

TAXPAYER EDUCATION AND TAX COMPLIANCE OF SMALL AND MEDIUM

ENTERPRISES

A CASE STUDY OF ARUA HILL DIVISION

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ABSTRACT: *The purpose of this study was to compare the success rate of tax training with the rather expensive tactics used by the URA, such as audit, preventative evaluations of repercussions, and fines, to increase revenue compliance amongst SMEs in Uganda. A whopping 88% of people who had access to print media for tax instruction were at least prepared to pay their taxes. Only 3% of them refused to pay their taxes. In addition, over 62% of those surveyed organizations who had gone through internet tax instruction were at least inclined to pay their tax, as opposed to just 32% of those who had not. This suggests a strong good association between electronic tax education and tax compliance. In other words, compliance with taxes is positively correlated with computerized instruction in taxes. This connection is less powerful as the one with media coverage of teaching about taxes, though. The investigator suggests, in light of his results, that government agencies, via the ministry of schooling and sports, implement tax instruction as a course in universities of greater learning with the objective to boost the general perception of the general public regarding taxes.*

Key words: taxpayer education and tax compliance

Background of the study

Tax is described as a mandatory levy placed on income, expenses, or investments by a government agency or a government-designated organization (tax authority), for which the individual paying the tax receives no specified benefit. However, whether paid by a single person or a corporation, tax can be seen as an expenditure to the taxpayer. The government wants to increase revenue through improved tax compliance, whereas tax payers are interested in reducing costs and maximize profit. This creates a conflict in taxes. The person who collects taxes must devise tactics and techniques for streamlining tax regulations and procedures in order to strike an acceptable compromise among the person paying the tax and the taxing authority. Increased taxpayer-funded education is one such tactic. 2019 (Lymer and Oats). According to Kirchler (2017), a more straightforward definition would be that tax conformance is the most impartial term to represent taxpayers' desire to shell out their taxes voluntarily and truthfully.

Enhanced revenue generation from taxes enables government entities to fund essential services like education, health care, upgraded roads and bridges, electricity in the countryside, women and young people development dollars, university loans the surface of funds, and internal expenditures in order while maintaining the economy's sovereignty by avoiding a heavy reliance on donor funding that may establish stringent requirements. Tax education can be described as a method of educating the people about the whole process of taxation and why they should pay tax (Aksnes, 2017).

Statement of the problem

In many nations that are developing, low revenue collection is a serious worry for policymakers. This is due to the fact that it restricts governments' capacity to raise money for reoccurring and progressive expenses (Togler, 2019). Accordingly, it is more likely that government agencies will offer additional programs to raise citizens' standards of life the higher revenues it generates. A tool used to help customers comprehend tax rules and processes is tax payer education. In order to educate, counsel, and encourage taxpayers through a variety of media, including publications, television and broadcasts,

web pages, conferences, and front desk assistance, it is necessary to train specialized units within the revenue areas. This opens up more opportunities to share essential data with taxpayers.

Research Objectives

1. To establish the relationship between print media and tax compliance among Small and Medium Enterprises in Arua Hill Division.
2. To determine the relationship between electronic taxpayer education and tax compliance among SMEs in Arua Hill Division.
3. To establish the relationship between stakeholder sensitization programmes and tax compliance among SMEs in Arua Hill Division.

Research Questions

1. What is the relationship between print media and tax compliance among Small and Medium Enterprises in Arua Hill Division?
2. What is the relationship between electronic taxpayer education and tax compliance among SMEs in Arua Hill Division?
3. What is the relationship between stakeholder sensitization programs and tax compliance among SMEs in Arua Hill Division?

Methodology

Research Design

The format of an investigation is referred to as the research design (Dr. Brian, 2014). Design is a logical process carried out to make sure that the data gathered allows us to test theories or provide answers to queries as clearly as feasible.

Both statistical (descriptive research) and qualitative methodologies were used in this investigation.

Study Participants

According to Mugenda & Mugenda (2019), the term "study demographic" denotes to the full collection of target populations of people or objects under study that have apparent characteristics that allow for the structuring of the research findings. The Arua Hill Division's small and medium-sized businesses were the focus of the study. Employees that conduct or make monetary choices for the organization, such as accountants, managers, and/or company chiefs, are given precedence in these businesses.

Sample Design

This refers to the procedure for selecting sample members from the population (Kothari, 2009). A combination of stratified and convenient sampling methods was used.

Stratified sampling.

Random sampling technique ensured that all categories of SMEs in Arua Hill Division are included in the sample. Stratification achieved this by grouping the heterogeneous population into homogenous subsets which ensured representativeness.

Convenience sampling.

The harmonica-to-contact SMEs in the community are selected as a handy sample. The individuals that could be contacted the easiest were chosen using convenience sampling methods. Up to the end of the data gathering period, participants remained answering questions.

Data Collection Tools

A thoughtfully created question served as the primary data collection tool. A questionnaire, also called a survey, is a type of research tool used to collect data from participants by asking them a series of inquiries (or other forms of prompts). Closed-ended as well as open-ended queries were included in the survey to capture the qualitative and quantitative information, respectively. While closed-ended inquiries were useful in acquiring measurable information on the parameters of interest, questions that were open-ended were effective in eliciting interviewees' concealed viewpoints.

Data processing and analysis

Quantitative data was analyzed using a statistical software called **Stata and SPSS** (Statistical Package for Social Scientists). Data was analyzed using mean and standard deviation, and cross tabulation. Chi-square, Gamma and Kendall coefficient off variation were all used to analyze the relationship between any two variables.

RESULTS

Demographic Information of Respondents

Gender of the respondents

Table 1: Gender of the respondents

Sex of the respondent	Frequency	Percent
Male	78	55
Female	42	35
Total	120	100

Source: Own survey

Out of the 120 respondents interviewed, 55% were male while just 35% were female. This implies that it is mainly males that are involved in handling the financial matters of business in the Uganda.

Age distribution of the respondents**Table 2: Age distribution of the respondents**

Age group	Frequency	Percent
Below 25	7	5.8
26-35	79	65.9
35 and above	24	20
None	10	8.3
Total	110	100.00

Source: own survey

Out of the 120 respondents interviewed, only 110 indicated their age. 65.9% of these were youths between the age of 18 and 34.

Tax Registration status

In order to determine if the respondent's business was registered for tax purposes, the study inquired whether the respondent possessed a URA TIN. The results are shown on the table below;

Table 3: Tax Registration status

Tax registration status	Frequency	Percent
Registered	94	78.3
Not registered	26	21.7
Total	120	100

Source: own survey

From the table above, over 78% of the respondent businesses were registered possessed a URA TIN. This implies that majority of the businesses are registered. Tax registration is a mandatory requirement for all operating businesses in Uganda, this partly explains the findings above.

Knowledge on Filing of tax returns

The study also reviewed the ability of tax payers to complete the tax payment process. This is mainly informed of filing tax returns. The results are shown below:

Table 4: Knowledge on Filing of tax returns

Knowledge of filing tax returns	Frequency	Percent
With knowledge	92	85.2
Without knowledge	16	14.8
Total	108	100

Source: own survey

From the table, majority (over 85%) of the respondent businesses possessed knowledge of filing tax returns out of the 108 that provided information about the subject. This implies that the population is well educated along this line.

Awareness of tax returns filing due date

The study reviewed the level of awareness of the respondent businesses of the tax returns filing due date. This is an important factor when determining tax compliance, one may fail to pay tax because he/she is not aware that it is due. The results are indicated on the table below:

Table 5: Awareness of tax returns filing due date

Awareness of the tax returns filing due date	Frequency	Percent
Aware	72	60
Unaware	48	40
Total	120	100

Source: own survey

From the table, 40% of the respondent businesses are not aware of the tax filing due date. This is a very big problem. The implication is that some tax compliant business would not pay tax because they are not aware when it is due.

Modes of information sharing

The study inquired how or what propelled the respondent business to start paying tax. This is to ascertain the effectiveness of the various modes on information sharing by the tax authorities in Uganda. The results are indicated below;

Table 6: Modes of information sharing

Mode of information sharing	Frequency	Percent
Print media	51	44
Electronic media	43	37.1
Stakeholder sensitization	22	18.9
Total	116	100

Source: own survey

From the table, 44% of the population pay taxes because they read from print media why they should do so. About 37% of the population got information from electronic sources. Just about 18.9% was propelled to start paying taxes through stakeholder sensitization. However, these were responses from 116 (97%) respondent business, the remaining 3% got to start paying their taxes through referral by friends.

Willingness to pay tax

The study finally assessed the level of tax compliance among respondent businesses in Arua Hill Division. Respondents were asked to rate how willing they were to pay their tax given. The responses are indicated below;

Willingness to pay	Frequency	Percent
Very willing	40	33.3
Willing	48	40
Not sure	8	6.7
Not willing	17	14.3
Very unwilling	7	5.8
Total	120	100

Source: own survey

From the table above, over 70% of the population is at least willing to pay their tax. This implies a very high level of tax compliance in Uganda. Just about 20% of the population is no tax compliant.

Cross tabulation of mode of information sharing with willingness to pay

The purpose of performing a cross tabulation of the mode of training with the willingness to pay of the respondent business is to determine how the earlier affects the latter. The results are shown below:

Table 7: Cross tabulation of mode of information sharing with willingness to pay

		Willingness to pay				
Modes of information sharing	Very willing	Willing	Not sure	unwilling	Very unwilling	TOTAL
Print media	21 41.2	24 47.1	3 5.8	2 3.9	1 2.0	51 42.5
Electronic means	11 25.6	16 37.2	2 4.7	9 21.0	5 11.5	43 35.8
Stakeholder sensitization	8 36.4	8 36.4	3 13.6	2 9.1	1 4.5	22 18.4
None of the above	0 0.0	0 0.0	0 0.0	4 100.0	0 0.0	4 3.3
TOTAL	40 33.3	48 40	8 6.7	17 14.3	7 5.8	120 100.00

Source: own survey

Pearson $\chi^2(12) = 23.1778$ $Pr = 0.085$

Likelihood-ratio $\chi^2(12) = 87.0761$ $Pr = 0.008$

Gamma = 0.5670 ASE = 0.189

Kendall's tau-b = 0.4811 ASE = 0.106

The Spearman chi square is 21.1778 with a likelihood of 0.085; at the 5% level of have significance this suggests that there is a substantial association between the different data sharing techniques and tax payers' willingness to pay. The Kendall's and Gamma indices (0.5670 and 0.4811) also show a favorable correlation amongst the two categories under study.

Print media tax payer instruction: according to the table, 88% of the general population was at least prepared to pay their taxes after receiving tax education from print media. Only 3% of them refused to pay their taxes. This suggests that electronic education about taxes and paying taxes have a highly positive association.

According to the table, more than 62% of the responding businesses who had gone through electronic tax training were at least prepared to pay their taxes, compared to just 32% of those who had not. In other words, tax adherence is positively correlated with computerized tax education. Nevertheless, this connection is weaker than the one between print media and tax education.

The sensitivity of customers: According to the table above, more than 70% of the respondent organizations who had received stakeholders' education on tax compliance were at least inclined to pay their taxes, as opposed to 14%. This indicates that customer awareness and tax compliance are positively correlated, suggesting that firms are more likely to pay their taxes when stakeholders support them.

Conclusions

Taxpayers' intentions to comply could be affected by teaching them about their social obligations to pay taxes. Compliance with taxes is a behavioral issue that necessitates public support. Instead of devoting additional resources to investigating the small percentage of non-compliance taxpayers, there are bigger rewards in helping complying taxpayers fulfill their fiscal commitments. When fairness and tangible tax incentives are present, SMEs enterprises are better equipped to comprehend their tax liabilities.

Recommendations

Positive incentives; - Financial incentives typically take the form of prizes. For instance, Taiwan has run a receipt-based tax lottery since the 1950s to boost sales tax (VAT) participation. In the 1990s, China instituted a VAT lottery (Wan 2010). Malta, Slovakia, Portugal, and Romania are a few European nations that have more subsequently taken suit (Fookien et al. 2014). To encourage the collection of real estate taxes and motor vehicle revenue taxes, local governments across Indonesia and Peru hold raffles for bicycles, cars, and television sets. A lottery mechanism was recently proposed by Martin and Dolan (2010) as a way to improve the timely filing of income tax 39 statements in the US.

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