

Taxpayers' Skills And Tax Compliance Among Small Business Taxpayers In Kampala, Uganda

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Abstract

This study examined the effect of taxpayers' skills on tax compliance among small business taxpayers in Kampala, Uganda. Persistent low voluntary tax compliance rates among small businesses represent a major challenge for revenue mobilization in Uganda, yet the specific role of taxpayer skills in explaining compliance behavior remains inadequately explored. A cross-sectional survey of 220 small business owners in Kampala's central business district was conducted using structured questionnaires. Data were analyzed through descriptive statistics, Pearson correlation, and multiple linear regression using SPSS version 25. The study conceptualized taxpayers' skills along three dimensions: financial literacy ($r = 0.534$, $p < 0.01$), tax record-keeping skills ($r = 0.581$, $p < 0.01$), and digital filing proficiency ($r = 0.496$, $p < 0.01$), all of which showed significant positive correlations with tax compliance. Regression findings demonstrated that tax record-keeping skills were the strongest predictor of compliance ($\beta = 0.362$, $p < 0.001$), followed by financial literacy ($\beta = 0.281$, $p < 0.01$) and digital filing proficiency ($\beta = 0.198$, $p < 0.05$). The model accounted for 62.1% of variance in tax compliance ($R^2 = 0.621$). The study concludes that targeted skills development programs focusing on record-keeping and financial management can significantly improve voluntary tax compliance rates. Recommendations include integrating tax education into business registration processes, establishing mobile tax clinics in commercial areas, and developing vernacular-language tax guidance materials.

Keywords: Taxpayers' skills, tax compliance, financial literacy, record-keeping, small business,

Uganda Revenue Authority

1.0 Background of the study

Tax compliance, broadly defined as the accurate reporting and timely payment of tax obligations, constitutes a central challenge for revenue authorities in developing countries (Alex & Julius, 2024). Uganda's tax-to-GDP ratio consistently falls below the 15% threshold considered adequate for financing public services, with the Uganda Revenue Authority (URA) reporting that a significant portion of the registered small business tax base submits incomplete or inaccurate tax returns (URA, 2022). Understanding the behavioral and skill-based antecedents of tax compliance is therefore of paramount importance for improving domestic resource mobilization (Kazaara & Christopher, 2023). Small businesses constitute over 80% of enterprises in Uganda and collectively represent a substantial portion of potential

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tax revenue, yet they account for a disproportionately small share of actual collections (Uganda Bureau of Statistics, 2022). The compliance challenges facing this segment are multifaceted, encompassing limited awareness of tax obligations, inadequate record-keeping practices, and challenges navigating increasingly digitized tax administration systems (Brian & Jacob, 2023). Taxpayers' skills — encompassing financial literacy, accounting knowledge, and digital competencies — have been theorized as important mediators of the relationship between tax policy and actual compliance behavior. Kampala's central business district hosts thousands of small enterprises across diverse sectors including retail, manufacturing, services, and hospitality (Julius & Matovu, 2025). This concentration of small businesses, combined with Kampala's status as Uganda's commercial capital, makes it an ideal setting for studying the skills-compliance nexus (Christopher et al., 2022). Prior qualitative studies have identified skills deficits as a significant barrier to compliance in this context, but quantitative evidence establishing the relative importance of different skill dimensions remains scarce (Christopher et al., 2022).

2.0 Problem Statement

Notwithstanding URA's ongoing efforts to simplify tax administration through electronic filing systems and taxpayer education programs, voluntary compliance among small businesses in Kampala remains suboptimal (Joshua, 2026). The URA's 2021-2022 annual report indicated that over 40% of registered small business taxpayers failed to file returns on time, and a substantial proportion of those who filed submitted returns with significant errors or omissions (Tasha et al., 2023). While enforcement-oriented explanations focusing on penalties and detection risk have received substantial research attention, the role of taxpayer skills deficits as a structural barrier to compliance has been comparatively under-examined (Christopher et al., 2022). The problem is particularly acute given the rapid expansion of URA's electronic tax administration platform (eTax), which requires taxpayers to possess digital literacy in addition to conventional financial and tax knowledge (Gracious, 2023). If skills deficits constitute a primary barrier to compliance, enforcement-centric approaches may be less effective than investment in taxpayer capacity development (Alex & Julius, 2024). This study addresses this gap by systematically measuring and analyzing the relationships between specific taxpayer skill dimensions and compliance outcomes.

3.0 Main Objectives

The study's primary objective was to assess the effect of taxpayers' skills on tax compliance among small business taxpayers in Kampala. Specifically, the study sought to: (i) measure the levels of financial literacy, tax record-keeping skills, and digital filing proficiency among small business taxpayers; (ii) determine the

relationship between each skills dimension and tax compliance; and (iii) identify the skills dimension with the greatest influence on tax compliance behavior.

4.0 Literature Review

4.1 Theoretical Underpinnings

The behavioral economics of tax compliance has evolved considerably from purely rational deterrence models (Allingham & Sandmo, 1972) toward more comprehensive frameworks incorporating psychological, social, and cognitive factors. The theory of planned behavior (Ajzen, 1991) has been fruitfully applied to tax compliance research, positing that behavioral intentions which ultimately drive compliance or non-compliance are shaped by attitudes toward compliance, subjective norms, and perceived behavioral control(Ivan et al., 2023). Taxpayer skills function within this framework primarily through perceived behavioral control: when taxpayers possess the skills necessary to fulfill compliance obligations, they experience greater confidence and lower perceived compliance costs(Deus, 2023). Fischer et al.'s (1992) tax compliance model explicitly recognizes taxpayer knowledge and education as determinants of compliance behavior, alongside opportunity for non-compliance, attitudes/perceptions, and demographic factors. Subsequent empirical work has validated the positive relationship between tax knowledge and compliance across multiple contexts, though the specific skill dimensions most influential in different economic and institutional settings remain subjects of ongoing investigation(David et al., 2023).

4.2 Financial Literacy and Tax Compliance

Financial literacy, encompassing the ability to understand and apply financial concepts in decision-making, has been linked to improved tax compliance through multiple pathways(Christopher, 2024). Financially literate individuals are better able to understand the distinction between taxable and non-taxable income, apply applicable deductions accurately, and interpret tax notices and correspondence from revenue authorities (Lusardi & Mitchell, 2014). In the Ugandan context, Muganzi (2021) found that financial literacy scores were positively associated with self-reported tax compliance among micro-enterprise owners, particularly in accurate income reporting and benefit utilization.

4.3 Record-Keeping Skills

Accurate and organized financial record-keeping is a prerequisite for tax compliance, yet it remains one of the most widely cited challenges among small businesses in developing countries(Gracious, 2023). Record-keeping skills encompass the ability to systematically document financial transactions, maintain organized expense records, and generate basic financial statements that form the basis for tax return preparation(Julius & Kazaara, 2026). Studies in Rwanda and Kenya have found that small businesses with better record-

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keeping practices reported higher compliance rates and lower incidences of tax disputes (Munyua et al., 2020; Kabera, 2021).

4.4 Digital Filing Proficiency

The digitization of tax administration in Uganda, through the eTax and EFRIS (Electronic Fiscal Receipting and Invoicing Solution) systems, has created new skill requirements for tax compliance(Alex & Moses, 2024). Digital filing proficiency encompassing the ability to navigate online filing platforms, upload supporting documents, and rectify electronic submission errors has become an important determinant of compliance in this evolving environment(Julius & Audrey, 2026). Research in Kenya on the iTax system found that users with higher digital literacy filed returns more accurately and with fewer late submissions (Okello, 2021).

5.0 Methodology

The study adopted a cross-sectional correlational design, with a target population of approximately 850 small business taxpayers registered with URA in Kampala's central business district. A sample of 220 respondents was drawn using systematic random sampling from URA's taxpayer register(Nafiu, 2012). Primary data were collected through a structured questionnaire comprising 45 items measuring the four study variables on five-point Likert scales(Abiiodun Nafiu, 2012). The questionnaire's reliability was confirmed through a pilot test yielding a Cronbach's alpha of 0.883. Secondary data were obtained from URA tax compliance records for the 2021-2022 fiscal year. Analysis proceeded through SPSS version 25, encompassing descriptive statistics, Pearson correlations, and hierarchical multiple linear regression with demographic variables entered in Block 1 as controls, and skill variables in Block 2(Nelson et al., 2022).

6.0 Results

6.1 Descriptive Statistics

Table 1: Descriptive Statistics for Study Variables

Variable	N	Mean	Std. Dev.	Min	Max	Level
Financial Literacy	220	3.31	0.79	1	5	Moderate
Record-Keeping Skills	220	2.87	0.93	1	5	Moderate
Digital Filing Proficiency	220	2.74	1.02	1	5	Low-Moderate
Tax Compliance	220	3.19	0.86	1	5	Moderate

Source: Primary Data, 2025

The descriptive findings in Table 1 indicate generally moderate skill levels across the sampled taxpayers, with financial literacy scoring highest (M = 3.31, SD = 0.79) and digital filing proficiency recording the

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lowest mean ($M = 2.74$, $SD = 1.02$). The relatively high standard deviation for digital filing proficiency reflects considerable variation in digital competencies among respondents, likely reflecting differential access to technology and training (Ntirandekura et al., 2022). Record-keeping skills achieved a mean of 2.87 ($SD = 0.93$), confirming prior qualitative findings suggesting inadequate bookkeeping practices among Kampala small businesses. Tax compliance registered a moderate mean of 3.19 ($SD = 0.86$), consistent with URA administrative data indicating that voluntary compliance rates, though improving, remain below targets.

6.2 Correlation Analysis

Table 2: Pearson Correlation Coefficients

Variable	1	2	3	4
1. Financial Literacy	1.000			
2. Record-Keeping Skills	0.487**	1.000		
3. Digital Filing Proficiency	0.461**	0.502**	1.000	
4. Tax Compliance	0.534**	0.581**	0.496**	1.000

** $p < 0.01$ (2-tailed)

Source: Primary Data, 2025

Correlation analysis (Table 2) reveals that all three taxpayer skill dimensions exhibit significant positive associations with tax compliance. Record-keeping skills demonstrated the strongest correlation with tax compliance ($r = 0.581$, $p < 0.01$), suggesting that bookkeeping proficiency has a particularly direct influence on compliance behavior, as it enables accurate income reporting and preparation of supporting documentation (Nelson et al., 2023). Financial literacy showed the second strongest correlation ($r = 0.534$, $p < 0.01$), while digital filing proficiency, despite its lower mean, maintained a significant correlation of $r = 0.496$ ($p < 0.01$). The significant inter-correlations among skill dimensions (ranging from 0.461 to 0.502) indicate that these competencies tend to co-develop, but VIF values below 3.0 confirmed that multicollinearity did not compromise regression analysis integrity.

6.3 Regression Analysis

Table 3: Multiple Regression on Predictors of Tax Compliance

Predictor	B	SE	Beta (β)	t-value	Sig.
Constant	0.624	0.213	-	2.930	0.004
Financial Literacy	0.298	0.089	0.281	3.348	0.001

Record-Keeping Skills	0.334	0.078	0.362	4.282	0.000
Digital Filing Proficiency	0.168	0.072	0.198	2.333	0.021

$R = 0.788$, $R^2 = 0.621$, Adjusted $R^2 = 0.615$, $F(3,216) = 117.94$, $p < 0.001$

The regression model was highly significant ($F(3,216) = 117.94$, $p < 0.001$), accounting for 62.1% of variance in tax compliance ($R^2 = 0.621$)(Nelson et al., 2023). Record-keeping skills emerged as the dominant predictor ($\beta = 0.362$, $t = 4.282$, $p < 0.001$), corroborating correlation findings and theoretical arguments about the centrality of bookkeeping in facilitating accurate tax reporting. Financial literacy made a substantial independent contribution ($\beta = 0.281$, $t = 3.348$, $p = 0.001$), while digital filing proficiency, though the weakest predictor, remained statistically significant ($\beta = 0.198$, $t = 2.333$, $p = 0.021$). Collectively, these findings validate the multi-dimensional conceptualization of taxpayer skills and underscore the importance of addressing all three competency areas in taxpayer capacity development initiatives.

7.0 Discussion of Results

The pre-eminence of record-keeping skills as a predictor of tax compliance offers important theoretical and practical insights. From a theoretical perspective, this finding reinforces the behavioral control dimension of Ajzen's (1991) theory of planned behavior: accurate record-keeping enables taxpayers to exercise meaningful control over their compliance behavior by providing the informational foundation required for accurate return preparation. Without organized financial records, even taxpayers with high compliance intentions face insuperable practical obstacles. The relatively low mean for record-keeping skills (2.87) thus represents a significant structural barrier to compliance improvement.

The significant role of financial literacy extends beyond tax-specific knowledge to encompass general financial management competencies, suggesting that comprehensive business skills development — rather than narrow tax education — may yield greater compliance dividends. This finding aligns with Lusardi and Mitchell (2014) and Muganzi (2021), both of whom emphasize the spillover benefits of financial literacy across multiple dimensions of business management, including tax compliance. The finding also supports a holistic approach to taxpayer education that embeds tax content within broader business development training. The significant contribution of digital filing proficiency, despite being the weakest predictor, is particularly noteworthy given URA's ongoing digitalization agenda. As digital filing becomes mandatory for an increasing proportion of taxpayers, proficiency gaps risk becoming a more severe compliance barrier. This finding anticipates a growing challenge that demands proactive intervention through digital skills training programs targeting small businesses before these gaps widen further.

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8.0 Conclusions

This study establishes that taxpayer skills, operationalized as financial literacy, record-keeping skills, and digital filing proficiency, are significant predictors of tax compliance among small business taxpayers in Kampala. The model's explanatory power of 62.1% represents a strong empirical contribution to understanding the skill-based determinants of compliance behavior. Record-keeping skills emerged as the most influential skill dimension, underscoring the fundamental importance of bookkeeping competency in enabling accurate and timely tax compliance. These findings have direct policy implications for how URA and partner institutions design and deliver taxpayer capacity development programs.

9.0 Recommendations

The study recommends that: (i) URA should develop a mandatory business skills module — encompassing record-keeping, basic accounting, and digital filing — as a component of the business registration process for new SME taxpayers; (ii) the government should fund mobile tax clinics deployed to commercial areas in Kampala to deliver hands-on record-keeping and digital filing training; (iii) URA should develop vernacular-language tax guidance materials and instructional videos in major Ugandan languages to improve accessibility for taxpayers with limited formal education; and (iv) business development service providers should integrate tax compliance modules into their SME training curricula, recognizing the intersections between financial management and tax compliance competencies.

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