TAX EVASION AND REVENUE COLLECTION PERFORMANCE IN LOCAL GOVERNMENTS IN UGANDA.
A CASE STUDY OF KAMPALA CITY COUNCIL (KCC).

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A RESEARCH REPORT SUBMITTED TO MAKERERE UNIVERSITY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF COMMERCE OF MAKERERE UNIVERSITY.
DECLARATION

I declare that this Dissertation is a result of my own investigation and it has never been submitted to any other institution for any reward. Where it is indebted to the work of others, due acknowledgement has been made.

Signature…………………… Date……………………………………

NSHEMERIRWE JACKRINE
APPROVAL

I certify that the candidate was under my supervision. This work was submitted with my approval as a supervisor for the partial fulfillment of the award of Bachelor of Commerce of Makerere University.

Signature………………………. Date……………………

PASTOR YOWEL SHALOM.
DEDICATION

I dedicate this work to my family members, Guardians and Friends for their moral, Financial and spiritual support towards my life while studying this Course. May the almighty God reward them for me?
ACKNOWLEDGEMENT.

To begin with, I take the pleasure to give special thanks to God Almighty who has been their for me at all times and to whom I owe everything.

With great gratitude I thank my Supervisor Pastor Yowel Shalom for without his guidance, this work wouldn’t have been a success.

My heartfelt appreciation goes to my beloved parents, Mr. and Mrs. Bishanga J.P & Irene Boonabaana, my guardians Pat and Eileen Brennan, Mr. Byaruhanga Ignatius and everyone who has done all it takes to make my education a success.

I also owe a great deal of thanks to management and staff of Kampala City Council especially Mr. Ndaula the Finance manager, Market vendors of St. Balikudembe Market for having sacrificed their time amidst their tight schedules to fill my questionnaires. May the Almighty God Bless you

It would also be a disservice to forget not only my group members but also my friends; Annet, Martha, Doreen, Carol, Sadat, Leonard, Moses, Innocent, Peter and many others with whom we have always shared ideas and experiences. I will always cherish you for your contribution towards my bright future.
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ABSTRACT

The study was carried out to assess the effect of Tax Evasion on Revenue collection performance in local governments in Uganda with particular emphasis on Kampala City Council. The study was prompted by the persistent revenue shortfalls that have made it difficult for the local governments in general and Kampala City Council in particular to fully implement their budgets. The study aimed at evaluating the causes of Tax Evasion and other factors affecting revenues collected.

The specific objectives of the study were;
To examine the factors affecting revenue collection performance in KCC.
To examine the causes of tax evasion among potential tax payers in KCC.
To establish the nature of the relationship between tax evasion and Revenue collection performance.

The study employed a descriptive survey design on a sample of 30 respondents who were selected using purposive sampling from KCC officials and simple random sampling from St Balikudembe Market vendors. Data from this source was also supplemented by secondary data from text books, Journals and dissertations. Questionnaires were designed and administered to the respondents.
Findings of the study revealed that the major factors for revenue collection are; Level of income of tax payers, willingness of tax payers, level of tax administration, existence of various Acts among others.

The study further revealed that a number of sensitization programs have been exercised by KCC for example early assessment of tax payers, publishing of budgets and final accounts of KCC, Review programs on benefits of paying taxes among others.

More so the causes of tax evasion were revealed as, poor record management, high tax rates, tax payers not knowing the value of paying taxes among others.

It was discovered that revenue collections are always short of targets basically due to high rates of tax evasion and some corruption tendencies.
The relationship between tax evasion and revenue collection was determined using Karl Pearson’s correlation coefficient. It was established as 0.84. It was concluded that there is a strong positive relationship meaning that the low levels of tax revenues are significantly due to tax evasion with other factors taking a light blame.

It was recommended among others that; KCC should revise its tax rates with the objective of increasing revenue through tax base widening, improve personnel training and logistical support, engage in massive public awareness as far as the need to pay taxes is concerned as well as providing proper accountability for the tax revenue collected.
CHAPTER ONE

1.0. Background to the study.
Local governments were given the mandate to raise their own revenue to finance their activities (Local Government act 1997). A large portion of this revenue is from taxes and according to Wilkinson, Taxes play a much larger role in society and the general economy than the mere raising of revenue. A tax is confined to compulsory un equitable payment to the general government.

1.0.1. Tax Evasion
Tax evasion refers to the minimization of one’s tax liability by methods that violate the provisions of tax codes and it’s therefore an offence that if one discovered could lead to imposition of criminal proceedings against the tax payer.
Tax evasion is a universal phenomenon which has been in existence for a long time and still continues to impose growing challenges on tax authorities and the government.
Lack of transparency among various tax payers and informal sectors in Kampala city like the venders along Kampala streets for example the venders who normally sell at night along Kampala streets to avoid payment of taxes all indicates tax evasion.

According to findings by Dr Marios Obwama, total revenue loss due tax evasion as a result of underreporting of incomes in 1992/93 was 480 millions, hence explaining the causes of persistent budget deficits despite the collection of tax revenues.
More so, according to Allen Kagina (URA Commissioner), “URA has been inconsistent in meeting its revenue targets due to intensive tax evasion. “Source, Daily Monitor June 13 2006.Tax evasion comes in a number of different forms among which is ignorance of tax obligations and evasions, poor tax administration and un favorable economic factors.

1.0.2 Revenue collection
Tax revenue is the amount of money generated through taxation.
Taxation is one of the major fiscal policy instrument through which the government gets most revenues.
Adam Smith one of the apostles of laissez-faire defined clearly the duties of the government to include maintenance of security, giving instructions and improving the productivity of land by building the infrastructure. Government will therefore will continue to emphasize domestic revenue mobilization in order to ensure that country`s dependence on external finance is reduced. As a result of the poor performance of the tax policy in Uganda in the past years, the government resorted to heavy external borrowing to finance her budget expenditure. According to Sam Kutesa (once the mister of foreign affairs, source, New vision June 13th 2005), Uganda spends up to US $ 200million to service its debt annually. According to the report revealed in 2007/2008, Uganda received grant of US Dollar 10.2 billion from United State government to strengthen investigation and documentation of corruption cases in taxation to boost the tax policy.
While of recent according to the paper (quarterly publication of the economic policy Research centre Nov 2009), URA collections underperformed by approximately shillings 23.9 billion against the months target of shillings 328.46 billion.
It is this continued variance in revenue collection performance as evidenced from above that prompted the researcher to find out whether it is due to tax evasion or other factors, to find out causes of tax evasion and relate it with revenue collection performance.

1.1. Statement of the problem.
According to local government Act 1997, Local governments in Uganda and KCC in particular were given the mandate to raise their own revenues to finance their activities.
However much as the government is said to have sovereign right to collect taxes, nobody likes paying taxes and yet everybody appreciates that taxes need to be paid. This drives some persons into the act of tax evasion. Several policies have been undertaken to reduce this act for instance the formation of Uganda Revenue Authority(URA) in 1991 was to strengthen tax revenue collection, and anti-corruption measures have been undertaken to reduce amount of tax loss. For example, 2007/08 Uganda National Budget revealed that Uganda received 10.2 billion from US government to strengthen tax investigations and documentation.
Despite of the above efforts and commitments to reduce tax evasion, according to Allen Kagina (URA Commissioner) “URA has been inconsistent in meeting its revenue targets due to intensive tax evasion” source, Daily monitor June 13th 2006.

Also, during the financial year 2005/06, KCC planned to collect 17,390 millions but received 11,125 millions (from Budget Framework paper 2007/08).

From this we note that revenues have persistently fallen short of targeted, it’s this that have prompted the researcher to try finding out whether such revenue collection performance is being brought about mainly by tax evasion or other factors as yet to find.

1.2. Purpose of the study.
To establish the nature of the relationship that exists between tax evasion and revenue collection performance in local governments in Uganda in general and KCC in particular.

1.3. Objectives of the study.
1. To examine the factors affecting revenue collection performance in Kampala City Council (KCC).
2. To examine the causes of tax evasion among potential tax payers in Kampala City Council.
3. To establish the nature of the relationship between tax evasion and revenue collection performance in Kampala City Council (KCC).

1.4. Research questions.
1. What are the factors affecting Revenue collection performance in Kampala City Council?
2. What is the nature of the relationship between tax evasion and Revenue collection performance in Kampala City Council?
3. What are the causes of tax evasion among potential tax payers in Kampala City council?

1.5. Scope of the study.
Subject scope.
This study focuses on the nature of the tax evasion as independent variable and revenue collection performance as a dependent variable. Tax evasion practices have an impact on revenue collection performance especially in developing countries (Shalinzi and squire1989).
Revenue collection performance means percentage of budgeted collections that is actually collected as was suggested by Nsamba (2000).

The actual tax paid by the tax payers honoring their obligations also shows the performance as was suggested by Nsamba (2000) and as was used by Abigaba (1998) and Driaro et al (1998).

**Geographical scope.**

The study is limited to Kampala City Council because it contributes over 80% of the total government revenue. The research focuses on local sources of revenues collected by Kampala City Council. The study therefore attempts to examine tax evasion, how it influences revenue collection performance and recommendations on maximizing revenue yields.

**Time scope.**

The period within which this research is to be carried out is between 2005 to 2011. Therefore this research is limited to this period.

**1.6. Significance of the study**

The study will provide information to policy makers especially in Ministry of Local Governments (including KCC) and donors to find lasting solutions to the persistent financial problems of local governments in Uganda.

Understanding the factors affecting revenue collection performance is also important to policy makers at local government level, so this study will be beneficial to local governments if they are to perform better in revenue collection and consequently better service delivery.

The findings will assist URA to curb corruption and other revenue malpractices (such as tax evasion and smuggling) within their rank and files.

The study will also result into partial fulfillment the award of Bachelor of Commerce of Makerere University to the researcher.

The study will help to identify the gaps that lead to tax evasion in local governments and make recommendations in attempt to curb down tax evasion.
REVIEW.

If I had to do this chapter again, I would include the following.

- Effects of taxation
- The difference between tax evasion and tax avoidance.
- Evolution of taxation.

Future Researchers are encouraged to include the above in their research.
CHAPTER TWO:

LITERATURE REVIEW

2.1. Introduction
In this chapter, the researcher reviews literature in relation to the study variables as published by different scholars.

2.2.0. Definitions of terms.

2.2.1. Tax
A tax is a compulsory levy imposed by the government upon assesses of various categories. These may be individuals or other legal persons. Tax according to Mannesh, 2000 is paid without corresponding returns in terms of goods and services from government to particular tax payers. For a tax to be known as income tax it should be charged for each year of income and it there by imposed on every person who has chargeable income [income tax Act1997]

2.2.2. Tax base.
According to Lubega, I. (1999), a tax base is the object on which a tax is based for example income tax is based on income.

2.2.3. Tax administration.
Sake (1998), defined the process of tax administration to include the identification and registration of the tax payer to whom he law applies; the assessment of this tax payer either through self or compulsory assessment; the collection of tax dues and accounting for them to the state (heads of the council for this case) and advising the state (heads of the council) on better ways in which more revenues can be collected by pointing out areas of improving the legal and institutional framework.
2.2.4. Tax assessment.
Under Sec 3 of the income tax Act, assessment is defined as the ascertainment of chargeable income and the amount of tax payable on it by the tax payer for a year of income under this Act, including a deemed assessment under Section 97. Among the major assessment activities are evaluation and audits and the latter activity being the most important (Denjntscher, 1992). Bird (1992) asserts that audits to be effective must be selectively based on some rational citizens and should in any case include intensive field audits conducted by well trained officers. Pigou (1951) noted that any tax formula is made of two elements, namely the object of assessment and the function. This function relates the quantity of revenue to be raised from the individual tax payers to the quantity of assessable objects in their hands, that is, the relationship between revenue and tax base.

2.2.5. Taxation.
Taxation as defined by Mugerwa (1990) is a sovereign right the state uses to transfer resources from private use to public use in the way that is most suitable and consistent with the economic goals of the society. According to Dalton (1987), taxation is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return. While to Orsbrnes (1984), taxation is the imposition of duties to raise revenue. Taxes play a much larger role in society and to the general economy than the mere raising of revenues according to Margaret Wilkinson.

However according to Tayebwa (1992), the government of Uganda has three main sources of revenue. These include tax revenue, non tax revenue and donations or grants. Taxes serve two purposes as a tool to protect infant industries by idea of tax holidays in order to make them compete with already existing firms and revenue for financing government expenditure. Taxation to be effective should be based on certain principles according to Mugerwa (1989), the tax system in the world has developed on the principles of economics, political and social factors but the economic factors are the manifold ones. Therefore a good tax system should be designed in such a way so as to meet efficiency in resource allocation, goals of macro-policy as well as administration.
Adam Smith for example quoted Mwanja Wilson (1999) suggested that a good tax should be economical, ensures equity, certainty, convenience and simplicity.

According to Truett et al (1987), the tax burden should be based on two criteria, the benefit and the ability to pay criteria. While the benefit criteria spell out that those who receive the benefit financed taxes should pay for them, the ability to pay criterion stresses for payment in respect to ability.

Robinson and Starnford(1993) argues that the government exists for the purpose like improving the welfare of the population or promoting economic development and that they use taxation as a tool for attaining these expectations. Taxes are a means of financing social welfare, enhancing policies and programs. The ultimate goal of taxation is therefore welfare maximization.

2.3.0. Tax evasion

Tax evasion refers to ones tax liability by methods that violate the provisions of tax codes and it’s therefore an offence that if one discovered could lead to imposition of criminal proceedings against the tax payer.

Tax evasion is a universal phenomenon which has been in existence for a long time and still imposes growing challenges on tax authorities and the government.

Whiteman and Wheat Craft (1965) defined tax evasion as a reduction of tax liability by omitting certain items from returns. However this was opposed by Ruffin and Gregory (1938) that if people believe that taxes are unfairly levied, they will evade them. Iga (1999) differentiated it from tax avoidance explaining that tax avoidance involves using legal means to prevent or reduce tax liability which the tax payer would otherwise have incurred.

2.3.1. Factors affecting tax payer’s compliance

Several writers have come up to suggest what really affects the tax payer’s compliance leading to evasion of taxes.

Chon and Reinikka (1999) argue that people engage in tax evasion when the expected benefits(low taxes) are equal to the expected costs(bribes and punishments).
This tends to agree with Alongham and Sandmo (1972) who also suggested that a rational individual’s choice to evade will be based on the expected gains or losses associated with the decision.

To further the argument, Bird (1989) asserts that evaders in most developing countries can realistically assign expected value of zero to the likelihood of being detected and penalized; that the more severe the penalty, the less likely it is to be applied which showed a weakness in administration.

However he noted that, penalizing non compliers appeared to have had a healthy effect on stimulating compliance, a view Iga (1999) agreed to.

Contrary to that view, Wentworth et al (1985) asserted that causes of tax evasion are the exchange, social class and chances available for evasion. Evaders in that study reported that they were not getting value for their money, tax rates were too high and that government did not spend payer’s money wisely, that the burden of taxes fell on low income and salary earners. These view seem prevalent in Uganda (see Abigaba (1998), Muhumuza (2000), Lubega (2000), although on the issue of tax rate, Yitzhaki (1986) and Etzioni (1986) argue that tax evasion is basically independent of the tax rate.

WallSchutzky 1983) asserts that tax evasion is mainly as a result of the exchange relationship which considers the benefits from the government, the social orientation and administration officers may influence tax payer’s response.

To further the argument, Glasser and Denhardt (2000) asserts that citizens are increasingly reluctant to pay taxes based on the perception that they are getting a poor return on tax dollars invested.

In Uganda, the benefit and exchange arguments as proposed by Wallschutzky (1983), Bird (1991), Bird et al (1995) and Mclure (1998) are some of the explanations of evasion especially in the urban areas (Abigaba, 1998) like Kampala city.

Edward et al (1998) noted that a tax payer’s probability of being audited reduces his probability to evade. However, Bird (1991) argues that tax evaders in most developing countries can
realistically assign expected value of zero to the likelihood of being detected and penalized and that voluntary compliance is largely a myth. Bird (1992) added that ones willingness to pay is also affected by existence of evading members in society. Although, improvement in tax collection in Uganda 1996 was attributed to the vigilance of the administration and people’s willingness to pay (Kasumba 1997).

Shalinzi and Shan (1991) with a broader perspective noted that tax structures in most developing countries (like Uganda) raises little revenue and the reason seems to be (Tirsk, 1991) weak administration, tax evasion and avoidance. He argues that to obtain better compliance, countries should strengthen tax administration activities including collection procedures.

According to Tanzi and Shome (1993), tax evasion is universal. It takes place in all societies, social classes and professions. They argue that tax evasion depends on the economic structures, level of income and tax payer’s social attitudes. Tax evasion solely rests on attitudes towards risk, given full information regarding tax administrator’s behavior. Since tax evasion impacts on revenue collection, it can as well be argued that economic and tax structures, tax payers, levels of incomes and social attitudes play a role in determining revenue collection.

Obwana (1999) argues that concealing the income of self employed households can lead to the conclusion that there is no enough revenue to be taxed. He argues that evasion occurs when some individuals fail to disclose their incomes or employment or both to the tax authorities. As a result, some activities are not recorded in the official statistics. The more people evade taxes, the more the tax base and tax revenue eroded. Successfully evasion may be due to administrative inefficiency, poor tax culture, political interference or a combination of these or other factors as this research seeks to establish.
2.3.2. Forms of tax evasion

According to Mwenda, tax evasion can take any of the following forms:

- Failure to report incomes, profits or gains otherwise legally chargeable to tax.
- Reporting only part of the income, gains or profits.
- Maintaining false books of accounts with intent to reduce taxes.
- Making false claims of expenses or allowances or deductions.
- Under declaration of goods for duty purposes.
- Outright smuggling to avoid payment of duties.

2.4.0. Revenue collection performance

Revenue performance is the tax that is collected and it shows the compliance of tax payers (Mulindwa, 2000).

Raising local government revenue enhances local government legitimacy in its dealing with the centre (Sholton, 2000) and as Okumu (1991) noted, without funds from taxes, local authorities would virtually grind to a halt if central government failed to provide substitute funds. He adds that the objective of raising taxes is to raise revenues for the government so that it can undertake its various policy measures concerning the society as a whole.

2.4.1. Factors affecting Revenue collection.

However, Baffes and Shan (1990) carried out a study in South Africa to determine the causes of revenue shortfalls and found out that shortfalls arose from increased abnormal expenditure. The expenditure did not match the actual growth of the revenue trends in real terms.

With James and Nobes (1992), it is found that administrative expenditures during budgeting process caused inefficiencies in tax revenue collection. They suggest that clear monitoring procedures were required to determine and measure costs such as salaries and wages of revenue collectors, enumeration and assessment of the tax payer, etc. They therefore established that efficiency in tax collection would be realized if these costs were checked with high level of
accuracy. These would enhance smooth running of revenue collection exercise and reduction of tax evasion and avoidance.

Pigou (1951) contends that any tax formula is made up of two elements namely, the object of assessment and function. He points out that the function relates the quantity of revenue to be raised from the individual tax payer to the quantity of assessable object in their hands. That is, the relationship between tax revenue and tax base. He asserted that theoretically, this base can be anything but practically, it is largely some sum of money or income in some cases it is quantity of stuff such as commodities or land. In a nut shell he suggests that tax revenue is a function of tax base.

Musgrave and Musgrave (1983) noted that assessment and collection of taxes require personnel and equipment. Tax revenue collectors ought to be facilitated with equipment that enables them execute their duties efficiently and effectively. Personnel ought to be empowered to rightly assess, collect and remit tax revenue to the treasury. Therefore how much is collected in tax revenue will depend on how well equipped the tax personnel is.

Samuelson and Nordhous (1991) argue that the major reason why direct taxes have become more increasingly popular is that they can easily be tailored to fit personal ability to pay. They further argue that justice implies taxing equals equally. Therefore the progressiveness and repressiveness of the tax system has got an important bearing on revenue collection. It therefore suffices to say that if local governments are to circumstances such as the size of the family, income, age and more generally the ability to raise more revenue, they should pursue a progressive tax system.

Bagchi and Stern (1994) argue that India experienced a wide range of tax revenue shortfalls due to gaps in income distribution between the poor and the rich under federal system of governance. The rich who formed the largest portion of tax revenue deliberately evaded tax payments. Revenue mobilization was a problem due to the inefficiencies in tax structure.
Prest (1962) argued that the relationship between the tax payers and tax collectors play an important role in determining the revenue collected. There is need for manual respect between the tax payers and tax collectors if taxes are to be collected efficiently and effectively. A study was carried out and it was found out that income tax in most developing countries is more dependent on the cooperation between tax payers and tax collectors and that lack of mutual respect between the two may increase non tax compliance and lowering revenue collection.

In Uganda, political interference has had an impact on revenue collection. In a study on fiscal decentralization in Uganda, it was found out that, local revenue is falling partly because some politicians tend to grant informal tax holidays before elections (MoLG, 2000). This lowers revenue collection by the respective local authorities.

Simon (1993) singles out heavy reliance of local governments on a few revenue sources as possible cause of low revenue collection. He accordingly recommended diversification of revenue sources in recognition that no particular source of local government revenue could solve her problems on its own. However it is noted that Kampala City Council despite enormous diversification of revenue sources, still encounters revenue collection shortages, implying that there should be other causes to be explored in this study.

Tanzi (1988, 1992), Tait (1991), Casanare de Jantscher (1982), argue that inefficient tax administration has been identified as one of the serious constraint to tax revenue mobilization. Tanzi (1987) notes that inefficient tax administration can result from lack of resources, lack of necessary degree of professionalism and accountability and lack of clear strategy for improving efficiency. He also argues that complex and opaque laws and the political system can lead to inefficient tax administration. This problem could also be responsible for low revenue collection from the non tax sources.

According to the paper produced on performance of the economy in Uganda (November 2009) by URA, Net URA collections for the months of November amounted to shillings 304.56 billion representing a 92.72% performance against the months targets of 328.46 billions hence a shortfall.
in revenue collection for the months by 23.9 billion. This was an account of underperformance of indirect domestic taxes and taxes on international trade by 1.05% and 16.5% respectively.

REVIEW.
If I had to do this chapter again, I would include the following.

- Use journals for more Literature
- Use Internet and other Publications.

Future researchers should put the above into Consideration.
CHAPTER THREE

METHODOLOGY

3.0. Introduction
This chapter discusses the research methods and the instruments used by a researcher to carry out research. It provides a description of research design, sampling design, procedures and size, study population, data collection and instruments, data processing and analysis, limitations and problems that were encountered during the study.

3.1. Research design.
A descriptive research design was used in which revenue collection factors and tax evasion causes were described and noted down. This was combined with a cross-sectional research design to establish the extent to which tax evasion affects revenue collection performance.

3.2. Study population.
The study targeted tax officials of Kampala City Council (KCC) and tax payers (market vendors in St. Balikudembe market and Kampala street traders) who are responsible for revenue collection and tax payment or tax evasion respectively. The population included both male and female especially tax payers because tax is usually paid by both male and female individuals who have income or property.

3.3.0. Research Variables.
The principle independent Variable was tax evasion while dependent variable was revenue collection performance.

3.3.1. Independent variable.
This was measured using five point likert scales basing on the indicators which are collection procedures, assessment, monitoring systems, compliance, sensitization etc. For example on tax payer sensitization, KCC tax officials were asked which sensitization programs were carried out
and whether tax payers were aware of what taxes are supposed to be paid, how much is to be paid and benefits and penalties of paying or not paying respectively.

### 3.3.2 Dependent variable.
The dependent variable was measured basing on the percentage of budgeted collections that is actually collected as compared to budgeted and this was summarized in the report from KCC. The five point likert scale was also used.

### 3.4. Sampling design.
Purposive sampling design was used in which KCC tax officials were purposely selected for interviews and questionnaires filling since they are the ones in custody of revenue collection data and can easily tell about revenue collection performance in recent years. For the traders along Kampala streets and St Balikudembe market venders, simple random sampling was used. This offered the researcher an opportunity for selecting respondents who fully represent the entire population. Among these traders, all the people dealing in items like second hand items say shoes, clothes, bags among others, agricultural products, plastics meat etc were listed out of which a sample was chosen.

### 3.5.0. Sample size.
The researcher collected data from 15 KCC officials responsible for tax administration and collection and 35 venders from St Balikudembe market and traders along Kampala streets. This is in line with Mosco’s rule of thumb (Sekaran, 2000) which states that a minimum sample of 30 respondents is sufficient.

### 3.6.0. Sources of data.
The researcher used both primary and secondary data. Primary data was obtained from responses from the questionnaires administered to tax payers who at times evade payment (market venders and street traders), personal interviews to both KCC tax officials and selected market venders. Secondary data was also got from KCC documents such as audit reports, budget framework papers and newspapers among others.
3.6.1. Primary data.
Data was collected from tax officials of KCC and market vendors along Kampala streets and St. Balikudembe market. These officials of KCC included accountants, tax evaluators, tax collectors, and the entire tax administration, while in St Balikudembe market and Kampala street vendors dealing in different items were covered.

3.6.2. Secondary data.
This was obtained from the following sources;

i. KCC centre (main) budget reports were used to get information about revenue collection and performance in recent years.

ii. Publications from libraries such as reports in newspapers like daily monitor, New vision etc. These formed a basis of secondary data in supplement of the primary data.

3.7.0. Data collection instruments
Questionnaires were used to collect data from respondents and to those with busy schedules were left with questionnaires that were picked later at an agreed convenient time after being filled. In cases where the respondent could neither read nor write English, the researcher read the questions to the respondent who provided the responses. Also questionnaire guided interviews were used to get information from the respondents with tight schedule because they would spare a few minutes of their time.

3.7.1. Questionnaires.
These were issued to respondents and they contained closed ended questions. This enabled the researcher to tap responses in his own words. These were employed to get information from the respondents especially those with tight schedules but who could spare a few minutes of their time.

3.8. Data processing and analysis.
After the fieldwork, questionnaires were carefully scrutinized, edited, classified coded and analyzed.
3.8.1. Data processing.
Data got from various documents and publications were read carefully and compared with the responses from respondents on the questionnaires and interview guides. This was therefore edited for completeness and accuracy and tabulated where appropriate.

3.8.2. Data analysis.
The relationship between the variables was established using Karl Pearson’s correlation coefficient and analysis was used to explain the nature of the relationship between the independent and dependent. Also tables, graphs and percentages were used to analyze, and present the findings of the study.

3.9. Problems encountered.
Like any other research study, a number of problems were encountered during the process of conducting the study.

i. Lack of co-operation from the respondents as some of them had an ‘I don’t care attitude’.
   Here the research was forced to give more clarification and more explanation as to why the research was being carried out. This gave them more confidence and they were able to respond positively.

ii. Communication was a problem as some of the respondents (market vendors and street traders) were not able to read and speak English and in which case the questionnaires had to be translated.

iii. The research required a lot of funds which were not available. This would not only impact on the sample size but also on the amount of information to be received. I was forced to borrow from my friends to enable completion of my research and sometimes had to walk on foot when taking questionnaires as a way to minimize costs.

iv. Research requires a lot of time amidst busy schedules of the researcher especially that I was doing research alongside other course units. In fact I had to obtain meaningful and sufficient information especially the market and market streets.

v. Non responses especially market vendors thought that the information being collected was for the taxation purposes.
More so, few people were willing to disclose information about their status and position as regards taxes. Some had to be convinced to fill questionnaires.

vi. The researcher got a problem in finding the official concerned with giving necessary information. It was hard getting these respondents since the study was conducted during working hours. These made it difficult for the respondents to leave their work for the sake of answering questions. However, I was able to leave questionnaires with them for some time which enabled them to be filled at their convenience like over the weekend and would pick them later.

vii. There was also a problem of inability to obtain some information from KCC. Some of the information was regarded as confidential and could not be given out. Therefore the researcher opted for publications through the resource centre of KCC and got the monthly remittances to KCC by the tax payer.

**REVIEW.**

If I had to do this chapter again, I would include the following.

- Use a Conceptual Frame work to show all the Variables
- Use Interview Guides as a method of collecting information from Respondents.

Future Researchers should put the above into consideration.
CHAPTER FOUR.
PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS.

4.1.0. Introduction
Under this chapter, a presentation, analysis and discussion of findings is done in accordance with the study objective. However, an analysis of the demographic characteristics of the respondent is done first.
The following definitions of codes were used in this section; strongly agree (SA), Agree (A), Not Sure (NS), Disagree (D), and Strongly Disagree (SD).

4.1.1 Response rate.

**Figure 1.** The graph showing sample and actual respondents.

![Graph showing sample and actual respondents](image)

**Table 4.1: Response rate.**

<table>
<thead>
<tr>
<th></th>
<th>Sample</th>
<th>Respondents</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCC (Tax) officials</td>
<td>15</td>
<td>8</td>
<td>53.3%</td>
</tr>
<tr>
<td>Market vendors</td>
<td>35</td>
<td>22</td>
<td>62.9%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>30</td>
<td>60%</td>
</tr>
</tbody>
</table>

*Source: Primary data.*
Out of the 15 questionnaires sent out to KCC officials, only eight responded representing 53.3% of the sample.

In addition, of the 35 questionnaires sent to market vendors, only 22 responded representing 62.9%.

An average response rate of 60% was got hence making the sample a sufficient measure of performance since KCC (tax) officials and market vendors (tax payers) were included.

4.2 The Background characteristics of the respondents.

4.2.1 Gender of the respondents.

Responses about the Gender of the Respondents were as follows.

Figure 2 A bar graph showing gender of respondents

<table>
<thead>
<tr>
<th>Gender of Respondents</th>
<th>Frequency</th>
<th>Valid percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>13</td>
<td>43.3</td>
</tr>
<tr>
<td>Female</td>
<td>17</td>
<td>56.7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

Results in the table 4.2 above shows that most of the respondents (56.7%) were females while (43.3 %) were males.
4.2.2: The age group of the respondents.

Concerning the age group of the respondents, the following responses were got.

**Figure 3** The graph showing frequency of respondents in age.

**Table 4.3: Age group of respondents**

<table>
<thead>
<tr>
<th>Age group in years</th>
<th>Frequency</th>
<th>Valid percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-28</td>
<td>10</td>
<td>33.3</td>
</tr>
<tr>
<td>29-39</td>
<td>14</td>
<td>46.7</td>
</tr>
<tr>
<td>40 and above</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Primary Data.

Results in the table 4.3 above indicate that most of the respondents (46.7%) fall in the age group of 29-39 years, 33.3% fall in the age group of 18-28 years where as 20% fall in the age group of 40 and above years.
4.2.3: Marital status of the respondent.

On this, respondents replied as follows.

**Figure 4. The graph showing frequency of respondents according to marital status.**

![Frequency graph showing marital status](image)

**Table 4. 4: Marital status of the respondent.**

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Frequency</th>
<th>Valid percent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>19</td>
<td>63.3</td>
</tr>
<tr>
<td>Single</td>
<td>4</td>
<td>16.7</td>
</tr>
<tr>
<td>Divorced</td>
<td>5</td>
<td>6.7</td>
</tr>
<tr>
<td>Widowed</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Primary data.**

The results above indicate that most of the respondents (63.3%) were married, 16.7% are single, 13.3% widowed while 6.7% Divorced.
4.2.4: Employment engagement of the respondents.
On their employment engagement, respondents replied as follows.

Figure 5 The graph showing employment engagement of the respondent.

![Graph showing employment engagement](image)

Table 4. Employment engagement of the respondent

<table>
<thead>
<tr>
<th>Employment engagement</th>
<th>Frequency</th>
<th>Valid percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCC Official</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>Market Vendor</td>
<td>22</td>
<td>73.3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: primary data

Revenue Collection Performance.

Objective: (To examine the factors affecting Revenue collection performance in KCC)

The following findings are in line with the objective of examining factors affecting revenue collection performance in KCC.
4.3.1: Factors for revenue Collection

On the factors that most contribute to revenue collection performance, respondents replied as follows

Figure 6 Pie chart showing factors affecting revenue collection as ranked in the table below.

Table 4.6: Factors for revenue collection.

<table>
<thead>
<tr>
<th>Factors affecting revenues</th>
<th>Frequency</th>
<th>Valid percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Level of income of tax payers.</td>
<td>5</td>
<td>16.7</td>
</tr>
<tr>
<td>2. Existence of various Acts</td>
<td>6</td>
<td>20.0</td>
</tr>
<tr>
<td>3. Willingness of tax payers</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>4. Level of tax administration</td>
<td>11</td>
<td>36.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Primary data
The results in the table and the Pie-chart above shows that most respondents (36.7%) agree with the level of tax administration as the major factor in determining revenue collection, 26.7% for the level of tax payers, 20% for existence of various Acts and 16.7% for level of income of tax payers.

4.3.2: Rating of sensitization programs.
On the sensitization programs exercised by KCC officials to maximize revenues, reply was as follows.

Figure 7 The Pie-Chart for rating of sensitization programs.

Table 4.7: Sensitization programs exercised by KCC Officials.

<table>
<thead>
<tr>
<th>Programs</th>
<th>Frequency</th>
<th>Valid percentage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Early assessment of tax payers.</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>2. Publishing of budgets and final accounts of KCC.</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>3. Review programs on benefits of paying taxes</td>
<td>15</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.
The results above shows that most respondents (50%) are in support of review of programs for benefits of paying taxes, 30% publishing of budgets and final accounts while 20% for early assessment of tax payers.

4.3.3: Response on increased tax payers.
Regarding response on whether tax payers have increased as a result of applying a number of sensitization programs, the response was as follows.

Figure 8  The graph showing response on revenues increase due to sensitization program.

![Image of graph]

Table 4. 8: Increase of tax revenues due to applying sensitization programs.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>Frequency</th>
<th>Percentage rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>43.3%</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data
Most of the respondents (56.7%) do not accept that having applied a number of sensitization programs have in itself led to increased tax collection while 43.3% agree with the statement.

4.3.4: Response on tax revenues affecting the overall revenue collection.

Regarding response on whether tax revenue collection affect the overall revenue collection output, the response were as follows.

Figure 9 The graph showing response on whether tax revenues affect revenue performance

Table 4.9: Tax revenues affect overall output performance.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>6</td>
<td>10</td>
<td>-</td>
<td>8</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Valid Percentage</td>
<td>20%</td>
<td>33.3%</td>
<td></td>
<td>26.7%</td>
<td>20%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.

The results in the table above indicate that most respondents (33.3%), agree that tax revenues have an effect on the overall revenue collection performance, 26.7% Disagree with it and 20% Strongly Agree with the statement.
4.3.5: Response on revenue lost through tax evasion.

Regarding the response on whether revenues are usually lost through tax evasion, the extent of agreement was as follows

Figure 10 the graph showing response on whether tax revenues are usually lost due to tax evasion.

5. 1: Tax revenues are usually lost through tax evasion.

<table>
<thead>
<tr>
<th>Extent of Agreement.</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>5</td>
<td>10</td>
<td>-</td>
<td>13</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>16.7%</td>
<td>33.3%</td>
<td>-</td>
<td>43.3%</td>
<td>6.7%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.

The above results indicate that most respondents (43.3%) disagree with the belief that most revenues are usually lost through tax evasion, where as 33.3% agree, 16.7% strongly agree and finally 6.7% strongly disagree.
4.3.6: Response on revenue collection procedures.
Concerning response on whether revenue collection procedures influence level of revenues collected, reply was as follows.

Figure 11. The graph showing frequency of respondent on revenue collection procedures

5.2: Revenue collection procedures influence revenue collection.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>8</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>26.7</td>
<td>26.7</td>
<td>6.7</td>
<td>26.7</td>
<td>13.3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.

The result above indicate that equal respondents (26.7%) strongly agree, agree and disagree with the fact that revenue collection procedures influence level of revenues collected, while 13.3% strongly Disagrees and lastly 6.7% were not sure.

4.3.7: Inadequate revenue collection measures
On the response about revenue collection measures being inadequate and thus leading to revenue collection short fall of targeted, reply were as follows.
Figure 12. The graph showing reply by respondents on adequacy of revenue collection measures.

5. 3: Inadequate revenue collection measures.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>13</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Valid percent</td>
<td>56.7</td>
<td>43.3</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary data

The results in the table above shows that most respondents (56.7%) agree with inadequate revenue collection measures leading to revenue collection falling short of targeted, where as 43.3% disagree with the above statement.

4.3.8: Large number of tax payers adheres to full payment of taxes levied.

About the question on whether a big number of tax payers usually adhere to payment of full amount of tax levied on them, respondents replied as follows.
Figure 13 The pie-chart showing response on big number of tax payers adhering to payment taxes levied on them.

5. 4: A big number of tax payers adhere to full payment of taxes levied on them.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>7</td>
<td>17</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>23.3%</td>
<td>56.7%</td>
<td>3.3%</td>
<td>16.7%</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

The result shows that most of the respondents agree with the fact that a big number of tax payers usually adhere to payment of full amount of taxes levied on them (56.7%), where as 23.3% strongly agree, 16.7% disagree and 3.3% of the tax payers were not sure.

4.3.9: Revenue collection policy and tax base.

Regarding the response of the respondents on whether revenue collection and the nature of the tax base greatly determines the amount of revenues collected, response were as follows.
Figure 14 The graph showing response on whether revenue collection policy and tax base are determinants of revenue collection.

5.5: Revenue collection policy and tax base as determinants of revenue collection.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>7</td>
<td>12</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>23.3%</td>
<td>40%</td>
<td>6.7%</td>
<td>20%</td>
<td>10%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.

From the table above, the findings indicate that more respondents (40%) agree and 23.3% strongly agree that tax base and tax administration truly determines revenue collection. These similar factors were mentioned by Montgomery et al (2000) when he wrote that income tax is determined by many factors among which is revenue collection policy, tax base and tax administration procedures.

4.3.10: Tax revenues falling short of targeted.

On the issue of whether tax revenues have always fallen short of targeted, the respondents replied as follows below in the table.
5. 6: Revenue collection falling short of targeted.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>7</td>
<td>12</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Valid Percentage</td>
<td>23.3%</td>
<td>40%</td>
<td>6.7%</td>
<td>20%</td>
<td>10%</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Primary data.

On response as to whether tax revenue collection have always fallen short of targeted according to the results in the table, most respondents (40%) agree while 23.3% strongly agree too that tax revenues have always fallen short of targeted. 20% disagree and 10% strongly disagree unlike 6.7% of the respondents who were not sure.

However most respondents having agreed that revenue collection have always fallen short of targeted, was in similar way mentioned by Musgrove (1993) who said that inefficiencies in the tax collection system may undertake actual revenue from the budgeted level. The reasons given for this include: high rates of tax evasion and avoidance and corrupt tendencies in the revenue collection system. They also mentioned that the cost of revenue collection is higher than expected and thus actual collection cannot equal to set targets.

The following data was extracted from Kampala City Council (KCC) showing the revenue Performance and Trends from 2005 to 200.
<table>
<thead>
<tr>
<th>YEAR/Sources</th>
<th>05/06</th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECURRENT REVENUE</td>
<td>Estimate</td>
<td>Actual</td>
<td>Estimate</td>
<td>Actual</td>
</tr>
<tr>
<td>Graduated Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rates</td>
<td>10,000</td>
<td>2,654</td>
<td>5,111</td>
<td>6,351</td>
</tr>
<tr>
<td>Ground Rent</td>
<td>1,466</td>
<td>2,465</td>
<td>1,052</td>
<td>2,555</td>
</tr>
<tr>
<td>Housing</td>
<td>35</td>
<td>20</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>Markets</td>
<td>2,229</td>
<td>1,054</td>
<td>1,564</td>
<td>1,849</td>
</tr>
<tr>
<td>Car Parks</td>
<td>3,634</td>
<td>2,950</td>
<td>3,493</td>
<td>2,416</td>
</tr>
<tr>
<td>Local Service Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hotel Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Licenses &amp; Fees</td>
<td>4,619</td>
<td>3,572</td>
<td>4,794</td>
<td>3,798</td>
</tr>
<tr>
<td>Street Parking</td>
<td>829</td>
<td>883</td>
<td>829</td>
<td>634</td>
</tr>
<tr>
<td></td>
<td>Building Plans &amp; Permits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>1,030</td>
<td>1,057</td>
<td>1,418</td>
</tr>
<tr>
<td>13</td>
<td>Others</td>
<td>2,030</td>
<td>986</td>
<td>1,841</td>
</tr>
<tr>
<td>14</td>
<td>Debt Recovery - Rates</td>
<td>4,696</td>
<td>2,442</td>
<td>4,349</td>
</tr>
<tr>
<td>15</td>
<td>Debt Recovery - Others</td>
<td>1,670</td>
<td>386</td>
<td>3,037</td>
</tr>
<tr>
<td></td>
<td>TOTAL LOCAL REVENUE</td>
<td>32,238</td>
<td>18,469</td>
<td>27,514</td>
</tr>
<tr>
<td>16</td>
<td>Capital Income</td>
<td>1,107</td>
<td>3,782</td>
<td>969</td>
</tr>
<tr>
<td></td>
<td>TOTAL LOCAL REVENUE</td>
<td>33,345</td>
<td>22,251</td>
<td>28,483</td>
</tr>
<tr>
<td></td>
<td>Performance against Budget</td>
<td></td>
<td>57</td>
<td>77</td>
</tr>
</tbody>
</table>

38
Tax evasion among potential tax payers

4.4.0. Tax Evasion.

Objective: (Examining the causes of tax evasion among potential tax payers)

The following findings are in relation to the objective of examining the causes of tax evasion among potential tax payers in KCC.

4.4.1: Causes of tax evasion.

Regarding the causes of tax evasion among potential tax payers, these were listed as follows and their strength in causing tax evasion shown in terms of percentages.

Figure 16: Pie-showing causes of tax evasion.

5. 7: Causes of tax evasion among potential tax payers

<table>
<thead>
<tr>
<th>Causes</th>
<th>Frequency</th>
<th>Valid percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Poor record management.</td>
<td>10</td>
<td>33.3%</td>
</tr>
<tr>
<td>2. High tax rates</td>
<td>8</td>
<td>26.7%</td>
</tr>
<tr>
<td>3. Old legislation and policy in revenue generation</td>
<td>5</td>
<td>16.7%</td>
</tr>
<tr>
<td>4. Ignorance among tax payers about usefulness of revenue from taxes.</td>
<td>4</td>
<td>13.3%</td>
</tr>
<tr>
<td>5. Most of the taxes are indirect taxes.</td>
<td>3</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Primary data.
The above results indicate that tax evasion is largely (33.6%) caused by poor record management, 26.7% representing high tax rates, 16.7% showing legislation and policy in revenue generation, 13.3% representing ignorance of taxpayers about usefulness of paying taxes and 10% for most taxes being indirect.

4.4.2: Market vendors don’t like paying taxes.
Regarding the question on whether market vendors don’t like paying taxes because they affect their profitability, respondents replied as follows in the table:

**Figure 17** The graph showing frequency of market vendors not liking paying taxes.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Frequency of Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>19</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
</tr>
<tr>
<td>Not sure</td>
<td>-</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
</tr>
</tbody>
</table>

5. 8: Market vendors don’t liking paying taxes.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>19</td>
<td>6</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>63.3%</td>
<td>20%</td>
<td>-</td>
<td>6.7%</td>
<td>10%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.
The results in the table above shows that most respondents (63.3%) strongly disagree with the fact that tax payers don’t like paying taxes because they affect their profitability, 20% Agree, 6.7% disagree and 10% strongly Disagree with it.

4.4.3: Response of market vendors on value of paying taxes.
Respondents having been asked to state whether they see the value of paying taxes in terms of tax returns, they answered as follows.

5. 9: Market vendor’s response on the value of paying taxes.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>21</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage.</td>
<td>16.7%</td>
<td>13.3%</td>
<td>-</td>
<td>70%</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.

According to response as seen from the table above, most of the respondents (70%) disagree with the fact that market vendors don’t see the value of paying taxes, meaning that market vendors
just evade paying taxes but they well know the reason and value of paying such taxes. Only 16.7% and 13.3% strongly agree and agree respectively with the statement.

4.4.4: Market vendors hide some information during tax assessment.
Respondents on whether some market vendors hide some of their information during tax assessment to reduce on their tax liability, they replied as follows in the table.

Figure 19 The graph showing frequency of whether market vendors hide some information during tax assessment.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>-</td>
<td>21</td>
<td>-</td>
<td>6</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
<td></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data.
According to the results as in the table above, it shows that most respondents (70%) agree that some market vendors usually hide some information during tax assessment to reduce their tax liability. Where as 20% of the respondents disagree and 10% strongly disagree with it.

4.4.5: proper books of accounts kept and presented.
Regarding the issue on whether proper books of accounts are always kept and presented by market vendors during tax assessment, respondents replied as follows as presented in the table below.

**Figure 20 The graph showing frequency on presenting proper books of accounts during tax assessment.**

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>4</td>
<td>6</td>
<td>-</td>
<td>14</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage.</td>
<td>13.3%</td>
<td>20%</td>
<td>-</td>
<td>46.7%</td>
<td>20%</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Primary data.**

Results from the table shows that most of the respondents (46.7%) disagree with the statement that proper books of accounts are always presented to tax officials for tax assessment purposes.
Therefore this percentage shows that proper books of accounts are not always presented to tax officials during tax assessment. Whereas 13% strongly agree, 20% agree and 20% strongly disagree.

**4.4.6: Tax officials update registers every term of assessment.**

Concerning the question of whether tax officials usually update their registers every term of assessment, respondents replied as follows.

**Figure 21 The graph showing frequency on whether tax officials update their registers.**

![FREQUENCY OF RESPONSE](image)

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>8</td>
<td>11</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>26.7%</td>
<td>36.7%</td>
<td>10%</td>
<td>20%</td>
<td>6.7%</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Primary data.**

From the table above, most respondents (26.7%) and (36.7%) strongly agree and disagree respectively with the fact that tax registers are always updated during tax assessment process, whereas 20% disagree and 6.7 strongly disagree.
4.4.7. Penalties for tax defaulters

About the question on whether tax defaulters are always followed up and given serious penalties by KCC officials, respondents replied as follows.

Figure 22 The graph showing response on penalties.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>4</td>
<td>4</td>
<td>-</td>
<td>15</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>13.3%</td>
<td>13.3%</td>
<td>-</td>
<td>50%</td>
<td>23.3%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary data

According to results from the table above, most of the respondents (50%) disagree with the statement that penalties are usually given to those who evade taxes while 13.3% both strongly agree and agree with it.
4.4. 8. Treatment of tax payers during Tax assessment.

Regarding the question on whether tax collectors usually treat well tax payers especially during tax collection process, here respondents replied as follows.

**Figure 23 The table showing frequency on tax collectors treatment of tax payers.**

<table>
<thead>
<tr>
<th>Response of respondents</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>2</td>
<td>5</td>
<td>-</td>
<td>14</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Valid percentage</td>
<td>6.7%</td>
<td>16.7%</td>
<td>-</td>
<td>46.7%</td>
<td>30%</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Primary data.

From the table above, it is observed that most respondents (46.7%) disagree with the question of whether tax payers are treated well during tax collection process. 30% of the respondents strongly disagree while 16.7% agree and 6.7% strongly agree with it.
4.5.0. Findings on the relationship between tax evasion and revenue collection.

Objective: (Establish the nature of the Relationship between tax evasion and revenue collection performance).

6. 5: X and Y values.

<table>
<thead>
<tr>
<th>Extent of agreement</th>
<th>Tax evasion X</th>
<th>Revenue collection Y</th>
<th>XY</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA</td>
<td>42</td>
<td>42</td>
<td>1764</td>
<td>1764</td>
<td>1764</td>
</tr>
<tr>
<td>A</td>
<td>57</td>
<td>86</td>
<td>4902</td>
<td>3249</td>
<td>7396</td>
</tr>
<tr>
<td>NS</td>
<td>3</td>
<td>5</td>
<td>15</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>D</td>
<td>78</td>
<td>62</td>
<td>4836</td>
<td>6084</td>
<td>3844</td>
</tr>
<tr>
<td>SD</td>
<td>30</td>
<td>15</td>
<td>450</td>
<td>900</td>
<td>225</td>
</tr>
<tr>
<td>TOTAL</td>
<td>210</td>
<td>210</td>
<td>11967</td>
<td>12006</td>
<td>13254</td>
</tr>
</tbody>
</table>

Source: Primary data.

Using,

\[
r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2) \cdot (n \sum y^2 - (\sum y)^2)}}
\]

\[
n = 5
\]

\[
\sum xy = 11,967
\]

\[
\sum x = 210
\]

\[
\sum y = 210
\]

\[
\sum x^2 = 12,006
\]

\[
\sum y^2 = 13,254
\]

\[
r = \frac{5 \times 11967 - 210 \times 210}{\sqrt{(5 \times 1206 - 210 \times 210) \cdot (5 \times 13254 - 210 \times 210)}}
\]

\[
r = \frac{59835 - 44100}{\sqrt{60030 - 44100} \cdot [66270 - 44100]}
\]

\[
r = \frac{15735}{\sqrt{15930} \cdot [22170]}
\]
The above result (r=0.84) means that the relationship between tax evasion and revenue collection performance have a very strong relationship.

6.6: Relationship between tax evasion (X) and revenue collection performance (Y)

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Tax evasion</th>
<th>Revenue collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Evasion</td>
<td>Pearson correlation</td>
<td>1.00</td>
</tr>
<tr>
<td>Revenue collection</td>
<td>Pearson correlation</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Source: Primary data.

The value in the table shows a very strong positive relationship between tax evasion and revenue collection performance. This implies that the law levels of revenue collection as indicated in the statement of the problem is largely a result of tax evasion (84%) with the rest of the factors contributing insignificantly (16%).

REVIEW

If I had to do this chapter again, I would include the following.

- Use Spearman Correlation coefficient for analyzing the data.
- Use SPSS program for analyzing the data
  - Future researchers should put the above into consideration.
CHAPTER FIVE

5.0. INTRODUCTION
Under this chapter, the researcher summarizes the study findings, conclusions and recommendations in accordance with study objectives.

The study objectives were:
1. To examine the factors affecting revenue collection performance in Kampala city Council (KCC)
2. To examine the causes of tax evasion among potential tax payers in Kampala City Council
3. To establish the relationship between tax evasion and Revenue collection performance in Kampala City Council.

5.1. Summary of findings

Objective I: Factors affecting revenue collection performance.
The study found out that revenues collected included rates, Grounds, Car parks, Licenses, Debt recovery rates among others. It also revealed that the major factors affecting revenue collection performance were; level of tax administration, willingness of tax payers to pay taxes, level of income of the tax payers among others.
It again indicated that tax revenues have an effect on overall revenue output performance, something that made the respondents rate the question on whether tax revenues affect overall output performance as strongly agree. It was found out that revenue collections are always short of targets basically due to tax evasion.

Objective II. Nature of causes of tax evasion
The study revealed that major causes of tax evasion among potential tax payers included; high tax rates, poor record management, ignorance of tax payers about usefulness of paying taxes because tax returns are not realized, most of the taxes being indirect among others.
It was also found out that some market vendors hide some information especially during tax assessment to reduce tax liability and that proper books of accounts are not always presented too,
which was showed by most respondents ticking disagree with the statement of whether proper books of accounts are always presented.
Again it was revealed that tax payers are not always treated well during tax collection as shown by ticking of Disagree by most respondents (market vendors).

**Objective III.** Nature of the relationship between tax evasion and revenue collection performance.
A strong positive relationship between tax evasion and revenue collection performance of 0.84 magnitudes was established.

5.2.0. **Conclusion**
From the above findings, the researcher concludes that;

**Objective 1:** Factors affecting revenue collection performance.
Revenue collection performance in KCC is mainly affected by level of tax administration, willingness of tax payers, level of income of the tax payers among others and these can be controllable by KCC.

**Objective 2:** Tax evasion in KCC is majorly caused by high tax rates, poor record management, and ignorance among tax payers for the benefit got out of paying such taxes. However, revenue shortfalls through tax evasion are being curbed by taking legal actions against tax defaulters.

**Objective 3.** Relationship between tax evasion and revenue collection performance.
It can be concluded that the low levels of revenue collection are largely due to existence of tax evasion which is indeed caused by factors that can easily be dealt with by KCC officials, plus other factors taking a light blame.

5.3 **RECOMMENDATIONS.**
Basing on the findings of the study, the researcher has come up with the following limitations:

- There is a need to engage in massive public awareness as far as the total pay taxes is concerned. KCC needs to exploit a lot of possible avenues like radio programs, Seminars and LC market officials in order to sensitize the public about the benefit of paying taxes. This will play an important role in improving revenue collection
• KCC needs to use all the pieces of law at its disposal against all tax defaulters and ensure recovery even if it means use of courts of law. This is important given the fact that a lot of revenue is being lost through tax evasion and avoidance which can account for a substantial portion of revenue.

• More so, tax rates should be revised with the objective of through tax base widening. If taxes are low more people will be willing to comply than when they are high. Therefore taxes should be lowered and tax base widened.

• As observed by both Church Hill and an American tax payer, and not neglecting findings by the researcher in KCC, people hate taxes though they are necessary for any economy to stand. Therefore as far as Uganda is concerned and KCC in particular, tax collectors and other relevant tax authorities should work hard to ensure that the basic principles of taxation are applied correctly. This will make tax payers responsible to pay taxes.

• There is need to motivate the tax collectors since this is a tempting job. In order to enjoy the good fruit from the collected taxes, good work incentives and welfare can reduce on the level of corruption in tax collection.

• To improve revenue collection from market vendors while minimizing collection costs, the company needs to employ committed people who are trustworthy.

• KCC needs to improve personal training and logistical support. It also needs to recruit more law enforcement officers and train them. All this is necessary to improve on efficiency.

• KCC should provide proper accountability for the tax revenue collected. It should give back to the market vendors through some services such as rodents control among others. This will increase the willingness of tax payers to pay since they know that they are the very beneficiaries of the taxes they pay.

• Proper record keeping is necessary especially as regards tax payers and this will ease the work of administrators when collecting taxes from them and thus the rate of tax evasion will be lessened too.

AREAS FOR FURTHER RESEARCH.

1. The effect of tax education on revenue collections in local governments in Uganda.

2. The effect of the abolition of Graduated tax on revenue collection in local governments in Uganda.

3. What are the factors that influence tax compliance behavior in Uganda?
REFERENCES.


Local Government Act (1997)


Lubega, (2000), ”Income Tax Evasion In Uganda’s Informal Sectors in Uganda”, A Dissertation Submitted by M.A. At Makerere University, Kampala


Paper, (November 2009), Quarterly Publication of the Economic Policy Research Centre
Questionnaires to be filled by respondent.

Dear Respondent,

The Researcher is a student at Makerere University pursuing Bachelors Degree in Commerce and is carrying out a study on the effect of tax evasion on revenue collection performance in Uganda with Kampala City Council as my case study. The case study will help administrators and tax collectors on how to reduce tax evasion and improve on revenue collection performance. You are therefore kindly requested to complete this questionnaire by filling in the space provided and by ticking the most appropriate answer by responding to the extent to which you agree or disagree with the statement. The information given will be confidentially handled and used for academic purposes only.

Thank you for participating and making this research a success.

SECTION A
GENERAL INFORMATION

For the following, Tick the most appropriate in the box provided.

1. Gender of the respondent
   - Male
   - Female

2. Marital status of the respondent
   - Married
   - Single
   - Divorced
   - Widowed

3. Age in completed years
   - Below 18yrs
   - 18-28yrs
   - 29-39yrs
   - 40yrs and above

4. Level of education.
   - None
   - Primary
   - Secondary
   - Tertiary
   - University

5. Employment engaged in
   - Market vendor
   - KCC Officials
SECTION B
FACTORS FOR REVENUE COLLECTION PERFORMANCE.

STRUCTURED QUESTIONS (Fill in the space provided)

(i). What are the factors that contribute to revenues collected?
   1. Level of income of Tax payers.  
   2. Existance of Various Acts.  
   3. Willingness of Tax payers  
   4. Level of tax administration.  

(ii) Sensitization programs exercised by KCC officials in attempt to maximize revenue collection?
   1. Early assessment of tax payers.  
   2. Publishing of budgets and final accounts of KCC.  
   3. Review programs on benefits of paying taxes.  

(iii) The number of tax payers have increased resulting from applying a number of sensitization programs about tax.

   Yes  
   No  

For the following, tick the most appropriate in the space provide
# KEY

**SA**-Strongly Agree  **NS**-Not Sure  **SD**-Strongly Disagree.

**A**-Agree  **D**-Disagree

<table>
<thead>
<tr>
<th></th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tax Revenues collected has an effect on the overall revenue output performance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Most revenues are usually lost through tax evasion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Sensitization programs like tax education have always been exercised by KCC tax officials.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Tax payers are usually aware of what amount to pay and when they should pay.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Revenue collection procedures greatly influence the level of revenues collected.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Due to inadequate revenue collection measures, Revenues collected has always fallen short of targeted.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Revenue collection policy and the tax base greatly influences amount of revenues collected.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Tax Revenue collection would increase if there is great reduction in tax evasion among market venders.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Not all market venders pay the full amount of tax levied on them.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. A big percentage of tax payers usually adhere to payment of taxes levied on them.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION C

TAX EVASION CAUSES

STRUCTURED QUESTIONS. (Fill in the space provided)

(i) Which of these is among the causes of tax evasion among potential tax payers in KCC?

1. Poor record management. 
2. High tax rates. 
3. Old legislation and policy in revenue generation. 
4. Ignorance among tax payers about usefulness of Revenues from taxes. 
5. Most of the taxes are indirect taxes. 

For the following tick the most appropriate in the space provide

KEY
SA-Strongly Agree  NT-Not Sure  SD-Strongly Disagree
A-Agree  D-Disagree

<table>
<thead>
<tr>
<th>Extent of Agreement</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market vendors naturally don’t like paying taxes because they affect their profitability.</td>
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<td>2. Tax payers do not see the value of paying taxes because tax returns are not seen.</td>
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<td>3. Some market vendors hide some of their goods during tax assessment to reduce their tax liability</td>
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<td>4. Proper books are not always presented when assessing taxes.</td>
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<td>5. Measures are always taken to ensure vendors submit in their taxes to tax collectors</td>
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<td>6. Tax officials do update their registers every term of assessment.</td>
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<td>7. Those who default taxes are always followed up and given serious penalties by KCC officials.</td>
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<td>8. Tax collectors usually treat well tax payers during tax collection process.</td>
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<td>9. Tax revenues collected has always fallen short of targeted due to tax evasion.</td>
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<td>10. Due to presence of tax penalties, a number of tax payers have increased.</td>
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