

ABSTRACT

This study investigates why income tax compliance of small businesses in Uganda remains low despite the various policy and legislative measures. Utilizing theories like enmeshment, ability to pay, political settlement and revenue bargaining, it explores the evolution of income tax law for small businesses, how the law on presumptive tax aligns with the canons of a good tax system, and influences small businesses income tax compliance, and how factors like legislative consultations, revenue bargains, and government accountability influence small businesses income tax compliance.

A mixed-method research design was employed, merging qualitative and quantitative research approaches. In-depth interviews were conducted with 28 key informants, including small business owners, revenue assessors, tax consultants, KACITA and officials from the Ministry of Finance, Planning, and Economic Development. Additionally, a cross-sectional survey gathered feedback from 246 small business owner-managers across four key districts, achieving a 92.3% response rate. The survey data were coded and edited using SPSS, and frequencies, descriptive statistics, and Pearson correlation coefficients were run to test the characteristics of small businesses and their owner-managers.

The study reveals that low income tax compliance among SBs dates back to the colonial period and President Idi Amin Dada's regime, particularly under the Income Tax Decree, 1974 (as amended). The legal frameworks under this Decree and the Income Tax Act, Cap 340 (as amended), show similarities and limitations. The study establishes that the legal regime on presumptive tax and its application is uncertain, inequitable and not neutral, which partly accounts for small businesses low tax compliance. However, the study also reveals that SB owner-managers engage in behavioural practices like lack of willingness to pay tax, omission to declare accurate business records, under-declare sales, display less of their business stock, and remain informal to evade taxes. This renders it difficult for the tax authority to guarantee equity and neutrality of the presumptive tax system vis-à-vis the need to ensure efficiency of the tax system. More so, many small business owner-managers are indeed literate, but feign ignorance of the tax law. Additionally, the inadequacy of consultations on income tax legislation, revenue bargains, and poor government accountability are highlighted as major factors contributing to low tax compliance.

The study recommends that legal reforms should be geared at devising express policy guidelines to guide the determining of annual gross turnover in absence of business records, promoting the digitization of the economy by abolishing cash-based transactions and making it mandatory for payments to be made through mobile money, incorporating a percentage as tax. Additionally, engage tax experts and business associations groups like Private Sector Foundation Uganda in seeking to understand SBs better and advise on most effective strategies of taxing specific sectors. Further, using business analytics to track small business transactions and intensifying tax law sensitization using cost-effective techniques like WhatsApp and text messages. Lastly, policy makers need to adopt a holistic approach to tax compliance that incorporates both incentives and strict enforcement of penalties to encourage taxpayers to comply with tax laws.