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Abstract

Purpose: This study is about establishing the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. The study is driven by the fact that despite Uganda Revenue Authority's efforts to improve tax compliance, income tax filing compliance is still low among small taxpayers in Uganda in general and Mbarara city in particular.

Materials and Methods: A cross-sectional study design was used to collect data from 33,979 small taxpayers in Mbarara city out of which 31,324 were individual taxpayers while 2,655 were non-individual taxpayers. The sample size included 380 respondents out of which 350 were individual taxpayers while 30 were non-individual taxpayers. Systematic random sampling was used to select respondents from each of the six divisions of Mbarara city. A questionnaire method was employed in data collection where self-administered 5-point Likert type questionnaire with a Content Validity Index (CVI) of .91 and a Cronbach's alpha (α) of .86 was used in data collection. Data was analyzed using SPSS version 26.0 where correlation coefficients were generated and presented in a table.

Findings: Results from the correlation analysis revealed that taxpayer perception was positively and significantly related to income tax filing compliance ($r=.715^{**}$, $p<0.05$). The study concludes that efforts aimed at improving taxpayer perceptions play a significant role in improving income tax filing compliance.

Implications to Theory, Practice and Policy: The study recommends a need for the government and tax authorities, in this case, Uganda Revenue Authority to put in place strategies and programs aimed at changing individual perceptions, social understanding and personal motivations regarding income tax filing. Some of these strategies include intensifying tax education and outreach services of the mobile tax office 'Tujenge Bus Services' to all locations; introducing basic tax education at earlier stages of formal education such that citizens are informed about their future obligations to file income tax returns; translating all information about income tax filing in different local languages and publishing the same in print format for public access at no cost; and recruiting more tax agents within Mbarara city who can assist small taxpayers in income tax filing at a reasonable fee. The assumptions of the Motivational Posturing Theory could also be relevant in assisting the tax authorities to change the personal and societal perceptions about income tax filing and motivate them to willingly comply with their filing obligations. The study has significant implications for policy making as it identifies a need for government and tax authorities to establish policies and offer incentives and motivational postures that prioritize voluntary compliance rather than introducing sanctions to enforce income tax filing compliance.

Keywords: *Taxpayer Perception, Income Tax Filing Compliance, Small Taxpayer*

1.0 INTRODUCTION

Worldwide, collecting income tax is a fundamental way for countries to generate public revenues that make it possible to finance investments in human capital, infrastructure and the provision of services to citizens and businesses (World Bank, 2020). Taxation is a powerful tool to help finance achievements of the Sustainable Development Goals (SDGs) (Halim & Rahman, 2022; UNDESA, 2022). Being good citizens, taxpayers are obliged to perform their civic responsibilities including income tax filing as a key parameter for revenue contribution. In this regard, the government demands taxpayers to file their tax returns, declaring all taxable income timely and accurately, and paying all taxes within the given pay period in normal circumstances (Bijiga, 2020). Even though governments have allocated more resources to revenue collection process, tax compliance has remained low especially in low income economies globally (Ernst & Young Global Ltd, 2020; Eyinla, 2020).

In Sub Saharan Africa, tax revenues remain far below levels needed to provide citizens with basic services or make meaningful progress towards the UN's sustainable development goals (World Bank, 2022). Meanwhile, tax collection in many countries is characterized by tax evasion and failure to file returns in time (Abdu et al., 2020; Olusegun, 2021; World Bank, 2022). Studies in Nigeria, Kenya, Tanzania, Uganda and South Africa indicate that tax compliance attitude is still low and most taxpayers still have a poor perception about tax obligations like filing of income tax returns which has resulted to a general decline in tax revenue (Ali et al., 2013; Olusegun, 2021). The average tax to GDP ratio for the 33 African countries also has decreased by 0.2 percentage points from 16.2% in 2019 to 16.0% in 2020 and further reduced to 15.6% in 2021 (OECD, 2023). This is below the averages of Asian and Pacific economies (19.8%), Latin America and the Caribbean (LAC) (21.7%) and the OECD (34.1%) (OECD, 2023).

In Uganda, the rate of tax compliance is lower than the compliance in other East African countries like Kenya, Tanzania and Rwanda; especially where the taxpayer has freedom to decide whether or not to be compliant, as in the case of income taxes (Muhumuza, 2021; Waiswa et al., 2020). Basically, Uganda collects less in domestic taxes than other countries in the East African region (Waiswa et al., 2020). Overall, Uganda's current tax to GDP ratio has decreased by 1.0 percentage points from 12.1% in 2019 to 11.1% in 2020 and increased by 1.0 percentage points from 11.1% in 2020 to 12.2% in 2021 (OECD, 2023). This is lower than the tax to GDP ratio in Kenya-15.2% (OECD, 2023) and Rwanda-17.0% (OECD, 2023) and also lower than the average of the 33 African countries which is 15.6% (OECD, 2023). This is partly attributed to the high non-tax filing compliance especially among small taxpayers. According to URA tax compliance statistics 2018/2019-2022/2023, the non-filing rate of final income tax returns for small taxpayers is as high as 80% and above for all the 5 consecutive fiscal years (URA, 2023).

Mbarara city is one of the newest Ugandan cities in which URA has a small taxpayer office serving small taxpayers (URA, 2020). Small business enterprises constitute approximately 90% of the private sector and more than 70% of the population earn their income from small scale businesses (Sadress et al., 2017). Mbarara city is a home to nearly 35,000 small taxpayers all of which are eligible for filing income tax returns (URA, 2023). The rate of income tax filing compliance among small taxpayers in this City is however still low as an average of 5.84% of the total number of small taxpayers has been filing returns annually for the period 2018/2019-2022/2023 (URA, 2023).

Previous studies related taxpayer perception to tax compliance (Gituru, 2017; Kwok & Yip, 2018; Mascagni & Santoro, 2018; Mbilla et al., 2020; OECD, 2020; Teega, 2008; Trawule et al., 2022). There are however limited studies in the Ugandan context as regards to the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. This study was therefore conducted to fill this research gap.

Problem Statement

For over the last decade, the government of Uganda has provided a conducive environment for income tax filing on account of introducing online filing platform and all information about filing has been published on the URA website and manuals hoping that this would improve income tax filing compliance. Efforts to improve compliance have been put in place by the government through automation of tax services, creating tax offices in all major towns across the country and employing more staff to educate taxpayers and enforce tax compliance (Waiswa et al., 2020). There are various tax education programs and channels which could be effective sources of information about tax including Tujenge bus, Media adverts and online income tax guides accessible via the Uganda Revenue Authority website (Kazibwe, 2020).

Despite URA's efforts to improve tax compliance, achieving maximum income tax filing compliance especially in respect to filing compliance parameter is still a major challenge in Uganda among small taxpayers in small taxpayer offices (STOs) including Mbarara office (Waiswa et al., 2020). According to URA tax compliance statistics 2018/2019-2022/2023, the non-filing rate of final income tax returns for STOs in Uganda which is calculated as the proportion of all legible taxpayers who fail to file returns in a particular financial year was 83% in 2018/2019, 90% in 2019/2020, 86% in 2020/2021, 86% in 2021/2022 and 87% in 2022/2023 (URA, 2023). These statistics indicate that Uganda's income tax return filing compliance rate for STOs is very low (less than 20%) which implies that for every 10 taxpayers, only 1-2 taxpayers file income tax returns (URA, 2023). In Mbarara city, over 32,900 small taxpayers do not file returns annually which is about 94% of the total number of small taxpayers in the city (URA, 2023). If compliance rate remains low, the income tax revenue will eventually decline which may jeopardize service delivery.

Previous studies have linked taxpayer perception to tax compliance. These studies have however been conducted in other countries, thus limiting empirical evidence on the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city, hence a need for the study to fill the gap. Understanding taxpayer perception is crucial because it provides important insights into how taxpayers perceive and experience income tax filing (Bak & Van Den Boogaard, 2023; Jeongdae Lee & Jeong-Dae Lee, 2020). Additionally, understanding taxpayer perception is essential for improving tax compliance strategies as it helps identify different motivations for tax evasion and establish compliance measures accordingly (Anam & Nurlia, 2018).

Objective of the Study

The main objective of the study was to examine the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city.

Research Hypotheses

H₀₁: There is no positive relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city.

H₀₂: There is a positive relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city.

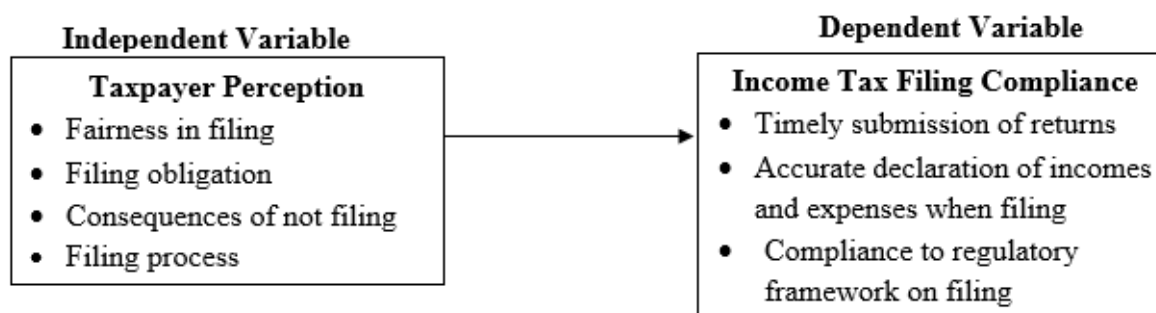
Scope of the Study

The study focused on the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. The study was conducted in Mbarara city and targeted small taxpayers. Mbarara city is located in the South Western Region of Uganda and is the second largest city after Kampala, the capital city. The city is divided into six (6) divisions namely; Kakoba, Nyamitanga, Biharwe, Kamukuzi, Kakiika and Nyakayojo. Mbarara city has been selected as the area of study because it is the largest commercial town in Western Uganda, accounting for nearly 17% of the total businesses in Western Uganda (UBOS, 2010/2011). In addition, the city is the location of URA regional offices for South Western Uganda due to its larger number of businesses and a bigger proportion of income tax-filers (URA, 2020). The study considered a time scope of five (5) years from 2018/2019-2022/2023 to develop the problem under investigation since this is long enough to accurately identify whether the problem exists or not.

Significance of the Study

The findings from this study will help the government to put in place policies that should be implemented by Uganda Revenue Authority to improve income tax filing compliance. For example, the study identifies that all small taxpayers should be given free URA tax manuals to guide them on the process of income tax filing and all the necessary information about income tax filing. This will assist to create positive perceptions towards income tax filing thereby increasing the filing compliance. The study will also add on the existing literature on taxpayer perception and income tax filing compliance. Before this study was conducted, there was a dearth in the existing literature in the Ugandan context about taxpayer perception and income tax filing compliance especially among small taxpayers. This study therefore filled the empirical gap.

Conceptual Framework



Source: Developed From the Literature (Hamid et al., 2022; Ogunbade et al., 2021).

Figure 1: Conceptual Framework

Taxpayer perception is defined as the taxpayer's subjective beliefs about income tax filing after analyzing some concrete logical facts about it. Hence, the thinking could be categorized as positive or negative depending on the availed information (David, 2016). The framework anticipated that taxpayer perception could be associated with income tax filing compliance (OECD, 2020). This means that when taxpayers feel the tax is unfairly imposed; they will tend to evade filing income taxes (Bijiga, 2020).

2.0 LITERATURE REVIEW

Theoretical Literature Review

The study was guided by three theories; the theory of reasoned action, the social influence theory and the motivation posturing theory.

Theory of Reasoned Action

Developed by Ajzen & Fishbein (1980), the Theory of Reasoned Action (TRA) states that human behavior and intentions are influenced by opinion. This indicates that an individual may be subjective to social pressures resulting from other people's expectations in complying with what others expect. The theory assumes that decisions to comply or not, are not formed in a vacuum but are influenced by the individuals' personal judgment. The decision of not filing income tax returns may result from individuals facing personal financial pressures. The theory recognizes that in reality, individual perceptions create an interplay between the need to comply and actual compliance with income tax filing (Mwanza, 2019).

The primary purpose of the TRA is to understand an individual's voluntary behavior by examining the underlying basic motivation to perform an action (Doswell et al., 2011). TRA also assumes that a person's intention to perform a behavior is the main predictor of whether or not they actually perform that behavior (Montano et al., 2015). Additionally, the normative component (that is, social norms surrounding the act) also contributes to whether or not the person will actually perform the behavior. According to the theory, intention to perform a certain behavior precedes the actual behavior (Ajzen & Madden, 1986). This intention is known as behavioral intention and comes as a result of a belief that performing the behavior will lead to a specific outcome. Behavioral intention is important to the theory because these intentions "are determined by attitudes to behaviors and subjective norms (Colman, 2015). TRA suggests that stronger intentions lead to increased effort to perform the behavior which also increases the likelihood for the behavior to be performed.

Notwithstanding a wide scope of TRA, the theory is limited for not taking into account that certain conditions that enable the performance of a behavior are not available to individuals (Hagger, 2019). The first condition is that "the measure of intention must correspond with respect to their levels of specificity (Hagger, 2019). This means that to predict a specific behavior, the behavioral intention must be equally specific to each individual which may not be the case. Another condition is the degree to which carrying out the intention is under an individual's own willingness which may not be true for the case of companies where corporate decisions have to be made (Hagger, 2019). Since the TRA focuses on behaviors that people decisively enact, the theory is limited in terms of being able to predict behaviors that require access to certain opportunities, skills, conditions, and/or resources (Nickerson, 2022). Additionally, certain intentions do not necessarily play a role in terms of connecting attitudes and behavior. The theory includes a significant risk of confounding between attitudes and norms since attitudes can often be reframed as norms and vice versa. The theory also assumes that when someone forms an intention to act, they will be free to act without limitation which may not always be the case (Nickerson, 2022).

Despite its limitations and criticisms, the theory of reasoned action (TRA) has been used to explain tax compliance behavior in various contexts. For example, Kiconco et al. (2019) adopted the theory of reasoned action to explain tax compliance among small business enterprises (SBEs) in Uganda and extended the application and relevance of the theory to a new area of tax compliance. The study found that small business enterprises (SBEs) in Uganda often have negative attitudes towards tax compliance, which affects their willingness to follow

tax regulations (Kiconco et al., 2019). It was also observed that subjective norms, or the influence of others, have a positive impact on the intentions of these businesses to comply with tax laws. The study also found that the overall intention to comply with tax regulations showed a negative effect on actual tax compliance behavior among SBEs. The research suggests that considering the social and psychological aspects of taxpayers is crucial when creating policies to improve tax compliance (Kiconco et al., 2019).

Hanum et al. (2020) examined the factors that influence intention in tax compliance from psychology perspective in Indonesia. The study found that the way people think and feel about taxes, and the tax system itself, affects whether they intend to follow tax rules in Java, Indonesia. It was discovered that what others think or say about paying taxes does not really change a person's own intention to comply with tax laws.

Baporikar (2022) investigated individual citizens' taxpayer education approach to enhance tax compliance for socio-economic development and found that educating citizens on taxation not only aids in tax compliance but has a multiplier effect on fiscal knowledge and nation development. The study found that educating citizens about taxes helps them follow tax laws better, which means more people pay their taxes. When more people understand and pay taxes, the government gets more money to set up or improve infrastructure like schools, hospitals, roads among others. The research also showed that when people learn about taxes, they know more about how the government uses money, which is good for the country.

Kwok & Yip (2018) explored whether tax education improves tax compliance using data from Hong Kong, given its influential position in East Asia and the government's reliance on taxpayers' voluntary reporting. The study looked at whether teaching people about taxes helps them follow tax laws better in Hong Kong. It was found that when people think the tax system is fair and feel it's morally right to pay taxes, they are more likely to comply. Tax education can make people more willing to report their taxes correctly if they are capable and willing to see the tax system as fair. The research suggests that learning about taxes can lead to better tax compliance in Hong Kong.

Lukman et al. (2020) used the Theory of Reasoned Action approach to find out whether the Tax Volunteer activity has become a student behavior in the University of Tarumanagara in Indonesia. The study found that students have a positive attitude towards being tax volunteers, and this attitude, along with social pressure (what others think they should do), influences their intention to volunteer. It was also discovered that the intention to become a tax volunteer is a significant factor that affects the actual decision to volunteer, but this relationship weakens when the intention is not strong. The research suggests that the activity of being a tax volunteer has become a behavior among students, meaning they are likely to continue doing it. The findings imply that there is a high demand for tax volunteer activities, and universities or faculties should support these activities. According to this supporting literature, the Theory of Reasoned Action could be relevant in studying the relationship between taxpayer perception and income tax filing compliance in the context of small taxpayers in Mbarara city.

Social Influence Theory

The central theme of social influence theory as proposed by Kelman (1958) is that an individual's attitudes, beliefs, and subsequent actions or behaviors are influenced by other people through three processes: compliance, identification and internalization. Kelman (1958) posited that social influence brings about changes in attitude and actions, and that changes may occur at different levels due to differences in the processes through which individuals accept influence. According to Kelman (1958), Compliance is assumed to occur when individuals

accept influence and adopt the induced behavior to gain rewards (or, approval) and avoid punishments (or, disapproval). Hence, “the satisfaction derived from compliance is due to the social effect of accepting influence” (Kelman, 1958).

Social influence theory suggests that compliance behavior and attitudes towards the tax system is thought to be affected by the behavior and social norms of an individual’s reference group (Gass, 2015; Keith, 1990). It assumes that human behavior is influenced by social interactions much in the same way as other forms of behavior. Compliance behavior and attitudes towards income tax filing may therefore be affected by the behavior of an individual’s reference group such as tax officials or fellow taxpayers (Cialdini & Goldstein, 2004). One of the most consistent findings about taxpayer attitudes and behavior is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (Ali et al., 2013; Telzer et al., 2018). Evidence suggests that perceptions about the honesty of others may affect compliance behavior (Izuma, 2017). This theory is however limited to only socio-cultural context of compliance and does not put into consideration the influence of other factors such as the economic, technological, environmental and legal factors affecting compliance which the current study sought to address.

The Social Influence Theory (SIT) is applicable in explaining the relationship between taxpayer perception and tax compliance. Research by Di Gioacchino & Fichera (2022) presented an agent-based model in which taxpayers live in a network and care about their social reputation, where individuals decide whether to pay or to evade taxes considering the expected economic net benefit and the reputational cost from tax evasion. The study found that in a society where people from different income levels mix (integrated society), everyone tends to follow the same behavior, either all paying taxes or all evading them. When society is divided into groups based on income (segregated society), people's opinions on tax payment don't spread as easily, leading to a situation where some people pay taxes and others evade them. A social media campaign with a famous person promoting tax payment can help more people decide to pay taxes, but it works better in an integrated society and when there is no big gap between rich and poor.

Shoffan & Ernandi (2023) investigated the influence of taxpayer attitude, awareness and tax knowledge on tax compliance among 33 businesses registered under the Indonesian Contractor and Mechanical Association during the COVID-19 pandemic, with tax socialization as a moderating variable. The study found that the way taxpayers feel about taxes does not really change whether they follow tax rules or not. However, when taxpayers talk and learn about taxes together, it helps them be more aware and this can lead to better tax compliance.

However, there are some studies that are contrary. A study by Mahmood et al.(2023) for example used the Social Influence Theory (SIT) to analyze the impact of social dynamics on tax compliance among the higher income group earners in Malaysia and findings revealed that the influence of society (social dynamics) did not significantly affect tax compliance behaviour among high-income earners. The research suggested that even if people want to be accepted by others, this social pressure does not always make them more likely to follow tax rules.

Since majority of the studies assume existence of a link between perception of a social group and tax compliance, then it indicates that the social influence theory could be relevant in explaining the relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city.

The Motivational Posturing Theory

The study also employed a motivational posturing theory developed by Braithwaite in 1995 to explain the reasons for non-compliance to government regulations such as tax policies. The motivational posturing theory assumes that compliance to fiscal policies is thought to be achievable through manipulating the costs and benefits of transgression and by making the threat or disincentive, created by the probability of detection, apprehension, prosecution and penalty outweigh the benefits of non-compliance (Étienne, 2020). The deterrence approach which underpins the motivational posturing theory is based on rational explanations of human behavior towards compliance to regulations, norms and policies (Bentham, 2017).

According to this theory, the efficacy of formal sanctions in securing tax compliance may be limited if the legitimacy of the law, legal system or government is challenged, for example by taxpayer perceptions of unfairness and poor accountability for the tax paid (Murphy, 2004). In such situations, deterrence strategies may have perverse effects in generating greater resistance to both to the rules and the tax authorities (Hall & Pretty, 2008; Parker & Braithwaite, 2003). Compliance motivations have also been shown to be influenced by what individuals perceive about, what other people do and believe, and whether they identify or not with these people as a group (Ahmed & Braithwaite, 2005).

Braithwaite et al. (1994) found out that taxpayers may be in position to comply with income tax filing requirements if the tax authorities or the government provides various motivational postures that can motivate them to comply (Braithwaite et al., 1994). Motivational postures according to Braithwaite et al. (1994) are a conglomeration of beliefs, attitudes, preferences, interests and feelings that together communicate the degree to which an individual accepts the agenda of the tax authority, in principle, and endorses the way in which the tax authority functions and carries out duties on a daily basis (Braithwaite et al., 1994).

The motivational posturing theory is applicable in explaining the relationship between taxpayer perception and income tax filing compliance. Sari et al. (2023) examined the effect of taxpayer motivation and perceptions of tax corruption on taxpayer compliance with taxpayer awareness as an intervening variable and found that tax awareness has no effect on taxpayer compliance. The study concludes that the willingness of taxpayers to comply with tax laws is influenced by their personal motivation, but not by their awareness of tax issues or their perceptions of tax corruption. It also suggests that when taxpayers perceive that tax officials who commit corruption are punished severely, it can improve their compliance with tax laws.

Sadjiarto et al. (2020) studied the Motivation Postures and Tax Incentive towards Tax Compliance of SME in Surabaya during the Pandemic. The aim of the study was to understand motivation postures (commitment, capitulation, resistance, game playing and disengagement) towards tax compliance in 2019 and how they influenced perception of tax compliance in 2020. The study found that in 2019, the attitudes of resistance and game-playing by small and medium-sized enterprises (SMEs) in Surabaya were linked to how well they followed tax rules. It was observed that a strong sense of commitment among these businesses influenced their perception of tax compliance in 2020. The research also discovered that tax incentives offered by the government during the pandemic had a positive effect on strengthening the commitment of SMEs towards tax compliance.

Harris & McCrae (2014) examined the role of motivational postures in understanding the relationship between perceptions of tax and participation in the cash economy. The study found that small business owners, specifically used car dealers, have mixed feelings about the tax system, showing both positive and negative attitudes towards paying taxes. Many participants

expressed dissatisfaction with the tax system, feeling it was unfair, while others accepted that taxes are a necessary part of society. The research identified different ways people think about taxes, such as those who are unhappy with the system, those who feel disconnected, those who try to find ways around it, and those who see the benefits of taxes. Understanding these attitudes are important for the tax office to encourage people to pay their taxes willingly and to know how to respond when people do not comply.

Silva et al. (2022) presents findings from Portugal on why some people pay their taxes while others do not even when the risk of getting caught is low. The study includes reasons behind both tax compliance and non-compliance. It offers insights into how different strategies implemented by states affect people's decisions to comply with tax laws or evade them. The study concludes that understanding why people pay or do not pay taxes is crucial for countries to address tax non-compliance effectively. It suggests that despite low chances of being caught and penalized, many citizens still fulfill their tax obligations due to various motivations.

Tan & Braithwaite (2018) investigated small business taxpayers' psychological and social disposition towards taxation based on the motivational postures framework and found that small business owners can adopt more than one posture towards taxpaying. The study found that small business owners in New Zealand have different attitudes towards paying taxes, which can change based on the situation. When small business owners trust and feel that the tax authority is fair, they are more likely to cooperate with tax rules. If small business owners feel mistreated by the tax authority, they may resist or even question the authority's existence, which is harder to address. The research suggests that tax authorities should treat taxpayers fairly and with respect to prevent strong negative feelings towards tax compliance.

With regard to all these studies, it could be deduced that motivational postures such as tax incentives, tax holidays, tough sanctions against corrupt government officials, having a transparent tax system and charging a fair tax relative to taxpayer's income could motivate taxpayers in Mbarara city to willingly file income tax returns without having to first be assessed. This theory is therefore relevant in studying the relationship between taxpayer perception and income tax filing compliance in the context of small taxpayers in Mbarara city.

Empirical Literature Review

Abdul-Razak & Adafula (2013) evaluated the taxpayers' attitude and its influence on income tax filing compliance decisions in Tamale, Ghana and found out that individual taxpayers had concern for the amount of taxes they pay. Female taxpayers were more sensitive to the amount of taxes they pay. A strong positive correlation exists between perceived levels of tax burden and compliance decisions. The study also out found that taxpayers may continue to comply with their tax obligations if the perceived benefits from government increased, even though their tax burdens were high (Abdul-Razak & Adafula, 2013).

Nangayi (2013) revealed that there is a weak positive and insignificant relationship between perception and tax compliance among taxpayers in Kampala Capital City Authority (KCCA)-Central Division. Bijiga (2020) examined the factors affecting the perception of taxpayers towards the seriousness of tax evasion in Bale Robe town administration, Oromia, Ethiopia and findings revealed that tax evasion stemmed from taxpayer perceptions about tax evasion as culture and a minor crime. According to the findings, there is a positive significant relationship between taxpayer perception and tax compliance.

Hassan, Naeem & Gulzar (2021) studied voluntary tax compliance behavior of individual taxpayers in Pakistan through the multi-perspective lenses of the theory of attribution, equity theory, expected utility theory and social exchange theory. The results suggest that tax

compliance simplicity has a greater impact on tax filing than perception about government spending and tax morale. The study further revealed that the perception of fairness significantly mediates the strengths between morale, simplicity, government spending and compliance behavior (Hassan et al., 2021).

Damayanti, Sutrisno, Subekti & Baridwan (2015) examined the behavior of the taxpayers in relation to tax compliance in Indonesia. This study provides empirical evidence that the tax compliance behavior is influenced by the intention to comply, while the intention to comply is influenced by subjective norms and the perception of taxpayers towards the government.

Ogungbade et al., (2021) studied the relationships between tax awareness, taxpayers' perceptions and attitudes and tax evasion in informal sector of Ekiti State, Nigeria and revealed that the effect of Taxpayers' perception on tax evasion was not significant.

Olusegun (2021) revealed that taxpayer perception influences compliance behaviour. The significant negative correlation between taxpayer perception and non-compliance behaviour indicates that the more positive the perception of the taxpayers, the lower the likelihood of non-compliance behaviour. This implies that the taxpayer perception of the government's fairness, trustworthiness in tax revenue accountability and equitable redistribution of tax revenue has a positive significant influence on tax compliance.

From the above literature, it is deduced that there is a positive relationship between taxpayer perception and tax compliance. There are however significant gaps in the literature. For example, most of the studies were conducted from other countries like Ghana (Razak et al., 2018), Ethiopia (Bijiga, 2020), Pakistan (Hassan et al., 2021) and Nigeria (Olusegun, 2021). There is limited literature about taxpayer perception and income tax filing compliance in the Ugandan context. Such differences in geographical contexts make the results in other countries less applicable to the Ugandan perspective due to differences in tax structures, policies and income tax filing procedures in different countries. There are also contextual gaps in the existing literature where almost all studies were conducted about tax compliance in general rather than income tax filing compliance in particular. Tax compliance is a broad term comprising not only filing but also on registration and payment and is not specific to income tax only but rather all types of tax. In the current study however, the main problem with compliance is about income tax filing particularly for small taxpayers. In the current study therefore, focus was on income tax filing compliance since a taxpayer cannot pay for tax without first filing returns for the same. Most of the existing literature also focused on all types of taxpayers rather than small taxpayers. Such results may not be generalizable to the context of small taxpayers due to differences in incomes, regulations and business dynamics. Our study therefore focused on small taxpayers.

3.0 METHODOLOGY

Research Design

The study used a cross sectional design since it was based on primary data collected from small taxpayers in Mbarara city at only one point in time. The cross-sectional research design was used because it collects a large amount of data within a short period of time which can help to explain how different variables relate to each other (Ranjit, 2019).

Study Population

The study population included 33,979 small taxpayers in Mbarara city who were eligible for filing income tax returns (URA, 2023). Small taxpayers in this study referred to entities other

than those of public sector nature with annual turnover of less than UGX 6 billion and asset base of less than UGX 10 billion (URA, 2019).

Sample Size Determination

The study was based on the sample size of 380 taxpayers which was determined using the Krejcie and Morgan table (Krejcie & Morgan, 1970). The sample size was divided into different divisions in relation to the number of small taxpayers in each division as shown in the Table 1 below;

Table 1: Sampling Frame

Division	Population (N)			Sample Size (n)			Sampling Technique	Sampling Fraction (n/N)
	Indiv	Non-Indiv	Total	Indiv	Non-Indiv	Total		
Biharwe	1,235	87	1,322	14	1	15	Systematic random	1/89
Kakiika	1,409	116	1,525	16	1	17	Systematic random	1/89
Kakoba	20,660	1,355	22,015	232	15	247	Systematic random	1/89
Kamukuzi	4,452	773	5,225	49	9	58	Systematic random	1/89
Nyakayojo	1,206	78	1,284	13	1	14	Systematic random	1/89
Nyamitanga	2,362	246	2,608	26	3	29	Systematic random	1/89
Total	31,324	2,655	33,979	350	30	380		

NB: Indiv=Individual taxpayers, Non-Indiv = Non-Individual Taxpayers

Source: URA Report (2022)

Sampling Technique

The study used systematic random sampling method to obtain a representative sample from a population. The study considered a random point and then selected subjects at regular intervals of every 89th small taxpayer from every division (Thomas, 2022). Systematic sampling was used because it has been well known for producing samples that faithfully represent the population (Hayes, 2022)

Data Collection Method

A questionnaire survey method was used where a total of 380 questionnaires were randomly administered to the respondents within the period of data collection. Of the total 380 questionnaires administered, only 349 questionnaires were appropriately filled and returned for analysis. This is equivalent to 92% response rate which according to Mugenda & Mugenda (2003) is considered adequate for the study and can generate reliable findings.

Data Quality Control

The validity of the research instruments was determined by subjecting the questionnaire draft to scrutiny by four (4) research experts after which the Content Validity Index (CVI) was determined as the ratio of total number of relevant items to the total number of items in the instrument. On the other hand, the reliability of the research instruments was determined to test the accuracy and internal consistency of the research instrument. A pilot study was conducted on 15 taxpayers in Bushenyi-Ishaka Municipality. The reliability statistics were then generated

using SPSS version 20.0 based on Cronbach’s Alpha Coefficient. The validity and reliability statistics are shown on Table 2 below;

Table 2: Validity Test Results

Variable	No. of Items	Content Validity Index (CVI)	Cronbach’s Alpha
Taxpayer Perception	8	0.85	.84
Filing Compliance	8	0.94	.86
Total	16	0.90	0.85

Source: Pilot Study, 2022

The instrument was regarded valid since the CVI values and Cronbach’s alpha values on all sections of the questionnaire were found to be above the recommended ratio of 0.70 (Shi et al., 2012).

Data Analysis

The collected data was analyzed by generating frequencies and percentages on biodata of the respondents and running a correlation analysis to determine the relationship between taxpayer perception and income tax filing compliance.

Table 3: Measurement and Operationalization of Variables

Global Variable	Variable Type	Dimensions	Example of statement	Measurement
Taxpayer perception	Mediating variable	<ul style="list-style-type: none"> Fairness in filing Filing obligation Consequences of not filing Filing process 	“Belief that is fair to file income tax returns” “Belief that it is your obligation to file income tax returns” “Belief that there are serious consequences of not filing income tax returns on time” “Belief that the income tax filing process is quick”	A 5-point Likert scale with the following values 5-very high, 4-High, 3-Average, 2-Low, 1-Very Low
Income Tax Filing Compliance	Dependent variable	<ul style="list-style-type: none"> Timely submission of returns Accurate declaration of incomes and expenses when filing Compliance to regulatory framework on filing 	“Level of compliance about filing income tax returns by the due date” “Level of compliance about accurate declaration of business income during income tax filing” “Level of compliance about accurate declaration of expenses while filing income tax returns” “Level of utilization of the provisions of the law while filing income tax returns”	A 5-point Likert scale with the following values 5-very high, 4-High, 3-Average, 2-Low, 1-Very Low

4.0 FINDINGS

Biodata of the Respondents

The bio data of the respondents are presented in Table 4 below;

Table 4: Bio Data of Respondents

Biodata of Respondents		Frequency	Percentage (%)
Gender (N=349)	Male	194	55.6
	Female	155	44.4
Age (N=349)	Under 18-34	124	35.5
	35-52	132	37.8
	53-70	68	19.5
	Above 70	25	7.2
Marital Status (N=349)	Single	82	23.5
	Married	203	58.2
	Divorced	36	10.3
	Widowed	28	8.0
Level of Education (N=349)	No qualification	10	2.9
	Primary	15	4.3
	O' Level	52	14.9
	A' Level	58	16.6
	College/ Institute	104	29.8
Type of Taxpayer (N=349)	University	110	31.5
	Individual	327	93.7
Period spent with a TIN (N=349)	Non-individual	22	6.3
	Less than 1 year	73	20.9
	1-5 years	144	41.3
	6-10 years	98	28.1
	Above 10 years	34	9.7

Source: Primary Data, 2022

The results in table 4 indicate that the study considered the views of all persons responsible for filing income tax returns among individual and non-individual small taxpayers regardless of their gender. A bigger percentage of the small taxpayers (37.8%) in Mbarara city are adults in the age group of 35-52 years. This implies that most of the small taxpayers are old and mature. Majority (58.2%) of the small taxpayers in Mbarara city are married implying that they are old enough to be considered eligible to file income tax returns. Further, the results indicate that only 31.5% of the small taxpayers in Mbarara city are educated to the level of a university degree while 68.5% are less educated meaning that their literacy levels about taxation are low. In addition, majority (93.7%) of the small taxpayers in Mbarara city are individual taxpayers meaning that they have businesses which are not incorporated as companies or partnerships. Most (41.3%) of the small taxpayers have spent 1-5 years with a Taxpayer Identification Number (TIN) which is quite a long time making them eligible to file income tax returns.

Pearson Correlation Results

In this section, the relationships between taxpayer perception and income tax filing compliance were tested using Pearson correlation analysis whose results are shown in the Table 5 below:

Table 5: Pearson Correlation Matrix

Pearson Correlation Coefficients		Taxpayer Perception	Income Tax Filing Compliance
Taxpayer Perception	Pearson Correlation (r)	1	
	Sig. (2-tailed)		
	N	349	
Income tax filing compliance	Pearson Correlation (r)	.711**	1
	Sig. (2-tailed)	.000	
	N	349	349

** . Correlation is significant at 0.01 level (1-tailed).

Source: Primary Data, 2022

The study revealed that there is a strong and significant positive relationship ($r = .711^{**}$, $p = .000$) between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. This indicates that a positive change in taxpayer perception results to a positive change in income tax filing compliance. This implies that taxpayers with positive beliefs on income tax filing are more likely to timely and accurately file income tax returns. On the other hand, taxpayers are less likely to comply with income tax filing requirements if they have negative beliefs about tax. The study therefore rejects the hypothesis (H_0) which states that “There is no positive relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city”.

Discussion of Findings

The Pearson correlation results show that there is a strong and significant positive relationship between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. This implies that programs that can create positive beliefs towards income tax filing among small taxpayers play a significant role in improving income tax filing compliance.

The above findings are similar to the findings of Abdul-Razak & Adafula (2013) in Ghana which reveal a strong positive correlation between perceived levels of tax burden and compliance decisions. The findings are also akin to the results of Damayanti et al. (2015) in Indonesia which revealed that the intention to comply is influenced by the perception of the taxpayers. The study findings are also comparable to findings of Bijiga (2020) in Ethiopia which discovered that tax evasion among small taxpayers stemmed from taxpayer perceptions about tax evasion as culture and a minor crime.

The study however disagrees with Nangayi (2013) whose study in Kampala Capital City revealed that there is a positive weak and insignificant relationship between perception and income tax filing compliance in urban councils in Uganda.

The results confirm the assumptions of the Theory of Reasoned Action (TRA) that decisions to comply or not, are not formed in a vacuum but are influenced by the individuals’ personal judgment (Ajzen & Fishbein, 1980). According to this theory, intention to comply comes as a result of a belief that complying will lead to a specific outcome (Colman, 2015). The theory recognizes that in reality, taxpayers’ perceptions create an interplay between the need to comply with tax laws (Mwanza, 2019).

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion

There is a strong and significant positive relationship ($r = .711^{**}$, $p = .000$) between taxpayer perception and income tax filing compliance among small taxpayers in Mbarara city. Efforts aimed at improving taxpayer perceptions play a significant role in improving income tax filing compliance. This justifies the need for the government and tax authorities to put in place strategies and programs aimed at changing individual perceptions, social understanding and personal motivations regarding income tax filing. In this case, the assumptions of the Theory of Reasoned Action, Social Influence Theory and Motivational Posturing Theory could be relevant in assisting the tax authorities to change the personal and societal perceptions about income tax filing hence motivating them to willingly comply with their filing obligations.

Recommendations

A critical review about the taxpayer responses on tax perception showed that some taxpayers had negative perception about income tax filing considering it a complex process, expensive, unfair, and not beneficial to the taxpayer and lacking supportive guiding information. In most cases, individual perceptions are always influenced by the quality of information the individual has about the subject matter. To change these negative perceptions, Uganda Revenue Authority needs to increasingly sensitize the public about income tax filing such that taxpayers are informed about why they should file returns, benefits of timely filing of income tax returns, the process of filing accurate income tax returns, consequences of not filing accurate returns on time, when to file income tax returns and how to compute income tax liability. This will in turn improve income tax filing compliance among small taxpayers.

In order to scale up sensitization in a bid to create positive perceptions, Uganda Revenue Authority needs to intensify tax education and outreach services to the informal sector by increasing the mobility of Tujenge bus services. These services currently cover taxpayers in the central business area and need to be scaled up to cover small taxpayers in all parts of the country including those located in the urban, peri-urban and rural areas of the country.

According to the Theory of Reasoned Action, decisions to comply or not, are not formed in a vacuum but are influenced by the individuals' personal judgment which is based on an attitude developed over a long period of time. In this case, positive taxpayer perceptions towards income tax filing could be created by disseminating information about income tax filing right from earlier stages of learning such that it is rooted in the minds of individuals prior to income tax filing obligations. In this regard, the Ministry of Education and Sports in conjunction with Uganda Revenue Authority should introduce basic tax education as a compulsory course unit into the school curriculum to boost general tax knowledge at earlier stages of education. While taxation is currently being taught as a course unit in business courses at tertiary institutions, this also needs to be extended or even made compulsory at the primary and secondary levels of education.

According to the social influence theory, an individual's perception and subsequent actions or behaviors about income tax filing are influenced by other people depending on the information they disseminate about the subject matter. To create a positive perception among taxpayers, taxpayers need to acquire information from authentic and reliable sources such that they do not base on hearsay from their peers. Currently, the URA website is the only reliable source of information which is only accessible to a small section of small taxpayers. There is need for Uganda Revenue Authority to introduce another reliable source of information accessible to less educated small taxpayers in the informal sector who cannot access the URA website at all

times. In this case therefore, tax manuals in print format preferably in different local languages can act as reliable sources of information about income tax filing. The government should therefore facilitate Uganda Revenue Authority to publish all information about income tax filing in print format, translated in different local languages which can be distributed to potential taxpayers at a free or subsidized cost. This will improve tax awareness as well as income tax filing compliance.

In every tax system, simplicity, fairness, convenience and cost are fundamental principles of taxation. According to the motivational posturing theory developed by Braithwaite (1995), compliance to fiscal policies such as income tax filing is thought to be achievable through manipulating the costs and benefits of transgression and by making the threat or disincentive, created by the probability of detection, apprehension, prosecution and penalty outweigh the benefits of non-compliance. While there are serious sanctions for non-compliance including fines and business closures, the efficacy of these sanctions in securing tax compliance may be limited if the legitimacy of the law, legal system or government is challenged, for example by taxpayer perceptions of unfairness, high costs, complexity and non-convenience (Murphy, 2004). In this regard, income tax filing compliance could be enhanced by making the procedure for income tax filing simple, fair, convenient and less costly to the taxpayer. There is a need for Uganda Revenue Authority to recruit more tax agents within Mbarara city who can assist small taxpayers in income tax filing at a reasonable fee. This will increase convenience and lower costs of filing hence increasing income tax filing compliance.

Policy Implications

The study has significant implications for policy making as it identifies a need for policies and programs aimed at creating a positive change in taxpayer perception in order to improve income tax filing compliance. The government needs to review the tax policy by creating policies that improve benefits of compliance rather than sanctions of non-compliance. This is because income tax filing compliance could be low where the legitimacy of the law, legal system or government is challenged, for example by taxpayer perceptions of unfairness, high costs, complexity and non-convenience as highlighted in the motivational posturing theory developed by Braithwaite (1995). This implies that if taxpayers do not find income tax filing as fair or less costly, they would not file returns voluntarily. The study therefore does not support the government policy of imposing huge sanctions in form of fines or enforcement of tax since this does not encourage voluntary compliance especially where the taxpayer has an opportunity to dodge such sanctions (Étienne, 2020). Instead, this study suggests that government needs to make the benefits of compliance outweigh the costs of non-compliance by providing attractive motivational postures to compliant taxpayers such as free business advisory services, tax holidays, easy access to international markets, tenders and assurance of government bail-out in case of losses or business failure. This will encourage businesses to voluntarily file returns in order to win such benefits in future.

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