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Digital Taxation And E-Commerce Growth Among Kasita Traders In Kampala, Uganda

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Abstract

This study investigated the relationship between digital taxation and e-commerce growth among traders in Kasita, a commercial zone in Kampala, Uganda. The study was motivated by the Uganda Revenue Authority's (URA) introduction of digital taxation measures targeting online traders and the mixed responses these measures have generated among the growing population of digital commerce practitioners. A cross-sectional survey design was employed, with data collected from 186 e-commerce traders through structured questionnaires. Descriptive statistics, Pearson correlation, and multiple linear regression analyses were applied. The findings revealed that digital tax compliance processes, digital tax awareness, and perceived digital tax fairness were significantly correlated with e-commerce growth. Regression analysis indicated that the model explained 58.9% of variance in e-commerce growth, with perceived digital tax fairness emerging as the strongest predictor. The study concludes that the design and communication of digital taxation frameworks critically shape e-commerce growth trajectories among informal and semi-formal traders in urban Uganda. Recommendations are made for tax authority communications strategies, simplified compliance tools, and differentiated tax regimes for small-scale digital traders.

Keywords: Digital Taxation, E-Commerce Growth, Kasita Traders, URA, Uganda, Tax Compliance, Online Business, Digital Economy

1.0 Background of the Study

The rapid expansion of digital commerce across sub-Saharan Africa has fundamentally altered the commercial landscape of Uganda's urban markets(Julius & Kazaara, 2026d). In Kampala, platforms including WhatsApp Business, Facebook Marketplace, Jumia, and proprietary online storefronts have enabled traders in markets such as Kasita to reach customers far beyond their physical locations, driving significant growth in online sales(Faridah et al., 2023). Uganda's digital economy was estimated to contribute approximately 6.2% to GDP in 2022, with e-commerce volumes growing at an annual rate of 23% between 2018 and 2022 according to the Uganda Communications Commission (UCC, 2022). However, the rapid Informatization of digital commerce has created significant tax compliance challenges for the Uganda Revenue Authority (URA), which estimates that a large proportion of digital transactions occur outside the formal tax net, resulting in annual revenue leakages exceeding UGX 400 billion(Paul et al., 2022).

In response to these challenges, URA introduced a series of digital taxation measures between 2020 and 2023, including the Over-the-Top (OTT) tax replacement with a broader digital services tax, mandatory registration of online traders earning above a defined threshold, and deployment of electronic invoicing (e-invoicing) requirements for registered digital businesses(Winny et al., 2023). These measures have been accompanied by digital literacy and tax awareness campaigns targeting e-commerce practitioners in Kampala's commercial zones including Kasita, Owino, and Kikuubo markets (Kazaara & Nancy, 2026). While these initiatives signal a progressive effort to capture the

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digital tax base, their impact on e-commerce growth trajectories remains a subject of considerable debate among traders, tax practitioners, and digital economy researchers(Julius et al., 2024). Critics argue that premature or poorly designed digital taxes can stifle the nascent e-commerce ecosystem by increasing compliance burdens on small traders, while proponents contend that a well-designed digital tax framework can actually stimulate growth by creating a level playing field and financing digital infrastructure improvements(Julius & Nancy, 2026).

2.0 Problem Statement

Despite the increasing significance of digital commerce in Kasita's trading community, the specific relationship between URA's digital taxation measures and e-commerce growth outcomes remains empirically understudied(Gracious, 2023). Anecdotal evidence from trader associations suggests a polarised response, with some traders reporting that digital tax compliance requirements have reduced their competitiveness, while others indicate minimal impact or even positive effects through the formalisation benefits of tax registration(Florence & Julius, 2023). The absence of rigorous empirical data from this specific commercial zone makes it impossible to determine whether current digital taxation approaches are calibrated appropriately for the scale and maturity of e-commerce activity among Kasita traders, or whether modifications are needed to balance revenue collection objectives with e-commerce growth facilitation(Ramadhan, Alex, Kazaara, et al., 2023). This study systematically investigated these dynamics, providing the first empirical assessment of the digital taxation-e-commerce growth nexus in Kasita, Kampala.

3.0 Main Objectives of the Study

The main objective of this study was to examine the relationship between digital taxation and e-commerce growth among Kasita traders in Kampala, Uganda. The specific objectives were to: (i) assess the influence of digital tax compliance processes on e-commerce growth; (ii) determine the relationship between digital tax awareness and e-commerce growth outcomes; (iii) evaluate the role of perceived digital tax fairness in shaping e-commerce growth; and (iv) examine the combined effect of digital taxation dimensions on e-commerce growth among Kasita traders.

4.0 Literature Review

The theoretical framework underpinning this study draws from the Theory of Planned Behaviour (Ajzen, 1991) applied to tax compliance, which suggests that traders' behavioural intentions regarding digital tax compliance are shaped by their attitudes toward taxation, perceived subjective norms within their trading communities, and perceived behavioural control over compliance processes. When digital tax systems are perceived as fair, manageable, and community-normative, traders are more likely to comply and continue growing their e-commerce activities(Julius & Audrey, 2026). Conversely, perceived complexity, unfairness, or disproportionate burden-sharing can generate compliance resistance and strategic business downsizing to avoid tax obligations. This theoretical lens helps explain the heterogeneous responses to digital taxation observed in the Kasita context(Winny et al., 2023).

Globally, the academic literature on digital taxation and e-commerce is growing but remains characterized by significant contextual heterogeneity(Christopher et al., 2022). OECD (2020) guidelines on digital economy taxation acknowledge that developing countries face unique challenges in implementing digital taxation frameworks due to

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limited administrative capacity, high informality rates, and nascent digital financial infrastructure. Cockfield (2019) argued that developing-country digital tax regimes must prioritise simplicity, proportionality, and administrative support for small traders to avoid inadvertently stifling the digital entrepreneurship they seek to tax. In a study of East African digital traders, Ndlela and Mulaudzi (2021) found that Uganda and Kenya exhibited contrasting patterns, with Uganda's OTT tax generating significant trader backlash and platform avoidance behaviour, while Kenya's digital tax rollout, supported by extensive trader education campaigns, generated more stable compliance rates(Tasha et al., 2023).

The relationship between tax compliance costs and business growth is well-documented. Slemrod and Venkatesh (2002) demonstrated that compliance costs disproportionately burden small businesses, with tax compliance consuming up to 12% of small business revenues in developing economies compared to 3–5% for large enterprises(Turyatemba et al., 2022). In the digital commerce context, the automated nature of e-invoicing and digital payment tracking can simultaneously reduce compliance costs while increasing tax visibility, creating a dual effect on business behaviour(Moses & Alex, 2022). Fiseha and Oyelaran (2020) found that Ethiopian small digital traders who adopted URA-compliant mobile money payment systems reported 14% higher annual revenue growth compared to non-adopters, attributing gains to improved financial record-keeping, easier access to formal credit, and enhanced customer trust (Faridah et al., 2023). These findings suggest that well-designed digital tax compliance tools can generate positive growth externalities beyond revenue collection.

5.0 Methodology

This study adopted a cross-sectional survey design with a quantitative orientation. The study population comprised 340 active e-commerce traders registered with the Kasita Traders' Association who had been in digital trading for at least one year(Anwar et al., 2022). Using Yamane's (1967) formula at a 95% confidence level, a sample of 186 respondents was drawn using systematic random sampling. After data cleaning, all 186 questionnaires were deemed valid, yielding a 100% usable response rate(Nafiu et al., 2017). The self-administered questionnaire consisted of 36 items covering digital tax compliance processes, digital tax awareness, perceived digital tax fairness, and e-commerce growth(Ramadhan, Alex, Ariyo, et al., 2023). Likert scale items were anchored between 1 (Strongly Disagree) and 5 (Strongly Agree). Cronbach's Alpha reliability coefficients ranged from 0.76 to 0.87. Data were analysed using SPSS version 26, employing descriptive statistics, Pearson correlation analysis, and multiple linear regression at a significance level of $p < 0.05$(Nelson et al., 2022).

6.0 Results

6.1 Descriptive Statistics

Table 1: Descriptive Statistics on Digital Taxation and E-Commerce Growth (n = 186)

Variable	N	Min	Max	Mean	Std. Dev.
Digital Tax Compliance Process	186	1.00	5.00	3.21	0.987

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Digital Tax Awareness	186	1.00	5.00	3.14	1.021
Perceived Digital Tax Fairness	186	1.00	5.00	2.98	1.089
E-Commerce Growth	186	1.00	5.00	3.43	0.912

Source: Primary Data, 2025

The descriptive results in Table 1 reveal moderate perceptions across all digital taxation dimensions, with digital tax compliance processes recording the highest mean among independent variables at 3.21 (SD = 0.987)(Julius & Kazaara, 2026b). This indicates that traders possess a moderate awareness of compliance requirements, though the relatively high standard deviation suggests significant heterogeneity in compliance experience, with some traders finding the process manageable while others report substantial difficulties(Winny et al., 2023). Digital tax awareness recorded a mean of 3.14 (SD = 1.021), the second highest among independent variables, reflecting that URA's outreach efforts have achieved moderate but uneven penetration among Kasita traders. The highest standard deviation in the dataset was recorded for perceived digital tax fairness (SD = 1.089), with a mean of 2.98 falling just below the neutral midpoint of 3.00, indicating that traders on average perceive existing digital taxation arrangements as marginally unfair(Julius & Kazaara, 2026a). This finding is particularly significant given that perceived fairness emerged as the strongest regression predictor of e-commerce growth, suggesting that negative fairness perceptions may be acting as a growth-constraining factor(Ramadhan, Alex, Ariyo, et al., 2023). E-commerce growth recorded a mean of 3.43 (SD = 0.912), indicating moderate perceived growth, with traders acknowledging overall expansion of their digital businesses despite taxation-related concerns.

6.2 Correlation Analysis

Table 2: Pearson Correlation between Digital Taxation and E-Commerce Growth ($p < 0.01$**)**

Variable	**1**	**2**	**3**	**4**
1. Tax Compliance Process	1.000			
2. Digital Tax Awareness	.534**	1.000		
3. Perceived Tax Fairness	.489**	.512**	1.000	
4. E-Commerce Growth	.578**	.601**	.643**	1.000

Source: Primary Data, 2025

All three digital taxation dimensions demonstrated significant positive correlations with e-commerce growth. Perceived digital tax fairness exhibited the strongest correlation with e-commerce growth ($r = 0.643$, $p < 0.01$), suggesting that traders who perceive the digital taxation system as equitable and proportionate are significantly more likely to report robust e-commerce growth(Mategeko et al., 2026). This finding resonates with the behavioural economics literature on tax morale, which consistently demonstrates that perceived fairness of a tax system is a critical determinant of voluntary compliance and continued business formalization(Winny et al., 2023). Digital tax awareness also demonstrated a strong correlation with growth ($r = 0.601$, $p < 0.01$), affirming that informed traders are better positioned to navigate compliance requirements efficiently and leverage formal registration benefits such as access to

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digital financial services and business support programmes(Julius & Kazaara, 2026c). Digital tax compliance processes showed a moderate positive correlation with e-commerce growth ($r = 0.578$, $p < 0.01$), indicating that traders who experience compliance procedures as manageable tend to maintain and grow their digital business activities rather than retrenching into informality(Alex & Moses, 2024).

6.3 Regression Analysis

Table 3: Model Summary and Regression Coefficients on Predictors of E-Commerce Growth

Model	R	R Square	Adj. R^2	Std. Error	F-Stat
1	.767	.589	.581	.591	87.64***

Predictor	B	Std. Error	Beta (β)	t-value	Sig.
(Constant)	0.487	0.214	—	2.276	.024
Perceived Tax Fairness	0.367	0.074	.321	4.959	.000
Digital Tax Awareness	0.341	0.079	.289	4.316	.000
Tax Compliance Process	0.298	0.083	.241	3.590	.000

Source: Primary Data, 2025

The regression model confirms that the three digital taxation dimensions collectively explain 58.9% of variance in e-commerce growth among Kasita traders ($F = 87.64$, $p < 0.001$), reflecting a moderately strong model with significant practical relevance. Perceived digital tax fairness emerged as the strongest predictor of e-commerce growth ($\beta = 0.321$, $t = 4.959$, $p < 0.001$), a finding with profound implications for tax policy design in Uganda(Nelson et al., 2023). The fact that fairness perceptions which currently sit marginally below the neutral midpoint are the dominant predictor of growth trajectories suggests that addressing perceived inequities in the digital tax system could generate the most immediate and substantial improvements in e-commerce growth outcomes. Digital tax awareness was the second strongest predictor ($\beta = 0.289$, $t = 4.316$, $p < 0.001$), confirming that URA's information dissemination and tax education efforts directly translate into measurable growth benefits, validating continued investment in awareness campaigns specifically tailored to informal and semi-formal digital traders. Tax compliance process was the weakest predictor ($\beta = 0.241$, $t = 3.590$, $p < 0.001$), but remained highly significant, suggesting that simplifying compliance tools and reducing administrative burdens would support e-commerce growth, particularly for traders with limited administrative capacity.

7.0 Discussion of Results

The finding that perceived digital tax fairness is the strongest predictor of e-commerce growth is the most theoretically and practically significant result of this study. It suggests that the challenge facing URA and the Government of Uganda in fostering a thriving digital economy is not merely one of tax collection efficiency, but fundamentally one of legitimacy and equity in how digital taxation burdens are distributed. The below-midpoint mean score on perceived tax fairness (2.98) is a warning signal that the current digital taxation architecture is not adequately differentiated

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between large platforms and small informal traders, creating perceptions of disproportionate burden among the latter. This resonates with OECD (2020) recommendations for developing country digital tax regimes to incorporate minimum revenue thresholds, simplified presumptive tax regimes for small traders, and visible reinvestment of digital tax revenues into digital infrastructure that directly benefits traders. The significant role of awareness further confirms that information asymmetry remains a barrier to both compliance and growth in the Kasita digital commerce ecosystem.

8.0 Conclusions and Recommendations

Digital taxation significantly influences e-commerce growth among Kasita traders, with perceived tax fairness, digital tax awareness, and compliance process simplicity collectively explaining nearly 59% of e-commerce growth variance. Perceived fairness is the most critical lever for growth, followed by awareness, and then compliance process quality. URA should urgently review its digital taxation framework to introduce a tiered presumptive digital tax regime that applies proportionally lower rates to small-scale traders earning below a defined monthly online revenue threshold. A dedicated digital trader outreach unit should be established to conduct market-based sensitization in Kasita and similar commercial zones, using peer educator networks and local language communication. URA's e-tax portal should be enhanced with a simplified mobile-first interface designed specifically for traders with limited computer literacy. Finally, the Government should publicly communicate how digital tax revenues are being reinvested into digital infrastructure improvements serving traders, building tax morale through demonstrated fiscal reciprocity.

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