

**TAX UNDERSTANDING, TAX AWARENESS, AND TAX COMPLIANCE
IN NAKAWA DIVISION, KAMPALA DISTRICT, UGANDA: THE
MODERATING ROLE OF PUBLIC TRUST**

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ABSTRACT

Although non-compliance seems to become a global concern in developing countries, most Sub-Sahara African countries are the hardest hit. Most taxpayers are unwilling to comply with tax obligations due to negative attitudes and mistrust associated with misappropriation and misallocation of public funds/taxpayers money to priorities which the taxpayers presume not to be of the best interest. Studies have shown that tax knowledge gap, compliance and tax laws awareness have continued to affect the growth and survival of small and medium enterprise. But these studies have not explained the moderation role of public trust on the relationship between tax understanding, tax awareness and tax compliance

This study was carried out to investigate the moderation role of public trust on the relationship between tax understanding, awareness and tax compliance. A cross sectional research design was adopted using both convenient (for SMEs) and purposive sampling (for the respondents) methods. Data was collected using a questionnaire from 120 Small and Medium-sized enterprises (SMEs) in Nakawa division, Kampala. The analysis was done using descriptive statistics, correlation and regression analysis.

The study indicates that about 60% of the Small and median enterprises are registered with Uganda Revenue Authority in Nakawa division. The study further revealed that public trust plays a moderation role on the relationship between tax understanding and taxpayer compliance among SMEs in Uganda. However, the relationship between tax awareness and taxpayer compliance in SMEs is not moderated by public trust. The government should therefore put rigorous measures/policies in place to govern and strengthen the tax administration system. This will in

turn create a sense of accountability and a perception of good governance to the taxpayers, which will lead into compliance in the long run.

Key words: Tax understanding, tax awareness, tax compliance and public trust

Introduction

Tax administration plays an important role in generating tax revenue for the government to provide essential public services including but not limited to: welfare, infrastructure, security and education, in order to improve the standards of living of citizens. “This would be impossible without adequate revenue backing” (Anyaduba et al, 2012, Oladele et al, 2019).

Although non-compliance seems to become a global concern in developing countries, most Sub-Saharan Africa countries are the hardest hit (Cobham, 2005; Fuest and Riedel, 2009). Most studies show that factors influencing tax compliance and/or non-compliance differ from country to country, from one individual to another and also from government organizations to private sector taxpayers (Kirchler, 2007; Saka et al, 2018).

According to Uganda Revenue Authority (URA), Uganda’s compliance behavior of the taxpayers is still challenging (URA, 2016; Saka et al, 2018). The non-compliance rate has been on the rise from 3.48% in fiscal year (FY) 2014/2015 up to 4.03% in FY 2017/2018. It is noted that tax non-compliance is the main reason for uncertain revenue collections in Uganda (URA, 2019). It is upon this background that URA started a tax education and sensitization program for taxpayers by launching the “Ask URA” an application used by taxpayers to know about taxation using their mobile phones, conducting workshops and seminars, all in a bid to improve tax understanding and awareness which would in turn foster taxpayer compliance with minimum cost (URA, 2016). However, the impact of this education has not yet been recognized and fully appreciated (Rahayu et al., 2017). Most Taxpayers especially the SME’s are not aware and do not understand their tax obligations especially SMEs (Nikolić et al., 2015), which fosters non-compliance and change in taxpayer behavior (URA, 2019; Rahayu et al., 2017). Studies that have been carried out have also not investigated the moderation role of public trust on the relationship between tax understanding, tax awareness and taxpayer compliance (Rahmayanti et al., 2020; Sada et al., 2019; Sarsiti et al., 2018; Nurkhin et al, 2018; Rahayu et al. 2017 & Olaoye et al, 2017).

Trust is an important lubricant of the social behavioral system (Arrow, 1974). Taxpayers who believe and trust that the revenue authority acts in a way that is fair and good to them, have a positive perception of the government programs (Cullen et al., 2018) and this category of people is likely to comply with government regulations and to voluntarily comply with tax regulations

(Okoye, 2019). This public trust reduces the “social distance” between taxpayers and tax authorities (Braithwate, 2003). On the other hand, the mistrust of government by taxpayers can foster certain anti-social behaviors like tax evasion (Okoye, 2019).

Inappropriate public expenditure, unfriendly state-citizen relations, low level of governmental accountability and transparency, corruption and weak governance reduces the taxpayer’s trust to comply with tax obligations (Helhel et al, 2014; Sarsiti et al., 2018; IMF, 2019; Okoye, 2019). Good accountability and transparency, expenditures that contribute to the public welfare, better governance practices and controlled corruption levels can enhance taxpayers’ trust and voluntary cooperation. Thus, improving and encouraging voluntary tax compliance in the long run (Saka et al, 2018; Munyentwali, 2015; Okoye, 2019; Adimasu, 2017).

In Uganda, more than half of all SMEs close/collapse before they celebrate their second birthday (Mbabazi, 2012; Turyahikayo, 2015). Studies have shown that tax knowledge gap, compliance and tax laws awareness have continued to affect the growth and survival of small and medium enterprise (Matarirano et al, 2019; Nkwabi et al, 2019; Sharmilee et al, 2016; Helhel et al, 2014; Marandu et al, 2015; Venter and de Clercq, 2007). Tax compliance among such businesses is enforced rather than voluntary which creates a significant compliance gap for this category of businesses especially in Uganda (Verberne, 2017). This gap is also the result of tax requirements and the lack of basic information for easy management and control (Abrie&Doussy, 2006; Mutesigensi et al., 2017 and Turyahikayo, 2015).

Despite the improvement in tax administration from manual forms to electronic system where taxpayers have access to tax information at their convenience and can consult on tax matters any time, tax compliance is still a problem for SMEs (Kintu et al., 2019; URA, 2019 ; Saka et al, 2018). Most taxpayers are unwilling to comply with tax obligations due to negative attitudes and mistrust associated with misappropriation and misallocation of public funds/taxpayers money to other priorities presumed not to be in the best interest of taxpayers. Whereas most studies (Adimasu et al, 2017; Hardiningsih et al, 2020; Munyentwali, 2015; Nurkhin et al, 2018; Oktaviani et al, 2017; Rahayu eta al, 2017; Wadesango et al, 2018) have established factors that influence taxpayer compliance, including tax knowledge and awareness, perception of taxpayers, quality of tax services, income level and attitudes, little or no information is available on the moderation effect of public trust on the relationship between tax understanding and awareness on tax compliance. Therefore, the focus of this paper is to examine the moderation role of public trust on the influence of tax understanding and tax awareness on tax compliance in Uganda.

Literature Review And Theoretical Framework

Taxation in Uganda

Like any other country, taxation laws and regulations are in place in Uganda. For instance, the Value Added Tax Act (1996) streamlines the operations of VAT domestically and at customs, the East African Customs Management Act (2004) together with the East African Customs Management (Amendment) Bill (2015) streamline the operations of customs activities at all East African border points. In addition, the Common External Tariff (CET) was established to guide on all duties for commodities imported from outside the East African Community. The compliance behaviour of government organizations is often quite different from that of private sector taxpayers in Uganda. Therefore, different categories of taxpayers behave differently to tax compliance (Saka et al, 2018). Whereas tax/duty collection and business registration has been made easy through online platforms (online filing of returns and online business registration), business community is complaining about bribery and irregular payments (World Economic Forum, 2017), corruption (Jaggera P, Shively G (2015), and bureaucratic hurdles (Investment Climate Statement, 2017).

Uganda like any other East African state has the tax administration laws and procedures following the East African protocol. But most men and women in business community are not conversant with the laws/regulations and procedures. They survive at the mercy of clearing agents who sometimes may not offer or give enough and necessary services, hence tax disagreements between URA and the tax payers(Kintu et al, 2019). Uganda's commercial court is perceived to favor politically connected firms where such firms induce bribes to judges to delay cases or rule in their favor (United States Country Commercial Guides, 2017). The border administration in Uganda is not transparent and has many irregular payments, with a clearance process that is inefficient (World Economic Forum, 2016). Furthermore, high level of corruption is the main problem facing tax authorities in most African countries (Dube, 2014).

These tax knowledge gap, compliance and tax laws awareness have continued to affect the growth and survival of small businesses (Matarirano et al, 2019; Nkwabi et al, 2019; Sharmilee et al, 2016) and that tax compliance among such businesses is enforced rather than voluntary which creates a big compliance gap for this category of businesses especially in Uganda (Verberne, 2017).

Theoretical Literature

This study which measures the moderating role of public trust on the relationship between tax understanding, tax awareness and tax compliance, is based on two theories underpinning the concept of tax compliance. These include political legitimacy theory and Fiscal exchange theory.

Political legitimacy theory; the theory postulates that tax compliance behavior is influenced by the extent to which taxpayers trust their government (Ali, Fjeldstad, & Sjørnsen, 2013; Taylor

2006; Kirchler et al. 2008; Fauvelle-Aymar 1999). Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good. A study by Alm et al. (2005), found that attitudes towards tax and trust in the government as well as national pride had a positive relationship with tax compliance. Furthermore, Picur and RiahiBelkaoui (2006) found that countries with low corruption and low size of bureaucracy had high tax compliance rates. The above mentioned studies have indicated that tax compliance will be high in taxpayers with public trust in tax authorities, institutions and government expenditure.

Fiscal exchange theory; The fiscal exchange theory postulates that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner (Cowell and Gordon, 1988). Alm et al. (1992) indicated that tax compliance increases with the perceptions on availability of public goods and services. Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary to help the government to finance the goods and services in accessible manner (Fjeldstad and Semboja 2001). The scholars have showed that this tax compliance will be high in countries whose taxpayers believe and trust the transparency in government expenditure, public services provided and accessible, and have good governance.

Empirical Literature

Tax Understanding and tax compliance: Taxpayers may have some tax knowledge but lack a deeper understanding like the difference between presumptive taxation and income based taxation (Wadesango et al., 2018). This understanding has an impact on tax compliance even though the level of tax knowledge varies significantly among respondents (Mohd, 2010). Kirchler et al. (2008), indicated that tax compliance is recommended and that both the power of tax authorities and trust in the tax authorities are relevant dimensions for understanding enforced and voluntary compliance. However, they did not explain the effect of public trust on compliance. Studies related to the influence of tax understanding on taxpayer compliance have shown that tax understanding has a positive significant influence on tax compliance (Sada et al., 2019; Sarsiti et al., 2018; Nurkhin et al., 2018; Mohd, 2010; Andreas & Savitri et al., 2015; Oktaviani et al., 2017). Lack of information contributes to the inability of the taxpayers to correctly calculate the taxes payable which is another form of non-compliance (Mwangi, 2014). Saad (2014) also concluded that lack of tax knowledge contributes to the noncompliant behavior of tax administration. Similar results were found in the studies by Redae and Sekhon (2016), and Olaoye et al. (2017) who found a positive and significant influence of tax knowledge/understanding on the taxpayer compliance while Santana et al. (2020) showed that

understanding/knowledge of taxation has a negative effect on perceptions of individual taxpayers to paying taxes. Little or no information is available on the moderation role of public trust on the relationship between the tax understanding and tax compliance in Uganda's context.

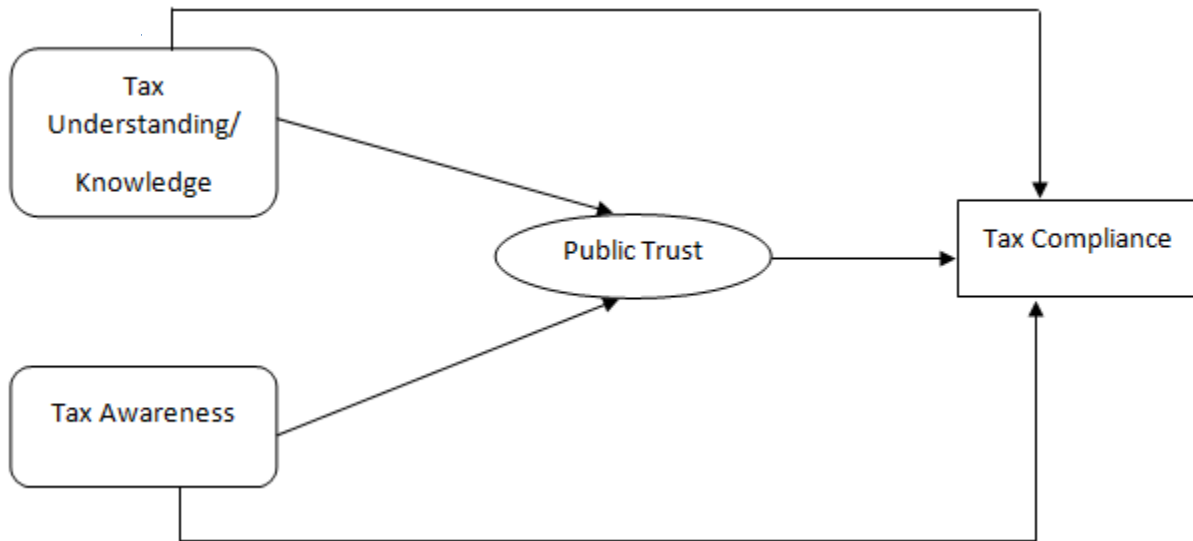
Tax awareness and tax compliance: SMEs are often unaware of the tax incentives and services available to them (Abrie and Doussy, 2006). The lack of readily available information relating to tax matters is among the big reasons for non-compliance (Mwangi, 2014). The role of tax awareness and perception of taxpayers towards the tax system is pivotal for voluntary tax compliance decision (Adimasu et al, 2017). Making consumers aware of their legal obligations to pay taxes and the uses of tax increases the probability of compliance (Propheter, 2012). The results of the studies by Nurkhin et al. (2018), Palil, et al. (2013) and Andreas &Savitri (2015) show that tax awareness proved to have a positive and significant effect on taxpayer compliance. These findings were further supported by a studies carried out by Rahmayanti et al (2020), Adhiambo et al. (2019) and Savitri and Musfialdy (2016), who noted that the awareness of taxpayers has a positive and significant impact on taxpayer compliance. However, the results of the study carried out by Nugroho et al. (2016), show that awareness of taxation does not influence the taxpayer compliance. These studies were also not clear about the moderation role of public trust on the relationship between the tax awareness and tax compliance in Uganda's context.

Public trust and tax compliance: High level of trust ensures the high tax compliance behaviour among the taxpayers (Fareg et al., 2016). Levi and Stoker (2000) and Verberne, (2017) indicated that trust has an influence on tax compliance amongst SMEs. Many of the studies show that public servants with trust are more likely to be compliant and trustworthy (Levi and Stoker, 2000). Trust can be built based on the perception that government representatives strive not to waste taxpayers' money. Behavior is influenced by the extent to which taxpayers trust their government (Ali et al., 2013). A study by Nangih et al. (2018) reveals that corruption of some revenue staff, delay in judicial processes, capacity issues and lack of political will on the part of the government have a significant negative effect on tax compliance. Additionally, research shows that low tax compliance is as a result of the moderating effect of political trust of the taxpayers in Nigeria (Okoye, 2019). The attitude towards taxes and perception of government spending were found to be statistically significant to influence tax compliance behavior (Munyentwali, 2015). Esaiasson and Ottervik (2014) stated that there is a positive association between political trust and tax compliance.

Conceptual framework

Figure 1. Conceptual framework

Independent variables Dependent variable



Source: Field survey (2020)

From the literature review, the research shows that tax understanding and tax awareness can influence the taxpayer compliance. However, this relationship/effect can also be affected through public trust. Public trust is key and may either lead to an increased or reduced level of tax compliance.

Materials And Methods

A cross sectional research design was adopted for this study. This study examines the moderation role of public trust on the relationship between tax understanding, tax awareness and tax compliance in Nakawa division, Kampala district, Uganda. The population of the study consisted of all small and medium enterprises (SMEs) in Uganda both registered and non-registered taxpayers. Nakawa division, was chosen because of the concentration of SMEs in this area and their ease of accessibility. Sampling was done using both convenient (SMEs) and purposive sampling (Respondents) techniques. Convenience sampling technique was used based on consideration of accessibility of area while purposive sampling was used to select respondents. A self-administered questionnaire was used for data collection. The questionnaire was distributed to 150 respondents who were willing to participate and picked after one week. The research variables tax compliance, tax awareness and tax understanding were developed and

measured using indicators revealed in studies by Nurkhin et al (2018) and Oktaviani et al, (2016) while public trust was developed from the opinions of Fjeldstad et al (2012) and Bouckaert& van de Walle (2003). The operational definitions of research variables is shown in Table 1.

The data was collected using a closed ended questions anchored on 5 Likert scale. The variables were translated into indicator variables, and measured as follows; 1=Strongly disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=Strongly agree. The research instrument was then tested for validity and reliability. The collected research instrument was then distributed to 150 respondents, out of which 120 were returned properly filled and ready for analysis. Descriptive statistics through frequency tables and graphs were done, correlation and the linear regression technique was used to investigate the moderation effect of public trust on the relationship between predictor variables and the out outcome variable (Baron and Kenny, 1986 and Pokhariyal, 2019).

Table 1. Operational definition of research variables

Research variable	Operational definition
<i>Tax Compliance</i>	<i>Taxpayer compliance refers to the willingness of the taxpayer to fulfill his tax obligation by the prevailing rules without inspection, thorough investigation, warning, or threats and the application of both legal and administrative sanctions.</i>
<i>Tax Understanding or Understanding of taxation</i>	<i>Knowledge and understanding of tax laws refers to the process when taxpayers understands and know about taxation (like general Provisions and Procedure of Taxation) and apply that knowledge to pay taxes.</i>
<i>Tax Awareness</i>	<i>Taxpayer awareness is a condition in which the taxpayer knows, understands and implements the tax provision, with valid, voluntary, and truth to fulfill his tax obligations or an effort or action accompanied by self-encouragement and willingness to perform the rights and obligations of taxation in accordance with the regulations.</i>
<i>Public Trust</i>	<i>Public Trust is defined as the confidence of citizens in the actions of a "government to do what is right and perceived fair and actual functioning of government</i>

Results And Discussion

Before going to the field, the research instrument was tested for validity and reliability on 20 respondents from 20 SMEs. From this pilot study, a reliability co-efficient (Cronbach Alpha value) was constructed and all the items scored above 0.7. The research instrument was again subjected to research experts for cleaning. A total of 120 questionnaires were returned fully answered and completed, accounting for a response rate of 80%.

Descriptive results**Table 2: Age and gender distribution of respondents**

Variable	Frequency	Percent (%)
Age of respondent		
Below 20	3	3
20 – 29	63	52
30 – 39	46	38
40 and above	8	7
Total	120	
Gender of respondent		
Male	72	60
Female	48	40
Total	120	

Source: Field survey (2020)

Table 3 shows that most of the SME operators are aged 20 to 29 year (52%). Few were above 40 years (7%) and below 20 years (3%). Results also indicated that most SMEs are operated by males (60%) as compared to females (40%).

Table 4: The Socio-economic characteristics of respondents

Variable	Frequency	Percent (%)
Education level		
Primary	7	6
Secondary	22	18
Diploma	36	30
Bachelor's degree	50	42
Master's degree	5	4
Total	120	

Position of respondent		
Owner	48	40
Managing Director	37	31
Finance/Marketing/credit manager	10	8
Accountant	10	8
supervisor/manager	2	2
Banker/cashier	6	5
Pharmacist/clinical officer	2	2
Others	5	4
Total	120	

Source: Field survey (2020)

Table 4 shows that the majority of SME operators have a bachelor’s degree (42%) and diploma (30%). Few, about 6% of the SMS operators have primary level and 4% have a master’s degree. 40% of the respondents were owners of businesses. This shows that most respondents were responsible for all the business operations including tax administration. Therefore, they have the necessary tax knowledge and awareness about tax administration and the issues or challenges related to tax compliance among the SMEs.

Experience of SMEs as business operators

Table 5: The SMEs years of existence

Years of existence	Frequency	Percent
Below 1	7	4
1 - 5	80	70
6 – 10	26	22
above 10	7	4
Total	120	

Source: Field survey (2020)

Experience wise, 70% of the SMEs had existed between 1 to 5 years, 22% had existed between 6 to 10 years while those that existed for more than 10 years and less than 1 year, were each at 4%. This means that most of the SMEs had not celebrated their 5th birthday, indicating that tax knowledge and understanding of tax administration might be limited amongst these SMEs.

Tax registration status of SMES

Table 6: TIN registration status of SMES

Business is registered	Frequency	Percent (%)
Yes	72	60
No	48	40
Total	120	

Source: Field survey (2020)

The study indicated that only 60% of the SMEs had registered with Uganda Revenue Authority for Tax Identification Number (TIN). This means that some SMEs do understand their obligation to be tax compliant. Probably, these registered SMEs are registered because they were denied trade licenses to their businesses because of not having TIN numbers as provided in the Uganda Trade Licensing Act or have seen others registering or have trust in the government. Helhel and Ahmed (2014) argued that the first obligation for one to be compliant with tax authority regulations is registration in the system of respective revenue authority. However, this study has revealed that 40% of the SMEs were not registered. This could be attributed to lack of trust in the government because of high level of corruption by public servants, lack of trust in the commercial courts, no accountability of public funds and government spending on priorities not in the interests of the taxpayers. Therefore, even when these owners/operators of SMEs have knowledge and awareness about tax administration, they may refuse to be compliant. Some of the SME owners or managers may not realize the significance of having registered businesses or seem to have no trust in the government in a way the government is using the tax revenues. The findings of this study were not in line with the study by Wadesango (2018) who argued that SMEs have tax knowledge and awareness.

Table 7: Reasons for not registering business with tax authority/ institutions

Reason for not registering	Frequency	Percent (%)
Tax rates are too high	20	17
I don't see the benefits of paying Tax	16	13
I don't think I qualify to register for Tax	18	15
I earn too little profits	30	25
I don't know the process of Tax registration	36	30
Total	120	

Source: Field survey (2020)

From this study, most of the SMEs (30%) claimed that they did not know the procedures of tax registration while others don't see the benefits of paying taxes (13%). Those that don't qualify to register for Tax account for 15% of the respondents. The claim not to qualify to register for Tax could be a sign of lack of knowledge (Mckechar, 2015) simply because there is an option of voluntary registration. The results of the study show that lack of knowledge and understanding, and little profits are still the key contributing factors to non-tax compliance among SMEs in Nakawa. Secondly, some taxpayers do not understand the relevance of paying government taxes as they simply claim not to either directly or indirectly benefit from them.

Correlation analysis

Table 8: the correlation results

		Compliance	understanding	Awareness	Public Trust
Compliance	Pearson Correlation	1			
	Sig.				
understanding	Pearson Correlation	0.3412**	1		
	Sig.	0.001			
Awareness	Pearson Correlation	0.2507*	0.4648	1	
	Sig. (2-tailed)	0.012	0.452		
Public Trust	Pearson Correlation	0.0341**	0.1553**	0.2362	1
	Sig.	0.036	0.012	0.246	
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Source: Field survey (2020)

The study shows that tax understanding has a positive significant relation with tax compliance (Cor. =0.3412, P-value=0.001). Tax awareness has a positive significant relationship with tax compliance (Cor. =0.2507, P-value=0.012). The study also indicated that there is a significant positive association between public trust and tax compliance (Cor. =0.0341, P-value=0.036). Furthermore, public trust had a positive significant relationship with tax understanding (Cor. =0.1553, p-value=0.012). The results of this study are in line with the study by Nurkhin et al. (2017) who reported that taxpayer understanding, taxpayer awareness proved to have a positive

and significant effect on taxpayer compliance. Also supported by Rahayu et al. (2017) who argued that the mistrust of government can easily put certain anti-social behaviours like dodging taxes and delaying or paying less taxes. However, Fareg et al. (2016) argued that public trust has a negative relationship with voluntary tax compliance not conforming to the study findings. This therefore shows that public trust decrease voluntary taxpayer compliance in taxpayers.

Regression results

Table 9: The regression results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.276	0.586		2.177	0.032
Understanding	0.301	0.08	0.355	3.765	0.000
Awareness	0.231	0.104	0.206	2.225	0.029
Public Trust	-0.046	0.117	-0.036	-2.388	0.016
Under*PTrust	0.117	0.034	0.221	2.23	0.028
Aware*PTrust	-0.055	0.053	-0.104	-1.045	0.298
a. Dependent Variable: Comp					
Number of observation					
				120	
R Square				0.481	
Adjusted R Square				0.426	
Std. Error of the estimate				0.41265	
F-Statistic value				4.994	
Sig-value				0.000	

Source: Field survey (2020)

Where; Under*PTrust: interaction between tax understanding and public trust
 Aware*PTrust: interaction between tax awareness and public trust

Model specification; The F-statistic value is 4.994 with the p-value =0.000 which shows that the overall model has a good fit. 42.6% of the total variation in the tax compliance is explained by the three variables considered; tax understanding, tax awareness and public trust.

From the table 9, the empirical results of the study have shown that both tax understanding and tax awareness have a positive significant effect on taxpayer compliance among SMEs in

Nakawa. This means that a unit increase in tax awareness would on average increase taxpayer compliance by 0.231 and a unit increase in the tax understanding would lead to on average an increase by 0.301 in taxpayer compliance. Public trust had a significant negative effect on the taxpayer compliance. This means that increased lack of public trust would on average decrease tax compliance by 0.046. This is in line with the study by Fareg et al. (2016) and Akoye (2019) who argued that probably there is something fundamentally wrong with government-citizen relationship. This means that if the taxpayers are not happy with the government programs, priorities, expenditure, transparency, lack of justice, corruption among other, public trust will reduce. Therefore, the taxpayers will have bad attitude towards tax obligations and lose focus because the tax revenues are not well handled the tax authorities, public officers in public offices and the government institutions etc. All this tends to reduce trust thus causes noncompliance due to lack of confidence in the government.

The study also revealed that the effect of interaction between tax understanding and public trust (under*PTrust) is positive and statistically significant (Coef. =0.117, p-value=0.028). Thus the manifestation of a moderation effect; the interaction between tax understanding and public trust (Under*PTrust) is significant. Therefore, it is evident that public trust has a moderation role on the relationship between taxpayer understanding and taxpayer compliance. This means that high tax compliance in the SMEs can be the result of the moderation role of public/political trust of the tax payers. Therefore, the knowledgeable taxpayers/SMEs with high public trust will be more tax compliant than those knowledgeable taxpayers/SMEs who have no public trust to the tax system, institutions responsible for tax administration and the government expenditure priorities using tax revenues. The results are in line with the study by Adimasu et al. (2017) who argued that taxpayer's positive perception towards the tax system and government spending can boost voluntarily tax compliance. Thus, increased lack of public trust in government spending and accountability, tax authorities and other government institutions can increase taxpayer noncompliance.

The results propose that tax understanding is important and can increase tax compliance rate. But this relationship between the tax understanding and tax compliance can be influenced by increased or decreased public trust in the government by taxpayers/SMEs. Even when the taxpayers know and understand the functions and benefits of tax, have knowledge in filling tax files, preparing financial reports, calculating and paying taxes, and have knowledge on the sanctions for tax violations, they might not necessarily be tax compliant if they do not have trust in tax authorities and the government.

The effect of tax awareness on taxpayer compliance was found to be positive and significant. The results were in agreement with the study by Rahayu et al. (2017) and Adimasu et al. (2017)

who argued that awareness and deeper understanding of tax issues significantly influence the non-compliance behaviour among taxpayers. The effect of the interaction between the tax awareness and public trust (Under*PTrust) was not statistically significant. This indicated that the moderation effect does not exist.

Conclusion

The findings of this study show that about 40% of SMEs had not registered for TIN numbers with Uganda Revenue Authority in Nakawa division. These SMEs lack knowledge/understanding and awareness about their obligation to be tax compliant. The empirical results indicated that both tax understanding and tax awareness have a positive and significant effect on taxpayer compliance among SMEs while Public trust had a negative significant effect on the taxpayer compliance. Lastly, the study also revealed that public trust has a moderation role on the relationship between tax understanding and taxpayer compliance among SMEs in Uganda while the relationship between tax awareness and taxpayer compliance in SMEs is not moderated by public trust.

Recommendations

- It should be noted that creating tax understanding alone is not enough. It is important for taxpayers to know and understand about taxation but also the way the government spends tax revenue. The disclosure of government budgets, expenditures and the total amount collected from taxes to citizens transparently is important. Therefore, it is important that the government strengthen its tax systems or the institutions responsible for tax administration. Methods of reaching out and communicating to taxpayers like stakeholder management seminars, workshops or meetings; sensitization through radio and televisions shows or dialogues; sending mobile phone text messages, should be considered. This gives a sense of accountability and perception of good governance to the taxpayers. This will revoke mistrust and in a way create public trust among the taxpayers thus encouraging voluntary tax compliance in the long run.
- Voluntary payment of tax may not be forthcoming if the taxpayers believe that the current tax system is unfair and inequitable. Therefore, URA should maintain tax fairness through treating all taxpayers fairly at the time of levying tax, registration and collection. Bringing non taxpayers to tax system should be considered as a measure for ensuring tax equity. This may also protect honest and reducing corruption amongst the tax collectors. Thus improving public trust.

- The government and URA together should provide continuous accountability programs and practical trainings to taxpayers and create appropriate ways of recapturing the trust of taxpayers by using Medias such as Television, Radio, and Newspaper, etc.

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