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**Attitude towards Electronic Tax System and Value-Added Tax Compliance, the Mediating Effect of Adoption of the Electronic Tax System among Small and Medium Enterprises (SMEs) in Fort Portal City, Western Uganda**



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# Attitude towards Electronic Tax System and Value-Added Tax Compliance, the Mediating Effect of Adoption of the Electronic Tax System among Small and Medium Enterprises (SMEs) in Fort Portal City, Western Uganda

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## Abstract

**Purpose:** This study aimed to examine the relationship between attitudes toward the electronic tax system and VAT compliance while assessing the mediating effect of the adoption of the electronic tax system among SMEs in Fort Portal City, Western Uganda.

**Materials and Methods:** The study used a cross-sectional design, adopting a quantitative approach. The study used a survey method with a structured self-administered questionnaire to collect data from the managers. The study population comprised 297 SMEs, generating a sample of 165 SMEs in the Central and North Divisions of Fort Portal City. SMEs were selected by stratified simple random sampling while respondents were purposively selected. Pearson correlation and Hierarchical multiple regression analysis techniques were employed using SPSS version 22.

**Findings:** The study established that the adoption of the electronic tax system partially mediates the relationship between attitudes

towards the electronic tax system and tax compliance among SMEs in Fort Portal City. It was established that whereas attitudes towards e-tax system predict tax compliance, the effect is better felt through the adoption of the e-tax system.

**Implications to Practice and Policy:** Premised on the technological acceptance model, the study has brought out the inevitable role the adoption of the e-tax system plays in explaining the relationship between attitude toward the e-tax system and tax compliance among small and medium enterprises. SMEs are urged to ensure tax compliance and maintain a good reputation through online registration, filing of tax returns, and prompt settlement of tax obligations to limit tax avoidance and incidental consequences.

**Keywords:** *Attitude, Electronic Tax System, Adoption, Tax Compliance, Small, Medium Enterprises*

## 1.0 INTRODUCTION

Tax compliance is taxpayers' willingness to obey tax laws and obtain economic equilibrium (Andreoni et al., 2008). It entails reporting all incomes and paying all taxes by fulfilling the provisions of laws, regulations, and court judgments (Alm, 2011). For the Government to provide public goods and reallocate wealth, there is a need for taxpayers to comply and pay the correct amount of taxes due and on time (Musimenta et al., 2017; Nkundabanyanga et al., 2017; Jayawardane, 2016). Following economic crises such as the Asian financial crisis in the late 1990s, there has been a marked increase in the importance of tax compliance in the global economic environment (Ritsatos, 2014). Tax revenue sustains economic development and finances both social programs and infrastructure investment (Ibrahim et al., 2015). Osundina and Olanrewaju (2013) stated that taxation is a key player in every society of the world because it is a chance for the Government to collect the revenue needed to satisfy its pressing obligations. Tax revenue gives governments the funds to invest in development, dismiss poverty, deliver public services, and build the physical and social infrastructure for long-term growth (OECD, 2010). Therefore, tax revenue mobilization through taxation of all the economic agents is the most important way the government can raise funds to provide public services (Ndekwa, 2014).

In Uganda, small enterprises are firms that employ between 5 and 49 workers and have total assets between Ugx 10 million but not exceeding 100 million. On the other hand, medium enterprises employ between 50 and 100 workers with more than Ugx 100 million in assets but not exceeding Ugx 360 million (Ministry of Trade, Industry, and Cooperatives, 2015). SMEs are the main economic agents the government uses to raise tax revenue, accounting for 45% of the VAT revenue (Musimenta et al., 2017). In Uganda, small and medium enterprises employ approximately 2.5 million people, constituting approximately 90 percent of the private sector. They generate over 80 percent of the manufactured output and contribute 20 percent of Uganda's gross domestic product (Ojiambo, 2016). Despite their significance, studies have shown that the problem of nontax compliance is still widespread among SMEs (Nakitende, 2019 & Yusof et al., 2014). Owing to its relative efficiency and effectiveness, the value-added tax (VAT) has been identified as one of the key tax heads that could boost domestic resource mobilization. However, the revenue productivity of Uganda's VAT is low when compared with other Sub-Saharan African countries (Musimenta et al., 2017).

Despite the significance of taxation and several tax reforms such as tax education and online tax services, non-tax compliance is still a challenge in East Africa at large (Nawawi & Salin, 2018; Nkundabanyanga et al., 2017; Musimenta et al., 2017). This challenge is evidenced in the East African Revenue Authority's (EARA) comparative revenue analysis report (2015 / 2016), as cited in Nakitende (2019). Low compliance was cited as one of the major challenges of the EARAs in revenue mobilization. Similarly, Uganda loses between 30 and 39 percent of value-added tax (VAT) revenue annually. Furthermore, despite a 72 percent increase in import VAT contribution for the wholesale and retail sector between 2010/11 and 2016/17, the sector registered a 5 percent drop in its contribution to VAT collection (URA Revenue Annual Performance Report, 2019/2020). Moreover, in 2019/2020, URA collected net tax revenue of Ugx 16,751.64 billion, which was Ugx 3,592.49 billion below the target of Ugx 20,344.13 billion (URA Revenue Annual Performance Report, 2019/2020). Similarly, in 2017/2018, URA collected net tax revenue of Ugx 14,456.11 billion. This revenue performance was UGX 606.32 billion below the target of UGX 15,062.43 billion (URA Revenue Annual Performance Report, 2017/2018). Moreover, amidst all

the above deficits, in 2019/2020, Fort Portal City collected tax revenue of Ugx 450,846,000 against a target of Ugx 874,795,000, representing a shortfall of Ugx 423,949,000 (UNCDF Uganda Business Impact Survey, 2020).

Tax compliance has attracted emergent interest from numerous researchers that attempted to establish the cause of poor tax compliance among business enterprises (Nawawi & Salin, 2018; Nkundabanyanga et al., 2017; Musimenta et al., 2017; Ndekwa, 2014; Merima et al., 2013; Nkwe, 2013). Nawawi and Salin (2018) noted that if there are no proper mechanisms put in place by the tax authorities to prevent tax evasion, there are higher chances of nontax compliance. Consequently, the net effect could be a bigger loss, which could deter the country's economic development, growth, and service delivery (Namoit, 2012). Moreover, Nkundabanyanga et al. (2017) recognized that there are still cases of non-compliance in Uganda, even in the presence of tax collection mechanisms. Therefore, it remains unclear which appropriate mechanism governments in developing countries like Uganda can use to achieve full tax compliance. One such mechanism is an electronic tax system where taxpayers can assess themselves (Nawawi & Salin, 2018). The world has witnessed an increase in electronic tax systems meant to facilitate the elimination of losses of revenue through corruption (Balunywa et al., 2014). Congruently, the electronic tax system was introduced in Uganda to eliminate or significantly reduce corruption, achieve the country's financial objective, and simplify payments (Njanja, 2014).

However, while conducting a study on tax compliance in Botswana, Nkwe (2013) established that the taxpayer's attitude towards tax could be responsible for compliance behaviors and observed that attitude towards an electronic tax system is vital to adopting or rejecting the e-tax system. Similarly, Barati et al. (2014) studied the models for adopting e-tax returns from taxpayers' perspectives in India. They established that positive evaluations such as convenience in terms of time and place and limited movements to the tax authority premises lead to adopting the e-tax system, which in turn, improves tax compliance among taxpayers. Besides, the Technology Acceptance Model (TAM) suggests that perceived usefulness (PU) and perceived ease of use (PEOU) of information technology (IT) are major determinants of its usage. These factors influence the adoption or rejection of an information system in any setting, thus leading to compliance (Davis et al., 1989). This argument underscores the mediating role of the e-tax system's adoption in the relationship between attitude towards the e-tax system and tax compliance that has not been empirically investigated.

Despite theoretical underpinnings and academic debate that a taxpayer's attitude influences their decision to adopt an electronic tax system, thus improving tax compliance, studies (Nkundabanyanga et al., 2017; Jayawardane, 2016; Nakitende, 2019) focused on the direct effects and ignored the mediation effect of adoption in the relationship between attitude towards the electronic tax system and tax compliance. Moreover, Baron and Kenny (1986) opined that a study that does not examine the mediation effects yields an insufficient understanding of the relationship between the independent and dependent variables. Besides, other studies have mainly focused on developed economies such as India (Barati et al., 2014) and Hong Kong (Chan et al., 2000), ignoring Uganda, a developing country. Moreover, studies (Chan et al., 2000; Davis et al., 1989; Njanja, 2014; Namoit, 2012; Yusof et al., 2014) were conducted long ago thus their findings might have been overtaken by events, necessitating their validation in the modern business environment. Therefore, this study examined the relationship between attitudes towards the electronic tax system and tax compliance while exploring the mediating effect of adopting the electronic tax system



among SMEs in Fort Portal City, Western Uganda. The findings of this study will aid the Uganda Revenue Authority (URA) in establishing how the electronic tax system affects revenue collection. The URA may also use the study findings to identify user interaction challenges that can be resolved for the smooth running of the e-tax system. The rest of the paper covers the literature review, methodology, study findings, discussion of results, conclusion, recommendation, study implication, and limitations.

## **2.0 LITERATURE REVIEW**

### **Theoretical Foundation**

This study was premised on the Technology Acceptance Model (TAM) in examining the relationship between attitude toward the electronic tax system and tax compliance. Davis et al. originally proposed the TAM to explain the effect of user behavior on information technology usage (Legris et al., 2003). Davis et al., (1989), as cited in Night and Bananuka (2019), proposed TAM to explain why a user accepts or rejects to use the of information technology (IT). The theory suggests that perceived usefulness (PU) and perceived ease of use (PEOU) of IT are major determinants of its usage (Davis et al., 1989). PU is a person's belief that using a particular system would enhance their job performance. Besides, PEOU means a person's belief that using a particular system would be effort-free. PU and PEOU jointly influence intentions in using IT (Nakitende, 2019).

TAM has gained popularity among researchers as a framework to explain the adoption pattern of IT systems. It suffices to note that studies (Shajari & Ismail, 2010; Nakitende, 2019; Night & Bananuka, 2019) established a positive influence of attitude on intention to use a specific system, and provided strong evidence to support TAM as a model for predicting systems usage behavior. TAM has been widely used to explain contexts of slow adoption of technology innovations, predict user acceptance of technology innovations, and inform interventions towards increasing adoption of technology innovations (Venkatesh & Davis, 2000). However, notwithstanding the wide use of TAM, its use in developing countries is limited (Chuttur, 2009) because it overlooks cost and structural essentials that motivate users to adopt technology (Eelu et al., 2018 & Lunceford, 2009). Nevertheless, TAM remains relevant to this study since it provides a basis on which attitude toward an electronic tax system enhances the adoption of an electronic tax system, which influences tax compliance among business enterprises (Eelu et al., 2018).

### **Conceptual Framework**

The study set out to examine the nexus between attitudes toward the e-tax system and tax compliance, considering the mediating effect of the adoption of the e-tax system. The conceptual framework (Figure 1) was developed based on the theoretical underpinnings and empirical literature explaining tax compliance.

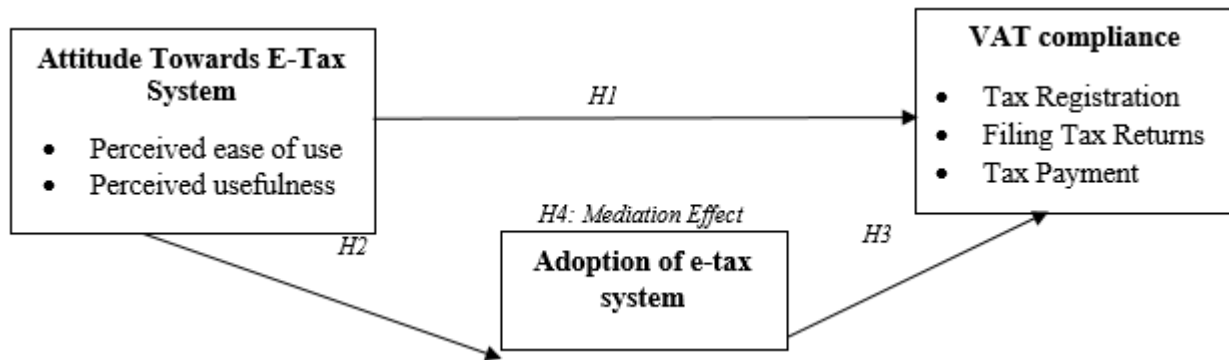


Figure 1: Conceptual Framework

The above conceptual model (Figure 1) suggests that attitude towards the e-tax system influences tax compliance. The study hypothesized that this relationship is mediated by the adoption of the e-tax system. Taxpayers' attitudes are positive or negative views towards the e-tax system (Ondara et al., 2016). Positive views about the e-tax system can lead to tax compliance, while negative views enhance tax non-compliance (Nkwe, 2013). A user's attitude could influence their behavioral intention to adopt a specific system (Chuttur, 2009). Similarly, a system perceived as easy to use, secure, and dependable, provides an easy mode of payment and provides various services that will be easily adopted by taxpayers, encouraging voluntary tax compliance (Haryani et al., 2015). Besides, Nkundabanyanga et al. (2017) asserted that voluntary tax compliance is highly achieved if taxpayers have a positive attitude towards filing returns and subsequent payment of the taxes due. Moreover, the TAM suggests that one's perception about information technology is critical to its adoption hence tax compliance (Night & Bananuka, 2019). Similarly, once the owners of SMEs embrace IT, tax compliance will likely improve (Night & Bananuka, 2020). Despite the above theoretical assertions and empirical findings by other scholars, it is still elusive whether the same results hold for Fort Portal City hence the need for this study.

## Empirical Review and Hypothesis Development

### The Mediating Effect of Adoption of the Electronic Tax System in the Relationship between Attitude towards Electronic Tax System and Tax Compliance

According to Khaddafi et al. (2018), adopting an electronic tax system will depend on the perceived ease of use of the tax system, intensity of behavior, and user satisfaction. Taxpayers must be happy and motivated to use the electronic tax system, but the tax system should also be easy to use (Night & Bananuka, 2019). The users of the electronic tax system must find it pleasant while interacting with the electronic tax system. While assessing the moderating effect of culture on E-filing of tax returns in India, Zaidi et al. (2017) found that taxpayers with computer skills find it easier to adopt an electronic tax system than those without such skills. Adopting e-tax systems has become fundamental, as many countries adopt computerized information systems in tax management (Ondara et al., 2016). According to Davis (1989), as cited in Night and Bananuka (2019), TAM suggests that taxpayer adoption behavior is determined by the intention to use a particular system, and predicted by the attitudes towards the system. Accordingly, taxpayer adoption of any system may be determined by the intention to perform a certain behavior. Adopting an electronic tax system is important in reducing costs and taxpayer convenience and improving tax compliance (Night & Bananuka, 2019).

Several studies indicated that the government can raise more revenues if taxpayers adopt the electronic tax system. For instance, a study by Motwani et al. (2015) established that adopting e-tax systems is voluntary in India and that voluntary adoption through taxpayers' e-filing of tax returns and e-payment increases tax compliance. Similarly, Muturi and Kiarie (2015) recognized a strong positive correlation between adopting an e-tax system through online tax registration, online tax return filing, and online tax remittance and tax compliance among small taxpayers in Kenya. Furthermore, Jayakumar and Nagalakshmi (2016) found that a well-designed electronic system reduces corruption by reducing face-to-face interactions because tax authorities do not handle money directly. Ideally, tax officials have little direct contact with taxpayers and less discretion in deciding how to treat them. E-filing is also easy, flexible, and convenient for taxpayers, making it possible to file returns online from any place (Geetha & Sekar, 2014).

Additionally, a study by Jahirul (2016) on tax evasion and avoidance in Bangladesh found that Electronic Billing Machines (EBM) have cut down time spent on screening books of accounts. Still, in Uganda, with the EBM, audits are easily conducted, and using Electronic Billing Machines, URA can now catch tax evaders with less effort. The same technology is used in countries like Sweden, Germany, Greece, Ethiopia, and Kenya to combat tax evasion. Every registered machine records all transactions and indicates value-added taxes expected to be remitted to the Government. Jahirul (2016) established that the use of EBMs discourages some taxpayers who are fond of keeping two receipt books or non-issuing tax receipts to clients, irrespective of the quantities bought, which encourages tax evasion.

However, despite the numerous studies on tax compliance, most of the reviewed studies did not explicitly address the mediating effect of the adoption of the e-tax system in the relationship between attitude towards the electronic tax system and tax compliance. Studies have mainly concentrated on direct effects among variables, leaving out the mechanism by which attitude towards the electronic tax system is related to tax compliance. For instance, the study by Ndunda et al. (2015) revealed that compliance affected revenue collection but did not examine how taxpayers' perceptions about an electronic tax system would influence its adoption and tax revenue performance. Similarly, Kinuthia and Akinnusi (2014) underscored telecommunications infrastructure as a barrier to the effectiveness of e-commerce. Still, they fell short of testing the mediating effect of the adoption of the e-tax system in the relationship. The study by Nyongesa (2014) found that the automation of the revenue collection system would widely increase revenue collection. Still, it was not clear how the revenue collection would be influenced by e-payment. Moreover, Baron and Kenny (1986) noted that a study that does not test for mediation ends with an incomplete understanding of the mechanism by which an independent variable influences the dependent variable. Therefore, this study filled the above empirical gap by examining the mediating effect of adopting the e-tax system in the relationship between attitudes towards the e-tax system and tax compliance in Fort Portal City. Consequently, this study hypothesized that;

H<sub>01</sub>: There is a positive relationship between attitude towards the e-tax system and tax compliance

H<sub>02</sub>: There is a positive relationship between attitude towards an e-tax system and its adoption

H<sub>03</sub>: There is a positive relationship between the adoption of an e-tax system and tax compliance.

H<sub>04</sub>: Adoption of the e-tax system mediates the relationship between attitude towards the e-tax system and tax compliance.

### 3.0 METHODOLOGY

#### Research Design, Study Population, Sample Size, Sampling Procedure and Techniques

The study used a cross-sectional design, enhancing data collection that is uniform for comparison across respondents at one point in time (Mulajje, 2019). A quantitative approach with a correlational design was used (Frost, 2020). The study population comprised 297 registered small and medium enterprises (SMEs) operating in all Divisions of Fort Portal City (i.e., Central and North Divisions) in Western Uganda (UNCDF Uganda Business Impact Survey, 2020; Uganda Bureau of Statistics report, 2017). Due to the lack of a list of categorized businesses by nature and ownership structure, SMEs were assessed irrespective of their legal form (such as family enterprises, sole proprietorships, or cooperatives) to ensure inclusiveness.

The study used a sample of 165 SMEs as a unit of analysis, obtaining a response rate of 100 percent. This sample size was determined using Krejcie and Morgan's table (Krejcie & Morgan, 1970). Furthermore, the study mainly focused on SMEs that were involved in trading and commerce. This is because the majority of the value-added tax (VAT) payers in Uganda belong to this category (UNCDF Uganda Business Impact Survey, 2020). SMEs were selected using stratified random sampling where they were first categorized by Divisions in Fort Portal city and nature of businesses, and then randomly selected from each category for representation. Furthermore, SMEs were selected from each stratum (City Division) using simple random sampling without replacement method from the list of SMEs registered with the Fort Portal city commercial office. Simple random sampling without replacement implies that each sample unit had only one chance to be selected in the sample (Lavrakas, 2020). The study targeted the manager per firm as the unit of inquiry because managers make all the crucial decisions in SMEs which are mostly owner-managed (Nakitende, 2019). Respondents (managers) were purposively selected because they were few and presumed to have knowledge and experience about tax matters of their businesses.

#### Data Collection Methods, Research Instruments, Data Quality Control (Validity and Reliability)

The present study used a survey method in which a structured self-administered questionnaire was used to collect quantitative data from the managers of the sampled SMEs in Fort Portal City. A Self-administered questionnaire was desirable because it discloses direct feedback from the respondents and allows the anonymity of respondents (Lewis *et al.*, 2020). Besides, the survey method enables essential data to be collected from many respondents with high validity and reliability (Sekaran, 2016). Convergent validity was tested by generating average variance extracted from the component matrices under exploratory factor analysis (EFA). All constructs yielded an average variance extracted above 0.5 as recommended by Haire *et al.*, (2010). Discriminant validity was tested by comparing the construct's average variance extracted (AVE) from the component matrices with the squared correlations among constructs. Each of the constructs yielded an AVE greater than the squared correlations with other constructs as recommended by Fornell & Larker (1986). Additionally, the questionnaire was checked for content validity by experts. The content validity index (CVI) was determined using the formula below as advanced by Lawshe (1975).

$$CVI = \frac{\text{Total Number of items rated by all respondents}}{\text{Total Number of items}}$$



### *Total number of items in the instrument*

All variables yielded CVI above 0.7, confirming the content validity of the instrument (Amin, 2005). Furthermore, the Cronbach's alpha reliability coefficients were generated using SPSSv22. All variables yielded a Cronbach alpha of 0.7 and above, indicating acceptable internal consistency (Mohsen & Dennick, 2011).

### **Data Processing, Measurement of Study Variables and Test for Parametric Assumptions**

Data were coded to ensure completeness and accuracy using SPSS v.22. Missing values were identified using the frequency distribution. For reliable results, variables with missing values were replaced using the linear interpolation method (Garson, 2012). Outliers were managed by transformation where actual outlying values were replaced with less extreme values while erroneous outliers were deleted (Frost, 2020 & Pallant, 2020). The conceptualization of variables was derived based on prior studies from a comprehensive review of the related literature. Consequently, attitudes towards the e-tax system were measured in terms of perceived usefulness and perceived ease of use (Night & Bananuka, 2019; Nkundabanyanga, 2017; Nkwe, 2013; Jayawardane, 2016; Davis, 1989; Khaddafi et al., 2018). Adoption was conceptualized as unidimensional, with questionnaire items reflecting the actual use of the e-tax system in handling tax matters (Night & Bananuka, 2019; Nkundabanyanga, 2017; Yusof, 2014; Hatega, 2007; Ojiambo, 2016). Tax compliance was conceptualized regarding tax registration, filing of tax returns, and tax payments (Night & Bananuka, 2019; Nkundabanyanga, 2017; Nkwe, 2013; Nakitende, 2019; Musimenta et al., 2017).

All variables were anchored on a five-point Likert scale ranging from 1 (strongly disagree) for pessimistic scenarios to 5 (strongly agree) for optimistic scenarios (Amin, 2005). Field (2006) also noted that parametric assumptions should be checked for stable results before data is subjected to any analytical technique. Accordingly, the study variables were subjected to diagnostic tests for parametric assumptions. These included normality, linearity, homogeneity of variance, and multicollinearity. All the above test results were in acceptable ranges as recommended by Pallant (2020), Haire et al., (2010), Garson (2012), and Field (2006).

### **Data Analysis**

The study used inferential statistics to enable researchers to generalize findings to the population (Salkind, 2014). Pearson correlation analysis was conducted to test the association between the study variables (Pallant, 2020). Besides, hierarchical multiple regression was used to test the mediating effect of adoption of the e-tax system in the relationship between attitude towards the e-tax system and tax compliance. Hierarchical multiple regression was preferred in this study because it helps identify each independent variable's contribution to the model's predictive power (Pedhazur, 1997 & Sked, 2015). The choice of parametric tests instead of a nonparametric equivalent was based on the recommendation of Podsakoff *et al.* (2012) and Field (2006) who posited that the former has more statistical power than the latter.

Furthermore, mediation was tested following the Baron and Kenny (1986) technique. Baron and Kenny (1986) noted that for mediation to occur, (1) The independent and the dependent variables should be correlated. (2) The independent variable should significantly influence the mediating variable. (3) The mediating variable should substantially influence the dependent variable. (4) The effect of the independent variable on the dependent variable should reduce when the mediating

variable is introduced in the model. The study therefore confirmed the above conditions by; first, testing the relationship between the independent variable (attitudes towards e-tax system) and the dependent variable (VAT compliance), second, the relationship between the independent variable and the mediator variable (adoption of the e-tax system), third, the relationship between the mediator and the dependent variables and finally, the mediating effect of adoption in the relationship between attitudes towards the e-tax system and VAT compliance. All the above conditions were met as indicated in the results section.

The following models were estimated and tested using the regression analysis technique in SPSS version 22 as part of the mediation process according to Baron and Kenny (1986).

$$TCOMP = \beta_0 + \beta_1 ATT + e \dots \dots \dots i$$

$$ADOPT = \beta_0 + \beta_1 ATT + e \dots \dots \dots ii$$

$$TCOMP = \beta_0 + \beta_1 ADOPT + e \dots \dots \dots iii$$

$$TCOMP = \beta_0 + \beta_1 ATT + \beta_2 ADOPT + e \dots \dots \dots iv$$

Where  $\beta_0$ =constant,  $\beta_1 ATT$  is the coefficient of attitude towards the e-tax system,  $\beta_1 ADOPT$  is the coefficient of adoption of the e-tax system and  $e$ , the error term. Results are indicated in the next section.

### **Ethical Considerations**

The study ensured that participants understood the purpose and methods used in the study, the risks involved, and the demands placed upon them as participants. The participants were informed that they had the right to withdraw from the study at any time. The researchers first sought authorization from each SMEs' top administrators before conducting the study from their premises. Besides, the study assured the respondents that the research study's information would be kept confidential and strictly for academic purposes only. Confidentiality was ensured by not asking for respondents' and company names. Instead, the researchers coded questionnaires to describe the respondents and generalized the findings.

## **4.0 FINDINGS**

### **Sample Characteristics**

The results indicated that most (62%) respondents were males, compared to (38%) females. The distributions reveal a weak gender balance, indicating that more effort is required to encourage women in Fort Portal City to start income-generating activities. Furthermore, results revealed that 33.3% of the respondents were between 30-34 years, and 32.7% of the respondents were below 30 years. An equal proportion of the respondents, were between 35-38 years (17%) and above 38 years (17%), respectively. The results imply that 83% (cumulative percentage) of the business people in Fort Portal City are in their youthful age, hence energetic in conducting business operations. Results further indicated that 40.6% of the respondents had diplomas, while 41.2% and 15.8% possessed 1<sup>st</sup> degrees and Postgraduate qualifications, respectively. The least number of respondents (2.4%) had certificates. The cumulative percentage of 97.6% indicates that most of the respondents possessed at least a diploma. This implies that the majority of the respondents possessed high skills, knowledge, and competencies that are vital for the smooth running of

business operations. It also implies that the majority of the respondents were informed, thus giving accurate and reliable responses.

In the same vein, the majority (78.8%) of the small and medium enterprises (SMEs) in Fort Portal City have been in operation for more than five years. This implies sustainability among SMEs in the area. In addition, SMEs with a substantial period in business are experienced, and being conversant with the dynamics in the business environment, they gave credible responses on the study variables. Additionally, results indicated that a significant proportion (43.6%) of the SMEs in Fort Portal City financed their business operations by use of equity capital only, while 43.6% used both equity and loans. A mild 0.6% and 12.1% of the SMEs used donations and loans only respectively to finance their business operations. This implies that most of the SMEs had a stable financing option since they used their own money to run their business, which is expected to reduce the cost of capital, hence impacting their sustainability and tax compliance.

### Pearson Correlation Analysis Results

Following the recommendation of Pallant (2020) and in line with hypotheses H1 to H3, the study explored the linear relationship between variables. The study therefore established the relationship between attitudes towards the e-tax system, adoption of the e-tax system, and tax compliance.

**Table 1: Pearson Correlation Analysis Results**

	1	2	3
1 Attitudes Towards E-tax System	1		
2 Adoption of E-tax System	.38**	1	
3 VAT Compliance	.40**	.59**	1

Note: \*\*.  $P < 0.01$  level (1-tailed),  $N=165$

Source: Primary Data (2022)

The Pearson correlation findings in Table 1 indicated a positive and significant relationship between attitudes towards the e-tax system and tax compliance among small and medium enterprises ( $r = .40, p < .01$ ). The results mean that an improvement in attitude towards the e-tax system is associated with an improvement in tax compliance. The results further imply that when taxpayers perceive the e-tax system to be easy to use and more useful, they are likely to comply by registering for taxes, filing returns, and making prompt tax payments. Furthermore, it was further observed that attitude towards the e-tax system is positively associated with the adoption of the e-tax system ( $r = .38, p < .01$ ). By implication, a positive change in attitude towards the e-tax system is related to a positive change in its adoption by taxpayers. This means that when taxpayers have a positive attitude towards the e-tax system, they will adopt the system by actually using it in their operations. In other words, as taxpayers perceive the e-tax system to be easy to use and more useful, they are likely to apply it in their businesses. Pearson correlation results further indicated a positive and significant relationship between the adoption of the e-tax system and tax compliance ( $r = .59, p < .01$ ). The results imply that once taxpayers actually use the e-tax system in their business operations, they are likely to meet their tax obligations such as tax registration, filing returns and making timely payments. The e-tax system will push taxpayers to avoid their behavioral tendencies of tax evasion since they will be aware that all their transactions can be tracked online. The above results therefore rendered support to hypotheses H1, H2, and H3.

### Regression Analysis Results (Mediation Test)

In line with hypothesis H4, the study tested for the mediating effect of adoption of the e-tax system in the relationship between attitude towards the e-tax system and tax compliance. Baron and Kenny (1986) posited that for a mediation test to be reliably conducted; 1) the independent and dependent variables should be strongly associated, 2) the independent variable should significantly influence the mediating variable, 3) the mediating variable should substantially influence the dependent and, 4) the effect of the independent variable on the dependent variable should reduce when the mediating variable is introduced in the model. The study confirmed these preconditions for mediation through the standard regression analysis for the first three conditions and the hierarchical multiple regression analysis for the fourth condition as earlier explained in chapter three. Results for the direct and mediation effects are summarized in Tables 2 and 3 respectively.

**Table 2: Summary of Standard Regression Analysis Results for the Direct Effects between Variables**

Models	Mediation Conditions	Unstandardized		Sig.
		Coefficients		
		Beta	Standard Error	
Model 1	Effect of Attitude towards e-tax system on Tax Compliance.	0.49	0.19	.000
Model 2	Effect of Attitude towards e-tax system on adoption of e-tax system.	0.47	0.09	.000
Model 3	Effect of Adoption of e-tax System on Tax Compliance	0.57	0.06	.000

Source: Primary Data (2022)

From the standard regression results in Table 2, it was observed that the first three conditions suggested by Baron and Kenny (1986) for a mediation test were met. First, the independent variable (attitude towards the e-tax system) significantly influenced the dependent variable (tax compliance) ( $B = .49, p < .01$ ) in model 1, implying that a unit change in attitude towards the e-tax system leads to a significant change in tax compliance by .49 units. Second, the independent variable significantly influenced the mediator variable (adoption of the e-tax system) in model 2 ( $B = .47, p < .01$ ), meaning that a change in attitude towards the e-tax system leads to a change in the adoption of the e-tax system by .47 units. Third, the mediator significantly influenced the dependent variable in standard regression model 3 ( $B = .57, p < .01$ ). By implication, a unit change in adoption of the e-tax system significantly changes tax compliance by .57 units.



**Table 3: Hierarchical Regression Results for the Mediation of Adoption of the E-Tax System in the Relationship between Attitudes towards E-Tax System and Tax Compliance**

Predictors	Model 1 (Before Mediation)			Model 2 (After mediation)		
	Unstandardized Coefficients		Standardized Coefficients	Unstandardized Coefficients		Standardized Coefficients
	B	SE	Beta	B	SE	Beta
(Constant)	2.23	.34		1.11	.33	
Attitude towards e-tax system	.49	.09	.40***	.26	.08	.21***
Adoption of e-tax system				.49	.07	.51***
<b>Model summary:</b>						
R			.40			.62
R-Square			.16			.38
R-Square Change			-			.22
Sig (ANOVA)			.001			.001

Note: \*\*\* $P < .001$ , Dependent Variable: Tax Compliance

Source: Primary Data (2022)

Lastly, from the hierarchical multiple regression results in Table 3, the effect of the independent variable (attitude towards the e-tax system) on the dependent variable (tax compliance) reduced on the introduction of the mediator (adoption of the e-tax system) from  $\beta = .40$ ,  $p < .01$  (before mediation in model 1) to  $\beta = .21$ ,  $p < .01$  (after mediation) in model 2. Furthermore, the effect of attitude towards the e-tax system on tax compliance reduced but remained statistically significant. Moreover, a ratio index given by  $((.40 - .21) / .40) * 100$  indicates that 48% of the effect of attitude towards the e-tax system on tax compliance is transmitted through the adoption of the e-tax system while 52% is a direct effect. These results mean that adoption of the e-tax system mediates the relationship between attitude towards the e-tax system and tax compliance. Additionally, given that the effect of attitude towards the e-tax system on tax compliance remained statistically significant on the introduction of the mediator (adoption), it indicates partial mediation. Moreover, the mediated model predicts 38% ( $R^2 = .38$ ) of the variance in tax compliance compared to a mild 16% ( $R^2 = .16$ ) variance from the direct effect. This means that a positive attitude towards the e-tax system will influence its adoption by taxpayers and in turn, lead to tax compliance among the small and medium enterprises in Fort Portal City Uganda.

The above results therefore support the present study hypothesis which states that “adoption of the e-tax system mediates the relationship between attitude towards the e-tax system and tax compliance among small and medium enterprises in Fort Portal city, Uganda”.

### Discussion of Findings

#### The Mediating Effect of Adoption of the E-Tax System in the Relationship between Attitudes towards the E-Tax System and Tax Compliance

To establish the mechanism through which attitude towards the e-tax system influences tax compliance among small and medium enterprises in Fort Portal City, Uganda, the study

investigated the mediating role of the adoption of the e-tax system in the relationship. Baron and Kenny (1986) noted that a study that does not address the mediating mechanism ends up with facts but with an incomplete understanding of the nature of the relationship. Consequently, it was hypothesized that adoption of the e-tax system mediates the relationship between attitude towards the e-tax system and tax compliance (H1). Results in Table 3 (Model 2) indicated that the effect of attitude towards the electronic tax system on tax compliance reduced although remained significant with the introduction of adoption of the e-tax system (the mediating variable) in the model compared to its main effect. Given that all mediation conditions, as suggested by Baron and Kenny (1986), were met as explained in chapter four, it confirms that adoption of the e-tax system partially mediates the relationship between attitude towards the e-tax system and tax compliance among small and medium enterprises in Fort Portal city, Uganda, thus supporting hypothesis H1. This means that when taxpayers perceive the electronic tax system as being easy to use and more beneficial to them, they will adopt it in their businesses. This, in turn, will result in tax compliance where the system will aid voluntary tax registration, filing of tax returns, and timely tax payments.

The study findings resonate with the observations of other scholars. Khaddafi et al. (2018) noted that the adoption of an electronic tax system depends on the perceived ease of use of the tax system, intensity of behavior, and user satisfaction. Besides, Night and Bananuka (2019) noted that taxpayers must be happy and motivated to use the electronic tax system, but the tax system should also be easy to use. In other words, the user of the electronic tax system must find it pleasant while interacting with the electronic tax system. Furthermore, Jahirul (2016) established that the use of EBMs discourages some taxpayers who were fond of keeping two receipt books or non-issuing tax receipts to clients, irrespective of the quantities bought, which encouraged tax evasion. Moreover, a study by Nyongesa (2014) found that the automation of the revenue collection system would widely increase tax revenue collection. In the same vein, Maisiba and Atambo (2016) argued that the e-tax system improves tax compliance, as it facilitates faster accessibility to tax services without a physical visit to the tax authority premises.

The present study findings further rendered support to the technological acceptance model (TAM). According to Davis (1989), TAM suggests that taxpayer adoption behavior is determined by the intention to use a particular system, which is determined by the attitudes toward the system. Consequently, taxpayer adoption of any system may be determined by the intention to perform a certain behavior. Moreover, the adoption of an electronic tax system is important not only in terms of reducing costs and taxpayer convenience but also in terms of improving tax compliance (Night & Bananuka, 2019). This study has therefore affirmed that TAM provides a basis on which belief or attitude to use an electronic tax system enhances the adoption of an electronic tax system which affects tax compliance behaviors among small and medium enterprises in Fort Portal City, Western Uganda.

## **5.0 CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

On examination of the relationship between attitude towards the e-tax system and tax compliance among small and medium enterprises, it was established that the two variables were significantly and positively associated with attitude towards the e-tax system, accounting for a significant amount of variation in tax compliance.

Furthermore, while examining the association between attitude towards the e-tax system and adoption of the e-tax system, it was confirmed that attitude positively and significantly influenced the adoption of the e-tax system in small and medium enterprises. This deep-rooted the potent role that perceptions about the system play in influencing the behavioral intentions to adopt the electronic tax system in operations of small and medium enterprises during tax registration, filing of tax returns, and tax payments.

Additionally, the study established the relationship between the adoption of the e-tax system and tax compliance. Results revealed a strong and positive influence of the adoption of the electronic tax system on tax compliance. This demonstrates that once taxpayers adopt an e-tax system, they will voluntarily register for taxes, file returns, and make timely payments. It, therefore, suffices to note that an electronic tax system is critical to the effective execution of tax laws and the sustained assessment of and collection of value-added tax from small and medium enterprises.

Additionally, the study established that adoption of the e-tax system plays a mediating role in the relationship between attitudes toward the e-tax system and tax compliance. It was observed that once taxpayers perceive the e-tax system to be easy to use and beneficial to them, they will adopt it in tax registration, filing of tax returns, and making tax payments voluntarily, thus leading to increased tax compliance.

## **Study Implications**

### **Theoretical Implications**

The theoretical implications for this study were drawn mainly from the perspective of whether or not the study findings support the theory's assumptions. Empirical findings from this study revealed that attitudes towards the e-tax system explain tax compliance among small and medium enterprises in Fort Portal City through the adoption of the e-tax system. Therefore, tax compliance among small and medium enterprises is a complex phenomenon that cannot be explained wholly by attitudes towards the e-tax system. Central to the study findings, it suffices that the attitude towards the e-tax system is not sufficient in explaining tax compliance. The ultimate position in this study is that the relationship between attitudes towards the e-tax system and tax compliance is mediated by the adoption of the e-tax system. In other words, a positive attitude towards the e-tax system does not automatically lead to tax compliance unless the system is actually adopted by the taxpayers during tax registration, filing of tax returns, and making tax timely payments.

It has been accurately pointed out that estimating a model without accounting for the mediation effect of other variables does not vividly explain the accurate relationship between the independent and dependent variables. Therefore, the study confirmed that the hypothesized model (Figure 1.1) generally fits the normal taxable operations of small and medium enterprises in Fort Portal City, Uganda, serving its purpose.

### **Policy Implications**

The study findings revealed the need for greater awareness of the role of the electronic tax system in tax compliance among the business community in Uganda. This can be achieved if Government agencies such as the Uganda Revenue Authority (URA), in collaboration with the private sector foundation Uganda (PSFU), strictly monitor the implementation of tax laws and regulations among private companies. On this note, the electronic tax system should be top on the agenda for all interactions or conferences between regulators, policymakers, professional bodies, shareholders,

and senior management of business enterprises. The government through URA, should improve tax compliance by sensitizing taxpayers about the benefits of electronic tax systems, which may positively change taxpayers' attitudes towards electronic tax system and embrace the system and, thus tax compliance. URA needs to focus on increasing electronic tax system usage and ensure that taxpayers are trained taxpayers on the importance of tax compliance.

### **Recommendations**

The study highlighted the crucial role attitude towards the e-tax system plays in influencing tax compliance among small and medium enterprises in Uganda. Findings highlighted the need for managers of small and medium enterprises to design appropriate internal controls to ensure efficient handling of their tax matters. For instance, managers should intensify efforts aimed at ensuring that their businesses are highly accountable and transparent to the tax authority and maintain a good reputation through online registration, filing of tax returns, and prompt settlement of tax obligations as a way of avoiding tax evasion and incidental consequences.

Furthermore, the study has brought out the inevitable role the adoption of the e-tax system plays in explaining the relationship between attitudes toward the e-tax system and tax compliance among small and medium enterprises. Thus, SMEs should invest in human capital besides investment in physical assets such as computers. They should invest in programs aimed at enhancing information technology (IT) skills and attract and retain highly competent workers who will improve their self-assessment, and tax reporting, thus ensuring sustainable tax compliance.

### **Limitations of the Study and Areas for Future Research**

Despite the contribution to the existing body of knowledge in tax compliance, the findings of the present study are not short of limitations that provide grounds for further research.

First, the cross-sectional nature of the study design limited the ability to examine the trends in the VAT compliance of SMEs and changes in attitudes towards the e-tax system. There is, therefore, a need for longitudinal studies to capture trends considering the time factor. Nevertheless, the study has provided a clear insight into the relevance of attitudes towards the e-tax system in tax compliance among SMEs in Uganda.

In terms of measurement of the study variables, although theories and existing literature were utilized and constructs defined, the measures used may not perfectly define all constructs hence the need for further refinement to minimize the measurement errors in future studies.

Furthermore, having had a quantitative orientation, results could have been affected by methods bias where qualitative data was not considered, limiting the researcher's ability to capture perceptions of respondents that would support the quantitative data. Therefore, future studies can blend the two approaches for a more comprehensive analysis and logical conclusions.

In a related case, the study investigated perceptions of only managers, leaving out external stakeholders such as customers, URA, and the general public, who could have highlighted more diverse perspectives of tax compliance among SMEs. Future studies should seek the views of other stakeholders to obtain balanced opinions.

Additionally, the study did not concentrate on a specific industry, thus not accounting for industry-specific factors that could have influenced tax compliance among SMEs. Future studies should conduct a comparative analysis across diverse industries for more elaborate conclusions.



Nevertheless, the survey covered the crucial attitude towards the e-tax system, which cuts across all industries with the same weight and relevance.

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