SOCIO-PSYCHOLOGICAL INVESTIGATION OF THE IMPACT OF CORRUPTION PERCEPTION ON TAX NONCOMPLIANCE AMONG UGANDAN SMES

Festo M

Department of Accounting and Finance, School of Business, College of Business and Management Sciences, Makerere University. Kampala

Abstract: This study aims to explore the influence of perceptions of corruption on tax noncompliance behavior of small and medium taxpayers in Uganda. The research proposes to fill the gap in the existing literature on tax compliance and investigate the impact of perceptions of corruption on self-employed managers from a socio-psychological lens. The study will use a sequential mixed-methods approach, integrating both qualitative and quantitative methods. Uganda, being one of the most corrupt countries in Sub-Saharan Africa, is of specific interest for this research. The paper's main research questions focus on the relationship between perceptions of corruption, tax fairness, and tax noncompliance behavior among self-employed taxpayers. The study is significant as it expands the theory of tax morale, identifies the impact of perceptions of corruption on tax compliance behavior, and aims to develop an extended and specific determinant of Ugandan SMEs' income tax compliance behavior. The study aims to provide an evidence-based approach to improve tax compliance behavior in Uganda, which could benefit Uganda Revenue Authority and Uganda as a country.

Keywords: perceptions of corruption, tax noncompliance behavior, small and medium taxpayers, tax morale, socio-psychological lens, mixed-methods approach, tax fairness, Uganda

1. Introduction

This study aims to fill a recognized knowledge gap relating to tax compliance behaviour. It seeks to develop a deep understanding of how perceptions of national-level corruption influences tax compliance behaviour, and if so, to what extent. And although scholarly works in this area of tax compliance have identified a wider range of factors that influence behaviour, little attention has been paid to the influence of perceptions of corruption. In particular, what remains unclear is precisely how perceptions of corruption are systematically linked to intentional insight into, or fill a gap in, the existing literature in tax compliance behaviour by expansively exploring the influence of perceptions of corruption employing micro-level data analysis.

A comprehensive analysis of small and medium (SME) individual taxpayers' non-compliance behaviour with their tax obligations clearly requires, among others, an examination at both the administrative (i.e. a revenue body perspective) and SME (self-employment) levels. However, considering the social psychological models,

it is argued that taxpayers' decisions are the most relevant. This is the side of the question that this study attempts to address pragmatically.

The design and conduct of this study will be built on the adoption of pragmatism as the philosophical research framework. This is because perceptions of corruption and tax compliance behaviour are considered as highly context-dependent, situational, and socially constructed. Also, the scholarly researches that have systematically examined the impact of corruption on tax compliance behaviour are tentative. For these reasons, this framework will be applied by integrating both qualitative and quantitative methods. In particular, this study will adopt sequential, preliminary-contribution mixed methods, in that the findings of the first phase of the qualitative method will inform and develop the second quantitative approach.

Uganda is of interest for two reasons. First, Uganda appears to be among the most corrupt of the major countries in Sub-Saharan Africa (Transparency International 2016, 2018). The Global Competitiveness survey report 2019 suggests corruption as the most challenging issue for conducting business in Uganda (World Economic Forum). Although Uganda's tax to GDP ratio has increased from 12 to 15.11 percent (URA, 2019) over the last two decades, it remains low compared to other countries in the region (Tusubira, 2018; IMF, 2011). Besides, the percentage of income tax from SMEs to Uganda's GDP is below 1 percent (URA, 2018). Overall, this evidence might provide a good opportunity to investigate the potential relationship between perceptions of corruption and the way SMEs behave.

Also, tax compliance behaviour is a multi-disciplinary and complex issue with a number of causes. However, we are motivated to seek a clearer and deeper understanding of what influences taxpayers' behaviour in the very specific context of Uganda. Particularly, there is notice of a collective perception of pervasive corruption in Uganda. Coincidentally, there have been several corruption cases of public interest involving both public servants and tax officials in the past ten years (URA, 2018). It's also clear that tax compliance behaviour may not be detached from corruption settings (Alm et al. 2016). Consequently, the fellow is personally enchanted to methodically explore the effect of this social phenomenon on taxpayers' non-compliance behaviour by using both theoretical models and data-driven examinations. It's our belief that an evidence-based approach and a better understanding of the implications of this phenomenon will be of great benefit to Uganda Revenue Authority and Uganda as a country, which is fraught to enhancing the level of taxpayer compliance. Additionally, tax research is relatively new and while it typically has a high framework specificity, most of the existing literature in this area is inspired from advanced economies, another reason this study will make a contribution.

Although prior research identifies a number of factors that influence SME taxpayers' compliance behaviour, they are not the focus for this study. Rather, this study aims to deliver more consideration on how perceptions of corruption influence tax fairness and intentional tax non-compliance behaviour from a socio-psychological lens. The reason for this is that it has been contended that behavioural studies in tax compliance might improve tax compliance behaviour (Kornhauser, 2007; Cullis & Lewis, 1997). Thus, if the effects of this variable can be understood, it will be possible to establish an extended contextual and specific determinant of Ugandan SME income tax's compliance behaviour in particular, and wider knowledge of tax compliance behaviour in general, as well as suitable plans for its treatment.

1.1 Scope of the study

There is no single tax compliance theory that is widely accepted. And it has also been recognised that determining the factors that influence taxpayer behaviour, whether compliant or non-compliant, is difficult (OECD, 2010a, 2014b). Hence, there is a consensus among researchers that no single variable or compliance

model is known to exist that is capable of fully explaining tax compliance behaviour on its own (Efebera et al. 2004). However, a number of conceptual models with a wide range of variables, have been entwined in an attempt to explain taxpayers' compliance behaviour (Alm, 1999; Jackson & Milliron, 1986). Nonetheless, due to the limitation of research resources, to comprehensively include all these inherent factors is certainly beyond the scope of this study (OECD, 2010a; Mckerchar, 2010).

Given the information in the foregoing paragraph, this study will be confined to the compliance behaviour of SMEs in the Ugandan context in the informal and formal sectors. In relation to the purpose of the study, it will be assumed that perceptions can only be addressed at the individual level (Mendes, 2004) hence the need to target owners and managers of these firms. Also, completion of the tax returns is subject to various mental processes, including information processing and motivation which influence tax compliance (Antonides & Robben, 1995). Second, in order to be able to undertake appropriate modelling, this study will only investigate the taxpayers' compliance behaviour with respect to their annual tax return for the year 2019 and 2020. Tax compliance outcomes in this study will focus on OECD's (2014) classification of expected behaviour namely; correctly reporting income in the annual tax return.

1.2 Research questions

The main objects of this study can be reflected in three primary research questions:

a) What is the extent of the relationship between perceptions of corruption and perceptions of tax unfairness among the self-employed?

b) What is the level of the relationship between tax unfairness and tax non-compliance behaviour among the self-employed in Uganda?

c) What is the extent of the relationship between perceptions of corruption and tax non-compliance behaviour among the self-employed?

1.3 Significance and justification

With the systematic investigation, the findings will explain the relationship between perceived level of corruption and tax fairness in Uganda, and the tax non-compliance behaviour of SME taxpayers. The study findings will make a contribution to both the theoretical and practical levels. On the theoretical level, this study expands the increasingly popular theory of tax morale (Brink & Porcano, 2016; Cummings et al., 2009; Frey and Torgler, 2007; Halla, 2012; Jahnke, 2015; Kornhauser, 2007; MacGregor & Wilkinson, 2012; McKerchar et al., 2013; Yucedogru & Hasseldine, 2016) by identifying the impact of perceptions of corruption have on tax fairness and tax compliance behaviour. Furthermore, because deterrence theory often does not work well in practice (Osofsky, 2014), to provide adequate explanation of the dynamic of tax compliance behaviour, an extension to the standard model is needed (Ritsatos, 2014).

Although much is currently known about the determinants of tax compliance, the way by which perceptions of corruption influence tax compliance behaviour has not been clearly established. Also, tentative studies have distinguished between grand corruption and petty corruption, as well as grand and petty tax corruption. It is envisaged that the outcomes of this study will do more than prove perceptions of corruption have an impact on tax compliance behaviour, but also will demonstrate how and in what ways these variables affect it.

2. Theoretical and Review of Literature

The economic model of tax compliance (Allingham & Sandmo, 1972) emphasises the severity of penalties and the prevalence of getting audited (McKerchar & Evans, 2009). This is due to the fact that taxes are perceived in most instances as burdensome (Hofmann et al. 2008) which as a consequence results in financial or other incentives not to comply. This non-compliance with the tax system leads to loss of tax revenue

(Lederman, 2003). Several other strategies have been introduced to cope with the tax compliance within the psychological lens like trust in authorities (Kirchler, Hoelzl, & Wahl, 2008), however, non-compliance still exists as a core world problem. To make a further contribution, the following questions need to be answered:

2.1 Perceptions of corruption and tax fairness

A number of studies (Kirchler et al., 2008; Saad, 2010; Farrar, Donnelly & Dhaliwal, 2013; Kogler, Batrancea, Nichita, Pantya, Belianin, & Kirchler, 2013) have attributed tax compliance to the perceptions of tax system fairness that taxpayers hold. The authors believe that such a system would allow government to efficiently provide public goods and services to the citizenry and for tax authorities to enforce the law through fair procedures with impartiality. Thus, a fair tax system would imply that taxpayers can then trust these authorities and their morale to pay taxes would improve. In addition, taxpayers are likely to accept governments and tax authorities, which legitimises their power of control over them (Gangl, Hofmann & Kirchler, 2015).

Though, it is desirable to have a fair tax system, sustainability of such a system remains in balance because governments and tax authorities fail to pursue transparency and accountability of the public resources as well as tax procedures to support smooth tax compliance behaviour (Kirchler, Muehlbacher, Kastlunger, & Wahl, 2007; Fjeldstad & Tungodden, 2003). Corruption might be one of the most significant factors that affect perceptions of tax system fairness as it enhances resource misallocation with no accountability and transparency. This makes public spending ineffective for social goals (Hillman, 2004) hence an unfair tax system.

2.2 Perceptions of tax fairness and tax non-compliance behaviour

Additionally, perceptions of corruption might determine a taxpayer's intention to report their income as a result of perceived tax system unfairness. In fact, high levels of perceived tax system unfairness significantly influence intentional tax underreporting behaviour and hence tax evasion (Alm, Martinez-Vazquez & McClellan, 2016; Saad, 2010). Under such conditions businesses and individuals may experience lower incentive to willingly contribute (Alon & Hageman, 2013). In such cases, fairness is distorted as there isn't fair and respectful treatment of taxpayers in administering taxes as well as the way government allocates resources for public expenditure (Kirchler et al., 2008; Feld & Frey, 2007). Corrupt practices by the authorities can corrode the ethics of taxpayers, hence destroying the trust which is generally built on the foundation of fairness and ethics (Alm & Torgler, 2011). Low trust in the authorities due to tax system unfairness might reduce the tax morale and increase the chances of tax evasion.

2.3 Perceptions of corruption and tax non-compliance behaviour

There is a widespread perception that corruption creates inefficient tax systems, erodes tax collection legitimacy, reduces corporate and personal citizens' willingness to pay their fair share of taxes. This as a result, lowers levels of tax collection (Alm et al. 2016; Tanzi, 2017). At a macro level, Rosid, Evans and Tran-Nam (2016) indicates that a positive correlation exists between less perceived corruption and higher share of tax revenue. This by implication means that high perceptions of corruption are likely to lead to tax noncompliance behaviour and lower tax revenue as a result. To overcome this challenge, scholars recommend that emerging economies need to prioritise reducing the extent of perceptions of corruption so as to enhance tax compliance (Alm et al. 2016; Bird, 2015). Hence, there is need to examine the relationship between perceptions of corruption and tax noncompliance behaviour among the self-employed individuals that run the SMEs in Uganda.

3. Methodology

3.1 Research design

Using a conceptual framework to derive the various research questions and testable hypotheses, this study will employ a cross-sectional research design using a sequential mixed methods approach (Rosid et al. 2016). This is considered more appropriate for studying complex social phenomena such as tax compliance behaviour (Devos 2014; McKercher, 2003; Creswell 2007; Bently 2008; Bryman 2008).

3.2 The population, sample and analysis

The study population shall be the accessible, experienced SME self-employed individual taxpayers or managers within the five regions of the country. This population is considered to be in better position to give insightful data and information concerning their compliance with the tax code. The respondents will be purposely selected because they interact with the tax system as well as the government service delivery system. A sample of 384 self-employed individuals and managers (Krejcie & Morgan, 1970) will be considered. Mixed methods approach will be used and data will be analysed using thematic analysis and SPSS-AMOS version 25 for SEM. Before data collection, ethical clearance will be sought and consent shall be got from every respondent. Utmost confidentiality will be observed.

4. Dissemination and reporting

Finding from the study shall be disseminated through progress reports, seminar series, conferences, stakeholders' workshops and journal articles.

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