# Tax Compliance by the Small and Medium-sized Corporations: A Case of Uganda


Submitted by

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I certify that all material in this thesis which is not my own work has been identified and that no material has previously been submitted and approved for the award of a degree by this or any other University.

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# Abstract

The aim of this thesis is to understand tax compliance decisions made by corporate SMEs in Uganda. The study draws on compliance models developed in other settings and explores their applicability in the Ugandan context using mixed methods. Firstly, the study investigates the roles played by tax fairness, trust in government and the URA, and the effects of audits and sanctions in influencing compliance[1]. Secondly, the study explores the direct and indirect roles played by social norms in terms of influencing tax compliance among SMEs[2]. Lastly, the study assesses the effects of corruption on compliance behaviour among SMEs. Survey and semi-structured interview data were collected concurrently. A survey was used to collect data from a total of 386 corporate SME owners and managers from Kampala Capital City Authority and the central and eastern regions. In addition, interviews were conducted with 26 corporate SME owners and managers about their perceptions of corporate tax system fairness in Uganda.

The results, unlike those of other studies, show that corporate SME taxpayers are willing to pay their corporate taxes once they have put their trust in the government and tax authorities, even when the tax system is unfair. Also, audit probability and sanctions might not encourage corporate SMEs to comply with corporate tax rules. However, when URA is perceived as powerful where tax officers are able to discover tax non-compliance and impose severe sanctions, SME firms could be motivated to pay taxes due to the government. Importantly, corruption within the URA and the bureaucratic system of Uganda has a negative impact on tax fairness, which triggers corporate tax evasion. Indeed, I have identified four types of corruption that appear to have different impacts on attitudes towards compliance. Also, the results show that day-to-day tax compliance decisions made by corporate SMEs have more direct influence on corporate SMEs' tax (non)compliance behaviour than ethical values do. However, SMEs' willingness to comply is affected by how people who are close to each taxpayer think.

Overall, the thesis advances scholarship by demonstrating that the Slippery Slope Framework does not hold in Uganda and that different types of social norm impact compliance differently. Corruption is identified as an important differentiating feature when compared to studies in developed countries.

[1]These are constructs of the Slippery Slope Framework (SSF), a model developed by Kirchler, Hoelzl & Wahl (2008).
[2]Adaptedand modified from Bobek, Hageman & Kelliher (2012) to suit the research context.

# Table of Contents

# List of Figures

# List of Tables

# Acronyms

KCCA – Kampala Capital City Authority

URA – Uganda Revenue Authority

MoFPED – Ministry of Finance Planning and Economic Development

UBOS – Uganda Bureau of Statistics

KACITA – Kampala City Traders' Association

UMA – Uganda Manufacturers' Association

EAC-CMA – East Africa Community-Customs Management Act

VAT – Value Added Tax

WHT – Withholding Tax

SAS – Self-Assessment System

SMEs – Small and Medium Enterprises

SPSS – Statistical Package for Social Scientists

AMOS – Analysis of Moment Structures

CPI – Corruption Perception Index

LC 5 – Chair Person, Local Council V

CAO – Chief Administrative Officer

WBS – Wavah Broadcasting Services

CFA – Confirmatory Factor Analysis

ML – Maximum Likelihood

C.R. – Critical Ratio

GFI – Goodness of Fit Index

RMSEA – Root Mean Square Error of Approximation

NFI – Normed Fit Index

TLI – Tucker Lewis Index

CFI – Comparative Fit Index

CMIN/DF – Chi-Square/Degrees of Freedom

IRS – United States Internal Revenue Services

ADBG – African Development Bank Group

TJN-A - Tax Justice Network-Africa

SSF – Slippery Slope Framework

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# Chapter 1

# Introduction

This chapter presents the background to the study. It includes an overview of literature on tax compliance, a statement of the problem, details of the purpose of the study, the research objectives and information about the scope of the study. Furthermore, it provides brief descriptions of the research design and methodology and the significance of the study.

## 1.1 Background to the study

Taxpayers' willingness to pay taxes differs widely across the world and Andreoni, Erard and Feinstein (1998, p.818) suggest that tax compliance has been a significant challenge for most economies for a long time. Andreoni et al (1998) urge various nations to formulate tax policies in such a way as to achieve tax compliance. Tax compliance means the accurate reporting of the tax base, correct liability computation, and the timely filing of returns and payment of amounts due (Franzoni, 1999, p.55; Kornhauser, 2007, p.161). However, Nkwe (2013, p.119) expanded the scope of tax compliance to theoretically include compliance measures such as registering for Tax Identification Numbers, proper bookkeeping, filing of returns, accurate determination of taxable income, determination of accurate tax liability, payment of tax dues on the due dates, payment of fines and penalties for overdue taxes, allowing for audits by tax collectors, and the use of tax advisors such as accountants. Thus, Vlassenko (2001) suggests that, to encourage taxpayer compliance, tax systems ought to be perceived as fair and efficient.

Tax compliance, predominantly income tax compliance, has received extensive consideration from researchers internationally. Studies include those by: Kamdar (1997) in the United States; Chattopadhyay & Das-Gupta (2002) in India; Coolidge, Ilic & Kisunko, 2009 in South Africa; Deloitte (2009) in South Africa; Hansford & Hasseldine (2012) in the UK; Lignier & Evans (2012) in Australia; and Cidália (2012) in Portugal. Most of these studies investigated personal income tax compliance in developed economies with very little or only preliminary research having been carried out in developing countries, especially in Sub-Saharan Africa. Also, research on corporate income tax has been ignored in both developed and developing countries, which would probably explain why income tax has taken on only the second best alternative position to value added tax, which was recently introduced in 1996 in Uganda (Uganda Revenue Authority, 2011, p.69).

Although prior studies indicate that raising more domestic revenue is a priority for most Sub-Saharan African countries (IMF, 2012, p.19; Moore, 2013, p.10) in order to create fiscal space to finance essential public goods and services, and to reduce dependence on foreign aid, taxpayers in most African economies challenge domestic tax bases through extensive tax avoidance and evasion schemes (Ali, Fjeldstad & Sjursen, 2013, p.1). McKerchar & Evans (2009, p.171) recognise taxpayer non-compliance as a continual and growing global problem and find that developing countries face a much bigger problem. Therefore, it is of critical importance to scrutinise SMEs' non-compliance behaviour towards corporation tax and identify factors that significantly explain corporate tax compliance behaviour. A reduction in the incidence of SMEs' corporate tax non-compliance will not only improve government revenue but also reduce the antagonistic consequences on societal fairness and the undesirable effects on the country's effectiveness and efficiency.

### 1.2 Statement of the problem

Previous empirical studies have shown that corporate tax non-compliance has been a major problem to tax authorities in developed and developing economies around the world (Kamdar, 1997; Hanlon, Mills & Slemrod, 2005; Bruhn 2011; Contos, Erard & Stilmar, 2009). Correspondingly, preliminary literature in Africa, particularly in Sub-Saharan Africa, indicates that income tax non-compliance remains a challenge (Mawejje, 2013, p.1; Ali, et al., 2013, p.6). Notwithstanding the notable significance of corporate tax in the generation of government revenue and its pervasive non-compliance, there seem to be no empirical studies evaluating corporate tax compliance behaviour, at least in the context of deterrent factors in combination with social-psychological constructs, such as social norms, trust and perceived fairness perspectives, amongst SMEs in Sub-Saharan Africa.

Deterrent factors, such as audit probability, and detection and sanctions, define how well tax officers can conduct tax audits, detect inaccurate tax returns, impose penalties and recover unpaid taxes. Also, socio-psychological factors, such as social norms, arise from taxpayers' normal social interactions when making tax non-compliance decisions (descriptive norms), the acceptable behaviour among taxpayers (injunctive norms), the acceptable behaviour of other important people (subjective norms) and developed ethical behaviour (personal norms). Perceived tax system fairness forms part of the views that taxpayers may hold about government fairness when distributing tax revenue by way of the provision of public goods and services, and the fairness of the tax authorities' tax payment processing procedures. Uganda, as a developing country, has considerable shared practices with other economies, particularly in Sub-Saharan Africa, so the results of this study help us to understand which variables significantly affect SMEs' corporate tax compliance behaviour.

Although direct taxes are a major source of government revenue in both developed and developing economies (Hijattulah, 2009, p.3; Azzoni, 1972, p.3), and represent the second largest share of Uganda's net collections, they increased from 6 percent to 33 percent in the ten years prior to June 2015. On the other hand, the contribution of corporate tax to the direct taxes was highest in the 2005/06 financial year, at 30 percent. It declined in subsequent years, falling to 20 percent in the 2014/15 financial year (Uganda Revenue Authority, 2014).

Mawejje (2013, p.1) estimates Uganda's shadow economy to be at 45.8 percent and 40.3 percent of Gross Domestic Product (GDP) and gross national income (GNI) respectively due to informal business operations. Uganda's tax-to-GDP ratio has stagnated between 10 and 13 percent over the same period (Matovu, 2010, p.9); in comparison, Namibia's was 31percent, Kenya's was 21.2 percent, Burundi's was 19 percent and Ghana's was 17.2 percent (Tusubira & Nkote, 2013, p.133; URA, 2013). Also, when comparing the rate of tax compliance with that in other East African Community countries, Uganda's tax compliance attitude was estimated at 32 percent, which is lower than that of Tanzania at 46 percent and Kenya at 53 percent (Ali, et al., 2013, p.6). Despite their differences, these countries have common problems which make the results for Uganda valuable and transferable.

Notwithstanding the aforementioned experience, most of the previous studies on corporate tax have focussed on advanced countries (for example, see Evans et al., 2013; Mills, 1998; Hanlon, Mills & Slemrod, 2005; Richardson & Sawyer 2001). Also, the absence of theories that precisely explain and provide a solution to SMEs' corporate tax non-compliance stimulates an opportunity for research in this area. To the researcher's knowledge, no study has investigated the application of the Slippery Slope Framework (SSF) and the Social Norms Theory (SNT) models to corporate SMEs' tax compliance behaviour, let alone the influence of the four constructs of corruption in the current corporate tax system, particularly in Uganda. Therefore, this study makes a contribution towards bridging the knowledge gap in Uganda, providing a generalised application to economies with similar settings.

### 1.3 Purpose, objectives and scope of the study

The purposes of this study are threefold.

The first is to understand and illuminate the extent to which perceptions of corporate tax fairness and deterrence factors interact with tax compliance behaviour amongst Ugandan SMEs. The second is to examine the extent to which social norms directly or indirectly influence the corporate tax compliance behaviour of SMEs in Uganda. The last is to assess the effects of corruption on perceptions of corporate tax fairness and corporate tax compliance behaviour among SMEs in Uganda. The major research objectives that guided the study in terms of meeting the overall research purpose were:

i) To investigate and model the relationship between corporate tax fairness perceptions, power of and trust in authorities, and tax compliance among corporate SMEs in Uganda.

ii) To investigate and model the relationship between, and corporate social norms of, descriptive, injunctive, subjective and personal norms and tax compliance behaviour among corporate SMEs in Uganda.

iii) To examine and model the relationship between corruption and corporate tax system unfairness and tax compliance behaviour among SMEs in Uganda.

The design of this study was informed by a number of theories, while three strands of literature informed the design of data collection. First, theories and literature that form the Slippery Slope Framework (SSF), which looks at the power of, and trust in, authorities (Kirchler, Hoelzl, & Wahl, 2008) were considered. These include equity theory as used in tax fairness (Adams 1965; Eckhoff 1974; Bobek 1997; Huseman et al. 1987; Leventhal. 1976; Fuller, 1961; Thibaut & Walker, 1978; Greenberg, 1987), responsive regulation (Ayres & Braithwaite, 1992; Braithwaite 2003, 2009) and the deterrence theory (Allingham & Sandmo, 1972). Second, the thesis considers social norms theories (Cialdini & Trost, 1998; Bobek, Roberts & Sweeney, 2007; Bobek, Hageman & Kelliher, 2012) that categorise social norms into descriptive, injunctive, subjective and personal norms, and how these influence tax compliance behaviour. Third, the study looks at how the different forms of corruption undermine tax system fairness and tax compliance within the context of equity theory.

Tax fairness theories show that tax compliance is enhanced through the fair distribution of government revenue by providing quality goods and services through fair distributional procedures, and through procedural fairness, where the tax authority employs fair, consistent and client-like procedures in order to support taxpayers to comply with the tax code. Within the slippery slope model, tax system fairness enables taxpayers to put trust in the government as well as the tax authorities, improving taxpayers' morale and therefore encouraging voluntarily contribute towards tax revenue of the country (Kastlunger, Lozza, Kirchler, & Schabmann, 2013; Muehlbacher & Kirchler, 2010). Tax audits, and detection and sanctions, as the dimensions of power in authorities, are significant predictors of taxpayers' perceptions of the power of authorities which, in turn, influence taxpayers' enforced compliance. Also, the way URA responds to taxpayers' tax compliance behaviour is of paramount importance and the perceived power of, and trust in, authorities that taxpayers have may determine their compliance levels within the corporate tax system (Kirchler et al. 2008; Wahl, Kastlunger & Kirchler, 2010).

Studies of social norms argue that social groupings and social behaviour may determine tax compliance behaviour among taxpayers (Bobek et al 2012) irrespective of the level of deterrence in terms of audit probability and detection as well as the penalty rates applied by the authorities (Alm, McClelland & Schulze 1992). Lastly, I consider the influence that corruption has on corporate SMEs' perceptions of corporate tax fairness and tax non-compliance behaviour, thus, filling the gaps in the theoretical underpinnings of the SSF and social norms model.

The study was limited to the investigation of the determinants of corporate SMEs' tax compliance behaviour in Uganda, taking Kampala Capital City Authority (KCCA) and the central and eastern regions as the foundations for testing. As corporate tax laws apply equally to all firms in the country and more than seventy percent of businesses operate within these regions, the researcher tried to include a range of firms within the sample.

### 1.4 Research design, methodology and method

The study adopted a mixed methods approach to gain an understanding of the major influences on tax compliance behaviour among corporate SMEs in Uganda (McKerchar 2008). First, the researcher used deductive logic with the objective of explaining the relationship between theoretical tax compliance behavioural factors and corporate SMEs' tax compliance behaviour. The researcher formulated testable hypotheses to evaluate the relationships between variables with reference to the current theories of tax compliance behaviour. The sample size to the study included 386 corporate SME taxpayers, which constituted the units of analysis. The validity and reliability of the data collection instruments were evaluated by conducting a pre-test prior to actual data collection. After data collection through a survey design, quantitative data analysis was done using SPSS23 and the Analysis of Moment Structures – AMOS version 23 and, secondly, thematic network analysis (Attride-Sterling, 2001) was used to analyse qualitative data.

Meeting the objectives of the study was of paramount importance here, so the mixed methods approach was judged to be the most appropriate method for the analysis, as discussed below (McKerchar, 2008). However, there are several approaches that can be taken when mixing methods, such as using interviews to strengthen the survey instrument for the major study (Rosid et al. 2016; McKerchar, 2001) or to support the survey results of the major study (McKerchar, 2007; Devos 2014). Here however, the researcher adopted a slightly different approach to mixing methods, employing semi-structured interviews to understand and answer questions that the survey method had failed to answer within the SSF.

Specifically, the survey method was used to investigate whether the relationships between the constructs under study exist, while the semi-structured interview approach was utilised to provide an in-depth understanding of such relationships and enrich the findings from the quantitative approach. Mixed methodology is considered to be suitable as the relationships under study are regarded as complex and go beyond the boundaries of empirical realism. Specifically, the study took on the stance of critical realism, seeking to answer both 'how' and 'why' questions (McKerchar, 2001), hence employing quantitative and qualitative methodologies simultaneously to collect quantitative and qualitative data with the intention that the interview findings would augment those of the survey.

### 1.5 Significance of the study

The study undertaken here is significant in a number of ways.

It makes a substantial contribution to the bodies of knowledge in the field of corporate tax compliance behaviour of SMEs. Firstly, the study uses an integrated model of power of authorities and trust in authorities in the enhancement of enforced and voluntary corporate tax compliance. Secondly, the thesis employs the social norms theoretical model in testing its application in tax compliance behaviour. Both could be adapted to suit emerging economies. Additionally, this study contributes to the empirical literature on corruption and corporate SMEs' tax evasion, specifically that relating to how different dimensions of corruption - in particular, general corruption, petty corruption, political corruption and grand corruption - influence the tax evasion decisions of corporate SMEs, especially in Uganda.

Both developing and developed economies experience tax non-compliance behaviour by SMEs. Therefore, Uganda benefits from this study, as the findings show how two related models of tax compliance operating in the Ugandan setting could lead to l policy recommendations that could improve tax compliance among corporate SMEs.

The existing literature shows that studies have been undertaken on corporate tax compliance; nonetheless, the researcher has no knowledge of any studies on corporate SMEs' tax compliance behaviour in Uganda which they adopt the tax compliance theories used in the current study. Consequently, this thesis widens the knowledge of the Slippery Slope Framework and the social norms theory in explaining the corporate tax compliance behaviour of SMEs, as well as identifying possible determinants of corporate SMEs' tax non-compliance in Uganda and, more broadly, developing countries.

### 1.6 Operational definitions of terms

**Fairness:** is defined as a perception; an imagination that involves an evaluation as a result of comparing one's own situations or those of oneself and others. Fairness for purposes of this study is comprised of distributive fairness and procedural fairness.

**Distributive fairness:** Distributive justice refers to the fairness of the outcomes of resource allocation or distribution (Wenzel 2003). Therefore, under distributive fairness, the perception is that the government acts as a good custodian and wise spender of tax revenues (OECD, 2010). The typical benefits from distributive fairness are the public goods and services one receives from actual taxes paid based on objective and equitable allocation of such resources (Verboon & Goslinga, 2009).

**Procedural fairness:** is concerned with how fair the procedures used in decision-making are perceived and how this action is perceived by the receiver of the decision maker's treatment. Procedural fairness, also known as process fairness, involves the study of mechanisms aimed at objectively implementing the fairness principles (Murphy, 2004) of consistency of government allocation procedures, correctability of the tax returns by taxpayers to reflect accuracy and/or having appropriate ways in which government is able to rectify or change decisions as a requirement for the allocation procedures to be perceived as fair for wider acceptance by citizens (Leventhal, Karuza & Fry 1980; Saad, 2011).

**Trust in authorities:** implies that the general opinion of taxpayers and social groups that the tax authorities are benevolent and work for the common good (Kirchler et al., 2008; Kogler et al., 2013).

**Power of authorities:** is reflected in taxpayers' perceptions of the potential for tax officers to detect illegal tax evasion through regular and comprehensive tax audits and to punish evasion through sanctions to tax evaders.

**Legitimate power:** the power that is perceived as the accepted right to influence others by means of skills to perform required task, authority established by existing laws and regulations, the norms of reciprocity, social responsibility and equity and the belief that taxpayers have only right course of action,  cooperation (Gangl, Hofmann & Kirchler, 2015).

**Tax compliance:** perceptions of the taxpayers to mean the accurate reporting of the tax base, correct liability computation, and the timely filing of returns and payment of amounts due in accordance with the requirements of the income tax law, but also based on the willingness of the taxpayers to support in public financing. Therefore, tax non-compliance is the antithesis of tax compliance.

**Social norms:** are defined as rules and standards that are understood by members of a group and which give direction and/or restrain social behaviour without the force of laws (Cialdini & Trost, 1998). They include injunctive norms, subjective norms, descriptive norms and personal norms.

**Corruption:** The abuse of public office for personal gain

# Chapter 2

# Background Information about the Ugandan Environment

## 2.1 Introduction

The aim of this chapter is to provide background information about Uganda, including the geographical and historical issues that account for Uganda's current position, and the governance of both the country and its tax system. I also present key information relating to: Uganda's land and social attachments; the oil-rich strip running from the north to the south-west and the various activities taking place in this area; and the partial political issues, together with the associated benefits and fears that manifest themselves due to political affiliations, and how these might affect tax compliance.

## 2.2 Geography of the Republic of Uganda

The Republic of Uganda is one of Africa's developing countries. It is located across the equator, between latitudes 4° 12' North and 1° 29' South, and longitudes 29° 34' East and 35° 12' East, on the East African Plateau (Government of Uganda, 2004, p.7). The country has a land area of 241,550.7 square kilometres (Uganda National Bureau of Statistics, 2014, p.87) and population of 34.9 million (Uganda Bureau of Statistics, 2014, p.6). Uganda is a landlocked country and borders five countries: the Democratic Republic of the Congo, 765 km, to the west; Kenya, 933 km, to the east; Rwanda, 169 km, to the south-west; Southern Sudan, 435 km, to the north, and Tanzania, 396 km, to the south. Uganda has five main regions: Kampala Capital City Authority (KCCA) and the central, eastern, northern and western regions. Figure 2.1 shows the regional boundaries of the country.

Figure 2.1 Map of Uganda showing the regional boundaries

According to the Constitution of Uganda (1995, p.186-187), Uganda has 56 different ethnic groups that are recognised as having an almost an equal number of local dialects, which has made communication between these groups a challenge. Therefore, in order to unify the country, English was designated as the official language, with Swahili being added later. When considering regional settings, the eastern and northern regions of Uganda are dominated with plain land with sporadic hills (except for Mbale, Bududa, Manafwa and Kapchorwa, which are located at the foot of Mt. Elgon).The central region has a series of bodies of water like Lake Victoria, as well as the River Nile basin, and many hills and swamps. Western Uganda has a number of fine-looking volcanic highlands and rolling hills. Uganda's climate and vegetation vary extensively in two climatic regions due to dissimilarities in their altitude and bodies of water. There are two major climatic regions. The north and east form one region. This has two seasons each year, one rainy and one dry. The western and central regions, and some parts of northern Uganda, form the other climatic region, which experiences two dry seasons each year (Kayaga, 2007, p.21).

With regard to how the citizens might perceive the government, her legitimacy and the tax authority, the regional divisions and varied customs must be considered. Therefore, taxpayers' perceptions of the tax system may or may not provide us with opportunities to broaden the tax base (Fjeldstad, Schulz-Herzenberg, & Sjursen, 2012). According to Kirchler et al. (2008), favourable perceptions about governments and tax authorities are likely to improve institutional trustworthiness and positively enhance tax compliance. Thus, the taxpayers' environment may be supportive of the tax system and tax compliance where these institutions are viewed as legitimate. Persson (2008) suggests togetherness as opposed to national divisions based on ethnicity. She argues that countries in Africa that put emphasis on national identity-building after independence became more politically successful than those that focused on ethnicity in taking political decisions. Persson (2008) indicates that Botswana, for example, successfully constructed a national identity, something which Uganda couldn't do. This failure could, given the regional disparities, be attributed to differences in social norms and probable inefficiencies in government institutions, which could be a hindrance to tax compliance and development.

### 2.3 Uganda's governance history and society

As a former British colony (which became independent from the UK in 1962), Uganda is a member of the Commonwealth of Nations, with an Executive headed by the president practicing democracy for both the Executive and Legislature, as adopted from the British government. However, Uganda does not have an efficient system of land tenure. In the central region, for example, there have been a number of conflicts since 1900, when the British created a land tenure system that gave large tracts of land to the political elite, while turning most Baganda into tenant farmers (Ssemutooke, 2015; Bossa, 2013)[3]. The Buganda landlords have been one of the strongest forces in opposition to the land reform attempts currently being made by the ruling National Resistance Movement (NRM), which is led by President Yoweri Kaguta Museveni. There is a strong attachment to land in most of the regions of Uganda and, in Buganda; an ethnic bias towards western Ugandans at the central state level has had serious political repercussions in recent years (Speight, 2015).

More specifically, long-standing worries among Baganda that their land would be taken by poor migrants from Rwanda and elsewhere have become supplemented with fears that President Museveni and fellow Westerners would trade the land for their own benefit. The failure of the NRM regime to address these concerns has led to the increasing popularity of federalism or *federo* (Olum, 2013; Oguttu, 2007), whereby the NRM has been increasingly pressured to grant some form of control over land to a regional Buganda government. The president recently gave a number of land titles back to the Prime Minister of the Buganda Kingdom in response to the demands of the Baganda (Otunu 2017; Wandera 2015)[4].

The other issue of concern is that Uganda's capital city, Kampala, lies at the heart of the central region, and has a current population of 1.5 million people due to the fact that most government departments and significant investments have been set up in Kampala and the surrounding areas (Uganda Bureau of Statistics, 2016). Given Kampala's strategic location, many job seekers move from other parts of Uganda to Kampala and its neighbouring districts in the central region. This is supported by the Census of Business Enterprises report of 2011 (Uganda Bureau of Statistics, 2011), which shows the majority of businesses as having been setup in the central region.

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[3]Bossa (2013) indicates that some conflicts arise out of multiple titles issued to political elites and notes, 'It would improve matters a bit if land registries desist from issuing multiple titles over one piece of land'

[4]President Museveni handed over 80 extra land tiles to the kingdom's prime minister, Mr Charles Peter Mayiga, at State House, Entebbe. In June 2014, the government handed over the first batch of 212 land titles. This was part of the Memorandum of Understanding that the government and Mengo, the seat of the Buganda kingdom, entered into in 2013

Northern Uganda has had a long-standing war with the Lord's Resistance Army (LRA) for 20 years, which resulted in an absence of productive installations in the region, including the construction of roads, during that period. The LRA has now been neutralised and there has been relative peace in the region for some time (The Guardian 2007, 2017). There is chronic poverty among the population in this region, with the highest proportion of its people living below the poverty line. However, the relative peace that currently prevails in this region has helped to reduce poverty levels (The World Bank 2016). Despite all of this, a feeling of desperation is evident. According to UNDP (2014), approximately 43 percent of the population is at risk of falling back into poverty in the event of a shock and therefore much needs to be done to improve the delivery of basic services to the people of Uganda, as well as to increase their income and secure their livelihoods. Also, effort is needed to reduce the vulnerability and strengthen the resilience of individuals and communities, especially in northern Uganda where poverty rates remain high (World Bank 2016)[5] as a result of high youth unemployment, gender inequality, lack of access to basic services and low economic development.

More dissatisfaction is likely to be brought to bear when people question how the government utilises tax revenue. There are instances where citizens are told to build schools, pay for their own healthcare, improve their own roads and find markets for their own produce, despite taxes having increased. This practice then causes suspicion about the government's intentions and the scheme is attributed to the government's intention to keep her citizens in poverty instead of redeeming them (Lwanga-Ntale & McLean, 2004). Tax compliance might be deeply affected by the conflicts between the government and some of the traditional monarchies (especially in respect of land grabbing, where the rich and government officials connive with officers in the land registry to change land title ownership) and the failure of government to provide the basic services, as tax morale is likely to be low.

### 2.4 Governance structure of the government of Uganda

Uganda is a parliamentary republic with central and local governments. The president is directly elected as the head of state and head of government with executive powers for a

[5]According to 'The Uganda Poverty Assessment Report 2016', progress in reducing poverty has been much slower in northern and eastern Uganda, thus the concentration of poverty is higher in these two regions. According to the report, the proportion of the total number of poor people who live in the northern and eastern regions increased from 68% to 84% between 2006 and 2013. Also, households in Uganda's northern, eastern and western regions have much lower levels of human capital, fewer assets, and more limited access to services and infrastructure than households in the central region.

term of five years. The president is responsible for nominating the cabinet, subject to parliamentary approval. The Constitution of the Republic of Uganda, Chapter 11, Article 176 (1), provides for a system of local government which operates under the Local Governments Act 1997. There are five tiers of local authority: district councils; county and municipal councils; sub-county and town councils; parish councils; and village (rural) or ward (urban) councils. The primary sources of revenue for local governments are transfers from central government and local collections of property tax, licences and user fees. Central and local governments share responsibility for transport and environmental protection, education, social welfare and public healthcare, with the districts taking the lead in the provision of those services. Local economic development is the responsibility of the districts and lower tiers of government (Government of Uganda, 2011, p.232).

The Ministry of Local Government, empowered through the Local Governments Act 1997, is responsible for formulating and supervising national policy and legislation at local government level. The minister responsible for local governments, the Resident District Commissioner (RDC), and the Inspector General of Government (IGG), who is broadly responsible for the elimination of corruption and abuse of office in the public sector, have powers to intervene in the activities of local government if an allegation of misconduct is made. Also, the Auditor General, as the government auditor, may be called upon to investigate any alleged misappropriations. In extreme cases, there is an escalation process that goes all the way up to the president, who can assume executive powers over the council (Government of Uganda, 2011, p.233).

It should be noted, however, that the process of transferring funds from central to local governments may create opportunities for corruption to thrive. The IGG (2014) contends that there is a huge likelihood of corruption weakening growth and development due to the diversion of resources intended to be used to improve service delivery and development programmes. This may undermine government efforts to reduce poverty and inequality among Ugandan citizens. The Inspectorate of Government's 2014 Report indicates that public officers engage in collusion and acts of syndicate with other public officials in different ministries, departments, agencies and the Bank of Uganda to protect themselves from detection. The Inspector General's (2015) report to Parliament indicated that the foregoing view is hardly surprising given the high number of high-profile corruption cases involving high-ranking public officials that have come to light since 2012 (IGG, 2015). Perceptions of corruption and a lack of transparency and accountability in the process may result in public distrust in the government and tax system setting in, affecting citizens' willingness to cooperate and pay taxes (GIZ 2010; Torgler 2008).

### 2.5 Land as a resource in Uganda

Land use in Uganda is managed through statutory and customary law, as required by the 1995 constitution and the 1998 Land Act, with issues of tenure insecurity arising from the ambiguities and contradictions found between the two systems. Widespread extreme poverty and a complex tenure system in northern Uganda have left communities vulnerable to property rights abuses and exposed to a growing risk of violent conflicts. Though there is a vast amount of land in this region, a significant proportion of it is owned by clans, hence individuals can only sell land internally and not to outsiders (Knight, Adoko, & Eilu, 2013). The government has also failed to secure land in this region for possible development and investment, which then leaves the land underutilised.

Government surveys of oil and mineral deposits suggest that northern Uganda is a resource-rich area; the exploitation of these resources has remained a challenge for years due to security concerns (Uganda Investment Authority, 2016). However, the exact location and abundance of the valuable mineral resources remain unknown to the public, igniting speculation and rumours. Also, the government doesn't seem to be transparent about its mineral exploitation, with inadequate consultations with community leaders having created differences in northern Uganda. Even when conflict resolution efforts by local actors have been sufficient to resolve smaller rural land disputes involving members of the same community, larger disputes involving investors and government have remained unresolved (Ink 2013, p.11-12).

Business activities thrive most when ready markets are available to provide support with the consumption of goods and services. This implies that small and medium-sized businesses set up in environments where communities are in abject poverty may not survive and, if they do, might not be highly profitable. Also, the majority of SMEs have financial shortages and selling their products to faraway markets could be a challenge given the cost implications. This limits their profitability and growth potential and, therefore, compliance with tax rules is likely to be an uphill task on their part. High audit rates and sanctions may be called for in order to extract taxes from such firms. Additionally, the existence of suspicions regarding mineral explorations implies that that the government is not trusted to do the right thing and is not transparent and accountable in dealing with mineral resources with investors, and that financial resources for public expenditure may not be forthcoming. These actions might weaken the trust that citizens have in the government and lower their morale, and will probably lead to a negative attitude towards tax compliance.

### 2.6 The oil-rich Albertine Graben

The Albertine Graben is an area that runs mostly along the western side of Uganda, from the north-west to the south-west of the country. It is one of the most biodiverse areas in Uganda in terms of mammals, birds and other species. The region also has minerals, such as copper (the production of which had stopped but is now being revived), cobalt and limestone, in the south-west. In addition, it has forest reserves and mountains. However, there appears to be no comprehensive plan for integrated and sustainable natural resource exploitation and conservation (International Alert, 2013, p.8).

The country has about seventy-six oil exploration and appraisal wells, with estimated reserves of at least 3.5 billion barrels of crude oil. The government has, so far, signed memoranda of understanding with Britain's Tallow Oil, France's TOTAL and China's CNOOC, and is preparing to share the crude oil produced between a thermal power generation plant, a planned refinery and an export pipeline.

Uganda has many policies and laws that have been developed to govern the upstream, midstream and downstream stages of petroleum development. The development process for these policies, bills and laws was consultative at the national level. Civil society organisations and private sector actors were consulted during the development of the 2012 Petroleum Bill, currently under review by parliament, to provide transparency and accountability. However, consultation at the local government and community levels was limited. Moreover, the bill does not envisage a fund and an adequately equipped unit with the capacity to rapidly respond to environmental disasters and health safety risks.

From the foregoing discussion, it can be inferred that the country can remain donor dependent due to inadequate internal public funding. The availability of mineral resources without a clear plan of exploitation would indicate governance gaps when it comes to sorting out funding challenges and, where exploration has been done, full consultations with the affected communities have not been envisaged. This would mean that transparency and accountability have been neglected or that this has been done deliberately, which is likely to affect the public's trust in the government. Also, the unavailability of other sources of public funding might imply that the whole weight is being thrown onto the same taxpayers who may look for opportunities to resist tax laws, which could weaken the power that government has and the Uganda Revenue Authority's ability to effectively collect taxes.

### 2.7 Community livelihoods in the Oil-Albertine Graben

Oil exploration has had a direct impact on economic, social and cultural dimensions of the community. These impacts include changes in livelihood patterns, including fishing, agriculture and livestock-rearing strategies, hunting and eco-tourism. Here, a considerable number of households earn less than UGX 50,000 (about £9) a month. Households in the northern part of Uganda's oil region have been affected significantly more than those in the Rwenzori region. There are now a number of restrictions relating to fishing in the oil exploration area, which is an important source of livelihood for these communities, so this has affected the way of life there.  There are no clear employment benefits that would accrue from oil due to lack of necessary qualifications. Also, the existing oil and gas sector governance structures at local level are inadequate for coordinating, monitoring and supervising oil exploration and exploitation activities. There are very low performance ratings for governance structures, especially at national and district levels, with a strong view that central government does not listen to community views about oil exploration (Ink, 2013, p.5-6).

The local government and community level leaders and stakeholders were not systematically and comprehensively engaged, and oil companies don't seem to be committed to addressing community concerns, which has generated suspicion and mistrust. Overall, there are conflicts in the region, ranging from intra and inter-district to interethnic conflicts, all centred on land ownership and land use. Other conflicts, which are ethnic in nature, are being fuelled by immigrants from the west and south-west of the country; the Balaalo and Bakiga. There are quite a few displacements in the oil region, owing to the fact that most of the oil exploration activities are within government fields (national parks). In Kibaale, where the oil refinery is to be built, the government estimates that more than 30,000 residents are to be displaced. Although there is a settlement plan in place, the process of preparing displaced people to cope with their new situation is inadequate. Findings from the study on governance and livelihoods in Uganda also indicated that many of the people who were compensated were not able to manage the proceeds from this compensation well. The government did not take the steps to prepare the people for managing the compensation in terms of capacity development, even when there was a feeling by some community members that the compensation was inadequate (Ink, 2013, p.7-8).

Western Uganda utilises most of its land for agriculture; cattle keeping and crop production. In fact, most of the milk and bananas (Matooke) consumed within Kampala and the surrounding towns are produced in western Uganda, especially in the Ankole sub-region. There is a perception that the majority of government jobs are being occupied by people from the western part of the country given that the president comes from the same region, especially the Chief Executive Officers of government parastatals (Mugerwa 2015). Also, there is a feeling that businesses owned by the rich and those who are politically connected do not comply with tax laws and regulations (allAfrica, 2016). Tax compliance officers are given directives by army generals to release some of the impounded business stocks and strict monitoring of such businesses is not done as required by the law. Due to the influx of people from the west as a result of continued job opportunities and eventual access to money, these people have tended to acquire land within Kampala and the adjoining districts, from where they can easily operate businesses and work at the same time, reinforcing the fears of the Baganda that people from the west want to take their land. In fact, there was even a campaign that Baganda should stop selling their land, the intention of which was to limit those with money from buying it. This means most of these people’s land in the west is unoccupied, so they mostly use it for agriculture (Tukahirwa 2002; Naughton-Treves 1999).

There is, correspondingly, a perceived regional imbalance with regard to education due to the financial capacity of the regions and the Statehouse Scholarship scheme, which favours children who have links with the government, army officers, and powerful government officials in the civil service and their relatives (Namuloki 2017). This type of scholarship may not have a limit, as it covers international studies as well. That aside, the statehouse’s budget is disproportionately large each year, as is that of security ministry, with major transactions not being classed as auditable “Classified Information”, which usually results in a lot of questions about whether tax revenues are really being put to good use for the benefit of society.

From the above, it looks like there are governance issues which need to be addressed due to the low performance rating of the governance structures at national and local levels. Again, where the government is perceived not to ignore community views, it might be very difficult for society to interpret government motives. A lack of systematic and comprehensive engagements with the local community may breed mistrust in the government. Also, the perception that the majority of government jobs are being occupied by people from the west may result in further ethnic conflicts and, if it is true that there is tax non-compliance by businesses owned by the rich and those who are politically connected (allAfrica 2016), this would reflect an unfair tax system that oppresses some. If there is a feeling of regional imbalance with regard to Statehouse Scholarships, where a section of government officers' children benefit (Namuloki 2017),it might all lead to unfairness related to misallocation of resources, causing mistrust and low tax morale, and negatively affecting tax compliance behaviour.

### 2.8 The nature of business activities in Uganda

The Uganda Bureau of Statistics conducted the Census of Business Establishments from March 2010 to June 2011. It covered all business establishments countrywide that had a fixed location, irrespective of the number of people they employed. The Bureau, however, left out household-based businesses. The Census covered all economic sectors as spelled out in the ISIC, with the exception of the activities of government departments and embassies. These activities were classified according to the International Standard Industrial Classification (ISIC) Revision 4 which classifies business activities in fifteen major industry groups: trade; accommodation and food services; manufacturing; recreation and personal services; real estate and business services; education, health and social work; agriculture, fishing and forestry. These contribute to approximately 90 percent of all the economic activities in the country.

In order to show the spread of businesses, the country was divided into 5 regions, namely; central, eastern, northern, western and Kampala. The capital city, Kampala, is considered a region on its own because about 30 percent of the total number of business establishments were located there. The total business population in the country was estimated at about 500,000, indicating a growth of 185 percent since 2001/02. Sixty-one percent of the businesses were in the trade sector and this was followed by 14 percent of businesses in the hotels and food services sector. Regional distribution showed that 60 percent of the business establishments were in the central region while only 8 percent were in the northern region. It is believed that 28 percent of the businesses had started between 2010 and 2011, meaning that they were new, while only 17 percent of the businesses were more than 20 years old (UBOS, 2011).

## 2.9 Categorisation of businesses

UBOS (2011, p.34) categorised businesses by the Micro, Small, Medium and Large (MSML) structure, as seen in table 2.1 below.

Table 2.1: Business categories according to Uganda Bureau of Statistics

| | Business size (Conversion exchange rate: £1 = UGX.4,164.505) | | | |
|---|---|---|---|---|
| Dimension used | Micro | Small | Medium | Large |
| Turnover | < £1200 | £(1200-24,577) | >£24,577 | >£24,577 |
| Number of employees | -- | -- | <50 employees | ≥50 employees |
| Percentage of businesses | 70 | 20 | 10 | -- |

From the table above, only turnover cuts across business sizes, but the number of employees' category is used to define medium and large firms. It should be noted that, according to UBOS (2011), there are no large businesses in Uganda and the majority are micro businesses. However, 94 percent of the businesses were seen as sole proprietorships, 2.4 percent as partnerships and 2.4 percent as limited liability companies. However, because of the benefits that accrue to corporations, some small businesses were inclined to register as companies to benefit from the deductions allowable to such businesses. In addition, there have been a number of recent business set-ups which would probably have increased the number of businesses, hence a need for the review of the numbers.

Economically, Uganda has seen a consolidation of macroeconomic stability and a gradual recovery of economic activities. Uganda has had real Gross Domestic Product (GDP) growth recorded at 2.8 percent, 5.2 percent and 6.6 percent with 7 percent expected in 2012, 2013, 2014 and 2015 respectively (Oling, Rwabizambuga & Warren-Rodriguez, 2014, p.2). This position was achieved through fiscal and monetary policies which provided favourable macroeconomic conditions for growth. Looking at sector contribution to GDP, the following details were observed: agriculture contributed up to 22.5 percent (p.39); manufacturing contributed 8.6 percent (p.52); the utilities sector contributed 3.5 percent (p.65); the construction sector contributed 13 percent (p.71); and trade contributed 13.2 percent to GDP (p.78). The transport and storage sector, in the same way, contributed 5 percent to GDP (p.89) among others (Uganda Bureau of Statistics, 2011).

Notwithstanding its growth potential, Uganda has faced challenges regarding fiscal financing. Taxation, as is the case in the rest of the economies around the world, plays a principal economic role and remains the main source of government revenue in Uganda. Taxation has been categorised into two main types; direct and indirect taxes. This study focuses on corporate tax (for SMEs) which is the main type of direct tax under the self-assessment system (Byamukama, 2013; Hijattulah, 2009, p.2).

Given the foregoing, more than ninety percent of businesses in the country are small and medium-sized, with the majority surviving as sole proprietorships and highly likely to constitute the largest part of the informal sector. Secondly, even with the growth in GDP, the government still depends on donor funding due to inadequate tax revenues. This situation points to a flaw in the country's tax system; taxpayers seem to be unwilling to contribute freely and businesses generally do not make taxable profits. If businesses are profitable but the country cannot effectively tax them, tax morale is likely to be low. Low tax morale could arise from a tax system being perceived to be unfair, and one where even the audit and penalty rates could be ineffective, thus the need for investigation.

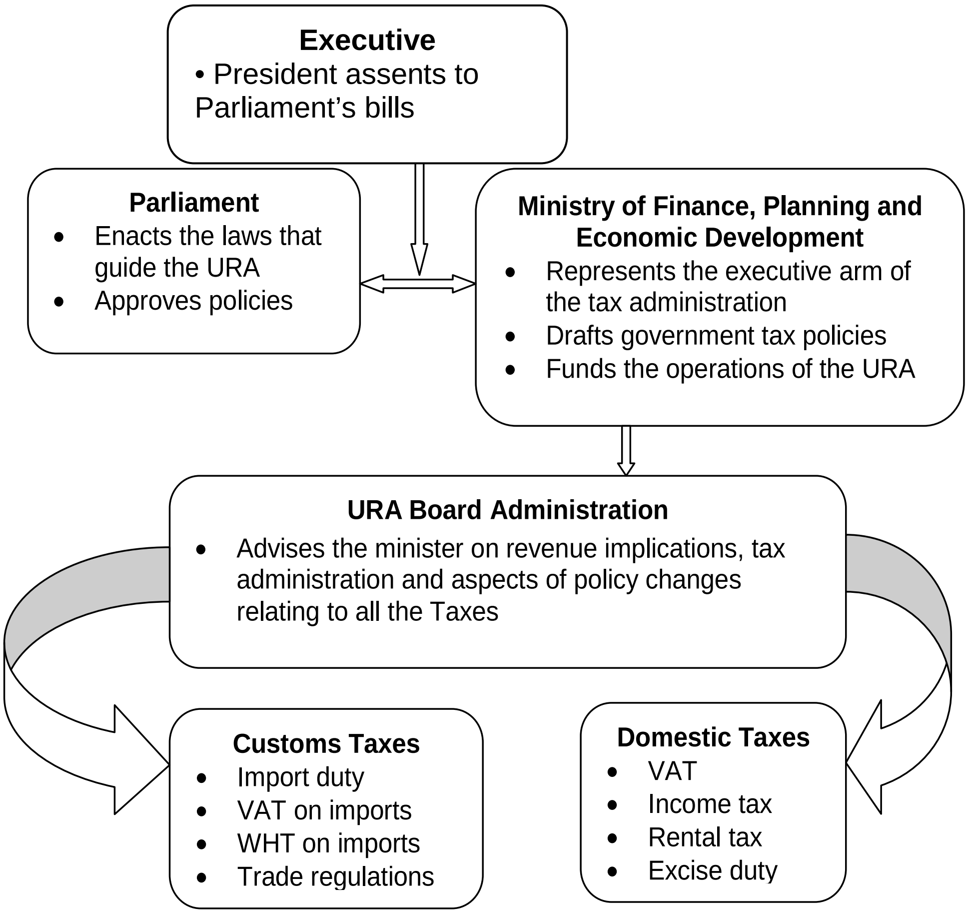
### 2.10 The structure of tax administration in Uganda

The government of Uganda mandated the Ministry of Finance Planning and Economic Development (MoFPED), through its tax policy department, to draft laws (tax bills) and present them to Parliament for discussion and approval. After debate and approval, Parliament forwards the bills to the President of the Republic of Uganda for his assent and they then become law. These tax laws are then sent to Uganda Revenue Authority so that it can implement them on behalf of the MoFPED.

The Uganda Revenue Authority (URA) was set up in 1991 as a result of an Act of Parliament (URA Act 196) in an attempt to improve efficiency in Uganda's tax administration. It was designed to be a central body for the assessment and collection of specified tax revenue, to administer and enforce laws relating to such revenue, and to account for all revenue to which those laws apply. Specifically, the URA: gives effect to the laws and the specified provisions; should be able to carry out tax assessments, collect taxes and account for the monies raised; advises the minister on revenue implications, tax administration and issues arising from possible tax policy changes from an informed point of view; and performs such tasks as may be directed by the minister. A Tax Appeals Tribunal was constituted for the settlement of any tax disputes that may arise. Uganda's tax laws include the following: Income Tax Act, Cap. 340; the Value Added Tax Act, Cap. 349, the Customs Tariff and Management Act, Cap. 337; The East African Excise

Management Act, Cap.177; the Stamps Act, Cap. 342; the Excise Tariff Act, Cap. 338; and the East Africa Community-Customs Management Act (EAC-CMA), which was introduced on 1st January 2005 to guide the management of the East African Customs Union's cross-border activities. All of the taxes above are managed and administered centrally by the URA, save for the property income tax, which is decentralised and managed by the local governments.

Figure 2.2: Structure of Uganda's Tax System




## 2.11 Self-assessment system in Uganda

A taxpayer in Uganda who furnishes a return of income for a given year is deemed to have been served with an assessment. The due date for furnishing the self-assessment return itself is the due date for payment of tax. This provision now applies to all limited companies. Prior to 2003, only those taxpayers specified in a notice published by the Commissioner General in the Gazette would be required to file self-assessment returns and the rest would use what was termed a final return. This return would have to be followed by an assessment by the Commissioner General after the financial statements had been examined. If a taxpayer was audited and their financial statements were not ready, a written application would have to be made to the domestic taxes department requesting an extension of the time in order for them to submit the audited financial statements together with the return (Mugume, 2014, p.1/24).

However, following the publication of a public notice in the Uganda Gazette on the 11th January 2002 by the Commissioner General, and in accordance with section 96 of the Income Tax Act, Cap. 340, all limited companies must submit self-assessment returns of income in the mode stipulated (Mugume, 2014, p.19/11). The self-assessment return is, therefore, taken as having been made by the Commissioner General, although the taxpayer is expected to make accurate computations and file all returns on time together with the necessary documentation, such as, in the case of final income tax returns, audited accounts. It should be noted that self-assessment returns made by the taxpayer do not extinguish the Commissioner General's responsibility of making assessments.

According to Okello (2014, p. 11), modern tax administration methodologies seek to optimise tax collections while minimising administration costs and taxpayer compliance costs. In order to encourage voluntary tax compliance, the self-assessment system (SAS) was introduced under section 67 of the Income Tax Act 1997. This replaced the Income Tax Management 1974, which applied the Official Assessment System (OAS). The SAS targeted corporate legal persons for tax purposes. The SAS involves a considerable transfer of obligation to the taxpayer in terms of carrying out income and tax computations to enable them to comply with their tax obligations. Taxation laws and regulations are, however, distressing for governments the world over, with their burdens falling predominantly on the Small and Medium Enterprises (SMEs) (Evans, Lignier & Tran-Nam, 2013, p.3; Lignier & Evans, 2012, p.616; Hijattulah, 2009, p.2).

According to the Uganda Revenue Authority, one of the major reasons for the introduction of the tax structure above and the SAS was concerns about tax compliance. This was to create efficiency in the tax system in order to improve tax revenues for public expenditure. However, in spite of the introduction of this system of tax assessment by legislators through the income tax law, the law is not being consistently applied (ITA, 1997, p.110; Tusubira & Nkote, 2013, p.140). A self-assessment tax system could be the ideal for any economy, since it relieves the tax authorities of the costs that they would incur in collection of such taxes. However, such a system needs when the tax system is perceived as fair and efficient. Taxpayers trust that government will utilise the funds equitably and the tax morale is high. Secondly, that the tax authority has the competence to carryout effective audits and that sanction can be implemented to those caught and recoveries done well, otherwise the tax system might not encourage compliance.

### 2.12 Tax compliance studies in Uganda

Despite the growing problems of tax non-compliance and evasion in Uganda, very few studies have been carried out and not much is known about the extent and determinants of such problems, particularly since the implementation of the self-assessment regime for all corporations in Uganda in 2003.

A review of (mainly) published studies (including conference papers) reveals that there are six (6) Ugandan tax compliance studies for the period between 1995 and 2018 inclusive, which are discussed hereunder. These studies are either partly or wholly related to tax compliance behaviour.

Gauthier & Reinikka (2006), carrying out an empirical study, looked at shifting tax burdens through exemptions and evasion in Uganda, something which prior tax systems and tax reforms in the mid-1990s had focussed on. The tax reforms were intended to make the system fair to every taxpayer by shifting the tax system away from high rates with selective treatment of firms. Gauthier & Reinikka, however, noted that these reforms failed due to self-interested practices that arose in the 1970s and 1980s, when there were economic inefficiencies that created a complicated tax system with opportunism. Selective treatment and opportunism created a general mistrust in the government and resulted in massive tax evasion, with firms seeking more exemptions in response to the pushy collection methods used by the tax administration. The authors contended that large firms in Uganda usually have more bargaining power for exemptions and other incentives that favour them than smaller firms that may not qualify for tax exemptions. Firms that have low bargaining power are usually left with one option of evasion as enforcement costs may be more that the revenue generated out of the system (Gauthier & Reinikka 2006, p.374).

In their study, Gauthier & Reinikka (2006) provide empirical findings using Ugandan enterprise survey data, showing that tax exemptions and evasion were widespread among businesses in 1995–97 and their prevalence varied by firm size. Tax evasion was especially prevalent among smaller firms, while tax exemptions were more common among larger firms, leaving medium-sized firms shouldering a disproportionate share of the total tax burden. Their findings also suggest that at least 40 percent of the firms surveyed reported that audits had been conducted for corporation tax and 75 percent reported that audits had been conducted for value added tax (VAT). Moreover, they found that most firms audited in both circumstances were large firms and that firms audited for income tax did not qualify for any exemptions. Half of the firms challenged their tax assessments, as there were huge differences (83%) between their self-assessment and of the assessment carried out by the Uganda Revenue Authority. The authors also found that the probability of a firm's self-assessment being different from the assessment carried out by the URA was significant and negatively associated with tax exemptions, and the only way for such firms to avoid dealing with the URA was to secure tax exemptions so that they weren't targeted as part of the URA's efforts to reduce tax evasion (Gauthier & Reinikka 2006, p.375).

Kayaga (2007) looked at the tax policy challenges facing developing countries in her study, using Uganda as her case study. In practice, Kayaga noted that it is difficult to achieve a state of progression in personal income tax in developing countries, due to big variations in incomes. She alluded to the cause of the disparities as the influence of the rich, who may get favours from the government or get numerous exemptions, hence paying fewer taxes than they would otherwise (Kayaga 2007, p.8). She highlighted a number of issues in relation to policy implementation, including: income exemptions for quite a number of groups of individuals, like uniformed staff and staff of UN related organisations; the many wide-ranging exemptions that have been granted to special sectors over the years (Kayaga 2007, p.33); tax exemptions on industrial inputs and specialized inputs, like imports of industrial raw materials, machinery, computers, printers, and computing accessories, agricultural machinery, medical equipment for dental services and medical practices, and equipment for veterinary services. In order to strengthen the export sector, Uganda opted for a tax-free export policy on all outputs for export, zero rating, with a duty drawback system, under which the exporter claims a refund of taxes paid on inputs during the process of production of the goods for exported. When amalgamated, these exemptions reduce the tax revenue collections given the narrow tax base (Kayaga 2007, p.34).

Another issue cited is government interference on behalf of taxpayers; this is a possible cause of income tax revenue reductions. Despite the progressive tax rate imposed, the rich still have economic and political power which helps them to avoid paying taxes, in that they are able to lobby against fiscal reforms that would also increase their tax burden. For example, the government paid out UGX20.36 billion in taxes on behalf of selected taxpayers during the 2005/2006 financial year 6 (Kayaga 2007, p.74).

Kayaga (2007, p.75) contends that the effectiveness of the tax system is weakened by the expansion of the informal sector, since this accounts for a significant part of the tax base. The informal sector includes taxpayers from all income brackets and the majority of them may be immune from taxes since most developing countries, Uganda included, may not have strong enough administrative capacities to identify, assess and collect all taxes assessed, given the f businesses' natures and mode of operation. She posits from this that greater limitations are placed on the personal and business income tax bases that may get known by and reported to the tax authorities since fewer small businesses in the country that actually register with the URA. Moreover, only a small share of the overall population work for formal sector enterprises or the government, where recorded wages and salaries are readily observable and easily taxable through payroll (Kayaga (2007, p.75).

Mawejje & Okumu (2013, p.1), on the other hand, studied how tax evasion relates to the business environment in Uganda. They contend that a poor business environment motivates tax non-compliance behaviour among taxpayers. The issues they raise include the question of how the inefficient legal system, bribery, and the provision of inadequate public capital, such as electricity, would play determining roles in tax evasion behaviour. Mawejje & Okumu made use of industry location averages for bribes as instruments to deal with variables' measurement error concerns. They also used IV Tobit estimation procedures and found that the quality and efficiency of the legal systems, bureaucratic bribery and the inadequate provision of public capital were significant predictors of tax evasion (Mawejje & Okumu 2013, p.15). The results imply that improvement of the business environment through the control of corruption, the creation of efficiency in the legal system and the adequate provision of infrastructure would motivate taxpayers' compliance behaviour, especially that of firms.

Reiners (2011) carried out an analysis of tax law provision for small businesses, with the intention of reporting any resulting reform policy implications to the URA. Rainer (2011, p.1) was guided by the question "what should the Uganda Revenue Authority (URA) do to increase compliance for taxpayers operating small and medium sized business?" In his report, he indicates that Uganda has a significant number of businesses operating outside the formal sector. Reiners argues that businesses can only operate formally where there is a requirement for a formal agreement to do so or if the business needs to borrow money from the bank and the bank requests such documentation, forcing them to report to Uganda Revenue Authority formally. In addition, many SMEs in Uganda operate outside the norm yet meet the statutory threshold for paying taxes and may fail to meet, or only partially meet, their tax obligations (Reiners2011, p.5). Schneider (2002, p.6) estimated that businesses operating informally make up to 43.1 percent of Uganda's GDP and an average of 41 percent of GDP in all developing countries.

Reiners (2011, p.6) says there could be large corporations which are not resident in Uganda but that generate Ugandan source income and yet do not pay, or pay little, tax on their income. They may carry out illegitimate commercial activities like drug dealing or smuggling, but do not necessarily practice tax evasion. Also, businesses may choose not to pay taxes as a result of high tax rates and/or high compliance costs due to complicated tax laws. Such businesses may not maintain accurate financial records, as they are aiming not to pay taxes. Alternatively, they may not know how to keep good records (Reiners, 2011, p.15).

According to Reiners (2011), the World Bank's Enterprise face-to-face surveys of business owners and top managers provide numerous business environment indicators. This is particularly the case with the survey conducted in 2006, which breaks down data by firm size with reference to number of employees, whereby firms with 5-19 employees are categorised as small, 20-99 as medium, and 100 or more as large. Reiners further notes that the Enterprise surveys present additional proof that Uganda's income tax system might be creating excessive tax compliance costs. Additionally, the data reveals that senior managers in Uganda may be spending 5.21 percent of their time dealing with tax regulations, with managers at smaller firms utilising much more of their time for this than the senior staff in medium-sized enterprises. Reiners emphasises that tax compliance costs factually rise with the frequency of meeting with URA tax officials. Another issue, which was highlighted by 14.53 percent of the taxpayers, was that of gifting as a form of corruption while meeting with tax officials, which they said significantly increases the cost of business operations. However, gifting was more likely to be done by the larger firms than their counterparts (Reiners 2011, p.16).

Ali, Fjeldstad, & Sjursen (2014), while investigating the factors that determine citizens' attitudes towards tax compliance, looked not only at Uganda, but also at Kenya, Tanzania and South Africa. Using the 2011–12 Afrobarometer survey data, they found that attitudes towards tax compliance among individuals were positively correlated with the provision of public services in all four countries. However, they also found out that the correlation depends on the specific service in question and differs between countries. Tax knowledge and awareness were found to be positively correlated with tax compliance attitudes. However, recurrent payments to non-state actors in exchange for security and an individual's perception that their own ethnic group is treated unfairly by the government were negatively correlated with tax compliance attitudes (Ali et al 2014, p.828).

On the other hand, Jagger & Shively (2015), while studying taxes and bribes in Uganda, used data from 433 firms operating within Uganda's charcoal and timber supply chains to investigate patterns of bribe payment and tax collection between supply chain actors and government officials responsible for collecting taxes and fees. Jagger & Shively (2015, p.1) examined the factors associated with the presence and magnitude of bribe and tax payments using a series of bivariate probit and Tobit regression models. They found empirical support for a number of hypotheses related to payments, highlighting the roles played by queuing, capital-at-risk (amount of capital held by the agent), favouritism, networks, and role in the supply chain. They also found that taxes crowd-in bribery in the charcoal market.

### 2.13 Conclusion

The above review shows that no prior Ugandan studies have examined the effect of perceptions of tax fairness, trust in authorities and the power of authorities in predicting voluntary and enforced corporate tax compliance behaviour as applied by the Slippery Slope Framework (SSF). Similarly, to the researcher's knowledge, the social norms constructs model in corporate tax compliance has not been applied within the context of Uganda, which provides us with the opportunity to assess the impact of these constructs on the corporate tax compliance behaviour of SMEs. Lastly, none of the studies mentioned here have investigated the relationship between the dimensions of corruption and corporate tax compliance behaviour. This forms part of the current study. Therefore, the researcher believes the study makes a significant contribution to the overall tax knowledge, especially in the area of the corporate tax compliance behaviour of small and medium-sized enterprises in Uganda. The next chapter details the development of the theoretical and conceptual frameworks used for the study.

# Chapter 3

# Theoretical and Conceptual Frameworks

## 3.1 Introduction

This chapter discusses the relevant theories that form the basis of the two theoretical models, the Slippery Slope Framework (SSF) and Social Norms Theory (SNT), with respect to tax compliance behaviour. It starts with a general discussion about: deterrence theory; the theoretical foundation of the perceptions of fairness which comprise equity theory, which constitutes distributive justice and procedural justice; responsive regulation; and, finally, the Slippery Slope Framework (SSF), culminating with the Slippery Slope Conceptual Model applied in Chapter 6. This is followed by a discussion about Social Norms Theory (SNT), which included the Theory of Social Influence with its formalisations. This theory formed the basis for the conceptual framework used in Chapter 7 of this thesis and in the subsequent discussions about social norms and corporate tax compliance behaviour. This discussion is followed by an overview of relevant literature about the Slippery Slope Framework's constructs, social norms constructs and the corporate tax compliance behavioural constructs under investigation.

## 3.2 Theories of tax compliance

Two sets of tax compliance theories are suggested by empirical studies, namely the economic theory of deterrence (Allingham & Sandmo, 1972), and the behavioural theories (Adams 1965; Bobek 1997 cited in Saad 2011; Cialdini &Trost 1998). The economic theory of deterrence looks at the probable economic motivations for taxpayers to comply with the requirements of the tax system (Fischer, Wartick & Mark, 1992; Prinz, Muehlbacher & Kirchler, 2014). The behavioural theories sprang from psychology and behavioural economics, and only deal with sociological factors that explain why people pay taxes even in the absence of the deterrence factors (Alm et al. 1992; Feld & Frey 2002; Davis, Hecht, & Perkins 2003). Detailed explanations of the theories which form the foundation of the study follow.

## 3.3 Economic theory of tax compliance

The economic theory of deterrence highlights the importance of the financial self-interest model in tax compliance. The theory posits that taxpayers are utility maximisers and therefore will only report income to the extent that they maximise benefit against any costs incurred. Therefore, to encourage them to pay taxes equitably, deterrence mechanisms need to be employed (Allingham & Sandmo, 1972; Srinivasan, 1973; Fischer, Wartick & Mark, 1992, p.3; Andreoni et al., 1998, p.823; James & Alley, 2002, p.393). According to deterrence theory, taxpayers are rational in determining how much income to report on their tax returns. The assumption, according to the economic theory, is that taxpayers have the capacity to estimate their expected benefit through a cost-benefit assessment, so they are able to work out the tax savings arising from the underreporting of taxable income, and the embedded risks of being audited and subjected to a penalty structure when making non-compliance decisions (Kornhauser, 2007, p.139; Prinz, Muehlbacher & Kirchler, 2014, p.20; Erard & Feinstein, 1994). This means that a rational taxpayer is understood to make the most of the benefit from the evasion gamble, balancing the benefits of successful evasion with the risks of detection and punishment (Alm, 1998, p.5).

The proponents of the economic theory of tax compliance, Allingham & Sandmo (1972) and Srinivasan (1973), borrowing from the works of Becker (1968), developed this theory based on the assumption that a taxpayer is a rational individual, as had been assumed by Becker (1968). They assumed that tax non-compliance is a criminal activity and therefore a taxpayer utilises rational choice to make a decision as to whether to pay the right amount of tax based on his income disclosure and the risk associated. This means that whether to pay taxes or not is a decision made under risk and, according to rational choice theory, people will compare the severity of the likely punishment when caught for not paying the right tax to the benefits accrued for non-compliance. When the taxpayer believes that the outcome of not paying taxes is far greater than the penalty rates imposed, the taxpayer may not comply with the tax regulations. However, if her assessment indicates that there will be severe punishments, the taxpayer will not commit the act of non-compliance for fear of punishment (Becker 1968).

The economic theory proposed by Allingham & Sandmo (1972) also suggests that taxpayers' decisions about whether to declare or not to declare their actual income are normally made under uncertainty, a model developed to analyse taxpayers' choices between declaring their actual income and declaring an amount which is less than their actual income. In this setting, the choice is normally made under uncertainty, and if they conform to the self-interest model and take the decision not to be tax compliant, the payoff could be a reality if not detected. However, Alm et al. (1992, p.22) indicate that the economic theory, taken in its current form, would imply that most taxpayers would evade taxes because of the self-interest behaviour, since it is unlikely that cheaters would be caught and penalised.

This view, therefore, suggests that if taxpayers are not detected by the tax authorities at the point when they choose not to pay the actual tax from their earned income, they will be better off than if they chose to declare their actual income. However, taxpayers' statuses will be worse off in cases where they are detected for failure to declare their actual income, resulting into punishment (Devos, 2014, p.15). By inference, taxpayers will pay their fair share of tax once they believe that there will be a high chance of being caught for non-compliance, but once taxpayers' assessments indicate that non-compliance yield positive benefits against costs even if they are caught, taxpayers will go ahead and evade taxes (Allingham & Sandmo, 1972, p.324).

Additionally, this economic model focussed on tax evasion, which was modelled as a gamble against the enforcement capability of the state (Slemrod & Yitzhaki, 2002, p.1426). Tax non-compliance is taken as a gambling activity where the higher the expected value, the less tax will be paid, otherwise there would be no incentive not to comply with the laws.  It assumes that taxpayers' income-reporting behaviour is motivated by the financial benefits embedded within the tax system, with the objective of income maximisation (James & Alley, 2002, p.32). Another study carried out by Yitzhaki (1974, p.201) emphasised individual taxpayers' compliance behaviour. Using the same foundation as Allingham & Sandmo (1972), he looked at tax evasion as only being a function of the marginal tax rate if the probability of being caught is a function of undeclared income and when tax evasion introduces uncertainty causing a loss as opposed to an expected gain. Andreoni, Erard & Feinstein (1998, p.823) also modelled their study with reference to tax rate, enforcement, taxpayers' income disclosures, audits and penalties when caught, but under risk aversion, all of which reflected of the underpinnings of Allingham & Sandmo's (1972) study.

Allingham & Sandmo's (1972) economic theory of deterrence has received sharp criticism from researchers because of its limitations (Feld & Frey, 2007; Andreoni et al., 1998; Alm et al 1992; James & Alley, 2002). The defence that the weaknesses that exist between theory and evidence might be closed by assuming the taxpayers have sufficiently high levels of risk aversion is not convincing, as the risk aversion needed in order to raise compatibility with actual compliance rates is not always supported by evidence (Feld & Frey, 2007, p.102). Although it is evident that detection and punishment affect compliance to a degree, it is equally clear that these factors cannot explain all the variability in tax compliance behaviour. Moreover, it may also be true that the percentage of income tax returns that are subject to thorough tax audits may not be significant and insufficient penalties may be charged in respect of fraudulent and non-fraudulent evasion (Alm et al 1992, p.21). Although the authors of the economic deterrence theory focus on audits, fines, tax rate and income effects; they also admit that other factors play a role in tax compliance decisions.

Alm et al. (1992) contend that a purely economic analysis of the evasion gamble implies that most rational individuals would evade tax, because it is unlikely that cheaters will be caught and penalised. However, income tax compliance may remain higher than suggested by the standard expected utility theory of compliance, which suggests the availability of other explanatory factors, like honesty (Alm et al. 1992, p.22).

Feld & Frey (2002, p.88) continue to indicate that using the economic framework causes diverse challenges, irrespective of the extensions that have been made since taxpayers may use the repeated nature of the reporting decision (based on prior years' financials) to predict the effects of all policy parameters (Andreoni et al. 1998, p.824). In particular, increasing the tax rate has a theoretically ambiguous effect in most models. For instance, Yitzhaki (1974) identified in both experimental and econometric studies that higher tax rates are associated with greater evasion, although increases in fines discourage tax evasion. This matches the assertions of the economics of crime, making a contribution that would be significant for tax policy. However, it remains theoretically unclear, because empirical studies find that expected punishment is rarely statistically significant and, if it is, the effect is small (Feld & Frey, 2002, p.88).

Furthermore, Hashimzade, Myles, Page & Rablen (2014) contend that while the economic deterrence model offers specific comparative predictions, these may not be in agreement with the insight that the data provides. The authors point out that although the model is capable of predicting that all taxpayers engage in tax evasion when assessed using audit probability and penalty rates, the actual non-compliance rates are different in practice. Moreover, the modifications made to the model have not provided solutions either (Hashimzade, et al., 2014, p.134-135). Kahneman & Tversky (1979, p.263) assert that taxpayers make actual decisions based on subjective probabilities which are fundamentally different from rational probabilities, which are built on assumptions that taxpayers might be sure of the actual outcomes from the tax (non)compliance decisions they make.

While Raskolnikov (2009, p. 689) agrees with some of the assertions of Allingham & Sandmo's (1972) economic model, he says the model is static because of the varied motivations that people have for paying taxes, including: fear of audits and other penalties; disapproval from peers; their own feelings of guilt; duty; and habit. Furthermore, Raskolnikov (2009) points out that audits and penalty rates are wasteful and may be counterproductive when applied to taxpayers who do not play the rational tax compliance game. Therefore, due to these weaknesses, Raskolnikov (2009, p.689) proposes a model based on taxpayers' motivations, creating two separate enforcement regimes and inducing taxpayers to choose the one that they think is suitable for them at a time of filing returns. The ones that choose gaming would be deterred by higher penalties.

Notwithstanding the criticisms in the foregoing section, the economic theory of deterrence has played, and continues to play, a fundamental role in explaining the motivations that underlie tax compliance. James & Alley (2002, p.33) advance the reason that behavioural approaches may not be sufficient to deal with the financial issues that arise when some taxpayers go against the norm and the government fails to achieve the necessary revenue for its target expenditure.

The current study proposes to apply the economic theory of tax compliance as postulated by Allingham & Sandmo (1972), where audit probability and sanctions act as deterrent factors to tax non-compliance behaviour. This theory was incorporated in the Slippery Slope Framework (Kirchler et al. 2008) and predicts that taxpayers will be encouraged to comply with the tax law where they are in social dilemma situations given the probability of audits being carried out by the tax authority and subsequent detection for non-compliance. When evasion is detected, a penalty will be imposed according to the existing penalty structure. The principal assumptions of deterrence theory envisage that the three factors of audit rates, detection rates and penalty rates are significant constructs in predicting taxpayers' compliance behaviour (Fischer, Wartick & Mark, 1992, p.3). This theory was partly used to formulate testable hypotheses with regard to corporate SMEs' tax compliance behaviour in Uganda.

### 3.4 Theories of tax fairness perceptions

According to Van den Bos, Peters, Bobocel, & Ybema (2006), fairness is a perception; an imagination that involves an evaluation as a result of comparing one's own situations or those of oneself and others (Van den Bos et al. 2006, p.275). Similarly, Farrar, Donnelly & Dhaliwal (2013, p.21) argue that fairness is a judgment of individuals, and individuals with referent others arising from actual or abstract appraisals, which has significant ethical consequences. This means that where individuals hold perceptions of fairness, they will develop a sense of contentment and will tend to support such a fair tax system. However, individuals are likely to experience anger and have negative reactions when they perceive violations of fairness (Schweitzer & Gibson, 2008, p.287).

In particular, when considering income tax, corporate SME taxpayers are likely to be more compliant when they perceive fairness within the corporate tax system and less compliant when they perceive unfairness in such a tax system (Slemrod 2007, p.39). Therefore, an attempt to develop a broader understanding of tax fairness could be helpful to tax authorities, as they might be able to use fairness as one of the compliance approaches to enhance and raise taxpayers' spirits with regard to compliance behaviour (Farrar, et al. 2013).

There are a number of theories that examine the area of tax fairness perceptions and form the foundation of tax fairness, namely the equity theory, and the distributive and procedural justice theories. These theories form the basis of discussion below.

### 3.4.1 Equity theory

Equity theory was first suggested by Adams (1965) when looking at issues relating to fairness perceptions in workplaces. Adams highlighted the need for firms to be fair in the treatment of employees based on their efforts and inputs. Adams argued that feelings of fairness and adequate reward systems bring happiness among employees otherwise; de-motivation may set in towards the job and employer if the reward system is perceived as unfair. Subsequently, Eckhoff (1974) noted in his thesis extending the equity theory noted that problems of justice or equity occur in situations where there is transfer of resources under reciprocation and/or allocation from one party to the other or among groups. Other extensions have been suggested by Leventhal et al. (1980), McClintock, Kramer, & Keil (1984) and Aryee, Chen, & Budhwar, (2004) in relation to employee remunerations packages, and Bobek (1997) and Gilligan & Richardson (2005) as applied in the area of taxation.

The principle of reciprocal equity implies that fair responses are only given if fair treatment has been given to the actors from whom action is expected. Therefore, a feeling of fairness is achieved when, for all taxes paid (inputs), there is a corresponding output (service provision) by the parties involved in the exchange contract or the perception of inequality will be experienced (Cook & Hegtvedt, 1983). However, Eckhoff (1974) contends that allocation fairness purely includes a one-way distribution of resources across a group or number of beneficiaries, which is an indirect exchange (Blalock & Wilken, 1979), while reciprocal fairness entails a direct exchange. Nonetheless, Adams' (1965) equity theory did not go without criticism by scholars (Bobek, 1997; Leventhal, 1980), who argued that the theory was based on basic grounds, with no due consideration of other factors outside the value exchange relationship of fairness.

### 3.4.2 Equity theory and tax fairness

According to equity theory, Bobek (1997), as cited in Saad (2011), suggests that outcomes like services provided determine peoples' perceptions of system fairness, and they consequently trust that incentives and punishments will be spread according to the inputs or contributions. By implication, this theory highlights exchange fairness, where it suggests that individuals are more likely to conform to the tax rules if the procedures used in the exchange contract are perceived to be fair.

Contextualising this theory in the tax environment, the taxpayers and government are the parties that form the exchange contract. Taxpayers will notionally perceive the tax system as fair if the government is seen to be providing equitable proportions of benefits, such as social services, from the amount of tax they pay. Otherwise, the system will be considered unfair, triggering non-compliance as a way of trying to re-establish equity within the tax system. However, in the real world, exchange fairness in taxation is very unlikely owing to the divergent needs or desires of taxpayers. An example could be a low income recipient who will undoubtedly get more benefits, viz. education, health care and transport infrastructure, from the government, notwithstanding their input compared to a high income earner (Saad, 2011, p.63).

### 3.4.3 Distributive justice

Distributive fairness, as an extension of Adams (1965) equity theory, looks at the allocation function. This concept suggests that, in addition to people perceiving fairness in the perspective of the benefits they obtain from the tax revenue, they also compare their situations with their referent others, equating their benefits-contribution ratios with those of others in the group, and feelings of inequitable dealings can be revealed if disparities are discovered (Saad, 2011; Walster et al., 1978). Based on this principle, the theory of distributive justice assumes that people with comparable contributions should get equal distribution outcomes (Huseman, Hatfield & Miles, 1987, p.222).

Although the principle of exchange fairness gives prominence to the allocation of resources and rewards in exchange for taxes paid, there are situations in which the principle is not followed in the actual allocation of rewards (Greenberg, 1987; Schwinger, 1980). Leventhal (1976) and Huseman et al. (1987), for instance, advise that fairness can be viewed in three distributional dimensions in the employment of allocation of outcomes to others. The first, the equity dimension, offers rewards or outcomes as a fraction of their inputs; in the second, the needs dimension, others are rewarded based upon their legitimate needs; in the third, the equality measure, equal outcomes are given to others without considering their individual inputs. On the other hand, Farrar et al. (2013, p.22), suggest that distributive fairness denotes fairness of allocation and that, in the context of income taxation, it refers to the allocation of a tax burden among taxpayers.

Following Eckhoff's (1974) suggestions, Leventhal's (1976) theory incorporates two more principles, viz. rank order equality and equal opportunity. The five principles then form the basis for distributive fairness theory. Homans (1958, p.604) posits, however, that under rank order equality, the rewards given should depend on the levels of investment made by members of particular groups, with groups making higher investments getting higher allocations than those with lower investments, irrespective of the level of effort used (Markovsky, 1985). Cook & Hegtvedt (1983, p.221), on the other hand, indicate that the equal opportunity principle is usually difficult to apply due to the inherent complexity of the term opportunity, which is deeply rooted in the issues of racial integration policies.

While distributive justice theory points to the positive aspects of the allocation of outcomes, it also tackles fairness in relation to retribution. Retributive fairness deals with considerations relating to the allocation of penalties or retributions (Cook & Hegtvedt, 1983, p.220). Under retribution, fairness is perceived to exist only if the social system imposes punishments that are equal to offences committed. Likewise, a perception of fairness will be held if the social system permits the provision of compensation that compares with loss incurred within such a social system. Given the extensive application of the distributive theory in social science studies (Deutsch, 1975; Leventhal, 1976; Mikula & Schwinger, 1978),Lamm & Schwinger's (1980) review concluded that the most prominent principles of the distributive justice theory are the equity principle (relative equality), the equality principle (objective equality) and the needs principle (subjective equality) (Saad, 2011, p.53).

### 3.4.4 Distributive justice and tax fairness

Distributive justice refers to the fairness of the outcomes of resource allocation or distribution (Wenzel 2003). The theory looks at how taxpayers judge fairness in the distribution of outcomes. Therefore, under distributive fairness, the perception is that the government acts as a good custodian and wise spender of tax revenues (OECD, 2010, p.6). In Verboon & Goslinga's (2009, p.137) assertion, 'in the context of tax compliance, typical benefits are the share of public goods one receives and the most important costs are the actual taxes that have to be paid'. This would imply that taxpayers would be motivated to comply with the tax law if they perceive the government to be providing adequate services as a proportion of the tax revenue. Also, horizontal fairness perceptions will be felt when taxpayers find their related others equitable when distribution outcomes are equal among those with similar contributions (Walster, et al. 1978). This means that taxpayers gauge the fairness of the distribution outcomes by equating the benefits they receive with their contributions made with the referent others.

Considering the tax viewpoint, Gravelle & Gravelle (2006) suggest that horizontal fairness observes that those taxpayers in the same ability before tax should remain equal even after tax. This, by implication, means that taxpayers in comparable economic situations should be taxed at similar rates regardless of their welfare, which is in line with the equality dimension suggested by Leventhal (1976). Despite having similar amounts of income, however, two taxpayers might have varied obligations; one may feel more burdened than the other even when they are within the same income bracket. Accordingly, the overall fairness perception will be achieved when horizontal fairness is accompanied by other measurements of distributive fairness and is not just about income tax (OECD, 2010, p.29).

Hence, Leventhal (1976) recommends consideration of distributive fairness only after attending to recipients' other obligations. The same view is held by Berliant & Strauss (1985, p.179). The indication here is that we may achieve fairness by considering the taxpayers' needs, rather than fixating on the ratio of inputs and outputs, which may not support due obligation distortions, resulting in the concept of vertical fairness. Vertical fairness in taxation deals with the ability to pay (Kirchler et al., 2006), suggesting that those with higher incomes should probably pay more tax, through higher rates, than low income earners. Vertical fairness can also be linked to benefits received by low income earners (Oakland & Testa, 1996, p.3) who do not only pay less tax but are also entitled to additional benefits from the government. Therefore, unlike horizontal fairness, vertical fairness takes the welfare of individuals into account before determining their contribution to tax and entitlement to receive government benefits.

Looking at retributive fairness, the negative aspect of distributive fairness, we study fair allocation of punishments (Cook & Hegtvedt, 1983. Punishments are considered fair if the penalties enforced are commensurate with the offenses committed. In tax environments, various punishments are available as penalties for non-compliance behaviour. Therefore, retributive fairness contends that a tax system should be in a position to be able to employ such penalties in proportion to the level of non-compliance behaviour.

### 3.4.5 Procedural justice

According to Murphy (2004), procedural justice focusses on the perceived fairness of the procedures used in decision-making and how this action is perceived by the receiver of the decision maker's treatment. Procedural fairness, also called process fairness, involves the study of mechanisms aimed at implementing the fairness principles that arose as an extension of the equity theory. This theory was initially stimulated by controversy in the legal system, where it was suggested that for the public to agree to take judicial decisions, the procedures employed in arriving at them must be perceived as fair (Fuller, 1961; Greenberg, 1987, p.13). Following Fuller's works, Thibaut & Walker (1978) undertook a number of studies designed to compare reactions to various dispute resolution procedures, looking at the level of control that disputants had in the selection process and decision-making, and came out with two sets of findings: the disputants perceived verdicts to be fairer where there was process control; and disputants were more likely to accept verdicts of any form, even where unfavourable, when they were involved in decision-making processes. This level of reception of procedural outcomes is an indicator of the significance of procedural fairness (Konow, 2003, p.1230).

Based on the pioneering efforts of Thibaut & Walker (1978), Leventhal (1980) extended the idea of procedural justice into organisational perspectives. Leventhal (1980) identifies six principles against which the fairness of procedures may be evaluated, namely consistency, bias suppression, accuracy, correctability, representativeness and ethicality. A consistency measure, for instance, requires government allocation procedures to be applied consistently to different individuals at all times. No one should be given privileges over another. In addition, the consistency criterion also demands that the allocative procedures remain unchanged over a reasonable time period. Regular alterations made to the procedures may lead to a violation of the consistency rule. When the consistency rule is violated, perceptions of procedural fairness will decline. The bias suppression criterion, on the other hand, requires that the allocative procedures remain impartial and that prejudice should be avoided in the allocative procedures, with everybody being treated equally with no discrimination (Leventhal, Karuza & Fry 1980).

Leventhal's (1980) theory also requires that, when making allocation decisions, accurate information should be the foundation in order to circumvent violations which may lead to perceptions of procedural unfairness. The other principle is correctability. Correctability is concerned with the issue of having appropriate ways in which government is able to rectify or change decisions as a requirement for the allocation procedures to be perceived as fair for wider acceptance by citizens. The final criterion is ethics, which contends that allocation procedures must be based on prevailing moral and ethical standards. In the absence of the ethics rule, taxpayers may perceive that procedural fairness has been violated and thus their fairness perceptions will be reduced. The same criteria were used by Leventhal et al. (1980) in their extension of the theory and in a couple of other studies, including Fry & Cheney (1981), Barret-Howard & Tyler (1986) and Greenberg (1987) suggested consistency as the most powerful criterion for procedural fairness, although Makkai & Braithwaite (1996) indicated representativeness to be the best gauge of procedural fairness.

### 3.4.6 Procedural justice and tax fairness

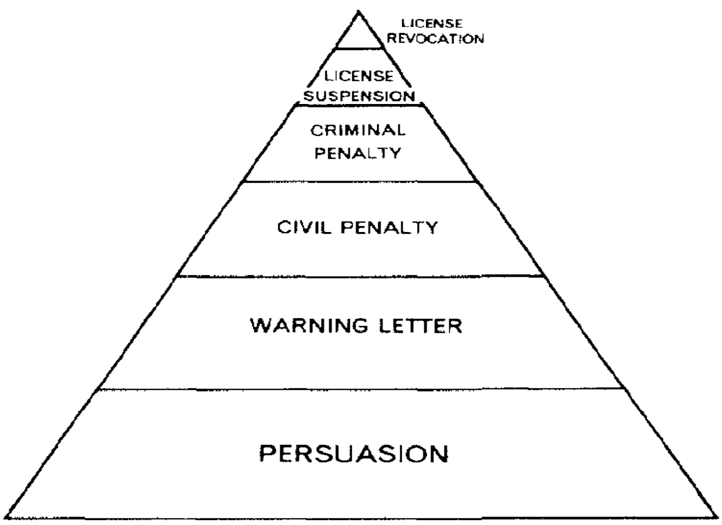
Borrowing Leventhal's (1980) six principles for assessing procedural fairness (viz. consistency, bias suppression, accuracy, correctability, representativeness, and ethicality), I can say that, for taxation purposes, setting out fair procedures within the tax system could stimulate taxpayers' perceptions of fairness in such a system. Once the procedures employed in the assessment and collection of taxes are viewed as unfair, high non-compliance inclinations may result. If they are not, compliance may be experienced. According to Saad (2011, p.67), taxpayers will ordinarily assess the consistency of the application of procedures within the tax system when developing their fairness conclusions, with the expectation that the application is consistent over time and across taxpayers. Bias suppression is another significant characteristic of fairness procedures and asserts that no partisan or selfish treatment should be promoted in the application of tax system procedures. Besides, tax system procedures should promote accuracy to create perceptions of fairness when taxpayers make decisions based on the available information. The system should also provide for flexibility, so that taxpayers are able to make adjustments for any incorrect decisions made, to fulfil the requirements of the correctability measure.

## 3.5 Responsive regulation and the Slippery Slope Framework

### 3.5.1 Responsive regulation

Responsive regulation was initially suggested by Ayres & Braithwaite (1992). This theory advances the idea that encouraging persuasive mechanisms enhances compliance rather than using punitive stances (Ayres & Braithwaite, 1992; Baldwin & Black, 2007). The current position was strengthened by Braithwaite (2011, p.489) in his write-up, The Essence of Responsive Regulation, in which he states that regulators need to treat lawbreakers as worthy of trust as there is overwhelming evidence that regulation achieves its set objectives more often when this approach is used. Braithwaite (2009, p.2) adds that resistant defiance may require a response that offers voice and participation, so that outcomes can be deliberated in a socially inclusive and respectful way. Nielsen & Parker (2009, p.382) also advise regulators to be fair, unbiased, respectful, persuasive and cooperative as they work towards stimulating compliance behaviour. According to Ayres & Braithwaite (1992), there are six strategies that are necessary if responsive regulation is to be achieved and these are demonstrated in the pyramidal model below.

Figure 3.1: The Pyramid Strategies for Responsive Regulation




*Source:* Ayres & Braithwaite (1992, p.35)

Conversely, this hierarchical model was put in place to help in the enforcement of the law and shows the approaches based on the compliance responses of regulatees along the different layers of the pyramid (Ayres & Braithwaite, 1992). The framework argues that regulatory achievement mainly occurs at the base of the pyramid, where persuasive methods are employed as the initial attempt to encourage compliance. Where persuasion fails, a warning letter is issued as the next phase of enforcement escalation to secure compliance. If no response to comply is attained, the third phase of escalation of enforcement is the imposition of civil monetary penalties. If this is unsuccessful, the next three strategies, in order of severity, are: criminal prosecution; plant shutdown or temporary suspension of a license to operate; and permanent revocation of license (Ayres & Braithwaite, 1992, p.35-36).

Nonetheless, studies indicate that the use of punitive strategy, such as applying sanctions and litigation procedures, cultivates a sense of fear and resistance towards tax compliance, especially if the strategy is not well targeted (Murphy, 2004, p.3; Feld & Frey, 2007, p.105), hence affecting the willing taxpayers. This type of strategy may also be costly in terms of resources such as the funding, time and staff needed to successfully convert such non-compliance behaviour (Welsh, 2009, p.928). Therefore, the use of persuasion in procedural fairness and encouragement, as suggested by responsive regulation, stimulates cooperation, voluntary compliance and the efficient use of resources (Braithwaite, 2003, p.24; Braithwaite & Braithwaite, 2001).

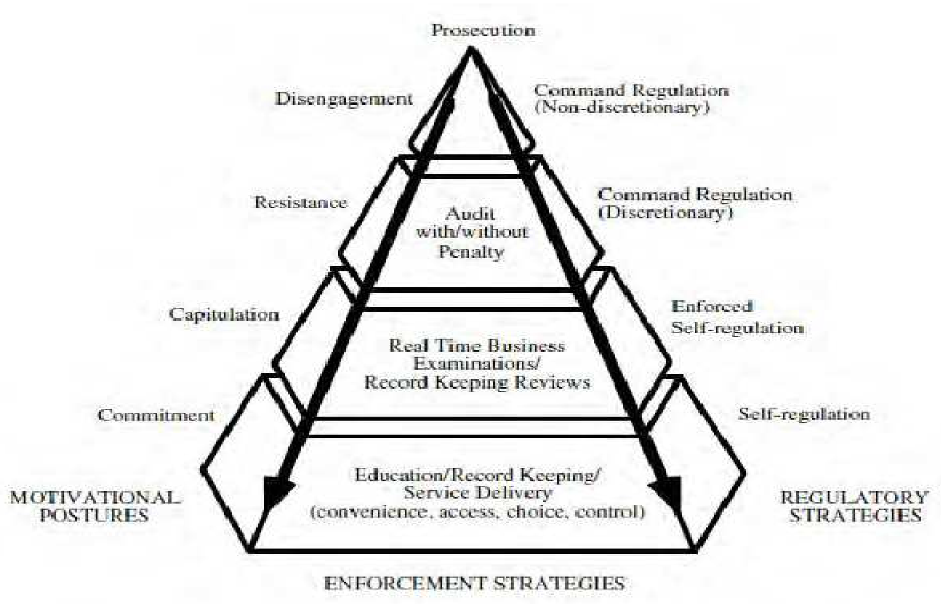
Furthermore, Leviner (2009, p.381) argues that responsive regulation might have greater value as it appears to represent a better method for regulating compliance. Leviner (2009) proposes that responsive regulation is a broader, more impartial and closely tailored method of regulating responsively, and may enable regulators to tap into the benefits of the economic deterrence model while alleviating some of its drawbacks. The probable benefits could be reflected into the model's application across the developed world. For example, adoption of the compliance pyramid, with modifications, has been undertaken by the Australian Tax Office (ATO) (Braithwaite, 2009) in its compliance strategies to motivate voluntary tax compliance since it's believed to improve taxpayers' perceptions of fairness. Indeed, the use of responsive regulation in Australia meant that the excessive use of power instruments reduced significantly which led to enhanced voluntary compliance among taxpayers (Murphy, 2004, p.12; Hobson, 2003, p.131). Similarly, the model provides an understanding of what motivates taxpayers, directing ATO staff to treat taxpayers responsively.

HM Revenue & Customs (HMRC) has followed suit. HMRC, for example, has embraced a customer-focussed approach in their efforts to apply the concept of responsive regulation in their delivery of services to taxpayers. This is intended to enhance regulatory relationships between HMRC and taxpayers, thus enhancing voluntary compliance (Freedman, 2011, p.642; Tuck, Lamb & Hoskin, 2011). Taking the customer view is regarded as best practice for tax administrations (Tuck et al., 2011, p.3). This approach enables resources to be targeted in a manner that prioritises the highest risks and provides a basis for evaluating new regulatory challenges and risks (Baldwin & Black, 2007, p.13).

Voluntary compliance means self-complying without the efforts of any parties, especially the tax authority (Kornhauser, 2007). In line with their goals and missions, all revenue bodies should aim to improve the overall level of voluntary compliance and rely less on enforced compliance (OECD, 2008). Voluntary compliance is fundamental to the self-assessment tax system, since it requires taxpayers to disclose their income and their corresponding tax obligations on their tax return forms. Under such requirements, therefore, taxpayers' fairness perceptions need to be evaluated. A system which is perceived as fair will inspire compliance behaviour among taxpayers and will encourage them to complete their returns accurately and truthfully without the presence of tax authorities (Azmi and Perumal, 2008, p.11; OECD, 2010, p.28). Valerie Braithwaite (2009, p.392) also advises that mutual trust and cooperation between the taxpayers and their tax authorities are vital if voluntary compliance is to be achieved. Additionally, Kirchler & Braithwaite (2007, p.168) argue that the fair treatment of taxpayers and trustworthiness of tax authorities will enhance voluntary compliance.

In their study looking at strategies to improve tax compliance, McKerchar & Evans (2009) suggested three proposals through which tax compliance can be enhanced. The three propositions were: (i) the establishment and enhancement of the legitimacy and credibility of the revenue authorities; (ii) as part of a broader consensual revenue-bargaining arrangement between the government and its citizens, the clear expression of the goals and objectives of tax reform, involving the simplification of the tax system with the incorporation of simpler taxes and processes; and (iii) the use of a risk management approach when dealing with taxpayer compliance, which is important when making resource allocation decisions. These propositions, according to McKerchar & Evans (2009, p.181-182), are deep-rooted in good governance, the direction of the proposed tax reform and the capacity to develop methods for tackling the diverse categories of taxpayers' compliance behaviour. Therefore, Shaw, Slemrod, & Whiting (2010) and Braithwaite (2003) posit that the achievement of the self-assessment system, the enhancement of voluntary compliance and gaining a better understanding of taxpayers' motivating factors to comply will aid tax authorities in the creation and application of responsive compliance strategies. By applying the responsive regulation model principles (Ayres & Braithwaite, 1992), the Cash Economy Task Force developed the ATO Compliance Model presented below (Braithwaite, 2003). This model shows the motivational postures on the left and the enforcement strategies on the right.

Figure 3.2: The ATO Cooperative Compliance Model




Source: Braithwaite, (2003, p.3); Braithwaite, (2009, p.89)

The framework above demonstrates five motivational postures with their accompanying enforcement strategies in the context of taxpayers. These are: (i) commitment; (ii) capitulation; (iii) resistance; (iv) disengagement; and (v) game playing. Braithwaite (2003) suggests that these motivational postures predict the relationships that taxpayers convey to the tax authority. They describe the way in which taxpayers control the amount of social distance they place between themselves and the tax office. When taxpayers are open to accepting wrongdoing, correcting their mistakes and getting on with meeting the requirements of the law, they are probably exhibiting the postures of commitment or capitulation. Braithwaite (2003, 2009) indicates that tax compliance will be the norm if taxpayers know that a just procedure is in place and are conscious of the fact that there will be follow-through by the tax authority if they do not comply, with the enforcement strategy being education, record-keeping and/or service delivery. However, as taxpayers increase the social distance between themselves and the authority, the task of regulating gradually becomes more challenging. The term capitulation portrays surrender to the tax authority without necessarily committing to the initiative to getting things accurate in the future; when initiative is demonstrated, commitment is the more apt description (Braithwaite, 2003, p.3). Here the authority needs to employ real-time business examination and record-keeping reviews.

In contrast to other postures, game playing emerged from discussions with tax officials and taxpayers about posturing and is seen as a particular type of attitude to law, where law is seen as something that can be shaped to suit one’s intentions rather than as something credible and capable of setting the boundaries of tolerable activity. According to Braithwaite (2003, p.23) ‘game playing takes place within the regulatory institution, but players use the letter of the law to circumvent the intention of the law, in time re-creating the regulatory institution itself’. Braithwaite argues that a comparatively small section of taxpayers, the elite, are the ones who identify with game playing and, that as tax avoidance schemes become progressively more accessible and accepted by the general public, the game playing mindset is expected to thrive.

Nonetheless, the postures of resistance and disengagement reflect a conscious holding back of cooperation. The relationship under these postures is unfavourable and a strategic approach needs to be applied by the authority to increase compliance, as opposed to earlier postures with more cooperative taxpayers. The model further indicates that the most difficult standpoint to deal with is that of disengagement, as there the taxpayers disrespect the tax system, making it difficult for persuasion to work. Braithwaite (2003, 2009) shows that in such cases, the only strategy that may be effective is incapacitation through prosecution, imprisonment or the withdrawal of licenses.

Responsive regulation, as presented in the pyramidal structure, provides an insight about the need for the tax authority to be flexible towards escalation or reduce enforcement as a response to the varied actions taken by taxpayers along the pyramid (Nielsen & Parker, 2009, p.387). Once persuasion fails and the offenders have refused to comply with the law, the tax authority should use strong enforcement as the last resort. This approach, titled ‘Tit-for-Tat’ (Scholz, 1984, p.385; Ayres & Braithwaite, 1992), is believed to be efficient as it reduces both enforcement and compliance costs by encouraging cooperation rather than confrontation between tax agencies and the regulated taxpayers, hence achieving voluntary compliance. Braithwaite (2006, p.888) also argues that punishment may not be a suitable mechanism for adoption, particularly for developing economies, since it is expensive.

Ayres & Braithwaite (1992) further suggest that a soft approach, such as persuasion, is a cheaper means of enforcement. Indeed, these studies approve that once soft approaches have failed to effectively uphold compliance, adoption of punishment becomes an inevitable option. Ayres & Braithwaite (1992) and Baldwin & Black (2007) consequently endorse the "Tit-for-Tat" method, which postulates that integrating persuasion and punishment could be more effective in nurturing voluntary compliance and preventing non-compliance behaviour. However, due to its flexibility, Mahmood (2012, p.110) acknowledges that critiques of responsive regulation indicate its lack of consistency in enforcement; the traditional mechanism is more consistent in that all offenders would be punished for breaking the law. In practice, the flow may not be as simple as consistently moving up from one level to another. Depending on the circumstances and the responses from the regulatees, the movement of the escalation may not flow. Mahmood's view is similar to that of Nielsen & Parker (2009, p.389) who postulate that, in practice, it may be quite difficult for regulators to be perceived as behaving in a way that is tit-for-tat responsive, even if they are trying to behave that way.

Bird (2015), in contrast, claims that the approach adopted in the collection of taxes may itself deteriorate or reinforce public trust in a number of ways. Initial efforts to explore this interdependence suggest that influence does indeed run both ways, with higher levels of trust and a more responsive and legitimate state being associated with more tax effort, and the level of trust being associated with better governance quality in terms of the performance and perception of key state institutions, like tax administrations (Bird, 2015, p.26). Subsequently, it is important to review the areas of power and trust to gauge how significant they are to enforced and voluntary tax compliance behaviour.

### 3.5.2 Power of, and trust in, authorities

Stimulating voluntary tax compliance has remained a challenge for tax administrations globally and tax authorities have employed varied methods to reduce non-compliance, contingent on the nature of taxpayer and the revenue risk involved. According to Akhand & Hubbard (2016), two ostensibly contrasting approaches, viz. the coercive and persuasive methods exist, and taxpayers' compliance behaviour determines which method is selected. The coercive or deterrence tax compliance methodology tries to encourage tax compliance by use of penalties and tax audits, while the persuasive (collaborative, cooperative or carrot-based) approach encourages improved tax compliance by raising taxpayer morale. Improved taxpayers' morale, according to the authors, is achieved through enhanced taxpayer services, tax simplification, administrative procedures, mutual understanding and the education of taxpayers, among other things (Akhand & Hubbard, 2016, p.32).

The viewpoint of the deterrence model is that, as rational economic actors, individuals and corporate taxpayers make their compliance decisions by considering the relative benefits of non-compliance and the cost of punishment (Allingham & Sandmo, 1972; Yitzhaki, 1974). Kirchler, Hoelzl & Wahl (2008, p.211), however, indicate that tax non-compliance is not purely a rational selection but a consideration of other non-rational cognitive powers, which may include taxpayer attitudes and beliefs that influence compliance behaviour, suggesting that persuasion instruments are more significant for tax compliance. Similarly, Chung & Trivedi (2003, p.133) contend that the use of persuasive measures is cheaper than the use of punitive arrangements and more suited to the prevention of tax non-compliance (Murphy, 2008, p.129).

Kirchler et al. (2008) combine the three models, viz. deterrence, fairness perceptions and responsive regulation, arguing that paying taxes is a responsibility for citizens and that the prime interest of any nation is to see that its citizens adhere to the requirements and comply with the tax rules, irrespective of their motivations for complying. Conversely, different drives may cause similar behaviours to emerge and such motives could include firstly, citizens complying due to the very high costs involved if non-compliance is opted for or secondly, citizens complying owing to a sense of obligation as associates of the community. Therefore, the varied taxpayer motives will determine the method to be used in tax regulation (Kirchler, et al., 2008, p.210). Also, Kasper, Kogler, & Kirchler (2015, p.58) suggest that purely economic influences, such as audit rates and fines, have had varying effects on tax compliance for several reasons. Kirchler et al. (2008, p.211) casts serious doubt on the economic assumption that taxpayers attempt to avoid taxes whenever they pay, as many studies have indicated that the vast majority of taxpayers are willing to pay their fair share of taxes. The other reason is that most taxpayers don't appear to take the legitimacy of the tax system seriously, as they believe in the primary objectives of the government and pay their share without considering tax avoidance or evasion opportunities.

Balliet & Van Lange (2013) submit that citizens value public goods such as education, infrastructure and social security. Funding the public goods through taxpaying, however, signifies a social problem, in which the taxpayers' temporary interest in minimising the taxes they pay is contrasted with the overall collective interest to ensure sufficient tax payments are made to finance public goods. Therefore, in order to demystify the social predicament so that there is high tax compliance among taxpayers, tax authorities rely on two methods (Gangl, Hofmann & Kirchler, 2015, p.13): power measures, such as audits and fines (Allingham & Sandmo, 1972; Srinivasan, 1973); and trust-related measures, such as fair procedures and fair distribution of resources (Feld & Frey, 2007, p.114; Kirchler et al. 2008). A positive link has been established between tax compliance behaviour and the two measures of perceived power of authorities and perceived trust in authorities in a number of empirical studies (Kastlunger, Lozza, Kirchler & Schabmann, 2013; Muehlbacher & Kirchler, 2010; Wahl, Kastlunger & Kirchler, 2010).

Kogler, Muehlbacher, & Kirchler (2013) advise that the emergence of psychological aspects, such as social norms or perceived fairness regarding the tax system and the authorities, as relevant influences on the tax honesty of citizens was due to the weaknesses in the economic model (Kogler, 2013, p.3). Social norms may refer to the acceptance of tax evasion among relevant reference groups, and empirical scholarships confirmed perceived tax evasion among referent groups and individuals with hypothetical self-reported tax evasion (Cullis & Lewis, 1997, p.317; Webley, Cole & Eidjar, 2001, p.141). Schmölders(1960), as cited in Torgler & Murphy (2004, p.304), claimed that if some taxpayers are treated unfairly when compared to others with respect to the benefits they receive as public goods, their tax morale might deteriorate given the significance of their fairness perceptions. However, different aspects of fairness and justice were found to be positively related to tax compliance, showing that perceived fairness with regard to the tax system has significant influence on tax morale and, therefore, tax compliance (Fjeldstad, 2004, p.548; Tyler, 2006, p.273).

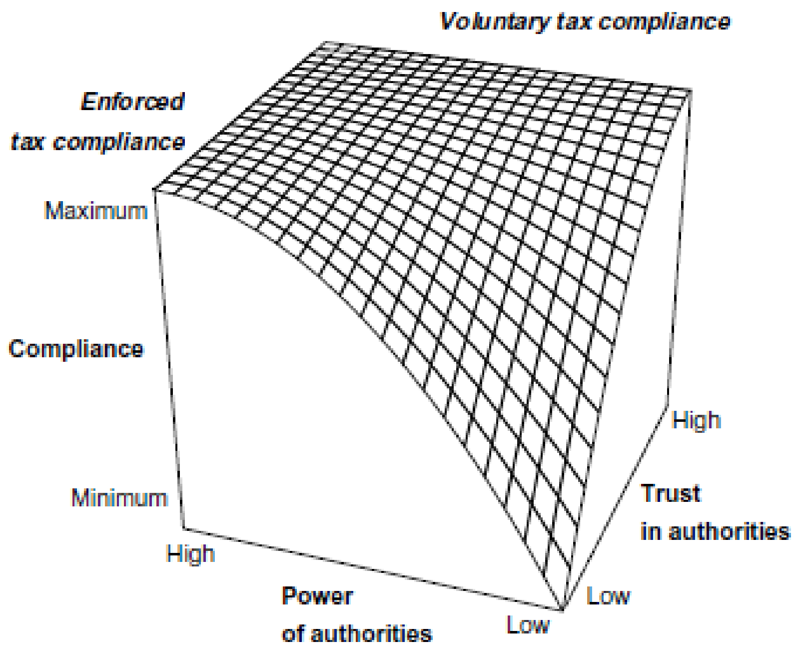
### 3.5.3 The Slippery Slope Framework

The Slippery Slope Framework of tax compliance by Kirchler (2007) and Kirchler, Hoelzl, & Wahl (2008) provides us with an opportunity to adapt the perplexing effects of economic and psychological aspects into a single model, in which different motivations for paying taxes are set apart as enforced and voluntary compliance behaviour (Kogler et al. 2013, p.3).

According to Kirchler et al. (2008), the tax environment in a social order fluctuates on a continuum between antagonistic and synergistic climates. This model assumes that, in an antagonistic environment, taxpayers and tax authorities oppose each other in their daily activities, characteristic of 'cops and robbers'. This is the attitude on both sides, where tax authorities perceive the taxpayers as 'robbers' who try to evade taxes whenever they can and thus need to be controlled and taxpayers feel victimised by the tax authorities (cops) and feel it's right to hide (Braithwaite, 2003, p.18). Social distance is likely to increase in such an environment, with little respect and positive feelings being directed towards the regulatory authorities on the part of individuals and groups of taxpayers. Also, voluntary compliance is likely to be on a minimal scale and taxpayers are likely to resort to rationality, evaluating the costs and benefits of evading taxes. In contrast, the synergistic climate is viewed as an environment where tax authorities perform a service for the community, demonstrate a client attitude as they serve taxpayers, and are a part of the same community as the taxpayers. Authorities aim for transparent procedures and for the respectful and supportive treatment of taxpayers. In this kind of environment, low levels of social distance are expected, with a prevalence of voluntary compliance and a likelihood of taxpayers contributing their fair share out of a sense of obligation (Kirchler et al., 2008, p.211).

Following the discussion above, the framework proposes that tax compliance is the result of the two foremost measurements, namely the power of tax authorities and the trust that taxpayers have in tax authorities. These dimensions and their interactions jointly influence levels of tax compliance (Kirchler, 2007; Kirchler et al., 2008). Power of authorities is reflected in taxpayers' perceptions of the potential for tax officers to detect illegal tax evasion through regular and comprehensive tax audits and to punish evasion through sanctions to tax evaders. Tax authorities mainly derive their power through tax legislation and the government budget allocation made to them but also, to some extent, from the support they receive from the population; for example, where authorities are informed of any misconduct by some taxpayers. Since we are focussing on perceptions of power, this dimension is also related to the knowledge and attitudes held by the taxpayers. Trust in authorities, on the other hand, implies that the general opinion of taxpayers and social groups is that the tax authorities are benevolent and work for the common good (Kirchler et al., 2008, p.211; Kogler et al. 2013, p.3).

Figure 3.3: The Slippery Slope Framework




*Source: Kirchler, Hoelzl & Wahl, (2008, p.212)*

Tax compliance, as demonstrated in Figure 3.3, is realised by way of increases in the perceived power of authorities, usually where trust is low. However, where levels of trust are higher in the authorities, taxpayers will voluntarily pay their taxes. This normally occurs when tax authorities are fair in the way they use public resources for the benefit of society and have consistent and objective procedures for the collection of taxes. Accordingly, the slippery slope is formed as perceived power of authorities and trust in authorities interact.

According to Kirchler et al. (2008), altering trust in authorities may affect the level of perceptions of power that taxpayers have in authorities. Based on Turner's (2005) argument, power of authorities can manifest itself in two dimensions, namely coercive and legitimate power. Coercive power is an attempt by the authorities to control others by directing individuals or groups against their will, which might be viewed as the enforcement of certain behaviour. Legitimate power, on the other hand, means control derived through the acceptance of the authority based on individuals or groups' voluntary respect (Turner, 2005, p.8). Therefore, considering the slippery slope model, legitimate power can be located where there is relatively high trust, while coercive power can be identified where there is minimum trust in the authority. However, the power of authorities can be amplified by a rise in trust as the general public supports the tax officers and eases their work against corporate tax evasion. On the contrary, a tax authority can experience a decrease in their power to direct in cases where citizens' trust declines (Kirchler et al. 2008, p.213).

### 3.6 Description of the slippery slope conceptual framework

The theoretical establishment of this model is that taxpayers can vary their tax compliance behaviour based on the tax climate; either antagonistic or synergistic climate. Thus, it is in these two environments that power of authorities or trust in authorities may be necessary to enhance tax compliance behaviour (Kirchler et al. 2008). In a synergistic tax environment, perceptions of trust are built on the premise of the fairness of the tax system; when taxpayers perceive the tax system as fair, perceptions of trust in authorities will be enhanced. Perceptions of tax system fairness are said to be hinged on distributive and procedural fairness constructs (Wenzel, 2003; Kirchler et al., 2008). Distributive fairness demands that the government makes an exchange by providing benefits from the taxes paid in a fair and equitable manner. In providing benefits, governments consider the outcomes of the taxes paid based on their efforts, needs, and tax burden in comparison with their peers (Kirchler et al. 2008).

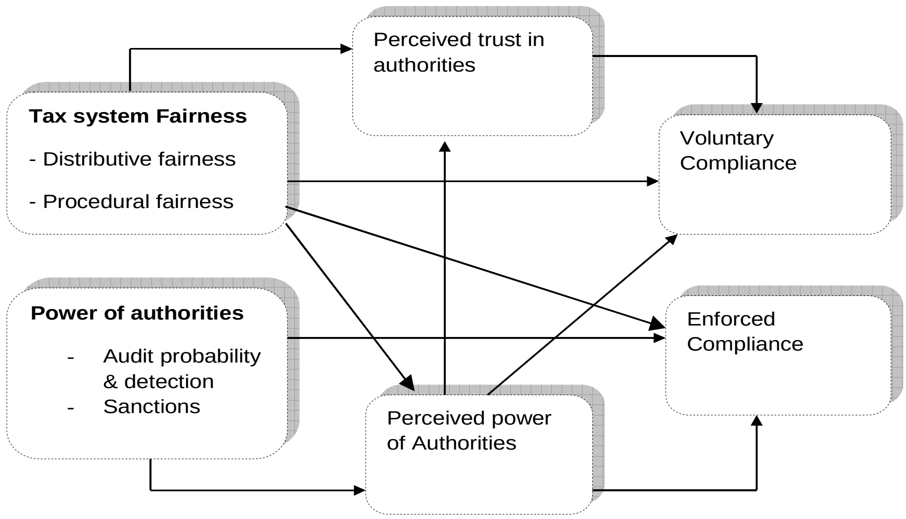
Cowell (1992), as cited in Kirchler et al. (2008, p.219), argues that perceived unfairness of the tax system is likely to be the source of increased tax non-compliance behaviour. However, levels of trust in authorities will increase where the tax system is experienced as fair and the outcome will be voluntary compliance. On the other hand, procedural fairness is concerned with procedural neutrality, the trustworthiness of the tax authorities and the respectful treatment of the taxpayers. Therefore, taxpayers will consider how tax authorities treat them, the information provided to them, the procedures followed by the tax administration and the procedures relating to the allocation of tax revenues (Kirchler, 2007; Yong & Rametse, 2010). Procedural fairness perceptions combined with fair interactions with tax authorities are considered essential in enhancing perceptions of trust in such authorities. Perceptions of trust arising from a fair tax system represented by distributive and procedural fairness constructs will positively influence voluntary compliance.

On the other hand, power of authorities involves taxpayers' perceptions that tax officers are likely to detect dishonest tax evasion when they conduct usual and broad tax audits, and that the tax authority is able to impose sanctions on the tax evaders as punishment for evasion detected. Tax authorities mainly derive their power through tax legislation, which confers rights on the authorities to access tax documentation for audit purposes and enforce the penalty rates, and the government budget allocation made to them for purposes of enforcement (Kirchler et al., 2008; Kogler et al. 2013). Consequently, taxpayers will develop high perceptions of power when a tax authority is thorough in conducting audits and able to detect and punish offenders. Thus, perceived power of authorities is likely to positively predict enforced compliance (Kirchler et al., 2008, p.219). Alternatively, power of authorities through tax audits and sanctions can have a direct positive effect on enforced compliance. I also consider that audits and penalty rates are objectively carried out and accordingly may enhance taxpayers’ trust in authorities as well as positively predict voluntary compliance. According to Muehlbacher & Kirchler (2010), enhanced cooperation with enforced compliance is achieved only where there is an escalation of the power of authorities.

Accordingly, focussing on the original formulations of the SSF model, the slippery slope is formed as perceived power of authorities and trust in authorities interact. Similarly, the model assumes that trust in authorities and power of authorities exert influence on each other. For instance, high rates of tax audits and harsh penalties could destroy the trust of taxpayers who are willing to comply without any form of coercion, yet absence of audits might convey a sense of doubt and distrust about the competence and efficiency of tax authorities (Muehlbacher & Kirchler, 2010).

However, extensions have been made to the Slippery Slope Framework to include coercive and legitimate power, and reason-based and implicit trust (Gangl et al 2015). This study suggests that there are two competing theories of power, viz. coercive power, as described in Kirchler et al. (2008), and legitimate power. Legitimate power is the power of accepted authorities and is perceived as a more suitable category of power, and one which is effective in shaping individuals' behaviour, than severe controls and punishment (Tyler 2006; Gangl et al. 2015, p.15). Under legitimacy, authorities may employ information in the form of shared values, charisma and expertise attributed to knowledge and skill in order to inform taxpayers that cooperation is the only correct thing to do. Accordingly, perceptions of power of authorities would positively influence both trust in authorities and voluntary tax compliance, where taxpayers accept authorities with the perception that they hold legitimate power.

Figure 3.4: Power, Trust and Tax Compliance: Conceptual Framework




*Source: Developed from Kirchler et al. (2008); Gangl et al. (2015)*

## 3.7 Social norms and corporate tax compliance

There is considerable intuitive appeal to the potential importance of social norms in tax compliance behaviour. There is also much evidence that the social norms of compliance differ across countries and that these differences affect compliance. For example, empirical work (Frey & Weck-Haniiemann 1984), investigational economics (Alm, Jackson & McKee 1993; Alm, Sanchez & de Juan 1995) and simulation analyses (Pommerehne, Hart, & Frey 1994; Alm et al. 1999) reveal varying degrees of tax compliance behaviour with respect to social and attitudinal norms.

However, taxpayer non-compliance remains one of the greatest and most significant problems in the area of taxation. One of the findings, for example, has been increased loss of tax revenue in the United States due to income underreporting resulting from taxpayer non-compliance behaviour. Even when IRS focusses its resources on detection and enforcement, there is still recognition of the need to close the tax gap arising from what should be paid in taxes and what is actually collected (Bobek, Hageman, & Kelliher 2015, p.38). On the other hand, Andreoni et al. (1998) noted that only employing the deterrence factors of audit rates and sanctions may not explain all compliance levels, since higher compliance might be experienced, which is beyond the usual standards based on economic model. This meant that there were other predictors from the diverse psychological, moral and social influences on tax compliance behaviour they needed to discover in order to explain and understand the increased compliance level. As a result of their call, studies were conducted by Blanthorne & Kaplan (2008); Bobek, Roberts &

Sweeney, (2007); Bobek & Hatfield (2003); Davis, Hecht & Perkins (2003) and Alm, McClelland & Schulze (1999),which included the social and moral factors that exert influence on taxpayer behaviour. The aforementioned studies demonstrated that social and moral factors have a significant influence on tax compliance intentions and behaviour. Conversely, no agreement concerning the precise nature of the social and moral influences was reached.

### 3.7.1 Social influence: social norms, conformity and compliance theory

The theory of social influence (Cialdini & Trost, 1998) stipulates that under social influence, people generate and manage change in the social world through influence processes, depending on how well the processes are handled. Social influence can be used to foster growth and to move people away from negative habits and in more positive directions, hence either creating appropriate conditions for change or creating conflict and resentment. Therefore, to understand the process of personal change, one must fully understand the process of interpersonal influence (Cialdini & Trost, 1998, p.151). In their work, Cialdini & Trost looked at the major components of the body of social science information, i.e. social norms, conformity and compliance, as the central themes that direct goals and provide support in explaining human behaviour.

Prior to their review of extant literature, norms had been conceptualised as jointly negotiated rules for social behaviour to include: customs, traditions, standards, rules, values, fashion and all other criteria of conduct as a consequence of the interaction of individuals (Sherif, 1936, p.3). Such behaviour was considered to be uniform across particular groups, requiring unfettered random compliance (Pepitone, 1976, p.642). From the reviews of Cialdini, Kallgren, & Reno, (1991) and Cialdini, Reno, & Kallgren, (1990), it is clear that norms vary to the extent that they are prescribing the valued social behaviour.

More precisely, according to Cialdini & Trost (1998, p. 152), social norms are defined as rules and standards that are understood by members of a group and which give direction and/or restrain social behaviour without the force of laws. Cialdini & Trost (1998) came up with four categories of influences in their study, namely injunctive norms, subjective norms, descriptive norms and personal norms. Injunctive norms relate to general societal expectations of behaviour, subjective norms form expectations of valued others for one's own behaviour, descriptive norms are standards that develop out of observation of others' behaviour and personal norms refer to one's own expectations for proper behaviour.

Therefore, this categorisation of social norms includes not only outside social influences, but also an individual's personal moral scope. Personal norms relating to an individual's ethical norms were incorporated into the social norm theory as a manifestation of the fact that the different constructs are interrelated.

Following the works of Cialdini & Trost (1998) that identified the social norms constructs, Bobek, Hageman & Kelliher (2012) explored the role of social norms in more detail, with particular emphasis on tax compliance. In their study, Bobek et al. (2012, p.451) used 174 experienced taxpayers to test research hypotheses with regard to the direct and indirect influences of social norms using a hypothetical tax compliance scenario. Factor analysis of the social norm questions successfully identified four distinct social norms constructs, namely personal, descriptive, injunctive and subjective norms, in line with Cialdini & Trust's (1998) findings. Results of the path analysis showed that individuals' standards or ethical beliefs (personal norms) and the expectations of close others (subjective norms) directly influence tax compliance decisions; whereas general societal expectations (injunctive norms) and other individuals' actual behaviour (descriptive norms) have an indirect influence. This shows that social norms have important direct and indirect influences on tax compliance behaviour. An investigation was also carried out into a number of attitudinal variables that maybe related to social norms and taxpayer compliance. The results of this study further clarified the vital role that social norms play in taxpayers' compliance behaviour.

Bobek, Hageman & Kelliher (2015) agree with Cialdini & Trost (1998, p.152) in their study of the operationalisation of social norm constructs for the purposes of tax compliance. Bobek et al. (2015, p.40) affirm that there are four different social norm constructs, which are injunctive norms, descriptive norms, subjective norms, and personal norms, and that these are the constructs that ought to be used in tax compliance research. Specifically, injunctive norms specify what should be done and are, therefore, the moral rules of the group. Descriptive norms, on the contrary, are standards that develop from the observation of how others actually behave in particular situations. Subjective norms relate specifically to the expectations of important others, who may be family members, friends, co-workers and other groups that are of significant importance in the tax compliance framework. Finally, personal norms, defined as one's own expectations of behaviour, may arise from the internalisation of injunctive norms (Bobek *et al*., 2015, p.43).

### 3.7.2 Social norms and corporate tax compliance

Several theories of social influence, including the theory of reasoned action or TRA (Ajzen & Fishbein, 1980), focus theory (Cialdini, Reno, & Kallgren, 1990; Reno, Cialdini, & Kallgren, 1993; Lapinski, et al. (2007, p.134) and the theory of normative social behaviour (Rimal & Real, 2005) explicitly account for the influence of norms on behaviours. Social norms and their power to govern behaviour have been studied extensively in the social sciences. There are several different theoretical approaches which relate to social norms, such as Cialdini & colleagues' focus theory (Cialdini, Kallgren, & Reno, 1991), the social norms approach taken by Berkowitz & Perkins (Berkowitz, 2004) and Bicchieri's theory of dynamics of norms in social dilemmas (Bicchieri, 2006). These different approaches all employ a theoretical division of social norms into two distinct types: injunctive norms, referring to people's beliefs about how one ought to behave, and descriptive norms, referring to people's beliefs about what most people actually do (Eriksson, Strimling & Coultas 2014, p.1).

Moreover, a large body of research has established a general tendency of people to conform not only to injunctive norms but also to descriptive norms (Bicchieri & Xiao, 2009; Borsari & Carey, 2001; Borsari & Carey, 2003; Cialdini, 2003; Cialdini & Goldstein, 2004; Cialdini et al., 1990, 1991). However, while these authors suggest congruence between injunctive and descriptive norms, the two may theoretically be different given their applicable effects. Onu & Oats (2015, p.116), for instance, note that 'while it is important to acknowledge that descriptive and injunctive norms co-occur, the distinction is essential since the two norm types are influential in different situations'. This means that descriptive and injunctive norms might not always work together. A taxpayer, for example, may exhibit two norms at the same time, thinking that paying tax is the right thing to do (injunctive norms) and knowing that many people evade it (descriptive norms). This taxpayer may end up evading tax based on what most people do. The summary description showing the distinctiveness of each of the social norms constructs as adopted from Bobek et al. (2015) can be seen in Table 3.1 below.

Table 3.1: Summary Table of Social Norms Constructs

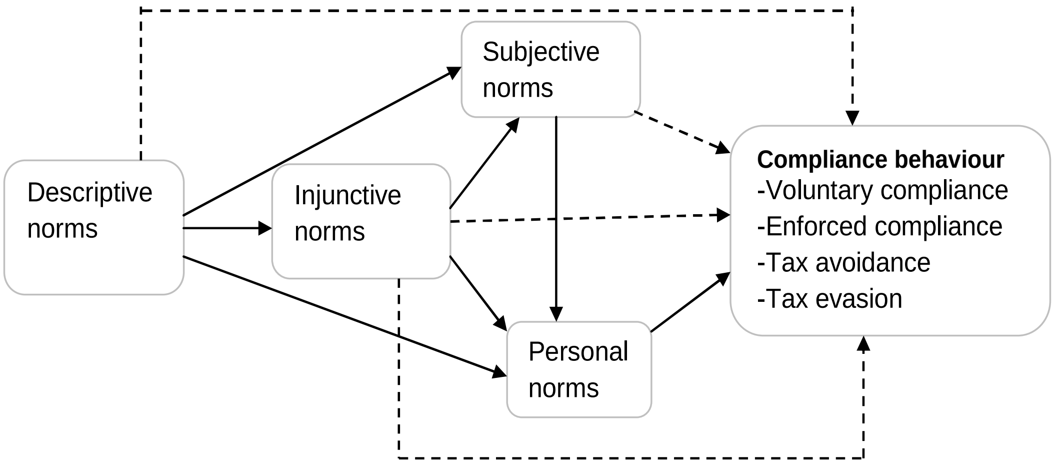
| | Descriptive norms | Injunctive norms | Subjective norms | Personal norms |
|---|---|---|---|---|
| Description | What one perceives that other people do in a given situation. Watching others provides information about what is "normal" in a novel or ambiguous situation. | The perception of what most people think others should do in a given situation. They specify what should be done and are the moral rules of the group. | A person's perception about what those who are important to him think he should or should not do in a given situation. They are one's perceptions of the injunctive norms held by the people whose opinions matter most to them. | Self-based standards or expectations for behaviour that flow from internalised values. |
| Social goal being achieved by conforming to the norm. | Effective action – the desire to be accurate in one's choices and behaviours. | Building and maintaining social relationships. | Building and maintaining social relationships. | Managing self-concept. |
| When will they matter? | We are most likely to use evidence of others' behaviour to decide on the most effective course of action when a situation is novel, ambiguous or uncertain, and especially when the source of reference is similar to us. | They motivate behaviour by promising social rewards or punishments. Need not be expressed in order to direct behaviour. These norms might be more powerful when they are made salient. | When people are motivated to comply with the norms of "referent" others. | Enforced through the anticipation of self-enhancement or self-deprecation ("self-reinforcing"). |
| Why the norm may influence tax compliance | If tax compliance is viewed as "normal", descriptive norms will lead to compliance. If a situation is ambiguous or novel, then it may matter what one thinks others do. High-profile cheaters or compliers may cause imitation. | To the extent that one has a desire to conform to societal norms, injunctive norms should influence behaviour. | Influence of important others might affect likelihood of feeling guilty. Conformity is greater with friends, family and/or "similar" others. More likely to share tax compliance choices with referent others. | Complying with tax laws is the legal course of action. To the extent that taxpayers also believe it is the moral course of action, they should be more likely to comply. |

*Source:* Adapted from Bobek et al. (2015)

### 3.7.3 Description of the social norm conceptual framework

The model below offers an explanation for the relationships that exist between the social norms constructs themselves as well as with the tax compliance behavioural constructs as presented in Figure 3.5.

Figure 3.5: Descriptive, Injunctive, Subjective and Personal Norms and Tax Compliance Conceptual Framework




*Source: Adapted from Bobek et al. 2012 & Kirchler& Wahl 2010 with modifications*

The theoretical foundation of this model is that social norms constructs may, in aggregate, influence one's personal norms and such effect will only occur in one direction, as predicted in Figure 3.5 (Bobek et al. 2012, p.456). Descriptive norms arising from the observation of others' behaviour in particular situations may become desired norms for conformity due to their ability to shape perceived acceptable behaviour. Also, injunctive norms are the general societal expectations of proper behaviour and conformance to them occurs from the need to make social interactions as a way to attain social rewards. Therefore, taxpayers will be guided to make accurate decisions in ambiguous or new situations when they observe others in similar situations. Cialdini & Trost (1998) suggest that these societal actions become sanctioned behaviour with the passage of time. In the same vein, subjective norms and personal norms are likely to emerge from observing what others do, implying that the subjective and personal norms of taxpayers may be influenced by the descriptive norms of other taxpayers (Hechter & Opp, 2001).

Moreover, injunctive norms may predict subjective norms as well as personal norms and Bobek et al. (2012) argue that, as a narrower category of injunctive norms, the subjective norms of taxpayers (what those who are important to the taxpayer think he should or should not do in a given situation) may be predicted by injunctive norms, especially if the referent others have similar opinions to those held in general society.

The norm activation model (Schwartz, 1977) argues that taxpayers build up their ethical standards of behaviour (personal norms) from the awareness that performing or not performing a particular behaviour has certain consequences (societal expectations of behaviour acquired in the course of social relations - injunctive norms) and the feeling of responsibility for behaving in a specific way. In the same spirit, SMEs may develop their ethical behavioural standards from societal expectations of behaviour acquired by way of interaction with other corporate taxpayers, friends and relatives. An SME may initially pursue injunctive norms to avoid social stigma, but may carry on pursuing such norms for internal causes, such as self-image enhancement.

Personal norms may also be predicted by subjective norms. Taxpayers may internalise the values of the referent others, just as they may internalise the societal expectation of behaviour as seen in the previous sections of this thesis. Given that subjective norms is viewed as a subset of injunctive norms, there is a likelihood of subjective norms to positively affect personal norms. Taxpayers who are surrounded by other corporations, friends and relatives who believe in paying taxes may ultimately demonstrate ethical values that support taxpaying behaviour (Bobek, et al. 2012) and if surrounded by those who do not support for compliance, they may be influenced by this non-compliance behaviour (Blanthorne & Kaplan 2008).

Also, the model suggests that the different social norms constructs will individually directly influence tax (non)compliance behaviour. First, tax (non)compliance taken as a private decision, it may not be possible to observe the taxpayers' actions, hence no direct social influences would be possible. Cialdini & Trost (1998) indicated that some researchers had found less conformity with injunctive social norms than with descriptive social norms when behaviour was private. However, Schwartz (1977) suggests that direct influence of behaviour can only be achieved through personal norms. Cialdini & Trost (1998) and Cialdini & Goldstein (2004), on the other hand, argue that a particular situation may warrant joint activation of different social norms, hence influencing behaviour beyond personal norms. Thus, other social norms constructs may have a direct influence over tax (non)compliance behaviour even when it is private in nature (Bobek et al. 2012, p.457).

Additionally, because of the uniqueness of the tax compliance setting, discussions about joint social norms effects are inevitable. Tax fairness is viewed by both taxpayers and policymakers as the foundation of tax compliance behaviour; the desire for oneself and others to pay their fair share of what they owe the government (Kirchler et al. 2008; Slemrod & Bakija, 2008), hence achieving a fair tax burden distribution. This may be achieved through the tax structure or through the taxpayers' level of compliance with the system where social norms now come into play. Where the taxpayer believes that everyone doesn't pay (descriptive norms), society thinks it's fine not to pay taxes (injunctive norms) and/or others important to them, like fellow corporate SMEs, friends and relatives, believe it's okay to cheat (subjective norms), the taxpayers are not only more likely to cheat but are also more likely to accept that non-payment of taxes is the action to take among the available choices (personal norms) and vice versa if they think that paying taxes is the right thing to do.

Though each of these forms of social norms may have a relationship with tax compliance behaviour, Bobek et al. (2012) indicate that previous studies do not show which of them is more significantly related to tax compliance behaviour than the others. Following the discussion of the theories of social norms, a twofold conceptualisation is made for this part of the study: on the one hand, that there will be interrelationships between the social norms constructs which influence personal norms towards tax (non)compliance behaviour; and, on the other hand, that social norms constructs directly affect tax compliance behaviour.

### 3.8 Summary

This chapter explains the conceptual underpinnings for the Slippery Slope Framework (SSF) and the conceptual framework for Social Norms Theory (SNT) in regard to tax compliance behaviour. The Slippery Slope Framework (SSF) combines theories, including deterrence theory, equity theory, which covers distributive and procedural justice, and responsive regulation, and the conceptual framework for Social Norms Theory that covered descriptive, injunctive, subjective and personal norms. Based on these discussions, the two models are considered suitable to explain corporate SMEs' tax compliance behaviour in Uganda. Briefly, the Slippery Slope Framework, which incorporates distributive and procedural justice, would ably explain the overall fairness judgements of taxpayers that form the basis of their trust in authorities if the system is perceived to have distributive and procedural fairness, otherwise the tax system will be judged as unfair. On the other hand, the power dimensions of deterrence in terms of audit probability, detection probability and appropriate sanctions, are perceived to be appropriate in creating adequate perceptions of power in authorities. Thus, perceptions of power of authorities would eventually influence enforced corporate tax compliance, as well as the ability to have direct prediction of enforced compliance by the power of authorities.

On the other hand, the social norms model includes four constructs with, first, consideration of social norms predicting corporate tax compliance behaviour indirectly and, second, social norms constructs having direct predictive capacity on corporate tax compliance behaviour. A number of studies have applied individual social norms constructs of descriptive norms predicting subjective, injunctive and corporate personal norms and most found positive relationships with tax compliance behaviour. However, only three studies have incorporated all four social norms constructs finding that descriptive norms have no predictive capacity for tax compliance behaviour. However, a comprehensive review of the empirical literature presents an opportunity for the researcher to formulate relevant hypotheses in the following chapter.

# Chapter 4

# Review of Empirical Results

## 4.1 Introduction

This chapter covers the review of empirical findings of studies that have been undertaken on the individual constructs of the Slippery Slope Framework as well as those combined within the SSF. Specifically, the thesis reviews studies on audit probability and detection as well as sanctions with regard to penalty rates, interest on unpaid taxes and imprisonments, considering how they relate to perceptions of power and enforced compliance behaviour. I also use the SSF model to review studies on the two dimensions of tax fairness, their effects on the taxpayers' trust in authorities and the overall impact that the constructs have on voluntary compliance. The results of studies on Social Norms constructs (descriptive norms, injunctive norms, subjective norms and personal norms) were reviewed. This review looked at how individual norms constructs relate to each other as well as how they influence tax compliance behaviour in terms of voluntary and enforced compliance, and tax avoidance and evasion. The last section of review focusses on studies of corruption (general corruption, petty tax corruption, political corruption and grand corruption) and the consequences of corruption on perceptions on tax unfairness and tax non-compliance behaviour.

## 4.2 Conceptualisation of the Slippery Slope Framework (SSF)

In the previous chapter, I discussed the Slippery Slope Framework (SSF), highlighting the different constructs that form the framework, which include tax fairness, trust in authorities, power of authorities and the dimension of power, and how these affect tax compliance. I talked about different approaches to tax fairness and concluded that a high number of aspects of fairness are relevant to understanding tax compliance. In this thesis, however, I focus on the following dimensions: distributive fairness and procedural fairness (for fairness); the power of authorities, audit probability, detection and sanctions; voluntary compliance and enforced compliance (for tax compliance behaviour). For the power dimension and trust dimension, I focus on perceived power of authorities and perceived trust in authorities. I review the empirical literature that informs the specific effects of the different dimensions and how the dimensions relate with tax compliance below.

### 4.2.1 Perceptions of fairness, trust in authorities and tax compliance

Tax fairness is a very significant target for every economy and, in order to boost tax compliance, every tax authority must put a marked prominence on fairness perceptions (Bobek, 1997). Although there are different approaches to tax fairness, distributive fairness and procedural fairness form the basis of my discussion in this thesis in respect of the Slippery Slope Framework.

Distributive fairness relates to how governments use public resources to reduce the gaps that may exist between the rich and poor through the provision of goods and services that would probably not be provided efficiently by the private sector. It may also mean that taxpayers who earn less may not be taxed in the same way as the rich (Jackson & Milliron, 1986; Saad, 2010), which can be interpreted as equal treatment of all taxpayers who are at similar income levels (Niesiobedzka, 2014, p.375). Nevertheless, given that taxation may not only be targeting fairness in the eyes of taxpayers, such desired treatment occasionally conflicts with other economic intentions of taxation, which means that the purity of horizontal equity may need to be compromised in order to achieve other objectives, such as the stimulation of economic growth (Holmes, 2001, p.19), since no system has, in practice, ever met the requirements of horizontal fairness.

Following the US Tax Reform Act of 1986, Gerbing (1988) carried out a study of fairness perceptions on 225 taxpayers in Dallas and identified four distinct constructs of fairness perceptions through a factor analysis, namely general fairness and distribution of the tax burden, exchange with the government and attitudes concerning the taxation of the affluent. These dimensions form the basis for distributive fairness perceptions. Christensen *et al*. (1994) confirmed Gerbing’s (1988) findings but added self-interest as a construct when they studied the influence of education on fairness perceptions among 296 university students in the U.S. When the same instrument was used to study fairness perceptions among tax auditors, tax practitioners and tax educators, no deviations were observed (Christensen & Weihrich, 1996), which confirmed the strength of the instrument (Richardson, 2005). However, Azmi & Perumal (2008, p.11) identified three slightly different tax fairness dimensions through factor analysis, namely general fairness, tax structure and self-interest, claiming that educational and cultural differences in Malaysia could have been the major causes of the difference.

Bobek (1997), in another study of the US income tax system which was more interested in distributive fairness, procedural fairness and policy fairness, sampled three clusters of respondents comprised of 108 university students, 19 elementary school parents and 51 residents of Florida and Georgia. Whereas distributive fairness looks at horizontal and vertical equity, procedural fairness' major concern is the procedures used in the assessment and collection of taxes and to achieve efficient distribution of outcomes. Thibaut & Walker (1978) and Levi & Sacks (2009, p.317) indicate the significance of procedural fairness to the distribution of outcomes. Equally, the content of tax law is an essential precursor for distribution outcomes (Bobek, 1997; Niesiobedzka, 2014, p.373). Therefore, where policy fairness forms a basis for distribution outcomes are perceived as equitable, higher levels of tax compliance will be realised.

Notwithstanding the studies discussed, concerns over tax system fairness around the globe remain a significant subject. Employing Gerbing's (1988) adapted instrument, Richardson (2005a) surveyed postgraduate business students in Australia to assess their fairness perceptions and revealed five core dimensions of fairness perceptions that link with tax compliance behaviour. The dimensions were general fairness, exchange with government, special provision, tax rate structure and self-interest. According to Richardson (2006b), one more measurement (middle-income earners' tax burdens) was revealed when the same instrument was applied to Hong Kong postgraduate students. However, when Gilligan & Richardson (2005) made a cross-cultural comparison between the findings from Australia and Hong Kong, substantial differences in views of fairness perceptions were noted. The inconsistencies were attributed to the varied policy standpoints in the two tax systems. Hong Kong, for instance, did not have a self-assessment tax system and used a flat tax structure with no withholding tax and no taxes on dividend and interest incomes (Richardson, 2005).

Tan (1998) mainly studied three measurements of fairness perceptions, namely personal fairness, fairness of the tax burden and fairness of the tax rate structure. Personal fairness was noted to be the most significant dimension in influencing fairness perceptions in this study, which was carried out on an equal number of full-time and part-time university students. A study on fairness perceptions by Azmi & Perumal (2008) tried to detect the fairness dimensions among Malaysian taxpayers by reusing Gerbing's (1988) questionnaire on registered individual taxpayers. The results showed that general fairness, tax structure and self-interest were perceived as the most important measures of income tax system fairness. Relatively recently, Saad (2010) identified seven tax system fairness perception measures when studying fairness perceptions and compliance behaviour of salaried taxpayers in Malaysia under the self-assessment regime. The measures were general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness and administrative fairness (Saad, 2010, p.48-51).

### 4.2.2 Studies on developing nations

Although tax fairness appears to be significant to tax compliance behaviour, few empirical studies in this area have been carried out in Uganda. To date, no major study specifically on tax fairness perceptions has been conducted in Uganda, even since the formal implementation of the current self-assessment system. However, one study, conducted by Therkildsen (2006) as part of a research programme on taxation, aid and democracy, looked at the evolution of the tax system in Uganda, ranging from the implementation of graduated personal taxes paid to local governments to the income tax paid to central government. This was done in relation to enforcement practices and the governance of income tax. He reiterated the need for fairness in order to encourage voluntary tax compliance, ideally within a tax system characterised by less coercive methods. With reference to Levi (1988), Therkildsen (2006, p.5) suggests quasi-voluntary compliance depends on: perceptions of fairness of taxes where taxpayers compare the level of compliance of others; perceptions about the benefits or services that the government offers in exchange for tax revenues; and perceptions of the legitimacy of rulers, based not only on the material benefits of tax payment but also on the norms and beliefs or ideologies of voters concerning the authorities.

On the other hand, in their study of factors affecting tax compliance attitudes in Africa (specifically in Kenya, Tanzania, Uganda and South Africa), Ali et al. (2013) explored what defines voters' tax compliance behaviour using survey attitude and perception data, tapping into nationally representative public opinion survey data on fiscal exchange. They suggested that carrying out a study of the factors that determine tax compliance attitudes and behaviour in Africa is of profound academic and policy interest. They also contend that efforts to widen the tax base must be built on the citizens' experiences and perceptions of the tax administration and enforcement practices, and how their tax behaviour relates to their perceptions of the state (Ali et al. 2013, p.2).

According to their preliminary findings, Ali et al. (2013) propose improving understanding of tax compliance attitudes and behaviours in Africa, suggesting a need for a more thorough examination of the concept of fairness in fiscal exchange, i.e. the contractual relationship between taxpayers and the government. Critical factors in this respect are citizens' perceptions about the role of the state, how the tax law is administrated, perceptions about enforcement, government trustworthiness, and the impact that payments to non-state actors may have on tax compliance. Furthermore, there is a need for research focussing on fairness in tax collection and comparative treatments of taxpayers to be carried out. They questioned which conditions compliance can be established in African countries under without an extensive and costly enforcement apparatus. This question is important because it is likely that governments seeking power on the basis of popular consent face restrictions in their use of coercion in tax collection. Thus, 'the challenge for taxation in Africa is to raise domestic revenues from consenting citizens' (Ali, et al., 2013, p.13).

As noted by Drummond et al. (2012, p.3), being able to generate more domestic revenue is a main concern for the majority of Sub-Saharan African countries. Governments create fiscal space through raising revenue and, in this way, they are able to provide vital public services, reduce donor funding and do away with single resource dependency. However, the domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion (IMF 2011). Although taxpayer non-compliance is a continual and growing global problem (McKerchar & Evans 2009), most of the developing countries affected are located in Sub-Saharan Africa. However, from the perspective of investment, Keen & Mansour (2009, p.4) contend that as countries try to attract more investment, they experience great pressure to sustain revenue from corporate income taxation because of tax competition. In a bid to attract investments, both within the regions and more widely, countries engage in tax cuts without evaluating the risks of such action, especially effects on other taxpayers, which may be perceived as unfair on their part.

Zambia, for example, made a change in 2008 budget to the corporate income tax by increasing it from 25% to 30%. However, the government purportedly recorded losses of between USD 1.5 to 2 billion every year due to tax evasion and avoidance, although this was disputed by their main target, the mining sector. According to Fjeldstad, Fundanga & Rakner (2016), this was a reflection of an entrenched mistrust between the government and the mining companies, which was probably the result of the long-term negotiated individual tax agreements entered into by the government, which caused feelings of perceived unfairness in the tax system in the companies outside of the negotiated agreements (Fjeldstad, et al. 2016, p.2). The failure of the government to earn revenues from the mines prompted national and transnational civil society organisations and opposition parties alike to pressure the government to renegotiate the contracts. The renegotiation saw an increase in the corporate tax rate since it is believed taxes such as corporation income taxes are thought to contribute significantly to the overall government revenue.

Fjeldstad et al. (2016, p.2) also suggest that major tax reforms benefit from being transparent and from being designed thorough consultations between governments and taxpayers, as such consultations may help to identify undesirable implications of draft proposals and contribute to the legitimacy of the new tax regime. This, by implication, means that agreement among key stakeholders is a prerequisite for a sustainable tax framework. Nonetheless, Baurer (2005, p.1) contends that, as an integral part of any nation's welfare, a tax system must provide a level playing field for businesses by ensuring that all taxpayers meet their tax filing and paying requirements, arguing that the tax administration must be keen to balance its educational and supportive roles with that of enforcement.

Additionally, a study on the factors that affect tax compliance among SMEs in North Central Nigeria by Atawodi & Ojeka (2012) suggests that the whole tax system has to be consistent with two main models of tax, specifically the ability to pay and the equal distribution code, which emphasise equality and fairness. While the ability to pay model leans on levying taxes based on taxpayers' capacity to pay, the distribution justice model recommends that income should be taxed at a fixed rate, implying that taxpayers with more income should pay more taxes, although not higher rates of tax (Atawodi & Ojeka, 2012, p.90).

Moreover, Kibassa (2012) advises that taxable income should be income above the level of subsistence and must be equitable where there is justice in the distribution of burden of taxation. This seems to be consistent with the assertions of Prest (1960), who calls for the fair treatment of people in similar and dissimilar circumstances. Here, the term 'similar circumstances' implies that those who are equally well-off from economic point of view should pay equal amounts of taxes. This is called horizontal equity. People from dissimilar circumstances should be subjected to dissimilar treatment, i.e. those who are better off should pay more taxes those who are worse off. Musgrave & Musgrave (1989) maintain that in order to deliver distribution of income and tax equitably, the real ability of the taxpayer should be estimated. Their view is in line with that of Kibassa (2012, p.3) who, while studying the role of SMEs in Tanzania's revenue, argues that the real ability of the taxpayer can be estimated by assessing the earned income of taxpayers, which is normally signified by the personal income and can be arrived at by approximating windfall gains (if any), transfers and any other estimated unearned income. Therefore, to measure the real ability to pay, the optimum ability or taxable capacity needs to be identified.

Everest-Philips & Sandall (2009), however, studied the link between public governance, quality and compliance, and noted that there is a connection between public governance quality and taxation. They argued that good governance delivers a fair tax system, which makes it conceivable to have voluntary tax compliance. Good governance demands the delivery of excellent public goods and services, and where government fails to provide public amenities and infrastructure to the voters in exchange for tax payment, citizens may become unwilling to pay tax, as was noted from the Nigerian study on public governance quality and tax compliance of individual taxpayers (Alabede, Ariffin, & Md Idris, 2011, p.3). It was also indicated that levels of democracy, accountability, effectiveness of government service delivery and fairness in the rule of law were all very low. Alm & Gomez (2008, p.84) suggest that there is a significant positive relationship between the willingness of taxpayers to fulfil the requirements of tax laws and the perception of the benefits received from public goods and services. Nevertheless, Korir et al. (2015, p.18) note that judging the fairness of the tax system requires full knowledge of, and the correct interpretation of tax law and complex tax rate structures which may not be understood perfectly by taxpayers.

As a result of the foregoing discussion, the following hypothesis was developed and tested:

- *Tax fairness perceptions will positively predict voluntary compliance.*
- *Tax fairness perceptions are positively associated with trust in authorities*

### 4.2.3 Studies on Slippery Slope Framework (SSF)

While details of actual tax behaviour are generally hard to access, intentions to comply express taxpayers’ willingness to follow the rule of law and can be captured in an experimental setting. Previous research found a link between intended tax compliance and tax behaviour in incentivized laboratory experiments (Wahl, Kastlunger, & Kirchler, 2010) and positive correlations between self-reported and actual taxpaying behaviours. Muehlbacher & Kirchler (2010, p.609) suggest that trust in authorities and a reasonable interaction between tax authorities and taxpayers are crucial to the enhancement of voluntary tax compliance, as they foster and stabilise the voluntary cooperation of honest taxpayers.

In another study, using the Slippery Slope Model to study tax policy and the news, Kasper, Kogler & Kirchler (2015) carried out a survey of 544 employees, empirically analysing their perceptions of tax-related media coverage and its impact on tax compliance. The findings reveal that both trust and power significantly influence intentions to comply, which shows that tax compliance may not only be motivated by deterrence factors, but also by the relationship quality that exists between taxpayers and the authorities (Kasper, et al., 2015, p.60).

The same view was held by Lisi (2012), who tested the Slippery Slope Framework through a cross-section analysis using data from the World Values Survey (WVS), the World Bank and the International Monetary Fund. From the standard results, Lisi (2012, p.1372) shows that power and trust are both necessary for increasing tax compliance. Specifically, trust and the rule of law are statistically significant, and the relationship goes in the anticipated direction, with a rise in the level of trust leading to a reduction in tax evasion. The same was found to hold true for an increase in power of authorities. Moreover, trust exerts more influence on tax evasion than the power of authorities.

Prinz, Muehlbacher & Kirchler (2014, p.30-31 try to formalise the Slippery Slope Framework on tax compliance, putting forward a model that defines taxpayers from the viewpoint of the state using actual measures applied by the state. The authors suggest that having fair interaction leads to higher levels of trust towards authorities and increases these authorities' persuasive power. Similarly, perceived high institutional quality is believed to reduce the size of the shadow economy and confidence in national government institutions was shown to affect taxpayers' morale (Torgler and Schneider, 2009, p.228). Wahl, Muehlbacher & Kirchler (2010), while looking at trust in authorities and power to enforce tax compliance, claim that where there is procedural fairness, with tax authorities being transparent and consistent with their decision-making processes, trust in these authorities would improve, subsequently enhancing tax compliance. They also suggest that to achieve a high level of procedural fairness, citizens should be allowed to comment on policies and actually vote for their preferred options. This kind of democratic process is believed to have the capacity to increase trust in authorities and, consequently, persuasive power (Wahl, et al., 2010, p.387).

Additionally, a study by Kogler, et al. (2013), testing the assumptions of the Slippery Slope Framework among 476 Austrian self-employed taxpayers using an online survey, found a low significant but positive relationship between trust and power. This means that observed high perceptions of power might constantly yield high trust levels and vice versa. It was also found that perceived trust in tax authorities is a significant predictor of voluntary tax compliance, while power had no significant influence on voluntary compliance. As predicted in the model, enforced compliance was highly dependent on the perceived power of the tax authorities but not on trust, as this wasn't significant (Kogler, et al. 2013, p.8). These results seem consistent with those of Lisi's (2012) study. As a result of the foregoing discussion of empirical results, the following hypotheses were derived and tested:

- *Tax fairness is positively associated with perceptions of trust in authorities.*
- *Voluntary compliance and trust in authorities are positively related.*
- *Trust in authorities positively mediates the relationship between fairness and voluntary compliance.*

### 4.3 Power of authorities and enforced tax compliance

Substantial literature exists regarding deterrence factors and how these relate to tax compliance behaviour and this has been discussed in Chapter 3. Indeed, a number of deterrence factors which were found to be relevant to the understanding of how taxpayers behave when trying to comply with tax laws and regulations were highlighted. As indicated at the start of this chapter, the centre of focus for this part of the thesis is the power of authorities, which has been conceptualised in the context of the Slippery Slope Framework to include two elements: perceptions of audit probability, detection and sanctions; and the assessment of overall taxpayer perceptions of power towards enforced compliance behaviour. The empirical results are discussed below to support the development of the hypotheses for the study.

#### 4.3.1 Audit probability, detection and enforced tax compliance

According to Alm (1998), tax evasion is considerable for many reasons and its presence reduces tax collections, thus affecting the taxes that compliant taxpayers face and the public services that citizens receive. Evasion creates misallocations in resource use and taxpayers alter their behaviour to cheat on their taxes, such as in their choices of hours to work, occupations to enter, and investments to undertake. Therefore, the existence of tax non-compliance implies that the government uses resources to deter non-compliance behaviour, to detect its magnitude and to penalize its perpetrators. It is also believed that tax evasion may contribute to feelings of unfair treatment and disrespect for the law. Furthermore, it is not possible to understand the true impact of taxation without recognising the existence of tax evasion (Alm 1998, p.2).

Probability of detection, according to Chau & Leung (2009, p.037), is the possibility that tax authorities will discover an individual's non-compliance and take a deterrence measure to reduce the evasion. More often than not, taxpayers wish to evade paying tax. However, the existence of a non-zero probability of being caught, prevents them from making non-compliance decisions (Bordignon, 1993).Increasing the likelihood of detection through tax audit, as an effective measure, may increase tax compliance (Snow & Warren, 2005; Andreoni et al., 1998; Alm, 1991).

Alm et al. (1992c, p.1018) indicates that taxpayers' uncertainty about enforcement and policies, which could stem from imprecision in the tax laws, non-uniformity in auditors' training and ignorance of the factors that trigger audits among other things, create uncertainty which may, in turn, cause a rational taxpayer to report income over and above the amount they would in the absence of such uncertainty. However, Devos (2015, p.16) suggests that if the probability of detection is independent of income, increases in taxpayers' incomes would cause corresponding increases in evasion levels. Devos, however, indicates that the purpose of a tax structure is not only to collect taxes, which make this assertion unrealistic. Alm et al.'s (1992) study implies that the enforcement mechanisms of audit probability and detection are perceived as powerful and can create a sense of income reporting more than is expected.

Alm & McKee (2006, p.22) reported that there is a significant effect between tax audits and tax compliance behaviour among taxpayers, as was in Alabede et al. (2011, p.110). Bayer & Cowell (2010, p.13) also found that there is a noteworthy positive association between tax audit and firm tax compliance behaviour. However, according to Chau & Leung (2009) the most significant factor that drives taxpayers into compliance is the tax penalty structure, suggesting that once there is fear among taxpayers due to penalty rates, then the affinity to evade taxes would reduce significantly. As noted before, Birskyte (2013, p.3) puts forward that both the increase in the penalty rate and an increase in the probability of detection may unambiguously lead to higher declared incomes, but the findings were not clear with regard to the relationship between income and tax evasion.

According to Alm (1996), tax audit is a very popular issue in tax compliance research because of its significance in motivating taxpayers to comply with tax codes. Audit probability, audit productivity in relation to the fraction of unreported income detected and prior audit notifications have received much attention from researchers and are believed to have significant effects on tax compliance. However, in contrast, Cummings et al. (2005, p.23) show that increases in audit likelihood and penalty rates led to lower tax compliance among South African taxpayers. The differences in behaviour of these taxpayers were attributed to probable differences in risk attitudes caused by cultural variations towards taking gambles. This varied from the expectation that the higher the audit rate, the higher compliance will be (Alm, 1999). Other empirical findings by Birskyte (2013, p.5) and Alm (1999, p.756) support this hypothesis, reporting that compliance is higher when audit rates increase, since the probability of detection becomes apparently higher.

Mikesell & Birskyte (2007, p.1064), comparing the level of penalty and the frequency of audits, indicated that audit frequency or rates have much higher effects on tax compliance than the level of penalties charged for non-compliance. They showed that for penalties to be effective, audits must have taken place and culprits identified, yet their imposition requires inclusion in the tax law, which legislators may not easily accept for the sake of those they represent. Therefore, from the aforementioned, the effectiveness of penalty rates may be in doubt, especially if taxpayers are willing to comply with tax codes without them.

In another experimental study, Coleman (1996) tested alternative strategies to improve voluntary income tax compliance, considering audit rates on tax returns with prior notice to taxpayers and enhanced taxpayer services. It was shown that amplified audit threats increased both reported income and taxes paid, relative to the control group, among low and medium-income taxpayers taken as a single group, as well as on both high and low risk taxpayers (Coleman, 1996, p.1). The audit threat is said to have had the greatest impact on middle-income and high risk taxpayers, although mixed effects among high-income taxpayers that were just detectable, with some taxpayers having positive responses and others having negative responses (Coleman, 1996, p.12).

Moreover, Dwenger et al. (2014, p.1) show a contradiction with empirical observations that tax compliance may be high in modern systems even when there are very low tax audit probabilities and modest penalties. Earlier studies trying to understand and solve this tax compliance dilemma proposed the extensive use of third-party information from firms and the financial sector, creating a divergence between observed audit rates and actual detection probabilities, which should be restricted in situations when tax evasion has taken place (Filippin, Fiorio & Viviano, 2013, p.321; Slemrod 2007, Kleven 2014, p.80; Kleven, Kreiner & Saez, 2009; Kleven, et al. 2011, p.651). Hence, the notion that deterrence is weak is, to some extent, an illusion. The theory also assumes that taxpayers have perfect knowledge of deterrence parameters but, in practice, this may be a misperception. Survey evidence suggests individuals tend to overestimate the audit probabilities and penalties associated with tax evasion (Chetty, 2009, p.32).

Furthermore, Johns & Slemrod (2010) showed that there are usually differences between different income groups (for instance, small, middle and upper-income groups), which is a cause of significant concern given the possibility of probable systematic differences in the ability of auditors to detect the varied misreporting by type of income. This is a clue to the conceivable probability that the misreporting of upper-income taxpayers is complicated and may not be easily detected and corrected to conclusion since audit estimations may not have the capacity to unearth all misreporting. In addition, unplanned errors may cause the overestimation of the extent to which non-compliance is practised by high-income taxpayers because an overestimate of non-compliance also overstates true income, while an underestimate does the reverse (Johns & Slemrod, 2010, p.412).

According to James & Edwards (2009), the probability of detection in the form of increased frequency of audits and penalties for evasion are alternative methods of enforcement. However, this methodology may lead to excessively high penalties for the small number of taxpayers who are caught for crimes which are committed by many who go untouched, which violates the principle of equity. James & Edwards (2009, p.6) suggest that in the majority of the cases the decision not to comply with tax law may be profoundly influenced by factors other than those defined by economic theories of tax compliance. Therefore, the audit efficacy of tax compliance as proposed by the economic theory of deterrence cannot be established, as tax audits may lead taxpayers to craft other plans to dodge tax payments (Kastlunger, Kirchler, Mittone, & Pitters, 2009). Further findings indicate that audit rates and profits are positive and significant predictors of corporate tax compliance, indicating that there would be increased tax revenues since improved and substantial audit efforts would motivate corporate tax compliance behaviour (Kamdar 1997, p.46).

Conclusively, the review of empirical studies shows that high audit probability might encourage tax compliance. Accordingly the SSF argues that integration of audit probability and detection with sanctions provide the ultimate power of authorities needed to achieve enforced tax compliance, hence the following section highlights empirical findings on sanctions.

### 4.3.2 Sanctions and tax compliance behaviour

The Allingham and Sandmo's (1972) model proposed the use of sanctions to align non-compliant taxpayers with compliance behaviour since most taxpayers are taken to be utility maximisers. Therefore, for the sake of seeing taxpayers desist from tax non-compliance behaviour, the SSF incorporates sanctions as one of the dimensions of power in the model (Kirchler et al. 2008). Sanctions for tax non-compliance can be in terms of penalties, fine, interest, imprisonment and publications of names of non-complying taxpayers. The reviewed literature suggests that the size of the perceived penalties should be able to affect the likelihood of tax non-compliance (Varma & Doob, 1998; Raskolnikov, 2009).

According to Raskolnikov (2009) a commitment to implementing government sanction policies may not be the only way of encouraging taxpayers to pay taxes, but a prior commitment to an agreement to wards a waiver of the tax preparer privilege, with tough standards and stronger sanctions for tax advisors could improve the assistance provided. However, government could also implement a tax regime with a separation of taxpayers between the compliant and the non-compliant so that sanctions are placed on no more than one explicit group of taxpayers with a rational mind whose marginal compliance decisions largely depend on the expected tax penalty, who may actually choose the economic model given the costs that accrue (Raskolnikov, 2009, p.692) and this methodology may seem to be wasteful if applied to taxpayers who are willing to pay their tax obligations and/or taxpayers who just need tax advice, respectful audits and campaigns for compliance (Raskolnikov, 2009, p.693).

Devos (2015), on the other hand, suggests a number of sanctions but emphasises the need for the imposition of stronger penalties in response to the assertion that taxpayers weigh the uncertain benefits of successful evasion against the risk of detection and punishment. Despite recommending other areas for improvement, like education, increased publicity and incentives, Devos (2015, p.15) contends that the punitive impact of penalties and other sanctions support the shaping of taxpayers' compliance positions and behaviour. Accordingly, a penalty structure forms part of the punishment and is an important feature of a taxpayer's decision to evade tax. This study seems to have been along the same line of thinking of that of Jackson & Jones (1985, pp. 7-17) who supported government imposition of higher penalties due to increased tax non-compliance with the discovery that taxpayers were more sensitive to the magnitude of penalties than they were to probability of detection.

However, Jackson & Milliron (1986), suggested that governments should take precautions when setting up policies relating to sanctions, as severe sanctions may not necessarily have a direct relationship with tax compliance. Jackson & Milliron's study also indicated that the social cost of sanctions could outweigh the benefits, as taxpayers may break up into smaller heterogeneous groups if sanctions are perceived as too severe, resulting in general aggression with disregard to tax legislation (Jackson & Milliron, 1986). Researchers like Graetz & Wilde (1985) and Devos (2015, p.18) continued to question the intrinsic worth of the economic theory of deterrence with the failure of penalties to improve tax compliance behaviour, suggesting that governments need to employ a combination of factors, including auditing and reduced tax rates, so as to manage tax non-compliance. Franzoni (2008) held the same view that a higher audit rate, rather than the size of the fine, may be the most important factor in encouraging tax compliance.

Furthermore, sanctions may be used to try to deter some of the serial tax avoiders who indulge themselves in using systematic avoidance schemes to specifically dodge paying taxes. A case in point is that HMRC is monitoring a section of businesses that use these schemes and trying to counter their aggressive tax avoidance through consultations with technical teams in order to be able to develop strategies such as imposing specific penalties for cases where persistent tax avoidance schemes apply and widening the threshold conditions to capture tax advisors who support aggressive tax avoidance (AAT, 2015, p.2; EY, 2015, p.3). Nonetheless, Blank (2014) proposes the use of collateral sanctions in addition to the customary or traditional monetary penalties, which would involve the denying or withdrawal of government benefits in respect of perpetrators of tax non-compliance, the revocation of professional licences and, worse, the deportation of those who propagate fraud and deceit in tax matters. According to Blank (2014, p.720), collateral sanctions are likely to have positive effects, encouraging voluntary tax compliance more than threats of additional monetary tax penalties, as they draw on the behavioural aspects of tax compliance more. It is suggested that governments should embrace and enforce collateral sanctions after they have been widely publicised.

Crawford (2013) recognises the impact that effective penal provision can have in encouraging tax compliance. However, he notes that not all taxpayers deliberately set out to be tax non-compliant. There are times when unintentional errors and honest mistakes occur, probably resulting from taxpayers failing to understand the application of the law, with the implication that this category of taxpayers would possibly comply voluntarily if they had prior knowledge of the law. The lack of information needed to comply, the costs involved in hiring technical staff like accountants and how long it takes for the tax officials to work on tax returns on submission may make it difficult for them to comply (Crawford, 2013, p.13-14).

However, the other category of taxpayers would consist of taxpayers that wilfully decide not to comply, making economic decisions to evade paying tax, possibly because their evaluation informs them that the costs and risk of detection are less than the perceived benefit of non-compliance and/or they essentially disagree with paying tax. This category would require the implementation of sanctions with a likelihood of prosecution to motivate them to pay taxes (Crawford, 2013, p.15), which seems to be in line with the European Union (2010, p.5), who suggest that tax administrations should endeavour to align their tax compliance strategies with taxpayers' attitudes and intentions.

Doran (2009) did a study on the relationship between tax penalties and tax compliance. Doran, however, did not look at penalties as only intended to promote tax compliance, as suggested by the deterrence model, but also penalties that specifically help in defining tax compliance. Doran (2009, p.111) contends that tax penalties determine the standards of conduct that satisfy a taxpayer's obligations to the government, differentiating compliant taxpayers from non-compliant taxpayers. Doran (2009, p.113) says that sanctions should be set with a high level of precision, especially in a self-assessment regime, requiring taxpayers and tax practitioners alike to report their tax liabilities only on the basis of legal positions that they soundly and in good faith believe to be correct, although accuracy may not be guaranteed if the standard is set low. However, the European Commission (2010, p.5) indicates that criminal sanctions may not be the suitable response and may even have an adverse effect when non-compliance is caused by complex legislation or the taxpayer lacks knowledge of the law.

Feld & Frey (2007), on the other hand, provide support for the unclear influence of deterrence on tax compliance. Tax authorities may not exert a lot of control in the implementation of sanctions as this may increase tax evasion. Fines and penalties may otherwise reduce tax evasion (Feld & Frey, 2007, p.108). Moreover, Fjeldstad et al. (2012) suggest that the severity of sanctions may have a negative consequence on tax compliance by accelerating the level of resistance, which calls the standard economic theory of deterrence into question. With this, the prediction is that the spread of tax resistance will widen the more severe the sanctions. The reasons for this are thought to be reciprocity considerations and the coercive behaviour of tax collectors (Fjeldstad, et al., 2012, p.23). According to Muehlbacher & Kirchler (2010), enhanced cooperation with enforced compliance is achieved only where there is an escalation of the power of authorities.

The reviewed empirical results show that the power of authorities' dimensions, namely audit probability and detection, and penalties and fines, are not consistent in predicting tax compliance behaviour. Some of the findings showed that these dimensions can encourage tax compliance behaviour, whereas others indicate that higher sanctions could lead to increased tax avoidance and evasion or have no influence on tax compliance behaviour. Given the foregoing review, the study proposes and examines the following and hypotheses:

- *Power of authorities positively predicts perceived power of authorities.*
- *Perceptions of power of authorities and enforced compliance are positively related.*
- *Power of authorities positively relates with enforced compliance behaviour.*
- *Perceived power of authorities positively mediates the relationship between power of authorities and enforced compliance.*

On the other hand, in a study of tax authorities' interactions with taxpayers' compliance in social dilemmas by power and trust, Gangl et al. (2015) highlighted that in research on the regulation mechanisms of citizens' behaviour, two competing theories of power are widely recognised; the conceptualisations of coercive and legitimate power. The insights into coercive power are founded on Becker's (1968) economic approach, which suggests implementation of strict control and punishment mechanisms to influence individuals' behaviour towards their utility functions. This is consistent with Kirchler et al.'s (2008) conceptualisation. The second approach that the study proposes is that of legitimate power by Tyler (2006). Legitimate power is the power of accepted authorities and is perceived as a more suitable category of power by which to effectively shape individuals' behaviour than severe controls and punishment. In their study, Gangl et al. (2015, p.15) sought to integrate these two independent dimensional approaches of power in the Slippery Slope Framework.

The authors indicate that French & Raven's (1959) approach provides a distinction between coercive power, reward power, legitimate power, expert power, referent power and information power. Looking at the different bases of power and seeing them as independent implies that authorities cannot only hold one but several bases of power at the same time. However, the different bases of power can be integrated into two-dimensional groupings of harsh and legitimate power (Raven, Schwarzwald & Koslowsky, 1998) as cited in Gangl et al. (2015, p.15). Perceived legitimate power, therefore, is derived from legitimisation, knowledge, skills, access to information and identification with the powerful party. It comprises soft forms of power, namely legitimate power, expert power, information power, and referent power.

Thus, in relation to taxation, the authors view the concept of legitimate power as founded on the fact that the legitimate authorities use information, charisma, legitimisation and expertise to convince taxpayers that the right course of action is to cooperate. Legitimate power could, for instance, operate through the accepted right to influence others by way of agreed rules, the norm of reciprocity, social responsibility and equity norms. Expert power attributed to knowledge and skills causes the perception that the expert has a high capacity to lead. Information power is based on the sharing of valued information and referent power could arise as a result of the dependent party's identification with the influencing party (Gangl et al. 2015, p.16).

Either way, two dimensions of power are expected to influence trust with coercive power likely to influence reason-based trust and legitimate power likely to influence implicit trust. Reason-based trust might result from a rational decision grounded on goal achievement, dependency, internal factors like competence and external factors in decision-making – the dangers and opportunities. With implicit trust the authority might be perceived as belonging to the same category as the taxpayers, as opposed to being perceived as belonging to another category. Also, social identities may act as prompts to signal automatic trust without conscious recognition of reasons that tax authorities are official institutions (Gangl et al. 2015, p.16). Also, Kirchler et al. (2008) argue that if authorities gain trust, they are likely to increase their legitimate power and, once perceived as legitimate, may gain taxpayers' voluntarily cooperation.

The study concludes that coercive power is favourable in an antagonistic climate and enforced compliance. Legitimate power and reason-based trust form the basis of a service climate and voluntary cooperation and implicit trust is the base of a confidence climate and committed cooperation (Gangl et al. 2015). Therefore, if governments and tax authorities are regarded as legitimate authorities in the way they serve the public and norm reciprocity, social responsibility and equity are felt, taxpayers are likely to perceive them as holding legitimate power. In addition, taxpayers will perceive legitimate power to exist where a tax authority is competent and can skilfully carry out audits to detect taxpayers' income underreporting, and with perceived legitimate power, trust in such authorities can be improved. Also, as Kirchler et al. (2008) argue, when trust in authorities' increases, the legitimate power of those authorities is likely to increase and, once they are perceived as legitimate, taxpayers may voluntarily cooperate with tax rules. The following hypotheses were examined based on the foregoing discussion:

- *Perceptions of tax fairness are positively related to the perceived power of authorities.*
- *Perceptions of legitimate power is positively associated with perceived trust in authorities.*
- *Perceived legitimate power of authorities will positively relate to voluntary compliance.*

### 4.4 Social norms and corporate tax compliance

In the previous chapter, under section 3.7, I discussed several theories of social norms and how these theories relate to tax compliance behaviour. I also discussed the different categorisations of social norms, how these relate to each other and their influence on tax compliance. This thesis conceptualises social norms to include descriptive norms, injunctive norms, subjective norms and personal norms, and tax compliance behaviour to include voluntary compliance, enforced compliance, tax avoidance and tax evasion. I will review empirical results to formulate hypotheses about the relationship of these different types of norms to compliance and to each other below.

#### 4.4.1 Descriptive norms and corporate tax compliance

Making the distinction between descriptive and injunctive norms, Cialdini et al. (1990) extended the literature on social norms by addressing the influence of group members' beliefs and behaviours on others' behaviours. Descriptive norms describe what is commonly done within a given context. In other words, descriptive norms refer to what is commonly done and act to provide evidence of what is likely to be effective and adaptive action. The implication of this is that one can, more often than not, choose efficiently by recording what other participants are doing (Cialdini *et al*., 2006, p.4). These norms promote behaviours by providing information about the adaptation of behaviour in a specific state of affairs (Reno, *et al*., 1993, p.104). Descriptive norms may serve as heuristic prompts or decisional shortcuts when one is choosing how to behave in a given situation (Cialdini et al. 1990, p.1021; Lapinski, et al., 2007, p.134). Thus, they influence individual behaviour and social judgments by providing information about what is sensible or effective in that context (Ford & Ferguson 2008, P.84). A demonstration of this can be found in the area of marketing, where advertisers load commercials with scenes of crowds in their stores and claim that their products are selling fast, which informs prospective buyers that many others think the same way. to the consumers, this may be enough proof of what is actually happening, showing identification with others' actions (Venkatesan, 1966, p.385) which then informs behaviour (Cialdini, et al., 1991, p.203)

However, some studies have noted the difficulty in making a dichotomy between injunctive and descriptive norms. The two types of norms, it is argued, are often congruent, meaning that what is commonly done is also what you ought to do (Brauer & Chaurand, 2010; Thøgersen, 2008). For instance, at a formal meeting, the descriptive norm is that most individuals will be silent and attentive. This norm is also injunctive, as non-compliance is likely to incur social sanctions (Lapinski & Rimal, 2005, p.131). However, this forecasted association may not be a rational necessity, because people are quite capable of ratifying the moral desirability of certain behaviour without practising it. Norms do have significant influences on human actions, but the effects can only be accurately predicted when researchers separate descriptive norms from injunctive ones (Cialdini, Reno, & Kallgren, 1990, p.1015). Thus, the concepts of descriptive and injunctive norms are logically distinct (Eriksson, *et al*., 2014, p.2).

In other words, descriptive norms - what others do- are likely to guide our courses of action in situations of uncertainty (Cialdini & Goldstein, 2004, p.597; Lapinski & Rimal, 2005, p.130). For instance, if people are unsure whether to declare tips as part of their income or not, they may be inclined to what their colleagues do. Injunctive norms, beliefs about what is right, on the other hand, influence behaviour because people do not want to be the target of social disapproval. They are effective when it is clear what the norm is and when the transgression can become known to others (Onu & Oats, 2015, p.116).

Descriptive norms arising from observation of others' behaviour in particular situations may become desired norms for conformity due to their ability to shape behaviour perceived to be acceptable. Also, injunctive norms are the general societal expectations of proper behaviour and conformance to them occurs from the need to make social interactions in order to attain social rewards (Bobek et al. 2012). Therefore, taxpayers will be guided to make accurate decisions in ambiguous or new situations when they observe others in similar situations. Cialdini & Trost (1998) suggest that these societal actions become sanctioned behaviour with the passage of time. In the same vein, subjective norms and personal norms are likely to emerge from observing what others do, implying that the descriptive norms of taxpayers may actually influence the subjective and personal norms of other taxpayers (Hechter & Opp, 2001).

The presumption from the foregoing is that more work needs to be done to clarify the inconsistencies that exist between descriptive norms and other social norm constructs as well as tax compliance behaviour. The discrepancy could be due to cultural differences, the methods used, and the contexts within which the studies were carried out. Therefore, the current study aims to investigate the existence of these relationships in a corporate income tax context by proposing and testing the following hypotheses:

- *Corporate SMEs' descriptive norms towards tax (non)compliance behaviour will predict their injunctive, subjective and personal norms towards corporate tax compliance behaviour.*
- *Corporate tax compliance behaviour is directly associated with descriptive norms.*

### 4.4.2 Injunctive norms and corporate tax compliance behaviour

Injunctive norms, on the other hand, are norms relating to what should be done or what is usually approved of and disapproved of behaviour. Injunctive norms, as described by the theory of reasoned action (Ajzen & Fishbein, 1980), are similar to subjective norms. Some research indicates that salient injunctive norms predict behaviour across situations though, according to the findings, descriptive norms are less robust (Cialdini et al., 1990, Kallgren et al., 2000). Recent work on the descriptive/injunctive norm distinction suggests that the influence of descriptive norms on behaviour may be moderated by a number of factors, including group identification (Rimal & Real, 2003, p.188; Lapinski, *et al*., 2007, p.134).

However, Cialdini et al. (2006, p.4) view injunctive norms as norms that motivate behaviour by promising social rewards and punishments. This is similar to the assertion of Cialdini *et al*., (1991, p.203) that injunctive norms direct behaviour, since they constitute the moral rules of the group. Furthermore, Ford & Ferguson (2004) suggest that injunctive norms are socially shared sets of rules defining suitable and improper conduct. Injunctive norms, therefore, influence behaviour and social judgment by providing information about what is likely to be positively or negatively sanctioned in a given context (Ford & Ferguson 2004, P.84).

Thus, it could be argued that one reason why people may be helpful in our society is to act in accord with the societal norm, which is positively sanctioned (Berkowitz, 1972, p.86). Similarly, one reason why people may repay the gifts, favours, and services they have received is to conform with the norm for reciprocity, thereby garnering social approval and avoiding social disapproval (Gouldner, 1960, p.162). In fact, there has been much debate surrounding the notion of social norms, revolving around the contention that injunctive norms have more influence on human behaviour.

However, scholars such as Lapinski & Rimal (2005, p.131) and Chatzisarantis *et al*. (2009, p.62) object to the idea that injunctive norms can be used to predict a significant amount of the variance in social behaviour, pointing out that mutually incompatible norms could exist simultaneously within the same societal group. Nonetheless, Cialdini, et al. (1991, p.204) believe injunctive norms are distinct and their contribution cannot be underestimated. The failure to have consensus led to further studies in an effort to find the actual constructs of the Social Norms Theory so as to arrive at the distinction between descriptive and injunctive norms. Therefore, whether a particular norm will influence a response is dependent on the degree to which the respondent's attention is focussed on that norm, so its distinctive nature can help identify the actual relationship that exists with corporate tax compliance behaviour (Eriksson, et al. 2014, p.2).

Still in the tax context, Alm, McClelland & Schulze (1999) stressed that if others behave according to a socially accepted mode of behaviour, the individual will also behave appropriately. Therefore, taxpayers will comply and pay taxes as long as they believe that compliance is a social norm. In other words, taxpayers’ compliance behaviour depends on other taxpayers’ conceptions of the behavioural setting (Alm et al. 1999, p.141).

Furthermore, interaction with social and political institutions can be approached from the perspective of the psychological tax contract. According to Feld & Frey (2007), taxation can be viewed as an implicit contractual relationship which involves emotional ties and loyalties as well as duties and rights for the parties involved. The psychological contract therefore imposes obligations on each party to perform their responsibilities without neglect since this would undermine the psychological sanctions of the contract for either party. This contract includes not only fiscal exchange and reciprocity within the relationship between related public services and tax costs but also elements of good treatment, respect and participation in political decision-making at procedural level (Feld & Frey, 2007, p.103). In other contexts, a taxpayer's tax morale may be strengthened by government policies, public services, the behaviour of tax authorities towards taxpayers and political perspectives (Feld & Frey, 2002a, p.11; Frey, 2003, p.388).

Moreover, injunctive norms may predict subjective norms as well as personal norms. Bobek et al. (2012) argue that, as a form of injunctive norms, taxpayers' subjective norms (what those who are important to the taxpayer think he should or should not do in a given situation) may be predicted by injunctive norms, especially if the referent others have similar opinions to that of the general society. The norm activation model (Schwartz, 1977) argues that taxpayers build up their ethical standards of behaviour (personal norms) from the awareness that performing or not performing a particular behaviour has certain consequences (societal expectations of behaviour acquired in the course of social relations - injunctive norms) and feelings of responsibility for performing specific behaviours.

The discussion reveals that more work needs to be carried out in order to get a clear view of the relationships between injunctive norms, subjective and personal norms, and tax compliance behaviour. The methods employed and the contexts within which the studies were carried out might explain the contradictions within the literature. Thus, the current study aims to investigate the existence of these relationships between social norms constructs, as well as a direct association between injunctive norms and corporate tax compliance behaviour, by proposing and testing the following hypotheses:

- *Corporate SMEs' injunctive norms towards tax (non)compliance behaviour will predict their subjective and personal norms towards corporate tax (non)compliance behaviour.*
- *Corporate tax compliance behaviour is directly associated with injunctive norms.*

### 4.4.3 Subjective norms and corporate tax compliance

Subjective norms, as defined by Ajzen (1991, p.458), refers to perceived social pressure to perform or not to perform the behavioural beliefs that an individual holds with regard to what would be the expected acceptability of the individual's intended behaviour and their willingness to align behaviour with the referent others. Subjective norms are also described in terms of socially shared beliefs about expected social behaviour. Individuals holding subjective norms must evaluate the demands of the norms when taking or not taking on particular behaviours (Bobek et al., 2015, p.41). Given their significance as suggested by Ajzen (1991), subjective norms have been explored in a number of studies applying the same premise of which tax compliance behaviour has not been an exception (Onu & Oats, 2015, p.116). The objective of subjective norms is to build and maintain social relationships which can be useful when people are motivated to comply with the norms of referent others. Bobek & Hatfield (2003, p.18) define subjective norms as a person's beliefs about whether specific individuals or groups approve or disapprove of the individual or group performing a particular behaviour and the extent to which that individual or group is motivated to conform with the other individuals' or groups' behaviours.

In the context of taxation, tax compliance behaviour would be consequence of subjective norms if a taxpayer believed that others around them saw paying taxes as a socially acceptable practice, since this would support the taxpayer in aligning their intentions to the behaviour perceived as acceptable by the group. If the perceived acceptable behaviour is not to comply with the tax law, that individual or the group will be inclined towards tax non-compliance behaviour.

Given the role of subjective norms, researchers have been motivated to carry out studies in which they apply the theory of planned behaviour to tax compliance. So far, empirical studies suggest an association between subjective norms and tax compliance behaviour (Bobek & Hatfield, 2003; Bobek et al., 2007; Hanno & Violette, 1996), although only in relation to self-reported tax compliance (Hessing, Elffers, & Weigel, 1988). The findings from the examination of subjective norms and respondents' documented statuses with the tax authority in regard to self-reporting did not find a relationship between taxpayers' actual statuses and perceived subjective norms (Onu & Oats, 2015, p.116).

The studies reviewed in the preceding paragraphs indicate that the extent and direction of influence of subjective norms on tax compliance is inadequate, probably due to the methodological, contextual and cultural differences under which these studies were conducted. Therefore, the current study aims to investigate the existence of this association in the corporate tax context by proposing and testing the following hypotheses:

- *Corporate SMEs' subjective norms towards tax (non)compliance behaviour will influence their personal norms towards corporate tax (non)compliance behaviour.*
- *Corporate tax compliance behaviour is associated with subjective norms.*

### 4.4.4 Personal norms, social norms and tax compliance

Personal norms are defined as people's own moral standards and are acquired, for instance, through the internalisation of social norms (Kelman, 1958, p.493; Onu & Oats, 2013, p.115). Personal norms are more about one's internal influence when attempting to maintain a socially acceptable self-image and live up to self-based expectations (Schwarz, 1977; Braithwaite, 2009). Personal norms relate to perceptions of norms held by referent others, for example, family members, friends and co-workers (Bobek, Roberts & Sweeney, 2007, p.494).

Literature shows that personal norms relating to tax non-compliance only have a strong influence on tax compliance behaviour when there is a possible negative or positive consequence, such as legal sanctions. In a survey of Australian taxpayers, personal and social norms were found to only have moderate effects on tax non-compliance (Wenzel, 2004a). Internalised personal norms of tax honesty were negatively related to tax non-compliance and moderated the effects of severe sanction, suggesting deterrence effects only occur when individual ethics are weak (Wenzel, 2004b). However, Wenzel (2004b) did not find that social norms had a major effect on tax non-compliance after controlling for personal norms.

Prior findings also indicate mixed relationships between personal and social norms and tax compliance behaviour. However, a study carried out in Australia found that personal and social norms were strongly associated with tax compliance (Wenzel, 2004a) and personal norms were found to be more influential than social norms. These findings were consistent with those suggested by Terry & Hogg (2000, p.497). Additionally, Feld & Tyran (2002, p.498) show that allowing participants to vote on various aspects of the laboratory tax regime affects social norms and, hence, compliance behaviour.

A survey by Walsh (2013, p.500) on SMEs in 2008 found personal norms factors to have significant influence on SME taxpayers' compliance behaviour. This cultivates a feeling that, when taken in isolation, social norms may not influence tax compliance unless they are considered at an individual or personal norms level (Wenzel, 2004a, p.496).

Furthermore, Cawle (2005) indicates that the feelings of guilt and social stigmatisation are about personal and social norms, and since they are more important than detection risk and punishment for influencing the behaviour of the individual, it is important for a tax administration to know how norms influence behaviour. Cawle contends that a successful tax administration relies not only on traditional methods of deterrence, such as audit activities and punishment, but also on the underlying factors that govern human behaviour, which must be understood and treated in the right way (Cawle,2005, p.14). According to Wenzel (2002), personal norms are the individual's own ethical values and moral convictions, which can encourage cheating if this is conceived of as something positive. On the other hand, tax evasion can lead to feelings of shame and guilt or to feelings of pride and justification, depending on which norms apply. In order for social norms to have any effect, those in the individual's environment must know of the act. Personal norms have an effect irrespective of whether anyone else knows of the act, since the individual always knows what he or she has done (Cawle, 2005, p.16).

Turner (1985) developed a theory of self-categorisation in which he argued that the self can be perceived as unique, individual and different from others. At other times, however, the self can be perceived as belonging to some social category (in-group) and being relatively interchangeable with its members. This involves a psychological transformation from 'me' to 'we', and 'him/her' to 'them', which occurs as a result of changes in perceiver factors and situational context. It is when self-perception is at the level of social identity (where greater similarity for example tax compliance as opposed to dissimilarity), that we see attitudes and behaviour towards tax compliance becoming more aligned with in-group norms. Influence is argued to be an outcome of self-categorisation and is specific to in-groups; that is, attitudes, behaviour, perceptions of fairness and perceptions of what is right and what is wrong are outcomes of, and vary with, self-categorisation.

The social norms of a group can thus influence the behaviour of individuals who identify with the group. This adjustment is not a result of group pressure but the result of a process in which the norms are internalised by the individual and become a real part of his or her values (Wenzel 2002). Social norms that are adopted by the individual become, quite simply, the individual's personal norms (Cawle, 2005, p.16). This willingness could also be attributed to, on the one hand, the attitude that taxpayers demonstrate at any given point in time or, on the other hand, the purpose of the tax (Abdul-Razak & Adafula, 2013, p.50). Abdul-Razak & Adafula (2013) contend that signalling determinant of behaviour is the intention behind that behaviour. Intentions are the motivational factors that influence types of behaviour that are under the volitional control of the individual (Ajzen, 1991, p.182). In addition, volitional control behaviour is behaviour that the individual can decide at will whether or not to perform. Though taxes are the product of law which must be obeyed, the decision to obey or not to obey is a voluntary one. The willingness to pay taxes, comply with the tax laws or to engage in the given behaviour in general terms is informed by the overall perception of the individual in a given situation (Abdul-Razak & Adafula, 2013, p.51).

Furthermore, Jackson & Milliron (1986) found that taxpayers' concerns about fairness have links with attitudes and behavioural intentions about tax compliance. Therefore, to understand a particular taxpayer's behaviour, it is important to identify the determining variable of tax compliance behavioural intentions within personal norms.

From the foregoing discussion, it is indicative that the extent and trend of influence of personal norms on tax compliance is open to doubt. The contextual, cultural and methodological conditions under which these studies were carried out vary, which could explain the level of inconsistency between the studies' findings. Therefore, it was necessary to examine the existence of this association in a corporate tax context by proposing and testing the following research hypotheses:

- *Corporate SMEs' personal norms toward tax (non)compliance behaviour will directly predict their tax (non)compliance choices; the association between tax (non)compliance behaviour and subjective norms, injunctive norms and descriptive norms will only be indirect (through personal norms).*
- *Personal norms directly predict corporate tax compliance behaviour.*

### 4.5 Corruption and tax evasion

Corruption experienced either in the tax administration or within the bureaucratic system of a nation normally has significant negative effects on the taxpayers, citizens and the country at large. Corruption within the tax administration may be initiated by either taxpayers or tax officers and, as a result, taxpayers could underreport their incomes, offer bribes so they are able to alter their tax liabilities and/or avoid tax registrations. On the other hand, tax officers may employ threats of over-assessment to extort taxpayers. Businesses may pay off senior officials in government and authority to obtain exemptions. The rich may stand to gain most with least exposure to extortion; some of them may actually enjoy positions of influence and power within government bureaucratic systems and even be able to divert public funds collected through the tax systems. Whichever way one looks at it, political or bureaucratic corruption within the tax administration undermines respect for the tax system, contributes to perceptions of unfairness in the tax system and, ultimately, weakens compliance and lowers revenue collection (Jewell, Mansour, Mitra, & Sdralevich, 2015).

Additionally, corrupt tax practices may create inequity within the tax system and economic inefficiencies. These practices impose additional tax burdens on ordinary citizens in an illogical and unpredictable mode, while enriching government officials with damaged senses of public service and responsibility. Ordinary citizens may as well tolerate an indirect burden when individuals or businesses connive with tax officials to reduce their tax burdens. Thus, such collusion undermines the tax base and causes higher tax obligations for the rest of the taxpayers. Moreover, the resulting redistribution of the tax burden may allow dishonest taxpayers to acquire wealth on the basis of unproductive activities rather than on the basis of skills, entrepreneurship and innovations, which may adversely impact on social norms of behaviour. Also, if the imposition of taxes is done by governments that are perceived to be illegitimate, it may be appropriate for taxpayers to engage in corrupt practices to enhance efficiency and undermine such regimes (Asher, 2001).

Therefore, given the extent to which corruption affects the perceptions of fairness of a tax system although its impact is not modelled within the Slippery Slope Framework, and the fact that corruption can affect taxpayers' social norms of compliance, the researcher found it necessary to carry out an additional review of empirical results. Specifically, this thesis conceptualises corruption in four dimensions, namely (i) general corruption, (ii) petty tax corruption, (iii) political corruption and (iv) grand corruption. Thus, the study synthesises empirical results relating to how these four dimensions affect tax fairness and tax evasion, a review of which follows.

### 4.5.1 Corruption

Corruption is a persistent and major problem around the globe and in some developing countries in Africa; it could amount to a significant proportion of their Gross National Product (Shleifer & Vishny, 1993, p.599). According to Transparency International (2014), corruption not only steals resources from the most vulnerable but also challenges justice and economic development, and obliterates public trust in government and leadership. The United Nations, in Jagger & Shively (2015), suggests that corruption adds ten percent to the cost of doing business and around twenty-five percent to the cost of public procurement, thus discouraging business performance and redirecting public funds from genuine development plans.

Corruption and the abuse of government funds frequently offer a platform for a moral explanation for tax evasion. Undeniably, corruption and tax evasion are habitually persistent and correlated (Litina & Palivos, 2016, p.164), which has been evidenced by current Greek economic tragedy (Moutos & Tsitsikas, 2010, p.173).

Corruption has been viewed to have varying effects; in the developing world, corruption has been seen as useful for political development, facilitating citizens to defeat inflexible, inefficient bureaucracies while increasing loyalty to the existing political system (Seligson, 2002, p.408). Indeed, Levin & Satarov (2000,p.114) indicate that the political effects of corruption are observable in some developed economies where political focus has moved away from national development programmes and is now on securing political power for the benefit of select few. Consequently, a decline in trust of authority manifests. Average people become more and more separated from society and the good intentions of the authorities are neither credible nor rewarded. Cheloukhine & King (2007) contend that the existence of extensive and stable corruption networks does profit members of such networks by their illegal activities between organized crime groups and law enforcement. Additionally, members of the same networks may spend in additional corrupt expansions to control the government.

Transparency International (2016) indicates that the corrupt elite are only interested in enriching themselves and their rich supporters while marginalising the working people. They contend that corruption and social inequality are closely related and are a source of popular discontent, and that leaders may use the corruption-inequality message even when they have no serious intention of tackling the problem.

### 4.5.2 Perceptions of corruption in Uganda

Corruption, by its very nature, is secretive (Rosid, Evans & Tran-Num, 2016, p.394) and it is quite a challenge to acquire data about it; hence corruption has been assessed by the use of subjective indicators, such as measurements called perceptions of corruption indicators (Olken & Pande, 2012). Olken & Pande (2012) argue that perception surveys can provide good coverage due to the ease with which the questions are framed, where questions target someone’s corruption perceptions than it is in reality to have direct measurement of corruption. Due to their simplicity, perceptions of corruption form the foundation for the majority of cross-country corruption indices, such as Transparency International's Annual Corruption Perception Index (CPI).

Transparency International (2013)'s Annual Corruption Perception Index showed Uganda as being one of the most corrupt countries in the world. Scoring the countries on a scale of 0-100, with zero being perfectly corrupt and 100 as free of corruption, Uganda scored 26 and ranked 140 out of a total of 177 countries, marking a decline from 2012's Corruption Perception Index of 29 with a ranking of 130 out of 176 countries (Transparency International, 2012). In 2014, Uganda was ranked 142 out of 174 countries with a score of 26, according to Transparency International (2014). Uganda got a ranking of 139 out of 167 countries with a score of 25 in 2015, according to Transparency International (2015). However, in the 2016, Uganda was ranked at 151st position out of 176 countries with an Annual Corruption Perception Index of 25, indicating a further decline in performance in the management of corruption in the country (Transparency International, 2016). The continued deterioration in ranking is a reflection of increasing levels of corruption in the country.

Uganda's widespread corruption is highlighted in the country's poor ranking in the Corruption Perception Indices as well as in the recent Africa edition of the Global Corruption Barometer (Transparency International, 2015a, b), yet government is perceived to be handling the issue of corruption badly. Kewaza (2016) of Afro-Barometer shows that more than two-thirds (69%) of Ugandans perceive the level of corruption to have increased in the past year. 29% of them hold the perception that a number of officials in the office of the president and other public offices are corrupt. 47% believe that citizens may not have the capacity to really change the current corruption trends (and (38%) that, to get certain government services, bribes have to be paid (Kewaza, 2016, p.2). Highly stricken institutions perceived to be highly corrupt are the police, with63 percent of the citizens believing that most, if not all, police officers are corrupt and the Uganda Revenue Authority, where 48 percent of the citizens perceive tax officials and other central government officials to be corrupt.

According to ActionAid Uganda (2015), the Black Monday Movement, a coalition of anti-corruption civil society organisations, estimates that the government of Uganda lost more than UGX 24 trillion to corruption between 2000 and 2014, which could have been sufficient to finance the country's 2015/2016 national budget. Martini (2013), from U4

Anti-Corruption Resource Centre, an arm of Transparency International, argues that corruption in Uganda is widespread and is seen as one of the greatest obstacles to the nation's economic development as well as to the provision of quality public services. These challenges arise as a result of weak separation of public from private spheres, leading to extensive customer-like practices and patronage as well as pervasive political corruption, which is worsened by weak law enforcement, fuelling customary impunity for prominent officials involved in corruption schemes (Martini, 2013, p.1). This assertion was emphasised by retired Supreme Court Judge Justice Professor George Kanyeihamba, while delivering a petition to Parliament to appoint a commission of inquiry into corruption allegations in the judiciary. He held that 'there is evidence of inefficiency, incompetence, and corruption in the judiciary and unethical conduct by members of the bar' (Parliament of Uganda, 2015).

Corruption relating to bureaucratic systems is perceived to be widespread in this country, affecting citizens and companies in their daily interactions with public officials to access public services. According to the Inspectorate of Government (2008) these unlawful payments were extensive and would occur over and over again, with public officials explicitly asking for bribes in exchange for services, while the general public and companies would plainly pay without complaint. This means that firms carrying out business activities in the country have to work within intricate bureaucracy and with high levels of discretion. The World Bank, IFC Doing Business in Uganda (2013) showed that the huge amount of documentation, transactions and processes vital to business operations motivate business entities and individuals alike to offer bribes and gifts so as to quicken processes. The World Bank, IFC (2006), as indicated in Martini (2013), pointed out in the Enterprise Survey on Uganda that more than 50 percent of the firms surveyed anticipated furnishing gifts in order to have their business concerns resolved by public officers. Bird, Martinez-Vazquez, & Torgler (2008, p.60) similarly indicate that when corruption is high, bureaucrats may delay transactions in order to extract higher payments.

In his report to donors, Inge (2006) argued that corruption in Uganda was systemic, endemic, political and bureaucratic, and that politicians strive for self-enrichment and power preservation. That grand level political corruption had become well-established in the country, as highlighted by a large number of scandals and a documented growing absence of political will to fight it, are indicators of an entrenched problem. The key political corruption sectors were military procurements and the election processes. Inge

(2006, p.2) indicated that there were a number of cases that confirmed a lack of political will to take on the anti-corruption, with examples of 'political untouchables', family members of the president, party loyalists and businessmen who were above the law and above institutional control mechanisms, so that the institutions responsible for checks and balances had restricted bearing.

ActionAid Uganda (2014) indicates that Uganda doesn't seem to have a credible plan to offer better services to the citizens: the health sector and health care are inadequate, all government hospitals are dilapidated, drugs are scarce or never available, there are insufficient doctors and medical officers and many Ugandans have to offer bribes to get hold of doctors. The majority of hospitals are stretched beyond their capacity as the population influx has exceeded that originally planned for, especially for local communities (ActionAid Uganda, 2014, p.8). It's paradoxical when locals visit health centres and are referred to private clinics even after seeing government vehicles delivering drugs. People buy government drugs expensively in private clinics, including the very poor, who probably expected to get free drugs.

Indeed, many patients lose their lives when they are admitted to these health facilities because of corrupt officials, and the lack of vital medical equipment and facilities, like water, medicine and human resources, even though money is allocated for these purposes (ActionAid Uganda, 2014, p.9). Companies contracted to renovate some of the hospitals do shoddy work and no follow-up is done; money is grossly squandered, like the 200 million for the renovation of Abim hospital's maternity ward (ActionAid Uganda, 2014, p.10). In the education sector, funds that are meant to facilitate free education to pupils and to enable infrastructure like classroom blocks and latrines for the pupils to be set up are stolen. Teachers are absent and companies owned by government officers, like those in Iganga, who are even members of the procurement committees, are the ones that win tenders for self-interested reasons (ActionAid Uganda, 2014, p.11).

### 4.5.3 Corruption and tax evasion

Most developed countries are characterised by a broad base for direct and indirect taxes with tax liability covering the vast majority of citizens and firms. In contrast, developing countries are faced with social, administrative and political complexities when instituting robust public finance systems. Consequently, emerging and developing nations are predominantly susceptible to the tax evasion and avoidance behaviours of individual and corporate taxpayers alike. This may be thought of as one of the main causes of the huge disparity between developed and developing economies' aptitudes to raising their own resources (GIZ, 2010, p.6). Indeed, GIZ (2010) noted that tax revenues amount to more than 30 percent of gross national income in OECD countries and amount to more than 20 percent in selected developing states in Africa, with increases not related to improvements in tax systems. They noted that tax losses arising from tax evasion and avoidance behaviours, in most instances, led to poor performance of state revenue mobilisation in emerging states.

Tax evasion and avoidance are phenomena that are probably as old as taxation itself (Alm & Torgler, 2011). Whenever tax authorities impose taxes, taxpayers attempt to avoid paying them, presenting a range of opportunities to circumvent taxation while simultaneously reducing the risk of being detected. Domestic revenue mobilisation as a central issue of the international development agenda has been emphasised in both the Monterrey Consensus and the Paris Declaration on Aid Effectiveness for a number of reasons (GIZ, 2010). However, fair and efficient tax systems can contribute to good governance, accountability of the state and democracy by creating a bargaining process between the state and her citizenry. Governments that depend on broad-based taxation take it as an obligation to accept and take taxpayers' demands into consideration. At the same time, the way in which a government levies taxes essentially affects the citizen's identification with the state and its governmental agencies, potentially increasing trust and compliance among its citizens and ultimately promoting political participation (GIZ, 2010, p.7).

The issue of tax evasion and avoidance is a complex multidimensional problem. There are many different reasons why individuals and corporations try to avoid or reduce the amount of tax they have to pay either by (semi-)legal or illegal practices. The subject of tax evasion and avoidance embraces many dimensions and problems. As no clear-cut distinction between tax evasion and tax avoidance exists, one firstly needs to define which practices can be considered as violations or abuses of tax codes. In order to create a level playing field when discussing these issues, the following terms and definitions are helpful (GIZ, 2010, p.9).

Tax evasion generally refers to unlawful activities carried out by taxpayers intending to reduce their legal tax obligations (Alm & Torgler, 2011, p.635). As a result, incomes liable to tax, taxable profits and other taxable activities are hidden, some sources of income liable to tax and taxable amounts may be hidden, and tax minimisation aspects may be employed, like intentionally overstating deductions, exemptions and tax credits (Alm and Vazquez, 2001 and Chiumya, 2006). Tax evasion may, in addition, take place as a one-off event within transactions that may be partly legal. Indeed, it may occur within the informal sectors, where all activities take place in an informal way meaning businesses may also not be formally registered enterprises (GIZ, 2010, p.9).

According to Alm et al. (2003), tax evasion is important for many reasons. The most obvious is that its presence reduces tax collections, thereby affecting the taxes that compliant taxpayers face and the public services that citizens receive. Evasion creates misallocations in resource use when taxpayers alter their behaviour to lower their taxes, such as choice of the type of investment to make, the income to report and which deductions to make. Its presence requires that the government expends resources to deter non-compliance, to detect its magnitude and to penalise its practitioners (Alm, et al., 2003, p.147). Non-compliance may change the distribution of resources unpredictably. Evasion may lead to feelings of inequitable treatment and disregard for the tax law. It also has an effect on the accuracy with which economic activities can be predicted as a whole. Moreover, it is difficult to comprehend the true impact of taxation without recognising the reality of tax evasion and its economic incidence (Martinez-Vazquez, 1996).

On the other hand, tax avoidance takes place within the legal context of the tax system; individuals and firms take advantage of the loopholes in the tax code, engaging in activities which, though legal, are in contradiction with the intentions of the tax law. More often than not, tax avoidance includes unusual behaviour, the only reason for which is to reduce tax liability. Strategic tax planning, where pecuniary affairs are prearranged in order to reduce tax liabilities by means of tax deductions and mistreatment of tax credits, could be one illustration of tax avoidance (GIZ, 2010, p.9).

Bagdigen & Beflkaya (2005), for instance, examined the impact of corruption on government revenues and developed hypotheses on the general assumption that corruption decreases government revenues through lowering the tax revenues in their study. Specifically, the authors find that high corruption is associated with low general budget revenue, tax revenue and direct tax revenue, but not with indirect tax revenue. When applying the Ordinary Least Squares (OLS) technique on Turkish data over the period 1980-2001, their findings showed that the estimation results confirm their hypothesis that high corruption decreases government revenues (Bagdigen & Beflkaya, 2005, p.31). The decrease in government revenues could be as a result of perceptions of tax system unfairness where compliant taxpayers are overburdened to the extent that they cannot continue paying taxes or bribing taxpayers do not actually pay what they owe to the government.

Oxfam Novib & TJN-A (2015) also carried out a study to identify the main bottlenecks in different tax systems and provide strong evidence for advocacy work using an online advocacy tool. The tool is said to allow for comparisons of tax policies and practices in different countries using a standardised methodology and integrated research approach. In their study of Bangladesh, the authors identified that one of the weaknesses of tax administration is that there are insufficient oversight mechanisms for checking for corruption, with no whistle-blowers' protection mechanisms and not even a tax ombudsman's office in the country. Tax officers don't seem to have a particular code of conduct, and tax evasion cases which are investigated may not be resolved on time. Also, tax evasion cases lodged by the Anti-Corruption Commission (ACC) are, more often than not, influenced by political nepotism which heightens tax non-compliance behaviour (Oxfam Novib & TJN-A, 2015, p.48).

In their report to the G-20 Development Working Group, IMF, OECD, UN & World Bank (2011) indicate that supporting the development of more effective tax systems in developing countries is essential. The authors indicate that weak capacity, corruption and the missing reciprocal link between tax and public and social expenditures continues to be a challenge, causing a vicious circle of low tax morale and compliance which needs to be overcome. They also point out that corruption indicators are strongly linked to low revenue and that, given the centrality of tax collection as an application of state power, implies that solving governance issues in tax collection should be given more attention (IMF et al. 2011, p.11). Also, available capacity, whether in the form of human resources or otherwise, must be employed in productive and appropriate directions; incentive structures within the revenue administration and the wider judicial and political system would work as disincentives to corruption at all levels. To address these wider issues, the need for political will to reform the tax systems and administrations is paramount for extended periods of time (IMF et al. 2011, p.16).

In another study, Bánfi (2015) notes that, 'as corruption can be associated with official, public or political personalities who are bribed, their actions are criminal cases requiring no consideration; consequently, corruption is always tax fraud, since the income from corruption cannot form part of the tax base'. This implies that, by its very nature, corruption is a dual crime, consisting of fraud and tax evasion. If the fraud is not exposed and proven, exposing tax evasion may be an uphill task, hence all possible means must be used to restrict corrupt practices. Bánfi argues that, despite the existence of numerous written and verbal opinions in the fight against corruption by governments, and corruption control institutions, politicians and governmental officials, the results appear to remain weak, which might imply no action or unproductive action has been taken (Bánfi, 2015, p.7). The writer concludes that instead of striving for a fair tax system, the ethical behaviour of taxpayers could be set as the target and expected, and that ethical taxation and payment could be encouraged and reinforced by abolishing the secrecy of taxpayers' returns and setting limits on cash transactions, which are connected to corruption practices.

### 4.5.4 Measuring tax avoidance and tax evasion

Although tax evasion and tax avoidance are problems for developed and developing countries, the literature and data concerning this topic are still scarce, since the extent of tax evasion and avoidance is hard to estimate and difficult to observe so there is lack of precise data (GIZ, 2010). In addition, other than estimates, there are no reliable empirical findings which provide a clear picture of size of the problem or the relative importance of different kinds of tax evasion and avoidance. Accordingly, the quantification of tax avoidance and evasion and the identification of major factors are complex tasks, particularly in emerging economies, due to the lack of appropriate data (GIZ, 2010, p.11). Though challenging to estimate, Cobham (2005, p.11) indicates that the maximum amount of loss that developing countries forego annually because of tax evasion in the domestic informal economy is US$285 billion. On the other hand, Global Financial Integrity (2010) calculates that developing economies lose between $859 billion to $1.06 trillion annually through illicit financial flows, which affects the efficiency with which such economies provide public goods and services.

Consequently, taxpayers' willingness to compliance with tax codes varies worldwide and may not be analysed as purely dependent on the burden of the taxpayer. Although existing empirical research shows that taxpayers all over the globe pay more taxes than the highest possible levels of audit and detection probability, penalties and risk aversion can explain (Alm et al. 1992, 2007), there are glaring indications that, even with an effective audit system, some taxpayers do not comply with the tax law. Indeed, though Alm & Torgler (2011) believe that the puzzle of tax compliance may not be why there is so much cheating but why there is so little cheating in developed countries, it may be necessary to ask why there is more cheating in Uganda. While high levels of tax compliance are associated with tax morale in a society that promotes tax compliance self-enforcement, GIZ (2010, p.14) indicate that establishing tax morale is a challenge, particularly in countries that do not have deep-rooted cultures and habits of paying taxes.

The tax morale of a taxpayer is influenced by a number of factors. One such determinant is the quality of services provided, if any, in return for taxes paid. If the government does not provide adequate basic public goods and services, citizens may not be willing to pay taxes and, consequently, tax avoidance and evasion may occur (Pashev, 2005; Everest-Phillips, 2010; Lieberman, 2002; Brautigam et al., 2008). In addition, inadequate government service provision is likely to bring about perceptions of tax system unfairness. Some scholars argue that high tax rates may motivate tax evasion since they raise the taxpayers' burdens and lower their disposable incomes (Allingham & Sandmo, 1972; Chipeta, 2002). Indeed, as GIZ, (2010, p.14) argues, tax rate may not be the only factor to consider, as disparities in the overall tax structure could have a negative impact on taxpayers' willingness to comply with their tax obligations.

### 4.6 Corruption and tax compliance behaviour

Kirchler et al. (2007) suggest that a lack of transparency and accountability in the use of public funds contributes to public distrust of the tax system and the government. As a result, willingness to evade taxes increases. Also, citizens cannot be certain whether their paid taxes are used to finance public goods and services if there are high levels of corruption. Their willingness to pay suffers and it becomes more likely that they will evade their tax liabilities as a consequence (Fjeldstad & Tungodden, 2003).

Rosid, Evans & Tran-Nam (2016) believe that tax compliance behaviour and perceptions of corruption are discrete and separate evils, though they can be entwined with ease. Hillman (2004) indicates that corruption in developing countries makes the policy on public spending ineffective for the attainment of societal objectives as it cuts tax revenue. Furthermore, GIZ (2010) suggest that perceptions of corruption and lack of transparency and accountability in the use of public funds contribute to public distrust of both the tax system and the government, and it becomes more likely that taxpayers will evade their tax liabilities as a consequence. Lower incentive to cooperate will always be characteristic of a state in which corruption is rampant since citizens will have little trust in such an authority (Bird, Martinez-Vazquez, & Torgler, 2008, p.61).

Besley & Persson (2014), while investigating why developing countries tax little, argue that there is little problem identifying the need for such public programmes like infrastructure, health and education in many low-income countries. However, the problem comes in delivering such programmes, because the problem of service delivery reflects the twin evils of inefficiency and corruption. Lower levels of corruption are experienced in countries with strong executive constraints at national level where checks and balances provide a stronger basis for scrutinising public spending decisions, initiating systems of auditing that are essential for the elimination of corruption. Therefore, it is possibly not shocking to find a strong positive correlation between less corruption and the level of taxation. This correlation is partly due to the fact that corrupt systems of government are likely to face greater resistance when increasing the power to tax (Besley & Persson, 2014, p.114). In terms of inquiries into whether stronger monitoring may reduce corruption and improve service delivery in low-income countries, one such study, by Olken (2007), of a randomised field experiment on approaches to reducing corruption in more than 600 road projects in Indonesia revealed that community monitoring does not appear effective in reducing corruption.

Indeed, other studies suggest that, at a certain point in time, the act of bribing bureaucrats is to make them turn a blind eye to illegal conduct like tax evasion, during illegal state assets procurements, or during the process of acquiring government subsidies or contracts in illicit ways (Whitten, 2002, p.195; Feige & Ott, 1999). Instances such as these will obviously lead to reductions in the tax revenue received and the misallocation of resources to unproductive activities (Hillman, 2004), culminating in an overall loss for the country.

Fjeldstad (2005) studied tax administration corruption in the case of institutional reforms in Uganda, where a semi-autonomous Uganda Revenue Authority was created. It was hoped that corruption levels would decline as dismissing employees, setting reasonable salaries and making decisions independently from the political arena would improve efficiency and, hence, fairness and impartiality perceptions about the tax body. Though these actions were taken at the inception of the authority, sustaining them was a challenge. Fjeldstad (2005, p.14) suggests that: employees' minimal wages were not changing and the use of dismissals declined considerably, which signalled reduced workforce sovereignty. The author also reported increased board and government meddling in recruitment matters, and the use of political tax exemptions, which all together negatively affected executive independence, which could affect the fairness perceptions. Fjeldstad (2005), therefore, notes that if there were any tax revenue improvements, these could have been as a result of factors other than taxpayers' fairness perceptions of the tax system.

As noted earlier, there are four dimensions of corruption that the researcher conceptualises into the study as impacting on tax system fairness and, as a consequence, tax evasion, viz. (i) general corruption, (ii) petty tax corruption, (iii) political corruption and (iv) grand corruption. These dimensions of corruption are discussed in turn, showing how they affect tax fairness and tax evasion.

### 4.6.1 General corruption and corporate tax evasion

Litina and Palivos (2016) contend that widespread corruption may result in a reduction in social capital, a shared mistrust of the government by citizens, and the legitimisation of bribery and tax evasion. Ostensibly, corruption may overcome the will of the people to pay taxes by reducing their tax morale and trust in government officers and the institutions in which these officers are employed. This may be true, as taxpayers may develop fear due to the uncertainty of government efficiently employing their tax contributions for the benefit of the public. As a global problem, corruption can take place everywhere (Transparency International, 2012). When politicians push for transactions for reasons of self-interest over and above the interests of the public, government officers claim money and favours from citizens for services that should be free (Transparency International, 2012, p.2). Indeed, corruption is not just a wrapper full of money, but involves decisions that affect the lives of citizens.

Over time, corruption can become entrenched in the system of social relations and may not be considered to be a crime by the majority of citizens (Cheloukhine & King, 2007, p.107). Initially, the payment of small bribes, tokens of appreciation, and gifts may be perceived by the citizens as almost the norm -a normal form of interaction among people – leading to the payment of hefty sums of money, the buying of managerial positions in government as well as in the private sector, embezzlements and the growth of informal sectors in the long run (Cheloukhine & King, 2007, p.108). Informality is usually achieved where taxpayers deliberately conceal information about their activities and therefore fail to comply with the tax rules and regulations, hence evading tax. This practice could be the results of attempts to create some form of equity due to dissatisfaction about the way tax revenue is being handled.

In a study of bureaucratic corruption and profit tax evasion, Goerke (2008) indicates that firms may evade taxes on profits and can also avoid fulfilling legal restrictions on production activities by bribing bureaucrats. Indeed, Goerke (2008, p.178) argues that if tax evasion is only feasible for income generated unofficially and, in addition, activities in the shadow economy require bribing government employees, corruption and tax evasion are positively correlated. On the first count, if taxpayers want to hide income from taxation and the only person to make it possible is the bureaucrat who can accept the bribe, the firm will pay a bribe for purposes of evading the tax. However, on the second count, Hillman (2004) indicates that corruption in developing countries makes the policy on public spending ineffective for the attainment of societal objectives as it cuts tax revenue.

In his work looking at the determinants of tax compliance among small and medium-sized enterprises in Uasin-Gishu County, Mutai (2013) stated that lack of transparency and accountability in the use of public funds contributes to public distrust of the tax system and government, which subsequently increases willingness to evade taxes. If, due to high levels of corruption, citizens cannot be certain whether their paid taxes are being used to finance public goods and services, their willingness to pay suffers and it becomes more likely that they will evade their tax liabilities. Such a condition results in loss of tax morale and trust in the bureaucratic system. However, Feld & Frey (2007) model tax compliance as a psychological tax contract which represents an interaction between taxpayers and the government in the establishment of a fair and reciprocal exchange. This means that the government is obligated to provide the required quality of goods and services to the public through its various agencies and taxpayers are obligated to pay the taxes they owe for that purpose under an equitable tax system (Torgler, et al. 2008).

According to African Development Bank Group (ADBG, 2010), when a significant number of citizens declare high levels of trust in and satisfaction with security institutions and their effectiveness in providing security to the public, such experience eventually builds trust and confidence in a government. Its legitimacy is enhanced, which stimulates tax morale among the citizens, and therefore tax compliance behaviour will be upheld. This implies that quality service provision to the public improves taxpayer morale and trust in the bureaucratic system. However, if such a system involves bureaucrats who aim to embezzle public resources, budgetary allocations are likely to be distorted as not enough funds will be available to provide quality public services.

In fact, Akinboade (2015) suggests that taxpayers may be unwilling to pay taxes because they perceive that the government consistently misuses public funds and that expenditure patterns may not reflect their wishes. Again, these suggestions indicate that even when there is no payment of bribes, corruption within the bureaucratic system can reduce the available funding for public expenditure which, in turn, affects service delivery by the various government departments. Therefore, perceptions of corruption coupled with poor service delivery can affect taxpayers' morale and their willingness to actually pay their tax liabilities.

#### 4.6.2 Petty tax corruption and corporate tax evasion

In a quest to understand how petty corruption affects tax morale in the Sub-Saharan countries, Jahnke (2015) uses micro-level data from Afrobarometer to analyse how petty corruption erodes tax morale. This study reveals that petty corruption directly reduces tax morale where taxpayers may not willingly pay their fair share of the taxes, as well as indirectly reducing it by lowing trust in the tax administration, and that the effect on tax morale may be more severe where some people are distressed by petty corruption. Indeed, evidence from micro-level data of 14 Eastern European countries shows that intrinsic motivation to pay taxes is enhanced once there are positive interactions with tax agents and administrations (Kasper, 2016).

In another study, Çule & Fulton (2009) formulated a theoretical model of business culture and tax evasion in a coordinated game regarding tax inspectors and firms' decisions regarding bribery and tax evasion under multiple equilibria. The study showed that where there are high levels of cheating and corruption, increases in audit and penalty rates may actually result into perverse effects and increase cheating (Çule & Fulton, 2009, p.813). Such increased tax evasion rates could be a result of taxpayers' loss of tax morale and institutional trust, creating a business culture that does not believe in contributing to society's general wellbeing. However, this study's results, though insightful, did not look at the effects of corruption on tax compliance behaviour in the four-dimensional model, which demonstrates a detailed interface with the taxpayers.

Rosid, Evans & Tran-Nam (2016) comprehensively modelled corruption under four dimensions of general corruption, grand corruption and grand tax corruption involving high-level tax officials, all relating to tax compliance behaviour. Utilizing a sequential mixed-methods approach, a survey involving 201 employees and 196 self-employed taxpayers featuring nine in-depth interviews was conducted. The study found evidence of perceptions of corruption in Indonesia, that perceptions of corruption determine a taxpayer's intention to report, and that high levels of perceived grand tax corruption, grand corruption and general corruption significantly influence intentional tax underreporting behaviour, therefore negatively impacting on upon tax compliance behaviour. Indeed, this study makes a big impact on the literature and also on the current study, although it concentrated on individual taxpayers in the Indonesian context. Secondly, it's not clear whether discrimination among taxpayers was one of the issues included in the definitional context of all of the categories of corruption.

In a study of the impact of corruption on tax compliance by firms in transition economies based on a sample of more than 5,000 firms from 22 former Soviet bloc transition economies as per the 2005 Business Environment and Enterprise Performance Survey (BEEPS), Alon & Hageman (2013) found that higher levels of corruption were associated with lower levels of tax compliance by firms. This study certainly makes a great contribution. However, the measure of corruption used did not distinguish between the different types of bribes or gifts, which the current study attempts to do. Secondly, there are forms of corruption that may not relate to the transfer of gifts and such behaviour may have a significant effect on tax compliance behaviour; for instance, a tax officer may not implicate a certain company owing to their knowledge of who the owner is. This may have a negative effect on other companies that would be willing to pay their corporate taxes, as well as resulting in the loss of corporate tax revenue which firms that are not sanctioned would contribute.

One recent scholarly work on corruption and corporate tax compliance is by Alm, Martinez-Vazquez & McClellan (2016). Using firm-level data from the World Enterprise Survey and BEEPS for 32 countries and applying instrumental variable approaches and propensity score matching for robustness checks, Alm et al. (2016) found that corruption among the tax officials has a highly significant relationship with tax evasion where requests for bribes were seen to reduce the amount of reported income and that larger bribes influence higher levels of tax evasion among corporate firms. This study, however, does not consider petty tax corruption where tax officers discriminate in favour of certain firms based on their ownership even when they have not necessarily asked or been given bribes, a feature that may be revealed through semi-structured interview methodology.

The way in which a tax administration manages taxes will, in most cases, determine how taxpayers will perceive it in terms of fairness. Management of taxes is made through various procedures and if these are fair, (Kirchler et al. 2008) taxpayers will consider and make appropriate tax compliance choices. Tax procedures are fair when tax officers treat taxpayers with respect and are able to support taxpayers to comply with the tax law and such procedures are applied consistently over time. Fair tax procedures are thought to bring taxpayers to trust such authorities, thus improving tax morale, but if they are unfair, it may cause resentment, hence tax evasion. Indeed, one of the issues identified as a source of corporate tax system unfairness is petty corruption, i.e. corruption involving tax officers and taxpayers including bribery, extortion (Alm et al., 2016) and unequal treatment of taxpayers (Feld & Frey, 2007).

If the cost involved in bribing an officer from the tax authority is less than the likely benefit from tax evasion, taxpayers may consider evading taxes. As a poor legal system does not operate in accordance with the rule of law to protect taxpayer's rights and safeguard them from arbitrariness, citizens have to fear arbitrariness and discrimination by the tax administration and unequal treatment in the tax system. As a result, the general public may not be willing to finance the state through taxes and may decide to evade these liabilities (GIZ, 2010, p.15).

Alm & Torgler (2011) argue that corruption practices by the authorities can corrode the ethics of taxpayers, hence destroying the trust which is generally built on the foundation of ethics. Kirchler et al. (2008) and Gangl et al. (2015) show that in situations where trust in the authorities is low due to tax system unfairness, taxpayers are not likely to cooperate and pay their fair share of taxes willingly, which will, in essence, reduce tax revenue collection.

Additionally, in their study developing a procedure for measuring unequal influence across firms, Hellman & Kaufmann (2003), cited in Kaufmann, Kraay & Mastruzzi (2004, p.20),found perceptions of unequal influence to have a strongly negative effect on a firm's assessment by the public. This variation correspondingly affects the behaviour of the firm towards those institutions with a consistent pattern. Biases at both firm and country levels leads to the minimal use of courts to resolve business disputes due to lower enforceability of court decisions, with higher levels of bribery leading to lower levels of tax compliance.

Belitski, Chowdhury & Desai (2016, p.204) indicate that when corruption becomes embedded within the tax system, tax morale will be affected and that such a tax regime has the capacity to change businesses' cost structures in view of the fact that it enables owners and management to hide some or all income. Underreporting of corporate income is said to be one of the easiest things that SMEs can do and is, as suggested by Cullen & Gordon (2007, p.1486), a situation that can be perpetuated under conditions where corporate tax morale has been lost due to incidences of corruption within the tax administration.

In his work on tax non-compliance and audit effectiveness in developing countries using qualitative interviews and thematic networks, Umar (2017, p.9) pointed out that when businessmen keep manual records or fail to keep records, tax auditors cannot trace the authenticity of transactions. These auditors may not even be interested in the records as their interest could be in bribes. It was also shown that tax auditors may not be answerable for any audit quality gaps when they bargain for bribes within an environment where the general trend in society is that of corruption (Mohammed, 2017). Similarly, tax auditors may be encouraged to be corrupt in environments where government agents are more interested in self-enrichment than in the common good and can be inclined to frustrate the detection process.

### 4.6.3 Political corruption and corporate tax evasion

Evidence suggests that political corruption significantly influences tax compliance behaviour, especially tax evasion. Indeed, Levin & Satarov (2000, p.114) indicate in their review that political effects of corruption are observable in some developed economies where political focus has moved from national development programmes to securing political power for the benefit of select few. Consequently, a decline in trust of authority manifests, average people become more and more separated from society, and the good intentions of the authorities are neither credible nor rewarded. Such political corruption can lead to great losses of public revenue, which may come from commercial transactions which are not made on the basis of prices or merit but as a result of bribing political officials at various levels, kickbacks or extortion, or from the inappropriate use of state budgetary resources by the political actors in the system (Levin & Satarov, 2000, p.115). Indeed, Levin & Satarov argue that grassroots political corruption may take up to 10 percent of the total revenues of small and medium-sized businesses, which motivates the expansion of the shadow economy. This reduces tax collection, which then weakens a government's budget and limits its ability to provide public goods and services.

In their study of the phenomenon of top to bottom corruption, organised crime networks, law enforcement and government officials in Russia, Cheloukhine & King (2007) noted the existence of a complex state-run oligarchic structure with established rates, and well-organised inter-institutional groups incorporated by common ideas of extracting profits. They also noted that such networks may not only profit from their illegal activities but may invest in further corrupt developments to control the state and, when embedded in the system of social relations and for the majority of citizens, this may not be considered to be criminal activity. Under these conditions, corruption networks may be expansions of organised crime in all sectors of the economy and may be intertwined with the inefficiency of power and inefficiency of the rule of law (Cheloukhine & King, 2007, p.107). Within this type of corruption, the elite within the networks may not pay their fair share of taxes with regard to their business activities. This and the embezzlement of the available tax revenue collected from the few willing taxpayers would negatively affect taxpayers' morale and confidence in state departments, hence tax evasion may be on the increase.

Similarly, developing countries are faced with social, administrative and political complexities when instituting robust public financial systems; consequently, emerging and developing nations are predominantly susceptible to the tax evasion and avoidance behaviours of individual and corporate taxpayers. This may be thought of as one of the main causes of the huge disparity between developed and developing economies' aptitudes to generate their own resources (GIZ, 2010, p.6). Furthermore, GIZ (2010) suggest that perceptions of corruption and a lack of transparency and accountability in the use of public funds contributes to public distrust of the tax system and the government, and it becomes more likely that taxpayers will evade their tax liabilities as a consequence. An environment where taxpayers are not motivated to cooperate is always characteristic of a state in which corruption is rampant since citizens will have little trust in such an authority (Bird, Martinez-Vazquez, & Torgler, 2008, p.61). Taxpayers are willing to pay taxes even when they are not given the exact value of public goods as compared to the taxes they have paid if they perceive the political process as being fair and lawful (Feld & Frey, 2007).

Wedel, Hussain, & Dolan (2016), in their study of political rigging, indicate that Tunisia is characterised as a ruling clique and though it has employed a well-functioning bureaucracy, police and financial institutions to amass wealth of influence, it is described as state capture since it has joined up all institutions in corruption. The laws are made and applied selectively by an efficient and obedient bureaucracy and the police. Although the country is engaged in steady economic reform, and its banks and tourism sector are thriving, there is, however, a ruling class that employs policy measures to earn kickbacks or to coerce citizens to submit to their will. Financial audits, for instance, may be carried out at will and non-payment of taxes can be overlooked depending on how a transaction affects the ruling elite (Wedel, Hussain, & Dolan, 2016, p.25). The political elite determine how big businesses will function. For example, if big businesses fail to pay kickbacks, they cannot function; non-compliance with the rules means they must face severe consequences as their accounts can be audited, their loans cancelled, their operational licenses revoked and their water supplies cut off, causing a spillover of corruption into the main sectors of the economy (Wedel, Hussain, & Dolan, 2016, p.26).

In his study examining the effects of corruption, tax burden, income and tax administration efficiency on the size of the shadow economy, Binaj (2015) found empirical evidence and explanation for the vicious circle of tax evasion and political corruption that many developing countries and some developed countries often fall into. It was also revealed that effective tax administration has a certain effect over the rates of tax evasion but cannot eliminate the problem. However, policies and measures that impose strong moral costs on corrupt politicians and tax evaders can lead to a permanent reduction on these practices (Binaj, 2015, p.24). Binaj argues that the existence of severe forms of penalties like harsh fines and imprisonment has not curtailed the increase in tax evasion, particularly in developing countries where high levels of corruption exist. Tax evasion is legitimised in situations where higher taxpaying citizens believe that they are not offered the public goods and services for which they pay taxes, which citizens consider to be a breach of contract that they hold with the state (Moutos & Tsitsikas, 2010, p.173). This, by implication, means there is less motivation to comply with tax systems in political environments that are perceived to be unfair.

### 4.6.4 Grand corruption and corporate tax evasion

The other category of corruption is grand corruption, which usually involves activities or transactions of high-level officers within different government departments with the aim of embezzling or misappropriating public funds or extorting bribes from taxpayers, and ultimately affects tax revenue flows and the availability of funds for public spending. A number of studies have been undertaken with regard to different manifestations of grand corruption and its effects, and details of some of them follow.

Christensen (2011) views grand corruption in the terms of the activities of tax havens in the global financial markets, exploring their role in providing a supply side which stimulates corrupt practices. Christensen argues that tax havens are opaque and complex offshore structures through which illicit financial flows can be routed to disguise their origins, method of transfer and true beneficial ownership. They are facilitated by bankers, lawyers and accountants in an effort to impede investigations. He finds that tax havens are famous features of the globalised capital markets, and their actions generate a criminal environment in which illicit financial flows are easily disguised and hidden amongst legitimate commercial transactions. He also noted that though valuable approaches are available, political will to take effective action in reducing this type of corruption is lacking in most cases (Christensen, 2011, p.177).

Moreover, according to Djumashev (2007), corruption in the public sector erodes tax compliance and leads to higher tax evasion. Furthermore, corrupt public officials abuse their public power to extort bribes from private agents. Corrupt bureaucrats can, in addition, form a system of bribery that is well-defined and probably accepted by society, However, corruption is not something that bureaucrats would display openly, so the transactions are clandestine and, therefore, risky. The allocation of government permits and licenses can be distorted in such an environment, creating an unpredictable state for business operations, hence uncertainty with regard to firms' outputs. Therefore, private firms' outputs that depend on such permits and licenses are also subject to uncertainty. In addition, Djumashev highlights that in a highly corrupt and predatory bureaucratic environment, the private agent is always at risk of being framed and having to pay bribes to public officials, which affects tax morale and therefore tax compliance behaviour.

In another study, Fjeldstad & Tungodden (2003) note that with high levels of corruption citizens cannot be certain that taxes are used to finance public goods and services. Therefore their willingness to pay suffers and it becomes more likely that they will evade their tax liabilities as a consequence. Also, Cheloukhine & King (2007) indicate that, at the start, the payment of small bribes, tokens of appreciation and gifts may be perceived by the citizens as almost the norm -a normal form of interaction among people - leading to the payment of hefty sums of money, the buying of managerial positions in government as well as in the private sector, embezzlements and the growth of informal sectors in the long run (Cheloukhine & King, 2007, p.108) as tax evasion becomes the norm among the perpetrators of corruption.

Besley & Persson (2014), while investigating why developing countries tax little, argue that there is little problem identifying the need for public programmes like infrastructure, health and education in many low-income countries. However, the problem comes in delivering such programmes, because the problem of service delivery reflects the twin evils of inefficiency and corruption. Lower levels of corruption are experienced in countries with strong executive constraints at national level, where checks and balances provide a stronger basis for scrutinising public spending decisions, initiating systems of auditing that are essential for the elimination of corruption. Therefore, it is possibly not shocking to find a strong positive correlation between less corruption and the level of taxation. This correlation is partly due to the fact that corrupt systems of government are likely to face greater resistance when increasing their power to tax (Besley & Persson, 2014, p.114).

Indeed, other studies suggest that, at a certain point in time, the act of bribing bureaucrats is to make them turn a blind eye to illegal conduct like tax evasion, during illegal state assets procurements, or during the process of acquiring government subsidies or contracts in illicit ways (Whitten, 2002, p.195; Feige & Ott, 1999). Instances such as these will obviously lead to reductions in tax revenue and the misallocation of resources to unproductive activities (Hillman, 2004), culminating in an overall loss to the country. However, in their study of corruption, social trust and transition of the Czech Republic, Benesova & Anchor (2015) show that, since particularised trust is closely linked to family ties, political relationships or special private and/or public sector connections, particularised trust within these groups is likely to increase levels of nepotism or bureaucratic corruption between friends, family circles and bureaucrats, grand corruption levels and the levels of corruption in private sector activities and projects run in cooperation with the public sector.

According to Mulyagonja (2014), the Inspector General of Government (IGG), the Government of Uganda has a strong framework within which to fight corruption but, even with this framework, corruption remains a threat to society. According to the IGG, there is great potential for corruption to weaken growth and development due to diversion of resources that would enhance to service delivery and development programmes. This would undermine the government's efforts to reduce poverty and inequality among its citizens. She notes that while the country has admirable laws which can be used to avert and fight corruption, its implementation and enforcement of these laws is weak. The ratified regional and international instruments also face the same challenges of implementation and enforcement when trying to achieve their aims. The Inspectorate of Government (2014) also noted that, to commit corrupt practices on a large scale, public officers are engaging in more intense collusion more often, which shields them from detection, and that corruption cases involving colossal sums of public funds now often involve acts of syndicate by different public officials in different ministries, departments and agencies and in the Bank of Uganda. The Inspector General's (2015) report to parliament indicated that the foregoing view is hardly surprising given the large number of high-profile corruption cases that have come to light since 2012, involving high-ranking public officials (IGG, 2015, p.8).

Furthermore, GIZ (2010) suggest that perceptions of corruption and lack of transparency and accountability in the use of public funds contributes to public distrust of the tax system as well as the government, making it more likely that taxpayers will evade their tax liabilities. Bird, Martinez-Vazquez, & Torgler (2008, p.61) conclude that a state in which corruption is rampant is one in which citizens will have little trust in authority and thus little incentive to cooperate.

This review of empirical results illustrates that corruption can have significant negative impacts on society in general and, specifically, on taxpayers. Perceptions of corruption can become rooted in society and, as a consequence, reduce how much tax revenue the government collects from taxpayers, since they may have significant negative impacts on perceptions of tax systems and morale, aiding tax evasion. Corruption is also perceived to aid the misallocation of resources, create shortages in revenue and, finally, negatively affect public service delivery. Ultimately, the insights obtained from the review of literature on corruption guided on how interview data was analysed. For instance, the studies highlighted four prominent dimensions of corruption, viz. general corruption, petty tax corruption, political corruption and grand corruption, and showed how they are linked to tax system unfairness. These four dimensions informed the interview analysis, as they helped to focus the analysis on a global theme of tax system unfairness. This analysis and interpretation of interview results can be found in Chapter 8 of this thesis.

# Chapter 5

# Methodology

## 5.1 Introduction

The previous chapter presented and examined the existing empirical results in the areas of deterrence factors and power of authorities, tax fairness and trust in authorities, social norms constructs of descriptive, injunctive, subjective and personal norms, dimensions of corruption and corporate tax compliance behaviour. This chapter presents the methodologies adopted in undertaking this study. It presents: the research design; the study population; the sampling procedure, selection and size; the measurement of study variables; the questionnaire pre-test; the data collection procedure; and the data entry and analysis. The tools employed in the data analysis and the types of analyses made are briefly detailed.

## 5.2 Research design

The researcher's ontological and epistemological beliefs normally influence the inquiry paradigm employed in a research study. These beliefs generally symbolise how the researcher views and seeks to understand the world (Collis & Hussey, 2009, p.55). Given the long-standing debate about the most appropriate philosophical position from which to derive research designs, research in tax compliance has taken on different research methodologies. Most of these have been empirical (Cummings et al. 2005; Devos, 2015) but some have been non-empirical (Kornhauser, 2007; Onu & Oats, 2014; Luttmer & Singhal, 2014). There has been minimal triangulation among the empirical studies, with the quantitative approach being mainstream and some having adopted the qualitative approach.

The quantitative and qualitative research approaches continue to generate a lot of debate, with proponents of each school of thought advancing their approach as the most superior (Saunders, Lewis & Thornhill, 2009). The positivist approach views the world as objective realism and therefore suggests that knowledge is created by deductive reasoning, whereby a precise and systematic process is adopted (McKerchar, 2010). The ontological assumption in a positivist paradigm is that social reality is singular, objective and therefore independent of the researcher's actions. Thus, positivist researchers generally use quantitative methods, such as surveys and experiments, when designing their research, since they desire to eliminate their biases (Johnson & Onwuegbuzie, 2004, p.14).

On the other hand, researchers influenced by beliefs, experiences, views and existing knowledge of constructivist or interpretivist paradigms view the world based on their interpretation (McKerchar, 2010). Thus, interpretivist researchers presuppose that the creation of knowledge occurs by inductive reasoning and typically adopt qualitative research techniques, such as interviews.

Accordingly, given the peculiarities of these two paradigms, the methodological approach adopted will depend on the nature and purpose of the research. Consequently, if the researcher's ideas are testable with the intention of generalising the results, the positivist paradigm should be valuable. However, if the researcher's focus is on understanding a particular phenomenon and the meaning that the participants studied construct about certain events, then an interpretivist paradigm is the appropriate choice (Newman & Hitchcock, 2011).

The paradigm chosen, based on the researcher's philosophical assumptions, as appropriate, will provide the researcher with a clear research design for data collection and analysis (Creswell, 2008; Teddlie & Tashakkori, 2009). Additionally, the selection of a specific research paradigm is not, by and large, based on its superiority, but rather on its suitability for the research questions and hypotheses to be tested (Saunders et al., 2009). This study however, first sought to employ the positivist paradigm. The main rationale was to draw on existing economic and behavioural theories, using deductive logic to develop testable hypotheses of relationships between variables documented in the literature as affecting corporate SMEs' tax compliance behaviour in Uganda. This approach was appropriate given the existing literature on the subject. The positivist approach is distinctive of hypotheses testing which this study sought to adopt. Similarly, Creswell (2008) argues that the world is governed by theories and laws which should always be tested or verified so that their refinement can provide improved comprehension of the world.

### 5.3 The mixed methods approach

This inquiry approach lies in between the quantitative and qualitative methodologies, and generally brings these orientations together. McKerchar (2007; 2008) notes that researchers in tax compliance who adopt this kind of approach perceive the world as intricate, hence empirical realism may not provide sufficient understanding of it.

Accordingly, the use of mixed methodology in their research becomes inevitable. In addition, studies that integrate both quantitative and qualitative methods not only move to end contradictions with respect to taxation, but also show the compatibility of the two approaches as guided by Terrell (2012). Social science methods, according to Terrell (2012, p.258), should not be treated as mutually exclusive alternatives between which we must choose, since each method may have different imperfections which can be compensated for through their integration.

In his study, Devos (2014, p.268) supports the foregoing view. When answering his research questions/hypothesis through a survey of individual Australian tax evaders, he complemented the quantitative research section with a smaller qualitative research component, where interviews were carried out with a sample of the taxpayers surveyed to provide further support of the survey findings. Prior to this, McKerchar (2008, p.20), with a comparable view of combining paradigms, argues that each strategy has its strengths and weaknesses and that the drive for mixed method research is to use the other strategy to either inform, validate or compensate for the weaknesses of the main approach adopted. Therefore, from our discussion above, the suggestion is that using a combination of quantitative and qualitative methods is a more realistic approach to gaining a better understanding of the phenomenon under study, which is in line with Creswell (2008). Saunders et al. (2009) argues that conducting research as an interpretivist assumes that the research will be virtually impossible to reproduce. Accordingly, integrating quantitative and qualitative data collection techniques and analysis procedures is vital to strengthening the validity and quality of data analysis and research findings (Saunders, et al. 2009, p.123).

Greene, Caracelli & Graham (1989, p.259) and Johnson, Onwuegbuzie & Turner (2007, p.114) suggest five major underlying principles for carrying out mixed methods research : triangulation, which, in its traditional sense, seeks convergence and corroboration of findings; complementarity, which seeks to yield an enriched, elaborated understanding of the phenomenon, illustrated by the use of qualitative interviews; initiation, which discovers paradoxes and contradictions to improve breadth; development, which seeks to improve construct validity and inquiry results; and expansion, in order to increase the scope of inquiry. In the same way, McKerchar (2010) identified a number of reasons for using a mixed method approach in taxation studies and the relevant contribution the method makes to the study. The first is the requirement to deal with objectives that a single study method may not be able to meet. The next is to enable one approach to inform another approach, either in design or interpretation, as exemplified in McKerchar (2008) when she adopted a large-scale survey followed by a case study. The third explanation is triangulation of the results of diverse methods, employed either concurrently or sequentially, so as to offer greater confidence to the study. It is likely that the major reason I adopted a mixed method approach after considering their recommendations was to enable one approach to inform another in the interpretation of the overall results, which is the underlying principle of complementarity (Devos, 2009, p.40).

### 5.4 The survey

In survey studies, researchers collect data from respondents by asking questions and getting responses using questionnaires and interviews. Extant literature reveals that quantitative studies in tax compliance are more prominent and demonstrate variety in terms of significance, strength, direction and findings (McKerchar, 2010; Kirchler, Niemirowski and Wearing, 2006). Most studies in the area of tax compliance have adopted quantitative cross-sectional surveys as well as experimental designs with medium and large samples. There are benefits that emerge from the use of survey studies. These studies gather a lot of socioeconomic, demographic and attitudinal data, which is very useful when studying tax compliance behaviour (Andreoni et al. 1998).

Additionally, survey designs are useful in studies involving taxpayers' perceptions as perceptions do not necessarily involve recalling processes or prosocial issues and are not susceptible to tax compliance level overreporting or underreporting(Alm & Torgler, 2011; McGee, Ho & Li 2008). Muhangila (2014) indicates that survey studies may exclusively provide more valid external data due to the data collection taking place in a natural setting from representative samples of the target population. It's also relatively cost-effective to carryout survey research, since it is possible to have sizeable samples in such studies.

#### 5.4.1 Challenges of survey studies

This study recognises the shortfalls of survey methods. Kleven, Knudsen, Kreiner, Pedersen & Saez (2011) indicate that survey approaches may supply unreliable data, especially when taxpayers conceal their tax compliance behaviour. This is, perhaps, the biggest disadvantage of using the survey method, especially when the study involves serious issues, such as tax non-compliance rates, compared low response rates. Thus, participants' cooperation and faithfulness are essential to validating survey findings, as some of them may not comply with the tax law or simply fail to support their decision of not complying (Klepper & Nagin, 1989a).

The second challenge with survey approaches is self-reporting, which can lead to underreporting or denial of socially deviant behaviour, or overreporting with the aim of presenting an image consistent with socially acceptable norms (Elffers et al. 1989). In a survey of 155 Netherlands' residents, Elffers et al. (1989) found that almost no correlation existed between the responses of those whose tax returns from1981 and 1982 had been audited and their self-reported levels of tax compliance. Andreoni et al. (1998) also indicates that 20 percent of the participants in the US accepted their involvement in tax evasion, representing half of the TCMP results of the past five years, which proposed that 40 percent of taxpayers evaded taxes. The argument of the difficulty in defining tax evasion may be advanced as the cause of failure of the survey method to give a true picture of the levels of tax evasion (Andreoni et al. 1998). However, in Elffers, Weigel & Hessing's(1987) case, the respondents were known to have been accused of tax evasion and had correspondingly paid the penalties and taxes in question prior to the survey but went onto respond deceitfully, presumably occasioned by the fact that tax evasion could be taken as a socially unacceptable behaviour.

Nonetheless, some scholars have suggested ways by which to reduce response bias; Andreoni et al. (1998), for example, recommended that the survey approach would work well when government tax data complements the survey methods. Moreover, Kirchler et al. (2006) argue that researchers should use a combination of positively and negatively worded items, as this distribution may provide checks and balances for the responses from respondents. In addition, ensuring respondent confidentiality through anonymity and emphasising the importance of honest responses might improve the level of honest responses, although there is limited literature relating to the effect of anonymity and confidentiality clauses on self-survey responses (Muhangila, 2014).

Another argument is that there could be unintentionally wrong responses. For example, Brislin & Olmstead (1973) indicated that respondents were not aware which kind of phosphate detergent they were using, because some detergent items did not include enough information. This was after they found that self-reported scores only explained a quarter of the variance for behavioural measures, even when the detergent brand name and phosphate content were included (Brislin & Olmstead, 1973). This means that the survey samples ought to represent the targeted populations and have a logical understanding of the subject under study, or it will be necessary to make supplementary information about the subject matter available.

Memory decay is another challenge that may be faced by scholars using survey methods as wrong responses may be experienced. Correct responses are usually a function of time, where the time interval between the event and a survey, the more correct the responses will be (Cash & Moss, 1972). Cash & Moss (1972) interviewed 590 individuals who had had accidents in the previous twelve months. They revealed that approximately 8 percent of the overall number of people interviewed denied having had accidents when the time between their accident and interview was less than half a year, while when the time exceeded half a year, the denial rates increased to 21 percent. In addition, in a follow-up interview of a study conducted two years earlier, Farrington (1973) found almost half of the 397 boys who had admitted their involvement in theft and physical aggression in the previous survey denied involvement in misbehaviour when subsequently surveyed. In their study of the effects of recall on estimation of incidence rates for injury in Ghana, Mock, Acheampong, Adjei & Koepsell (1999) showed a notable decline in the estimated rate, from 27.6 percent per year for a one-month recall period to 7.6% per year for a 12-month recall period, representing a 72 percent decline.

In a similar context, these findings imply that where recalling past tax compliance behaviour is required, researchers should, in future, time their studies before participants forget their compliance actions. In particular, when a survey aims to estimate how many taxpayers have evaded, doing the survey immediately after a tax year has ended can reduce the recall problem. In other words, if taxpayers file tax returns at the end of December every year, it would be desirable to do surveys concerning the previous year’s tax compliance in April or May.

This study recognises the intricacies in real-world situations and therefore uses mixed methods: cross-sectional and quantitative research designs to test the well-defined and formulated research objectives and hypotheses; and semi-structured qualitative interviews to extract information about tax fairness. A cross-sectional study enabled the gathering and comparing of these data from a large number of respondents since the responses may not be affected by changes that would occur over time (Bailey, 1994). Correlation and regression designs were utilised to determine the nature of relationships between study variables.

### 5.4.2 Study population

Information regarding a definite number of SME corporations in the country was not readily available, especially in respect of those that actually pay corporate tax. Efforts to reach the URA to secure a list of registered corporate taxpayers did not succeed due to confidentiality reasons on the part of URA. The Census of Business Establishments in Uganda (COBE), conducted by Uganda National Bureau of Statistics (UBOS) in 2010/11, was, therefore, the starting point for this study. However, this report does not provide a list of all companies and their locations but provides the total distribution of all types of business per region: central, 30 percent; Kampala, 29 percent; eastern,15 percent; western, 18 percent; and northern,8 percent. COBE, however, provides the total number of companies that existed, then totalling 10,841. The National Small Business Survey (2015), jointly carried out by Financial Sector Deepening (FSD) Africa, Financial Sector Deepening (FSD) Uganda, Nathan Associates London Ltd and TNS East Africa, does not precisely state the number of corporations in Uganda at the time but borrows from COBE.

Nevertheless, the study population included SME firms in Uganda involved in corporate tax compliance or whose actions indicated their intention to comply with corporate tax regulations. The unit of analysis was the small or medium-sized company, while the units of inquiry were the owners, managers/chief executives or tax accountants of the corporate SMEs.

### 5.4.3 Sample selection

The sampling techniques were guided by earlier tax compliance studies. In most of these studies, the principles underlying the sample selection, thus the inclusion criteria, were relevance and willingness (Brink & Porcano, 2016). Given the complexity and sensitivity of the information collected (Saad, 2010) as well as the state of corporate tax compliance in Uganda (URA 2014; Mawejje, 2013), it was necessary to select a relevant unit of inquiry with experience and knowledge, and willing corporate SMEs to participate in the study. This method was deemed appropriate since the population size in this study was an estimate. The identification of some corporate SMEs was done by officials from Private Sector Foundation Uganda (PSF), Kampala City Traders Association (KACITA) and the Uganda Manufacturers Association (UMA). The selected companies were also requested to recommend other SMEs and their contact persons thus, the snowballing method, which continued until all the business categories were sufficiently represented. Purposive sampling with semi-administered questionnaires facilitated the inclusion of corporate

SMEs of different sizes and ages (Sapiei & Kasipillai, 2013; Sapiei, Kasipillai & Eze, 2014).

Consistent with earlier studies, purposive sampling was also applied to the selection of the units of inquiry in the sampled companies (Gbadago & Awunyo-vitor, 2015; Eragbhe & Omoye, 2014). This was because corporate tax compliance is a strategic decision taken by owners, senior management or their representatives within organisations. Tax compliance is believed to cause a painful loss, and top managers/ owners and their tax accountants, being at the centre of compliance, would be able to give a representative position relating to corporate tax compliance (Kamleitner, Korunka & Kirchler, 2012).

### 5.4.4 Sample size

In order to arrive at generalisations about the study populations, researchers employ samples from such populations. Sample determination is done basically, with some random processes, so as to achieve representation of the population of interest where the population size can be clearly estimated (Tabachnick & Fidell, 2007; Sekaran, 2000). This study adopted Krejcie & Morgan's (1970, p.608) table below when determining the sample size. The table provides sample sizes (s) for each corresponding population size (N). Given that the total population of corporate SME taxpayers in Uganda was estimated to be 10,841 by COBE 2010, the minimum sample size would have been 375 firms. However, because of the expected non-responses and missing values, an attrition rate of 5% of the sample was added to the scientifically determined sample size of 375 to make it 394. Therefore, the study used this as the sample size to avoid attrition bias (Miller & Holist, 2007). The determination can be seen in the population and sample size Table 5.1 below, which was derived from the following formula.

$s = X^2NP(1 - P) / d^2(N - 1) + X^2P(1 - P),$

s = required sample size.

$X^2$ = the table value of chi-square for 1 degree of freedom at the desired confidence level

*N* = the population size.

*P* = the population proportion (assumed to be .50, since this would provide the maximum sample size, and

*d* = the degree of accuracy expressed as a proportion (.05).

Table 5.1: Population and Sample Size (at 95% Confidence)

| N | *S* | N | *S* | N | *s* | N | *s* | N | *s* |
|---|---|---|---|---|---|---|---|---|---|
| 10 | 10 | 100 | 80 | 280 | 162 | 800 | 260 | 2800 | 338 |
| 15 | 14 | 110 | 86 | 290 | 165 | 850 | 265 | 3000 | 341 |
| 20 | 19 | 120 | 92 | 300 | 169 | 900 | 269 | 3500 | 346 |
| 25 | 24 | 130 | 97 | 320 | 175 | 950 | 274 | 4000 | 351 |
| 30 | 28 | 140 | 103 | 340 | 181 | 1000 | 278 | 4500 | 354 |
| 35 | 32 | 150 | 108 | 360 | 186 | 1100 | 285 | 5000 | 357 |
| 40 | 36 | 160 | 113 | 380 | 191 | 1200 | 291 | 6000 | 361 |
| 45 | 40 | 170 | 118 | 400 | 196 | 1300 | 297 | 7000 | 364 |
| 50 | 44 | 180 | 123 | 420 | 201 | 1400 | 302 | 8000 | 367 |
| 55 | 48 | 190 | 127 | 440 | 205 | 1500 | 306 | 9000 | 368 |
| 60 | 52 | 200 | 132 | 460 | 210 | 1600 | 310 | 10000 | 370 |
| 65 | 56 | 210 | 136 | 480 | 241 | 1700 | 313 | 15000 | 375 |
| 70 | 59 | 220 | 140 | 500 | 217 | 1800 | 317 | 20000 | 377 |
| 75 | 63 | 230 | 144 | 550 | 226 | 1900 | 320 | 30000 | 379 |
| 80 | 66 | 240 | 148 | 600 | 234 | 2000 | 322 | 40000 | 380 |
| 85 | 70 | 250 | 152 | 650 | 242 | 2200 | 327 | 50000 | 381 |
| 90 | 73 | 260 | 155 | 700 | 248 | 2400 | 331 | 75000 | 382 |
| 95 | 76 | 270 | 159 | 750 | 254 | 2600 | 335 | 100000 | 384 |

*Source:* Krejcie & Morgan (1970, p.608)

According to Krejcie & Morgan (1970, p.607), as the population increases, the sample size increases at a diminishing rate, remaining relatively constant at slightly more than 380 cases.

### 5.4.5 Survey questionnaire design and pre-test

The existing itemised questionnaire, developed from the measures indicated in Section 5.5 below, was adopted and revised to suit the Ugandan study context. The pre-tested instrument had seven main sections. The first and the last sections were intended to capture sample characteristics of the corporate SMEs and the demographic characteristics of respondents. The other five sections consisted of the operationalised and detail components of power of authorities, perceived power of authorities and trust in authorities, social norms, corporate tax fairness perceptions, and corporate tax compliance behaviour. The original instruments for these variables were measured on seven-point Likert scales.

Pre-testing of the survey instrument was done in two stages. In the initial stage, the survey instrument was discussed with content experts, practitioners in the field of tax compliance and specialists in research methodology in Uganda. These experts were also requested to review and make comments on the initial questionnaire and interview guide. Their comments and suggestions were used to refine the instrument. Moreover, experts were specifically requested to indicate whether the items in the particular sections of the questionnaire sufficiently measured the individual study constructs and whether the instrument was suitable for this kind of study. At the next stage, questionnaires were sent out to 40 owners and managers of corporate SMEs with similar characteristics as the target sample, before being sent to the full study. The respondents rated their firms in terms of the items in the survey instrument and could point out any questions which were hard or incomprehensible to them so that such questions could be removed or have adjustments made to them to make them clear.

After the pre-test stage, the final survey instrument and the interview guide were carefully developed, incorporating revisions that arose out of the pre-test findings and expert interviews (Synodinos, 2003). Unanswered questions/items and those for which respondents indicated a lack of understanding were refined to make them simpler, while those that were indicated to be irrelevant were deleted. The seven major sections of the survey instrument were retained after the pre-test (see Appendix III).

### 5.5 Operationalisation and measurement of variables

The study variables were operationalised drawing from earlier scholarships and a review of the current works, and the variables were measured using existing measurement items by earlier scholars with modifications to suit the research context. All of the variables in the final questionnaire were measured on a seven-point Likert scale. In his proposed summated scale for the assessment of survey respondents' attitudes, Likert's (1932) sample scale had five response alternatives. Likert, however, notes that he never intended for five-point, seven-point or other response alternatives to be the scale and implies that the number of alternatives is open to manipulation. Thus, a number of scholars have used scales ranging from three to seven points, or even scales with more points, like eleven (Bobek et al. 2012). Symonds (1924), however, contends that a 7-point scale provides optimum reliability, as a scale beyond this might not provide further improvement in discrimination between the rated items. The adopted measures have been used elsewhere and found to be highly valid and reliable. They were further tested for reliability and validity in the Ugandan context.

#### 5.5.1 Power of authorities

This construct was measured by two components, namely audit probability and detection and sanctions (Kogler, Batrancea, Nichita, Pantya, Belianin, & Kirchler, 2013; Kirchler et al. 2008). The empirical data from these scales by Msangi (2015) showed conceptualisation fit to the data and found the tool to have high reliability and validity.

*Sanctions:*

- Respondents indicated how strongly they agreed or disagreed with statements describing the various attributes of the various sanctions employed by the URA with respect to corporate tax compliance on a seven-point Likert scale anchored as
    - completely disagree = 1; completely agree = 7

*Audit probability and detection:*

- Respondents indicated their perceptions of the likelihood of audit with items explaining the various attributes of audit probability by the URA with respect to corporate tax compliance behaviour on a seven-point Likert scale anchored as
    - highly unlikely = 1; highly likely = 7

*Overall power of authorities:*

The overall power of authorities' scale was developed by combining the measures of sanctions and audit probability and detection attributes. The power of authorities' index was derived from 9 items, with 5 items from audit probability and 4 from sanctions.

### 5.5.2 Perceived power of authorities

The perceived power of authorities was adopted from the definition of perceived power of authorities by Kirchler et al. (2008) and Kogler et al. (2013). It was measured by three observed variables. The items were anchored on a seven-point Likert scale (1 = completely disagree to 7 = completely agree).

### 5.5.3 Trust in authorities

Trust in tax authorities was measured by education and service-oriented practices of the tax authority, interest in supporting taxpayers to comply, treatment of taxpayers with respect, in an environment assumed little embezzlement of tax money by politicians (Kogler et al. 2013). This construct was used to formulate 3 items, which were measured on a seven-point Likert scale, ranging from completely disagree = 1 to completely agree = 7.

### 5.5.4 Fairness perceptions

The measurement of the fairness construct was based on measurements by earlier scholars like Gilligan & Richardson (2005), Saad (2010), Leventhal et al. (1980) and Farrar, Donnelly & Dhaliwal (2013). Fairness was measured by procedural fairness and distributive fairness. The constructs were adopted and modified to suit the research context and measures were anchored on a seven-point Likert scale, ranging from completely disagree = 1 to completely agree = 7, with 9 items.

### 5.5.5 Social norms

Social norms constructs were measured using a scale with a combination of elements adopted from earlier studies (Bobek, Hageman & Kelliher, 2015; Bobek, Hageman, & Kelliher, 2012). These instruments have been found to be highly valid and reliable. Specifically, Bobek et al. (2012) used the instrument when analysing the role of social norms in the tax compliance behaviour of experienced taxpayers in the US. Bobek et al. (2012) drew on the works of Cialdini & Trost (1998), which identified four components of social norms, viz. descriptive norms, injunctive norms, subjective norms and personal norms. Both the scale by Bobek, et al. (2012) and the scale by Bobek et al. (2015) required respondents to state whether they were unlikely or likely to evade taxes, with 7 = very unlikely to evade and 1 = very likely to evade, and higher values indicating greater compliance. The scales were used with slight alterations in wording to suit the study's context.

*Personal norms (PN):*

- Respondents indicated their perceptions about the present personal norms of the corporate SMEs on a seven-point Likert scale anchored as
  - completely disagree = 1; completely agree = 7

*Injunctive norms (IN):*

- Respondents indicated how completely they agreed or disagreed with the statements describing the various attributes of the injunctive norms in their firms with respect to corporate tax compliance on a seven-point Likert scale anchored as
  - completely disagree = 1; completely agree = 7

*Descriptive norms (DN):*

- Respondents indicated how completely they agreed or disagreed with the statements describing a range of attributes of the descriptive norms in their firms with respect to corporate SME tax compliance on a seven-point Likert scale anchored as
  - completely disagree = 1; completely agree = 7

*Subjective norms (SN):*

- Respondents showed how completely they agreed or disagreed with the statements describing a range of attributes of the subjective norms in their firms with respect to corporate SME tax compliance on a seven-point Likert scale anchored as
  - completely disagree = 1; completely agree = 7

*Overall social norms:*

The overall social norms scale was developed by combining the measures of personal norms with 4 items, injunctive norms (3 items), descriptive norms (4 items) and subjective norms attributes (5 items). The social norms index was derived from 17 items in total.

### 5.5.6 Tax compliance behaviour

Tax compliance has been conceptualised and operationalised in various ways, ranging from voluntary compliance, enforced compliance, tax avoidance and tax evasion. James & Alley (2004) suggested that, though the meaning of tax compliance can be given from different perspectives, they define it as the willingness of individuals and entities to act within the confines of the law and administration without the application of the enforcement mechanism. Kirchler et al. (2008), however, indicate that compliance can be viewed from the perspective of fairness. When taxpayers perceive the tax system to be fair, compliance increases; otherwise, it will decline. This decline could be in the form of tax avoidance and/or evasion. This construct therefore measured corporate tax compliance, firstly from the viewpoint of voluntary and enforced compliance, and then from the stance of tax avoidance and evasion, to gauge how they relate with the independent variable and reflect on the tax non-compliance as a result. Therefore, tax compliance was measured by two dimensions, namely voluntary compliance and enforced compliance, and tax non-compliance had two measurements, tax avoidance and tax evasion (Kirchler & Wahl, 2010; Onu, Oats & Kirchler, 2016), all of which had been modified to suit the study' context. The items under each dimension were anchored on a seven-point Likert-scale, ranging from completely disagree = 1 to completely agree = 7.

## 5.6 Control of common methods bias

Measurement error arises from a number of sources. Common methods biases have been regarded being among the main sources and, consequently, provide threats to the validity of the conclusions made regarding the relationships (correlations) between measures (Podsakoff et al., 2003). However, other researchers, like Harrison, McLaughlin, & Coalter (1996), suggest that the method variance problem may not be severe, although they suggest that further studies should be conducted. Scholars like Lindell & Whitney (2001, p.115) contend that the downward bias in sample correlations will be likely to increase with the number of scales from which the selection takes place but decrease with the increase in sample size, thus downward bias due to these factors will tend to offset the upward bias in correlations. Meade et al. (2007) argue that common method bias is likely to be small to moderate in most instances. However, this study controlled for common methods bias following the procedure as recommended by Lindell & Whitney (2001) and Podsakoff et al. (2003).

According to Ngoma (2009), common methods bias can be reduced significantly when researchers get responses from different categories of respondents. In his study, Ngoma used chief executives, and middle and lower level managers to mitigate the effects of common methods bias on the study results. This study therefore targeted a combination of respondents (the owners, chief executive officers, managers and accountants who deal with tax matters of their firms), thus reducing the effects of common methods biases in the responses that were received for the predictor and criterion variables, which could probably have provided a challenge if the target had been one category of respondents. The scale items were also carefully constructed and actually improved after the responses from the pre-test phases of the study, which was intended to check the internal consistency and validity of the instrument before data collection for the study could be done. The response formats were designed to be different for some study variables. For instance, the responses for the sanctions and power of authorities' scales ranged from completely disagree (1) to completely agree (7), while the scales for audit probability ran from highly unlikely (1) to highly likely (7). In addition, a combination of positive and negative or reversed items ran throughout the survey instrument to avoid bias where responses take superfluous order.

### 5.7 Data collection

As the main phase, this constituted the collection of the actual data that was used when drawing meaningful discussions and conclusions for this thesis. The data collection was done with the help of snowball sampling, where the researcher identified 1015 firms that showed willingness to participate. Of these, 453 corporate SMEs responded, giving a 44.6% response rate. This response rate was attributed to: the resilience of the researcher and the research assistant; the thorough instructions the assistant received; and, above all, the contacts we got within the corporate SMEs through the member bodies. After data cleaning, a total of 386 out of 453 responses were used in the analysis, representing 85% of the questionnaires actually received. This sample fell above the acceptable minimum sample size for regression and path analysis for a moderate effect size with $\alpha = 0.05$ and power level = 0.8 with at least four independent variables from the hypothesized research models (Cohen, 1992, p.157). Due to the complexity of tax compliance, most studies have had to consider samples varying in size from between 200 and 500 respondents for empirical analysis (Alasfour, Samy, & Bampton, 2016; Sapiei, Kasipillai, & Eze, 2014), with much smaller samples being used by those employing only qualitative methodologies.

The findings also indicate that most of the respondents were male (57.8 percent) and 42.2 percent were female, with their average ages ranging from 31 to 50 years. In addition, it was revealed that most of the respondents (92.5%) had degrees and the rest (7.5%) had diplomas, which meant that valid data might have been collected. 96.2% of the corporate SMEs had turnovers just over UGX 12,000,000 (£2,882)[6] but not more than UGX 30,000,000,000(£7,203,737), with most of them (94.8%) of them having a capital base above UGX 12,000,000(£2,882). Most of the corporate SMEs sampled were trading firms (38.6%) followed by business service firms (20.2%), and manufacturing and agriculture at 12.2 percent. The smallest categories of firms sampled were that of utilities and insurance, as each had 1.6% response rates (for details, see Appendix I).

The researcher had, in addition, planned to conduct 30 interviews within the selected survey sample but only 11 agreed to be interviewed; 15 out of the 26 that agreed to be interviewed were outside the survey sample elements, which brought a total response rate of 87%. Again, out of the 26 respondents who agreed to be interviewed, 10 allowed face-to-face interviews but without any recording of the interview proceedings, as this was rejected outright by the respondents upon request. The remaining 16 were interviewed by phone. Further probing into the questions helped the researcher to elicit more views and opinions from participants, as well as to explore the key issues that emerged in the interview context in depth. With the snowballing technique, the researcher was able to conveniently identify knowledgeable and experienced respondents who could effectively articulate their views about the study subject matter (Patton, 1990) and were willing to have conversations with the interviewer to make the research as meaningful as it could be (Sekaran, 2014).

[6] The average spot inter-bank market exchange rate was: 1 GBP = 4,164.505 UGX. https://www.poundsterlinglive.com/best-exchange-rates/british-pound-to-ugandan-shilling-exchange-rate-on-2016-10-29

The final survey sample was spread across the industry groups, as indicated in Table 5.2 below.

Table 5.2: Survey sample spread across the corporate groups

| Corporate Category | Freq. | Percent (%) |
|---|---|---|
| Utilities | 6 | 1.6 |
| Engineering and Construction | 46 | 11.9 |
| Trade | 149 | 38.6 |
| Hotels and restaurants | 27 | 7.0 |
| Transport and storage | 10 | 2.6 |
| Posts and telecommunication | 5 | 1.3 |
| Financial services | 12 | 3.1 |
| Insurance | 6 | 1.6 |
| Business services | 78 | 20.2 |
| Manufacturing | 47 | 12.2 |
| **Total** | **386** | **100.0** |

Note: the above categorisation of groups is based on the WTO – GATS classification "W/120" list, the USEA (2005) services classification, and classification as per earlier scholars like Clark et al. (1996) and Groonroos (1999).

### 5.8 Survey data entry and analysis

This stage of the data analysis concerned data screening and performing various statistical tests. More precisely, data screening and preliminary data analysis was done using the Statistical Package for Social Scientists (SPSS) version 23, while Analysis of Moments of Structures (AMOS) version 23 was employed for Structural Equation Modelling (SEM) to test the study hypotheses. Data was entered in the SPSS data editor, cleaned and made ready for analysis through sorting and editing. Using the SPSS, simple frequency runs were used to screen the data and identify the missing values. The copies of the questionnaire received from 386 firms were highly usable, as they had very few missing values. The few missing values were estimated and filled using the mean score, as recommended by Mertler & Vannata (2002). Though most of the adapted scales have been tested in the earlier studies and found to be highly valid and reliable, their reliability and validity were not taken for granted. To ensure and evaluate data quality, reliability and validity were tested for, data were explored using SPSS to establish their distribution in order to enable the use of the appropriate analytical tools, and analysed using descriptive and sample characteristics, principal component analysis and correlations analysis.

The SPSS data file was later imported into the AMOS version 23 program so as to perform Structural Equation Modelling (SEM) methods (HOE, 2008). Since the study sample size was 386, it was above the minimum recommended sample size for SEM of 200 (Garver & Mentzer, 1999; Hoelter, 1983). HOE (2008, p.77) suggests that, as a rule of thumb, any sample size above 200 is understood to provide sufficient statistical power for data analysis.

### 5.8.1 Data screening

The first step taken was to exclude cases with 10 percent or more incomplete entries. This data review identified 51 cases with missing values of more than 10 percent and these were deleted from the data set, as recommended (Hair, Black, Babin, Anderson & Tatham 2006). According to Cohen (1992), cases with missing data for the dependent variable should be deleted from the regression analysis so that no artificial relational increases with the independent variables can occur (Hair et al., 2006). Adapting this suggestion with Structural Equation Modelling (SEM), which involves multiple dependent variables and constructs with more questions or items as indicators, 16 more cases that had missing values for all indicators of one or more dependent constructs in the model were deleted (Venaik, 1999), leaving us with a final sample of 386 for the subsequent analyses in this study.

The second step taken to ensure the integrity of the data was to check the accuracy of the data coding and entry into the statistical computer program (SPSS). To complete this task, random sampling of 10% of the original paper program files (n=39) were extracted and compared to the data transcribed into the specially designed coded data sheets. In addition, the data sheets were subsequently checked against the data entered into the SPSS program file for each matched case (Hailu, 2015) No discrepancies were identified. Lastly, the data ranges were checked for each variable entered (n=386) to ensure that all data were entered within the prescribed ranges. Of the overall cell ranges examined, less than 0.5% of the cases had at least one datum outside of the delineated variable ranges. The original files for these cases were pulled out and examined for accuracy. In each case, the data had been entered incorrectly; for example, 66 for 6. Consequently, these data were corrected for each of the cases and all of the data was found to lie within the necessary parameters.

### 5.8.2 Missing values analysis

A missing value analysis is carried out to identify missing values so that clean data can be produced for the proposed model analyses. This stage is essential in order to establish how extensive the missing values are, establish the random nature of the missing data values and take a decision to eliminate responses that can generate invalid results (Field, 2013; Alreck & Settle, 1995).

After this initial screening, less than one percent of the cases had missing values. The Expected Maximisation (EM) method was chosen to replace these missing values. This method employs the estimation of the means, the covariance matrix and the correlation of quantitative variables with missing values, using an iterative process. Although there are other methods, like pairwise, listwise and mean substitution, Pallant (2005) and Hair et al. (2006) indicate that this method is, in general, superior. Also, since the data collection was done by the researcher, attempts were made to ensure completion of the questionnaire during the later callback appointments, or the questionnaires were completed in the researcher’s presence, with the researcher offering explanations for questions that needed clarification. Accordingly, no further analysis of missing values was made, since no missing values were detected.

Under CFA, it is likely that initial specified models may not be a good fit with the data and this study was no exception. However, to minimise the severity of initial specified model fit, the researcher started with PCA to eliminate indicators that could not work well for CFA. Consequently, the assessment of the regression loadings for each of the constructs and the modification indices was done to identify the sources of the poor model fit under CFA. Specifically, the indicators which had lower loadings were eliminated from the model and the model was respecified based on the modification indices so as to achieve model fit. Kline (2014), Brown (2006) and Jöreskog (1993) nonetheless recommend that model modification is not only made on the basis of statistical morality but also on the basis of the underlying theoretical principles. This will be demonstrated in partly in this chapter under CFA and in Chapter 6 and Chapter 7 of the thesis for the SEM models.

### 5.8.3 Testing for parametric assumptions

To proceed with parametric tests for this part of the thesis, data was first examined to ensure that it conformed to the parametric assumptions of normality, homogeneity, linearity, independence and multicollinearity (Field, 2013).The tests that follow were conducted to satisfy these requirements.

#### 5.8.3.1 Normality test

For significant tests of models to be accurate, the sampling distribution of what is being tested must be normal; therefore, estimation of normality of data is a requirement. While normality is of critical significance, Field (2013, p.168) intimates that larger samples will always produce normal test results, irrespective of the population distribution, so caution should be taken during model evaluations with such tests. Normal distributions are symmetrical, with most frequency scores in the middle and frequency scores reducing as they approach both ends of the graph (Pallant, 2013). Two methods were used to test for normality; statistical, using descriptive analysis, and graphical, by use of histograms.

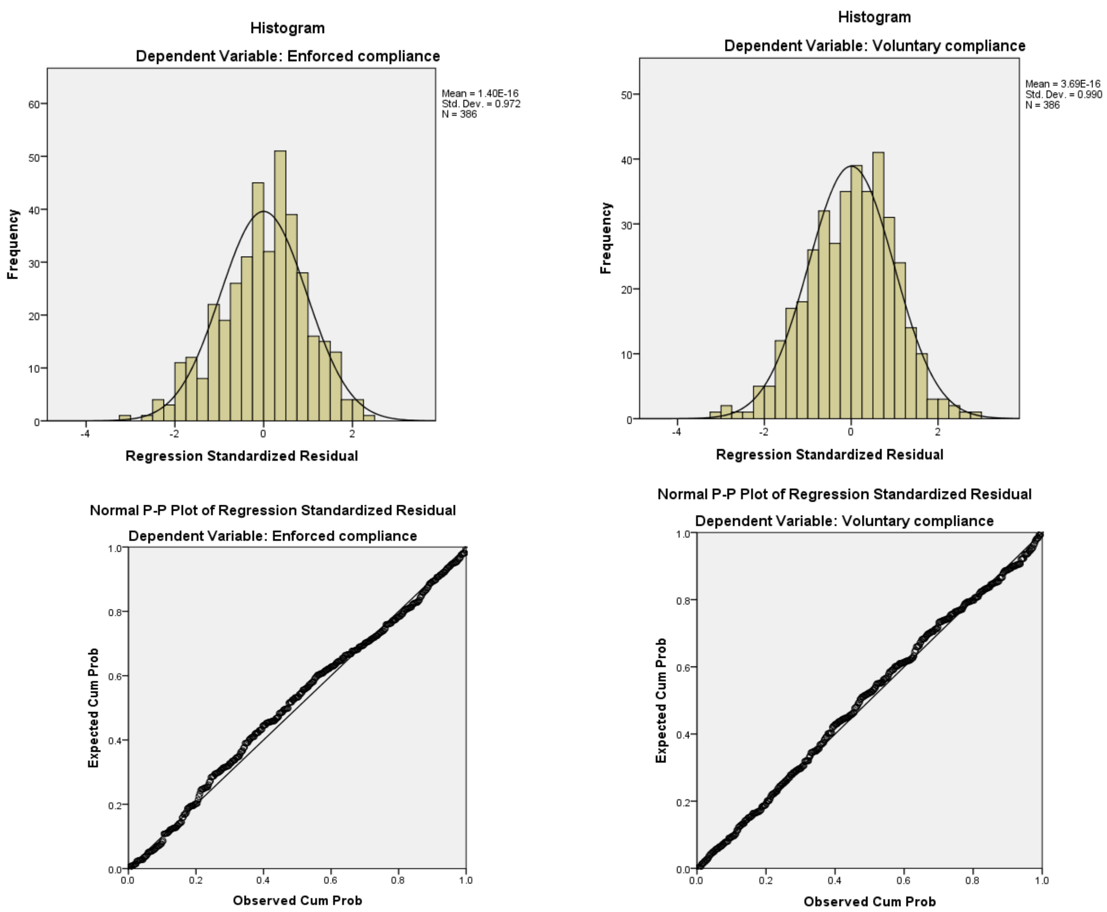
Table 5.3 below shows results which provide a hint that the absolute values of skewness and kurtosis were within the threshold of 3 and 10 respectively, suggesting that the data was fairly normally distributed (Field, 2013).

Table 5.3: Test of Normality Assumption

| | N | Skewness | | Kurtosis | |
|---|---|---|---|---|---|
| Variables | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Enforced compliance | 386 | -1.127 | .124 | .690 | .248 |
| Voluntary compliance | 386 | -.755 | .124 | .007 | .248 |
| Audit probability | 386 | -.931 | .124 | .486 | .248 |
| Perceived power | 386 | -.976 | .124 | .571 | .248 |
| Sanctions | 386 | -.813 | .124 | .766 | .248 |
| Trust in authorities | 386 | -.939 | .124 | .773 | .248 |
| Power of authorities | 386 | -.378 | .124 | .627 | .248 |
| Procedural fairness | 386 | -.853 | .124 | -.039 | .248 |
| Distributive fairness | 386 | -.680 | .124 | -.601 | .248 |
| Tax evasion | 386 | .280 | .124 | -.756 | .248 |
| Tax avoidance | 386 | -.665 | .124 | -.694 | .248 |
| Enforced compliance | 386 | -1.127 | .124 | .690 | .248 |
| Voluntary compliance | 386 | -.755 | .124 | .007 | .248 |
| Subjective norms | 386 | -1.123 | .124 | .241 | .248 |
| Descriptive norms | 386 | -.838 | .124 | .109 | .248 |
| Injunctive norms | 386 | -.914 | .124 | -.212 | .248 |
| Personal norms | 386 | -.873 | .124 | -.306 | .248 |

The graphical demonstrations (histograms and P-P plots) that follow also point to the fact that there may not be any serious normality issues. Thus, no further data transformation was necessary, given the normality of the data as illustrated.

Figure 5.1: Shows Normality and Linearity




### 5.8.3.2 Linearity test

Linearity is a prerequisite for the generalisability of the findings from a study when a linear model has been used. For linearity to be achieved, the mean values of the outcome variables for every additional predictor(s) should be positioned fairly along a straight line. Thus, in this study, the researcher models a linear relationship between exogenous and endogenous variables. According to Field (2013), generalisability of the study findings would be limited if a non-linear relationship is modelled. Therefore, to work with a linear model in the analysis, which the foregoing graphs show, the data needed to meet the parametric assumption of linearity, and are discussed below.

Additional tests of baseline regression models were done to further confirm linearity of the data with respect to the voluntary and enforced compliance behaviour. The F statistic - ANOVA results in Table 5.4 validate linear models, as all outcomes were significant.

Table 5.4: ANOVA – F-Statistic for linearity

| Dependent variable | F-Statistic | Sig. |
|---|---|---|
| Enforced compliance | 29.788 | .000[b] |
| Tax avoidance | 9.457 | .000[b] |
| Tax evasion | 5.864 | .000[b] |
| Voluntary compliance | 7.591 | .000[b] |

**5.8.3.3 Multicollinearity**

Multicollinearity was tested using a baseline regression model. When there is a high correlation between two or more predictor variables, multicollinearity is said to exist between them. The existence of multicollinearity creates fundamental challenges when dealing with multiple regression models where you have more predictor variables. Variance Inflation Factor (VIF) and the tolerance values produced by the SPSS analysis tool are among the major collinearity diagnostics used to evaluate the existence or non-existence of multicollinearity among predictor variables. VIF is the inverse of the tolerance value and tolerance values from a specified model show how much of the variability of a particular independent variable is not explained by the other predictors. The VIF shows whether a predictor has a high linear association with the other predictor(s) in the model. In evaluating collinearity, therefore, Myers (1990) indicates that VIF values higher than 10 would signals of serious concerns and suggests that tolerance values lower than .2, as suggested by Menard (1995), would indicate the existence of multicollinearity between or among predictor variables in the model.

The researcher performed a collinearity diagnostic test to determine whether each of the predictor variables, viz. audit probability and detection, sanctions, procedural fairness, perceived power of authorities and perceived trust in authorities, could display linear relationships with each other. The results presented in Table 5.5 indicate tolerance values of .546 as the lowest and .981 as the highest (above the limit of .2), with VIF values that varied from 1.019 to 1.831 (below the 10-point limit), which implied the data met the parametric assumption of multicollinearity.

Table 5.5: Results from Collinearity Diagnostic Test – Compliance Behaviour

| Model | Collinearity Statistics Tolerance | VIF |
|---|---|---|
| 1 (Constant) | | |
| Voluntary compliance | .811 | 1.233 |
| Audit probability & detection | .692 | 1.446 |
| Sanctions | .929 | 1.076 |
| Perceived power of authorities | .682 | 1.466 |
| Perceived trust in authorities | .556 | 1.800 |
| Procedural fairness | .546 | 1.831 |
| Distributive fairness | .723 | 1.382 |
| Subjective norms | .643 | 1.556 |
| Descriptive norms | .981 | 1.019 |
| Injunctive norms | .693 | 1.442 |
| Personal norms | .817 | 1.223 |

a. Dependent Variable: Enforced compliance

### 5.8.4 Reliability of the instrument

Reliability is the ability of the study instrument or method to deliver consistent results over time when repeated. Reliability tests show the extent to which the research instrument is free from bias or error and thus ensures consistent measurements across time and the range of items within it. Although there are different methods for testing reliability of an instrument, in this study, the researcher used Cronbach's alpha (α) coefficients followed by Construct/Composite Reliability (CR) when evaluating the measurement model under Confirmatory Factor Analysis. Cronbach's alpha (α) coefficients is the most widely used method for estimating the internal consistency of items included in a scale and thus determining whether the scale has a homogeneous structure or not, as it is based on the average correlation of all items in the test (Gürbüz & Mert, 2009, p.127).

Internal consistency is the degree to which the items that make up the scale are all measuring the same basic attribute. Hair et al. (2006, p.102) indicate that Cronbach's Alpha (α) coefficients of more than .70 are satisfactory in order to produce reliable and valid results, although this may reduce to .60 in exploratory research. The Cronbach's Alpha (α) coefficients in Eriksen & Fallan (1996, p.392) were, however, .52 pre-test and .60 post-test, and this was acceptable. However, in the current study, all of the alpha coefficients were over 0.70 and acceptable for further analysis as they were assumed to have the ability to produce reliable, valid and demonstrable results (Hair et al. 2006).

Thus, reliability tests were conducted on all items in the instrument prior to Principal Component Analysis. Specifically, Cronbach's alpha (α) coefficients were computed in order to assess the internal consistency of all items included in the scale and, hence, determine whether the scale had a homogeneous structure or not based on the average correlation of all items in the test (Gürbüz & Mert, 2009, p.127). This method was also used to show the extent to which the research instrument was free from bias or error, and thus ensure consistent measurements across time and the range of items within it. Table 5.6 (below) shows that all of the Cronbach's alpha (α) coefficients for the study variables were over .70 and sufficient to provide results that are reliable and valid.

Table 5.6: Cronbach's alpha (α) Coefficients

| **Variable** | **No. of items in the final instrument** | **Cronbach's alpha coefficient** |
|---|---|---|
| Power of Authorities | 13 | .847 |
| Fairness perceptions | 9 | .899 |
| Tax Compliance | 14 | .810 |
| Social Norms | 17 | .851 |
| Perceived power of authorities | 3 | .915 |
| Perceived trust in authorities | 3 | .927 |

### 5.8.5 Principal Component Analysis (PCA)

PCA was carried out to confirm the theoretical structural components of the study variables and for dimension reduction using Varimax rotation (Hair et al. 2010). The most favourable structures are achieved by factor rotations which redistribute the variance explained among factors, a process termed as 'Varimax'. Varimax rotation is known to simplify the columns of the factor matrix (Hair et al. 2010; Abdi & William, 2010) and it is the most appropriate technique to use when reducing the number of variables (Jolliffe, 2002). Hair et al. (2010) also suggest that employing PCA generates satisfactory variances explained. All the observed variables in this study loaded on only one component, which showed that the observed variables measured constructs well, hence supported discriminant validity (Hair et al. 2010).

The extent of correlations among factors under PCA, however, occurs when Bartlett's test of sphericity sig. is $< .05$. As can be seen in the PCA tables that follow, the dataset suggests sufficient correlations among factors. According to Hair et al. (2010), the PCA also assumes adequacy of samples, which is measured by the Kaiser-Myer-Olkin (KMO) measure; where the value $\geq 0.80$ is desirable and a value of $\geq 0.50$ is acceptable. All the PCAs conducted for this part of the study showed KMOs greater than 0.70.

### 5.8.5.1 PCA of power of authorities

Power of authorities was measured by two dimensions, with nine items all together; Audit probability and detection had five items and sanctions had four items which the respondents considered. Audit probability and detection (1) had a scale running from 1 = highly unlikely to 7 = highly likely, whereas the scale for sanctions (2) ran from 1 = completely disagree to 7 = completely agree. These concepts were derived from the definitions of power of authorities by Kirchler et al. (2008). Specifically, items AP_1 and AP_2 were adopted from Bobek et al. (2012), item AP_4 from Msangi (2015) and AP_5 from Muehlbacher, Kirchler, & Schwarzenberger (2011), and the rest of the items were developed by the researcher. The results of the PCA are seen in Table 5.7.

Table 5.7: PCA Measures of Power of Authorities' Dimensions

| | **Items** (Conversion exchange rate: £1 = UGX 4,164.505) | Factors | |
|---|---|---|---|
| Audit probability and detection (AP) | | AP | SA |
| AP_1 | If Mr. Mudasi deducts UGX 3,500,000 in van expenses, how likely is it that the URA will audit the company? | .709 | |
| AP_2 | If audited, how likely is it that a deduction of UGX 3,500,000 would be disallowed? | .853 | |
| AP_4 | Most corporate income tax returns from 2014 and 2015 would be audited by the URA. | .806 | |
| AP_5 | Most corporate tax returns audited by the URA would be found to be erroneous, with less income declared. | .782 | |
| AP_6 | Unaudited companies may comply if they become aware that others have been subjected to audits. | .767 | |
| Sanctions (SA) | | | |
| SA_1 | The tax fines imposed for not complying with the corporate tax laws are high for our company. | | .881 |
| SA_3 | Late payment of corporate tax means we have to pay higher interest on that amount of tax. | | .828 |
| SA_6 | At times, the URA closes down some companies for failure to fulfil their corporate income tax requirements | | .895 |
| SA_7 | The level of punishments by the URA for not complying with the law is very high. | | .868 |
| **Initial Eigenvalues** | | 5.191 | 1.523 |
| **Eigenvalues after rotation** | | 3.381 | 3.332 |
| **Total percentage variance** | | 37.571 | 37.020 |
| **Cumulative variance (%)** | | 37.571 | 74.591 |

Note: A principal component analysis with Varimax rotation was employed based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .875. AP = Audit Probability & Detection, SA = Sanctions.

### 5.8.5.2 PCA of tax fairness

Respondents considered two dimensions of tax fairness, measured by eight items in total; distributive fairness (1) with five items and procedural fairness (2) with three items. All items were anchored on a scale running from 1 = completely disagree to 7 = completely agree. These concepts were derived from the definitions of tax fairness by Kirchler et al. (2008) and Gilligan & Richardson (2005), but all of the items employed for tax fairness were adapted from Saad (2010) and modified to suit the corporate tax context and Ugandan research environment. The results of the PCA are seen below, in Table 5.8.

Table 5.8: PCA Measures of Tax Fairness

| Items | | Component | |
|---|---|---|---|
| Distributive Fairness (DF) | | DF | PRF |
| DF_1 | I believe the government utilises a realistic amount of tax revenue to achieve social goals. | .896 | |
| DF_3 | I think the government spends too much tax revenue on unnecessary welfare assistance (*Reversed*). | .924 | |
| DF_4 | We receive fair value of services from the government in return for our corporate tax paid | .908 | |
| DF_6 | We pay high corporate taxes when compared to the services we get from the government (*Reversed*). | .902 | |
| Procedural fairness (PRF) | | | |
| PRF_1 | There are a number of ways available to the company to correct errors in the calculation of corporate tax liability, if necessary, at no additional cost. | | .912 |
| PRF_2 | The administration of the corporate tax system by the URA is consistent over the years. | | .927 |
| PRF_3 | The administration of the corporate tax system by the URA is consistent for all corporate taxpayers. | | .909 |
| **Initial Eigenvalues** | | 5.209 | 1.793 |
| **Eigenvalues after rotation** | | 4.262 | 2.740 |
| **Total percentage variance** | | 53.278 | 34.246 |
| **Cumulative variance (%)** | | 53.278 | 87.524 |

Note: A principal component analysis with Varimax rotation was used, based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .896. DF = Distributive Fairness, PRF = Procedural Fairness

### 5.8.5.3 PCA of perceived power of authorities

PCA was carried out separately for perceived power of authorities. This construct was measured by three observed variables and the PCA showed that respondents had one factor. Perceived power of authorities items were anchored on a seven-point Likert scale (1 = completely disagree to 7 = completely agree). This concept was adopted from the definition of perceived power of authorities by Kirchler et al. (2008) and all three items were adapted from the existing scales of Muehlbacher et al. (2011). Table 5.9, below, shows the PCA results.

Table 5.9: PCA Measures of Perceived Power of Authorities

| | Items | Component |
|---|---|---|
| | | PA |
| PA_1 | The Uganda Revenue Authority has extensive means by which to force corporations to be honest about income tax | .928 |
| PA_2 | Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third party information reports in a systematic way | .929 |
| PA_3 | The Uganda Revenue Authority has extensive means by which to force corporations to be honest about income tax | .918 |
| **Initial Eigenvalues** | | 2.567 |
| **Eigenvalues after rotation** | | 2.567 |
| **Total percentage variance** | | 85.555 |
| **Cumulative variance (%)** | | 85.555 |

Note: A principal component analysis with Varimax rotation was used, based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .759

#### 5.8.5.4 PCA of perceived trust in authorities

PCA for perceptions of trust in authorities was done with three items that measured this construct. Respondents considered only one factor. Items for perceived trust in authorities were anchored on a seven-point Likert scale, ranging from 1 = completely disagree to 7 = completely agree. This concept was adopted from the definition of perceived trust in authorities by Kirchler et al. (2008) and the three items were taken from Muehlbacher, Kirchler, & Schwarzenberger's (2011) existing scale. Table 5.10, below, shows the PCA results.

Table 5.10: PCA Measures of Perceived Trust in Authorities

| Items | | Component |
|---|---|---|
| Perceived trust in authorities | | TRA |
| TRA_1 | The Uganda Revenue Authority treats me fairly in my dealings with them. | .927 |
| TRA_2 | The Uganda Revenue Authority treats us respectfully in our dealings with them. | .945 |
| TRA_3 | We trust the URA and government when dealing with them on corporate tax matters | .930 |
| **Initial Eigenvalues** | | 2.618 |
| **Eigenvalues after rotation** | | 2.618 |
| **Total percentage variance** | | 87.253 |
| **Cumulative variance (%)** | | 87.253 |

Note: A principal component analysis with Varimax rotation was used, based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .759

#### 5.8.5.5 PCA of corporate social norms

All the PCAs conducted for this part of the study showed KMOs greater than 0.70. For corporate social norms, in the table below, fifteen items were used to extract four constructs - personal norms (1); subjective norms (2); descriptive norms (3); and injunctive norms (4), - with scales running from 1 = completely disagree to 7 = completely agree. The items were adapted from existing works of social norms (Bobek et al. 2012; 2015). The descriptions of the items are seen below, in Table 5.11.

Table 5.11: PCA Measures of Social Norms.

| **Items** (Conversion exchange rate: £1 = UGX 4,164.505) | | Factors | | | |
|---|---|---|---|---|---|
| Personal norms (PN) | | PN | SN | DN | IN |
| PN_1 | I feel a moral obligation to be completely honest in tax declaration | .895 | | | |
| PN_2 | I think it's acceptable to overstate corporate deductions (*reversed*) | .923 | | | |
| PN_3 | I would feel guilty if I took an additional UGX 3,500,000 as a tax deduction | .884 | | | |
| PN_4 | I would feel ashamed if I took the additional UGX 3,500,000 deduction | .839 | | | |
| Subjective norms (SN) | | | | | |
| SN_1 | Peers, friends, family members and corporate staff would think that our company should not declare the extra UGX 10,000,000 profit (*reversed*) | | .871 | | |
| SN_2 | Peers, friends, family members and corporate staff would think that our company should declare the extra UGX 10,000,000 profit | | .887 | | |
| SN_3 | Peers, friends, family members and corporate staff would approve of our decision to understate our income by UGX 10,000,000 (*reversed*) | | .896 | | |
| SN_4 | Peers, friends, family members and corporate staff would disapprove the idea of not including a UGX 10,000,000 profit | | .836 | | |
| Descriptive norms (DN) | | | | | |
| DN_1 | Given the opportunity, my company would take the additional UGX 3,500,000 deduction like others have (*reversed*) | | | .826 | |
| DN_2 | My company would take the portion of the additional UGX 3,500,000 deduction closest to what others deduct (*reversed*) | | | .801 | |
| DN_3 | A high percentage of them would deliberately pay less corporate taxes than they legally owe (*reversed*) | | | .801 | |
| DN_4 | A great percentage of them would inaccurately, but unknowingly, pay less corporate taxes than they legally owe (*reversed*) | | | .740 | |
| Injunctive norms (IN) | | | | | |
| IN_1 | Corporate owners would feel guilty for taking an additional UGX 3,500,000 deduction | | | | .839 |
| IN_2 | Corporate owners would feel ashamed for taking an additional UGX 3,500,000 deduction | | | | .828 |
| IN_3 | Corporate owners would be scared to be caught if they took an additional UGX 3,500,000 deduction | | | | .791 |
| **Initial Eigenvalues** | | 5.166 | 2.498 | 2.222 | 1.450 |
| **Eigenvalues after rotation** | | 3.317 | 3.294 | 2.546 | 2.179 |
| **Total percentage variance** | | 22.113 | 21.959 | 16.972 | 14.529 |
| **Cumulative variance (%)** | | 22.113 | 44.072 | 61.044 | 75.573 |

Note: A principal component analysis with Varimax rotation was used, based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .853.

### 5.8.5.6 PCA of corporate tax compliance behaviour

Corporate tax compliance behaviour included fifteen items and respondents considered four factors: voluntary tax compliance (1); enforced tax compliance (2); corporate tax evasion (3); and corporate tax avoidance (4) (1 = completely disagree to 7 = completely agree). These concepts were derived from Kirchler & Wahl's (2010) definitions of tax compliance. The results of the PCA are presented below, in Table 5.12.

Table 5.12: PCA Measures of Corporate Tax Compliance Behaviour

| Items (Conversion exchange rate: £1 = UGX4,164.505) | | Factors | | | |
|---|---|---|---|---|---|
| Voluntary tax compliance (VC) | | VC | EC | TE | TA |
| VC_1 | Company pays corporate taxes as required by regulation because it's clear that is what we have to do | .927 | | | |
| VC_2 | Company pays because of need to support the state and society | .933 | | | |

| | | | | | |
|---|---|---|---|---|---|
| VC_3 | Company pays because we like to make a contribution for everyone's good | .926 | | | |
| VC_4 | Company pays according to the regulations because, for us, it's the natural thing to do | .869 | | | |
| VC_5 | Company pays as required by regulation as we regard it as our responsibility as citizens | .852 | | | |
| Enforced tax compliance (EC) | | | | | |
| EC_1 | We pay corporate tax because of the large number of tax checks carried out by the URA | | .894 | | |
| EC_2 | Company pays corporate tax because the URA often carries out checks | | .879 | | |
| EC_3 | We pay because we know the company will be audited | | .883 | | |
| EC_4 | We follow the regulations for paying corporate tax because the punishments for tax evasion are severe | | .865 | | |
| EC_5 | We pay corporate taxes because we do not know exactly how to evade them without attracting attention | | .869 | | |
| Tax evasion (TE) | | | | | |
| TE_1 | Not declaring an extra source of income in your corporate tax return and saving UGX 3,000,000 is a serious crime *(Reversed)* | | | .947 | |
| TE_2 | Deducting an expense not actually incurred on your corporate tax return and thus saving UGX 3,000,000 can be a serious crime *(Reversed)* | | | .957 | |
| TE_3 | Making cash payments to a carpenter who fixed wardrobes at your residence and thereby saving UGX 3,000,000 may be viewed as a serious crime *(Reversed)* | | | .943 | |
| Tax avoidance (TA) | | | | | |
| TA_1 | The tax system has many loopholes that can help us to avoid corporate taxes | | | | .927 |
| TA_2 | The person who prepares my tax return finds innovative ways to reduce corporate taxes | | | | .934 |
| TA_3 | I can always employ the services of tax advisors, as they can legally save large sums of corporate tax | | | | .509 |
| Initial Eigenvalues | | 5.762 | 3.055 | 2.753 | 1.595 |
| Eigenvalues after rotation | | 4.219 | 4.085 | 2.749 | 2.111 |
| Total percentage variance | | **26.371** | **25.528** | **17.182** | **13.196** |
| Cumulative variance (%) | | **26.371** | **51.900** | **69.082** | **82.278** |

Note: A principal component analysis with Varimax rotation was used based on a sample size of 386, Bartlett's test of sphericity sig. < .001 and Kaiser-Meyer-Olkin (KMO) sig. = .856.

After the Principal Component Analyses had been carried out, reliability tests were conducted on each construct to ascertain their internal consistency before proceeding to the measurement model for Confirmatory Factor Analysis in Structural Equation Modelling. The Cronbach's alpha coefficients for each scale are presented in Table 5.13.

Table 5.13: Reliability Tests - Cronbach's Alpha Coefficients

| **Variable** | **No. of items in the final instrument** | **Cronbach's alpha coefficient** |
|---|---|---|
| Audit probability and detection | 5 | .877 |
| Sanctions | 4 | .718 |
| Distributive fairness | 5 | .961 |
| Procedural fairness | 3 | .933 |
| Voluntary tax compliance | 5 | .951 |
| Enforced tax compliance | 5 | .945 |
| Tax avoidance | 3 | .920 |
| Tax evasion | 3 | .940 |
| Subjective norms | 5 | .890 |
| Descriptive norms | 4 | .805 |
| Injunctive norms | 3 | .807 |
| Personal norms | 5 | .927 |
| Perceived power of authorities | 3 | .915 |
| Perceived trust in authorities | 3 | .927 |

Considering that the reliability test results, as revealed in Table 5.13, yielded Cronbach's alpha (α) coefficients over and above .70, which have been suggested as satisfactory in order to produce reliable and valid results (Hair, et al. 2006, p.102, the researcher proceeded to fit the measurement models for the confirmatory factor analysis, as discussed in the sections that follow.

### 5.9 The Two-Stage Structural Model (SEM) Evaluation

#### 5.9.1 The measurement model: Confirmatory Factor Analysis (CFA)

Harrington (2008) and Brown (2006) suggest three uses of CFA, namely:1)the development of new measures and construct validation; 2) testing method effects; and 3) testing whether a measure is invariant or unchanging across groups, populations or time. CFA models, also known as measurement models, are used in Structural Equation Model (SEM) in combination with structural models (HOE, 2008). In this study, the researcher adopted a two-stage structural model. CFA was used in the first stage of the measurement model for two reasons; evaluating unidimensionality and testing for reliability and validity. Unidimensionality means that the set of items forming a construct universally measure one thing. Unidimensional measurement models are usually more helpful in offering more accurate convergent and discriminant validity tests of factor measurement (Anderson & Gerbing, 1988).

Thus, the aim of the first stage was to make sure that each set of items empirically measured a distinct dimension. Like Anderson & Gerbing (1982), Hair, Black, Babin, Anderson & Tatham (2010) suggest that evaluation of unidimensionality should be done prior to testing for the reliability and validity of each construct. Although evaluating unidimensionality is possible with Exploratory Factor Analysis (EFA), Anderson & Gerbing (1988) believe CFA to be a superior method with more flexibility than EFA. However, as guided by Tukey (1977), as cited in Ntayi, Ngoboka, Mutebi & Sitenda (2012), EFA using principal component analysis (PCA) was performed to detect the item loadings and meaningful dimensions before running a confirmatory factor analysis (CFA), as it is quasi-judicial in nature.

Therefore, to establish whether the number of factors and the loadings of measured items conformed to what was expected based on established body of research and theory, Confirmatory Factor Analysis (CFA) using maximum likelihood estimates was done after PCA. Maximum likelihood (ML) is a commonly used estimation method (Anderson &

Gerbing, 1988, p. 413). The maximum likelihood method seeks to find the parameter values that make the observed data most likely, maximising the likelihood of the parameters given the data (Brown, 2006, p. 73). According to Anderson & Gerbing (1988), ML estimators have the desirable large-sample properties of being unbiased, consistent and efficient, and make significant testing of individual parameters as well as the overall model fit possible.

Each latent variable was evaluated for unidimensionality. These latent variables were: sanctions, audit probability and detection, and perceived power of authorities; social norms constructs of descriptive, injunctive, subjective and personal norms; fairness perceptions of procedural and distributive fairness; perceptions of trust in authorities; and corporate tax compliance behaviour constructs of voluntary and enforced tax compliance, and tax avoidance and evasion. Items that loaded highly on the hypothesised factors during PCA also loaded highly during the CFA and were retained on the scales, thus resulting in unidimensional scales (Dunn et al., 1994). Hair et al. (2010) recommend a factor loading of .50 and above on a specified factor as acceptable and I considered this as the cut-off point while applying CFA. Reliability and validity testing was then done for these constructs after unidimensionality was achieved.

### 5.9.2 Structural equation modelling (SEM)

The main distinction between a CFA and a SEM model is their focus; a CFA focusses on the relationships between the indicators and latent variables, and a SEM also includes the structural or causal paths between latent variables. In light of this, the paths or causal relationships between the underlying theoretical latent constructs were specified in the structural models. The structural models were then employed to test the major hypotheses set out in order to answer the research questions in this study. The coefficient parameter estimates were examined along with the overall model fit indices to test the underlying hypotheses. If the critical ratio (C.R.), also known as the z-value, is greater than 1.96 for regression weight (or standardised estimates), the parameter is statistically significant at the .05 level. The results for this measure follow in Chapter 6 and Chapter 7 of this thesis.

### 5.9.3 Model fit evaluation method

After estimating the measurement and structural models, the next step is to assess how well the specified models account for the data (also known as model fit). To evaluate the measurement and structural model fits, several goodness of fit indices have been suggested by SEM scholars like Kline (2014) and, Raykov, Tomer & Nesselroade (1991), although no particular fit indices have been agreed upon so far. Harington (2009), however, suggests the adoption of Brown's (2006) recommended model fit indices due to their popularity in scholarly work and their Monte Carlo research performance.

These are: (1) absolute fit indices; (2) parsimony correction indices; and (3) comparative fit indices. Absolute fit indices test the hypothesis in terms of whether the predicted variance-covariance matrix (∑) is equal to the sample variance–covariance matrix (S), implying ∑= S (Brown, 2006). These indices do not use an alternative model as a base for comparison but are derived from the fit of the obtained and implied covariance matrices and the ML minimisation function. The most common absolute fit index is the model chi-square ($\chi^2$), which tests whether the model fits the population exactly, i.e. assessing actual and predicted matrices. A small $\chi^2$ value resulting into non-significance shows that there is no considerable statistical difference between the actual and predicted values. Though useful (Anderson & Gerbing, 1988, p.421; HOE, 2008, p.78), it has a limitation; the result of the $\chi^2$ will highly depend on the sample size, so a larger sample (let's say more than 200) will almost always produce significant results. Having used a sample size of 386 in this study, the researcher wasn't surprised that he got significant $\chi^2$ results when assessing some of the measurement models, like the Slippery Slope Framework (SSF), and the Social Norms theoretical model (SNT) in relation to corporate SMEs' tax compliance behaviour.

Parsimony-corrected or adjusting fit indices are relative fit indices that make adjustments to other fit indices, integrating a penalty for non-parsimonious models and thus favouring simpler theoretical models than complex ones which may be perceived to have poor fit (Hooper, Coughlan, and Mullen, 2008, p. 54; Brown, 2006). Save for the model chi-square, these corrected indices are not sensitive to sample size detriments. Harington (2009), however, suggests that comparative fit indices evaluate the model fit relative to a more restricted, nested baseline model. Accordingly, in this thesis, Brown's (2006) model evaluation criteria, shown in Table 5.14 below, are adopted in reporting the model fit indices.

Table 5.14: Benchmark SEM Fit Indices for the Study

| Goodness of fit indices | Level of Acceptance | Description |
|---|---|---|
| **Absolute fit indices** | | |
| GFI | ≥.90 | Values close to 1 signify a perfect model fit |
| RMSEA | .05-.08 | Values lower than this signify a perfect model fit |
| **Incremental Fit indices** | | |
| NFI | ≥.90 | Values close to 1 signify a perfect model fit |
| IFI | ≥.90 | Values close to 1 signify a perfect model fit |
| TLI | ≥.90 | Values close to 1 signify a perfect model fit |
| CFI | ≥.90 | Values close to 1 signify a perfect model fit |
| **Parsimonious Fit indices** | | |
| CMIN/DF | Lower limit is 1.0, upper limit is 3.0 | |

***Source: (Brown, 2006; Hailu, 2015)***

## 5.10 Measurement model

### 5.10.1 CFA measurement model for power, trust and corporate tax compliance

Two constructs were used to measure power of authorities -audit probability and detection (5 items), and sanctions (4 items) -consisting of 9 observed variables in total. The trust dimension was measured by 3 indicators and the power dimension by three questions. Fairness was measured using two latent variables; procedural fairness (with 3 indicators) and distributive fairness (with 4 measured variables). Two latent constructs, voluntary compliance and enforced compliance, were used as the measures of corporate tax compliance, each with 5 observed variables respectively. The initial measurement model did not provide a good fit when assessed under CFA. Thus, it was respecified, with some error terms of observed variables being made to co-vary in order to achieve model fit. Firstly, the researcher co-varied error terms for measured variables of voluntary compliance: e26 co-varied with e27, e27 with e30, e28 with e29 and e29 co-varied with e30. Secondly, e34 and e35, relating to enforced compliance observed variables, were co-varied, and e50 with e53, for sanctions measured variables, were co-varied. Lastly, I co-varied e54 and e55, and e55 with e58 respectively. This re-specification improved the model to fit the data. Table 5.15 (from Appendix X) presents the results of the respecified measurement model along with those of the first model. Briefly, the model fit indices for the respecified model were; Chi-Square ($\chi 2$) = 722.382, Degrees of Freedom (DF) = 459, Chi-Square ($\chi 2$)/df = 1.574, Probability $p < .001$, GFI= .897, Normed Fit Index (NFI) =

.938, Incremental Fit Index (IFI) = .976, Tucker-Lewis Index (TLI) = .973, Comparative Fit Index (CFI) = .976, and Root Mean Square Error of Approximation (RMSEA) = .039.

Considering that the model effectively fitted the data due to the respecification procedure, all factor loadings have positive values and the correlation between the underlying factors was less than .85, no further modification was necessary, providing unidimensional scales for all constructs.

Table 5.15: Summary of Initial and Final Standardised Regression Loading – Fairness, Power and Tax Compliance

| **Questionnaire Item** | **Item Wording** (Conversion exchange rate: £1 = UGX 4,164.505) | **Initial Loading** | **Final Loading** |
|---|---|---|---|
| **Sanctions** | | | |
| SA_7 | The level of punishments by the URA for not complying with the law is very high. | .607 | .608 |
| SA_6 | At times, the URA closes down some companies for failure to fulfil corporate income tax requirements. | .751 | .751 |
| SA_3 | Late payment of corporate tax means we have to pay higher interest on that amount of tax. | .804 | .806 |
| SA_1 | The tax fines imposed for not complying with the corporate tax law are high for our company. | .859 | .861 |
| **Audit probability & detection** | | | |
| AP_6 | Unaudited companies may comply if they become aware that others have been subjected to audits. | .644 | .643 |
| AP_5 | Most corporate tax returns audited by the URA would be found to be erroneous, with less income declared. | .753 | .754 |
| AP_4 | Largely, corporate income tax returns from2014 and 2015 would be audited by the URA. | .694 | .676 |
| AP_2 | If audited, how likely is it that the deduction of UGX 3,500,000 would be disallowed? | .749 | .753 |
| AP_1 | If Mr. Mudasi deducts UGX 3,500,000 in van expenses, how likely is it that the URA would audit the company? | .722 | .786 |
| **Procedural fairness** | | | |
| PRF_3 | The administration of the corporate tax system by the URA is fair and consistent for all corporate taxpayers. | .910 | 911 |
| PRF_2 | The administration of the corporate tax system by the URA is fair and consistent over the years. | .956 | .955 |
| PRF_1 | There are a number of ways available to the company to correct errors in the calculation of corporate tax liability, if necessary, at no additional cost. | .861 | .861 |
| **Power dimension** | | | |
| PA_3 | We believe the URA has the power to ensure corporate SMEs comply with corporate tax law. | .868 | .869 |
| PA_2 | Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third party information reports in a systematic way | .897 | .894 |
| PA_1 | The Uganda Revenue Authority has extensive means by which to force corporations to be honest about income tax. | .891 | .893 |
| **Distributive fairness** | | | |
| DF_3 | I think the government spends too much tax revenue on unnecessary welfare assistance (*Reversed*). | .919 | .919 |
| DF_4 | We receive fair value of services from the government in return for corporate tax paid. | .931 | .931 |
| | | .918 | .918 |
| DF_1 | I believe the government utilises a realistic amount of tax revenue to achieve social | .888 | .887 |

| | | | |
|---|---|---|---|
| | goals. | | |
| DF_6 | We pay high corporate taxes when compared to the services we get from the government (*Reversed*). | .915 | .916 |
| **Trust dimension** | | | |
| TRA_3 | We the trust URA and government when dealing with them on corporate tax matters. | .887 | .887 |
| TRA_2 | The Uganda Revenue Authority treats us respectfully in our dealings with them. | .923 | .923 |
| TRA_1 | The Uganda Revenue Authority treats me fairly in my dealings with them. | .890 | .890 |
| **Voluntary compliance** | | | |
| VC_1 | Company pays corporate taxes as required by regulation because it's clear that is what we have to do. | .926 | .926 |
| VC_2 | Company pays because of the need to support the state and society. | .965 | .965 |
| VC_3 | Company pays because we like to make a contribution for everyone's good. | .911 | .911 |
| VC_4 | Company pays according to the regulations because, for us, it's the natural thing to do. | .803 | .803 |
| VC_5 | Company pays as required by regulation as we regard it as our responsibility as citizens. | .847 | .847 |
| **Enforced compliance** | | | |
| EC_1 | We pay corporate tax because of the large number of tax checks carried out by URA. | .913 | .913 |
| EC_2 | Company pays corporate tax because the URA often carries out checks. | .902 | .902 |
| EC_3 | We pay because we know the company will be audited. | .894 | .894 |
| EC_4 | We follow the regulations when paying corporate tax because the punishments for tax evasion are severe. | .843 | .843 |
| EC_5 | We pay corporate taxes because we do not know exactly how to evade them without attracting attention. | .835 | .835 |
| | Achieved Fit Indices | | |
| Initial Fit Indices | Chi-square = 1527.313, DF = 850, Chi-Square (χ2)/df = 1.797, $p < .001$, GFI=.843, NFI=.888, IFI=.947, TLI=.941, CFI=.947, RMSEA=.045. | | |
| Final Fit Indices | Chi-square (χ2) = 722.382, DF = 459, Chi-Square (χ2)/df = 1.574, $p < .001$, GFI= .897, NFI = .938, IFI = .976, TLI = .973, CFI = .976, RMSEA = .039. | | |

### 5.10.2 CFA measurement model for social norms and corporate tax compliance behaviour

Social norms were measured using four different constructs, i.e. descriptive norms, injunctive norms, subjective norms and personal norms, with 17 indicators. Corporate tax compliance behaviour was measured with four factors, namely voluntary compliance, enforced compliance, tax avoidance and tax evasion, with 21 indicators in total. When subjected to CFA, the first measurement model did not provide a good fit. Consequently, one item with a low loading was excluded from the model. In addition, the model was respecified, co-varying e26 with e27, e27 with e30, e28 with e29 and e29 and e30 for voluntary compliance, and e34 and e35 for enforced compliance (see Table 5.16 and Appendix XI) in order to achieve model fit. The results of the initial model are presented in the table below. After excluding the items with low loadings, a good model fit was achieved with the observed data. The results of the modified model, which are presented alongside the results of the initial model in Table 5.16 below, demonstrated an adequate fit to the data with the following model fit indices: Chi-Square ($\chi2$)/df = 1.658, Probability $p < .001$, GFI= .902, Normed Fit Index (NFI) = .937, Incremental Fit Index (IFI) = .974, Tucker-Lewis Index (TLI) = .970, Comparative Fit Index (CFI) = .974, and Root Mean Square Error of Approximation (RMSEA) = .041.

Since the model successfully fitted the data in the course of the item-deletion process for low factor loading items (see Item TA _3) and respecification, all factor loadings have positive values and the correlation between the underlying factors was less than .85, no further modification was necessary, providing unidimensional scales for all constructs.

Table 5.16: Summary of Initial and Final Standardised Regression Loading – Social Norms and Tax Compliance Behaviour

| **Questionnaire Item** | **Item Wording** (Conversion exchange rate: £1 = UGX 4,164.505) | **Initial Loading** | **Final Loading** |
|---|---|---|---|
| **Personal norm** | | | |
| PN_1 | I feel the moral obligation to be completely honest in tax declaration. | .887 | .887 |
| PN_2 | I think it's acceptable to overstate corporate deductions (*reversed*). | .934 | .933 |
| PN_3 | I would feel guilty if I took additional UGX 3,500,000 as a tax deduction. | .869 | .869 |
| PN_4 | I would feel ashamed if I took the additional UGX 3,500,000 deduction. | .801 | .800 |
| PN_4 | I would feel ashamed if I took the additional UGX 3,500,000 deduction. | .800 | .800 |
| **Injunctive norm** | | | |
| IN_1 | Corporate owners would feel guilty for taking the additional UGX 3,500,000 deduction. | .887 | .887 |
| IN_2 | Corporate owners would feel ashamed to take additional UGX 3,500,000 deduction. | .780 | .780 |
| IN_3 | Corporate owners would be scared of being caught if they took the additional UGX 3,500,000 deduction. | .635 | .635 |
| **Descriptive norm** | | | |
| DN_1 | Given the opportunity, my company would take the additional UGX 3,500,000 deduction, like others have (*reversed*). | .789 | .789 |
| DN_2 | My company would take the portion of the additional UGX 3,500,000 deduction closest to that deducted by others (*reversed*). | .724 | .724 |
| DN_3 | A high percentage of them would deliberately pay less corporate taxes than they legally owe (*reversed*). | .712 | .711 |
| DN_4 | A large percentage of them would inaccurately, but unknowingly, pay less corporate taxes than they legally owe (*reversed*). | .625 | .625 |
| **Subjective norms** | | | |
| SN_1 | Peers, friends, family members and corporate staff would think that our company should not declare the extra UGX 10,000,000 profit. (*reversed*) | .876 | .876 |
| SN_2 | Peers, friends, family members and corporate staff would think that our company should declare the extra UGX 10,000,000 profit. | .881 | .881 |

| | | | |
|---|---|---|---|
| SN_3 | Peers, friends, family members and corporate staff would approve of our decision to understate our income by UGX 10,000,000 profit (*reversed*). | .898 | .899 |
| SN_4 | Peers, friends, family members and corporate staff would disapprove of the idea of not including UGX 10,000,000 profit. | .846 | .846 |
| **Voluntary compliance** | | | |
| VC_1 | Company pays corporate taxes as required by regulation because it's clear that is what we have to do. | .923 | .923 |
| VC_2 | Company pays because of the need to support the state and society. | .962 | .961 |
| VC_3 | Company pays because we like to make a contribution for everyone's good. | .915 | .915 |
| VC_4 | Company pays according to the regulations because, for us, it's the natural thing to do. | .806 | .806 |
| VC_5 | Company pays as required by regulation as we regard it as our responsibility as citizens. | .846 | .846 |
| **Enforced compliance** | | | |
| EC_1 | We pay corporate tax because of the large number of tax checks carried out by the URA. | .907 | .910 |
| EC_2 | Company pays corporate tax because the URA often carries out checks. | .902 | .904 |
| EC_3 | We pay because we know the company will be audited. | .893 | .895 |
| EC_4 | We follow the regulations when paying corporate tax because the punishments for tax evasion are severe. | .852 | .843 |
| EC_5 | We pay corporate taxes because we do not know exactly how to evade them without attracting attention. | .845 | .835 |
| **Tax avoidance** | | | |
| TA_1 | The tax system has many loopholes that can help us to avoid corporate taxes. | .922 | .940 |
| TA_2 | The person who prepares my tax return finds innovative ways to reduce corporate taxes. | .930 | .913 |
| TA_3 | I can always employ the services of tax advisors as they can legally save large sums of corporate tax. | .367 | *Deleted* |
| **Tax evasion** | | | |
| TE_1 | Not declaring an extra source of income in your corporate tax return and saving UGX 3,000,000 is a serious crime *(Reversed).* | .917 | .919 |
| TE_2 | Deducting an expense not actually incurred on your corporate tax return and thus saving UGX 3,000,000 can be a serious crime *(Reversed).* | .949 | .949 |
| TE_3 | Making cash payments to a carpenter who fixed wardrobes at your residence and thereby saving UGX 3,000,000 may be viewed as a serious crime *(Reversed).* | .919 | .917 |
| | Achieved Fit Indices | | |
| Initial Fit Indices | Chi-Square ($\chi 2$)/df = 2.323, p < .001, GFI=.824, NFI=.863, IFI=.917, TLI=.908, CFI=.917, RMSEA=.059. | | |
| Final Fit Indices | Chi-Square ($\chi 2$)/df = 1.658, p < .001, GFI= .902, NFI=.937, IFI=.974, TLI=.970, CFI=.974, RMSEA=.041. | | |

### 5.10.3 Overall model results for the measurement models

The overall model results for the SSF, Social Norms and tax compliance behaviour from the Confirmatory Factor Analysis are presented against the acceptable levels, as recommended by Brown (2006), in Table 5.17.

Table 5.17: Summary of Confirmatory Factor Analysis - Overall Models

| **Goodness of fit indices** | Level of acceptance *(Brown, 2006)* | Fairness, power & tax compliance | Social norms & compliance behaviour |
|---|---|---|---|
| GFI | .90 or greater | .897 | .902 |
| RAMSEA | .05-.08 | .039 | .041 |
| **Incremental fit indices** | | | |
| NFI | .90 or greater | 938 | .937 |
| IFI | .90 or greater | .976 | .974 |
| TLI | .90 or greater | .973 | .970 |
| CFI | .90 or greater | .976 | .974 |
| **Parsimonious fit indices** | | | |
| CMIN/DF | Minimum value is 1.0<br>Maximum value is 3.0 | 1.574 | 1.658 |

The structural presentation of the fairness, power and tax compliance behavioural measurement model and the social norms and tax compliance behavioural measurement model can be inspected on Appendix X and Appendix XI of this thesis.

### 5.10.4 Construct Reliability (CR)

Construct reliability is a measure of the internal consistency of the constructs under study and is computed from the sum of factor loadings (λi) squared for each construct and the sum of the error variance terms for a construct (δi) using the following formula:

Construct reliability = the sum of the standardised loading squared/ (the sum of the standardised loadings squared + the sum of error variance-delta).

$$CR = \frac{(\sum_{i=1}^{n} \lambda_i)^2}{(\sum_{i=1}^{n} \lambda_i)^2 + (\sum_{i=1}^{n} \delta_i)}$$

As a rule of thumb, CR is achieved when the calculated values for constructs are greater or equal to .70, though they can be as low as .60. The data suggest that each construct had a CR greater than .70. This reflects good construct reliability for internal consistency within each construct and the overall data collection instrument for the two models under study. Adequacy of composite or construct reliability (CR) was achieved, since the calculated values were greater than .70, as can be seen below, in Table 5.18.

Table 5.18: Composite Reliability (CR)

| **Construct** | **Composite Reliability (CR)** |
|---|---|
| Sanctions | 0.845 |
| Audit probability and detection | 0.846 |
| Power dimension | 0.916 |
| Procedural fairness | 0.935 |
| Distributive fairness | 0.953 |
| Trust dimension | 0.928 |
| Voluntary compliance | 0.951 |
| Enforced compliance | 0.944 |
| Tax avoidance | 0.924 |
| Tax evasion | 0.949 |
| Personal norms | 0.928 |
| Injunctive norms | 0.815 |
| Descriptive norms | 0.806 |
| Subjective norms | 0.929 |

## 5.11 Validity tests

Measuring and reporting content validity of a data collection instrument is vital to giving readers and researchers' confidence, as it can ensure construct validity. Construct validity can be drawn on to measure the appropriate sampling of the main content of the questionnaire. Though the adopted measures have been used elsewhere and were found to be highly valid and reliable, modifications were made to suit the study context meaning that we had to further test them for reliability and validity in the Ugandan context. The results of the construct validity tests are examined in the next two chapters.

### 5.11.1 Construct validity

Construct validity refers to the extent to which the operationalisation of a construct measures the content consistently with the assertions of the theory. Researchers establish construct validity by presenting correlations between a measure of a construct and a number of other measures that should, theoretically, either be associated with it (convergent validity) or vary independently of it (discriminate validity) (Westen et.al., 2003). Construct validity was examined through convergent and discriminant validity tests using Confirmatory Factor Analysis (CFA).

Construct validity was tested through the achievement of the measurement model fit indices, while convergent and discriminant validity were tested by means of CFA.

#### 5.11.1.1 Convergent validity

Convergent validity confirmed homogeneity of the indicators within the same construct and discriminant validity showed heterogeneity between different constructs. Previously validated constructs and measurement items were used to ensure convergent validity, though with modifications to suit the research context and existing theory, and same construct inter item correlations (Average Variance Extracted - AVE) were inspected to identify their levels of correlation. Hence, convergent validity was checked through the assessment the standardised construct loadings of indicators and all indicator standardised factor loadings were greater than .50, which was adequate. Hair et al. (2010) recommend factor loadings above .30. The Goodness of Fit Index (GFI) and Normed Fit Index (NFI) for both models were equal or greater that .90 (see Table 5.17 above) which meant that the values for every construct in this chapter had good convergent validity. Table 5.19 (below) presents the details of the convergent validity and construct reliability for this part of the thesis.

Table 5.19: Convergent Validity (AVE)

| **Construct** | **Average Variance Extracted (AVE)** |
|---|---|
| Sanctions | 0.581 |
| Audit probability and detection | 0.525 |
| Power dimension | 0.783 |
| Procedural fairness | 0.828 |
| Distributive fairness | 0.836 |
| Trust dimension | 0.810 |
| Voluntary compliance | 0.796 |
| Enforced compliance | 0.771 |
| Tax avoidance | 0.859 |
| Tax evasion | 0.862 |
| Personal norms | 0.763 |
| Injunctive norms | 0.767 |
| Descriptive norms | 0.712 |
| Subjective norms | 0.767 |

### 5.11.1.2 Discriminant validity

Venkatraman and Grant (1986) define discriminant validity as the degree to which measures of different constructs are distinct. Hence, discriminant validity means that if two constructs are unique, high correlations between their valid measures should not exist. Hair et al. (2010) indicate that no correlation coefficient should exceed the construct's composite reliability in establishing discriminant validity. Also, the square root values of the Average Variance Extracted (AVE) should be higher than the correlation coefficients (r) between the constructs to confirm discriminant validity (Bagozzi & Yi, 1988).

As highlighted, discriminant validity was assessed by inspecting correlations between indicators and their respective constructs. High correlation between indicators and their constructs but low correlation with other latent factors would be a good pointer to discriminant validity. Discriminant validity for the measurement items was therefore assessed by comparing correlation coefficients and the square root values of the Average Variance Extracted (AVE) (Rosid, Evans & Tran-Nam, 2016) for both the SSF and the Social Norms models. I compared the AVE with the square of the correlations representing the shared variance between constructs and all of the variance extracted estimates (AVE) were higher than the square of the correlations between the latent constructs (Fornell & Larker, 1981). Either way, the AVE and the square root values of AVE were higher. Hence, Bagozzi & Yi (1988) argue that attainment of discriminant validity means that suitable measures of two discrete latent variables should have low correlations and the data suggests this. The computed square root of the AVE shown on the diagonal (see Tables 5.20 and 5.21) were greater than the construct correlations and all of the measures of all AVEs were also over and above the square of the correlations, hence I concluded that there was constructs discriminant validity.

Table 5.20: Discriminant Validity Index Summary—Correlations for SSF Model

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| Enforced compliance (1) | **.921** | | | | | | | |
| Voluntary compliance (2) | .376** | **.892** | | | | | | |
| Trust dimension (3) | -.096 | -.006 | **.900** | | | | | |
| Power dimension (4) | .032 | .205** | .415** | **.885** | | | | |
| Audit probability (5) | -.074 | -.034 | .416** | .423** | **.724** | | | |
| Sanctions (6) | .278** | .113* | .010 | .085 | .134** | **.762** | | |
| Procedural fairness (7) | -.194** | -.182** | .547** | .288** | .390** | -.098 | **.910** | |
| Distributive fairness (8) | -.194** | -.171** | .378** | .137** | .290** | -.068 | .485** | **.914** |

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The discriminant validity index summary for the social norms model in Table 5.21 also shows that the computed square root values of the AVE shown on the diagonal were greater than the construct correlations, and all of the measures of all AVEs were also over and above the square of the correlations, hence I concluded that there was constructs discriminant validity.

Table 5.21: Discriminant Validity Index Summary – Correlations for the Social Norms Model

| | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* |
|---|---|---|---|---|---|---|---|---|
| Tax Evasion (1) | **.928** | | | | | | | |
| Tax Avoidance (2) | .027 | **.927** | | | | | | |
| Enforced Compliance (3) | -.088 | .334** | **.878** | | | | | |
| Voluntary Compliance(4) | .003 | .049 | .376** | **.840** | | | | |
| Subjective Norms (5) | .065 | .192** | .062 | .017 | **.876** | | | |
| Descriptive Norms (6) | .211** | .209** | .482** | .197** | .120* | **.844** | | |
| Injunctive Norms (7) | .037 | .194** | -.008 | .065 | .542** | .111* | **.876** | |
| Personal Norms (8) | -.046 | .010 | .056 | .184** | .410** | .090 | .320** | **.874** |

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

### 5.12 Model testing

Two structural models were specified in order to consider both the direct and indirect relationships that exist between latent constructs. All feasible exogenous constructs were made to co-vary in the specified structural models so as to attain the parsimonious fit involving the data and the theoretical model. To ensure appropriate testing of the study hypotheses, two regression models were specified to follow the structure below:

$$\sum Y1_i = \beta_0+\beta_1X_{i1}+ \beta_2X_{i2}+ \beta_3X_{i3}+......+\sum_i$$

Where, for instance, the model for social norms constructs and tax compliance behaviour constructs was represented as below,

$Y1_i$= corporate tax compliance behaviour for $i^{th}$ corporate SME

$\beta_0$= the outcome given the absence of any other predictor in the model

$\beta_1$= coefficient of descriptive norms

$\beta_2$= coefficient of injunctive norms

$B_3$= coefficient of subjective norms

$B_{4=}$ coefficient of personal norms;

$X_{i1}$= descriptive norms score for $i^{th}$ small or medium-sized firm

$X_{i2}$= injunctive norms outcome for $i^{th}$ SME

$X_{i3}$= subjective norms outcome for $i^{th}$ corporate SME taxpayer

$X_{i4}$= personal norms score for $i^{th}$ corporate SME taxpayer

and e= random error term for the $i^{th}$ SME.

The researcher assessed the model's fit indices alongside the Critical Ratio (C.R.) for the parameter estimates' statistical significance. In this study, the probability level used was 0.05 and so, to reject the hypothesis, the test statistic must be < ± 1.96. Chapters 6 and 7 present the results of the inferential analysis.

### 5.13 Inferential statistics

While descriptive statistics are used in the study to demonstrate data characteristics, inferential statistics are used to make deductions about the population from sample data. The inferential statistics employed in this study to support deductions are zero-order correlations and standard regression in Structural Equation Modelling. Chapters 6 and 7 present the results.

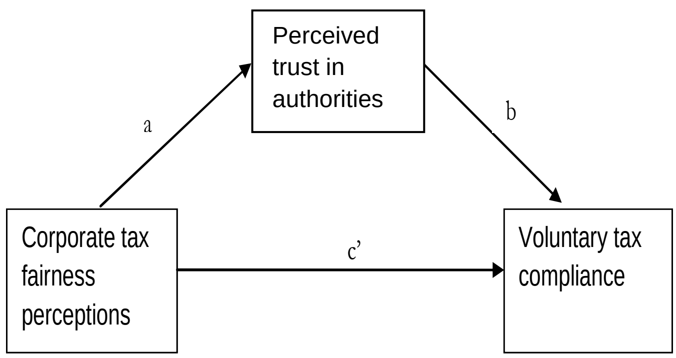
### 5.14 Mediation tests

Some of the most highly cited journal articles in about methodology (Baron & Kenny, 1986; Mackinnon, Lockwood, Hoffman & West, 2002; Preacher & Hayes, 2004, 2008a) discuss mediation analysis and the various statistical approaches to quantifying and testing hypotheses about direct and indirect effects of variables in models. Baron and Kenny (1986), for example, consider the presence of mediation when the relation between the predictor and the criterion variables is accounted for by the third variable. Baron & Kenny (1986; P.1176) argue that while moderator variables specify when certain effects will hold, mediators show how or why such effects arise. In testing for mediating variables, a four-step approach is normally used. Nonetheless, this method has recently been criticised for its reliance on the assumption that mediation effects are normally distributed and its low statistical power when compared to other methods (MacKinnon, Lockwood, Hoffman, West, & Sheets, 2002, p.83; Frazier, Tix, & Barron, 2004, p.118). The alternative to the long-established Baron–Kenny–Sobel technique is the bootstrap process suggested by Shrout & Bolger (2002), Frazier, et al. (2004), and Mallinckrodt, Abraham, Wei & Russell (2006). Using SEM, this study adopted the same method to determine the significance of mediation effects. Mallinckrodt et al. (2006, p.372) argue that under the bootstrap procedure, empirical sampling distribution of direct effect is generated by a re-sampling procedure on the available data.

To assess for mediation effects in this study, the researcher first had to establish whether some sort of mediation existed and then measure the strength of the mediation effects. Therefore, Mallinckrodt et al.'s (2006) four-step procedure was followed in order to carry out the bootstrap testing technique using the graphical interface of Amos 23, as it directly generates bootstrapped percentile and bias-corrected confidence intervals for indirect effects. The starting point was to draw three-variable path diagrams, including error terms for the endogenous mediators (trust in authorities and perceived power of authorities) and dependent variables (voluntary tax compliance and enforced tax compliance). Next, the bootstrap option was selected from the View/Set menu in the Analysis Properties submenu. A total of 5,000 bootstrap samples were drawn with replacement from the full data set of 386 cases.

Subsequently, instead of using the Amos 23 default 90% confidence interval provided, I requested 95% confidence intervals, as recommended for better results. From the Output submenu only bias-corrected intervals was selected and then requested for bootstrap estimates of indirect, direct, and total effects. Bootstrapped estimates of the a, b, and c path coefficients are presented in Chapters 6 and 7. Note that these values are essentially 'means of means' (B) and mean standard errors based on the 5,000 empirical samples. When comparing the regression method and the bootstrapping approach, Mallinckrodt et al. (2006) find only slightly different outputs from the results of the regression analyses. In this study, the researcher concentrated on the bootstrapping method, as it offers joint mediation conditions in one process.

Figure 5.1: Testing for Mediation




*Source: Mallinckrodt et al. (2006)*

The main study-specific objectives and hypotheses that guided the statistical tests are summarised in Table 5.22 (below).

Table 5.22: Study Objectives, Hypotheses and Statistical Tests Drawn On.

| Research objectives | Research hypotheses | Statistical test |
|---|---|---|
| **Model 1: Power of and trust in authorities – Discussed in Chapter 6** | | |
| 1. To establish the relationship between perceived tax fairness and perceptions of trust in authorities. | **Hypothesis $H_1$(a):** Tax fairness positively influences perceptions of trust in authorities. | **SEM** |
| 2. To investigate the relationship between perceived trust in authorities and voluntary compliance. | **Hypothesis $H_2$(a):** Voluntary compliance and trust in authorities are positively related. | **SEM** |
| 3. To ascertain the relationship between tax fairness perceptions and voluntary compliance. | **Hypothesis $H_3$(a):** Tax fairness perceptions will positively predict voluntary compliance. | **SEM** |
| 4. To examine the relationship between power of authorities and perceived power of authorities. | **Hypothesis $H_4$(a):** Power of authorities positively predicts perceived power of authorities. | **SEM** |
| 5. To investigate the relationship between perceptions of power of authorities and enforced compliance. | **Hypothesis $H_5$(a):** Perceptions of power of authorities and enforced compliance are positively related. | **SEM** |
| 6. To explore the relationship between power of authorities and enforced compliance. | **Hypothesis $H_6$(a):** Power of authorities positively influences enforced compliance behaviour. | **SEM** |
| 7. To examine the association between perceptions of power of authorities and perceived trust in authorities. | **Hypothesis $H_7$(a):** Perceptions of power will positively influence perceived trust in authorities. | **SEM** |
| 8. To ascertain the relationship between perceived power of authorities and voluntary compliance. | **Hypothesis $H_8$(a):** Perceived power of authorities positively influences voluntary compliance. | **SEM** |
| 9. To establish the relationship between the fairness of the corporate tax system and enforced compliance. | **Hypothesis $H_9$(a):**The fairness of the corporate tax system will negatively affect enforced compliance. | **SEM** |
| 10. To investigate the relationship between corporate tax system fairness and perceptions of power of authorities. | **Hypothesis $H_{10}$(a):** Corporate tax system fairness is positively related to perceptions of power of authorities. | **SEM** |
| 11. To examine the mediation effects of trust in authorities on the association between fairness and voluntary compliance. | **Hypothesis $H_{11}$(a):** Trust in authorities positively mediates the relationship between fairness and voluntary compliance. | **SEM with bootstrap** |
| 12. To establish the mediating effect of perceived power of authorities in the relationship between power of authorities and enforced compliance. | **Hypothesis $H_{12}$(a):** Perceived power of authorities positively mediates the relationship between power of authorities and enforced compliance. | **SEM with bootstrap** |
| **Model 2: Social Norms and tax (non)compliance behaviour – Discussed in Chapter 7** | | |

| | | |
|---|---|---|
| 1.To investigate the relationship between descriptive norms and injunctive norms, subjective norms and personal norms towards compliance behaviour. | **$H_1$ (a):** Corporate SMEs' descriptive norms towards tax (non)compliance behaviour will predict their injunctive, subjective and personal norms towards corporate tax compliance behaviour. | **SEM** |
| 2. To investigate the relationship between Injunctive norms, subjective norms and personal norms towards corporate tax (non)compliance behaviour. | **$H_2$ (a):** Corporate SMEs' injunctive norms towards tax (non)compliance behaviour will predict their subjective and personal norms towards corporate tax (non)compliance behaviour. | **SEM** |
| 3. To investigate the relationship between corporate SMEs' subjective norms towards tax (non)compliance behaviour and their personal norms towards corporate tax (non)compliance behaviour. | **$H_3$ (a):** Corporate SMEs' subjective norms towards tax (non)compliance behaviour will influence their personal norms towards corporate tax (non)compliance behaviour. | **SEM** |
| 4.To establish the extent to which corporate SMEs' personal norms will directly predict their tax (non)compliance choices; the association between tax (non)compliance behaviour and subjective norms, injunctive norms and descriptive norms will only be indirect (through personal norms). | **$H_4$ (a):**Corporate SMEs' personal norms toward tax (non)compliance behaviour will directly predict their tax (non)compliance choices; the association between tax (non)compliance behaviour and subjective norms, injunctive norms and descriptive norms will only be indirect (through personal norms). | **SEM with Bootstrap** |
| 5. To investigate the direct relationships between corporate SMEs' personal norms, subjective norms, injunctive norms and descriptive norms, and their tax (non)compliance behaviour choices. | **$H_5$ (a):**Corporate SMEs' personal norms, subjective norms, injunctive norms and descriptive norms towards tax (non)compliance behaviour will directly predict their tax (non)compliance choices. | **SEM** |

### 5.15 Semi-structured interviews

According to Saunders et al. (2009), interview strategies are associated with both positivist and interpretivist methodologies. Thus, the researcher conducted interviews due to the explanatory nature of this study. The researcher sought and obtained consent from the SME corporations using purposive sampling, targeting the survey respondents first. The interviews were intended to extract information about relevant constructs, as guided by the theories in the study, which were associated with SMEs corporate income tax in Uganda, and to be flexible, so as not to interrupt the conversation so other determinants of tax compliance in this country could be captured.

### 5.15.1 Qualitative evidence

This study sought to understand the perceptions of the multifaceted subject of corruption among the main players in the tax system (Tanzi, 2017). As such, the researcher placed more emphasis on obtaining an in-depth understanding of how corruption is perceived by corporate SME taxpayers and the likely consequences of perceptions of corporate tax system fairness. Creswell (2013) recommends the use of qualitative methods if a study seeks out a thorough understanding of an intricate dilemma. The role of corruption in tax evasion appears to be complex and is not well understood, which suggests that a qualitative approach should be used for a thorough inquiry. Prior studies on corruption do not seem to employ consistent methodologies. Rosid et al. (2016), for instance, use a combination of qualitative and quantitative methods to study perceptions of corruption on personal income tax, where qualitative data informs the survey instrument.

Olken & Pande (2012), on the other hand, use document review in their study of corruption in developing countries, as do Levin & Satarov (2000).Mawejje (2013) uses a quantitative approach (survey data) to study corruption as one of the determinants of tax evasion in the business environment. Weill (2011) employs a quantitative methodology in the study of how corruption affects bank lending in Russia and Cheloukhine & King (2007) utilise the interview method in their study of corruption networks as a sphere of investment activities in modern Russia. Notwithstanding the contributions that these studies make, none has specifically investigated corruption in relation to corporate SMEs' tax non-compliance behaviour and used interviews to explain gaps in survey data within the same study, or investigated the issue of corruption being unresolved, especially in emerging economies.

Investigations of the theme of corruption in tax evasion might profit from qualitative insights, particularly where such insights are provided by the taxpayers. This motivated the use of qualitative design in this study. An intensive interview approach (Charmaz, 2006, p.25-26) was adopted for this study, since it offers the participants the opportunity to do most of the talking as the interviewer listens. Intensive interviewing permits an in-depth exploration of a particular topic with a person who has had relevant experiences and, accordingly, is a useful method for interpretive inquiry. Given the coverage limitations of qualitative studies, the interviews were conducted with owners and managers of corporate, taxpaying SMEs within Uganda's Kampala Capital City Authority (KCCA), central and eastern regions.

### 5.15.2 Instrument

The data collection instrument in this study was a semi-structured interview guide. All participants were presented with a standard question (‘In your opinion, would you consider the corporate tax system fair of unfair?’), which formed the main data collection tool, with follow-up questions being based on their responses. Clarification of some responses was sought and follow-up questions were asked. To guarantee openness in the whole conversation, the researcher embraced an informal interview environment. During the interview process, the interviewer avoided fault-finding and asking leading follow-up questions. As an interviewer, the researcher spent a bigger portion of the interview session as a participant listener and only sought clarifications where considered necessary. Details of the semi-structured interview guide are attached as Appendix V.

### 5.15.3 Procedure for qualitative data collection

#### 5.15.3.1 Recruitment

Participants were recruited through a purposive sampling procedure from the identified corporate SMEs. Introductory letters (Appendix VI and VIII), consent forms (Appendix VII) and brief demographic questionnaires (Appendix IV) were then distributed to 60 corporate SMEs within the Kampala Capital City Authority (KCCA), central and eastern regions, targeting the owners, manger or their representatives. The introductory letters introduced the researcher, confirmed the research objectives to the participants, assured them of their anonymity and said that, if uncomfortable with any aspect of the interview, they could choose to withdraw at any stage. The demographic questionnaires attached to the introductory letters were designed to collect data in terms of: location; type of business; size of business, as represented by the number of employees, turnover and capital; age; and gender. These characteristics guided the final selection of the participants. Only 32 completed forms were returned, giving a response rate of 53 percent.

#### 5.15.3.2 The interview

The whole interview process was conducted within a space of four months, starting from the month of November 2016 to February 2017. Specifically, in total, 21 days were used to collect data, as was determined by the appointments made by the interviewees from the Kampala Capital City Authority (KCCA), central and eastern regions. Only the 10 face-to-face interviews were conducted at the participants’ corporate SME offices; the rest of the interviewees (16) made appointments for telephone interviews and were consequently interviewed by phone. Actual interviews took between 35 to 78 minutes, as discussions rolled into other corporate and non-corporate tax issues in some instances.

This was a planned move to encourage lively discussions, create rapport with participants, and elicit more views and opinions from them. Only 26 out of the 32 scheduled interviews were carried out. Based on Creswell's (2013) recommendation, the procedure was terminated at the point when it became evident that a saturation point had been attained.

One major and standard question ('In your opinion, would you consider the corporate tax system fair or unfair with regard to service delivery and procedural justice?') was used to elicit views from all participants with regard to the fairness of the corporate tax system in place. The interviews were transcribed and four organising themes (see details in Section 8.2) were extracted from the basic themes identified at the initial stage of data analysis, then organising themes at the second level, and corporate tax system unfairness was identified as the global theme arising from four organising themes of perceived corruption. Specifically, general corruption was identified as one of the key sources of corporate tax system unfairness, mainly affecting service delivery at grassroots level and being perpetrated by the lower and middle level government officers through bribery and embezzlement of public funds. The second source of tax system unfairness that was recognised was petty tax corruption. This type refers to dishonesty activities that were viewed as detrimental to procedural justice within the tax body. Participants perceived that tax officers were not only directly asking for bribes, but also supporting some businesses to avoid and evade corporate taxes if those firms were owned by people from western Uganda.

Political corruption was also seen as influential in respect of the way the tax code was being applied. The political elite were seen as being favoured and their businesses were not paying corporate taxes, while the corrupt and politically connected were being promoted to higher ranks. Lastly, grand corruption was perceptible, demonstrating high-level government officers' involvement in direct embezzlement and the misappropriation of public funds, as well as diversion of public funds in disguised self-interested investment transactions within banks.

### 5.15.4 Qualitative data analysis

Validity and reliability of data was guaranteed by the researcher checking on participants' statements in line with Creswell (2013) and Creswell & Poth (2018). This was done during the interview process, in contrast to the custom in which researchers go back to participants to validate the accuracy and credibility of the transcribed data. This was to prevent logistical problems from arising with regard to making repeat appointments for member checking. The researcher employed thematic network analysis in line with Attride-Stirling (2001) to analyse the interview transcripts.

Data collected from interviews may be analysed using thematic analysis, a method that identifies, analyses and reports patterns within data. Thematic analysis is usually performed in a six stage (Braun & Clarke, 2006) step-by-step guide. Details of the phases are as follows:

i) Data familiarisation, which involves transcribing data, reading and re-reading data, and noting down initial ideas.
ii) Initial code generation which entails coding interesting features of the data in a systematic fashion across the entire data set and collating data relevant to each code.
iii) Searching for themes, which involve arranging collated codes into potential themes and gathering all data relevant to each potential theme.
iv) Reviewing of themes, where the researcher checks if the themes work in relation to the coded extracts in phase one and the entire data set in phase two, and generates a thematic map of the analysis.
v) Defining and naming themes. This involves ongoing analysis to refine the specifics of each theme and the overall story told by the analysis, and the generation of clear definitions and names for each theme.
vi) The final opportunity for analysis is the production of the report. This involves selecting vivid, compelling extract examples, carrying out the final analysis of selected extracts, relating the analysis back to the research question and literature, and producing a scholarly report of the analysis (Braun & Clarke, 2006, p.87).

Some advantages of thematic analysis suggested by Braun & Clarke (2006) include:

i) The flexibility of method, which makes it possible to have a broad range of analytic options;
ii) The results may be accessible to the educated general public;
iii) It provides opportunities to emphasise differences and similarities across data sets;
iv) It can produce qualitative analyses suitable for informed policy development.

Thematic analyses can also be usefully aided by, and presented as, thematic networks: web-like illustrations (networks) that summarise the main themes constituting a piece of text. Thematic networks, as an analytic tool, draw on core features that are common to many approaches in qualitative analysis. Applying thematic networks is simply a way of organising a thematic analysis of qualitative data. Thematic analyses seek to unearth the salient themes in a text at different levels, and thematic networks aim to facilitate the structuring and depiction of these themes. Clearly, the process of deriving themes from textual data and illustrating these with some representational tool is well established in qualitative research (Attride-Sterling, 2001, p.386). As such, thematic networks analysis is in no way a new method but is one that shares the key features of any hermeneutic analysis. What thematic networks offer is the web-like network as an organising principle and a representational means, and they make the procedures that may be employed in going from text to interpretation explicit.

According to Attride-Sterling (2001), thematic networks are organised in three stages, i.e. arranging the extraction of: the basic themes, which are the lowest-order premises evident in the text data; the organising themes, which are the categories of basic themes grouped together to summarise more abstract principles; and the global themes, which are the superordinate themes summarising the principal descriptions in the entire text data. The different levels of salient themes are then represented as web-like maps, illustrating the relationships between them. The procedure of thematic networks analysis basically provides a technique for breaking up text and finding explicit rationalisations and their inherent meaning within it.

The decision to use thematic network analysis was based on the total sum of the benefits as highlighted by Braun & Clarke (2006) and as provided by Attride-Sterling (2001). Attride-Sterling (2001, p.386) indicates that thematic network analysis is a method that ‘provides practical and effective procedures for conducting an analysis; it enables a methodical systematization of textual data, facilitates the disclosure of each step in the analytic process, aids the organization of an analysis and its presentation, and allows a sensitive, insightful and rich exploration of a text’s overt structures and underlying patterns’.

All the stages involved in the analysis were manually performed by the researcher, starting with the initial code generation. At this stage, the transcribed data was divided into relevant codes by considering sentence–by-sentence that the researcher thought appropriate. This was an easy process as the researcher had familiarised himself with the data during the interview and data transcription processes. Basic themes were then extracted and rearranged as organising themes, which were named according to the depicted nature of corruption: general, petty tax, political and grand forms of corruption. These were the organising themes for the data. The organising themes were then woven around a global theme of corporate tax system unfairness and, thereafter, a report was produced from the analysis. The preliminary analysis using thematic networks by Attride-Stirling (2001) is set out in Appendix II.

### 5.16 Ethical considerations

The study involved human participation. Therefore, the researcher sought approval from the University of Exeter Ethics Committee prior to the distribution of the questionnaires. This approval provided confirmation to the respondents and other stakeholders that the content of the questionnaires conformed to the appropriate ethical standards and cultural values. This approval was mentioned in the covering letter sent to respondents with the questionnaires. As clearly stated in the sampling method, participation in this study was based on willingness. The questionnaire and the introduction letter from the University of Exeter Business School pointed out that this study was purely being conducted for academic purpose and assured the participants of maximum confidentiality, since tax compliance is a sensitive issue. A participants' consent form, which required them to signal their consent before participation, was attached to the questionnaire. No firms' names were revealed in the presentation of the findings.

# Chapter 6

# Application of the Slippery Slope Framework

## 6.1 Introduction

The Slippery Slope Framework for tax compliance by Kirchler (2007) and Kirchler, et al. (2008) provides an opportunity to adapt these perplexing effects of economic and psychological aspects into a single model, where different motivations for paying taxes are identified as voluntary and enforced compliance behaviour (Kogler et al. 2013, p.3). This, therefore, means that the researcher is able to compare different factors that have impacts on the two forms of tax compliance behaviour.

Kirchler et al. (2008) posit that the tax environment in a social order fluctuates on a continuum between an antagonistic and a synergistic climate. This model assumes that in a hostile environment, taxpayers and tax authorities oppose each other in their daily activities, like ‘cops and robbers’. This attitude exists on both sides. Tax authorities perceive taxpayers as ‘robbers’, who try to evade taxes whenever they can and thus need to be held in control. Taxpayers feel victimised by the tax authorities (cops) and feel it’s right to hide (Braithwaite, 2003, p.18). In such an environment, social distance is likely to increase, with little respect for and positive feelings towards the regulatory authorities existing on the part of individuals and groups of taxpayers.

Voluntary compliance is also likely to be on a minimal scale and taxpayers are likely to resort to rationality, evaluating the costs and benefits of evading taxes. In contrast, the synergistic climate is viewed as an environment in which the government is transparent and equitable in the allocation of tax resources, is accountable and provides quality public services. On the other hand, tax authorities perform a service to the community, have a service and client attitude, and are a part of the same community as the taxpayers. Authorities aim to have transparent procedures and to treat taxpayers respectfully and supportively. In this environment, social distance is reduced and perceptions of trust in authorities exist, voluntary compliance is prevalent, and taxpayers contribute their fair share due to a sense of obligation (Kirchler et al. 2008).

As a result of the discussion above, the framework proposes that tax compliance is a result of two foremost measurements, namely the power of tax authorities and the trust that taxpayers have in tax authorities (Kirchler et al. 2008). Power of authorities means taxpayers' perceptions of the potential for tax officers to detect illegal tax evasion through regular and comprehensive tax audits and to punish evasion through sanctioning tax evaders. Since the study focusses on perceptions of power, this dimension is also related to the knowledge and attitudes held by the taxpayers. Trust in authorities, on the other hand, means the general opinion of taxpayers that the government and tax authorities are benevolent and work for the common good (Kirchler et al., 2008; Kogler et al. 2013). Therefore, to test the application of the SSF to the corporate SMEs in Uganda, the thesis considers the following objective:

i) To investigate and model the relationship between corporate tax fairness perceptions, power of and trust in authorities, and tax compliance among corporate SMEs in Uganda.

Consequently, to achieve this objective of the thesis, the hypotheses in Table 6.2 (below) were examined through path analysis. Data analysis and presentation of findings are presented in the following sections of this chapter.

## 6.2 Analysis and presentation of findings

### 6.2.1 Descriptive statistics

The descriptive statistics and bivariate correlations for the Slippery Slope model constructs are presented below, in Table 6.1.

Table 6.1: Descriptive Statistics and Correlation Matrix

| | Mean | S.D | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|
| Enforced compliance (1) | 5.446 | 1.348 | 1 | | | | | | | |
| Voluntary compliance (2) | 5.387 | 1.335 | .376** | 1 | | | | | | |
| Trust dimension (3) | 4.762 | 1.076 | -.096 | -.006 | 1 | | | | | |
| Power dimension (4) | 4.889 | 1.084 | .032 | .205** | .415** | 1 | | | | |
| Audit probability (5) | 4.695 | .970 | -.074 | -.034 | .416** | .423** | 1 | | | |
| Sanctions (6) | 5.114 | .985 | .278** | .113* | .010 | .085 | .134** | 1 | | |
| Procedural fairness (7) | 4.567 | 1.459 | -.194** | -.182** | .547** | .288** | .390** | -.098 | 1 | |
| Distributive fairness (8) | 4.079 | 1.441 | -.194** | -.171** | .378** | .137** | .290** | -.068 | .485** | 1 |

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The means (M) and standard deviation (SD) of the study variables shown in Table 6.1 were spread as follows: procedural fairness (M = 4.57, SD = 1.459), distributive fairness

(M = 4.08, SD = 1.441), perceived trust in authorities (M = 4.76, SD = 1.076), audit probability and detection (M = 4.70, SD = 0.970), sanctions (M = 5.11, SD = 0.985), perceived power of authorities (M = 4.89, SD = 1.084), enforced compliance (M = 5.45, SD = 1.348) and voluntary compliance (M = 5.39, SD = 1.335). The results indicate that corporate SMEs perceived procedural fairness, distributive fairness, trust in authorities, and audit probability and detection to be average. However, taxpayers felt that sanctions are relatively severe reflected in relatively high responses to enforced compliance. Also, SMEs showed that they are motivated to voluntarily comply with the tax law.

The correlations results (Table 6.1) were surprising. They showed significant negative correlations between procedural fairness ($r$ = -0.182, $p \leq 0.01$) and voluntary corporate SMEs' compliance, as well as distributive fairness ($r$ = -0.171, $p \leq 0.01$) and voluntary corporate tax compliance by SMEs. This may be an indication of corporate tax system unfairness or cultural beliefs within the country. In addition, enforced corporate tax compliance negatively correlated with both procedural and distributive fairness ($r$ = -0.194, $p \leq 0.01$), significantly with the same magnitude. This implies that, as the procedural and distributive fairness of a corporate tax system improves, less corporate tax compliance enforcement will be necessary, hence there will be a move to voluntary compliance. There was a significantly positive correlation between enforced compliance and voluntary compliance ($r$ = 0.376, $p \leq 0.01$). The trust dimension had positive and significant relationships with procedural fairness ($r$ = 0.547, $p \leq 0.01$) and distributive fairness ($r$ = 0.378, $p \leq 0.01$) but did not have any significant correlation with either voluntary compliance ($r$ = -0.006, $p \geq 0.05$) or enforced compliance ($r$ = -0.096, $p \geq 0.05$). This means that although trust in authorities can be built by the ways in which the government allocates outcomes and the tax body deals with corporate SME taxpayers, this trust in authorities may not necessarily translate into voluntary compliance or enforced compliance.

Conversely, only one of the two dimensions of power of authorities, audit probability and detection ($r$ = 0.423, $p \leq 0.01$), positively and significantly correlated with the power dimension. Sanctions ($r$ = 0.085, $p \geq 0.05$) did not show any significant correlation with perceived power of authorities, as the Slippery Slope Framework suggests, but significantly correlated with perceived trust in authorities ($r$ = 0.330, $p \leq 0.01$). Surprisingly, perceived power of authorities ($r$ = 0.032, $p \geq 0.05$) did not correlate significantly with enforced compliance, but positively correlated with the trust dimension ($r$ = 0.415, $p \leq 0.01$) and corporate voluntary compliance ($r$ = 0.205, $p \leq 0.01$). Therefore, when taxpayers perceive the authorities to have the power to set and enforce tax rates and conduct effective audits, they are likely to trust such tax authorities, as well as to willingly conform to the requirements by paying their fair share of corporate taxes.

## 6.3 Presentation of structural model results

### 6.3.1 Hypothesis testing

Once a satisfactory measurement model fit was achieved through constructs validation, a structural model was specified to ascertain the relationships among the latent constructs, identifying the existing direct and indirect relationships between latent constructs in the model. The underlying hypotheses that were tested are presented in Table 6.2 (below).

Table 6.2: Hypothesis and Hypothesised Path

| **Study Hypotheses** | **Hypothesised Path** |
|---|---|
| **$H_1$(a):** Tax fairness positively influences perceptions of trust in authorities. | FAIII→TRU |
| **$H_2$(a):** Voluntary compliance and trust in authorities are positively related. | TRU→VOL |
| **$H_3$(a):** Tax fairness perceptions will positively predict voluntary compliance. | FAIII→VOL |
| **$H_4$ (a):** Power of authorities positively predicts perceived power of authorities. | POWA→PP |
| **$H_5$(a):** Perceptions of power of authorities and enforced compliance are positively related. | PP→ENF |
| **$H_6$(a):** Power of authorities positively influences enforced compliance behaviour. | POWA→ENF |
| **$H_7$(a):** Perceptions of power will positively influence perceived trust in authorities. | PP→TRU |
| **$H_8$ (a):** Perceived power of authorities positively influences voluntary compliance. | PP→VOL |
| **$H_9$(a):** Fairness of the corporate tax system will negatively affect enforced compliance. | FAIII→ENF |
| **$H_{10}$(a):** Corporate tax system fairness is positively related to perceptions of power. | FAIII→PP |
| **$H_{11}$(a):** Trust in authorities mediates the relationship between fairness and voluntary compliance. | FAIII→TRU→VOL |
| **$H_{12}$(a):** Perceived power of authorities mediates the relationship between power of authorities and voluntary compliance. | POWA→PP→ENF |

The hypotheses and hypothesised paths in Table 6.2 are based on the theoretical establishment of the SSF that taxpayers can change their tax compliance behaviour based on the tax climate. Where the environment is unfriendly, taxpayers are likely to increase compliance (enforced) depending on how well the authorities can enforce the tax regulations through the power of audit probability and detection as well as the severity of sanctions. The strength of the power of authorities will lead taxpayers to perceive that the tax authority has the power to enforce, leading to enforced compliance. On the other hand, if the tax climate is friendly, government is able to provide public goods and services out of the tax revenues collected (distributive fairness), and reasonable and consistent procedures are exhibited when the URA is dealing with taxpayers (procedural fairness), taxpayers will develop trust in these authorities and this will influence their voluntary tax compliance behaviour. The model also assumes that trust in authorities mediates the relationship between perceptions of fairness and voluntary compliance, just as perceptions of power are believed to mediate the relationship between power of authorities and enforced compliance (Kirchler et al. 2008).

Before testing for direct and indirect relationships between the study constructs as guided by the SSF model, rival structural models were compared, as Hair et al. (2010) recommend.

Examination of the parameter estimates guided the choice of the best model from the two in Table 6.3 (below). The decision was reached by comparing estimates for overall model fit results, percentage of hypothesised significance path, parsimony and level of variance explained (Morgan & Hunt, 1994). Whereas the initial model explained 0.08% and 17.4% of the variance in enforced and voluntary compliance respectively, the final model accounts for 11.9% and 20.8% of the variance in enforced and voluntary corporate tax compliance respectively. The final model reveals more significant paths and when parsimony was assessed by the parsimonious normed fit index, the final model with cross predictions had an NFI of .929, $\chi^2$/df=1.8913 while the mediated model without cross predictions had an NFI of0.920 and $\chi^2$/df = 2.111. Thus, the final model, with cross predictions, was selected for the study as it produced better results than the initial model.

Table 6.3: Structural Model Results for Competing Models (SSF)

| **Model Ingredient** | **Initial Model: (*N= 386)*** | **Final Model: (*N= 386)*** |
|---|---|---|
| Model fit | | |
| $X^2$ | 1005.035 | 894.531 |
| Df | 476 | 473 |
| P value | .000 | .000 |
| $X^2$/df | 2.111 | 1.891 |
| RMSEA | .054 | .048 |
| GFI | .867 | .881 |
| NFI | .920 | .929 |
| IFI | .956 | .965 |
| TLI | .951 | .961 |
| CFI | .956 | .965 |

| Standard Parameter Estimates | | |
|---|---|---|
| PP→ENF | .072ns | .136* |
| TRU→VOL | .178* | .230** |
| PP→VOL | .241*** | .282*** |
| POWA→PP | .400*** | .292*** |
| FAIII→TRU | .583*** | .579*** |
| PP→TRU | .278*** | .237*** |
| POWA→ENF | -.086ns | .082ns |
| FAIII→VOL | -.432*** | -.528*** |
| FAIII→PP | | .213** |
| FAIII→ENF | | -.382*** |
| *Endogenous variables* | | |
| PP *($R^2$)* | 16.0% | 18.2% |
| TRU($R^2$) | 47.6% | 48.4% |
| ENF($R^2$) | 0.08% | 11.9% |
| VOL($R^2$) | 17.4% | 20.8% |
| % of significance path | 75% | 90% |

*p≤.05, **p≤.01, ***p≤.001; PP = Power dimension, TRU = Trust dimension, ENF = Enforced compliance, VOL = Voluntary compliance, FAIII = Fairness perceptions, POWA = Power of authorities

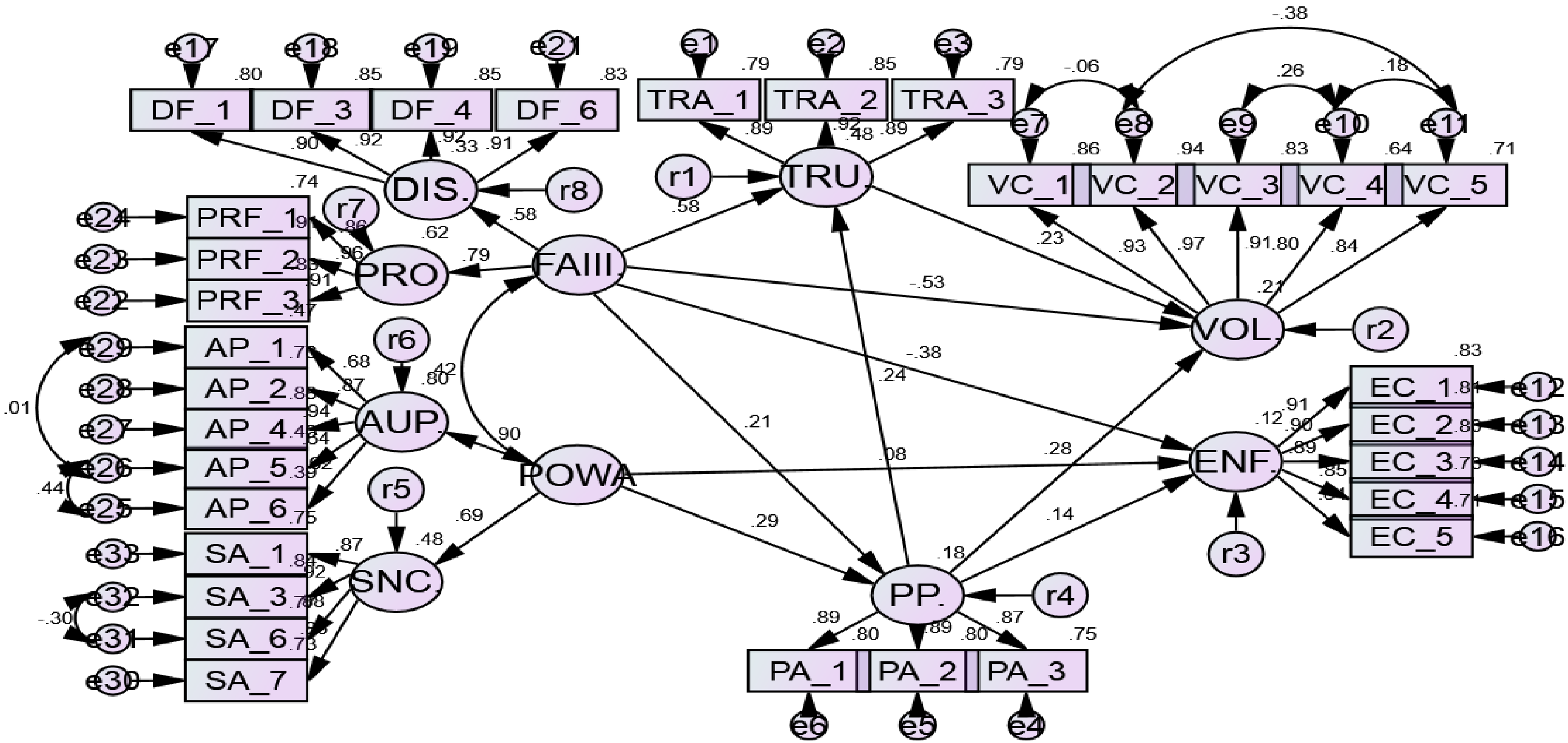
The results in the table above show that the final model exhibits a valuable representation of the relationships between the latent constructs. Consequently, the researcher used the final model to check the form of the hypothesised associations and formulate knowledge assertions based on this model. The direct and mediation relationships results between the study variables are presented in sections that follow.

### 6.3.2 Tests for direct relationships

A structural equation model was formulated and estimated during the second step of the study to test the principal hypotheses in order to answer the study objectives. As indicated in the preceding chapter, the coefficient parameter estimates were examined alongside the model fit indices to test the principal hypotheses. The parameter is statistically significant at the .05 level if the Critical Ratio (C.R.) or t-statistic is greater than 1.96 for the regression weight. The structural model results demonstrate model fit with the observed data. The magnitude of dependency is shown by the change registered in the standardised estimates ($\beta$) due to the direct effect change by 1 standard deviation in the independent variable. The Chi-square ($\chi 2$)/df ratio = 1.891 (probability level $p < .001$) was below the recommended upper threshold of 3. The Goodness of Fit Index (GFI) was 0.881, which was below the recommended GFI value of 0.90. However, GFI is very sensitive to sample size over and above 200, which may not invalidate the results. The

Normed Fit Index (NFI) result was 0.929 over and above the recommended threshold of 0.90. Bollen’s (1998) Incremental Fit Index (IFI) = 0.965, the Tucker & Lewis Index (TLI) of 0.961 and the Comparative Fit Index (CFI) value of 0.965, were all above the recommended index values of 0.9 and above, and the population Root Mean Square Error of Approximation (RMSEA) was 0.048. Figure 6.1 represents the structural model for this part of the study.

Figure 6.1: Structural Model for the Hypotheses Under Study.




Chi-square (χ2) = 894.531, DF = 473, Chi-Square (χ2)/df = 1.891, Probability p < .001,
Goodness of Fit Index (GFI) = .881, Normed Fit Index (NFI) = .929,
Incremental Fit Index (IFI) = .965, Turker-Lewis Index (TLI) = .961,
Comparative Fit Index (CFI) = .965, Root Mean Square Error of Approximation (RMSEA) = .048

The results of the structural model (Figure 6.1) showing the direct tests carried out on the hypothesised direct paths are presented in Table 6.4 (below). The standardised regression loadings using the maximum likelihood estimates to support or reject the hypotheses are presented.

Table 6.4: Standardised Regression Weights Using Maximum Likelihood Estimates

| Endogenous variables | Hypothesised paths | Estimate Unstandardised (B) | *SE* | *C.R.* | Estimate standardised (*β*) | *p* | Supported |
|---|---|---|---|---|---|---|---|
| VOL($R^2$) = .208 | FAIII→TRU | .570 | .075 | 7.636 | .579 | *** | Yes |
| ENF($R^2$) = .119 | TRU→VOL | .270 | .106 | 2.557 | .230 | .011 | Yes |
| TRU($R^2$) = .484 | FAIII→VOL | -.611 | .126 | -4.833 | -.528 | *** | No |
| PP ($R^2$) = .182 | POWA →PP | .508 | .121 | 4.216 | .292 | *** | Yes |
| | PP→ENF | .167 | .076 | 2.203 | .136 | .028 | Yes |
| | POWA→ENF | .176 | .149 | 1.219 | .082 | .238 | No |
| | PP→TRU | .245 | .055 | 4.458 | .237 | *** | Yes |
| | PP→VOL | .342 | .073 | 4.671 | .282 | *** | Yes |
| | FAIII→ENF | -.449 | .089 | -5.018 | -.382 | *** | Yes |
| | FAIII→PP | .203 | .072 | 2.838 | .213 | .005 | Yes |

**Note:** Group number 1 – default model

PP = Power dimension, TRU = Trust dimension, ENF = Enforced compliance, VOL = Voluntary compliance, FAIII = Fairness perceptions, POWA = Power of authorities

Detailed explanations and interpretation of the study results as hypothesised follow.

*$H_1$(a): Tax fairness positively influences taxpayers' trust in authorities*

Hypothesis $H_1$(a) intended to examine whether perceptions of fairness of the corporate tax system positively influence corporate SMEs' trust in authorities. The results indicate that perceptions of fairness of the corporate tax system positively predict perceptions of trust in authorities with statistical significance ($\beta$ = 0.579, C.R. = 7.636, $p < 0.001$), which supports hypothesis $H_1$(a). This finding was consistent with Kirchler et al.'s (2008) framework, which suggests that having a fair tax system arising from fair distribution of resources by government and favourable tax procedures positively supports the building of taxpayers' trust in such authorities. Thus, if government provides equitable services to the citizens, improves accountability for resources allocated and used, uses consistent procedures in resource allocation and URA treats corporate SMEs respectfully, higher trust in authorities may result and consequently voluntary compliance with the regulations.

*Hypothesis $H_2$ (a): Voluntary compliance and trust in authorities are positively related.*

Under hypothesis $H_2$(a), the researcher was interested in investigating the relationship that existed between trust in authorities and the voluntary compliance behaviour of

Ugandan corporate SMEs. Trust in authorities ($\beta$ = 0.230, C.R. = 2.557, $p$ = .011) was found to be statistically significant and positively related to voluntary compliance behaviour among small and medium-sized firms in Uganda. This finding upheld hypothesis $H_2$(a) that trust in authorities predicts voluntary compliance among corporate SME taxpayers. Indeed, these results conform to the assertions of the Slippery Slope Framework (Kirchler et al. 2008). Therefore, the government needs to identify which resource allocation strategies clearly recognise the needs of the citizens and appropriately use tax revenues for their actual requirements, strengthening monitoring and controls to ensure smooth provisions, and the URA needs to improve and maintain good administration processes, like fair and respectful treatment, as these are the cornerstones of building trust in them and the eventual willingness of corporate SME taxpayers to pay their fair share of the corporate tax owed.

*Hypothesis $H_3$ (a): Tax fairness perceptions will positively predict voluntary compliance.*

Hypothesis $H_3$(a) examined the relationship between the fairness of the tax system and voluntary compliance. Surprisingly, the results show that the two variables are negatively related, although they reveal a statistically significant path ($\beta$ = -0.528, CR = -4.833, $p$ < .001).Hypothesis $H_3$(a) was, thus, not supported and so this was not consistent with the theory (Kirchler et al. 2008) that suggests that fairness perceptions that are able to build trust in authorities positively predict voluntary tax compliance. This finding shows that negative changes in the fairness of Uganda's corporate tax system are associated with positive changes in voluntary compliance. The result confirms the effects of the correlations inspected between the constructs of fairness, where distributive and procedural fairness negatively but significantly correlated with voluntary tax compliance. This finding could imply that when the government doesn't utilise the national resources equitably and the tax body is not fair in its administration procedures, voluntary tax compliance, in this context, may not show the corporate SMEs' true intrinsic motivations to comply with the law. Given these results, mediation analyses are explored further in the next section of this thesis to ascertain the mediating effects of trust in authorities within the existing corporate tax system fairness perceptions.

*Hypothesis $H_4$ (a): Power of authorities is positively related to the power dimension.*

Hypothesis $H_4$(a) tested the relationship between power of authorities and the power dimension as perceived by corporate SMEs. The results confirm that the two latent constructs are positively related and demonstrate a statistically significant path ($\beta$ = .292, C.R. = 4.216, p < .001), accordingly supporting hypothesis $H_4$(a) and being consistent with the Slippery Slope Framework's assertions (Kirchler, et al. 2008). This implies that when corporate SME taxpayers are effectively audited and perceive that penalty rates and other sanctions are severe but fairly implemented across all corporate SMEs, with no discrimination, these firms will perceive that Uganda Revenue Authority has the power to enforce the corporate tax laws and regulations.

*Hypothesis $H_5$(a): Perceptions of power of authorities and enforced compliance are positively related.*

Hypothesis $H_5$(a) examined the relationship between perceived power of authorities and enforced compliance. The results show that perceived power of authorities is positively related to enforced compliance and demonstrate statistically significant paths ($\beta$ = .136, C.R. = 2.203, p = 0.028). Therefore, the hypothesis was supported. These findings indicate that where the URA is perceived as having the means to enforce compliance and being able to discover non-compliance and impose severe sanctions, corporate SMEs would have to comply with the tax laws, which would increase tax revenue. This finding was consistent with the assertions of the proponents of the power trust model (Kirchler et al. 2008), who suggest that perceptions of power by taxpayers based on the quality of audits and sanctions positively affect enforced compliance. This means that when the tax authority is in position to use the tax regulatory instruments appropriately, taxpayers will feel that it has the ability to carry out enforcement which may eventually enhance enforced compliance, hence resulting in increased revenue.

*Hypothesis $H_6$(a): Power of authorities positively influences enforced compliance behaviour.*

Hypothesis $H_6$(a) examined the relationship between power of authorities and the enforced compliance behaviour of corporate SMEs. The results were Inconsistent with the hypothesis, showing that power of authorities was not statistically and significantly related with the enforced compliance behaviour of corporate SMEs ($\beta$ = 0.082, C.R. = 1.179, $p$ = 0.238). Therefore, hypothesis $H_6$(a) was not supported, contrary to the works of Kirchler et al. (2008) who, in their model, propose that the power constructs of audit probability and detection and the penalty structure are motivators of enforced compliance. These results suggest that the Uganda Revenue Authority's application of corporate tax penalties and audit rates may not be viewed as effective and fair across all corporate SMEs and those who are not audited are probably not encouraged to comply by knowing that others are audited. The URA might also be viewed as inefficient when imposing sanctions on tax defaulters and in the subsequent recovery of unpaid corporate taxes. This could undermine tax revenue collection for public expenditure.

*Hypothesis $H_7$(a): Perceptions of power will positively influence perceived trust in authorities*

Hypothesis $H_7$(a) investigated the relationship between the power dimension and trust dimension as perceived by corporate SMEs' in their tax compliance behaviour. Results reveal a positive relationship between the power dimension and the corporate SMEs' trust in authorities ($\beta$ = .237, C.R. = 4.458, p < 0.001) which conformed to hypothesis $H_7$(a). In addition, the findings reveal consistency with the Slippery Slope model (Kirchler, et al. 2008), which argues that when taxpayers perceive the tax body to have the technical competence to discover tax non-compliance and punish the offenders appropriately, their trust in the revenue authority is enhanced.

This therefore implies that corporate SMEs' trust can be built by the Uganda Revenue Authority ensuring that revenue officers are capable of performing tax audits decisively and efficiently, and punishing non-compliers in a fair manner, as well as through the fair distribution of tax resources by the government and the existence of fair tax procedures.

*Hypothesis $H_8$(a): Perceived power of authorities positively influences voluntary compliance.*

Hypothesis $H_8$(a) tested the relationship between perceptions of the power of authorities and voluntary compliance. The results show that the two variables are positively related and demonstrate a statistically significant path ($\beta$ = 0.282, C.R. = 4.671, $p$ < 0.001). Therefore, hypothesis $H_8$(a) was supported, which conforms to the assertions of the Slippery Slope Framework (Kirchler, et al. 2008) that perceived efficiency in audits and justice in implementation of sanctions can, indeed, lead to voluntary corporate tax compliance among small and medium-sized enterprises. This finding reveals that changes in voluntary compliance may be a result of positive changes in perceptions of the power of authorities.

This implies that perceptions of power created through effective audit probability and detection and the fair implementation of the penalty rates work as mechanisms for promoting voluntary corporate tax compliance among SMEs. Effective enforcement of corporate tax regulations without discrimination improves power perceptions, which leads corporate taxpayers to fully commit to complying with the regulations by contributing towards national revenue. Thus, the URA should strive to build the institution's image through quality audits with impartial application of sanctions, as these are the foundations of favourable corporate SMEs' perceptions of power, which have a positive effect on voluntary compliance.

*Hypothesis $H_9$(a): Fairness of the corporate tax system will negatively affect enforced compliance*

Hypothesis $H_9$(a) tested the relationship between corporate tax system fairness and corporate enforced compliance. The results show that corporate tax system fairness ($\beta$ = -0.382, C.R. = -5.018, $p < 0.001$) negatively related with enforced compliance and demonstrated a statistically significant path, supporting hypothesis $H_9$(a). This finding is consistent with the theoretical framework used (Kirchler, et al. 2008), which argues that tax system fairness creates a sense of trust in the authorities, which eventually reduces taxpayers' resistance to comply with tax regulations, leading to a reduction in enforcement efforts by the tax authority.

The implication of this finding is that the government should, as far as possible, strive to create a fair tax system by providing citizens with necessary outputs, like quality medical care, infrastructure and education. Additionally, as an administrative organ, the URA should envisage following the guidelines regarding respectful treatment when providing the necessary support to corporate SMEs, as this could reduce resistance and disengagement, thus freeing up resources meant for corporate tax enforcement procedures.

*Hypothesis $H_{10}$(a): Corporate tax system fairness is positively related to perceptions of power*

Under hypothesis $H_{10}$(a),the researcher tested the relationship between corporate tax system fairness and corporate SMEs' perceptions of the power of authorities in Uganda. The results demonstrated that corporate tax system fairness ($\beta$ = 0.213, C.R. = 2.838, $p$ = 0.005) has a positive relationship with corporate SMEs' perceptions of the power of authorities, revealing a statistically significant effect, hence supporting hypothesis $H_{10}$(a). These results are relatively consistent with the theory of legitimate power, which operates through the accepted right to influence others by means of the norms of reciprocity, social responsibility and equity and the belief that cooperation is the right course of action for taxpayers (Gangl, Hofmann & Kirchler, 2015).

The implication of this finding is that the government ought to strengthen its policies relating to the equitable provision of services, viz. transport infrastructure, and medical and education facilities, and put enhanced transparency and accountability procedures in place to improve corporate SMEs' perceptions of the power of authorities. In the same vein, consistency of corporate tax procedures, allowing SMEs the opportunity to make amendments to their return forms where mistakes have been made, and having cordial and respectful interactions with them would certainly increase SMEs' acceptance of the authorities to control them, hence enhancing tax compliance.

### 6.3.3 Testing mediation effects

A step-by-step approach recommended by Mallinckrodt et.al (2006) was used to test the mediation effects under hypothesis $H_{11}$(a) and hypothesis $H_{12}$(a). The adoption of this approach was due to the fact that the traditional method, by Baron & Kenny (1986), has had a lot of criticism, as discussed in the methodology chapter. The results for the mediation effects are presented in Table 6.17 (below).

*Hypothesis $H_{11}$(a): Trust in authorities mediates the relationship between fairness and voluntary compliance.*

*Hypothesis $H_{12}$(a): Perceived power of authorities mediates the relationship between power of authorities and voluntary compliance.*

To test for mediation effects of trust in authorities on the relationship between corporate tax system fairness dimensions and voluntary compliance, a combination of Baron & Kenny's (1986) and Hair *et al.* (2010)'s criteria were used. The initial step taken to test each hypothesis was to employ Baron & Kenny's (1986) four–step procedure to test for conditions for mediation. First, the researcher established that corporate tax system fairness significantly predicts voluntary compliance. The results confirmed that corporate tax system fairness has a significant direct effect on voluntary compliance ($\beta$ = -.695, S.E. = .090, z = -9.872, $p$ < .001), as illustrated in the regression results table below. Next, a significant direct effect of corporate tax system fairness on trust in authorities was revealed (β = .763, S.E. = .035, t = 23.157). Thirdly, there was a significant direct effect of trust in authorities on voluntary corporate tax compliance ($\beta$ = .533, S.E. = .084, t = 7.570). Moreover, while controlling for trust in authorities, the direct effect of corporate tax fairness on voluntary compliance ($\beta$ = -.695) of corporate SMEs reduced ($\beta$ = -.556), although it remained highly statistically significant.

The Sobel test was significant, indicating that there was partial mediation (Sobel = 6.092, S.E. = 0.067, $p < .001$). Although it is believed that the Sobel test is conservative (MacKinnon, et al., 1995), a robustness check of the results was necessary, so I went onto confirm the robustness of the results. The results demonstrate that the conditions for ascertaining the existence of mediation, as stipulated by Baron & Kenny (1986), were satisfied, supporting the hypothesis accordingly. The researcher also considered the bootstrap method, as recommended by Shrout & Bolger (2002), Frazier et al*.* (2004) and Mallinckrodt et al*.* (2006), as an alternative to the traditional Baron–Kenny–Sobel method for testing mediation effects. The SEM results in Table 6.5 (below) show the procedures that the researcher followed, indicating the total, direct and indirect effects of corporate tax fairness on voluntary tax compliance through trust in authorities.

Table 6.5: Total, Direct and Indirect Effects

| **Standardised Total Effects** | Corporate tax fairness | Turnover_1 | Trust in authorities |
|---|---|---|---|
| Trust in authorities | .763*** | .000 | .000 |
| Voluntary compliance | -.288*** | .013 | .533*** |

**Standardised Direct Effects**

| **Standardised Direct Effects** | Corporate tax fairness | Turnover_1 | Trust in authorities |
|---|---|---|---|
| Trust in authorities | .763*** | .000 | .000 |
| Voluntary compliance | -.695*** | .013 | .533*** |

**Standardised Indirect Effects**

| | Corporate tax fairness | Turnover_1 | Trust in authorities |
|---|---|---|---|
| Trust in authorities | .000 | .000 | .000 |
| Voluntary compliance | .407*** | .000 | .000 |

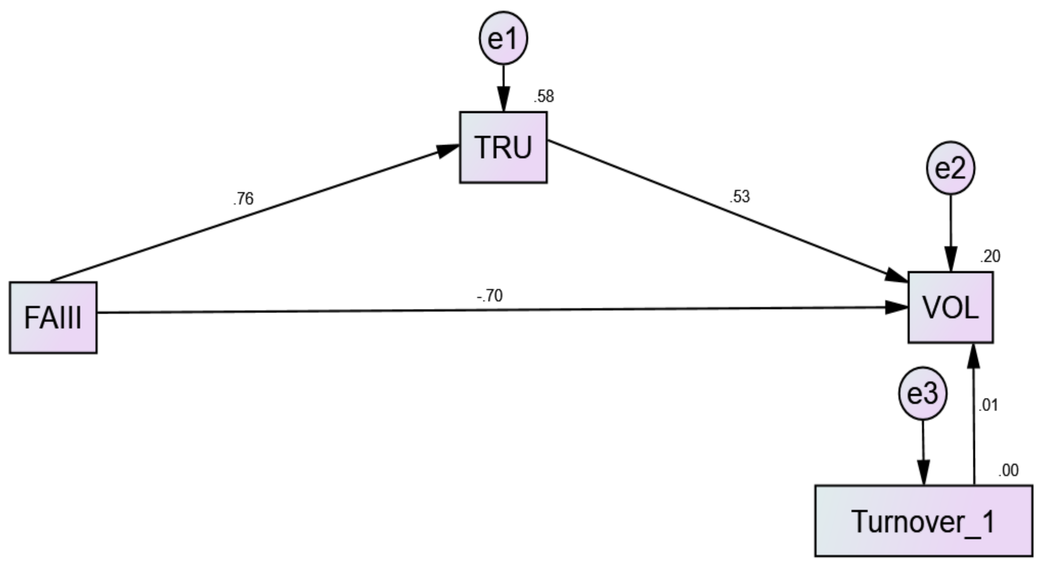
**Bootstrapping Mediation Results– Two-Tailed Significance**

| Parameter | Point estimate | S.E. | Lower bound | Upper bound | *p* |
|---|---|---|---|---|---|
| VOL ←FAIII | .407 | .066 | .282 | .545 | .000 |

FAIII = corporate tax fairness; VOL = voluntary corporate tax compliance

The SEM test results for mediation are provided in Table 6.5. The standardised direct effect of corporate tax fairness on voluntary corporate tax compliance was -.695. However, when the mediator is added, the coefficient shrinks by β = .407, indicating the existence of an indirect effect. This implies that voluntary corporate tax compliance is indirectly affected by the corporate tax fairness variable through trust in authorities, but it also points to the fact that corporate tax fairness can directly, but negatively, cause variations in voluntary corporate tax compliance without this indirect effect. Hence, variations in corporate tax fairness cause positive changes in trust in authorities which, in turn, partly affect variations in voluntary corporate tax compliance behaviour. More precisely, the results show that trust in authorities affects the association between corporate tax fairness and voluntary corporate tax compliance behaviour by 73 percent (.407*100/.556). The remaining influence of 27% comes through the direct relationship. Furthermore, the bootstrapping results show that the mediation effect of trust in authorities in the relationship between corporate tax fairness and voluntary corporate tax compliance is significant ($p < .001$). Figure 6.2 shows the path analysis from the AMOS Structural Equation Modelling.

Figure 6.2: Mediation Test Structural Equation Model




Thus, hypothesis $H_{11}$(a), with the proposition "Trust in authorities mediates the relationship between fairness and voluntary compliance" is supported. Conversely, as revealed, the mediation is partial, since corporate tax fairness still directly affects voluntary corporate tax compliance after controlling for the indirect effect. However, in the mediation model, it turned out that corporate tax system fairness perceptions were negatively related to the voluntary tax compliance of SMEs even when the indirect effects were significantly positive. This implies that taxpayers may voluntarily comply with the corporate tax system despite it being unfair to them. In addition, some studies (Zhao, Lynch & Chen, 2010; Mackinnon, Krull & Lockwood, 2000) argue that under competitive or equivalent mediation, it is possible to have reversal of a relationship, which may be a signal that the researcher has left out a variable from the model. Further investigations of this finding have been carried out in Chapter Seven and Chapter Eight of this thesis.

*Hypothesis $H_{12}$(a): Perceived power of authorities mediates the relationship between power of authorities and voluntary compliance*

In order to test hypothesis $H_{12}$(a), the study examined the hypothesis to ascertain whether it fulfils the four conditions stipulated by Baron & Kenny (1986). The first step was to ascertain if a direct significant effect of power of authorities on perceived power of authorities ($\beta$ = .434, $p$ < .001) existed. The second was to ascertain whether there was a significant direct effect of perceived power of authorities on enforced compliance ($\beta$ = .032, $p$> .05). Since perceived power of authorities did not significantly affect enforced corporate tax compliance, the researcher concluded that, for hypothesis $H_{12}$(a), there was no mediation taking place and, therefore, that perceived power of authorities does not mediate the relationship between power of authorities and enforced compliance. Therefore, no further tests were conducted.

## 6.4 Discussion and implications of the findings

The results of this study add to the theoretical developments in the area of tax compliance, principally Kirchler et al.'s (2008) Slippery Slope Framework. Rather than explaining the high level of tax evasion, it seeks to clarify how to achieve higher levels of tax compliance. The gist of the Slippery Slope Framework is the ability to form a distinction between voluntary and enforced tax compliance (Lisi, 2012). The model highlights the idea that tax fairness, especially distributive and procedural tax fairness constructs and the deterrence variables, positively influence compliance with tax regulations. Perceptions of tax fairness should lead to more voluntary tax compliance, whereas deterrence constructs should lead to more enforced tax compliance, which is motivated by fear of negative consequences.

Interestingly, Kirchler et al. (2008) consider trust in authorities to be the most important determinant of voluntary tax compliance - the part which could not be explained by the Allingham & Sandmo's (1972) model - and view procedural fairness and distributive justice as the foundations for trust in authorities. Additionally, Kirchler and colleagues consider audit probability and detection and sanctions as the underlying constructs that predict perceptions of power of authorities and as the most important predictors of enforced tax compliance, with the interaction between perceived power of authorities and trust in authorities predicting both voluntary and enforced tax compliance.

The current results show that this model may not work perfectly with regard to small and medium-sized firms in Uganda’s perceptions of the corporate tax system without modifications. For instance, the results reveal a negative relationship between fairness perceptions and voluntary tax compliance, with no significant relationship between power of authorities and enforced compliance, yet significant relationships exist between perceptions of fairness and perceived power of authorities and between perceptions of power and voluntary compliance. A model that offers interconnections between the Slippery Slope Framework constructs thus provides a more accurate estimation of the relationships between variables in the analysis of the SSF constructs. These results are more consistent with Gangl, Hofmann & Kirchler’s (2015) study which suggests that the Slippery Slope Framework constructs depend on each other to provide optimum tax compliance results of tax compliance.

The specific results of the structural model are discussed below.

The results for $H_1$(a) show that perceptions of fairness of the corporate tax system positively predict perceptions of trust in authorities in Uganda. This implies that efforts to improve tax fairness perceptions by government and the URA would build trust among the corporate SME taxpayers to achieve voluntary corporate tax compliance behaviour. Kirchler et al. (2008, p.219), for instance, indicates that efforts by the government to carryout fair distribution of resources in the provision of public goods and services, and by the tax authority to have fair procedures and support taxpayers’ compliance through fair treatment, could build taxpayers’ trust in such authorities and lead to voluntary compliance. Indeed, in their study of trust in authorities as a boundary condition to procedural fairness effects on tax compliance, van Dijke & Verboon (2010) show that procedural fairness stimulates taxpayers’ willingness to consider tax authorities as trustworthy. Cowell (1992), in Kirchler et al. (2008), argues that perceived unfairness of the tax system is likely to be the source of increased tax non-compliance behaviour. However, levels of trust in authorities will increase when a government is a good custodian and fair spender of public resources, since the tax system will be viewed as fair, with the outcome being voluntary tax compliance.

$H_2$(a) revealed that the results for trust in authorities significantly predicting voluntary compliance were similar to the results of Kirchler, Kogler & Muehlbacher (2014) who, in their experimental study of cooperative compliance, found that high trust in authorities was related to strong voluntary cooperation among self-employed taxpayers. Torgler & Schneider (2009) believe that institutional quality affects the size of the shadow economy. Having confidence that, with adequate monitoring, national government institutions will be able to furnish the public with the required services, and develop and provide the necessary infrastructure actually improves tax morale (Muehlbacher, Kirchler, & Schwarzenberger, 2011) as well as taxpayers' trust in such authorities, resulting involuntary compliance. Wahl at al. (2010) argue that procedural fairness, where the tax authority is transparent, consistent and fair in its decision processes, would significantly influence trust and, consequently, voluntary tax compliance.

Uganda, as a nation, would benefit from this trust and power model. Indeed, the government needs to strengthen and concretise provision of quality public services with infrastructural developments, improved transparency and accountability of public expenditures, and monitoring. Allowing taxpayers to amend faulty returns, along with demonstrating consistency in procedures and clientele relationships, may enhance corporate tax compliance from willing taxpayers as a result of the trust built (Gangl et al. 2015, p.19).

Unexpectedly, H3(a) showed significant negative results between tax fairness and voluntary tax compliance, which were not consistent with the Slippery Slope Framework (Kirchler et al. 2008), which advocates that fairness perceptions can positively predict voluntary tax compliance. This finding signals a condition of the corporate tax system that is perceived as unfair by the SMEs. Contrary to the hypothesised direction, some studies have indicated that (Andreoni, et al. 1998, p.850; Daunton, 1998, p.103) taxpayers may find the tax system unfair due to the way in which government spends tax revenues based on the existing policy and procedures. For instance, the government might be spending tax revenue outside of the designated services that are necessary for improving social welfare. Additionally, taxpayers could evaluate the fairness of the tax code and its enforcement procedures, and sentiments about tax system unfairness may cause some of the taxpayers who would have been willing to pay to retract from their obligations. Corporate tax system unfairness perceptions could be existent among corporate SMEs in the country and, therefore, offer the explanation for the negative relationship between fairness and voluntary tax compliance.

Distributive justice also suggests that, in addition to people perceiving fairness in the perspective of the benefits they obtain from the tax revenue, they make comparisons with their referent others, equating their benefits-contribution ratio with that of others in the group, and feelings of inequitable dealings can result if disparities are discovered (Saad, 2011; Walster et al., 1978). If taxpayers view the payment of taxes as a fair fiscal exchange, tax compliance will be enhanced; if they do not, tax non-compliance will be perpetrated. In particular, when the services provided by the government are viewed as widely undesired and the decisions determining the services provided are not fair and transparent, tax compliance is likely to be lower (Cummings, et al. 2009, p.449), which could be thought of as the existing condition in Uganda. Although allocation of resources and rewards following the principle of exchange fairness is emphasised, there are situations in which the principle is not followed in the actual allocation of rewards (Greenberg, 1987; Schwinger, 1980). Leventhal (1976) and Huseman et al. (1987, p.222) advise that fairness can be viewed in several distributional dimensions in the employment of and allocation of outcomes. For instance, distribution can be made to others with legitimate needs, yet if not known, may be taken as unfairness of the distributional process, hence affecting tax compliance behaviour.

Taxpayers' perceptions of tax system unfairness may cause a sense of discontentment, and the affected taxpayers would not be willing to support such a system. They are likely to experience anger and have negative reactions, which could result in corporate tax non-compliance behaviour (Schweitzer & Gibson, 2008, p.287). The inverse relationship in the study results could signal discontent with the corporate tax system in the country (Slemrod 2007, p.39) and that, even under conditions of compliance, either the government is not allocating tax revenue appropriately for quality goods and services and/or the tax authority's procedures are inappropriate in terms of consistency of application or supporting taxpayers to comply by way of respectful treatment, so as to encourage voluntary compliance among corporate SMEs (Farrar et al. 2013). These results demonstrate that even when there is trust in authorities; tax fairness may not necessarily be a direct positive prediction of voluntary compliance behaviour among corporate SMEs.

Considering hypotheses $H_4$(a) and $H_5$(a),the results from the power dimensional structure were slightly different, although there was a strong relationship between power of authorities and the perceptions of power dimension. Weak relationships existed between the power dimension and enforced compliance and between power of authorities and enforced compliance. Aggregating the economic determinants, the power of authorities in being able to detect and punish tax evasion will, indeed, define the power dimension (taxpayers' perceptions of how much power authorities have) (Gangl, Hofmann & Kirchler, 2015, p.14). Kirchler, Kogler & Muehlbacher (2014, p.88) explain that where effective and recurrent audits exist and fines are perceived as being severe, power will be implicitly high. Accordingly, Uganda’s corporate SMEs appreciate the efforts in audit probability and detection with sanctions by URA as appropriate; however, the effects of the perceptions of power on enforced corporate tax compliance behaviour are weak and cannot translate into strong enforcement mechanism.

According to Kogler et al. (2013, p.2) where the power dimension is perceived as being low, taxpayers normally aim to maximise their payoffs by not complying with the tax code. It is only when perceived power is higher that enforced compliance is achieved. Therefore, the weak predictive capacity of the power dimension of enforced tax compliance means that corporate SMEs do not feel that the URA has the requisite power to demand their compliance with the corporate tax law of the country. In other words, there is doubt about the existence of audit effectiveness where what are probably random and risk-based audits are carried out by competent staff so as to increase the likelihood of detection, and about the authority’s ability to appropriately impose penalty rates and recover the taxes owed, which could explain the weak relationship.

In the responsive regulation model, Braithwaite (2009) also indicates that taxpayers who have increasing social distance from the tax authority are likely to have motivational postures that shift from commitment to paying taxes willingly to capitulation, where they pay taxes because of the perceived power of authorities. This means that the tax authority should be in the position to carryout effective audits and impose appropriate penalty rates to maintain compliance rates (Kirchler & Wahl, 2008). Capitulating taxpayers are willing to cooperate because they accept the authorities as a legitimate power, which was set up to pursue the collective’s goals. While tax authorities may have the formal power and legal authority to restrain taxpayers so that they perform their duty by paying taxes, it is essential for taxpayers to accept that they possess expert authority and to hold the perception that they truly engage in conventional behaviour, so that they will psychologically assign the authorities expert power (Kirchler & Wahl, 2010, p.336).

Regarding hypothesis $H_6$(a), a strong positive link has been established between enforced tax compliance behaviour and power of authorities in a number of empirical studies (Kastlunger, Lozza, Kirchler & Schabmann, 2013; Muehlbacher & Kirchler, 2010; Wahl, Kastlunger & Kirchler, 2010). A trusting taxpayer, on the other hand, might help to increase authorities' power, for instance, by whistle-blowing on tax evaders (Muehlbacher & Kirchler, 2010). In the context of corporate SMEs in Uganda, the results between power of authorities and enforced compliance don't seem to reflect the strength that the previous scholars have achieved, reflecting an insignificant relationship between the two constructs. This finding seems to coincide with the assertions of Feld & Frey (2002, p.88), who contend that it remains theoretically unclear because empirical studies find that expected punishment is rarely statistically significant and, if it is, the effect is of quite a small magnitude.

According to Kirchler & Wahl, (2010, p.333), if taxpayers withhold their contributions to the treasury due to low trust in authorities, the only mechanism by which to motivate them to comply with the law is enforcement, which reflects the power of that authority. Therefore, when the power for the tax authority to effectively audit and sanction wrong behaviour is strong, taxpayers' compliance is enforced and will, indeed, make a contribution to the national revenue. This means that where the tax administration doesn't have the power to effectively carryout audit assignments effectively, detect the evaders, punish them and recover the said tax owed, no enforced compliance can be achieved, therefore lowering the amount that the government would get from such taxpayers in addition to what it receives from voluntary tax compliers. Thus, the results communicate a weak enforcement system; use of the enforcement mechanisms do not motivate corporate SMEs to contribute their fair share of tax, as the power of authorities is deemed to be insignificant.

Kirchler et al. (2008) and Kogler et al. (2013) also argue that power of authority will be felt once the tax authority is thorough in conducting audits and is able to detect and punish offending taxpayers. Indeed, the results could indicate the inability of the tax officials to carryout thorough audits and detect corporate tax non-compliers. Even when non-compliers are detected, their effective punishment and the recovery of the taxes owed may not be carried out effectively. Moreover, enhanced cooperation with enforced compliance may only be realised where there is an escalation of power of authorities (Muehlbacher & Kirchler, 2010), which may not be the current situation in the country.

In addition, the findings of hypothesis $H_7$(a) are consistent with the Slippery Slope model (Kirchler, et al. 2008), revealing that when taxpayers perceive the tax authority to have the technical competence to discover tax non-compliance and punish offenders appropriately, their trust in the revenue authority will be enhanced. Kirchler et al. (2008, p.217) contend that attitudes towards the authorities will always be of great value for the interpretation of the use of power as benevolent or malicious and can enhance trust in them or destroy that trust. According to Gangl et al. (2015a, p.13), interpreting power of, and trust in, authorities based on face validity of their incompatibility with opposing implications may not give us a clear picture of what they really are. These scholars contend that trust in, and power of, authorities are interrelated in a precise way, wherein they either promote each other equally to enhance tax compliance or reciprocally destroy each other, leading to tax non-compliance behaviour. In fact, our results are consistent with the empirical studies of Kogler et al. (2013) and Muehlbacher, Kirchler & Schwarzenberger (2011), who report that perceptions of power of authorities and perceptions of trust in authorities exert positive influences on each other. If the tax authority has the capacity, through proficient officers, to detect faults in the tax audit processes of corporate SMEs and to productively impose penalty rates and sanctions, SMEs' trust in their work will increase, as will voluntary compliance.

The results' revelation that the power dimension is positively related to voluntary corporate tax compliance is an interesting one and could conform to the Slippery Slope Framework (Kirchler, et al. 2008), according to hypothesis $H_8$(a). Indeed, perceived efficiency in audits and justice in the implementation of sanctions can lead to voluntary corporate tax compliance behaviour among SMEs. Using the same logic, if perceived power of authorities has the ability to influence corporate SMEs' perceptions of trust in authorities, it can directly influence the way in which they comply. Indeed, as Cialdini (1996) puts it, employing coercive power may lead to trust in authorities that are vested with the power, a relationship that might exist between URA and the taxpayers.

Additionally, Gangl et al. (2015a, p.21) suggest that to convert an antagonistic environment into a service setting, coercive power dimensions like audits and sanctions have to be employed mutually with accepted legitimate power. Certainly, as Gangl et al. (2015a, p.21) put it, 'once legitimate power is established, reason based trust is likely to increase and, as a result, a service climate is established with voluntary tax cooperation'. Alm & Torgler (2011) argue that tax authorities' legitimacy can be enhanced through the quality of the services they provide, creating expert and clear tax procedures so as to be perceived as motivated, proficient and benevolent. These ideas reveal the very nature of a tax system that must be integrative, rather than looking at trust in, and power of, authorities in isolation.

Additionally, for hypothesis $H_9$(a), an inverse relationship exists between tax system fairness and enforced compliance, consistent with the theoretical framework assertions (Kirchler, et al. 2008). Farrar et al. (2013) argue that tax fairness could be helpful to tax authorities, as they might be able to use fairness as one of their compliance approaches in order to enhance and raise the spirits for taxpayer compliance behaviour. Indeed, Torgler & Murphy (2004, p.305) show that tax system fairness is one of the pillars of tax morale and creates a sense of trust in the authorities which eventually reduces the resistance among taxpayers so they can voluntarily comply with the tax regulations, consequently reducing enforced compliance. As Kirchler et al. (2008, p.220) highlight, within a synergistic climate, where a service-client relationship exists between authorities and taxpayers, corporate SMEs may comply voluntarily as a response to the perceived fairness of the system. Therefore, to build on the corporate SMEs' tax morale and trust so that they comply willingly, the government ought to, as far as feasible, endeavour to build a fair tax system by providing the people with essential outputs, such as quality infrastructure, health care and education. Moreover, the URA should incorporate service-client communication, where tax officers provide the support required for corporate SMEs to comply with the corporate tax code, and treat taxpayers with respect, as this may create trust, hence reducing opposition and costly tax enforcement measures.

Surprisingly, corporate tax system fairness appears to have significant predictive effect on corporate SMEs' perceptions of the power of authorities in Uganda ($H_{10}$), implying that the higher the perceptions of corporate tax system fairness, the higher their perceptions of the power of authorities will be. This position is consistent with theory of legitimate power, which operates through the accepted right to influence others by means of the norms of reciprocity, social responsibility and equity, and the belief that cooperation is the right course of action for taxpayers (Gangl, Hofmann & Kirchler, 2015, p.16). Tyler (2006), in his work on 'why people obey the law' argues that legitimate power or, to be precise, the power of accepted authorities is more appropriate to and effective in determining individuals' behaviour than severe controls and punishment. The assertion is that employees will follow policies and observe rules when they envision the corporation as legitimate and that the rules should be complied with in an unrestricted manner.

The foundation of legitimate power here lies in the justice incorporated in the procedures that authorities use, and people are likely to have faith in and therefore support authorities and institutions that formulate desirable and fair policies (Tyler, 2006, p.272). Therefore, it's argued that people will assess authorities in line with their performance in delivering fair guidelines and resources. Thus, a government should design and support a corporate tax policy that is equitable (Berkowitz & Daniels, 1963) to deliver desired services, like roads, healthcare and education facilities, and institute better systems that may support accountability and transparency, hence improving taxpayers' perceived power of authorities. Furthermore, introducing corporate tax procedures that are reliable, holding friendly and respectful communications between the URA and taxpayers, and giving corporate SMEs the chance to take corrective measures where mistakes have been made on their tax returns might increase their acceptance of the URA's control and, subsequently, improve corporate tax compliance behaviour.

In hypothesis $H_{11}$(a), the researcher proposed and examined the mediating role of trust in authorities on the relationship between fairness and voluntary compliance among corporate SMEs in Uganda. The results demonstrate that perceptions of fairness of the corporate tax system are important in predicting voluntary compliance among corporate SMEs in Uganda. The results of the mediation explored show that trust in authorities has a mediating effect on the relationship between corporate tax system fairness and voluntary corporate tax compliance. This significant finding provides support for $H_{11}$(a). Thus, the findings from Uganda's corporate tax system establish the existence of a mediation effect in the relationship between perceptions of corporate tax system fairness and voluntary corporate tax compliance.

Indeed, the survey results conform to the long-standing theory that trust in authorities mediates the relationship between tax fairness and tax compliance (Kirchler, Hoelzl, & Wahl, 2008; van Dijke & Verboon, 2010). The findings reveal that trust in authorities would start with the government providing adequate public goods and services, and the URA treating the taxpayers with respect and support, and providing clear and consistent procedures, which would, in turn, reduce resistance and improve voluntary compliance. Kirchler et al. (2008) suggest that mutual trust between taxpayers and authorities would result in a synergistic tax climate, under which the authorities trust that taxpayers pay their taxes honestly and so treat them with respect and civility. The taxpayers also trust the authorities to provide quality services and goods and, therefore, contribute what they owe to government fairly. Indeed, when comparing the South African example of local authorities, Fjeldstad (2004, p.539) associated widespread non-payment of service charges to three dimensions of trust: the trust that the local authorities would use the service charges for the intended purpose; the trust that fair procedures would be instituted for the collection and distribution of services by the local authorities; and the trust that others would contribute their fair share of the service charges owed.

Wenzel (2003) and Kirchler et al. (2008) noted that distributive and procedural fairness constructs shape taxpayers' perceptions of tax system fairness. Under distributive fairness, a fair and equitable exchange of resources, viz. costs and benefits, by the government when taxpayers consider the outcomes of the taxes paid based on their efforts, needs and tax burdens in comparison with their peers would build trust in government, hence facilitating voluntary compliance (Kirchler et al. 2008). Cowell (1992), in Kirchler et al. (2008, p.219), argues that perceived unfairness of the tax system is likely to be the source of increased tax non-compliance behaviour; however, levels of trust in authorities will increase where the tax system is experienced as fair and the end result in such a system will be voluntary tax compliance.

On the other hand, for procedural fairness, the tax body ought to instil procedural neutrality, where there is respectful treatment of corporate SME taxpayers, as this is important for building trust in the tax authorities. Kirchler (2007) and Yong & Rametse (2010) argue that taxpayers consider how tax authorities treat them, the information provided to them, the procedures followed within the tax administration and the tax revenue allocation procedures. Procedural fairness perceptions and fair interactions with the tax authorities are considered essential in enhancing perceptions of trust in such authorities. The perceptions of trust built from a fair tax system, which is represented by distributive and procedural fairness constructs, will positively influence voluntary compliance. By implication, the trusting taxpayers would not involve themselves in activities of tax evasion. This was confirmed in a cross-country study (Richardson, 2008), which showed that trust in the government negatively relates with tax evasion.

## 6.5 Conclusions, limitations of the study and areas for further research

The results of this study add to the theoretical developments in the area of tax compliance, principally Kirchler et al.'s (2008) Slippery Slope Framework, by revealing that perceptions of trust in authorities positively and significantly mediate the relationship between perceptions of tax fairness and voluntary tax compliance behaviour among corporate SMEs in Uganda. Power of authorities also significantly predicts perceptions of power of authorities which, in turn, significantly affects enforced corporate tax compliance. However, this thesis finds an inverse relationship between tax system fairness and voluntary compliance, but it doesn't find significant effects between power of authorities and enforced compliance behaviour.

The study's findings have some policy implications for the URA and the government of Uganda as a whole. First, willingness to comply, as reflected in voluntary compliance, does not reflect the fairness of the corporate tax system per se, but could be something that corporate SMEs do for convenience. SME taxpayers could be paying taxes because the government or URA requires them to or because they predict that it may be more of an inconvenience for them not to pay (Gangl et al. 2015b). Second, it's probable that corporate SMEs find audits irregular, uncoordinated, untargeted, unfair and not done efficiently enough to send a strong signal to dissenting SMEs to respond to this enforcement mechanism and pay tax. In the same vein, if this is how corporate SMEs perceive the quality of audits, sanctions cannot be effective, since not all offending SMEs can actually be made to pay them. Third, corruption has been highlighted as one of the major issues that have undermined tax collections in the country; politicians directly steal the available tax revenue allocated for service delivery at both central and local levels, and companies owned by politicians and the rich are favoured by the URA.

Thus, to improve corporate SME tax compliance, enhancement of the perceptions of the tax system fairness should be accorded priority. The government should directly fight corruption, strengthening the institutional mechanisms of the police, Inspectorate of Government and the Judiciary by allowing them to operate independently with professionalism. The government should advise bureaucrats and other political actors who own businesses to comply with the laws of the country and avoid putting undue pressure on the URA. Next, improving service delivery by, for example, improving the infrastructure in terms of schools and hospitals, monitoring performance with the aim of achieving value for money and holding officers accountable for any gaps in performance, could be a key to improving taxpayers' morale and desire to comply. The URA should strengthen its mechanisms for whistle-blowers and provide the public with information on how to report evaders, bribers, the bribed and staff that perpetuate favouritism. With these mechanisms in place, taxpayers are likely to perceive the tax system as fair. Their tax morale and trust in authorities will probably get better, improving the overall compliance levels.

This study, however, has some limitations which affect the interpretation of the results. Firstly, the study used cross-sectional data, therefore constraining the possibility of monitoring the changes that would occur within the corporate SMEs' tax compliance behaviour over time. Secondly, none of the item scales adopted in the study were originally developed for use in the corporate tax regulatory setting. Most studies undertaken to try to formalise the SSF have been focussed either on self-employed taxpayers or on individual taxpayers and, to the knowledge of the researcher, none have investigated the SSF as applied to companies. For instance:, Kirchler & Wahl (2010) and Kogler et al. (2015) used self-employed individuals as participants; Kogler et al. (2013) used university students in an experiment to study the assumptions of the SSF; Lisi (2014) employed an economic model in the interaction between trust and power on tax compliance, as did Prinz et al. (2014) and Gobena & Van Dijke (2016), in their study of power, justice and trust in a moderated mediation analysis of tax compliance among Ethiopian business owners, the only one on a developing economy like Uganda. Without downplaying the findings of this study, the researcher is of the view that there may be a need to develop scales especially for the corporate tax environment, since the unit of inquiry was still individual corporate owners and managers

There is need to carry out research to clarify the surprising results obtained in this study. These results are that: corporate tax fairness had a significant negative effect on the voluntary tax compliance behaviour of SMEs; power of authorities, represented by audit probability and detection and sanctions, had insignificant effects on perceptions of enforced corporate tax compliance behaviour; perceptions of corporate tax fairness had a significant positive relationship with perceived power of authorities; and perceptions of power had a significant positive effect on voluntary corporate tax compliance behaviour. While considering the negative relationship between corporate tax fairness and voluntary compliance, the assertions of Zhao, Lynch & Chen (2010) came to mind. Zhao et al. (2010 p.201) argue, that under mediating conditions, where the direct path *c* between the independent and dependent variables is significant but the product of paths a, b and c is negative, competitive mediation exists. The authors indicate that, under such conditions, it's likely that the theoretical framework is incomplete. The mediator identified is consistent with the theoretical framework, but there is a likelihood that a mediator has been omitted in the direct path and investigation may be required.

Thus, further investigations could be carried out in the other areas, such as social norms. Social norms are believed to influence taxpayers' decisions about whether to comply or not to comply with the tax system (Bobek et al. 2012). Such choices may depend on the nature of social norms; favourable social norms could lead to voluntary tax compliance and unfavourable ones may lead to tax evasion and/or tax avoidance. A deeper understanding and analysis of corporate tax system fairness may be necessary in order to identify the real cause of the existing relationship between tax system fairness and voluntary compliance.

# Chapter 7

# Social norms and tax compliance behaviour

## 7.1 Introduction

According to Cialdini & Trost (1998), people generate and manage change in the social world through influence processes, and social influence can be used either to move people away from negative habits and in more positive directions or to create conflict and resentment, hence the need to understand the process of interpersonal influence (Cialdini & Trost, 1998, p.151). Specifically, social norms as rules and standards that are understood by members of a group can give direction and/or restrain social behaviour without the force of laws, thus the need to understand their influence on tax compliance behaviour. This study uses four constructs of Social Norms Theory (Cialdini & Trost, 1998; Bobek, Hageman & Kelliher (2012), viz. descriptive norms, injunctive norms, subjective norms and personal norms, as applied in the area of tax compliance behaviour.

This part of the study was motivated by the surprising results from the Slippery Slope Framework, where the relationship between corporate tax fairness and voluntary compliance did not conform to the theoretical underpinnings of the SSF model. More precisely, a negative relationship existed between corporate tax fairness perceptions and voluntary compliance behaviour under the mediation model, involving perceptions of trust in authorities, which may be attributed to competitive mediation (Zhao, Lynch & Chen 2010). With this type of mediation in the SSF, the researcher sought to close that gap by investigating the effects of social norms on tax compliance behaviour. Power of authorities, conceptualised as audit probability and detection and sanctions, showed a weak correlation with enforced compliance behaviour, showing no conformity with the SSF model assertions.

Nonetheless, according to Bobek, Hageman & Kelliher (2015, p.38), even when a tax authority focusses its resources on detection and enforcement, there is a need to close the tax gap arising from what should be paid in taxes and what is actually collected. According to the authors, exceptional compliance levels were identified where increase in tax compliance was beyond the usual standards based on economic model (Andreoni et al., 1998, p. 885). This, therefore, means that there are other predictors from the diverse psychological, moral and social influences on tax compliance behaviour which needed to be considered to help to explain the increased compliance level. Indeed, when Alm et al. (1999) included the social and moral factors that exert influence on taxpayer behaviour, these factors were revealed to have significant influences on tax compliance intentions and behaviour. However, no agreement concerning the precise nature of the social and moral influences has been reached, since social norms dimensions could negatively influence tax compliance, even when good power dimensions were in place. Thus, the objective of this chapter was:

i) To investigate and model the relationship between corporate social norms, i.e. descriptive, injunctive, subjective and personal norms, and tax compliance behaviour among corporate SMEs in Uganda.

Consequently, to achieve this study objective, Chapter 7 presents the analyses from survey data considering corporate tax compliance behaviour and the social norms constructs, and proposes a model that could be useful in enhancing corporate tax compliance behaviour among SMEs. Descriptive statistics are presented in Table 7.1, followed by the direct and indirect analysis results based on the specific hypotheses that were examined to achieve the research aim. The sections that follow present the results from data analysis.

## 7.2 Analysis and presentation

### 7.2.1 Sample characteristics

The descriptive statistics and bivariate correlations for social norms and tax compliance constructs are presented in Table 7.1 (below).

Table 7.1: Descriptive Statistics and Bivariate Correlation Matrix for Social Norms and Tax Compliance.

| | *Mean* | *S.D* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* |
|---|---|---|---|---|---|---|---|---|---|---|
| Tax Evasion (1) | 3.41 | 1.42 | **1** | | | | | | | |
| Tax Avoidance (2) | 4.41 | 1.50 | .027 | **1** | | | | | | |
| Enforced Compliance (3) | 5.45 | 1.35 | -.088 | .334** | **1** | | | | | |
| Voluntary Compliance(4) | 5.39 | 1.34 | .003 | .049 | .376** | **1** | | | | |
| Subjective Norms (5) | 4.37 | 1.20 | .065 | .192** | .062 | .017 | **1** | | | |
| Descriptive Norms (6) | 3.56 | .782 | .211** | .209** | .482** | .197** | .120* | **1** | | |
| Injunctive Norms (7) | 3.33 | 1.06 | .037 | .194** | -.008 | .065 | .542** | .111* | **1** | |
| Personal Norms (8) | 4.51 | 1.35 | -.046 | .010 | .056 | .184** | .410** | .090 | .320** | **.874** |

*. Correlation is significant at the 0.05 level (2-tailed).

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

As shown in Table 7.1 (above), the means (M) and standard deviation (SD) of the study variables were distributed in following way: descriptive norms (M = 3.56, SD = .782), subjective norms (M = 4.37, SD = 1.20), injunctive norms (M = 3.33, SD = 1.06), personal norms (M = 4.51, SD = 1.35), enforced compliance (M = 5.45, SD = 1.35), voluntary compliance (M = 5.39, SD = 1.34), tax avoidance (M = 4.41, SD = 1.50), and tax evasion (M = 3.41, SD = 1.42).

The results from the correlations (Table 7.1) also indicate a significant positive correlation between descriptive norms and tax evasion ($r$ = 0.211, $p \leq 0.01$). Subjective norms were significantly and positively correlated with tax avoidance ($r$ = 0.192, $p \leq 0.01$). Also, descriptive norms were significantly and positively correlated with tax avoidance ($r$ = 0.209, $p \leq 0.01$) and injunctive norms were significantly and positively associated with tax avoidance ($r$ = 0.194, $p \leq 0.01$). Descriptive norms and enforced compliance ($r$ = 0.482, $p\leq$ 0.01) were significantly and positively correlated. There was a significant and positive correlation between descriptive norms and voluntary compliance ($r$ = 0.197, $p \leq 0.01$) and between personal norms and voluntary tax compliance ($r$ = 0.184, $p \leq 0.01$). A significant positive correlation between descriptive norms and subjective norms ($r$ = 0.120, $p \leq 0.05$) was also revealed. Injunctive norms correlated significantly and positively with both subjective norms($r$ = 0.542, $p \leq 0.01$) and personal norms ($r$ = 0.410, $p \leq 0.01$). Injunctive norms positively correlated fairly significantly with descriptive norms ($r$ = 0.111, $p \leq 0.05$). These results imply that social norms constructs are associated with each other and influence corporate tax compliance behaviour, and that harnessing good social norms could improve corporate tax compliance behaviour among small and medium-sized companies.

## 7.3 Presentation of structural model results

### 7.3.1 Hypothesis testing

Once a satisfactory measurement model fit was achieved through constructs validation, a Structural Equation Model was assembled. This was assessed at the second stage of the analysis to ascertain the relationships between the latent constructs, identifying the existing direct and indirect associations between the constructs in the model. The conceptual framework utilised in this part of the thesis was adopted from Bobek et al.'s (2012) Social Norms Theory, which proposed that descriptive norms, injunctive norms and subjective norms may influence tax compliance behaviour indirectly through personal norms, since tax compliance decisions are seen as private matters. However, in circumstances where tax compliance decisions are not viewed as private matters, all social norms constructs can individually and directly influence taxpayers' compliance behaviour.

The structural model that follows, therefore, tried to examine whether the model assumptions could support the following hypotheses:

**$H_1$ (a):** Corporate SMEs' descriptive norms towards tax (non)compliance behaviour will predict their injunctive, subjective and personal norms towards corporate tax compliance behaviour.

**$H_2$ (a):** Corporate SMEs' injunctive norms towards tax (non)compliance behaviour will predict their subjective and personal norms towards corporate tax (non)compliance behaviour.

**$H_3$ (a):** Corporate SMEs' subjective norms towards tax (non)compliance behaviour will influence their personal norms towards corporate tax (non)compliance behaviour.

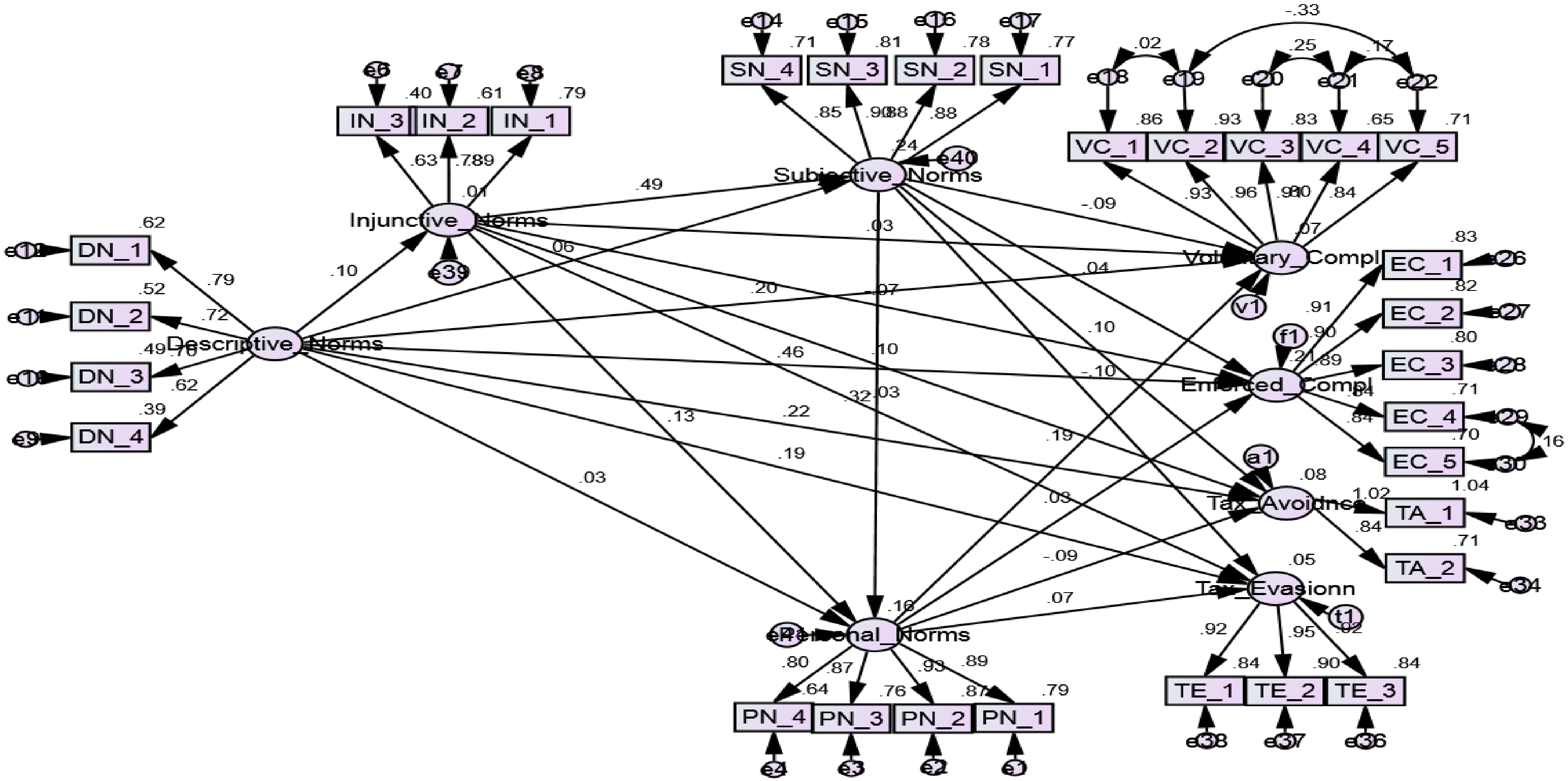
**$H_4$ (a):** Corporate SMEs' personal norms toward tax (non)compliance behaviour will directly predict their tax (non)compliance choices; the association between tax (non)compliance behaviour and subjective norms, injunctive norms and descriptive norms will only be indirect (through personal norms).

**$H_5$ (a):** Corporate SMEs' personal norms, subjective norms, injunctive norms and descriptive norms towards tax (non)compliance behaviour will directly predict their tax (non)compliance choices.

### 7.3.2 Tests for direct and indirect relationships

The first model specified involved only direct relationships between the social norms constructs and corporate tax compliance behaviour constructs. This model did not achieve the model fit that was required, so a second structural model (a respecification of the first) was assembled, creating inter-construct direct paths between the social norms constructs. The results show that the model fitted well with the observed data. The Chi-square ($\chi 2$)/df ratio = 1.645 (probability level $p < .001$), below the upper threshold of 3. The Goodness of Fit Index (GFI) was .902, which was also slightly higher than the recommended GFI value of 0.90 and over. The Normed Fit Index (NFI) result was 0.937, the same as in the measurement model, and still over and above the recommended threshold of 0.90. Bollen's (1998) Incremental Fit Index (IFI) = 0.974, the Tucker-Lewis Index (TLI) value of 0.970 and the Comparative Fit Index (CFI) value of 0.974 were all above the recommended index values of 0.9 and above, and the population Root Mean Square Error of Approximation (RMSEA) was 0.041, similar to the fit indices of the measurement model. Figure 7.3 shows the details of the structural model for social norms and corporate tax compliance behaviour.

Figure 7.1: Structural Model for Social Norms and Tax Compliance Behaviour




Chi-square (χ2) = 1238.458, Df = 670, Chi-Square (χ2)/df = 1.658, Probability p < .001,
GFI= .902, Normed Fit Index (NFI) = .937, Incremental Fit Index (IFI) = .974,
Tucker-Lewis Index (TLI) = .970, Comparative Fit Index (CFI) = .974,
Root Mean Square Error of Approximation (RMSEA) = .041.

The structural model results that relate to the hypotheses set out above are presented in Table 7.2, which follows. Detailed interpretation and a discussion of the results are presented after the table.

Table 7.2: Standardised Regression Weights Using Maximum Likelihood Estimates

| | Estimate Unstandardised (B) | SE | C.R. | Estimate Standardised (β) | p |
|---|---|---|---|---|---|
| Descriptive norms →Injunctive norms ($H_1$) | .127 | .081 | 1.562 | .096 | .118 |
| Descriptive norms →Subjective norms ($H_1$) | .085 | .077 | 1.113 | .059 | .266 |
| Descriptive norms →Personal norms ($H_1$) | .054 | .088 | .613 | .033 | .540 |
| Injunctive norms →Subjective norms ($H_2$) | .528 | .068 | 7.786 | .485 | *** |
| Injunctive norms→ Personal norms ($H_2$) | .160 | .077 | 2.079 | .131 | .038 |
| Subjective norms →Personal norms ($H_3$) | .356 | .069 | 5.164 | .317 | *** |
| Personal norms →Tax evasion ($H_4$) | -.077 | .062 | -1.254 | -.074 | .210 |
| Personal norms →Tax avoidance ($H_4$) | -.114 | .067 | -1.705 | -.094 | .088 |
| Personal norms →Enforced compliance ($H_4$) | .026 | .055 | .472 | .026 | .637 |
| Personal norms →Voluntary compliance ($H_4$) | .182 | .056 | 3.228 | .186 | .001 |
| Injunctive norms →Enforced compliance ($H_5$) | -.088 | .076 | -1.153 | -.072 | .249 |
| Injunctive norms →Voluntary compliance ($H_5$) | .034 | .078 | .436 | .028 | .663 |
| Injunctive norms →Tax avoidance ($H_5$) | .148 | .093 | 1.602 | .100 | .109 |
| Injunctive norms →Tax evasion ($H_5$) | .034 | .085 | .403 | .027 | .687 |
| Descriptive norms →Enforced compliance ($H_5$) | .735 | .101 | 7.253 | .456 | *** |
| Descriptive norms →Tax avoidance ($H_5$) | .429 | .109 | 3.940 | .219 | *** |
| Descriptive norms →Voluntary compliance ($H_5$) | .314 | .091 | 3.452 | .199 | *** |
| Descriptive norms →Tax evasion ($H_5$) | .323 | .099 | 3.249 | .191 | .001 |
| Subjective norms →Tax evasion ($H_5$) | .114 | .078 | 1.459 | .097 | .145 |
| Subjective norms →Tax avoidance ($H_5$) | .136 | .085 | 1.606 | .100 | .108 |
| Subjective norms →Enforced compliance ($H_5$) | .039 | .070 | .563 | .035 | .573 |
| Subjective norms →Voluntary compliance ($H_5$) | -.097 | .071 | -1.355 | -.088 | .176 |

**Note:** Group number 1 – default model

Endogenous variables: Voluntary compliance ($R^2$=0.07), Enforced compliance ($R^2$=0.21), Tax avoidance ($R^2$=0.08), Tax evasion ($R^2$=0.05), Personal norms ($R^2$=0.163), Subjective norms ($R^2$=0.24), Injunctive norms ($R^2$=0.01)

*$H_1$(a): Corporate SMEs' descriptive norms towards tax (non)compliance behaviour will predict their injunctive, subjective and personal norms towards corporate tax compliance behaviour.*

Hypothesis $H_1$(a) tested the relationship between corporate SMEs' descriptive norms towards tax (non)compliance and their injunctive, subjective and personal norms towards corporate tax (non)compliance behaviour. Contrary to what was hypothesised, Table 7.13 (above) shows that corporate SMEs' descriptive norms towards tax (non)compliance behaviour ($\beta$ = 0.096, C.R. = 1.562, $p$ = 0.118), ($\beta$ = 0.059, C.R. = 1.113, $p$ = 0.266), and ($\beta$ = 0.033, C.R. = 0.613, $p$ = 0.540) were not significant predictors of; injunctive norms, subjective norms and personal norms. These results failed to support $H_1$(a) or that, as suggested by Bobek et al. (2007) and Bobek et al. (2012, 2015),corporate SMEs' descriptive norms towards tax (non)compliance are significant predictors of injunctive, subjective and personal norms towards corporate tax compliance behaviour. The results relating to personal norms towards corporate tax compliance behaviour were not different from Bobek et al. (2012) and Bobek et al. (2007). This implies that what others do and expect them to do may not necessarily influence the ethical values of Uganda's corporate SMEs with regard to compliance choices. Further exploration of the direct associations between descriptive social norms needs to be considered if the researcher is to fully understand their effects.

*$H_2$(a): Corporate SMEs' injunctive norms towards tax (non)compliance behaviour will predict their subjective and personal norms towards corporate tax (non)compliance behaviour.*

The study hypothesis $H_2$(a) tested the relationship between corporate SMEs' injunctive norms towards tax (non)compliance behaviour and their subjective norms and personal norms towards corporate tax (non)compliance behaviour. The results show that corporate SMEs' injunctive norms and subjective norms are positively related and demonstrate a statistically significant relationship ($\beta$ = 0.485, C.R. = 7.786, $p$ < 0.001). The results also reveal that corporate SMEs' injunctive norms have a positive association with corporate personal norms which is statistically significant ($\beta$ = 0.131, C.R. = 2.079, $p$ = 0.038). Overall, injunctive norms have more predictive power over subjective norms than over personal norms, since there is a stronger standardised path coefficient between injunctive norms and subjective norms than between injunctive and personal norms, which agrees with the findings of Bobek et al. (2012). Harnessing favourable corporate SMEs' sanctioned practices or customs would be a prerequisite for, firstly, improving the perceptions of relevant others in terms of what they believe to be the right thing to do and, secondly, enhancing the personal corporate SMEs' culture that would positively contribute towards corporate tax compliance behaviour.

*$H_3$(a): Corporate SMEs' subjective norms towards tax (non)compliance behaviour will influence their personal norms towards corporate tax (non)compliance behaviour.*

Hypothesis $H_3$ (a) examined the relationship between corporate SMEs' subjective norms towards tax (non)compliance behaviour and their personal norms towards corporate tax (non)compliance behaviour. The findings from this test reveal that corporate SMEs' subjective norms towards tax (non)compliance behaviour has a positive and statistically significant effect on perceptions of their personal norms towards corporate tax (non)compliance behaviour ($\beta = 0.317$, C.R. = 5.164, $p < 0.001$). This finding supported hypothesis $H_3$(a). This finding was also in line with Bobek et al.'s (2012) work, which had similar results. Indeed, if it so happens that the people or corporations around an SME perceive that paying taxes is the right thing to do, their perceptions may influence the internal ethical behaviour of that corporate SME and its management towards complying with the corporate tax code.

*$H_4$(a): Corporate SMEs' personal norms toward tax (non)compliance behaviour will directly predict their tax (non)compliance choices; the association between tax (non)compliance behaviour and subjective norms, injunctive norms and descriptive norms will only be indirect (through personal norms).*

The aim of hypothesis $H_4$(a) was to test the relationship between corporate SMEs' personal norms and their compliance behaviour, since the study assumed that all other forms of social norms would only exert their influence through corporate SMEs' personal norms. This assumption was made because paying taxes is taken to be a private decision and, therefore, personal norms will be the only social norms construct to interface with corporate tax compliance behaviour directly. To test this hypothesis, the four paths running from personal norms to the four types of (non)compliance behaviour, viz. voluntary compliance, enforced compliance, tax avoidance and tax evasion, were considered. The results reveal that three of the four paths did not conform to the hypothesised relationships. Specifically, personal norms exhibited non-significant effects on tax evasion ($\beta = -0.074$, C.R. = -1.254, $p = 0.210$), tax avoidance ($\beta = -0.094$, C.R. = -1.705, $p = 0.088$) and enforced compliance ($\beta = 0.026$, C.R. = 0.472, $p = 0.637$). However, corporate SMEs' personal norms towards tax compliance have a positive and significant effect on the voluntary compliance behaviour of firms ($\beta = 0.186$, C.R. = 3.228, $p = 0.001$). These results partially support our hypothesis $H_4$(a), which says that injunctive norms and subjective norms would influence tax compliance behaviour through personal norms. The significant relationship found between corporate SMEs' personal norms and voluntary compliance behaviour was consistent with Bobek et al.'s (2012) finding that a relationship between personal norms and tax compliance existed. This, therefore, implies that nurturing good corporate SMEs' sanctioned customs of behaviour (injunctive norms) and what significant others believe to be the right thing to do (subjective norms) would positively influence voluntary compliance behaviour with regard to corporate taxes through corporate personal ethical beliefs about corporate tax compliance.

### Testing for indirect relationships - $H_4$(a)

Further analysis was done to confirm the extent to which injunctive norms indirectly influence personal norms and voluntary compliance, and the extent to which subjective norms indirectly predict voluntary compliance behaviour. Table 7.3 presents bootstrap SEM results showing the total, direct and indirect effects of injunctive norms and subjective norms on voluntary tax compliance through personal norms. However, since direct effects are dealt within the other hypotheses, my interest is to investigate indirect effects.

Table 7.3: Total, Direct and Indirect Effects of Injunctive and Subjective Norms

| **Standardised Total Effects** | Injunctive Norms | Subjective Norms | Personal Norms |
|---|---|---|---|
| Subjective norms | .542*** | .000 | .000 |
| Personal norms | .320*** | .334*** | .000 |
| Voluntary compliance | .039ns | .018ns | .209** |

**Standardised Direct Effects**

| **Standardised Direct Effects** | Injunctive Norms | Subjective Norms | Personal Norms |
|---|---|---|---|
| Subjective norms | .542*** | .000 | .000 |
| Personal norms | .139* | .334*** | .000 |
| Voluntary compliance | .000ns | -.052ns | .209** |

**Standardised Indirect Effects**

| | Injunctive Norms (IN) | Subjective Norms(SN) | Personal Norms |
|---|---|---|---|
| Subjective norms (SN) | .000 | .000 | .000 |
| Personal norms (PN) | .181*** | .000 | .000 |
| Voluntary compliance (VC) | .039ns | .070*** | .000 |

**Bootstrapping Indirect Effects Results- Two-Tailed Significance**

| Parameter | Point estimate | S.E. | Lower bound | Upper bound | *p* |
|---|---|---|---|---|---|
| PN ← IN | .181 | .041 | .103 | .263 | .000 |
| VC ← IN | .039 | .037 | -.032 | .115 | .275 |
| VC ← SN | .070 | .024 | .032 | .126 | .000 |

PN = Personal Norms; IN = Injunctive Norms; SN = Subjective Norms; VC = Voluntary Compliance

The SEM test results for mediation in Table 7.15 show that injunctive norms directly (β = .139, $p < .05$) and indirectly (β = .181, $p < .001$) influence corporate SME personal norms. However, no direct (β = .039, $p > .05$) and indirect (β = .039, $p > .05$) relationships were found to exist between injunctive norms and voluntary compliance behaviour. This implies that perceived sanctioned norms among corporate SMEs are too weak to have any influence on voluntary compliance, other than on corporate personal norms. Nonetheless, only subjective norms (norms of referent others) were found to have significant indirect effects on voluntary compliance through corporate SME personal norms ($\beta = .070$, $p < .001$). This means that when other valued corporations, friends or family members hold the view that willing payment of corporate taxes is the right thing to do, a number of SMEs will pay taxes willingly, which will enhance the country's public revenue. Due to these findings, it can be concluded that only subjective norms may indirectly influence voluntary compliance behaviour.

*$H_5$(a): Corporate SMEs' personal norms, subjective norms, injunctive norms and descriptive norms towards tax (non)compliance behaviour will directly predict their tax (non)compliance choices.*

Hypothesis $H_5$(a)'s aim was to examine direct associations between corporate SMEs' personal norms, subjective norms, injunctive norms and descriptive norms towards their corporate tax (non)compliance choices. For corporate personal norms, only one direct prediction of voluntary compliance was made, and no significant associations were found between personal norms and enforced compliance, tax avoidance and tax evasion as compliance and noncompliance behaviours. However, the results of the other forms of social norms are presented hereunder.

Injunctive norms towards corporate SMEs' tax (non)compliance behaviour did not demonstrate any significant effect ($\beta$ = -0.072, C.R. = -1.153, $p$ = 0.249), ($\beta$ = 0.028, C.R. = 0.436, $p$ = 0.663), ($\beta$ = 0.100, C.R. = 1.602, $p$ = 0.109) and ($\beta$ = 0.027, C.R. = 0.403, $p$ = 0.687) towards (non)compliance behaviours of enforced compliance, voluntary compliance, tax avoidance and tax evasion respectively. Hypothesis $H_5$(a) was, therefore, partly rejected due to injunctive norms having no direct influence over corporate SMEs' enforced compliance, voluntary compliance, tax avoidance and tax evasion. These results did not completely conform to Bobek et al.'s (2012) finding that injunctive norms significantly predict tax compliance behaviour. This finding informs us that the government or tax authority may not target common practices or customs to create improvements in corporate tax compliance or even regulate corporate SMEs so that refrain from aggressive corporate tax planning which may lead to tax evasion. It is apparent that efforts should probably be directed towards other types of social norms which are significant in encouraging corporate tax (non)compliance behaviour among corporate SMEs.

The results for descriptive norms, on the other hand, satisfied the requirements of hypothesis $H_5$(a). Descriptive norms of corporate SMEs towards tax compliance positively and significantly predicted enforced compliance ($\beta$ = 0.456, C.R. = 7.253, $p$ < 0.001). Tax avoidance was positively influenced by descriptive norms with significance ($\beta$ = 0.219, C.R. = 3.940, $p$ < 0.001). Additionally, descriptive norms towards tax (non)compliance ($\beta$ = 0.199, C.R. = 3.452, $p$ < 0.001) have a positive significant effect on voluntary compliance. Equally, descriptive norms have a significant positive effect on tax evasion ($\beta$ = 0.191, C.R. = 3.249, $p$ = 0.001). These results, however, were not in line with Bobek et al.'s (2012) and Bobek et al.'s (2007), which found that the descriptive norms construct was not a significant predictor of tax compliance behaviour.

Given the significance of descriptive norms towards corporate SMEs' tax compliance behaviour, to encourage corporate tax compliance behaviour, the tax authority needs to understand the general behaviour of corporate SMEs. The current results reveal a mixture of compliance and non-compliance behaviour, such as tax avoidance, including the manipulation of financial information by including personal expenses and not declaring extra business income, which is not perceived as criminal. Caution should be taken when considering descriptive norms towards tax avoidance, since the results show that enhanced levels of tax avoidance by other firms might exert more influence on corporate SMEs to indulge in aggressive tax avoidance, which is detrimental to corporate revenue collections.

Lastly, hypothesis H5(a) set out to test whether a significant direct relationship exists between corporate SMEs' subjective norms towards tax (non)compliance and corporate tax compliance behaviour. The findings confirm that subjective norms towards tax (non)compliance does not demonstrate a significant effect on tax evasion ($\beta$ = 0.097, C.R. = 1.459, $p$ = 0.145). No significant relationship was found between corporate SMEs' subjective norms and tax avoidance ($\beta$ = 0.100, C.R. = 1.606, $p$ = 0.108) or enforced compliance ($\beta$ = 0.035, C.R. = 0.563, $p$ = 0.573). Corporate SMEs' subjective norms towards tax (non)compliance ($\beta$ = -0.088, C.R. = -1.355, $p$ = 0.176) did not have a significant effect on voluntary compliance. Hypothesis $H_5$(a) was not supported partially because corporate SMEs' subjective norms did not significantly predict (non)compliance behaviour. This finding did not agree with those of Bobek et al. (2012) and Bobek et al.

(2015), who contend that subjective norms have a positive and significant relationship with tax compliance behaviour. These results imply that no amount of increase in subjective norms would effectively create a desired change in corporate SMEs' tax (non)compliance behaviour.

### 7.4 Discussion and implications of the findings

The results from the Structural Equation Model under $H_1$(a) show that corporate SMEs' descriptive norms towards tax (non)compliance behaviour do not significantly predict injunctive norms, subjective norms and personal norms of the small and medium-sized enterprises operating in Uganda. This result is partly contrary to the works of Bobek et al. (2012) who, in their study of individual taxpayers, found the direct paths between descriptive norms and both injunctive norms and subjective norms to be statistically significant. The authors, however, did not find any statistical significance between descriptive norms and personal norms towards tax (non)compliance behaviour. This is in line with our findings.

This finding shows, that in Uganda, the existence of corporate SMEs' common practices in relation to tax (non)compliance behaviour may not necessarily trigger a corporate acceptable custom or sanctioned behaviour for all SMEs, as indicated by Cialdini & Trost (1998). Cialdini & Trost (1998) suggest that descriptive norms or societal actions develop into sanctioned behaviour with the passage of time. Brauer & Chaurand (2010) and Thøgersen (2008) argue that descriptive norms and injunctive norms are congruent. Similarly, Lapinski & Rimal (2005, p.131) argue that what people normally do will be directly significant with regard to the creation of sanctioned behaviour.

However, failing to register significant effects between both the norms of all relevant associated corporate SMEs, friends (subjective norms) and ethical behaviour of the corporate SMEs (personal norms) and descriptive norms was contrary to Hechter & Opp's (2001) belief that descriptive norms have significant influence over subjective, injunctive and personal norms and will activate all the three forms of social norms almost simultaneously. Also, in relation to corporate SMEs, the insignificant relationship between descriptive norms and injunctive norms helped the researcher to make a clear distinction between the two types of norms. Similarly, Eriksson, et al. (2014, p.2) suggest that the concepts of descriptive and injunctive norms are logically distinct and should be treated as separate constructs. This means that, when investigating the effects of corporate SMEs' descriptive norms towards corporate tax (non)compliance, care must be taken not to rely on its interrelationships with other constructs of social norms and to consider its direct relationship with corporate tax (non)compliance behaviour.

The findings for $H_2$(a) also reveal that corporate SMEs' injunctive norms towards tax (non)compliance behaviour are important in the corporate sphere, as they enhance not only what other corporate SMEs and taxpayers (subjective norms) perceive to be the right thing to do, but also corporate SMEs' personal ethical beliefs towards tax compliance behaviour. These results are in agreement with the findings of Bobek et al. (2012), who also showed that the injunctive norms construct have positive and statistically significant direct paths between subjective norms and personal norms constructs, with more predictive power between the injunctive norms construct and subjective norms than with personal norms.

From their work, Bobek et al. (2012) argued that, as a narrower kind of injunctive norms, subjective norms of taxpayers and the referent others may be predicted by injunctive norms, especially if the referent others have similar opinions to those of the general society, which could be precisely demonstrated by a stronger standardised regression path. These findings are also in line with those of Cialdini et al. (2006), who observed that injunctive norms motivate behaviour by promising social rewards and punishments, and model how relevant others, like corporate SMEs, owners, friends and management, would behave towards other corporate SMEs' tax (non)compliance behaviour. Cialdini et al., (1991) indicate that injunctive norms shape behaviour, as they comprise the moral rules of the group and therefore affect how referent others and corporate SMEs would behave.

Furthermore, Ford & Ferguson (2004) suggest that injunctive norms, as socially shared sets of rules, define appropriate and improper conduct, suggesting that if the suitable behaviour is to comply with corporate tax regulations, the majority of SMEs would indeed agree to pay what they owe to the government in taxes and this would be reflected in their individual actions (Alm et al. 1999). In this regard, injunctive norms direct corporate tax (non)compliance behaviour among SMEs and their personal social judgments, since they provide information about what is likely to be sanctioned in a tax (non)compliance context (Ford & Ferguson 2004). The finding is still in agreement with Schwartz (1977), who argues that individuals build up their ethical standards of behaviour from the awareness that performing or not performing a particular behaviour may have certain costs and their feelings of responsibility with regard to performing a specific behaviour.

The results of hypothesis $H_3$(a) show that corporate SMEs' subjective norms towards tax (non)compliance behaviour are essential in the field of corporate SMEs' tax (non)compliance behaviour. This has revealed that corporate SMEs' subjective norms have a strong relationship with corporate SMEs' personal norms towards tax (non)compliance behaviour. As well as supporting the hypothesis, this finding is in line with Bobek et al.'s (2012) results. Taxpayers who are surrounded by other corporate SMEs, friends and relatives that cherish paying taxes will ultimately demonstrate ethical values that support taxpaying behaviour (Bobek, et al. 2012), and if their referent others do not support compliance with the tax regulations, taxpayers may be influenced by their non-compliance behaviour (Blanthorne & Kaplan 2008).

The strong relationship demonstrated in the analysis does not seem to be in line with Hanno & Violette's (1996) findings. While measuring the attitudes of taxpayers and their referent groups, they found that subjects were only moderately encouraged to comply with the referent groups. In fact, both Bobek & Hatfield (2003), when investigating the theory of planned behaviour and the role of moral obligation in tax compliance, and Bobek et al. (2007), in their study of the social norms of tax compliance, indicated that subjective norms have significant influence on the choices that a taxpayer makes with regard to tax compliance. Steenburgen et al. (1992) also found that the most significant influence of the change in respondents' obligations to conform was the attitudes of the significant others, which is consistent with the study's findings that subjective norms significantly affect corporate SMEs' tax compliance behaviour.

In reality, if it so happens that the people or corporations around a corporate SME perceive that paying taxes is the right thing to do, the internal ethical behaviour of that corporate SME will be influenced positively and its managers will move towards complying with the corporate tax code. Therefore, the Uganda Revenue Authority could try to invest in finding out the general opinions of corporate SMEs as taxpayers and their management about the issues regarding corporate tax compliance, so as to understand what motivates or discourages them in the tax compliance process.

Consideration of $H_4$(a) produced mixed results. However, the positive and significant results between corporate SMEs' personal norms towards voluntary tax compliance behaviour could result from fostering fine corporate SMEs' injunctive norms and subjective norms. This study's findings were consistent with those of Bobek et al. (2012), who showed that personal norms were a significant predictor of tax compliance behaviour as a private decision. Additionally, Wenzel (2004a), while studying the role of personal norms in tax compliance, found that personal norms significantly predicted tax compliance behaviour among Australian citizens. Indeed, Schwartz & Orleans (1967)'s experimental evidence produced similar results, suggesting that appealing to taxpayers' personal senses of right and wrong could improve tax compliance behaviour. This is consistent Terry & Hogg's (2000) suggestion that personal norms could influence tax compliance.

Cialdini and Trost (1998) indicate that personal norms could be developed by way of the internalisation of injunctive norms and this is supported by the results. However, the results of indirect tests show that there are no indirect effects between general societal expectations (injunctive norms) and voluntary compliance, except with corporate SMEs' personal norms through subjective norms (expectations of valued others). This demonstrates the ineffectiveness of injunctive norms in the current corporate tax environment towards tax compliance. Nonetheless, significant indirect effects were revealed to exist between expectations of close others (subjective norms) and voluntary compliance. This implies that the development of supportive subjective norms will enhance corporate SMEs' standards of behaviour, resulting in voluntary compliance behaviour. In a survey of SMEs in 2008, Walsh (2013) highlighted the need to exploit personal norms' dynamics, as they were found to have momentous influence on SME taxpayers' compliance behaviour. These results suggest that injunctive norms and subjective norms, when taken in isolation, may not influence voluntary tax compliance. Therefore, considering the strength of subjective norms, the URA would be better placed to evaluate them at the level of corporate personal norms (Wenzel, 2004), so as to encourage voluntary compliance.

However, as noted earlier, no significant relationships between personal norms and enforced compliance, tax avoidance or tax evasion were identified. This indicated that the influence of social norms constructs on these three constructs of tax (non)compliance behaviour may not be through personal norms, as was hypothesised, but may be direct. The non-significance of the direct paths was, indeed, contrary to the findings of Grasmick & Bursic (1990), who showed that personal norms had a significant relationship with to the likelihood of tax cheating. In a sense, the personal norms construct was expected to have significant effects on tax avoidance and tax evasion, which wasn't the case.

Conversely, the existence of unfavourable personal norms amongst the corporate SMEs', revealing unethical practices and a tendency to reduce corporate tax owed through aggressive planning, underreporting of taxable income and allowing for nontax deductions may not be an issue. Onu & Oats (2015, p.117) argue that a societal norm against tax avoidance will be more likely to deter taxpayers from joining tax avoidance schemes if their participation in such plans could become public and their ethical standings would be in jeopardy. Therefore, these results may indicate an absence of personal norms towards tax non-compliance or dishonesty in the responses.

Secondly, in the quest to investigate the determinants of enforced compliance tax avoidance and tax evasion, there may be an inevitable need to consider their direct relationships with other social norms constructs, given their non-significance in relation to these non-compliance constructs through personal norms. The results also show that injunctive norms indirectly and significantly influence compliance behaviour through subjective norms and personal norms, while subjective norms influence voluntary compliance indirectly through personal norms and have no direct effect on tax compliance behaviour. This means that the government and tax authorities need to build taxpayers' confidence, so as to encourage favourable actions and sanctioned behaviour from them, as this will have a fundamental effect on the nature of subjective and personal norms.

Additionally, hypothesis $H_5$(a) was, therefore, partly rejected due to injunctive norms having no direct influence on corporate SMEs' tax compliance behaviour. These results did not fully conform to Bobek et al.'s (2012) finding that injunctive norms directly and significantly predict tax compliance behaviour. Alm et al. (1999) contend that if others behave according to a socially accepted mode of behaviour, the individual will also behave appropriately. Therefore, taxpayers will comply and pay taxes as long as they believe that compliance is the social norm. In other words, taxpayers' compliance behaviour depends on other taxpayer's conceptions of the behavioural setting (Alm et al. 1999, p.141). Additionally, Bobek et al. (2015) found that all four constructs of social norms significantly relate to tax compliance behaviour, which doesn't seem to be the case for the results of this thesis. Nonetheless, scholars like Marini (1984) and Darley & Latané (1970), as cited in Cialdini et al. (1991), indicate that injunctive norms may not have the capability to significantly predict social behaviour like tax (non)compliance behaviour. In their argument, the authors suggest the concurrent existence of mutually incompatible norms within the same societal group, and that, irrespective of the type of behaviour that crops up, such behaviour may as well be credited to the act of norms. When this happens, it can as well be thought that such a concept as social norms may be too vague to explain anything as it has the capacity to explain any form of behavioural pattern.

Kallgren, Reno & Cialdini (2000), however, argue that salient social norms have the predictive power to significantly affect behaviour. Using the same reasoning, for corporate

SMEs' injunctive norms not to directly predict tax compliance would signal that they are not salient in the prediction of voluntary compliance. They are not even indirectly salient, failing to have significant effects on enforced compliance, tax avoidance and tax evasion. This, therefore, implies that targeting sanctioned practices or customs to increase corporate tax compliance or to help corporate SMEs to refrain from aggressive corporate tax planning and evasion directly may not be a feasible strategy. The revenue authority might need to direct its efforts towards other types of social norms, considering their predictive significance towards corporate SMEs' tax (non)compliance behaviour.

A different picture was demonstrated when it came to descriptive norms, with all four direct paths being significant. Descriptive norms affected enforced compliance the most, followed by voluntary compliance. These findings contrasted with those of Bobek et al. (2012). Bobek et al. (2012, p.462) and Bobek et al. (2007) did not find any significant relationships between descriptive norms and tax compliance intentions in their studies of US experienced taxpayers' social norms. However, Cialdini et al. (1990) and Lapinski et al. (2007) suggest that descriptive norms could serve as a heuristic signal or decisional shortcut for behaviour when one is choosing how to behave in a given situation; in this context, the choice being made can relate to tax compliance. Ford & Ferguson (2008) argue that descriptive norms influence individual or group behaviour and social judgments by providing information about what is sensible or effective in that context.

Thus, for Uganda, these findings reveal that most corporate SMEs surveyed could pay their corporate taxes based on what they observe others doing, either paying voluntarily or as a result of enforcement through audits and penalty rates. In addition, the positive and significant relationship between descriptive norms and tax avoidance is of critical interest to our study. This finding could be consistent with the findings of Bobek et al.'s (2007) cross-country study, in which the majority of subjects indicated that they would cheat a little, which could be translated as most of them do.

The findings suggest that descriptive norms can encourage compliance with tax laws or evasion by helping taxpayers to give reasons for their actions. For example, if corporate SMEs believe that most firms evade taxes or practice tax avoidance, they can rationalise evasion or avoidance (Pommerehne et al. 1994). Thus, if corporate SMEs observe that others' intentions to comply are low, the moral cost relating to evasion is likely to be low, so evasion will be the most likely action taken (Torgler 2003). Taxpayers also want to take actions that have been demonstrated to be effective for others (Cialdini & Trost 1998).

These may be the actions which are perceived to yield the greatest financial benefits with minimal repercussions with regard to sanctions and audit. Notwithstanding the provision of information about tax evasion and avoidance, descriptive norms have also been shown to provide information about other SMEs that comply with the corporate tax system and majority of SMEs demonstrate enforced compliance behaviour. The results seem to suggest that tax evasion and avoidance practices need to be fought by, for instance, providing information about corporate SMEs that comply to the non-complying SMEs. This information could contain in addition, balances of unpaid corporate tax relayed through reminder letters or the media.

The results show the association of descriptive norms towards corporate SMEs' tax compliance behaviour. Thus, to support corporate tax compliance behaviour, the Uganda Revenue Authority should tap into and appreciate the broad corporate tax compliance behaviour of SMEs and their observable practices with regard to corporate tax compliance. This will enable them to harness good corporate tax compliance practices and prevent the tax cheating that would inform other corporate SMEs' behaviour. The tax authority might need to reduce the effects descriptive norms towards tax avoidance, as the results demonstrate that the amplification of descriptive norms towards tax avoidance may spin into aggressive tax avoidance, hence aggravating tax non-compliance behaviour.

Lastly, the failure of corporate SMEs' subjective norms to significantly predict (non)compliance behaviour was contrary to the findings of Bobek et al. (2012) and Bobek et al. (2015), who argue that favourable subjective norms constructs will have positive significant impacts on the tax compliance behaviour of taxpayers and unfavourable subjective norms would significantly influence tax non-compliance. This implies that, if favourable, subjective norms should have positively and significantly predicted voluntary and enforced corporate tax compliance and, if unfavourable, they should have had significant influence on tax avoidance and evasion; none of these assumptions were supported.

The results, however, seem to be supported by the work of Hessing, Elffers, & Weigel (1988), who report no significant correlations between residents' self-reports of tax evasion and officially documented behaviour in their study, which was conducted in the Netherlands. Hessing et al. (1988), however, indicate that an insignificant prediction does not necessarily mean such study behaviour is non-existent. In their study of attitudes, incentives and tax compliance, Trivedi, Shehata & Mestelman (2005), while utilising Ajzen's theory of planned behaviour, show that subjective norms, one of the constructs in the model, did not have a direct significant effect on tax compliance behaviour. This result, although from an experimental study, reveals that subjective norms may not predict tax compliance behaviour significantly in Uganda's corporate SMEs setting.

From the discussion of the subjective social norms construct, it is apparent that tax compliance behaviour will only be influenced by the subjective norms construct through personal norms and, therefore, the need to understand the determinants of favourable norms would be of interest to the URA and the government as a whole, so that they can harness the good norms of relevant others in the tax compliance model, which would effectively create a desired change in corporate SMEs' tax compliance behaviour.

**7.5 Conclusion, limitations of the study and areas for further research**

Social norms literature has shown that social norms can have significant effects, but the relationships between corporate social norms constructs and tax compliance behaviour have not been well explored. This study investigated these relationships and the findings reveal a mixture of indirect, as well as direct, significant and insignificant impacts on tax compliance behaviour.

The findings reveal that descriptive norms can directly (but not indirectly) encourage corporate SMEs to comply with tax laws or to evade taxes by helping them to provide reasons for their actions. This is important for tax authorities aiming to increase tax compliance levels and reduce tax non-compliance. In the same way, favourable corporate personal ethical values (personal norms) can directly influence voluntary compliance intentions but not enforced compliance, tax avoidance or evasion. Although sanctioned behaviour representing what corporate SMEs believe in (injunctive norms) was found to significantly influence corporate SMEs' personal norms directly and indirectly, their indirect effect on voluntary compliance was found to be weak. Therefore, only subjective norms (what valued others believe in) could indirectly influence voluntary compliance. Therefore, if valued others believe that paying taxes is the right thing to do (subjective norms) and corporate SMEs are able to receive favourable tax compliance perceptions to guide them when making day-to-day tax compliance decisions (descriptive norms), corporate tax compliance levels are likely to improve.

Holding unfavourable beliefs about tax evasion and avoidance and receiving information that other corporate SMEs are involved in tax non-compliance, will lead to low tax revenues (Cialdini & Trost 1998). Consequently, the URA should continuously explore significant social norms towards tax avoidance and evasion through independent inquiry. This could help them to find a lasting solution and encourage voluntary compliance behaviour. Some unfavourable social norms could be linked to procedural unfairness and resolving this situation may entail improving corporate tax compliance procedures through simplification in addition to improving interactions between corporate SME taxpayers and URA tax officers (van Dijke & Verboon, 2010; Eichfelder & Kegels, 2014). In addition, unfavourable norms could arise from government failure to provide appropriate public services using the taxes collected and corruption tendencies in the public service domain. This would necessitate the formulation and enforcement of anti-corruption policies by the government.

The study's findings add to the growing social norms literature by finding out how the different social norms relate to corporate SMEs tax compliance behaviour, especially in relation to a study conducted from a developing country's perspective.

However, caution must be applied, as the findings might not be transferable to general corporate SME taxpayer populations in other economies. Cross-sectional data was used, which consequently limits the likelihood of examining the changes that would happen within the corporate social norms of the SMEs that might affect their tax compliance behaviour with the passage of time. Secondly, this paper adopted item scales that were explicitly developed to capture individual social norms in a developed country, which could have reduced their application to corporate SMEs and, in particular, those in Uganda. Therefore, future research could replicate the study, considering corporate SMEs in Northern and Western Uganda and probably using a larger sample size, to confirm its findings. A further limitation of the study is that the model does not explain more than 7%, 21%, 8%, 5% (R-Square) variability in corporate tax compliance behavioural constructs of voluntary compliance, enforced compliance, tax avoidance and tax evasion respectively.

These results show resistance where there doesn't seem to be willingness to comply with the corporate tax regulation and, given that only 8 percent and 5 percent of corporate tax avoidance and evasion respectively is explained by social norms in general, there is a strong possibility that another significant variable exists. Additionally, the model can only explain 16%, 24% and 1% (R-Square) of the variability in the social norms endogenous constructs of corporate personal norms, subjective norms and injunctive norms respectively. However, these statistical effects are not in line with prior studies (Bobek et al., 2007; 2012) concerning the effect of social norms on tax compliance behaviour. Social norms may account for a small fraction of corporate tax compliance behaviour, so improving social norms alone may be an ineffective tax compliance measure among corporate SMEs.

In conclusion, undeveloped social norms towards tax compliance amongst corporate SMEs might explain why corporate SMEs' tax compliance levels are low when compared to individual social norms in developed countries. Additional research work could be carried out with individuals within emerging economies to assess their conformity.

# Chapter 8

## Does corruption matter in Uganda's tax compliance behaviour?

### 8.1 Introduction

This chapter was motivated by the tax compliance puzzle that exists in the country. First, Uganda's national budget shows a partial dependence on donor funding, reflecting the fact that gaining internal financing is still a challenge. Secondly, over 45 percent of the gross national income (GNI)[7] is from the informal sector (Mawejje, 2013), which reflects the fact that a high proportion of businesses do not comply with the tax code. Furthermore, the contribution of corporate firms to the tax revenue still stands at only 20 percent of the total direct taxes (URA, 2015). The Slippery Slope Framework (see Section 3.6) predicts that fair tax systems are likely to enhance voluntary compliance and that power of authorities might improve enforced tax compliance. The survey of corporate SMEs undertaken in relation to tax fairness in the government's distribution of resources and the fairness of tax administration procedures showed that tax fairness has a negative predictive power on voluntary compliance, which went against the theoretical conceptualisation (Kirchler et al. 2008), an indication that there are other factors that could further explain this relationship.

Bobek et al. (2012, 2015) indicate that social norms could be a significant predictor of tax compliance or non-compliance behaviour. However, in this thesis (see section 7.3), little variability in voluntary compliance, tax avoidance and tax evasion was registered against the minimal contribution that these firms make to the national budget. In addition, social norms explained the relatively higher variability in enforced compliance, a sign of resistance amongst corporate SMEs in Uganda, yet the power of authorities' dimensions of audit probability and detection did not have significant predictive power on enforced compliance.

Owing to the fact that the environments within which taxpayers operate are intricate (McKerchar, 2008) and the use of a mixed methods approach was planned, the researcher subsequently explored semi-structured interviews, which were conducted so that explanations could be found where the quantitative methodology could not find answers, as the findings in Chapter 6 (see section 6.3) and Chapter 7 (see section 7.3)

[7] OECD (2018), Gross National Income (GNI) is defined as gross domestic product, plus net receipts from overseas wages, salaries and property income, plus net taxes and subsidies receivable from abroad.

indicate. Therefore, in a bid to try to find explanations of the inverse relationship between corporate tax fairness and voluntary compliance, the weak relationship between power of authorities and enforced compliance and the weak predictive power of social norms, semi-structured interview data were investigated. This method is believed to support investigations where the actual state of behaviour or perceptions could come to bear (Creswell, 2013). Therefore, a deeper understanding of corporate tax fairness was investigated and the findings from the semi-structured interviews reveal that the corporate tax system is perceived to be unfair.

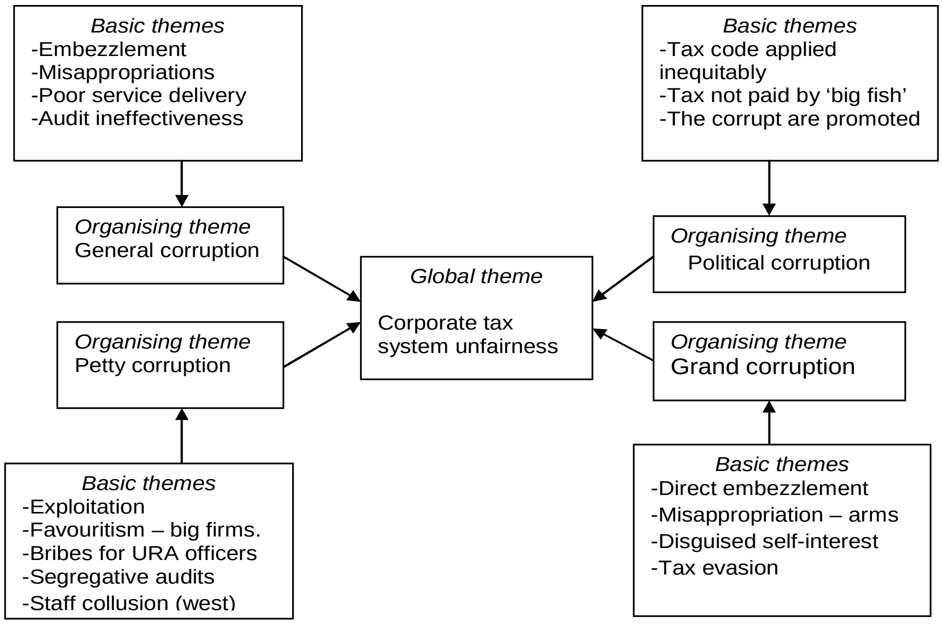
An analysis of the interviews revealed that corporate tax system unfairness was attributed to perceived entrenched levels of corruption. Four types of corruption were identified within the country: general corruption, petty tax corruption, political corruption and grand corruption. General corruption was perceived as corruption where lower and middle-level government officers are involved in bribery and the embezzlement of taxpayers' funds. Petty tax corruption was viewed as including corruption activities where tax officers demand or are paid bribes for the purposes of preventing procedural justice and facilitating evasion, as well as discrimination amongst taxpayers based on tribal sentiments. Political corruption was perceived to as corruption where the tax code is applied inequitably, with the political elite not paying corporate taxes and the politically connected, though corrupt, benefiting from promotional favours. Lastly, grand corruption became apparent, indicating the involvement of high-level government officers. Indicators of perceived grand corruption included direct embezzlement and the misappropriation of public funds, and disguised self-interest, where public funds were ostensibly invested in a financial institution which, together, were having significant effects on tax evasion. The details of the analysis, presentation and conclusions are given below in consideration of the following study objective:

i) To examine and model the relationship between corruption and corporate tax system unfairness and tax compliance behaviour among SMEs in Uganda.

## 8.2 Analysis and presentation of findings

The interview results reveal corporate SME taxpayers' perceptions of corruption in the corporate tax system in four distinct components (general corruption, petty tax corruption, political corruption and grand corruption) which are derived from various basic themes. These four components, as organising themes, establish the level at which the tax system is perceived to be unfair to the corporate SME taxpayers and the society in which these firms operate. Figure 8.1 presents a thematic network of the interview data, consistent with Attride-Stirling (2001).

Figure 8.1: Thematic Network of Interview Data




*Source: Interview data*

### 8.2.1 Research findings and discussions

The interviews broadly focussed on the perceptions of how corporate SME owners and managers perceive the corporate tax system unfairness or fairness, and this study presents the associated responses. The findings were analysed into four organising themes of general corruption, petty tax corruption, political corruption and grand corruption, which were then woven around a fundamental theme of corporate tax system unfairness. Governments are vested with the responsibility of taking care of their citizens in the form of providing security, infrastructure and other public goods and services for the general welfare of nationals using public funds, which are mainly gained from taxes. Thus, if a government fails to provide such public goods and services, taxpayers' morale and trust in it to do the right thing could be affected, with probable tax evasion, as the government will have failed to meet its responsibilities (Torgler, et al. 2008). The following sections present findings on the individual thematic areas and their effects on tax unfairness and tax evasion.

### 8.2.2 General corruption and tax unfairness

The focus of the study in this area was intended to identify how perceived general corruption in the regular bureaucratic system has ostensibly affected corporate tax system fairness. This was done with regard to embezzlement of public funds, quality of service delivery to society, misappropriation of funds and audit ineffectiveness resulting in SMEs' corporate tax non-compliance behaviour. The findings relating to perceptions of general corruption and tax system unfairness by corporate SMEs' are presented below.

**Embezzlement of funds**

Perceptions of embezzlement of public funds came up as a finding while interacting with the corporate owners and managers of SMEs. This seems to call into question the fairness of the corporate tax system as a whole and its capacity to encourage tax compliance behaviour. Participant 1 stated:

> *'....personally, I would like to pay taxes for government programmes but there is a lot of corruption and most of the revenue raised does not provide society with the value we would expect. You pay taxes and people in government just eat it. Why really continue paying taxes? In addition, when government is allocating facilities for taxes paid, they may not necessarily do it fairly'*.

The above statement acknowledges taxpayers' willingness to contribute towards national revenue. However, the respondent does not seem to view the government as being effective in providing services to the public. The participant perceives government officers to have self-interest and the government to be unfair with regard to resource distribution. Participant 6 strengthened the above view by saying:

> '*....these public officers do not fear to steal money, even when it is sent to help the poor; at least a portion must be taken of either in contracting with suppliers or directly'*.

Participant 25 reaffirmed this position by stating:

> *'...but even when you pay all the taxes, it may still be stolen from other areas of government like district authorities, some ministers, also at schools where this money is sent for government activities'.*

The implication here is that embezzlement of taxpayers' funds by government officers occurs at all levels of the government's bureaucratic system, especially at the point of service delivery. The owners and managers of corporate SMEs believe that stealing of funds can occur irrespective of the economic status of the recipients of public services, which can hurt the poor more than the rich. Indeed, the lack of accountability for expenditure questioned by participant 9 could be viewed as a deliberate strategy by public officers to disguise the audit trail. These practices facilitate the embezzlement of funds by public officers and influence peddling in public procurements. This would allow the corrupt officers to avoid detection. As a result, some corporate SME taxpayers will consider all of these practices before deciding whether or not to pay.

**Misappropriation of funds**

Diversion of funds to other purposes could also be seen as negatively affecting the fairness of the tax system in place, as participant 4 confesses in the following quote:

> *'...the system is not fair at all; it does not favour small companies. Honestly, I have been cheating and when I find a good road, I would say it is good value, save for those who pay a lot; they may not find it favourable....services in the main hospitals are not good, drugs get expired, no gas cylinders; LC 5, CAO all get fuel from hospital, it is bad news!'*

In the quote above, participant 4 says he or she has been cheating, which means that there are taxpayers who cheat consistently and, unless they are caught, they may not cease. Even though services are provided from revenue collected, their quality may be compromised and misappropriations may be made by bureaucrats. Tax non-compliance, coupled with a corrupt bureaucratic system, renders the whole tax system unfair, since such a system can never be efficient in service provision, hence affirming the perceived poor state of service delivery, which may be the reason for tax evasion and avoidance.

Additionally, participants 11, 13, 24 and 26 highlight other challenges that emanate from a corrupt tax system. Participant 11, for instance, points out that:

> *'...the other issue that generally disturbs us as businesses and Ugandans is the way government handles the tax money. The government misuses the taxes collected by the URA and this discourages taxpayers' compliance. In fact, some businesses deliberately refuse to pay taxes, including this one here. …most genuine companies fear what can happen to their businesses, which is why they try to pay taxes, otherwise the strong ones just refuse to pay'*.

This statement presents the perceived reason for tax non-compliance behaviour among corporate SMEs. The misuse of public funds was highlighted where public services which are probably inadequate are provided. The misapplication and diversion of these funds to non-productive sectors, may affect the funding of necessary public goods and services like infrastructure and healthcare.

Participant 13 attempted to confirm where stolen taxpayers' money is invested by stating:

> *'...besides, even when you pay well you do not get a different service from others., You find government employees who earn smaller salaries are the ones with buildings all over town. Where do they get the money to buy those buildings? Corruption is high, the money is not used well, we wonder where our country is taking us. Hospitals are not helping the sick – no equipment, like in the dental section and cancer institute in Mulago Hospital, medical staff are not paid well to do their work and accommodation is absent at most of the health units within the districts of Uganda'*.

The implication here is that perceptions of high level of corruption have certainly affected public service delivery. Government officers are viewed to divert public resources for their own benefit, as they use this money to purchase expensive structures around the major towns in the country. This feeling has made it justifiable for SMEs not to comply with the corporate tax system due to perceived unfairness in the utilisation of tax revenue.

**Poor service delivery**

Challenges arising from perceived general corruption were noted as affecting the quality of public services provided. Participant 1, for example, pointed out the problems encountered in the health and education sectors by stating:

> *'...the health sector is down, no cancer machines in major referral hospitals across the country, doctors in government hospitals and health centres do not want to attend to sick people unless they have paid them money, let alone the education system that has gone to the dogs as it is common to find pupils and students who cannot read, write and speak in English'*.

The same view was held by participant 15, who added that some village schools lack infrastructure because of corruption. These statements mean that there is recognition of the need to provide funding for government programmes. However, the worry is that the presence of extensive corruption amongst government employees makes it difficult to leave sufficient revenue to efficiently provide public goods and services, as highlighted in the latter part of the statement relating to the poor nature of services in the country. In addition, some health workers might need to be bribed before services can be accessed. Indeed, taxpayers' morale is also in question due to perceptions of entrenched levels of corruption.

Just like participants 1 and 4, participants 6, 7 and 9 indicate the lack of fairness in the corporate tax system and the quality of services from government, as well as the state of corruption in the country. For instance, participant 6 says,

> *‘...there are many issues about the corporate tax system in Uganda. This tax system is not fair. A fair tax system would consider the citizens of that country and how they are treated, the nature of services to provide things like infrastructure. ...we do not get the value for the taxes that we pay as there are problems with the roads, many potholes which are not worked on, yet we pay lots of money to URA. …government should provide the required services out of the taxes paid, provide accountability of the taxes other than corruption that has eaten up our country’.*

Participant 7 had a related view, indicating that the government needs to improve service delivery since that is the reason taxpayers contribute to the treasury. These statements indicate that quality services and accountability for expenditure are not provided even when taxes are paid, facilitating embezzlement of funds by public officers.

Moreover, in trying to show the unsatisfactory state of public services with entrenched corruption, Participant 17 argued:

> *‘...some people who bid to supply government with constructions and other supplies say to win a tender you have to either pay a portion of the contract price back to those who authorise and release the money or you don’t get it. This is not only at ministries but also at other government organisations like authorities and at districts. It looks like official now in Uganda at the moment.’*

The above statement implies that there is perceived to be widespread bribery in public procurements, which drives poor service delivery. Contractors providing part of the contract price as a bribe to government officers, for instance, could have the effect of reducing available funds which are needed to efficiently provide services of the agreed quality. Perceptions of poor service delivery may reduce the SMEs’ tax morale which may motivate corporate tax non-compliance behaviour among them.

**Audit ineffectiveness by the URA**

Participant 26 expressed doubt about the efficiency and effectiveness of the deterrence factors when he said:

> *‘...nearly all the sanctions are not appropriate in encouraging companies to pay taxes. If you fear to be caught, you pay the taxes, but if you don’t mind, you may not pay until caught. …given what is happening in Uganda, misuse of taxpayers’ money,*

*roughly all SMEs that pay taxes only do it because of audits by URA officers who are allocated areas of coverage'*.

These assertions indicate that, firstly, the sanctions are not severe enough to encourage compliance. Secondly, either because audits are not conducted on 100 percent of taxpayers or because they are not carried out effectively, some companies that do not fear being caught don't comply. Thirdly, taxpayers perceive that government officers in the majority of government departments misuse money through corruption. This means that few taxpayers actually willingly comply with the law, putting a bigger tax burden on them, which impacts on their tax morale and trust in such a system. In other words, given the misuse of tax revenue through corruption and taxpayers' awareness of the weaknesses in the URA's revenue recovery system, tax evasion might become the corporate SME taxpayers' choice. Thus, tax evasion and perceived misappropriation of public funds could create funding gaps, hence severely affecting service delivery.

Clearly, there are perceptions of general corruption (corruption involving lower and medium-level government employees) within the bureaucratic space of Uganda's system, which has had a negative effect on corporate SMEs' willingness to comply. Although corporate SMEs are aware of the need to comply with the corporate tax system's requirements and be part of public provision, the question of whether the money will be appropriately applied with accountability provided is still unclear. Litina & Palivos (2016), for instance, contend that widespread corruption may result in a reduction in social capital, a shared mistrust of the government by citizens, and the legitimisation of bribery and tax evasion.

The findings demonstrate that corporate SMEs do not seem to trust the government and government departments as it's perceived that government officers demand bribes and tax revenue is embezzled, resulting in poor medical facilities, services and education. Indeed, ActionAid Uganda (2014, p. 8) hinted that Uganda may not have a credible plan to offer better services to citizens. There is poor infrastructure and services; most Ugandans have to offer bribes to get hold of a doctor and, in some instances, locals are referred to private clinics. Contractors meant to renovate infrastructure in hospitals, schools and roads do substandard work as the funds are grossly squandered (ActionAid Uganda, 2014, p.10). This may be due to self-interest, where the government officers who head the procurement committees are the providers of such services (Transparency International, 2012, p. 2), as well as absenteeism of teachers, health workers and officers in the mainstream bureaucratic system. Being in this environment may not leave the taxpayers with a choice other than that of tax evasion, as indicated by the participants.

It appears that corruption is deeply-rooted in the bureaucratic system and this is taking its toll on the way in which businesses view the system. However, central government doesn't seem to have a grip on it, thus encouraging tax evasion. As Cheloukhine & King (2007) argued, when corruption gets entrenched in the system of social relations, it may be considered to be the norm rather than a crime, which eventually facilitates the growth of the informal sector where, essentially, taxpayers deliberately refuse to pay their tax liabilities.

Taxpayers in Uganda could be experiencing a similar situation to that described by participant 4: the system does not seem fair to corporate SMEs and, as such, his practice has been to openly cheat on corporate tax. This tradition affects service delivery and revenue collection. In another twist, the highest-ranked officers in the district - the Local Council 5 Chairperson (LC 5) and Chief Administrative Officer (CAO) - are involved in diverting hospital resources for their personal benefit. When a taxpayer deliberately refuses to pay corporate tax, it's justified, since the monitors are perceived to be the perpetrators of misuse of public resources. This behaviour may be the very reason for the poor quality of services that most participants mentioned. This is, indeed, consistent with Hillman's (2004) argument that corruption makes public spending ineffective in the quest to attain societal objectives, as it cuts tax revenue, especially in developing countries.

Additionally, participants questioned the use of the tax revenues paid to the URA by their firms but also indicated that the corporate tax system wasn't fair to their companies. They also decried the state of infrastructure and quality of services offered by the government and associated this with the corruption levels in the country. Accountabilities for the money spent from tax revenue do not add up, which creates a state of uncertainty among taxpayers. However, in his study on the determinants of tax compliance among SMEs in Uasin-Gishu County, Mutai (2013) stated that lack of transparency and accountability in the use of public funds contributes to public distrust, both with respect to the tax system as well as the government, which subsequently increases the willingness to evade taxes.

Additionally, participants indicate that public officers in Uganda are not afraid to steal money, even when it is sent to help the poor; at least a portion of that money must be embezzled either when contracting suppliers or directly. Under these circumstances, if accountability for the expenditures is not provided and monitored, further embezzlement of funds by public officers and influence peddling in public procurement will be facilitated. This means that the psychological tax contract that taxpayers have with government (Feld & Frey, 2007) may no longer exist, since there is no reciprocal exchange. Government failure to provide public services affects taxpayers' morale and trust in the government departments to do the right thing, with tax evasion becoming likely since the government has failed to fulfil its obligations (Torgler, et al. 2008).

Moreover, perceptions of government misuse of tax revenue were high among a number of participants (11, 13, 24 and 26), which was attributed to low tax morale that corporate SMEs seem to exhibit, hence resulting in tax non-compliance behaviour. Consistent with these findings, Akinboade (2015) suggests that taxpayers may be reluctant to pay taxes if they recognise that the government misuses public funds time and time again, and that their wishes are not reflected in the expenditure patterns. Actually, one of the issues raised was the immense corruption within the public service sector, where the employees, who earn lower salaries than those in the competitive private sector, are the ones that own buildings in major cities. These buildings could cost billions of shillings to acquire and yet the private sector employees cannot afford them, reflecting the idea that taxpayers' money may be being siphoned off by those entrusted with its safety, which is ostensibly the root cause of poor service delivery in the country.

With regard to all of the issues raised above, participants noted that corporate tax compliance cannot be a straightforward thing and, since the effectiveness of tax audit is in question, revenue generation from such a system could be very difficult to achieve. However, if government departments are freed from both bribery and embezzlement of public funds, use the money for the intended purposes and provide quality services from such funds (ADBG, 2010), taxpayers' morale, trust and confidence in a government will increase and, as a result, tax compliance behaviour may be enhanced.

### 8.2.3 Petty corruption and tax procedural unfairness

The major challenge, as highlighted by the findings, was the SMEs' corporate perceptions of corruption levels within the Uganda Revenue Authority. The study looked at corporate perceptions in terms of the exploitation of corporate taxpayers, bribery amongst tax officers, favouritism, segregative and ineffective audits, staff collusion with corporate owners and managers from Western Uganda, and corporate tax evasion. The findings, which describe SMEs' perceptions of how petty corruption within the URA affects corporate tax system fairness, leading to tax evasion as a consequence, are presented hereunder.

### Exploitation of corporate taxpayers

Participant 1, from the eastern region, who runs a property estate company, reveals the state of unfairness of the corporate tax system by stating:

> *'...administration of corporate taxes is not fair. They overcharge us corporate tax and do not listen to our complaints, especially when the company has had empty rooms for some periods. ...in most cases, URA wants the company to pay even when we did not receive any money....there is no systematic guidance, the processes keep changing, especially when it gets to which expenses to include. They are also selective in a way - when it is a big company the treatment is different, softer than us -and also the companies known or owned by politicians'*.

Participants 5, 10, 16 and 22 held similar views. Participant 5, for instance, said:

> *'...URA staff force us to pay taxes but they do not pay government staff on time which has made people unhappy. URA is very authoritative and we don't trust them. If you do not complain, they can even tell you to pay UGX 20 million! Without their force generally, it would be difficult to pay'*.

These statements imply intentional behaviour by the tax officers to defraud corporate SMEs. Insisting on revenue extraction without due consideration of the rightful taxable income would indeed mean that the tax authority has minimal control over the tax officers in their employment of corporate tax procedures. Besides, the owners and managers of the corporate SMEs believe that bias exists in the way they are treated. Together, these perceptions have the capacity to lower taxpayers' trust in the tax authority and their morale in respect of paying corporate tax, hence providing an excuse for evasion.

### Bribery amongst tax officers

The arguments relating to the basic theme of taxpayers' exploitation were further strengthened by participants 16 and 22. For instance, participant 16 argued that:

> *'...URA staff are not easy people. Even when you have clean books, they will not accept them. You know Uganda, it's full of corruption…they want something, that is*

*what I mean. Their resistance stems from that kind of thing, they can't do something without demanding for something from you.'*

Participant 22 noted that:

*'...the system is rotten and all aims at taking the taxpayers money without mercy'*.

The kind of behaviour that's viewed as being exhibited by the tax officers, including the exploitation of SME corporate taxpayers in a bid to get bribes, may be detrimental to procedural corporate tax system fairness. There might be cases in which some SMEs won't present themselves as seeking to comply with such a system due to fear of such exploitation and bribery, which could reduce corporate tax collections.

Participant 2 noted clearly that checks are not effective and that he would have to seriously consider things before paying taxes. He said that:

*'...most SMEs are not checked by URA. They would pay tax, but under force because taxes have actually caused them to close business. For me, I would think twice before paying taxes. URA should continue showing people that it is trustworthy ...but there are issues of corruption and bribery still in URA, where staff demand for something like a certificate and TIN number....they picked money from me and failed to give me the certificate on time and I lost a job which was profitable'*.

The foregoing view demonstrates that not all corporate SMEs are checked and some of them take advantage of this, so as not to pay taxes owed. The URA and government also seem to be viewed as untrustworthy, since there is no accountability for the taxes collected. In addition, the URA's staff are perceived to demand bribes from corporate SME taxpayers, presenting them with an additional financial burden. Bribery is associated with income underreporting from the perspective of self-interest, yet collections lack accountability, creating uncertainty amongst taxpayers and the public, which could lead to tax non-compliance behaviour.

**Favouritism**

Although participant 4 acknowledges the influence that the tax authority has, the same authority encourages tax noncompliance. He says:

*'...URA has the influence to force businesses to pay taxes because of the law and policies in place. There is no taxpayer who would be willing to pay taxes freely. The relationship between URA and taxpayers is not good. Some companies that are big have a way they go around underdeclaring because of some connections, and they save a lot and so outcompete our companies, which is impossible for small companies to do'*.

The same view was held by participants 9, 10 and 13, who highlighted the perceptions of corporate tax system unfairness resulting from the segregative nature of URA staff, arises from the tax officers' dire need of bribes so as to help some SMEs to comply. From a related perspective, participant 16 says:

*'...besides this, there are also many businesses that just can't pay taxes. …I wouldn't relate it to politics. Of course, there are SMEs with connections to big politicians but the major factor is people with money. Whenever you have lots of money, you are also associated with a big name and you can do anything. These people buy their way out at every stage in their companies' businesses. They are known by URA staff and are not subjected to the torture that small companies go through. There is no way a small business would dodge any form of tax unless they decided to abscond from the face of URA'*.

In fact, participants 24 and 25 held the same viewpoint, i.e. that large companies enjoy more favours than small ones.URA staff favour such companies, as they can easily give them money for processing their tax issues. The implication of these assertions is that the corporate tax system does not seem fair as it does not apply procedures equally to all corporations. This appears to have affected corporate SMEs' tax morale to the extent that some SMEs openly evade corporate tax. Also, the confidence that SMEs appear to have to evade corporate tax stems from the fact that there is audit ineffectiveness.

**Segregative and ineffective audits**

Prejudices weaken the effectiveness with which tax audits can be conducted and can stimulate perceptions of unfairness. Such biases may subsequently encourage tax evasion, as participant 13 specifically noted below.

*'Also, the time to submit returns at the end of year is like not enough. It takes a long time to compile all the information necessary for the tax returns. URA staff may offer*

*to help you comply on condition that you pay them. All the faith in the system is down...if not given something, they may make you pay lots of corporate tax as they will try to reject some of the expenses presented in your income statement...The tax rate is ok in my view and, as I said earlier, because of difficulty, there are companies that do not bother even employing accountants to help them, they just don't pay tax. Such companies take their chances, knowing that URA does not audit all businesses. It is only when they are caught that they pay. I think the audits done by URA are not sufficient enough to encourage businesses to pay...'*

This statement seems to indicate a number of flaws: failure on the part of corporate SMEs to employ accountants to guide them when preparing records for tax purposes; tax officers requesting bribes before helping SMEs to complete returns and accepting returns; and the perceived weak audit system. Together, these motivate corporate SMEs to simply evade corporate tax. This category of taxpayer does not seem to have faith in the system, due to loss of tax morale and trust to the extent that some of them may not employ tax accountants. Corporate SMEs who are willing to pay tax and have not employed accountants might, as an alternative, opt to bribe tax officers. Besides, corporate SMEs are almost certain that they will not be caught, since audits are not done across all firms.

Concretising the above quote, participants 14, 15, 19, 20, 22 and 23 tried to present evidence that demonstrates a weakness in audit effectiveness. Participant 15, for instance, argued that

*'...audits are done, but selectively. URA is very discriminatory in identifying the companies to audit; the system is not clear, not fair at all. Some companies don't pay any tax at the end of the year; they oppress a few businesses, quite a number of businesses dodge. ...their audits are not effective. Government needs to change strategy and increase the number of companies to audit. …yes, even others include personal expenses and pretend they are business expenses'*.

Although participants 19, 22 and 23 present similar views, they indicate that some companies manipulate their accounts depending on the purpose for which they are needed. Discrimination in audits means partiality and evaders are likely to be left out of scope. The fact that the inclusion of private expenses in the computation of taxable income or preparation of two sets of accounts is possible without being identified and caught could also indicate that there are weaknesses within the audit team and that sanctions cannot be applied effectively.

To make it even more difficult for the URA to carry out its audits, participant 20 says:

> *'...the tax rate is very appropriate for me, but some companies end up evading taxes so as to eliminate URA. This is because sometimes they fear the big tax assessment which awaits their companies…audits don't have any impact in reality. Some companies pay out themselves to individual staff in URA, so they end up not paying'.*

Although participant 20 acknowledges the appropriateness of the tax rate, she indicates that perceptions of evasion exist. Those involved in corporate tax evasion are also perceived to offer bribes to the tax auditors on occasions, so as not to raise red flags. It becomes challenging to have effective tax audits against this background, as the respondent suggests that the bribes weaken the objectivity of the tax officers and the tax system. Therefore, willing taxpayers would be affected morally and, as a result, could turn to tax evasion and join the tax non-compliers, hence reducing their overall contributions to the financing of the national budget.

**Staff collusion and evasion**

In addition, tribalism has been perceived as affecting corporate SME tax compliance behaviour, as tax officers collude with corporate owners and managers of potential corporate taxpayers because they come from the same regions. For example, participant 11 declared:

> *'...URA practices favouritism when dealing with taxpayers. You know most of the employees in this institution are from the west, President Museveni's people, and they are always inclined to helping their own community either not to pay taxes or reduce how much they are to pay. They are tribalistic; they segregate us when taxing our businesses. …so you'd rather not comply and deal with the situation later if at all you are caught. It is not common that whoever doesn't comply will be caught'*.

This statement gives us a flavour of politics and tribalism and how these have negatively affected perceptions of corporate tax system fairness, resulting in tax non-compliance. Segregation based on tribal sentiments is thought to reduce the income disclosure of firms owned and managed by people from Western Uganda and, therefore, the corresponding corporate tax. Consequently, corporate owners and managers from other regions have presumably developed resistance to the corporate tax system and seem to be unwilling to pay the corporate tax that their firms owe the government.

In a quest to understand how petty corruption affects tax morale in the Sub-Saharan countries, Jahnke (2015) analyses how petty corruption erodes tax morale using micro-level data from Afrobarometer. This study indeed reveals that perceptions of petty tax corruption reduce tax morale directly, with taxpayers not willingly paying their fair share of taxes, as well as indirectly, by lowering trust in the tax administrations, and that the effect on tax morale may be more severe where some people are distressed by petty corruption. In another study, evidence from micro-level data of 14 Eastern European countries shows that intrinsic motivation to pay taxes is enhanced once there are positive interactions with tax agents and administrations (Kasper, 2016).

As participants 5, 10, 16 and 22 indicate, the way in which URA staff force some corporate SMEs to pay taxes irrespective of the accuracy of the tax records clearly shows that there could be unfavourable interactions between the administration staff and the corporate SME taxpayers. This state of affairs appears to have led to a loss of trust in the URA as a collection institution, with participant 5 indicating that they don't trust them. The fraudulent actions that the tax officers are viewed as exhibiting because of their affinity with bribes are, indeed, harmful to tax morale and the trust that corporate SMEs have in the URA. This results in tax non-compliance behaviour, as the system is viewed as unfair. Kirchler et al. (2008) and Gangl et al. (2015) show that in situations of low trust in authorities due to tax system unfairness, taxpayers are unlikely to willingly cooperate and pay their fair share of taxes which will, in essence, reduce the tax revenue collections.

As Çule & Fulton (2009) indicate, business culture may have a significant influence on the decisions taken by a firm. If a business develops a business culture of tax evasion as a result of perceived petty tax corruption in the tax system, the result will be a major reduction in total tax revenue. Tax evasion culture seems to have taken its toll on corporate SMEs. Participants 19, 22 and 23 seem to reflect on what is happening among them when they say that some companies manipulate the accounts depending on the purpose for which they are needed, preparing two sets of financial reports. The set prepared for tax purposes shows reduced income, or even no income at all, so as to secure an exemption. The confidence that corporate SMEs seem to exhibit in preparing and presenting such accounts to the URA without fear may be interpreted to mean that the tax assessment officials do not have the technical competence to unearth the hidden income (Umar, 2017), and that tax morale is extremely low and the trust in such authority required for SMEs to willingly contribute towards public expenditure is lacking. In fact, as

Çule & Fulton (2009) suggest, in a situation where there is a large amount of cheating and corruption, audit and penalty rates may be detriments rather than the solution. The idea that tax officers who directly interact with corporate SMEs and their agents would not indulge themselves in discrimination based on tribe and political affiliation without their supervisors' knowledge is also believable (Rosid et al. 2016). Tax corruption involving high-level tax officials (Rosid et al., 2017) greatly influences intentional income and tax underreporting behaviour.

Alon and Hageman (2013) show how tax corruption in transition economies can be related to lower levels of business tax compliance, which is consistent with the study results. Similarly, Alm et al. (2016) found that corruption among the tax officials has a highly significant relationship with tax evasion, where requests for bribes were seen to reduce the amount of reported income and larger bribes to influence higher levels of tax evasion among corporate firms. In addition to the bribes involving the exchange of money and gifts for reduced corporate income and tax reporting as indicated by the authors, the study finds that some corruption practices are not related to these transfers of value, but involve favouritism, with some firms being supported to evade taxes, which could result in loss of revenue.

Indeed, as Alm & Torgler (2011) argue, corruption practices among the authorities can corrode taxpayers' ethics, hence destroying trust, which is generally built on the foundation of ethics. Also, the way in which a tax administration manages taxes will, in most cases, determine how taxpayers perceive them in terms of fairness. Procedural fairness, according to Kirchler et al. (2008), is a fundamental element that taxpayers consider when making tax compliance choices; it refers to the kind of treatment by the tax authority, where the tax authority employs fair, consistent and client-like procedures in supporting taxpayers to comply with the tax law. The use of fair procedures is thought to lead to taxpayers trusting such authority but, if the procedures are unfair, taxpayers might choose to evade the tax. Indeed, one of the issues identified as source of corporate tax system unfairness is petty tax corruption. This is corruption involving tax officers and taxpayers with bribery, extortion (Alm et al., 2016) and unequal treatment of taxpayers (Feld & Frey, 2007). Unfairness due to petty tax corruption could be the reason for tax evasion hence, leading to lower tax revenue contributions.

If the cost involved in bribing an officer from the tax authority is less than the likely benefits of tax evasion, taxpayers may consider evading taxes. When there is a poor legal system, which does not operate in accordance with the rule of law to protect taxpayer's rights and safeguard them from arbitrariness, discrimination and unequal treatment in the tax system by tax administrations, the general public may not have the willingness to finance the state through taxes and may decide to evade these liabilities as a result (GIZ, 2010, p.15).

Additionally, in their study developing a procedure for measuring unequal influence across firms, Hellman & Kaufmann (2003), cited in Kaufmann, Kraay & Mastruzzi (2004, p.20), found that perceptions of unequal influence have a strongly negative effect on a firm's assessment of public establishment. This variation, correspondingly, affects the behaviour of that firm towards those institutions with a consistent pattern. Bias at both firm and country levels lead to minimal use of the courts to resolve business disputes due to the lower enforceability of court decisions, with higher levels of bribery leading to lower levels of tax compliance.

Consequently, in the Ugandan environment, where it is believed the tax officers promote unfair treatment in the tax system, with some corporate firms belonging to their friends being shielded and others providing bribes so they may report incomes that do not truthfully comply with corporate tax law, firms that would probably have been willing to contribute their fair share of tax revenue may choose to evade tax. This would result from feelings of inequality arising from the corrupt tendencies, which may not only damage the trustworthiness of institutions among less influential business firms, but also the likelihood that such corporate SMEs will pay the corporate tax for public expenditure, as indicated by some of the participants.

Belitski, Chowdhury & Desai (2016, p.204) indicate that when corruption (within the tax authority) becomes embedded within the tax system, tax morale will be affected, and such a tax regime has the capacity to change businesses' cost structures due to the fact that it enables owners and management to hide some or all income. Indeed, when participant 2 noted that, with the tax system in its current state and tax officers being corrupt, he would think twice before paying taxes, it signalled low corporate tax morale, and when he urged the URA to show taxpayers that it is trustworthy, it indicated a likely lapse in trust for the tax body. Segregative treatment of corporate firms and URA staff asking for bribes so as to help some SMEs to comply, as suggested by participants 9, 10 and 13, could explain why participant 16 noted that there is no way a small business would dodge any form of tax unless they conceal their identity from the URA.

Accordingly, absconding from the URA means that corporate SMEs will not file tax returns at all, as suggested by Belitski et al. (2016, p.204), when they said business owners can hide income by paying officials to overlook their actual income by allowing them to overstate deductions, underreport income or fail to file returns. Underreporting of corporate income is said to be one of the easiest things that SMEs can do, as suggested by Cullen & Gordon (2007, p.1486). This situation can be perpetuated under conditions where corporate tax morale has been lost due to incidences of corruption within the tax administration.

In his work on tax noncompliance and audit effectiveness in developing countries, Umar (2017) pointed out that tax auditors might not trace the authenticity of transactions whether businessmen keep manual records or fail to keep any records, since their interest may be in the bribes rather than the records. It was also shown that tax auditors may not be answerable if they bargain for bribes once the general trend in society is that of corruption (Umar, 2017, p.9). Similarly, tax auditors may be encouraged to be corrupt in an environment where government agents are more interested in self-enrichment than in the common good and can be inclined to frustrate the detection process. Umar's (2017) assertions mostly tend to reflect the researcher's findings. For instance, where participant 15 asserted that audits are done selectively, it would point to the fact that tax officers discriminate among corporate SMEs in identifying which companies to audit, making the corporate tax system unfair. This participant also indicated that some companies don't pay any tax at the end of the year, which could be the result of the authorities turning a blind eye on this due to segregation.

Thus, where corporate SMEs have lost tax morale, such firms are likely to include personal expenses as though they were business expenses and/or even craft two sets of accounts that may not detected at all. Indeed, participant 20 confirmed that the tax audits are ineffective and, in reality, have no impact, yet some companies make payments to individual tax auditors. Segregative auditing, by implication, is a double-edged sword. On the one hand, businesses which are favoured may or may not pay bribes as well as corporate taxes and, on the other, those that do not seem to be favoured will feel that the system is unfair, will become overburdened and may decide not to comply with the corporate tax code, which is detrimental to tax revenue collection.

### 8.2.4 Political corruption and tax fairness

The findings for this part of the thesis relate to perceived political corruption levels and their effects on corporate tax fairness and compliance. The findings revealed two motivators for corporate tax evasion: the tax code being applied inequitably, and promotional favours being granted to corrupt government officials. The findings relating to SMEs' perceptions of political corruption and the resulting corporate tax system unfairness and tax non-compliance are presented below.

**Tax code applied inequitably**

The respondents revealed that the corporate tax law may not be being implemented according to the equity principle and they therefore viewed the tax system as unfair. Participant 1 stated that he does not believe the corporate tax system to be fair in the current political regime, as can be seen below:

> *'...simply, the system is not fair! …all companies are taxed at the same rate except for businesses which have links with big politicians, who sometimes do not pay taxes that make them more competitive in the market as they can afford to lower their prices and get more'*.

Additionally, participant 3 noted that:

> *'...people who do not pay corporate tax are not all punished appropriately. Some companies get advantages based on their attachment to the owners and where they come from; westerners normally have advantages that they may not be punished the same way like companies owned by people from other areas of the country'*.

The above views were consistent with those of participant 8, who suggested that tax officers normally favour companies that are owned by big politicians to the extent that they may fail to pay the tax due to government. Following the foregoing statements, perceptions of political corruption may significantly undermine taxpayers' morale, more so that of the corporate SMEs under study. Firms that are politically connected might not contribute to their country's tax revenue due to their status. This apparent unfairness of the corporate tax system could even discourage the few SMEs that would willingly contribute towards the national revenue.

Indeed, participant 13 expressed dissatisfaction with the corporate tax system and described what he would do to reduce the extent to which his corporation contributed:

*'…those in political circles are not touched, this is the unfairness I am talking about, and the poor businesses are the ones oppressed with high corporate taxes since we do not have anywhere to run to. ...you try to observe the situation, it is something that we think about. We cannot consistently pay the right tax and, as a person, I want to be honest here, where I have the opportunity, I would add other expenses because many companies avoid paying so who am I not to do the same? Because they are not caught, it is a motivation for me to try…'*

In the same vein, participant 14 reluctantly indicated that corporate SMEs could comply with the tax system out of fear but echoes the finding that corporations owned by big politicians are not frightened by URA audits and sanctions. He stated:

*'...for fear, small companies may pay their taxes, but companies owned by our people in power rarely get moved by them. They have friends in URA who help them avoid paying those big taxes, and we keep wondering whether to honestly pay the taxes or avoid completely'.*

Overall, participant 24 presents a consistent view with the preceding two quotes about the corporate tax system unfairness and the consequences of such a system. He indicates that a few of the firms pay taxes consistently and those owned by politicians tend to be protected by the tax officers who are friendly towards these politicians. This participant noted that they cannot continue paying taxes which are stolen and that many SMEs are determined not to pay at all. Participants 13, 14 and 24 give the impression that not all firms pay their corporate taxes, highlighting that tax officers support companies owned by politicians in non-compliance. This state of affairs may be seen as being discriminatory and oppressive with regard to those firms that pay willingly or those that are forced to pay through audits and sanctions. Consequently, the government may lose a lot of revenue from the supported evaders and those who have lost trust and morale. Political influence, coupled with the support from tax officers, weakens the corporate tax enforcement mechanisms as they cannot be implemented. This sort of official rampant political corruption has made it look like evading corporate tax is justified.

**Promotional favours for the corrupt**

Also, the findings suggest that some corrupt government officers get transfers and offered promotions even when their supervisors are aware of their corrupt behaviour. This was revealed during the interviews conducted with the corporate SME owners and managers.

Specifically, participant 4 noted that the tax system was not favourable to small firms given the level of corruption during the process of service delivery and confessed that;

> *'...people who are corrupt are just transferred from one station to another and end up with even bigger jobs in government'.*

This could have the effect of reducing trust in such a political system among corporate owners and managers who may be motivated to pay corporate taxes. Promotion of government officers who have intentionally lost taxpayers' money could be perceived as rewarding them for doing what their masters sent them to do. This would imply that the government treasures acts of corruption within the current regime, providing a message that corruption is legal. This would legitimise corporate tax non-compliance among firms whose owners and managers feel that their contributions are not being utilised in a proper manner.

The findings indicate that the corporate tax system isn't fair due to the current state of political corruption. They reveal that, although all companies are supposed to be taxed at the same corporate rate irrespective of their size, some companies owned by big politicians do not comply with the requirements of the law, as indicated by most corporate participants. In addition, the results reveal that even when the non-complying firms are implicated, not all are sanctioned suitably to reflect the requirements of the law owing to the fact that the owners are politically connected and most of them come from the same region as the president of the Republic of Uganda. Political focus seem to have shifted away from national development programmes and towards securing political power for the benefit of select few (Levin & Satarov, 2000, p.114), yet audit effectiveness does not seem to have taken root so that offenders can be punished. Participants also indicated that they have lost morale and trust in authorities. For example, they show how they must come up with ways by which to reduce the amount of tax to be paid or even, since they can't consistently pay the right amount of tax, they would rather not comply completely since other tax evaders are not caught, which could be interpreted as tax evasion legitimisation (Moutos & Tsitsikas, 2010, p.173). This reflects Levin & colleague's (2000) suggestion that once there is a decline in trust in the authority, average people become more and more separate from society and the good intentions of the authorities are neither credible nor rewarded, leading to high losses in tax revenue.

Given that most businesses owned by politicians are perceived not to make their contributions, compliant corporate SMEs also seem to be overburdened, since they have to shoulder the weight of the national budget requirements. In fact, Levin & Satarov (2000) argue that grassroots political corruption is capable of extracting up to 10 percent of small and medium-size businesses' total revenues, which may stimulate tax evasion and limit the government's capability to provide public goods and services. Similarly, when firms owned by politicians fail to make contributions to the national revenue and yet are not punished appropriately, such a situation could indicate existence of corruption networks.

Cheloukhine & King (2007, p.107) argues that corruption networks can be organized networks for crime and law enforcement with inter-institutional groups formed for the sole aim of extracting profits. Such organised cross-sector groups could create inefficiencies with regard to the power of the authorities and the rule of law may be ineffective. With all the well-structured institutions against fairness, no institution would rise up against the political elite within the group to enforce corporate tax compliance, which may act as an example to other firms not to make any tax payments. Apart from profiting from the illegal business activities, stealing of tax revenue collections could become rampant and so affecting the morale of the willing taxpayers which might increase the level of tax evasion due to low trust in the state institutions (GIZ, 2010; Bird, et al., 2008). This has been revealed by some of the study participants.

It appears that corruption is deeply-rooted in the bureaucratic system and this is taking its toll on the way in which businesses view the system. However, central government doesn't seem to have a grip on it, thus encouraging tax evasion. As Cheloukhine & King (2007) argue, when corruption gets entrenched in the system of social relations, it may be considered to be the norm rather than a crime, which eventually facilitates the growth of the informal sector where, essentially, taxpayers deliberately refuse to pay their tax liabilities. Taxpayers in Uganda could be experiencing a similar situation, as participants 13 and 24 indicated that the system does not seem fair to corporate SMEs and, as such, their practice has been to openly cheat on their corporate taxes. In fact, participant 4 wondered why the government promoted corrupt officers to higher ranks instead of imposing sanctions on them, something which the researcher viewed as government promotion of corruption, which affects service delivery and revenue collection.

Based on these quotes, there appears to be evidence that political corruption significantly affects taxpayers' perceptions of the corporate tax system and their morale, particularly in respect of the corporate SMEs under study. Corporate SMEs that are politically connected appear to contribute inappropriately to the national treasury of the country, since they seem to be shielded by their political status. This state of unfairness within the corporate tax system may discourage the few that would otherwise be willing to contribute towards the national revenue.

### 8.2.5 Grand corruption and tax fairness

Three basic themes relating to perceptions of grand corruption were identified from the findings. Corporate SME owners and managers viewed grand corruption (direct embezzlement, misappropriation of funds and disguised self-interest) as the cause of tax system unfairness, leading to corporate tax evasions. The detailed findings on perceptions of grand corruption and its effects follow.

**Direct embezzlement**

Participants believe that a number of high-level officials in government are involved in corruption, and that this involvement has caused loss of trillions of shillings of taxpayers' funds as participant 1 reveals a similar view as participant 8 as he refers to the roads sector. He stated that;

> *'...a lot of money has been lost in UNRA. You know, most of the employees there come from the west, and corruption is part of them and, when I think of paying tax honourably and yet the money is going to be embezzled, I develop hesitation and what I pay, if at all, has to be little. If the government of Uganda was using the taxes well, I think payment of taxes would not be a problem. You pay taxes and the next day you hear that money has been embezzled. Why should I pay taxes then? If they would provide the services that are worth the taxes, then it's OK'*.

This quote reveals a perception that taxpayers' money has been lost through the management of Uganda National Roads Authority's (UNRA) corrupt practices. Participant 8 also questions the need for continued tax payments when such money is misappropriated and service provision is affected, demonstrating a perceived loss of trust and corporate tax morale. This may certainly lead to evasion as an end result.

Conversely, participant 14 acknowledged that taxpayers may pay because they fear that the URA could audit their businesses, but also in agreed with participants 1 and 8, saying:

*'...we only make payment because of URA audits. I see they are trying to do some road construction here in town and some major highways, but the road sector has been a source of loss of government money! The CEO of UNRA was sacked with his directors for embezzling money, with one of the state ministers of works involved for awarding contracts inappropriately. The Katosi road has never been completed, even when money has always been allocated for its construction in most of the national budgets, I think for the last five or ten years! ...We hope the situation to change, maybe with change in the current regime'*.

Participant 18 presented similar views, suggesting that the corporate tax system is not fair. Indeed, it's implied that efficiency is not achieved as intended, as the same institution is used as a conduit for stealing taxpayers' funds. It is believed that money is stolen through fake procurement contracts, including continued budget allocations for the Katosi road with no tangible construction having gone on for a period of ten years. Dott Services Ltd. was identified as one of the contractors which was used to siphon money and which provided poor road construction services, hence affecting service delivery.

Although the government eliminated the old CEO and brought in one from the west, corruption still soared in the UNRA. Due to the increased budget allocation, it could be easier to move money out of the institution through embezzlement than it was before, since it's thought that most of the key positions were filled by officers personally known to the CEO. Although the respondents believe it's their obligation to pay taxes, corporate taxes would only be paid as a result of strong tax audits, indicating unwillingness to pay taxes. In fact, taxpayers' reluctance to pay corporate taxes would appear to relate to their loss of hope with regard to the current state of perceived grand corruption in the country. This could result in resistance and hence corporate tax evasion.

Leaving the subject of corruption levels in the roads sector aside, participant 2 perceives that actual government activities could be being financed by less than fifty percent of the national budget, with more than fifty percent being misappropriated. He declares that:

> *'...not directing the money to the right channels other than to where they are just swindling money – probably financing the national budget with only 40% and the 60% goes into people's pockets. If they become less stringent with companies, they would be attractive for companies to pay maybe'*.

This level of perceived financing of the national budget would be likely to stimulate queries about whether its right to comply with the tax law, since not all of the funds collected would be put to good use. If this level of corruption truly exists in the country, those who endure the payment of due taxes, especially corporate SMEs, are likely to object to continued corporate tax compliance due to loss of trust and enthusiasm.

With regard to the weak audits and penalty structure, participant 12 indicates that she would not pay corporate taxes if others are not reprimanded, a situation which she alleges to be the norm in Uganda. It's also alleged that government officers are too corrupt and do not provide accountability, especially for 'classified' expenditures made. She says:

> *'...yeah, I can follow the same trend if they are not penalised. This is common with many companies in Uganda. But, you also know what is happening in Uganda, this government is capable of anything. ...what takes away our interest to pay tax is the way government uses the money collected. The government is corrupt. I think all people employed by government are all thieves, stealing even donor money! There is no accountability provided for the money and other expenses are publicly called classified expenditures just for the sake of not providing accountability'*.

Indeed, the same view was held by participants 15, 19 and 20. This implies that there is audit ineffectiveness, as corporate SMEs that are non-compliers cannot be identified in order to recover such taxes. Secondly, even those that have been paying their tax dues are motivated to stop payment due to lack of audit effectiveness. Also, the lack of government accountability for some expenditure encourages the people involved to steal public funds, since no evidence would be required. These all destabilise public funding and the quality of services provided from the remaining funds in a way, affecting trust and tax morale and resulting in tax non-compliance, as indicated by participant 20, who states that he is not a donor.

**Misappropriation of funds**

Participant 16 highlighted the evil that comes with the availability and misuse of tax revenue to the detriment of particular sections of society. When asked to share his opinion about corporate tax system fairness, participant 16 said;

> *'...now government is using tax revenue to buy guns and bullets that are used to kill innocent people in Kasese. They are paying those soldiers and policemen there for the work being done of killing. We have had massacres in the north and government continued employing soldiers and paying them. ...money was being ferried to these sites in sacks by prominent soldiers. This money was not accounted....When*

*Southern Sudan became insecure, government used money that had been allocated to lecturers to send soldiers there, yet there are people in villages that cannot access safe water – they need boreholes but are not provided'*.

Participant 21's point of view was consistent with this. These views imply that the government could be directly engaged in the misappropriation of public funds. Diversion of funds, for instance, creates funding gaps, where rightful items of expenditure are not finally catered for though allocations were made. Also, intentionally buying ammunitions with the purpose of terrorising nationals is criminal, as is the alleged spreading of the president's personal interests to other countries at the expense of taxpayers. Additionally, the alleged dispatches of physical cash to war zones without accountability could motivate army officers to steal money. All of these activities would grossly increase the loss of public funds, faith in government and tax morale.

**Disguised self-interest**

It appears that statehouse officials conducted secret transactions to form Crane Bank with a private individual without the public's knowledge. So, when the bank was run down, the cheapest form of recapitalisation was taxpayers' money, as argued by participant 3, who said:

*'...in fact, government spends too much money on unnecessary assistances. For example; government gave UGX 200billion shillings to Sudhir – the owner of Crane Bank - for its recovery, instead of paying Makerere University staff who were demanding for UGX 37billion shillings in allowances! ...And after this, you hear the bank was owned by StateHouse officials and they were just covering up!...Not every corporate taxpayer pays what they are supposed to pay, since some of these situations are motivated by some government officials and government policy...'*

The statement above implies that there is a feeling of concealed selfishness, where public funds are invested in a commercial bank which is believed to be owned by a private sector individual, yet which is used as a theft channel. According to the allegations, the government treated this bank as its first priority and ostensibly neglected service provision, like inadequate supply of medicine, which is a core function that government appears to have inappropriately managed. This presumably affected public service delivery. Additionally, participant 10 believes that profitable government contracts may be awarded to individuals and associates of the first family and be intended to enrich a section of politicians. He questioned the justification for paying taxes against this background. Indeed, low tax morale is seen here, arising from the corruption perceived to be committed by StateHouse officials and the first family, yet nobody seems to care about the state of public services in the country.

The findings presented above indicate that grand corruption is perceived to exist. This has presumably significantly affected service delivery to society, trust in government and tax morale, and resulted in tax evasion, specifically by the corporate SMEs under study, as indicated by participants when they queried the reasons for the continued payment of corporate tax. Grand corruption involves activities or transactions carried out by high-level officers within the different government departments with the aim of embezzling or misappropriating public funds or extorting bribes from taxpayers. This ultimately affects tax revenue flows and the availability of funds for public spending, which was highlighted by a number of participants.

Indeed, the way in which tax revenue is allocated and used seems to be questionable according to the majority of participants. They referred, for instance, to the road sector, where trillions of shillings of taxpayers' money is allocated but ends up being stolen. This makes the whole process of tax assessment and collection unfair and there is a lot of uncertainty as to whether the funds will be used appropriately or not, as indicated by participant 8. These losses have been attributed to the senior management teams (previous and current) within the Uganda National Roads Authority who have paid money to wrong firms as contractors, probably intentionally as a result of receiving bribes, and through direct embezzlement of the available funds by a group of staff that are ostensibly untouchable politically. This finding is consistent with Djumashev's (2007) assertion that corruption in the public sector erodes tax compliance and leads to higher levels of tax evasion.

In addition to embezzlement of funds in the roads sector, the allocation of funding for some roads has been questioned. A particular road (Katosi road) had been allocated funds each year for more than ten years but the works only recently commenced. When they started, the funding was misappropriated by the UNRA's management and one of the ministers. Poor service delivery is one of the things SMEs complain about, especially with regard to the construction of roads, as contracts are awarded to companies that seem to be providing bribes or which are highly connected to the ruling party and no sort of punishment can be given to them within the current government. Indeed, as Besley and Persson (2014) argue that the challenge here was not to identify the needs of the people, such as infrastructure, health and education, but to deliver these programmes, since the problems of service delivery reflect the twin evils of inefficiency and corruption. The authors believe that lower levels of corruption may be experienced if a state can demonstrate strong executive constraints at national level, where checks and balances provide a stronger basis for scrutinising public spending decisions, initiating systems of auditing that are essential for the elimination of corruption. Thus, it is expected that higher levels of tax evasion will be found where corruption is popular, since corrupt systems of government are likely to face greater resistance when increasing the power to tax (Besley & Persson, 2014, p.114), which might be the case for Uganda’s corporate SMEs.

Corporate SMEs believe that the highest percentage of funding within the national budget is not spent for public benefit, estimating that only forty percent could be efficiently utilised for service delivery. Participants indicated that they may comply with corporate tax law when the bureaucrats become transparent with regard to the use of the tax money. This has been attributed to what is likely to be rampant corruption among high-ranking government officers who have the ability to redirect funding options, thus preventing the achievement of some government projects. Participants also argued that corporate tax non-compliance is likely to continue owing to weak enforcement mechanisms, where audits are ineffective in identifying the culprits, imposing appropriate sanctions in the recovery of taxes and stopping taxpayers from evading taxes. Fjeldstad & Tungodden (2003) contend that, if there are high levels of corruption, citizens may not be certain whether or not their paid taxes are being used to finance public goods and services and their willingness to pay suffers, making them more likely to evade their tax liabilities as a consequence. This is consistent with the participants’ views. Cheloukhine & King (2007) also indicate that, in the long run, high levels of corruption can stimulate the growth of informal sectors, where tax evasion becomes the norm.

Furthermore, issues of misuse, misallocation and lack of accountability in relation to taxpayers’ funds were given as some of the reasons that corporate SMEs are reluctant to comply with the corporate tax system. For instance, participants cited situations where their businesses comply and pay taxes, and the government uses the tax revenue to buy ammunition in the guise of responding to security concerns, but uses the ammunition to kill the country’s citizens. Examples cited include the massacres in northern Uganda and Kasese, in the west of the country, with the soldiers and police being paid for killing citizens with taxpayers' funds. Besides, expenditure on ammunitions and other misallocations to the war zones of neighbouring countries are not accounted for, since they are classified expenditure, for which no accountability is necessary. Participants indicated that this method is used by the most high-ranking leaders of the country to embezzle public funds. As a result, owners and managers of corporate SMEs see no reason for their firms to continue paying taxes, as it looks like government leaders use these resources to weaken citizens so that they can stay in power. This practice echoes Djumashev's (2007) assertion that corruption in the public sector erodes tax compliance and leads to higher levels of tax evasion. The participants' assertions about corruption confirm what IGG (2014) and IGG (2015) noted - the existence of large scale corruption, aggravated by heightened collusion with a large number high-profile corruption cases during the last six years.

Moreover, the reaction of the participants with regard to the misallocation of public funds and the coding of expenditure as classified expenditure shows that there is a lack of transparency and accountability on the part of high-ranking public officers, which may cause flaws in the efficiency of service provision and perceptions of tax system unfairness, leading to non-compliance behaviour. GIZ (2010), on this note, suggest that taxpayers' perceptions of corrupt practices in the public sector and lack of transparency and accountability in the use of public funds contribute to public distrust, both with respect to the tax system and the government. When there is such distrust, it becomes more likely that taxpayers will evade their tax liabilities, since tax morale will be low. In their conclusion, Bird et al. (2008, p.61) argue that in a state in which corruption is rampant, citizens will have little trust in authority and little incentive to cooperate. This conclusion is a model for what is perceived to be happening in the country, where high levels of corruption involving misappropriation of tax revenues through collusion and direct embezzlements has weakened the corporate SMEs' trust in government and tax morale, leading to tax evasion.

## 8.3 Conclusions

Overall, corruption is perceived to exist in the different government departments of Uganda. It can be categorised as general corruption, petty tax corruption, political corruption and grand corruption, with all of these having been found to have significant impacts on corporate SMEs' tax evasion practices owing to perceptions of corporate tax system unfairness. Due to perceptions of extensive levels of corruption in the country, corporate SME taxpayers seem to have lost corporate tax morale and trust in the authorities with respect to both the URA and its assessment and collection of corporate taxes, and the government departments responsible for the distributional procedures and actual implementation of public service delivery.

Specifically, general corruption exists in the bureaucratic system of the country, where bureaucrats are believed to steal government revenue hence affecting public service delivery at all levels, and where government officers interact with the local populations in the process of delivering public goods and services, which needs to be controlled if service delivery and corporate tax compliance are to improve. The perceived quality of service delivery has deteriorated. Public infrastructure within the country, like roads, government hospitals and health units, and schools, is in a sorry state owing to the high corruption propensities of bureaucrats and politicians with regard to the embezzlement and misuse of government revenue. The taxpayers feel that this is unfortunate and are not willing to pay taxes as required by the corporate tax law.

Corporate SMEs seem to view the tax system as unfair due to the high levels of general corruption which result in poor service delivery on two counts. The non-provision of bribes may translate into no services being provided, and the embezzlement and misappropriation of funds by government officers leaves minimal funds with which to appropriately secure the quality of services that were planned and budgeted for. However, the government's willingness to fight corruption in the majority of her departments is perceived to be non-existent. The prevailing circumstances seem to have created a tax system that is unfair given the government's failure to fulfil its obligations within the psychological tax contract created with taxpayers. Specifically, corporate SMEs experience low tax morale and low levels of trust in the bureaucratic system of the country and the majority doubt their continued willingness to pay the corporate tax that they owe to the URA and to Uganda as a country. If corruption is not controlled, there is a likelihood of continued mass tax evasion, as the willing SMEs may develop resistance and fail to comply with the requirements of corporate income tax law in place.

Secondly, the existence of petty tax corruption has a significant effect on tax evasion by corporate SMEs, as the fairness of the corporate tax system is in question, causing distrust of the URA due to its failure to control the entrenched corruption. This leads to loss of corporate tax morale and tax non-compliance among SME firms in Uganda. Increased levels of tax evasion among taxpayers has negatively affected the willing corporate SMEs, hence grossly reducing the level of their contributions to the treasury, as they feel that the tax system is not equitable due to discrimination among firms based on political affiliations and/or whether the taxpayer can offer bribes and therefore be relieved of their duty to accurately contribute their fair share. Indeed, corporate participants suggested that tax officials openly and indirectly ask for bribes from taxpayers in the process of filing corporate tax returns, an unethical behaviour that has made some resolve not to pay their taxes.

The findings show the existence of political corruption (corruption perpetuated by politicians and based on political affiliations) and grand corruption (corruption involving high-ranking officers) in Uganda. The existence of these forms of corruption has indeed had a significant influence on perceptions of tax system unfairness, especially with regard to the misuse, misappropriations and embezzlement of public funds from the corporate tax system which causes inefficiencies in service delivery to society. Additionally, corporate SME owners and managers have lost trust in the government and lost corporate tax morale, leading to unwillingness to comply with the corporate tax law and, as a consequence, corporate tax evasion. The political wing has created the untouchables, who conduct business with minimal contributions to the treasury through payment of taxes. Additionally, because of the immune nature of the networked political elite, embezzlement of public funds has been on the rise, thus affecting the supply of public services. However, accountability for such funds has not been forthcoming. This, therefore, has led to corporate tax evasion due to the perceived unfairness of the tax system.

## 8.4 Implications

The findings of the study call for attention to be paid to different institutions and organs if the government is to encourage corporate tax compliance from SMEs. Specifically, the government should strengthen the enforcement systems already in place by creating independence within the enforcement mechanisms. Specifically, there shouldn't be any form of political interference in the way that anti-corruption courts, the police, prisons, office of the Internal Auditor General, the Office of the Auditor General (OAG) and the Office of the Inspector General (IGG) operate. This could include the way in which the heads of these institutions are appointed, with the president of the Republic of Uganda not directly participating in their appointment, so that they are allowed to operate independently, without any political affiliations. This way, perpetrators of corruption, irrespective of their political affiliation, will be aware of the conditions under which they will be culpable, which could act as a disincentive to corrupt practices.

The government is encouraged to implement necessary procedures, as suggested by the Anti-Corruption Act 2009 and Anti-Corruption Amendment Act 2015, to create tough deterrents for the political elites and public officers who steal and misappropriate funds, but also to assist in the recovery of misappropriated public funds and assets. Implementation of these laws will indeed strengthen anti-corruption agencies' efforts to efficiently and effectively seize assets and to recover stolen public funds, hence acting as a strong disincentive to officers who might engage in acts of corruption. Reinforcement of the anti-corruption institutions with well-resourced human resources and financing and the requirement for them to deal with corrupt practices in a timely manner will support the timely resolution of these issues and the consistent application of the law in corruption cases. In the long run, these actions are likely to build public trust in government anti-corruption institutions and the state as a whole, as well as tax morale and corporate SMEs' willingness to pay tax as obligated by corporate tax law. The imposition of administrative or judicial sanctions in corruption cases sends a clear message to the public that there is political will and that the government is committed to fighting corruption, which may, in turn, persuade society to support the government's efforts by reporting acts of corruption.

Once independent, each of the law enforcement bodies should formulate and uphold organisational values that stand for integrity and service to society, and recruit professional and competent staff at different levels of their organisational hierarchies with clear reporting lines. Assessment/ performance appraisal of the subordinate staff should be done regularly and difficult assignments should always be handled by senior staff with the necessary skills and independence, so that accurate decisions are reached when implicating a particular member of staff in the bureaucratic system. Staff need to be continuously reminded of the values and qualities that they are expected to show so that all are aware of the consequences should they deviate from the organisational values. The bureaucrats should be encouraged to stick to their budgetary allocations, with strict authorisation being required if any re-allocations are to be made. The norm for them should be, above all, to obtain value for money, coupled with the professional recruitment of staff, and no contracts should be awarded to companies in which officers and board members are directors, so as to avoid issues of self-interest. With this in mind, and strong monitoring and prosecution of the perpetrators of corruption, levels of corruption may be reduced which could help to build trust in government and tax morale, and tax compliance could be the result.

Engagement of the community is another option available in the fight against corruption. For example, the government could in addition utilise the skills of the civil society organisations to carry out sensitisation programmes to equip the public with information, knowledge and awareness of how to hold public officials accountable for their actions while delivering services to society and how to lodge complaints linked to corruption with the anti-corruption agencies in line with the provisions of the Whistle Blowers Act, so that citizens can freely deal with acts of corruption. In this way, the levels of corruption are likely to reduce and taxpayers will get a sense of confidence that their money will be put to good use, hence building trust and tax morale, and increasing tax compliance.

The URA should identify professional tax officers to formulate and implement regular sensitisation of all taxpayers in the country, highlighting the need to objectively pay their taxes. Objectivity in contribution may be achieved through accurately maintaining the corporate books of accounts for tax purposes, avoiding the delivery of bribes to those tax officers who demand them (with possible whistle-blowing when such officers ask for them), and desisting from practices of offering bribes to tax officers, as this can help to limit the intensity of bribery and extortion in the tax administration.

Professional management of the tax body should be encouraged and, specifically, staff recruitment should be competence-based and devoid of political interference. The Uganda Revenue Authority should be left to run independent of any political controls so that the recruitment process is free, fair and objective. Under such a system, the URA is likely to have the right cadres to run the institution without any biases arising from where they come from and their political affiliations. Semi-annual and annual appraisals of staff performance should be done, so that staff are told where they are performing well, and which areas need further improvement. If any elements of discrimination are identified, such staff should be warned and their contracts with the tax administration possibly terminated. This way, tax officials may learn to be independent in the execution of their duties and politics will be set aside. Firms owned by politician friends and relatives of tax officers may contribute to the national revenue as would potential tax non-compliers, as there would be no reason for the bias identified under petty tax corruption.

However, there may be limited application of this part of the study to the general population of corporate SMEs across the country, since the study sought responses from a limited number of them. Secondly, it is possible that the respondents (owners and managers) could have presented their own personal views rather than those of the companies they represented, making the use of the findings limited. Therefore, to further strengthen these findings, a higher number of responses may be needed, utilising the survey instruments so as to have a wider understanding of the four dimensions of corruption and the extent to which they influence corporate tax fairness, trust, tax morale and corporate SME tax non-compliance behaviour.

# Chapter 9

# Conclusions

## 9.1 Introduction

This thesis has investigated corporate SMEs' income tax compliance in Uganda and synthesised tax compliance literature and research methods. The thesis has unequivocally examined the impact of corporate tax system fairness on the trust dimension, as well as on voluntary compliance, and investigated the role of power on the power dimension and enforced compliance, including the overall interconnectedness of the dimensions that form the Slippery Slope Framework, in the achievement of corporate SMEs' tax compliance. It has also studied the relationships between the social norms dimensions and their direct and indirect effects on corporate SMEs' income tax compliance behaviour. The study has, in addition, synthesised corporate taxpayers' tax compliance literature and individual taxpayers' tax compliance literature in relation to social norms dimensions. Additionally, the thesis reviewed literature on the effects of corruption on the corporate tax system and compliance behaviour among corporate SMEs. Finally, it examined the application of surveys and semi-structured interviews in studying tax compliance issues. Generally, literature on these issues with regard to corporate tax compliance is limited. In particular, the study intended to achieve the following research aims:

i) First, to understand and illuminate the extent to which corporate tax fairness and deterrence factors relate to tax compliance behaviour amongst SMEs.
ii) Second, to examine the extent to which social norms constructs of descriptive norms, injunctive norms, subjective norms and personal norms directly or indirectly influence the corporate tax compliance behaviour of SMEs in Uganda.
iii) Lastly, to assess the effects of corruption on corporate tax fairness and corporate tax compliance behaviour among SMEs in Uganda.

This chapter therefore presents a brief review of the empirical findings, the theoretical implications, the policy implications, the overall contributions of the thesis, recommendations for future research areas and the limitations of the thesis.

## 9.2 Empirical findings

The thesis presents these findings in Chapter 6, Chapter 7 and Chapter 8. Chapter 6 ('Application of the Slippery Slope Framework') presents the main empirical findings on the application of the SSF, Chapter 7 presents the application of the Social Norms Theory by Bobek et al. (2012) and Chapter 8 ('Does corruption matter in Uganda's tax compliance behaviour?') presents the main empirical findings on the effects of corruption on corporate SMEs' tax system perceptions and tax compliance behaviour. A summary of the empirical findings from the primary research are presented in the subsequent section of the study responding to the investigation questions. Thus, a review of each of three chapters is presented hereunder.

## 9.3 The Slippery Slope Framework – Findings and Implications

### 9.3.1 Empirical findings for the SSF

As discussed earlier, the foundation of tax compliance under the Slippery Slope Framework (SSF) is twofold: trust in authorities and the power of authorities. Trust in authorities is perceived to result from, firstly, the way in which the government utilises public funds in terms of distributive fairness and, secondly, the procedures through which the tax authorities impose and collect taxes for public expenditure (Kirchler et al. 2008). Thus, if governments are efficient in the utilisation of tax revenues and the tax authorities are fair, treating taxpayers well in the process of tax collection, perceptions of trust in authorities will improve, which then improves voluntary tax compliance. On the other hand, power of authorities is built from the competence of the tax authority, with staff being in the position to carryout effective audits, impose sanctions and recover unpaid taxes. Therefore, efficiency in these activities creates high perceptions of power of authorities among taxpayers, which encourages enforced tax compliance.

Distributive and procedural fairness, and effective and efficient audits, are likely to improve legitimate power of authorities. This legitimacy is likely to positively influence taxpayers' trust in authorities, as well as voluntary tax compliance (Gangl et al. 2015). Given this background, the researcher was motivated to employ the SSF as a single model to find out the extent to which it would provide support to the ever-growing tax non-compliance behaviour reflected in the low tax revenues received and the Ugandan government's overdependence on donor funding.

The researcher was therefore guided by the following objective: 'to investigate and model the relationship between corporate tax fairness perceptions, power of and trust in authorities, and tax compliance among corporate SMEs in Uganda'. The results of the investigation indicate that trust in authorities positively and significantly mediates the relationship between corporate tax system fairness and voluntary compliance, even when the direct relationship persists as a negative one. In contrast to the anticipated relationship, power of authorities did not significantly predict enforced compliance, even when it had a significant effect on the perceptions of power dimension. The findings also showed that the perceptions of power dimension positively influenced the trust in authorities dimension and voluntary tax compliance, although with a marginal effect on enforced compliance. Lastly, corporate tax system fairness negatively and significantly related to enforced compliance.

### 9.3.2 Theoretical implications

The findings, therefore, suggest that the theoretical arguments of the SSF by Kirchler et al. (2008) may need to be revisited in relation to corporate SMEs' voluntary and enforced income tax compliance. The theory suggests that, given the existence of distributive and procedural justice, perceptions of increased tax system fairness are likely to lead to higher trust in authorities and voluntary compliance, and trust in authorities will mediate the relationship between tax fairness and voluntary tax compliance behaviour. Additionally, power of authorities through audit and penalty rates can enhance enforced compliance and the perception of power of authorities would mediate the relationship between power of authorities and enforced compliance (Kirchler et al. 2008). Income tax compliance levels will depend on whether the tax environment is synergistic or antagonistic. It was confirmed in this thesis that synergistic environments are more conducive to voluntary compliance and, if embraced, voluntary tax compliance would generate more revenue from corporate SMEs than would be generated in antagonistic tax environments.

On the other hand, there was a surprising result which requires further investigation. The model revealed a negative relationship between corporate SMEs' perceptions of tax system fairness and voluntary tax compliance. This result seems to support Gangl et al.'s (2015b) extension of the SSF model to include committed motivation. Gangl et al. (2015b) argue that although voluntary motivation to pay taxes is viewed as being based on positive reciprocity, i.e. respect for tax law and tax authorities as service providers who should help taxpayers to comply with the law, it does not represent a true intrinsic motivation to be compliant (Gangl et al., 2015, p.16). Braithwaite (2003a) as cited in Gangl, et al. (2015b) adds that taxpayers may not value the tax system itself but rather accept its necessity and capitulate.

Thus, according to Gangl et al. (2015b), voluntary motivation reflects a view that taxpayers may comply because of the requirements of the law and the tax authorities who have the responsibility of collecting taxes. This could be the real reason for the variability in voluntary compliance, not that the system is truly fair, hence the negative relationship. Taxes could also be paid voluntarily since this is easier than evading them. However, taxpayers who are voluntarily motivated always involve themselves in tax avoidance schemes, thus reducing their tax payments within the legal framework (Gangl, et al. 2015, p.17). Thus, voluntary compliance is likely where the tax system is unfair.

Furthermore, the SSF suggests the use of power of authorities by having effective recurrent audits and severe fines as sanctions to define the power dimension in antagonistic tax environments (Kirchler et al. 2008).Inconsistent results show that the power dimension marginally influences enforced corporate SMEs' tax compliance, with basically no significant influence of power of authorities on enforced compliance. These results could mean that the tax environment is that of disengagement and that audits and penalty rates are not adequate to avert the situation (Braithwaite, 2009). Improvements in corporate tax system fairness in the application of power constructs could encourage corporate SME taxpayers to cooperate with the tax authority. Moreover, consideration should be given to the interconnections between the model's constructs (Gangl et al., 2015a) in order to achieve an optimal framework that enhances both voluntary and enforced corporate SME income tax compliance behaviour.

### 9.3.3 Tax policy implications

The main tax policy implications for governments and their tax authorities that came out of this thesis are as follows.

The results in Chapter 6 ('Application of the Slippery Slope Framework') showed, firstly, that although voluntary compliance behaviour can be seen to exist in the current tax system, this compliance behaviour might not be exist as a result of a fair tax system where there is fair distribution of tax revenues and public resources, as well as procedural justice (Gangl et al. 2015). Corporate SMEs could voluntarily pay taxes due to the legal requirements and the URA being a government agency, yet they involve themselves in tax avoidance practices, which is inconsistent with the SSF (Kirchler et al. 2008). This finding therefore suggests that the government should improve the fairness of the tax system by considering equitable budget allocations across regions with regard to existing needs, and by enforcing accountability and transparency mechanisms for effectiveness and efficiency.

Secondly, the results show that the power of authorities through tax audits and sanctions, though viewed as strong in terms of creating the power dimension, is currently weak and may not have the capacity to enhance enforced corporate SMEs' tax compliance behaviour. The SSF model findings necessitate the URA to re-evaluate its human resources with a view of strengthening itself, so that it regains the capacity to conduct thorough audits for efficiency (Kogler et al. 2013). However, implementation of corporate tax fairness and power constructs may not be done in isolation. For instance, if the government fairly allocates and utilises public resources and the URA employs the right people to conduct thorough audits, impose sanctions and recover significant amounts of taxes due, their perceived power will be legitimised. Also, increased legitimate power will likely draw the attention of the corporate SME taxpayers, leading them to trust the government and the tax authority for what they are and look to fulfil the requirements of the law, which might positively influence voluntary compliance (Gangl et al. 2015b). Therefore, considering the interconnectedness of all constructs in the model may realise optimal corporate SME income tax compliance (Gangl et al., 2015a).

### 9.3.4 Overall contributions

The thesis findings make several contributions to the available/existing corporate tax compliance literature. To start with, the thesis presents empirical evidence about the application of the Slippery Slope Framework (SSF) as a corporate tax compliance model, which has not been used before in developed countries or developing countries like Uganda. Presently, there are two theoretical arguments under the SSF: that in synergistic environments, voluntary tax compliance thrives and, in antagonistic environments, enforced tax compliance might be enhanced (Kirchler et al 2008; Gangl et al. 2015). Therefore, this thesis makes a contribution to this debate as a novelty by testing the suitability of this model towards corporate SMEs' tax compliance.

Secondly, as argued earlier, most of the existing literature on the Slippery Slope Framework (SSF) has shown positive predictive effects between tax fairness and the trust in authorities dimension, the trust in authorities dimension and voluntary tax compliance, and tax fairness and voluntary compliance behaviour. In other words, the trust in authorities dimension has been found to mediate the positive relationship between tax fairness and voluntary compliance in individual income tax compliance. However, knowing that tax fairness improves the trust that taxpayers have in government and tax authorities as well as improving voluntary compliance behaviour may not provide adequate information regarding other constructs that might negatively influence voluntary tax compliance behaviour. For example, Gangl et al. (2015b) propose that voluntary compliance may not be a result of a true, inherent motivation to comply because of a fair tax system. This means that taxpayers could be paying taxes willingly as an acknowledgement of the need for the existing tax system, but in the hope that they can manipulate it in due course to avoid taxes because of its unfairness.

This thesis has contributed to the compliance literature as a novelty by investigating competitive mediation, where tax fairness has a negative association with voluntary tax compliance. Furthermore, it has investigated how audit rates and sanctions as constructs of the power of authorities are related to enforced tax compliance in this model. As a novelty, this study contributes to existing literature on the SSF, arguing that corporate SME taxpayers might perceive the power of authorities to be high without necessarily being motivated by it to pay taxes, as the SSF suggests.

Finally, the majority of studies that have employed mixed methods have used interviews to strengthen the survey instrument for the main study (Rosid et al. 2016; McKerchar, 2001) or to support the survey results of the main study (McKerchar, 2007; Devos 2009; Devos 2014). This thesis, as a novelty, contributes to the methodology by employing semi-structured interviews to understand and answer questions that the survey method failed to answer within the SSF. The semi-structured interviews conducted helped the researcher to identify corruption, that is, general corruption, petty tax corruption, political corruption and grand corruption as constructs of corruption that are responsible for the negative relationship between tax system fairness and voluntary compliance behaviour among corporate SMEs. It also facilitated the researcher to gain the knowledge that the four constructs of corruption are responsible for corporate tax system unfairness to the extent that petty tax corruption has weakened the effectiveness of audit rates and sanctions as enforcement mechanisms by which to motivate corporate SMEs to comply (see section 6.3).

### 9.3.5 Limitations of the thesis

The original work in this part of the study provides an account of corporate SMEs' tax compliance behaviour through a cross-sectional survey.

First, Chapter 6, which looked at the application of the Slippery Slope Framework (SSF) to tax compliance behaviour, employed a survey method which used some tax compliance scenarios based on Uganda's 1995 Income Tax Act. Therefore, caution must be applied, as the findings might not be transferable to general populations of corporate

SME taxpayers where different corporate tax laws operate. Additionally, self-reported data may be different from respondents' actual behaviour. Moreover, convenient sampling was used in the selection of all survey participants in this thesis due to the lack of a sampling frame for corporate SMEs and access limitations in respect of the Uganda Revenue Authority's taxpayers' information. Therefore, the sample used outside of probability sampling may not be representative of the targeted population (Mitchell & Janina, 2013).

Secondly, the study used cross-sectional data, which consequently limited the likelihood of it examining the changes that would occur within the corporate SMEs' tax compliance behaviour over time as well as changes made to the corporate tax law. Also, this thesis adapted item scales that were not originally developed to capture the corporate tax compliance behaviour of SMEs in developing countries like Uganda, which might have reduced their application. In other words, this thesis used methods and tools developed in advanced economies, which may not be tailored for use in the Ugandan context. Hence, this might offer explanations for some of the surprising results, like the negative relationship between tax fairness and voluntary tax compliance, as well as the insignificant relationship between power of authorities and enforced tax compliance. Cultural aspects in the country may also explain the surprising results, as more than fifty tribes exist, speaking more than 50 dialects. Lastly, most studies undertaken in this context have focussed either on self-employed taxpayers or on individual taxpayers as participants (see Kirchler & Wahl, 2010; Kogler et al. 2015; Bobek et al. 2007; Bobek et al. 2012; Gobena & Van Dijke, 2016).

### 9.3.6 Areas for further research

Accordingly, based on the limitations and boundaries of this thesis, a need for further research into corporate tax compliance arises, so as to inform the government, corporate tax compliance policymakers and tax authorities. Likely areas for further research that might inform government and corporate tax compliance policies are listed below.

Firstly, in this thesis, the researcher tested the application of the Slippery Slope Framework to the corporate SMEs in Uganda, an emerging economy. Nonetheless, as demonstrated in Chapter 6, some results contradict not only the theoretical framework but also the empirical findings of other scholars. Gangl et al. (2015b) believe that voluntary compliance may not be an outcome of a fair tax system, as taxpayers might comply for the sake of meeting a tax system's requirements and not because of true inherent motivation to comply. However, the authors also suppose that this acceptance could be followed with tax avoidance schemes, with locally developed tools to capture the social aspects of the taxpayers in the country.

High perceptions of corruption in the country are also likely to account for these surprising results, as taxpayers don't seem to have trust in the institutional framework which affects tax system fairness and the effectiveness of tax audit rates and sanctions. Therefore, future researchers from developing economies may want to corroborate these surprising findings. Also, since research in this area is still scarce, scholars from developed countries could undertake research in this area as well.

### 9.4 Empirical findings and implications for the social norms model

The authors of the Social Norms Theory (Cialdini & Trost 1998) argue that social norms, as group rules and standards, can influence the way in which people behave in society even when there is no formal regulation. Bobek et al. (2012) categorise social norms into descriptive norms, injunctive norms, subjective norms and personal norms as applied in the area of tax compliance behaviour, and believe social norms to have significant direct and indirect effects on the way that taxpayers comply with the tax law. According to the scholars, if tax compliance is assumed to be a private activity, the mechanism of tax compliance would start with what most taxpayers do to activate all the other social norms and only the personal norms of the taxpayer would influence tax compliance behaviour. However, in practice, information about tax (non)compliance behaviour may be shared, thus each of the social norms constructs may directly influence taxpayers' compliance choices and decisions.

Therefore, given the influence of social norms and the surprising results from the SSF model (an inverse relationship between fairness and voluntary tax compliance, and anon-significant relationship between the power of authorities and enforced compliance), I sought to understand their driving factors, which led to my decision to investigate the effects of social norms in greater detail.

#### 9.4.1 Empirical findings

The objective of this part of the study was 'to investigate and model the relationship between the corporate social norms of descriptive, injunctive, subjective and personal norms and tax compliance behaviour among corporate SMEs in Uganda. The results show that descriptive norms directly influence corporate SMEs' income tax compliance behaviour, however, with no effect over other social norms categories; injunctive norms directly and indirectly influence corporate SMEs' personal norms and indirectly through subjective norms, with a partial mediation. Corporate SMEs' subjective norms have a direct relationship with personal norms but indirectly affect voluntary compliance behaviour through corporate SMEs' personal norms, with full mediation. Descriptive norms were not found to directly influence corporate SMEs' injunctive, personal and subjective norms. Moreover, no direct relationships were found between injunctive and corporate SMEs' tax compliance behaviour or between subjective norms and tax compliance behaviour.

### 9.4.2 Theoretical implications

The theoretical case for social norms consideration in tax compliance behaviour has been partially supported by this thesis. Starting with descriptive norms, favourable corporate SME descriptive norms can directly increase corporate tax compliance. However, non-compliance could be characteristic of corporate SMEs when there are unfavourable descriptive norms. Secondly, perceptions of corporate SMEs' personal norms have been found to have a positive relationship with voluntary compliance behaviour but not with enforced compliance and non-compliance behaviour. Favourable injunctive norms towards corporate SMEs' tax compliance behaviour can also directly influence corporate personal norms and indirectly improve personal norms through subjective norms. However, only subjective norms indirectly influence voluntary tax compliance through corporate SMEs' personal norms. The findings of the current study are partially consistent with those that find that injunctive norms have an impact on subjective, as well as personal, norms (Bobek et al. 2012).

Nonetheless, the study suggests that corporate SME taxpayers might perceive descriptive norms in terms of what is regularly done to directly influence their choices of whether to comply or evade corporate income tax, and subjective norms to indirectly influence the choice of voluntary income tax compliance. Bobek et al.'s (2012) model however, did not find direct relationships between descriptive norms and compliance intentions or personal norms and compliance behaviour.

### 9.4.3 Tax policy implications

The study results from Chapter 7 ('Social norms and tax compliance behaviour') imply that corporate SMEs' descriptive norms may not simultaneously activate the injunctive, personal and subjective norms that are responsible for corporate tax compliance or non-compliance behaviour, as suggested by Cialdini & Trost (1998) and Bobek et al. (2012) when dealing with individuals, but they may directly influence corporate SMEs' tax compliance and non-compliance behaviour. Therefore, tax authorities should strive to understand what corporate SMEs commonly do when making corporate tax compliance or non-compliance choices so that appropriate action can be taken to avert the negative practices of non-compliance. The findings also mean that sanctioned behaviour can directly increase subjective norms as well as corporate personal norms. Nonetheless, only subjective norms may indirectly affect corporate SMEs' voluntary compliance behaviour. This study and others (Bobek et al. 2012; Cialdini et al. 2006; Alm et al. 1999) also showed, in part, that perceptions of injunctive norms may not only directly improve subjective and personal norms, but may also indirectly influence personal norms but not tax compliance.

As shown in the study of Hallsworth, List, Metcalfe, & Vlaev (2017), running descriptive and injunctive norms campaigns could encourage corporate SMEs to comply with the corporate tax system. These campaigns could involve sending reminder letters to corporate SMEs that have outstanding corporate tax, highlighting what others have done to comply (descriptive norms), which could encourage the corporate tax non-compliers with outstanding tax debts to pay their dues. Similar letters could also be sent with the aim of changing the tax non-payment culture among corporate SMEs, highlighting what others believe the right thing to do is (injunctive norms). With injunctive norms having a significant effect on ethical values, these messages are, over time, likely to improve SMEs' personal ethical values towards tax compliance so that payment of corporate taxes would be thought of as the only right thing to do, which could improve the overall tax revenues.

### 9.4.4 Overall contributions

Extensive research has shown that social norms have significant influence on tax compliance behaviour, as argued in Chapter 4 (see, for example, Cowell, 1990; Hanno & Volette 1996; Bobek et al. 2007; Bobek et al. 2012). However, only two studies provide insights into how descriptive norms influence other social norms constructs and their subsequent effects on tax compliance behaviour (Bobek et al. 2007; Bobek et al 2012). As these studies relate to the social norms of individual taxpayers, the results in this thesis might be different, since this study looks at the social norms of corporate SME taxpayers.

Thus, this thesis, as a novelty, contributes to the social norms literature about corporate SMEs and, to the best of the researcher's knowledge, is the first of its kind to show links between the social norms constructs themselves, as well as their direct and indirect relationships with the corporate tax compliance behaviour constructs of voluntary and enforced compliance, tax avoidance and evasion. Indeed, the results differ significantly, as what is usually perceived to be done (descriptive norms) does not improve the views of the important others to corporate SMEs (subjective norms), injunctive norms (sanctioned behaviour) and corporate personal norms in the influence of corporate tax compliance behaviour, except with direct effects.

### 9.4.5 Limitations of the study

Firstly, a cross-sectional survey method was used to investigate the role of social norms in tax compliance behaviour, using self-reported data with tax compliance scenarios anchored on Uganda's income tax law. Self-reported data might not reflect the realities on the ground with regard to tax (non)compliance behaviours. Also, cross-sectional data does not incorporate social norms effects that might occur with passage of time. This limits the transferability of the findings to general populations of corporate SME taxpayers where different corporate tax laws operate. Furthermore, this study employed convenient sampling in the selection of all units of inquiry, due to a lack of corporate SME taxpayers' information from the URA. Mitchell & Janina (2013) argue that non-probabilistic samples, if used, might affect the representativeness of the targeted population. Therefore, users of these findings are requested to take precautions.

This thesis also used adapted versions of item scales, as well as a social norms model, which were not originally developed to capture social norms constructs and corporate SMEs' tax compliance intentions in developing countries like Uganda, which might have reduced their predictive capacity. The two studies undertaken using this model in the United States of America used individual taxpayers as the units of inquiry (Bobek et al. 2007; Bobek et al. 2012), hence the need to take caution in the interpretation and wider application of the results.

### 9.4.6 Areas for further research

Given the results and limitations, further research into corporate tax compliance is needed, so the government, corporate tax compliance policymakers and tax authorities can make informed decisions with regard to corporate tax compliance. The probable areas for further research that might inform government and corporate tax compliance policies in relation to social norms are detailed below.

The findings in Chapter 7 ('Social norms and tax compliance') show how social norms constructs influence each other as well as corporate SMEs' tax compliance behaviour. Indeed, some findings also contradict Social Norms Theory and other studies (Bobek et al. 2012; Bobek et al. 2007), which could be due to differences in the units of analysis used, since this thesis looks at corporate SMEs rather than individual taxpayers. In addition, replication of the same study at different time intervals would be an avenue to take in order to account for the limitations of the cross-sectional research design used in this thesis.

Besides, replication of this study using original item scales to capture corporate tax compliance behaviour could be done by researchers from both developing and developed countries. Since the majority of studies on social norms have focussed on individual taxpayers in developed nations, a study targeting individual taxpayers while using items in this study would help in the assessment of tools for comparability.

### 9.5 Empirical findings for corruption and their implications

The inquiry into corruption was firstly motivated by overdependence on donor funding due to inadequate internal financing with a growing informal sector (Mawejje, 2013). The survey undertaken on corporate SMEs in relation to tax fairness with regard to the distribution of resources by the government and fairness in tax administration procedures showed that, although corporate SMEs voluntarily comply with income tax law and institutional regulations, the corporate tax system is not fair. This contravenes the theoretical underpinnings of tax system fairness which reveal that perceptions of fairness will always facilitate and encourage voluntary tax compliance (Kirchler et al. 2008). The researcher thought that this could be attributed to corruption (Jewell et al. 2015) since, even in its presence, for the sake of law and institutional enforcement systems, taxpayers may have no other choice but to comply (Gangl et al. 2015).

#### 9.5.1 Empirical findings

Thus, this part of the study sought 'to examine and model the relationship between corruption and corporate tax system unfairness and tax compliance behaviour among SMEs in Uganda. The findings indicate that perceptions of corruption affect corporate SMEs' tax compliance behaviour. Specifically, perceptions of general corruption, petty tax corruption, political corruption and grand corruption were found to exist and to significantly affect corporate SMEs' perceptions of corporate tax system unfairness. These categories of corruption are perceived to negatively affect distributive fairness, leading to inefficiencies in service delivery as well as procedural unfairness arising from favouritism exercised by tax officers on tribal and political grounds which, together, lead to corporate income tax non-compliance behaviour.

### 9.5.2 Theoretical implications

Acting unjustly while performing tax audits and imposing tax sanctions procedurally can also reduce tax compliance, as such tax systems would be viewed as unfair (Kirchler et al. 2008). Kirchler et al. (2008) say that procedural fairness is a fundamental element that taxpayers consider when making tax compliance choices and that they will comply when the system is perceived to be fair. Corruption involving tax officers and taxpayers in bribery and extortion (Alm et al. 2016) and unequal treatment of taxpayers (Feld & Frey, 2007; GIZ, 2010) are also reasons for tax evasion. In addition, perceptions that the government is acting unfairly when allocating tax revenue for service delivery, and of embezzlement and bribery within a government bureaucratic system, can reduce taxpayers' trust in such a system and their morale, which may ultimately increase corporate SME tax evasion. These findings are in agreement with Cheloukhine & King's (2007) assertions that political corruption may create networks within the bureaucratic systems which could create inefficiencies in service delivery and end up in corporate tax non-compliance behaviour.

### 9.5.3 Tax policy implications

A number of tax policy implications for governments and their tax authorities emanate from this part of the thesis, as follows.

In a bid to get corporate SMEs into corporate tax-paying communities, governments and tax authorities should be able to control corruption. Chapter 8 ('Does corruption matter in Uganda's tax compliance behaviour?') finds that perceptions of general corruption, petty tax corruption and grand corruption may significantly influence corporate tax system unfairness perceptions, which might ultimately lead to tax evasion. Government control of these forms of corruption may be central in enhancing perceptions of system fairness, which may lead to trust in the bureaucratic systems, hence tax morale. This control should be aimed at strengthening the independence of the enforcement mechanisms in place and keeping levels of political interference in the way in which the anti-corruption court, the police, the Office of Internal Auditors General, the Office of the Auditor General (OAG) and the Office of the Inspector of Government (IGG) operate low.

Also, the heads of these institutions should not be appointed by the president and tough deterrents, as recommended by the Anti-Corruption Act 2009 with amendments, should be implemented in respect of the identification of the corrupt public officers, sanctioning and recovery of assets and stolen public funds. Moreover, sensitisation of the public should be done, so that knowledge about the procedures for holding public officers accountable is disseminated. Professionalism within the URA should be encouraged and staff recruitment should be based on competence, which will encourage the tax authority to avoid political intrusion.

### 9.5.4 Overall contributions

Although a significant body of literature regarding corruption and tax evasion exists, most scholars have studied these variables in isolation. However, they can be entwined and strengthen each other. Additionally, the association between corruption and tax evasion has not received reasonable attention from tax scholars, with Alm et al. (2016) only exploring the potential for the bribery of tax officials and how it affects firms' tax evasion decisions. Another recent study explored the four categories of corruption (general corruption, political corruption, petty tax corruption and grand corruption) and how these influence individual intentions to underreport income in Indonesia, but also recognised that there is a lack of literature linking the individual constructs (Rosid et al. 2016). As a novelty, by using semi-structured interviews, this thesis contributes to the limited corporate SME literature on general corruption, petty tax corruption, political corruption and grand corruption, and the ways in which these categories of corruption influence perceptions of corporate tax system unfairness and corporate tax evasion.

### 9.5.5 Limitations

Semi-structured interviews were used to examine and model the relationship between the constructs of corruption, tax system unfairness and corporate SMEs' tax compliance behaviour in Uganda. The use of qualitative evidence in this thesis might pose additional limitations on the way in which the results may be interpreted. The application of the evidence provided in the study relating to corruption and its effects on corporate tax fairness and tax evasion to the general population of corporate SMEs across the country and in other developing countries may be limited, since the study sought responses from a limited number of them in one developing country, rather than showing the different levels of development that exist among them.

It is also possible that respondents could have presented their own personal views rather than those of the companies that they represented. It might also be possible for respondents to justify tax evasion because of the benefit that accrues to the business not necessarily because of corruption for which it would be rationalised behaviour (Wenzel, 2005), making the use of the findings limited in the circumstances. However, if the governance quality in the country is low, which is characteristic of most developing countries (Bird, 2015), it might be true that participants made appropriate representations in their responses with regard to corruption.

### 9.5.6 Areas for further research

The following areas have been identified as crucial for informing government tax policy as well as the regulatory institutions that aim to improve procedural and distributive fairness and increase tax revenue.

To further strengthen the findings in Chapter 8 ('Does corruption matter in Uganda's tax compliance behaviour'), a higher number of responses might be needed, utilising survey designs so as to find out the extent to which the four dimensions of corruption influence corporate tax system unfairness, tax morale and corporate SMEs' tax non-compliance behaviour. As in the foregoing proposed research areas, exploring this avenue could help researchers to make a contribution to the literature irrespective of the level of development of their countries.

The broad review of empirical results in Chapter 4 shows that more research into both individual and corporate tax compliance in relation to corruption is needed. Researchers have also paid little attention to the effectiveness of the institutional control of corruption and overall political will in the management of corruption and tax evasion.

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# Appendices

## Appendix I: Sample Characteristics relating to categorisation of variables

| Variable/values *(N = 386)* (£1 = UGX4,164.505) | Freq. | % | Mean | S.D | Var | Min | Max |
|---|---|---|---|---|---|---|---|
| *Business activity of the SME* | | | 5.28 | 3.07 | 9.44 | 1.00 | 10.00 |
| Utilities | 6 | 1.6 | | | | | |
| Construction and real estate | 46 | 11.9 | | | | | |
| Trade | 149 | 38.6 | | | | | |
| Hotels and restaurants | 27 | 7.0 | | | | | |
| Transport and storage | 10 | 2.6 | | | | | |
| Posts and Telecommunications | 5 | 1.3 | | | | | |
| Financial Intermediaries | 12 | 3.1 | | | | | |
| Insurance | 6 | 1.6 | | | | | |
| Business Services | 78 | 20.2 | | | | | |
| Manufacturing & Agriculture | 47 | 12.2 | | | | | |
| *Location of the firm* | | | 1.93 | .88 | .77 | 1.00 | 3.00 |
| Kampala | 163 | 42.2 | | | | | |
| Eastern region | 88 | 22.8 | | | | | |
| Central | 135 | 35 | | | | | |
| *Number of Years in business* | | | 1.95 | .88 | .72 | 1.00 | 5.00 |
| 1 – 10 | 126 | 32.6 | | | | | |
| 11 – 20 | 175 | 45.3 | | | | | |
| 21 – 30 | 64 | 16.6 | | | | | |
| 31 – 40 | 20 | 5.2 | | | | | |
| 41 – 50 | 1 | .3 | | | | | |
| *Number of full-time employees* | | | 1.01 | .09 | .01 | 1.00 | 2.00 |
| 1 – 50 | 383 | 99.2 | | | | | |
| 51 – 100 | 3 | .8 | | | | | |
| *Turnover* | | | 2.48 | .57 | .33 | 1.00 | 3.00 |
| Up to UGX.12,000,000 | 15 | 3.9 | | | | | |
| UGX.12,000,001 - UGX.360,000,000 | 170 | 44.0 | | | | | |
| UGX.360,000,001 - UGX.30,000,000,000 | 201 | 52.2 | | | | | |
| *Paid–up capital* | | | 2.52 | .77 | .60 | 1.00 | 4.00 |
| Up to UGX.12,000,000 | 20 | 5.2 | | | | | |
| UGX.12,000,001 - UGX.360,000,000 | 191 | 49.5 | | | | | |
| UGX.360,000,001 - UGX.30,000,000,000 | 128 | 33.2 | | | | | |
| Above UGX.30,000,000,000 | 47 | 12.1 | | | | | |
| *Position in the company* | | | 3.16 | .76 | .58 | 1.00 | 5.00 |
| Owner | 102 | 26.4 | | | | | |
| Chief Executive Officer | 84 | 21.8 | | | | | |
| Managing Director | 93 | 24.1 | | | | | |
| Manager | 63 | 16.3 | | | | | |
| Accountant | 44 | 11.4 | | | | | |
| *Gender of the respondent* | | | 1.42 | .49 | .25 | 1.00 | 2.00 |
| Male | 223 | 57.8 | | | | | |
| Female | 163 | 42.2 | | | | | |
| *Age (Years) of the respondent* | | | 2.96 | .67 | .45 | 1.00 | 6.00 |
| Below 19 | 0 | 0 | | | | | |
| 19 – 30 | 92 | 23.8 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 31 – 40 | 222 | 57.5 | | | | | |
| 41 – 50 | 69 | 17.9 | | | | | |
| 51 – 60 | 3 | .8 | | | | | |
| Over 60 | 0 | 0 | | | | | |
| *Qualification of the respondent* | | | 2.58 | .98 | .97 | 1.00 | 5.00 |
| Diploma | 29 | 7.5 | | | | | |
| Bachelor’s Degree | 195 | 50.5 | | | | | |
| Master’s Degree | 88 | 22.8 | | | | | |
| Professional Qualification (ACCA, CPA, etc) | 56 | 14.5 | | | | | |
| PhD | 18 | 4.7 | | | | | |

## Appendix II: From codes to themes – Thematic network analysis

| *Codes (Step 1)* | *(Issues discussed)* | *Themes identified (Step 2)* |
|---|---|---|
| -Corruption (Gov't officials)<br>-Service provision<br>-Trust<br>-Accountability | - Need for revenue<br>- But poor service delivery<br>- Misuse of money<br>- Personal interest<br>- UNRA corruption<br>- Loss of taxpayers' funds<br>- Distrust<br>- Procedure in distribution of funds<br>- Distributive justice<br>- Hospital facilities<br>- Value for money<br>- Disclosure<br>- Show good example<br>- Impersonation<br>- No compensation | 1.Tax revenue not used to provide adequate services to society<br>2.Governement officials use money for personal gain<br>3.Distrust that government will use the tax revenue well<br>4.Inequality in distribution of funds to different regions<br>5.District officers fuelling their cars from hospital funds<br>6.Inadequate accountability by URA and government<br>7.Public officers do not fear to steal money meant for the poor<br>8.Payment to wrong persons<br>9.Audit ineffectiveness |
| -Tax fairness<br>-Big politicians<br>-Political connection<br>-Embezzlement | - Unfair tax system<br>- Business ownership<br>- Tax non-payment<br>- Political connection<br>- Sanctions<br>- Corrupt officers' promoted<br>- UNRA employees<br>- Fraud | 10.Tax system not equitable<br>11.Businesses owned by big politicians do not pay taxes<br>12.Promotional favours for the corrupt government officers<br>13.Embezzlement of money is part of employees from the west |
| -Unjustified penalties<br>-Selective treatment<br>-Trust<br>-Systematic bribery<br>-Staff-help | - Unprofitable businesses<br>- Forced demands to pay taxes<br>- Fraud<br>- complaints<br>- Penalties<br>- Big companies treated well<br>- Income under declaration<br>- Bribery<br>- Grease money<br>- Tribalism<br>- Discriminatory<br>- Rich people - bribery | 14.URA extraction of funds unjustifiably (assumed taxes and penalties)<br>15.Favouring big companies more than SMEs<br>16.URA officers demanding for grease monies<br>17. Big companies paying bribes willingly<br>18. SMEs paying bribes due to fear of high taxes<br>19.The politically connected help their own not to pay taxes<br>20. Segregative audits done<br>21. Systematic bribery by the rich<br>22. URA staff-help to underreport income |
| -Poor services<br>-Government bailouts<br>-No accountability<br>-Embezzlement - Officials<br>-Political connection<br>-Ammunitions purchases | - Money to private companies<br>- Government involvement<br>- Some businesses don't pay tax<br>- University staff demands<br>- Poor conditions in villages<br>- Parents and students<br>- Money stolen<br>- Buildings in cities | 23.Governement giving money to private companies where they have personal interest<br>24.Due to political connection, some businesses don't pay taxes<br>25.Failed settlement of its obligations<br>26.Direct embezzlement of tax money collected by high profile |

| | | |
|---|---|---|
| | - Lacking Infrastructure<br>- Low remuneration<br>- Connivance<br>- UNRA Directors' sacking<br>- Unnecessary expenditures | officers<br>27.Companies owned by high profile government officers don't pay<br>28.Unnecessary purchases of ammunitions |

Table 8.2: From Basic to Organising to Global Themes

| *Themes as Basic Themes* | *Organising Themes* | *Global Theme* |
|---|---|---|
| 1.Tax revenue not used to provide adequate services to society<br>2.Governement officials use money for personal gain<br>3.Distrust that government will use the tax revenue well<br>4.Inequality in distribution of funds to different regions<br>5.District officers fuelling their cars from hospital funds<br>6.Inadequate accountability by URA and government<br>7.Public officers do not fear to steal money meant for the poor<br>8.Payments made to wrong persons | **Perception of general corruption (General government officials involved)** | |
| 9. Audit ineffectiveness | | |
| 10.Tax system not equitable<br>11.Businesses owned by big politicians do not pay taxes<br>12.Promotional favours for the corrupt government officers | **Political corruption** | **Unfair corporate tax system** |
| 13.URA extraction of funds unjustifiably (assumed taxes and penalties)<br>14.Favouring big companies more than SMEs<br>15.URA officers demanding for grease monies<br>16. Big companies paying bribes willingly<br>17. SMEs paying bribes due to fear of high taxes<br>18.The politically connected help their own not to pay taxes<br>19. Segregative audits done<br>20. Systematic bribery by the rich<br>21. URA staff-help to underreport income | **Petty tax-corruption – involvement of tax officials** | |
| 22.Governement giving money to private companies where they have personal interest<br>23.Failed settlement of its obligations<br>24.Direct embezzlement of tax | **Grand corruption – high profile government officials involved** | |

| | |
|---|---|
| money collected by high profile officers<br>25.Unnecessary purchases of ammunitions | |

## Appendix III: Survey Instrument

UNIVERSITY OF EXETER | BUSINESS SCHOOL

Streatham Court, Rennes Drive, Exeter UK EX4 4PU
Telephone+44 (0)1392 263200
Email business-school@exeter.ac.uk
Web www.exeter.ac.uk/business-school

**ACADEMIC DATA COLLECTION EXERCISE**

Dear respondent,
You are welcome to be part of the Ugandan corporate tax compliance study. The purpose of this study is to find out more about how corporate tax system is working – what you think of it and how it may be affecting your company in meeting its requirements, which will lead to the award of a PhD. There are no right or wrong answers, we are interested in your honest opinion on the current corporate tax rules; our aim is to understand how these rules affect your company. Your participation is, of course, voluntary and in case you accept to answer the questionnaire, I would be greatly thankful if you could answer all questions honestly so that we get a complete picture of the situation on ground. Your response is only for research purposes and will be treated with utmost confidentiality so we request you to be as open as possible in your responses. “This project has been approved by the Ethics Review Committee at The University of Exeter, UK”. Thank you for your cooperation.

**SECTION 1:**

Please tick (✓) one box or fill in the appropriate details as requested.

1. The financial year end of your company in 2015 was:

| | | | |
|---|---|---|---|
| | | | |

Day Month

2. The main business activity of your company is: (Please tick (✓) one box)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Utilities | 1 | | Hotels and restaurants | 4 | | Financial Intermediaries | 7 |
| Construction | 2 | | Transport and storage | 5 | | Insurance | 8 |
| Trade | 3 | | Posts and Telecommunications | 6 | | Business Services | 9 |
| Others (Please Specify)-10 | | | | | | | |

3. Your company is located in: (Please tick (✓) one box)

| | |
|---|---|
| Kampala | 1 |
| Eastern region | 2 |
| Central | 3 |

4. How many years has your company been in business?..........................................

5. How many full-time staff did your company employ in the year 2015? ..................

6. The annual turnover of your company for the financial year 2015 was: (Kindly tick (✓) one box) (£1 = UGX4,164.505)

| | | | | |
|---|---|---|---|---|
| Up to UGX.12,000,000 | 1 | | UGX.360,000,001 - UGX.30,000,000,000 | 3 |
| UGX.12,000,001 - UGX.360,000,000 | 2 | | Above UGX.30,000,000,000 | 4 |

7. The paid up capital for your company at the beginning of the financial year 2015 was: (Please tick (✓) one box)

| | | | | |
|---|---|---|---|---|
| Up to UGX.12,000,000 | 1 | | UGX.360,000,001 - UGX.30,000,000,000 | 3 |
| UGX.12,000,001 - UGX.360,000,000 | 2 | | Above UGX.30,000,000,000 | 4 |

## SECTION 2: SANCTIONS AND AUDIT

| code | May you kindly indicate the level at which you agree or disagree with the following statements by ticking (✓): completely disagree = 1;mostly disagree = 2; somewhat disagree = 3; neither agree nor disagree = 4; somewhat agree = 5; mostly agree = 6; completely agree = 7) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Sanctions (SA)** | | | | | | | |
| SA1 | The tax fines imposed for not complying with the corporate tax laws are high for our company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA2 | Companies rarely pay interest or penal tax (fines) on the income tax not paid on time ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA3 | Late payment of corporate tax means we have to pay higher interest on that amount of tax. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA4 | URA uses imprisonment to encourage companies to pay corporate income tax on time. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA5 | It is common for companies to pay penal tax (fines) for not filing annual returns on time. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA6 | At times, the URA closes down some companies for failure to fulfil their corporate income tax requirements. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SA7 | The level of punishments by the URA for not complying with the law is very high. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**Scenario:** PAEST Business Traders Ltd owns a Pickup Van which Mr. Mudasi one of the managing Directors uses for business operations. However, Mr. Mudasi has the freedom to also use the van for his personal errands. The Income Tax Act provides that expenses are deductible to the extent the van is used for business purposes. In preparing the corporate income tax return, Mr. Mudasi establishes that the van was used 70% for business. However, he also calculates if he WRONGLY claimed it was used 95% for business, the company's deduction would rise by UGX 3,500,000 and would save UGX 1,000,000 in taxes.

**Imagine you were Mr. Mudasi, how do you think you would act in his place?**

***Please indicate by way of a tick(✓) your perception of how likely the following can occur: highly unlikely = 1, mostly unlikely = 2; somewhat unlikely = 3; neither likely nor unlikely = 4; somewhat likely = 5; mostly likely = 6; highly likely = 7***

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Audit Probability (AP)** | | | | | | | |
| AP1 | If Mr. Mudasi deducts UGX 3,500,000 in van expenses, how likely is it that the URA will audit the company? | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| AP2 | If audited, how likely is it that a deduction of UGX 3,500,000 would be disallowed? | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| AP3 | Mr. Mudasi would be caught by URA if he didn't include a cash sale of UGX 2,300,000 on the tax returns | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| AP4 | Most corporate income tax returns from 2014 and 2015 would be audited by the URA. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| AP5 | Most corporate tax returns audited by the URA would be found to be erroneous, with less income declared. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| AP6 | Unaudited companies may comply if they become aware that others have been subjected to audits. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| code | SECTION 3: SOCIAL NORMS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Kindly provide your response by ticking (✓) to the following statements according to your level of agreement or disagreement: completely disagree = 1; mostly disagree = 2; somewhat disagree = 3; neither agree nor disagree = 4; somewhat agree = 5; mostly agree = 6; Completely Agree = 7.** | | | | | | | | |
| | **Personal Norms (PN)** | | | | | | | |
| PN1 | I feel a moral obligation to be completely honest in tax declaration | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PN2 | I think it's acceptable to overstate corporate deductions ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PN3 | I would feel guilty if I took an additional UGX 3,500,000 as a tax deduction | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PN4 | I would feel ashamed if I took the additional UGX 3,500,000 deduction | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PN5 | I would feel pleased and justified in taking the additional UGX 3,500,000 deduction ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Injunctive Norms (IN)** | | | | | | | |
| **Considering the tax environment in Uganda, most staff or corporate owners would ...** | | | | | | | | |
| IN1 | ..feel guilty if they took the additional UGX 3,500,000 deduction | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| IN2 | ..feel ashamed if they took the additional UGX 3,500,000 deduction | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| IN3 | ..be scared that they would get caught if they took the additional UGX 3,500,000 deduction | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Descriptive Norms (DN)** | | | | | | | |
| **Considering the practices of other companies similar to mine (same level of income), in my opinion …** | | | | | | | | |
| DN1 | ..given the opportunity, my company would take the additional UGX 3,500,000 deduction in van expenses like others have ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DN2 | ..my company would take the portion of the additional UGX 3,500,000 deduction closest to what others deduct ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DN3 | ..a high percentage of them would deliberately pay less corporate taxes than they legally owe ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DN4 | ..a great percentage of them would inaccurately, but unknowingly, pay less corporate taxes than they legally owe ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Subjective Norms (SN)** | | | | | | | |
| If my company received a total of UGX 10,000,000 in profits after selling off two of its old Toyota Pickups, most of our peers, family members and other similar company staff would …. | | | | | | | | |
| SN1 | ...think that our company should not declare the extra UGX10,000,000.***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SN2 | ...think that our company should declare the extra UGX.10,000,000. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SN3 | ...approve would approve of our decision to understate our income by UGX 10,000,000. ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SN4 | ...disapprove the idea of not including a UGX 10,000,000 profit | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| SN5 | ...not understate the income if faced with a similar situation. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| code | SECTION 4: FAIRNESS PERCEPTIONS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Kindly indicate by way of a tick (✓) the extent to which you agree or disagree with the following statements: completely disagree = 1; mostly disagree = 2; somewhat disagree = 3; neither agree nor disagree = 4; somewhat agree = 5; mostly agree = 6; completely Agree = 7.** | | | | | | | | |
| | **Distributive Fairness (DF)** | | | | | | | |
| DF1 | I believe the government utilises a realistic amount of tax revenue to achieve social goals. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DF2 | I believe every corporate taxpayer pays their fair share of income tax under the current tax system | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DF3 | I think the government spends too much tax revenue on unnecessary welfare assistance. ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DF4 | We receive fair value of services from the government in return for our corporate tax paid | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DF5 | It is fair that low-income earners get more services from government compared to high earners. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| DF6 | We pay high corporate taxes when compared to the services we get from the government. ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Procedural Fairness (PRF)** | | | | | | | |
| PRF1 | There are a number of ways available to the company to correct errors in the calculation of corporate tax liability, if necessary, at no additional cost. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PRF2 | The administration of the corporate tax system by the URA is consistent over the years. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PRF3 | The administration of the corporate tax system by the URA is consistent for all corporate taxpayers. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| code | **SECTION 5: CORPORATE TAX COMPLIANCE** | | | | | | | |
| **Kindly indicate by ticking (✓) the extent to which you agree or disagree with the statements below: completely disagree = 1; mostly disagree = 2; somewhat disagree = 3; neither agree nor disagree = 4; somewhat agree = 5; mostly agree = 6; completely agree = 7** | | | | | | | | |
| | **Voluntary Compliance (VC)** | | | | | | | |
| | My company pays corporate taxes as required by the regulations because.... | | | | | | | |
| VC1 | ... it's clear that is what we have to do. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC2 | ... of the need to support the state and society. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC3 | ... we like to make a contribution for everyone’s good. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC4 | ... for us it's the natural thing to do. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC5 | ... we regard it as our responsibility as citizens. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| If my company had other rental income of UGX.7,000,000 from letting out part of its business property … | | | | | | | | |
| VC6 | …we would report this income fully in the income computation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC7 | …we would not declare it as the amount is not from the main source of business. ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VC8 | …we would not attempt to omit the extra income in my tax return form. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Enforced Compliance (EC)** | | | | | | | |
| | When we pay corporate taxes as required by the regulations, we do so because ... | | | | | | | |
| EC1 | ... a large number of tax checks are carried out by URA. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC2 | ... the URA often carries out checks. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC3 | ... we know that the company will be audited. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC4 | ... the punishments for tax evasion are very severe. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC5 | ... we do not know exactly how to evade taxes without attracting attention. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC6 | …we feel that we are forced to pay tax | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EC7 | … of not having checks by URA. ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Tax Avoidance (TA)** | | | | | | | |
| TA1 | The tax system has many loopholes that can help us to avoid corporate taxes | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TA2 | The person who prepares my tax return finds innovative ways to reduce corporate taxes | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TA3 | I can always employ the services of tax advisors, as they can legally save large sums of corporate tax | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Tax Evasion (TE)** | | | | | | | |
| TE1 | Not declaring an extra source of income in your corporate tax return and saving UGX 3,000,000 is a serious crime ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TE2 | Deducting an expense not actually incurred on your corporate tax return and thus saving UGX 3,000,000 can be a serious crime ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TE3 | Making cash payments to a carpenter who fixed wardrobes at your residence and thereby saving UGX 3,000,000 may be viewed as a serious crime ***(R)*** | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| OC1 | Stealing UGX 3,000,000 cash from a supermarket would be a serious crime. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| OC2 | Embezzling UGX 3,000,000 from a community association that one is member of is a serious crime. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **SECTION 6: POWER AND TRUST** | | | | | | | |
| **By way of a tick(✓), kindly indicate the level of your agreement or disagreement with the statements below: completely disagree = 1; mostly disagree = 2; somewhat disagree = 3; neither agree nor disagree = 4; somewhat agree = 5; mostly agree = 6; completely agree = 7** | | | | | | | | |
| | **Power of Authorities (PA)** | | | | | | | |
| PA1 | The Uganda Revenue Authority has extensive means to force corporations to be honest about income tax | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PA2 | Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party information reports in a systematic way | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PA3 | If we evaded taxes and got caught, the penalties would be very high for my company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | **Trust in Authorities (TA)** | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| TRA1 | Uganda Revenue Authority treats me fairly in my dealings with them. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TRA2 | Uganda Revenue Authority treats us respectfully in our dealings with them. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TRA3 | We trust URA and government when dealing with then on corporate tax matters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

8. Kindly state if you have additional comments and/ or suggestions regarding corporate taxation of small and medium-sized companies.

.........................................................................................................................................
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....................................................................

**SECTION 7:**

1. What is your current position in this company? (Please tick (✓) one box)

| | |
|---|---|
| Chief Executive Officer | |
| Managing Director | |
| Manager | |
| Accountant | |
| Other (Please specify) | |

2. Gender: (Please tick (✓) one Male ☐ Female ☐ box)

3. Your Age? (Kindly tick (✓) one box)

Less than 18 ☐ 19 - 30 ☐ 31 - 40 ☐ 41 - 50 ☐ 51 - 60 ☐ Above 60 ☐

4. Your highest qualification? (Kindly tick (✓) one box)

| | |
|---|---|
| Diploma………………………………………….. | |
| Bachelor's Degree………………………………... | |
| Master's Degree………………………………….. | |
| Professional Qualification (e.g. ACCA, CPA, etc) | |
| PhD……………………………………………….. | |

Other (Please specify)…………………………………...

If you are willing to provide more information through a personal discussion with me regarding the areas you have participated in already, please provide your contact details below. Your response will be treated with strict confidence and solely for the purpose of this PhD study.

(You may leave it blank if you want to remain unidentified)

Name: ........................................................................................

Telephone: ...........................................................................

Thank you so much for giving us the opportunity to use some of your time while working through this questionnaire.

## Appendix IV: Brief Demographic Questionnaire

Streatham Court, Rennes Drive, Exeter UK EX4 4PU
Telephone+44 (0)1392 263200
Email business-school@exeter.ac.uk
Web www.exeter.ac.uk/business-school

**ACADEMIC DATA COLLECTION EXERCISE**

Dear respondent,

You are welcome to be part of the Ugandan corporate tax compliance study. The purpose of this study is to find out more about how corporate tax system is working – what you think of it and how it may be affecting your company in meeting its requirements, which will lead to the award of a PhD. There are no right or wrong answers, we are interested in your honest opinion on the current corporate tax rules; our aim is to understand how these rules affect your company. Your participation is, of course, voluntary and in case you accept to answer the questionnaire, I would be greatly thankful if you could answer all questions honestly and also indicate your contact details, preferred date and time we can hold the interview so that we get a complete picture of the situation on ground. Your responses are and will only be for research purposes and will be treated with utmost confidentiality so we request you to be as open as possible in your responses. “This project has been approved by the Ethics Review Committee at The University of Exeter, UK”. Thank you for your cooperation.

**SECTION 1:**

Please tick (✓) one box or fill in the appropriate details as requested.

1. The financial year end of your company in 2015 was:

| | | | |
|---|---|---|---|
| | | | |

Day Month

2. The main business activity of your company is: (Please tick (✓) one box)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Utilities | 1 | | Hotels and restaurants | 4 | | Financial Intermediaries | 7 |
| Construction | 2 | | Transport and storage | 5 | | Insurance | 8 |
| Trade | 3 | | Posts and Telecommunications | 6 | | Business Services | 9 |
| Others (Please Specify)-10 | | | | | | | |

3. Your company is located in: (Please tick (✓) one box)

| | |
|---|---|
| Kampala | 1 |
| Eastern region | 2 |
| Central | 3 |

4. How many years has your company been in business?..........................................

5. How many full-time staff did your company employ in the year 2015? ..................

6. The annual turnover of your company for the financial year 2015 was: (Kindly tick (✓) one box) (£1 = UGX4,164.505)

| | | | | |
|---|---|---|---|---|
| Up to UGX.12,000,000 | 1 | | UGX.360,000,001 - UGX.30,000,000,000 | 3 |
| UGX.12,000,001 - UGX.360,000,000 | 2 | | Above UGX.30,000,000,000 | 4 |

7. The paid up capital for your company at the beginning of the financial year 2015 was: (Please tick (✓) one box)

| | | | | |
|---|---|---|---|---|
| Up to UGX.12,000,000 | 1 | | UGX.360,000,001 - UGX.30,000,000,000 | 3 |

| | | | | |
|---|---|---|---|---|
| UGX.12,000,001 - UGX.360,000,000 | 2 | | Above UGX.30,000,000,000 | 4 |

**SECTION 2:**

1. What is your current position in this company? (Please tick (✓) one box)

| | |
|---|---|
| Chief Executive Officer | |
| Managing Director | |
| Manager | |
| Accountant | |
| Other (Please specify) | |

2. Gender: (Please tick (✓) one Male ☐ Female ☐ box)

3. Your Age? (Kindly tick (✓) one box)

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Less than 18 | ☐ | 19 - 30 | ☐ | 31 - 40 | ☐ | 41 - 50 | ☐ | 51 - 60 | ☐ | Above 60 | ☐ |

4. Your highest qualification? (Kindly tick (✓) one box)

| | |
|---|---|
| Diploma………………………………………….. | |
| Bachelor's Degree……………………………….. | |
| Master's Degree………………………………….. | |
| Professional Qualification (e.g. ACCA, CPA, etc) | |
| PhD……………………………………………….. | |

Other (Please specify)…………………………………...

If you are willing to provide more information through a personal discussion with me regarding corporate tax system fairness, please provide your contact details below, your preferred date and time for the discussion. Your response will be treated with strict confidence and solely for the purpose of this PhD study.

(You may leave it blank if you want to remain unidentified)

Name: ..........................................................................................

Telephone: ....................................................................................

Preferred date......................................Time........................

Thank you so much for giving us the opportunity to use some of your time while working through this questionnaire.

## Appendix V: Interview Guide

Streatham Court, Rennes Drive, Exeter UK
EX4 4PU
Telephone+44 (0)1392 263200
Email business-school@exeter.ac.uk
Web www.exeter.ac.uk/business-school

### The Interview Guide

1. In your opinion, would you consider the corporate tax system fair or unfair with regard to service delivery and procedural justice?
2. Why would you view Uganda's corporate tax system as fair or unfair?
3. Are services like education, transport and communication, health adequate? Would you say they encourage you to pay your company's tax?
4. How would you describe the way central and local governments use the tax revenue to provide services?
5. Would you say the procedures you go through to pay corporate taxes are fair? Keeping books of accounts, filling tax return forms and filing returns?
6. Are URA staff helpful in filing corporate tax returns for your business?
7. How would you describe your company's relationship with URA? Any specific difficulties or problems?

## Appendix VI: Candidate's Introductory Letter

Department of Accounting
Rennes Drive, Exeter, EX4 4ST, UK

Tel: 0702323200
Email: fnt202@exeter.ac.uk

ASSISTANCE REQUIRED FOR RESEARCH

My name is Festo Tusubira, a PhD candidate at the Department of Accounting, University of Exeter, United Kingdom. My research examines how the current corporate tax system and the social-psychological factors shape corporate tax compliance behaviour of small and medium-sized enterprises, Uganda being the case study.

To satisfy the requirements of this degree programme, I am required to obtain primary data from your company to support my thesis. Your contribution is central to the successful completion of my degree, and for that reason, I entirely depend on your kind support.

My assurance is to you that this study is entirely for academic use; your responses will be kept strictly confidential. Names will not be documented anywhere, only research codes will be used, and your valued answers will not be used for any reason other than my thesis. I in addition confirm to you that data will be stored according to the UK Data Protection Act at all levels of the study.

Your kind assistance will be highly appreciated.

Thank you

Festo Tusubira (Signed by email)

## Appendix VII: Participants' Consent Form

**Research Participation Consent and Information Form**

My name is Festo Tusubira; I am a PhD candidate at the University of Exeter. My research examines how the current corporate tax system and the social-psychological factors shape corporate tax compliance behaviour of small and medium-sized enterprises, Uganda being the case study. This research involves a survey for which I need your participation. I note that every form of data collected will be treated with utmost confidentiality, and will be stored according to standard research ethics. Also, my assurance to you is that the outcome of this research will not include details of any participants. So it would be appreciated if you would support with your answers to this survey within the next two weeks.

Your participation in this project is completely voluntary and you may refuse to participate at any time. If you have any questions about this research, you can call me at my mobile number (0702323200) or email me at (fnt202@exeter.ac.uk). You may also contact my research supervisor, Professor Lynne Oats, (email: L.M.Oats@exeter.ac.uk, Tel: +44(0)1392 726267) if you have questions about your rights as a participant in this study. If you agree to participate in this research project, please sign below:

I agree to participate in the survey/interview:

Please tick (✓) one: Yes ☐ No ☐

........................................ ..................... ........................................ ..................
Participant's signature Date Investigator's signature Date

............................................................... ..................................................................
Participant's name: Investigator's name:

Participant's Company: ...........................................................

## Appendix VIII: Supervisor's Introductory Letter

University of Exeter Business School
Streatham Court
Rennes Drive
Exeter
UK EX4 4PU
Telephone: +44 (0)1392 726267
Fax: +44 (0)1392 723210

Web: www.exeter.ac.uk/business-school

To Whom It May Concern:

**Festo Tusubira**

This is to certify that Mr. Festo Tusubira is a doctoral researcher at the University of Exeter, carrying out research towards his PhD in Accountancy.

His research is governed by the regulations of the University, which sanction absolute anonymity for every sources of information.

I would be grateful for any information and assistance that you can provide to Festo.

Yours faithfully,

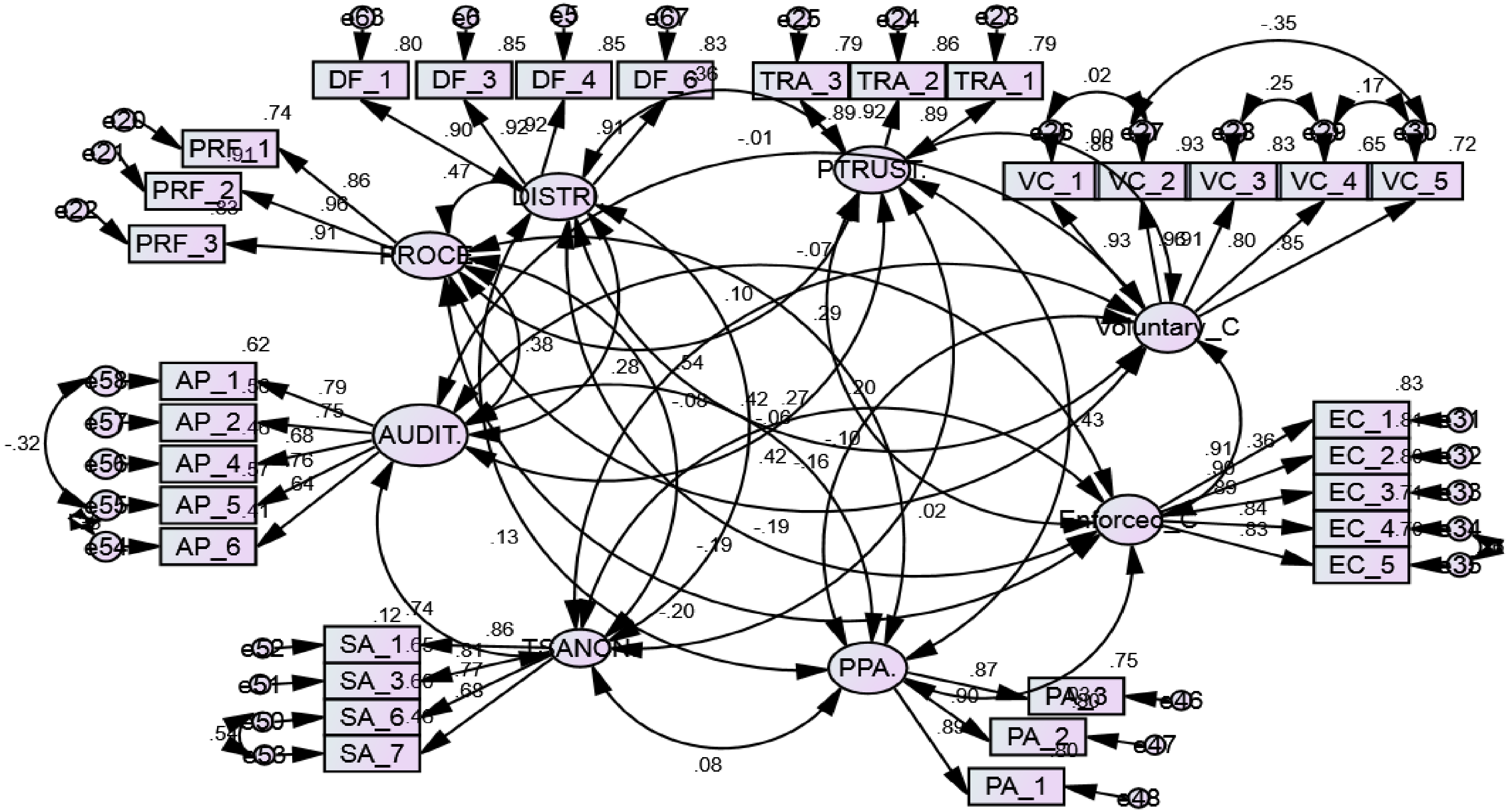
Professor Lynne Oats
Professor of Taxation and Accounting
Exeter Business School
University of Exeter

Email: L.M.Oats@exeter.ac.uk
Phone: 01392 726267

## Appendix IX: The Detailed Map of the Republic of Uganda

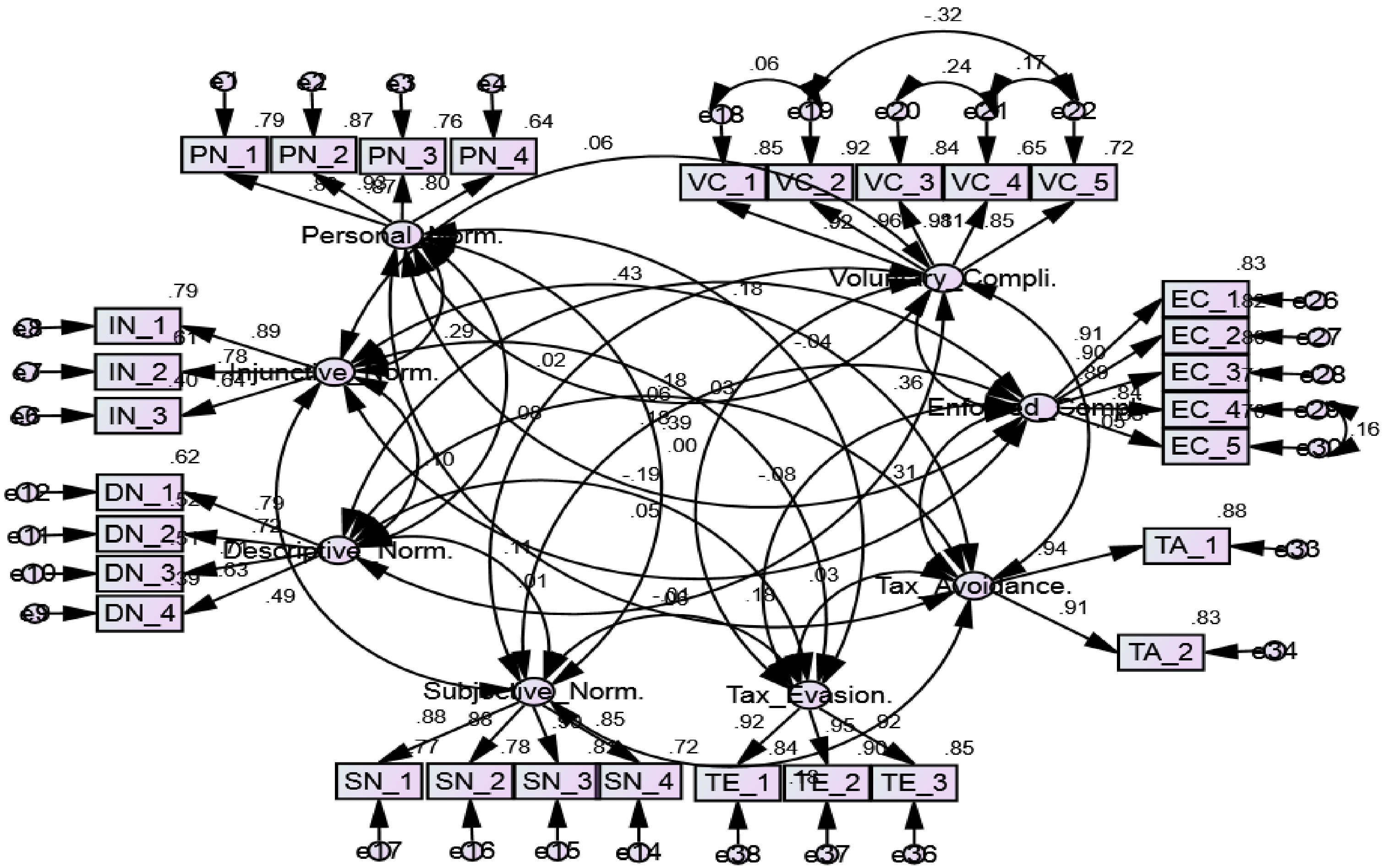

Source: http://www.mapsofworld.com/uganda/maps/uganda-map.jpg

**Appendix X: Power of and trust in authorities' measurement model.**




Chi-Square (χ2) = 722.382, DF = 459, Chi-Square (χ2)/df = 1.574, Probability p < .001,
GFI= .897, Normed Fit Index (NFI) = .938, Incremental Fit Index (IFI) = .976,
Tucker-Lewis Index (TLI) = .973, Comparative Fit Index (CFI) = .976,
and Root Mean Square Error of Approximation (RMSEA) = .039.

## Appendix XI: Measurement model for social norms and tax compliance behaviour



Chi-Square (χ2)/df ratio = 1.658; Probability level (p < .001); Goodness of Fit Index (GFI) = 0.902;
Incremental Fit Index (IFI) = 0.974; Tucker and Lewis Index (TLI) = 0.970;
Comparative Fit index (CFI) = 0.974; Root Mean Square Error of Approximation (RMSEA) = 0.041