

# A Model for Improving Social Media Tax Compliance in Uganda



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## 1 Introduction

For many sub-Saharan African countries, attaining the Sustainable Development Goals by 2030 requires a massive increase in investments in key sectors of the economy. These sectors include, among others, education, health, agriculture, and the energy sector. Sub-Saharan African countries also need to invest in other infrastructure needed to achieve the World Bank Group's goals of ending extreme poverty and boosting shared prosperity by 2030 [32]. Therefore, mobilizing enough tax revenue is key if sub-Saharan African countries are to adequately finance investments in these key sectors of the economy. However, according to Brahim and Gandhi [31], sub-Saharan Africa continues to grapple with a huge tax revenue deficit, estimated at about USD 230 billion a year. It remains a region with the lowest tax-to-gross domestic product (GDP) ratio of 15%, which cannot finance even basic state functions [32]. Nevertheless, there have been several attempts to improve domestic revenue in sub-Saharan Africa. For the last 20 years, many tax reforms aimed at increasing tax revenues have been implemented. These reforms include, among others, computerizing the various tax processes, transforming the tax bodies into independently run tax authorities, and widening tax bases by introducing several taxes, namely, Domestic Tax Revenue, Direct Domestic Taxes, and Value-Added Tax (VAT) [31]. Take a case of Uganda for example. As part of the tax reforms, the government of Uganda undertook major strategic reforms in the revenue sector. This began with the transformation of Uganda Customs Union into an independently run parastatal known as the Uganda Revenue Authority (URA). There were also other reforms, like widening the tax base by introducing a variety of taxes, such as the Value Added Tax (VAT), and then computerizing the different

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tax processes. As a result of the various tax reforms across the region, the World Bank statistics show that in countries where tax reforms were implemented, there was a significant increase in the tax revenue as a percentage of GDP. Countries such as Ghana, Burkina Faso, Kenya, Senegal, and Botswana increased their tax-to-GDP ratios from 11% in the early 2000s to more than 17% in 2015 [31].

However, despite the various tax reforms and the relative growth in tax collections in a few selected countries, the current tax revenue as a percentage of GDP is still low in many other sub-Saharan African countries. While tax revenues account for one-third of GDP in OECD countries, they still account for less than one-fifth in many sub-Saharan African countries [4]. For example, despite two decades of sound economic reforms, studies show a stagnation of Uganda's tax-to-GDP ratio at about 12.5% over the last 10 years. It is the lowest in the East African Community and below the government's own goal of 16% [8, 32]. This is far much lower than other sub-Saharan African countries such as Namibia (31%), Kenya (21.2%), Burundi (19%), and Ghana (17.2%), which have similar tax structures as Uganda [2, 8, 28].

The low tax-to-GDP ratio still witnessed across many sub-Saharan African countries is attributed, among others, to inadequate fiscal policy, low taxation capacity of the economies, weak enforcement, and the most prominent is a very low level of tax compliance (tax evasion) among taxpayers. Whereas low tax compliance is a global challenge, studies show that sub-Saharan Africa is the hardest hit by this scourge [34, 35]. Cobham [34] estimates that low tax compliance in developing countries costs around USD 285 billion per year. A 2015 report published by the High-Level Panel on Illicit Financial Flows from Africa identified tax evasion as one of the leading factors for the low level of economic growth and development in the region. The reports estimate a revenue loss of between \$30 and \$60 billion per year due to tax evasion [13]. One country in sub-Saharan Africa hard hit by low tax compliance is Uganda. A study conducted by Ali et al. [21] found out that 68% of the Ugandans think that not paying taxes is "not wrong at all" or "wrong, but understandable". About 74% of firms in Uganda do not report all sales for tax purposes, compared to 71%, 26%, and 43% for Tanzania, Rwanda, and Burundi respectively as illustrated in Fig. 1 [8]. In the Eastern District of Mbale where there are about 50,000 registered taxpayers, only 1500 remit their taxes [35].

One of the taxes with the lowest levels of compliance in Uganda is the "Over the Top services" tax commonly referred to as "social media tax".

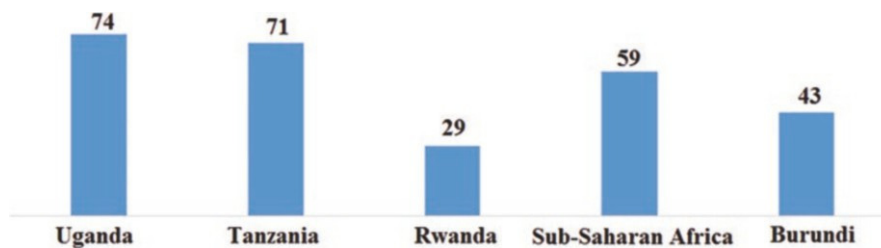


Fig. 1 Firms that do not report all sales for tax purposes (% of firms) in 2006 [8]

## 2 The Social Media Tax in Uganda

In 2018, three sub-Saharan African governments namely Uganda, Zambia, and Benin introduced a new form of taxes on mobile internet customers. Benin approved a similar tax in September 2018, targeting mobile messaging and “Voice over IP” calls (like Skype). The introduction of the tax rose the cost of a single gigabyte of data by nearly 250%. However, there were protests against this tax, and an appeal against it was tabled in the courts of law, which forced the government to withdraw the tax. The Zambian government also introduced a flat daily tax of USD 0.03 on IP-based voice calls in August 2018. Although there was a public outcry against the tax, the government did not relent and insisted that the tax would raise public revenues, bolster local telecommunications enterprises, and help cover the cost of investments in infrastructure [12]. In Uganda, the Parliament on the 1st of June, 2018, passed the UGX 32.4 trillion 2018/2019 budget (Parliament of Uganda, 2018). It included a new UGX 200 (0.05 USD) tax “per user per day of access” on “Over The Top services” (OTTs) commonly referred to as the social media tax. The Bill passed by Parliament meant that, for one to access any social media site such as Facebook, WhatsApp, Twitter, LinkedIn, Instagram, Viber, Skype, and others, a tax of UGX 200 (0.05 USD) was to be paid per day. The government expected to collect between UGX 400 billion (about USD 11 million) to UGX 1.5 trillion (about USD 400 million) annually from the social media revenue [18]. A week after the social media tax was introduced, many social media users in Uganda started evading the social media tax by installing Virtual Private Network (VPN) apps on their smartphones [27]. Some WhatsApp groups had shared links of VPN apps for people to download, install, and access social media free of tax [27]. VPN is a technology that creates a safe and encrypted connection over an insecure network and extends a private network across a public network. The applications running across a VPN may, therefore, benefit from the functionality, security, and management of the private network. Analysis by the government showed that more than 8 million of the country’s 20 million internet subscribers were not paying the fees. Besides using VPN, there was also a petition submitted to the Constitutional Court of Uganda by civil society groups seeking to nullify the social media tax. Furthermore, a campaign hashtag “#ThisTaxMustGo” was created against the social media tax and several demonstrations against the tax were held around the capital city Kampala. A sequence of events against the social media tax made headlines both in the national and international media [30]. These campaigns led to low levels of tax compliance. The Uganda Revenue Authority (URA) acknowledged that the social media tax was among the worst-performing tax categories for 2018/2019 [36]. URA reported that only UGX 49.5 billion was collected in 2019, against the projected UGX 284 billion, hence a 17.4% performance. Now, as a result of the failure of social media tax, the government in July 2021 scrapped it and replaced the tax with a direct 12% levy on the net price of internet data, after which a value added tax (VAT) of 18% will apply [22].

URA observed that there was a need for a deeper study of social media tax to find ways of improving the performance of the tax, which is currently very unpopular among the population [36]. Ali et al. [21] acknowledge that dealing with the problem of tax evasion in developing countries calls for an understanding of the factors underlying the individual taxpayer's decision whether to pay or evade taxes. Therefore, this chapter undertook a deep study on the social media tax compliance levels and investigated ways of improving the performance of the unpopular social media tax among the population in Uganda.

### 3 Research Objectives

In line with this problem definition, the core research objectives were:

1. *To investigate the level of social media tax compliance in Uganda*
2. *To establish why there was low social media tax compliance in Uganda*
3. *To recommend ways for improving social media tax compliance in Uganda*
4. *Develop a model for improving social media tax compliance in Uganda*

## 4 Methodology

### 4.1 Survey

Based on the research objectives of this study, we used a survey. This survey was conducted in between July and September 2019. This was before the social media tax was scrapped in July 2021. It provided the best approach for addressing the research objectives raised in this study. A survey can be defined as a “means for gathering information about the characteristics, actions, or opinions of a large group of people” [23]. It is normally used to gather quantifiable information on the situation, subject, behaviour, or phenomenon of the study population. This can then be used to statistically analyse a target audience or a particular subject. Our survey was carried out 6 months after the introduction of social media tax in Uganda. Mbale municipality was chosen because of the following reasons:

We considered the Mbale municipality, one of the largest municipalities in Uganda, as our case study area. Mbale municipality is located in the eastern part of Uganda and lies on coordinates 1°04'50.0"N, 34°10'30.0"E (Latitude: 1.080556; Longitude: 34.175000). Mbale municipality is the second biggest city in eastern Uganda after Jinja Municipality [29] and, therefore, acted as a representative sample for the entire municipalities in Uganda. In 2014, the national population census put the population in Mbale municipality at 53,987. The population in Mbale municipality possesses most of the characteristics of a municipality in Uganda, namely: different age groups, levels of education, rural, peri-urban and urban

residence, gender, income groups, and occupation [29]. Secondly, the researchers were familiar with the local languages spoken in the municipality, that is, Lugisu, and this made it easier for the researcher to easily engage participants and adequately explain the purpose of the survey to the respondents. Finally, the research institution (Uganda Christian University—Mbale University College) where the researchers work is located in Mbale municipality. It was, therefore, convenient and cost-effective to research Mbale municipality.

Given that the population in Mbale municipality is 53,987, we then use Krejcie and Morgan's [19] approach to determine the number of participants or respondents for the study. Krejcie and Morgan [19] presented a table that researchers can use to determine the appropriate sample size for a quantitative study; they indicate that for a quantitative study of a population of 50,000 the sample size should be about 381 respondents. Using Krejcie and Morgan's approach, we arrived at a sample of 381 participants to represent the 53,987 people in Mbale municipality. A total of 381 questionnaires were given out to respondents within the municipality. This research primarily will use closed-ended questions with ordered choices. This type of questionnaire is usually used on a Likert scale and requires the respondent or participant to examine each given choice of response independently from other choices. In Likert scale, a range of statements was presented to the respondents who responded by either agreeing or disagreeing (based on a Likert scale of five, that is, strongly agree, agree, neutral, disagree, and strongly disagree) with the statement. A closed-ended questionnaire with ordered choices was mainly chosen because it is easy for respondents to answer and for researchers to analyse the data.

The research was conducted in all the three divisions that make up Mbale municipality namely Industrial Division, Northern Division, and Wanale Division. In each division, 127 questions were given out randomly to participants who had active social media accounts. In total, 381 questionnaires were given out in the three divisions, and 325 were filled out and returned for analysis, thereby contributing to an 85% response rate. The completion of these questionnaires was voluntary and responses were anonymous. Statistical programs such as SPSS and Excel were used to analyse quantitative data. SPSS was majorly used to tabulate data and excel was used to generate graphs and charts from the analysed data. Results of the study are presented in the next section.

## 5 Results from the Survey

From the study, the majority (88%) of respondents were below the age of 40. There was relatively higher feedback from male respondents (61%) compared to female respondents (39%). Seventy-four percent of the respondents had attained either a diploma or a degree. The results also show that 64% of the respondents earned between UGX 100,000 and UGX 299,000. A majority (61%) of the respondents were either students or worked in the informal sector, and 70% of the respondents owned smartphones. From the survey, 90% of the respondents used social media

and about 82% had at least 2 or more social media accounts. WhatsApp was the most popular social media tool used (47%), and Facebook was the second most popular social media site used (33%). Instagram was the least used (6%). Eighty-two percent of the respondents spent between UGX 1000 and UGX 5000 every week on mobile data to access social media. Having presented the demographics of the respondents, next we present responses from the respondents in regards to the questions that were asked. A summary of the demographics is presented in Table 1.

**Table 1** Demography of the respondents

<b>Age</b>		<b>Frequency</b>	<b>Percent</b>
Valid	18–30	208	67.0
	31–40	73	21.0
	41–50	34	9.0
	50 above	10	3.0
<b>Total</b>		<b>325</b>	<b>100.0</b>
<b>Gender</b>		<b>Frequency</b>	<b>Percent</b>
Valid	Male	199	61.0
	Female	126	39.0
<b>Total</b>		<b>325</b>	<b>100.0</b>
<b>Education</b>		<b>Frequency</b>	<b>Percent</b>
Valid	PLE & below	24	7.0
	O-level	8	2.0
	A-level	51	16.0
	Diploma	76	23.0
	Degree	166	51.0
<b>Total</b>		<b>325</b>	<b>100.0</b>
<b>Income</b>		<b>Frequency</b>	<b>Percent</b>
Valid	99, 000 and below	115	35.0
	100,000–299,000	95	29.0
	300,000–599, 000	62	19.0
	600, 000–1,200,000	38	12.0
	1,300,000–1,800,000	15	5.0
<b>Total</b>		<b>325</b>	<b>100.0</b>
<b>Occupation</b>		<b>Frequency</b>	<b>Percent</b>
Valid	Civil servant	45	14.0
	Private sector	62	19.0
	NGO	20	6.0
	Informal sector	97	30.0
	Student	101	31.0
	<b>Total</b>	<b>325</b>	<b>100.0</b>
<b>Type of phone</b>		<b>Frequency</b>	<b>Percent</b>
Valid	Basic phone	98	30.0
	Smart phone	227	70.0
<b>Total</b>		<b>325</b>	<b>100.0</b>

### 5.1 *The General Perception Towards the Social Media Tax*

First, we set out to assess the general perception that the sample population held against the introduction of the social media tax by the government. We, therefore, asked the respondents whether the social media tax was “a fair” or “unfair”. From the findings, about 243 (75%) respondents said that the social media tax was unfair, while only 82 (25%) said the tax was fair. The results are summarised in Fig. 2.

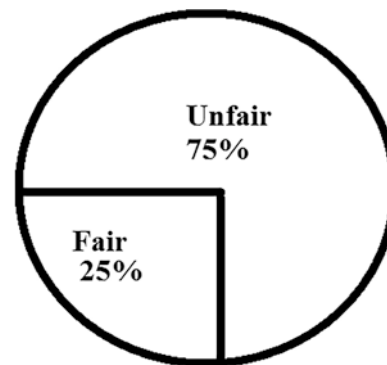
### 5.2 *Why Government Introduced Social Media Tax*

The study also went ahead to investigate the main reason why respondents think the government introduced the social media tax. We presented two major reasons. The one presented by the government is to raise revenue, and the other reason held by many in the public is that the government wants to reduce freedom of expression (social/political discussions) through social media. The study found that 68% of the respondents believed that the social media tax was an attempt by the government to reduce social/political discussions, and only 32% said it was an attempt by the government to raise revenue. The summary is shown in Fig. 3.

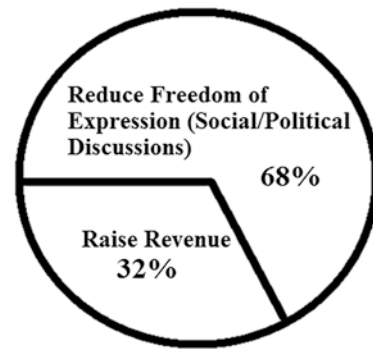
### 5.3 *Social Media Tax Compliance Levels*

We assessed the level of compliance towards the social media tax. Out of the 325 respondents, 130 (40%) acknowledged that they did not pay social media tax whenever they wanted to access social media; however, 136 (42%) said they always paid the social media tax, while 59 (18%) were not sure. The summary is shown in Fig. 4.

**Fig. 2** The general perception towards the social media tax



**Fig. 3** Why government introduced social media tax



**Fig. 4** Level of compliance with social media tax



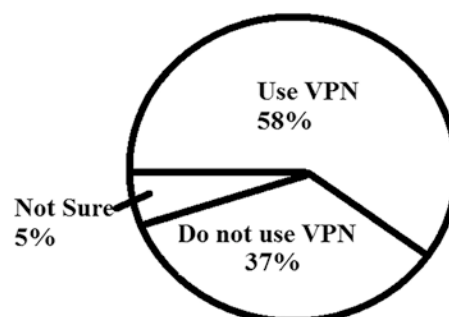
#### **5.4 Reasons for Non-compliances with Payment of Social Media Tax**

The survey explored general reasons why the respondents were not paying the social media tax introduced by the government. Five reasons were presented, namely: social media tax is very high; inadequate knowledge on how social media tax revenue will be spent; political reasons; too many taxes already levied on people; and high levels of corruption and lack of accountability of public funds. The respondents were then requested to tick the three most important reasons why they were not paying the social media tax. A cross-tabulation was then performed between those who did not pay the social media tax (130 respondents) and the three major reasons why they did not pay the social media tax.

The findings show that 67% said the social media tax was very high, 54% said the taxes levied on people were too many, and 49% said there were high levels of corruption and lack of accountability. The study also reveals that 40% did not have knowledge on how social media tax revenue will be spent, and only 36% of the respondents who did not pay the social media tax said they did it for political reasons. The summary is shown in Fig. 3 and Table 2.

**Table 2** Reasons for non-compliance to social media tax ( $N = 130$ )

Reasons for not paying social media tax	Frequency	Percent
Social media tax is very high	87	67
Taxes levied on the people were too many	70	54
High levels of corruption and lack of accountability	63	49
Inadequate knowledge of how social media tax revenue will be spent	52	40
Political reasons	46	36

**Fig. 5** The use of VPN to access social media without paying tax ( $N = 130$ )

### 5.5 *The Use of VPN Mobile Application to Evade Social Media Tax*

The study also investigated the use of VPN amongst respondents who did not pay social media tax. Using cross-tabulation between those who did not pay social media tax and the use of VPN, 58% of the respondents used VPN to evade the social media tax while 37% did not as summarised in Fig. 5.

### 5.6 *Improving Compliance with Social Media Tax*

The survey further explored what respondents believed the government should do to encourage payment of the social media tax. A set of nine statements were presented to the respondents, and they were asked to tick five major options that would encourage them to pay social media tax. A cross-tabulation analysis was performed between the 130 respondents who did not pay the social media tax and the 5 options that they were given to choose. The findings show that 56% of the respondents said that the government should reduce the social media tax rate, while 28% said that the government should reduce corruption. 18% of the respondents said that the government should consolidate the tax within mobile data, 18% encouraged the government to educate the people on the relevance of paying tax, and 15% said that the government should reduce political intolerance. The summary is shown in Table 3.

**Table 3** Encouraging the payment of social media tax ( $N = 130$ )

Factors	$N$	Percent
Reduce the tax	73	56.0
Reduce corruption	37	28.0
Consolidate the social media tax as part of mobile data	24	18.0
Educate the people on the relevance of paying tax	24	18.0
Reduce political intolerance	19	15.0
Block VPN	18	13.0
Enforce strict tax laws	16	12.0
Give incentives to social media taxpayers	15	11.0
Make the payment procedure shorter and easier	4	3.0

## 6 Discussion of the Results

### 6.1 *The Level of Compliance with Social Media Tax in Uganda*

There is evidence that tax non-compliance leaves many sub-Saharan African countries with huge budgetary constraints. All forms of tax evasion cost African governments between 30 and 60 billion USD per year, hampering economic growth and development [13]. As indicated earlier in this chapter, Uganda's tax-to-GDP ratio is considered one of the lowest in the sub-Saharan African region primarily because of the low rate of tax compliance [28]. According to the 2017 World Bank, Uganda is one of those sub-Saharan African countries with the highest percentage of firms that do not remit taxes estimated at 74%, compared to 71%, 26%, and 43% for Tanzania, Rwanda, and Burundi respectively [8]. This trend is confirmed in our study as the results show that 40% of respondents did not pay social media tax whenever they wanted to access social media, with 75% saying the social media tax was unfair. A survey conducted by Whitehead Communications Ltd in 2018 on public opinion on the recent social media and mobile money taxes in Uganda found out that only 40% of the respondents said they paid the social media tax, and 94% were opposed to the tax. In the next section, we discuss reasons why there is a very low rate of tax compliance with the social media tax in Uganda.

### 6.2 *Reasons for Non-compliance with Social Media Tax*

#### 1. *High Social Media Tax*

Several studies have shown that high tax rates cause high tax non-compliance [11]. Similarly, there is evidence that a high tax rate is positively correlated with a tendency for taxpayers to underreport their tax returns [7, 15]. This is in line with the findings of this study, which show that the most common reason given by the respondents for not paying the social media tax was the high tax rate. About 67% of

the respondents said that the social media tax rate was high. However, there have been mixed findings on the relationship between tax rate and tax compliance. For example, one recent study in one of the African countries found that tax rates (high or low) did not have any positive or negative effect on tax compliance [15]. Nonetheless, according to Mas'ud et al. [20], a majority of studies conducted in Africa show that there is a significant negative correlation between high tax rate and low tax compliance.

### *2. Too Many Taxes Levied on People (Multiple Taxation)*

According to Izedonmi [14], multiple taxation occurs when the same income is subjected to more than one tax treatment. It is sometimes referred to as double taxation or triple taxation [14]. The concept of multiple tax practices is a common occurrence not only in developing economies but also in developed economies, and it is a panacea to a high rate of tax evasion and avoidance practices [9]. A study conducted by Sankey et al. [25] in Nigeria on the effects of multiple tax practices on taxpayers' compliance attitudes found that multiple tax practices significantly affect taxpayers' compliance attitudes and that multiple tax practices in Nigeria are corollaries of corruption, poor tax administration, greed, and unfair revenue allocation formula. This correlates with our study, which found that 54% of the respondents did not pay the social media tax because of the many taxes levied on them. Whereas it is good practice to widen the tax base to improve government revenue, there is a need to critically distinguish between widening the tax base and multiple taxation.

### *3. High Levels of Corruption*

Studies have shown that tax evasion is a result of the corruption perception many people have towards government officials in many African countries [13]. Many people believe that a greater percentage of government officials are corrupt. For example, 68%, 56%, 55%, and 53% of the people in Liberia, Nigeria, Cameroon, and Gabon respectively evade taxes because they believe government officials are corrupt. However, in more economically stable countries like Mauritius (13%) and Botswana (17%), their corruption perception towards government officials is relatively lower [13]. In our study, we found out that 49% of the respondents did not pay social media tax because they believed that the corruption level in the country was high. For people to build trust in government, there is a need for accountability and transparency in how public funds are collected, allocated, and spent.

### *4. Knowledge of How Tax Revenue Is spent*

Adimasu and Daare [1] conducted a survey in Ethiopia on tax awareness and found that lack of full knowledge about a certain tax was the major problem with voluntary tax compliance attitudes. The study further showed that tax awareness does not only create positive perception towards government spending but also encourages voluntary tax compliance. In our study, 40% of the respondents did not pay social media tax because they did not understand what the social media tax revenue will be used for. Therefore, there is a need to strengthen tax awareness strategies that will positively shape the mindsets of the taxpayers, hence tax compliance.

### 5. *Political Reasons*

According to the political legitimacy theory, tax compliance is influenced by the extent to which citizens trust their government [17, 26]. In many African countries, there is a strong relationship between tax evasion and the perception that voters have towards the way the most recent national elections were conducted [13]. Ali et al. [21] assessed factors affecting tax compliant attitude in Kenya, Tanzania, Uganda, and South Africa. They found out that people who were more satisfied with government provision of infrastructure such as roads and electricity, basic health services, educational needs are more likely to have a tax compliant attitude, with an increase of about 10% in Kenya, 8% in Uganda, and 10% in Tanzania. Also, satisfaction with the way government handles crime, conflict, and corruption increases the likelihood of having a compliant attitude in Uganda by 7%. In our study, 36% of the respondents said they did not pay social media taxes for political reasons.

## 6.3 *Improving Social Media Tax Compliance*

### 1. *Reduce Social Media Tax*

Mas'ud et al. [20] advise that since the average tax rate is 29.1985% in Africa, countries with tax rates above average that are experiencing non-compliance should reduce their tax rate to the mean tax rate in Africa. As shown in the study, reducing the social media tax rate was the most recommended measure (56%) for increasing tax compliance amongst social media users.

### 2. *Reduce Corruption*

A certain degree of transparency is required for the taxpayers to be compliant. When there is less corruption and a high rate of transparency, people tend to be committed to paying taxes. For example, corruption among the tax officials was found to have reduced the likelihood of tax compliant attitude by 5% in South Africa [21]. The second highest recommendation for increasing the social media tax compliance was that government should reduce the level of corruption (28%).

### 3. *Consolidate the Social Media Tax*

Governments should consider a tax policy that combines all seemingly related taxes into one slot and later discriminates it among various departments rather than having closely related but different taxes at the same time [25]. The study also found that 18% of the respondents said that the social media tax should be included in the mobile data tax and not paying the social media tax separately, which many saw as double taxation.

### 4. *Educate the People on the Relevance of Paying Tax*

Tax awareness is equivalent to reducing the share of people with tax non-compliant attitude by about 51% [21]. Gitaru [10] also observes that taxpayers will readily accept any new system introduced if they have ample knowledge about it.

Tax awareness programs are needed to enhance taxpayers' ability to understand the tax and to increase their confidence in fulfilling their responsibilities as taxpayers. The study revealed that 18% of the respondents said there was a need to educate the people on the relevance of paying tax.

#### 5. *Reduce Political Intolerance*

A study conducted in Liberia and Nigeria found that about 22% of Liberians and 15% of Nigerians say they have at least once withheld tax payments as a result of their dissatisfaction with their government's political, social, and economic performance [13]. In regards to our study, 75% of respondents believe that the social media tax was introduced by the government to reduce freedom of expression (social and political discussions). The study revealed that 15% of the respondents who did not pay social media said that the government needs to reduce political intolerance.

#### 6. *Block VPN*

Thirteen percent of the respondents said that blocking Virtually Private Networks applications installed on many smartphones would help improve social media tax compliance. We see that 58% of the respondents who did not pay the social media tax evaded the tax by using VPN app. In a similar study conducted by Whitehead Communications Ltd. in 2018 on public opinion on the recent social media, it was found that 57% of the respondents were using VPN.

#### 7. *Enforce Strict Tax Laws*

General enforcement of tax laws on digital services should be enhanced. The capacity to enforce tax laws should be improved. The tax systems, especially the local government revenue systems, in many African countries lack strong and consistent domestic tax legislation [3]. For example, there were a few situations in Zambia where legislation had to be amended to accommodate recognition of e-reports in an official courtroom in case there was a dispute [3]. Kagina [16] observes that tax compliance can be improved if the tax bodies are empowered by enabling legislative enactments. The results from the study reveal that 12% of the respondents said that enforcing strict laws and penalties would help improve social media tax compliance.

#### 8. *Give Incentives to Social Media Taxpayers*

Twelve percent of the respondents said that the government should give incentives to social media users, especially for registered businesses that are heavily dependent on social media for business purposes. Tax incentives are special favours given out to entice major investments. Incentives are designed to encourage foreign direct investments.

#### 9. *Make the Payment Procedure Shorter and Easier*

Generally, the tax payment systems in Africa are considered the most complicated in the world because it takes 320 h to pay tax compared to the global average of 268 h [24]. This means that the time taken to pay tax in Africa is greater than the

global average by 20%. From the study, we see that 3% of the respondents said that the payment procedure for the social media tax should be made shorter and easier. Studies have shown that complexity in the tax payment system has been identified as a major determinant of tax non-compliance [5, 6].

## 7 A Model for Improving Social Media Tax Compliance in Uganda

Some models and frameworks have so far been presented for improving tax compliance, such as the “slippery slope” framework presented by Henk Elffers in 2006 and the Theory of Change for Innovations in Tax Compliance presented by Prichard et al. [33]. However, in this chapter, we use the Theory of Change for Innovations in Tax Compliance model as it provides a more suitable taxonomy for mapping the factors for improving social media tax compliance that emerged from the study. Prichard et al.’s model focuses on three major aspects that facilitate either enforced/forced tax compliance or voluntary tax compliance namely:

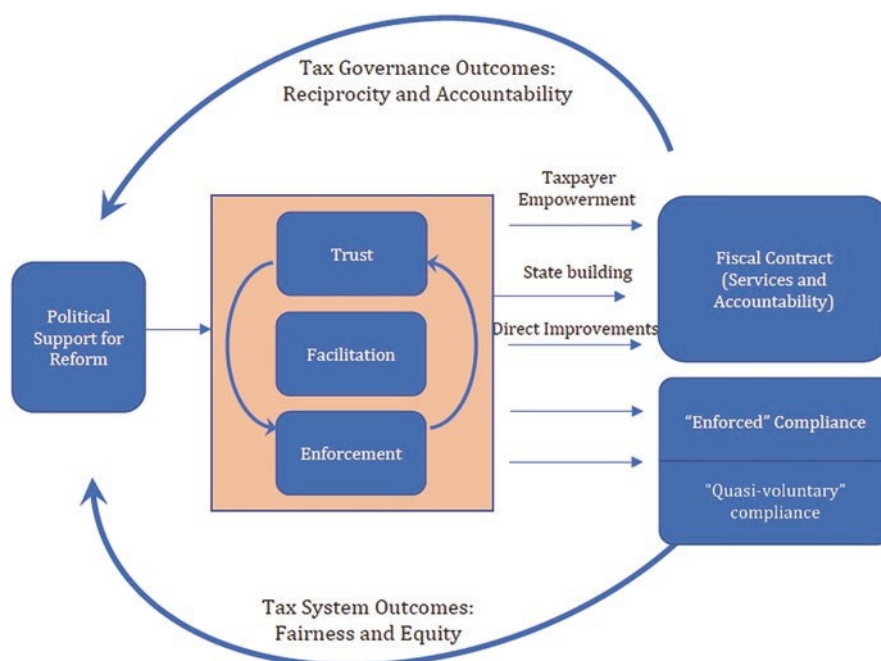
1. *Enforcement*: When the government increases monitoring of taxpayers and improves tax collectors performance, which in many cases leads to enforced/forced tax compliance (which results from the enforcement power of the state)
2. *Facilitation*: Facilitating the tax process through tax awareness, simplifying the tax process, and enhancing customer care
3. *Trust*: Focuses on building fairness, equity, reciprocity, and accountability, which encourages “quasi-voluntary tax compliance”. Voluntary compliance is driven by values, social norms, and levels of trust in the fairness, equity, reciprocity, and accountability of tax systems.

Ultimately, the outcome of either enforced/forced tax compliance or voluntary tax compliance should strengthen fiscal contracts (where the state invests according to the will and interest of the taxpayers), and generate sustained political support for reform as illustrated below (Fig. 6).

Using the above model, this chapter presents a modified model for improving social media tax compliance in Uganda. It is hoped that this model may be of great use to the Uganda Revenue Authority and other revenue bodies in developing countries seeking to improve tax compliance. The components of the model are discussed as follows.

### 7.1 Political Support for Reforms

First, ample evidence now suggests that political support is critical to reform in the taxation system. It should support enforcement, facilitation, and building trust. Tax reform inevitably creates winners and losers and confronts strong vested interests.



**Fig. 6** Theory of change for innovations in tax compliance

It cannot succeed without political support. Political support for reform can be viewed in two ways:

- (a) informing the design of reform that is most likely to succeed amid existing political constraints (“incentive-compatible reform”)
- (b) supporting the design of strategies to minimise resistance and build support for reform

## 7.2 Enforcement

Many studies conducted on tax compliance have attributed enforcement as the starting point. Understanding the enforcement tools available to governments to use is paramount. Two elements are necessary for strengthening enforcement:

- (a) *Increase Monitoring of Taxpayers*

This is when the government gains information on individual taxpayers. Improving access to information has been pivotal in improving monitoring of taxpayers. It is through access to information on income, wealth, and economic transactions that governments can identify evasion and avoidance, pursue enforcement,

and impose penalties. The government should be able to identify and block various ways in which social media users evade the tax. This can be done by.

#### **Blocking VPN Sites**

As reported in our study, about 57% of the respondents evade the social media tax by using VPN app. In our study, 13% of the respondents said identifying and blocking VPN applications installed on many smartphones would help improve social media tax compliance.

#### *(b) Measures to Improve Tax Collectors Performance*

This is when the government aims at improving the performance of various tax processes and administration. This can be done through the creation of semi-autonomous revenue authorities run by professionals and with little interference from the government. Salary increases have been key to many reform programs, as an effort to improve staff recruitment and performance incentives. Strict monitoring of staff is needed to reduce opportunities for collusion and corruption. Improving social media tax collectors' performance can be done in the following ways.

#### **Reduce Corruption**

As presented in the results of the study, 49% of the respondents did not pay social media tax because they believed that the corruption level in the country was high. There are similar studies that show that tax evasion is a result of the common perception many people have towards government officials in many African countries [13]. That is why, in our study, 28% of respondents who did not pay social media tax said that the government should reduce the level of corruption generally in government and within the tax body. A certain degree of transparency is required for taxpayers to be compliant. When there is less corruption and a high rate of transparency, people tend to be more committed to paying taxes.

#### **Enforce Strict Tax Laws**

Many sub-Saharan African countries lack strong and consistent domestic tax legislation [3]. There is a need to enact relevant tax laws and build a strong commitment to implement the laws. The study shows that 12% of the respondents said that enforcing strict laws and penalties would help improve social media tax compliance.

### **7.3 Facilitation**

The model presents facilitation inform of “customer friendly”, with taxpayers treated as clients rather than potential criminals. Facilitation efforts are primarily aimed at reducing the cost of compliance in three ways:

#### *(a) Tax Awareness*

Ensure that taxpayers understood what they were required to pay and had easy access to the information required to do so. This involves simplifying and stabilizing relevant laws and making relevant information readily available. The study

revealed that 40% of the respondents did not pay social media tax because they did not understand what the social media tax revenue will be used for. Tax awareness does not only create positive perception towards government spending but also encourages voluntarily tax compliance. Social media tax awareness can be done through:

#### **Educating People on the Relevance of Paying Tax**

Our study further established that 18% of the respondents said there was a need to educate taxpayers on the relevance of paying tax. Taxpayers will readily accept any new system introduced if they are given timely and relevant information about the tax [10].

#### *(b) Simplify the Tax Process*

Reforms have sought to reduce the cost of compliance by simplifying policies, simplifying forms and filing requirements, and reducing redundancies and points of contact. In the case of social media tax, the tax process can be simplified by:

#### **Easier Payment of the Tax**

Africa has been identified as a region with the most complicated tax payment systems [24]. It takes 20% more time to complete tax payment in Africa compared to the rest of the world. In our study, 4% of the respondents said that the payment procedure of the social media tax should be made shorter and easier.

#### *(c) Customer Care*

There is a need to reduce the scope for harassment and abuse by tax officials, particularly at the point of payment. This involves reducing face-to-face contact with tax officials, reducing officials' discretion, increasing reliance on self-assessment where possible, introducing online portals, and expanding the scope for tax payments to banks (or, more recently, via SMS).

## **7.4 Building Trust**

The model presents building trust as all the factors *other than* enforcement and facilitation that may drive levels of tax compliance. The major aim of building trust is to strengthen "tax morale" and encourage tax compliance. Tax morale is generally defined as capturing "non-pecuniary motivations for tax compliance". This can be undertaken by capturing individual values, ethics, and attitudes that are aimed at improving trust. Improvements in trust thus stand to improve these more conditional aspects of tax morale and thus contribute to enhanced tax compliance. The model presents four key areas that influence or build trust:

#### *(a) Fairness*

Fairness captures the extent to which taxpayers feel that the process for paying taxes is fairly designed and administered. This includes their understanding of the system, their treatment by tax collectors, the fairness of penalties, and the

availability of recourse in cases of abuse. This normally happens when the same income is subjected to more than one tax treatment [14]. It is one of the leading causes of tax evasion in many developing countries [9]. Results presented from the study found out that 54% of the respondents did not pay the social media tax because of the many taxes levied on them. In an attempt to widen their tax bases, many governments in sub-Saharan Africa have ended up implementing multiple taxes on the same services or products. For example, in Nigeria, the multiple tax practices are corollaries of corruption, poor tax administration, greed, and unfair revenue allocation formula [25]. One of the solutions for the multiple taxation is by:

#### **Consolidating the Social Media Tax into Mobile Data**

The study also found out that 18% of the respondents said that the social media tax should be included on mobile data tax and not paying the social media tax separately, which many saw as double taxation.

#### *(b) Equity*

Equity captures the extent to which the tax burden is felt to be fairly distributed across different taxpayers. There is now considerable evidence that taxpayers are less likely to comply or to support higher taxes when they feel that the distribution is unfair. From the results of the study, 68% of the respondents said that the social media tax was unfair.

#### **Reduce Social Media Tax**

In our study, 67% of the respondents did not pay social media because the social media tax rate was high. And 56% of the respondents who did not pay social media recommended reducing the social media tax rate to increase tax compliance amongst social media users. The average tax rate in Africa is 29.2%. Mas'ud et al. [20] advise that countries with tax rates above average that are experiencing non-compliance should reduce their tax rate to the mean tax rate.

#### *(c) Reciprocity*

Reciprocity is perhaps the most intuitive of the four elements underlying trust in tax systems and lies at the core of the fiscal contract: The idea is that tax revenues will contribute to the provision of valued public goods and services. This concept is frequently at the heart of government outreach and education campaigns, which stress the need for taxes to fund national development. For example, our study revealed that only 31% of the respondents said that the government had introduced the social media tax to raise the much-needed revenue for development. However, 75% said that the introduction of the social media tax was an attempt by the government to either reduce social discussions or political discussions. However, the government can reciprocate by:

#### **Giving Incentives to Social Media Taxpayers**

Results from the study show that 11% of the respondents said that the government should give incentives to social media users, especially for registered businesses that are heavily dependent on social media for business purposes. Tax incentives are

special favours given out to entice major investments. Incentives are designed to encourage foreign direct investments.

(d) *Accountability*

Accountability overlaps with reciprocity; however, the goal of accountability is, often, to provide an institutionalized way for taxpayers to demand and ensure reciprocity. Our study revealed that 49% of the respondents did not pay social media tax due to high levels of corruption and lack of accountability.

**Reduce Political Intolerance**

In our study, 36% of the respondents said that they did not pay social media tax due to political reasons, 15% of the respondents who did not pay social media tax suggested that government should reduce political intolerance.

## ***7.5 Enforced and Voluntary Compliance***

In our model, we distinguish between enforced compliance and voluntary compliance. Prichard et al. [33] observe that many recent studies have distinguished between enforced compliance, which results from the enforcement power of the state represented by “enforcement”, and voluntary (or “quasi-voluntary”) compliance, which is majorly driven by values, social norms, *and* levels of trust in the fairness, equity, reciprocity, and accountability of tax systems, which in our model is achieved through “Building Trust”. Facilitation addresses customer care issues, creates awareness, and makes the tax process easier. This helps to achieve both enforced compliance and voluntary compliance. Once both enforced and voluntary compliance have been achieved, this will not only validate the political support for reforms that was given but also promote more political support for reforms in the future. Below, we present a modified model that can be of use to the Uganda Revenue Authority to improve social media tax compliance in Uganda (Fig. 7).

## **8 Conclusion**

In an attempt to raise its tax-to-GDP ratio, the government of Uganda introduced the social media tax. However, the tax was among the worst-performing tax categories for 2018/2019. The Uganda Revenue Authority reported that only UGX 49.5 billion was collected in 2019, against the projected UGX 284 billion, hence a 17.4% performance. URA observed that there is a need for a deeper study of social media taxes to find ways of improving the performance of the tax, which is currently very unpopular among the population. Therefore, this chapter undertook a deep study on the social media tax compliance levels and investigated ways of improving the performance of the unpopular social media tax among the population in Uganda.

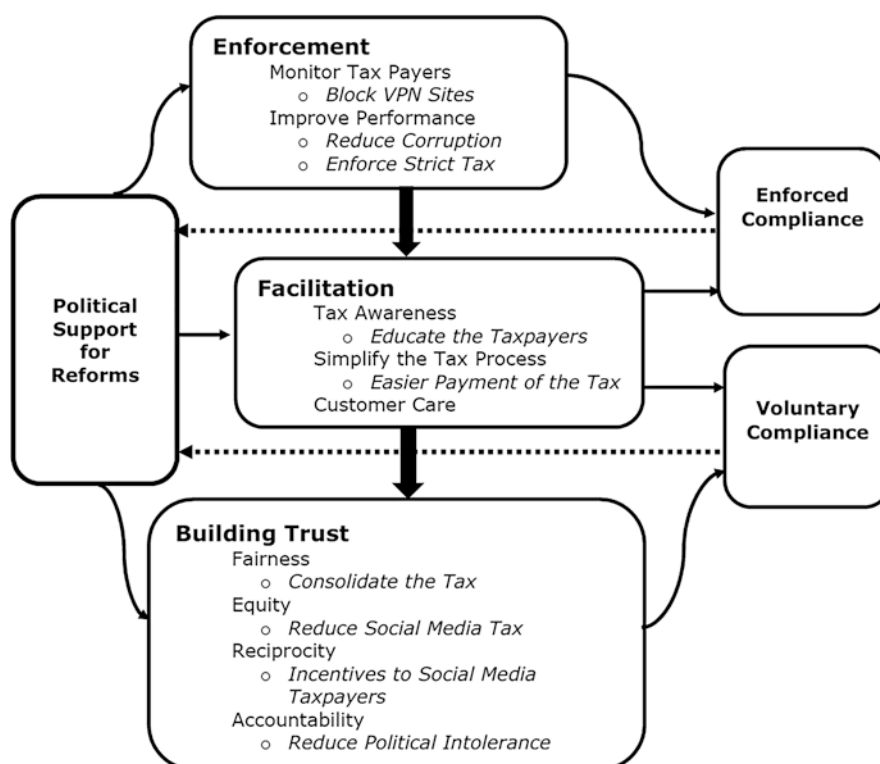


Fig. 7 A model for improving social media tax compliance in Uganda

This chapter presented a modified model for improving social media tax compliance in Uganda. It is hoped that this model may be of great use to the Uganda Revenue Authority and other revenue bodies in developing countries seeking to improve tax compliance.

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