Tax Structure, Tax Administration and Presumptive Tax Compliance among Selected Small Enterprises in Mbarara City, Uganda

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Abstract: *The purpose of the study was to establish the relationship between tax structure and tax administration and presumption tax compliance in Mbarara City. To do this, a quantitative explanatory research design using cross section survey approach was adopted. A sample of 354 small business enterprises participated in the study. The respondents/unit of inquiry were the owners or the managers of the small business enterprises. Tax structure results indicate that tax structure contributes 14.6% change in presumptive tax compliance. This implies that for a unit change in tax structure, presumptive tax compliance will improve by .383 units. The results show that tax structure is a significant predictor of Tax Compliance among selected small business enterprises in Mbarara City (β= 0.383, p≤ 0.01). Tax administration results indicate that tax administration contributes 15.9% change in Tax Compliance among selected small business enterprises in Mbarara City. Thus for a unit change in tax administration, Tax Compliance among would improve by .534 units. The results show that tax administration is a significant predictor of Tax Compliance among selected small business enterprises in Mbarara City (β= 0.534, P≤0.01). Finally the variables entered in the regression model explain an overall 30.7% (R Square=.307) of the variations in the Tax Compliance among selected small business enterprises in Mbarara City. This means that 69.3% is explained by other variables not considered in this study. In conclusion, URA should ensure that the tax rate, base and type are clearly communicated and should be favourable to the business owners. Tax assessment should be transparent and assistance should be given to these business people on issues regarding tax payment in order to ensure tax compliance.*

Keywords—tax structure; tax administration; presumption tax compliance;

INTRODUCTION
Background

It is widely recognized that presumptive tax is one of the taxes from which any government draws revenue to finance its expenditure and provide services to the citizens (Akinboade, 2015; OECD, 2010). The objective of introducing presumptive tax was to capture informal businesses that rarely keep complete up to-date records and remained outside the tax net, and also to lessen the burden on the formal sector. The computation of presumptive and filing procedures are less cumbersome and as such, it enhances tax compliance (*Maina, 2018)*. To be able to enjoy the benefits of taxes, taxpayers need to comply and pay the correct amount on time, but this doesn't seem to be the case for many developing countries, and Uganda in particular (Damayanthi, 2016; URA Report, 2015; MFPED Report 2015; Sserwanga & Walter, 2003; Were, 2011; Eissa, 2017).

The Global Entrepreneurship Monitor ranks Uganda as one of the most entrepreneurial countries (GEM-U reports, 2010, 2004, 2003), with 91% of the businesses found in the informal sector where presumptive tax applies (UBOS Business register, 2018). However, the entrepreneurial activity rate does not have the corresponding growth in net tax collected. Non-tax compliance among small businesses has remained a challenge to the tax collecting body (Begumisa, 2018). In the financial year 2017/18 alone, Uganda Revenue Authority realised a presumptive tax deficit of 23.1billion which was 7.8% fall, with many small businesses reported not filing tax returns (URA Report, 2017/18; Nkote & Nyende, 2013). Moreover, it qualitatively indicates that there is high non-tax compliance among small business enterprises in Uganda especially those in the Central and Western regions and this gives a picture of the problem at hand (Auditor General's report, 2015). While several unpublished studies have investigated non-tax compliance in the informal sector, the results are still mixed thus warranting further studies. Existing literature tends to associate tax compliance with the

tax structure systems of a given country. For example, findings of the study by (Widmalm, 2001; Kay Blaufus et al,. 2017; Inasius, 2018; Rosid et al.,2018) indicate that the type of tax structure adopted in every economy has implications on the tax payer's compliance to paying tax. A study by Alm, (2015) also indicates that there is a significant relationship between tax administration and tax compliance. This is further confirmed in the works of Nkundabanyanga (2017).

In Mbarara City, Western Uganda, there are approximately 4,408 registered Small Business Enterprises by the commercial office (MMC-Commercial report, 2015) but only about 15% of them have registered for presumptive tax and about 30% of those registered don't file tax returns (URA Report, 2016). Failure by Small Businesses to pay taxes impedes government's effort to finance its budget and deliver services to its citizens, a situation that calls for immediate attention (Ministry of Finance, planning and Economic Development Report, 2014). Although existing literature links tax compliance to tax structure and tax administration, there is limited research about the same among small businesses in Uganda and particularly those from Mbarara City. The researcher therefore intends to carry out this study to bridge that gap.

Statement of the Problem

Although Small Business Enterprises play an important role in the economic growth of Uganda, many of them don't comply with paying taxes and this has continued to be a serious challenge to Uganda Revenue Authority (Begumisa, 2018; URA Report 2014). In the financial year 2017/18, Uganda Revenue Authority realised a presumptive tax deficit of 23.1billion which represented 7.8% fall, with many small businesses reported not filing tax returns (URA Annual Report, 2017/18). For the case of Mbarara City, it is reported that only 15% of the licensed small enterprises by the commercial office have gone further to register for presumptive tax (MMC –Commercial Report 2018). According to the Auditor General's report in 2015, non-tax compliance among small business enterprises in

Western and Central regions was reported to be high at 33.7% and this provides more evidence of the problem at hand (Auditor General's Report 2017/2018; MMC-Report, 2018; URA Report, 2017). Existing literature (Blaufus et al. 2017; Inasius, 2018; Rosid et al.2018; Alm, 2015) shows that non tax compliance can be attributed to tax structure and tax administration. Nonetheless, there is little knowledge about the same for Uganda. More still, limited research has been carried out in the context of small businesses in Mbarara City in western Uganda. This triggered the need for the study about tax structure, tax administration and presumptive tax compliance among small enterprises.

Purpose of the Study
The purpose of the study was to establish the relationship between tax structure, tax administration and presumptive tax compliance among small enterprises in Mbarara City, Uganda

Objectives of the Study
i. To establish the relationship between Tax Structure and Presumptive Tax Compliance among selected Small Business Enterprises in Mbarara City

ii. To establish the relationship between Tax Administration and Presumptive Tax Compliance among selected Small Business Enterprises in Mbarara City

iii. To establish the combined effect of Tax Structure and Tax Administration on Presumptive Tax Compliance among selected Small Business Enterprises in Mbarara City.

METHODOLOGY

Research Design
This study used a cross sectional research design which involved analysis of data collected at a specific point in time. Given that the study sought to investigate the relationship between tax structure, tax administration and presumptive tax compliance, this study was explanatory in nature. Inferential statistics analyses were employed to analyse the data collected from the field.

Study Population

The study population consisted of 4,408 registered small business enterprises (SBEs) operating across in Mbarara City (URA Report, 2016). The divisions included Mbarara North and Mbarara South. The unit of analysis was small businesses and the unit of inquiry was the owners of small businesses/tax payers.

Sample Size and Sampling method

Given a population of 4,408 registered SBEs, a sample size of 354 was derived using the sample size determination by Krejcie and Morgan (1970). Simple random sampling method was used to select SBEs for the study. Specifically, numbers were assigned to all the 4408 SBEs listed on paper. Each number assigned was then cut out and folded neatly. The small pieces of folded paper were then placed in a box and picked one by one after shuffling till 354 pieces were picked.

Data Collection Instrument

The main source of data was primary, collected using copies of self-administered questionnaire. The questionnaire was structured and closed ended. The questionnaire comprised of sections to collect information on the background of the individual filling the questionnaire, the business characteristics, tax structure, tax administration and presumptive tax compliance. The global variables were anchored on a 5- point Likert scale using strongly agree (5), agree (4), not sure (3), disagree (2) and strongly disagree (1).

Data Processing, Analysis and Presentation

Data collected from the field were sorted, edited, entered into the Statistical Package for Social Scientists to (SPSS), version 21, cleaned and analysed following the steps below:

Data Cleaning

This involved checking for missing values and outliers.

Missing value analysis (MVA)

Data can be missing at the point questionnaire filling or data entry, and if not handled, it distorts the analysis and results. MVA helps address several concerns caused by incomplete data (Field, 2005). Thus, MVA in this study was performed to establish whether there was any missing value and the respective magnitude of their missingness, and deciding how to deal with the missing values. Also, missing data may reduce the precision of calculated statistics because there is less information than originally planned. Another concern is that the assumptions behind many statistical procedures are based on complete cases, and missing values can complicate the theory required. The missing values identified in this study were a result of omissions made by respondents and constituted less than 1% of the data; and thus, considered too small and could not suppress the standard deviation (Field, 2009).

Outliers

Outliers are values that are out of the range compared to the measurement scale (Field, 2006). An outlier check was conducted using minimum and maximum frequency counts, means and scatter plots. A few identified outliers were due to data entry error and they were traced and corrected.

Diagnostic tests

The conceptualization of this study coupled with the methodology adopted calls for parametric tests such as correlation and regression. However, to do this, testing the parametric assumptions were paramount. Specifically, normality, linearity, homogeneity and multicolinearity assumptions were tested and the results are presented as follows:

Normality assumption test

Normality can be assessed to some extent by obtaining skewness (symmetrical) and kurtosis (peakedness) values of each measured variable. Normality of the data in this study was tested using a histogram in accordance with the recommendations by Field (2009) and Tabachnick and Fidell (2001). A bell shaped histogram confirms a normal data distribution and this was confirmed in figure 2.

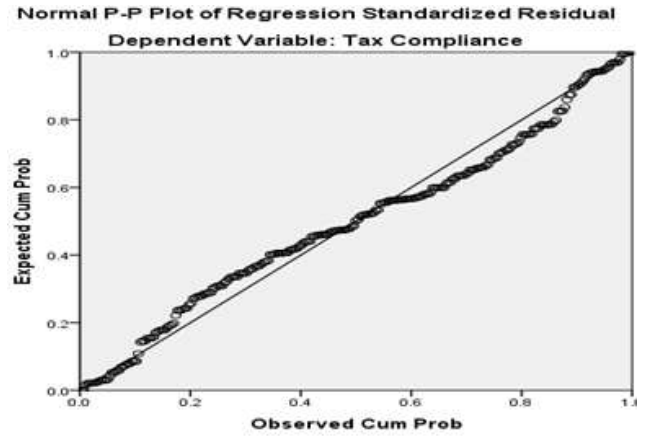**Fig. 2: Histogram showing results on normality test**

Source: **Primary data**

Fig. 3: Normal Q-Q plot showing results on linearity test
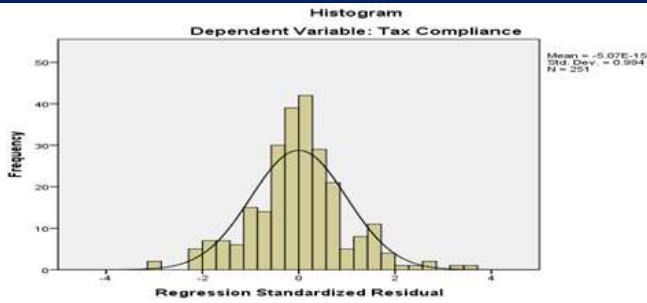
Source: **Primary data**

Linearity assumption test

Linearity refers to the presence of a straight line relationship between two variables. Linear data is obtained when the scores are seen to be in the form of fairly straight line, not a curve. A normal probability plot (normal Q-Q plot) was thus used in this study to plot the residual against the predicted scores. The results in fig 3 revealed a fairly straight line thus the data passed the linear assumption test.
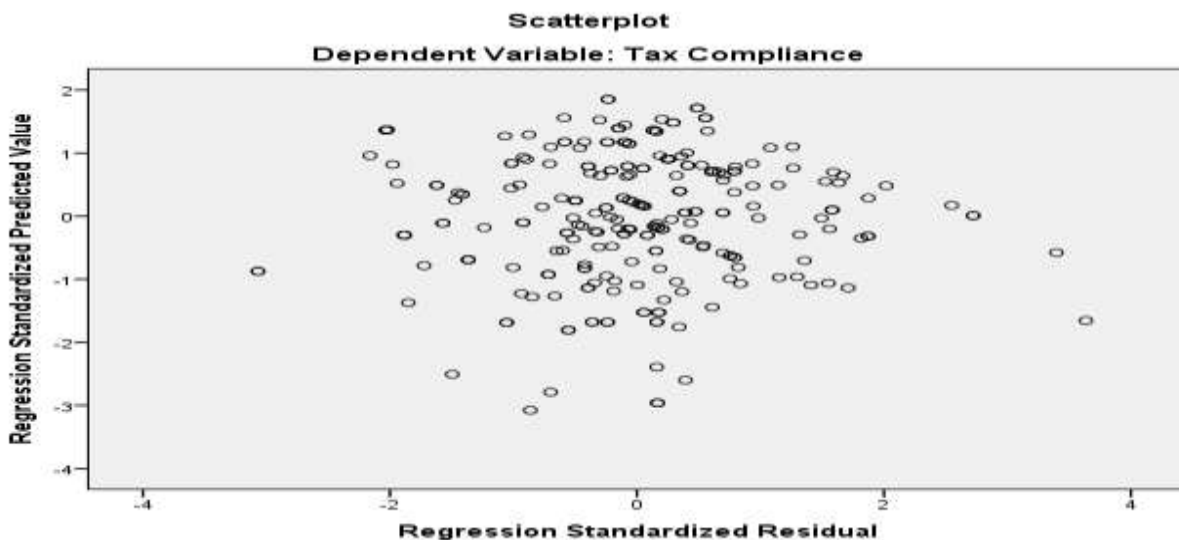
Homogeneity assumption test

Data is said to be homogeneous if the variance of one variable is stable at all levels of the other variables (Field, 2009). Graphically, a scatter plot was drawn plotting the residual against the dependent variable. The results of the scatter plot (figure 4) shows that the points are dispersed around zero and there is no other clear trend in the distribution; an indication that homogeneity assumption was met.

Fig. 4: Scatter plot showing results on homogeneity test

Source: **Primary data**

Multicollinearity assumption test

Multicollinearity exists if there is high correlation between independent variable when regressed against each other. According to Tabachnick and Field (2001) these correlations must not perfectly exceed 0.7. Similar views are held by Cooper and

Schindler (2003) and Field (2006). Thus, multicollinearity assumption was tested by running a correlation and regression analyses. The correlation coefficient revealed all correlations were below 0.7. Further confirmation was obtained by checking the tolerance value and Variance Inflation Factor (VIF). Tolerance value and VIF of less than 0.1 and above 10 respectively show threat of multicollenarity (Pallant, 2005). The results herein showed tolerance values ranging from 1.467 and above and VIF values below 10. Thus, there was non-multicollinearity among the study variables and the assumption was met.

Pearson Correlation

Pearson's Correlation analysis was conducted to measure the strength of linear associations between the tax structure, tax administration and presumptive tax compliance. The study variables were measured on a continuous scale, and thus Pearson correlation was found to the most appropriate to test the relationships between the variables.

Hierarchical regression analysis

Hierarchical regression analysis was used to determine the predictive power of the separate variables on the dependent variable (presumptive tax compliance). The model specification was as:
Model 1: $TC = b_0 + b_1A + \varepsilon$
Model 2: $TC = b_0 + b_1A + b_2TS + \varepsilon$

Model 3: $TC = b_0 + b_1A + b_2TS + b_3TA + \varepsilon$
Where:
   TC = Tax Compliance
   b0 - is a constant
   b_1A – is the unstandardized B coefficient of Age of Business
   $b_2 TS$- is the unstandardized B coefficient of Tax structure
   $b_3 TA$ – is the unstandardized B coefficient of Tax administration
   ε is the error term

PRESENTATION AND ANALYSIS OF FINDINGS

Pearson Correlation

Pearson's Correlation analysis was conducted to measure the strength of linear associations between the study variables and is denoted by r. The Pearson correlation coefficient, *r*, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association; that is, as the value of one variable increases, so does the value of the other variable. A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases. The study variables were measured on a continuous scale, and thus Pearson correlation was found to be the most appropriate to test the relationships between the variables.

Table 1: Correlation results

Variables	1	2	3	4	5	6	7	8	9	10	11	12
Tax Base(1)	1											
Tax Rate(2)	.292**	1										
Tax Variability(3)	.239**	.652**	1									
Tax Structure(4)	.740**	.805**	.756**	1								
Taxpayer Identification(5)	.224**	.395**	.504**	.464**	1							
Tax Assessment(6)	.305**	.592**	.703**	.660**	.610**	1						
Taxpayer Assistance(7)	.308**	.366**	.472**	.485**	.323**	.481**	1					
Tax Administration(8)	.348**	.556**	.691**	.664**	.790**	.854**	.769**	1				
Voluntary Tax payment(9)	.002	.000	-.039	-.013	.181**	-.002	.113	.124*	1			
Timely Payment(10)	.267**	.478**	.601**	.556**	.428**	.568**	.609**	.669**	.171**	1		
Filing of Returns(11)	.094	.275**	.274**	.263**	.319**	.307**	.299**	.384**	.351**	.410**	1	
Presumptive Tax Compliance(12)	.173**	.351**	.394**	**.379**	.426**	.409**	.476**	**.547**	.680**	.742**	.782**	1
**. Correlation is significant at the 0.01 level (2-tailed).												
*. Correlation is significant at the 0.05 level (2-tailed).												

Tax Structure and Presumptive Tax Compliance

The results in table 7 show that there is a positive significant relationship between tax Structure and Presumptive Tax Compliance among selected Small Business Enterprises in Mbarara City (r=.379**, p≤.01). This means that any positive change in tax Structure is associated with a positive change in Presumptive Tax Compliance. In addition, among all the dimensions of tax structure, only tax rate has a positive significant relationship with Presumptive Tax Compliance and only timey payment among the dimensions of Presumptive Tax Compliance has a positive significant relationship with tax structure.

Tax Administration and Presumptive Tax Compliance

The results in table 7 show that there is a positive significant relationship between Tax administration and presumptive tax compliance among selected small business enterprises in Mbarara City (r=.547**, p≤.01). This means that any positive change in tax administration is associated with a positive change in presumptive tax compliance. In addition, all the components of tax administration have a positive significant relationship with presumptive tax compliance.

Regression model

Hierarchical linear regression analysis was used to determine the percentage contribution of each of the independent variable on the dependent variable (presumptive Tax Compliance).The regression model in the table below was presented so as to examine the level which the predictors (namely tax structure and tax administration) can predict the presumptive Tax Compliance among selected small business enterprises in Mbarara City

Table 2: Hierarchical Regression model

	Model 1			Model 2			Model 3			VIF
	B	**SE**	**β**	**B**	**SE**	**β**	**B**	**SE**	**β**	
(Constant)	*3.582*	*.134*		*2.613*	*.188*		*1.885*	*.193*		
Age	-.046	.067	-.042	-.075	.062	-.068	-.093	.056	-.084	1.021
Tax Structure				.306	.044	**.383****	.024	.054	.030	1.790
Tax Administration							.492	.062	**.534****	1.799
R		0.044			0.385			0.554		
R Square		0.002			0.148			0.307		
Adjusted R Square		.-005			0.139			**0.297**		
R Square Change		**0.002**			**0.146**			**0.159**		
F Change		0.273			47.39			63.05		
Sig. F Change		0.761			.000			.000		
Dependent Variable: Presumptive Tax Compliance; N=68; *p< 0.05; **p< 0.01										

In Model 1**,** the control variable –age of business was regressed against tax compliance. The results in table 8 indicate that business age (β = -0.042, P≤ 0.05) has an insignificant contribution in explaining presumptive tax compliance among selected small business enterprises in Mbarara City. The model accounts for 0.2% of the change in presumptive tax compliance.

In Model 2, tax structure was introduced in the equation. The results in table 8 indicate that tax structure contributes 14.6% change in presumptive tax compliance. This implies that for a unit change

in tax structure, presumptive tax compliance will improve by .383 units. The results show that tax structure is a significant predictor of Tax Compliance among selected small business enterprises in Mbarara City (β= 0.383, p$\leq$ 0.01).

In Model 3 tax administration was added to the equation. The results in table 8 indicate that tax administration contributes 15.9% change in Tax Compliance among selected small business enterprises in Mbarara City. Thus for a unit change in tax administration, Tax Compliance among would improve by .534 units. The results show that tax administration is a significant predictor of Tax Compliance among selected small business enterprises in Mbarara City (β= 0.534, P$\leq$ 0.01).

Finally the variables entered in the regression model explain an overall 30.7% (R Square=.307) of the variations in the Tax Compliance among selected small business enterprises in Mbarara City. This means that 69.3% is explained by other variables not considered in this study. In addition, comparing the two independent variables entered in the model, the results indicated that tax administration contribute much to Tax Compliance among selected small business enterprises in Mbarara City compared to tax structure though by a small margin of 1.3%.

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

Discussion of findings

This research was carried out basing on three objectives. Findings in relation to these objectives were thus obtained. In this section, these findings are further discussed to check their relevance and contribution to existing literature. The discussions are aligned to study objectives in relation to key findings obtained from data analysis process.

Tax Structure and Presumptive Tax Compliance

The results in this study indicate a positive significant relationship between tax Structure and Presumptive Tax Compliance. Implying, positive changes in tax structure are associated with positive changes in Presumptive Tax Compliance. This is true because when the tax charged is proportional to the size of the business and tax rates charged are fair, business owners pay the tax dues willingly and in time.

These results are in line with the findings by Musa, (2017) who asserts that the tax structure of a given country has a significant effect on compliance by taxpayers. It's also in line with the findings of Yusof, Ling and Wah (2014) on corporate SMEs' tax compliance who found a significant influence of tax rate on tax compliance.

Tax administration and Presumptive Tax Compliance

The results in this study indicate a positive significant relationship between tax Structure and Presumptive Tax Compliance. Implying, positive changes in tax structure are associated with positive changes in Presumptive Tax Compliance. This means when business owners have tax identification numbers, are aware of how much tax they are supposed to pay, processes and options of payment, approached and guided on tax matters like penalties and costs associated with non tax compliance and always reminded of their tax obligations they will voluntarily pay taxes. These results are in agreement with Windurisasi in Boediono (2003) who concluded that there is a positive relationship between tax administration and compliance of taxpayers.

Combined effect of Tax Structure and Tax administration on Tax Compliance

The findings under the regression analysis indicate that tax structure and tax administration are predictors of presumptive tax compliance as represented by R Square=.307which means that positive increases in tax structure and tax administration is associated with a positive increase in presumptive tax compliance. For example when business owners are aware of being tax compliant and how much they are supposed to pay, they respond positively. More so, low tax rates as well as tax education cause compliance among small businesses.

These results are in agreement with Guevara (2008) and Onias et al., (2014), who assert that presumptive tax simplifies tax administration, improves compliance by small scale taxpayers, minimizes tax evasion and avoidance, improves tax assessment and minimizes the adverse effects of progressive taxation.

Conclusion

The findings and discussion on tax structure and presumptive tax compliance lead to the conclusion that for there to be an improvement in presumptive tax compliance there must be improvement in tax base, tax rate as well as the type of tax. Furthermore findings and discussion on tax structure and tax administration draw to the conclusion that for there to be an increase in the presumptive tax administration there must be an improvement in tax assessment and assistance should be given to small business owners. Similarly findings and discussion on tax structure, tax administration and tax compliance lead to the conclusion that for there to be an improvement in tax compliance there should be an improvement on tax base, tax rate as well as assessment and assistance and guidance of the small business owners.

Recommendations

i. URA needs to invest in sensitizing small business owners on the importance of presumptive tax and increase awareness so as to improve presumptive tax compliance among small business owners.

ii. URA should put in place stringent policies and penalties so as to force the small business tax payers to comply and the policies should be implemented duly.

iii. All small businesses should be required to have a professional tax consultant to help them with tax issues like filing returns, payment of taxes and tax registration to avoid non tax compliance problems.

iv. The study further recommends that managers or owners of small businesses should engage and deal more with other compliant business owners so as emulate them on how they deal with tax issues

before URA fines or penalizes them for tax noncompliance.

v. URA should give tax holidays to the compliant small business tax payer so as other in the same industry can copy their compliance behaviours in order to also earn themselves the tax holiday.

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