Income Tax Compliance among SMEs in Uganda: Taxpayers' Proficiencies Perspective

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Abstract

Purpose: The purpose of the study is to examine the relationship between income tax proficiencies and income tax compliance among SMEs in Uganda.

Methodology: A cross sectional descriptive survey design was used and data were gathered from 326 out of 377 SMEs from Mbale district.

Findings: The study revealed that income tax proficiencies are multi-dimensional and significant predictors of income tax compliance.

Study limitations: The study is limited by factors like the study being cross – sectional in nature and considered only SMEs in Mbale district. Future studies should consider being longitudinal in nature as well as extending to the SMEs in other districts of Uganda.

Practical implications: To improve income tax proficiencies in SMEs in Uganda, intensive tax education with practical knowledge should be carried out by Uganda Revenue Authority to the SMEs' personnel involved in tax matters for efficient compliance.

Originality: This study contributes to literature in the areas of income tax proficiencies and income tax compliance.

Key words: Income tax, tax compliance, tax proficiency, SMEs, tax planning, functional proficiency

1.0 Background

In Uganda Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega, 2007). It has been observed however, from previous taxation studies that several SMEs in developing economies are non tax compliant in spite of major reforms (James, Barbour & Stern, 2007; Ayoki, 2007; Terkper, 2003), since they cannot easily be located by tax administration, yet they pay less tax than their fair share of tax (Ahmed & Braithwaite, 2005).

Inadequate knowledge and skills about tax procedures are the major qualities of most SMEs in Uganda, as most owners hire incompetent family members to keep proper financial records (Kiwanuka, 2004).

Many SME taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency (European Commission, 2007; Nakiwala, 2010). According to MoF & MoR (2007) one of the chief features of SMEs is the lower level of the specialist tax expertise and greater owner-involvement in day-to-day management and this call for them to search for assistance from experts (Bertolini, Borgia & Siegel, 2010; Slemrod, 2005).

Consequently, countries like Uganda are still characterized by the low income tax compliance levels, in the face of the numerous advocacies for voluntary tax compliance (Ayoki, 2008; Kangave, 2005; Bird, 2004). Many of such governments have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2007), which have still failed to yield. Uganda's income tax compliance was very low at 38% by the end of 2005 (Ayoki, 2007), yet the tax regime is oriented more towards consumption taxes rather than income taxes as income taxes account for only 27% of net revenue collections (URA, 2006/07).

This has been aggravated in comparison by lower ratio of tax revenue to GDP of 13.5% compared to Namibia (31%), Kenya (21.2%), Burundi (19%), Ghana (17.2) to mention a few in Sub-Saharan African countries with similar tax structures in 2006/07 (Ayoki, 2008). Besides, the low compliance level in Uganda has been deep-rooted in incessant stagnation of income taxes at 25.8% from 13.2% with high rates of tax avoidance and evasion (Mugambe, 2007). In addition the tax potential of SMEs in developing countries is partially exploited as most enterprises have small profits from the inaccurate financial records (Nakiwala, 2010); hence having presumptive tax revenue contribution towards total tax revenue in Uganda as less than 0.5% of total tax. It is suspected that low income tax proficiencies among tax payers may be responsible for the low levels of income tax compliance.

Whereas previous research has attempted to examine the predictors of tax compliance like social norms, taxpayers' morale and nature of tax system, using models from a developed world context (James, Barbour & Stern, 2007; Alm & Torgler, 2006), Little empirical evidence on income tax proficiencies in the developing economies like Uganda is available and policy makers have not yet taken such factors into consideration (Nakiwala, 2010) to confirm these findings in Uganda. Most of the existing literature is *provisional/ investigative.* The purpose of this study was to (i) to examine what constitutes income tax proficiencies of SMEs in complying with the tax requirements, and (ii) to establish the relationship between income tax proficiencies and income tax compliance among SMEs in Mbale district in Uganda and to draw implications for Developing Countries.

2.0 Literature Review

2.1 Income tax proficiencies

Income tax proficiencies as a center of attention is rising hastily in both the private and public sectors and it is imperative to appreciate the commendable performance of many organizations of varying sizes as a result (Kock, Gill and Ellstrom 2008; Risher 2000). Conversely, there are perceptible confines; studies have often been predisposed towards large enterprises and public organization (Hill, 2004); little (if any) proficiency literature in the area of taxation. But from a limited number of studies on proficiencies in small to medium-sized enterprises (SMEs), the concentration has mainly been on entrepreneurial, managerial and technological proficiencies.

Focusing on definition, the meaning of proficiency changes according to the context of its use and requirement of the user, (Hoffmann, 1999). Acknowledging this Boyatzis (2008) defined proficiency as a set of related but different sets of behavior organized around an underlying construct, called the "intent" and appropriate in various situations or times". According to Tiner (2002) proficiencies explicated as one's ability to show they have the essential knowledge, skills, and application of these elements to their work on the requisite standards effectively and consistently.

Armstrong and Baron, (1995) intimated that the notion of proficiency refers to applied knowledge and skills, performance delivery, and the behaviors required to get work done to a high standard. Therefore, even those SMEs with comparable small amount of resources and proficiencies can offer strong opportunities for balanced enterprise development in the competitive environment (Kock, Gill and Ellstrom, 2008).

Similarly, Chen Loo and Keng Ho, (2005) in their study of competency of Malaysian salaried individuals, pointed out that income tax compliance can be achieved if the persons involved are knowledgeable and can comprehend the relevant tax laws, guidelines and regulations. Conversely, Sivamoorthy (2003) noted that taxpayers are generally troubled about their indecision of tax laws and interpretations of the rulings; they are normally at a loss to comply with tax requirements (Nakha, 2002). McKerchar (1995) found in Australia, that small business taxpayers have inadequate knowledge about tax laws to meet their obligations and could not efficiently minimize their tax liabilities.

Singh (2003) contends that knowledge is one of the significant predictors of income tax compliance, influences taxpayers' ability to understand laws and regulations and comply appropriately. As a result this has triggered the move in developing countries like Uganda to emphasize the need to enhance awareness among small and medium taxpayers (Boyatzis, 2008) in order to encourage compliance.

2.5 Income tax compliance

According to Cuccia, (1994) taxpayer compliance has been primarily viewed from three theoretical perspectives: the general deterrence theory, economic deterrence models and fiscal psychology. Deterrence theory is concerned with the effects of sanction threats on criminal and undesirable behavior, however this had problems of identifying sanctions, determining how much effect and specifying the mechanism by which the effect occurs. On the other hand, the economic deterrence model smoothened out the problems of deterrence theory for instance by use of utilitarian approach to measure sanction threats. From the personal consequence perspective, income tax compliance is viewed as an income maximizing decision balancing the net gain of underreporting income or over claiming against the added risk of detection and penalization (McGraw and Scholz 1991).

According to Plumley (1996) voluntary tax compliance is explained by dimensions like timely filing of any required return, accurate reporting of income and tax liability and timely payment of all tax obligations. However according to Terkper, (2003) many small and medium taxpayers do not register voluntarily, while those who do register often fail to keep adequate records, file tax returns, and settle their tax liabilities promptly. Hence in the small business context, opportunities for evasion are high and resources are often scarce for field auditing. Even when high investments are made in auditing, uncovering 'hidden cash' is never going to be an easy task without an adequate audit trail (Ahmed & Braithwaite 2005).

In developing countries the income tax compliance has been constrained by the significant number of changes to the tax laws, that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists (Oberholzer, 2008). Moreover enforcement of these laws cannot reduce non compliance among taxpayers because some tax measures put Small and Medium Taxpayers under severe liquidity pressure, forcing many to fold in the informal sector (Terkper 2003).

To enhance compliance the tax system of Uganda has undergone fundamental reforms since 1987, but the tax collections are still very low leading to large fiscal deficits (UBOS and PSFU, 2007). As a share of GDP, tax revenue performance for 2006/07 represents a 0.28 percentage point increase over the FY2005/06 level, far less than the Government objective of increasing revenue by 0.5 percentage point of GDP per annum (Ayoki 2007). Nevertheless direct domestic taxes for the year 2006/07 accounted for 51.76% of the total domestic revenue, there were shortfalls registered under some business income taxes like corporation taxes (13.59 billion), Presumptive tax (2.07billion) and casino taxes (0.01 billion) (Annual Revenue bulletin 2006/7).

2.6 Income tax proficiencies and income tax compliance

According to Chen Loo & Keng Ho, (2005), an appropriate compliance can only be realized when taxpayer's liability is correctly computed, after taking into account all factors that have a bearing on the tax liability. The taxpayer has to be competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Therefore, taxpayers who are tax illiterate or inadequately informed may either be under-paying or over-paying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters.

Madi & Amrizah (2003) defined functional tax literacy as the ability of a taxpayer to file tax returns and calculate his or her own tax liability independently and this encompasses the comprehension of some tax jargons and having basic tax knowledge on what constitute taxable income, allowable deductions, reliefs and rebates. On the other hand, in the study by Ahmed & Braithwaite, (2005) small business taxpayers admitted to having lower levels of competence and independence in dealing with tax matters, and this has forced many of them to have tax agents who are creative and knowledgeable about aggressive tax planning. Contrary to this, Baldon & wearing (2003) suggested that small and medium enterprises are constrained by resources and cannot afford the services of the tax agents who are expensive.

Possibly, it is lack of expertise and knowledge about the tax laws and procedures that is responsible for the low income tax compliance (Ayoki, Obwama & Ogwapus, 2005). Thus tax administrations in developing and transitional countries which are generally severely constrained in terms of resources and skills have often chosen to go after the larger firms already in the tax net, where the potential tax revenue payback may be higher, instead of the less lucrative small and medium taxpayers who are largely outside that net (Bird & Wallace 2003).

3.0 Methodology

3.1 Research Setting and Sample

A field study was conducted to test the hypotheses using a census of all SMEs registered by the Uganda Bureau of Statistics (UBOS) and the Private Sector Foundation Uganda (PSFU) in 2007 operating in Mbale district. Questionnaires were distributed to the managers/owners of the small and medium size enterprises in Mbale and Hub for SMEs. The SMEs were selected in two phases; in the first phase, purposive sampling technique was used to draw ten respondents to whom the open-ended competency profile questionnaire was administered. In the second phase, stratified sampling was used to ensure proper representation of different SMEs. The strata were developed from the various business activities of SMEs; these include trade, service and manufacturing. Purposive sampling was used to get SMEs, which operate in Mbale but having a number of employees ranging between 4 and 99, as well as snow balling (Nakiwala, 2010).

These methods were used because the researchers wanted SMEs that were in the best position to provide the information required (Tusubira & Nkote, 2013; Sekaran, 2000), and to obtain a representative sample due to the high mortality rate of SMEs. Of the 377 questionnaires distributed to managers and/ owners of SMEs in Mbale, 326 usable questionnaires, representing an 88% response rate, were received and entered into SPSS version 16. The unit of analysis was firms. A total of 326 respondents in different businesses participated in the study; 32% (103) were trade enterprises, 60% (197) were service-oriented businesses and 8% (26) were manufacturing firms. Service firms constituted a sizeable portion of small business enterprises in Mbale.

3.2 Procedure for Data Collection

Data collection was split in two phases. The first was a qualitative study, whereby the 32-item interview guide (Munene, Bbosa, and Ebonyu, 2003) was used to identify most of the tax related proficiencies possessed by the respondents as expected by the guide from a small sample representing Small and Medium Taxpayers. The second Phase merged the items of income tax proficiencies extracted from the first phase with those of income tax compliance to find out the relationship between variables. The self-administered questionnaire consisted of measurement item scales derived from the first phase study and literature. Extra care was taken during the design stage to minimize the common method bias. Consistent with Podsakoff, Mackenzie, Lee and Podsakoff (2003), the predictor and criterion variables were examined, and attempts were made to eliminate commonalities. During the literature review, similarities between the constructs were eliminated.

After going through most of the item scales previously used by scholars to measure the constructs of income tax proficiencies and income tax compliance, separate item scales were designed to measure the study constructs. These item scales were then critically examined, and the observed similarities were eliminated. The scales were pilot tested using 30 SMEs, yielding a 100% response rate. After the pilot study, item scales that were unclear were either improved or deleted from the questionnaire. All item scales had a Cronbach alpha reliability coefficient greater than 0.7.

Consistent with Aulakh and Gencturk (2000), data from the pilot study/test were loaded and subjected to exploratory factor analysis. The output of the rotated factor solution was then examined to determine the number of factors that were necessary to account for the variance in the variables. The final questionnaire covered all of the variables under study on a four-point Likert scale ranging from 1="strongly disagree" to 4="strongly agree." An odd number of responses were avoided because Raaijimakers, Van Hoof, Hart, Verbogt and Wollebergh (2000) found that the mid-point neutral statement of neither agreeing nor disagreeing is confused with "don't know" or "not available."

In this study, it was preferred that respondents make a definite choice, as is always the case in social research, rather than choose a neutral position on the scale. Our decision was consistent with Garland (1991, p.3), who revealed that "social desirability bias arising from respondents desires to please the interviewer or appear helpful or not be seen to give what they perceive to be a socially unacceptable answer, can be avoided by eliminating a midpoint category from the Likert scales." During the major study, respondents were assured that there was no right or wrong answers to the questions. They were asked to respond honestly to the questions in the questionnaire. Data for the criterion variable were obtained from other SMEs to minimize the social desirability bias.

3.3 Measurement instruments

Consistent with Nakiwala (2010), income tax proficiencies were conceptualized as a multi-dimensional variable composed of; interpretation of tax regulations, tax planning and functional proficiencies and business operational proficiencies. Questions were developed to tap all three variables. The measurement instrument listed questions, and the respondents were asked to think about their income tax proficiencies before they rated their level of agreement on a 4-point Likert scale. These scales were adapted from Nakiwala (2010). The Cronbach alpha value for this scale was 0.916, suggesting adequate internal validity. Nunnally (1967) states that reliability coefficients greater than 0.70 are considered good.

The income tax compliance of SMEs was conceptualized and measured as a behavioral multi-dimensional variable based on three items studied by Tusubira & Nkote (2013), Akileng (2006) and Wenzel (2001), non-lodgments, tax debt, pay income and promptness, with modifications to suit the environment of Uganda. Non-lodgment: the researcher established from the respondent whether there had been attempts to avoid taxes by not declaring at all. Tax debt: questions about whether the respondent had outstanding debt were used to measure compliance. Pay income: the researcher attempted to establish whether the taxpayer had tried to under-declare taxes by non-disclosure of some income.

Promptness: the researcher tried to establish from the respondents whether they had ever delayed paying taxes beyond the stipulated time. The analysis of the pre-tested questionnaires produced an alpha Cronbach reliability value of 0.784 for this variable (Income tax compliance), which indicates high internal consistency for the instrument in capturing income tax compliance in Uganda.

4.0 Results and Discussion

4.1 Sample Characteristics

Majority of the enterprises (39.7%) have been in business for a period of 4- 8 years, while the least number of enterprises (11.6% and 11.4%) have existed for 1-3 years and above 15 years. It was also observed that most of respondents were from service sector (55.7%), of which 84 firms have existed for a period of 4-8 years (40.8%) whereas only 9.7% had been in business for 1-3 years. Few firms (7.3%) were picked from manufacturing sector, of which many (40.7%) had been in existence for a period of 9-15 years.

The results also show that tax issues in SMEs are handle by mainly persons who are directly involved in tax affairs of the firm (47.0%), by managers of firms (27.0%) and only 25.9% were the owners of enterprises who handled tax affairs. Of the majority where the tax issues are handled by persons directly responsible for tax, 71.3% were from service sector, 21.4% from trade sector while only 12.1% were enterprises from the manufacturing sector.

It was further indicated that for those enterprises where tax issues are taken care of by owners, majority (66.7%) of these belonged to the trade sector, 31.3% belonged to service sector and only 2.1% were manufacturing firms. The table 4.3 below indicates that the great numbers of firms were small business enterprises at 92.2% with employees ranging from 5 to 49 and only 7.8% were categorized as medium enterprises with employees ranging from 50 to 99. Of the medium, majorities (63.0%) were manufacturing enterprises, 34.5% were service firms and only 6.9% were trade enterprises. For the small enterprises 57.5% were service firms, 39.6% were trade enterprises and 2.9% were manufacturing firms. It was also observed that service sector contributed the biggest percentage of 55.7%, followed by trade at 37.0% and then manufacturing at 7.3%.

4.2 The factor structure of income tax proficiencies

Factor analysis was used to examine the factor structure of the income tax proficiencies components. Factor loadings of 0.50 and above were considered significant for this study. Three components were obtained accounting for 53.792% of the variance in income tax proficiencies. The contribution of each of the three components was: interpretation of tax regulation (33.563%), tax planning and functional proficiencies (13.040%) and business operational proficiencies (7.052%),). The detailed results of factor analysis are presented in table 1 below.

Table 1: Shows the factor structure of income tax proficiencies

	Components		
Factor Analysis: Ethical Work Climate Components	Interpretation of tax Regulations	Tax Planning & Functional proficiencies	Business operational Proficiencies
I understand the Ugandan tax system	.635		
I am aware of most tax laws and guidelines about taxation of incomes for organization	.549		
I understand the income tax laws and regulations in Uganda	.743		
I can interpret income tax laws and compute tax liabilities	.601		
I always advise management on income tax planning issues		.713	
I advise and communicate income tax matters to the management of my employer		.719	
I am always part of the team that carries out budgeting process of my employer especially on income tax matters		.518	
I am sure of the incomes /turnover on which we pay income taxes as a firm		.543	
I know how to treat the expenses incurred in relation to income tax in Uganda.		.563	
I can compute the income tax liability of our business with ease		.571	
I always file income tax returns with URA on a timely basis as requires by law		.624	
Knowing the day to day operations of the business helps me compute the income tax			.716
I always supervise and support my subordinates with income tax matters			.588
I always attend taxation seminars and workshops on behalf of the business to update myself with income tax knowledge			.614
I sometime bargain with URA when to pay tax in case I fail to meet deadlines			.574
Eigen Value	**3.357**	**1.303**	**1.067**
Variance %	**33.570**	**13.033**	**7.189**
Cumulative %	**33.570**	**46.603**	**53.792**

Analysis of the results in the table above indicates that; 4 items loaded on Interpretation of tax regulation. This implies that in most SMEs, understanding most of the laws and regulations relating to income taxation (.743), I understand the Ugandan income tax system (.635) and I can interpret income tax laws and compute tax liabilities (.601) are critical. Seven items loaded on tax planning and functional proficiencies which include; I advise and communicate income tax matters to the management of my employer (.719), I always advise management on income tax planning issues (.713), I always file income tax returns with URA on a timely basis as requires by law (.624), I can compute the income tax liability of our business with ease (.571), I know how to treat the expenses incurred in relation to income tax in Uganda (.563), I am sure of the incomes /turnover on which we pay income taxes as a firm (.543) and I am always part of the team that carries out budgeting process of my employer especially on income tax matters (.518).

Business operational proficiencies, was noted to be composed of; Knowing the day to day operations of the business helps me compute the income tax (.716), I always attend taxation seminars and workshops on behalf of the business to update myself with income tax knowledge (.614), I always supervise and support my subordinates with income tax matters (.588) and I sometime bargain with URA when to pay tax in case I fail to meet deadlines (.574). This implies that those involved in tax matters, managers and owners of SMEs should have business operational proficiencies to effectively manage income tax issues of their businesses.

4.3 Income tax proficiencies and income tax compliance

There was a significant positive relationship between the entire predictor variable, predictor variable components and income tax compliance, supporting H1. Specifically, income tax proficiencies were significantly positively correlated with income tax compliance ($r = 0.418, p < .01$). the predictor variable components were significantly positively correlated with income tax compliance, with tax planning, interpretation of tax laws and business operational proficiencies contributing r = .337, .324 and .320, p < .01 as shown in Table 2. These results imply that when income tax proficiencies for SMEs are strong, the SMEs' willingness to pay taxes and comply with the tax laws in place increases.

Consistent with the above results, the regression model shown in Table 3 showed that income tax proficiencies of SME's managers and owners explains 31% of the variance in the income tax compliance (Adjusted R^2 = 0.307). The same position was revealed by the components; Tax Planning and functional Proficiencies (beta =.218, Sig = .01), Interpretation of Tax Laws (beta = .137) and Business Operational Proficiencies (beta = .082, Sig = .01) as significant predictors of income tax compliance. Therefore, a significant positive relationship existed between the variable of income tax proficiencies of the SME's managers and owners, and income tax compliance.

Table 1: Zero-Order Correlations

	1	*2*	*3*	*4*	*5*
Tax Planning (1)	1.000				
Interpretation of Tax laws (2)	.250**	1.000			
Business Operational Proficiencies (3)	.299**	.311**	1.000		
Income tax proficiencies (4)	.382**	.371**	.491**	1.000	
Income tax compliance (5)	.337**	.324**	.320**	.418**	1.000

Note. *Correlation is significant at the 0.05 level (two tailed). **Correlation is significant at the 0.01 level (two tailed).

Table 3: Regression model Summary Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.891	.461		4.091	.000
Tax Planning and Functional Proficiency	.232	.049	.218	4.479	.000
Interpretation of Tax Laws	.211	.072	.137	2.831	.008
Business Operational Proficiencies	.112	.066	.082	1.640	.104
Dependent Variable: Income tax compliance					
R²	0.317		F	31.123	
Adjusted R²	0.307		Sig. F	.000	

5.0 Discussion of Findings

5.1 Income tax proficiencies

Our hypotheses were partially supported. Results indicated that tax proficiency is a multidimensional variable composed of interpretation of tax regulations, tax planning and functional proficiencies and business operational proficiencies as the major components of their income tax proficiencies. Contrary to our study, Mohd (2010) study verified six distinct tax competence types. Mohd (2010) dimensions of age, income and experience of being audited were not replicated. These findings are partially supported by Nakiwala, (2010) who assert that in the competence of SMEs' managers and owners are significantly reflected in the way they carry out tax planning and their functional proficiency.

Interpretation of Tax laws and regulations was described as fundamental to SMEs' income tax compliance both in developed and developing nations (Tan & Chin-Fatt, 2000); Jackson & Milliron, 1989). In their studies, they stressed that income tax compliance would be low among SME taxpayers if their tax law knowledge tax regulations was low. This factor appeared as a separate tax competence type in two of the previous studies Nakiwala (2010); Mohd (2010) participated. "Interpretation of Tax laws and regulations" is as widely flaunted as a critical component of tax competence and may be observed in many nations as simply a sound competence to apply. There is ample support for the existence of the income tax Law and regulations in Uganda to efficiently manage income tax compliance.

Business Operational Proficiencies has been identified as a separate tax competence type Tiner, (2002), although it has been referred to variously as "applied knowledge," "performance delivery," and "behaviors required getting work done to a high standard" (Dennis-Escoffier, Kern & Rhoades-Catanach, 2009; Strobel, (2001). All the loadings deal with SME managers and owners abilities to help in the computation of taxes, supervision and training of staff in tax issues, updating their tax knowledge through workshops and negotiating with URA when to pay income taxes whenever deadlines are not met. The implication for SMEs is to provide an environment where business operational proficiencies of the managers and owners are maintained while performing their operational tax duties.

5.2 Tax proficiencies and income tax compliance

In the context of Uganda, these findings uncover a significant positive relationship between tax proficiencies and income tax compliance, supporting previous studies asserting that tax proficiencies and income tax compliance are positively related (Nakiwala, 2010; Eriksen & Fallan 1996). Hoffmann (1999) and Ahmad, Hanefah & Noor (2007) correspondingly argued that income tax compliance or noncompliance is determined by prevailing tax proficiencies to a considerable extent. Study results strengthen the assertions of Madi & Amrizah, (2003) that the existence of tax knowledge and proficiencies implies that SMEs will comply since they will have adequate power to understand all the intricacies of income tax matters.

According to Chen Loo & Keng Ho, (2005), an appropriate compliance can only be realized when taxpayer's liability is correctly computed, after taking into account all factors that have a bearing on the tax liability. The results, however, contrast the findings of Wenzel (2005), who asserts that with or without tax proficiencies, taxpayers may accept tax evasion as the best other than following tax planning procedures that are demanding. This implies that if SMEs are to embrace tax planning requirements, it would mean seeking for knowledge on their part which in turn would improve their competence and hence income tax compliance. The results offer insights for researchers to better understand the reasons for tax noncompliance, on the one hand, and voluntary income tax compliance, on the other (Frey and Feld, 2002), indicating a need by URA to strengthen efforts in ensuring that changes are made to improve the proficiencies of SME taxpayers to significantly improve national revenues.

6.0 Conclusions, Policy and Supervisory Implications

From the above discussion we conclude that first the more the managers and owners of SMEs get to know and improve their income tax proficiencies, the more they will be able to; Interpret tax laws and regulations, carry out tax planning since they will have acquired functional and business operational proficiencies to manage their own tax matters. Secondly, Interpretation of tax regulations as a component of income tax proficiencies is a significant predictor of the SME managers and owners' income tax proficiencies. This study reveals the need for SMEs to nurture tax competence as critical, encourage URA to sensitize through tax education/capacity building SMEs to acquire such proficiencies that will enhance income tax compliance amongst SMEs.

In addition, the government of Uganda should draft a government policy document, including strategies and plan of action for capacity building SMEs, which should be able to outline tax competence issues. This draft policy guideline would limit participation of SMEs to professionals (managers and Owners) who have greater capacity and skills to voluntarily comply with the tax laws in the country. Leaving SMEs on their own to comply with the tax law provision may not yield paramount domino effect for amplified contribution to tax revenue

7.0 Limitations of the Study and Areas for Further Research

This study was not without limitation although the study provides some interesting findings and makes important contributions to the income tax compliance literature, several potential limitations are worth noting. Empirical studies in the areas of income tax proficiencies and income tax compliance have not been conducted because there are still no regulations in Uganda that take into account taxpayers' proficiencies. This lack of studies limited the researchers' sources of local scholarly literature on which to base the development of this study. In addition, the study was largely quantitative in nature and data collection was done at a single point in time which does not allow for changes in behavior over time. The use of qualitative longitudinal studies with in-depth interviews could provide more insights. The study population was limited to Small and Medium Enterprises in Mbale who were registered by the Uganda Bureau of Statistics.

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