TAX ADMINISTRATION AND COMPLIANCE OF SMALL AND MEDIUM ENTERPRIZES IN UGANDA:

A CASE OF SMALL AND MEDIUM ENTERPRISES IN LIRA CITY

BY

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DECLARATION

I hereby declare that this research report is entirely my original work and has never been published or submitted for any award or qualification in any University or Higher Institution of Learning.

Sign.. Date...23/09/2023......

MOSES OBUA

APPROVAL

This is to certify that, this research report has been under my supervision and now ready for submission to Uganda Christian University.

Sign..

Date......23rd Sept 2023................

CANON RICHARD OBURA ONYANG

SUPERVISOR

DEDICATION

I dedicate this research report to my wife, Eunice Obua. I further dedicate this report to my Children, Melisa Etit, Micah Abigail Amaro, Melina Acio, Emmanuel Obua, and Junior Obua.

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I thank the Almighty God for His grace in taking me through this process. I wish to acknowledge all whose contributions enabled me to succeed in the work. I am grateful to my supervisor Canon Richard Obura Onyang for his insightful and well-informed guidance as well as support rendered to me throughout the research process.

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Also, I would want to express my gratitude to my mom, Milly Etit for her unwavering support throughout the entire research process. May the omnipotent God richly bless her for her wonderful actions!

GOD BLESS YOU

TABLE OF CONTENT

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

ADR   -   Alternative Dispute Resolutions

CTS   -   Cargo Tracking System

DTS   -   Digital Tax Stamp

DV   -   Dependent Variables

EFRIS -   Electronic Fiscal Receipting and Invoicing System

GDP   -   Gross Domestic Product

IV   -   Independent Variable

OECD -   Organization for Economic Cooperation and Development

SME   -   Small and Medium Enterprises

TOT   -   Turnover Tax

URA   -   Uganda Revenue Authority

VAT   -   Value Added Tax

ABSTRACT

The challenge of development in Uganda is lack of financial support to enhance economic growth. The need for local revenue generation poses a big challenge as many people/ organizations tend to dodge payment of taxes. The purpose of this study was to evaluate the role of tax administration on tax compliance by SMEs in Lira city. The objectives of this study are (1) To analyze the effects of tax rates on the compliance of SMEs in Lira City, (2) To examine how tax knowledge influences tax compliance of SMEs in Lira City, (3) To explore the extent to which fines and penalties affect tax compliance among SMEs in Lira City.

The study was conducted using a triangulation of designs which included; a case study research design and an explanatory research design. A sample of 194 SMEs was used in this study selected purposively and simple randomly. Data was collected from the field coded and analyzed through descriptive statistics with the help of SPSS. Literatures both primary and secondary sources concerning the problem under investigation were got. Both questionnaire and an interview guide were employed to collect data from the respondents that composed of SMEs administrators, accountants, field workers, CEOs, owners and officials from URA who were conveniently selected to provide in-depth information about the problem under investigation.

The study findings revealed a significant effect of tax Knowledge on tax compliance among SMEs in Lira City (ß=.819; p<.05). The regression results also revealed a significant effect of fines and penalties on tax compliance among SMEs in Lira City (ß=.094; p<.05). The research findings also confirm an insignificant effect of tax rate on tax compliance in SMEs in Lira City (ß=.204; p>.05). The study therefore concludes that tax knowledge and tax fines and penalties are very important variables for the success of tax compliance among SMEs in Lira City. The study therefore recommends that it is important that the rates be fair and affordable to the tax payers. The study also recommends that tax knowledge be enhanced by embracing government support in-terms of tax trainings.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter examined the background of the study, problem statement, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study, definitions of terms and conceptual frame work.

1.1 Background of the Study

1.1.1 Contextual background

Tax administration is vital in that it influences taxpayers' compliance in fulfillment of their rights of paying taxes, hence increasing government revenue collection and improves the national budget through maximization of revenue collection. That is why Uganda Revenue Authority was formed and given the task of tax administration. It was organized to accomplish the basic functions of tax collection agency, taxpayer audit, internal audit, financial management, enforcement, legal and regulatory affairs and also central tax administration and compliance (Kaweesa, 2004).

Tax compliance is one of the major challenges facing small and medium enterprises (SMEs). According to Pope and Abdul-Jabbar (2008), government regulations, particularly taxation, are a major concern for the business sector throughout the world. International experience demonstrates that regulatory burdens appear to fall disproportionately on small and medium enterprises (SMEs). Businesses, in whatever form, size and/or sector are required by law to comply with all relevant legislation, including taxation.

The importance of SMEs in the economic development of any country in recent years cannot be underrated especially with regard to creation of employment, innovation, uplifting the people's standard of living and financial contribution to the growth of the country's Gross Domestic Product (Machira & Irura, 2012). Small and Medium Enterprises (SMEs) are considered as a key engine of economic growth in developing and developed countries (Nahida, Coop, Freudenberg, & Sarker, 2014).

In Uganda, SMEs play fundamental roles in enhancing economic growth and are considered as sources of employment generation, and social transformation. A significant proportion of the SMEs are formal, while majority fall within the informal economy based

on their size, location, ownership, status of formality and economic activity. Together, as major job providers, they produce a significant share of total value added, and provide a large segment of the poor and middle-income populations with affordable goods and services (Kenya National Bureau of Statistics MSME report, 2016).

Tambunan (2008) noted that Small and Medium Enterprises (SMEs) play a vital role in economic development, as they have been the main source of employment generation and output growth, both in developing as well as in developed countries. He also states that in developing countries, the role of SMEs becomes more crucial as they have the potential for the improvement of income distribution, employment creation, poverty reduction and export growth. It also leads to the development of entrepreneurship, industry and the rural economy. It is important that they comply with government tax policies.

Tax compliance is the taxpayers' ability and willingness to comply with the relevant tax laws and regulations (Ayuba, Saad & Ariffin, 2016). This is also referred to as the accurate reporting of income and claiming of expenses in accordance with stipulated tax laws (Saipei & Kasipillai, 2013). Tax collection has been a major concern among many governments all over the world (Loureiro, 2014).

Kiwanuka (2004) postulates that inadequate knowledge regarding tax skills and procedures remains a major challenge being faced by most SMEs in Uganda hence a number of business owners hire incompetent family members to keep financial records. Many SME 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 and MoR (2007) one of the chief features of SMEs is the lower level of the specialist tax expertise and greater owner involvement in day-today management which compel them to hire tax experts (Bertolini, Borgia, & Siegel, 2010).

Lakuma et al. (2023) underscore that Uganda's tax compliance started declining majorly in 2019. The scholars further highlight that in the financial years (FY) 2019–20, 2020–21, and 2021–22, respectively, the country's revenue underperformed with revenue shortfalls of UGX 3,593 billion, UGX 2,376 billion, and UGX 706 billion. Most of this underperformance occurred during these times primarily in the area of domestic taxes, particularly income taxes, where tax liability was decided through self-assessment.

Faridy et al. (2014) state that in Bangladesh, 768 922 listed SME establishments account for about 45% of the total value-added in manufacturing; 80% of industrial employment; about 25% of the total labor force; and 90% of all businesses. They found that, in terms of Bangladesh SME compliance with VAT law, the complexity of the law can influence taxpayers' ability to comply. They discovered that because of the complexity of the tax system, some businesses (those who can afford it) may engage expert tax professionals to help them handle sophisticated tax planning to minimize tax payments. Additionally, they found that negative perceptions about government policy and spending of tax revenue may contribute to non-compliance.

In Kenya, 34.3% of the total economy is contributed by SMEs, which accounts for 77% of the total employment statistics (Ouma et al, 2007). The government of Kenya has made attempts to bring the underground economy into the tax net under the presumptive tax by introducing the Finance bill of 2007 implemented in 2008. It was named the Turnover Tax (TOT). It is a simple tax on the gross income of any resident person whose turnover from business does not exceed Kshs.5 million during any year of Income. It was introduced by the Finance Act of 2007 through a provision of the Income Tax Act, Cap 470, and effective as from 1st January 2008. This is aimed at mobilizing revenue from the SMEs and improves their compliance (Income Tax Act, Cap 470).

Ouma et al. (2007) opined that the TOT has however, failed to produce the desired results because the SMEs in Kenya are fond of tax evasion because most of them are not registered by the government through the proper process, and therefore remain undetected and pay no tax.

According to him the registered SMEs have tendencies of under-declaring their taxable income which misrepresents their expenses, thereby translating into lower tax burden for them. Tax compliance has been a major concern among many governments all over the world (Loureiro, 2014; Ayuba, Saad & Ariffin, 2016). According to Agbadi (2011), history has shown that there has always been a reluctance to pay tax by SMEs. Again, statistical evidence has proven that the contribution of income taxes to the government's total revenue by SMEs remained consistently low (Chebusit et al., 2014). Over the last forty years, tax compliance in Kenya, experienced large fluctuations when measured as a ratio of actual tax share of gross domestic product (Waris, Kohonen, Ranguma & Mosioma, 2009). Most SMEs do not pay the taxes and tax evasion among SMEs remains far above the ground (KRA, 2015).

1.1.2 Statement of the Problem

Whereas tax compliance among SMEs enhances government ability to raise domestic revenues which play part in increasing service delivery and economic growth (Karingi, 2005), Waiswa, Akol and Isingoma (2020) offer evidence that Lira City is no exception among the numerous cities with SMEs that are continuously characterized by low tax compliance. This has been observed through low revenue generation on income tax. In an attempt to address the problem, Uganda Revenue Authority a body mandated to manage revenues in the country has continuously emphasized tax administration in Lira City through adjustments in tax rates, enhancing tax knowledge, and fostering fines and penalties to increase compliance (URA, 2020). However, despite all the aforementioned strategies, managers in SMEs in Lira City have continuously engaged in tax evasion which is a sign of non-compliance with their tax duties. The government has further adopted tax compliance administrative measures to increase accessibility of services through utilization of mobile tax services which involve using a mobile outreach bus that extends outreach services to tax payers especially in areas where URA cannot have physical presence (URA, 2020; Waiswa, Akol & Isingoma, 2020). Whereas, these new tax administrative innovations have been put forward, there is no study that has been undertaken to establish the effect of tax administration on tax compliance in Lira City. This created a gap which this study served to fill.

1.1.3 Conceptual background

In this study, tax administration was conceived as an independent variable (IV). It is believed that any attempt on this variable would have ramification on the compliance of SMEs. The dimensions of focus in this study are; level of education (knowledge), fines and penalties and tax rates levied on SMEs and the relationship between tax administration and tax compliance. The most important aspect of compliance and its goal is revenue collection procedures (OECD, 2008). Collection procedures are the modalities applied to collect money from taxpayers. Revenue refers to the total amount of money received by a company/SMEs from goods and services sold (Parkin, 2012). Local revenue is the money income collected from taxes by the local government on behalf of the state. According to Bahemuka (2001), Local revenue is the income collected by a Local Government from sources within its jurisdiction and the success story behind this is the level of compliance.

Tax compliance is synonymous of tax evasion. According to Kogler et al. (2012), tax evasion is the deliberate act of breaking the law in order to reduce taxes. It involves acts of omission (e.g. failing to report certain revenues) or commission (e.g. false reporting of personal expenses as business expenses) and is liable to prosecution and fines. Taxpayers either decide to declare their income honestly, paying their due as required and knowing the amount of money remaining with a sense of security, or they choose the risky option of evading taxes (Nguyễn, 2013).

Meanwhile the Dependent Variable (DV) in this study is conceived as compliance of SMEs. As noted above compliance is paramount in the collection of revenues. SMEs therefore are a big contributor of revenues to the government. SMEs are the primary source of domestic revenues in Uganda and thus cannot be sidelined. It is believed that any change in the tax policies will significantly affect the compliance of SMEs and thus affecting revenue generation. According to Mungaya (2012), whenever prices increase due to increase in tax rates, there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of SMEs. In Ghana SMEs provide about 85% of manufacturing employment, contribute about 70% to Ghana's GDP, and therefore have a catalytic impact on economic growth, income and employment (Awunyo-Vitor *et al.*, 2012). Panitchpakdi (2006) sees SMEs as a source of employment, competition, economic dynamism, and innovation, which stimulates the entrepreneurial spirit and the diffusion of skills.

A Conceptual Framework Showing the Relationship between Tax Administration and Compliance of SMEs in Lira City

INDEPENDENT VARRIABLE   **DEPENDENT VARRIABLE**

TAX ADMINISTRATION

COMPLIANCE OF SMEs

a. Tax Rates **b.** Tax knowledge **c.** Fines and Penalties	⟶	a. Revenue generation
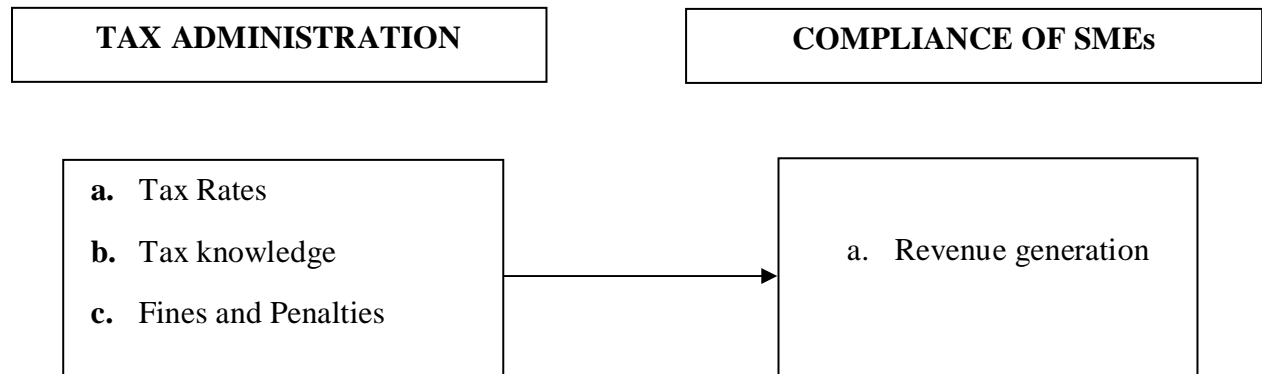
Developed by the researcher and adopted from Comparison paradigm by Cook (2005)

Figure 1: The Conceptual Framework

As per the conceptual framework, the predictor variable (Tax administration) was operationalized in terms of tax rates, tax knowledge, and fines and penalties while the outcome variable (tax compliance) was operationalized in terms of revenue generation among SMEs in Lira City.

1.1.4 **Theoretical background**

There are several theories that can be applied here among which is compliance theory. Compliance theory was coined by Allingham and Sandmo (1972) which explains that no individual is willing to pay taxes voluntarily hence individuals will always oppose paying taxes. Tax compliance theory according to Devos (2014) is grouped with economic deterrence and individual psychology. Through the compliance theory approach, the psychology of individual taxpayers can be analyzed concerning the level of voluntary tax compliance, so that it can be coopted in tax policy formulation.

Tax morale was measured by its determinant factors identified as sentiment, norms and values, individual's attitude, the fairness of the tax system, and governance quality and trust in government (Barbutamisu, Devos, 2014; Kaufmann & Kraay, 2016).

1.2 Purpose of the Study

The purpose of this study is to examine the effects of administration on tax compliance of small and medium enterprises in Lira City.

1.3 Objectives of the Study

This study shall be guided by the following objectives:

i.   To analyze the effects of tax rates on tax compliance of SMEs in Lira City.
ii. To examine how tax knowledge influences tax compliance of SMEs in Lira City.
iii. To find out the extent to which fines and penalties affect tax compliance among SMEs in Lira City.

1.4 Research questions

i.   What are the effects of tax rates on tax compliance of SMEs in Lira City?

ii. How does tax knowledge influence tax compliance of SMEs in Lira City?

iii. To what extent do fines and penalties affect tax compliance of SMEs in Lira City?

1.5 Scope of the study

1.5.1 Content scope

The study seeks to examine how tax rates, tax fines and penalties, and tax knowledge affect tax compliance of SMEs in Lira City.

1.5.2 Geographical scope

The study was conducted in City West and City East Divisions located in Lira city. Lira city is one of the cities in Uganda located in Northern Uganda. Lira City was chosen because it is no exception among the numerous cities with SMEs that are continuously characterized by low tax compliance (Waiswa, Akol & Isingoma, 2020).

1.5.3 Time scope

The study covers the period of 1st July 2021 – 30th June 2022. This was to enable the Researcher to obtain the most recent statistics.

1.6 Significance of the Study

The findings of this study may be of significance to the following stake holders:

1.6.1 To URA

The findings of this research may be of significance to the county administration as it may help them to come up with better tax and licensing policies which will hopefully reduce compliance costs, fines, penalties, tax knowledge, the complexity of tax system and tax compliance for the SMEs.

1.6.2 SMEs in Lira

The findings of this study may be useful to the SMEs in the country and Lira in that it may help them come up with ways of overcoming their challenges on tax compliance and hence adhere to tax policies.

1.6.3 To future Researchers

The outcomes of this study may be palatable to future researchers in that it may advance the existing literature on taxation, which will be of their benefits and also may expose research gaps that may be areas for further study.

1.6.4 Traders

A tax administration is a body responsible for the management and execution of tax laws of a Country. It can as well be defined as the assessment, collection, enforcement, litigation, formulator of polices, and statistical gathering of data involving tax laws, statutes and conventions of 8th Oct, 2020. Taxes in Uganda are centrally assessed and collected by the Uganda Revenue Authority.

The findings of this study may also benefit traders of different categories as to ways and means of meeting their tax obligations and management of their employees who are also tax payers.

1.7 Operational definition of terms

Tax: Tax is defined as income which is paid to the government in order to fulfill the need of the public (Aumeerun et al, 2016). It is the revenue that government receives as a percentage of each individual's income. Besides being the major source of income

to the government, taxation is another way to achieve the macroeconomic aims of a country.

Tax administration: A tax administration is a body responsible for the management and execution of tax laws of a Country. It can as well be defined as the assessment, collection, enforcement, litigation, formulator of polices, and statistical gathering of data involving tax laws, statutes and conventions of 8th Oct, 2020. Taxes in Uganda are centrally assessed and collected by the Uganda Revenue Authority

Tax Compliance: Tax compliance is a state in which the taxpayer meets all its tax obligations and performs the taxation rights (Rahayu, Setiawan, & Troena, 2017). Saipei & Kasipillai (2013) defined it as the accurate reporting of income and claiming expenses according to the stipulated tax laws. Tax compliance generally is defined as the ability and willingness of taxpayers to comply with the relevant tax laws and regulations (Ayuba & et al 2016).

SMEs: According to the Uganda Investment Authority (2020), small and medium enterprises are entities employing between 5 employees and 100 employees. SMEs also connote to enterprises with assets total ranging from 10,000,000 but not going beyond 360,000,000.

1.8 Chapter Summary

This chapter focused on the introduction to the study exploring the two variables of tax administration and tax compliance among SMEs in Lira city and how they are related. The concepts of tax administration and tax compliance among SMEs were defined in-depth; and the contextual perspective explained. The study theory which is the Compliance Theory was introduced and expanded in the theoretical background. This chapter therefore spelt out the scope of study, the significance of study and the justification for the study, and the conceptual framework.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter examines the existing literature objective by objective. It focuses on tax compliances, level of knowledge of tax systems, fines and penalties and rates of tax levied and the relationship between tax administration and compliance of SMEs. It further explores literatures on SMEs and their contributions to the national economy especially Uganda.

2.1 Tax and tax compliance

Taxes are necessary to promote economic development and progress. Understanding taxes and adopting the appropriate strategy can significantly affect a business's success or failure (Susyanti & Askandar, 2017). Depending on its company activity, size, location, shape, and nature, each business has unique tax needs. Tax duties are frequently overlooked by businesses, which has an impact on their financial and operational choices. Companies can try to lessen this effect by using wise tax planning, which is attainable with tax understanding (Inasius, 2019).

Tax compliance refers to a taxpayer's desire to pay taxes (Saragih & Putra, 2021). Tax compliance is the reporting of all revenue and the payment of all taxes in accordance with laws, rules, and rulings of courts (Abdurrosid, Chandrarin, & Zhuro, 2021). According to the Minister of Finance's Decree Number 554/KMK.04/2000, "Taxpayer compliance" is defined as the act of a taxpayer assuring that he fulfills his tax obligations in conformity with the laws and tax implementation regulations in effect in a nation (Rachmat et al., 2021).

Tax compliance is a problem that has existed for as long as taxes. State governments all around the world are clearly characterized by their ability to identify, describe, and ultimately reduce the patterns of tax noncompliance. In terms of public finances, law enforcement, organizational structure, labor supply, ethics, or a combination of all of these, the economics of tax compliance can be seen as an issue (Hassan, Naeem & Gulzar, 2021).

In a number of emerging nations, tax compliance is still quite low. A country's tax revenue is compared to the size of its economy using the tax-to-GDP ratio (GDP). The share of money going into government coffers increases as the ratio rises. Denmark is the most effective tax collector in the world, with a tax-to-GDP ratio of 46.3%. With a ratio of 34.3%, Tunisia led the list of African countries in 2021, with Nigeria coming in second at 6%. Uganda has a national tax-to-GDP ratio of 14%, which is significantly lower than the sub-Saharan African average of 18% due to low tax compliance (The Conversation, 2022).

2.2 Tax rates and tax compliance of SMEs

According to Ozili (2020), one element that encourages people to pay a low percentage of income taxes is the tax rate. Taxes should be fair to taxpayers and proportional to their needs. Since not every taxpayer may pay taxes at the same rate, tax justice is a divisive, contentious, and polemical topic (Abate 2019). Even though there have been studies on fairness perception in Jordan before, the samples have nearly always been on direct taxes and how they affect tax compliance. It is not well understood how perceptions of fairness among SME owner-managers and indirect tax evasion relate to one another, notably in Jordan. As a result, the opinions of taxpayers and how they affect tax evasion may not be the same as those reported in other research carried out in industrialized nations.

According to empirical data, Tanzania's tax rates are to blame for a drop in voluntary compliance among taxpayers. According to prior research, high tax rates reduce taxpayers' voluntary compliance while low tax rates have the opposite effect, increasing taxpayers' voluntary compliance (Masud & Gambo, 2019; NBAA, 2019). The empirical research suggests that in order to enhance the relationship between taxpayers and tax officials and encourage voluntary tax compliance, high-tax payers should receive preferential treatment or benefits (Kira, 2017; Masud & Gambo, 2019). On the other side, a low tax rate encourages taxpayers to pay taxes voluntarily (Kipilimba, 2017; Mandari, 2017). Previous research demonstrates that an ad hoc tax rate structure encourages bias, which leads to corruption and lowers the degree of tax compliance in developing nations (TRA, 2019).

Oats & Tuck (2019) observed that because Rwanda's tax rate is higher, there is less tax compliance there. In order to encourage taxpayers' voluntary compliance, the IMF (2019)

recommended that tax regulators charge taxpayers an affordable tax rate. According to earlier research, there is a negative association between tax rates and taxpayers' voluntary compliance, meaning that the two variables are inversely related. Therefore, it is advised that since standard tax rates are 29% throughout Africa, those nations with tax rates above the standard rate should reduce their tax rates to the mean tax rate in anticipation of non-tax compliance (Masud & Gambo, 2019; Ming, Normala & Meera, 2019).

Tax fairness is the equitable payment of tax rates (and any associated penalties) to taxing bodies, with the incidental amount being equal to the tax amount that was really paid. The most fundamental definition of fairness is the norm of behavior that should be equitable, or at the very least, acceptable and reasonable. Contrarily, there are many various ways to grasp the concept of fairness because it has so many diverse features (Sikayu et al., 2022). These factors, such as total tax rates, exchange fairness, governmental or procedural fairness, retributive fairness, vertical fairness, horizontal fairness, and individual fairness, have all been covered in a number of studies. Taxpayers who believe the tax system is unfair are more likely to engage in tax evasion because they will show non-compliance with their tax duties (Sing & Bidin, 2020). According to classification, tax fairness is a significant motivator of taxpayer behavior and a non-economic determinant of tax evasion (Alkhatib et al., 2019; Alm et al., 2017; Farrar et al., 2018).

Strong correlations exist between tax compliance behavior and the feeling of equality or fairness (fair tax rates) (Sebele-Mpofu, 2020). Taxpayers' perceptions of fiscal injustice lead to an increase in tax non-compliance because they feel mistreated by unequal income redistributions. Compared to an increasing tax rate, an unfair tax system has a higher tendency for tax non-compliance. Even when the tax rate is consistent, taxpayers are more inclined to dodge taxes when they believe the tax is unfair. Fairness and equity in the distribution of tax proceeds, trustworthiness and accountability for taxes collected by the government, peer pressure from other taxpayers, and the moral obligation of the taxpayer to file comprehensive tax returns are among the tax attitudes and perception elements (Okoye, 2019).

Most people accept that a high tax rate is the main cause of tax avoidance. The minimal rates of tax collection are relied upon by those who want to avoid paying taxes because they balance off the growth in evasion as a percentage of total taxes evaded. The high

individual income tax rate, which tends to encourage tax evasion among taxpayers, is one notable instance of tax evasion. Tax evasion is often sparked by the administrations excessively complex and many rules and regulations. Businesses generally find it difficult and sometimes counterproductive to cooperate legally (Aondo & Sile, 2018).

Masud et al. (2014) opined that there is significant negative correlation between tax rate and tax compliance and tax rate has a negative effect on tax compliance Taxpayers 'rights and obligations (TC2). Tax compliance is a state in which the taxpayer meets all its tax obligations and performs the taxation rights (Rahayu, Setiawan & Troena, 2017). It is thus important SMEs not only comply but voluntarily pay tax although tax must be commensurate to the level organizations ability to comprehend.

Consequently, based on the literature reviewed above, this study developed the first hypothesis (H_1), which stated that;

H_1: *There is a significant effects of tax rates on tax compliance of SMEs in Lira City.*

2.3 Knowledge of tax systems and compliance of SMEs globally

Tax knowledge is crucial because it enables firms to comply with tax laws and regulations. Understanding the tax obligations specific to their industry (manufacturing and servicing) could have an impact on their company plans. Low tax awareness and knowledge were highlighted in a survey of 147 economies as the top barrier to corporate operations (WTO, 2019). Additionally, the research by Aruna (2019) revealed that firms experienced issues with their operations due to low tax knowledge-related complexity and disorganized administrative costs. Businesses in Malaysia and Australia with little tax understanding faced significant losses due to tax fines that happened as a result of tax non-compliance, according to Loo, Mckerchar and Hansford (2018). Governments and politicians therefore want businesses to be informed of the tax system, its laws, and its norms. It would result in prompt tax compliance, revenue generation, increased corporate efficiency, and a decrease in tax fraud.

Tax knowledge requires having a thorough understanding of the tax code and its periodic revisions. Between awareness and knowledge, there is a fine line. While knowledge entails having comprehensive information, being aware of the facts, and having a thorough comprehension of the subject, awareness simply refers to being aware of events as they happen and how they are perceived (theoretically and practically). People

must be willing to adopt and implement tax reforms in order for them to be successful because doing so has raised revenue for economies and enterprises (Theory of Planned Behavior) (Rao, Mukherjee & Bagchi, 2019). MSME owners are significantly more interested in learning about the GST's operation by attending training sessions, conferences, panel discussions, and seminars than they are in using the Consumer Protection Law to address their complaints. The government's efforts to improve tax knowledge have boosted the level of acceptance of the reform in firms, especially in small and micro enterprises, without resistance (Oktaviani, Juang & Kusumaningtyas, 2019). Jalaja (2017) used empirical evidence to support the claim that the government's proper education and awareness of the modified tax structure served to lessen the limitation on adaptation.

Compliance is impacted by taxpayers' knowledge of the tax system or lack thereof, but the effects are not fully understood (Alm, 2018). A key component in understanding tax obligations, particularly those related to registration and filing procedures, is the level of education attained by taxpayers. Alm (2018) found out that taxpayers vary greatly in their understanding of tax requirements, their capacity to learn about their responsibilities, their views of the repercussions of not meeting those responsibilities and their awareness of any services to aid them with their taxes. The legal and procedural challenges associated to taxation are taxing themselves. Having a thorough understanding of the procedural requirements of tax laws is essential, but this can be difficult given how quickly tax rules change (Musimenta, 2020).

Taxpayer knowledge can motivate people to pay their taxes since they are aware of the processes and penalties that will be applied if the law is disregarded. Better tax compliance will result from having a deep understanding of tax law (Wadesango et al., 2018). Taxpayers who are well-informed and understand the rules are more likely to abide by them (Oladipupo & Obazee, 2017). According to earlier studies, tax knowledge influences taxpayer compliance in a favorable way (Dewi et al., 2020; Kristiana et al., 2021; Permatasari et al., 2021; Wibawa et al., 2021).

One of the things that can improve individual taxpayer compliance is tax knowledge. If taxpayers are aware of the need to pay taxes, their tax knowledge will boost individual taxpayer compliance (Tenreng et al., 2021). Taxpayers must be aware of their obligations and follow them in order to do so. Greater awareness will increase taxpayers' motivation to comply with their tax duties (Nurlis & Ariani, 2020). The level of individual

taxpayer compliance will also be higher if tax knowledge is strong and is followed by a high level of taxpayer awareness to pay taxes, and vice versa.

Taxpayers' awareness of their tax obligations directly relates to the level of tax knowledge they possess. The greater the taxpayer awareness of their tax obligations and rights, the higher the likelihood that they will comply with such requirements (Anam, Andini & Hartono, 2018). A higher degree of taxpayer awareness will result in a higher level of compliance from the taxpayer as they will be more confident in the significance of paying taxes and adhering to tax laws. Taxpayers who lack confidence in the significance of paying taxes and maintaining compliance with tax laws will have low levels of compliance as a result of low levels of taxpayer awareness. According to the findings of earlier studies, taxpayer awareness considerably and positively reinforces the impact of tax knowledge on tax compliance (Hartana & Merkusiwati, 2018; Nurlis & Ariani, 2020).

Meanwhile in Kenya, Aondo & Sile (2018) contends that the effect of tax payers' knowledge and tax rates on tax compliance amongst SMEs positively affect tax compliance amongst SMEs in Kenya. This means that an improvement in tax payers' knowledge leads to an improvement in tax compliance. The findings were that tax learning had positively huge effect on tax compliance. The lack of in-depth technical knowledge and the complexity of the tax law led to small businesses engaging external tax service providers for assistance.

Consequently, based on the literature reviewed above, this study developed the second hypothesis (*H₂*), which stated that;

H₂: Tax knowledge significantly influences tax compliance among SMEs in Lira City.

2.4 Fines and penalties and tax compliance

Tax penalties are punitive measures that the tax code imposes for performing prohibited acts or for failing to conduct required acts, such as failing to submit returns on time or filling out incorrect or undervalued forms, among other things. A late filing fine may be imposed on a taxpayer who is required to file an income or excise tax return but fails to do so in a timely manner. Each month (or partial month) that the return is late incurs a penalty of 5% of the unpaid tax, up to a maximum of 25% (Legal Dictionary).

According to a study by Aondo and Sile (2018), tax fines had a negligible influence on compliance. According to research done in the town of Bomet, a straightforward tax structure had the biggest impact. While strict tax penalties had the least impact on SMEs' turn over for tax compliance, online tax filing was second, followed by tax payer education and training (Kirui et al., 2017). The survey also discovered that all SMEs and their employees had received sufficient tax return filing training from KRA officials, and that they were all aware of the risks and consequences of failing to file returns by the maturity date.

The factors influencing assessment consistency among small scale organizations in Thika Town were examined by Mwaura (2019). The research's conclusions showed a strong positive association between tax compliance and tax fines, taxpayer view of tax regulations, and automation of tax filing. The findings showed that three variables together had a considerable impact on tax compliance, according to the coefficient of determination. According to the study's findings, there is a strong positive correlation between tax fines and tax compliance, thus it is important to maintain constant compliance with tax filing, that SMEs have accurate records of their business dealings, and that all taxpayers are treated fairly.

On a sample of 150 businesses, Manual and Xin (2017) conducted quantitative study in Malaysia. Using multiple regression models, they discovered that tax deterrence through fines and penalties has a significant effect on tax compliance. The findings show a positive relationship between tax compliance behavior and fear of fines and penalties (Mbilla, Nyaedi & Akolgo, 2020). This study shows that one of the most important steps in promoting tax compliance is the establishment of an effective tax system that fines and punishes tax evaders. Abdallah (2019) made the theoretical case that tax evasion fines and penalties can be utilized to enforce tax compliance. They found through regression analysis that tax deterrence had a favorable effect on tax compliance. On the other hand, more empirical data reveals that increasing penalties may have a negative impact, causing people to avoid paying more tax.

On the other hand, Manual and Xin (2017) concentrated their investigation on 150 Malaysian independent contractors. They found through regression analysis that tax deterrence had a favorable effect on tax compliance. Shakuru (2022) found a similar relationship between fines and penalties and cost of compliance and tax compliance, however the effects were somewhat less pronounced than anticipated based on

empirical findings. Alm et al. (2020) found that penalties do affect tax compliance, even though the effect was almost negligible. There is proof that raising fines and penalties may have an impact on voluntary compliance, boosting tax evasion. Despite the fact that these impacts are slight, other research has shown that penalties and fines have a favorable effect on tax payer compliance attitudes (Dissanayake & Premaratna, 2020).

The financial value of tax compliance is determined by the tax rate and penalty structure, which influences taxpayers' compliance habits. Additionally, taxpayers assess the expenses associated with continuing to be in default, the penalties associated with fraud, and the advantages of not paying taxes before deciding not to do so if the benefits outweigh the costs (Kazi, Khandaker & Omar, 2020). A late filing penalty may be applied if a taxpayer is required to file an income or excise tax return but fails to do so in a timely manner (Oladipupo & Obazee 2017). Tax evaders being punished may make other people feel good about their own actions. Additionally, according to Kazi, Khandaker, and Omar's study from 2020, punishing taxpayers who are discovered encourages them to submit their genuine income. This finding demonstrates a favorable correlation between penalties and tax compliance.

Nyamwanza, et.al (2014) noted that penalties have been found to be the most effective in enforcing compliance in Zimbabwe. SMEs are struggling to meet their ZIMRA (The Zimbabwe Revenue Authority) obligations, which are made worst by the heavy penalties charged by the authorities. According to Fishlow and Friedman (2017), tax fraud and evasion are also a result of a weak judiciary. Addressing revenue shortfalls needs to go hand in hand with legislative reforms strengthening the rule of law. This includes sufficient punishment and prosecution of violators which can only be tackled when detected tax criminals face stricter penalties that are effectively executed by courts. Higher penalties act as a deterrent and help to improve tax compliance.

In a study carried out in Kitale town in Kenya on factors affecting tax compliance among small and medium enterprises by Chebusit et al. (2014) shows that there is a positive effect of fines and penalties on compliance cost and tax compliance. This indicates that an increase in fines and penalty improves tax compliance. Potential to evade tax is usually discouraged by high penalties and the probability of being edited. It is believed that, SMEs will be encouraged to comply since they will keep accurate records for taxation purposes in order to avoid fines and penalties.

Meanwhile a similar study shows Regression results on the effect of tax payers' knowledge and tax rates on tax compliance amongst SMEs in Nakuru County in Kenya noting that taxation penalties had inconsequential positive effect on compliance (Aondo and Sile 2018).

Consequently, based on the literature reviewed above, this study developed the third hypothesis (H_3), which stated that;

H_3: Fines and penalties significantly influences tax compliance among SMEs in Lira City.

2.5 Research Gap

Globally, studies have highlighted the influence of tax administration on tax compliance among SMEs. For example, the literature review revealed that an efficient tax administration strategy through providing tax registration, assessment, mobilization, tax incentives plus limited tax rates and fines and penalties are very important in addressing the tax compliance related issues faced by small and medium enterprises. However, the empirical evidence on tax administration and tax compliance among SMEs does not clearly show how the components of tax administration like; tax rates, tax knowledge and fines and penalties relate to tax compliance among SMEs especially in developing countries like Uganda which created a gap that necessitated the need to conduct this study.

2.6 Chapter Summary

Chapter 2 presents a review of the literature connecting tax administration, and tax compliance. It elucidates how tax rates, tax knowledge, and fines and penalties are related to tax compliance in the realm of Lira City. This chapter is followed by research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explores the research designs, population of the study, sample and sampling methods, data collection and procedures, data analysis, reliability and validity, ethical issues and research gap.

3.1 Research Design

The research design generally is the plan and structure of investigation planned to give answers to the research questions. Research design can be further defined as the blueprint for collecting, measuring and analyzing data. It is the plan or strategy and structure of the research process, that provides a logical sequence creating a connection between the research questions, the empirical data that will be collected and the conclusion thereof (Cooper & Schindler, 2014). Sachdeva (2009) defined the research design as how data collection and analysis are arranged with the aim of giving relevance to the research purpose with economy in the procedure. The study employed a triangulation of designs in order to thoroughly examine the influence of tax administration on tax compliance of SMEs in Lira. It is explanatory in nature and conformed to the quantitative research method. According to Wisker (2008), an explanatory study enables the examination and explanation of relationships between variables; in particular cause-and-effect relationships. This study also adopted a Case Study research design in that it allowed the research to get in-depth information about the problem under investigation (Amin, 2005).

3.2 Population and Sampling Design

3.2.1 Population of the Study

The target population as described by Creswell (2014) is a group of individuals or entities with some common characteristics that the researcher plans to study with the aim of generalizing the findings. Many situations require information about a large group of elements (individuals, companies, voters, households, products, customers, and so on). But, because of time, cost and other considerations, data was collected from only a

small portion of the group. This study was conducted in Lira City that has a total population of 478,500 (Population Office Lira, 2020)

This study involved a selection of SMEs in Lira City as target population. According to Creswell (2014), population is a group of individuals or entities with some common characteristic that the researcher plans to study with the aim of generalizing the findings about the target population. A selection of 202 registered and non-registered small and medium enterprises were used in this study. A sample of 194 SMEs was used as the representative of the population being investigated. This sample is adequate enough to provide adequate information for the total population under the study (Amin, 2005).

Table 1: Showing sample population of SMEs in Lira City

Categories of SMEs	Population	Sample
Hotels & Restaurants	30	28
Milling Industries	20	19
Oil Milling	30	28
Bars and Lodges	22	20
Super Markets	12	12
Saloons and Barbers	20	19
Media Stations	08	08
Micro finance money transfer services	06	06
Whole sale shops and Retail shops	12	12
Private Schools	14	14
Fuel Station operators	08	08
Betting companies	08	08
Bus and Taxi operators	06	06
Construction companies	06	06
Total	**202**	**194**

Source: Lira city SME Register, 2022

3.2.2 Sampling Design

According to Cooper (2008), sampling design is a design, or a working plan, that specifies the population frame, sample size, sample selection, and estimation method in detail. According to Gass (2011), the basis of generalizability is applied in the sample selected. Group of participants are drawn randomly from the population to which we hope to generalize in this case SMEs. A total of 202 representatives of the SMEs are purposely selected and a sample of 194 is taken to participate in this study where their views shall be generalized.

3.3 Sampling techniques

A triangulation of methods depending on their application was applied. Purposive sampling was applied to specific categories of people because they have the information that the researcher is interested in.

According to Sachdeva (2009), access to the entire population is nearly impossible; however, the results from a survey with a carefully selected sample reflect extremely close results as if provided by the population. If a researcher surveyed using an appropriate sampling technique, they can be confident that their results will be generalized to the population in question. If the sample is biased in any way, it will be inadvisable to make generalizations from the findings.

In this study, simple random sampling was used to select SMEs used in the study. Simple random sampling techniques involves giving all respondents an equal chance of being selected to represent the study (Saunders & Bezzina, 2015). Simple random sampling was considered because it gave all firms an equal non-zero or independent chance of being selected as a member of the sample. Saunders and Bezzina (2015) also support that the aforesaid sampling technique is appropriate on larger samples, especially those exceeding 10 respondents.

Purposive sampling was also used to select fuel station operators, betting companies, bus and taxi operators, construction companies, media stations, and microfinance money transfer services. Purposive sampling was used to select the mentioned sample basing on the researcher's own judgment when choosing members of the population to participate in this research (Etikan, 2016). The researcher therefore selected research participants he thought were well informed about the study variables in question.

Table 2: Showing sample size and methods

Categories of SMEs	Sample size	Sampling method
Hotels & Restaurants	28	Simple random sampling
Milling Industries	19	Simple random sampling
Oil Milling	28	Simple random sampling
Bars and Lodges	20	Simple random sampling
Super Markets	12	Simple random sampling
Saloons and Barbers	19	Simple random sampling
Media Stations	08	Purposive sampling
Micro finance money transfer services	06	Purposive sampling
Whole sale shops and Retail shops	12	Simple random sampling
Private Schools	14	Simple random sampling
Fuel Station operators	08	Purposive sampling
Betting companies	08	Purposive sampling
Bus and Taxi operators	06	Purposive sampling
Construction companies	06	Purposive sampling
Total	**194**	

Adopted from Krejcie and Morgan (1970)

3.4 Data Collection Methods

The data was collected using different strategies as highlighted below: the study employed both qualitative and quantitative methods. The use of questionnaires, and face to face interviews was conveniently applied. The quantitative data was analyzed and presented in statistical instruments such as tables and figures.

Primary data was collected using a structured questionnaire that had four sections. The first section has data on the respondent, while the other three sections each answers

22

questions based on the research objectives highlighted earlier. The questionnaire has both close and open-ended questions as the researcher needed to collect additional information that the close ended questions might not have covered. A five-point Likert scale was used to measure responses in the second, third and fourth sections. A commentary section under each section of the research objective questions was included to cater for any other additional information that was required for this research. Ghayri and Gronthug (2015) opined that the questionnaire is among the most popular data collection methods in business studies.

3.5 Data Collection Tools

Two data collection tools were used for conducting this study and these are explained in detail as below:

3.5.1 Questionnaires

According to Muhammad and Kabir (2018), a questionnaire is a survey data collection tool in which information is gathered through oral or written questionnaires. The questionnaires was self-administered to cleaners, receptionists, waiters and waitresses and customers/clients to obtain required information for the study. The questionnaires were adopted since they are easier to administer, less costly, timely and they allow the aspect of confidentiality (Amin, 2005). The researcher designed the questionnaires in accordance with the study objectives and variables highlighted in the conceptual framework. In this case close ended questions were self-administered administered to the respondents. This was used to obtain their views in relation to the study phenomena (Ghayri & Gronthug, 2015). The questionnaires enabled the respondents to have ample time to reflect on answers to avoid hasty responses which enhanced accuracy and validity.

3.5.2 Interview Guide

An interview guide is an alternative tool of data collection whereby researchers collect data through direct verbal interaction while recording respondent's answers using interview guide (Amin, 2005). Interviews were conducted with the key informants who are well informed about the study problem. This method was considered since it could enable the researcher to obtain in depth qualitative information on the study phenomenon. This further enriched this study by providing more relevant information

which might not have been obtained through the questionnaires, as well as, allowing further probing (Wang, 2018).

3.6 Research Procedures

This study was carried out in Lira city. The researcher upon completion of its proposal acquired introduction letter from the University that in turn was submitted to CAO. The researcher was introduced to the field with the approval of CAO where information was acquired? A questionnaire was developed and organized according to the specific objectives of the study. This was done to ensure relevance to the research problem.

A research assistant was carefully selected, trained and engaged in the administration of the questionnaire to selected respondents. He was then tasked to ensure that distribution of the questionnaire is done within the appropriate time that allowed the respondents' time to properly complete the questionnaire.

3.7 Data Analysis

According to Blumberg (2014), data is a collection of figures and facts relating to a particular activity under study. For data to be useful, it must provide answers to the research questions.

Data obtained from the field was systematically organized to facilitate analysis. The quantitative data collected was analyzed using the Statistical Package for the Social Sciences (SPSS) software, version 26 to retrieve results, which was then evaluated and comparisons made that allowed most accurate information from the respondents.

Dependent variable is the variable that is measured, predicted or monitored and is expected to be affected by manipulation of an independent variable. It attempts to indicate the total influence arising from the effects of the independent variable and varies as a function of the independent variable. In this study, SMEs compliance is the dependent variable, denoted by "Y". Factors that affect tax compliance are the independent variables denoted by "X". These are the variables that the researcher manipulated to determine their effects or influences on the dependent variable and the amount of variation that occurs.

Other control variables in the study are ownership, level of education, years of operation, main business activity, monthly sales level, size of the business in terms of employees and the presence of a professionally trained Accountants denoted as bx1,

bx2, bx3 etc. A multi linear regression model was used in the data analysis. The model is in the form:

$Y = a+bX1+bX2+bX3+\ldots\ldots\ldots bX8+e$; Where

Y- Dependent variable (SME compliance)

X1- Independent variable (Level of Tax Knowledge)

X2- independent variable (Tax Rates)

X3- Independent variable (Fines and penalties)

a - is the constant

b - Slope/intercept

e - margin of error

3.8 Reliability and Validity

In this study the Researcher was keen on ensuring that data reliability was granted a center stage! Reliability refers to the degree to which an instrument measures what it is meant to measure (Amin 2005). In order to secure this the researcher carried out pre-testing of the research instrument (questionnaires) to a selection of SMEs in Ogur and Bar sub counties all surrounding Lira City (but not part of the population under study). This was intended to ensure consistencies in the information gathered. All items that scored a Cronbach's alpha coefficient above the required threshold of 0.700 were retained because it implied that the instrument was reliable for subsequent testing (Nunnaly & Bernstein, 1994).

Table 3: Reliability Statistics

Variable List	Cronbach's Alpha	N of Items
Tax Rates	.701	11
Tax Knowledge	.865	07
Fines & penalties	.762	07
Tax Compliance	.749	06

Source: Field data, 2022

The results showed that all constructs had Cronbach's alpha coefficients that were higher than the necessary cut-off point of 0.7, indicating that the research tool utilized in this research was trustworthy and suitable for generalization.

Meanwhile a content validity approach was adopted to ensure the dimensions under different variables actually correspond to the problem under investigation. In this study, all the research instruments were validated by researcher's supervisors from business school, and other tax and accounting professionals whose input was considered before the instrument was finally administered to their study sample. Through measuring content validity indices, each question on the questionnaire was rated by professionals regarding the Relevancy (R) or Irrelevancy (IR). Research items' averages yielded computations of Content Validity Index (CVI) that were above 0.70 threshold as illustrated in the computations in table 4 below:

Table 4: Content Validity

Construct	Total number of items	Number of items rated as relevant	CVI
Tax Rates	11	09	(09/11) = **0.82**
Tax Knowledge	07	05	(05/07) = **0.71**
Fines & penalties	07	05	(05/07) = **0.71**
Tax Compliance	06	5	(5/6) = 0.**83**

The items used represented the study material and were pertinent to the issue under investigation because the CVI was higher than 0.70.

3.9 Ethical Issues

The researcher preserved all the ethical issues. All information acquired from the respondents were treated with confidentiality and the identity of the respondents not revealed as required by them. The researcher further assured confidentiality to respondents that the information obtained was to be used for academic purposes only.

3.10 Chapter Summary

From the discussion above, chapter three covered the methodological part of this research. It reviewed the research design, population of the study, sampling and

sampling techniques, research instrument and its validity, data collection methods and data analysis methods. This formed a basis on which chapter four was done.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter examines data presentation, analysis and discussion. To address the specific research questions on tax administration and compliance of SMEs in Uganda, the chapter begins by presenting the rate of response, then demographic statistics, and finally findings on correlation and regression analysis.

4.1 Response rate

Although 194 respondents were the intended sample size, not all of them took part. In Table 5, the study's response rate is shown.

Table 5: Response rate

Category	Target No of Respondents	Realized No of Respondents	Percentage of response (%)
Respondents	194	148	76.28%

Source: Primary data, 2022

The results presented in Table 5 above showed that 194 data collection instruments were targeted to be answered by respondents in the study and only 148 filled research instruments were returned which represented 76.28% as the rate of response. Therefore, the actual number of respondents was within the desired range supported by scholars. For instance, in his article, Mugenda and Mugenda (2008) underscores that a response rate of 50% is considered adequate, 60% is considered good, whereas more than 70% is considered to be very good.

4.2 Background information

The background information of research participants covered basically the age bracket, gender, and work experience of respondents in SMEs in Lira City. Table 6 summarizes the bio data as follows.

Table 6: Background Information

Variable List	Categories	Frequency	Percent
Gender	Male	80	54.05
	Female	68	45.05
	Total	148	100.0
Age Bracket	18-25	52	35.1
	26-35	41	27.7
	36-45	31	21.0
	46-60	18	12.2
	61+	06	4.0
	Total	148	100.0
Work experience	1-5	65	43.9
	6-10	57	38.5
	11+ years	26	17.6
	Total	148	100.0

Source: *Primary data, 2022*

Regarding gender, study results in table 6 above show that majority of the respondents were male. These represented 80 (54.5%) of the total study respondents while 68 (46.5%) of the respondents were female. This implies that there is a large number of men owning SMEs in Lira city compared to women. The inclusion of both male and female respondents was to get different views from the respondents concerning the topic under study. As per age bracket of respondents, majority of respondents 52(35.1%) constituted the age group of 15 to 25 years, this was accompanied by respondents aged 26 to 35 years who constituted 41 (27.7%) of study respondents. Other research participants aged 36 to 45 years and 46 to 60 constituted 31 (21.0%) and 18 (12.2%) respectively of the research respondents. The least participation was observed among the age bracket of 60 years and above with 6 (4.0%) of the total respondents. The representation of all age groups is attributed to the 'No' retirement conditionality of SMEs employees.

As per respondents' work experience, the findings revealed that majority of research participants with 65 (43.9%) had worked in SMEs between 1-5 years. Coming after this were respondents with at least 6-10 years' worth of experience in SMEs in Lira City with 57 (38.5%) of respondents. The least number of respondents constituting 26 (17.6%) had worked in the SMEs in Lira City for a period of 11 years and above. In due regard, having most of research participants within the brackets of 1-5 years was possibly because of the fact that COVID-19 had left majority of SMEs out of business.

4.3 Descriptive analysis

The study described the characteristics and nature of the data regarding tax administration and tax compliancy. The method was based on the dispersion (standard deviation) and central tendency (mean). The degree to which participants' views regarding tax administration and tax compliancy were clustered was measured by the researcher using frequencies mean. The standard deviation calculated the degree to which individual participant opinions varied from one another.

4.3.1 Tax Rate and Tax Compliance

The respondents were asked to evaluate their perceived degree of agreement with a series of statements regarding the link between tax rates and tax compliance tax rate. The responses were rated on a Likert scale with a maximum of five points. The range from 0 to 2.49 was considered "poor," 2.50 to 3.49 was considered "Average," and 3.50 to 5.00 was considered "strong" when interpreting the mean score. The respondents' evaluations of tax rate are given in Table 7.

Table 7: Perception of Respondents on the Link between Tax Rates and Tax Compliance

	SD	D	N	A	SA	Mean	Std. Dev
I file returns and pay my taxes in time /regularly	5.9%	11.8%	17.6%	31.9%	32.8%	3.74	1.204
Tax assessment is done with my knowledge	2.5%	9.2%	6.7%	39.5%	42.0%	4.09	1.041
I am registered with URA for income tax.	5.9%	7.6%	8.4%	23.5%	54.6%	4.13	1.207
I am able to determine accurately my tax liability and income.	3.4%	9.2%	0%	40.3%	47.1%	4.31	.778
The tax rates are adequate for me	0%	0%	1.7%	45.4%	52.9%	4.51	.535
Tax rates leads to performance of SMEs	5.0%	7.6%	21.0%	32.8%	33.6%	3.82	1.132
Tax laws are simple to understand	0%	.8%	2.5%	53.8%	42.9%	4.39	.584

The cost required for filling the tax returns is high.	1.7%	4.2%	8.4%	52.1%	33.6%	4.12	.855
The rate of turnover tax is just okay for me	0%	0.8%	2.5%	40.3%	56.3%	4.52	.594
We contribute greatly to the economy of this country	0%	5.0%	6.7%	44.5%	43.7%	4.27	.799
My net salary (after tax is sustainable)	6.7%	4.2%	3.4%	47.9%	37.8%	4.06	1.092
Average						4.17	0.892

Source: Primary data, 2022

Table 7 portrays the descriptive statistics on the perception of respondents on the link between tax rates and tax compliance among SMEs in Lira City. The findings show an average mean of 4.17 which is above the threshold of 3 which was an indicator that majority of respondents strongly supported the link between tax rates and tax compliance among SMEs in Lira City. The majority of respondents therefore strongly acknowledged that the rate of turnover tax was just okay for SMEs (mean=4.52, std. =.594). Among these, 56.3% of the respondents strongly agreed while 40.3% agreed. Those that were not sure had a representation of 2.5% of study respondents. Minority of respondents disagreed. These had a representation of 0.8%. The respondents also strongly agreed that the tax rates were adequate for their SMEs (mean=4.51, std. =.535). In this case, 52.9% of the respondents strongly agreed while 45.4% agreed. Those that were not sure had a representation of 1.7% of study respondents.

In due regard to the above findings, opinions from interviews closely agree with the above assertions, especially regarding the view that the rate of turnover tax was just okay for SMEs. In the view of the participant coded "C", he acknowledged that:

> *"As highlighted by URA, turnover tax isn't available for just any business, therefore, a firm must pass the eligibility test and requirements in order to register. I therefore feel that since our firm is a small business enterprise we are not doing so badly" (C).*

Regarding the view that tax rates were adequate for their SMEs, qualitative Data obtained from participant Coded B supported that:

"I have self-conviction that rates of taxes on our products are just enough. If the rates were not favorable perhaps, we wouldn't be in business today. Not only us but also our competitors, they are also doing well" (B).

4.3.2 Tax Knowledge and Tax Compliance

The respondents were asked to evaluate their perceived degree of agreement with a series of statements regarding the link between tax knowledge and tax compliance tax rate. The responses were rated on a Likert scale with a maximum of five points. The range from 0 to 2.49 was considered "poor," 2.50 to 3.49 was considered "Average," and 3.50 to 5.00 was considered "strong" when interpreting the mean score. The respondents' evaluations of tax knowledge are given in Table 8.

Table 8: Perception of Respondents on the Link between Tax Knowledge and Tax Compliance

	SD	D	N	A	SA	Mean	Std. Dev
I have the knowledge of tax in this country	0.8%	3.4%	5.9%	46.2%	43.7%	4.29	.793
I have adequate knowledge in filling my returns	0%	0.8%	1.7%	42.9%	54.6%	4.51	.580
Tax system in this country is good	1.7%	1.7%	7.6%	40.3%	48.7%	4.33	.825
With adequate knowledge about tax, we cannot avoid paying tax	0%	3.4%	12.6%	36.1%	47.9%	4.29	.815
Tax collection system is satisfactory to me	5.0%	10.1%	28.6%	33.6%	22.7%	3.59	1.100
All our employees are registered and pay tax	6.7%	13.4%	17.6%	30.3%	31.9%	3.67	1.243
We receive support from government in-terms of training, tax holidays etc.	1.7%	10.1%	2.8%	51.3%	34.5%	4.07	.963
Average						**4.10**	**0.902**

Source: Primary data, 2022

Table 8 portrays the descriptive statistics on the perception of respondents on the link between tax knowledge and tax compliance among SMEs in Lira City. The findings show an average mean of 4.10 which is above the threshold of 3 which was an indicator that majority of respondents strongly supported the link between tax knowledge and tax compliance among SMEs in Lira City. The majority of respondents therefore strongly acknowledged that they hold adequate knowledge in filling their returns (mean=4.51, std. =.580). Among these, 54.6% of the respondents strongly agreed while 42.9% agreed. Those that were not sure had a representation of 1.7% of study respondents. Minority of respondents disagreed. These had a representation of 0.8%. The respondents also strongly agreed that the taxation system in Uganda is good (mean=4.33, std. =.535). In this case, 48.7% of the respondents strongly agreed while 40.3% agreed. Those that were not sure had a representation of 7.6% of study respondents. Both respondents who strongly disagreed and those who disagreed had a representation of 1.7% of total respondents.

In due regard to the above findings, opinions from interviews closely agree with the above assertions, especially regarding the view that SME operators hold adequate knowledge in filling their returns. In the view of the participant coded "D", she acknowledged that:

> *"Well, we have all been taught about the relevancy of tax filling by the umbrella institution. For the past 2 years we have 2 sessions with URA representatives on the same matter. We are therefore going to execute our duties by making sure we reserve the necessary data relevant in tax filling process" (D).*

4.3.3 Tax Related Fines and Penalties

The respondents were asked to evaluate their perceived level of agreement with a series of statements regarding the link between tax related fines and penalties and tax compliance. The responses were rated on a Likert scale with a maximum of five points. The range from 0 to 2.49 was considered "poor," 2.50 to 3.49 was considered "Average," and 3.50 to 5.00 was considered "strong" when interpreting the mean score. The respondents' evaluations of tax related fines and penalties are given in Table 9.

Table 9: Perception of Respondents on the Link between Tax Related Fines and Penalties and Tax Compliance

	SD	D	N	A	SA	Mean	Std. Dev
It is good to institute fines on tax defaulters	1.7%	12.6%	5.9%	46.2%	33.6%	3.97	1.029
Penalties compel people to pay their tax obligations regularly	0%	0.8%	2.5%	40.3%	56.3%	4.52	.594
Fines discourage tax payers	2.5%	20.2%	6.7%	31.1%	39.5%	3.85	1.219
All tax payers are compliant	2.5%	6.7%	4.2%	37.0%	49.6%	4.24	.991
Penalties charged for late fillings are rigid	1.7%	4.2%	8.4%	52.1%	33.6%	4.12	.855
There is a high chance of being detected for non-payment of taxes.	0%	.8%	2.5%	53.8%	42.9%	4.39	.584
Fines and penalties lead to compliance	0%	5.0%	6.7%	44.5%	43.7%	4.27	.799
Average						**4.19**	**0.867**

Source: Primary data, 2022

Table 9 portrays the descriptive statistics on the perceived Link between fines and penalties and tax compliance among SMEs in Lira City. The findings show an average mean of 4.19 which is above the threshold of 3 which was an indicator that majority of respondents strongly supported the link between fines and penalties and tax compliance among SMEs in Lira City. The majority of respondents therefore strongly acknowledged that penalties compelled people to pay their tax obligations regularly (mean=4.52, std. =.594). Among these, 56.3% of the respondents strongly agreed while 40.3% agreed. Those that were not sure had a representation of 2.5% of study respondents. Minority of respondents disagreed. These had a representation of .8%. The respondents also strongly agreed that there was a high chance of being detected for non-payment of taxes (mean=4.39, std. =.584). In this case, 42.9% of the respondents strongly agreed while 40.3% agreed. Those that were not sure had a representation of 2.5% of study respondents. Those who disagreed had a representation of .8%.

In due regard to the above findings, opinions from interviews closely agree with the above assertions, especially regarding the view that there was a high chance of being detected for non-payment of taxes. In the view of the participant coded "A", he acknowledged that:

> *"It is true that failure to comply with the Uganda Revenue Authority directive of filing returns would be noticed. This is attributed to the organizations ability to observe loopholes through computerized systems" (A).*

Regarding the notion that penalties compelled people to pay their tax obligations regularly, Participant Coded "D" underscored that that:

> *"There are so many penalties that businesses may experience due to failure to fulfil their tax obligations. These include being fined, and many others. However, the most striking one is business closure. With due consideration of this measure, our firm puts fulfilment of tax filing as a full-time job and we are doing it diligently" (D).*

4.3.4 Tax Compliance

The respondents were asked to evaluate their perceived degree of agreement with a series of statements regarding tax compliance among SMEs in Lira City. The responses were rated on a Likert scale with a maximum of five points. The range from 0 to 2.49 was considered "poor," 2.50 to 3.49 was considered "Average," and 3.50 to 5.00 was considered "strong" when interpreting the mean score. The respondents' evaluations of tax compliance are given in Table 10.

Table 10: Perception of Respondents on the Level of Tax Compliance

	SD	D	N	A	SA	Mean	Std. Dev
I maintain accurate and up-to-date records of financial transactions for tax purposes in my business	0.8%	1.7%	5.0%	44.5%	47.9%	4.37	.735
I always seek professional tax advice to ensure proper compliance with tax regulations in my business	0%	2.5%	7.6%	49.6%	40.3%	4.28	.712
I regularly review and update my tax practices to align with changing regulations	1.7%	1.7%	7.6%	42.0%	47.1%	4.31	.821
I employ dedicated personnel to manage and oversee tax-related matters in my business	0%	0.8%	1.7%	42.9%	54.6%	4.51	.580
I believe that tax planning is crucial for optimizing financial outcomes in my business	5.0%	10.1%	28.6%	35.3%	21.0%	3.57	1.086
The complexity of tax regulations makes it challenging for me to ensure full compliance	3.4%	9.2%	0%	40.3%	47.1%	4.31	.778
Average						**4.23**	**.788**

Table 10 portrays the descriptive statistics on the perceived level of tax compliance among SMEs in Lira City. The findings show an average mean of 4.23 which is above the threshold of 3 which was an indicator that majority of respondents strongly supported the notion of tax compliance undertakings among SMEs in Lira City. The majority of respondents therefore strongly acknowledged that they employed dedicated personnel to manage and oversee tax-related matters in their business (mean=4.69, std. =.679). Among these, 54.6% of the respondents strongly agreed while 42.9% agreed. Those that were not sure had a representation of 1.7% of study respondents. Minority of respondents disagreed. These had a representation of 0.8%. The respondents also strongly agreed that they maintained accurate and up-to-date records of financial transactions for tax purposes in their business (mean=4.37, std. =.735). In this case, 47.9% of the respondents strongly agreed while 44.5% agreed. Those that were not sure had a representation of 5.0% of study respondents. Those who strongly disagreed, and disagreed had a representation of 0.8% and 1.79% respectively.

36

In due regard to the above findings, opinions from interviews closely agree with the above assertions, especially regarding the view that SMEs operators employed dedicated personnel to manage and oversee tax-related matters in their business. In the view of the participant coded "A", he acknowledged that:

> *"I am handling the taxation issue in this organization by making sure we have an accountant who has the capacity to put all accounting activities together. This is because at the end of the day we have government auditors coming around to audit. So this is relevant in keeping the reputation of the firm" (A).*

Regarding the notion that the respondents maintained accurate and up-to-date records of financial transactions for tax purposes in their business, Participant Coded E acknowledged that:

> *"We are using QUICKBOOKS to ensure we have a database of all our transactions done in this organization. This system has always delivered factual and accurate results in situations of generating income statements" (E).*

4.4 Inferential Analysis

Spearman correlation was carried out to determine the existing relationship between research variables. Multiple regression analysis was utilized to analyze how tax administration affected tax compliance among SMEs in Lira City. Finally, all of the hypotheses presented in the study's opening chapter were validated using hypothesis tests. The probability value derived from the regression analysis test was used to determine whether the hypothesis should be accepted or rejected. That is to say, the alternative hypothesis is accepted and the null hypothesis is rejected if the probability value is less than 0.05.

4.4.1 Correlation Analysis

To analyze the strength of the relationship between variables, the correlation coefficient was employed in the establishment of the association between tax rates, tax knowledge, tax related fines and penalties, and tax compliance. To ascertain the outcome and predictor variables' relationship as utilized in this research undertaking,

Spearman correlation analysis was done. The justification for using a spearman rank correlation is attributed to the nature of the data attained in this research. In his view Frost (2023) recounts that the spearman rank correlation analysis is one best suited for studies using ordinal data. Correlation between variables is portrayed in Table 11 below.

Table 11: Correlation

Spearman's rho		Tax rates	Tax Knowledge	Fines and Penalties	Tax Compliance
Tax rates	Correlation Coefficient	1.000	.066	.027*	.060**
	Sig. (2-tailed)	.	.425	.041	.000
	N	148	148	148	148
Tax Knowledge	Correlation Coefficient	.066	1.000	.114	.857**
	Sig. (2-tailed)	.425	.	.170	.000
	N	148	148	148	148
Fines and Penalties	Correlation Coefficient	.027*	.114	1.000	.120**
	Sig. (2-tailed)	.041	.170	.	.002
	N	148	148	148	148
Tax Compliance	Correlation Coefficient	.060	.857**	.120**	1.000
	Sig. (2-tailed)	.000	.000	.002	.
	N	148	148	148	148

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

The results portrayed in Table 11 above reveal that there is a weak significant relationship between tax rate and tax compliance in SMEs in Lira City (r= .060**and P-Value<0.01). This suggested that SMEs in Lira City would have a good chance of seeing an improvement in tax compliance when any effort is taken by SMEs to improve tax rates. The findings also revealed that there was a strong significant relationship between tax knowledge and tax compliance among SMEs in Lira City (r= .857** and P-Value<0.01). This indicates that if SMEs in Lira City continue to tax knowledge, they will on average have an increase in tax compliance.

In the same regard, the findings also revealed that there was a weak relationship between fines and penalties and tax compliance among SMEs in Lira City (r= .120[**]and P-Value<0.01). This indicates that if SMEs in Lira City continue to encounter fines and penalties, they will on average have an increase in tax compliance.

4.4.2 Regression Results

Regression analysis was carried out to establish the effect of Tax Administration Operationalized in terms of Tax rate, Tax Knowledge, and Fines and Penalties on Tax Compliance. A multiple regression analysis was carried out to portray the effect of the predictor variables on the outcome variable.

Table 12: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.835[a]	.697	.691	.30360

 a. Predictors: (Constant), Tax rates, Tax Knowledge, fines and penalties

Table 12 portrays the adjusted R square of 0.691 which implies that the three constructs of the independent variable tax administration (Tax rates, Tax Knowledge, and fines and penalties) explain only 69.1% of variations in tax compliance among SMEs in Lira City while the remaining and 30.9% of tax compliance is explained by other factors not covered in this research at Lira City.

Table 13: Analysis of Variance Model Summary

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.816	3	10.272	115.894	.000[b]
	Residual	12.763	144	.089		
	Total	43.579	147			

 a. Dependent Variable: Tax Compliance
 b. Predictors: (Constant), Tax rates, Tax Knowledge, fines and penalties

Table 13, shows that when the model's significance was tested, a P value of 0.000 which is less than 0.05 in a two-tailed test was obtained. This demonstrates that the model successfully predicted the effect of tax administration on tax compliance using statistical significance.

Table 14: Regression Coefficients Portraying the Effect of Tax Rates, Tax Knowledge, and Fines and Penalties on Tax Compliance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.401	.357		-1.124	.263
	Tax Rates	.321	.045	.204	-.004	.997
	Tax Knowledge	.954	.054	.819	17.649	.000
	Fines and penalties	.118	.058	.094	2.044	.043

a. Dependent Variable: Tax Compliance

The multivariate regression model was adopted to establish the effect of Predictors: Tax Rates, Tax Knowledge, and Fines and Penalties on Tax Compliance.

This was expressed in the regression model equation as follows:

$$Y_i = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \varepsilon$$

Which became: $Y_i = -.401 + 0.204X_1 + 0.819X_2 + 0.094 X_3 + \varepsilon$

The model implies that when all the variables of the study are at a constant (-0.401) a unit enhancement in tax rates results in 0.204 increase in tax compliance among SMEs in Lira City. In the same regard, Tax Knowledge leads to 0.819 increase in tax compliance among SMEs in Lira City. Lastly, Fines and Penalties leads to 0.094 increase in tax compliance among SMEs in Lira City.

From table 14, the above-mentioned regression coefficients assist in resolving the regression equation regarding the underlying effect of the predictors being studied. The study revealed that there was an insignificant effect of tax rates on tax compliance among SMEs in Lira City (P. *value* =0.997). It was also discovered that the coefficient of tax knowledge was statistically significant (p=0.000). This implies that there is a significant effect of tax knowledge on tax compliance among SMEs in Lira City. Relatedly, study findings revealed that fines and penalties significantly affected tax compliance among SMEs in Lira City (P. *value* =0.043).

4.5 Chapter Summary
Chapter four reports the empirical findings of the study. The study's findings are presented, discussed, and provided with an interpretation. The chapter begins with the

response rate, then moves on to demographic information, and concludes with findings on correlation and regression in order to answer the specific objectives of the study.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the summary, conclusion and recommendation on tax administration and compliance of SMEs in lira.

5.1 Summary and discussion of findings

This covers the area of tax administration, level of knowledge about taxation, fines and penalties, and rates charged on the small and medium enterprises in Uganda.

5.1.1 Tax rate and Tax Compliance of SMEs

The study findings revealed an insignificant effect of tax rate on tax compliance in SMEs in Lira City (ß=.204; p>.05). This implied that additional efforts to enhance tax rates would not necessarily result in enhancement in tax compliance. This finding therefore implied that the alternative hypothesis was rejected whereas the null hypothesis was accepted. The supported null hypothesis stated that there was no significant effect of tax rates on tax compliance among SMEs in Lira City. The findings were in conformity with earlier research conducted in Tanzania by Masud and Gambo (2019) whose study findings revealed an insignificant effect of tax rates on tax compliance. The justification was that high tax rates reduced taxpayers' voluntary compliance while low tax rates had the opposite effect, increasing taxpayers' voluntary compliance. In his article, Kira (2017) underscores that in order to enhance voluntary tax compliance, high-tax payers should receive preferential treatment or benefits.

The research findings are also in agreement with those conducted in Rwanda by Oats and Tuck (2019) who observed that a tax rate that is higher does not significantly lead to increase in tax compliance. This observation coincides with earlier research that indicated that there was a negative association between tax rates and taxpayers' voluntary compliance, meaning that the two variables are inversely related (Ming, Normala & Meera, 2019). In support, Chepkurui et al. (2014) recounts that majority of firms agreed that due to higher tax rates, they do not file their returns in time, implying even tax payment is not remitted early enough although this does not mean tax avoidance.

The research results are also in line with the compliance theory as coined by Allingham and Sandmo (1972). The theory underscores that no individual is willing to pay taxes voluntarily hence individuals will always oppose paying taxes. Therefore, an increase in tax rates lead to decrease in tax compliance. This is because higher taxes lead to decrease in tax morale observed in terms increase sentiments on norms and values, individual's attitude, unfairness of the tax system, and governance quality and trust in government (Kaufmann & Kraay, 2016).

The findings are in disagreement with those of a study conducted in Kenya by Aondo and Sile (2018) who underscored that tax rates significantly affected tax compliance amongst SMEs in Kenya. This means that an improvement in tax rates leads to an improvement in tax compliance.

5.1.2 Tax knowledge and Compliance of SMEs

The study findings revealed that there is a significant effect of tax Knowledge on tax compliance among SMEs in Lira City (β=.819; p<.05). This implied that additional efforts to enhance tax knowledge would lead to enhancement in tax compliance among SME operators in Lira City. This finding therefore implied that the alternative hypothesis was accepted whereas the null hypothesis was rejected. The supported null hypothesis stated that there was a significant effect of tax knowledge on tax compliance among SMEs in Lira City. The study findings are in line with those of earlier studies, such as, studies conducted in Malaysia and Australia by Loo, Mckerchar and Hansford (2018) which revealed that tax knowledge significantly affected tax compliance. This implied that Businesses with little tax understanding faced significant losses due to tax fines that happened as a result of tax non-compliance.

The study findings are also in line with a study conducted in Kenya by Aondo and Sile (2018) who underscored that the tax payers' knowledge and tax rates on tax compliance amongst SMEs significantly affected tax compliance amongst SMEs in Kenya. This means that an improvement in tax payers' knowledge leads to an improvement in tax compliance. Additionally, learning about tax obligations by SME holders had positively huge effect on tax compliance which was observed through tax payments. The lack of in-depth technical knowledge and the complexity of the tax law led to small businesses engaging external tax service providers for assistance.

The research results also conform to those of Aruna (2019) which revealed that firms with low tax knowledge experienced issues with their operations due to low tax knowledge-related complexity and disorganized administrative costs. Conversely, Taxpayer knowledge can motivate people to pay their taxes since they are aware of the processes and penalties that will be applied if the law is disregarded. Better tax compliance will result from having a deep understanding of tax law (Wadesango et al., 2018). Therefore, if taxpayers are aware of the need to pay taxes, their tax knowledge will boost individual taxpayer compliance (Tenreng et al., 2021).

Research findings are also in agreement with research conducted by Oladipupo and Obazee (2017) who highlighted that, taxpayers who are well-informed and understand the rules are more likely to abide by them. It is of little wonder therefore that earlier studies, also made a revelation that tax knowledge significantly influences taxpayers' compliance in a favorable way (Dewi et al., 2020; Kristiana et al., 2021; Permatasari et al., 2021; Wibawa et al., 2021). It is therefore imperative that taxpayers must be aware of their obligations and follow them in order to be compliant. Greater awareness will increase taxpayers' motivation to comply with their tax duties (Nurlis & Ariani, 2020).

5.1.3 Fines and penalties and compliance of SMEs

The study findings revealed that there is a significant effect of fines and penalties on tax compliance among SMEs in Lira City ($\beta=.094$; $p<.05$). This implied that additional efforts to enhance fines and penalties in SMEs would lead to enhancement in tax compliance among SME operators in Lira City. This finding therefore implied that the alternative hypothesis was accepted whereas the null hypothesis was rejected. The supported null hypothesis stated that there was a significant effect of fines and penalties on tax compliance among SMEs in Lira City. Although fines and penalties appear to be a disturbing action, the study reveals that instituting fines and penalties is important in the collection of revenue. This perhaps means that where people are left at will they may not willingly comply. This is in line with theory Y in the motivation theory where it is stated that man hates work and would always try to avoid it, therefore must be fully supervised.

The study findings are in line with those of Mwaura (2019) who conducted a study in Thika Town to examine the association between tax compliance and tax fines, taxpayer view of tax regulations, and automation of tax filing. The findings showed that three

variables together (including tax fines) had a considerable effect on tax compliance, thus it is important to maintain constant compliance by implementing penalties and fines among SMEs so as to ensure that SMEs have smart and accurate records of their business dealings.

The study results are also in conformity with that conducted in Kenya by Aondo and Sile (2018) who acknowledged that tax fines had a negligible influence on compliance. The survey also discovered that all SMEs and their employees had received sufficient tax return filing training from KRA officials, and that they were all aware of the risks and consequences of failing to file returns by the maturity date. The findings however are in contrast with those done in the town of Bomet, where strict tax penalties had the least impact on SMEs' turn over for tax compliance (Kirui et al., 2017).

The findings are also in conformity with those conducted in Malaysia by Manual and Xin (2017) who concentrated their investigation on independent contractors. They found through regression analysis that tax penalties had a favorable effect on tax compliance. In support, Shakuru (2022) found a similar effect between fines and penalties and cost of compliance and tax compliance. The findings also coincide with those of Alm et al. (2020) who found that penalties affected tax compliance, even though the effect was almost negligible. Dissanayake and Premaratna (2020) offer proof that raising fines and penalties may have an impact on voluntary compliance, boosting tax evasion. This was so because penalties and fines changed tax payers' compliance attitudes.

5.2 Conclusion

In conclusion, the study sought to examine the effects of tax administration on tax compliance of small and medium enterprises in Lira City. The findings indicate that tax rates, tax knowledge, and tax fines and penalties are very important variables for the success of tax compliance among SMEs. More specifically the study findings revealed a significant effect of tax Knowledge on tax compliance among SMEs in Lira City ($\beta=.819$; $p<.05$). The regression results also revealed a significant effect of fines and penalties on tax compliance among SMEs in Lira City ($\beta=.094$; $p<.05$). Lastly, research results also confirm an insignificant effect of tax rate on tax compliance in SMEs in Lira City ($\beta=.204$; $p>.05$). In due regard, the three predictor variables (taxes rates, tax knowledge, and fines and penalties explain up-to 69.1% of variations in tax compliance among SMEs in Lira City. These observations provide insights on how tax administration, operationalized

in terms of rates, tax knowledge, and tax fines and penalties is an indispensable factor affecting tax compliance of SMEs in Lira City. Therefore, it is vital for SMEs in Lira City to generate interventions geared towards promoting tax administration.

5.3 Recommendation

The study offers the following recommendations:

Tax Rates

Tax rates were found to have an insignificant effect on tax compliance. The study therefore recommends that SMEs in Lira City need to design interventions necessary in enhancing tax compliance. This could be done by ensuring that tax assessments are done with the knowledge of SME operators. Additionally, tax compliance may be increased by making sure SME operators register with URA to remain well-informed on income taxes.

The study also recommends that the level of tax registration needs to be improved and potential tax payers be registered since tax contributes enormously to the economy of Uganda. This could be done with the use of on-line registration platforms generated by Uganda Revenue Authority.

The study recommends that different SME stakeholders be involved in the determination of various taxation rates. This is so because it is imperative that tax payers be included in the determination of what they are to pay so as to increase accountability and transparency.

Tax knowledge

Tax knowledge was found to have a significant effect on tax compliance. The study therefore recommends that SMEs in Lira City need to design interventions necessary in enhancing tax education. This could be done by embracing government support in-terms of training, tax holidays, and many more.

Relatedly, the study also recommends that the knowledge levels of SME operators be enhanced by embracing technology. This is because the use of technology in transmitting information to the tax payers is quick and fast. This is relevant in increasing the level of tax compliance in Lira City.

Fines and penalties

Fines and penalties were found to have a significant effect on tax compliance. The study therefore recommends that various interventions be designed to ensure compliance. This could be done by ensuring that URA carries out follow-ups on cases of culprits who fail to make payments to enhance their compliance.

The study recommends that fines and penalties be reduced to enhance compliance by SME operators. This is because the institutionalization of fines and penalties should not be too high for the tax payers to pay as this may discourage them hence affecting the level of compliance.

The study recommends that technology be embraced in the payment of fines and penalties. This is because it provides easier way of registering, filling, payment and follow up on the tax payers.

5.4 Suggestion for further research

This research purposively selected respondents. This study suggests that academics undertake a related study with a dissimilar sampling technique. Most preferably, the census sampling technique should be used. This is necessary in reducing sampling errors because the estimates made by census sampling are not subject to sampling errors which are pronounced in the purposive sampling technique used in the study.

5.5 Chapter summary

Chapter five (5) offers a presentation of the findings summary, as well as research conclusion. This section concludes the thesis by offering recommendations aimed at serving as a guideline for future scholars who might wish to conduct an identical investigation Lira City in Uganda.

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APPENDICES

Appendix 1: Questionnaire for SMEs respondents

Dear respondent, I am Moses Obua, a student of Uganda Christian University, currently pursuing a study leading to a ward of a Master's in Business Administration of Uganda Christian University. I therefore request you to give me your views on the questions raised in this questionnaire. Please feel free to tick the appropriate box which best depicts your level of concurrence or non-concurrence with the statement.

Key: Strongly Disagree = 1, Disagree = 2, Not sure = 3, Agree = 4 and Strongly Agree = 5

Index	Statement					
	Your gender	M	F			
	Age bracket	18-25	26-35	36-45	46-60	60+
	Year spent in this organization	1-5	6-10	11+		
a.	**Tax rates**	**1**	**2**	**3**	**4**	**5**
1	I file returns and pay my taxes in time /regularly					
2	Tax assessment is done with my knowledge					
3	I am registered with URA for income tax.					
4	I am able to determine accurately my tax liability and income.					
5	The tax rates are adequate for me					
6	Tax rates leads to performance of SMEs					
7	Tax laws are simple to understand					

		1	2	3	4	5
8	The cost required for filling the tax returns is high.					
9	The rate of turnover tax is just okay for me					
10	We contribute greatly to the economy of this country					
11	My net salary (after tax is sustainable)					
b.	**Tax knowledge**	**1**	**2**	**3**	**4**	**5**
1	I have the knowledge of tax in this country					
2	I have adequate knowledge in filling my returns					
3	Tax system in this country is good					
4	With adequate knowledge about tax we cannot avoid paying tax					
5	Tax collection system is satisfactory to me					
6	All our employees are registered and pay tax					
7	We receive support from government in-terms of training, tax holidays etc.					
c.	**Fines and Penalties**	**1**	**2**	**3**	**4**	**5**
1	It is good to institute fines on tax defaulters					
2	Penalties compel people to pay their tax obligations regularly					

3	Fines discourage tax payers					
4	All tax payers are compliant					
5	Penalties charged for late fillings are rigid					
6	There is a high chance of being detected for non-payment of taxes.					
7	Fines and penalties lead to compliance					

Compliance of SMEs in Uganda

d.	Compliance of SMEs	1	2	3	4	5
1	I maintain accurate and up-to-date records of financial transactions for tax purposes in my business					
2	I always seek professional tax advice to ensure proper compliance with tax regulations in my business					
3	I regularly review and update my tax practices to align with changing regulations					
4	I employ dedicated personnel to manage and oversee tax-related matters in my business					
5	I believe that tax planning is crucial for optimizing financial outcomes in my business					
6	The complexity of tax regulations makes it challenging for me to ensure full compliance					

Appendix2: Interview guide for Key informants

1. What in your view are the contributions of SMEs to this country?

2. How have you been handling the taxation issue in your organization?

3. How has URA been helpful to your organization in terms of tax information?

4. How often do you attend training on tax compliance from URA?

5. How does lack of tax information affect your tax compliance?

6. How do you get information about tax assessment?

7. In what ways do tax rates affect your organization?

8. How fair is the tax rates to your company?

9. Does your organization pay fines and penalties?

10. What in your view is the problem of fines and penalties in relation to tax defaulting?

11. How comfortable are you in terms of payment of taxes to URA?