

**TAX ADMINISTRATION AND TAX COMPLIANCE IN  
MUNICIPALITIES IN UGANDA: A CASE STUDY  
OF SOROTI MUNICIPAL COUNCIL**

**BY  
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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS  
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## DECLARATION

I declare that this is my original research report under the topic “**Tax Administration and Tax Compliance**” and it has never been submitted to any university or institution of higher learning for the award of any academic qualification. This report is as a result of my independent research effort and investigations. Where work of other people has been consulted, due acknowledgement has been made.

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## APPROVAL

This is to certify that the following research report was carried out under my supervision and is now ready for submission for the evaluation of the award

Signed



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**DR. KIRABO .K.B. JOSEPH**

**(SUPERVISOR)**

Date

...25-02-2019.....

## DEDICATION

I dedicate this work to my beloved father Mr. Egeru David and mother Mrs. Akullo Florence for their parental care and great support and nurture. However, I would not like to forget the following great players towards my academic persuit and endeavors; Dr. Kirabo. K. B. Joseph, Mrs. Irau Florence, Mr.Tukei Martin , grandfather Emiau Simon Peter, Aunt Aduba Melda, uncle Eriau Emma, my beloved friends; Otuma Isaac, Amodoi Patrick, Jangole Patrick, Aliao Kevin , brother Etabu Moris , Ewangu Emma among others for their generous support and care

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## **LIST OF ACRONYMS**

<b>DTSR</b>	Domestic Tax Statistical Report
<b>ITA</b>	Income Tax Act
<b>SMC</b>	Soroti Municipal Council
<b>SME's</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package of Social Sciences
<b>TIN</b>	Tax Identification Number
<b>URA</b>	Uganda Revenue Authority
<b>VAT</b>	Value Added Tax

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter covered the background of the study, statement of the problem, the variables, purpose of the study, research objectives, research questions and the scope of the study, significance of the study and limitations to the study.

#### **1.1 Background to the Study**

##### **1.1.1 Historical Perspective**

Tax administration meant the implementation of the choice of tax instruments to be applied in the management of tax related matters in specified area/ country or region (Okello A, 2007). Tax administration entails assessment and collection of taxes and enforcement of liability (Bird, 1974). It is therefore a structure or procedure or identification of potential taxpayers, assessment, collection, and laws governing taxation. Therefore a great deal of attention should be paid to critical aspects of tax administration such as staffing, training, administration procedure, and the collection and use of information. The tax administrators are responsible for all key tax administration functions which include taxpayers' services, registration, collection, enforcement, returns processing, filing enforcement, audit, refunds and objections (Christopher, 2005).

Tax compliance is the value of taxpayer's own time and resources, along with any out of pocket costs paid to tax preparers and other advisors, invested to ensure compliance with the laws (Holtzman, 2007). Compliance with the tax laws typically means true reporting of the tax base, correct computation of the liability, timely filing of the return and timely payment of the amounts due (Franzoni, 1999). Tax compliance is the provision of tax information at the proper time and ensuring that returns accurately report the tax liability (Carroll, 2007). Therefore compliance is a constant challenge for all companies in terms of accurate computation and timely payment of tax.

Tax compliance can be achieved when tax administrators put spot checks and frequent audits so as to prevent revenue loss (Bird et al, 1992). If tax payers are frequently audited then the chance of non compliance would reduce James et al (2006). The basis of efficient tax administration lies in the choice of appropriate technology, good

administrative procedures, and good methods of conducting audits, enforcement, increasing compliance by the threats of higher penalties imposed on the tax defaulters and minimizing complexity.

### **1.1.2 Theoretical Perspective**

The study was based on the neoclassical theory of crime and punishment proffered by Becker in 1968, Allingham and Sandmo state that tax non compliance is a rational decision taken by defiant taxpayers who weigh profit and gain against punishment in the event of being caught, and successful escape from detection. Consequently, a rational taxpayer attempts to evade or avoid tax if the gain outweighs the probable punishment for this law-defying, undesired demeanour.

### **1.1.3 Conceptual Perspective**

Tax administration involved identifying and registering a tax payer as well as defining, assessing individual taxpayer's income, fixing a rational system of rates and finally collecting the taxes due (Stiglitz, 1985). According to Wenzel (2002) tax administration involves tax identification and registration of the taxpayers, assessment, collection, enforcement and monitoring and sensitization.

Tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy. Taking the narrow end of the continuum first, one suggestion is that the degree of non-compliance may be measured in terms of the 'tax gap'. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance. Besides, according to Maxwell (2003) defines tax compliance as the degree to which the tax paying community meets the tax obligation as set out in the appropriate legal and regulatory provisions. He adds that compliant tax payers in Uganda make timely, proper and accurate declaration to the tax authority and voluntarily settle all the due tax liabilities. Taxpayer compliance depends on economic incentives embedded in the tax structure and the effectiveness in detecting and penalizing non-compliance. At the

margin, people engage in tax evasion when the expected benefits (lower taxes) are equal to the expected costs (bribes, punishment etc.).

#### **1.1.4 Contextual Perspective**

Tax administration played a key role in determining the success of tax compliance level or non tax compliance in a given tax system. In Uganda, Uganda revenue Authority was formed to perform the task of tax administration. It was organized to accomplish the basic functions of tax collection agency, taxpayer audit, internal audit, financial management, enforcement, legal and regulatory affairs and also central tax administration and compliance (Kaweesa, 2004). Tax administration is vital in that it influences taxpayers' compliance in fulfillment of their rights of paying taxes, hence increasing government revenue collection and improves the national budget through maximization of revenue collection. Taylor (2001) and Wenzel (2001) noted that tax administration should ensure that taxpayers do not perceive tax revenue to be used inappropriately and the burden to be shared unequally, because this will reduce the compliance levels and results into less revenue.

Promotion of voluntary tax compliance was the primary concern for the tax administrators. The ways the tax administrators interact with public impacts on the perception of the tax system and the degree of compliance.

#### **1.2 Statement of the Problem**

Tax administration determined the taxpayer's willingness to pay taxes especially when the taxpayer is aware of the implications and costs of non compliance (Braithwaite, 1998). An inefficient tax administration weakens the willingness of the taxpayers to comply and creates room for political manipulation and in the process government loses revenue (Bird, 1992).

Tax compliance was still low due to the fact that tax authorities have not sufficiently addressed the key shortfalls in the administration system, which include unregistered taxpayers, inadequate clear tax literature, difficulties in enforcement, stop filing taxpayers and tax evaders as well as delinquent taxpayers. (Byaruhanga, 2007).

Despite of the measures taken by government in reforming tax administration in Uganda, tax compliance still remained low due to the fact that the tax system is still

complicated and non-transparent because of comprehensive changes in the tax structure (rates and bases) in recent years (Kasimbazi, 2002).

### **1.3 Purpose of the Study**

It was meant to establish the relationship between tax administration and tax compliance among tax payers in Soroti Municipal Council.

### **1.4 Specific Objectives**

- i. To examine the tax administration systems in Soroti Municipal Council.
- ii. To establish the levels of tax compliance among taxpayers in Soroti Municipal Council.
- iii. To examine the effectiveness of tax administration methods and compliance levels among tax payer's

### **1.5 Research Questions**

The study was guided by the following research questions which include the following;

- (i) How is tax administered in Soroti Municipal council?
- (ii) What are the levels of tax compliance among taxpayers?
- (iii) What is the relationship between tax administration methods and tax compliance?

### **1.6 Hypotheses**

The hypotheses for this research was made on the premise of the research questions on;

- (i) How tax was administered by Municipalities.
- (ii) What were some of the levels of tax compliance?
- (iii) What was the relationship between tax administration and compliance?

### **1.7 Scope of the Study**

This was concerned with subject scope, time and geographical scope.

#### **1.7.1 Subject Scope**

The study focused on tax administration and determinants of VAT compliance in Uganda. Greater emphasis was put on Soroti Municipal Council, the autonomous body

for collecting taxes in Soroti Municipality , and VAT taxpayers in Soroti district, and the reason being that Soroti has more economic activities than other districts under Teso sub-region in eastern Uganda with many VAT registered taxpayers.

### **1.7.2 Geographical Scope**

The study was carried out at Soroti Municipal Council Offices located in Opeta Road, Western Division, Soroti District.

### **1.7.3 Time Scope**

The study covered a period between November, 2018 to February, 2019

## **1.8 Significance of the Study**

The study helped the researcher to acquire practical skills and deep understanding of tax administration and tax compliance aspects.

The study highlighted the challenges for successful implementation of tax administration and tax compliance and suggested remedies and recommendations for such challenged so as to come up with an appropriate policy on the subject matter.

The study added knowledge and information on tax administration and tax compliance and academicians will base on for further research.

The study also helped policy makers to formulate appropriate policies for Uganda Revenue Authority, municipal councils, town councils and divisions. Thus that can enhance its organization performance.

## **1.9 Operational Definition of Key Terms**

**Tax** - a compulsory payment to the government without expectation of direct return to the tax payer.

**Administration**- refers to the management, conduct, direction and supervision of the execution and application of a nations taxation laws and related statutes

**Compliance**- simply means the extent or degree to which a tax payer complies or ( fail to comply) with the tax laws and regulations of his or her country , region or division .

**Council**- is an advisory, deliberative or administrative body of people elected to manage the affairs of a city, country or other municipal district.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter covered literature on tax administration, taxpayers' compliance, methods employed by tax authorities, the role of tax administration, level of tax compliance among taxpayers, factors hindering tax compliance and the relationship between tax administration and tax compliance.

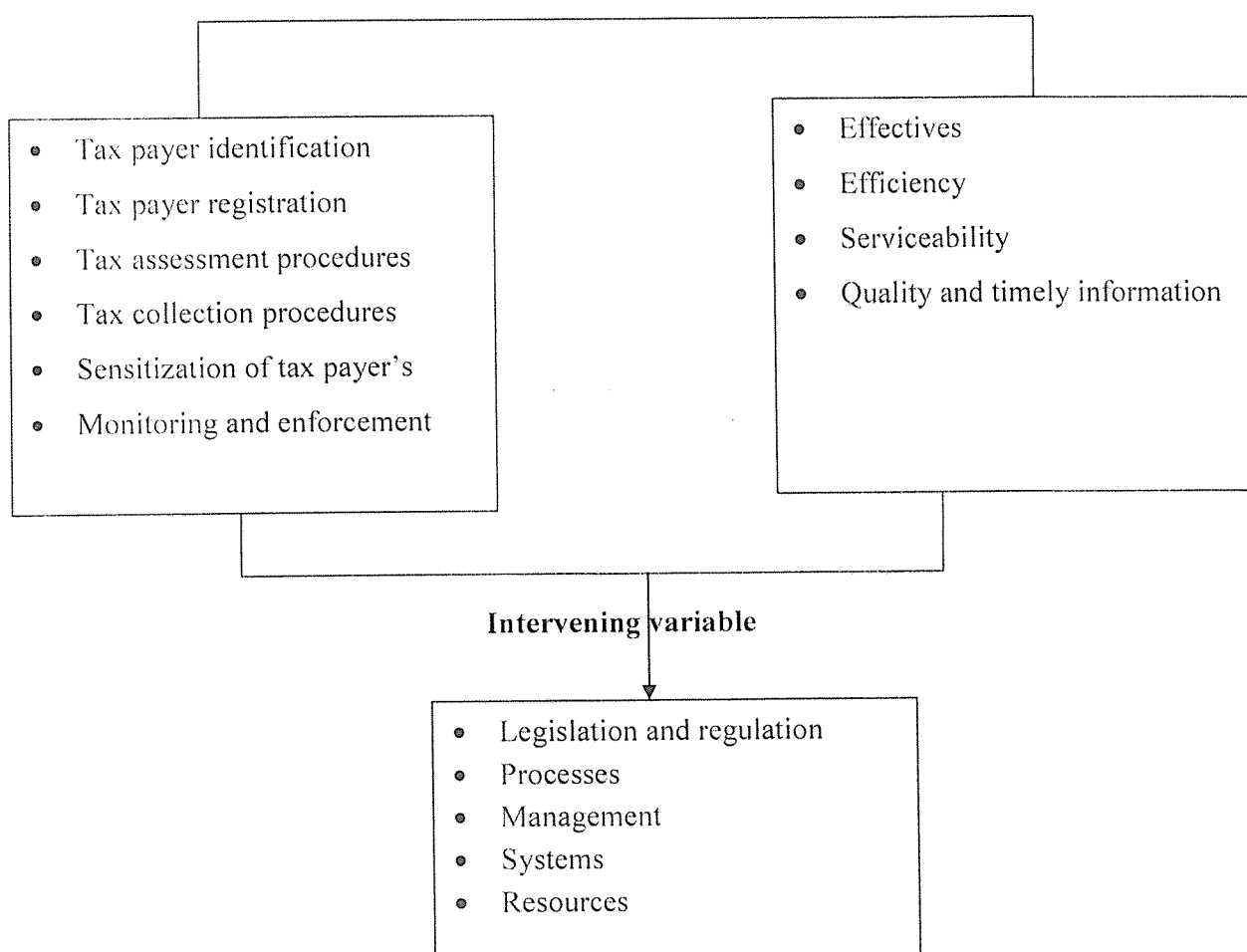
#### 2.1 Conceptual Framework

**Independent variable**

**Tax administration**

**Dependent variable**

**Tax compliance**



The conceptual framework shows the linkage between tax administration and tax compliance. The independent variable is seen through tax payer's identification, registration, tax assessment procedures, collection procedures, sensitization of tax payers and monitoring and enforcement which transforms to effectiveness, efficiency,

serviceability, quality and timely information, additionally the intervening variables, legislation and regulations, processes, systems, management and resources are fundamental in providing means to operations affecting positively tax administration for a positive result or negatively for compliance.

## **2.2 Theoretical Review**

The study was based on the neoclassical theory of crime and punishment proffered by Becker in 1968, Allingham and Sandmo state that tax non compliance is a rational decision taken by defiant taxpayers who weigh profit and gain against punishment in the event of being caught, and successful escape from detection. Consequently, a rational taxpayer attempts to evade or avoid tax if the gain outweighs the probable punishment for this law-defying, undesired demeanour.

According to the Neo-classical economic view, people obey laws when it is in their interest to do so. Compliance results from the individual's rational choice aimed at maximizing individual's income. Compliance builds an atmosphere of trust and cooperation because a person feels that others are accounting in a reciprocal manner. According to Centre for Tax Policy and Administration (2001), good revenue performance is achieved when compliance is maximized and that is as a result of tax authorities getting aware of developments and trends in business and legislative environment and bulky to respond to their implications on tax administration and compliance.

However, non compliance is believed to have corrosive effects on tax compliance. If compliant taxpayers believe that everyone else is paying his or her fair share of the taxes, they are most likely to remain compliant (Olson, 2007). If the compliant taxpayers feel like they are over paying, some will reach a point where they resent it and stop complying or comply at a lower level.

### **2.2.1 Role of Tax Administration**

Since the inception of the human community, the problem of financing community services was difficult. Some taxpayers did not value their contribution of resources to be equivalent to what they receive from the community. Their non compliance eroded the compliance of others and the government would suffer in overall collections and planned community services.

It improved the national budget through maximization of revenue collection (Kaweesa, 2004). Tax administration is vital in that it influences taxpayers' compliance in fulfillment of their rights of paying taxes, hence increasing government revenue collection.

Mulindwa (2000) observed that the main focus of taxation policy in Uganda is revenue collection. He further noted that tax administration is important part of the tax system. Its efficiency and effectiveness will help in solving the problem of non compliance. The center for tax policy and administration (2001) described the role of tax administration, which is to ensure compliance with the tax laws. The effectiveness of the tax administration depends on a variety of factors such as the state of the economy, public support for the priorities of the government and the willingness of the taxpayers to comply with the tax laws.

Taylor (2001) and Wenzel (2001) noted that tax administration should ensure that taxpayers do not perceive tax revenue to be used inappropriately and the burden to be shared unequally, because this will reduce the compliance levels and results into less revenue.

Promotion of voluntary tax compliance should be the primary concern for the tax administrators. The ways the tax administrators interact with public impacts on the perception of the tax system and the degree of compliance.

## **2.2.2 Tax Administration Methods**

### **2.2.2.1 Tax Payer Identification**

According to the amended Income Tax Act (ITA) 2001, tax identification involves identifying all legally incorporated businesses under the laws of Uganda. The identified taxpayers are then registered either voluntarily or mandatorily. Tax identification marks the beginning of any tax administration process, where the tax payer indentified is rolled onto the tax register.

Tax payer identification is one of the tasks performed by tax administrators, when tax administrators locate and register more taxpayers, the rate of compliances increases (Brostek, 2005). In Uganda, registering of new taxpayers is not considered so much and

emphasis is always put on already registered taxpayers. Hence, the procedures to register taxpayers are complex (Kaweesa, 2004).

Byaruhanga (2007) asserts that tax registration involves giving taxpayers tax identification numbers, registering business names, location and address. Wenzel (2004), states that the more taxpayers are located and registered, the more the taxpayers who would evade taxes are reduced. However in Uganda tax registration is still low with the biggest potential taxpayers remaining unregistered (Domestic Tax Statistical Reports, 2006). This affects taxpayer compliance in the sense that the unregistered taxpayers cannot be monitored hence leading to loss of revenue.

#### **2.2.2.2 Taxpayers' Registration**

Effective taxpayers' registration is one of the most important aspects of tax compliance. This is because, as more taxpayers are identified and registered, the taxpayers that would otherwise evade are reduced. Hence, (Bird, 2010), noted that if taxpayers are identified and effectively registered, revenue collection would increase. Therefore emphasis should be on identification and effective registration of taxpayers in local government in order to increase the base. Businesses would satisfy their obligations under the tax law to register where specifically required, and to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law.

#### **2.2.2.3 Tax Assessment Procedures**

Tax assessment was one of the key elements of tax administration (Bird, 2003). It is the process of ascertaining a person's tax liability. According to Emorut (2008) the process of assessment is rather expensive and takes a long time. The process of assessments normally involves the costs of recording keeping, professional advisors on taxes and other resources such as time spent on handling the affairs. This requires hiring professional and skilled personnel to handle the process rather one would do it himself to dodge such costs when reliable and accurate information is available.

Newbery and Stern (1998) assert that the poor assessment methods in developing countries do lead to increased non compliance and evasion. The tax authority is obliged to prevent inaccurate assessments, minimize and correct errors committed by the taxpayers at a cost that will not deter the taxpayer from continuity.

#### **2.2.2.4 Tax Collection Procedures**

It was one of the most important aspects of tax administration. This involves collecting taxes from the tax payers (Ayoki et al, 2005). The effectiveness and efficiency of tax administration is measured in terms of the number of taxpayers in relation to the amount of taxes collected.

Administrable tax systems allowed the government to collect taxes as cost effectively as possible, however the costs of administering the tax system sufficiently to achieve complete from all taxpayers is sometimes prohibitive and this affects the level of compliance (Holtzman,2007).

Tax revenue collection procedures highly determined the number of taxpayers who do comply (Wenzel, 2001). The effectiveness of the collection procedures is gauged by the level of compliance. According to Torgler (2004) stresses that tax collection is a problem in most countries because it is given little attention, the tax authority believes that whoever is assessed for tax will eventually pay the obligations due.

#### **2.2.2.5 Sensitization of Taxpayers**

This involved educating taxpayers in order to orient their attitudes towards meeting their obligation of paying taxes. According to Hotzman (2007), the interactions of educational products and taxpayer assistance services are intended to increase awareness of who should pay what taxes and to increase voluntary compliance across the taxpaying population, however the effectiveness of these interactions are limited by the costs involved.

Byaruhanga (2007), taxpayer education is sometimes conducted through education sessions in seminars or special tax preparation classes, interactive website, call center, bulletins, flyers or walk-in assistance centers. The various tax education channels provide valuable information to the taxpayer and shape the taxpayers' attitude towards taxes (Bird, 1992). Tax education changes the attitude of tax payers leading to compliance and affecting revenue collection (Lubega, 2000). Bird (1989) argues that, among the suggestions advanced in order to improve tax compliance is to undertake a campaign of taxpayer education and improving on information flow.

Hawkins (1999) asserts that enforcing the collection procedures requires creating awareness (education) and advising taxpayers about their obligations as partners in the tax administration system. However, the tax authority has not created enough public relations about its tax education. The interactive website is too complicated for taxpayers whose knowledge about internet usage still wants, the call center has along waiting time, flyers and bulletins are only available at the information centres thus limiting access to such valuable information to taxpayer. Hence, lack of enough awareness amongst the tax societies about the tax obligations and rights leads to serious effects in respect to the tax system and its objectives.

#### **2.2.2.6 Monitoring and Enforcement**

A good tax administration system had a good monitoring system to ensure efficiency. The monitoring system involves examination of the tax returns primarily with respect to checking the timely arrival inclusion of the information and arithmetic accuracy of all tax records (Uslaner, 2003). An effective monitoring system should check the accuracy and timely arrival of taxpayer's information, determine who has paid and who has not paid, check the taxpayer's declarations, and detect presence of fraud and collecting the taxes already assessed.

Bird et al (1992) assert that tax compliance can be achieved when tax administrators put spot checks and frequent audits so as to prevent revenue loss. James et al (2006) noted that if taxpayers are frequently audited then the chance of evading taxes would reduce. The tax authority sometimes relies heavily on simple physical coercion to obtain resources from their subjects and to ensure compliance (Makanga, 2004).

Roadblocks manned by tax administrators and military personnel are frequently used as tools of enforcement. Neil (2001) argues that taxes may be viewed as a coerced obligation but as moral duty that must be fulfilled beyond the compliance minimum.

#### **2.2.3 Tax Administration in Uganda**

Tax administration for Central Government taxes was vested in Uganda Revenue Authority, a semi-autonomous body responsible for collecting tax revenues and other non-tax revenues and handling any other related administrative issues (Teera, 2005).

The URA has the responsibility of identifying and registering all legitimate taxpayers. The amended Income Tax Act (2001), states that registration can either be voluntary or

mandatory. According to the Domestic Tax Statistical Report (DTSR) 2006, about 49.2% of the eligible taxpayers are registered every year since financial 2003/04. However, taxpayer registration is still very low and low registration rate could be attributed to lack of enough awareness among the taxpayers.

The country depended on a small number of sources of tax revenue. Currently the tax system is comprised of Value Added Tax (VAT), import duties, excise duties, income taxes and a number of small yields of non tax revenue. Teera (2005) further states that Uganda mainly relies on indirect taxes for its revenue particularly those inclined to international trade.

For administrative reforms, URA was set up in Sept 1991 as an autonomous agency to collect taxes. Prior to this, 3 separate departments in the Ministry of Finance; customs and government. URA was expected to improve revenue collection through enhanced autonomy, acquisition of skilled staff, increased integrity and effective use of automated system (Ayoki et al, 2005).

Similarly in Uganda, the Uganda Revenue Authority (URA) has embarked on an extensive education programme country wide to educate the masses about tax issues, using a more practical and friendly approach in order to acquire even greater compliance, because experience show that physical enforcement has failed to win voluntary compliance (Lubega, 2000).

### **2.3 Conceptual Review**

Tax administration comprised of codification and drafting of the law, administrative procedures, capable officials and overall management (Kajumbula, 2003). Tax administration is a component of tax system that ensures whether the tax laws are effectively enforced (Mulindwa, 2000). According to Tait (1988), tax administration has increasingly been viewed as a tax policy, indeed in most countries the crucial importance of the effectiveness of tax administration is too often overlooked when ambitious statements are made about efficiency, equality, neutrality and effects of alternative taxes on savings, work effort, and risk taking.

Tax administration involved a number of functions namely; planning, taxpayer's identification, staff training, auditing, inspection, enforcement, investigation and

accountability (VAT statute, 1996). All these functions require facilitation in terms of equipment, technology, personnel and finance, which in turn affect the performance of VAT and other direct and indirect taxes. Since the inception of the human community, the problem of financing community services was difficult. Some taxpayers did not value their contribution of resources to be equivalent to what they receive from the community. Their non compliance eroded the compliance of others and the government would suffer in overall collections and planned community services.

It improved the national budget through maximization of revenue collection (Kaweesa, 2004). Tax administration is vital in that it influences taxpayers' compliance in fulfillment of their rights of paying taxes, hence increasing government revenue collection.

Mulindwa (2000) observed that the main focus of taxation policy in Uganda is revenue collection. He further noted that tax administration is important part of the tax system. Its efficiency and effectiveness will help in solving the problem of non compliance. The center for tax policy and administration (2001) described the role of tax administration, which is to ensure compliance with the tax laws. The effectiveness of the tax administration depends on a variety of factors such as the state of the economy, public support for the priorities of the government and the willingness of the taxpayers to comply with the tax laws.

Taylor (2001) and Wenzel (2001) noted that tax administration should ensure that taxpayers do not perceive tax revenue to be used inappropriately and the burden to be shared unequally, because this will reduce the compliance levels and results into less revenue.

Ayoki et al, (2005), argued that low tax compliance is a matter of serious concern in many developing countries, limiting the capacity of their governments to raise revenues for developmental purposes. They further said it is commonly acknowledged that many factors contribute to this weakness: corruption, a large informal sector, weak legal systems, ambiguity in tax laws, high marginal tax rates, paucity of adequate information and accounting systems, a culture of noncompliance, and ineffective tax administration. In an effort to increase its domestic revenue, Uganda is currently focusing on making further improvements in tax administration, building a culture of



tax compliance and enhancing public confidence through improved service delivery than making tax rates adjustments.

Tax compliance has been defined by Harvard law school (2000) as paying taxes on time, and timely reporting of correct tax information. Compliance means that the taxpayer provides tax information at the proper time and that the returns accurately report the tax liability. Tax compliance is also defined as the accurate (ie no under reporting of income, overstatement of deductions or rebates) and timely lodgment of income tax returns together with the payment of taxes when due (Marshall et al, 1997). Holtzman (2007) states that tax compliance is the value of taxpayer's own time and resources, along with any out of pockets paid to tax preparers and other advisors, invested to ensure compliance with the laws. While Carrol (1987) tax compliance is the provision of tax information at the proper time and ensuring that returns accurately report the tax liability.

Tax compliance depended on the economic incentives embedded in the tax structure and the effectiveness in detecting and penalizing incompliance. At the margin, people engage in tax evasion when the expected benefit (lower costs) are equal to the expected costs that is bribes, punishments (Reinikka, 1992) whether or not firms or individuals are entered with their own level of taxes they clearly feel disadvantaged when they see their competitors escaping taxation.

Tax compliance can either be through voluntary compliance or involuntary compliance. Voluntary compliance involves obeying the tax laws without any state enforcement actions that leads to maximizing revenues because administration costs are low in both economic and psychic sense. The government wastes little money and time in collecting the tax and taxpayers suffer little alienation in parting with their money.

When compliance is not achieved on voluntary basis it means revenue performance will be poor than expected therefore tax administrator must identify and address the risks associated with non compliance by developing strategies targeted (Centre for Tax Policy and Administration, 2001).

Voluntary compliance is not only promoted by the awareness of rights and expectations but also by clear simple and user friendly administrative systems and procedures (Gray

and Wadhavan, 1998). In the instance when voluntary compliance cannot be achieved, tax administrators must identify and address the risks associated with non compliance by developing strategies targeted at addressing the risks (Makanga, 2004).

According to the Neo-classical economic view, people obey laws when it is in their interest to do so. Compliance results from the individual's rational choice aimed at maximizing individual's income. Compliance builds an atmosphere of trust and cooperation because a person feels that others are accounting in a reciprocal manner.

According to Centre for Tax Policy and Administration (2001), good revenue performance is achieved when compliance is maximized and that is as a result of tax authorities getting aware of developments and trends in business and legislative environment and bulky to respond to their implications on tax administration and compliance.

However, non compliance is believed to have corrosive effects on tax compliance. If compliant taxpayers believe that everyone else is paying his or her fair share of the taxes, they are most likely to remain compliant (Olson, 2007). If the compliant taxpayers feel like they are over paying, some will reach a point where they resent it and stop complying or comply at a lower level.

### **2.3.1 Levels of Tax Compliance among Taxpayer's**

#### **2.3.1.1 Willingness to Pay**

Taxpayer's willingness to pay depended on the expected benefit in terms of service provision (Kaweesa, 2004 and Ayoki et al 2005). This implies that for taxpayers to voluntarily pay the tax dues their expected benefit from the government must be in line with the actual tax liability. An inefficient tax administration weakens the willingness of the taxpayers to comply and creates room for political manipulation and in the process government loses revenue (Bird, 1992).

The willingness of the taxpayers to comply with the tax laws depended on the perception they have towards the funds collected from them and how it is put to use. Taxpayers become compliant with tax authorities when the government provides adequate returns to them from the taxes collected.

According to Torgler (2005) if taxpayers trust the government dealings, the legal system and public officials, they will be more willing to be honest in payment of taxes due. Wenzel (2004) argues that the willingness to pay taxes is borne by one's behaviors and perception of the tax administrative system put in place. Therefore, taxpayers become compliant when the government provides adequate returns to them from taxes collected.

#### **2.3.1.2 Timely Payment**

Tax compliance also demanded that taxpayers should be in position to settle their tax dues as and when they fall due (Kasimbazi, 2003). This may depend on the existing policies in place. The due settlement may be done on a daily, monthly, semi-annually or on an annual basis depending on the arrangement of taxpayer and the tax collector. According to Income Tax Act (ITA) 2001 of the amended sec 93 (5), states that a taxpayer is required to furnish a return of income for the year of income upon which tax liability assessment is made.

#### **2.3.1.3 Levels of Penalties and Disputes**

The taxpayer's attitude towards tax payment is was always negative (Taylor, 2001). Thus there is need to influence taxpayers into voluntary tax compliance. Penalty rate is the rate at which the tax administrators punish taxpayers who have defaulted in submitting returns and paying the taxes due, or involved in tax fraud. Taxpayer behavior is influenced by a high probability of fraud detection and punishment.

In Uganda, enforcement of tax compliance was done using several methods like tax education through public sensitization seminars, payment of fines, and in extreme non compliance armed personnel (Anti smuggling unit and special protection service), Ayoki (2005). However, this has not reduced non tax compliance among taxpayers. Uganda Revenue Authority has a tax tribunal department in which all tax complaints are channeled. This department also handles issues pertaining to fines and tax arbitrations (Kaweesa, 2004).

### **2.3.2 Factors Hindering Tax Compliance**

#### **2.3.2.1 Attitude towards Tax Payment**

Attitude towards tax payment is an individual attribute and therefore management may see no purpose in paying taxes. The problem of attitude can be linked to inadequate tax

knowledge (Byaruhanga, 2007). Most businesses have not been able to appreciate the purpose of paying taxes and this has led to prolonged non compliance which will lead excessive back taxes, crippling penalties and business closure in extreme cases and also the prosecution policy has not been unleashed to its full effect.

#### **2.3.2.2 Inadequate Knowledge**

Taxpayers always fell victims of non-compliance unless they understand why and how to pay taxes. Uganda Revenue Authority has not created enough public relations about its education, lack of enough awareness amongst the tax societies about the tax obligations and rights leads to serious effects of non compliance (Hawkins, 1999).

#### **2.3.2.3 Poor Cash-flow Management**

Most VAT registered businesses companies frequently file tax returns and pay their taxes late as a result of inadequate cash to meet their obligations as they fall due (Byaruhanga, 2007). Poor cash flow management in nearly all cases results in late payments to staff and suppliers also which affects business to file tax returns to tax authorities in time leading to non compliance.

#### **2.3.2.4 Poor Record Keeping**

In order to have an accurate tax return, it is always essential to have all the proper records in place (Bird, 1994). VAT is a monthly obligation that whose records are usually not so complex. All URA requests a proper tax invoice and not merely any invoice; where your accountant records all inputs which meet the requirements of the tax law. Therefore, lack of proper record keeping of financial statements in most businesses leads inaccurate tax return hence affecting taxpayer's compliance.

#### **2.3.2.5 Difficulties in Identifying and Locating Individual Taxpayer**

In some cases, there are considerable differences between the number of registered taxpayer and the number of persons with business licenses (Teera, 1994). This is because the tax authority is usually different from the business licensing authority and there is usually no liaison between the two this therefore affects taxpayer compliance in the sense that the unregistered taxpayers cannot be monitored hence leading to loss of revenue and retard economic growth of the country.

## **2.4 Review of Related Literature**

An efficient tax administration ensures taxpayers' compliance with minimal evasion (Makanga and Torgler, 2004). An effective tax system should reduce the compliance burden and increase the compliance rates. The tax administrators should have the ability to identify, register, monitor, detect and penalize taxpayer non compliance, provide assistance to the taxpayers by publishing relevant literature and articles to enlighten the taxpayers.

Efficient tax administration lies in the choice of good administrative procedures, good methods of conducting audits, appropriate technology, enforcement, increasing compliance by threats of higher penalties imposed on the tax defaulters and minimizing complexity (Musgraves, 1989). There are a number of implications if the societies are not sensitized about their rights and obligations under the tax system.

According to Willis (2006) the cost of enforcing an effective tax administration system may seem realistic but may raise others. Processing costs may reduce and basically lowers on the compliance burden to taxpayers. However, other aspects like enforcement costs may increase because the tax authority would no longer be able to rely on withholding and information returns as enforcement tools. The way the tax system is administered can affect tax compliance.

A good tax system should not be wasteful and the compliance cost to the tax should not be unnecessary high (Ndatira, 1999). Value Added Tax (VAT) being a self-assessed tax form of indirect taxation, should have a very high degree of compliance and administrative convenience. Factors like the quality of tax administration, degree of professionalism and honesty of staff involved in VAT collection greatly determine the tax revenue.

Carroll (1987) taxation takes place in an atmosphere of distrust and fear between the taxpayers and the tax authority. Measures that improve transparency in the taxpayer-tax authority reduce opportunities for irregularities in the tax transactions thus shaping the taxpayer towards compliance.

Tax administration is a component of tax system that ensures whether the tax laws are effectively enforced in order to improve compliance among taxpayers (Mulindwa,

2000). Tax administration is a major tool in a government's effort to achieve a sound fiscal policy, optimum tax levels and establish appropriate structure (Makanga, 2004).

Surrey (1974) observes that consequently, tax authorities must arrange systematically to check on compliance of an effective examination which both safeguards the government from major revenue loss and instills in the tax payers' respect for vigilances of the authorities. All matters of legal rules, better compliance can be secured either by threatening a higher penalty of the offenders caught or by increasing the probability of being caught.

The level of compliance depends on how taxpayers fully and timely pay their tax dues to the tax authorities (Brostek, 2005). On the other hand Reinkka (2001) observed that limited improvement in service delivery continues to adversely affect tax compliance and this could be attributed to inconsistency and ambiguity in tax laws, high rates and political influence.

Efficiency can be examined in terms of tax administration and tax distortions in economic choices (Teera, 1994). In order for tax administration to be efficient, it should not be wasteful; also the compliance cost for the taxpayer should not be unnecessarily large. In other words, the desired quality of service should be offered at minimum cost. Revenue collection procedures highly determine the number of taxpayers who comply (Stlitz, 1985). The effectiveness of collection procedures is gauged from the level of compliance. Because of the weak administration in developing countries, tax evasion and avoidance are predominant, thus, there is need to strengthen tax administration through improving collection procedures so as to increase compliance.

Harvey (1985) explains the relationship between the tax rates and the level of tax compliance; the higher the tax rate, the greater is the incentive to avoid paying the tax. The end result of those rates is that a significant proportion of the country's most able and highly trained people are pre occupied in the tax fight.

## **2.5 Empirical Review**

The study aimed at establishing how effective tax administration being carried out in Uganda Revenue Authority being an autonomous agency for collecting taxes in order to improve efficiency and effectiveness of tax compliance among taxpayers to increase revenue collection to finance economic development.

However, empirical research revealed that despite of government's effort of reforming tax administration in URA, tax compliance is still low with evidence that tax authorities have not addressed the loopholes in the administrative system and also the destiny of collected taxes has often been in the hands of a few tax administrators through administrative mal-practices like corruption (Byaruhanga, 2007).

Therefore, there was need to improve the administrative machinery in the tax system in Uganda to ensure more satisfactory results in revenue realized. The great deal of attention should be paid to critical aspects of tax administration such as skilled personnel, thorough training, administrative procedure, collection and use of information so as to improve tax compliance among taxpayers.

## **2.6. Research Gaps**

The researcher explored different studies conducted by other scholars about tax administrative institutions. Several studies conducted like on Nyuyen,T.(2013), reviewed factors impacting tax compliance. Australian Journal of Basic and Applied Sciences; 476-479.

Nakiwala, A. (2010), assessed tax competencies, compliance costs and income tax compliance among SME's in Uganda.

Therkidsen,O(2004), assessed autonomous tax administration in sub-saharan Africa; The case of Uganda Revenue Authority in Forum for development studies .No.1 2004 volume 31; Norwegian institute of International Affairs.

According to Byaruhanga,(2007) , argued that tax compliance is still low due to the fact that tax administrators have not sufficiently addressed the key shortfalls in the administration system. However, according to Kajina, commissioner URA, ( New vision Feb, 24th 2011), applauded the significant effort made by tax authorities that increased VAT collections by performing above the forecast as a result of administration efficiency, enhanced integrity drives, public education programmes and other initiatives.

Kogler et al (2012), Trust and power as determinance of tax compliance; Testing the assumption of the slippery slope framework in Austria, Hungary , Romania and Russia; Journal of economic psychology.

The model predicted that tax payers will voluntarily report more income in response to either an increase in probability of being detected or an increase in the penalty imposed on those who are caught. However, the model was inconclusive in predicting the response to an increase in the tax rate, the net response is the sum of two terms in their model, one negative (suggesting a decrease in income reported as the tax rate increases), and another, which is most probably positive, assuming that tax payers' risk aversion decreases with income. Kogler et al liken these two terms to a positive income effect and a negative substitution effect.

The studies provided fall short of the theoretical, time and geographical gaps. The study was set to investigate tax compliance levels such as; timely remittance of tax returns, willingness to pay, level of penalties and dispute et al towards tax administration system.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter covered the methodology against the study that was conducted. It begun with the research design, survey population, sample strategy and design, sampling techniques, sample size, sampling procedure, sources of data, data collection methods and tools, measurement of variables, data presentation and analysis.

#### **3.1 Research Strategy and Design**

The research design was a cross-section approach combined with descriptive and analytical research designs to establish the relationship between tax administration and tax compliance.

#### **3.2 Survey Population**

The study was conducted at Soroti Municipal Council, Western Division. The study was comprised of Management, VAT taxpayers in Soroti Municipality and Municipal council staff respondents. The survey population considered 20 respondents, 08 respondents were taxpayers and 12 respondents were Municipal Council staff.

#### **3.3 Sampling**

##### **3.3.1 Sampling Techniques**

The study employed a purposive sampling technique based on the fact that the researcher was well knowledgeable about the activities of the District Council and that respondents had appropriate information pertaining to the study.

##### **3.3.2 Sampling Procedure**

The researcher selected the respondents from Soroti Municipal Council, from the tax administration department, management and taxpayers who pay Value Added Tax (VAT).

### **3.4 Data Sources**

The researcher used both primary and secondary sources of data.

#### **a) Primary Data**

This data was obtained from local council staff and taxpayers who pay VAT to come up with relevant information about the study. The information was obtained by self administered questionnaires and interviews.

#### **b) Secondary Data**

This information was obtained from published materials, which include text books, journals, URA reports, magazines, internal reports, minutes and newspapers.

### **3.5 Data Collection Methods and Tools**

#### **(a) Questionnaires**

This tool targeted all the employees except the District Chairperson. The questionnaires were designed in line with the topic and research objectives. It entailed both closed and open ended questions. This tool was used because it helped to collect detailed and accurate information compared to other tools. It was also cheaper to administer by the researcher.

#### **(b) Documentary Review**

This involved reviewing of all documented literature sources in form of text books, journals, articles, recent studies, reports and online publications. It was instrumental in collecting historical, present and future data.

### **3.6 Measurement of Variables**

Tax administration and tax compliance was measured by adopting a five-point Likert scale ranging from Strongly Agree to Strongly Disagree.

### **3.7 Data Presentation and Analysis**

#### **3.7.1 Data Presentation**

The data gathered was edited and checked to ensure uniformity, accuracy, consistency and comprehensiveness. The structured questionnaires were coded, questions grouped, tabulated and frequencies run according to the objectives of the study. The data was then analyzed and the information generated was interpreted to establish the relationship between Tax administration and Tax compliance.

### **3.7.2 Data Analysis and Tools**

The researcher processed the collected data from primary survey so as to be compiled, sorted, edited classified for completeness, relevancy and accuracy. Data after collection were analyzed by use of SPSS (Statistical Package for Social Scientist) for editing the data and analyzing the data.

### **3.8 Limitations of the Study**

Non response; the researcher encountered the problem of non response from the targeted population as was like the case with distributed questionnaires. However, the researcher tried his level best to see that the questionnaires are distributed to responsible people so as to reduce on the possibility of non response.

Reluctance of respondents to release vital information pertaining to the subject matter; the researcher I also encountered the problem of respondents withholding vital information in fear of releasing the organization's secrets.

The cost of carrying out the study was also high in terms printing of the many questionnaires and reaching to every respondent and data processing. However, the researcher tried all ways to fix within the limits of the budget so as to make the study a successful one.

The limited time allocated for the study was not enough to collect all the relevant information for the study. However, the researcher tried as much as possible to fix enough time for the study to make it successful.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

#### 4.0 Introduction

This chapter gave analysis of the findings and interpretation of tax administration, taxpayer's compliance and relationship between the variables. The data were analyzed in relation to the research questions and objectives shown in chapter one.

The findings are presented using tables and analyzed by use of frequencies, percentages and correlation coefficients.

#### 4.1 Background Information about the Respondents

##### 4.1.1 Respondents According to Gender

Responses from different sexes were obtained to avoid unbiased gender information. This is shown in table 4.1

**Table 4. 1: Shows Respondents According to Gender**

Sex	Frequency	Percentage (%)	Cumulative percent
Male	12	60	60
Female	08	40	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.1, indicated that 60% of the respondents were males and 40% were females which show that all sexes were involved in the study to avoid bias.

##### 4.1.2 Age of the Respondents

Findings on the on the age of the respondents were captured to reveal whether respondents had sound minds and responses were noted and presented in table 4.2;

**Table 4. 2.: Shows Age of the Respondent**

Age	Frequency	Percentage (%)	Cumulative percent
Below 25 years	2	10	10
25-35 years	9	45	55
35-45 years	6	30	85
45 years and above	3	15	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From the table 4.2 , 10% of the respondents were below 25 years, 45% were between 25 and 35 years, 30% were between 35 and 45years and 15% were above 45 years of age. This implies that the respondents had sound minds and had independent ideas and therefore the responses gathered were reliable and dependable.

#### **4.1.3 Level of Education**

Findings on the level of education were captured to reveal whether respondents could be able to interpret the questionnaires given to them by the researcher and responses were noted and presented in table 4.3;

**Table4.3: Shows level of education of respondents**

Level of education	Frequency	Percentage (%)	Cumulative percent
Degree(s)	8	40	40
Diploma	6	30	70
Certificate	4	20	90
Others	2	10	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.3, 40% of the respondents were degree holders, 30% diploma holders, 20% certificate holders and 10% had education below secondary level. This means that the respondents had the capacity to interpret the questionnaires given to them and were able to give relevant answers.

#### 4.1.4 Marital Status of the Respondents

Findings on the on the marital status of the respondents were captured to reveal whether respondents were stable on the work they were doing and responses were noted and presented in table 4.4;

**Table4.4: Shows marital status of the respondents**

Level of education	Frequency	Percentage (%)	Cumulative percent
Single	6	30	30
Married	11	55	85
Divorced	2	10	95
Widowed	1	5	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data,2019*

From table 4.4, 30% of the respondents were single, 55% were married, 10% were divorced and 5% were widowed. This implied that the respondents were stable at work and therefore the performance currently reported was to best of their effort.

#### 4.1.5: Period of Respondents Spent in the Business

Responses on the period the respondents have spent in the business captured to find out their experience and results are captured in table 4.5;

**Table 4.5: Shows Period of respondents spent in the business**

Period	Frequency	Percentage (%)	Cumulative percent
0-3 years	5	25	25
3-5 years	10	50	75
5-8years	2	10	85
Over 8 years	3	15	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data,2019*

From table 4.5 above, 25% of the respondents had spent less than 3 years, 50% had spent 3-5 years, 10% had spent between 5-8 years and 15% had spent more than 8 years in business. This showed that respondents had experience in their work hence the responses collected were viable and reliable.

## 4.2 Tax Administration

In an attempt to ascertain how tax is administered, relevant questions were asked and responses noted;

### 4.2.1: Voluntary Registration of Taxpayers

Findings on whether taxpayers voluntarily register themselves to Uganda revenue authority for tax purposes are indicated bellow in table 4.6;

**Table 4.6: Shows whether there is voluntary registration of tax payers**

Responses	Frequency	Percentage (%)	Cumulative percent
Strongly agree	2	10	10
Agree	3	15	25
Not sure	1	5	30
Disagree	8	40	70
Strongly disagree	6	30	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: primary data, 2019*

From table 4.6, 10% of the respondents strongly agreed that taxpayers voluntarily register themselves to Soroti Municipal Council tax authority for tax purposes, 15% agreed, 5% were not sure, 40% disagreed while 30% strongly disagreed. This means that most companies do not register with the tax administration authority voluntarily and this has impacted negatively on the compliance levels and the overall revenue performance.

### 4.2.2. Allocation of Tax Identification Numbers (TIN) to Tax Payers

Findings on whether after registration taxpayers are given tax identification numbers are indicated bellow in table 4.7

**Table 4.7: Shows responses on whether taxpayers are given TINs in URA.**

Responses	Frequency	Percentage (%)	Cumulative percent
Strongly agree	7	35	35
Agree	2	10	45
Not sure	1	5	50
Disagree	6	30	80
Strongly disagree	4	20	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.7, 35% of the respondents strongly agreed that after registration taxpayers are given tax identification numbers, 10% agreed, 5% were not sure, 30% disagreed while 20% strongly disagreed. This implies that taxpayers are given TIN numbers. But however further research reveals there is a general weakness in following those businesses registered whether they comply with tax laws.

#### **4.2.3: Presence of Records for Correct and Accurate Assessment of Tax Payers**

Findings on whether assessments of tax liability of tax payers is done well and accurately basing on all relevant records are indicated bellow in table 4.8

**Table 4.8: Shows responses on whether there are proper records for correct and accurate assessment of taxpayers**

Responses	Frequency	Percentage (%)	Cumulative percent
Strongly agree	2	10	10
Agree	4	20	30
Not sure	1	5	35
Disagree	6	30	65
Strongly disagree	7	35	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.8, 10% of the respondents strongly agreed that the assessments of tax liability of taxpayers in SMC tax authority is done well and accurately basing on all



relevant records 20% agreed, 5% were not sure, 30% disagreed while 35% strongly disagreed. This showed that the records from which assessments are made, were not adequate enough to produce accurate figures and maximize the revenue collections of the authority.

#### 4.2.4 Assessments Are on Monthly and Annual Incomes of Individual Taxpayers and Businesses

In an attempt to find out on whether the assessments are made on monthly and annual incomes of individual taxpayers and businesses and results are indicated below in table 4.9

**Table4.9: Shows responses on the timing of the assessments**

Responses	Frequency	Percentage (%)	Cumulative percent
Strongly agree	10	50	50
Agree	6	30	80
Not sure	1	5	85
Disagree	2	10	95
Strongly disagree	1	5	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.9 , 50% of the respondents strongly agreed that the assessments are made on monthly and annual incomes of individual taxpayers and businesses, 30% agreed, 5% were not sure, 10% disagreed while 5% strongly disagreed. This indicated that the assessment exercise is done during the right period as prescribed by law but the problem is the enforcement of the tax collection which has hindered compliance.

#### 4.2.5 Sensitization of Tax Payers

Findings on whether taxpayers are sensitized about the importance of paying taxes and the implication of tax evasion are indicated below in table 4.10.

**Table 4.10: Shows responses on the sensitization of taxpayers**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	4	20	20
Agree	1	5	25
Not sure	0	0	25
Disagree	9	45	70
Strongly disagree	6	30	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.10, 20% of the respondents strongly agreed that the taxpayers are sensitized about the importance of paying taxes and the implication of tax evasion, 5% agreed, none of the respondents were not sure, 45% disagreed while 30% strongly disagreed. This therefore indicates that unfortunately the taxpayers were not sensitized about the new policies and reviews in the tax system which has increased resentment among the taxpayers.

#### **4.2.6 Discussion of Tax Matters by Tax Officials with Taxpayers**

Findings on whether there are efforts in place by the tax officials to discuss tax matters with the taxpayers are indicated below in table 4.11.

**Table 4.11: Shows responses on the existence of discussion of tax matters by tax officials with taxpayers.**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	4	20	20
Agree	3	15	35
Not sure	2	10	45
Disagree	4	20	65
Strongly disagree	7	35	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.11 , 20% of the respondents strongly agreed that there are efforts in place by the tax officials to discuss tax matters with the taxpayers, 15% agreed, 10% were not sure, 20% disagreed while 35% strongly disagreed. This implied that there are some weaknesses in the tax system as regards discussion of tax matters with taxpayers to get their views and recommendations to improve taxpayer's compliance.

#### 4.2.7 Discussion of Findings Collected By the Authority Staff from the Tax Payers

Findings on whether the tax administrators normally discuss, comment and advice the taxpayers on the way tax is assessed are indicated below in table 4.12.

**Table 4.12: Shows responses on the existence of discussion of findings collected by the authority staff from the taxpayers**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	4	20	20
Agree	2	10	30
Not sure	1	5	35
Disagreed	8	40	75
Strongly disagree	5	25	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.12, 20% of the respondents agreed that the tax administrators normally discuss, comment and advice the taxpayers on the way tax is assessed, 10% of the respondents agreed, 5% were not sure, 40% disagreed and 25% strongly disagreed with the statement. This therefore meant that the authority do not discuss criticisms and recommendations on how taxes should actually be assessed and collected which has affected compliance levels of taxpayers.

#### 4.2.8 Tax Obligations are Paid in the Right Offices

Investigations on whether taxpayers pay their tax liabilities in the right offices are indicated below in table 4.13

**Table 4.13: Shows whether tax obligations are paid in the right tax authority offices**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	8	40	40
Agree	5	25	65
Not sure	2	10	75
Disagree	4	20	95
Strongly disagree	1	5	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.13 , 40% of the respondents strongly agreed that taxpayers pay their tax liabilities in the right offices, 25% agreed, 10% were not sure, 20% disagreed while 5% strongly disagreed. This therefore showed that the tax obligations were paid in the right offices but whether the amount paid is correct, is a question of further research.

### 4.3 Tax Payer's Compliance

#### 4.3.1 Disclosure of earned incomes by the companies

The findings on whether the business and individual taxpayers disclose all incomes earned for tax purposes were revealed as shown in the table 4.14

**Table 4.14: shows responses on the disclosure of earned incomes by the companies**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	2	10	10
Agree	4	20	30
Not sure	1	5	35
Disagree	5	25	60
Strongly disagree	8	40	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

The table 4.14 shows that 10% strongly agreed that the business and individual tax payers disclosed all incomes earned for tax purposes, 20% agreed, 5% not sure, 25% disagreed and 40% strongly disagreed. This meant that most companies do not disclose

all incomes earned for tax purposes and tax administration procedures did not motivate or force taxpayers to disclose their taxable incomes and tax information for tax purposes which has hindered compliance.

#### 4.3.2 Correct and Accurate Assessments

The findings were pursued to ascertain whether the tax administration procedures motivate taxpayers to assess themselves and make correct and accurate assessments for the tax purposes and results were obtained as shown in the table 4.15

**Table 4.15: Shows responses on correct and accurate assessments**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	3	15	15
Agree	4	20	35
Not sure	1	5	40
Disagree	5	25	65
Strongly disagree	7	35	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

The table 4.15 shows that 15% strongly agreed that the tax administration procedures motivates tax payers to assess themselves and make correct and accurate assessments for the tax purposes, 20% agree, 5% not sure, 25% disagreed and 35% strongly disagreed. This therefore indicated that tax administration procedures and policies were inefficient to enable taxpayers assess themselves accurately.

#### 4.3.3: Consistencies in Following Up of Tax Laws

The findings on whether the authority and the business payers follow tax laws when making assessments were undertaken and the results are shown in table 4.16;

**Table 4.16: shows responses on the Consistencies in following up of tax laws.**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	4	20	20
Agree	7	35	55
Not sure	1	5	60
Disagree	5	25	85
Strongly disagree	3	15	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

The table 4.16 shows that 20% strongly agreed that the authority and the business payers follow tax laws when making assessments, 35% agreed, 5% were not sure, 25% disagreed and 15% strongly disagreed. This showed that tax authority and the taxpayers largely depend on tax laws to come up with the assessments and actual tax liability to be paid.

#### **4.3.4: Filing of Annual Returns of Taxpayers**

Findings were carried out to ascertain whether the taxpayers annually files tax returns with the tax authority promptly and results are indicated in table 4.17

**Table 4.17: Shows responses whether taxpayers file returns annually and promptly**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	8	40	40
Agree	4	20	60
Not sure	2	10	70
Disagree	3	15	85
Strongly disagree	3	15	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.17, 40% of the respondents strongly agreed that the taxpayers annually files tax returns with the tax authority promptly, 20% agreed, 10% were not sure, 15%

disagree and 15% strongly disagreed. This revealed that the taxpayers do file the tax returns promptly and on time and this increases the level of taxpayer's compliance.

#### 4.3.5 Period in which Taxes are Paid

Findings on whether administration procedures lead taxpayers to pay in time were carried out and results are shown in table 4.18

**Table 4.18: Shows responses on the period at which taxes are paid**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	7	35	35
Agree	5	25	60
Not sure	1	5	65
Disagree	3	15	80
Strongly disagree	4	20	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.18 above, 35% strongly agreed that tax administration methods and procedures entice taxpayers to pay taxes in time, 25% agreed, 5% were not sure, 15% disagreed and 20% strongly disagreed. This meant that the administration systems impact much on when and how much to pay for the taxes.

#### 4.3.6 Trend of Tax Collections

Findings were pursued to ascertain the trend of tax collection and the results are depicted in table 4.19

**Table 4.19: Shows responses on the trend of tax collection**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	4	20	20
Agree	6	30	50
Not sure	1	5	55
Disagree	7	35	90
Strongly disagree	2	10	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data 2019*

From table 4.19, 20% strongly agreed that tax collection was gradually improving, 30% agreed, 35% disagreed, 5% were not sure and 10% strongly disagreed. This indicated that tax collections were generally fluctuating and this has been due to poor compliance of taxpayers.

#### 4.4 The Relationship between Tax Administration and Tax Compliance

##### 4.4.1 Assessment System and Total Revenue Collections

Findings on whether the assessment system by SMC determines the total taxes collected, responses were noted in table 4.20

**Table 4.20: Shows responses on the assessment system and total revenue collections**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	9	45	45
Agree	6	30	75
Not sure	3	15	90
Disagree	2	10	100
Strongly disagree	0	0	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.20, 45% of the respondents strongly agreed that the assessment system by SMC determines the total taxes collected, 30% agreed, 15% were not sure, 10% disagreed while none of the respondents strongly disagreed. This meant that the revenue collection from taxes was much influenced by the assessment systems and procedures.

##### 4.4.2 Tax Collection Methods and Procedures and Tax Payer's Compliance

Attempts to find out whether the tax collection methods and procedures have a direct influence on taxpayer's compliance, results were obtained as below in table 4.21.



**Table 4.21: Shows responses on the tax collection methods and procedures and taxpayer's compliance**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	8	40	40
Agree	7	35	75
Not sure	2	10	85
Disagree	1	5	95
Strongly disagree	1	5	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.21, 40% of the respondents strongly agreed that the tax collection methods and procedures have a direct influence on taxpayer's compliance, 35% agreed, 10% were not sure, 5% disagreed while 5% strongly disagreed. This revealed that the tax collection methods and procedures had a direct influence on taxpayer's compliance and therefore if they were poor and inefficient, the tax compliance would have been affected negatively.

#### **4.4.3. Monitoring of Taxpayers and Revenue Collected by SMC**

Attempts to find out whether the effectiveness of the monitoring taxpayers affects the revenue collected by SMC, responses are indicated below in table 4.22.

**Table 4.22: Shows responses on the effects of monitoring of taxpayers on revenue collected by SMC**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	7	35	35
Agree	5	25	60
Not sure	2	10	70
Disagree	4	20	90
Strongly disagree	2	10	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.22, 35% of the respondents strongly agreed that the effectiveness of monitoring taxpayers affects the revenue collected by SMC, 25% agreed, 10% were not sure, 20% disagreed while 10% strongly disagreed. This indicated that monitoring of taxpayer had a direct effect on the taxpayer's compliance.

#### 4.4.4 Massive Sensitization of Taxpayers and the Level of Tax Collections by SMC

Attempts to find out whether massive sensitization of taxpayers increases the tax collected by SMC, results were obtained as below in table 4.23

**Table 4.23: Shows responses on massive sensitization of taxpayers and the level of tax collections by SMC**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	6	30	30
Agree	5	25	55
Not sure	4	20	75
Disagree	3	15	90
Strongly disagree	2	10	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.23, 30% of the respondents strongly agreed that massive sensitization of taxpayers increases the tax collected by the authority, 25% agreed, 20% were not sure, 15% disagreed while 10% strongly disagreed. This implied that massive sensitization of taxpayers was much needed if the authority was to realize its full target of compliance and revenue performance.

#### 4.4.5 Identification and Registration of Tax Payers and Revenue Collected

Attempts to find out whether the identification and registration of taxpayers, influences how much revenue is collected, responses are indicated below in table 4.24.

**Table 4.24: Shows responses the effect of identification and registration of tax payers on revenue collected**

Responses	Frequency	Percentage (%)	Cumulative Percent
Strongly agree	6	30	30
Agree	8	40	70
Not sure	1	5	75
Disagree	4	20	95
Strongly disagree	1	5	100
<b>Total</b>	<b>20</b>	<b>100</b>	

*Source: Primary data, 2019*

From table 4.24, 30% of the respondents strongly agreed that identification and registration of taxpayers influences how much revenue is collected, 40% agreed, 5% were not sure, 20% disagreed while 5% strongly disagreed. This revealed that identification and registration of tax payers influenced revenue collections and performance.

#### **4.4.6 Relationship between Tax Administration and Taxpayer's Compliance**

An attempt to find out the relationship between tax administration and taxpayer's compliance using the statistical package for social scientists and results were indicated in table 4.25

**Table 4.25: Shows Correlation between Tax Administration and Taxpayer's Compliance**

			Tax Administration	Taxpayer's Compliance
Pearson's Correlation	Tax Administration	Correlation coefficient	1.000	.724**
		Sig(2tailed)	.	.000
		N	20	20
	Taxpayer's Compliance	Correlation coefficient	.724**	1.000
		Sig(2tailed)	.000	.
		N	20	20

\*\* Correlation is significant at the 0.01 level (2tailed)

*Source: Primary data (SPSS) analysis*

From table 4.25 , findings show a strong significant positive relationship between the variables ( $r=0.724^{**}$ ,  $p>0.02$ ) which presupposes that if tax is administered well by the authority, compliance by taxpayers will be strengthened by 72.4% and also explains that taxpayer's compliance increases with the level of tax administration.

On the other hand if taxpayer's compliance is low and poor, it's contributed by 72.4% of administration policies. Therefore 27.6% represents other factors that influence taxpayer's compliance other than tax administration. Therefore, there was a strong relationship between tax administration and taxpayer's compliance.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1.0 Main Findings of the Study**

##### **5.1.1 Findings on Tax Administration**

The study findings revealed that tax administration methods in Soroti Municipal Council - tax authority do not suit the taxpayers and this caused a very big gap between the expected tax revenue performance and actual taxes collected.

##### **5.1.2 Findings on Taxpayer's Compliance**

The study findings revealed that local tax administration involved rigorous activities such as identifying and registering taxpayers, assessing their tax obligations (amounts), sensitization of taxpayers, collection of such taxes as well as monitoring and review of the whole process of local tax administration.

##### **5.1.3 Findings on the Relationship between Tax Administration and Taxpayer's Compliance**

The findings also depict a strong relationship between tax administration process and the level of taxpayer's compliance. Therefore the level of compliance among taxpayers in the sense that the perception of taxpayers with regard to leniency and effectiveness of the tax policies, skills of tax collectors, in addition to the mode and period of payment of tax obligations among other issues greatly determined the level of taxes realized.

#### **5.2 Conclusions**

##### **5.2.1: Conclusion on the Tax Administration**

From the findings in chapter four, it's depicted that the tax administration policies by Soroti Municipal Council tax authority do not fit the expectations of the taxpayers and therefore don't motivate taxpayers to comply as prescribed by the tax laws.

##### **5.2.2: Conclusion on the Taxpayer's Compliance**

Findings in chapter four revealed that the level of taxpayer's compliance in the Country is still low in terms of revenue performance and the timing at which they are paid this

has greatly disregarded the potentials of Soroti Municipal Council to collect adequate revenues for the Municipality as it has always been budgeted.

### **5.2.3: Conclusion on the Relationship between Tax Administration and Taxpayer's Compliance**

From the findings in chapter four, it's evident that tax administration has a positive effect on the level of taxpayer's compliance. Once the methods and procedures of tax administration are inconsistent and vague, compliance will thus be negatively affected impacting on the level of revenue performance, yet if methods are good and the payers also regard them in such esteem, compliance will be enhanced hence increased level of revenue performance for the economy.

## **5.3 Recommendations**

### **5.3.1 Recommendations on Tax Administration**

With much gratitude given to Soroti Municipal Council in terms of administering taxes in form of improvements in the tax administration process and amendments in the tax laws and policies, the findings in the study justify the following recommendations; The local tax revenue authority should adopt a more pro-active approach rather than reactive approach in trying to collect taxes. This would go along in minimizing administrative and compliance costs since voluntary compliance will be enhanced. Further recommendations concern the expertise and skills of the Soroti Municipal staff. Regular training programmes should be instituted to equip the staff with necessary skills especially with regard to interpretation of the tax law.

### **5.3.2 Recommendations on Taxpayer's Compliance**

Improvements should be made in the assessment of taxpayers. Transparency, fairness and well stipulated guidelines should be followed by staff of Soroti municipal council. It should involve taxpayers in the exercise in order to avoid resentment and dissatisfaction.

It is also recommended that sensitization of taxpayers regarding the importance of paying taxes and their obligations be given more emphasis than it is at the present. Quality and timely information should be availed to taxpayers and also encourage feedback from the taxpayers.

Clearly identifying all of the desired outcomes would assist in determining the goals for success, and help to ensure the compliance strategies are working towards those outcomes. Success must be defined in terms of specific goals that represent the desired new behaviors or positive changes in community confidence. These success goals must be expressed in measurable terms. While it is important to retain objective measures of efficiency and cost effectiveness, the ultimate measure of success is in determining whether the compliance strategies implemented have had a positive impact on voluntary compliance

### **5.3.2: Recommendations on Relationship between Tax Administration and Taxpayer's Compliance**

The findings in chapter four indicated that there is need for the tax authority to improve on the systems and policies of administering taxes if voluntary taxpayers' compliance is to be strengthened.

### **5.4 Areas of Further Study**

The following areas are recommended for further research

The effects of taxation on the development and sustenance of local governments.

Recent reforms and their effects on the revenue collections in developing countries.

The effect of taxation on the attraction of investors in developing countries.

Local tax administration and compliance of tax payers in local governments.

An evaluation of taxpayer behaviors in respect to tax compliance would be necessary in order to minimize tax evasion and tax avoidance.

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**APPENDICES**  
**APPENDIX I: RESEARCH QUESTIONNAIRE**

**Dear Respondent,**

I am, a student of Kampala international University pursuing a Bachelors degree of Business Administration carrying out a study entitled “**Tax Administration and Tax compliance**”, case study of Soroti Municipal Council.

You are kindly requested to fill in the following questions as you have been selected to be part of the sample that is going to participate in this research study.

**PART A**

**Please tick the most appropriate box in respect to the following;**

**Gender**

Male ☐ Female ☐

**Age**

Below 25Years ☐  
Between 25 and 35 Years ☐  
Between 35 and 45 years ☐  
Above 45 years ☐

**Level of Education**

O' Level ☐  
A' Level ☐  
Diploma ☐  
Degree ☐

**Marital Status**

Single ☐  
Married ☐  
Divorced ☐  
Widowed ☐

### Time spent in the business

0-3 Years

3-5 Years

5-8 Years

Over 8 Years


### TAX ADMINISTRATION

Answer the following questions appropriately (SA=**Strongly Agree**; A= **Agree**, N=**Not sure**; D=**Disagree**; SD=**Strongly Disagree**)

Opinion	SA	A	N	D	SD
The tax administrators came to the business premises and asked the business to register for tax					
The business voluntarily registered as a taxpayer with the tax authority					

e, N= <b>Not sure</b> ; D= <b>Disagree</b> The tax administrators came to the business premises and asked the business to register for taxes					
The business voluntarily registered as a taxpayer with the tax authority					
When the business was registered, It was allocated a Tax Identification Number (TIN)					
The business or company always base on all relevant records to make the correct and accurate assessment for tax liability					
The tax assessed is done on the annual business profits/losses					
The business files Tax assessments with the tax authority annually					
The tax authority frequently moves into business/company premises to discuss tax matters.					
The tax administrators normally discuss the findings					

before leaving the business premises.					
The business annually does tax liability assessment					
The business pays tax obligations through the tax authority collection offices					

## TAX COMPLIANCE

Answer the following questions appropriately

Opinion	SA	A	N	D	SD
The business or company discloses all income earned for tax purposes					
The business /company makes correct and accurate assessments annually					
The company consistently follow tax laws when making assessments					
The business or company annually files tax returns with the tax authority promptly.					
The business or company always file tax returns on time					
The company files actual taxes assessed whenever they fall due					
The business or company annually pays taxes assessed to the tax authority					
The company or business annually pays taxes due on time					
The business pays actual taxes assessed whenever it is due					

**PART C**  
**TAX ADMINISTRATION AND TAX COMPLIANCE**

**Answer the following questions appropriately**

<b>Opinion</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
The tax authority audits the books of accounts and any other record to ensure compliance with the necessary tax laws					
the assessment system by URA determines the total taxes collected					
the tax collection methods and procedures have a direct influence on tax payer's compliance					
the effectiveness of the monitoring tax payers affects the revenue collected by URA					
massive sensitization of tax payers increases the tax collected by Municipal tax authority					
the identification and registration of tax payers, influences how much revenue is collected					
Tax administration sensitization with tax payers encourages complying with tax obligations					

**Thank you for your cooperation**

## APPENDIX II: TIME FRAMEWORK

NO	ACTIVITY	WEEK/MONTHS
1	Proposal write up	Nov 2018
2	Questionnaire and Methodology & Literature review	Jan 2019
3	Submission of proposal	Late Jan 2019
4	Data collection	Feb 2019
5	Data processing and analysis	Mid Feb 2019
6	Complete report review and submission	Late Feb 2019

### APPENDIX III: BUDGET

#### Proposed Budget for the Research Report

ITEM	QUANTITY	AMOUNT
Ream of papers	2	22,000
Research proposal typing	1	25,000
Transport		120,000
Research Report typing and binding	3	60,000
Refreshments		40,000
Airtime		50,000
Miscellaneous		100,000
<b>Estimated Total Expenditure</b>		<b>417,000</b>