

MAKERERE UNIVERSITY

**TAX PAYERS' ATTITUDE, SOCIAL NORMS AND TAX COMPLIANCE
AMONG SMALL & MEDIUM ENTERPRISES IN ARUA DISTRICT**

BY

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PLAN A**

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Declaration

I, Anguzu Moses declare that: this research report is my original work. It has not been submitted to any University, College or School for any award.

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Approval

This Research Report has been under our supervision as University Supervisors. We approve its submission for examination to Makerere University as a partial fulfillment for the requirements of the award of Master of Science in Accounting and Finance of Makerere University.

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Dedication

This report is dedicated to Dr. Katherine Gnauck, Susan Klein, Susan Kelleh, Olua Family and to all those who sacrifice for the livelihood of others.

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List of Acronyms

TRA – Theory of Reasoned Action

TPB – Theory of Planned Behavior

GDP – Gross Domestic Product

PIN – Personal Identification Number

VAT – Value Added Tax

OECD – Organization for Economic Co-operation and Development

SME – Small and Medium Enterprises

SPSS – Statistical Package for Social Science

UIA – Uganda Investment Authority

URA – Uganda Revenue Authority

Abstract

The purpose of the study was to examine the relationship between tax payers' attitude, social norms, taxpayers' intention and tax compliance among SMEs in Uganda. A cross sectional design was used. Data was gathered using a self administered structured questionnaire. Respondents in SMEs from the various areas of Arua District filled the questionnaire. The respondents' were 218 and data was analyzed using SPSS.

The study revealed that tax payers' intention is significantly positively related to tax compliance; there was a significant positive relationship between taxpayers' attitude and taxpayers' intention and also social norms and taxpayers' intention were significantly positively related. The report concludes that taxpayers' intention influences SMEs' behavior to pay taxes. Indeed, intention was the main focus of the present study because previous studies on tax often neglected this variable as an important agent that could influence tax compliance behaviour.

Taxpayers' attitude in terms of behavioral beliefs and outcome evaluations affect the level of Compliance intention of SMEs where by a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Also social norms in terms of normative beliefs and motivation to comply affect the level of compliance intention of SMEs. This implied that if a person believes that the most important referents or individuals to him/her think that the behaviour should be performed, then he/she will perform that behaviour.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Small and Medium enterprises (SMEs) in Uganda are seen as critical for economic growth of the country, contributing about 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega 2007) though several SMEs in developing economies including Uganda, are non-tax compliant (Ahmed & Braithwaite, 2005; James, Barbour & Stern 2007; Ayoki 2007 & Terkper 2003).

Several existing models and economic theories were studied like theory of planned behavior (TPB, Ajzen, 1991) but review reveals that the most appropriate model for developing our understanding and thereby shaping taxpayer behaviour is the Theory of reasoned action (Beck & Ajzen, 1991) which has had minimal attention from tax researchers in Uganda. According to the theory of reasoned action, the most important determinant of a person's behavior is behavior intent. The individual's intention to perform a behavior is a combination of attitude toward performing the behavior and subjective norm. The theory has been used in the field of tax compliance to explain compliance behavior and examine the behavioral beliefs related to compliant reporting (Mollie, 2010).

Major finding of research in Malaysia and Kenya shows that there is a positive behavioral intention of tax non-compliance by sole-proprietors in Malaysia and Kenya (Oh Teik Hai 2011; Marti et al., 2010). The results of the study had shown that attitude and subjective norm had a

positive influence on sole-proprietors behavioral tax-non-compliance intention. There is evidence that norms are influenced by tax regime and responsiveness of government to the wishes of the citizens (Ronald et al, 2005). Findings of many studies suggest that taxpayers' attitudes towards the tax system and the way taxpayers feel treated by a tax authority are important in explaining taxpayer non-compliance Nicoleta Barbutamisu (2011).

Taxpayer compliance has been primarily viewed from three theoretical perspectives: the general deterrence theory, economic deterrence models and fiscal psychology Cuccia, (1994). It can be measured basing on filing of tax returns, payment of taxes due on due dates, accurate determination of tax liability among others (Brown and Mazur, 2003). Existing evidence in URA Arua Branch and Uganda in general indicate that tax compliance was very low at 38% by the end of 2009, yet the tax regime is oriented more towards consumption taxes rather than income taxes as income taxes accounted for only 27% of net revenue collections (URA Annual Performance Report, 2010/2011) and Tax revenue to GDP stagnation at 13% which is lower than URA vision of 24% and the average of 20% for Sub-Saharan Africa, and even way below the 30% average for advance industrial economies (URA corporate plan 2012-2013).

1.2 Statement of the problem

Despite aggressive marketing and economic approaches by URA in print and electronic media to raise revenue for the country following the withdrawal by major donors, the challenge of lack of knowledge on tax Compliance behavior towards compliance is still persistent. This might have played part in the very low level of tax compliance and tax revenue to GDP ratio in comparison with Sub-Saharan Africa and other developing countries (Budget Speech, 2013/2014, URA

corporate plan 2012-2013). Empirical evidence still indicates hostility between taxpayers and tax collectors on issues relating to tax compliance and outward resistance from taxpayers in Uganda is still rampant. This is shown by a list of 315 SMEs tax defaulters who owe URA 30 billion shillings in arrears Nyanzi (2013) and a total collection of only 15% was realized in the financial year 2009/2010 against a target of 1,586,148,950/ UGX tax collection expected from SMEs, thus registering a short fall of 85% (Arua district environment report (2011). Perhaps understanding taxpayers' behavior in terms of relationships between taxpayers' attitude, social norms, tax payers' intention and tax compliance and how it influences them would be a solution to this "jigsaw puzzle" as economic approaches have been widely used in vein. It is against this background that this study intends to investigate whether SMEs tax payers' attitudes and social norms are the major cause of declining tax compliance in Uganda with Arua District as case study.

1.3 Purpose of the study

The study aimed at examining the relationship between tax payers' attitude, social norms and tax compliance among small and medium enterprises in Arua district in Uganda.

1.4 Objectives of the study

- i) To examine the relationship between tax payers' attitude and tax payers' intention.
- ii) To examine the relationship between social norms and tax payers' intention.
- iii) To examine the relationship between tax payers' intention and tax compliance.

1.5 Research questions

- i) What is the relationship between tax payers' attitude and tax payers' intention?
- ii) What is the relationship between social norms and tax payers' intention?
- iii) What is the relationship between tax payers' intention and tax compliance?

1.6 Scope of the study

- **Subject Scope**

The study examined the relationship between tax payers' attitude, social norms, and tax compliance.

- **Geographical scope**

The study was carried out in Arua district among selected SMEs licensed by Arua Hill Division and Uganda Revenue Authority (URA). Arua District was selected because it contains many SMEs and the regional revenue office is located here such that there is no excuse of non-compliance like the distance to the revenue office other than being intentional.

1.7 Significance of the study

- i) The study gives an understanding of taxpayers' behavioral beliefs and outcome evaluation which can be based on for guidance when developing tax policies and strategies that can influence compliance in order to have more revenue collected at less administrative costs;
- ii) The study provide relevant information and knowledge that will help tax administrators, policy makers and collectors identify factors that may affect tax compliance and obtain

knowledge on taxpayers social norms as factors that influence compliance among SMEs.

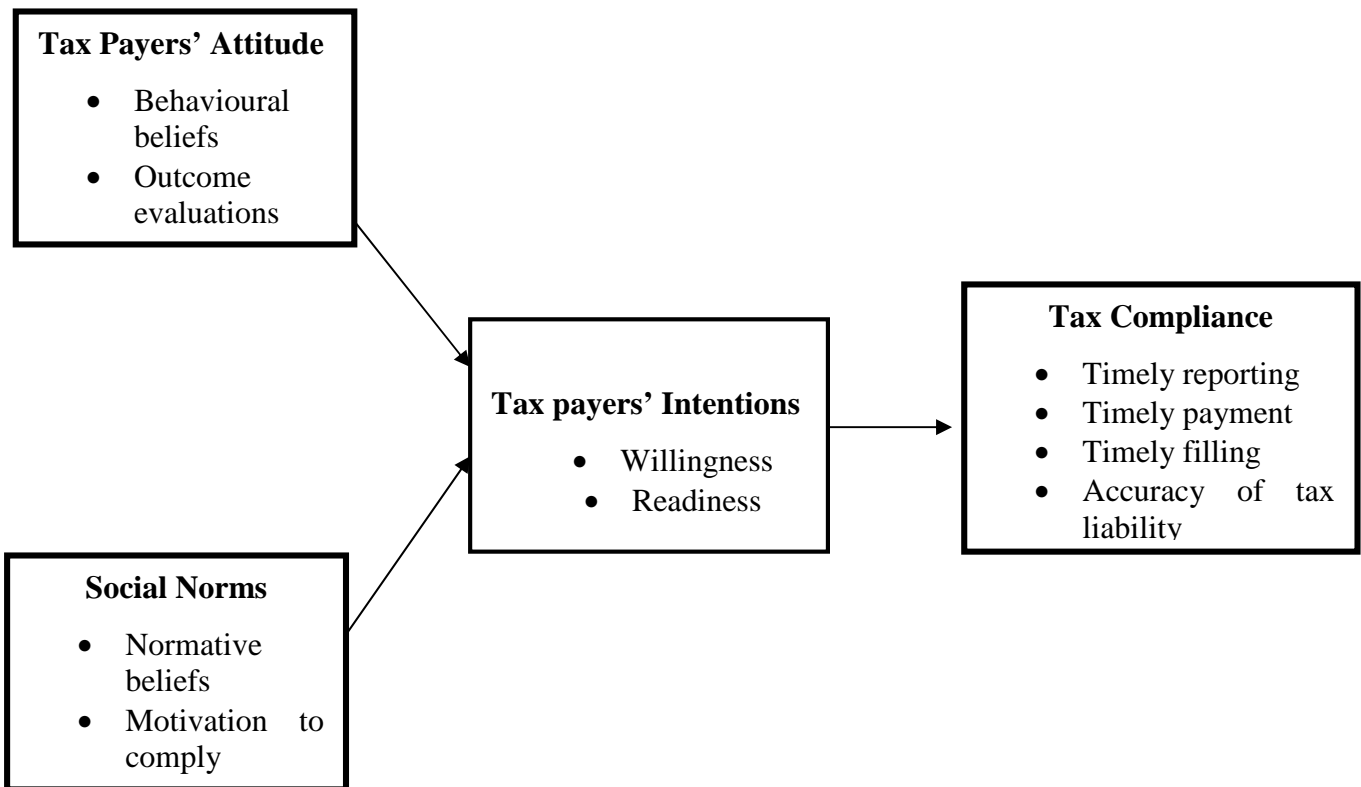
This will enable them draw applicable policies that will enhance tax compliance;

- iii) Through this study, the main elements of taxpayers' intention in tax compliance is explored which will assist URA to improve tax compliance according to the variables in the model and in line with the Government's Policy. Based on the result of this study, more trainings and seminars might be conducted in order to improve taxpayers' attitude, social norms and compliance. However, this system will be fully implemented after it is widely accepted. Beside the process of considering tax payers attitude and social norms in tax collection and administration will improve the level of taxpayers' compliance. Consequently, the intention of taxpayers will be improved positively and in turn it will increase their compliance toward URA.
- iv) The study findings will help the tax authority to design interventions that pre-emptively address the cause of non-compliance rather than administer solutions post hoc which may encourage further non-compliance;
- v) The research findings will help the owners and managers of SMEs to agitate for psychological models which consider taxpayers attitudes and social norms. This will help to improve their knowledge, abilities and skills since the Government will design messages and policies which are convenient and easily understood by individual taxpayers;
- vi) The study findings may also provoke further research on the impact of tax payers' attitude, social norms and tax compliance both in Uganda and internationally.

1.8 Conceptual framework

The conceptual Framework is adopted from existing literature from developed Countries. The model explains the relationship between tax payers' attitude, social norms (Independent variables), tax payers' intention (mediating variable) and tax compliance (dependent variable). It has been reflected in the works of from (Franzoni,1999; Brown and Mazur, 2003; Francis et al, 2004; Ajzen, 1991; Fishbein & Ajzen, 2010; Fishbein & Ajzen, 1975; Lumumba et al, 2010; Murphy, 2004; Ajzen, 1991; Zainol, Kamil, & Faridahwati, 2009) with changes to fit Uganda's tax system.

Figure 1: Conceptual framework



Source: Adopted from (Franzoni,1999; Brown and Mazur, 2003; Francis et al, 2004; Ajzen, 1991; Fishbein & Ajzen, 2010; Fishbein & Ajzen, 1975; Lumumba et al, 2010; Murphy, 2004; Ajzen, 1991; Zainol, Kamil, & Faridahwati, 2009)

1.8.1 Explanation of the conceptual framework

The conceptual model was developed after review of existing literature and used to investigate the research questions. It explains taxpayers' compliance as timely reporting of the tax base, correct computation of the liability (accuracy), filing of the returns in time, and timely payment of the amounts due (timeliness) and of which contrary leads to non-compliance (Franzoni, 1999; Brown and Mazur, 2003; Francis et al, 2004). The main area of focus of TRA is on behavioural intention (a combination of attitude towards performing a behavior and subjective norm) as precursor to the actual behaviour. Intentions are assumed to capture the motivational factors that influence a behaviour and to indicate how hard individual are willing to try or how much effort they would exert to perform the behaviour (Ajzen, 1991; Fishbein & Ajzen, 2010; Fishbein & Ajzen, 1975). Many authors use Behavioural beliefs and Outcome evaluations to explain tax payers' attitude towards the tax system in the process of complying with the tax. Hostile taxpayers' behavior implies that they will become less committed and have a negative attitude towards the tax system and given a chance the taxpayers would not comply with tax laws Lumumba et al, (2010). If people consider the outcomes of the decisions made by authorities as favorable, then they are generally more willing to co-operate and be compliant; conversely, unfavorable outcomes can negatively affect compliance with tax authorities (Murphy, 2004). Social norms refer to social pressure exerted by important referent individuals or groups who are close to the individual and who approve or disapprove of performing a given behaviour (Ajzen, 1991). Thus, if a person believes that the most important referents or individuals to him/her think that the behaviour should be performed, then he/she will perform that behavior (Zainol, Kamil, & Faridahwati, 2009).

1.9 Organization of the study report

The study report is made up of five chapters. Chapter One introduces the study by discussing the background to the study, statement of the problem, purpose of the study, research objectives, research questions, the scope of the study, and the conceptual framework. Chapter Two is a review of the variables in the study. It is about what other writers, scholars and academicians have identified in their works as the relationship between the variables in the study. The variables being taxpayers' attitude, social norms (independent variable), taxpayers' intention (intervening variable) and tax compliance (dependent variable). Chapter Three discusses the methodology that was used by the researcher to collect data, in order to achieve the objectives of the study. It describes the research design, study area and population, the sample size and sampling technique, data sources and collection instruments, as well as methods of presenting, interpreting and analyzing the findings. Chapter Four, deals with the presentation, interpretation and analysis of findings of the study in line with the research objectives and questions. Chapter Five presents discussions, conclusions, and recommendations that have been made from the presentation and interpretation of findings from the preceding chapter. Areas of further research are also identified.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature reviewed in the study is cited mainly from studies carried out in developed countries about tax payers' attitude, social norms and tax compliance among small scale business tax payers and analyzed in relation to its applicability to the Uganda situation with reference to the objectives outlined in this study.

2.2 Small and Medium Enterprises (SMEs)

SMEs play a significant role in the economy. They influence their growth and development, income generation through employment of the citizens among others. SMEs are very important for a developing economy because they provide employment opportunities and are a basis for developing new ideas as well as contributing to economic growth; for instance through widening tax base, and sustainable development. They are the driving force behind a large number of innovations and contribute to the growth of the national economy through investments, exports and generation of a large share of new jobs in the economy.

In Uganda Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega, 2007). It has been observed however, from previous taxation studies that several SMEs in developing economies are non-tax compliant in spite of major reforms (James, Barbour & Stern, 2007; Ayoki, 2007; Terkper, 2003), since they cannot easily

be located by tax administration, yet they pay less tax than their fair share of tax (Ahmed & Braithwaite, 2005).

2.3 Tax payers' attitude

According to Ajzen's (1991), attitude relates to one's own personal views about behaviour. Attitude may also be defined as positive or negative views of an attitude object i.e. a person, behaviour or event. In relation to taxation, taxpayers' attitudes may be defined as positive or negative views of tax compliance behaviour. The outcome of positive views is tax compliance and negative view is tax non-compliance. These views may be explained by Psychology-based theories which reveal that taxpayers' attitude may be influenced by the following factors which eventually influence taxpayers' behaviour. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals 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. Attitudes towards tax evasion are often found to be quite positive (Kirchler et al., 2008). Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (Trivedi, Shehata, & Mestelman, 2004). A model of tax evasion behaviour developed by Weigel, Hensing & Elffers (1987) considers social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance.

Taxpayers perceptions in the tax system - commitment in paying taxes (Ambrecht, 1998), reflects beliefs about the desirability of the tax systems and feelings of moral obligation to act in the interest of the collective and pay one's tax with goodwill, (Braithwaite, 2001). Our attitude

would be shaped by whether or not you think doing something is likely to be relevant to your work (the outcome of the behaviour) and whether or not you think learning something new that could be relevant to your work would be beneficial to you and to your organization (your evaluation of the outcome).

From the TRA perspective, the important aspect of your attitude is whether or not it is positive, negative, or neutral. For example, if you strongly believe that doing something (whatever the behaviour might be) will lead to a desirable outcome, then one could say that you have a positive attitude toward that behaviour. Likewise, if you strongly believe that the behaviour will lead to an undesirable outcome, you are likely to have a negative attitude about it. Attitude involves judgment of whether the behaviour is good or bad and whether the actor is in favour of or against performing it (Leonard et al, 2004). Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge (Kirchler et al., 2008).

2.4 Social norms

According to Leslie, Larson and Gorman (1973) “social norms are rules developed by a group that specify how people must, should, may, should not, and must not behave in various situations”. In the case of taxpayers’ behaviour, there are legally defined rules about incomes to declare and deductions to make as well as punishment that follows from deviations from these rules, if detected. But, the essence of a social norm is not basically what is legally defined; rather, it is informal or socially defined rules specifying what actions are regarded as proper and correct, or improper or incorrect. It is argued that these rules are based on interests, values and

attitudes developed within the group. The concept of sanction goes hand in hand with the concept of social norm; sanctions are the group's punishments for violation of social norms. Thus, a social norm is composed of a socially defined rule of behaviour based on common values, backed up by a system of sanctions. Norm obedience may follow from internalization of the norm and the values upon which it is founded, and/or from an effective system of sanctions.

Behavioural intentions are determined also by subjective norms (Ajzen, 1991). Norms are behavioural standards on three different levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the individual level, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi et al., 2003). On the social level, norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norms are related to the behaviour of reference groups, for example friends, acquaintances or vocational group. If taxpayers believe that non-compliance is widespread and approved behaviour in their reference group, they are likely to be non-compliant as well. The relationship between social norms and tax compliance is complex.

Wenzel (2004) argues that social norms should elicit concurring behaviour only when taxpayers identify with the group to whom the norms are ascribed. Taxpayers then internalize the social norms and act accordingly. On the level of national norms, norms become cultural standards, often mirrored in the actual law. In general, if the norms held by taxpayers favour tax

compliance, voluntary tax compliance will result. Thus, norms encompass both power and trust. First, national norms find their expression in tax laws and the role given to tax authorities, having a direct influence on their power. Second, social norms such as the belief that tax evasion is a petty crime and widespread hinder the work of tax authorities, in particular when there is no countervailing norm of community. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authorities (Kirchler et al., 2008).

2.5 Tax payers' intentions

Intention is one's willingness to carry out a particular behaviour, and it is proposed to be an antecedent of behaviour. Ajzen (1991) defines attitude toward a behaviour as the degree to which the person has a favourable or unfavourable evaluation of the behaviour in question. Subjective norms are the influence of social pressure that is perceived by the individual, and it is a function of beliefs namely normative beliefs. Finally, perceived behavioural control reflects the perceived ability to execute a target behaviour (Ajzen, 1987). According to Fishbein and Ajzen (1975), the main source of a behaviour is intention, which is determined by three main factors i.e. attitude towards behaviour, subjective norm, and perceived behavioural control.

Intention is the main focus on the present study because previous studies on tax often neglected this variable as an important agent that could influence tax compliance behaviour. Theory of Reasoned Action (TRA) is a theory within the field of social psychology. It is a well-known theory and often applied to explain various behavioural situations. The main focus of this theory is intention. This theory asserts that intention to behave is determined by attitude toward the behavior and social norm (Ajzen, 1987; Ajzen & Driver, 1992; Taylor & Todd, 1995).

Intentions are assumed to capture the motivation of tax payers to have positive attitudes towards the tax system, consequently encourage them to comply.

The main area the Theory of Reasoned Action focus on is behavioural intention as precursor to the actual behaviour. Intentions are assumed to capture the motivational factors that influence a behaviour and to indicate how hard individual are willing to try or how much effort they would exert to perform the behaviour (Ajzen 1991). To understand a particular individual taxpayer's behaviour, it is important to identify the determining the variables of a behavioural intention (Hanno & Violette, 1996). Hanno & Violette (1996); Mottiakavandar et al. (2004); Trivedi et al. (2005) are researchers who have used Behaviourial Intention as their Y Component in the TRA model. Hanno, M. D., & Violette, G. R. (1996). According to the theory individual's intention to perform a behaviour is a combination of attitude toward performing the behavior (Behavioral belief and evaluations of behavioral outcome) & subjective norm (normative beliefs & the motivation to comply). Intention was constructed as a direct measure only and incorporated the elements of willingness, expectation, intention and trying (Fishbein & Ajzen, 2010).

2.6 Tax compliance

According to Cuccia, (1994) taxpayer compliance has been primarily viewed from three theoretical perspectives: the general deterrence theory, economic deterrence models and fiscal psychology. Deterrence theory is concerned with the effects of sanction threats on criminal and undesirable behaviour, however this had problems of identifying sanctions, determining how much effect and specifying the mechanism by which the effect occurs. On the other hand, the

economic deterrence model smoothened out the problems of deterrence theory for instance by use of utilitarian approach to measure sanction threats. Besides, Brown and Mazur (2003) observed that tax compliance is multi-faceted measure and it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance.

However, OECD (2001) considers dividing compliance into categories in considering definitions of tax compliance. These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Tax compliance can be measured basing on filing of tax returns, payment of taxes due on due dates, accurate determination of tax liability among others (Brown & Mazur, 2003).

From the personal consequence perspective, tax compliance is viewed as an income maximizing decision balancing the net gain of underreporting income or over claiming against the added risk of detection and penalization (McGraw & Scholz, 1991). According to Plumley (1996) voluntary tax compliance is explained by dimensions like timely filing of any required return, accurate reporting of income and tax liability and timely payment of all tax obligations. However according to Terkper, (2003) many small and medium taxpayers do not register voluntarily, while those who do register often fail to keep adequate records, file tax returns, and settle their tax liabilities promptly. Hence in the small business context, opportunities for evasion

are high and resources are often scarce for field auditing. Even when high investments are made in auditing, uncovering, hidden cash is never going to be an easy task without an adequate audit trail (Ahmed & Braithwaite, 2005).

In developing countries the income tax compliance has been constrained by the significant number of changes to the tax laws, that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists (Oberholzer, 2008). Moreover enforcement of these laws cannot reduce non-compliance among taxpayers because some tax measures put Small and Medium Taxpayers under severe liquidity pressure, forcing many to fold in the informal sector (Terkper, 2003). In Uganda the tax compliance requirements according to the income tax laws relating to businesses are: Keeping of up to date books of account by businessmen, acquiring of Personal Identification Numbers (PIN) by all potential taxpayers, determining the taxable income according to the stipulated rules and regulation, accurate determination of tax liability, filing of returns on income by the prescribed date, paying of tax dues by the prescribed date among others.

2.7 Tax payers' attitude and tax payers' intention

Attitudes affect intentions and intentions affect behaviour. Attitudes are formed in a social context by such factors as the perception in the tax system, the perceived fairness of the tax structure, its complexity and stability, Government policies affecting any of these factors may influence taxpayer attitudes and hence the observed level of taxpayer compliance. Research has identified numerous factors that affect taxpayers' attitude towards compliance (Richardson and

Sawyer, 2001). These factors are categorized in broad terms as economic, structural, demographic/personal and attitudinal traits and often these factors overlap. The economic factors are based on the premise that tax evasion will respond to sanctions (Coleman & Evans, 2003).

Taxpayers undertake a cost/benefit analysis and will comply if the benefit exceeds the cost of compliance (Allingham & Sandmo, 1972). Thus the taxpayer is a utility maximiser. Additionally, Allingham & Sandmo (1972) assert that tax payers behaviour of non-compliant depends on their belief of the probability of being detected through an audit and the severity of legal penalties imposed. McKerchar (2003) discusses this from the economic deterrence model perspective and traces its origin from Becker (1968) who believed that “the deterrents to illegal behaviour, the probability of being caught and the type of punishment were within the control of society (McKerchar, 2003).

The theory of reasoned action (Fishbein & Ajzen, 1975) and the theory of planned behaviour (Ajzen, 1991) incorporate attitudes as one of the determinants predicting behaviour. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals 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. Attitudes towards tax evasion are often found to be quite positive.

Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (e.g., Orviska & Hudson, 2002; Trivedi, Shehata, & Mestelman, 2004). Data collected from fined tax evaders and honest tax payers showed that attitudes explain

in part self-reported tax evasion, but are insignificant predictors of actual behaviour. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes, nevertheless “we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase” (Lewis, 1982).

2.8 Social norms and tax payers’ intention

Norms refer to social pressure exerted by important referent individuals or groups who are close to the individual and who approve or disapprove of performing a given behaviour (Ajzen, 1991). According to the theory, pressures to behave in a particular manner may come from significant referents such as friends, parents, family members, etc. In other words, an individual will carry out an action if he/she believes that important people to him/her think that he should carry out this action (Zainol, Kamil, & Faridahwati, 2009). Thus, if a person believes that the most important referents or individuals to him/her think that the behaviour should be performed, then he/she will perform that behaviour.

Previous studies in various fields have shown that social norms could influence positively and significantly behavioural intention (Bobek & Hatfield, 2003; Park & Blenkinsopp, 2009; Ross et al, 2007; Tarkianen & Sundqvist, 2005; Taylor & Todd, 1995). In the field of direct tax, Bobek and Hatfield (2003) demonstrated the positive and significant effect of subjective norm on intention to comply with tax. Bobek & Hatfield (2003) defined social norm as a relevant group that could influence directly an individual’s belief to behave. Triverdi et al., (2005) revealed that social norm influences positively and significantly intention to comply with tax. Similarly,

Bobek et al., (2005) demonstrated the significant and positive effect of subjective norm on intention to apply for tax refunds for overpaid tax.

It should be emphasized that social norms are system level properties and, as such, interesting in their own right. Cross-country variation in tax norms may indicate differences in tax compliance. More has been done on the relation between tax norms and tax compliance. It is often argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to a substantial extent. Alm, McClelland and Schultze (1999) turn to social norms of tax compliance in order to understand the puzzle that under-reporting is not higher than it is, considering the low likelihood of detection and the weak penalties for tax cheating in most countries.

Furthermore Smith and Kinsey (1987) develop a social-psychological model for taxpaying behaviour where normative expectations are given a central position. Lewis (1982) takes a similar position. After a literature review, Wentworth and Rickel (1985) conclude that norm commitment may be a crucial factor in the decision to comply with or evade legally mandated taxes. Alm, Jackson and McKee (1992) give experimental evidence for such a conclusion, and Frey and Weck-Hanneman (1984) draw the same conclusion based on tax surveys. They found that their measure of tax morality was significantly related to the size of the hidden economy, estimated with the technique of unobserved variables. Tax norms are seldom so strongly internalized in people's minds that they have the power to counteract opportunities & incentives for tax evasion. If people can trust that everybody is paying their legally mandated

taxes, they might have greater confidence in the tax system, as well as a reduced interest in evading taxes Edlund & Åberg, (2002).

Schneider and Enste (2000) mention the size of the tax burden as the most important factor behind tax evasion in their literature review on tax evasion; they could have pointed at two explanatory mechanisms. A high tax burden might be associated with many options and incentives for tax evasion as well as weak social tax norms. It can also be argued that strong social tax norms are more important in high tax countries than in low tax countries, provided that social tax norms really have some influence on people's tax behaviour. Taxpayers perceptions in the tax system - commitment in paying taxes (Ambrecht, 1998), reflects beliefs about the desirability of the tax systems and feelings of moral obligation to act in the interest of the collective and pay one's tax with goodwill, (Braithwaite,2001). However, there are also good reasons to question the value of norms as explanatory factors of tax compliance. In order to be created or survive, a norm must fulfill a function.

A sufficiently large number of people must also have an interest in enforcing the norm. Most people probably have an interest in others paying their taxes, but if they do not pay themselves, they nevertheless get access to the public goods financed by taxes. This is a classical free-rider problem, which may partly be solved by measures like constructing a tax system where it is difficult to underreport, a control system that increases the risk of detection and legal punishments that intimidate tax cheating. But, it may also partly be solved by informal norms that condemn tax cheating. The more legitimate is the tax system, the more likely it is that such

norms are widespread, and eventually internalized in people's minds, thereby affecting their behaviour.

A high degree of norm internalization would here mean tax compliance as a more or less reflexive behaviour, without taking the risk of detection and sanctions into consideration. Otherwise, norm obedience requires sanctions against those who deviate. For such sanctions to develop, communication about the issue must occur and others must be able to provide informal sanctions or rewards to the individual. These are weak links in the process of transforming shared moral values into an effective norm. Smith and Kinsey (1987) remark that taxpayers' reference groups seldom learn about non-compliant actions, even if discovered by the tax authorities. Further, conversations about taxes are probably not very frequent and perhaps more frequent among members of groups with a high opportunity for non-compliance, and might as well favour values against tax compliance norms as values against non-compliance.

2.9 Tax payers' intention and tax compliance

Empirical evidence on the influence of attitude on intention abounds. In the area of tax, Bobek (1997) found that when tax payers have a positive attitude toward paying tax, the higher the intention to pay the tax. In a closely related area to tax i.e. alms giving or zakah, a similar finding is reported (Zainol, Kamil, & Faridahwati, 2009). Witte and Woodbury (1985) also found consistent result where they showed that attitude plays an important role in influencing one's intention to comply with tax. All the empirical evidence highlights that attitude toward tax is the main determinant of intention to compliance or non-compliance with tax amongst individuals (Jackson & Milliron, 1986).

The results of the study in Malaysia had shown that attitude (future expected tax costs & fairness of tax system) & subjective norm (unapproved tax preparer & unapproved account preparer) had a positive influence on sole-proprietors behavioural tax-non-compliance intention Teik, (2011). Social psychology models inductively examine the attitudes & beliefs of taxpayers in order to understand and predict human behaviour. Persuasive messages based on this theory have been found to be effective in a number of different disciplines. The interaction effect of the traditional message & time on tax compliance is positive and significant & the interaction effect of the theory of reasoned action message & time on tax compliance is positive & marginally significant. These results provide evidence that the messages may be effective in increasing an individual's tax compliance over time (Mollie, 2010).

Ajzen and Fishbein claim by using the Theory of Planned Behaviour any behavior can be predicted by intention (Ajzen & Fishbein, 1980). They qualify this statement by excluding behaviours outside the control of individuals. Tax systems in countries such as Australia, rely on the willing participation of taxpayers for high levels of compliance. This presupposes that taxpayers who are motivated will also have control over their ability to comply. Significant strategy development is founded on the premise that encouraging taxpayers to comply will increase levels of voluntary compliance. However some research findings also demonstrates two clear discrepancies in these presumptions: i) taxpayers do not have sufficient control over their behaviour to ensure successful completion of all tax tasks; and ii) high levels of intention to comply does not equate to compliance.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section presents a description of research methodology that was used to carry out the study. It covers the research design, study population, sampling design and size, data sources, data collection instruments, reliability and validity of research instruments, measurements of research variables, data processing/analysis and limitations to the study. The methodology used in this study is specifically designed to examine the relationship between social norms, taxpayers' attitude and tax compliance intention and behavior.

3.2 Research design

The study used a cross-sectional research design. This design was considered appropriate as opposed to the longitudinal study because the information needed was given on the questionnaires and so the interest was to collect the data at that point in time from the population. It also allows large amount of data to be collected over a short period of time. The approach was purely quantitative involving descriptive and inferential analysis of the relationship between tax payers' attitude, social norms, tax payers' intentions and tax compliance among SMEs in Arua District.

3.3 Study population

The total population comprising of 510 licensed small and medium enterprises in Arua district were used in this study (Arua Hill Division and District URA Tax Payers' Records, 2012). The focus of the study was on SMEs who pay Presumptive tax with annual turnover exceeding 5,000,000 but less than 50,000,000. Arua District was chosen for this study because of high rate

of tax evasion as shown by a total collection of only 15% realized in the financial year 2009/2010 against a target of 1,586,148,950/ UGX tax collection expected from SMEs.

3.4 Sample size and design

The sample size used for the study was 218 licensed small and medium business tax payers. This was based on table guide for sample size determination by Bartlett (2001). Where they contented that a sample size of 235 is appropriate for a population of 600 and 218 is appropriate for a population of 500. Therefore given a population of 510 SMEs in Arua district, a sample size of 218 was used for this study since it's nearer to 500.

The respondents were selected using a statistical sampling technique known as Simple random sampling. The use of simple random sampling was to ensure that the sample selected was unbiased and representative of the population. The sample was drawn unit by unit from the sampling frame provided by URA. Purposive sampling was used to select respondents in the firms (key in formats). These respondents were either managers or business owners. This was because they had relevant information relating to tax compliance that was needed to realize the objectives of the study.

3.5 Data sources

Primary data was used in this study to investigate tax payers' attitude, social norms and tax compliance among small & medium enterprises in Arua district.

- **Primary source**

Data from primary source was collected from respondents using a questionnaire. The questionnaires were designed according to the objectives of the study which enable the researcher to elicit information from respondents on all the aspects of the study. This created anonymity leading to more valid responses as well as convenience in filling them. Contact addresses contained in the list of SMEs obtained from Department of Domestic Taxes and Arua Hill Division was used to locate the sample subjects, who were then given a questionnaire to fill. These were filled by business owners, managers, accountants and auditors of the selected SMEs and self-structured interview carried out in order to obtain in depth understanding of the variables under study. Primary data was used since SMEs records were not easily accessible.

3.6 Data collection instruments

A structured questionnaire 5 point likert – type closed-ended questionnaire was used to elicit for responses from small business tax payers in Arua, used in this study. The 5- point Likert scale used had questions anchored on to: 5 - Strongly agree; 4 - agree; 3 - neutral; 2 – disagree; and 1 - strongly disagree. This instrument was adopted because it allowed a systematic collection of information about the objectives of the study. Structured interview guide was also used in this study.

3.7 Reliability and validity of research instruments

Closed questionnaire was developed in harmony with the guidelines specified by Sekaran (2000). First, an item analysis was done to see whether the items in the instrument belong there and a pre-test was carried out to check validity and reliability so as to minimize on vagueness of the results to be generated. Reliability is referred to as the consistency of measurement, or the

degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. Reliability of our instrument was tested using Cronbach's Alpha Coefficient which should be above 0.7 (Nunnally and Bernstein (1994) because it represents acceptable level of internal consistency. Validity refers to how accurately instruments capture data that gives meaningful inferences (Mugenda & Mugenda, 2003). Validity of the instrument was obtained through subjecting the data collection instrument to scrutiny from experts (academics and practitioners) to establish relevance of the questions/ items in instrument using the Content Validity Index (CVI). The researcher distributed the questionnaires to experts to rate the relevance of the questions and unclear statements were dropped as suggested by the respondents using a 5-point scale of relevant, quite relevant, not sure, somewhat relevant, and not relevant. Content Validity Index of 0.834, 0.915, 0.763 and 0.867 were attained. These were way above 0.5 the acceptable minimum. The inter-item consistency reliability were tested to ensure that there is the consistency of respondents' answers to all items in the measure. This is shown in the table 3.2 below.

Table 3.1: Showing Cronbach's Alpha Coefficient

Study Variables	Anchor	Cronbach's Alpha
Tax payers' attitude	5 Point	0.805
Social norms	5 Point	0.866
Tax payers' intention	5 Point	0.799
Tax compliance	5 Point	0.812

Source: Primary data

3.8 Measurement of study variables

The measurements used were adopted from previous studies and were found to be reliable. Tax payers' attitude was measured using the dimensions of behavioural beliefs and outcome evaluations as adopted from Francis et al., (2004). Social norm was measured using the dimensions of normative beliefs and motivation as adopted from Francis et al., (2004). Tax payers' intention was measured using the dimensions of willingness and readiness as adopted from (Fishbein & Ajzen, 2010). Tax compliance was measured using the dimensions of filing of return, paying taxes due on due dates and determination of accurate tax liability as adopted from Brown and Mazur (2003). All items were measured on a five-point Likert scale in which '5' "strongly agree" and '1' "strongly disagree."

3.9 Data processing, analysis and presentation

Data collected from the primary source was compiled, sorted, edited for accuracy and clarity, classified, coded into a coding sheet and analysed using a computerized data analysis package/tool known as SPSS 20.0. Frequency tables, graphs, and percentages were generated to explain the variables under study. Pearson's correlation analysis was run to determine the existence and significance of the relationship between the independent variables and dependent variable. Hierarchical regression analysis was also run to determine the level of predictions of tax payers' attitude and social norms on tax compliance.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presents the results of data analysis and findings compiled from the field. It is divided into three main sections. The first section deals with the general/demographic characteristics of the respondents. The second section discusses the findings from the study. Section three analyses and discusses the relationship between the variables in the study. The findings are related to the following research objectives:

- i) What is the relationship between tax payers' attitude and tax payers' intention among SMEs in Arua district?
- ii) What is the relationship between social norms and tax payers' intention among SMEs in Arua district?
- iii) What is the relationship between tax payers' intention and tax compliance among SMEs in Arua district?

4.1 Response rate

Frederick and Wiseman (2003) assert that a response rate has to be presented in research findings as it reveals validity of the study and failure to do so put the validity of the study findings into question. Response rate was frequently used to compare survey quality. The study targeted a sample of 218 respondents. Therefore, a total of 218 questionnaires were distributed and all responses were received back, thus accounting for 100% response rate.

4.2 Demographic characteristics of respondents

The demographic characteristics of the respondents who participated in this study included the number of years in operation, gender, education level, current position in the business and number of years of experience in the business.

4.2.1 Demographic characteristics

The finding in table 4.1 below is for demographic characteristics for the respondents who participated.

Table 4.1: Showing demographic characteristics of respondents

Characteristics	Frequency	Percent
No. of years in business		
5-10 years	129	59.2
11-15 years	43	19.7
16-20 years	21	9.6
Above 20 years	25	11.5
Gender		
Male	127	58.3
Female	91	41.7
Education level		
A level	40	18.3
Diploma	65	29.8
Degree	97	44.5
Masters	10	4.6
Others	6	2.8
Current position		
Manager	122	56.0
Finance officer	49	22.5
Auditor	16	7.3
Accountant	31	14.2
Business experience		
Below 2 years	48	22.0
2-5 years	104	47.7
6-9 years	35	16.1
Above 10 years	31	14.2

Source: Primary data

The results from the finding in table 4.1 above indicates that majority (59.2%) of the respondents had been business for 5-10 years, while 19.7% had been in business for the period between 11-15 years. The results also show that 11.5% of the respondents had been in business for a period of over 20 years, while those who had been in business for the period between 16-20 years constituted only 9.6% of the respondents. This implies that majority (59.2%) of the respondents had been in business for the period between 5-10 years, making them more familiar with the existing business environment and Uganda Revenue Authority (URA) polices, especially in Arua districts.

The results from the findings in table 4.1 above revealed that majority (58.3%) of the respondents were male, while 41.7% were female. This implies that majority (58.3%) of the respondents who responded were male. The justification could be that most SMEs in Arua district are owned by male than female.

Further analysis from the results in table 4.1 above indicate that most (44.5%) of the respondents had attained bachelor's degree, while 29.8% had attained diploma level of education. Further analysis also indicates that 18% of the respondents had attained advanced certificate of education, while 4.6% were master degree graduates and only 2.8% had other qualifications. This implied that majority (44.5%) of the respondents had attained University degree, thus it can be concluded that most of the people who own SMEs in Arua district were educated with enough knowledge.

The results from the findings also indicate that majority (56%) of the respondents were managers, while 22.5% were finance officers. The finding also reveals that 14.2% of the respondents were accountants and the auditors constituted only 7.3% of the respondents. This implies that majority (56%) of the respondents were owner managers of the SMEs in Arua district. The justification could be that most business owners prefer to run and monitor operations of their businesses.

Further analysis of the findings in table 4.1 above shows that 47.7% of the businesses had been in operations for a period between 2-5 years, and 22% had been in existence for a period of below 2 years. The results further reveals that 16.1% of the businesses had been in operations for the period between 6-9 years, while 14.2 had been in business for a period of above 30 years. This implied that most (44.7%) of the SMEs had been in operation for the period between 2-5 years. The justification is that the owners of these SMEs are familiar with the operations of their indigenous businesses.

4.3 Factor analysis

The main purpose for carrying out factor analysis was to summarise variables from the constructs with multiple questions into more meaningful and interpretable factors, and to also explore theoretical structure (Barclay, Higgins and Thompson, 2001). Exploratory factor analysis was performed to test the number of factors that can be seen as an analysis of the construct validity of a scale. It was used to determine how many aspects of a construct does a set of items measure and checked if there were items that don't measure the construct.

Factor analysis was used to extract the most important factors that measured the study variables. These factors explained patterns of correlation between the dependent and independent variables. The principal component analysis extraction method and varimax rotation methods were used to extract and reduce on the many items into few and relevant factors that can be worked on. Only factors with Eigen values greater than 1 (one) were extracted and correlation coefficients of +/- 0.3 were deleted from the rotated component matrix table. The extracted factors were used to fit the regression models. The rotated component matrix for each variable is outlined below;

4.3.1 Tax payers' attitude

The principal component analysis was used to analyse the five (5) dimensions of tax payers' attitude. This is shown in table 4.2 below.

Table 4. 2: Showing rotated component matrix for tax payers' attitude

	Tax payers' attitude components	
	Behavioural believes	Outcome evaluation
I am always not guilty when URA demands my tax records	.855	
I always feel pleased if I declare my business income from sales.	.717	
I always declare my sales income to avoid interference in running my business.	.658	
I always want to follow what URA requires as far as paying my taxes is concerned.		.844
I am always not upset when asked by URA to declare my sales income.		.728
<u>Total variance explained</u>		
Percentage of variance	33.525	28.150
Cumulative percentage	33.525	61.676
Eigen values	3.472	1.046

Notes:

Extraction method: principal component analysis

Rotation Method: Varimax with Kaiser Normalization

Rotation converged in 3 iterations

Factor analysis in table 4.2 above showed that the total success of tax payers' attitude is enhanced by behavioral believes, which highly contributes to tax payers' attitudes of SMEs. This analysis is important to SMEs and URA because it helps in defining the magnitude of tax payers' attitude. Five (5) items constituting 62% of the total variance of tax payers' attitude were extracted using the varimax rotation method to obtain individual contribution of the two constructs of tax payers' attitude. The result reveals that behavioral believes of SMEs owners (34%) contributed more to tax payers' attitude among SMEs followed by outcome evaluation (28%).

4.3.2 Social norms

The principal component analysis was used to analyse the seven (7) dimensions of social norms.

This is shown in table 4.3 below

Table 4. 3: Showing rotated component matrix for social norms

	Social norms components	
	Normative believes	Motivation to comply
My business partners would think that I should declare my sales income.	.755	
My business partners would think that I should not declare my sales income.	.731	
My business partners would not approve my decisions of having good working relationships with URA.	.725	
My business partners would not support my decisions to understate my sales income.	.694	
My business partners will approve my decisions of having good working relationships with URA.	.687	
My business partners would approve my decision to understate my sale incomes.		.984
I always want to follow what my business partners feel is right for us to pay taxes.		.960
<u>Total variance explained</u>		
Percentage of variance	43.611	15.567
Cumulative percentage	43.611	59.178
Eigen values	3.053	1.090

Notes:

Extraction method: principal component analysis

Rotation Method: Varimax with Kaiser Normalization

Rotation converged in 3 iterations

The results from factor analysis in table 4.3 above, indicates that what matters most in social norms is normative believes. Seven (7) items constituting 59% of the total variance of social norms were extracted using the varimax rotation method to obtain individual contribution of the

two constructs of social norms. It was found that normative believes (44%) contributed more to social norms followed by motivation to comply (16%).

4.3.3 Tax payers' intention

The principal component analysis was used to analyze the seven (7) dimensions of tax payers' intention. This is shown in table 4.4 below.

Table 4. 4: Showing rotated component matrix for tax payers' intention

	Tax payers' intention components	
	Willingness	Readiness
I always declare all my sales income in time to avoid inconveniences in running my business.	.792	
I do not attempt to cheat by under declaring my sales income.	.769	
I always report my sales income as required by URA.	.760	
I will always declare my income without omissions on all taxes.	.751	
I always declare all my sales income from trading with friends and neighbouring businesses.	.699	
I always declare all my sales income to create good working relationship with URA		.993
I always declare all my sales income without considering my business partners.		.943
<u>Total variance explained</u>		
Percentage of variance	47.545	17.262
Cumulative percentage	47.545	64.807
Eigen values	3.429	1.107

Notes:

Extraction method: principal component analysis
 Rotation Method: Varimax with Kaiser Normalization
 Rotation converged in 3 iterations

Factor analysis in table 4.4 above showed that willingness was very instrumental in determining tax payers' intention of SMEs owners in Arua district. Seven (7) items constituting 65% of the total variance of tax payers' intention were extracted using the varimax rotation method to obtain individual contribution of the two constructs of tax payers' intention. The results indicated that willingness (48%) contributed more in determining tax payers' intention of SMEs owners in Arua district and readiness contributed only (17%).

4.3.2 Tax compliance

The principal component analysis was used to analyse the fifteen (15) dimensions of tax compliance. This is shown in table 4.5 below.

Table 4. 5: Showing rotated component matrix for tax compliance

	Tax compliance components			
	Timely Payments	Accuracy of tax liability	Timely filling	Timely reporting
I always pay my taxes in time.	.762			
I have never attempted to avoid taxes.	.738			
I keep up to date transaction records and books of accounts.	.649			
I always file my taxes in time.	.648			
URA has never threatened me about outstanding bills .	.617			
I have not exaggerated the amount of deductions in my income tax returns.	.599			
The tax system is easy to understand.		.817		
I can accurately determine my tax liability.		.750		
I always file my tax returns without the assistance of a tax expert.		.636		
The tax authority audits my books of accounts to ensure compliance.		.526		
It is everyone’s responsibility to pay the correct amount of tax.			.757	
I declare all my income earned for tax purposes.			.698	
It is everyone’s responsibility to comply with the tax laws.			.511	
I pay actual taxes assessed.				.731
Understanding the tax law does not do anyone any harm.				.673
<u>Total variance explained</u>				
Percentage of variance	19.852	13.894	12.489	9.387
Cumulative percentage	19.852	33.747	46.236	55.624
Eigen values	4.853	1.688	1.233	1.126

Notes:

Extraction method: principal component analysis

Rotation Method: Varimax with Kaiser Normalization

Rotation converged in 7 iterations

The results from factor analysis in table 4.4 above, indicates that what matters most in tax compliance is timely payment. Ten (15) items constituting 56% of the total variance of tax compliance were extracted using the varimax rotation method to obtain individual contribution of the four constructs of tax compliance. The results reveal that timely payment (20%) contributed more to tax compliance, followed by accuracy of tax liability (14%), timely filling (12%), and timely reporting (9%) respectively.

4.4 Correlation Analysis

The relationships between study variables are established by running a correlation analysis and since the study had relationship objectives, the study variables tax payers' attitude, social norms, tax payers' intention and tax compliance relationships were established using Pearson correlation. This was to establish that relationships existed between these variables under study.

Pearson's correlation was used because the statistics analyzed were quantitative. This was used to compare quantitative variables to find a linear relationship (if the variables represent a nonlinear relationship, a correlation is not appropriate). The possible research hypothesis for a correlation are that the variables are positively correlated (as one variable gets larger so does the other), negatively correlated (as one variable gets larger the other gets smaller), or not correlated (the null hypothesis, that there is no relationship between the two variables) (+,-,0).

Pearson's r is a bivariate statistical model that analyzes two variables. Pearson's correlation was used to test an associative research hypothesis since the variables being analyzed are both quantitative. Pearson's correlation may only be used to test a causal research hypothesis

when the research design is a true experiment (when there is random assignment of individuals by the researcher before manipulation of the IV, manipulation of the IV, and no confounds).

The results of the correlation analysis are indicated in table 4.5 below.

Table 4. 6: Pearson’s correlation results

	N	Mean	Std. Dev	1	2	3	4
Tax payers’ attitude (1)	218	3.04	.462	1			
Social norms (2)	218	3.06	.433	.497**	1		
Tax payers’ intention (3)	218	3.06	.538	.447**	.383**	1	
Tax compliance (4)	218	3.31	.579	.221**	.152*	.475**	1

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

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

4.4.1 Relationship between tax payers’ attitude and tax payers’ intention

From Pearson’s correlation table 4.5 above, there might be a significant positive relationship between the independent variable and the mediator variable since ($r = .447$, P value <0.01). This means that there might be a significant positive relationship between tax payers’ attitude and tax payers’ intention. This might imply that when tax payers’ attitude increases, tax payers’ intention also improves among SMEs.

4.4.2 Relationship between social norms and tax payers’ intention

From Pearson’s correlation table 4.5 above, there might be a significant positive relationship between the independent variable and the mediator since ($r = .383$, P value <0.01). This means that there might be a significant positive relationship between social norms and tax payers’

intention. This might imply that social norms affect tax payers' intention to pay taxes among SMEs owners.

4.4.3 Relationship between tax payers' intention and tax compliance

From Pearson's correlation table 4.5 above, there might be a significant positive relationship between the mediator variable and dependent variable since ($r = .475$, $P \text{ value} < 0.01$). This means that there might be a significant positive relationship between tax payers' intention and tax compliance. This might imply that better tax payers' intention leads to increased tax compliance among SMEs owners.

4.5 Regression analysis

Since Pearson's correlation result was positive, hierarchical regression that was assumed to be more sophisticated extension of correlation was used to explore the predictive ability of a set of independent variables on one continuous dependent measure (Pallant, 2005). This provided information about the model as a whole (all subscales), and the relative contribution of each of the variables that made up the model (individual subscales). Furthermore, coefficient of determination (R) was used to explain by how much the predictor variables explained the predicted value of outcome (Field & Hole, 2003; Field, 2005). Based on the study model, tax payers' attitude, social norms, and tax payers' intentions were entered into model 1, 2 & 3 respectively, to determine what each added to the prediction of the dependent variable, tax compliance. The relative contribution of each model was assessed and the overall model was assessed in terms of ability of independent and mediating variables to predict the dependent variable as discussed and indicated in table 4.6 below.

i) Model 1:

When tax payers' attitude was entered into the equation, the model yielded high significant results accounting for 2.8 percent of the variation in tax compliance with $F = 6.123, p < 0.005$.

ii) Model 2:

The addition of social norms into the equation resulted into an extra 6.9 percent variability in tax compliance, which was found to be significant with $F = 9.629, p < 0.005$.

iii) Model 3:

Finally, when tax payers' intention was added into the equation, it accounted for an extra 29.1 percent variability in tax compliance with $F = 66.847, p > 0.001$. The addition of tax payers' intention contributed to a total variance by overall model to 29.1 percent. Thus, this implies that the remaining 70.9 percent variability in tax compliance is explained by factors not considered by this study as indicated in table 4.6 below.

Table 4. 7: Showing hierarchical regression analysis

Predictor	Dependent Variable: Tax compliance		
	model 1	model 2	model 3
Constant	3.871	3.147	2.088
Tax payers' attitude	.166*	.257**	.211*
Social norms		.224*	.009**
Tax payers' intention			.512**
R ²	.028	.069	.291
Adj. R ²	.023	.061	.281
R ²	.028	.042	.222
F	6.123	9.629	66.847

Notes: $n = 218$; ** $p < 0.01$, * $p < 0.05$

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings, conclusions, recommendations and suggestions of areas for further study. The study is divided into three sections; discussions of results, conclusion and recommendations. The findings are discussed in reference to the research objectives.

5.2 Discussion of the Findings

5.2.1 Relationship between tax payers' attitude and tax payers' intention

The hierarchical regression table 4.7 above showed that there is significant relationship between tax payers' attitude and tax payers' intention. This finding is consistent with the theory of reasoned action (Fishbein & Ajzen, 1975) and the theory of planned behaviour (Ajzen, 1991), which incorporate attitudes as one of the determinants predicting behaviour. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals 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. Attitudes towards tax evasion are often found to be quite positive.

The finding is also in line with studies by scholars such as Orviska & Hudson (2002), Trivedi, Shehata, & Mestelman (2004), who found that attitudes among fined tax evaders and honest tax payers explain in part self-reported tax evasion, but are insignificant predictors of actual behaviour. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes, nevertheless “we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase” (Lewis, 1982).

Furthermore, it is argued that attitudes affect intentions and intentions affect behaviour. Attitudes are formed in a social context by such factors as the perception in the tax system, the perceived fairness of the tax structure, its complexity and stability, Government policies affecting any of these factors may influence taxpayer attitudes and hence the observed level of taxpayer compliance. Research has identified numerous factors that affect taxpayers’ attitude towards compliance (Richardson and Sawyer, 2001). These factors are categorized in broad terms as economic, structural, demographic/personal and attitudinal traits and often these factors overlap. The economic factors are based on the premise that tax evasion will respond to sanctions (Coleman & Evans, 2003). Taxpayers undertake a cost/benefit analysis and will comply if the benefit exceeds the cost of compliance (Allingham & Sandmo, 1972). Thus, the taxpayer is a utility maximiser. Additionally, Allingham & Sandmo (1972) assert that tax payers behaviour of non-compliant depends on their belief of the probability of being detected through an audit and the severity of legal penalties imposed. McKerchar (2003) discusses this from the economic deterrence model perspective and traces its origin from Becker (1968) who believed that “the deterrents to illegal behaviour, the probability of being caught and the type of

punishment were within the control of society (McKerchar, 2003). Thus, conclusively, Ajzen (1991) suggests that attitude toward behaviour as the degree to which the person has a favourable or unfavourable evaluation of the behaviour in question.

5.2.2 Relationship between social norms and tax payers' intention

The hierarchical regression table 4.7 above showed that there is a significant relationship between social norms and tax payers' intention. According to TPB, norm as refers to social pressure exerted by important referent individuals or groups who are close to the individual and who approve or disapprove of performing a given behaviour (Ajzen, 1991). Indeed, the theory suggests that pressures to behave in a particular manner may come from significant referents such as friends, parents, family members, etc. In other words, an individual will carry out an action if he/she believes that important people to him/her think that he should carry out this action (Zainol, Kamil, & Faridahwati, 2009). Thus, if a person believes that the most important referents or individuals to him/her think that the behaviour should be performed, then he/she will perform that behaviour. Subjective norms are the influence of social pressure that is perceived by the individual, and it is a function of beliefs namely normative beliefs. Finally, perceived behavioural control reflects the perceived ability to execute target behaviour (Ajzen, 1987).

This study result is consistent with previous studies in various fields have shown that social norms could influence positively and significantly behavioural intention (Bobek & Hatfield, 2003; Park & Blenkinsopp, 2009; Ross et al, 2007; Tarkianen & Sundqvist, 2005; Taylor & Todd, 1995). In the field of direct tax, Bobek and Hatfield (2003) demonstrated the positive and significant effect of subjective norm on intention to comply with tax. Bobek and Hatfield (2003) defined social norm as a relevant group that could influence directly an

individual's belief to behave. Triverdi et al. (2005) revealed that social norm influences positively and significantly intention to comply with tax. Similarly, Bobek et al., (2005) demonstrated the significant and positive effect of subjective norm on intention to apply for tax refunds for overpaid tax.

Additionally, Braithwaite (2001) also observed that sufficiently large number of people must also have an interest in enforcing the norm. Most people probably have an interest in others paying their taxes, but if they do not pay themselves, they nevertheless get access to the public goods financed by taxes. This is a classical free-rider problem, which may partly be solved by measures like constructing a tax system where it is difficult to underreport, a control system that increases the risk of detection and legal punishments that intimidate tax cheating. But, it may also partly be solved by informal norms that condemn tax cheating. The more legitimate is the tax system, the more likely it is that such norms are widespread, and eventually internalized in people's minds, thereby affecting their behaviour. A high degree of norm internalization would here mean tax compliance as a more or less reflexive behaviour, without taking the risk of detection and sanctions into consideration. Otherwise, norm obedience requires sanctions against those who deviate. For such sanctions to develop communication about the issue must occur and others must be able to provide informal sanctions or rewards to the individual. These are weak links in the process of transforming shared moral values into an effective norm.

5.2.3 Relationship between tax payers' intention and tax compliance

The hierarchical regression table 4.7 above showed that there is a significant relationship between tax payers' intention and tax compliance. This finding is supported by the argument that intention is one's willingness to carry out a particular behaviour, and it is proposed to be an antecedent of behaviour. Besides, according to Fishbein and Ajzen (1975), the main source of behaviour is intention, which is determined by three main factors i.e. attitude towards behaviour, subjective norm, and perceived behavioural control. Intention is the main focus on the present study because previous studies on tax often neglected this variable as an important agent that could influence tax compliance behaviour. Thus, based on the Theory of Planned Behaviour (TPB), intention to behave is determined by attitude toward the behaviour, social norm, and perceived behavioural control (Ajzen, 1987; Ajzen & Driver, 1992; Taylor & Todd, 1995). Intentions are assumed to capture the motivation of tax payers to have positive attitudes towards the tax system, consequently encourage them to comply.

Thus, this study is in line with existing empirical evidence on the influence of attitude on intention abounds. Indeed, Bobek (1997) found that when tax payers have a positive attitude toward paying tax, the higher the intention to pay the tax. In a closely related area to tax i.e. alms giving or zakah, a similar finding is reported (Zainol, Kamil, & Faridahwati, 2009). Witte and Woodbury (1985) also found consistent result where they showed that attitude plays an important role in influencing one's intention to comply with tax. All the empirical evidence highlights that attitude toward tax is the main determinant of intention to compliance or non-compliance with tax amongst individuals (Jackson & Milliron, 1986).

5.3 Conclusion

The regression analysis and correlation coefficient showed that there is a significant positive relationship between tax payers' attitude and tax payers' intention. This implied that attitudes encourage individuals 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. Therefore, attitudes towards tax evasion are often found to be quite positive.

The regression analysis and Pearson's correlation showed that there was a significant positive relationship between social norms and tax payers' intention. This implied that if a person believes that the most important referents or individuals to him/her think that the behaviour should be performed, then he/she will perform that behaviour. Subjective norms are the influence of social pressure that is perceived by the individual, and it is a function of beliefs namely normative beliefs.

The regression analysis and correlation coefficient also showed that there was a significant positive relationship between tax payers' intention and tax compliance. The main source of a behaviour is intention, which is determined by two main factors i.e. attitude towards behavior and subjective norm. Indeed, intention is the main focus on the present study because previous studies on tax often neglected this variable as an important agent that could influence tax compliance behaviour. Thus, based on the Theory of Reasoned Action (TRA), intention to behave is determined by attitude toward the behavior and social norm

5.4 Recommendations

- i. The tax authority should design interventions that pre-emptively address the causes of non-compliance rather than administer solutions post hoc which may encourage non-compliance.
- ii. The government of Uganda and URA should step up efforts of using more behavioral (non economic) measures of encouraging SMEs taxpayers' to comply than concentrating on using deterrence (economic) measures to encourage compliance.
- iii. URA should have a plan for checking and nurturing positive social norms and attitude which will create conducive platform for SMEs taxpayer satisfaction and trust.
- iv. URA should consider the main elements of taxpayers' intention to improve tax compliance and align it with Government's policy. More training and seminars should be conducted in order to improve taxpayers' attitude, social norms and compliance.
- v. To enhance tax compliance among SMEs taxpayers' URA should establish harmonious working relationship with all stakeholders through vigorous public relations to reverse the negative image of the institution.
- vi. Tax compliance procedures should be simplified because in most cases they are found to be very complicated for SMEs, especially for those who do not keep proper book of account and sometimes do not understand the tax laws in order to reduce the compliance costs in terms of money and time.
- vii. Since there was a positive relationship between taxpayers' attitude, social norms, taxpayers' intention and tax compliance, the tax authority needs to put all this factors inconsideration if they are to realize increased levels of revenue through tax compliance.

- viii. URA should be cautious when using controlling, supportive approaches to influence compliance behavior. The compliance strategy should incorporate both deterrence and normative approach. Normative approach can be in its mass media campaigns, letters sent out on its website and in moments of personal contacts.

3.9 Limitations to the Study

There are several limitations of this study that should be considered when interpreting the results:

- i. There may be shortcomings on the accuracy of the research tools and methodology, the tools adopted and used in this study may have given varying results elsewhere in past studies.
- ii. The researcher focused on the relationship between taxpayers' attitude, social norms, taxpayers' intention and tax compliance yet taxpayers' intention also has relationship with behavioral controls like threats of detection and punishment. This model was adopted because of easy operation of the variables under study and its applicability in certain contexts.
- iii. The model has some limitations including a significant risk of confounding between attitudes and norms since attitudes can often be reframed as norms and vice versa. A second limitation is the assumption that when someone forms an intention to act, they will be free to act without limitation. In practice, constraints such as limited ability, time, environmental or organizational limits, and unconscious habits will limit the freedom to act. Validity and reliability of the research instruments were carefully done in order to solve these problems.
- iv. Measurement scales used in the study were adopted from previous studies carried out in more developed countries since there was limited research done on taxpayers' attitude,

social norms and tax compliance in developing countries, literature and measurement scales for the variables were not easy to obtain. The scales were adapted to suit the Ugandan setting to make them relevant

- v. In order to study the nature of attitude, social norms and tax compliance, a longitudinal study should have been done in order to assess them over time. Given the time limitations of the study the cross sectional approach was used to study the relationship between variables. The study however generated a significant data set that was examined for potential relationships between the variables.

5.6 Areas for further research

This research is not conclusive but the results provide wealth of opportunities for future tax researchers on taxpayers' attitude, social norms and tax compliance;

- i. This particular research could be followed up with addition of perceived behavioral control to the model in order to capture behaviors which are completely outside the volition control of a taxpayer.
- ii. This paper recommends the integration and operationalisation of the model to develop compliance interventions. Further research must be conducted as to how best to apply the techniques and carry out pilot studies to assess the effectiveness of interventions to change and enhance compliance behaviour.
- iii. Further research is also necessary to define and understand what is considered to be 'too complex' for a taxpayer. Evaluation of different levels of taxation and administrative system complexity can be used to develop interventions that can assist taxpayers in meeting their obligations.

- iv. Research could examine in more detail the specific factors identified in this study. For example, what are the psychological factors behind the behavioral beliefs “feel pleased”?
- v. Research could potentially examine the most optimal way to improve taxpayers’ attitude and social norms. This current study did not manipulate the type or amount of information received by taxpayers’. Future research could also examine what specific pieces of information are useful for improving compliance.
- vi. Relationship between social norms and taxpayers’ intention with taxpayers’ attitude as mediating variable could be investigated further since this was not looked at. This would help to find out how social norms affect taxpayers’ attitude and hence intention.
- vii. Future research could use a longitudinal study in order to assess the nature of taxpayers’ attitude, social norms and tax compliance over time since cross sectional research design was used due to time limitation.

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APPENDICES

Appendix A: Questionnaire

MAKERERE UNIVERSITY BUSINESS SCHOOL

QUESTIONNAIRE FOR SMEs

Tax Payers’ Attitude, Social Norms and Tax Compliance among Small & Medium Enterprises in Arua District (to be filled in by owner or manager of small & medium enterprises or a person in charge of tax affairs)

Dear Respondent:

I am carrying out research for academic purposes on tax payers’ attitude, social norms and tax compliance among small and medium enterprises in Arua district. This questionnaire is intended to facilitate research on “Explaining Compliance behaviours of tax payers”, to fulfill the requirement for the Award of Masters of Science in Accounting and Finance of Makerere University. You are kindly requested to answer the following questions honestly to facilitate this study, which is purely for academic purposes.

All the information provided will be treated with utmost confidentiality required of the accounting profession. Please kindly fill Questionnaire form with the response that you think is most appropriate by ticking in the box or filling in your contribution.

Thank you for your participation and if you have any questions please do not hesitate to contact me directly on Tel. No. (+256752404659)

Sincerely, Anguzu Moses

A. BACK GROUND

- 1. Name of the Organization.....
- 2. Number of years in operations
 - a) 5-10 years
 - b) 11-15
 - c) 16-20
 - d) Above 20 years
- 3. Gender
 - Male
 - Female
- 4. Educational background of the Officer
 - a) A’ level
 - b) Diploma
 - c) Degree
 - d) Masters
 - others.....
- 5. What best describes your position in the Organization
 - a) Manager
 - b) Finance officer
 - c) Auditor
 - d) Accountant
- 6. Number of years of experience in the organization
 - a) Below 2 years
 - b) 2-5
 - c) 6-9
 - d) Above 10 years

B. TAX PAYERS ATTITUDES

Please indicate the extent to which you agree or disagree with the following statements as they relate to financial management practices of your institution.

(Strongly Disagree=1 Disagree=2 Not sure=3 Agree =4 strongly Agree=5)

	TAX PAYERS ATTITUDES	1	2	3	4	5
1	I am always not upset when asked by URA to declare my sales income.	1	2	3	4	5
2	I am always not guilty when asked by URA to declare my sales income.	1	2	3	4	5
3	I always feel pleased if I declare my business income from sales.	1	2	3	4	5
4	I am always not guilty when URA demands my tax records.	1	2	3	4	5
5	I always declare my sales income in order to have smooth running of my business.	1	2	3	4	5
6	I always declare my sales income to avoid interference in running my business.	1	2	3	4	5
7	I always want to follow what URA requires as far as paying my taxes is concerned.	1	2	3	4	5

C. SOCIAL NORMS

Please indicate the extent to which you agree or disagree with the following statements as they relate to financial management practices of your institution.

(Strongly Disagree=1 Disagree=2 Not sure=3 Agree =4 strongly Agree=5)

	SOCIAL NORMS	1	2	3	4	5
1	My business partners would think that I should not declare my sales income.	1	2	3	4	5
2	My business partners would think that I should declare my sales income.	1	2	3	4	5
3	My business partners would approve my decision to understate my sales income.	1	2	3	4	5
4	My business partners would not support of my decision to understate my sales income.	1	2	3	4	5
5	My Business Partners will approve my decision of having good working relationship with URA.	1	2	3	4	5
6	My Business Partners would not approve my decisions of having good working relationship with URA.	1	2	3	4	5
7	I always want to follow what my business partners feel is right for us to pay as taxes.	1	2	3	4	5

D. TAX PAYERS INTENTION

Please indicate the extent to which you agree or disagree with the following statements as they relate to financial management practices of your institution.

(Strongly Disagree=1 Disagree=2 Not sure=3 Agree =4 strongly Agree=5)

	TAX PAYERS INTENTION	1	2	3	4	5
1	I always report my sales income as required by URA.	1	2	3	4	5
2	I do not attempt to cheat by under declaring my sales income.	1	2	3	4	5
3	I always declare all my sales income from trading with friends and neighboring businesses.	1	2	3	4	5
4	I will always declare my income without omissions on all taxes.	1	2	3	4	5
5	I always declare all sales income to avoid interference in running my business.	1	2	3	4	5
6	I always declare all my sales income without considering my business partners.	1	2	3	4	5
7	I always declare all my sales income to create good working relationship with URA.	1	2	3	4	5

E. TAX COMPLIANCE

Please indicate the extent to which you agree or disagree with the following statements as they relate to financial management practices of your institution.

(Strongly Disagree=1 Disagree=2 Not sure=3 Agree =4 strongly Agree=5)

	TAX COMPLIANCE	1	2	3	4	5
1	I keep up to date transaction records and books of accounts.	1	2	3	4	5
2	I always pay my taxes in time	1	2	3	4	5
3	I always file my taxes in time	1	2	3	4	5
4	I always file my tax return without the assistance of a tax expert/an accountant	1	2	3	4	5
5	The tax system is easy to understand i.e. rate of tax, filing and paying dates	1	2	3	4	5
6	I can accurately determine my tax liability	1	2	3	4	5
7	If my income increased I will be motivated to pay my taxes	1	2	3	4	5
8	I have not exaggerated the amount of deductions in my income tax return.	1	2	3	4	5
9	I am absolutely confident about the legitimacy of the claims in my income tax return	1	2	3	4	5
10	I declare all my income earned for tax purpose	1	2	3	4	5
11	It is everyone's responsibility to pay the correct amount of tax	1	2	3	4	5
12	It is every ones responsibility to comply with the tax laws	1	2	3	4	5
13	Understanding the tax law does not do anyone any harm	1	2	3	4	5
14	It does not matter if people claim a lot more in deductions than they are entitled to	1	2	3	4	5

15	I do not have an outstanding debt with URA	1	2	3	4	5
16	I have never attempted to avoid tax	1	2	3	4	5
17	URA has never threatened me about an outstanding bill	1	2	3	4	5
18	I pay actual taxes assessed	1	2	3	4	5
19	The tax authority audits my books of accounts to ensure compliance	1	2	3	4	5

Thank you for your time and responses