

TAX EVASION AND TAX AVOIDANCE ON THE ECONOMY. A CASE STUDY OF KALERWE MARKET

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ABSTRACT

This study looked at the impact of tax evasion and tax avoidance on the economy; a case study of Kalerwe market. The purpose of this study was to examine the impact of tax evasion and avoidance on the economy using Kalerwe market as the case study. This study was guided by three main objectives that is, to examine the impact of smuggling on the economy a case study of Kalerwe market, Kampala district, to assess the effects of false tax returns on the economy a case study of Kalerwe market, Kampala district and to evaluate the relationship between legal loopholes and the economy a case study of Kalerwe market, Kampala district. The study used descriptive research design. On top of this the design exploited both qualitative and quantitative approaches. Qualitative approach included the use of interviews, while quantitative approaches involved the use of descriptive statistics generated with frequency tables, graphs, and Charts. These approaches adopted to enable the researcher to get and analyze relevant information concerning the impact of tax evasion and tax avoidance on the economy. The table 1 above indicates that 51.4% strongly agree, 45.8% agreed, 2.8% of the respondents are not sure yet none of the respondents disagree or even strongly disagrees with the point that tax evasion generates investment distortion. From the findings, tax evasion and avoidance reduced government income leading inability to create employment for youths and social services represented with the following statistics 44.3% strongly agree, 51.4% agreed, 0.0% not sure, 4.3% disagreed and 0.0% strongly disagreed. Further still, the table above indicates that 40.0%, strongly agreed, 32(45.8%) agreed, 2(2.8%) are not sure, 6(8.6%) disagreed and 2 (2.8%) strongly disagreed that the vices of tax evasion and tax avoidance have caused national budget deficits. The statistics also show that 37(52.9%) strongly agree, 29(41.4%) agreed, only 1(1.4%) is not sure, 3(4.3%) disagreed and 0(0.0%) strongly disagree tax evasion and avoidance have led to increased money in circulation paving way to inflation. Public awareness is highly necessary, where there is proper knowledge at the disposal of the people, they will understand that tax payment is their moral right and civic responsibility. In other words, the practice of tax morality will be a lifestyle and willingly taxes will be paid without the effort of the government to force compliance.

Key words: tax evasion, tax avoidance and economy

Background of the study

Taxation is the maximum common and oldest supply of presidency revenue within the global. it is a tool of public coverage (Ramadhan et al., 2023). Taxation may be said to be a way by way of which authorities finance their expenditure through imposing prices on residents and company entities. it may also be said to be a pecuniary burden laid upon people or property owners to help the authorities of a kingdom (Tasha et al., 2023). Essentially, there are two varieties of taxation and they may be direct tax and indirect tax. 'Direct taxes can be adjusted to the individual traits of the tax payer while; oblique taxes are levied on transactions irrespective of the circumstance of client or dealer (Juliet, 2011). Direct taxes consist of income tax, company tax, switch tax and capital gain tax. at the same time as oblique taxes include sales tax, value brought tax and items and services tax (GST) (Brian & Jacob, 2023). Taxes, and tax structures, are fundamental components of presidency revenue technology. Brautigam (2008) has noted, taxes underwrite the capacity of states to carry out their goals; they shape one of the imperative arenas for the conduct of kingdom-society family members, and that they form the stability among accumulation and redistribution that gives states their social man or woman (Frank et al., 2023). Consequently, taxes build ability to provide protection, meet primary wishes or foster monetary development and that they build legitimacy and consent supporting to create consensual, accountable and representative government (Paul et al., 2023). Tax evasion and tax avoidance by individuals and companies in the sectors of the financial system (industry, Agriculture and services) has turn out to be a fantastic concern in Uganda's economic overall performance. there's anecdotal evidence that Uganda is dropping vast tax sales because of tax evasion and avoidance. in line with (Polycarp et al., 2023), Uganda lost about Ugx25.8 billion to over 178 tax defaulters (Polycarp et al., 2023). In an announcement added in Parliament through the Minister of Finance, about 30 per cent of eligible VAT turned into not gathered, translating right into a loss of approximately four in line with cent of tax to GDP (Lydia et al., 2023). A document on illicit economic flows (IFFs) estimates that Uganda loses at least Ugx2 trillion each yr. to tax avoidance and evasion by way of multinational companies (Services et al., 2023). The money misplaced is almost three times the price range allotted for agriculture. several researchers have concluded that tax evasion and avoidance have unfavorable effect on authorities' revenue (Kazaara & Christopher, 2023). They generate funding distortion inside the shape of the purchase of assets Tax and tax evasion exempted from tax or undervalued for tax functions; and additionally distorts appropriate planning because the real gathered sales by no means hits the target placing the United States's economic system in deficit (Paul et al., 2023). It's with this history that the researcher located it necessary to carry out this to research. In developed and growing international locations, business proprietors, authorities' employees, carrier companies, and other corporations are forced by using the authorities to pay a tax for a long length in man or women history, and no person can break out from the tax of the USA. To assist this, there may be a thrilling announcement referred to by way of Benjamin Franklin "not anything is certain except death and taxes". This statement confirmed that each citizen needs to be subjected to the law of tax, and they're obliged to pay the tax from their income. To construct huge dams, to assemble transportation

infrastructures, and to provide best social services for the community, collecting a tax from residents performs a substantial role for the governments (Oliver et al., 2023).

Problem Statement

Uganda has lost billions of dollars in current years because of tax evasion and avoidance as well as different unlawful monetary flows (Tasha et al., 2023). Guttman (2018) highlighted that tax evasion, avoidance and other associated irregularities within the tax system are costing Uganda as a minimum \$1 billion a year; tax evasion by itself fee \$6.7 billion greenbacks from 2006 to 2015 (Ramadhan et al., 2023). With such steadfast losses in tax revenue, Uganda has been pointed within the course of borrowing budget to finance the modern and capital transactions. Uganda's public debt has been sporadically rising from simplest \$1.9 billion within the 2008/09 economic 12 months to over \$eleven billion presently. However, tax evasion and avoidance lower tax prices, enhance the after-tax reward to operating, saving, and making an investment (Christopher et al., 2022). those higher after-tax rewards induce extra paintings effort, saving, and funding thru substitution but additionally they have terrible repercussions like deprives government of cash had to carry out laws and initiatives, reduces the effectiveness of presidency and will increase budget deficits which might also deliver a devastating loss for the USA's GDP at the micro degree, and it have become a arguable and a special concern for tax collector authorities (Lydia et al., 2023). No matter various reform applications aimed at decreasing or completely doing away with the trouble with the aid of the Ugandan government, tax avoidance and evasion have persevered to strife (Ntirandekura, Ainebyoona, et al., 2022). a number of researchers have suggested about tax evasion and its reasons and plenty of different researchers have connected tax evasion to activities like corruption and weakness of the regulation (Simon, 2016). However, there's limited literature at the effect that tax evasion has got at the financial system (Simon, 2016) consequently this calls for the need to study the effect of tax evasion and tax avoidance on the economic system.

Specific objectives

- To examine the impact of smuggling on the economy a case study of Kalerwe market, Kampala district.
- To assess the effects of false tax returns on the economy a case study of Kalerwe market, Kampala district
- To evaluate the relationship between legal loopholes and the economy a case study of Kalerwe market, Kampala district

Methodology

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

Corresponding: Author: research.miu.ac.ug/publications

Research design

The study used descriptive research design. On top of this the design exploited both qualitative and quantitative approaches. Qualitative approach included the use of interviews, while quantitative approaches involved the use of descriptive statistics generated with frequency tables, graphs, and Charts. These approaches adopted to enable the researcher to get and analyze relevant information concerning the impact of tax evasion and tax avoidance on the economy. A research design guided a researcher on the methods and approaches be used to when undertaking a study or research (Rita, 2014).

Study population

The study population included respondents from Kalerwe market. Kalerwe market has over 20,000 vendors and is the second biggest market in Uganda (Makerere university business school news, October 31st 2018). Hence the study considered a study population of 100 people from Kalerwe market. The study population consisted of all the various religions and tribes in the market and further still the study population covered respondents from the various economic activities in Kalerwe market.

Sample size

The study used a sample size of 70 respondents as determined by the Krejcie and Morgan table of 1970 on sample size determination. The sample included both male and female respondents in Kalerwe market. The study therefore used total of 70 respondents that is 40 males and 30 females. This sample size was effective and a good representative of the population, convenient to the researcher in terms of funds, time and others.

Table 1: sample size and composition

Category	Respondents	Frequency
Males	40	57%
Females	30	43%
TOTAL	70	100%

Source; Primary data, 2022

Sampling techniques

Is a process whereby a researcher chooses entities of his/her sample (William, 1997). This includes the subset of individuals from within a statistical population to estimate characteristics of the whole population, it has lower costs,

Received: 14.10.2023

Accepted: 20.10.2023

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data collection is faster and the accuracy and quality of data can be easily improved. In this case, purposive sampling and snowball sampling were used.

Purposive sampling

This was useful where the sample was taken with a purpose in mind and the researcher has one or more specific predefined groups, he/she is seeking. It was useful where one needs to reach a targeted sample quickly and where sampling is not a primary concern (Nick, 2011). In this case the target population was workers (male and female) in Kalerwe market. The number of participants were already estimated because they have the needed information for the study to occur with the target participants. The technique helped in choosing those specific key participants for the research.

Data analysis

The collected data processed using a combination of SPSS & STATA (Nelson et al., 2022). The processing stage involved editing, classification, coding, transcription and tabulation. In the analysis of data, descriptive analysis was employed and the results were presented in frequency tables against percentages and also on graphs and pie charts. Finally, a research report was written from the analyzed data in which conclusions and recommendations were made.

RESULTS

Relationship between tax evasion and tax avoidance on the economy.

Table 1: The relationship between of tax evasion and tax avoidance on the economy.

Response	SA		A		NS		D		SD		TOTAL	
	F	%	F	%	F	%	F	%	F	%	F	%
Tax evasion generates	36	51.4%	32	45.8%	2	2.8%	0	0.0	0	0.0	70	100%

investment distortion												
Tax evasion and tax avoidance have reduced government income leading to inability	31	44.3%	36	51.4%	0	0.0	3	4.3%	0	0.0	70	100%

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

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to create employment for youths and other social services												
The vices of tax evasion and tax avoidance have caused national budget deficits	28	40.0%	32	45.8	2	2.8	6	8.6	2	2.8	70	100%
Tax evasion and avoidance have led to increased money in circulation paving way for inflation	37	52.9%	29	41.4%	1	1.4%	3	4.3%	0	0.0%	70	100%
Tax evasion and avoidance have led to poor and slow development of the nation	42	60.0%	28	40.0%	0	0.0	0	0.0	0	0.0	70	100%
Tax avoidance and tax evasion have led to poor levels of GDP in Uganda	20	28.5%	34	48.5%	4	5.7%	10	14.2%	2	2.8%	70	100%
The poor quality of service and products in the country is a result of tax evasion and tax avoidance	24	34.2%	30	42.8%	0	0.0	12	17.1%	4	5.7%	70	100%

Source: field data 2022

The table 1 above indicates that 51.4% strongly agree, 45.8% agree, 2.8% of the respondents are not sure yet none of the respondents disagree or even strongly disagrees with the point that tax evasion generates investment distortion (Isaac et al., 2023), the table also indicates tax evasion and avoidance have reduced government income leading inability to create employment for youths and social services represented with the following statistics 44.3% strongly agree, 51.4% agree (Jac & Kazaara, 2023), 0.0% not sure, 4.3% disagree and 0.0% strongly disagree. Further still, the

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

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table above indicates that 40.0%, strongly agree, 32(45.8%) agree, 2(2.8%) are not sure, 6(8.6%) disagree and 2 (2.8%) strongly disagree that the vices of tax evasion and tax avoidance have caused national budget deficits. The statistics also show that 37(52.9%) strongly agree, 29(41.4%) agree, only 1(1.4%) is not sure, 3(4.3%) disagree and 0(0.0%) strongly disagree tax evasion and avoidance have led to increased money in circulation paving way to inflation (Kazaara & Kazaara, 2023). The statistics for the point that tax evasion and avoidance have led to poor and slow development of the nation are indicated as follows: 42(60.0%) strongly agree, 28(40.0%) agree while none of the respondents was not sure or disagreed with the point. The statistics indicate further that 20(28.5%) strongly agree, 34(48.5%) agree, 4(5.7%) not sure, 10(14.2%) disagree while 2(2.8%) strongly disagree tax avoidance and evasion have led to poor levels of GDP in Uganda (Lydia et al., 2023). Lastly, the table indicates that 24(34.2%) strongly agree, 30(42.8%) agree, 12(17.1%) disagree, 4(5.7%) strongly disagree that the poor quality of service and products in the country is as result of tax evasion and tax avoidance.

Table 2: Impact of smuggling on the economy

Impact of smuggling and on the economy	SA	F (%)	A	F (%)	NS	F (%)	D	F (%)	SD	F (%)
Reduction in government revenues from uncollected taxes and customs duties	20	29	35	50	3	4	12	17	0	0
Distortion in prices of locally-produced commodities resulting to losses of potential farm income	40	57	25	36	5	7	0	0	0	0
Creates instability which then discourages business and investments from coming into the area	35	50	20	29	3	4	9	13	3	4

In their response as to whether smuggling has led to the Reduction in government revenues from uncollected taxes and customs duties, 29% of the respondents strongly agreed to the statement, 50% to agreed, 4% remained undecided, 17% disagreed and while none strongly disagree. This is an indication that when good are smuggled into the country it leads to the reduction of government revenue since no taxes are collected from smuggled goods (Paul et al., 2023).

On Distortion in prices of locally-produced commodities resulting to losses of potential farm income, 57% strongly agreed that smuggling leads to distortion in prices of locally produced commodities which in turn results into loss of potential farm income, 36% agreed, while 7% were undecided and none neither disagreed nor strongly disagreed (Oromo et al., 2023).

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

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50% of the respondents strongly agreed that smuggling creates instability which then discourages business and investments from coming into the area, 29% agreed, 4% were undecided, 13% disagreed while 4% strongly disagreed with the statement.

Effects of false tax returns on the economy

Table 3: Effects of false tax returns on the economy

Response	SA		A		NS		D		SD		TOTAL	
	F	%	F	%	F	%	F	%	F	%	F	%
The reason why people don't pay taxes is because they don't see any corresponding improvements in the public services that directly affect their lives	43	61%	27	38.5%	0	0%	0	0%	0	0%	70	100%
The high rate of corruption in the country have encouraged tax evasion and tax avoidance	20	28.5%	41	58.5%	0	0%	9	12.8%	0	0%	70	100%
Poor or weak rules and regulations regarding the taxation policy in the country have encouraged many to dodge taxes	42	60%	28	40%	0	0%	0	0%	0	0%	70	100%
Ignorance and inadequate tax education among the masses has paved way for tax avoidance and evasion.	9	12.8%	13	18.5%	7	10%	24	34.2%	17	24.2%	70	100%
Tax evasion and tax avoidance have been caused weak punishments allocated	32	45.7%	20	28.5%	4	5.7%	6	8.5%	8	11.4%	70	100%
Political interference by some political leaders has had an impact on revenue	46	65.7%	24	34.2%	0	0%	0	0%	0	0%	70	100%

Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

Corresponding: Author: research.miu.ac.ug/publications

Source: field data 2022

The statistics indicate that 43(61%) strongly agree, 27(38.5%) agree while non disagrees or is not sure about the point that the reason why people don't pay taxes is because they don't see any corresponding improvements in the public services that directly affect their lives (Ntirandekura, Friday, et al., 2022). 21(30%) strongly agree, 27(38.5%) agree, 6(8.5%) not sure and 16(22.8%) disagree that weak tax collection and management institutions in the country are reason for tax avoidance and evasion. 20(28.5%) strongly agree, 41(58.5%) agree, 9(12.8%) disagree that the high rate of corruption in the country have encouraged tax evasion and tax avoidance (Paul et al., 2023). 42(60%) strongly agree, 28(40%) agree and none either disagree or is not sure about the issue that poor or weak rules and regulations regarding the tax policy in the country have encouraged many to dodge taxes. 9(12.8%) strongly agree, 13(18.5%) agree, 7(10%) are not sure, 24(34.2%) disagree and 17(24.2%) strongly disagree that ignorance and inadequate tax education among the masses has paved way for tax evasion and avoidance(Isaac et al., 2023). 32(45.7) strongly agree, 20(28.5%) agree, 4(5.7%) not sure, 8(11.4%) disagree and 6(8.5%) strongly disagree that tax evasion and tax avoidance have been caused by weak punishments allocated to tax defaulters in the country. 46(65.7%) strongly agree, 24(34.2%) agree and non-disagree or is not sure that political interference by some political leaders has had an impact on revenue in the economy (Ronald et al., 2023).

Relationship between legal loopholes and the economy

Table 4: Relationship between legal loopholes and the economy Is there the relationship between legal loopholes and the economy?

Statement	YES		NO	
	F	%	F	%
Is there the relationship between legal loopholes and the economy	66	94.3%	4	5.7%

The table above indicates that most of the respondents supported the fact that there is a relationship Is there the relationship between legal loopholes and the economy statistically indicated as follows: 94.3% respondents say yes there is a relationship while 5.7% say No there is no relationship.

Conclusion

Tax evasion and avoidance is an evil that has for so many years affected the whole universe. This has greatly led to drastic challenges on many economies in the world causing big challenges to the governments and other regulatory bodies.

Received: 14.10.2023

Accepted: 20.10.2023

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Developing countries like Uganda have tried as much as possible to fight tax evasion but the evil still remains. Researchers have given their view about tax evasion as shown above and a number of causes and ways of fighting the evil act of tax avoidance and evasion have been stated.

Recommendations

- First of all, the study is recommending good leadership and governance. Respect is earned and not forced, meaning for citizens to voluntarily comply with tax payments to the government without any form of coercion and attempts for further tax evasion and avoidance, the government has the duty to command their respect through good works as expected by a good government. The leaders owe citizens an obligation to provide adequate public goods and services with the public funds and not to misappropriate those funds.
- Public awareness is highly necessary, where there is proper knowledge at the disposal of the people, they will understand that tax payment is their moral right and civic responsibility. In other words, the practice of tax morality will be a lifestyle and willingly taxes will be paid without the effort of the government to force compliance.

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Received: 14.10.2023

Accepted: 20.10.2023

Published on: 30.10.2023

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