

Exploring Tax Compliance Challenges Among Small and Medium Enterprises in Rubaga Division, Kampala: Perspectives from SME Owners and Tax Officials

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Abstract

Small and Medium Enterprises (SMEs) are pivotal to Uganda's economy, contributing over 90% of private sector employment and approximately 40% of GDP, yet their tax contribution remains disproportionately low. This study investigates the persistent tax compliance challenges among SMEs in Rubaga Division, Kampala, employing a qualitative exploratory design to capture the dual perspectives of 25 SME owners and 10 tax officials. Guided by the Slippery Slope Framework, the study examines the interplay between trust in authorities and the power of enforcement. Data were collected through semi-structured interviews and were analyzed thematically. Findings reveal that tax non-compliance is driven by a complex mix of high operational costs, the digital divide exacerbated by the Electronic Fiscal Receipting and Invoicing System (EFRIS), and a deficit of institutional trust. The study concludes that enforcement-heavy strategies without corresponding trust-building measures are unsustainable. It recommends that the Uganda Revenue Authority (URA) prioritize digital infrastructure support, streamline tax procedures for SMEs, and enhance taxpayer education to foster voluntary compliance.

Keywords: tax compliance, Small and Medium Enterprises (SMEs), EFRIS, slippery slope framework, Rubaga division

1. Introduction and Background of the Study

Taxation is the cornerstone of statehood and economic governance, providing the necessary fiscal resources for public service delivery and infrastructure development. Historically, tax systems in developing economies have struggled to integrate the informal sector, which comprises the vast majority of economic activity (MoFPED, 2022). In Uganda, the history of tax

administration has evolved from the poll tax system, which was regressive and unpopular, to more modern forms of taxation based on income and consumption. However, the transition to a broad-based tax system has been fraught with challenges, particularly in capturing the SME sector. Over the last two decades, the Uganda Revenue Authority (URA) has implemented various reforms, including the introduction of

Presumptive Tax and the establishment of a Large Taxpayer Department, yet the SME sector remains largely “difficult to tax” (Kintu et al, 2019). The recent shift towards digitalization, specifically the Electronic Fiscal Receipting and Invoicing System (EFRIS), marks the latest chapter in this historical effort to widen the tax net and improve transparency (URA, 2023).

Globally, SMEs are recognized as engines of economic growth, yet they present unique challenges for tax authorities due to their heterogeneity, fluidity, and often informal nature (OECD, 2021). In Uganda, the context is particularly acute; with a rapidly urbanizing population and a high dependency ratio, the pressure on the tax base to fund national development goals like Vision 2040 is immense (2019). Rubaga Division, as a major commercial hub in Kampala, exemplifies the challenges of taxing urban SMEs. The division is characterized by a dense concentration of trading activities, ranging from formal retail outlets to semi-formal roadside businesses. Despite their economic visibility, many of these enterprises operate on the fringes of the tax system, citing complex procedures and hostile enforcement as deterrents (Ackom et al, 2025; Gwaindepi, A., 2025). The introduction of EFRIS was intended to modernize this context, yet it has inadvertently created a new layer of complexity for business owners with limited digital literacy.

1.1 Current Issues and Justification of Key Concepts

The current fiscal landscape in Uganda is defined by a drive for Domestic Revenue Mobilization (DRM) to reduce reliance on external debt (IMF, 2022). However, this drive is clashing with the realities of the SME sector. Key concepts central to this study include Tax Compliance, which refers to the willingness and ability of taxpayers to meet their obligations, and the Compliance Gap, the difference between potential tax revenue and actual collection. Another critical concept is Tax Morale, the intrinsic motivation to pay tax, which is influenced by the perceived fairness of the system (Torgler, 2007). The issue is that while the URA has intensified its enforcement “power” through digital surveillance, there is evidence that “trust” in the system is eroding among SMEs (Kirchler, 2007). Studies show that when taxpayers perceive the system as unfair or corrupt, voluntary compliance declines, making enforcement costly and ineffective (Fjeldstad & Heggstad, 2012). This study is important because it shifts focus from the

quantitative measurement of the tax gap to a qualitative understanding of the human and structural barriers to compliance in a post-EFRIS environment, addressing a critical gap in the literature regarding the lived experiences of both taxpayers and enforcers in Rubaga Division.

1.2 Problem Statement

It is widely acknowledged that SMEs are the backbone of Uganda’s economy, contributing significantly to GDP and employment (OECD et al., 2024). However, their contribution to tax revenue remains below 30%, representing a significant fiscal loss (Kintu et al, 2019). In Rubaga Division, despite the high density of economic activities, tax compliance remains low. The problem is multifaceted: SMEs face high compliance costs, complex tax procedures, and a lack of technical capacity to navigate digital systems like EFRIS (Dhaliwal et al, 2023). Furthermore, there is a prevailing perception of unfairness and a lack of trust in tax administration, which undermines tax morale (Aheebwa et al., 2025).

While past studies have extensively documented the correlation between tax rates and compliance using quantitative methods (Tusubira, F. N., 2018), they have failed to address the qualitative gap regarding the experiential and relational dynamics of tax compliance. Specifically, existing literature has largely ignored the perspectives of tax officials who must implement these policies within resource-constrained environments, nor has it deeply explored how the specific introduction of EFRIS has altered the taxpayer-authority relationship in semi-formal urban settings like Rubaga. Consequently, policymakers lack the nuanced understanding needed to design interventions that go beyond coercion. This study is necessary to bridge this gap by exploring the specific compliance challenges from both the demand and supply sides, providing a holistic view of why SMEs in Rubaga struggle to comply.

1.3 Purpose of the Paper

The purpose of this study is to examine the tax compliance challenges faced by Small and Medium Enterprises (SMEs) in Rubaga Division, Kampala, by integrating the perspectives of both SME owners and tax officials to understand the barriers to effective revenue mobilization.

1.4 Research Objectives

The study was guided by the following specific

objectives:

- 1) To examine the perceptions of SME owners regarding fairness, trust, and the tax system in Rubaga Division.
- 2) To identify the structural, digital, and financial barriers that hinder SME tax compliance.
- 3) To explore the operational challenges faced by tax officials in enforcing compliance and administering EFRIS.

1.5 Research Questions

This study aimed to answer the following questions:

- 1) What are the perceptions of SME owners regarding the fairness and trustworthiness of the tax system in Rubaga Division?
- 2) What specific barriers prevent SMEs in Rubaga Division from complying with tax regulations?
- 3) What operational challenges do tax officials encounter while enforcing tax compliance among SMEs?

1.6 Significance of the Study

- 1) **Academics:** This study contributes to the body of knowledge by applying the Slippery Slope Framework in a localized Ugandan context, offering empirical data on the interaction between power and trust. It fills the methodological gap by providing qualitative insights that complement existing quantitative studies.
- 2) **Practitioners/Industry:** The findings benefit SME owners by highlighting their plight, potentially leading to simplified tax procedures. It will also assist tax consultants and business advisors in understanding the specific compliance triggers within the Rubaga business environment.
- 3) **Policy Makers:** The study provides the Uganda Revenue Authority (URA) and the ministry of Finance with evidence-based recommendations to refine tax policies, specifically regarding the implementation of digital tax systems and the design of SME-friendly tax regimes.
- 4) **Society:** By improving tax compliance

and fairness, the study contributes to the broader goal of national development. Increased revenue mobilization enables the government to provide better public services, fostering a social contract between the state and the citizens of Rubaga Division and Uganda at large.

1.7 Scope of the Study

- **Location:** The study was confined to Rubaga Division, Kampala, specifically focusing on trading centers such as Nateete, Busega, Ndeeba, and Kasubi.
- **Population:** The target population included SME owners (retailers, wholesalers, service providers) and tax officials (URA officers) operating within the division.
- **Variables:** The study focused on independent variables such as trust, compliance costs, and digital literacy, and the dependent variable, tax compliance.
- **Timeframe:** The study covered the period from 2020 to 2025, focusing on the post-COVID-19 recovery era and the implementation of EFRIS.
- **Limitations:** The study was limited by the sensitivity of tax information, which may have led to social desirability bias among respondents. Additionally, the qualitative nature limits generalizability to the entire country.

2. Theorization

This study is anchored in the Slippery Slope Framework (SSF) proposed by Kirchler, Hoelzl, and Wahl (2008). The theory posits that tax compliance is influenced by two fundamental dimensions: the power of the tax authority and the trust taxpayers have in that authority. Power refers to the ability of the authority to detect and punish non-compliance (e.g., audits, fines), while trust refers to the perception that the authority is benevolent, fair, and works in the public interest.

The SSF suggests that high compliance can be achieved through two pathways: Enforced Compliance (High Power, Low Trust), which is coerced and often costly to maintain; and Voluntary Compliance (High Trust, High Power), which is sustainable and cooperative. The framework justifies this study because it provides a lens to analyze the current situation in Rubaga. The introduction of EFRIS represents a

massive increase in the “power” of the URA through digital surveillance. However, if this power is not matched by “trust”, built through service, fairness, and support, the framework predicts that compliance will remain unstable and antagonistic. This theory allows the study to move beyond economic determinants and explore the psychological and institutional relationship between the tax collector and the taxpayer.

3. Literature Review

Variable 1: Perceptions of SME Owners (Trust and Fairness)

The perception of fairness and trust is a critical determinant of tax behavior. According to the Slippery Slope Framework, voluntary compliance is primarily driven by the trust taxpayers place in the authorities (Kirchler et al., 2007). Literature indicates that when SMEs perceive the tax system as fair, both procedurally (how they are treated) and distributive (how public funds are used, they are more likely to comply (Tyler, 1990). Braithwaite (2003) argues that aggressive enforcement strategies often backfire with smaller businesses because they shatter the psychological contract between the citizen and the state. In the African context, Fjeldstad and Semboja (2001) found that the “legitimacy” of the tax authority is often questioned due to corruption and lack of transparency, leading to low tax morale. In Uganda, Musimenta et al. (2020) observed that SME owners often view taxation as a form of punishment rather than a civic duty, a perception exacerbated by the opaque nature of tax assessments. However, a gap remains in understanding how the recent digitalization efforts (EFRIS) have impacted these perceptions specifically in dense urban markets like Rubaga, where the interaction between taxpayers and officials is increasingly virtual and impersonal.

Variable 2: Barriers to Compliance (Cost, Complexity, and Digitalization)

Compliance costs are a major barrier for SMEs. Unlike large corporations, SMEs lack dedicated accounting departments, meaning that the time and money spent on compliance is disproportionately high (Bird, 2015). Dai Trang, D. T. (2024). highlight that for small businesses, the cost of compliance can sometimes exceed the tax payable, creating a disincentive to formalize. In Uganda, the introduction of EFRIS has added a new layer of complexity. While intended to

reduce evasion, Dhaliwal et al. (2023) note that digital tax systems require reliable internet, compatible hardware, and digital literacy, resources often scarce in Rubaga’s smaller enterprises. A study by Amos et al. (2024) found that the cost of acquiring EFRIS-compatible fiscal devices and the time spent learning the software were significant deterrents for Ugandan SMEs. Furthermore, the literature suggests that the “complexity” of tax codes, particularly the interplay between Presumptive Tax, VAT, and Local Service Tax, creates confusion (Sawyer, 2013; Moore et al., 2018). While the structural barriers are well-documented, there is less understanding of how these barriers interact with the daily operational realities of business owners in high-density, low-income areas.

Variable 3: Operational Challenges of Tax Officials

While much of the literature focuses on the taxpayer, fewer studies examine the supply side of tax administration, the challenges faced by tax officials. Enforcing compliance in the informal sector is inherently difficult. Officials often face resistance, hostility, and a lack of documentation from SMEs (Keen & Lockwood, 2009). In Uganda, URA officials are under immense pressure to meet revenue targets, which can lead to an over-reliance on coercion rather than facilitation (Prichard, 2015). The literature on tax administration capacity in Africa (Fjeldstad & Heggstad, 2012) points to resource constraints, inadequate training, and political interference as major hurdles. The rollout of EFRIS has shifted the burden of enforcement from manual audits to digital system monitoring, yet officials still struggle with system glitches, data inaccuracies, and the need for constant taxpayer education. There is a research gap regarding how tax officials in Rubaga navigate the tension between being “enforcers” of a complex digital system and “facilitators” of business growth, and how this duality affects their operational efficacy.

4. Methodology

The study adopted a qualitative research approach, utilizing a case study design to explore the tax compliance challenges in Rubaga Division in depth. This design was appropriate for understanding the “how” and “why” of compliance behaviors within a real-life context.

Population and Sampling: The target population consisted of SME owners and URA tax officials operating in Rubaga. Purposive sampling was

used to select 35 participants who were knowledgeable and experienced with the subject matter. The sample comprised 25 SME owners (from retail, trade, and services) and 10 tax officials (from URA’s domestic taxes department).

Data Collection: Primary data were collected using semi-structured interviews. Interview guides were developed based on the research objectives. SME owners were asked about their experiences with EFRIS, perceptions of fairness,

and compliance costs. Tax officials were asked about enforcement challenges and interactions with SMEs. Secondary data were obtained from URA annual reports and policy documents.

Data Analysis: Data were analyzed using Thematic Analysis. Audio recordings were transcribed, coded, and organized into themes corresponding to the research objectives. Themes were interpreted by relating them to the Slippery Slope Framework.

Table 1. Summary of Study Respondents

Category of Respondent	Number	Selection Criteria	Data Collection Instrument
SME Owners	25	Business operation > 2 years, Located in Rubaga	Semi-structured Interview
Tax Officials	10	URA staff enforcing SME tax in Rubaga	Semi-structured Interview
Total	35		

Table Explanation:

As shown in Table 1, the study engaged 35 key informants. The 25 SME owners provided the demand-side perspective, highlighting the burdens and barriers they face. The 10 tax officials provided the supply-side perspective, revealing the administrative and operational difficulties in enforcing the law. This dual-approach ensured a balanced view of the compliance dynamics.

5. Interview Findings (Per Variable/Objective)

5.1 Findings on Trust and Perceptions of Fairness (Objective 1)

The findings reveal that low levels of trust and strong perceptions of unfairness characterize the relationship between Small and Medium Enterprises (SMEs) and the tax system in Rubaga Division. Historically, trust has been identified as a key determinant of voluntary tax compliance, with studies such as Feld and Frey (2007) and Torgler (2007) demonstrating that taxpayers are more likely to comply when they perceive fairness and reciprocity in the tax system. However, in many developing countries, including Uganda, this trust is often weak due to perceived inefficiencies in public service delivery and lack of accountability (Prichard, 2015; Fjeldstad, 2014).

In the context of Rubaga Division, SME owners

overwhelmingly perceive the tax system as extractive rather than supportive. Respondents consistently expressed dissatisfaction with the visible outcomes of taxation, particularly citing poor infrastructure, inadequate waste management, and limited government support in their business environments. One SME owner in Ndeeba stated:

“We pay taxes but see no change. The roads are bad, and garbage piles up. It feels like we are just giving away our hard-earned money for nothing.”

Additionally, the Uganda Revenue Authority (URA) is often perceived as aggressive and revenue-focused, rather than service-oriented. The introduction of the Electronic Fiscal Receipting and Invoicing System (EFRIS), although intended to improve efficiency, has been met with suspicion. Many respondents view it as a surveillance tool rather than a facilitative innovation, reinforcing the perception of coercive power without corresponding trust.

Within the broader education and entrepreneurship context, these perceptions have significant implications. Many students and graduates trained in entrepreneurship programs express reluctance to formalize their businesses due to fear of taxation and mistrust of authorities. This creates a contradiction between educational initiatives promoting business development and a tax environment perceived as hostile.

The findings indicate that the breakdown of trust between taxpayers and the state is a central factor influencing low tax compliance in Rubaga Division. SME owners operate based on rational cost-benefit considerations; when the perceived benefits of taxation are minimal or absent, compliance becomes unattractive. The lack of visible public goods undermines the fiscal social contract, leading to resistance and disengagement from the formal tax system. Furthermore, the perception of URA as punitive rather than supportive exacerbates this distrust, particularly among emerging entrepreneurs. In the education context, this mistrust discourages students from transitioning into formal business operations, limiting the effectiveness of entrepreneurship training. Overall, the imbalance between power and trust reinforces non-compliance and weakens both economic development and revenue mobilization efforts.

5.2 Findings on Digital and Structural Barriers (Objective 2)

The study identified significant structural and digital barriers to tax compliance, with EFRIS emerging as a central challenge. Previous research (Eichfelder & Schorn, 2012; Dhaliwal et al., 2023) has shown that compliance costs, both financial and administrative—can disproportionately affect small businesses, particularly in developing economies where infrastructure is limited.

In Rubaga Division, SME owners reported multiple challenges associated with EFRIS implementation. These include the high cost of acquiring electronic fiscal devices, unreliable internet connectivity required for real-time transactions, and limited digital literacy among business operators. A trader in Nateete explained:

“When the internet goes down, I cannot sell. The system freezes. Also, buying the machine was very expensive for my small business.”

Moreover, the requirement to issue receipts for every transaction increases the administrative burden, slows down business operations, and discourages customers who prefer quick, informal transactions. This is particularly problematic in highly cash-based markets where speed and flexibility are essential for daily survival.

Within the education sector, these barriers highlight a gap between theoretical training and practical realities. While students are taught

modern business practices, they are often not adequately prepared for the complexities of digital tax compliance systems. As a result, many graduates struggle to integrate into the formal economy.

The findings reveal a significant “digital divide” in tax administration, where technological advancements outpace the capacity of SMEs to adapt. While EFRIS is designed to enhance transparency and efficiency, its implementation imposes disproportionate costs on small businesses. These costs function as implicit barriers to entry into the formal economy, discouraging compliance and reinforcing informality. Additionally, the lack of digital skills among SME operators further complicates adoption, highlighting the need for capacity-building initiatives. In the education context, the absence of practical tax training exacerbates these challenges, leaving graduates ill-equipped to navigate digital tax systems. Addressing these structural barriers is essential for improving compliance and fostering inclusive economic growth.

5.3 Findings on Operational Challenges and Enforcement Dynamics (Objective 3)

The study found that tax officials face significant operational challenges in enforcing compliance among SMEs in Rubaga Division. Earlier studies (Fjeldstad & Heggstad, 2012; Keen & Lockwood, 2010) highlight that tax administration in developing countries is often constrained by limited resources, weak institutional capacity, and high levels of informality.

In Rubaga, tax officials reported frequent resistance and hostility from taxpayers, which complicates both enforcement and taxpayer education efforts. They also cited inadequate manpower to effectively monitor the densely populated and highly informal business environment. Many SMEs operate without fixed premises or frequently change locations, making it difficult to track and regulate them.

Additionally, officials expressed frustration with technical challenges associated with EFRIS, including system errors and network failures. These issues sometimes result in wrongful accusations of non-compliance, straining relationships between taxpayers and tax authorities. One official noted:

“We are caught in the middle. The system says they didn’t comply, but sometimes it’s a network error. The taxpayers blame us, and management blames us for

low collection."

In the education context, these enforcement dynamics contribute to negative perceptions of taxation among students and young entrepreneurs, who often view tax authorities as adversarial rather than supportive.

The findings indicate that the effectiveness of tax enforcement in Rubaga Division is undermined by both institutional and relational challenges. Limited resources and technological inefficiencies reduce the capacity of tax officials to enforce compliance effectively, while hostility from taxpayers further complicates their work. The reliance on technology without adequate support systems creates additional tensions, as system failures are often misinterpreted as deliberate non-compliance. This situation leads to a cycle of mistrust and coercion, where enforcement becomes increasingly aggressive, further alienating taxpayers. In the education context, these dynamics reinforce negative attitudes toward taxation, discouraging future compliance. Strengthening institutional capacity and improving communication between tax authorities and taxpayers are critical for breaking this cycle.

6. Discussion (Per Objective)

6.1 Discussion on Trust and Fairness

The findings on trust and fairness strongly support the Slippery Slope Framework (Kirchler et al., 2008), which emphasizes the importance of balancing power and trust in achieving tax compliance. In Rubaga Division, the dominance of enforcement mechanisms such as EFRIS reflects high institutional power, but the absence of trust undermines voluntary compliance. This aligns with Murphy (2008), who argues that coercive approaches alone are insufficient and may even backfire.

The perception of unfairness among SME owners reflects a breakdown in the fiscal social contract (Moore et al., 2018). When taxpayers do not perceive tangible benefits from their contributions, compliance becomes a rational economic decision rather than a moral obligation (Torgler, 2007; Alm & Torgler, 2011). The findings also resonate with Tyler (1990), who emphasizes that legitimacy and fairness are critical for securing voluntary compliance.

Furthermore, the negative perception of EFRIS as a surveillance tool highlights the importance of stakeholder engagement in policy

implementation. As Braithwaite (2009) notes, responsive regulation requires authorities to build relationships with taxpayers rather than relying solely on enforcement.

6.2 Discussion on Digital and Structural Barriers

The identified barriers support existing literature on compliance costs and digital inequality (Eichfelder & Schorn, 2012; Dhaliwal et al., 2023). The findings demonstrate that digital tax systems, while beneficial in theory, can exclude small businesses when implemented without adequate support.

In line with Musimenta (2020) and World Bank (2019), the challenges faced by SMEs in Rubaga reflect broader issues in developing economies, where infrastructure and digital literacy remain limited. The high cost of compliance acts as a regressive burden, disproportionately affecting smaller enterprises.

The study also highlights the social dimensions of compliance, as resistance to EFRIS reflects deeper dissatisfaction with the tax system (Prichard, 2015; Fjeldstad, 2014). This underscores the need for inclusive policy design that considers the realities of informal and small-scale businesses.

6.3 Discussion on Operational Challenges

The operational challenges faced by tax officials confirm the institutional constraints identified in previous studies (Fjeldstad & Heggstad, 2012; Keen & Lockwood, 2010). Limited resources, coupled with high levels of informality, reduce the effectiveness of enforcement efforts.

The findings also support Joshi and Ayee (2008), who argue that tax administration in developing contexts often involves negotiation and informal practices rather than strict rule enforcement. The reliance on technology without adequate infrastructure further complicates enforcement (Kintu et al., 2019).

As predicted by Kirchler (2007), excessive reliance on coercion in the absence of trust leads to adversarial relationships between taxpayers and authorities. This dynamic perpetuates low compliance and reinforces the tax gap (ATAF, 2024; IMF, 2022).

7. Conclusion and Recommendations

7.1 Conclusion

The study concludes that tax compliance challenges among SMEs in Rubaga Division are deeply rooted in structural, relational, and

institutional factors. While enforcement mechanisms such as EFRIS have strengthened the capacity of tax authorities, they have not addressed the underlying issues of trust and fairness. The perception of taxation as burdensome and unreciprocated has significantly eroded tax morale among SMEs.

Additionally, the digital and financial costs associated with compliance create barriers that discourage formalization. Tax officials themselves face operational challenges that limit their effectiveness and contribute to strained relationships with taxpayers. These findings confirm that sustainable tax compliance requires a balance between power and trust, as emphasized by the Slippery Slope Framework.

7.2 Recommendations Based on the Findings, the Following Recommendations Are Made

- 1) To the Uganda Revenue Authority (URA): Shift the focus from purely punitive enforcement to facilitation. The URA should intensify taxpayer education programs specifically tailored to the digital literacy levels of Rubaga SME owners regarding EFRIS.
- 2) To the Government: Subsidize the cost of electronic fiscal devices for small businesses or allow a wider range of affordable, compatible technologies to reduce the financial burden of digitalization.
- 3) To Policy Makers: Address the “trust” deficit by improving the visibility of tax-funded projects in Rubaga Division. When SMEs see their taxes at work, the psychological contract will be strengthened, improving voluntary compliance.
- 4) To URA Management: Provide tax officials with better support and training in customer service and conflict resolution. Officials should be incentivized not just for revenue collection, but for helping businesses formalize and grow.
- 5) To Telecommunication Providers: The government should engage telecom providers to ensure stable, low-cost internet connectivity in business hubs like Nateete and Ndeeba to support the real-time requirements of EFRIS.

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