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Tax Competences, Tax Penalties and Tax Compliance Among SMEs in Kampala, Uganda.

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Abstract

The study examined the relationship between tax competences, tax penalties, and tax compliance among SMEs in Kampala, Uganda. Adopting a research design and a quantitative approach, the study examined the influence of tax competences and tax penalties on tax compliance among SMEs in Kampala, Uganda. The study focused on three objectives, which include examining the relationship between tax competences and tax compliance among SMEs in Kampala, Uganda, examining the relationship between tax penalties and tax compliance among SMEs in Kampala, Uganda, and also examining the predictive potential of tax competencies and tax penalties on tax compliance among SME's in Kampala, Uganda. The study examined a study population of 495,000 SMEs. However, a sample of 384 SMEs was determined and used in this study. The data used in this study was mainly obtained from primary sources using a self-administered questionnaire anchored on a five-Likert scale ranging from 1-5. All study variables obtained Cronbach alpha coefficients of above .7. Statistical Package for Social Sciences software tool (SPSS v25.0) was used to analyze descriptive and inferential statistics. The study ensured the anonymity and confidentiality of data collected from the respondents. The findings of this study indicated a significant positive association between all the study variables, namely, tax competences and tax penalties, which were the independent variables, and tax compliance as the dependent variable. The findings further indicated a significant positive contribution of the predictors to the dependent variable. The study recommends that SMEs prioritize tax competencies, which are the highest predictor in the model. For SMEs to operate smoothly without tax issues with tax collection bodies, they need to ensure that their tax technical staff have Tax Knowledge, Tax Skills, and Tax Abilities

Keywords: Tax Competence, Tax Penalties, Tax Compliance, SMEs, Kampala.

Paper Type: Research Paper

Introduction

Globally, small and medium-sized enterprises (SMEs) are seen as critical players in boosting economic growth in most economies, particularly developing countries. SMEs represent about 90% of businesses and contribute up to 40% of national income (GDP) in emerging economies (World Bank Organization, 2020). It is evident that issues of non-tax compliance have been seen; for example, Malaysia has experienced reduced tax compliance being brought about by a wrong understanding of the tax laws (Rahman et al., 2024), which issue is reported in Yemen, where 60% of the SMEs are not paying their tax liabilities. Cases of tax evasion and avoidance are cited in Morocco as only 63% of the tax targets are achieved by tax authorities (Doghmi, 2020), hence bringing a fiscal gap of about 10% of the GDP (IMF, 2023), while in Ghana, the tax authority has overtime failed to achieve their tax revenue targets (GRA, 2017). In Uganda, it is reported that SMEs contribute about 90% of private sector production and over 25% of Uganda's total gross domestic product (GDP) (Tusubira & Nkote, 2013; Business Focus, 2019). However, studies show that most SMEs are compliant in paying taxes to the Uganda Revenue Authority, which is a tax body of Uganda (Odongo, 2014; Asingwire, 2019; Uganda Revenue Authority, 2020; Tusubira & Mugarura, 2020).

The ability of SMEs to remain tax-compliant or non-tax-compliant can be attributed to deterrents such as tax penalties (Kiconco *et al.*, 2019; Tusubira & Mugarura, 2020) and tax competences which also is referred to as tax knowledge requirements (Musimenta, 2020) or tax literacy (Tusubira & Nkote, 2013). Yet contextually, tax compliance continues to receive little empirical research attention in Uganda (Tusubira & Mugarura, 2020). In their study, Yunus *et al.* (2017) emphasized that tax compliance components such as tax knowledge are positively related to tax compliance and are one of the significant influencers of tax compliance. Similarly, tax penalties as a tax strategy have also been found to influence SME tax compliance substantially (Kisoro, 2016). On the contrary, Soka (2018) sees the use of fines and penalties not to influence tax compliance.

In Uganda, SMEs have remained non-tax compliant despite introducing stringent measures by the tax body, such as imposing tax penalties (Tusubira & Nkote, 2013; Kiconco *et al.,* 2019; Musimenta, 2020). A study conducted by Asingwire (2019) showed that more than 60% of SMEs in Kampala, Uganda, were not fully committed to paying taxes. Programs such as the Taxpayer Register Expansion Program (TREP), introduced to increase efficiency in revenue collection, have so far achieved less revenue collection from SMEs (Verberne, 2017). Out of the 83 billion Uganda shillings targeted to be collected by URA, less than 4 billion UGX is collected yearly, showing a significant tax compliance gap (Nanziri *et al.*, 2016; Verberne & Arendsen, 2018).

The study adopts the economic deterrence theory described by Allingham and Sandmo (1972) to examine the issue of tax compliance among SMEs in Uganda. The theory suggests that taxpayers often make a cost-benefit analysis when deciding on compliance outcomes and rely on enforcement for compliance to work (Yong, 2006). The theory assumes that a taxpayer is morally profit-seeking and his actions are motivated by calculating costs and opportunities (Musimenta, 2020; Ya'u *et al.*, 2020). Fewer studies have examined tax competence, penalties, and compliance in a single suit, especially in developing economies like Uganda. Several studies, such as Eneh *et al.* (2022), Musimenta *et al.* (2017), and Palil and Mustapha (2011), argue that tax compliance is a significant problem for many tax authorities, including Uganda's tax body, URA. Yet contextually, tax compliance continues to receive little empirical research attention in Uganda (Tusubira & Mugarura, 2020). According to Asingwire (2019), more than 60% of SMEs in Kampala-Uganda are not fully tax compliant. Non-tax compliance of the majority of SMEs has been attributed to several factors, including tax incompetence among SME owners and less stringent tax penalties imposed on the SMEs by the tax authority (Kiconco *et al.*, 2019; Tusubira & Mugarura, 2020; Musimenta, 2020). For instance, a study by Nakiwala (2010) revealed that inadequate knowledge and skills about tax procedures were the major qualities of most SMEs in Uganda, given that owners had no tax competence. Failure to achieve tax compliance among SMEs will often lead to a shortfall in tax collection by URA. For instance, out of the 83 billion Uganda shillings targeted to be collected by URA from SMEs, less than 4 billion UGX is collected yearly, showing a significant tax compliance gap (Verberne & Arendsen, 2018; Asingwire, 2019). This limits the capacity of developing countries like Uganda to raise revenues for development purposes (Muhire, 2017). Therefore, this study is motivated by the need to add knowledge to the existing literature and recommend policy for improving tax compliance in developing countries, which has remained uncertain.

Literature Review

Theoretical Review

Economic Deterrence Theory

This study is hinged on the economic deterrence theory by Allingham and Sandmo (1972). This theory, also known as the economics of crime approach, asserts that a person is discouraged from committing an offense if the risk involved surpasses the benefit. According to Ya'u *et al.* (2020), the offense involved here is tax evasion, and the decision of a rational taxpayer to evade tax or comply is based on his choice in terms of risk and uncertainty. This theory argues that tax compliance is determined by an individual's fear of the cost of evasion, dangers of discovery, and penalties for committing tax fraud (Eneh *et al.*, 2022). Taxpayers are often torn apart with the option of either abiding by the tax laws or cheating and taking the risk of being caught and penalized. It is assumed that the probability of audits, penalty rates, individual income levels, and the tax rate determine citizens' decisions to comply or not to comply (Kirchler *et al.,* 2014).

Tax bodies worldwide have applied the economic deterrence theory while developing tax laws that deter taxpayers from evading taxes. For instance, tax bodies have often used the concepts of the economic deterrence theory to come up with enforcement tactics that mainly depend on fines and cause fear of being detected, given that there are advantages that may arise from those who end up abiding by the laws (Oladipupo & Obazee, 2016; Eneh *et al.*, 2022). Mohdalia *et al.* (2014) also argued that a taxpayer is seen as a perfectly amoral, risk-neutral, risk-averse, utility-maximizing individual who evades tax whenever the expected gain exceeds the cost. Therefore, tax authorities have caused fear among taxpayers as one way of forcing them to conform to the existing tax laws. Tax bodies such as the Uganda Revenue Authority have based on the economic deterrence theory to develop compliance measures such as tax penalties and fines for tax evasion.

This theory has received criticism from scholars who argue that the model predicts much lower levels of tax compliance, especially in developing countries. For instance, Aondo and Sile (2018) argued that the deterrence theory purely emphasizes economic considerations and levels of enforcement, yet compliance cannot be explained entirely. They further state that the income tax returns resulting from tax audits and penalties are generally relatively small, especially in developing countries. Kirchler *et al.* (2014) also argued that the neoclassical economic approach poorly explains and scantly predicts tax compliance, given that the impact of audit probability on behavior appears to be much weaker than expected.

Despite the criticism from other scholars, Aondo and Sile (2018) and Kirchler *et al.* (2014) regarding the effectiveness of the economic deterrence theory, this theory is praised for its effectiveness in preventing noncompliance; for instance, putting fear in taxpayers, such as fear of getting arrested or the fear of being penalized, is an effective method of motivating truthful behavior (Eneh *et al.*, 2022). Kirchler (2007) also pointed out that economic determinants such as audits, fines, and penalties should not be neglected since they appear more critical than other psychological determinants of tax compliance. Therefore, increasing tax penalties would make people comply with remitting taxes and vice versa.

Political Legitimacy Theory

According to Weber (1920), the crucial element of a power structure is its perceived Legitimacy, whether as a person or an institution (Sage, 2020). Thus, Max Weber asserts that a person or institution is Legitimate when people accept their authority and follow their orders. According to the political legitimacy theory, tax compliance is positively related to perceptions about the government" 's, particularly the tax authority" 's, trustworthiness (Tayler 2006; Kirchler et al.)

As regards the principle of political Legitimacy, tax compliance affects the degree to which people believe in their government (Tyler, 2006); (Samuelson, 2019). According to Person (2008), Legitimacy can be the belief or confidence in the authorities, organizations, and social arrangements to work for the suitable, just, and public common good. Researchers and political scientists have explored how to foster political Legitimacy and civic identity. For instance, Persson (2008) argues that African nations that, during independence, underscored state-building over ethnic identity are more effective than those that have allowed ethnicity to become a significant political enemy. Based on this argument, it is expected that people who believe in the state are more likely to comply with tax laws and vice versa.

Relationship Between Tax Competences And Tax Compliance

Tax competence is examined mainly in how SME owners plan for tax and their functional proficiency (Nakiwala, 2010). According to Tusubira and Nkote (2013), the ability of taxpayers to interpret tax laws and regulations and conduct their tax filings is an essential aspect of SME tax compliance in developing and developed countries. SME owners with limited tax knowledge, skills, and abilities will likely remain non-compliant with remitting taxes. Papil (2010) pointed out that a taxpayer being tax competent and having the necessary tax knowledge would be a much more critical factor when ascertaining the accuracy of tax returns and, therefore, more directly affecting the tax compliance behavior of individual taxpayers.

In their study, Kirchler *et al.* (2008) emphasized that tax compliance components such as tax knowledge in individual taxpayers are positively related to tax compliance and are one of the major influencers of tax compliance. While studying the impact of knowledge requirements, tax complexity, and compliance costs on tax compliance in Uganda, Musimenta (2020) argued that, indeed, a taxpayer having tax competence in terms of general tax knowledge and skills has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and thus ability to comply with the tax laws. When SME taxpayers are not competent enough on tax-related issues, such as the inability to understand tax law requirements, they do not pay their tax obligations, affecting their tax compliance (Yunus *et al.*, 2017). Therefore, it is observed that tax competencies among SME owners play an important role in increasing tax compliance, hence the need to encourage tax education and training among SME owners (Oladipupo & Obazee, 2016).

Relationship Between Tax Penalties And Tax Compliance

According to Allingham and Sandmo's (1972) model, using deterrence measures such as penalties effectively encourages tax compliance among taxpayers. For instance, Ya'u *et al.* (2020), Kirchler *et al.* (2014), Tusubira and Mugarura (2020), Soka (2019), and Saad (2012) have all found the application of penalties and audit fines to be effective in enhancing tax compliance. In his study, Kisoro (2016) found that strategies such as tax penalties significantly influence SME tax compliance management, especially for SMEs found in Kampala, Uganda. This was also confirmed by Kisaale *et al.* (2012), who found that enforcement measures such as using penalties significantly affected tax compliance in Uganda, requiring the tax body to take due consideration in applying penalties.

Further, Yunus *et al.* (2017) found that all the constructs used in measuring tax penalties influenced tax compliance amongst SMEs in Malaysia. The same was reported by Namusonge *et al.* (2014), who found that tax penalties used by the Kenya tax authority significantly influenced tax compliance amongst SMEs in Kitale, Kenya. However, other scholars argue that tax penalties do not substantially influence tax compliance. For instance, Oladipupo and Obazee (2016), in their study on tax compliance in SMEs in Nigeria, found that of all the variables studied, tax penalties did not have Tax penalty did not have a significant effect on tax compliance among SMEs. Soka (2018) also found that fines and penalties did not significantly influence tax compliance compared to other variables studied.

Combined Effect Of Tax Competence And Tax Penalties On Tax Compliance

Some studies have examined the predictive and combined influence of tax competence and tax penalties on tax compliance and have found the two to influence tax compliance. For instance, Oladipupo and Obazee (2016) found that increasing tax knowledge and penalties would improve tax compliance amongst taxpayers and vice versa. However, tax competence in the form of tax knowledge tended to promote tax compliance more than tax penalties. In his study, Soka (2018) also examined the combined influence of tax knowledge and tax penalties with other variables, and the results concluded that combining tax penalties and tax knowledge could lead to an increase in tax compliance. However, tax knowledge had a higher influence than tax penalties.

METHODOLOGY

Research Design

This study adopted a cross-sectional and quantitative research design. A cross-sectional study was adopted because it allows a researcher to study the population at a particular time, making it easier to collect data at a single point (Creswell, 2013). On the other hand, the study was quantitative because it allowed for the use of mathematical models in testing the study variables and allowed for the generalization of results (Fellows and Liu, 2003; Creswell, 2009; Creswell, 2013). Further, the researcher can collect large samples and later describe and test the relationships between the variables under study (Amaratunga *et al*., 2002). Therefore, using quantitative methods, the researcher could determine scores and explain the relationships between the variables under study (Creswell, 2012).

Study Population And Sample Size Determination

The study population was SMEs in Kampala, which totaled 496,000. In this study, the target population comprised SMEs offering services such as hotels and restaurants, among others, and those dealing in trade agro-processing and small-scale manufacturing in the central region of Uganda, particularly Kampala Capital City. According to Kintu *et al.* (2019), the number of SMEs operating in Uganda's economy is estimated at around 1,100,000. Most of these (45%) are located in Kampala Business District. Therefore, Kampala alone takes the largest share of SMEs, totaling 495,000.

Simple random sampling determined which agencies would participate in the study. Simple random sampling is chosen because each member of the population has an equal chance of being selected.
A sample of 384 respondents were selected from the population of 495,00 SMEs. This sample was chosen based on Krejcie and Morgan's (1970) sample size determination table, add formulae, and calculation. The unit of inquiry was one individual representing one firm. This individual was either an owner or an employee.

Unit of Inquiry and Analysis
The unit of inquiry in this study comprised of the SME owners or SME managers in Kampala, particularly those concerned with the accounting roles of the SMEs, whereas the unit of analysis consists of the SMEs that either comply or do not comply with tax laws.

Data Collection Tool
The researcher used a closed-ended questionnaire tool to collect data from the field. The quantitative questionnaire items were constructed and measured using A 5-point Likert scale. The Likert scale is a psychometric scale that uses a questionnaire to measure how people feel about something. The items on this scale were evaluated based on 1- strongly disagree, 2- disagree: 3- not sure, 4- agree, 5- strongly agree. The questionnaire contained two sections, which justified using the 5-point Likert scale. Why not 7, 9,3. The first section captured background information about the respondents, like gender, age, etc., whereas the last section captured respondents' feedback on the study variables.

Measurements of Study Variables

VARIABLE	**MEASURES**	**SOURCE**
Tax Compliance (operationalized the terms)	• Timely tax payment • Tax returns filing • Tax reporting	Tusubira and Nkote (2013) Eneh *et al.* (2022)
Tax Competences (operationalized the terms)	• Tax Knowledge • Tax Skills • Tax Abilities	Musimenta *et al.* (2017) Oladipupo, and Obazee, (2016); Muhire (2017); Soka (2019); Kassa (2021); Nakiwala (2010)
Tax Penalties (operationalized the terms)	• Penalty rate • Penalty knowledge • Penalty law enforcement	Allingham and Sandmo (1972), Yunus *et al.* (2017). Oladipupo & Obazee (2016); Yunus *et al.* (2017); Kisaale (2012); Yunus *et al.* (2017)

Validity and Reliability
With validity, a data collection tool was presented to the supervisors and guided on the questions relevant to the study. Questions that were found applicable to the survey were retained, and some that did not fit the study were removed. This ensured the validity of the data collection instrument. Reliability tests were conducted on 35 SMEs in Mukono, representing 10% of the sample size, to determine the internal consistency and accuracy of the measurement procedure. In this study, the

Cronbach alpha coefficient was used since it is the most widely used and acceptable measure of internal consistency (Pallant, 2010). The results are presented in Table 3.1 below;

Reliability Results

Variable	Cronbach's Alpha	N of Items
Tax compliance	.822	19
Tax competence	.859	18
Tax Penalties	.800	16
Overall	.916	53

Source: System-generated results

From Table 3.1 above, an alpha of 0.916 was obtained. According to Amin (2005), an Alpha coefficient of above 0.70 for individual test variables is accepted, indicating that the instrument is reliable (Nunnally, 1978).

Data Processing And Analysis

Data was sorted, coded, entered into SPSS version 25, and cleaned for analysis. Frequencies were used to examine descriptive statistics. Pearson Correlations were examined to test relationships between variables, and hierarchical regression was analyzed to predict the independent variables' explanatory power on the dependent variable.

Empirical Findings

Demographic Characteristics Of Respondents

Table 4.1: Demographic Characteristics Of Respondents

Variable	Frequency	Percentage	Valid Percent
Gender			
Male	154	59.0	59.0
Female	107	41.0	41.0
Total	261	100.0	100.0
Age bracket			
18-25 Years	38	14.6	14.7
26-33 Years	79	30.3	30.6
34-41 Years	71	27.2	27.5
42-49 Years	52	19.9	20.2
50 Years and Above	18	6.9	7.0
Total	258	98.9	100.0
Missing System	3	1.1	
Total	261	100.0	
Education Level			
Diploma	72	27.6	28.1
Degree	110	42.1	43.0
Post Graduate Diploma	11	4.2	4.3
Master	24	9.2	9.4
Others	39	14.9	15.2
Total	256	98.1	100.0
System	5	1.9	
Total	261	100.0	

Source: Primary data System generated results

Gender of Respondents

Table 4.1, under the gender of respondents, results indicate that male (59%) respondents made the most significant contribution in this study regarding tax compliance, followed by female (41%) respondents. Add interpretation

Age Bracket

Statistics about the age bracket of respondents in Table 4.1 indicate that the majority (30.3%) were found to fall in the age category of 26-33 Years, followed by the age category of 34-41 Years (27.2). This implies that most of the respondents who contributed to this study were the youth.

Education Level

Findings in Table 4.1 indicate that most respondents (42.1%) were degree holders, followed by diploma holders (27.6%). This implies that educated persons highly operated SMEs and contributed more to this study.

SMEs Characteristics

Table 4.2; SMEs Characteristics

Variable	Frequency	Percentage	Valid Percent
Number of employees			
Less than 5 people	106	40.6	40.9
5-49 people	135	51.7	52.1
50 and above	18	6.9	6.9
Total	259	99.2	100.0
Missing System	2	.8	
Total	261	100.0	
SMEs Category			
Service sector	123	47.1	47.3
Trading sector	78	29.9	30.0
Food processing	17	6.5	6.5
Manufacturing	19	7.3	7.3
Others	23	8.8	8.8
Total	260	99.6	100.0
Missing System	1	.4	
Total	261	100.0	
SME Tax Compliance level			
Missing system	17	6.5	6.5
1	2	.8	.8
10	33	12.6	12.6
2	7	2.7	2.7
3	7	2.7	2.7
4	22	8.4	8.4
5	40	15.3	15.3
6	31	11.9	11.9
7	28	10.7	10.7
8	43	16.5	16.5

9	31	11.9	11.9
Total	**261**	**100.0**	**100.0**

Source: System-generated results

Number of Employees
Table 4.2 findings under the number of employees indicate that most (51.7%) SMEs employ people aged 5-49. This implies that this category contributed more to the study.

SMEs Sector
Findings in Table 4.2 indicate that the majority (47.1) of the SMEs were in the service sector, followed by the trading sector (29.9%). This implies that the service sector firms have contributed significantly to the study.

SME Tax Compliance Level
Participants in this study were asked to rate their perception of their respective SME compliance on a scale of 1 to 10. Findings in Table 4.2 indicated that the majority (16.5) indicated 8, followed by those that indicated 5 (15%) as well as those that indicated 10 (12.6%). This implies that SMEs' tax compliance level is good.

Relationship Between Variables
Table 4.3 Bivariate Correlation

Variables/constructs	1	2	3	4	5	6	7	8	9
1Tax competence	1								
2Tax Knowledge	.799**	1							
3Tax Skills	.811**	.497**	1						
4Tax abilities	.831**	.530**	.461**	1					
5Tax penalties	.433**	.481**	.269**	.335**	1				
6Penalty Rate	.372**	.399**	.299**	.233**	.828**	1			
7Penalty Knowledge	.399**	.440**	.224**	.335**	.805**	.510**	1		
8Penalty Law Enforcement	.285**	.334**	.136*	.246**	.807**	.525**	.442**	1	
9Tax Compliance	.661**	.569**	.488**	.565**	.576**	.509**	.503**	.395**	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

Source: System-generated results

Tax Competence and Tax Compliance
Findings in Table 4.3 indicate a significant positive association between Tax competence and Tax compliance (r=.661; P<.01). Findings further suggest that all dimensions of tax competencies, namely Tax Knowledge (r=.569; P<.01), Tax Skills (r=.488; P<.01) and Tax abilities (r=.565; P<.01) have a significant positive association with tax compliance. This implies that a change in tax competence is associated with a change in tax compliance.

Tax Penalties and Tax Compliance
Findings in Table 4.3 indicate a significant positive association between Tax penalties and Tax compliance (r=.576; P<.01). Findings further suggest that tax penalties dimensions, namely penalty rate (.509; p<.01), penalty knowledge (.503; p<.01) and penalty law enforcement (r=.395; p<.01) have a significant association with tax compliance. This implies that a change in tax penalties is associated with a change in tax compliance.

Predictive Potential Of Predictor Variables on the Dependent Variable
Table 4.3: Multiple Regression Results

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	.461	.187		2.463	.014
Tax competence	.464	.043	.507	10.823	.000
Tax penalties	.397	.052	.357	7.627	.000
R		.735			
R^2		.541			
Adjusted R^2		.537			
Std. Error of the Estimate		.37440			
F		151.881			
Sig.		.000			

a. Dependent Variable: Tax Compliance; b. Predictors: (Constant), Tax penalties, Tax competence

Source: System-generated results

Findings in tTable4.3 indicate that tax competence and tax penalty contribute 50.7% (Beta=.507) and 35.7% (Beta=.357) to tax compliance. Findings further suggest that Tax competencies are the highest predictor of tax compliance. Furthermore, findings indicate that the predictors of the model (Tax competences and Tax penalties) explain a variation in tax compliance up to 53.7% (Adjusted R^2=.537). The remaining 46.3% could explain the other factors never considered in this study.

Discussion of Findings

Tax Competencies and Tax Compliance

Findings indicate a significant positive association between Tax competence and Tax compliance. Findings further indicate that all dimensions of tax competencies, namely, Tax Knowledge, Tax Skills, and Tax abilities, have a significant positive association with tax compliance. This implies that a change in tax competence is associated with a change in tax compliance.

The findings were related to the study conducted by Kirchler et al. (2008), where it was emphasized that tax competence components, such as tax knowledge in individual taxpayers, are positively related to tax compliance and is one of the significant influencers of tax compliance. While studying the impact of knowledge requirements, tax complexity, and compliance costs on tax compliance in Uganda, Musimenta (2020) argued that, indeed, a taxpayer having tax competence in terms of general tax knowledge and skills has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and thus ability to comply with the tax laws. When SME taxpayers are not competent enough on tax-related issues, such as the inability to understand tax law requirements, they do not pay their tax obligations, affecting their tax compliance (Yunus et al., 2017). Therefore, it is observed that tax competencies among SME owners play an important role in increasing tax compliance, hence the need to encourage tax education and training among SME owners (Oladipupo & Obazee, 2016).

Tax Penalties and Tax Compliance

Findings indicate a significant positive association between Tax penalties and Tax compliance. Findings further indicate that tax penalty dimensions, namely, penalty rate, penalty knowledge, and penalty law enforcement, are significantly associated with tax compliance. This implies that a change in tax penalties is related to a change in tax compliance.

These results are related to the study carried out by Kisoro (2016), where it was found that strategies such as tax penalties significantly influence SME tax compliance management, especially for SMEs found in Kampala, Uganda. This was also confirmed by Kisaale *et al.* (2012), who found that enforcement measures such as the use of penalties significantly affected tax compliance in Uganda, requiring the tax body to take due consideration when applying penalties. Further, Yunus *et al.* (2017) found that all the constructs used in measuring tax penalties influenced tax compliance amongst SMEs in Malaysia. The same was reported by Namusonge *et al.* (2014), who found that tax penalties used by the Kenya tax authority significantly influenced tax compliance amongst SMEs in Kitale, Kenya. However, other scholars argue that tax penalties do not significantly influence tax compliance. For instance, Oladipupo and Obazee (2016), in their study on tax compliance in SMEs in Nigeria, found that tax penalties did not significantly affect all the variables studied. Soka (2018) also found that fines and penalties did not significantly influence tax compliance compared to other variables studied.

Predictive Potential of Predictor Variables on The Dependent Variable

Findings indicate that tax competence and penalties contribute significantly and positively to tax compliance. Findings further indicate that Tax competencies are the highest predictor of tax compliance. Furthermore, findings indicate that the predictors of the model (Tax competencies and tax penalties) explain a variation in tax compliance of up to 53.7%. These findings are related to the study conducted by Oladipupo and Obazee (2016), where it was found that an increase in tax knowledge and tax penalties would lead to an increase in tax compliance among taxpayers and vice versa. However, tax competence in the form of tax knowledge tended to promote tax compliance more than tax penalties. In his study, Soka (2018) also examined the combined influence of tax knowledge and tax penalties with other variables, and the results concluded that combining tax penalties and tax knowledge could lead to an increase in tax compliance. However, tax knowledge had a higher influence than tax penalties.

Conclusion and Recommendations

This study is motivated by the need to add knowledge to the existing literature and recommend policy for improving tax compliance in developing countries, which has remained uncertain. The study suggests that it is crucial to focus more on tax competencies, ensuring that persons in charge of SME tax management have adequate knowledge, relevant tax skills, and tax abilities to avoid tax noncompliance issues that can lead to firm operation instability. Though much emphasis can be put on the tax competencies as they were found to be the highest predictive power of tax compliance, tax penalties in the form of tax penalty rate, penalty knowledge, and penalty law enforcement need not be underestimated. SMEs with competent officials in charge of tax exhibit high levels of tax compliance.

SME owners and managers should consider equipping their tax management team with adequate knowledge and relevant skills by training them and encouraging them to attend tax workshops organized by the tax collection bodies in Uganda and abroad where applicable.

SME owners and or managers should caution their tax technical team to avoid issues related to tax penalties. The tax penalties reduce the profits of the firm and disrupt the firm's daily operations.

Areas of Further Studies

1. Further studies should focus on a broader geographical scope rather than concentrating on Kampala only.
2. Further studies should also focus on some intervening factors that may hinder tax compliance
3. Further studies should focus on other tax compliance predators rather than tax competencies and penalties.
4. This study was customized to a cross-sectional survey design with a quantitative approach. Yet, it would be vital for the study to employ other study designs, such as longitudinal and qualitative approaches, hence the need for further studies.

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