ETHICAL ORIENTATION AND TAX COMPLIANCE AMONG SMALL BUSINESS OWNERS IN UGANDA

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S23B05/147

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY

April, 2026

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DECLARATION

I, LETA ATSIDRI ESTHER, hereby declare that the contents of this dissertation presented herein are my original work and have never been produced anywhere before, nor submitted to any university or institution of higher learning for the award of any academic qualification, except where stated otherwise by reference or acknowledgment.

I further declare that all sources used in this study have been duly acknowledged and cited in accordance with the established academic conventions.

Signature: ……………………………… Date: 13|04|2026……

APPROVAL

This is to certify that this research report entitled Ethical Orientation and Tax Compliance among Small Business Owners in Uganda prepared by Leta Atsidri Esther has been done with my guidance as a supervisor

Signature:..

Dr. Nyamuyonjo David

Date: 13/04/2026

DEDICATION

This document is totally dedicated to my respected parents and my loving family members. This is because of their endless love, prayers, and encouragement that have been the pillars of my academic endeavors.

Additionally, I want to dedicate this document to all my dear friends who came to support me at times when things did not look promising. It is through their support, encouragement, and good wishes that I was motivated to go on with the research.

Lastly, I dedicate this document to my academic advisor, Mr. Namuyonjo David. His advice and guidance were the pillars in the writing of this study.

ACKNOWLEDGEMENT

First and foremost, I owe all the glory and honor to God the Almighty for giving me the wisdom, strength, and perseverance to successfully write this dissertation. Without Him, nothing would have been possible.

I would like to acknowledge my supervisor Mr. Namuyonjo David for his immense guidance and intellectual contributions to my work. His invaluable advice helped make this dissertation what it is today.

I would like to thank the School of Business and Administration at Uganda Christian University for providing me with an excellent academic environment that helped in this research. My gratitude goes out to all lecturers and academic faculty who played a role in my academic growth.

I am also very grateful to the small business owners in Uganda for participating in this study and helping with the questionnaire.

It is important for me to acknowledge my family members, especially my parents, brothers, sisters, and close friends for their emotional, spiritual, and intellectual support throughout the entire research period.

I would also like to thank my peers and all other colleagues who helped me with the research work in one way or another.

LIST OF ACRONYMS

URA	Uganda Revenue Authority
UIA	Uganda Investment Authority
EFRIS	Electronic Fiscal Receipting and Invoicing System
TPB	Theory of Planned Behavior
SPSS	Statistical Package for Social Sciences
GDP	Gross Domestic Product
GNP	Gross National Product
BBA	Bachelor of Business Administration
EO	Ethical Orientation
TC	Tax Compliance
TK	Tax Knowledge
R^2	Coefficient of Determination (Regression Model Fit)
F-stat	F-statistic (ANOVA test for regression significance)
UCU	Uganda Christian University
SMEs	Small and Medium Enterprises
APA	American Psychological Association

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ABSTRACT

The research investigated the impact of ethical orientation on the tax compliance level of small business owners in Uganda, specifically in the Municipality of Fort Portal. Tax noncompliance continues to be a significant problem affecting the operations of the Uganda Revenue Authority (URA) in its efforts of raising revenue locally and improving service delivery. Whereas other factors such as administrative, enforcement measures, and tax knowledge have previously been explored in tax compliance research, the aspect of ethical orientation as an independent variable is relatively under-researched, especially concerning small businesses beyond Kampala.

The study was premised on the Theory of Planned Behavior by Ajzen (1991) and Moral Reasoning Theory by Kohlberg (1969), which assert that people's attitudes, moral perceptions, and perceived control can significantly influence their compliance intentions. The survey research approach was adopted, involving the use of structured questions based on five-point Likert summated rating scales for data collection from a census sample of 50 small businesses. Data collected was analyzed using descriptive statistics, reliability test, Pearson correlation, and multiple regression using SPSS.

There was a high positive relationship between ethical orientation and tax compliance ($r = 0.777$, $p < 0.001$). The results of multiple regression showed that both ethical orientation ($\beta = 0.45$, $p < 0.001$) and tax knowledge ($\beta = 0.52$, $p < 0.001$) had an important impact on tax compliance, accounting for 84.6% of the variability in compliance behavior ($R^2 = 0.846$). The type of business had a negative effect on compliance ($\beta = -0.22$, $p = 0.023$), while demographic factors like age, education level, and years in business did not significantly predict compliance.

From this research, it can be seen that ethical orientation plays a crucial role in determining the degree of voluntary tax compliance among small business owners in Uganda. This means that URA and policymakers need to incorporate ethical principles and civic duty into tax education and public awareness programs. Combining morality with policy changes will lessen the need for expensive compliance strategies, encouraging voluntary tax compliance in Ugand

CHAPTER ONE

INTRODUCTION

1.0 Background

1.1 Background of the Study

Taxes are the main source of revenue for most governments in developing countries, providing the necessary financial foundation for the provision of public goods and services such as education, health care, infrastructure development, and security (World Bank, 2020). In Uganda, it is the responsibility of the Uganda Revenue Authority (URA) to conduct assessments, collect, and manage tax revenue on behalf of the government. Although the URA plays an essential role in the collection of taxes, it has continuously experienced difficulties in generating enough tax revenues, especially from small businesses that dominate Uganda's private sector players (URA, 2022).

Small businesses play a crucial role in the economic development of Uganda. Small businesses make up more than 70 percent of the private sector in Uganda and employ about 90 percent of the labor force in the country. They are important sources of job creation and income generation in the Ugandan economy and contribute significantly to the GDP of the nation (Uganda Investment Authority, 2021). Despite the substantial contribution by small businesses to the economy of the country, many small businesses still operate informally and fail to fulfill their tax responsibilities, including submitting tax returns and paying taxes (URA, 2022).

The issue of non-compliance in tax issues is not peculiar to Uganda. Several studies conducted across developing countries indicate that there is a pattern among small business owners regarding their perception of taxation as a burden on them and not a civic duty (Alm & Torgler, 2011). In the case of Uganda, the situation is further exacerbated by institutional distrust, perceived inefficiency by the government, and inadequate knowledge of tax-related matters. Various measures have been adopted by the URA to improve the levels of tax compliance, including EFRIS, mobile payment of taxes, and widespread sensitization campaigns (URA, 2022). However, there have been persistent low voluntary compliance levels.

A significant amount of international literature indicates that ethical considerations play an important role in tax behavior. As Torgler (2007) states, the concept of ethical orientation that includes an individual's morality, values, and principles is a strong predictor of tax morale and voluntary compliance. Likewise, Kirchler (2007) notes that ethically oriented taxpayers consider tax compliance as an activity that brings benefits to society as a whole, not just a necessary legal step. Thus, the attitude of the business owner towards taxation can be considered either as a moral requirement or as a pure legal provision, and each of the cases will affect compliance.

In Uganda, early research by Nkundabanyanga et al. (2017) showed that taxpayers' perceptions of government transparency, effectiveness, and accountability had a great impact on compliance intention. Moreover, it was found out by Mugisha (2020) that moral values and civic consciousness motivate small business owners to pay taxes. Nakku (2021) expanded the scope of research to western Uganda and found out that ethical responsibility encourages voluntary compliance. Yet, all those works were conducted either in the capital city or did not specifically address ethical orientation.

The current study attempts to bridge this gap by conducting a detailed analysis of the impact of ethical orientation on tax compliance by small businesses in Uganda, specifically focusing on Fort Portal Municipality. Through analyzing the ethical aspect of compliance behavior, the researcher hopes to provide some valuable insight into how to develop effective policies and compliance strategies.

1.2 Problem Statement

Non-compliance with tax regulations by small business owners continues to pose as one of the key obstacles towards sustainable revenue generation within the country. Even with the introduction of various tax compliance measures such as EFRIS and mobile tax payment systems, as well as taxpayer education, the URA has continued to record low levels of voluntary compliance on the part of small business owners. According to a study by Nkundabanyanga et al. (2017), only 51% of small business owners in Fort Portal Municipality had complied with tax requirements.

Some of the ways in which tax non-compliance can be demonstrated include; income under reporting, failing to submit tax documents, making late submissions of tax documents, and even tax evasion. These acts have had various negative impacts, not only economically but socially as well. Non-compliance to tax laws contributes towards Uganda's fiscal deficit by reducing its tax revenue base.

Previous research in Uganda has primarily revolved around factors such as administrative effectiveness, enforcement measures, and knowledge concerning taxes (Nkundabanyanga et al., 2017; Mugarura, 2019). While these methods are useful, they do not incorporate the impact that individuals' personal ethical values may have on voluntary tax compliance. Additionally, majority of the research done has been centered around the city of Kampala, thus making information about the ethical considerations of small business owners in other areas such as Fort Portal scarce.

This research aims at bridging the above-mentioned gaps by investigating the relationship between ethical orientation and tax compliance in small business owners in Uganda. The study is based on the assumption that increased awareness and responsibility among people can provide an effective means to enhance voluntary tax compliance.

1.3 Purpose of the Study

The aim of this study was to determine the effect of ethical orientation on tax compliance of small business owners in Uganda.

1.4 Objectives of the Study

The research was carried out using the following research objectives:

1. To investigate the extent to which small business owners have adhered to ethical values in Uganda.

2. To evaluate the role played by individual moral values on the likelihood for small business owners to remit taxes.

3. To establish the impact of ethical orientation on tax compliance behavior irrespective of enforcement and tax awareness.

4. To establish moderating variables of ethical orientation and tax compliance among small business owners.

1.5 Research Questions

The research questions posed by this paper were:

1. How are the values of ethics adhered to in small business entrepreneurs within Uganda?

2. How do individual values affect tax compliance among small business entrepreneurs?

3. Does ethical orientation have an impact on compliance behavior independently of tax knowledge and enforcement?

4. What are the demographic factors that affect the relationship between ethical orientation and tax compliance?

1.6 Hypotheses

The hypotheses that served as a guide to the study include:

- H1: The majority of small business entrepreneurs in Uganda adhere to ethics when conducting their businesses.
- H2: Moral values of individuals affect the willingness of small business entrepreneurs to pay taxes significantly.
- H3: Ethical orientation has a significant impact on tax compliance independent of tax knowledge and enforcement.
- H4: Age, educational level, business size, and tax knowledge moderate the impact of ethical orientation on tax compliance by small business entrepreneurs in Uganda significantly.

1.7 Scope of the Study

1.7.1 Theoretical Scope

This research draws its theoretical base from the Theory of Planned Behavior (Ajzen, 1991) and Moral Reasoning Theory by Kohlberg (1969). All these theories help in understanding how attitudes, moral reasoning, subjective norms, and perceived behavioral control affect intentions and compliance behavior.

1.7.2 Geographical Scope

The research was carried out in carefully chosen districts of Uganda excluding Kampala, particularly concentrating on entrepreneurs located in Fort Portal Municipality of Kabarole District. The geographical choice made was not accidental since there have been numerous studies conducted on businesses located within Kampala.

1.7.3 Contextual Scope

The research focused on small business proprietors operating in retailing, offering services, and manufacturing goods. The rationale for choosing such firms is that they comprise the bulk of tax-paying entities in Uganda and are the most non-compliant category of taxpayers.

1.7.4 Temporal Scope

Data for this study was collected from October 2025 to December 2025.

1.8 Significance of the Study

1.8.1 Policy Implications

The results of the study shall be very helpful to the Uganda Revenue Authority (URA) and policy makers in designing educational programs on taxation based on morality that focus on the ethical aspect of paying taxes. Knowledge about the ethical motivations of business people will help design more efficient tax compliance programs.

1.8.2 Practical Implications

These three types of bodies could use the results of this research and include ethics within their training sessions. The inclusion of civic duty and moral obligation in business training will go a long way towards developing a culture of voluntary compliance.

1.8.3 Academic Contribution

It adds to the increasing amount of literature in the field of tax compliance by looking at ethical orientation as an underresearched factor in tax compliance in Uganda. The research attempts to fill an important void by analyzing the role of ethical orientation as a variable independent of other administrative variables in the case of small business owners in Fort Portal.

1.9 Conceptual and Theoretical Framework

1.9.1 Conceptual Framework

The theoretical framework that drives this study suggests that there is a linear connection between ethical orientation and tax compliance, which is moderated by demographic and control variables. The independent variable is ethical orientation, which is measured using constructs like morality, honesty, civic duty, and individual beliefs about taxation. The dependent variable is tax compliance, which will be measured using variables like tax filing, tax declaration, and tax payment.

1.9.2 Theoretical Framework

This study is guided by two different but complementary theories, namely:

Theory of Planned Behavior (Ajzen, 1991): According to the theory of planned behavior, the behavior of an individual is influenced by three factors, which are attitude towards the particular behavior, subjective norms (or social influence) and perceived behavioral control. In the case of tax behavior, the attitude of a taxpayer towards tax fairness, social pressure and one's capacity to follow tax requirements influences his/her intention to be compliant. Ethical orientation influences this theory because it creates moral attitudes and norms.

Moral Reasoning Theory (Kohlberg, 1969): According to the moral reasoning theory, the decision-making process of an individual depends on his/her level of moral reasoning. Individuals who have developed morally view tax compliance as a civic and moral duty and not as a coerced law. The empirical basis for this theory in the tax environment has been proven by Wenzel (2004) and Torgler (2007).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The current chapter reviews the available literature regarding ethical orientation and tax compliance. The literature review discusses the theoretical framework of the study, the definition of concepts, and empirical findings in Uganda and other places. It identifies gaps in the literature that warrant conducting the current study. The literature review involves both developed and developing countries' literature on the ethical aspect of tax compliance behavior.

2.1 Theoretical Underpinning

2.1.1 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB), proposed by Ajzen (1991), is one of the most extensively used theories to predict intentional behavior among researchers. According to this theory, behavioral intention, which is considered the most immediate predictor of behavior, is influenced by three variables, namely, (i) attitudes towards the behavior, which represents whether the person evaluates his/her performance of the behavior positively or negatively; (ii) subjective norm, which refers to the perceived social pressures from significant others to engage in or refrain from the behavior; and (iii) perceived behavioral control, which represents the person's beliefs about his/her ability to perform the behavior.

As regards tax payments, the intention to pay taxes depends largely on the taxpayer's view on the fairness of the tax system, social expectations of the community concerning compliance with taxes, and ability to understand tax requirements. Research conducted by Bobek and Hatfield (2003) and Trivedi, Shehata, and Mestelarz (2005) revealed that taxpayers' favorable perceptions of fiscal transparency and fairness improved compliance. In the case of developing nations like Uganda, the behavioral control factor also played an important role in determining compliance intentions (Palil & Jabbar, 2006).

In this research, the TPB model serves as a guide for interpreting how ethical orientation as an element of attitude supports moral subjective norms and perceived obligation to adhere to tax law requirements. Individuals who consider tax payment to be morally correct will have more positive intentions of complying with tax regulations.

2.1.2 Moral Reasoning Theory

Kohlberg's (1969) Moral Reasoning Theory provides a developmental approach to ethical behavior. According to the theory, people undergo six stages of moral development in three categories: pre-conventional (self-oriented), conventional (society-oriented), and post-conventional (principles-oriented). At more advanced stages of moral development, people incorporate universal ethical principles and consider fulfilling social obligations such as paying taxes a matter of morality rather than an external compulsion.

The studies conducted by Wenzel (2004) and Torgler (2007) empirically validated that moral commitment and ethical maturity were robust predictors of voluntary tax compliance in different cultural environments. Post-conventional moral reasoning individuals perceive tax payment as their contribution to the welfare of society and the development of the country, instead of viewing it as a cost that needs to be reduced. In the Ugandan environment, Mugisha (2020) empirically verified that moral values and civic awareness had a significant impact on the willingness of businesspeople to pay taxes.

2.2 Concept of the Independent Variable: Ethical Orientation

Ethical orientation is the inner code of morals that defines the set of values and beliefs which influence one's moral judgments regarding the issues of what is right and what is wrong (Ferrell & Fraedrich, 2015). Ethical orientation includes a variety of morally valuable traits such as honesty, integrity, fairness, social responsibility, and accountability. In regard to the issue of taxation, ethical orientation dictates whether an individual decides to pay taxes because they believe it is the right thing to do rather than as a means to evade punishment.

According to Torgler (2007), ethical orientation is one of the strongest predictors of tax morality, especially in countries where institutional trust is low. Additionally, according to Kirchler (2007), ethically driven taxpayers regard their taxes as investments in common well-being, which motivates them to remain voluntarily compliant with the laws, even when enforcement is weak. Moreover, Fischer and Fackler (2010) discovered that higher ethical consciousness greatly lowers the risks of tax evasion regardless of the enforcement level.

In Uganda, it was found that taxpayers with high integrity and civic duty are willing to comply voluntarily (Nkundabanyanga et al., 2017; Knack, 2021). The ethical orientation of small business owners in Uganda excluding Kampala is an area that lacks empirical evidence. Ethical orientation can be measured through the following factors: personal beliefs regarding civic duty in paying taxes; perceptions on the immorality of evading taxes; attitudes towards corruption and accountability; feelings of social obligation and justice; and feelings of guilt or discomfort with non-compliance.

2.3 The Dependent Variable: Tax Compliance

Tax compliance has been described as the extent to which tax payers conform to their duties and obligations under the law (Alabede, Ariffin, & Idris, 2011). These obligations include registration with the authorities, timely and accurate tax filings, truthful declaration of earnings and timely payment of tax due. Tax compliance is generally characterized as voluntary when based on intrinsic motivational factors like moral obligation, institutional trust and civic pride and as coerced or enforced compliance when motivated by extrinsic factors like the probability of audits, penalties, etc.

The slippery slope theory, articulated by Kirchler, Hoelzl, and Wahl (2008), suggests that tax compliance can be explained by a combination of trust in tax authorities and the power of such authorities. As per this theory, compliance through voluntary motivation is possible even with weak enforcement capacity and institutional trust in high trust environments. Low trust in institutions implies that enforced compliance is necessary for tax compliance to be achieved. This theory will be useful in understanding tax compliance in the case of Uganda (URA, 2022).

Although there have been positive developments in terms of improving the administration such as the adoption of EFRIS and mobile payments platforms voluntary compliance from Ugandan small businesses continues to be inadequate (URA, 2022). The existence of this disconnect between administrative improvement and taxpayer behavior implies that other factors such as ethical orientation must be critical in determining taxpayer behavior.

Evidence from international scholars is consistent with this argument. Both Devos (2014) and Alm and Torgler (2011) find that taxpayers who believe in the integrity of the government and fairness of the tax system are more likely to comply with their tax responsibilities. Social norms and individual ethical orientation have been shown by Adams and Webley (2019) to be significant motivators for compliance in sub-Saharan Africa.

2.3.1 The Relationship between Ethical Orientation and Tax Compliance

There is considerable empirical evidence to show that there exists a positive relationship between ethical orientation and tax compliance. On a global level, Torgler (2004), Wenzel

(2005), and Cummings et al. (2009) have shown that ethical values have been proven to promote higher levels of tax morale as well as voluntary compliance in various different countries. Within South Africa, Modugu and Omoye (2014) have indicated that ethical awareness is a significant determinant of the behavior of small business people towards tax compliance. In Malaysia, Palil and Mustapha (2011) established that the moral responsibility of taxpayers acts as a mediating mechanism for the relationship between tax knowledge and tax compliance.

For Africa, Adams and Webley (2019) have indicated that personal and social ethics play a role in promoting taxpayer compliance regardless of whether there is no strong enforcement. In Uganda, Nkundabanyanga et al. (2017) and Mugarura (2019) showed a positive relationship between institutional trust and moral responsibility in relation to tax morale; however, there was no indication of ethical orientation in particular being a separate factor.

2.4 Empirical Investigations

Empirical researches from both advanced and emerging nations have tried to find out the determinant factors of tax compliance behavior and provided a vast body of knowledge on the significance of the moral aspect of taxation:

According to Alabede, Ariffin & Idris (2011) findings on tax behavior among corporate taxpayers in Nigeria, moral values and tax fairness perceptions are strong predictors of taxpayers' intention to comply, particularly fairness perception has a strong mediating effect.

In his research conducted throughout Latin America, Torgler (2007) concluded that having a high level of ethical orientation, institutional trust and national pride makes people more committed and willing to pay taxes.

The third study by Wenzel (2004) found that tax morality has a positive effect on taxpayers' view of themselves as being responsible and compliant individuals.

Devos (2014) showed that equity perception and ethical responsibility have greater weight in the decision-making process of the taxpayers than the fear of penalties and audits in compliance matters, rejecting the classical concept of compliance through deterrence.

In the Ugandan case, Nkundabanyanga et al. (2017) proved the positive relationship between transparency and accountability of the government, institutional confidence, and willingness to pay taxes. The role of confidence building was mentioned as the crucial one for strategy development.

Also, Mugarura (2019) pointed out the catalyzing role of moral persuasion and awareness about the importance of tax payments for the economic development of the country, and the effectiveness of such strategy compared to the coercive compliance approach.

Finally, Nakku (2021) continued the research on the subject matter and identified the key component of tax compliance ethical responsibility as the factor behind voluntary compliance of small business owners in western Uganda. This paper serves as the closest example to the current research, however, there are some limitations to it.

2.5 Gaps in the Literature

Despite the findings presented above, there are still some notable areas where further exploration is necessary:

Small scope of ethical analysis: Most Ugandan scholars tend to explore the issues related to administrative effectiveness, enforcement systems, and technical tax expertise as primary drivers of tax compliance behavior. In contrast, few studies consider the impact of individual ethical orientation.

Lack of regional representation: At present, only Kampala and other urban settlements receive considerable attention from researchers in terms of tax compliance. Small businesses operating in upcountry regions, such as Fort Portal, have not been explored yet.

Limited use of qualitative methodologies: The reviewed literature highlights that previous researchers mostly relied on cross-sectional quantitative methods. As a result, it is still challenging to uncover the moral reasoning behind individuals' decision-making processes regarding tax payments.

Contextual gap: The research on small business owners is rather scarce, although the owners form the majority of taxpayers in Uganda but are among the most non-compliant taxpayers.

Theoretical integration gap: There is little effort to integrate theories in moral reasoning internationally, specifically Kohlberg's theory, with the existing evidence on Ugandan society, which fails to answer fundamental theoretical issues concerning how these theories can be applied to the developing world.

This research paper attempts to fill these gaps by conducting an empirical study of the relationship between ethics and tax compliance in small business owners from Fort Portal, Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The methodology section discusses the research design, target population and sampling method, data sources, data collection techniques, variable measurement, data analysis approach, and ethical issues that were considered during the conduct of this study. The methodology was formulated to ensure that the research results are valid, reliable, and objective.

3.1 Research Design

This study employed a quantitative research design, which was further narrowed down to a cross-sectional survey design. It was found that a quantitative research design would be more suitable for this study since it would allow researchers to objectively measure variables and use statistics to establish relationships between ethical orientation and tax compliance. The cross-sectional design allowed researchers to collect data at one time only, giving an indication of how the variables were related to each other in the case of small business owners in Uganda. This follows the design suggested by Creswell (2014) for investigating the relationship between variables using numbers.

3.2 Population and Sampling

3.2.1 Target Population

The sample group was made up of 50 small business owners who were conducting their operations in Uganda, more particularly within the municipality of Fort Portal in Kabarole district. Small business owners were chosen as respondents for the study since they form an important proportion of the taxpaying public in Uganda whose actions have a direct impact on revenue generation.

3.2.2 Sample Size Determination

The size of the sample was computed by the formula for finite populations suggested by Yamane (1967) as shown below.

$n = N / [1 + N(e^2)]$

Where: n = Sample Size; N = Population Size; e = Margin of Error (Level of Precision)

Since N = 50, e = 0.10 then,

$n = 50 / [1 + 50(0.10^2)] = 50 / [1 + 0.5] = 50 / 1.5 \approx 33$

Nevertheless, due to the small and manageable nature of the population to be studied, the researcher used the census method, whereby questionnaires were sent out to all 50 small business proprietors. This was done in order to minimize sampling error and increase representation and statistical power. The sample size that was finally used for the research was 50 respondents.

3.2.3 Sampling Technique

The census sampling method was used, where all members of the population to be studied were included. The benefit of this method is that it ensures total representation of the population and is possible because the population is not large.

3.3 Sources of Data

This study utilized only primary data sources. Primary data were gathered using questionnaires that were administered to small business proprietors to measure their ethical orientation and tax compliance attitudes. The study made use of no secondary data sources since the research questions demanded personal answers from the respondents themselves.

3.4 Data Collection Procedure

The data collection process involved the use of self-administered structured questionnaires. The researcher physically administered the questionnaire to the selected respondents at their respective business premises. This made it possible for the researcher to achieve a high rate of response as well as help respondents understand any confusing questions. The questionnaire contained closed-ended questions divided into four parts: demographics; ethical orientation questions; tax compliance questions; and tax knowledge questions. Before the actual data collection process, the researcher carried out a pilot study involving five respondents who were not part of the target respondents.

3.5 Measurement of Variables

3.5.1 Independent Variable: Ethical Orientation

The ethical orientation construct was operationalized and measured through five variables, namely: "the sense of paying taxes as an obligation to do the right thing" (EO1), "perception that tax evasion is immoral behavior" (EO2), "honest taxpayers contribute to national development" (EO3), "sense of guilt for not paying taxes" (EO4), and "tax payments symbolize good citizenship" (EO5)."

3.5.2 Dependent Variable: Tax Compliance

Compliance with tax obligations was assessed based on five factors, which included: tax return filed on time (TC1), income declared correctly (TC2), taxes paid in time (TC3), adherence to URA regulations (TC4), and correct record keeping (TC5).

3.5.3 Control Variable: Tax Knowledge

Knowledge about tax was assessed through three measures: knowledge of tax (TK1); perception of clarity of URA tax information (TK2); and knowledge of tax procedures (TK3). Other demographic variables such as gender, age, educational attainment, type of business, experience in business, and registration with the URA were also included as other control variables.

3.5.4 Measurement Scale

All measure questions were rated using a five-point Likert scale as follows: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree. The use of this scale is validated extensively in studies on tax compliance and ethical orientation (Torgler, 2007; Alabede et al., 2011).

3.6 Data Analysis

The quantitative data were analyzed using the Statistical Package for Social Science (SPSS) Version 26. The methods of analyses included the following:

- Descriptive statistics (frequency distribution, percentage distribution, mean values, and standard deviation) were used to describe the respondents' demographic attributes as well as their perceptions of ethical orientation, tax compliance, and tax knowledge.

- Reliability test involving Cronbach's Alpha Coefficient was performed to measure the internal consistency of the measuring scales used.

- Pearson's correlation test was applied to analyze the existence of the relationship between ethical orientation and tax compliance.

- Multiple regression analysis was done to determine the degree of impact of various predictor variables on tax compliance.

3.7 Ethical Considerations

Ethical guidelines were strictly followed during the entire process of data collection. All the subjects were made to give their informed consent before distributing the questionnaire. Subjects were well informed about the purpose of the study. They were told that participation was completely voluntary, and if they wished, they could withdraw from the study at any point in time. There was total anonymity of information of respondents, as no identification information was filled out by them on the questionnaire. Data collected is purely for academic purpose only.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

In this chapter, the data collected from 50 Ugandan small business owners regarding their ethical orientation and tax compliance practices is presented, analyzed, and interpreted. This analysis will use both descriptive and inferential methods of statistics, all computed through SPSS software, as recommended by Creswell (2014). In particular, the chapter will include descriptive statistics, reliability analysis, Pearson correlation analysis, and multiple regression analysis to investigate the degree to which ethical orientation influences tax compliance.

4.2 Descriptive Statistics

4.2.1 Demographic Characteristics of Respondents

Descriptive statistics were employed to identify characteristics based on gender, age categories, education level, types of businesses owned, experience in years, and URA membership. Mean values and standard deviation, according to Field (2013), should be used when analyzing data coded using Likert scales.

Table 1: Demographic Characteristics of Respondents

Variable	**N**	**Mean**	**Std. Dev.**	**Min**	**Max**
Gender (1=Male, 2=Female)	50	1.62	0.49	1	2
Age Group	50	1.80	0.99	1	4
Education Level	50	3.48	0.86	2	5
Business Type	50	3.08	1.19	1	5
Years in Business	50	1.92	0.92	1	4
URA Registration (1=Yes, 2=No)	50	1.52	0.50	1	2

As shown in Table 1, the majority of the respondents were females (Mean = 1.62) and aged between 25 and 35 years old (Mean = 2.54). The respondents have attained secondary/diploma education (Mean = 3.48). The most common businesses among the respondents were retail/service (Mean = 3.08), and most of them had not been operating their businesses for more than five years (Mean = 1.92). Importantly, only about 52% of the respondents were registered under the URA (Mean = 1.52), suggesting that many operate informally without being registered under the URA.

4.2.2 Ethical Orientation Items

Table 2: Descriptive Statistics for Ethical Orientation Items

Item	Description	Mean	Std. Dev.
EO1	Paying taxes is a moral obligation	3.84	1.57
EO2	It is wrong to evade taxes	3.92	1.07
EO3	Honest taxpayers contribute to national development	4.28	1.23
EO4	I feel guilty when I do not pay my taxes	3.56	1.42
EO5	Paying taxes shows good citizenship	4.24	1.20

Table 2 indicates that majority of the respondents believed paying taxes is a moral responsibility which helps in the development of the nation. The two highest scored ethical orientations were EO3 (tax honesty results in development) and EO5 (tax payments signify being a good citizen), with mean scores of 4.28 and 4.24 respectively. The lowest scored ethical orientation was EO4 (guilt when taxes unpaid), meaning that although there exists some kind of moral pressure, emotions do not always accompany the moral pressure. In summary, from the ethical orientations scores, there is an indication of moderately high moral orientation.

4.2.3 Tax Compliance Items

Table 3: Descriptive Statistics for Tax Compliance Items

Item	Description	Mean	Std. Dev.
TC1	I file my tax returns on time	3.80	1.54
TC2	I accurately declare my business income	3.62	1.34
TC3	I pay my taxes when they fall due	3.86	1.41
TC4	I comply with URA registration requirements	3.72	1.39
TC5	I maintain proper financial records for tax purposes	4.06	1.10

Table 3 shows that there is an overall positive trend with regard to tax compliance behaviors amongst the participants. TC5 (having proper accounting records) had the highest mean score (4.06). This implies that accounting records are a compliance behavior that is commonly observed. TC3 (payment of taxes on time) was the second highest (mean score of 3.86), but TC2 (proper income reporting) had the lowest mean score (3.62), implying that improper income reporting could be a major issue.

4.2.4 Tax Knowledge Items

Table 4: Descriptive Statistics for Tax Knowledge Items

Item	Description	Mean	Std. Dev.
TK1	I understand the types of taxes applicable to my business	3.86	1.20
TK2	The URA provides clear tax information and guidance	3.68	1.19
TK3	I understand the procedures for filing tax returns	3.56	1.13

From Table 4, it is clear that the tax knowledge possessed by the respondents ranges from moderate to moderately high. The highest mean was attained in TK1, which pertains to knowledge about the applicable taxes at 3.86, whereas the lowest mean score was found in TK3, which pertains to knowledge about the filing process at 3.56. It indicates that although business owners are aware of the applicable taxes, they still need to improve their knowledge about the filing process.

4.3 Reliability Analysis

Table 5: Reliability Statistics

Scale	Cronbach's Alpha (α)	Number of Items	Interpretation
Ethical Orientation	0.634	5	Moderately Acceptable
Tax Compliance	0.920	5	Excellent
Tax Knowledge	0.786	3	Acceptable

The results of the reliability test of the three measures are provided in Table 5. The Tax Compliance measure proved to have outstanding internal reliability ($\alpha = 0.920$), exceeding the standard of 0.70 as recommended by Nunnally (1978). The reliability of the Tax Knowledge measure was also quite good ($\alpha = 0.786$). On the other hand, the Ethical Orientation measure yielded a moderately high Cronbach's Alpha value of 0.634, which, although lower than the standard of 0.70, is still acceptable for exploratory studies in the social sciences, especially if the scale is new and the sample size is small (Field, 2013).

4.4 Correlation Analysis

Table 6: Pearson Correlation Analysis Ethical Orientation and Tax Compliance

Variable	EO Total	TC Total
Ethical Orientation (EO Total)	1.000	0.777**
Tax Compliance (TC Total)	0.777**	1.000

*** Correlation is significant at the 0.001 level (2-tailed).*

As Table 6 indicates, there exists a high positive relationship between the variables of ethical orientation and tax compliance, which is statistically significant ($r = 0.777$, $p < 0.001$). This implies that the level of tax compliance among small business owners is positively associated with the extent to which their ethical orientations are inclined toward tax-related activities. This is because a strong relationship ($r = 0.777$) falls within Cohen's (1988) category of a large effect size. This relationship is in line with those found by Torgler (2007), Wenzel (2004), and Nkundabanyanga et al. (2017).

4.5 Regression Analysis

Table 7: Multiple Regression Coefficients (Dependent Variable: Tax Compliance)

Predictor	B	Std. Error	Beta (β)	t	Sig.
Constant	-6.89	2.66	-	-2.59	0.013
Ethical Orientation (EO Total)	0.62	0.12	0.45	5.32	0.000***
Age Group	0.50	0.46	0.09	1.10	0.279
Education Level	1.03	0.65	0.15	1.58	0.122
Business Type	-1.11	0.47	-0.22	-2.36	0.023*
Years in Business	-0.83	0.49	-0.17	-1.69	0.099
URA Registration	0.70	0.45	0.13	1.54	0.131
Tax Knowledge (TK Total)	1.19	0.18	0.52	6.80	0.000***

*Model Summary: $R^2 = 0.846$, Adjusted $R^2 = 0.820$, $F(7, 42) = 32.98$, $p < 0.001$. Note: *** $p < 0.001$; * $p < 0.05$.*

The findings of the multiple regression analysis predicting the joint effect of variables on tax compliance is shown in Table 7 below. The model proved to be statistically significant [$F(7, 42) = 32.98$, $p < 0.001$]. The independent variables significantly predicted 84.6% of the variance in tax compliance behavior ($R^2 = 0.846$; Adjusted $R^2 = 0.820$), representing an outstanding model fit. This means that the identified predictors effectively explain variations in compliance behaviors among small business owners.

From among the predictor variables, the strongest predictor of compliance behavior turned out to be Tax Knowledge ($\beta = 0.52$, $t = 6.80$, $p < 0.001$), which was followed closely by Ethical Orientation ($\beta = 0.45$, $t = 5.32$, $p < 0.001$). Both predictor variables were statistically significant predictors of compliance behavior at the 0.001 level. Only Business Type was also found to be a significant predictor of tax compliance ($\beta = -0.22$, $t = -2.36$, $p = 0.023$).

The demographic variables such as age group, educational attainment, years in business, and URA registration were not significant in predicting tax compliance ($p > 0.05$ for all). This result negates the idea that socio-demographics have a greater impact on determining the level of compliance behavior, thus indicating that compliance behaviors and knowledge play a more critical role in voluntary compliance than the aforementioned factors.

4.6 Discussion of Findings

4.6.1 Ethical Orientation and Tax Compliance

Ethical orientation emerges as an independent and significant predictor of tax compliance ($\beta = 0.45$; $p < 0.001$). The result provides empirical evidence to support Hypothesis H3. As predicted by Ajzen's theory of planned behavior (1991), ethical attitudes determine compliance intention; similarly, as per Kohlberg's (1969) moral reasoning theory, high-level moral development indicates a citizen's civic sense of duty. The result corroborates previous empirical findings by Torgler (2007), who found that ethical attitude significantly increases tax morale, and by Wenzel (2004), who reported moral obligation as a powerful predictor of compliance intention.

High level of correlation between the two variables ($r = 0.777$) also indicates that encouraging ethical attitude among small business owners may produce remarkable effects on compliance, without enforcing strict measures. The implication is clear from a policy perspective: URA must develop a strategy to educate people ethically about tax compliance, as it will help them develop a civic identity along with ethical compliance obligation.

4.6.2 Tax Knowledge and Compliance

Tax Knowledge proved to be the most significant determinant of compliance ($\beta = 0.52$, $p < 0.001$), implying that both procedural and substantive awareness of the tax system is vital for facilitating voluntary compliance. This finding is consistent with the research conducted by Palil and Mustapha (2011) on the importance of tax knowledge as a mediator of compliance behavior and with Nkundabanyanga et al. (2017) on information clarity and the URA's effectiveness.

4.6.3 Demographic Factors

Unlike Hypothesis H4, age, education, years in business, and URA registration did not contribute to tax compliance significantly. This indicates that the influence of tax compliance is more behavioral and attitudinal than socio-demographic, thus supporting the argument by Devos (2014). The researcher claimed that fairness and ethical perspectives have greater influence than personal characteristics on tax compliance behavior.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter brings together the main results obtained from the study, draws conclusions from the empirical results, and makes recommendations based on the results. The chapter is also candid about the weaknesses in the study and indicates areas where further research is needed. The conclusions drawn are guided by the main goal of the study, which was to establish the relationship between ethical orientation and tax compliance among small business owners in Uganda.

5.2 Summary of Findings

5.2.1 Demographic Profile of Respondents

In total, the survey involved 50 entrepreneurs, and more than half of them were females (62%). These individuals were young, and most were below the age of 35, and they had attained an educational level of secondary school or a certificate in their field of specialty. The common forms of business were retailing and services. The average time that people had owned businesses was less than five years, and about 52% of them were officially registered at the Uganda Revenue Authority.

5.2.2 Ethical Orientation

The respondents had relatively higher ethical orientation towards taxation. The questions with the highest mean values were associated with the civic perspective of tax payment, which include the idea that the contribution of an honest taxpayer is crucial for the development of the nation (EO3, mean = 4.28), and that the payment of taxes demonstrates one's citizenship (EO5, Mean = 4.24). The internal consistency of the scale used to measure ethical orientation was relatively moderate, based on its Cronbach's Alpha value of 0.634.

5.2.3 Tax Compliance

Participants indicated quite a high level of self-reported tax compliance, specifically in regard to accounting record keeping (TC5, Mean = 4.06) and tax payment timeliness (TC3, Mean = 3.86). The measure of tax compliance showed very good internal consistency (α = 0.920), thus demonstrating high quality of the indicators employed. The lowest level of compliance was identified for correct reporting of income (TC2, Mean = 3.62).

5.2.4 Tax Knowledge

The respondents showed moderate to relatively high tax knowledge. General tax knowledge was relatively higher than procedural tax knowledge, which shows the need for tax education focusing on procedure. The Tax Knowledge scale had acceptable internal consistency ($\alpha = 0.786$).

5.2.5 Correlation Analysis

From the results of the Pearson correlation analysis, there was a high positive correlation between ethical orientation and voluntary compliance with tax payment duties ($r = 0.777$, $p < 0.001$). From the above statement, it is evident that the stronger the ethical orientation of small business owners in terms of moral values towards tax payment, the higher the likelihood of them complying with their duties.

5.2.6 Regression Analysis

Ethical orientation ($\beta = 0.45$, $p < 0.001$) and tax knowledge ($\beta = 0.52$, $p < 0.001$) were found to be the best predictors of tax compliance behavior by small business owners based on multiple regression analysis. Together with other independent variables, they accounted for 84.6% of the variation in tax compliance behavior ($R^2 = 0.846$). The type of business showed a negative relationship with tax compliance behavior ($\beta = -0.22$, $p = 0.023$), whereas demographic factors including age, educational level, experience in business, and registration at the URA had no statistical influence on tax compliance.

5.3 Conclusions

On the basis of the empirical results of this research, the following deductions are made:

First, ethical orientation plays an important role in the voluntary tax compliance of business people in Uganda. It has been found out that people with strong moral values, those who think that the civic duty of tax payment requires that one pays the taxes he owes, and also those who regard tax evasion as morally wrong tend to be voluntary compliers. The results of this study validate the relevance of the Moral Reasoning Theory of Kohlberg (1969) and the Theory of Planned Behavior by Ajzen (1991).

Second, tax knowledge is also critical in facilitating tax compliance. Business people who have knowledge about their tax obligations and how the URA conducts its operations tend to comply more. This means that information constraints are major obstacles to compliance.

Thirdly, demographic variables such as age, level of education, and time in business are poor predictors of compliance behavior in the presence of behavioral and attitudinal variables. The implication is that compliance intervention efforts that focus purely on demographics will be ineffective; instead, interventions that focus on attitudes and knowledge are much more effective.

Fourthly, business types have a negative effect on compliance, implying that industry-specific variables, such as level of formalization, monitoring by revenue agents, and peer pressure, significantly affect compliance behavior.

5.4 Recommendations

5.4.1 Recommendations for the Uganda Revenue Authority (URA)

In addition, the URA needs to incorporate ethics and morality in its tax education and awareness programs. Strategies that focus on the civic duty of paying taxes, the connection between paying taxes and provision of public services, and the moral implications of paying taxes will definitely be much more successful than any technical or deterrence campaigns. Moreover, since it appears that small businesses in upcountry areas tend to be highly informal, it would make sense for the URA to utilize radio, community mobilization, and social media to get to them.

Finally, the URA should develop compliance strategies that take into account particular features of the business under consideration. Since business type turned out to be a strong negative predictor of compliance, special attention must be paid to particular industries.

5.4.2 Recommendations for Policymakers

The government should consider developing regulatory frameworks that would make it easy for small business owners to register and comply. Tax filing processes can be made easier, compliance costs minimized, and useful information provided on a platform that would ensure easy accessibility. This could include incentive-based programs such as awarding taxpayers who comply and favoring URA registered companies during procurement processes.

5.4.3 Recommendations for Business Development Institutions

Entrepreneurial societies, entrepreneurial training organizations, and civil societies need to include ethics and civic duties in their entrepreneurial development programs. Incorporating the discussion of morality of tax issues in business training programs can contribute towards shaping the ethics of new entrepreneurs, thereby creating a new generation of entrepreneurs that sees the payment of taxes as an important element of doing business.

5.4.4 Recommendations for Small Business Owners

Business owners need to consider making investments in knowledge regarding tax liability, filing, and what might happen should they fail to comply with tax requirements. Attending training programs sponsored by URA, keeping good accounting records, and getting registered with the URA are some measures that can be taken to ease barriers to tax compliance. It is important for business owners to realize that voluntary tax compliance can contribute to the betterment of their communities and business operations.

5.5 Limitations of the Study

There are several issues that need to be addressed concerning the interpretation of findings obtained from this study. To begin with, it is important to note that the study used a relatively small sample size of fifty individuals only. As a result, the external validity of results obtained in this study is likely to be questionable when compared to the entire population of small business owners in Uganda. Secondly, the use of subjective data poses a serious problem, as people tend to show their socially desirable side when answering questions on ethics and compliance behavior. Thirdly, the study has been designed as an exploratory one using the sole quantitative approach. This means that causality cannot be established. Moreover, there are no insights about motivational aspects underlying compliance behavior. Finally, since the study focused on Fort Portal Municipality only, its results cannot be applied elsewhere in Uganda.

5.6 Areas for Future Research

Based on the limitations and results of this study, the following suggestions are provided for future research directions:

- Conduct similar studies using larger and geographically varied samples from other parts of Uganda in order to improve the generalization and comparability of results between regions regarding ethical orientation and compliance behavior.

- Conduct studies that involve both quantitative and qualitative methods through survey questionnaires and interviews in order to gain better understanding of the moral processes that guide compliance behavior by small business owners.
- Conduct studies examining the role of institutional trust and government fairness perceptions in mediating the impact of ethical orientation on tax compliance behavior.
- Conduct longitudinal studies to examine the trend over time of ethical orientation and compliance behavior in order to determine the effectiveness of ethical education initiatives on improving voluntary compliance.
- Conduct studies examining the role of culture and community factors such as social norms, religion, and community cohesion in shaping small business owners' ethical orientations regarding taxation in Uganda.

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APPENDICES

Appendix I: Research Questionnaire

<u>RESEARCH QUESTIONNAIRE</u>

ETHICAL ORIENTATION AND TAX COMPLIANCE AMONG SMALL BUSINESS OWNERS IN UGANDA

Dear Respondent,

My name is Leta Atsidri Esther and I'm a final-year student studying for a Bachelor of Business Administration Degree at Uganda Christian University (UCU), Mukono. My research involves investigating the impact of ethical orientation on tax compliance among small business entrepreneurs in Uganda. The attached questionnaire will assist me in collecting data for my study.

Your participation in filling out this questionnaire is strictly voluntary and your responses will be handled with the utmost confidentiality. You're not expected to provide your name or any personal details. Be truthful when providing your answers.

Thanks in advance for your cooperation.

<u>SECTION A: DEMOGRAPHIC INFORMATION</u>

Please tick (✓) or fill in the appropriate answer.

1. Gender: Male ☐ Female ☐
2. Age Group: Below 25 ☐ 25–35 ☐ 36–45 ☐ Above 45 ☐
3. Highest Level of Education:
   Primary ☐ Secondary ☐ Diploma ☐ Undergraduate ☐ Postgraduate ☐
4. Type of Business:
   Retail ☐ Service ☐ Manufacturing ☐ Agriculture ☐ Other ☐ (specify: _______________)
5. How many years have you been in business?

Less than 1 year ☐ 1–3 years ☐ 4–6 years ☐ More than 6 years ☐

6. Are you registered with the Uganda Revenue Authority (URA)? Yes ☐ No ☐

SECTION B: ETHICAL ORIENTATION

Please rate your level of agreement with each statement below by ticking the appropriate number. Use the scale provided:

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
EO1: Paying taxes is a moral obligation for every business owner.					
EO2: It is ethically wrong to evade or avoid paying taxes.					
EO3: Honest taxpayers who pay their taxes contribute to national development.					
EO4: I feel guilty when I fail to pay my taxes on time.					
EO5: Paying taxes is a demonstration of good citizenship.					

SECTION C: TAX COMPLIANCE

Please rate your level of agreement with each statement below regarding your tax compliance behavior.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
TC1: I file my tax returns with the URA on time.					
TC2: I accurately and honestly declare my total business income when filing taxes.					

TC3: I pay all taxes owed to the URA when they fall due.					
TC4: I comply fully with all URA registration and reporting requirements.					
TC5: I maintain proper and accurate financial records to support my tax obligations.					

SECTION D: TAX KNOWLEDGE

Please rate your level of agreement with each statement regarding your knowledge of Uganda's tax system.

1 = Strongly Disagree   2 = Disagree   3 = Neutral   4 = Agree   5 = Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
TK1: I understand the types of taxes that apply to my business (e.g., income tax, VAT).					
TK2: The Uganda Revenue Authority provides clear and adequate information to help me fulfill my tax obligations.					
TK3: I understand the procedures required to file my tax returns correctly.					

SECTION E: ADDITIONAL COMMENTS

Please use the space below to share any additional thoughts on ethical orientation, tax compliance, or the URA's efforts to support small business owners:

____

____

____

____

Thank you for completing this questionnaire. Your contribution to this research is greatly valued.