

Tax compliance behaviour of small business enterprises in Uganda

Small business enterprises in Uganda

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Abstract

Purpose – This study aims to investigate the extent to which the theory of reasoned action (TRA) can be used to explain tax compliance among small business enterprises (SBEs) in Uganda and extends the application and relevance of the theory to a new area of tax compliance. It contributes the TRA, as a predictor of tax compliance in a developing country context.

Design/methodology/approach – A cross-sectional survey targeting different categories of SBEs was carried out using interviewer-administered questionnaires. A sample of 384 SBEs was used in the study.

Findings – The TRA contributes critical insights on the tax compliance behaviour of small businesses in developing economies. It influences tax compliance behaviour. The study illustrates evidence about the negative attitudes SBEs have on intentions to comply with tax regulations and the extent to which these attitudes influence their compliance behaviour. Subjective norms positively influence tax compliance intentions in a positive manner. Overall, the appearance of these intentions shows a negative effect on tax compliance behaviour. These findings also imply that Uganda Revenue Authority needs to understand the social psychology of taxpayers and tailor these in their policies and efforts to increase compliance.

Research limitations/implications – The TRA has been used to explain behaviour in numerous situations in psychology. The study used this theory in a new geographical, economic and administrative environment; Uganda. This theory has proved relevant in explaining psychological, sociological and economic behaviour; specifically tax compliance. The TRA was revised to include a new construct of perceived behavioural control, which turned into the theory of planned behaviour. This could not be studied due to time and logistic constraints. Therefore, there is a need to investigate if this revised theory can explain tax compliance behaviour better.

Practical implications – The paper suggests that tax administration efforts and policies should consider the social-psychology aspects of the taxpayers to improve tax compliance.

Originality/value – This study adds a new arena of explaining tax compliance from a theory commonly used in psychology to a new setting in finance.

Keywords Attitudes, Subjective norms, Intentions, Tax compliance, Taxpayers

Paper type Research paper

Introduction

Scholars have been on a quest to explain the phenomenon of tax compliance for many years. Although attempts have been made to gain a better appreciation of tax compliance, there is



a critical gap in the academic literature about developing countries such as Uganda. Prior tax compliance research in developing countries has mainly focussed on the tax administration perspective using; audit rates (Gauthier and Reinikka, 2006), tax penalties, tax fairness (Torgler, 2003; Franzoni, 1999) and tax compliance costs. In Uganda, tax compliance has been mainly investigated and apprehended from a tax administration or tax collector perspective (Nabaweese, 2009). There are few empirical findings on tax compliance using a taxpayer social psychological approach.

Gaining a better appreciation of tax compliance necessitates entry into the fields of psychology and sociology to be able to understand the taxpayer motives and drivers. Psychology plays an important role in compliance, though often ignored by public and tax policymakers. Little is known about the behavioural tendencies of individuals towards tax compliance. Tax compliance is mainly affected by the threat of, or implementation of penalties, tax audits and whistleblowing. Researcher and policymakers should direct their efforts towards finding alternative means of ensuring compliance. Underpinning the psychological and sociological aspects of the taxpayers in a bid to bring about voluntary compliance is gaining prominence in tax administration. Understanding the psychology of a taxpayer can drive voluntary compliance. The theory of reasoned action (henceforth referred to as TRA) is used in psychology to explain drivers behind the behaviour (Fishbein and Ajzen, 2010). In Africa, this theory has not been widely used to demonstrate tax compliance. TRA takes an individual taxpayer based approach by identifying which personality traits influence tax compliance behaviour (Fishbein and Ajzen, 2010). TRA postulates that two social cognitive constructs determine intentions to engage in a specific behaviour; attitudes defined as one's personal opinion of behaviour and perceived subjective norms referring to how one thinks significant others judge the behaviour. Intentions then predict actual behaviour in this case – tax compliance behaviour.

Limited research has been carried out concerning the small business enterprises (SBEs) perspective in Uganda (Nabaweese, 2009; Fjeldstad, 2006). In addition, there is no available empirical research investigating tax compliance behaviour using TRA in Uganda. The study will extend the application and relevance of the TRA to a new area of tax compliance in Uganda. Before this study, the theory of reason action has had limited application to tax compliance, especially in developing countries such as Uganda. Using both the psychological and sociological approach of the taxpayer, this study attempts to add to the tax compliance debate, the TRA as a predictor of tax compliance in a developing country context, principally focussing on small business enterprises.

What this study seeks to explore is the extent to which the TRA explains variations in tax compliance behaviour among SBEs in Uganda. The study aims to find new and innovative ways to increase tax compliance among the hard to reach and tax, the SBEs.

Literature

Tax compliance is a concern of governments around the world (Alm *et al.*, 1995; Feige, 1989; Frey and Weck-Hannemann, 1984). Tax compliance spans the notions of equity, efficiency and incidence (Andreoni *et al.*, 1998). Wenzel (2005) contends that research on tax compliance has been dominated by an economic analysis, which frames the taxpayer's decision to pay or not to pay tax as an individual's rational attempt to maximise profits (Allingham and Sandmo, 1972). Therefore, traditional economic tax compliance models have primarily emphasised enforcement and detection variables (Andreoni *et al.*, 1998). However, the conventional economic tax compliance approach is unable to comprehensively explain current levels of compliance in developing countries such as Uganda. Recent research, however, supports the claim that non-economic, social-psychological factors (for example,

ethics, perceived fairness, social norms and psychological reactance) also influence taxpaying behaviour (Alm *et al.*, 1995; Cowell, 1992; Kirchler, 1999; Wenzel, 2002, 2004).

Economics researchers studying tax compliance (Andreoni *et al.*, 1998) have called for more attention to social psychological influences on tax compliance (Bobek *et al.*, 2007). Economists, in particular, have focussed on the concept of “social norms” (Alm *et al.*, 1999; Pommerehne *et al.*, 1994; Scholz and Pinney, 1995; Wenzel, 2004). However, most of these economic studies do not specify precisely what these social norms are; instead, they model a variable that affects compliance in a manner consistent with a substantial effect from some outside social influence.

Baldry (1986) argues that moral considerations influence the decision whether or not to evade. However, taxpayers are also driven by moral rules and sentiments. A taxpayer might bear moral costs if she/he does not pay the taxes and act as a free rider. Elffers (2000), attempts to show that it is a long way before a person becomes a tax evader. He defines three steps in the staircase to tax evasion. First, taxpayers have to be seized by a will not comply. In a second step, Elffers (2000) argues that not everyone with “an inclination not to his taxes can translate his intention into action”. Many individuals do not have the opportunity or the knowledge and resources to evade. In a third step, you can find individuals that feel inclined not to comply and check for the chance to evade taxes. Elffers (2000) further argues that this is the phase where standard economic theory comes into play, where individuals evaluate the expected value of evasion.

Existing theories on tax compliance

Deterrence theory has been the primary theoretical framework applied to tax compliance. The theory assumes that taxpayers consciously weigh the pros and cons of noncompliance in light of the probability of detection and the severity of punishment. This model has been labelled the most pervasive tax compliance model, (describing taxpayer expected utility as a function of tax rates, potential penalties and the probability of audit (Allingham and Sandmo, 1972). Primarily, this approach builds on Becker’s (1968) rational economic agent approach to crime as a lottery. While this model has been used and modified over the decades to address tax compliance, research studies have long struggled with its major shortcoming; it fails to accurately predict at a macroscopic level the very phenomena it seeks to model. More specifically, this model predicts much lower levels of compliance than observed in industrialised nations. In addition, two psychological theories that are broadly discussed in the context of tax compliance are guilt and shame. After reviewing several well-known psychological theories, Erard and Feinstein (1994) adapted guilt and shame to the context of tax compliance. They argue that a taxpayer who is filling out his return is likely to anticipate guilt while contemplating underreporting and escaping detection, but is expected to project shame when contemplating underreporting, and subsequently being caught. However, there are several drawbacks to their approach. First, just how guilt and shame enter the utility function is arbitrary and cannot be derived from economic or psychological theory, second – as guilt and shame are not directly observable, identification is based entirely on functional form assumptions.

Furthermore, the game theory approach was also used to explain tax compliance. Game theory helped to create and evaluate an analytic explanation of a particular situation. The strength of the game theory is that it makes specific strategic aspects of social interactions. The logic of game theory helps to simplify the complexity of tax compliance. It outlines the range of choices available to a player. Levi (1997) argues that to understand why one path becomes an equilibrium path, it is essential to understand why individuals did not follow other possibilities. She claims that game theory allows specifying the behaviour that failed

to happen because it is off an equilibrium path. If a taxpayer does not pay the taxes, public goods will not immediately disappear (Greenberg, 1984; Graetz *et al.*, 1986; Cowell, 1990; Frey and Holler, 1998; Van Vugt *et al.*, 2000). Game theory has paid attention to the aspects of cooperation. It helps to think about the interaction between taxpayers themselves and the government or the tax administration compellingly and straightforwardly.

Bobek and Hatfield (2003) investigated the theory of planned behaviour (TPB) and the role of moral obligation in tax compliance, where they determined the beliefs that underlie taxpayers' attitudes. They found a significant explanation of tax non-compliance in three different scenarios after a series of experiments. To add to this debate, a more recent and somewhat different approach to the compliance, Feld and Frey (2007) argue that tax compliance is the result of a "psychological tax contract" where emotional ties and loyalties bond the taxpayer and state together to create tax morale that reinforces compliance.

Psychology in tax compliance

Trivedi *et al.* (2005) classified the two classes of theories. They include the economic-based theories, which emphasise incentives, and psychology-based theories that emphasise attitudes. Economic theories of compliance suggest that taxpayers make calculations of the economic consequences of different compliance alternatives (such as whether or not to evade tax), the probabilities of detection and the outcomes thereof, and then choose the option, which maximises their expected after-tax return (possibly after adjustment for the desired level of risk). In contrast, the second class of theories assumes that psychological factors; including moral and ethical concerns – are also important to taxpayers, and so taxpayers may comply even where the risk of audit is low. Of course, some taxpayers' behaviour may follow the economic theories while others may develop the psychological theories, and mixtures are also possible.

Andreoni *et al.* (1998) further called for more work that was needed to infuse psychological, moral and social influences into compliance behaviour, integrating these factors into economic models of compliance. In general, incorporating non-economic motivations, such as the moral preference for honest reporting, does reduce predicted non-compliance. Research studies have widened their lens in looking at the causes of noncompliance. Specifically, the literature has focussed on social drivers of compliance such as social norms, individual ethics, and how taxpayers reference themselves to others in their social network. (Korobow and Johnson, 2007). Wenzel (2005) notes that social factors such as "ethics and norms" might not only create deterrents to compliance but also mitigate the impact of potential penalties associated with non-compliance.

More research that is current has sought to modify the compliance model to incorporate social factors. For example, Traxler (2006) amends the classic approach to include "tax morale" and interprets this modification as an "internalised social norm" for tax compliance. His results have yield higher levels of compliance given low audit rates. Fiscal psychology has considered the effects of noneconomic variables on tax compliance behaviour over an extended period. In fact, Jackson and Milliron (1986) have identified tax fairness as a critical noneconomic variable in this regard. (Richardson, 2006). Recently, a new theory has been applied in tax compliance TRA.

The theory of reasoned action

In basic terms, the TRA indicates that a person's behaviour is determined by their attitude towards the outcome of that behaviour and by the opinions of the person's social environment. The TRA is a multi-attribute attitude model that predicts and explains the behavioural intentions and consequent behaviour of consumers (Ajzen and Fishbein, 1980).

Overall, this theory describes an individual's decision to perform or not to perform a specific behaviour such as a criminal act, enrolling in graduate school among others. In this study, the application of TRA is being extended to behavioural intentions of SBEs towards tax compliance. The research will focus on the owners or entrepreneurs of the SBEs because they are the decision makers. The TRA attempts to model decision processes where people have a high degree of volitional control and make reasoned choices among alternatives (Omar and Owusu-Frimpong, 2007). Correspondingly, tax compliance of SBEs involves a high degree of volitional control and making reasoned choices among compliance alternatives.

The TRA is a multi-attribute attitude model that predicts and explains the behavioural intentions and consequent behaviour of consumers (Ajzen and Fishbein, 1980). The TRA uses four constructs, namely, attitude, subjective norm, intention and behaviour. The behaviour focus of this particular study is tax compliance. The theory hypothesises that behaviour is influenced by one's intention to perform the behaviour. The intention, in turn, is influenced by one's attitude (positive or negative evaluation about performing the behaviour) and subjective norm (perceived social influence whether to exhibit the behaviour). Attitude itself is the product of beliefs and evaluations of the consequences of performing the behaviour. It is defined as the individual's judgement about the desirability of a specific behaviour, based on his/her pre-existing beliefs about the appropriateness of different kinds of behaviour. Scholars such as Fishbein and Ajzen (2010) put forth that attitude is best considered to be a person's degree of favourableness or un-favourableness concerning a psychological object. Similarly, the subjective norm is determined by the beliefs of whether someone important to us expects or does not expect us to perform the behaviour, and whether we want to comply (Lin *et al.*, 2006).

Attitudes

Attitudes refer to a latent disposition or tendency to respond with some degree of favourableness or unfavourableness to a psychological object (Fishbein and Ajzen, 2010). Trivedi *et al.* (2005) used five indicators to measure attitudes of taxpayers. These include the importance to the tax compliance decisions of fulfilling one's moral and ethical obligations, funding the government, fulfilling duties of a citizen, recognition of good ethics by a community and the presence of records (computer records or receipts). Further, they added four indicators on this component; explicitly being able to brag about their actions, knowledge of the income tax system, feeling of beating the system and effort required to prepare their tax return. Also, monetary considerations were added by two indicators; the prospect of receiving a refund, and of having extra cash consequent to their actions.

Chan *et al.* (2000) found that taxpayer attitude had a positive relationship with tax compliance. Other studies have found no association between taxpayers' attitudes and tax compliance behaviour (Vogel, 1974; Porcano, 1988; Antonides and Robben, 1995). However, as was suggested by Jackson and Milliron (1986) and Richardson and Sawyer (2001), a credible reason for this inconsistency is the multidimensional nature of attitudes as a tax compliance variable (Richardson, 2006). Thus, the following hypothesis:

H1. Attitudes influence tax compliance behavioural intention of taxpayers.

Subjective norms

According to Bobek *et al.* (2007), subjective norms relate specifically to the expectations (injunctive norms) of referent others (namely, family, friends and co-workers). Further, they

state that the social goal of subjective norms is to represent the injunctive norms of those closest to an individual. Thus, they aid in building and maintaining social relationships with people whose opinions matter the most. On the question of when will the norms be influential, they asserted that; subjective norms would influence behaviour when individuals are motivated to comply with the norms of referent others.

Thus, individuals will comply and pay taxes as long as they believe that compliance is a social norm (Alm *et al.*, 1999). Polinsky and Shavell (2000) argue that social norms is an alternative to law enforcement in channelling individuals' behaviours. The violation of social norms has consequences like internal sanctions (guilt, remorse) or external legal and social sanctions as gossip and ostracism. There is evidence that many countries with similar fiscal systems have different compliance experiences (Alm *et al.*, 1995; Yankelovich, Skelly and White, Inc, 1984; Vogel, 1974; Smith, 1986; De Juan *et al.*, 1994). The main conclusions are that:

- individuals who comply view tax evasion as immoral;
- compliance is higher if moral appeals are made to the taxpayer;
- individuals with tax evaders among their friends are more likely to be evaders themselves; and
- compliance is significant in societies with a stronger sense of social cohesion (Bobek and Hatfield, 2003).

H2. Subjective norms influence tax compliance behavioural intentions of taxpayers.

Behavioural intention

Intention summarises the person's motivation to perform a behaviour, indicating the amount of time and effort that a person is prepared to devote to ensure that action is undertaken (Ajzen, 1991; Langdrige *et al.*, 2007). The intention is determined by two constructs, namely, attitude and subjective norm. The problematic nature of this variable is that subjects are hesitant to admit to unethical and illegal behaviour (Wenzel, 2004), potentially contributing to the relatively low significance levels of most compliance models Bobek *et al.* (2007). In the present study, consideration will be made to taxpayers' compliance intentions, rather than requesting subjects to reveal their actual tax compliance behaviour just as in the study of Bobek *et al.* (2007). Behavioural intentions highly correlate with actual behaviour (Ajzen, 1991):

H3. Taxpayers' behavioural intentions influence their tax compliance behaviour.

Method

The population consisted of SBEs operating in Kampala District the capital city of Uganda. Responses were obtained from the tax districts of Rubaga, Makindye, Bwaise and Nakawa. According to Uganda Revenue Authority records, there are approximately 208,500 SBEs, in the above tax districts. For purposes of this study, SBEs had an annual turnover of less than fifty million Uganda shillings (1 US dollar approximately = 3,600 Uganda Shillings), at this moment, defined as the qualifying factor of SBEs according to Uganda's tax structure). This included those who use the presumptive tax method, SBEs, which opted to use the conventional tax method and those SBEs barred by law from using the presumptive method

(such as small law firms, private health clinics, and audit firms). SBEs, which voluntarily use the conventional tax method are those who are charged corporation tax and keep books of accounts, despite being SBEs.

Sampling method

The sample consisted of 384 small business enterprise determined using [Krejcie and Morgan \(1970\)](#) table guide for sample selection. This was adjusted for the average response rate in the study area of 90 per cent to give a total sample of 426 respondents. Given a high mortality rate of SBEs, plus the fact that SBEs not registered for tax purposes are not known with certainty, purposive sampling was used to select a sample. All respondents were given a small symbolic gift for their participation. A cross-sectional survey targeting different categories of SBEs was carried out using interviewer-administered, structured questionnaires. The questionnaire consisted of mainly closed-ended questions using Likert scales. Few open-ended questions were included in the questionnaire to ensure response clarity and consistency. The questionnaires were prepared in English but later translated into local languages for non-English speaking respondents. The researcher visited the SBE respondent, introduced herself, and requested the respondents to complete the questionnaire.

Measurement of variables

In combination, attitude toward the behaviour and subjective norms lead to the formation of a behavioural intention. Generally, the more favourable the attitude and subjective norm, the stronger should be the person's intention to perform the behaviour in question.

Two components are commonly used to measure attitude, one instrumental and the other experiential. This study used the instrumental due to the nature of the behaviour in question, and therefore, took the form of a seven-point Likert scale ranging from good to bad.

To measure subjective norms, several items were formulated depending on the social environment of the SBEs, and thus, questions were formed given the answers provided as to whose opinions they value. These included; spouses, family, friends and fellow SBE owners among others. However, responses to such items were often found to have low variability because important others were perceived to approve of desirable behaviours and disapprove of undesirable behaviours. To alleviate this problem, it was recommended that the initial set of items also include questions designed to capture descriptive norms, which is, whether essential others influenced the behaviour in question.

Tax compliance behaviour

Tax compliance was measured basing on the four items from [Wenzel \(2001\)](#), which include; non-lodgments, tax arrears, pay income and promptness. To establish non-lodgment; respondents were asked if they had made attempts to avoid taxes by not declaring at all. Tax arrears was measured by inquiring from the respondent if they had any outstanding taxes unpaid, while pay income was measured by establishing whether the respondent had attempted to under-declare taxes. Finally, promptness was measured by inquiring from the respondents if they had ever delayed paying taxes beyond the stipulated time.

Data analysis

Despite the fact that almost all the scales used in this research are adapted from earlier works, with high reliability and validate rankings, these scales were tested for reliability

because they were applied to a new environment, where they have never been used. First, the data were tested for normality using histograms and the Q-Q Plots. Kolmogorov–Smirnov and the Shapiro–Wilk tests were used to check whether the distribution as a whole deviates from a comparable normal distribution. Correlations and regression were later used in the final analysis to find the extent to which the TRA explains tax compliance.

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Results

Demographic, sample and practice characteristics (Table I)

As illustrated above, about 46 per cent of the respondents in the sample were female, while males contribute the majority at 53 per cent of the sample. Owing to social, cultural, economic and psychological factors, males are more represented in the business sector than females. *Walter et al. (2004)*. The average age of the entrepreneurs in the sample was about 31 years. The majority of the respondents are in the 26-35 years age brackets. Largely, the majority (about 94 per cent) of the respondents in this sample had received some formal education, while about 6 per cent of the respondents had never received any education; this implies that the majority of the entrepreneurs in this sample have received some form of education (*Table II*).

Despite the fact that our population consisted of SBEs, we went further to profile the respondents according to size using their annual turnover. We used the yearly turnover because it's the basis for levying taxes from SBEs. SBEs with an annual turnover between 500,000 and 5,000,000 Uganda shillings (1 US dollar approximately = 3,600 Uganda Shillings) dominated the sample (62 per cent), and about 4.3 per cent of the respondents could not tell their annual turnover because they did not have any business records. In Uganda, taxpayers are required by law to file a self-assessment tax return annually. Respondents were asked to indicate the number years in which they had filed a self-assessment tax return. The majority of the respondents (45.25 per cent) had never filed a self-assessment tax return with the Uganda Revenue Authority, the tax collection body. For the respondents who file self-assessment tax returns with Uganda Revenue Authority, we

Characteristic	SBEs No (% of the sample)
Gender	
Female (%)	186 (46.5)
Male (%)	214 (53.5)
<i>Age group</i>	
16-25 (%)	84 (21.0)
26-35 (%)	157 (39.3)
36-45 (%)	104 (26.0)
46-55 (%)	37 (9.3)
55-65 (%)	18 (4.5)
<i>Education levels</i>	
Uneducated (%)	24 (6.0)
Primary level (%)	43 (10.8)
O'level (%)	70 (17.5)
A' level (%)	61 (15.3)
Vocational certificate (%)	40 (10.0)
Diploma (%)	77 (19.3)
Bachelor's degree (%)	74 (18.5)
Master's degree (%)	11 (2.8)

Table I.
Demographic related characteristics of respondent

Table II.
Practice-related characteristics of respondents

Characteristics	SBEs No (% of the sample)
Size of the enterprise (UGX)	
500,000-5,000,000	247 (61.8)
5,000,001-25,000,000	109 (27.3)
25,000,000-50,000,001	27 (6.8)
Do not know	17 (4.3)
<i>Longevity of filing tax return</i>	
Never filed	181 (45.3)
1-5 years	141 (35.3)
6-10 years	47 (11.8)
11-15 years	17 (4.3)
16-20 years	10 (2.5)
More than 20 years	4 (1.0)
<i>Tax return preparation</i>	
Tax preparer	175 (43.8)
Tax expert	51 (12.8)
Owner preparation	174 (43.5)

also interested to know who prepares their tax returns. As exhibited below, the majority of the respondents made their tax returns, while about 12.8 per cent of the respondents hire tax experts to prepare the tax returns.

Correlations

All correlations between the theory variables were significant ($p < 0.01$). Table III describes the correlation between the theory variables. Attitudes were negatively correlated with intentions, subjective norms ($r = -0.319$, $r = -0.111$, all at $p < 0.01$) respectively, positively correlated with tax compliance ($r = 0.143$, at $p < 0.01$). There was a significant negative correlation between the intention and tax compliance ($r = -0.373$, at $p < 0.01$, respectively) and a significant positive correlation with subjective norms ($r = 0.199$ at $p < 0.01$).

Hypothesis 1 and 2: Predictors of intention

Conclusions about the hypotheses could not be made using bivariate correlations, as they may be influenced by other variables, a phenomenon also known as the third variable problem (Field, 2005). To control for third variable problems, there was a need to perform regression analysis. A multiple regression Model I was constructed to assess the ability of attitude and subjective norms to predict intention (Table IV).

Table III.
Correlation among the TRA variables

Variable	1	2	3	4
Attitude		-0.319*	0.143**	-0.111*
Intentions			-0.373**	0.199**
Tax compliance				-0.179**
Subjective norms				

Notes: *Correlations are significant at the 0.05 level (two-tailed); **Correlations are significant at the 0.01 level (two-tailed)

In this model, the utility of the TRA variables in explaining SBEs intention to pay or not pay their taxes was determined using the above constructs. As can be seen, a significant model emerged ($\beta = -0.216, p < 0.001$) for measure of attitudes and ($\beta = 0.248, p < 0.001$) for the measure of subjective norms. Adjusted R^2 is 0.107 or 10.7 per cent. Therefore, attitudes and subjective norms account for 10.7 per cent change in taxpayers intentions to comply with tax laws and regulations, note however that both are predictors are significant. The question that arises is how much unique explanatory variance is attributable to each of the predictors? The shared prediction exhibited in the difference between the adjusted R^2 and the R^2 (0.112 – 107). The multiple regressions show that attitudes provide a larger independent contribution to the prediction of intentions than subjective norms. This is reflected in the betas.

H3: Predictor of tax compliance

In this second step of the analysis, the aim was to explain tax compliance behaviour among SBEs. In line with the TRA, at this level, the researcher used intentions to predict tax compliance, and therefore, this Model II uses a simple linear regression (Table V).

The dependent variable, in this case, is tax compliance behaviour and the independent being intentions this time. This model was also statistically significant ($\beta = -0.412, p < 0.001$) for the measure of intentions. This model explained 15.9 per cent (adjusted R^2) of the variance in tax compliance behaviour.

Discussion

Taxpayers' attitudes influence their tax compliance behavioural intention

The results confirm our hypothesis. Further, the relationship established by the negative β means that a positive change in attitudes would result in a negative change in behavioural intentions and vice versa. Implying a percentage increase in attitudes will lead to 23.4 per cent decrease in tax compliance. However, as attitudes are not a dichotomous variable, then we take this explanation in a different sense. This implies that Ugandan SBE owners have a negative attitude towards intentions to comply with tax regulations and laws. The interesting question here would be why do SBEs have a negative attitude towards paying tax?

Table IV.
Regression results
Model I

Predictors	Unstandardized coefficients (β)	Standard error	Sig (p)
<i>($R^2 = 0.112$)</i>			
<i>(Adjusted $R^2 = 0.107$)</i>			
Attitudes	-0.216*	0.040	0.000
Subjective norms	0.248*	0.056	0.000
Note: * $p < 0.001$			

Table V.
Regression results
Model II

Predictor	Unstandardized coefficients (β)	Standard error	Sig (p)
<i>($R^2 = 0.161$)</i>			
<i>(Adjusted $R^2 = 0.159$)</i>			
Intentions	-0.412*	0.048	0.000
Note: * $p < 0.001$			

During the interviews conducted, the SBE owners, largely, said that the government is corrupt, and therefore, they see no need why they should pay more taxes and yet they do not benefit from them. This shows that taxpayers are sensitive to the way the government uses tax revenues. Taxes are supposed to be used to provide social goods and services. Taxes, therefore, paid by individuals can be interpreted as the price paid for governments' positive action. Literature and empirical findings attest to this when [Cummings et al. \(2006\)](#) found in South Africa and Botswana that perceptions of the government as being corrupt will reduce the willingness to comply with taxes. A higher trust of the population might tend to increase taxpayers positive attitudes and commitment to the tax payment, which finally has a positive effect on tax compliance ([Smith, 1992](#)). Another reason could be the widespread tax evasion evident in the country. Taxpayers who believe that tax cheating is widespread among their colleagues tend to have more favourable attitudes towards tax evasion and are more likely to cheat on taxes ([De Juan et al., 1994](#); [Kaplan and Reckers, 1985](#); [Wallschutzky, 1984](#); [Webley et al., 1988](#)).

From the analysis, we further find that attitudes have a more considerable influence on intention than subjective norms. This is in agreement with previous TRA literature, which reports that attitude has a stronger influence on intention than subjective norms. The role of attitude and social norms in explaining intentions, however, is contingent upon the behaviour under investigation ([Khanna et al., 2009](#)). From this, we deduce that in tax compliance studies, attitudes explain intentions largely than subjective norms. Literature relates that the contribution of attitudes and subjective norms to the prediction of intentions is expected to vary not only depending on behaviour under study but also from one group of individuals to another. The intentions of some populations may be affected mostly by attitudes and less so by subjective norms ([Fishbein and Ajzen, 2010](#)). It is possible that in the Ugandan society, attitudes are a more important consideration to intentions to comply decisions concerning subjective norms. The negative β though makes it an exciting finding. Not only are the SBEs in Uganda having a negative attitude towards intending to pay their tax but attitudes are also the more significant psychological consideration than subjective norms (what their peers think, do or relate to).

To stimulate behavioural intention, a favourable attitude needs to be formed. The more desirable the attitude, the stronger is the behavioural intention, and the more likely is the performance of the behaviour ([Ramayah et al., 2009](#)). This could explain further, why the regression results reflect a negative relationship between intention and tax compliance. It could have originated from the influence of the negative relationship with attitudes. We should also bear in mind that not all the variables of the TRA are dichotomous. Generally, we deduce from the findings that intentions also have a negative relationship with tax compliance. This will be explained further in the discussion of findings.

Taxpayers' subjective norms influence their tax compliance behavioural intentions

The multiple regression Model I established that subjective norms influence tax compliance behavioural intentions. To add to this, a significant positive correlation of 0.199 resulted between subjective norms with behavioural intentions. This means that a positive change in subjective norms will result in a positive change in tax compliance behavioural intentions. This was further reflected in a positive β of 0.211, meaning that a percentage increase in subjective norms will lead to a 21.1 per cent increase in tax compliance behavioural intentions. Note, however, the dichotomous nature of the subjective norm variable. This means that generally, Ugandan SBEs owners' families, friends, peers and other parameters in their social environment influence them positively to intend to pay their taxes.

This finding is in line with [Fishbein and Ajzen \(2010\)](#), who found that other things being equal, the stronger the perceived social pressure, the more likely it is that an intention to perform the behaviour will be formed. The direct positive relationship of a subjective norm to intention is in line with prior research ([Fishbein and Ajzen, 1975](#); [Taylor and Todd, 1995](#); [Mathieson, 1991](#); [Bhattacharjee, 2000](#); [Ajzen, 1991](#); [Ajzen, 2002](#); [Ma'ruf et al., 2003](#); [Eri, 2004](#); [May, 2005](#); [Athiyaman, 2002](#); [Gopi and Ramayah, 2007](#)). Yet again, the question to ask is why SBE owners are influenced positively by their peers, friends and families to conform to tax regulations and laws. This could be attributed to the cultural set up of Uganda. Uganda has a communal and collective sociological attribute, where people are integrated into strong, cohesive in-groups, often extended families that continue protecting them in exchange for unquestioning loyalty. Therefore, individuals reflect positive influence from the society members. Thus in Uganda, society influences SBEs positively regarding intentions to comply with the tax laws. This study will add to the not so vast literature on subjective norms and tax compliance as it broke them down to injunctive and descriptive.

Taxpayers' behavioural intentions influence their tax compliance behaviour

[Eagly and Chaiken \(1993\)](#), asserts that the fact that a person is capable of performing a behaviour does not necessarily imply that he/she perform a given behaviour. To put it in another way; the fact that one intends to do something does not imply that he/she will do it. This is reflected in the discussion below about tax compliance of SBEs in the Ugandan context.

Our results confirmed *H3*. Behavioural intentions influence tax compliance behaviour of SBEs. A negative correlation between the two variables was significant and further reflected in the regression by the β of 0.401. This implies that a positive change in intentions leads to an adverse shift in tax compliance behaviour. Recollect the dichotomous nature of our variables, a percentage increase in behavioural intentions will lead to a 40.1 per cent reduction in tax compliance. This is an exciting finding for Uganda Revenue Authority and research purposes. The above result implies that overall, Ugandan SBEs owners do not intend to comply with tax regulations and laws. Applicable reasons here could be ones mentioned above which resonates with SBE owners' attitudes in general. As already mentioned, the more favourable the attitude is, the stronger the behavioural intention, and the more likely the performance of the behaviour ([Ramayah et al., 2009](#)), and the reverse could apply in Uganda's situation.

Another interesting finding was that intentions explain 15.9 per cent of the variance in tax compliance. This is quite substantial. However, we must acknowledge that other factors influence tax compliance too. It is further a significant predictor and fitted in our model well. The factors include culture ([Cummings et al., 2004](#)), audit rates, penalties, fairness, tax and administration ([Alm et al., 1995](#); [Cowell, 1992](#); [Kirchler, 1999](#); [Wenzel, 2002, 2004](#)).

Conclusion and areas for further research

Conclusion

The purpose of this study was to investigate the extent to which the TRA can explain tax compliance behaviour among SBEs in Uganda. The study established that the TRA indeed provides insight on the tax compliance behaviour of SBEs. Not only did the study ascertain the extent to which TRA influences tax compliance but also it verified the kind of relationship/influence it has on tax compliance behaviour of SBEs in Uganda. The findings provide evidence for the negative attitudes SBEs have on intentions to comply with tax regulations and the extent to which these attitudes can affect SBEs behaviour. Further, the findings also illustrated that subjective norms influence SBEs tax compliance intentions in a

positive manner. However, overall, the appearance of these intentions shows a negative effect on tax compliance behaviour of these SBEs. Overall, SBEs appear not to intend to comply with tax laws. Possible reasons for these findings were high rates of existing evasion and corruption evident in government.

The TRA has been used to explain behaviour in numerous situations in psychology. This study has used this theory not only in a new setting but also in a new geographical, economic and administrative environment; Uganda. Therefore, this implies that not only is this theory relevant in explaining psychological, social issues but also it is applicable in explaining the economic behaviour of individuals, namely, tax compliance. These findings also imply that the Uganda Revenue Authority needs to understand the social psychology of taxpayers and tailor these in their policies and efforts to increase compliance.

Areas for further research

The TRA was later revised to include a new construct of perceived behavioural control, which assumes that individual perceptions of the control independence towards performing a behaviour can affect the performance of that behaviour. This turned into the TPB. This study did not focus on TPB. The researcher wanted to keep the study to a manageable level given the time and logistic constraints. It would be interesting to investigate if the revised theory can explain tax compliance behaviour better compared to the TRA. It would also be interesting to extend the social-psychology thinking of taxpayers to analyse the social influence impact on compliance in Uganda given the social set-up. Further, a qualitative analysis of the rationale behind compliance would shed more light on the findings of this study.

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