Tax Education And Revenue Collection As A Perception Of Tax Payers In Northern Division Mbale Municipality, Uganda

Dr. Eric Mabonga
Lecturer, Faculty of Business Administration and Management, Uganda Martyrs University, Mbale Campus, Uganda

Mafabi Julius
Administrative Assistant, Uganda Christian University, Mbale Campus

Dr. Olutayo K. Osunsan
Lecturer, College of Applied Economics and Management Sciences, Kampala International University, Uganda

Samuel Pule
Lecturer, School of Business and Management, Cavendish University, Uganda

Dr. Nalela Kizito
Lecturer, Faculty of Business Administration and Management, Uganda Martyrs University, Nkozi, Uganda
ABSTRACT

The study sought to establish the effect of tax education on revenue collections in Northern Division in Mbale Municipal Council. Mixed methods were employed in data collection and data was collected from a sample of 127 tax payers. The respondents were owners and managers from the registered SMEs operating in Mbale Municipality. Analysis was done using regression and Pearson’s correlation and conclusions were thereafter drawn. The study revealed that tax education has a significant effect on revenue collection. The findings further suggest that there is a significant relationship between tax education and revenue collection. The researchers therefore conclude that tax education programs improve on tax payer’s attitude towards tax compliance which may increase the revenue collections in the municipality. Researchers recommend that there should be continuous tax education programs to enable tax compliance. This should be done through initiatives where the municipality can work with civil society organizations to organize workshops and seminars to SMEs’ owners and managers. There is need to develop an interactive and convenient tax system where tax payers can easily pay the taxes to increase the compliance which eventually leads to more revenue realization.

Keywords: Tax education, Revenue collection, Tax payers

1. INTRODUCTION

Historically, taxes have taken various forms and they were levied for various reason. Tax revenue is the income that is generated by governments through taxation. In Uganda, according to schedule 2 of the local government Act (1997), mandate is given to local governments to collect local revenues from their own sources such as property tax among others, while complying with financial and accounting regulations of 1998 to guide of the financial operations and specifies decentralization policies, rules and regulations. Local governments were empowered to carry out proper planning decisions at budget level, do complete enumeration and assessment of taxes for financial decentralization to succeed in improving local revenue collection, (Abigaba, 2006).

Revenue realization in developing countries is hampered by many factors such as; tax administration is inefficient, tax payers are less sensitized about the benefits of paying taxes, the low and outdated reserve prices for tendered utilities, absence and or marginal monitoring and supervision of privatized utilities by local governments, viability of utilities and volume of business transactions, and may other loop holes in the tax system, (Bitarabeho, 2003).

1.1 RESEARCH HYPOTHESES

- There is a significant relationship between tax education and revenue collection
- There is a significant relationship between tax payer’s attitude and revenue collection
There is a significant relationship between tax payer’s knowledge and revenue collection

2. LITERATURE REVIEW

2.1 TAX EDUCATION AND REVENUE COLLECTION AS A PERCEPTION OF TAX PAYERS

The failure to follow the tax provisions suggests that a tax payer may be committing an act of non-compliance, Kirchler, (2007). Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due. The present study contributes to tax compliance literature by taking advantage of the weaknesses noted in previous studies (Allingham and Sandmo, 2002; Chan et al., 2000) First, the focus of the study is on individual tax compliance behavior in a developing economy. Secondly, the study is primarily undertaken to determine the relationship between tax education and revenue collections.

2.1.1 EFFECT OF TAX PAYERS’ KNOWLEDGE ON REVENUE COLLECTION

In local government, revenue collection can be improved through sensitization of tax payers (Lubega, 2000) as means of shaping their attitudes and ensure compliance of tax payers. Local revenue collection has to comply with certain general principles of raising revenue and how these principles should be fair, convenient and certain. The collection and administration of revenue must be economical to the collectors and administrators (Katarikawe, 2006). Kaldor (2000) observes that the efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration and education.

James and Nobes (2009), points out that a good tax should have the qualities of Equitability, Efficiency, Neutrality, flexibility, and simple. These principles still holds today and even act as a guide for policy formulation. However, the ability to achieve all in a single tax policy is practically impossible; hence Lymer and Oats (2009), stated that there is no good tax. This is because an efficient tax might be inequitable. According to Lamb et al (2005) “An efficient tax may not necessarily be considered fair and one that is considered equitable may not be efficient.

Owens (2006) noted that only a few people are enthusiastic about paying tax. Tax policy must be generally accepted by the people if it must gain compliance (Nightingale 2002). Brown and Mazur (2003) affirmed that revenue officers have extensive face-to-face personal contacts with taxpayers, and this can enhance revenue collections.

Coleman (2003) contends that, if taxpayers are convinced that the tax system is administered fairly and all taxpayers contribute by law reasonably and equally, then they are prepared to pay. On the other hand it is observed that the challenge of lack of knowledge of tax compliance behavior towards a tax system is serious and leads to loss in.
2.1.2 EFFECT OF TAXPAYER’S ATTITUDE ON REVENUE COLLECTION

According to Kahneman and Tversky (2009), attitude relates to one’s own personal views about a behavior. Attitude may also be defined as positive or negative views of an attitude object i.e. a person, behavior or event. In relation to taxation, taxpayers’ attitudes may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and negative view is tax non-compliance. These views may be explained by Psychology-based theories which reveal that taxpayers’ attitude may be influenced by the following factors which eventually influence taxpayers’ behavior.

Commitment in paying tax reflects beliefs about the desirability of the tax systems and feelings of moral obligation to act in the interest of the collective and pay one’s tax with goodwill. According to Fishbein and Ajzen (2005), special procedures advisor and recognized technical authority on a type of major enforcement activity combining expert knowledge of the collection program with a thorough knowledge of the conditions, practices, and laws in various judicial processes is very essential in the field of taxation. This ensures and encourages compliancy.

According to Allingham and Sandmo (2002) tax ethics and attitudes towards tax revenue have an influence on the inclination towards tax evasion. The two primary factors in taxpayer compliance are mainly financial self-interest and moral commitment. Individuals comply with tax laws because it is in their own financial interests to minimize their tax bill, but also because of their perceived moral obligation to obey tax laws.

Bird (2010), contend that there is no single prescription no secret recipe that, once introduced, will ensure improved tax compliance in any country. Countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations, but also taxpayer attitudes toward taxation and government in general. Attitudes affect intentions and intentions affect behavior. Attitudes are formed in a social context by such factors as the perception in the tax system, the perceived fairness of the tax structure, its complexity and stability. Government policies affecting any of these factors may influence taxpayer attitudes and hence the observed level of taxpayer compliance.

2.1.3 RELATIONSHIP BETWEEN TAX EDUCATION AND REVENUE COLLECTION

Richardson (2006) reported a significant negative relationship tax system fairness and tax evasion. Equally, studies have established relationship between attitudes of taxpayers and compliance. The study of Eriksen and Fallon (1996) revealed that taxpayer’s attitude towards tax system has influence on reinforced desire toward tax evasion and compliance. Chan et al. (2000) reported that Hong Kong tax payers have less favorable attitude towards tax system as a result lower level of compliance. Chan, et al., (2000), investigated the direct and indirect effects of two noncompliance opportunities, namely educational and income level. Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear. Chan et al. further observed that
greater education is directly linked to a likelihood of compliance. They argue that educated tax payers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable tax payer attitude and therefore greater compliance, hence improved revenues collected. People with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. However, Mohamad, (2010) also revealed that there is a negative association between education and compliance.

Mohamad (2011) investigate the current developments in the USA, highlighting that tax academics need to emphasize teaching and development. In other countries, tax education, as well as tax development is not as good as in the USA. Their study was expected to be able to help academicians in other countries to adapt what has been done in the USA, especially in teaching methodology so that other countries can learn how to educate taxpayers more effectively and efficiently.

The study of Allingham and Sandmo (2002) examined the attitudes to tax evasion and reported that evasion is condoned by large number of people who are particularly benefiting from it. Trivedi et al., (2005) also revealed that there is a relationship between attitude and compliance. Financial conditions as a moderator for attitude and tax compliance.

The results of Demissie (2008) reveal that taxpayer’s poor knowledge of tax rules and regulations is the most deterring factor of poor revenue collection. Kasipillai and Jabbar (2006) states that tax knowledge has impact on tax compliance. The study specifically evaluates the influence of education on tax compliance among undergraduate students in Malaysia.

There are indications in other behavioral studies that financial condition and family obligations moderate the relationship individuals’ commitment and performance. Therefore, financial condition of an individual may have positive or negative effect on the relationship between his/her attitude and compliance behavior.

3. METHODOLOGY

The study employed mixed method, both cross sectional survey an interviews were employed during data collection. The study therefore, employed both quantitative and qualititative techniques in data analysis.

Cross sectional was employed, where data was gathered and described from different categories of respondents. A sample size of 127 was considered and self administered questionnaires were used to collect data for analysis. A Survey was appropriate to elicit information about attitudes that are otherwise difficult to measure using observational techniques. Interviews were conducted in order to align the quantitave data which was likert scaled. Interviews were conducted on tax administrators so as to get thier views on tax
Simple random sampling was employed. The aim of the simple random sampling was to reduce the potential for human bias in the selection of cases to be included in the sample. Thus, simple random sample provided a sample that is highly representative of the population being studied. The Cronbach’s alpha coefficient was used to test the reliability of the research instrument, the output statistics was 0.793. Data was analyzed using descriptive techniques such as frequencies, mean score, regression and Pearson’s correlation coefficients.

4. FINDINGS

Table 4.1 Model Summary: Effect of tax payers’ knowledge on revenue collection

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.911*</td>
<td>.829</td>
<td>.827</td>
<td>.54584</td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>P-value</td>
</tr>
</tbody>
</table>

Source: Primary data

a. Predictor: (Constant), Knowledge

Results from a regression analysis reveal a significant effect between education and revenue collections for northern division Mbale Municipality. The model summary yielded R square =0.829, P<0.05, implying that the independent variable contributes 82.9% to the revenues collected in MMC. The remaining 17.9% is contributed by some other factors beyond the scope of this study. The results therefore suggest that revenue collection can increase if tax payers have knowledge. Tax education is therefore necessary. Results of this study are in line with Kasipillai and Jabbar (2003) found out that tax knowledge impacts positively on tax compliance.

The interview with the assistant town Clark revealed that tax education greatly impacts on revenue collections. He said when they had training for hotel owners about the type taxes to pay, they realized that they were very ignorant and from that training, there was a tremendous change. He said many tax payer are even ignorant of the type of taxes to pay. The only tax payer’s who are punctual are the license payer. Even these pay taxes mainly because they are pursuing loans from commercial banks. The accountant revealed that intensive tax education will definitely impact positively on revenue collections. She explained that as long as tax payers understand the tax, they will pay.

Table 4.2: The effect of tax payer’s attitude on revenue payment

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>.920</td>
<td>.846</td>
<td>.845</td>
<td>.51804</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>P-value</td>
</tr>
</tbody>
</table>

Source: Primary data

From the table 4.2 further reveals regression analysis and the results revealed a significant effect between attitude and tax payment among tax payers at Northern Division, MMC. The model summary yielded R² = 0.846, p<0.05. This implies that as the independent variables increase, so does the dependent variable. This
means that when the tax payers form a positive opinion about tax payment, then the revenues paid will increase by 84.6%. The tax payers who understand the reason for paying taxes and being compliant will encourage others to do the same.

The town Clark stressed the need to improve service in order to improve the tax payer’s attitude. He explained that the presence of garbage and absence of streetlights have had every negative impact on the tax payer’s attitude on tax payment. He said improvement on service delivery will sort out negative attitude.

Table 4.3 Relationship between tax education and revenue collection

<table>
<thead>
<tr>
<th>Variables correlated</th>
<th>Correlations</th>
<th>Tax education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>attitude</td>
<td>Knowledge</td>
</tr>
<tr>
<td>Attitude</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Pearson Correlation</td>
<td>.927**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td>Revenue collection</td>
<td>Pearson Correlation</td>
<td>.920**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>127</td>
<td>127</td>
</tr>
<tr>
<td>Tax education</td>
<td>Pearson Correlation</td>
<td>.941**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>127</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: Primary data

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

Results on relationship suggest that there exists positive significant relationship between tax education and revenue collection in northern division Mbale municipality. The tax payer’s attitude toward tax payment is enhanced through tax education. Findings reveal that attitude has significant positive relationship with revenue collection, sig-value 0.000< 0.01 and r-value 0.920. At a conventional level of 99% the r-value 0.920, suggest that revenue can easily be collected by tax authorities if the tax payer’s attitude towards paying tax is positive. The hypothesis is accepted. Results further reveal a positive significant relationship between tax payer’s knowledge and revenue collection, sig-value 0.000< 0.01 and r-value 0.927. The alternative hypothesis is accepted. Tax education and revenue collection was found to have positive significant relationship, sig-value 0.000< 0.01. The hypothesis of significant relationship is thus accepted. This suggests that once tax payers are educated, they can respond well to remit taxes to the tax authorities.

5. DISCUSSIONS AND CONCLUSIONS

The findings indicated that tax payer’s knowledge and attitude has significant effect on revenue collection. This is in line with (Lubega, 2000) who contends that in local government, revenue collection can be
improved through sensitization of tax payers as means of shaping their attitudes and ensure compliance of tax payers. Still Kasipillai and Jabbar (2003) found out that tax knowledge impacts positively on tax compliance. Trivedi et al., (2005) revealed that there is a relationship between attitude and compliance. The study of Eriksen and Fallan (1996) revealed that taxpayer’s attitude towards tax system has influence on reinforced desire toward tax evasion and compliance. According to Kahneman and Tversky (2009), attitude relates to one’s own personal views about a behavior. Attitude may also be defined as positive or negative views of an attitude object i.e. a person, behavior or event. In relation to taxation, taxpayers’ attitudes may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and negative view is tax non compliance.

5.1 CONCLUSIONS
From the findings, the following conclusions are drawn: (1) positive tax payer’s attitude and tax payer’s knowledge have significant effect on revenue collection. (2) there is a positive and significant relationship between positive tax payer’s attitude and revenue collection. (2) there is a positive and significant relationship between positive tax payer’s knowledge and revenue collection. (4) there is a positive and significant relationship between positive tax education and revenue collection. Therefore, researchers conclude that tax education is very vital to enhance revenue collection.

6. RECOMMENDATIONS
The following recommendations are put forward by researchers basing on the study findings: (1) Tax education programs should be laid down and systematically implemented by local government tax department to enhance tax knowledge and improve tax payer’s attitude towards tax compliance in order to improve on revenue collections. (2) Tax education should be continuous to increase awareness of tax laws and procedures, to increase compliance on the side of tax payers.

7. REFERENCES