Taxpayers' Awareness and Tax Compliance in Local Governments, A Case of Lira District.

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ABSTRACT

The study aimed to investigate the relationship between taxpayers' awareness and tax compliance in local government, specifically in Lira district. The research objectives included establishing the relationship between understanding tax laws, knowledge of tax regulations, and knowledge of tax obligations. The study used a correlational research design, using questionnaires and interviews for data collection. The sample size was determined using purposive and simple random sampling techniques. The data was analyzed using SPSS software, and 172 respondents participated. The findings showed a positive correlation between understanding tax laws and tax compliance. In other wards, understanding tax laws contributes to tax compliance. Knowledge of tax regulations and policies also positively correlates with tax compliance. Finally, knowing tax rights and obligations positively correlates with tax compliance. The study recommends that the compliance of taxpayers in Lira district be improved through tax training, seminars, and workshops aimed at enhancing tax laws, regulations, and obligations. This would help maximize tax payers' compliance.

Keywords: Taxpayers 'Awareness, Tax compliance, Lira district.

INTRODUCTION

Taxpayers with enough formal training and learning are anticipated to have sufficient knowledge of fiscal and tax laws given their educational background and exposure, according to [1]. And this likely to lead to timely filing of returns, the accurate reporting of income, and the timely payment of taxes (paying taxes due on time). This study assessed the relationship between tax payer's awareness and tax compliance in lira district. Globally, the tax compliance behavior of individuals and corporate organizations is a frontline issue in academia [2, 3]. From a fiscal policy viewpoint, public authorities desire positive tax compliance in the tax collection system because tax proceedings are one of the basic elements of public financing in developed, developing, and emerging nations [3]. It is argued that as governments continue to collect taxes, citizens will naturally make efforts to hide their growing incomes from the government's eyes [4]. Local governments are under pressure to offer their residents essential services on a global scale, including waste management, adequate street lighting, storm water drainage, and primary healthcare [5]. The Lira district collects its local revenue from the following revenue sources among others, property tax, local service tax, ground rent, trading licenses, market dues, operation permits, hotel tax, slaughter fees, and loading and offloading fees. Contracted local revenue sources include: Trading licenses and operation permits, market dues, hotel tax, slaughter fees, and loading and offloading fees. It is a lower

local government unit which is autonomous; it has the mandate to collect, manage and spend its revenue under the guidance of the stipulated statutory regulations like the Public Finance Management Act 2015, Local Governments Act 1997, Finance and Accounting Regulations 2007, and other statutory instruments issued by the line ministries [6].

Tax compliance in developing countries is affected by several factors ranging from the effectiveness of tax mobilization, trust, the threat of sanctions, peers' opinions and social influence, citizens' expectations from the government, the extent of rigidity and flexibility of the tax law, and isomorphic forces such as coercive, normative, and mimetic pressures [7, 8].

[9], asserted that taxpayers' awareness may be affected by elements like the knowledge, attitudes and a working knowledge of tax laws. From the perspective of information and comprehension taxpayers' compliance with tax laws is affected by knowledge (information) tax, sources laws, together with taxpayer obligations and rights [10]. Firstly, paying taxes is a way to promote a nation's progress. Because they are not adversely affected by the tax collected, taxpayers desire to pay taxes. Secondly, the state suffers severe consequences on account of the delayed tax payments both the lower tax burden. Taxpayers prefer to pay taxes because they are aware that delaying payments and gradually lowering the tax burden will limit the financial resources available, which could cause delays in the nation's development. Thirdly, tax set by law can be forced. Because paying taxes has a solid legal base and is a fundamental obligation of every citizen, tax compliance will result in the payment of taxes.
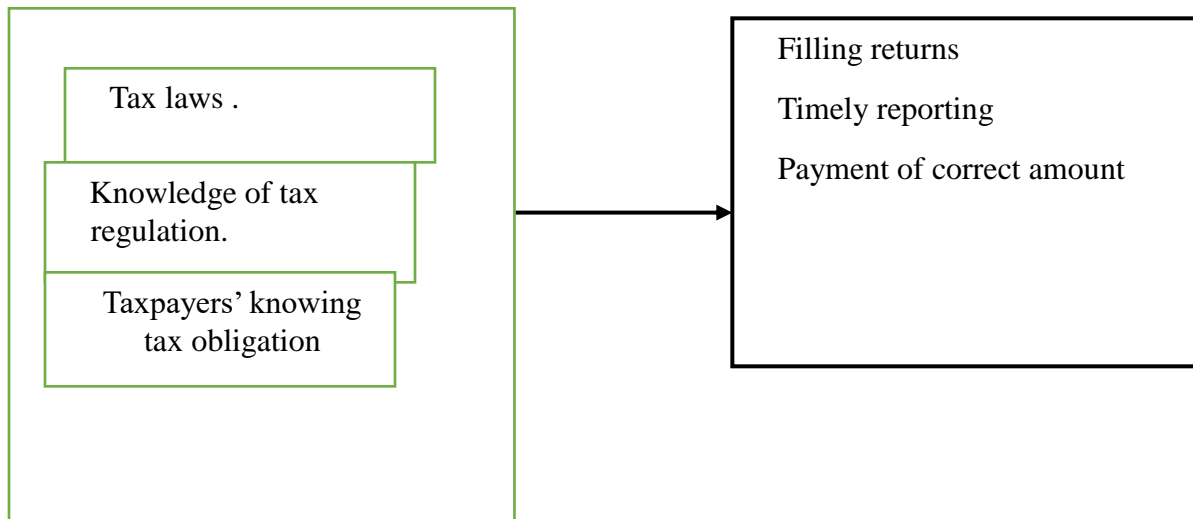
Tax laws .

Knowledge of tax regulation.

Taxpayers' knowing tax obligation

Filling returns

Timely reporting

Payment of correct amount

Fig.1: Source: Researcher, 2023
Statement of the Problem

When tax payers comply to their tax obligation more especially through timely filing of returns, the accurate reporting of income, and the timely payment of taxes, not only will the objective of taxation of raising enough revenue, but it would be benefit of government more so meeting its functions of allocations and distribution of resources among others.

However, Lira district, notwithstanding several strategies put to enhance tax compliance by educating tax payers, conducting sensitization of tax payers, still continues to register poor tax filing, incomplete or no tax reporting as well as untimely or even failed tax payment [11, 12]. This continuous poor tax filing, inappropriate reporting, delayed payment could be the reasons why

revenue targets may have not realized for instance in the Revenue Performance Report of FY 2020/2021 which shows that net revenue collection of UGX 14,456.11 billion was collected. However, the collections were UGX 606.32 billion below the FY 2020/2021 target of UGX 15,062.43 billion (URA Revenue Performance Report, 16th July 2021). In financial year 2019/2020, URA was given a net revenue target of UGX 13,177.15 billion but the net revenue collections for FY 2019/20 were UGX 12,719.63 billion with a deficit of UGX 457.51billion below the FY 2019/2020 target (URA Revenue Performance Report, 2019/2020).

Theoretical framework

The study was anchored on tax payers' awareness, this shows that taxpayers should comply in order to yield fund for public services provision.

The tax payers awareness include tax laws, knowledge of tax regulation and knowledge of tax obligations. In this study, tax laws is one of the components of taxpayers' awareness. Tax laws if not well implemented and regulated can cause down fall on tax compliance in district. Therefore in this study, tax laws is independently viewed on how much it can affect tax compliance.

Relevance of the theory
Tax compliance is a good indicator for the generation of revenue and tax compliance.

Tax compliance is a good indicator for revenue generation. If the organization has no funds generated from the taxes paid, it will be hard to provide to public infrastructures among other.

Literature review
Understanding tax laws and tax compliance

A study by [13] examined the impact of tax literacy as a preventative measure to increase taxpayers' voluntary payment of taxes in Malaysia. In 2004, the official tax assessment system was replaced by a self-assessment one. Under the self-assessment system, a taxpayer assesses his tax liability, pays taxes to the revenue authority, and later on, the revenue authority conducts audits to establish the accuracy of the declarations in returns and payments, thus creating a high voluntary tax compliance system. Maseko, [14] looked into the tax compliance practices and individual tax knowledge of taxpayers in Zimbabwe. The study's findings showed that, in contrast to big businesses, taxpayers' face a variety of challenges that force them to bear a heavy tax compliance burden. Mukasa, [15] investigated the connection between tax compliance, perceived tax justice, and local government. In addition to a cross-sectional study style, the study also used quantitative (descriptive and inferential) and qualitative (analytical and explanatory) research designs. Alkhatib and Abdul-Jabbar, [16] opined that knowledge is information that is understood or acknowledged, knowledge is anything that recognized to be connected to the learning procedure and general tax knowledge the capacity to comprehend fundamental tax ideas used in a nation [16]. Taxpayers' comprehension of tax laws aids in their acceptance of the tax device and boosts compliance. Understanding taxes is crucial for voluntary compliance, especially when determining an exact tax obligation. According to [17], tax knowledge and education significantly improve observing taxes in the real estate industry. A higher degree of tax compliance may result from greater tax understanding. Additionally, they proposed that rather than merely giving taxpayers basic information about their tax obligations, it would be better to equip them with expanded tax education services guidelines for filling out tax returns. The costs of compliance for taxpayers will most likely decrease as awareness levels rise. This lowers the likelihood of deliberate and unintentional noncompliance.

Research methodology

The study adopted correctional research design [18]. Quantitative approach was employed, target population was 303 with a sample size of 172(Table 1). The respondents were selected using purposive and simple random sampling techniques. Data was collected through questionnaire, an instrument which was subjected to test-retest technique. Data was analyzed by use of regression technique (sign.0.05) with help of Statistical Package for Social Science (SPSS).

Table 1. Population and sample distribution

Respondents	Target population	Sample
Mayor	1	1
Senior Human Resource	1	1
Internal auditor	2	2
Finance and planning officer	10	5
Production and marketing officers	39	22
Business Communities	250	141
TOTAL	303	172

Source: Uganda Bureau of Statistics and Lira district Human Resource Manual, 2022.

RESULTS AND DISCUSSION
The results addressed both research objective and research hypothesis.

Objective. To determine the influence of Understanding tax laws and tax compliance in local government, a case of Lira district. The findings addressing this objective are recorded in table 2 below.

Table 2:Descriptive statistics on understanding tax laws

		SD	D	NT	A	SA	Total	Mean	Std. Deviation
Tax administrators clarify the likely consequences of possible unethical behavior by colleagues and myself.	N %	10 5.8	32 18.6	7 4.1	83 48.3	40 23.3	172 100%	3.65	1.193
Tax administrators in Uganda, Lira district explains what is expected from Taxpayers in terms of behaving with integrity	N %	10 5.8	36 20.9	1 .6	59 34.3	66 38.4	172 100%	3.78	1.309
We have been educated on tax policies	N %	9 5.2	36 20.9	5 2.9	79 45.9	43 25.0	172 100%	3.65	1.212
We have attended seminars organized by URA.	N %	11 6.4	34 19.8	4 12.3	71 41.3	52 30.2	172 100%	3.69	1.267
URA always organizes workshops about taxes.	N %	16 9.3	33 19.2	5 2.9	78 45.3	40 23.3	172 100%	3.54	1.290
URA always organizes tax training.	N %	15 8.7	29 16.9	6 3.5	93 54.1	29 16.9	172 100%	3.53	1.206
ML								**3.6405**	**1.14316**

Source: Field data, 2023 Key: 1 means strongly disagree, 2 means disagree, 3 means not sure, 4 means agree, and 5 means strongly agree.

From the above table, females were 101 (58.7%), and their male counterparts were 71 (41.3%). This implies that most of the businesses in Lira District are mainly run by women. From the table above, the age groups of the respondents in years revealed that the majority of the respondents (45.3%) were between 31 and 40 years old, followed by 22.1 percent who were between 41 and 50 years old, and 16.3% were between 20 and 30 years old and 51 years and older. These results show that respondents of different age groups participated in the study. It also shows that the majority of the taxpayers were business people in the age bracket of 31–40 years old. On marital status, the table above revealed that most of the respondents were married (37.2%) with 64 respondents, followed by widowed (32.0%) with 55 respondents, single (21.5%) with 37 respondents, divorced (8.7%) with 15 respondents, and single (0.6%) with 1 respondent. Based on the findings, the majority of the respondents were secondary holders (29.7%), followed by certificate holders (19.8%), diploma

holders (16.9%), primary and degree holders (14.0%), respectively, and master's holders (5.8%). The researcher advises Lira

district officials to train taxpayers in order to promote compliance among taxpayers.

Results of hypothesis testing
Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.942[a]	.888	.886	.40146

The research employed regression analysis to investigate the relationship between taxpayers' awareness and their adherence to tax regulations in the local government units of Lira District. The results are presented in tables below. Predictors: (Constant), Tax laws (TTL), Knowledge of tax regulations (KTP),

Knowing tax Obligation (KTO). A value of .942 indicates a good level of prediction. The independent variables explained 88.8 %(R2=.888) of the variability in dependent variable, while 11.2 % can be explained by other factors not covered in this study.

Table 4. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.250	.103		2.435	.016	.047	.453
	ML	.296	.063	.285	4.718	.000	.172	.419
	MR	.242	.065	.251	3.699	.000	.113	.371
	MO	.409	.061	.442	6.748	.000	.289	.528

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.897	.247		5.687	.000
	ARM	.600	.054	.752	11.060	.000
		.	.	.		

a.Dependent Variable: Tax compliance (TC)

A value of .942 indicates a good level of prediction. The independent variables explain 88.8 %(R2=.888) of the variability in dependent variable, while 11.2 % can be explained by other factors not covered in this study.

General form of the equation:

$$Y = .250 + .296x1 + .242x2 + .409x3 + .40146 \text{-----------------1}$$

H₁: There is significant relationship between understanding tax laws and tax compliance of taxpayers in Lira district.

The regression results further indicated that tax laws construct significant and positively affect tax compliance (t =4.718, P=0.000 <0.05).

H₂: There is significant relationship between the level of knowledge of tax regulations and tax compliance in Lira district.

The regression results further indicated that knowledge of tax policiesconstruct significant and positively affect tax compliance (t=3.699, P=0.000 <0.05).

H₃: There is significant relationship between knowing tax obligations and tax compliance of taxpayers in Lira district.

The regression results further indicated that knowing tax obligations construct significant and positively affect tax compliance (t=6.748, P=0.000 <0.05).

DISCUSSION

The results showed that tax laws was statistically significant which implies that it can affect Tax compliance in local government, Lira district. The finding is in agreement with [17-19] also emphasized that understanding tax law is crucial for people since it affects their willingness to comply. This therefore implies that URA can improve tax compliance in terms of tax filing and accurate tax reporting by embracing reliable tax awareness.

CONCLUSION

Based on the results obtained, the study concludes that tax laws affect tax compliance of taxpayers in Lira district local government significantly. This implies that if the tax administrators improve on sensitizing the taxpayers about tax rules and regulation and how they are implemented and the mechanisms for collecting feedback from taxpayers about their experiences with the tax system, taxpayers will comply to tax principles and regulations. Therefore, the study recommends that tax officials should innovatively develop and implement new programs or systems on tax awareness. This will help Lira district reduce on the tax evasion and avoidance. This way, complying will improve revenue generation in Lira district local government will contribute substantially to national economic development of the country.

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