table above, the results for CVI were above 0.5 which indicates validity of items in the questionnaire.

3.8 Data processing and Analysis

Statistical treatment of captured primary data involved sorting, editing, coding and accurate entry using Statistical Package for Social Scientist (SPSS) Version 22.0, and then a descriptive and inferential analysis of measurable relationships between study variables. Descriptive statistics were summarized in categorical frequency tables. Following the study objectives, Pearson's correlation and hierarchical regression analysis were used for associations and predictor contributions respectively.

3.9 Ethical Considerations

The researcher got an introductory letter from MUBS which was presented to the management and respondents in different organizations where data was collected. The researcher sought for permission from the administrators in charge before the questionnaires were administered. The respondents were assured of anonymity. The questionnaires were structured in a way that they do not disclose neither the company's name nor the respondent's name. This ensured anonymity. When the questionnaires were returned, data was extracted from them and are now kept in a closed drawer for two years and then will be destroyed after. This will ensure confidentiality.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains presentation, interpretation and analysis of the findings of the study following the study objectives. The presentation in this chapter shows the findings according to the objectives of the study which were:

- (i) To examine the relationship between Tax payers' attitude towards the tax system and tax compliance of tax payers.
- (ii) To examine the relationship between compliance costs and tax compliance of tax payers.
- (iii) To examine the combined effect of Tax payers' attitude and compliance costs towards the tax system on tax compliance among Small and Medium Enterprises in Uganda.

4.1 Response Rate

Not all the targeted respondents provided information. Out of 364, only 236 responded. This represents a response rate of 64.5 percent. Sejjaaka, (2010) indicated that 60 percent response rate obtained is considered sufficient for the study to be undertaken.

4.2 Demographic Characteristics of the Respondents

The study also sought information on the respondents regarding the gender, age, marital status and how long they have worked in the respective SMEs. Results are in table 3 below:

Table 3***Characteristics of respondents***

Parameter	Frequency	%
Sex of the respondents		
Male	134	56.8
Female	102	43.2
Total	236	100.0
Age of the Respondents		
less than 35 years	23	9.7
36-45 years	85	36.0
46-55 years	89	37.7
56 years and above	39	16.5
Total	236	100.0
Education Qualifications		
Ordinary Level	33	14.0
Advanced Level	48	20.3
Diploma	132	55.9
Bachelor's Degree	21	8.9
Master's Degree	2	.8
Total	236	100.0
Years spent at the company		
5 years or less	88	37.3
6-10 years	19	8.1
11 to 15 years	79	33.5
More than 15 years	50	21.2
Total	236	100.0

Source: primary data

Sex of the Respondents. The distribution of sex among the respondents is 56.8% male and 43.2% female. This suggests a broad representation of both genders in the sample. Such a balance is significant in capturing diverse perspectives. Studies have shown that gender can influence tax compliance behavior. For instance, Richardson et al, (2017) indicated in their study that women are generally more compliant than men due to differing risk aversions. The almost even distribution ensures that the study isn't overly biased towards one gender's viewpoint or behavior in relation to taxation.

Age of the Respondents. Most of the respondents (73.7%) are aged between 36 and 55 years, signifying that the majority of the sample consists of middle-aged business operators. Younger businesspersons (less than 35 years) only constitute 9.7%. Age can be a determinant in one's attitude towards taxes as it might correlate with business experience and financial maturity. Older entrepreneurs might have a different perspective on tax compliance due to longer exposure to the tax system. Alm and Torgler (2006) have found that tax morale tends to increase with age, making this distribution crucial in understanding compliance motivation.

Education Qualifications. The majority (55.9%) of the respondents have a diploma, indicating a higher level of formal education but not necessarily at the university degree level. Those with only O-Level and A-Level qualifications make up 34.3% combined, while those with degrees are a minority. Educational attainment can influence the understanding and perceptions of tax regulations and compliance.

Years spent at the company. 37.3% of the respondents have been with their company for 5 years or less, while 33.5% have been there between 11 to 15 years. It implies a mix of relatively new business operators and those who have established themselves over a decade. The time spent in a company can influence perceptions of tax compliance, with more established entrepreneurs possibly having more experience with the tax system. It can also be a proxy for the firm's stability. Onaiwu and Eiya (2020) noted that businesses' duration can influence tax compliance, with more established businesses likely having developed routines and understanding around tax compliance.

4.3 Pearson's Correlation Results

The first two objectives of the study concerned relationships between the variables as well as their indicators. In order to achieve this, the Pearson (r) correlation coefficient was computed given the interval nature of the data and the need to test the direction and strength of this relationship. The Pearson Correlation Coefficients for the variables under study are shown in **Table 4** below.

Table 4 Pearson's Correlation Coefficient

Variable/Indicator	1	2	3	4	5	6	7	8	9	10	11
1. Perceived fairness	1										
2. Perceived Benefits	.718**	1									
3. Willingness to pay	.624**	.654**	1								
4. Tax payers' attitude	.888**	.894*	.863**	1							
5. Taxpayer administration cost	.762**	.653**	.638**	.777**	1						
6. Special Cost	.590**	.629**	.651**	.707**	.731**	.1					
7. Compliance cost	.720**	.688**	.693**	.795**	.921**	.939**	1				
8. Timely Payments	.737**	.691**	.676**	.759**	.656**	.607**	.601**	1			
9. Accurate Reporting	.491**	.437**	.544**	.563**	.495**	.500**	.513**	.621**	1		
10. Reliability	.478**	.439**	.548**	.521**	.513**	.610**	.429**	.641**	.593**	1	
11. Tax compliance	.685**	.616**	.692**	.755**	-.700**	-.675**	-.738**	-.740**	-.848**	-.896**	1

**** Correlations significant at the 0.01-level Source: Primary data**

4.4 Relationship between Taxpayers' attitude towards the tax system and tax compliance of taxpayers

Pursuant to the first objective of this study, the results in the table 4 show that there is a strong, positive association between tax payers' attitude towards the tax system and tax compliance of tax payers ($r = .755$, $p < .01$). These results imply that with better taxpayers' attitude then there would be better tax compliance levels among the SMEs. The results also indicate that all the measures of taxpayers' attitude towards the tax system of perceived fairness, perceived benefits and willingness to pay have a strong and positive association with tax compliance with a correlation coefficient of .685, .616 and .692 respectively.

4.5 Relationship between compliance costs and tax compliance of tax payers

Pursuant to the second objective of this study, the results in the table 4 show that there is a strong, negative association between compliance costs and tax compliance of taxpayers ($r = -.738$, $p < .01$). These results imply that with lower compliance costs there would be better tax compliance levels among the SMEs. Inversely with high compliance costs there would be low compliance. The results also indicated that the constructs of compliance cost like tax payer administration costs and specialists costs have a strong negative association with tax compliance with the correlation coefficients of $-.700$ and $-.675$ respectively. This implies that as administration costs and specialists' costs increase, tax compliance reduces. This might be because of the many expenses that leave SME with nothing to pay in terms of taxes.

4.6 Regression Results

Pursuant to the third objective and in order to ascertain the predictive effect of the independent variables on the dependent variable, a regression model was run. The results are shown in table 5:

Table 5***Regression Coefficients***

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.418	.180		2.327	.021		
	Tax Payers Attitude towards the tax system	.506	.073	.457	6.884	.000	.368	2.717
	Compliance Costs	.400	.071	.374	5.634	.000	.368	2.717

a. Dependent Variable: Tax Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788	.621	.618	.45138

a. Predictors: (Constant), Compliance Costs, Taxpayers' Attitude

The results in table 5 show that both taxpayers' attitudes and compliance costs predict 61.8 percent of the variance in tax compliance among SMEs (Adjusted R Square = .618). This implies that the remaining 38.2 percent is explained by factors other than the two independent variables.

More to that, the results show that taxpayers' attitude ($\beta=.457$, $p<.05$) is a significant predictor of tax compliance and so are compliance costs ($\beta=.374$, $p<.05$). This implies that as regards tax compliance, both independent variables have significant influence though that of taxpayers' attitude is higher. This also implies that taxpayers' attitude towards the tax system is a better predictor of tax compliance with a beta value of 0.457 compared to compliance costs with a beta value of 0.374

The negative correlation indicates that as compliance costs increase, tax compliance decreases among SMEs. This relationship is intuitive in that higher costs make it more burdensome for SMEs to comply, thus reducing their compliance levels. Conversely, the positive regression coefficients suggest that when both taxpayers' attitudes towards the tax system and compliance costs are taken into account together, they collectively predict higher tax compliance. This apparent contradiction arises because the regression model controls multiple variables simultaneously, highlighting that while higher compliance costs individually reduce compliance, their combined impact with positive taxpayer attitudes can still result in overall improved compliance levels. This suggests that improving attitudes towards the tax system can mitigate the negative effects of high compliance costs.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses findings conclusions and recommendations. It has five sections. Section one deals with discussion \of the findings. The second section is the conclusions while the third section presents recommendations. Section four is limitations to the study and section five covers areas for further research.

5.1 Discussion of Findings

This section discusses the findings according to the study objectives as laid out in the first chapter of this dissertation. The researcher lays out the findings and finds support or contradiction among the scholars, if any.

Relationship between Taxpayers' attitude towards the tax system and tax compliance of tax payers

The findings of this study reveal a robust and positive linkage between SME taxpayers' attitude toward the tax system and their willingness to comply with tax obligations. In lay terms, the more positively these business owners view the tax system, the greater their commitment to fulfilling tax requirements. This is particularly noteworthy for policymakers and tax authorities, as it suggests that shaping favorable attitudes could be a strategic lever to enhance tax compliance within this economic sector.

The findings dovetail well with extant research. Ali, Fjeldstad, and Sjursen (2014) underscore that having the knowledge and a positive disposition toward taxation is key to compliance. Akol (2019) extends this argument by highlighting that such attitudes can foster trust in authorities, thus encouraging voluntary compliance. However, it's worth noting that these studies largely emanate from developed economies. The work fills an essential gap by investigating this relationship in the developing economy of Uganda, where business

informality and tax evasion are more prevalent (Magumba, 2019). This study's context thus adds a layer of complexity and contributes to the broader understanding of tax compliance in varied economic landscapes.

The Theory of Reasoned Action posits that human actions are driven by behavioral intentions which are, in turn, influenced by attitudes toward the behavior and subjective norms. The findings can be well-anchored within this theoretical framework. SME owners with positive attitudes toward the tax system are more likely to intend to comply, which translates into actual compliance. This connection between attitude and behavior is precisely what the Theory of Reasoned Action would predict.

Consideration must also be given to unique national factors that may influence attitudes and compliance. Waiswa, Akol, and Isingoma (2020) indicate a lower rate of compliance in Uganda compared to other East African nations, due in part to a lack of trust in how tax revenues are utilized and concerns about corruption within tax collecting bodies. This underlines the fact that while a positive attitude toward the tax system can promote compliance, such attitudes are likely formed or affected by broader systemic and governance issues. Therefore, understanding tax compliance in Uganda might require a multi-dimensional approach that accounts for both individual attitudes and wider socio-political factors.

Relationship between compliance costs and tax compliance of tax payers

The second objective of this study focused on understanding the relationship between compliance costs and tax compliance among SMEs. The study revealed a strong, negative correlation between these variables, suggesting that higher compliance costs are associated with lower levels of tax compliance among SMEs in Uganda. The findings provide a nuanced insight. while high compliance costs are often considered an inevitable part of maintaining tax compliance, they may actually act as a barrier, particularly for SMEs.

Interestingly, these results diverge from some existing literature, such as the study by Faiday et al. (2014) on SMEs in Bangladesh and the work by Munsimenta et al. (2020) on financial services firms in Uganda. These studies found a positive correlation between compliance costs and tax compliance, arguing that higher costs, such as hiring accountants or paying for legal advice, might be indicative of a firm's commitment to comply with tax laws. However, it's worth mentioning that the context and sectors focused on in these studies differ from the current study.

The Theory of Reasoned Action could offer an explanation for these divergent results. According to this theory, behavioral intentions (in this case, the intention to comply with tax regulations) are influenced by attitudes toward the behavior and the subjective norms surrounding it. When compliance costs are high, the negative attitude generated could outweigh any perceived societal or moral obligations to comply with tax laws, thereby leading to non-compliance.

Moreover, the existing literature does agree on one point: the complexity and burden of compliance can be significant for SMEs, more so than for large corporations or salaried employees (ADB, 2014; Waiswa et al., 2020). This supports the notion that high compliance costs could discourage tax compliance among SMEs, making the tax system non-neutral and potentially hindering the creation and growth of small businesses.

Furthermore, studies like those by Newman et al (2016) emphasized that an efficient tax system would not require stringent policies if taxpayers understand the importance of tax revenue. High compliance costs could undermine this understanding by fostering resentment or confusion, further reducing the willingness to comply. Therefore, this study adds a critical piece to the puzzle: to improve tax compliance rates, especially in contexts like Uganda, we

may need to focus as much on reducing compliance costs as we do on changing attitudes or increasing understanding of the tax system.

The effect of Taxpayers' attitude and compliance costs towards tax compliance

The findings of the third objective of this study suggest that both taxpayer attitudes and compliance costs substantially contribute to predicting tax compliance among SMEs, accounting for 61.8% of the variance. This means that a notable portion of tax compliance can be explained by these two factors, although taxpayer attitudes have a slightly higher impact. The remaining 38.2% is influenced by other variables not covered in this study.

These results align well with the Theory of Reasoned Action, which posits that attitudes (along with subjective norms) significantly influence behavioral intentions, which in this case is tax compliance. If SMEs have a favorable view of the tax system and perceive the compliance costs to be manageable, they are more likely to willingly comply with tax regulations. Our findings validate this theory, illustrating that both economic (compliance costs) and psychological (taxpayer attitudes) factors play a significant role in the behavior of tax compliance.

The existing body of literature offers a somewhat mixed view but generally supports the direction of our findings. According to studies like those by Magumba (2019) and Ladu (2018), Uganda has been attempting to improve public attitudes and reduce compliance costs to enhance tax revenue. These efforts are congruent with our findings that both factors are essential for higher tax compliance. Scholars like Alm et al. (2006), Helhel and Ahmed (2020), and Torgler (2004) have emphasized the impact of attitudes on tax compliance. They found that negative attitudes towards the tax system, often related to perceived unfairness or high tax rates, act as deterrents to compliance.

Contrastingly, Faiday et al. (2014) and Musimenta et al. (2020) have found a positive relationship between compliance costs and tax compliance, which appears to contradict our study. However, it's worth noting that these studies were sector-specific, and Musimenta et al.'s was even limited to financial firms in Uganda. Omondi (2019) interestingly observed that when taxpayers see greater benefits from compliance compared to the costs, their compliance level increases, which somewhat aligns with our findings.

Overall, our results corroborate the larger body of work suggesting that a multi-pronged approach, considering both economic and psychological variables, is necessary for understanding and improving tax compliance. This is especially crucial in a context like Uganda, where efforts are already underway to modify both compliance costs and public attitudes to boost tax compliance among SMEs.

5.2 Conclusions

Having undertaken this study to establish the relationship between Tax payers' attitude towards the tax system, compliance costs and tax compliance among Small and Medium Enterprises in Uganda, here are the conclusions based on the findings.

The objective of understanding the relationship between taxpayers' attitudes towards the tax system and tax compliance among Small and Medium Enterprises (SMEs) in Uganda has yielded insightful findings. The study demonstrated a strong, positive correlation between the two variables, emphasizing that favorable attitudes towards taxation are likely to lead to increased tax compliance among SMEs. These findings not only resonate with existing literature from developed economies but also fill a critical research gap by exploring this dynamic in a developing country context. The incorporation of the Theory of Reasoned Action further buttresses the argument that attitudes significantly influence behavioral intentions and, subsequent actions in this case, tax compliance. However, it is crucial to note that while shaping

attitudes is a powerful lever, it isn't a silver bullet; systemic issues, including corruption and the lack of trust in tax authorities, are equally potent factors influencing compliance behavior among SMEs in Uganda.

The second objective of the study revealed a strong, negative relationship between compliance costs and tax compliance among SMEs. This finding implies that as compliance costs rise, the level of tax compliance tends to decrease. Although some scholarly work, such as studies by Faiday et al. (2014) and Munsimenta et al. (2020), indicates a positive relationship between these variables, our study counters this view. The inconsistency may stem from different sectors or environments analyzed, as most previous studies focused exclusively on the financial sector. Our results align with the Theory of Reasoned Action by suggesting that high compliance costs lead to negative attitudes, thereby deterring tax compliance among SMEs.

The third objective aimed to understand the combined effect of taxpayers' attitudes and compliance costs on tax compliance among SMEs. The findings reveal that both variables significantly predict tax compliance, explaining 61.8% of the variance. While this is a substantial percentage, it's also worth noting that nearly 38.2% of the variance is influenced by other unidentified factors. Importantly, taxpayers' attitudes have a slightly more influential role in determining tax compliance levels compared to compliance costs, as indicated by the beta coefficients. The results underscore the complex interplay between psychological (attitudes) and economic (compliance costs) variables in tax compliance behavior among SMEs. These findings are consistent with the existing literature, which argues that both economic and psychological variables are crucial for understanding tax compliance.

5.3 Recommendations

Arising from the significant findings, discussions and conclusions of the study, the following recommendations are considered appropriate:

Public Awareness and Education Campaigns: Tax authorities should consider launching comprehensive public awareness and educational campaigns specifically targeted at SMEs. These should aim to educate business owners about their tax obligations and the societal benefits of tax compliance, thereby positively influencing their attitudes towards the tax system.

Transparency and Accountability Measures: Given the prevalent corruption within tax collecting bodies, Uganda Revenue Authority should take immediate steps to enhance transparency and accountability. This could include publishing straightforward, regular reports on tax collection and allocation, thus helping to build taxpayer trust and, consequently, improve compliance rates.

Streamline Tax Compliance Procedures: Given the negative impact of high compliance costs on tax compliance, there's a critical need for making the tax system simple in terms of return filing, payment registration and TIN registration. Processes that require multiple forms, verifications, or are time-consuming should be streamlined. A simplified process would encourage more SMEs to comply, as the cost both in terms of time and financial resources would be reduced.

Implement a Tiered Compliance System for SMEs: Considering that SMEs are more sensitive to compliance costs, introducing a compliance system based on the size and turnover of the business could be beneficial. Smaller businesses with lower turnovers could be subjected to less stringent compliance requirements, which would lower their costs and potentially improve tax compliance.

From all the research findings, the researcher concludes that both taxpayers' attitude towards the tax system and compliance costs are key in determining the level of tax compliance in

5.4 Areas for further study

As is evident from the methodology section of the dissertation, this researcher used a cross sectional research design approach, and the major limitation here is that the behaviors of the variables were only looked at for a certain point in time. Future studies should also consider using longitudinal designs to compare and contrast with the findings of this study.

The researcher recommends that future studies should consider other independent variables that were not included in this study that might affect tax compliance among Small and Medium Enterprises in Uganda. This is because the findings (from the regression analysis) show that the independent variables do not fully explain the level of tax compliance among Small and Medium Enterprises in Uganda hence there are other factors.

It is also recommended that further research should be conducted in different contexts like government agencies, hospitals or even in the private sector in order to ascertain whether the variables will give us the same results in different settings.

Given that nearly 38.2% of the variance in tax compliance is unexplained by taxpayers' attitudes and compliance costs, it might be beneficial for future research to explore other potential factors. These could include the role of governmental effectiveness, the impact of religious beliefs on tax compliance, or even societal norms and values that are not yet captured by existing models. Such an integrated approach could offer a more comprehensive understanding of tax compliance among SMEs and could be invaluable in informing tax policy and administration.

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Appendix 1: Questionnaire on Tax compliance

Makerere University Business School

Dear respondent,

I am **Olinga Peter**, a student at Makerere University Business School pursuing a Master of Science in Accounting & Finance. I am carrying out research on “**TAX PAYERS’ ATTITUDE TOWARDS THE TAX SYSTEM, COMPLIANCE COSTS AND TAX COMPLIANCE IN UGANDA: A CASE OF SMALL AND MEDIUM ENTERPRISES IN KAMPALA.**” This study is entirely for academic purposes and the information supplied in it will be treated confidential. This is therefore to request you to complete this questionnaire. In case of any inquiries, kindly contact me on 0774308650/0772141217

PART I SECTION A:

PROFILE OF RESPONDENTS

1. Gender:

Male ☐ Female ☐

3. Number of Years at the company

1 to 5 years ☐ 5 to 10 years ☐ 10 to 15 years ☐ More than 15 years ☐

4. Your age:

Less than 35 years ☐ 36 to 45 years ☐ 46 to 55 years ☐ above 55 years ☐

5. Your level of education

Ordinary level ☐ Advanced Level ☐ Diploma ☐ Undergraduate / bachelors

Degree ☐ Master’s degree ☐ PhD ☐

FIRM PROFILE

6. How long (in years) has the company been in the business?

Less than 5 years ☐ 5-10 years ☐ 10-15 years ☐ 15-above ☐

7. What type of business form do you use to conduct your enterprise?

Sole proprietorship ☐ Partnership ☐ Private Company ☐ others ☐

8. This firm is annually audited by an Independent external auditor; YES ☐ NO ☐

9. Our firm has ever been audited by URA officials; YES ☐ NO ☐

SECTION B: MAIN STUDY VARIABLES

Instruction: Please tick in the box as appropriate, your response

1= strongly Disagree 2= Disagree 3= not sure 4= Agree 5= Strongly Agree

TAX COMPLIANCE

	Timely payments	1	2	3	4	5
1	We pay our taxes on time.					
2	We are penalized when we don't pay on time.					
3	We get rewards for paying on time.					
4	We are always interrupted for not paying on time.					
5	We always have no outstanding debt with URA.					
6	Early tax payment is important.					
7	We struggle to pay on time.					
	Accurate reporting	1	2	3	4	5
1	We can afford paying external auditors.					
2	This organisation has competent internal auditors and accountants					
3	Our reports are always free from errors.					
4	We produce reliable information, measurements and statistics in our reports.					
5	Accurate reports enable us to determine the right amount of tax to pay.					

6	Paying the correct amount of tax is our civic duty					
7	We encourage our clients to voluntarily register all their business dealings					
8	We provide accurate reports to URA for assessment of their tax liability					

	Reliability	1	2	3	4	5
1	Government tax systems are reliable.					
2	Tax assessments made by Tax agents are fair to us.					
3	The tax laws and regulations in Uganda are reliable.					
4	The Tax systems are favourable to us.					
5	We are consistent in paying our taxes.					

TAX PAYERS ATTITUDE

	Perceived fairness	1	2	3	4	5
1	We pay the amount of tax like other firms of the same size do.					
2	We pay taxes based on our profits.					
3	There is room for negotiation with tax collecting organisations.					
4	We are treated fairly by tax collecting organisations.					
5	Tax collecting organisations ensure that we don't run out of business.					
6	Tax systems in Uganda are fair to everyone irrespective of the size of the firm.					
	Perceived benefits	1	2	3	4	5
1	Paying taxes prevents business interruptions from revenue bodies.					

2	We believe that tax revenue is spent properly					
3	Paying taxes has improved our company's image.					
4	Tax compliance has given us a competitive advantage over our competitors					
5	We pay taxes to develop our country					
6	This country gives us investment confidence					

	Willingness to pay	1	2	3	4	5
1	This organisation is willing to pay taxes provided we make profits.					
2	We can postpone paying taxes provided we have a more pressing issue.					
3	This organisation is willing to pay a certain amount of tax provided it doesn't exceed a certain limit.					
4	This organisation is willing to pay taxes provided we get an explanation for paying the tax					
5	Tax compliance is seen as a critical area for the success of this firm.					

COMPLIANCE COSTS

	Taxpayer Administration costs	1	2	3	4	5
1	We require Tax agents to carryout tax compliance activities					
2	We incur a high cost to execute our tax obligations administratively.					
3	Administrative costs are incorporated in the total costs that we pay to taxes					
4	We pay highly for tax software					
5	Filing returns is an additional cost to the entity					
6	Tax laws have become more complex					
7	Payment of tax consumes a lot of time in lining up in the bank					
8	Administrative costs burden the organisation.					
9	This organisation can't work without tax agents.					
10	Complicated and time-consuming record keeping system.					
	Specialist costs	1	2	3	4	5
1	We always hire external tax officials to help us compute the taxes to pay					
2	We have to highly hire specialised internal auditors and accountants to help us compute taxes to pay.					
3	The amount of money we pay to the external tax advisors burden us.					
4	Tax Officers require some bribery during their surprise visits or audits					
5	The benefits from using specialists are more than the costs of paying them.					
6	The burden of compliance costs discourages us to fulfil tax obligations					

Thank you for your participation



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Faculty of Graduate Studies & Research

August 15, 2023

TO WHOM IT MAY CONCERN

Dear Sir/Madam

RE: OLINGA PETER

MSC. ACC&FIN.

2019/HD10/30542U

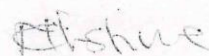
The above named is a student of Makerere University Business School pursuing studies leading to the award of Master of Science in Accounting and Finance of Makerere University.

He has completed the course work component and is currently carrying out research on the topic

"Taxpayers' Attitude Towards the Tax System, Compliance Costs and Tax Compliance among Small and Medium Enterprises in Uganda; A case of Small and Medium Enterprises in Kampala."

Any assistance rendered to him will highly be appreciated.

Yours faithfully



Nanziya Christine
Senior Administrator

15 AUG 2023