

MAKERERE



UNIVERSITY

**TAX ADMINISTRATION, TAX FAIRNESS AND TAX COMPLIANCE
A CASE OF SMALL SCALE ENTERPRISES
IN WAKISO DISTRICT**

BY

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DECLARATION

I, **Emmanuel Muhire**, do hereby declare that this dissertation is my original work and to the best of my knowledge, not been published or submitted for any degree award to any other University.

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APPROVAL

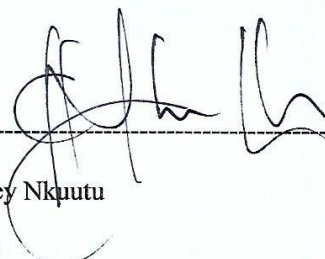
This is to certify that this dissertation has been submitted for examination with our approval as University Supervisors.

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DEDICATION

I dedicate this research report to the Almighty God, who always opens opportunities for me, my family (Munyaruguru family) for always being there to support me in all ways and of course friends and relatives that have been there always encouraging me during my course of study.

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I wish to thank the staff and management of selected SMEs for the warm cooperation you accorded me during this study. Thanks to all the respondents for the cordial responses to the questionnaires. May the Lord reward you and may you remain blessed ever after.

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ABSTRACT

The purpose of this study was to investigate the relationship between tax administration, tax fairness and tax compliance of SMEs in Wakiso. The study was guided by the following research objectives; to examine the relationship between Tax Administration and Tax Fairness among SMEs in Wakiso District; to examine the relationship between Tax Fairness and Tax compliance among SMEs in Wakiso District and to investigate the relationship between Tax administration and Tax Compliance among SMEs in Wakiso district.

This study took a cross sectional research design where a sample of 292 SMEs was selected for the study. Primary data was collected using the questionnaire. The data was collected using interview and questionnaires. Data was analyzed using SPSS (20) package and descriptive, correlation, and regression analysis were carried out.

Findings revealed that there was a significant positive relationship between all the study variables tax administration, tax fairness and tax compliance. Results from the regression analysis showed that tax administration and tax fairness significantly predicted 33.6% of tax compliance of SMEs. The study recommends for improvement in tax fairness among SMEs so as to achieve excellent tax compliance levels, the tax authorities at the district should continuously sensitize the public or tax payers about taxation, periodic consultative sessions should be organized for both tax payers and tax authorities, giving accountability to the tax payers, the tax authorities should continuously train their employees, a survey should be organized by the tax authorities on the tax fairness and tax compliance and that the tax compliance procedures should be simplified because in most cases they are found to be very complicated for SMES. In addition, URA need to continuously review their tax administration systems to meet the dynamic environmental changes and URA should increase tax fairness among the SMEs in Wakiso

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (Ahmed, & Braithwaite, 2005). Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may give rise to incorrect filling of their tax returns and loss of revenue to the government. Tax compliance among Small and Medium Enterprises has been identified as a critical issue in developing economies (Tusubira & Nkote, 2013). Several scholars such as; Alabede et al, (2011) have defined tax compliance as the full payment of all taxes due, this is evidenced by taxpayer willingness to meet the obligations and responsibilities imposed on them by the tax laws, rules and regulations without the revenue agency applying any enforcement activity (SEATINI Uganda; Tax Justice Network Africa, 2013). Several scholars such Alabede et al (2011) have described and measured tax compliance in terms of timeliness, reliability, returns filling and timely payment. Odongo (2014) found tax compliance levels among the SMEs in Uganda to be very low. However in the Uganda context particularly Wakiso District, Tax Compliance among SMEs has continued to be poor (Daniel et al., 2013; Kennedy et al., 2014; URA quarterly, 2016).

Tax administration has been found to have a significant relationship with tax compliance (Matthijs et al., 2016). Tax Administration is simply the implementation and enforcement of tax laws which is achieved through, inter alia: proper registration of taxpayers, processing of tax returns, carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers, detection and prosecution of tax fraud; and imposing of penalties and interest payments. It is believed that tax administration is very important in tax compliance (Margaret & Chris, 2009) and the extent of success of the Tax

Administration in its role should be reflected through a higher level of tax compliance and a lower level of tax evasion (Gordana, 2015). In spite of the tax administration being so critical, Tax fairness has also been known to be very significant with tax compliance. It is taken as the balance in costs and benefits of the tax, (Peter & Goslinga , 2009). In the works of Natrah Saad, seven dimensions of tax fairness are identified. They include; general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness and administrative fairness (Natrah , 2012).Several researchers have found out that tax payers' perception of tax fairness disproportionately affects tax compliance (Serkan, Tamer, & Ahmet , 2012, Natrah , 2012, Margaret & Chris , 2009, Odd-Helge , Collette , & Ingrid , 2012). Empirical evidence reveals that poor compliance levels by small business taxpayers have been blamed to cause a staggering Ugx 15.359 billions in 2014/2015, 18.7845 billions in the financial year 2015/2016, and 23.347 billions in 2016/2017 (Wakiso Tax Department Management Report, 2016/2017).

The study adopted the Deterrence theory and the Psychology Theory. Deterrence theory places emphasis on incentives. The theory suggests that taxpayers are moral utility maximizers who are influenced by economic motives such as profit maximization and probability of detection (Riahi-Belkaoui, 2004). Psychology theory posits that taxpayers are influenced to comply with their tax obligations by psychological factors. The theory suggests that a taxpayer may comply even when the probability of detection is low (Riahi-Belkaoui, 2004).

The analysis of such suggests that there is poor level of tax compliance in Wakiso district. Cullis and Lewis (1997) observed that taxpayers reaction to a tax system and tax authority is changeable and has much to do with tax fairness. Tax fairness is built through increasing understanding about taxes (Mukhlis, Utomo & Soesetyo, 2014). This understanding is important in dealing with the benefits associated with taxes, tax rates and tax penalties, tax administration and tax services. Unfortunately, the relationship between tax administration, tax fairness and tax compliance has

not been investigated in Wakiso district. Therefore, there is need to undertake such study to close the gap.

1.2 Statement of the Problem

The low compliance levels by small business taxpayers have been blamed to cause a staggering Ugx 19.52 billion 2016/2017 in domestic tax arrears more especially in Wakiso District as reported by URA for the financial year 2015/2016 (Office of the Auditor General 2016). Additional evidence further reveals that about 60% of SMEs in Wakiso have received fines and penalties for delayed payment of Tax obligations and their continued inconsistencies in payments. Hence resulting into many SMEs being closed (Annual URA report, 2016). This trend of non-tax compliance among SMEs in Wakiso District has greatly continued over the past years. For instance Wakiso district annual report (2016) provides evidence of poor returns filing, delayed payments and inconsistencies in payments plans. This could be attributed to poor tax administration and poor tax fairness. This therefore sought the basis for the researcher to investigate the relationship between tax administration, tax fairness and tax compliance among SMEs in Wakiso district.

1.3 Purpose of the Study

The study sought to establish the relationship between Tax Administration, Tax Fairness and Tax Compliance among SMEs in Wakiso District.

1.4 Objectives of the Study

- i. To establish the relationship between Tax Administration and Tax Fairness among SMEs in Wakiso District.
- ii. To establish the relationship between Tax Fairness and Tax compliance among SMEs in Wakiso District.
- iii. To establish the relationship between Tax administration and Tax Compliance among SMEs in Wakiso district.

1.5 Research Questions

- i. What is the relationship between Tax Administration and Tax Fairness among SMEs in Wakiso District?
- ii. What is the relationship between Tax Fairness and Tax compliance among SMEs in Wakiso District?
- iii. What is the relationship between Tax administration and Tax Compliance among SMEs in Wakiso district?

1.6 Scope of the Study

1.6.1 Subject Scope

The study focused on the relationship between Tax Administration, Tax Fairness and Tax Compliance in Wakiso district.

1.6.2 Geographical Scope

The study was carried out in Wakiso district basing on the fact that Wakiso district has many challenges concerned with tax administration, tax fairness and tax compliance.

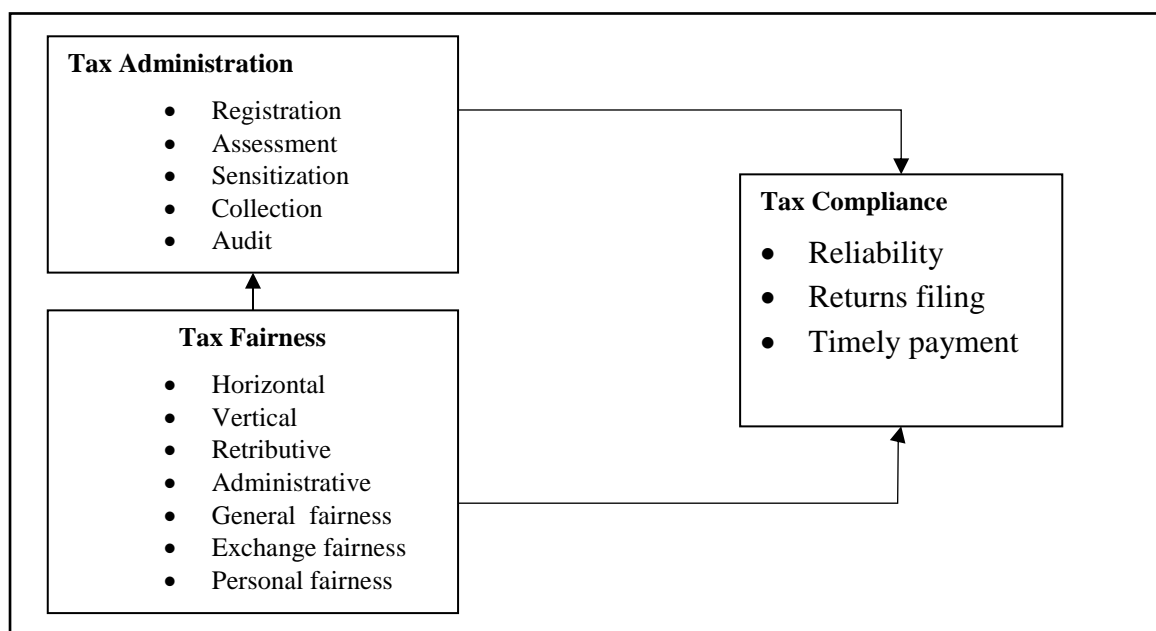
1.7 Significance of the Study

- i. The study would be an academic resource to narrow the knowledge divide between Tax Administration, Tax Fairness and Tax Compliance.
- ii. From a practical perspective, the information on tax administration, perceived fairness of tax system and tax compliance can assist policy makers, particularly tax authorities in reviewing and modifying current tax systems.
- iii. The study findings would contribute to the available knowledge on tax administration, tax fairness and tax compliance and also fill the gap on the relationship between these variables especially by providing literature from Uganda for future reference by the other researchers.

Ahmed, E., and Braithwaite, V. (2005), Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and work practices. *International Small Business Journal*; 23, 539-568.t

1.8 Conceptual framework

Figure 1: Conceptual Framework of the study



Source : Based on the works of (Saad (2011); Alan, (2007); Natrah (2012) and Serkan , Tamer , & Ahmet (2012); Matthijs & Victor (2016).

Description of the Model

According to the model, tax administration and tax fairness (Independent variables) influence the level of compliance (Dependent variable). Tax administration was studied in form of registration, assessment, sensitization, tax collection and audit. Tax fairness was studied in form of horizontal, vertical, redistributive, administration, general fairness, exchange and personal fairness. Tax compliance was studied in form of reliability, returns filling and timely payment. Fairness simply measures the individuals' judgments on whether or not the income tax is generally fair. Exchange fairness on the other hand represents the exchange of contribution and benefit between the taxpayers and the government, it holds that taxpayers will have fair perceptions of the tax system if the benefits received from the government are equitable compared to their contributions. According to Juan & Juan (2012), Tax Administration can be assessed by the quantitative technique based on numerical indicators to measure relative success of tax collection and its effectiveness, qualitative approach looking for the existence of certain characteristic of good governance in the tax system and the systematic approach designed to identify practices and trends that distinguish the world's most advanced tax administrations based on their ability to ensure a high level of compliance at a low administrative cost (Juan & Juan, 2012). Literature further more indicates other factors that independently influence tax compliance such as personal ethics based on religion or cultural norms (Steenbergen, McGraw & Scholz, 1992) and levels of enforcement among others.

1.9 Small and Medium Enterprises (SMEs) in Uganda

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 (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). Inadequate knowledge and skills about tax procedures are the major qualities of most SMEs in Uganda, as most owners hire incompetent family members to keep proper financial records (Kiwanuka, 2004).

Many SMEs taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency (European Commission, 2007; Nakiwala, 2010). According to MoF & MoR (2007) one of the chief features of SMEs is the lower level of the specialist tax expertise and greater owner-involvement in day-to-day management and this calls for them to search for assistance from experts (Bertolini, et al, 2010).

Consequently, countries like Uganda are still characterized by the low income tax compliance levels, in the face of the numerous advocacies for voluntary tax compliance (Ayoki, 2008; Kangave, 2015; Bird, 2004). Many of such governments have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2015), which have still failed to yield. Uganda' s income tax compliance was very low at 38% by the end of 2015 (Ayoki, 2006), yet the tax regime is oriented more towards consumption taxes rather than income taxes as income taxes account for only 27% of net revenue collections (URA, 2006/07).

This has been aggravated in comparison by lower ratio of tax revenue to GDP of 13.5% compared to Namibia (31%), Kenya (21.2%), Burundi (19%), Ghana (17.2) to mention a few in Sub-Saharan African countries with similar tax structures in 2006/07 (Ayoki, 2008). Besides, the low compliance level in Uganda has been deep-rooted in incessant stagnation of income taxes at 25.8% from 13.2% with high rates of tax avoidance and evasion (Mugambe, 2007). In addition the tax potential of SMEs in developing countries is partially exploited as most enterprises have small profits from the inaccurate financial records (Nakiwala, 2010); hence having presumptive tax revenue contribution towards total tax revenue in Uganda as less than 0.5% of total tax. It is suspected that low income tax proficiencies among tax payers may be responsible for the low levels of income tax compliance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the existing literature on tax administration, tax fairness and tax compliance among SMEs as discussed by different authors. It brought out the appreciations of what has been done on the variables under study but also, the gaps that were identified in the existing body of literature that makes the focus of this study.

2.1 The theories of taxation

The study is based on two theories that the deterrence and psychology theory.

Deterrence Theory

This theory places emphasis on incentives. The theory suggests that taxpayers are moral utility maximizers who are influenced by economic motives such as profit maximization and probability of detection. Hence, the taxpayers analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative way that maximizes their expected after tax returns after adjusting for risk. Therefore, according to the theory, in order to improve compliance, penalties for non-compliance should be increased. Thus, there is a theoretical positive relationship between tax penalty and tax compliance. Increase in tax penalty would lead to increase in tax compliance and vice versa.

Psychology Theory

Psychology theory posits that taxpayers are influenced to comply with their tax obligations by psychological factors. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the deterrence theory that emphasizes increased

penalty as solution to compliance issues, psychology theory lays emphasis on changing individual attitudes towards tax systems. Thus, one instrument of changing taxpayers' attitude to tax matters is tax education. It is assumed that improved tax education would increase tax compliance and vice versa.

2.2 Tax Compliance

Tax Compliance is defined as filing all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the tax code, regulations and court decisions applicable at the time the return is filed (Doran, 2009).

Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due (timeliness) (Franzoni, 1999). Tax compliance in respect to income tax is defined as the ratio of declared income to actual income (Chang-Gyun, Hyun & Yoo, 2000). Tax non-compliance or evasion, on the other hand, happens when taxpayers intentionally fail to comply with their tax obligations, resulting to loss of revenue, which may cause serious damage to the proper functioning of the public sector (Franzoni, 1999). Tax compliance is of growing national concern in all tax jurisdictions, there is no agreement as to how the concept should be defined. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations (Alabede et al, 2011). Tax compliance generally means the willingness of the taxpayer to act in accordance within the spirit of tax law and administration without the application of enforcement activity. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James (2004) indicated that the meaning of tax compliance concept can be given from different perspectives but they define tax compliance as the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity.

2.3 Tax Fairness

Tax fairness is understood as a multifaceted concept that includes general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness and administrative fairness (Merima et al, 2013; Mohd & Ahmad, 2011, Natrah, 2012). General fairness simply measures the individuals' judgments on whether or not the income tax is generally fair. Exchange fairness on the other hand represents the exchange of contribution and benefit between the taxpayers and the government, it holds that taxpayers will have fair perceptions of the tax system if the benefits received from the government are equitable compared to their contributions. Meanwhile, horizontal fairness recommends that, for the tax to be perceived as fair, taxpayers in similar economic conditions should pay the same amount of tax. However, Vertical fairness, on the other hand, asserts that taxpayers in different economic situations should be taxed at different rates. While retributive fairness is concerned with the fairness of punishments imposed, personal fairness relates to a taxpayer's perception of whether or not the tax system is favourable to them. Finally, administrative fairness is concerned with content of the tax laws and procedures employed by the tax authorities to implement and enforce such (Natrah , 2012), Saad, 2009, Peter & Goslinga , 2009, Daniel, et al., 2013).

To date, a number of studies on fairness perceptions have been conducted, but they merely focused on limited dimensions of fairness. For instance, Kirchler et al. (2006) had focused on vertical fairness while Gerbing (1988) identified four dimensions of fairness, which include general fairness, exchange fairness, tax on the wealthy, and tax structure. Another study on the US income tax system was conducted by Bobek (1997) which was concerned with distributive fairness, procedural fairness and policy fairness. In Malaysian environment, Azmi and Perumal (2008) who replicated the work of Gerbing (1988) suggested that Malaysian taxpayers perceive the fairness of the income tax system in terms of general fairness, tax structure and self-interest.

Fairness represents the equity of the exchange with the government and the equity of the taxpayer's burden vis-à-vis other taxpayer's burden. It relates to the perceived balance of taxes paid and public goods received, and to the perceived justice of procedures and penalties of breaking the norms (Wenzel, 2003). In the context of tax behaviour, perceived fairness can be expressed in the form of distributive justice, procedural justice and retributive justice. Distributive justice refers to a fair exchange of resources, benefits and costs. Fairness consideration assumes comparing contributions and benefits, as well as how the taxpayer feels he is treated relative to others (Kirchieret et al, 2014). Distributive justice is further classified into three groups: horizontal, vertical and exchange fairness. Horizontal fairness refers to a situation where there is a fair distribution of benefits and costs to people of the same income group. On the other hand, vertical fairness provides for the distribution of benefits and costs among people of unequal situation (for example, people that earn more income and people that earn less income). Similarly, exchange fairness refers to the relationship between a taxpayer's burden and the provision of public goods and services by the government. It is argued that the taxpayer will not be willing to comply with tax laws if there is perceived imbalance between the tax contribution and the provision of public goods and services (Porcano cited in Hofmann, et al, 2008). Exchange with government requires that taxpayers' behaviour should be influenced by the benefits received (Tan and Chin-Fatt, 2000, Kirchler et al, 2010).

The procedural justice form of perceived fairness assumes that the process of tax collection is linked to resource distribution. When authorities enact procedures in a fair manner, members of the tax group are more likely to voluntarily comply with their decisions (Tyler 2006, et al, 2001, Chung and Trevidi, 2003, Saad 2014, Kim 2002). The perceived fairness used in making allocation decisions is assumed to be more fair when followers have freedom to voice their opinion on the decisions of the relevant authorities and when authorities take decisions accurately and not because of self-interest (Decremer 2004, Magner, et, 2000). It is assumed that

fair treatment of taxpayer and the norm of mutual understanding between the taxpayer and tax authority will improve confidence in the tax authority.

Accordingly, Kirchler et al, (2006) argue that tax compliance will increase when the tax authorities are perceived to be supportive. In this line of thought, fairness procedure is assumed to be used to guarantee fair outcomes on long term, increasing taxpayer's willingness to contribute towards common good (Shapiro and Brett, 2005; cited in Van Duke and Verboon, 2010).

Retributive justice is conceived as the perceived fairness of norm-keeping measures (for example, audit and punishment). Accordingly, Hofmann, Hoelzl and Kirchler (2008) opined that inconsiderate audits and unfair penalties may lead to negative attitudes toward tax authorities. Thus, when tax policies and measures are not sufficient to reward those that have obeyed the laws, it will discourage honest taxpayers who may feel material disadvantage.

2.4 Tax Administration

Tax Administration is understood as the implementation and enforcement of tax laws, which is achieved through, inter alia: proper registration of taxpayers, processing of tax returns, carrying out tax audits, tax debt collection, handling appeals and complaints, provision of service and assistance to taxpayers, detection and prosecution of tax fraud, and imposing of penalties and interest payments (Matthijs & Victor, 2016, James & Moses, 2012). According to Juan & Juan (2012), Tax Administration can be assessed by the quantitative technique based on numerical indicators to measure relative success of tax collection and its effectiveness, qualitative approach looking for the existence of certain characteristic of good governance in the tax system and the systematic approach designed to identify practices and trends that distinguish the world's most advanced tax administrations based on their ability to ensure a high level of compliance at a low administrative cost (Juan & Juan, 2012).

While there is controversy regarding how taxes should be administered (Matthijs, 2016, Alan , 2007), it is agreed that tax administration is key component of any tax system with regard to tax compliance (Margaret & Chris , 2009, Gordana , et al, 2015; Jaime & Richard , 2011, Kennedy & John , 2014). It has been established that the nature of tax administration affects tax compliance (Okoye, Akenbor, & Obara, 2012). Thus, the fundamental role of the tax administration should be to render quality taxpayer services and to encourage voluntary compliance of tax laws, and also to detect and penalize non-compliance, the success of this role shall be reflected through a higher level of tax compliance (Gordana, et al, 2015).

Taxpayer sensitization can be described as a method of educating the people about the whole process of taxation and why they should pay tax (Aksnes, 2011). It assists taxpayers in meeting their tax obligations to the government. This means that the primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers. According to Misra (2004), the main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude towards taxation and increase tax collection through voluntary compliance.

2.5 Tax Administration and Perceived Tax Fairness

Tax Fairness is interpreted in its core facets of; distributive fairness - the perception that government acts as a wise spender of tax revenues, procedural fairness - the perception that the tax administration adheres to procedures that are fair in dealing with taxpayers and retributive fairness - the perception that the tax administration is fair in applying punishments when the rules are broken (OECD, 2012, Daniel, et al., 2013, Natrah, 2012). Tax Administration can therefore influence the latter two, that is, if taxpayers trust the tax administration to be collecting taxes and applying punishments fairly, taxes shall generally be perceived to be fair (Matthijs & Victor, 2016, James & Moses, 2012). It is therefore conspicuous that a tax payer's perception to

tax administration influences their perception of the fairness of the tax. A key for tax administration is therefore to be transparent and fair iii implementation and enforcement of the tax laws (Keith, 2012, Andrew & Simon, 2009). Tax fairness is one of the issues that have to be considered seriously by tax authorities as failure can culminate into lower levels of tax compliance. SMEs in most cases are not proportionately assessed as a uniform tax rate is imposed to businesses in the same area regardless of other factors such as sales turnover and cost of capital. In most cases. businesses that assume that they are not fairly assessed automatically delay filling their returns and at times evade taxes or do not register for some taxes like VAT. In the same line, SMEs delay tiling their returns basing on the fact that the services that are received from the government are not commensurate with the taxes they pay. SMEs in Nigeria assume that they have a right to government services like utilities and other social amenities that arc a myth in developing countries (CITN, 20W), the lack of fairness by tax administrators in Nigeria has been linked to the continued to low levels of tax compliance in Africa (CITN. 2010). The Price Water Coopers (PWC) report on “Ease of paying Taxes Ranking” show that Nigeria ranked 138 out of 183 countries investigated. Further, it indicated that the average tax compliance time in Nigeria is 936 hours as against the 318 hours benchmark for Sub-Sahara Africa and 186 hours for the Organization for Economic Cooperation and Development (DECD) countries. The contributions of income tax to total revenue in Nigeria fell from 19.8% in 1999 to 11.7% in 2008 and the tax ratio in 2009 was 11%, the lowest in West Africa and below 15% that is recommended for low income countries. The Central Bank of Nigeriu (2008) reported that the contribution of personal Income Tax to total revenue of states and Local Government fell from 20.18% and 7.7% in 1999 to 12.4% and 1.6% in 2008 respectively (Kiabel & Nwokah, 2009). These observations suggest that the attitude of the taxpayers is poor.

The attitude towards taxation is an important factor that explains taxpayers' behavior" (Abani, 2016). Alabede et al (2011) evaluate the relationship between attitude, financial condition, risk preference and personal income tax compliance with a sample of 332 taxpayers in Abuja. The survey data was analyzed using multiple regressions. The results reveal that taxpayers attitude towards tax evasion positively influence tax compliance behaviour in Nigeria. Further they reveal that taxpayers' risk preference has strong negative influence on the association between attitude towards tax evasion and tax compliance".

2.6 Tax Fairness and Tax Compliance

Various studies have found out that Perceptions of tax fairness are the main determinants of tax compliance (Serkan et al., 2012, Merima, Odd, & Ingrid, 2013, Odd-BeIge et al., 2012, Natrah, 2012). The popular finding is that, taxpayers will be more likely to comply when the tax is perceived to be fair (Natrah, 2012). Drawing from Equity theory, there is a popular suggestion that individuals are more likely to comply with rules if they perceive the system that determines those rules to be impartial (Margaret & Chris, 2009) and therefore, if there are perceived inequities, individuals will adjust their inputs to the exchange until fairness is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (Odd-I-Ielge, Collette, & Ingrid, 2012).

Further, Faizal and Paul (2015) examine the association between tax fairness and tax compliance on 82 Malaysia participants using quantitative research method. The results from the multiple regressions reveal that procedural fairness has significant positive influence on tax compliance. On the other hand, they show that distributive and retributive fairness has positive but insignificant influence on tax compliance. In addition, Amzi and Perumal (2008) investigate the relationship between fairness dimension and tax compliance, using a survey questionnaire on 390 Asian taxpayers. They show that general fairness, tax structure and sell interest have

significant positive influence on tax compliance. However, they concluded that educational and cultural differences between Malaysia and Western countries could explain the reason for the different dimensions in Malaysia.

Empirical studies (Verboon et al., 2007) indicate that the perception of unfair exchange between taxpayers and the government will lead to decrease in the level of tax compliance. Thus, it is assumed that taxpayers use the benefits received from government spending as a way of explaining tax fairness. Torgler (2003) examine the relationship between fiscal exchange, positive rewards, moral suasion and tax compliance in Costa Rica. Using an experimental design on 37 participants, the researcher shows that fiscal exchange and positive rewards have significant positive influence on tax compliance. Similarly, Richardson (2005), Gillingan and Richardson (2005) conducted an exploratory cross-cultural study of tax fairness perceptions and tax compliance behaviour in Australia and Hong Kong. Using the survey approach on a sample of 407 Post graduate business students, the researcher reveal that tax fairness relating to general fairness and exchange with the government have significant positive influence on Personal Income Tax compliance. Further, they reported that there is no universal pattern that exist cross-country between the different facets of tax fairness perceptions and tax compliance. That is, the nature of influence of the forms of tax fairness on tax compliance differs among different tax regime.

Gillingan & Richardson (2005), Faizal & Palil (2015) observe that distributive fairness has positive but insignificant influence on tax compliance in Malaysia. They examine the association between tax fairness and tax compliance, using quantitative research method and with a sample size of 82. Procedural Fairness and Personal Income Tax Compliance Murphy and Tyler (2008) assert that good and fair services will encourage taxpayers to cooperate and incline with the decisions made by the tax authority. Further, Wenzel (2002) claim that the level of income

tax compliance is positively influenced by procedural fairness. In contrast, Worsham (1996) argue that procedural fairness does not positively influence an individual's tax compliance.

Further, Hartner et al, (2008) examine the association between procedural fairness and tax compliance on a sample of 2040 Australian taxpayers using quantitative design. From the standardized regression model, they show that procedural fairness have significant positive influence on tax compliance. Similarly, case studies and in-depth semi-structured interviews were used on 26 small business tax payers in New Zealand by Yong and Rametse (2010) to evaluate the nature of relationship between procedural fairness and tax compliance. They reported that procedural fairness experienced by small business taxpayers have significant positive influence on tax compliance. The above results were collaborated by the findings by Faizal and Palil (2015). The researcher adopted quantitative research approach in exploring the way in which procedural fairness influence tax compliance. With a sample of 82 Malaysia participants, they show that procedural fairness has significant positive influence on tax compliance.

Feld, Lars and Frey (2006) claim that retributive fairness will positively influence Personal income tax compliance. Using survey data from 652 taxpayers who have been through an enforcement experience with Australia Tax Office (ATO) Murphy (2003) investigated the relationship between tax enforcement, punishment and income tax compliance. The results show that those who perceived the ATO's treatment on them as more stigmatic in nature were more likely to report that they evade taxes. In addition, the researcher reveals that resentment did play significant role on the relationship between perception of disapproval and subsequent tax compliance. Further, Faizal and Paul (2015) examine the relationship between tax fairness and personal income tax compliance on 82 Malaysia taxpayers. Using quantitative design and regression statistical tool, they reported that retributive fairness has insignificant positive influence on tax compliance.

However, these studies provided mixed and inconclusive findings. While some researchers found a positive association between the two variables (Harris 1989; Roberts 1994). Others could not

support such findings (Coleman 1997; Porcano 1988), In fact, some studies indicated that there was a negative relationship between perceptions of tax fairness and compliance behaviour (Lempert 1992). Richardson and Sawyer (2001) contend that such mixed findings are probably due to the different definitions of perceptions of tax fairness used in these studies. In the same vein, tax compliance behaviour, taxpayers' intentions to comply (or not) do not simply depend on their will. Individuals may wish to comply, but finally decide not to when they encounter difficulties to perform such behaviour as this hurdle subsequently limits their volitional control. Based on previous studies, various factors are reported to significantly affect tax compliance, including tax complexity, tax knowledge, probability of detection and ethics (Richardson & Sawyer 2001). This demonstrates that tax compliance behaviour is not simply a trivial choice, but the result of decisions made by individuals (whether or not to comply) premised upon the presence or absence of resources, opportunities and barriers Having said that, we believe that tax compliance is more likely to fall under incomplete volitional control.

2.7 Tax Administration and Tax Compliance

It is appreciated that an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations (Matthijs & Victor, 2016, Erich & Ingrid , 2008. OECD, 2012). While there is controversy regarding how taxes should be administered (Matthijs & Victor, 2016, Alan, 2007), it is widely appreciated that if the tax administration is seen as being honest, fair, informative, and helpful, and acts as a service institution, treating taxpayers as partners and not “inferiors in a hierarchical relationship”, taxpayers would have a stronger tendency to pay taxes honestly and hence a high level of compliance (Peter & Ofiafoh, 2013).

SMEs, in most cases sole proprietors or owner-operated incorporated companies, may lack the capacity properly to fulfill their tax obligations, even more so if these are onerous (Evans et al.,

2005; Engstrom et al, 2006). Not many small entrepreneurs can or want to afford professional tax services and, instead, they rely on themselves. However, the low awareness of tax obligations, coupled with relatively slower adjustment to tax law changes, commonly leads to mistakes and delays in tax calculations, reporting and payment (McKerehar, 1995; Coleman and Freeman, 1997). The vulnerability of SMEs to changes in market conditions further increases the risk of involuntary non-compliance. Any exposure to trade shocks or backlog of payments for supplied goods and may easily result in a temporary cash flow insolvency (Kitching, 2011; Ogawa et al., 2012). SMEs have also limited options in securing affordable additional funding, e.g. accessing bank credit, they may be unable to pay their taxes promptly (Ayadi and Gadi, 2013; Darvas, 2013; ECB, 2013; Ozturk and Mrkaic, 2014). The risk of voluntary non-compliance is also higher in the case of SMEs (Cowell, 2003; Slemrod, 2004; Crocker and Slemrod, 2005). Many SMEs, even if incorporated, are managed by the owners. SMEs do business using their own capital and have different interests in its use. Their personal risk-aversion may be lower as any gains arising from tax evasion directly accrue to business manager-owners.

For this reason they are more sensitive to changes in the financial situation, unfair treatment by tax administration or simply tempted by existing opportunities. Unquestionably, there are more. The risk of voluntary non-compliance is also higher in the case of small businesses (Cowell, 2003; Slemrod, 2004; Crocker and Slemrod, 2005). Many SMEs, even if incorporated, are managed by the owners. Unlike professional managers or accountants in large companies, they do business using their own capital and have different interests in its use. Their personal risk-aversion may be lower as any gains arising from tax evasion directly accrue to business manager-owners. For this reason they are more sensitive to changes in the financial situation, unfair treatment by tax administration or simply tempted by existing opportunities. Unquestionably, there are more opportunities for small businesses to be non-compliant than for larger ones they can use cash transactions, disguise their private consumption as business inputs, or hide actual

wage payments (Cowell, 2003; Engstrom et al., 2006). By doing so they manipulate their sales, margins, profits, and even taxable wages paid to their employees. More importantly, it is easier for them not to be formalized at all. Specific tax concessions available for small businesses offer further avenues for tax abuse, e.g. hiding below the eligibility threshold in a presumptive tax (OECD, 2009).

Apart from penalties associated with non-compliance there are other risks that have an impact on small businesses. Unlike large enterprises, they are prone to abusive actions enforced by [tax administration (e.g. excessive audits, lengthy and impeded tax procedures, unjustified certification requirements, corruption). Such actions although not strictly classifiable as tax penalties may be seen as penalizing in a broader sense and discourage compliance (McClellan, 2013).

Tax design also matters. Onerous tax obligations, multiple taxes, high tax rates and overall complexity of tax laws pose much of a challenge for small businesses. Even if these challenges give rise to the introduction of some special concessionary measures (e.g. less frequent filing and tax payments, cash flow accounting or presumptive taxation) not all risks are eliminated. Some measures are conditional (taxpayers in good standing only) and limited (e.g. turnover threshold, employment limits, exclusion of specific activities) so there is a need for a constant observance of eligibility criteria, adding to the existing risk of abuse (Thuronyi, 1998; IFC, 2007; OECD, 2009). As pointed out above, the risks of being non-compliant are numerous. At the same time, small businesses due to their size and personal characteristic are more susceptible to corrective stimuli than large businesses. This suggests that behavioral measures, including tax penalties, are of great relevance for enhancing tax compliance in small businesses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explained the methods that were used in the study to deal with the research problem. It focused on the research design, study population, sample size and sample selection, and measurement of variables, reliability and validity of instruments, data collection tools, data processing and analysis, and the limitations encountered during the research study.

3.2 Research Design

The study adopted a cross sectional survey design and correlation design. The study also used descriptive and analytical research design to describe the characteristics of the respondents and that of the SMEs at large. Quantitative data was considered for this study only.

3.3 Study Population

The study population consisted of 1252 SMEs registered by the Wakiso Municipal Council and have been in business for a record period of three and more years (Wakiso Municipal Council, 2016).

3.4 Sample Size and Procedure

A sample of 292 SMEs was determined from the population of 1252 SMEs according to Krencie & Morgan (1970) sample determination. Wakiso district is divided into 16 counties that were used as strata. Equal number of registered SMEs were selected from each county that is 12 enterprises from a county. Stratified sampling was used as providing a greater precision, saving money as a small sample is need and guards against unrepresentative.

Simple random sampling was used in selecting small enterprises as it gives them an equal opportunity of being selected. In this case, a list of registered enterprises was solicited from the tax department at the district in which names of the 12 enterprises were randomly selected. One respondent was selected from each business enterprise to answer the questionnaire.

3.5 Data Sources

The required primary data was collected from owners of managers in the selected SMEs. This was done through administering self-administered questionnaires. Respondents were guided through the questionnaire to ensure accuracy in the collection.

3.6 Data Collection Instruments

Primary data was collected through administering structured questionnaire so as to ensure confidentiality of the respondents. The questionnaires contained structured questions relating to tax administration, tax fairness and tax compliance while were constructed on a five point likert scale with respondents answering in line with extent to which they agree or disagree with the statement in the questionnaire. The questionnaire also included questions on both the institutional characteristics and individual characteristics in the firms.

3.5 Measurement of Variables

The study variables was measured based on the five point likert scale responses ranging from strongly disagree (1) to strongly agree (5).

Tax compliance was measured using reliability, timely payment and tax payment finding out the degree to which taxpayers are able to comply by filing their annual returns and ensuring that payments are made on time with ease (Saad, 2011).

Tax Administration was measured using frameworks proposed by Alan (2007) and supported by Matthijs & Victor (2016) using constructs of Support services, Education and sensitization of tax payers, Respect for tax payers and Recognition of tax payers.

Tax Fairness was measured by indicators of General fairness, Exchange fairness, Horizontal fairness, Vertical fairness, Retributive fairness, Personal fairness and Administrative fairness as tested in the work of Natrah (2012) and Serkan , Tamer , & Ahmet (2012).

All variable items were anchored on a five-point Likert scale of 5= “Strongly Agree”, 4= “Agree”, 3= “Neutral”, 2= “Disagree” and 1= “Strongly Disagree”.

3.8 Reliability and Validity of Instrument

A pre-test of the research instrument to establish their validity was done. The instrument was given to two experts to give their opinions on the relevance of the questions using a 5-point scale of relevant to not relevant. It was further pre-tested by administering it to probable respondents (n=10) to test for their understandability of the items. Items that were found not to be relevant were eliminated and those found not to be understood were adjusted for understandability for the final research instrument that was used. The research instrument was examined for its reliability by using the Cronbach alpha coefficient test (α) (Cronbach, 1951) so as to prove that the research instrument used to collect data from the respondents was appropriate and could yield similar results at all time. The results are shown in table 3.1 below. Results in Table 3.1 show that the research instrument used in this study was reliable and valid with all the values above 0.7 (Nunn ally, 1978; Sarantakos, 2005; Hair et al., 2014).

Table 3.1: Reliability and Validity of the Instrument

Variable	Anchor	Cronbach Alpha	Validity index
Tax administration	5 Point	0.724	0.839
Tax fairness	5 Point	0.748	0.878
Tax compliance	5 Point	0.796	0.816

Source: Primary data

3.9 Data Processing and Analysis

The data collected was edited for incompleteness and inconsistency to ensure correctness of the information given by the respondents by use of a computer. Statistical Package for Social Scientists (SPSS 20) was used for data entry and analysis. Frequency tables were used to describe the sample characteristics of the respondents. A correlation analysis tool i.e. the Pearson'

correlation coefficient was used to establish the relationship between tax administration, tax fairness and tax compliance. Multiple regression analysis was carried out to find the extent to which tax administration and tax fairness predicted Tax compliance of SMEs.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter analyzes and presents the findings of the study. The findings are presented in tables showing frequencies, correlations and regression analysis. It is guided by the following objectives:

- i) To examine the relationship between tax Administration and tax Fairness among SMEs in Wakiso District.
- ii) To examine the relationship between tax Fairness and tax compliance among SMEs in Wakiso District.
- iii) To investigate the relationship between tax administration and tax Compliance among SMEs in Wakiso district.

4.1 Sample Characteristics of the Unit of Inquiry and Unit of Analysis

This section presents the characteristics respondents such as their gender, marital status, age bracket, number of years worked, highest level of education attained, Number of employees, number of years in operations and type of business. The results are presented in table 4.1 with generated respective frequencies.

4.2 Characteristics for the Respondents

Table 4.2.1 Demographic Characteristics for the Study

Gender		Count	Percent
Gender	Male	170	58.2
	Female	122	41.8
Total		292	100.0

		Count	Percent
Marital Status			
Marital status	Single	170	58.2
	Married	122	41.8
Total		292	100.0

C: Age Bracket		Count	Percent
Age Bracket	18-25	46	15.8
	26-33	202	69.2
	34 & above	44	15.1
	Total	292	100.0

Education Background		Count	Percent
Highest level of education attained	Certificate/diploma	48	16.4
	Bachelors' Degree	226	77.4
	Professional	12	4.1
	Masters' Degree	6	2.1
Total		292	100

Length of Service		Count	Percent
Length of service	less than 5 years	100	34.2
	5-10 years	122	41.8
	10-15 years	46	15.8
	More than 15 years	24	8.2
Total		292	100

Table 4.2.2 Characteristics of SMEs

The table 4.2 shows the various characteristics of SMEs namely, the period of operation and the number of employees as illustrated in the table below

Period of Operations		Count	Percent
Period of operations	Less than 5 years	79	27.1
	5-10 years	100	34.3
	10-15 years	25	8.6
	More than 15 years	88	30.0
Total		292	100
Number of employees	Less than 10 employees	58	20.0
	10-50 employees	133	45.7
	50 - 100 employees	79	27.1
	More than 100 employees	21	7.1
Total		292	100

Source: Primary data

The results in table 4.1 above showed that the majority of the respondents were male (54.1%) while only 45.9% were female. This implies that majority of respondents SMEs in Wakiso were over dominated by male as per the study. Regarding to marital status, the results showed that the majority of the respondents were single (58.8%) while 41.8% were married. This implies that majority of respondents were singles as per the study. On the part of age bracket, the results from table 4.1 reveal that the majority of respondents had their age bracket ranging between 26-33 years with 69.2%, followed by the range of 18-25 years with 15.8 % and the least was 34 years & above with 15.1%. This means that majority of the respondents among SMEs are majorly

youth and active. As it regards to highest qualification attained, the results from table 4.1 show that the majority of respondents had bachelors' degrees with 77.4%, followed by with Certificate/Diploma' holders with 16.4%, professional qualifications with 4.1% and the least were Masters' Degree with 2.1%. This means that majority of the respondents have the right skills and knowledge to comply on tax obligations. Results from table 4.1 shows that the majority (41.8%) of respondents had worked for a period of 5-10 years, followed by less than 5 years (34.2%), 10-15 years with 15.8% and the least was more than15 years with 8.2%. This means that overall in the industry, majority of respondents have acquired good experience and skills to execute their jobs professionally.

Results from table 4.1 shows that the majority (34.3%) of the SMEs had stayed in operations for a period of 5-10 years, followed by a period of more than 15 years (30.0%), less than 5 years with 27.1% and the least was 10-15 years with 8.6%. This means that overall in the industry, majority of the SMEs are still new in terms of their number of years in operations.

Table 4.1 above shows that 45.7% of the SMEs had their employees range between 10 to 50 employees followed by 50- 100 employees with 27.1%, less than 10 employees with 20.0% and more than 100 employees with 7.1%. This means that the majority of the SMEs have enough personnel to manage their operations.

4.3 Exploratory factor Analysis results for Tax compliance

To ensure that the measurement scales were valid, principle component analysis (PCA) was used as the main method of factor analysis in the pilot as well as the main study. PCA was used to cluster or group together variables or items that were interrelated with orthogonal rotation using the varimax method. Overall exploratory factor analysis (EFA) was valuable in reducing data and understanding the structure and interrelationships of factors for each latent variable in the study (Field, 2009).The results for factor analysis are shown in the table 4.2 below.

Table 4.3: Factor Analysis Results for Tax Compliance

Items	Return filling	Timely payment	Reliability
URA's Tax forms that are Specific to SMEs are available	.852		
URA has electronic filing of tax returns to speed up procedures and reduce compliance costs	.768		
Timely filing or lodging of the required tax information by SMEs is rewarded	.793		
URA has filing exemptions specific to SMEs	.800		
URA provides clear instructions to SMEs relating to Tax filing	.813		
URA's Tax forms that are Specific to SMEs are available	.805		
There is a fine for late payment of tax returns		.784	
The URA gives SMES reminders to ensure timely payment		.885	
SMEs are followed up to ensure full payment of taxes		.795	
The URA verifies that SMEs are not evading taxes		.872	
SMEs are notified of all taxes due on them		.775	
SMEs are given incentives on final payment of taxes		.783	
My firm does not need constant follow-up for us to comply and pay taxes			.744
We can be trusted to pay taxes as and when required			.811
We do not under-declare revenues to the tax authorities			.754
We regularly file all tax returns including PAYE for employees			.843

We have never under declared our income for tax purposes			.909
Eigen Values	6.42	2.58	1.99
Variance %	35.67	14.35	11.10
Cumulative %	35.67	50.02	61.12
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.792		
Bartlett's Test of Sphericity	Approx. Chi-Square	575.415	
	Sig.	.000	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation

The items for measuring tax compliance attributes were subjected to an exploratory factor analysis to determine whether the dimensions of tax compliance represented a distinct construct. Principal components of extraction criterion using Varimax rotation method were used to reduce the 17 items from the original 22 items to a set of independent three components as shown in table 4.2 above. Tests for model sampling adequacy yielded significant results, as the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy gave a value of 0.792 above the recommended 0.7 (Kaiser, 1974). Bartlett's test of sphericity confirms the presence of correlations between the variables, and this test yielded statistically significant results ($\chi^2(128) = 575.415, p < 0.001$). This indicates that the data set provided is adequate for us to perform an exploratory factor analysis. Principal components analysis revealed the presence of three factors with eigen values exceeding 1.0. The three factors extracted from the analysis explain a total of 61.12% of the variance. The results of the PCA as shown in table 4.2 suggest that return filling is the most important element of tax compliance accounting for 35.67% of the variance. The next important element is timely payment which explains a further 14.35% of the variance. Finally, under reliability accounted for 11.10% of the variance.

4.4 Correlation Analysis

The objectives of the study were based on the relationships between the different variables which were: tax administration, tax fairness and tax compliance. 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 relationships that exist among the study variables. Table 4.3 below presents the correlation analysis results.

Table 4.4: Pearson Correlations (Zero-Order)

		1	2	3
Tax administration	1	1.000		
Tax fairness	2	.351**	1.000	
Tax compliance	3	.462**	.434**	1.000
	**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

4.4.1 The relationship between Tax Administration and Tax Fairness.

The results in table 4.3 indicate that the relationship between tax administration and tax fairness is positive and statistically significant ($r = 0.351, p \leq 0.01$). This indicates that positive change in tax administration is associated with positive change in the tax fairness by SMEs in Wakiso. This implies that greater improvements in tax administration by SMEs would lead to positive changes in their tax fairness.

4.4.2 The relationship between Tax Fairness and Tax Compliance.

The results in table 4.3 above shows that there is a positive and significant correlation between Tax fairness and Tax compliance ($r = .434, p \leq 0.01$). This finding means that increased tax fairness results into improved tax compliance by SMEs.

4.4.2 The relationship between Tax Administration and Tax Compliance.

The results in table 4.3 above show that there is a significant positive correlation between Tax administration and Tax compliance ($r=.462, p\leq 0.01$). This means that when SMEs improve their tax administration, then their tax compliance would automatically improve.

4.5 Regression Analysis

To establish the extent to which tax administration and tax fairness predicted tax compliance, a prediction model was developed using multiple regression analysis as shown in the Table 4.5 below.

Table 4.5: Regression of Tax Administration and Tax Fairness on Tax Compliance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.114	.037		1.962	.001
Tax administration	.254	.088	.213	4.252	.000
Tax fairness	.234	.071	.252	7.597	.000
Dependent Variable: Tax compliance					
R Square	0.354		F Change	486.672	
Adjusted R Square	0.336		Sig.	0.000	

Source: Primary data

Results from table 4.5 above, show that a combination of tax administration and tax fairness explained on average up to 33.6% variations in the tax compliance of SMEs, implying that other than tax administration and tax fairness, there are other factors affecting tax compliance of these firms. However, tax administration and tax fairness were significant predictors of tax

compliance. This means that an improvement in Tax administration leads to 0.213 positive changes in tax compliance while an improvement in the tax fairness leads to 0.252 positive changes in tax compliance of SMEs. The model also indicated that tax fairness had the highest prediction potential compared to tax administration towards tax compliance.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions and recommendations arising out of the research findings in chapter four and suggestions on areas that can be studied in future are also presented in this chapter.

5.2 Discussion of the Findings

5.2.1 Tax Administration and Tax Fairness of SMEs in Wakiso

The study findings revealed that the relationship between tax administration and tax fairness is positive and statistically significant. This indicates that positive change in tax administration is associated with positive change in the tax fairness by SMEs in Wakiso. This means that SMEs view of tax administration would have positive effect on how they perceive tax fairness of the URA system. This finding is in agreement with Matthijs & Victor (2016) who argue that tax Administration can therefore influence the latter two, that is, if taxpayers trust the tax administration to be collecting taxes and applying punishments fairly, taxes shall generally be perceived to be fair (James & Moses, 2012).

5.2.2 Tax Fairness and Tax Compliance of SMEs in Wakiso

The study findings revealed that there is a positive and significant correlation between Tax fairness and Tax compliance of SMEs. This finding means that increased tax fairness results into improved tax compliance by SMEs. These findings concur with Natrah (2012) who states that taxpayers will be more likely to comply when the taxes are perceived to be fair (Natrah, 2012). Drawing from Equity theory, there is a popular suggestion that individuals are more likely to comply with rules if they perceive the system that determines those rules to be impartial

(Margaret & Chris , 2009) and therefore, if there are perceived inequities, individuals will adjust their inputs to the exchange until fairness is restored.

5.2.3 Tax Administration and Tax Compliance of Selected SMEs in Wakiso

The study findings revealed that there is a significant positive relationship between the Tax administration and Tax compliance of SMEs. This means that when SMEs improve their tax administration, then their tax compliance would automatically improve. This finding agrees with the thoughts of Peter & Ofiafoh (2013) who widely appreciated that if the tax administration is seen as being honest, fair, informative, and helpful, and acts as a service institution, treating taxpayers as partners and not “inferiors in a hierarchical relationship”, taxpayers would have a stronger tendency to pay taxes honestly and hence a high level of compliance.

5.3 Conclusions

According to the study, an improvement in tax administration system automatically leads to an improvement in perceived tax fairness in SMEs hence an improvement in the level of tax compliance.

The tax systems therefore require making sure that assessed taxes on SMEs commensurate to their capacity in terms of scale of operation.

Simplification of the tax system for SMEs in a more comprehensive manner is strongly advocated for. This should take into account the tax payers’ views specific suggestions on tax laws and compare to other regimes. The factors should provide a sound basis for formulating a tax policy in any country.

In addition, the tax policies and computation of taxes should be specified to provide a basis for self-assessment, where possible online services should also be available to ease assessment and timely filing.

However, most SMEs perceive the taxation system as being unfair and that they pay the same amount as large enterprises. In this case, the tax system should assess the categories of businesses according to their scale of operation in order to have a fair tax that will be willingly filed on time.

5.4 Recommendations

From the study findings, the following are the recommendations derived as follows;

URA should increase tax fairness among the SMEs in Wakiso district for better improvement in the tax compliance levels.

URA need to continuously review their tax administration systems to meet the dynamic environmental changes given the sensitivity of their industry.

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 books of account and sometimes do not understand the tax laws in order to reduce the compliance costs in terms of money and time.

For SMEs to improve their tax competencies, those involved in their tax matters need knowledge and skills to interpret the various tax laws and regulations, they also have to carry out tax planning, possess functional competencies and business operational competencies. This will enable them comply with their tax requirements.

SMEs should also train its staff and recruit professionals in managing tax compliance since its requires a lot of expertise.

The tax authorities at the district should continuously sensitize the public or tax payers about taxation. More information should be availed to the tax payers in order to inform them about their tax obligations and inform them about their role in the development of the country. With

the increased use of technology, the tax authorities can convey the information on social media as many tax payers have android phones. In addition, talk shows on radios and televisions can be arranged to change the perception of tax payers about taxation.

A survey should be organized by the tax authorities on the tax fairness and tax compliance among the tax payers and their opinions captured. The findings of the study will help to highlight some weaknesses which have to be resolved in order to improve the tax system for both the district and the country as a whole.

Periodic consultative sessions should be organized for both tax payers and tax authorities in order to inform them about the new taxes and changes in the tax rates. Making tax payers part of the consultative session makes them feel that the tax is fair and they will be will to comply. In addition, tax education should be carried out in schools in order to reduce the changes of non-compliance.

Giving accountability to the tax payers. The district collects a lot of money but it has no arrangement of providing accountability to tax payers in form of social services. There is no sufficient provision of social services by the government. The taxpayers need various social services from the government in return of what they have paid as a tax. If there is no provision of sufficient services, the willingness and motivation of the taxpayers to pay their tax obligation in full and on timely basis may be affected.

That tax authorities should continuously train their employees as well as retaining the competent employees in order to provide a good service to the tax payers. The tax authority employees should be briefed and trained on how to compute the taxes as many SMEs managers cannot compute it rightly.

5.5 Limitations of the Study

- The study used a questionnaire for data collection and this has a weakness of limiting the amount of data collected. Follows up were a solution to this issue.

- Some respondents were hesitant to give all the required information because of fear to expose it to the competitors especially on the tax systems issues. However, the researcher overcame this by spending time with the respondents to explain to them that the study is basically for academic purposes.
- Accessibility of the respondents was very difficult because of their busy schedules and majority of the respondents spent a lot of time completing the research instrument.

5.6 Areas of Further Research

- i) The study only concentrated on SMEs from Wakiso, another study can be carried to cover all SMEs in Uganda.
- ii) The study variables considered in this study only explained 33.6% of variation in tax compliance; the study recommends considering other factors such as source of funding.
- iii) The future research should follow the longitudinal approach to predict beliefs and behavior over time since the model of this study is cross-sectional, which measures the intention only at a single point in time.

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Appendix 1: Questionnaire

MAKERERE UNIVERSITY BUSINESS SCHOOL

MASTERS OF BUSINESS ADMINISTRATION

Dear Respondent,

Dear Respondent, you are kindly requested to participate in this post graduate study by providing answers to the following questions. Thank you for your positive response. This study is on **tax administration, perceived tax fairness and tax compliance: a case of small and medium enterprises in Wakiso district**. The information provided is purely for academic purpose and will be treated with UTMOST CONFIDENTIALITY.

Instructions: Please fill or tick [] your response where appropriate.

Background Information

A - Personal Profile

- 1.0 Gender of respondent 1=Male 2=Female
- 1.1 Age group 1=Less than 25 2= 25-30 3= 30-35 4= 35-40 5= 40-44 6= Above 45
- 1.2 Position held 1=Owner 2=Manager 3=Director 4=Other, Specify.....
- 1.3 Highest level of education attained 1= O-Level 2=A-Level 3=Diploma 4=Bachelors 5=Masters 6=PHD 7=Professional course(s)-Specify

B - Business Profile

- 2.0 Number of employees 1=Less than 10 2=10-20 3=20-30 4=30-40 5=40-50 6=Above 50
- 2.1 Number of years in operation 1=Less than 2 2= 2-5 3= 5-10 4=Above 10 years
- 2.2 Estimated annual sales 1=Less than 10 -50m 2=50m-150m 3=150m-360m 4=above 360m

Instructions: SECTION B: Study Variables: Please respond to the following statements by indicating the extent to which you agree or disagree on the provided scale

Response Scale:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5

SECTION A: TAX ADMINISTRATION						
REGISTRATION						
1	We find it easy registering for taxes	1	2	3	4	5
2	Tax officers are helpful to us when it comes to registering for taxes.	1	2	3	4	5
3	Registering for taxes does not require us to pay any money	1	2	3	4	5
4	We do not lose so much time at registration for taxes	1	2	3	4	5
5	We find the tax laws fair for all tax payers	1	2	3	4	5
EDUCATION						
6	Tax authorities have held several tax clinics in Wakiso Municipal Council	1	2	3	4	5
7	We see several adverts running on through the media like radio and TVs. Covering taxes.	1	2	3	4	5
8	We receive several training materials on taxation from tax authorities.	1	2	3	4	5
9	Several tax awareness campaigns have been held.	1	2	3	4	5
10	We see tax authorities not only collecting taxes but also trying to improve on the tax knowledge of the taxpayers	1	2	3	4	5
11	Tax officers are always willing to provide tax education to the taxpayers	1	2	3	4	5
12	Tax seminars held in our town improved my attitude towards taxation	1	2	3	4	5

13	Tax officials always sensitize us on our tax obligations, rights and responsibility.	1	2	3	4	5
ASSESSMENT						
14	Our tax burden is always determined by looking at how profitable our businesses have been	1	2	3	4	5
15	Tax authorities always treat us as partners than inferiors while determining our taxes.	1	2	3	4	5
16	Tax authorities always involve us in determination of our tax matters	1	2	3	4	5
17	We are always treated fairly during the determination of how much tax we should pay.	1	2	3	4	5
18	We are always allowed enough time to object to any tax assessments made against us.	1	2	3	4	5
19	Our willingness to pay taxes has been influenced by the nature of the tax assessment.	1	2	3	4	5
COLLECTION						
20	We are always given enough time to pay our taxes	1	2	3	4	5
21	Taxes are always collected in a friendly manner	1	2	3	4	5
22	We are always listened to in case we have financial difficulties in meeting our tax obligations.	1	2	3	4	5
23	Tax authorities have systems that make payment of taxes easy	1	2	3	4	5
AUDITS						
24	Tax authorities carry regular tax audits so as to detect tax fraud.	1	2	3	4	5
25	Tax authorities have prosecuted a tax payer in my area for tax fraud.	1	2	3	4	5

26	Tax authorities have penalized a person I know not declaring correct incomes to tax authorities	1	2	3	4	5
27	The fear of a tax audit has influenced our perception of the fairness of taxes	1	2	3	4	5
28	The fear of tax audits have compelled us to pay our taxes	1	2	3	4	5
SECTION B: PERCEIVED TAX FAIRNESS						
HORIZONTAL						
1	In Uganda, tax payers with the same level of income are paying the same rate of tax.	1	2	3	4	5
2	Each tax payer has a right and equal rate of tax	1	2	3	4	5
3	In Uganda, all people liable for taxes are paying their taxes.	1	2	3	4	5
4	In Uganda, people with the same level of income are allowed similar deductions.	1	2	3	4	5
5	We are willing to pay taxes because those that have the same level of income as we are paying similar rate of tax	1	2	3	4	5
VERTICAL						
6	Other tax payers in the country and bearing their right level of tax burden.	1	2	3	4	5
7	In Uganda, those that have more money pay more taxes than those that have less.	1	2	3	4	5
8	In Uganda, tax payers with different levels of income are allowed different deductions	1	2	3	4	5
9	We always willingly pay our taxes because our tax burdens are determined in line with the level of our incomes	1	2	3	4	5

RETRIBUTIVE						
10	The penalties for noncompliance are fair and equally applied.	1	2	3	4	5
11	All tax payers that are not compliant are penalized	1	2	3	4	5
12	The penalties for tax noncompliance are fair for all tax payers	1	2	3	4	5
13	The penalties for tax noncompliance are equally distributed for all tax payers	1	2	3	4	5
14	In Uganda, our tax laws are fair for all tax payers	1	2	3	4	5
15	The government applies sanctions on taxes equally for all citizens.	1	2	3	4	5
16	We pay our taxes because we feel the penalties are properly administered	1	2	3	4	5
ADMINISTRATIVE						
17	The distribution of benefits from government is fair.	1	2	3	4	5
18	The government provides good services for the taxes we pay	1	2	3	4	5
19	The tax authorities treat all tax payers equally in matters of taxes	1	2	3	4	5
20	The government provides accountability for the taxes we pay	1	2	3	4	5
21	The processes of tax administration are fair for all tax payers.	1	2	3	4	5
22	Tax payers get refunds if they have either paid the tax wrongly or over paid	1	2	3	4	5
23	Our willingness to pay taxes is motivated by the fairness in which taxes are administered.	1	2	3	4	5
SECTION D: TAX COMPLIANCE						
RETURNS FILLING						
1	URA's Tax forms that are Specific to SMEs are available	1	2	3	4	5

2	URA's Tax forms can be adjusted to the business processes of SMEs	1	2	3	4	5
3	URA has electronic filing of tax returns to speed up procedures and reduce compliance costs	1	2	3	4	5
4	Timely filing or lodging of the required tax information by SMEs is rewarded	1	2	3	4	5
5	URA has filing exemptions specific to SMEs	1	2	3	4	5
6	URA provides clear instructions to SMEs relating to Tax filing	1	2	3	4	5
7	URA officials have never come to our business to demand tax filling	1	2	3	4	5
RELIABILITY						
8	We consider SMEs as dependable taxpayers	1	2	3	4	5
9	My firm does not need constant follow-up for us to comply and pay taxes	1	2	3	4	5
10	We can be trusted to pay taxes as and when required	1	2	3	4	5
11	We do not under-declare revenues to the tax authorities	1	2	3	4	5
12	We regularly file all tax returns including PAYE for employees	1	2	3	4	5
13	We have never under declared our income for tax purposes	1	2	3	4	5
TIMELY PAYMENT						
14	We have never delayed to pay taxes	1	2	3	4	5
15	There is a fine for late payment of tax returns	1	2	3	4	5
16	The URA gives SMES reminders to ensure timely payment	1	2	3	4	5
17	SMEs are followed up to ensure full payment of taxes	1	2	3	4	5
18	The URA verifies that SMEs are not evading taxes	1	2	3	4	5
19	SMEs are notified of all taxes due on them	1	2	3	4	5
20	SMEs are given incentives on final payment of taxes	1	2	3	4	5
21	The URA rewards SMEs taxpayers with awards for their commitment	1	2	3	4	5
22	We pay actual tax assessed	1	2	3	4	5

THANK YOU FOR YOUR TIME

Appendix 2

Morgan and Krejcie sample table of 1970

Table 3.1									
<i>Table for Determining Sample Size of a Known Population</i>									
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*