

Can tax agents support tax compliance in low-income countries? Evidence from Uganda

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Abstract

Tax agents' role in ensuring or deterring compliance with tax obligations has received relatively little attention in the literature. Some evidence has emerged indicating when agents improve (or decrease) compliance, and why taxpayers employ their services. However, most existing studies have focused on high- or upper-middle-income countries. As the tax systems of low-income countries present a unique set of compliance issues, a closer look at the role that tax agents play in these contexts is warranted. In this paper, we present evidence from two surveys on their use in Uganda. Our results show that tax agents contribute to an increased quality of filed returns thereby leading to lower audit adjustments. The type of services more frequently requested by taxpayers seem to match those in high-income countries, as do their reasons for engaging tax agents in the first place.

KEYWORDS

low-income countries, tax agents, tax compliance, Uganda

1 | INTRODUCTION

Increasing domestic revenue mobilisation in low-income countries (LICs) remains today as important as it was at the launch of the Addis Tax Initiative¹ a few years ago (Addis Tax Initiative, 2015; Dom et al., 2022; Moore & Prichard, 2020). Over the last 2 decades, much donor support has been directed towards improving the functioning of tax systems in LICs (Fjeldstad, 2014) to reduce their aid dependency (Morrisey, 2015). Donor-promoted reform packages exhibited many similarities (Dom & Miller, 2018; Fjeldstad, 2014), amongst which the institution of semi-autonomous revenue authorities (SARAs) scored highly (Devas et al., 2001; Fjeldstad & Moore, 2009; Moore et al., 2018). The impact of SARAs introduction on revenue collection is still debated in the literature (see Dom, 2019

and Jeppesen, 2021 for two recent contributions), but this was not the only benefit expected from their institution. Indeed, SARAs' mission was to engage in tax administration with a more service-oriented approach, including taxpayers' education and training to reduce their compliance cost (Mascagni et al., 2019; Mascagni & Santoro, 2018; Serra, 2005; van Soest, 2007). While there is ample evidence that tax-literacy in LICs often remains low, limiting the potential democratic-dividend of state-citizens bargaining on tax matters (Fjeldstad, 2014; Moore et al., 2018; van den Boogaard et al., 2022), research on the impact of SARAs taxpayers' education is still scarce (Mascagni et al., 2019; Mascagni & Santoro, 2018).

However, SARAs are not the only body who can contribute to reduce issues connected with taxpayers' low understanding of their tax obligation. In high-income countries (HICs), where increased tax

¹The Addis Tax Initiative is a partnership among 71 countries and development partners aiming to "promote fair and effective domestic revenue mobilisation (DRM), policy coherence and the social contract through partnerships and knowledge building", see <https://www.addistaxinitiative.net/>.

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complexity became an obstacle to tax compliance after the move to self-assessment of liabilities in the 1970s (Eichfelder & Schorn, 2012; Forest & Sheffrin, 2002; Slemrod & Venkatesh, 2002), tax agents emerged as an important new player in the tax system. By the mid-1980s, almost half of all taxpayers in some US states hired a tax agent to prepare their tax return (Slemrod, 1989; Slemrod & Sorum, 1984), mainly because they found the tax system too complex (Long & Caudill, 1987) and they wanted to comply with their obligations (Hite et al., 1992). However, despite recent evidence from the US that tax agents can be more effective than sensitisation campaigns in educating taxpayers (Chetty & Saez, 2013), their potential role in the tax system remains vastly under-researched (Slemrod, 2019), especially in LICs. While there are a few studies considering tax agents' role in two upper-middle-income countries—South Africa (Lubbe & Nienaber, 2012), and Malaysia (Isa et al., 2014; Sapiei & Kasipillai, 2014; Sinnasamy et al., 2015)—to the best of our knowledge their relevance in a LIC context has never been studied. This is puzzling, as issues with compliance remains central to increasing revenue mobilisation in LICs (Dom et al., 2022), where citizens often find the tax system too complex (Mascagni et al., 2019; van den Boogaard et al., 2022). Our paper aims to start filling this gap in the literature by asking whether tax agents in LICs might play a role similar to that they played in HICs, and whether SARAs should more routinely engage with them, including by mandating some minimum standards for the profession.

When asking these questions, we are motivated by three reasons. First, early research on tax agents in HICs showed that the expansion in their use was driven by an increase in tax complexity (Long & Caudill, 1987), which led many small and medium business which wanted to comply to outsource their tax preparation (Hite et al., 1992). While we know that the same category of taxpayers is often the one struggling more with understanding LICs tax systems (Von Soest, 2007; Fjeldstad, 2014; Mascagni & Mengistu, 2016), we do not know if tax agents use might have become a similar coping strategy. Second, and relatedly, due to their widespread use, tax agents have demonstrated the potential to be more effective than sensitisation campaigns in educating taxpayers (Chetty & Saez, 2013), which remains a priority in LICs given low levels of tax literacy and their consequences (Mascagni et al., 2019; van den Boogaard et al., 2022). Understanding if their involvement in taxpayers' sensitisation could be a further strategy to pursue should then be of interest to SARAs. Third, various SARAs from LICs have recently started focusing on the taxation of high-net-worth individuals (Kangave et al., 2016, 2018, 2020, 2023), and recent evidence shows that this led to an increase in their engagements with tax agents for tax planning (Santoro & Waiswa, 2022). Given that more and more SARAs are showing an interest in concentrating on this category of taxpayers, understanding their interactions with tax agents can then help inform compliance strategies.

To investigate the above-mentioned relationships, this paper presents novel evidence on the use and regulation of tax agents in Uganda, obtained through two self-administered surveys implemented in 2020, one targeting tax officers from the Uganda Revenue

Authority (URA) and one targeting accredited tax agents. These were complemented by in-depth interviews with various members of the URA Tax Agents Registration Committee (TARC) secretariat, which oversees the accreditation of tax professionals by the revenue authority. We argue that Uganda represents an ideal case study to explore the different roles of tax agents in LICs for three reasons. First, Uganda has often been a precursor of various tax trends in the continent, having been the second country to introduce a SARA in 1991 (Devas et al., 2001) and one of the first to fully explore the potential of ICT for tax administration (Blume & Bott, 2015). Much research on tax issues has taken place in the country from the early 2000s (see Therkildsen, 2004, 2006, Iversen et al., 2006 for early examples), and the URA remains very open to collaborate with researchers.² As a consequence, Uganda was the first LIC in which a study on taxation issues highlighted that tax agents' activities might be worth considering further from the point of view of the URA (Mayega et al., 2019). Second, all the highlighted issues of LICs tax systems which motivated our investigation of tax agents' role in their context are of importance in Uganda. The URA was one of the first African revenue authorities to engage with the taxation of high-net-worth individuals (Kangave et al., 2016), whose revenue contribution plateaued partially due to their increased engagement with tax agents (Santoro & Waiswa, 2022). Many Ugandan taxpayers also find it extremely difficult to comply with their filing obligations and to interact with the URA (Therkildsen, 2004; Waiswa et al., 2020), which justifies the URA continuing focus on sensitisation campaigns (Waiswa et al., 2020). Third, the role of tax agents in Uganda has received quite some press attention over the last few years, with different instances of fraudulent tax agents locking clients out of their accounts on URA's ICT system or being actively involved in invoice trading frauds.³ The frequency of said instances were indeed one of the reasons which led to the creation of the TARC and of an official process to appoint tax agents with the URA.

The results of our surveys indicate that, similarly to HICs, the majority (61.03%) of tax agents' clients is composed of small businesses, which hire their service due to a lack of tax knowledge (64.08%), mainly requesting for their tax returns to be prepared (54.64%). Consequently, it seems plausible to assume that similar trends might be taking place in other LICs, and that SARAs should more fully engage with tax agents. Their potential educational role is also somehow supported by the study—almost all (98.04%) tax agents claim that they have helped their clients better understand the tax system, and they are 20% more likely than taxpayers to be considered knowledgeable of the tax system by URA officers. Finally,

²17 working papers have been either fully authored or jointly co-authored by members of the URA and researchers from the International Centre for Tax and Development since 2016, of which an early version of this paper is an example.

³For some recent examples of said press coverage, see <http://www.monitor.co.ug/News/National/Fraudulent-agents-target-taxpayers-URA/688334-5153496-1019brjz/index.html>, <https://thetaxman.ura.go.ug/tax-consultants-warned-for-engaging-in-invoice-trading/#:~:text=Tax%20fraud%20schemes%20in%20Uganda,end%20up%20abusing%20this%20trust> and [https://thetaxman.ura.go.ug/accountant-gets-3-years-in-jail-for-tax-fraud/#:~:text=Ssekamwa%20James%20Kulubya%2C%20a%20proprietor,Value%20Added%20Tax%20\(VAT\)](https://thetaxman.ura.go.ug/accountant-gets-3-years-in-jail-for-tax-fraud/#:~:text=Ssekamwa%20James%20Kulubya%2C%20a%20proprietor,Value%20Added%20Tax%20(VAT)) (all accessed on 5th of May 2023).

our interviews with the TARC highlight that tax authorities in LICs should give proper consideration to regulating the use of tax agents, to ensure that they provide high standard services in the interest of both the authorities and taxpayers. The rest of the paper proceeds as follows. Section 2 provides a review of existing literature on the role of tax agents in HICs, Section 3 discusses compliance issues in Uganda, Section 4 presents the interviews with TARC committee, Section 5 introduces the results of the surveys, Section 6 discusses them and Section 7 concludes.

2 | LITERATURE REVIEW

Our paper speaks to two literatures, one which developed greatly over the last 2 decades—that on tax compliance in LICs—and one which only received limited academic attention over the last 40 years—that on the role of tax agents.⁴ Consequently, we will concentrate on the latter, and limit ourselves to a quick summary of what are currently considered the main issue for the former.

While different reforms implemented since the beginning of the century (Fjeldstad, 2014; Jeppesen, 2021; Moore et al., 2018) have undoubtedly led to an improvement in domestic revenue mobilisation in LICs (Dom et al., 2022; Moore et al., 2018), issues with tax compliance remain widespread (Dom et al., 2022). The most relevant are worth mentioning. Taxation of personal income still accounts for a low proportion of total revenue (Dom et al., 2022), and wealthy individuals seem particularly capable of avoiding taxation (Kangave et al., 2018, 2020; Santoro & Waiswa, 2022). Corporate taxation fares better, but it is still plagued by a variety of often unjustifiable tax exemptions leading to significant loss of revenue (Moore & Pritchard, 2020). At the same time, much focus is directed on registering and attempting to tax small informal operators, that are unlikely to contribute much revenue (Moore, 2022), often already face significant burdens from uncodified tax-like levies (van den Boogaard et al., 2019) and seldom fully understand the working of the national tax system (van den Boogaard et al., 2022). Undoubtedly, the very structure of many LICs economies also has a direct bearing on compliance, for example, through limited institutional capacity impacting the administration of particular taxes (see Mascagni et al., 2022 for an example on VAT), or because collecting revenue in sparsely populated areas is often inherently inefficient (van den Boogaard and Beach, 2023).

Much less is known about the role of tax agents in spurring tax compliance, as the topic received minimal attention in LICs, with most available evidence originating from a few HICs. Quite a few

authors have tried to determine the main characteristics of taxpayers seeking to employ an agent, and the services most often requested. The use of agents is pervasive in the US (Blumenthal & Slemrod, 1992; Slemrod & Sorum, 1984), New Zealand (Tan, 1999), Australia (Mearns & Braithwaite, 2001; Sakurai & Braithwaite, 2003), and it has more recently been shown as relevant in South Africa (Lubbe & Nienaber, 2012). The complexity of complying with tax legislation is one of the main drivers for their employment (Isa et al., 2014; Long & Caudill, 1987), and most taxpayers engage their services chiefly to ensure their compliance with tax obligations (Hite et al., 1992; Sakurai & Braithwaite, 2003; Tan, 1999). However, there is also often a desire to reduce tax liabilities, although how aggressively depends on both geographical context (Hite et al., 1992; Lubbe & Nienaber, 2012; Sakurai & Braithwaite, 2003) and taxpayer characteristics (Erard, 1993; Klepper et al., 1991; Murphy, 2003; Schisler, 1994).

The general impact of tax agents on taxpayer compliance has also received some attention in the literature. The double role played by tax agents, who increase compliance with unambiguous legislation while exploiting ambiguous provisions to minimise their clients' liabilities, was established in the 1980s (Ayres et al., 1989; Kaplan et al., 1988; Klepper & Nagin, 1989). How successfully they defend their clients' interest in front of the tax authority depending on their professional background, with lawyers and chartered public accountants willing to take more risk when they feel that their position has a substantial basis (Ayres et al., 1989; Erard, 1993; Kaplan et al., 1988). Professional qualifications and experience with particular categories of clients was recently shown to impact agents' capacity to explain to their clients what could be in their best interest (Chetty & Saez, 2013) and how to exploit lesser-known tax provisions (Zwick, 2021). Given the role of tax agents as knowledge intermediaries between tax authorities and taxpayers (Hasseldine et al., 2011) and their ability to lobby for favourable legislation in particular industries (Mulligan & Oats, 2016), their professional regulation has also received some interest. While the professional background of a tax agent varies greatly across countries (Thuronyi & Vanistendael, 1996), a balance has to be found on the strictness of entry requirements. While requiring a high academic qualification to enter the market increases accuracy of returns (McKerchar et al., 2008), more qualified agents are more likely to take an aggressive position. Striking the right balance between a regulation ensuring taxpayer confidentiality and one that protects the integrity of the tax systems has also proven complex (Remeur, 2018; Roxan et al., 2017).

From a methodological point of view, studies assessing the role of tax agents in the tax system have relied on a combination of different strategies. Those looking at taxpayer preferences for different types of agents have often based their results on mailed questionnaires (Blumenthal & Slemrod, 1992; Murphy, 2003; Sakurai & Braithwaite, 2003; Slemrod, 1989; Slemrod & Sorum, 1984), which at the time included an experimental component (Hite et al., 1992; Lubbe & Nienaber, 2012; Tan, 1999), and in one case analysis of tax returns (Niemiowski et al., 2003). Studies that

⁴There is no unique definition of tax agents in the literature, and indeed terms used to refer to them also vary widely, including "tax preparers" and "tax practitioners". According to Frecknall-Hughes and Kirchler (2015, p.291–292) "Tax practitioners play a variety of roles in the taxation system, namely, as preparers of tax returns to the tax authorities and responding to queries on the returns from the tax authorities; as advisers on how to arrange a taxpayer's affairs so as to minimize the tax payable; as valuers or mediators if disputes over valuations occur; as tax agents in the case of an investigation and within the public sector, as employees of the tax authority."

investigated what agent characteristics impact the type of advice provided have employed assessments of hypothetical tax scenarios subjected to some variation in probabilities of audits and penalties (Ayres et al., 1989; Kaplan et al., 1988; Schisler, 1994), or on the analysis of unaudited (Long & Caudill, 1987) and audited tax returns (Erard, 1993; Klepper et al., 1991; Klepper & Nagin, 1989; McKerchar et al., 2008). More recent studies have been set up in an experimental framework, either as randomised controlled trials (Chetty & Saez, 2013), or as natural experiments (Zwick, 2021).

3 | DOMESTIC RESOURCE MOBILISATION AND COMPLIANCE ISSUES IN UGANDA

The tax-to-GDP ratio in Uganda was estimated at 12.5% in 2019, with tax collection falling below its budgetary target since 2016. The under-performance is mostly concentrated in domestic taxes, with both corporate and personal income taxes accounting for a lower share of total revenue collection than their average contribution in other East African countries (Waiswa et al., 2020).

Many reasons have been mentioned for this non-compliance, ranging from lack of adequately trained personnel at the URA and the existence of an extensive informal sector to evasion from wealthy individuals and the complexity of the tax system (Kangave et al., 2016; Mayega et al., 2019; Waiswa et al., 2020). The latter seems play an especially important role. A recent study reports that a significant share of taxpayers find both filing and amending returns, as well as responding to queries from the URA and appealing its decision, extremely complicated (Waiswa et al., 2020). Various URA annual reports between 2016 and 2019 identify the low quality and inaccuracy of returns submitted as a serious threat to revenue collection, for which urgent action was needed.

Waiswa et al. (2020) report that submitting tax payments and registering for a taxpayer identification number were the only two activities which taxpayers found easy to execute. However, other recent work in the country highlights serious issues with the information that taxpayers provide at the point of registration (Mayega et al., 2019). Contact details in the tax registry were often the same for a number of taxpayers, likely because tax agents provided their own details when registering different clients. This practice might arise both because of the requirement to provide an email address to register, which many taxpayers might not have, and because tax agents want control over their client's filing process to demand more frequent payment (Mayega et al., 2019). It is also generally perceived that not enough attention is directed towards compliance from small businesses, as they are often thought not worth the effort of a close follow-up. While this might be the case for some businesses added in the most recent registration drives, and is understandable given current understaffing, it risks having serious consequences to the integrity of the tax system (Waiswa et al., 2020).

In this situation, is there any theoretical or empirical evidence that focusing on the role of tax agents might facilitate the resolution of some of these issues? A few things emerge from the literature.

First, the URA could engage with tax agents for sensitisation drives directed towards taxpayers. They have proved to be more effective than general information campaigns in other contexts (Chetty & Saez, 2013), and their role as information brokers is well recognised (Hasseldine et al., 2011; OECD, 2008). Second, working in conjunction with tax agents could simplify ensuring compliance with small businesses. Evidence from a few different HICs indicates that this taxpayer category has a preference for conservative advice (Hite et al., 1992; Tan, 1999) and for ensuring that their returns are correctly compiled (Hite et al., 1992; Lubbe & Nienaber, 2012; Stephenson, 2007, 2010; Tan, 1999). Imposing strict requirements for qualification as a tax agent could also play a role in improving the quality of returns (McKerchar et al., 2008). However, too stringent a regulation might increase the number of taxpayers accessing services of agents who are confident in providing more aggressive advice (Ayres et al., 1989; Erard, 1993). We will return to these hypotheses in Section 6 after presenting the results of our interviews and surveys in the next two sections.

4 | CURRENT REGULATION OF TAX AGENTS IN UGANDA AND ITS POTENTIAL WEAKNESSES

According to Ugandan law, a tax agent is 'a person engaged inter alia, in preparation, certification, and filing of tax returns, information returns, or other statements or reports required by the URA, on behalf of the taxpayer' (Government of Uganda, 2014). To regulate the conduct of tax agents and enhance the accuracy of tax returns filed by taxpayers, the Tax Procedures Code Act 2014 (henceforth, TPCA) mandated that tax agents who assist taxpayers in preparing tax returns be vetted and accredited by the TARC. The requirement for registration as a tax agent is completion of tertiary education in a 'discipline...relevant for the provision of tax services', the successful completion 'of a course in taxation recognised by TARC', or having 2 years of 'full time tax-practice' experience during the 5 years preceding the coming into force of the TPCA. However, the TPCA does not specify what the relevant disciplines are, the type of courses recognised by the TARC, nor what is intended by 'full time tax practice', and no practice note has ever been directed to the issue. Work on the effect of regulation of agents stressed that very stringent entry requirements might lead to an increase in aggressive tax advice (Ayres et al., 1989; Erard, 1993), but that some minimum standards are required to improve the quality of returns (McKerchar et al., 2008). It is not exactly clear where in the spectrum the current requirements lie, but it seems more likely that they might fail to improve quality rather than increase aggressiveness of tax reporting.

The TPCA came into force in July 2016, and it took almost a year to appoint the member of the TARC, which was inaugurated in May 2017. To be vetted and register where requirements were met, tax agents had to pay UGX700,000 (USD193.85), and by the end of December 2017 289 agents had been accredited. Both the submission and the vetting of documents was done manually, which proved particularly cumbersome, and partially explains why the number of

tax agents approved for 2019 decreased to 231. Recognising this issue, through 2019 both tax agents' application and their nomination by taxpayers were automated within e-Tax⁵ by the URA with the aim of simplifying these processes. However, different IT challenges led to the opposite result: only 34 taxpayers managed to nominate tax agents, and the accreditation process had to be suspended altogether.⁶ As a consequence, all agents who applied were automatically granted the permit to operate in 2020.

In-depth interviews with three members of the TARC conducted in early 2020 revealed that a stricter enforcement, as well as some revision, of the current regulation would contribute to improve its efficacy. All TARC members interviewed consider more cost-effective to engage with a small group of agents than with the large number of taxpayers relying on their services, but believe that a full implementation of the regulation would lead to positive effects for both taxpayers and the URA. This is because the former would be more confident about engaging a professional whose expertise had been vetted, and the latter would receive returns of a higher quality. Generally, the management of the registration and nomination processes were also considered problematic. Apart from recognising the impact that IT issues had on taxpayers' capacity to nominate agents, their biggest problem was with the vetting process, as verifying information submitted by agents is lengthy when their qualification are from Uganda, and very challenging to complete when they are foreign. Other issues mentioned were the availability of information on criminal backgrounds from Ugandan law enforcement agencies, as well as the complexity of verifying agents' previous work experience in what was an unregulated environment. Furthermore, they have also realised that even tax agents meeting all the necessary requirements are not guaranteed to have the skills required for the work, so that a specific examination to become an agent might be required.

Other aspects of the TPCA were also found problematic. First, the requirement for taxpayers with a turnover above UGX500 million (USD138,465.8) to have a financial statement audited by a member of the Institute of Certified Public Accountants of Uganda (ICPAU) accompanying their tax return was rarely enforced.⁷ Even when it is, the URA does not have any control over the standard required to be a member of ICPAU, so that this does not guarantee returns of higher quality. However, this was not a unified position within TARC, as other members suggested lowering the current qualification requirements to include Accounting Technicians and Certified Tax Advisor trainees from ICPAU. Both of these are widely available and should be capable of managing tax affairs with some further training. Hence, there seems to be some tension between different members

on the current relationship between the URA and ICPAU, which might warrant further consideration for the future. Regardless, all interviewees were convinced of the usefulness of designing and offering regular training to tax agents to understand their challenges and increase their competence. Another common recommendation was for the URA to push for an amendment of the law, to make it compulsory for the accountant signing a taxpayer's return to be their nominated—and registered—tax agent. They were also convinced that taxpayers above the UGX500 million (USD138,465.8) threshold who fail to nominate a tax agent in time should be heavily penalised to incentivise compliance with this rule.

5 | URA TAX OFFICER AND TAX AGENT SURVEY RESULTS

In this section, we present the results of two surveys aimed at acquiring some evidence on URA tax officers' perception of the role and quality of tax agents, and on the latter's perceptions of their relationship with their clients. The first survey was emailed to a sample of 158 URA tax officers, representative of the compliance staff working at the URA headquarters in March 2020 in the Domestic Taxes Department, 81 of whom returned a completed questionnaire. Only staff from offices where interaction with taxpayers happens on a daily basis through audits, objection handling, refund processing or direct support were targeted, as those from other offices (e.g. Taxpayer education, Process management, Arrears management) would have little to add. The second survey was implemented during the end of October and early November 2020 during a series of seminars organised by the TARC to sensitise accredited tax agents on some proposed amendments to different tax laws. The seminars were attended by 204 tax agents, all of whom completed and returned the questionnaire. The data from both questionnaires was inputted and analysed in Stata.⁸

A few limitations in our data need to be stated. First, both questionnaires were self-administered, without any in-depth explanation of each question and potential answers. Therefore, nuances between different multiple-choice options might have been lost on responders, although this does not seem likely. Second, there were instances where, despite being requested to select only one answer, more than one was indicated. In these cases, only questionnaires where answers were given according to the instructions are reported. Third, two of the questions included in the tax agents' questionnaire asked them to provide an explicit ranking of different options—some respondents ignored this, simply ticking all that applied. For those answers, we only report the explicitly ranked ones. Finally, while we cannot claim that the surveyed tax agents were representative of the whole population of agents in the country, they represent the universe of accredited ones who attended a URA mandated seminar.

⁵e-Tax is the integrated tax administration system currently in use in Uganda.

⁶These IT failures also made it impossible to rely on the e-Tax system to obtain data for this research, as only 34 taxpayers had nominated their agents before nominations were suspended. It must be noted that the current set-up of e-Tax does not explicitly distinguish between returns submitted by agents and those submitted by taxpayers, as the former are allowed to file using the latter's TIN. While this issue is currently being addressed, it meant we could not proceed with any quantitative comparison of the impact of agents on the quality of returns.

⁷The ICPAU is Uganda's regulatory body for accountants.

⁸The complete survey instruments can be found in the online Appendix.

5.1 | Survey of URA tax officers

As shown in Table 1, the majority of URA staff who returned a completed questionnaire worked in offices that only deal with taxpayers after they have filed a return - all but the respondents from the Medium and the Large Taxpayer Offices. With the originally sampled respondents, there is a higher representation of officers managing large taxpayers (29.6% of respondents vs. 18.9% of the sample), and a lower representation of those working on revenue assurance (23.5% of respondents vs. 34.8% of the sample).⁹ Consequently, if the views amongst these two categories are significantly different, our results will be unrepresentative of URA staff. However, the only two variables for which responses are significantly different are those on frequency of tax agent use amongst taxpayers and tax agents' knowledge. Unsurprisingly, tax officers from the Large Taxpayer Office are both more likely to state that most of their clients use a tax agent, and that tax agents are knowledgeable or very knowledgeable about the tax system. Therefore, with this caveat in mind, the following responses should still provide a fair representation of the opinion of tax officers on tax agents.

Perceptions of the role and capacity of tax agents might differ between officers dealing with taxpayers before their returns are submitted, and those dealing with them afterwards. Hence, a test of systematic differences in response across these two categories of respondents was performed, and officers from the Medium and Large Taxpayer Offices will be referred to as 'pre-filing' while the others as 'post-filing'¹⁰. Furthermore, we also tested for differences in answers between officers following large taxpayers and others, given that the large taxpayers are usually different from the general population and might exhibit a different relation with their agents.

Given that the use of tax agents is not mandatory, almost the totality (93.8%) of URA staff surveyed follows taxpayers who are not using their services. However, the majority of respondents (64.2%) state that most of the taxpayers they handle use a tax agent, with no significant difference in responses between staff in pre- and post-filing offices. Unsurprisingly, when staff are asked to judge the tax knowledge of both tax agents and taxpayers, tax agents are twice as likely to be considered 'Knowledgeable' or 'Very knowledgeable' as taxpayers (Table 2). However, two things must also be noted. First, 55.6% of URA staff still rate tax agents' as "somewhat" (54.3%) or "not" (1.3%) knowledgeable. Second, staff in post-filing offices are significantly more likely to have a lower opinion of tax agents' knowledge than those in pre-filing offices. Hence, similarly to the TARC interviewees, URA staff have a mixed opinion on the level of preparation of tax agents. Furthermore, staff in post-filing offices also states that agents' submitted returns are more likely to come after the deadline than those autonomously prepared.

⁹The average difference between sample and respondents for all other categories of respondents is 3.7%.

¹⁰As all responses to questions in this section are from categorical or ordinal variables, systematic differences for the latter have been verified with Mann-Whitney *U* test, and for the former through Fisher's exact test.

TABLE 1 Assigned office of Uganda revenue authority (URA) respondents.

| | Frequency | Percentage |
|------------------------------|-----------|------------|
| Large taxpayers office | 24 | 29.63 |
| Medium taxpayers office | 7 | 8.64 |
| Objection and appeals office | 5 | 6.17 |
| Refunds office | 13 | 16.05 |
| Revenue assurance office | 19 | 23.46 |
| Tax examination office | 13 | 16.05 |
| Total | 81 | 100 |

Source: Authors' elaboration on Ugandan revenue authority survey.

TABLE 2 Uganda revenue authority (URA) staff opinion on tax agent and taxpayer knowledge.

| Tax knowledge | Tax agents | Taxpayers |
|------------------------|------------|-----------|
| Not knowledgeable | 1.23% | 15% |
| Somewhat knowledgeable | 54.32% | 61.25% |
| Knowledgeable | 43.21% | 23.75% |
| Very knowledgeable | 1.23% | 0% |
| Total | 100% | 100% |

Source: Authors' elaboration on Ugandan revenue authority survey.

When asked what the most likely reasons leading a taxpayer to use a tax agent are, the most frequent answer from URA staff is that the tax system is too complex for taxpayers to deal with on their own (42.86%). This is followed by wanting to adequately respond to a compliance query (36.51%), with only 7.94% answering that taxpayers are looking for tax planning. These answers are coherent with those to the questions of which tax agent services are most frequently requested by taxpayers. In this case, preparation and filing of tax returns is the most frequent answer (38.27%), followed by preparation and auditing of financial accounts (30.86%), and representing their clients before the URA (23.46%). Overall, 54.2% of surveyed staff either agree or strongly agree that use of tax agents is an unavoidable consequence of a tax system strongly reliant on self-assessment. No significant difference emerges between opinions of staff in pre- and post-filing offices for any of the above answers.

More questions were asked to obtain a better picture of these latter interactions. Almost 70% of survey respondents agreed that taxpayers are not confident in responding to queries from the URA on their own, and 43.2% of URA staff also find it either difficult or very difficult to solve compliance issues without the involvement of tax agents. A final set of questions aimed to understand the impact of tax agents on returns' quality and compliance risk. The vast majority of URA staff think that use of tax agents does sometimes increase the quality of returns (77.2%), with another 19% stating that it always does so, coherent with the fact that 29.1% of respondents maintain that agents' completed returns still have computational mistakes. Returns prepared by tax agents are considered less risky from a

compliance point of view by 62.5% of staff, with another 43.2% claiming they lead to less audit adjustments and only 22.2% thinking that self-prepared one are less risky than those submitted by an agent.

5.2 | Survey of accredited tax agents

The questionnaire submitted to tax agents aimed to gather information about the market in which URA-accredited tax agents operate, and the type of services they more often provide to their clients. The 'accredited' qualification is relevant, as there might be a variety of other actors in the Ugandan agents' market who have not yet sought accreditation from the URA, and who might exhibit different characteristics than those surveyed at the workshop. Similarly to the previous section, we tested whether systematic differences could be individuated across different categories of agents, such as self-employed or employees, those with or without a professional association, and those whose clients are predominantly individuals or large businesses.¹¹

Almost 60% of the 204 tax agents who took part in the URA workshops were self-employed, and given the registration requirements discussed in Section 3, it is not surprising to find that an undergraduate degree was the most common qualification (48.95%). Slightly more than half of the respondents (56.4%) also have some form of professional association, ICPAU being the most common (78.3% of those with an affiliation). The majority of tax agents meets their clients more than once a month (62.2%), around a quarter once a month (22.9%), while there are also some for whom tax consultancy happens less frequently—every 3 months (6.4%) or once a year (8.5%).

Incorporated entities represents on average 68.9% of tax agents clients, with only 19.9% of respondents having a majority of individual clients. The use of tax agents seems to happen across all taxpayers' sizes (Table 3), with small taxpayers representing on average almost half of tax agents' clients (46.4%), and medium taxpayers around another third (30.3%). Agents for whom incorporated clients are the majority are also more likely to have a majority of clients qualifying as medium or large taxpayers. No other significant difference in client characteristics was found across any other tax agent characteristic.

As it can be seen, the most frequently requested services, presented in Table 4, are preparation and auditing of accounts and preparation and filing of returns. Representation before the URA and determination of tax liability are also functions regularly performed by agents, although not as frequently. No significant difference in requested services could be individuated depending on tax agent characteristics. Tax agents' opinions on the most frequent reasons for their clients engaging their services are presented in Table 5. As the

TABLE 3 Size of client of tax agents.

| | Average | No clients in category |
|------------------|---------|------------------------|
| Micro taxpayers | 14.61% | 36.06% |
| Small taxpayers | 46.42% | 4.92% |
| Medium taxpayers | 30.25% | 15.3% |
| Large taxpayers | 8.72% | 51.37% |

Source: Authors' elaboration on tax agents' survey.

TABLE 4 Frequency of service provision, ranked answers.

| Service | Most frequent | 2nd | 3rd |
|-------------------------------------|---------------|--------|--------|
| Preparation and filing of returns | 54.64% | 30.43% | 6.59% |
| Preparation or auditing of account | 27.84% | 27.17% | 9.89% |
| Representation before the URA | 6.19% | 20.65% | 38.46% |
| Determination of tax liability | 6.19% | 10.87% | 17.58% |
| Interpreting legislation | 2.06% | 6.52% | 16.48% |
| Consultation on legislative changes | 1.03% | 4.35% | 7.69% |
| Representation in court of law | 2.06% | 0.00% | 3.30% |

Source: Authors' elaboration on tax agents' survey.

table shows, the three most frequent answers are lack of tax knowledge, the desire to submit error-free returns, and the complexity of tax laws.

Agents were also asked if they believe that their services led to an increase, a decrease, or had no impact on their clients' tax liability, and more than three-quarters of respondents stated that it led to an increase (76.57%). This could have two different explanations. First, tax agents were surveyed during seminars run by the URA, which might have had an impact on the picture they wanted to provide. Alternatively, the Ugandan tax system might provide little room for ambiguity, and tax agents might have resolved easy-to-detect non-compliance in their clients' returns. Considering the frequency with which the complexity of the tax system is highlighted, the first reason seems more likely than the second, but this will remain impossible to quantitatively verify until the e-Tax system is amended to allow the identification of agents submitting returns.

Nearly three-quarters of tax agents had clients subjected to audits (72.5%), with 20% of tax agents stating that this happens often or very often. The latter finding is explained by comments made in some of the URA staff responses, which revealed that if a few returns prepared by the same agent were found to have similar discrepancies, then all returns prepared by that agent would be audited—a logical approach from a compliance risk perspective.

Somehow unsurprisingly, almost all (98.04%) agents thought that their services helped their clients increase their understanding of tax matters. The majority of agents (63.13%) indicated that their clients were somewhat knowledgeable about tax law, and more than a quarter that they are knowledgeable (28.79%). Finally, there is an

¹¹ As in the previous section, systematic differences across ordinal variables have been tested with Mann-Whitney test and differences across categorical variables have been tested through Fisher's exact test, while differences across percentages with t-tests.

| Reason to hire | Most frequent | 2nd | 3rd |
|---|---------------|--------|--------|
| Lack of tax knowledge | 64.08% | 11.46% | 4.60% |
| Decreasing chances of errors in returns | 12.62% | 29.17% | 27.59% |
| Complexity of tax law | 8.74% | 25.00% | 12.64% |
| External opinion on tax matter | 4.85% | 8.33% | 19.54% |
| Reduction of liability | 4.85% | 11.46% | 13.79% |
| Cost effectiveness of agent service | 4.85% | 9.38% | 8.05% |
| Reduction of audit probability | 0.00% | 5.21% | 13.79% |

Source: Authors' elaboration on tax agents' survey.

almost even split between agents indicating that their clients would not feel confident in responding to a query from the URA without consulting them first (51.74%), and those indicating instead that their clients would be (48.26%)—corroborating the answers provided by URA staff.

6 | DISCUSSION OF SURVEY RESULTS

The results of our survey provide us with a general overview of the use of and role of tax agents in Uganda, which allows us to draw a parallel with the literature and theorise about the role they might play in other LICs too. To start with, as a majority of URA staff manages clients who mostly use tax agents, and most tax agents have clients of every dimension and incorporation status, we have a good indication that the use of their services is as widespread in the country as it is in other HICs (Blumenthal & Slemrod, 1992; Mearns & Braithwaite, 2001; Sakurai & Braithwaite, 2003; Slemrod & Sorum, 1984; Tan, 1999). Furthermore, their use seems to be similarly connected to the reliance on self-assessment of tax liability (Forest & Sheffrin, 2002; Slemrod & Venkatesh, 2002) and to the complexity of the tax system (Long & Caudill, 1987; Waiswa et al., 2020). Hence, the patterns between Uganda and HICs seems to be extremely similar: taxpayers, finding excessively complex to comply with their tax obligations, often rely on professional advice to ensure their position.

There also seems to be evidence that incentivising tax agents use might be in the interest of the URA, which was not necessarily the case given the double role which agents play (Ayres et al., 1989; Kaplan et al., 1988; Klepper & Nagin, 1989). First, returns prepared by tax agents are considered less risky and usually lead to less audit adjustment, both of which simplify ensuring compliance, which is particularly important for the URA (Waiswa et al., 2020). Second, URA staff finds it easier to deal with taxpayers' compliance issue through their agents, which stresses their role as important intermediaries (Hasseldine, 2011; OECD, 2008), and again simplifies the work of the authority—as well. Finally, both URA staff and tax agents overwhelmingly cite a willingness to comply with existing tax obligations rather than tax minimisation as the main reason for taxpayers to seek agents' services. Interestingly, while there is some

TABLE 5 Frequency of reasons for being hired, ranked answers.

indicative evidence of large taxpayers requesting different services than others,¹² this does not include a significantly higher chance of seeking tax planning advice, and neither do individuals appear to seek this service more often. Differently from other cases in the literature (Ayres et al., 1989; Erard, 1993), being qualified as a chartered accountant also does not significantly correlates with a higher likelihood of engaging in tax planning. Apart from another parallel with HICs (Hite et al., 1992; Stephenson, 2007; Tan, 1999), taken together this evidence indicates that there could be different gains for the URA in promoting tax agents use.

Finally, while only tentative, there is some evidence that the URA might want to rely more on tax agents for tax sensitisation, which has proven effective in HICs (Chetty & Saez, 2013). This is both because tax agents already overwhelmingly perceive to be increasing their clients' knowledge and because they are generally considered to be more knowledgeable than taxpayers by the URA—although not to the extent that one would expect. As suggested by the TARC during their interviews, URA mandated training could help increasing agents' knowledge, and so would more strictly enforce the existing requirements for qualifications, which might also contribute to further increase the quality of returns (McKerchar et al., 2008). Regardless, given how much revenue authorities are currently investing in taxpayers' education (Mascagni et al., 2019; Mascagni & Santoro, 2018), engaging more with tax agents seems an avenue worth considering.

While our survey only covers Uganda, there are reasons to hypothesise that similar trends might be taking place in other LICs. First, many of the above findings resonate with recent work carried out in upper-middle income countries (Isa et al., 2014; Lubbe & Nienaber, 2012; Sapiei & Kasipillai, 2014; Sinnasamy et al., 2015). Second, none of the issues to which tax agents use has emerged as a response to are unique to Uganda—on the contrary, they are common amongst the majority of LICs (Dom et al., 2022). Given that internationally promoted tax reforms have also contributed to make many feature of LICs tax systems similar (Dom & Miller, 2018; Jepsen, 2021), tax agents use could be playing a similar role in many other countries.

¹²As indicated by a difference significant at 10% between the services requested to agents whose majority of clients are large taxpayers and those requested to other agents.

7 | CONCLUSION AND FURTHER AVENUES FOR RESEARCH

While LICs tax systems have consistently improved over the last couple of decades, they still face a series of compliance issues, many of which are connected with the combination of low tax-literacy and complex tax legislations. Revenue authorities have as a consequence dedicated more attention to taxpayers' education, while also pursuing other strategies to increase compliance amongst specific taxpayers' segments. One approach which has received little attention is the involvement of tax agents in both of these sets of strategies, potentially because very little evidence on their potential role in LICs is available. Evidence from HICs does however indicate that they can play a role in increasing compliance amongst a variety of different taxpayers, and that they can be more effective than sensitisation campaigns in educating taxpayers.

To help closing this gap, our study focuses on the use of tax agents in Uganda, a country in which tax compliance issues remains widespread, taxpayers predominantly find it hard to comply with their obligations, and where the tax authority has long pursued taxpayers' education. The results of our survey show that, similarly to HICs, tax agents use appears common across all taxpayers' type, who mostly seek support to comply with their obligations rather than looking to minimise their liabilities, and that tax agents both reduce the risk associated with tax returns and contribute to educate taxpayers. Hence, the URA seem to have good reasons to pursue a closer engagement with tax agents, as well as to consider how the regulation of their market might affect the services provided.

To the best of our knowledge, this is the first time that this topic has been explored in a LIC setting. While our study only consider the case of Uganda, given that most of the tax compliance issues faced in the country are shared across LICs, our results suggest that wider consideration should be given to the potential role of tax agents in other LICs jurisdictions to expand the available knowledge base. Furthermore, there are different avenues to complement and improve upon the results of our study where more data is available. First, we could only rely on a survey of tax officers and tax agents as the administrative data setup in Uganda did not allow for the individuation of returns submitted by agents and those submitted by taxpayers. Where this is possible, as it should soon be in Uganda too, a more nuanced and statistically robust analysis will also become possible. This will allow to assess whether the perception of URA staff about agents' submitted returns been less risky and leading to less audit adjustment is supported by the data, as well as exploring whether there is heterogeneity in agents' impact across taxpayers categories or agents' qualification. Second, exogenous conditions during the study implementation¹³ prevented us to directly interact with Ugandan taxpayers, who will undoubtedly have had much to add on their experiences on interacting with tax agents. Future studies might consequently want to further include their perspective on tax

agents' role in LICs tax systems, so to more explicitly investigate whether taxpayers' will report the same reasons to engage tax agents as URA staff or the agents themselves, as well as exploring their satisfaction with the services received.

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CONFLICT OF INTEREST STATEMENT

None.

DATA AVAILABILITY STATEMENT

We are currently in communication with the Uganda Revenue Authority for making the data used in the paper available. If we will receive a positive reply, the data will be uploaded in the data repository of the International Centre for Tax and Development.

PRACTICE IMPACT STATEMENT

The research presented in this paper informed a draft proposal included in the 2021/2022 Uganda Tax Policy Amendments Act, as well as the creation of a system which will enable tracking of information relating to tax agents in the Uganda Revenue Authority IT system. LICs facing similar compliance issues might learn from this experience.

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¹³Both of our surveys were implemented during 2020 during the Covid-19 pandemic, which severely limited our ability to meaningfully survey taxpayers.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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