

# Monitoring Taxpayers' Compliance and Local Revenue Performance in Local Government: A Case of Lira District Local Government

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## Abstract

The purpose of the study is to examine the relationship between monitoring taxpayers' compliance and local revenue performance in local government: a case of Lira district local government, Uganda. A cross sectional descriptive survey design was used and data were gathered from 169 out of 191 tax administrators composed of technocrats and political leaders from Lira district. The study revealed that there is a positive significant (0.727) relationship between Monitoring Taxpayers' compliance and Local Revenue Performance in Lira District Local Government. The study was largely quantitative in nature and data collection was done at a single point in time which does not allow for changes in behavior over time. The study is limited by factors like the study being largely quantitative in nature, data collection was done at a single point in time which does not allow for changes in behavior over time and considered only Lira district local Government. Future studies should consider being longitudinal in nature as well as extending to other local government districts of Uganda. The Practical implications is to improve Local revenue performance in local government, Local government should consider empowering of taxpayers with relevant knowledge and skills considered vital in the expedition of their tax obligations with easy and to enable them be aware of their moral obligation to register for tax purposes, report promptly for tax purposes, timely payment of tax obligation and there should be massive sensitization programs to increase awareness, educate the public and remind taxpayers that they are partners, as opposed to mere subjects forced to pay taxes. This study contributes to literature in the areas of monitoring taxpayers' compliance and local revenue collection performance.

**Keywords:** Taxation, Monitoring, Taxpayers' Compliance, Local Revenue and performance.

## 1.0 Background

A sound and effective revenue system for Local Governments is an essential pre-condition for the success of fiscal decentralization (Bird, 2010; Martinez-Vazques & Smoke, 2010). In addition to raising revenues, Local Revenue mobilization has the potential to foster political and administrative accountability by empowering communities (OECD, 2009). Local governments raise their revenues through taxation However; the local revenue tax bases in local governments are undermined by widespread tax evasion in the developing and developed nations making it hard for local governments to raise required Local Revenue for its normal functioning (IMF, 2011).

With decentralization, raising local revenue is therefore a priority for most Local Governments in Sub-Saharan African countries (Drummond, Daal, & Oliveira, 2012). Mobilizing revenue is a way for Local Governments' to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence. Although taxpayer non - compliance is a continual and growing global problem (McKerchar & Evans, 2009); many indications suggest that local governments in developing countries, many of them in Sub - Saharan Africa, are the hardest hit.

With decentralization and its inception in the late 1990s in Uganda instilled so much hope in the people of Uganda as they anticipated that Local Governments would improve on revenue collection and service delivery. In the present, many challenges have buried these hopes as local government revenues keep declining all the time. There are claims that Local Government officials and politicians connive with tax payers to amass wealth from corrupt acts at the expense of masses (Fumihiko, 2008).

In conformity with the 1995 constitution of the republic of Uganda, Article 177 (1) provide for decentralization system of governance with districts at the top of the administrative units. Under Article 191(1) of the Constitution, Local Governments are allowed to levy, charge, collect, and appropriate fees and taxes in accordance with any law enacted by the Parliament by virtue of Article 152 (2) of the constitution. Article 191 (2) specifies the fees and taxes to be levied, charged, collected and appropriated to include; rents, rates, royalties, stamp duties fees on registration and licensing and any other fees and taxes that parliament may prescribe.

The power and authority to levy and collect fees and taxes are provided under section 80 (3) of the Local Government Act (CAP 243). The Local Government Act (CAP 243) supports Local Governments to levy and collect local revenues from sources stipulated in the Fifth Schedule. Local revenues provide the most discretionary source of financing and are therefore important for the success and long-term sustainability of infrastructure and service delivery in local governments. Local Collections are used for councilors' emoluments, co-funding capital development projects, providing bursaries, building administrative headquarters, operation and maintenance of

infrastructural facilities, co-funding of donor funded projects among others. This funding source is therefore instrumental in sustaining decentralization and service provision at local level therefore; a sound revenue system for local governments is an essential pre-condition for the success of fiscal decentralization (Bird, 2010; Martinez-Vazques & Smoke, 2010; Olowu & Wunsch, 2003).

However, over the last decade, the inadequacy of locally generated revenue has remained a major challenge for LGs and its poor collection has threatened to undermine the successes so far made under the policy of decentralization in Uganda (Seatini & Oxfam, 2013). In an attempt to relieve local governments of the problem of low local revenue collections, and reverse the tendency of failure to finance their mandated functions, the Parliament of Uganda passed the Local Governments Amendment Act No.2 of 2008, introducing new taxes for Local Governments i.e., Local Service Tax and Local Hotel Tax amongst others. In spite of this intervention, the performance of local revenue remains low. Although a number of factors have been advanced to cause low revenue collection Performance in Lira such as : (1) poor administrative capacity to assess the revenue base; (2) poor administrative capacity to enforce the taxes; (3) explicit and intentional tax evasion and resistance from taxpayers; (4) corruption, including embezzlement of revenues; (5) external pressure on the local finance department to provide optimistic projections; and (6) political pressure on the local tax administration to relax on revenue collection( Seatini & Oxfam, 2013)level, this study is undertaken to examine the relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance in Lira District Local Government. Monitoring of Taxpayers' Compliance plays an important role in compliance but is often ignored by public and tax policy makers (Balunywa, Nangoli, Mugerwa, Teko, & Mayoke, 2014).

Taxpayers' compliance includes true reporting of the tax base, correct computation of the liability, and timely payment of the amounts due. Failure to monitor taxpayers' compliance would lead to low proportion of locally generated revenue and high level of tax evasion hence, low Local Revenue Performance Balunywa at el (2014) added. This sets the basis for the researcher to investigate the relationship between Monitoring Taxpayers' Compliance and Local Revenue performance.

### **1.1 Statement of the Problem**

Under the Local Government Act (1997), the central government funds the local governments through the provision of unconditional, conditional, and equalization grants. Local governments also collect local revenues that constitute part of their domestic budget. However, over the last decade, the inadequacy of locally generated revenue has remained a major challenge for LGs and its poor collection has threatened to undermine the successes so far made under the policy of decentralization in Uganda (Tax Policy 2013). In an attempt to relieve Local Governments of the dilemma of low local revenue collections, and reverse the tendency of failure to finance their mandated functions, the Parliament of Uganda passed the Local Governments Amendment Act No.2 of 2008, introducing new taxes for Local Governments i.e., Local Service Tax and Local Hotel Tax. Despite several interventions of Monitoring Taxpayers' Compliance to increase Local Revenue Performance in Lira District Local Government such as Strengthening Local Revenue data management, follow up, organizing continuous tax education and awareness of taxpayers on the collection, utilization and accountability of local revenues; and putting revenues to visible social services and infrastructure to ensure compliance in tax payment, Lira District Local governments have not registered significant improvement in Local Revenue Performance. The study was conducted to find the impact of Monitoring Taxpayers' Compliance on Local Revenue Performance in Lira District Local Government. Based on this, the following three research questions are formulated to guide the study:

- i. What is the level of Monitoring Taxpayers' Compliance in Lira District Local Government?
- ii. What is the level of Local Revenue Performance in Lira District Local Government?
- iii. What is the relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance in Lira District Local Government?

### **1.2 Hypothesis of the Study**

The research will be based on the null hypothesis of no relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance in Lira District Local Government.

### **1.3 Scope of the Study**

The study concentrated on Monitoring Taxpayers' Compliance being the independent variable and Local Revenue Performance being the dependent variable. The study focused on effectiveness of Taxpayers' Registration, Timely Reporting, and Timely payment of all tax obligations. Local Revenue Performance was assessed in terms of actual local revenue as a percentage of annual district budgets and level of tax evasion. The researcher considered time of data collection to be enough to measure the relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance. The study was carried out in Lira District Local Government. Lira District is located in Lango sub-region in Northern Uganda and is bordered by the districts of Pader and Otuke in the North and North East, Alebtong in the East, Dokolo in the South and Apac in the West.

#### **1.4 Limitations of the Study**

This study was not without limitation although the study provides some interesting findings and makes important contributions to Monitoring Taxpayers' Compliance and Local Revenue Performance literature, several potential limitations are worth noting. The study was largely quantitative in nature and data collection was done at a single point in time which does not allow for changes in behavior over time. The use of qualitative longitudinal studies with in-depth interviews could provide more insights. The study population was limited to technocrats who are the implementers of tax collection and political leaders who are policy makers on tax, leaving out taxpayers who if may be added will give reasons as to why they are not paying tax obligation on time and help to work formalities with Lira district Local Government to monitor compliance.

### **2. Literature Review**

#### **2.1 Monitoring Taxpayers' Compliance**

Organization for Economic Co-Operation and Development (2008) noted that, in an ideal world, all citizens and businesses would satisfy their obligations under the tax law to register where specifically required, and to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law. This statement encapsulates three basic tax compliance obligations of citizens and businesses that generally speaking must be administered by all local government in accordance with their respective tax laws: to effectively register for tax purposes; to correctly and timely report tax liabilities (including as withholding agents); and to pay taxes on time (i.e. by the date stipulated in the law). Monitoring taxpayers' compliance was also seen to comprise of effective taxpayers' registration, timely reporting and timely payment of all tax obligations (Torglar, 2011).

##### **2.2.1 Effective Taxpayers' Registration**

Effective taxpayers' registration is one of the most important aspects of tax compliance. This is because, as more taxpayers are identified and registered, the taxpayers that would otherwise evade are reduced. Hence, (Bird, 2010), noted that if taxpayers are identified and effectively registered, revenue collection would increase. Therefore emphasis should be on identification and effective registration of taxpayers in local government in order to increase the base, which is also taxpayer identification and registration (Kogler, Batrancea, Nichita, Pántya, Belianin, & Kirchler, 2012). However according to (Nkote & Tsubira, 2013), many small and medium taxpayers do not register voluntarily.

It has been observed however, from previous taxation studies that several SMEs in developing economies are non-tax compliant in spite of major reforms (James, Barbour, & Stern, 2007; Ayoki, 2007; Tarkper, 2003) since they cannot easily be located by tax administration, yet they pay less tax than their fair share of tax (Ahmed & Braithwaite, 2010). Many SME taxpayers do not know the domain of tax professionals since they lack the independence and have no tax competency (Nakiwala, 2010).

According to MoF & MoR (2007), one of the chief features of SMEs is the lower level of the specialist tax expertise and greater owner-involvement in day-to-day management and this call for them to search for assistance from experts (Bertolini, Borgia, & Siegel, 2010). Consequently, local governments like Lira is still characterized by the low local revenue tax compliance levels, in the face of the numerous advocacies for voluntary tax compliance (Ayoki, 2008; Bird, 2004). Lira district Local Governments has adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2007), which have still failed to yield.

Nkote et al (2013) added that, the dimensions of taxpayers' registration include: -willingness to register, taxpayers' identification, assessment basis, audits taxpayers' books of accounts to ensure compliance with registration and penalty of non-registration.

##### **2.2.2 Timely Reporting**

According to OECD (2008), compliance with reporting requirement means that the taxpayer report at the proper time and that the report accurately report tax liability in accordance with the Internal Revenue code, regulation and court decisions applicable at the time the report is made. This clearly states the line between tax compliance and noncompliance; yet, tax compliance requires adequate record keeping. Consequently, a taxpayer can fail to comply either because he has made an honest mistake while reporting, or because he wanted to evade his tax liabilities from the beginning. Whether the taxpayer made an honest mistake or intentional omission, the result is the same. For this reason, noncompliance includes situations where individuals underpaid or overpaid their taxes, called underreporting or over-reporting.

Kogler et al (2012), model predicts that taxpayers will voluntarily report more income in response to either an increase in the probability of being detected, or an increase in the penalty imposed on those who are caught. However, the model is inconclusive in predicting the response to an increase in the tax rate; the net response is the sum of two terms in their model one negative (suggesting a decrease in income reported as the tax rate increases), and another, which is most probably positive, assuming that taxpayers' risk aversion decreases with income. Kogler et al liken these two terms to a positive income effect and a negative substitution effect. They reason that the substitution effect means that an increase in the tax rate makes it more profitable to underreport income at the

margin (i.e., the higher the tax rate, the more money is retained when one underreports a dollar of income). The income effect, however, is most likely positive because an increase in the tax rate reduces net income, and assuming decreasing absolute risk aversion, the taxpayer is less willing to underreport income than before. Which of these two effects is stronger depends in part on the taxpayer's degree of risk aversion.

### **2.2.3 Timely Payment of All Tax Obligations**

The most important aspect of compliance and its goal is revenue collection procedures (OECD, 2008). Collection procedures involve collecting money from taxpayers. In most of the developing countries, little revenue is raised due to poor monitoring of promptness in payment, regularity in payment, usage of tax money, fairness and transparency in taxpayers treatment, magnitude of tax burden, and knowledge of taxpayers on new development in tax laws (Nkote & Tusubira, 2013). Because of the weak monitoring, tax evasion and avoidance are dominant. Thus, there is need to strengthen tax administration through improving monitoring time of tax payment so as to get better revenue collection performance.

## **2.3 Local Revenue Performance**

Revenue refers to the total amount of money received by a company from goods and services sold (Parkin, 2012) Local revenue is the money income collected from taxes by the local government on behalf of the state. According to Bahemuka (2001), Local revenue is the income collected by a Local Government from sources within its jurisdiction. Local revenues come from taxes, administrative fees, licenses, and property income. Article 191(2) of the constitution of the Republic of Uganda stipulates the fees and taxes to be levied, charged, collected and appropriated to include rent, rates, royalties, stamp duties, fees on registration and licensing and any other fees and taxes that parliament may prescribe.

According to the local government finance commission act of 2004, local revenue is important to local governments for a number of reasons like promoting the autonomy of local governments, maintaining and sustaining investment and savings, meeting the co-funding and borrowing obligations, financial council operations (emoluments) and funding other locally prioritized services and projects. (James, Barbour, & Stern, 2007), contends that the basic collection administrative procedures include identifying and locating tax payers, checking on tax payers' compliance and collection of taxes.

Revenue collection is one of the key activities in Local Government, MOLG publication, (2003) LGA, 1997, section 8(4) provides that the Local Government annual budgets shall reflect all revenues to be collected or received by the Local Government for each financial year. Section 79, states that Local Government revenues shall be regulated as provided for in the fifth schedule. These legal provisions directly or indirectly provide certain people and institutions with roles and responsibilities to monitor local revenue collection in LG's such as council, Chief Administrative Officer (C.A.O) and Resident District Commissioner (R.D.C). Chief Finance Officer however, is empowered to monitor in order to ensure that the revenue collectors carryout their duties properly and that all revenue due to local governments is collected promptly.

Local Revenue performance in local government in Uganda has been on a declining trend since the inception of decentralization which is linked to inadequate Monitoring of taxpayers' compliance (Balunywa, Nangoli, Mugerwa, Teko, & Mayoke, 2014). However, they do not tell the extent to which monitoring is responsible. Local Revenue performance means percentage of budgeted collections that is actually collected and level of tax evasion (Drummond, Daal, E, & Oliveira, 2012)

### **2.3.1 Proportion of Locally Generated Revenue**

One major administrative problem today for local government councils is unable to collect fully the revenues due to them (Fjeldstad, 2013). In Lira District Local Government, as in other local governments in Uganda, Local tax administration is characterized by noncompliance problems and this has been hindering Local tax revenue Collection performance hence low proportion of local revenue Collection.

Local revenue performance is the percentage of budgeted collections that is actually collected. Local governments are supposed to use their own-revenues to finance local services (Odd-Helge, 2004). He adds that local authorities are able to derive revenue from property tax, service tax amongst others; however, it's important to note that taxes not only provide revenue but also act to decrease private investment and consumption. They further argue that the advice effects of taxation on private investment and consumption are more significant with regard to personal income tax than graduated tax. By impacting on private investment and consumption, taxation becomes an important instrument of fiscal policy. The dimensions of proportion of locally generated revenue include Review of local tax rates, volume of tax revenue collected, and budgeted collection, impact of local tax revenue collection and unit cost of collection (Odd-Helge, 2004).

### **2.3.2 Level of Tax Evasion**

Kogler et al. (2012), defines tax evasion as "the deliberate act of breaking the law in order to reduce taxes. It involves acts of omission (e.g. failing to report certain revenues) or commission (e.g. false reporting of personal expenses as business expenses) and is liable to prosecution and fines". Taxpayers either decide to declare their income honestly, paying their due as required and knowing the amount of money remaining with a sense of security,

or they choose the risky option of evading taxes (Nguyễn, 2013).

Further, tax evasion is a decision that includes incorrect reporting and non-timely reporting of taxable income, as well as underreporting due to non-mistakes in filing taxes. If taxpayers fail to provide their correct taxable liability to the tax authorities, then they are assumed to be evaders; if taxpayers fail to report on time, then they are assumed to be evaders; and if taxpayers' underreporting is not made due to mistakes in filing taxes (such as miscalculations or overestimation of deductions) then they are assumed to be evaders (LUMIR, 2013).

According to OECD (2008), Compliance with the tax law typically means: (i) true reporting of the tax base, (ii) correct computation of the liability, (iii) timely payment of the amounts due. He continues that, the bulk of tax evasion involves the first point. Most evaders either do not declare their liability at all, or declare it only in part. In the following, we concentrate on the problem faced by an individual who has to decide how much of his tax aggregate to report, or whether to report it at all. The focus is on income taxes (which account for a large part of fiscal revenue in most countries). However, the insights provided can be applied to other taxes as well.

Dealing with the problem of tax evasion requires at least some understanding of the factors underlying the individual taxpayer's decision whether to pay or evade taxes. However, little is known about tax compliance behavior in local government. This study attempts to explore factors that determine Taxpayers' compliance behavior in selected local government.

### 3.0 Methodology

#### 3.1 Research Design

The researcher adopted a descriptive Survey design. Cross sectional design was used to collect opinion from different respondents at once. The study was descriptive to allow the researcher to discover patterns in the respondents thinking and also to describe issues from their own point of view. A triangular method was used where both qualitative and quantitative approaches was considered. Quantitative approach was used to analyze primary data from the field using descriptive statistics while qualitative approach was used to describe occurrences and discussion in relationship to interview results. The researcher also used correlations design to establish relation between variables.

#### 3.2 Population, Sample Size and procedures

Using R.V. Krejcie and D.W. Morgan (1970) table, 169 respondents were considered, comprising of 107 from technocrats and 62 from political leaders randomly and purposively selected from study population of 191 tax administrators, which are 121 technocrats and 70 political leaders coming from Lira District Local Government Head Quarter, Lira Municipal Council, Ogur Sub County, Lira Sub County, Amac Sub County, Adekokwok Sub County and Ngetta Sub County. These included LC III, LC IV and LC V council members. The technical members of staff included Chief Administrative Officers, the Sub-County Chiefs, Town Clerks and Assistant Town Clerks, Accountants, Revenue Collection Officers, Accounts Officers.

Table 1: Sample Size

S/no	Categories	Target Population	Sample Size	Technique
1	Chief Administrative Officer	1	1	Purposive Sampling
2	Town Clerk	1	1	Purposive Sampling
3.	Assistant Town Clerks	4	4	Purposive Sampling
4.	Sub county Chiefs	5	5	Purposive Sampling
5.	Accounts Personnel	55	48	Random Sampling
6.	Revenue Collection Officers	55	48	Random Sampling
7.	District Chairperson	1	1	Purposive Sampling
8.	Division Chairpersons	4	4	Purposive Sampling
9.	Sub county Chairpersons	5	5	Purposive Sampling
10	Local Councilors	60	52	Random Sampling
	<b>Total</b>	<b>191</b>	<b>169</b>	

Source: Primary Data

#### 3.3 Instrument for data collection

The instruments of data collection used include questionnaire, key informant guide

Questionnaire was used because it enabled the researcher to collect a large amount of data from the respondents within a short time. The questionnaire was designed in such a way that, it allows to be completed by the respondents with minimal supervision. All variable items had closed-ended with five-point likert scale of 5 "Strongly Disagree", 4 "Disagree", 3 "Not Sure", 2 "Agree" and 1 "Strongly Agree".

Table 2: Mean Range of Likert Scale

Mean Range	Scale	Interpretation
4.20 – 5.00	5	Very High
3.40 – 4.20	4	High
2.60 – 3.40	3	Moderate
1.80 – 2.60	2	Low
1.00 – 1.80	1	Very Low

The Key Informant Guide as instrument helped to obtain some information that might not had been captured from primary respondents. A key Informant Interview guide was to help the researcher get additional information Lira District Local Government Leaders. Chief Administrative Officer, Town Clerk, 4 Assistant Town Clerks, 5 Sub County Chiefs, 5 Sub County Chairpersons, and 4 Division Chairpersons. Accounting Officers were chosen because of their knowledge on information regarding the variable of the study and being the head of technocrats. Chairpersons were chosen because they are the head of political leaders who are the policy makers.

### 3.4 Reliability and Validity

A pilot study was carried out to ensure validity of data collection instruments. This was done with the help of an expert (the researcher’s supervisor) to edit the questionnaire and the interview guide. The researcher forwarded the structured questionnaire to the supervisor who is an expert in the area covered by the research for editing and reviewing to ensure that all items constructed could help achieve the aim of the study. CVI > 0.6, then the instrument was considered valid since validity was equal to 0.82 which is greater than 0.6.

$$\begin{aligned}
 \text{CVI} &= \frac{\text{Valid items}}{\text{Total Number of items}} \\
 &= \frac{31}{38} \\
 &= 0.82
 \end{aligned}$$

The reliability was ensured by testing the instruments for the reliability of values (Alpha values) as recommended by Cronbach, (1946). Cronbach recommends analysis for Alpha values for each variable under study. A Conbach Alpha (0.91) greater than 0.7 proved reliability (Amin, 2005)

Table 3: Reliability Statistics

Cronbach’s Alpha	No of Items
0.91	5

Source: primary data

The instrument was considered reliable because the coefficient of the Cronbach’s alpha generated was greater than 0.7 as it is recommended by Amin (2005). This indicates that the instrument used to collect data from respondents were consistent and reliable.

### 3.5 Data Analysis

Data collected was checked and edited for completeness and accuracy. The data was then analyzed using the IBM statistical package for social scientists (SPSS) version 20 for Windows. Research question 1 and 2 were analyzed using descriptive statistics where mean and standard deviation were employed. Objective 3, the researcher used Pearson’s correlation matrix to seek relationships between Monitoring Taxpayers’ Compliance and Local Revenue Collection Performance. The hypothesis was tested using P-Value of Pearson Coefficient Correlation at 0.05 significant levels. A Multiple linear regression model was used to predict Local Revenue Performance using the three independent variables in the study; effective Taxpayers’ Registration, Timely Reporting and Timely payment of all tax obligations.

## 4.0 Results and Discussions

### 4.1 Sample characteristics

With regards to the respondent gender, the male respondents dominated the study at 117(69.2%) while female were at 52(30.8%) implying that the findings were influenced by male respondents. Table 4 further indicated that majority of respondents 69(40.8%) were between (36-45) years old, implying that they were mature enough to give positive information since they are considered knowledgeable on the subject matter of study. With regard to education, majority of the respondents were Certificate/Diploma holders 90(53.3%) implying that the researcher was confident of the results got because all these respondents were able to understand the items in the questionnaire. Regarding position held by respondents, 107(63.3%) were technical staff while 62(36.7%) were political leaders implying that technocrats were more involved in monitoring taxpayer’ compliance than political leaders since political leaders formulate policies on taxpayers’ compliance and technocrats implement and regarding number of years worked, Table 4 also revealed that majority 72(42.6%) of the respondents had worked for over ten (10)

years implying that they were more experienced and in position to objectively provide much of the information on the study areas. This implies that they had the experience on the subject matter of the study.

Table 4: Demographic Characteristics of the respondents

Items	Response	Frequency	Percent
<b>Gender</b>	Male	117	69.2
	Female	52	30.8
<b>Age bracket</b>	18 – 25	5	3.0
	26 – 35	50	29.6
	36 – 45	69	40.8
	46 – 55	43	25.4
	56+	2	1.2
<b>Education</b>	Certificate/Diploma	90	53.3
	Bachelor	62	36.7
	Master	14	8.3
	Others	3	1.8
<b>Position</b>	Technocrat	107	63.3
	Political Leaders	62	36.7
<b>Experience</b>	1 – 3	26	15.4
	4 – 6	45	26.6
	7 – 10	26	15.4
	10+	72	42.6

N= 169

#### 4.2 The Level of Monitoring Taxpayers' Compliance

The level of Monitoring Taxpayers' Compliance in Lira District Local Government was measured using effective taxpayers' registration, timely reporting, and timely payment of all tax obligations. This objective was analyzed using the mean and standard deviation. The mean shows the occurrences of a response while standard deviation portrays the extent to which the scores deviate from the mean. The detail of the findings is as shown in table 5 below;

Table 5: Effective Registration of Taxpayers' Registration

Items	Mean	Std. Deviation	Interpretation
Taxpayers register willingly	2.47	1.20	Low
All taxpayers who are identified get registered on time	2.71	1.09	Moderate
The assessment of taxpayers is done based on their income	3.73	1.13	Moderate
Surveys to identify taxpayers are carried out on annual basis	3.77	1.06	Moderate
Examining of a firm's financial statements and accounting records is a basis used when assessment is being done	3.25	1.13	Moderate
The sub county/district is effective in identifying and registering all potential taxpayers	3.42	1.03	Moderate
The identification methods are effective in registering all potential taxpayers	3.23	1.19	Moderate
Lira District Local Government audits books of accounts to ensure compliance with registration	3.57	1.14	Moderate
All taxpayers who are Identified get registered on time	2.71	1.09	Moderate
Aggregate Mean and Std Deviation	3.21	1.12	Moderate

N=169

**Legend:** 1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High

With regards to effective registration of taxpayers, the results indicated ineffective taxpayers' registration because most of the respondents thought that taxpayers' registration was not effective at a mean of Mean ( $\bar{X}$  =3.21), which is moderate. The high standard deviation of ( $s = 1.12$ ) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. This inadequacy of registration is attributed to taxpayers' unwillingness to register for tax purposes on the side of taxpayers which is indicated low, inadequate assessment of taxpayers based on their income, inadequate identification of taxpayer and inadequate audits of taxpayers' books of accounts to ensure compliance with registration. Studies carried out put emphasis on effective registration of taxpayers in Local Government in order to increase the base, (Kogler, Batrancea, Nichita, Pántya, Belianin, & Kirchler, 2012) since many small and medium taxpayers do not register voluntarily (Nkote & Tsubira, 2013). In

an interview with Chief Administrative Officer, Taxpayers' do not willingly register and the district does not have enough resources to facilitate monitoring of taxpayer' compliance with registration "Inadequate funds hinder the district to carry out audits of taxpayers' books of accounts to ensure compliance with registration" he said.

Table 6: Timely Reporting

Items	Mean	Std. Deviation	Interpretation
Taxpayers report willingly	2.02	1.02	Low
Taxpayers keep up to date transaction records and books of accounts	2.41	1.16	Low
Taxpayers report to Lira District Local Government/Sub County for assessment of tax liability	2.45	0.98	Low
Taxpayers disclose all income earned for tax purposes	2.04	1.02	Low
Taxpayers understand the penalties for late or no reporting	3.11	1.20	Moderate
There are sufficient resources to audit all taxpayers	2.80	1.03	Moderate
Taxpayers' promptly declare their income to Lira District Local Government	1.97	0.91	Low
Aggregate Mean and Std Deviation	2.40	1.05	Low

N=169

**Legend:** 1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High

With regard to reporting, the finding indicated that there is low reporting by taxpayers as most of the respondents indicated low reporting at a mean of ( $\bar{x} = 2.40$ ) and ( $s = 1.05$ ) with regards to scale used in the study, indicating inadequacy of monitoring reporting process of taxpayers in Lira district Local Government. The high standard deviation shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. The Mean could mean Taxpayers are not willing to report for tax purpose and those who report do not do it in time of reporting and even they do not report honestly for many under report their income for tax purposes due to inadequacy of accounting records for reporting by taxpayers. Studies carried out state that, tax reporting compliance requires adequate record keeping, for a taxpayer can fail to comply either because he has made an honest mistake while reporting because he lacked record, or because he wanted to evade his tax liabilities from the beginning because noncompliance with reporting means situations where individuals underpaid or overpaid their taxes, called underreporting or over-reporting (OECD, 2008).

In an interview with the District Revenue Officer he said that taxpayers are not willing to report for tax purposes and those who report do not report honestly "many under report their income for tax purposes" he said. However, inline with Kogler et al (2012), model predicts that taxpayers voluntarily report more income in response to either an increase in the probability of being detected, or an increase in the penalty imposed on those who are caught meaning that since, the taxpayers are unwilling to report through monitoring of their reporting process since it increases their probability of being detected hence improvement on compliance on reporting.

Table7: Timely Payment of all tax Obligation

Items	Mean	Std. Deviation	Interpretation
Taxpayers always pay their taxes in time	2.40	1.06	Moderate
Taxpayers are reminded to pay their tax obligations when they delay	3.69	0.97	High
Taxpayers are aware of the consequences of nonpayment of Local tax	3.40	1.167	High
Taxpayers do not pay their taxes regularly	3.37	1.17	Moderate
Taxpayers are well educated on their tax obligations	2.80	1.10	Moderate
Payment mode of taxes is friendly to taxpayers	2.94	1.21	Moderate
Taxpayers delay to pay taxes	3.82	0.96	High
Taxpayers pay actual tax amount assessed	2.72	1.17	Moderate
Taxpayers understand the penalties for non-payment of all tax obligations	2.93	1.18	Moderate
Aggregate Mean and Std Deviation	3.12	1.11	Moderate

N=169

**Legend:** 1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High

With regard to reporting, the finding indicated that there is moderate timely payment of all tax obligation by taxpayers as most of the respondents indicated moderate timely payment of all tax obligation at a mean of ( $\bar{x} = 3.12$ ) and ( $s = 1.11$ ) with regards to scale used in the study, indicating inadequacy of monitoring Timely payment of all tax obligation process of taxpayers and high standard deviation shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. This could be due to political pressure on the local tax



administration to relax on monitoring taxpayers' compliance (Balunywa, Nangoli, Mugerwa, Teko, & Mayoke, 2014). Lira district local government may lack qualified personnel to carry out the Monitoring of Taxpayers' Timely Payment of tax obligation or lack of resources to carry out the monitoring of taxpayers' timely payment of tax obligation such as airtime to make a follow up on taxpayers' payment.

**Table 8: Summary of Monitoring Taxpayer's Compliance**

Item	Aggregate Mean	Std. Deviation	Interpretation
Effective Taxpayers' Registration	3.21	1.12	Moderate
Timely Reporting	2.40	1.05	Low
Timely Payment of Tax obligation	3.12	1.11	Moderate
Grand Mean and Std Deviation	2.91	1.09	Moderate

**N=169**

**Legend:** 1.00 – 1.79 *Very low*, 1.80 – 2.59 *Low*, 2.60 - 3.39 *Moderate*, 3.40 – 4.19 *High*, 4.20 – 5.00 *Very High*

In summary, the findings revealed that Taxpayers Compliance (Effective Taxpayers' Registration, Timely Reporting and Timely Payment of Tax obligation) in Lira District Local Government is moderately monitored with mean at ( $\bar{x} = 2.91$ ) indicating a moderate mean as per legend scale used in the study, implying that monitoring taxpayers' compliance by Lira District Local Government is inadequate. The high standard deviation of ( $s = 1.09$ ) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. The inadequate monitoring of taxpayers' compliance by Lira District Local Government could be due to ineffectiveness of Taxpayers' Registration, Taxpayers not reporting promptly and Taxpayers not paying their all their tax obligation on time (Nkote & Tsubira, 2013; Kogler, Batrancea, Nichita, Pántya, Belianin, & Kirchler, 2012; Balunywa, Nangoli, Mugerwa, Teko, & Mayoke, 2014) Yet Monitoring Taxpayers' Compliance and deterring noncompliance requires establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment" (OSEBE, 2013).

In an interview with the Chief Administrative Officer, Lira District Local Government in the process of monitoring taxpayers' compliance makes follow up on taxpayers registration, reporting and payment of obligation and in the process of making a follow-up, Lira District Local Government meet taxpayers and carryout tax education and awareness of taxpayers on the collection, utilization and accountability of local revenues. However, Lira respondents indicate less success, due to too much political interference in the running of work by technocrats who said that councilors were not well educated and knowledgeable about government programmes. More still, No penalty for noncompliance and no enforcement coupled with high cost of monitoring has made the district not to carry out monitoring of taxpayers successfully.

### 4.3 The Level of Local Revenue Performance

The second objective of the study was to determine the level of Local Revenue Performance. This objective was analyzed using mean and standard deviation. The specific variables investigated under this, included proportion of tax and the level of tax evasion. The detail of the findings is as shown in the table below;

Table 9: Proportion of tax

Items	Mean	Std. Deviation	Interpretation
Lira District Local Government reviews the rates/charges of Local tax frequently	3.16	1.11	Moderate
Impact of the Local tax collected on tax revenue collection is computed	3.54	.98	Moderate
Local tax collection in terms of volume has increased tremendously	3.25	.81	Moderate
During local taxpayers monitoring, cost of providing the service is put into consideration	3.37	1.04	Moderate
Aggregate Mean and Std. Deviation	3.33	0.99	Moderate

**N=169**

**Legend:** 1.00 – 1.79 *Very low*, 1.80 – 2.59 *Low*, 2.60 - 3.39 *Moderate*, 3.40 – 4.19 *High*, 4.20 – 5.00 *Very High*

With regards to proportion of tax, the results indicated that Moderate proportion of tax from Local Revenue Collection. This is because most of the respondents thought that proportion of tax at a mean of Mean ( $\bar{x} = 3.33$ ), which is a moderate. The high standard deviation of ( $s = 0.99$ ) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. The moderate proportion of tax is attributed to lack of taxpayers' satisfaction with Payment mode, usage of tax money, transparency in their treatment and magnitude of tax burden

(rates/charges of local tax) which may be seen high. Furthermore this could be as a result Lira District Local Government council's inability to collect Local revenues due to them which is similar to the finding that many Local Government councils today do have the ability to collect fully the revenues due to them (Fjeldstad, 2013). From interviews, the low revenue performance is attributed to lack of enforcement, political interference by politicians, no penalties for tax defaulters. In an interview with Revenue Tax Officer, there is low revenue performance in Lira District due to the fact that they only carry out tax education and it is upon the taxpayers to pay or not to pay for they do not enforce unlike Uganda Revenue Authority.

Another dimension of Local Revenue Performance besides the proportion of tax is tax evasion. The detail of the findings is as shown in the table 10 below;

Table 10: Tax Evasion

Items	Mean	Std. Deviation	Interpretation
There is adequate information on tax evasion	2.74	.91	Moderate
Tax payers evade Local tax because rates are high	3.02	1.07	Moderate
Tax payers evade Local tax because they do not get value for their money	3.01	1.23	Moderate
Tax payers understand their civic responsibility to pay taxes	3.05	1.09	Moderate
Those who evade paying tax repeatedly receives Punishment	2.90	1.23	Moderate
Lira District Local Government has been successful in dealing with tax evasion over the last 5 years	2.70	1.00	Moderate
Tax evasion is on the increase Lira District Local Government	2.92	.93	Moderate
Tax evasion is a minor crime Lira District Local Government	2.63	1.08	Moderate
Lira District Local Government is able to detect people evading tax	3.17	1.15	Moderate
Aggregate Mean and Std. Deviation	2.90	1.08	Moderate

N=169

**Legend:** 1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High

With regards to Tax Evasion, the results indicated that there is a moderate level of tax evasion. This is because most of the respondents thought that tax evasion at a mean of Mean ( $\bar{x} = 2.90$ ), which is a moderate. The high standard deviation of ( $s = 1.08$ ) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. The moderate level of tax evasion is attributed to the fact that Lira District Local government is not able to detect tax evasion, and deal with it (punish tax evaders).

In an interview with District Revenue Officer, Lira District does not levy penalties on tax evaders but once they are discovered they are asked to pay their arrears only. Furthermore, it may be attributed to Taxpayer not declaring their income for tax purpose honestly or under reporting. For tax evasion involves acts of omission (e.g. failing to report certain revenues) or commission (e.g. false reporting of personal expenses as business expenses) and is liable to prosecution and fines" (Kogler, Batrancea, Nichita, Pántya, Belianin, & Kirchler, 2012). If taxpayers fail to provide their correct taxable liability to the tax authorities, then they are assumed to be evaders; if taxpayers fail to report on time, then they are assumed to be evaders; and if taxpayers' underreporting is not made due to mistakes in filing taxes (such as miscalculations or overestimation of deductions) then they are assumed to be evaders (LUMIR, 2013).

Table 11: Summary of level of Local Revenue Performance

Item	Aggregate Mean	Std. Deviation	Interpretation
Proportion of tax	3.33	0.99	Moderate
Tax Evasion	2.90	1.08	Moderate
Grand Mean and Std Deviation	3.12	1.04	Moderate

**Legend:** 1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High

In summary the findings revealed that there is moderate level of Local Revenue Performance in Lira District Local Government with mean at ( $\bar{x} = 3.12$ ) indicating a moderate mean as per legend scale used in the study. The high standard deviation of ( $s = 1.04$ ) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter. The mean confirms that there is low Local Revenue Performance in Local Government as was asserted (Tumushabe, Elijah, Lillian, Daniel, & Eugene, 2010; Balunywa, Nangoli, Mugerwa, Teko, & Mayoke, 2014) This low Local Revenue Performance could be due to Lira District Local Government councils' inability to collect local revenues due to them which is similar to the finding that many Local Government councils today do have the ability to collect fully the revenues due to them (Fjeldstad, 2013). (Fjeldstad, 2013) Or taxpayers evading taxes in Lira District (Kogler, Batrancea, Nichita, Pántya, Belianin, & Kirchler, 2012)

#### 4.4 Relationship between Monitoring Taxpayers' Compliance

The third objective of the study was to establish the relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance. This objective was analyzed using Pearson correlation logistic linear regression in examining the relationship and the extent of the relationship between the two variables. Regression was used to help determine the contribution of each construct towards Local Revenue Performance. The results in the table below indicate the Pearson (r) correlation coefficients for the variables and these were Taxpayers' Compliance and Local Revenue Performance. A positive relationship between any two variables indicates that an increment in one variable brings about an increment in the other. On the other hand, if an increment in one variable causes a decrease in the other variable, then there is a negative relationship between the two variables.

Table 12: Relationship between Monitoring Taxpayers' Compliance and LRP

r	.727**
P -Value	.000
N	169

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

Source: Primary Data

Results reveals that there is positive and significant relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance ( $r = 0.727^{**}$ ,  $P=.000$ ). This strong positive relation implies that adequate Monitoring of Taxpayers' Compliance ensures better Local Revenue Collection Performance. This result is in agreement with OCED (2008) which advocates to tax bodies for monitoring Taxpayers' Compliance in order to improve on Local Revenue Collection Performance. When it comes to the extent to which this relationship exists as seen from the Pearson Correlation table by the use of adjusted R square, this implies that Monitoring Taxpayers' Compliance contributes 52.9% to Local Revenue Performance in Lira district Local Government, the remaining 47.1% is as a result of other factors that were not considered in this study which still need to be established too. This means that there are other factors that the monitoring Taxpayers compliance should interrelate with such that high Local Revenue in Lira district Local Government is realized.

#### 4.5 Extent of Monitoring Taxpayers' Compliance on Local Revenue Performance

Multiple Regression analysis revealed the extent to which Monitoring Taxpayers' Compliance predicted Local Revenue Performance in Lira district Local Government as shown in the table below

Table 13: Multiple Regression Analysis

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. error	Beta		
(Constant)	1.543	.377		4.090	.000
Effective Taxpayers' Registration	.400	.125	.214	3.201	.002
Timely Reporting	.544	.107	.334	5.086	.000
Timely payment of all tax Obligation	.672	.124	.344	5.412	.000

a. Dependent Variable: Local Revenue Performance

Source: Primary Data

In the multiple regressions the model takes the form of an equation that contains a coefficient (b) for each independent variable. The first part of the table gives us estimates for b values indicating individual contribution of each of the independent variables to the model. The beta value tells us about the relationship between monitoring taxpayers' Compliance and Local Revenue Performance in Lira district Local Government. The result indicated that there was a positive significant relationship between Effective Taxpayers' Registration and Local Revenue Performance in Lira District evidenced by the P-value (sig. = 0.02) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, Effective Taxpayers' Registration contributes 0.214 (21.4%) to Local Revenue Performance in Lira district Local Government. The result indicated that there was a positive significant relationship between Timely Reporting and Local Revenue Performance in Lira District evidenced by the P-value (sig. = 0.00) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, Timely Reporting contributes 0.334 (33.4%) to Local Revenue Performance in Lira district Local Government.

The result indicated that there was a positive significant relationship between Timely payment of all tax Obligation and Local Revenue Performance in Lira District evidenced by the P-value (sig. = 0.00) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, Timely payment of all tax Obligation contributes 0.344 (34.4%) to Local Revenue Performance in Lira district Local Government.

#### 4.6 Testing of the Hypothesis

The null hypothesis was tested using the p – value, where if the p – value is less than the level of significance, then the null hypothesis is rejected. The null Hypothesis that there is no relationship between Monitoring taxpayers' Compliance and Local Revenue Performance was rejected because the p – value of 0.000 was less than the level of significance of 0.05. The alternative hypothesis that there is a significant relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance is adopted.

#### 5.0 Conclusion

There is moderate Level of Monitoring Taxpayers' Compliance and Low Revenue Performance Lira District Local Government. The moderate Level of Monitoring Taxpayers' Compliance has led to Low revenue Performance Lira District Local Government compels the researcher to reject the null hypothesis, and concluded that there is positive significant relationship between Monitoring Taxpayers' Compliance and Local Revenue Performance in Lira District Local Government.

#### 6.0 Recommendations

Basing on the above findings and conclusion, the researcher therefore recommends that; The district should consider empowering of taxpayers with relevant knowledge and skills considered vital in the expedition of their tax obligations with easy and to enable them be aware of their moral obligation to register for tax purposes, report promptly for tax purposes, timely payment of tax obligation. There should be massive sensitization programs to increase awareness, educate the public and remind taxpayers that they are partners, as opposed to mere subjects forced to pay taxes. In addition to the above, the researcher also recommends that political leaders should be restricted from interfering with the work of technical staff. This study also recommends that councilors in Local Governments should offer voluntary services to their communities and not work with the expectation of being paid; this will help reduce pressure on the already limited resources that local councils have to do community work.

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