



UGANDA MANAGEMENT INSTITUTE

**THE EFFECT OF ENFORCEMENT ON TAX COMPLIANCE IN
THE CUSTOMS DEPARTMENT OF UGANDA REVENUE
AUTHORITY.**

BY

JAMES KISAALE

05/MMSPPM/10/003

**A DISSERTATION SUBMITTED TO THE HIGHER DEGREES DEPARTMENT IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A
MASTERS DEGREE IN MANAGEMENT STUDIES (PROJECT PLANNING AND
MANAGEMENT option) OF UGANDA MANAGEMENT INSTITUTE.**

FEBRUARY, 2012

DECLARATION

I declare that I am the sole author of the thesis entitled: *The Effect of Customs Enforcement on Tax Compliance in the Customs Department of Uganda Revenue Authority*; and the work presented herein has never been submitted for a degree in this or any other institution of higher learning.

Signature of Author

05/MMSPPM/10/003

Date: **04th February, 2012**

APPROVAL

This research report has been submitted with the approval of;

MR.TOBIAS ONWENG

UMI SUPERVISOR

Signature

Date.....

MR. CHARLES MBIINE NUWAGABA

WORK-BASED SUPERVISOR

Signature

Date.....

DEDICATION

I dedicate this work to my parents, spouse, Professor Vincent Anigbogu and Pastor Dr. Sunday Adelaja my Mentors, Supervisor(Mr. Tobias Onweng), and colleagues – Emily Katarikawe and Edton Babu who finished this program three years earlier than me though we began together and I promised them that no matter how long I would also finish.

ACKNOWLEDGMENTS

In submitting this thesis, I wish to acknowledge the wise counsel and professional support of my supervisor, Mr. Tobias Onweng who from day one generously and capably guided my thinking, moulded my perspective and refined my academic outlook. Mr. Charles Mbiine Nuwagaba who was my work-based supervisor is appreciated for his guidance and support in completing this research. Special thanks also to Dr. Gerald Karyeija who read my proposal and made invaluable input in refining it. Mr. Wilfred Magambo is also appreciated for his invaluable support in editing my research book. I wish to further thank Professor Vincent Anigbogu and Pastor Dr Sunday Adelaja who gave me the motivation to complete this program

I wish to thank once again my colleagues Emily Katarikawe and Edton Babu who told me I would be committing an academic transgression if I failed to complete my research. Special thanks to Mrs. Lorna Magara who gave me spiritual counsel from 1Kings 20:11 to complete this research before undertaking any other research program. And Mrs. Sarah Kasheka Mwesigye my work mate who always gave me moral support to ensure I completed this program.

Finally, I wish to acknowledge the invaluable encouragement and support that my wife Deborah has so lovingly and unreservedly provided throughout this period of research and thank her for the understanding and patience which she has shown throughout the entire process. And the children whose time I sometimes borrowed to catch up with my research. I am indeed indebted to them in reaching this significant milestone.

TABLE OF CONTENTS

Declaration.....	i
Approval	iii
Dedication	iv
Acknowledgements.....	v
Table of contents	vi
List of tables.....	xi
List of figures.....	xiii
List of Abbreviations	xiv
Abstract.....	xv
CHAPTER I: INTRODUCTION.....	xv
1.1. Introduction.....	1
1.2. Background to the Study.....	1
1.3. Statement of the Problem.....	5
1.4. Objectives of the study.....	6
1.4.1. General objective.....	6
1.4.2. Specific Objectives	6
1.4.3. Research Questions.....	7
1.5. Conceptual Framework.....	9
1.6. Significance of the Study.....	12
1.7. Scope of the Study	12
1.8.Operational Definitions.....	13
CHAPTER II: LITERATURE REVIEW	18

2.1. Introduction.....	18
2.2.Theoretical Approaches to Tax Compliance.....	18
2.2.1.Economic and Behavioral Models	18
2.2.2.The ATO Compliance Model	21
2.2.3. Deterrence and Accommodative Models.....	24
2.2.4.Responsive Regulation Model	26
2.3. Enforcement and Compliance Improvement	28
2.4. Effect of Penalties on Tax Compliance	30
2.5. Effect of Prosecution on Tax Compliance	34
2.6. Taxpayer Attitudes and Compliance Improvement.....	36
2.7. Conclusion	38
CHAPTER III: METHODOLOGY	40
3.1. Introduction.....	40
3.2. Research Design.....	40
3.3. Study Population.....	41
3.4. Sample Size Selection.....	41
3.5. Sampling Procedures	43
3.6. Data Collection Methods	46
3.6.1. Documentary Review.....	46
3.6.2. Questionnaire Survey.....	46
3.6.3.Observation	46
3.7. Data Collection Instruments	47
3.7.1.Documentary Review Checklist	47
3.7.2.Questionnaire	47

3.7.3.Observation Check List.....	47
3.7.4.Validity.....	48
3.7.5.Reliability.....	48
3.8. Data Analysis.....	49
3.8.1.Quantitative Data Analysis	50
3.8.2.Qualitative Data Analysis	50
3.9. Measurement of variables.....	50
CHAPTER IV: PRESENTATION OF FINDINGS, INTERPRETATION AND OBSERVATIONS.....	52
4.1.Introduction.....	52
4.2. Response rate.....	52
4.3. Effect of Penalties on taxpayers’ compliance (primary data).....	52
4.3.1. Effect of Penalties on taxpayers’ compliance (secondary data).....	56
4.4. Effect of Forfeiture on taxpayers’ compliance.....	58
4.5. Effect of Prosecution on taxpayers’ compliance.....	59
4.6. Staff responses on Effect of Penalties, Forfeiture and Prosecution on tax compliance.....	61
4.7. Quality of personnel.....	653
4.8. Resources allocation to enforcement operations.....	69
4.9. Measurement of Motivational Postures (Taxpayer attitudes).....	75
4.9.1. Motivational Posture of Commitment	75
4.9.2. Motivational Posture of Capitulation.....	77
4.9.3. Motivational Posture of Resistance	79
4.9.4. Motivational Posture of Disengagement.....	81
4.10. Pearson (R) Correlation Coefficient.	85

4.10.1. Examine the extent to which the use of penalties affects taxpayer’s compliance in regard to payment of customs duties.....	87
4.10.2. Assess the extent to which forfeiture of taxpayers’ goods affects their compliance to Payment of customs duties.....	87
4.10.3. Examine the extent to which prosecution of taxpayers affects their compliance to payment of customs duties.....	87
4.10.4. Assess the extent to which the quality of enforcement personnel affects taxpayers’ compliance in regard to payment of customs duties.	88
4.10.5. Assess the extent to which resources allocation affects on taxpayers’ compliance in relation to payment of customs duties.	88
4.11. Multiple Regression Analysis	89
4.11.1. Regression Analysis of Customs Enforcement on Tax Compliance	89
4.11.2. Assess the impact of taxpayer attitudes as a moderating variable on penalties, forfeiture and prosecution in enhancing taxpayer compliance.	91
4.11.3. Regression Analysis of penalty, Forfeiture, Prosecution, Attitudes on Tax Compliance.	91
4.11.4. Regression Analysis of Penalty, Forfeiture, & Prosecution on Tax Compliance	93
4.12. Interpretation of Qualitative Data	94
CHAPTER V: SUMMARY, DISCUSSION, CONCLUSION, AND RECOMMENDATIONS.....	101
5.1. Introduction.....	101
5.2. Effect of penalties in enhancing taxpayers’ compliance in relation to payment of customs duties.....	101
5.3. Effect of Forfeiture in enhancing taxpayers’ compliance in relation to payment of customs duties.....	102
5.4. Effect of Prosecution in enhancing taxpayers’ compliance in relation to payment of customs duties.....	102
5.5. Effect of quality of personnel in enhancing taxpayers’ compliance in relation to payment of customs duties.....	103

5.6. Effect of resources allocation in enhancing taxpayers' compliance in relation to payment of customs duties.....	103
5.7. Effect of taxpayer attitudes as a moderating variable on penalties, forfeiture, and prosecution in enhancing taxpayer compliance.....	104
5.8. Conclusion	105
5.9. Recommendations.....	106
References.....	109
Appendices	

LIST OF TABLES

Table 1: Sample size for the study	45
Table 2: Results from the pretesting of the Instruments	49
Table 3: Taxpayers' responses on the effect of Penalties on taxpayers' compliance	53
Table 4: Effect of penalties on taxpayers' compliance	146
Table 5: Taxpayers' responses on the effect of Forfeiture on taxpayers' compliance	58
Table 6: Taxpayers' responses on the effect of Prosecution on taxpayers' compliance	60
Table 7: Staff responses on effect of Penalties, Forfeiture & Prosecution on tax compliance.....	62
Table 8: Basic Training programs attended by Customs enforcement staff.....	67
Table 9: Specialized courses attended by Customs enforcement officers	67
Table 10: Customs Enforcement Recoveries from 2006 - 2010.....	69
Table 11: Resources allocation to Customs Enforcement	70
Table 12: Resources allocation considered critical to Customs Enforcement	71
Table 13: Observation Checklist for Resources Allocation to enforcement operations	72
Table 14: Seizures of Cigarettes in Northern Uganda	74
Table 15: Motivational Posture of Commitment	76
Table 16: Motivational Posture of Capitulation.....	78
Table 17: Motivational Posture of Resistance	80
Table 18: Motivational Posture of Disengagement	82
Table 19: Pearson zero order correlation	86
Table 20: Regression of Customs Enforcement on Tax Compliance	89
Table 21: Regression Analysis of penalty, Forfeiture, Prosecution, Attitudes on Tax.....	92

Table 22: Regression Analysis of Penalty, Forfeiture, & Prosecution on Tax Compliance.....	93
Table 23: Ways in which the use of penalties by URA improves taxpayers' compliance	95
Table 24: Ways in which the forfeiture of goods by URA improve taxpayers' compliance.....	97
Table 25: Ways in which use of prosecution by URA improve taxpayers' compliance	99

LIST OF FIGURES

Figure 1: Conceptual frame Work.....	9
Figure 2: The ATO Compliance Model.....	22
Figure 3: Ayres and Braithwaite’s enforcement pyramid.....	27
Figure 4: Levels of endorsement for motivational postures among taxpayers.....	85
Figure 5: Responses on impact of penalties on taxpayers’ compliance.....	96
Figure 6: Responses on impact of forfeiture on taxpayers’ compliance.....	98
Figure 7: Responses on impact of prosecution on taxpayers’ compliance.....	100

LIST OF ABBREVIATIONS

ATO	Australian Tax Office
Bn	Billion
CET	Common External Tariff
DRC	Democratic Republic of Congo
GATT	General Agreement on Trade and Tariffs
ID	Import Duty
KRA	Kenya Revenue Authority
KSHS	Kenya Shillings
Mn	Million
OECD	Organization of Countries for Economic Development
SME	Small and Medium Enterprises
TRA	Tanzania Revenue Authority
TSHS	Tanzania Shillings
UGX	Uganda Shillings
URA	Uganda Revenue Authority
WCO	World Customs Organization
WTO	World Trade Organization

ABSTRACT

The purpose of this study was to assess the effect of Customs enforcement measures on taxpayer compliance in the payment of customs duties. The relationship between independent variables: use of penalties, forfeiture, prosecution, quality of personnel and resources allocation and the dependent variable tax compliance were measured. The study employed a cross-sectional research design using both qualitative and quantitative methods of data collection and analysis based on a sample size of 323 respondents. The findings showed that Customs enforcement measures comprising application of penalties; forfeiture of taxpayers' goods and prosecution of tax payers enhanced tax compliance although the extent (level) of tax compliance varied from one enforcement variable to another. Tax compliance was further enhanced when the quality of enforcement personnel was high since this increased the likelihood of officers easily detecting and preventing areas of non-compliance. Availability and adequacy of resources also played a role in enhancing tax compliance. The research concluded that Customs Enforcement had a significant effect on tax payer compliance. The recommendations were that URA: should take due consideration in the application of penalties and prosecution since they had minimal impact on tax compliance; should consider increased application of forfeiture; should invest in recruiting and maintaining quality personnel for enforcement work; and should take a very keen interest in taxpayer attitudes and the drivers of taxpayer behavior since attitudes play a very significant role on taxpayer compliance.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This study assessed the impact of customs enforcement on tax compliance in order to enable Uganda Revenue Authority strengthen her taxpayer compliance measures. This chapter contains the background to the study, the statement of the problem, the objectives of the study, the conceptual framework, and the significance of the study, the scope and limitations of the study.

1.2 BACKGROUND TO THE STUDY

Customs administrations around the world are responsible for managing a broad range of risks as they seek to fulfill their responsibilities in areas such as revenue collection, the administration of trade policies and border controls, community protection, and the facilitation of trade (Widdowson, 1998). In an ideal world, all citizens and businesses would satisfy their obligations under the law to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law (Organization for Economic Co-operation and Development, OECD, 2008). This statement summarizes four basic tax compliance obligations of citizens and businesses that must be administered by all revenue bodies in accordance with their respective tax laws: To register for tax purposes; file tax returns on time (i.e. by the date stipulated in the law); correctly report tax liabilities; and pay taxes on time (that is, by the date stipulated in the law) (OECD, 2008).

From the Customs point of view, tax compliance means the extent to which taxpayers meet the obligations of making correct Customs declarations (that is, accurate reporting of the quantity of goods and respective weight and unit of measure, accurate description of goods on the Customs Bill of Entry, accuracy of container marks and numbers, proper country of origin marking on goods; proper particulars of consignee), correctly classifying goods (to determine the applicable tax rates), declaring the correct Customs Value (from which duties are computed) and paying the due Customs duties (World Customs Organization, WCO, 2003).

Compliance by taxpayers with these basic obligations can also be viewed in terms of whether such compliance is achieved voluntarily (i.e. voluntary compliance) or corrected by verification/enforcement actions carried out by the revenue body (i.e. enforced compliance). In a tax administration context, this distinction is highly relevant as ‘enforced compliance’ has a cost, and very often a significant one. In line with their overriding goal and mission, all revenue bodies should aim at improving the overall level of ‘voluntary’ compliance and, by definition, rely less on ‘enforced’ compliance (OECD, 2008).

The primary goal of a revenue authority is to collect the taxes and duties payable in accordance with the law and to do this in such manner that will sustain confidence in the tax system and its administration. The actions of taxpayers — whether due to ignorance, carelessness, recklessness, or deliberate evasion — as well as weaknesses in a tax administration mean that instances of failure to comply with the law are inevitable. Therefore, tax administrations should have in place strategies and structures to ensure that non-compliance with tax law is kept to a minimum (OECD, 2004).

Enforcement is one of the key strategies that are used to increase compliance. Increased enforcement will generally lead to increased compliance however, in some cases, compliance levels have been found to be higher hence not warranting any increase in enforcement. Overall compliance is shaped by the enforcement capability of the tax authority, which has two dimensions: Taxpayer acceptance of enforcement as a legitimate and effective exercise of state power; and Perception of the fairness and effectiveness of the tax authority based on intuition of the extent of other taxpayers' levels of compliance (World Bank, 2009).

Contrary to popular belief, the job of a Tax Administration is not merely to raise a lot of revenue. Its function is to implement tax laws effectively and efficiently. In other words, the Tax Administration must raise as much revenue (but only as much) as the tax laws prescribe, and discharge its duty at the least possible social cost (World Bank, 2009).

The relatively wider tax gaps and lower revenue productivity of developing and emerging economies generally suggest potential for bigger revenue yields from compliance improvement initiatives such as enforcement (Russell, 2010).

A study by Prachi, Arvind, and Topalova (2008) on the impact of Customs enforcement in reducing tax evasion in India Customs found that enforcement actions significantly reduced the rate of evasion and improved collection of Customs duties. A similar study undertaken by Fisman and Wei (2004, as cited in Prachi, Arvind, and Topalova, 2007) found the same results for China Customs. However, a comparison between the quality of enforcement in India and China by Prachi, Arvind, and Topalova (2007) found that India's customs enforcement was

potentially twice as effective as that of China's in 1998. They however, observed that this inequality between India's and China's enforcement was being reduced over time because of lack of sufficient improvements in India's customs enforcement and substantial increase in collection efficiency in China over time.

At the East African level, Customs enforcement has improved collection of customs duties within the countries of Kenya, Tanzania and Uganda (as shown in table I, Annex I). Compliance levels with respect to payment of Customs duties within the EAC region has improved over the years as reflected by the overall increase in duty collection (as shown in table II, Annex I). Over the past three years however, customs collections within Uganda Revenue Authority (URA) reduced with respect to the set annual revenue targets; although the enforcement recoveries increased over the same period (as shown in table III, Annex I). This could signify reduced levels of compliance due to smuggling and tax evasion. Indeed according to a publication by the Private Sector Foundation of Uganda ,2009 cited in Gaye and Catherine(2010), 85% of both taxpayers and professionals believed low compliance was the key cause of low revenue mobilization (by Uganda Revenue Authority).

It was no surprise therefore that the Minister of Finance, Planning and Economic Development (Hon. Syda Bbumba) in her 2009/10 budget speech mentioned the problem of compliance. Specifically, "compliance remains a challenge, as we undertake reforms in tax administration" (Gaye and Catherine, 2010). Since this study sought to evaluate the effectiveness of enforcement function of Uganda Revenue Authority in enhancing compliance towards payment of Customs

duties, the researcher identified the enforcement variables necessary for enhancing taxpayer compliance towards payment of customs duties.

1.3 STATEMENT OF THE PROBLEM

URA considers tax compliance to be critical to its revenue collection role and enhancing tax compliance is one of its corporate objectives. To achieve tax compliance, URA has several institutional mechanisms in place which include among others a good tax legal framework and specialized units such as Customs Enforcement, Tax Investigations, Prosecution, and Audit. Since 2006 URA has undertaken several compliance programs such as strengthening Customs Enforcement aimed at improving taxpayer compliance.

There was considerable debate, however, over the extent to which the Customs enforcement function contributed towards enhancing tax compliance in URA. Although seizures from Customs enforcement interventions increased over the years from 3115 seizures in 2005 to 6619 seizures in 2010(URA, 2011), and penalties and prosecution were used as compliance measures, this didn't translate into increased taxpayer compliance. Indeed according to Customs reports for 2008, 2009 and 2010, the Customs Department wasn't able to meet and surpass her revenue targets for those stated years.

The Customs HR records and budget allocation reports showed that the quality of enforcement personnel in terms of character and competences; and the resources allocated to the Customs enforcement role over the years had changed from adequate to inadequate. The implication was that Customs enforcement was not leading to tax payer compliance as desired. Consequently if

this situation persisted, URA would be unable to meet and surpass her revenue targets and the Government of Uganda would fail to meet its income and expenditure obligations.

A review of the current literature on tax compliance by scholars such as James and Alley,2004; Braithwaite,2001; Murphy,2004; and Sagit,2007; showed there were hardly any empirical studies (in Uganda) that had been conducted to assess the effect of Customs enforcement on compliance. This research intended to fill this gap by assessing the effect of the Customs enforcement function on tax compliance.

1.4 OBJECTIVES OF THE STUDY

1.4.1 GENERAL OBJECTIVE

The general objective of this study was to assess the effect of Customs enforcement measures on taxpayer compliance in payment of customs duties.

1.4.2 SPECIFIC OBJECTIVES

The specific objectives were to:

1. Examine the extent to which the use of penalties affected taxpayer's compliance in regard to payment of customs duties
2. Assess the extent to which forfeiture of taxpayers' goods affected their compliance to payment of customs duties.

3. Examine the extent to which prosecution of taxpayers affected their compliance to payment of customs duties.
4. Assess the extent to which the quality of enforcement personnel affected taxpayers' compliance in regard to payment of customs duties.
5. Assess the extent to which resources allocation affected taxpayers' compliance in relation to payment of customs duties.
6. Assess the effect of taxpayer attitudes as a moderating variable on penalties, forfeiture and prosecution in enhancing taxpayer compliance.

1.4.3 RESEARCH QUESTIONS

The study was guided by the following key questions:

1. To what extent did penalties affect taxpayers' compliance to payment of customs duties?
2. To what extent did forfeiture of taxpayers' goods affect their compliance to payment of customs duties?

3. To what extent did prosecution of taxpayers affect their compliance to payment of customs duties?

4. To what extent did the quality of enforcement personnel affect taxpayers' compliance towards payment of customs duties?

5. To what extent did resources allocation affect taxpayers' compliance towards payment of customs duties?

6. To what extent did taxpayer attitudes moderate the relationship between penalties, forfeiture and prosecution in affecting taxpayer compliance?

1.5 CONCEPTUAL FRAMEWORK

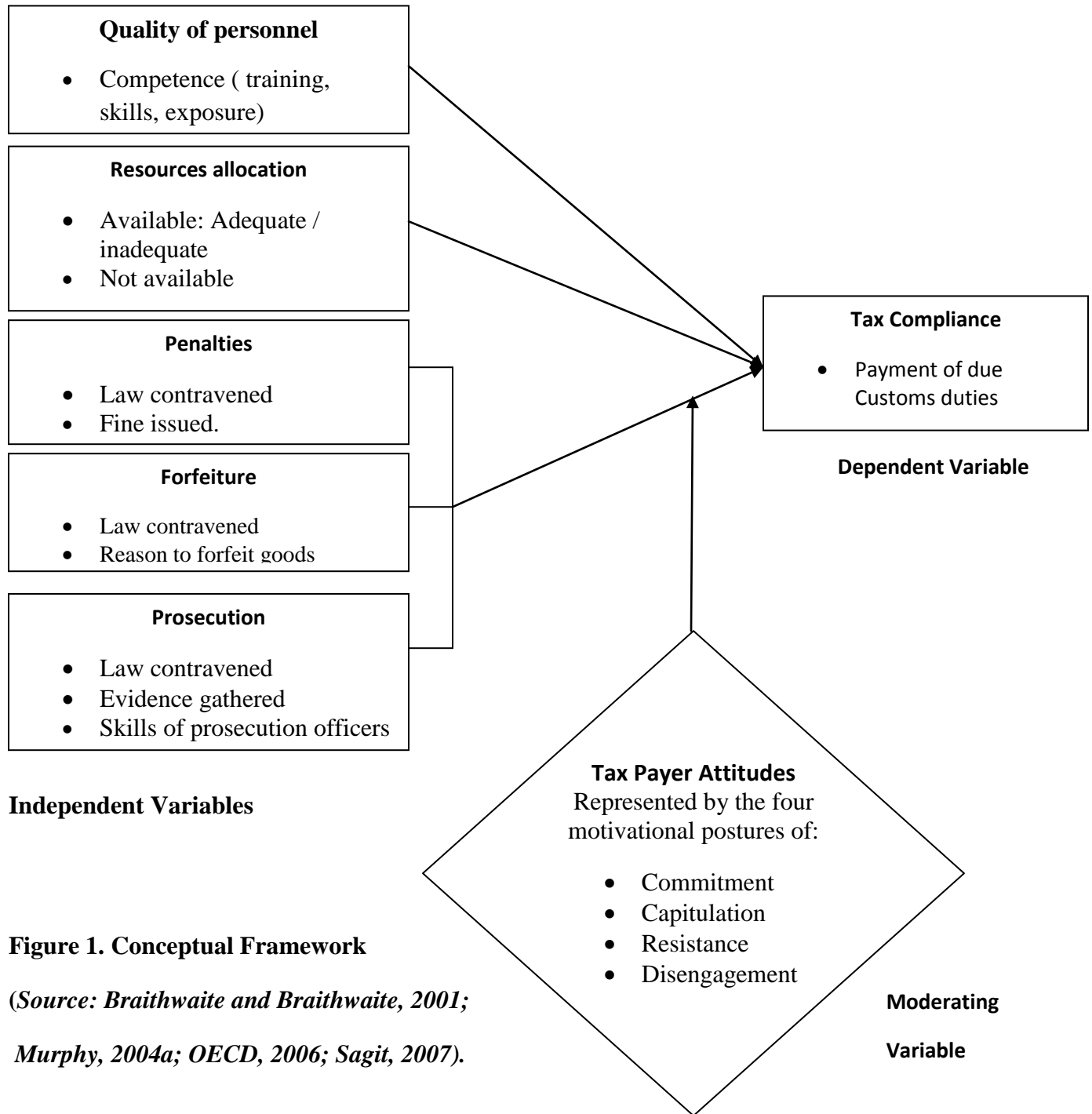


Figure 1. Conceptual Framework

(Source: Braithwaite and Braithwaite, 2001; Murphy, 2004a; OECD, 2006; Sagit, 2007).

The Dependent Variable was Tax Compliance which was the variable of primary interest, in which the variance was explained by the Independent Variable of Enforcement Measures; where some of its variable dimensions were Moderated by Taxpayer Attitudes.

Enforcement increases compliance. Enforcement was sub-divided into five variables namely Penalties, Forfeiture, Prosecution, Quality of personnel and Resources allocation.

The application of (monetary) penalties increases compliance due to its deterrent effects. In situations where the application of penalties is not punitive enough to cause compliance, forfeiture of taxpayers' goods could be employed. Furthermore, where these measures don't cause compliance, then criminal prosecution against non-compliant taxpayers could be employed which is expected to be more deterrent in nature hence increasing compliance. If taxpayers know that institutional mechanisms exist to deal with those who evade taxes, this will make the taxpayer apprehensive of the consequences of non-compliance thus increasing compliance.

In addition, where the enforcement personnel are highly skilled in terms of technical competences (which constitute staff exposure/experience and knowledge/skills acquisition) and appropriate behavioral skills and they are adequately facilitated with the necessary tools of trade, it makes it easier for them to detect and deter any form of non-compliance. In instances where taxpayers know that the probability of being detected for non-compliance by enforcement officers is very high, they will be "forced" to comply and in so doing compliance will increase. It is also worth noting that the quality of enforcement officers determines their optimal use of the available resources to enhance taxpayer compliance. In such instance, officers will allocate

resources in areas where they expect greater impact. Further effective application of penalties, forfeiture decisions and successful prosecution of non-compliant taxpayers are all largely dependent on the quality of officers.

The effects of penalties, forfeiture and prosecution as enforcement measures on tax compliance are however moderated by the attitude of taxpayers. Taxpayers usually tend to adopt sets of values, beliefs and attitudes that can be described as ‘motivational postures’. These postures, two broadly compliant and two broadly non-compliant, characterize the way taxpayers relate to a revenue authority and the tax system it administers. These motivational postures describe the way taxpayers control the amount of social distance they place between themselves and the tax office (Braithwaite, 2003).

The postures are commitment, capitulation, resistance and disengagement. Commitment and capitulation represent the compliant posture of taxpayers and resistance and disengagement represent the non-compliant posture of taxpayers. When taxpayers are open to admitting wrongdoing, correcting their mistakes, and getting on with meeting the Revenue Authority’s expectations, they are likely to display the postures of commitment or capitulation. In the event of non-compliance, enforcement action would substantially improve tax compliance among taxpayers with this type of motivational posture. In contrast, the postures of resistance and disengagement reflect a conscious holding back of cooperation. The relationship is adversarial, and the Revenue Authority’s approach to gaining compliance needs to be strategic than would be necessary with more cooperative taxpayers. Hence, it is not obvious that tax compliance improvement would be observed using enforcement action on taxpayers with such a posture.

Therefore, enforcement actions when undertaken lead to improvement in tax compliance depending on the attitude of taxpayers.

1.6 SIGNIFICANCE OF THE STUDY

This study was intended to provide a clear understanding of how tax compliance improvement through application of Customs enforcement measures was being achieved, and the level of compliance achieved by such measures. Furthermore, this study would improve URA's understanding of the key drivers of taxpayer compliance, and hence be able to design appropriate responses, in a more cost effective manner. The study would attempt to propose other strategies that could be used in improving tax compliance. The study would make proposals that provide for the adoption of strategies that reduce the costs of compliance by taxpayers hence promoting voluntary compliance. Since no comparative assessment of the effectiveness of enforcement measures towards tax compliance improvement had yet been undertaken (OECD, 2004), the findings of this study would also be added to the overall body of knowledge on tax compliance.

1.7 SCOPE OF THE STUDY

Content scope

The study was limited to assessing the effect of penalties; forfeiture, prosecution; quality of personnel; and resources allocation on tax compliance; and how this relationship was moderated by the taxpayer attitudes on compliance. The study was limited to tax compliance within the Customs Department which is the second largest operations department of URA and involved both the staff of the Customs Department and taxpayers. The study was also limited to tax

compliance improvement with respect to Import Duty (ID) as a tax head within the Small and Medium Taxpayer (SMT) segmentation (group).

Geographical scope

The study area for this research was the major Customs clearance centers of Kampala, Jinja, Malaba, and Busia and the traders who imported goods and cleared them through these stations. This is because these four Customs stations are the largest clearance centers for imports in Uganda handling close to 90% of all imports to Uganda. It should be noted however, that importers are free to choose any Customs station for clearance of their cargo.

Time scope

The study examined tax compliance within the period of 2006 to 2010. This period was necessary for study owing to the restructuring and reform programs that took place in URA starting in 2005.

1.8 OPERATIONAL DEFINITIONS

The term tax compliance was used in this research to mean the extent to which taxpayers meet the obligations of accurately describing and reporting the quantities of their goods, accurately reporting the origin of the goods, correctly determining the applicable tax rates, declaring the correct Customs Value and paying the due Customs duties(WCO,2003).

The Customs department is one of the operational departments of URA mandated to facilitate international trade (imports, exports and transit movement of goods), collect International trade

taxes (duties), protect society by enforcing prohibitions and restrictions and collect international trade statistics.

Enforcement was used in this research to mean the different deterrent measures employed by the Customs Enforcement Division of URA to enforce compliance. Such measures include among others: application of penalties (both civil/monetary and criminal penalties based on the provisions of the Customs law), arrests, suspensions of taxpayers and their agents in dealing with Customs, forfeiture of taxpayers' goods, prosecutions and liens.

Motivational postures represent the ways in which individuals position themselves in relation to a regulatory authority, and are predispositions to compliant or non-compliant conduct. They are usually interconnected sets of beliefs and attitudes that are consciously held by tax payers and openly shared with others. Four motivational postures have been identified as important in the context of taxation compliance: commitment, capitulation, resistance, and disengagement. The two postures that reflect an overall positive orientation to authority are commitment and capitulation. In contrast to these postures of deference, are two postures of defiance namely Resistance and Disengagement (Braithwaite, 1995).

Commitment reflects beliefs about the desirability of tax systems and feelings of moral obligation to act in the interest of the collective and pay one's tax with good will (Braithwaite, 1995).

Capitulation reflects acceptance of the tax office as the legitimate authority and the feeling that the tax office is a benign power as long as one acts properly and defers to its authority (Braithwaite, 1995).

Resistance reflects doubts about the intentions of the tax office to behave cooperatively and benignly towards those it dominates and provides the rhetoric for calling on taxpayers to be watchful, to fight for their rights, and to curb tax office power (Braithwaite, 1995).

Disengagement is also a motivational posture that communicates resistance, but here the disenchantment is more widespread, and individuals and groups have moved beyond seeing any point in challenging the authorities. The tax office and the tax system are beyond redemption for the disengaged citizen, the main objective being to keep both socially distant and blocked from view (Braithwaite, 1995).

Basic training programs are used to mean the necessary training enforcement officers must undertake to enable them perform the role of enforcement. Such programs include the basic Customs course, Basic Military course, Intelligence and Risk Management.

Specialized training programs are used to mean the additional trainings enforcement officers undergo to enhance their skills in enforcement work. These are defined below.

Intellectual Property Rights (IPR): Intellectual property (IP) refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images, and designs used in trade. IP is divided into two categories: Industrial property, which includes inventions (patents), trademarks, industrial designs, and geographic indications of source; and Copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs. Rights related to copyright include those of performing artists in their performances, producers

of phonograms in their recordings, and those of broadcasters in their radio and television programs (World Intellectual Property Organization, WIPO, 2012).

Intelligence Analysis: From a Customs perspective means collecting and analyzing data as well as disseminating information on trends, modus operandi, routes and significant cases of fraud (WCO, 2011).

Rules of Origin: Rules of origin are the rules applied to determine from which country a good originates for international trade purposes. Rules of origin are necessary for both preferential reasons such as determining eligibility for benefits such as reduced rates of duty as well as for non-preferential reasons such as the imposition of anti-dumping and countervailing duties, determining the country of origin and marking purposes. For instance, all goods manufactured (originating) from the East African Community member countries don't attract import duties if imported into a member country. However, for those goods originating outside the community attracts import duty (Trade Commissioner Service, 2011).

Customs Valuation: refers to the method by which Customs assesses the amount of import duty and other taxes on imported goods. It may be computed in several ways, but the most-preferred method is transaction value which (in addition to the price paid by a buyer to a seller) includes other costs incurred by the buyer, such as packing costs, license fee or royalty, and any other sum(s) that accrue to the seller. This is in line with Article VII of the World Trade Organization(WTO) - General Agreement on Tariffs and Trade 1994 ("GATT 1994") which provides for Customs valuation of goods(WCO,2011).

Harmonized System Classification: The Harmonized Commodity Description and Coding System (HS) is an internationally standardized system of names and numbers for classifying traded products used as the basis for Customs tariffs and the collection of international trade statistics. It was developed and maintained by the World Customs Organization (WCO).

Explosives, Investigation and Compliance: Enforcement measures intended to prevent illegal entry and minimize the consequences of a catastrophic release of toxic, reactive, flammable or explosive Highly Hazardous Chemicals (HHC's).

Drugs and Narcotics Enforcement: Enforcement measures aimed at preventing illegal entry into the country and use of drugs and narcotics.

Marine Operations: enforcement measures used to curb illicit trade on lakes and other water bodies.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter discusses similar researches conducted on the subject of the study; and includes the theoretical approaches to tax compliance, impact of enforcement (penalties and prosecution) on tax compliance and impact of taxpayer attitudes on tax compliance. The subject of tax compliance is indeed the focus of a considerable body of theoretical and practical analyses (Jenkins and Forlemu, 1993).

2.2 THEORETICAL APPROACHES TO TAX COMPLIANCE

Several theoretical models (approaches) have been developed to explain the concept of tax compliance. These include the Economic and Behavioural models (James & Alley, 2004); the ATO compliance model (ATO, 1998); the 'Deterrence' and 'Accommodative' models (Murphy, 2004) and the Responsive Regulation Model (Ayres & Braithwaite, 1992). These are further reviewed hereunder.

2.2.1 ECONOMIC AND BEHAVIORAL MODELS

The economic approach is based on a narrow view of economic rationality under which it is assumed that individuals will wish to maximize their personal income and wealth. They will not comply with the tax system unless the benefits of doing so exceed the costs of not doing so in the

form of fines and penalties. As Bernasconi (1998; cited in James and Alley, 2004) put it, 'evading tax is like gambling'. There are gains to be made if the evasion is successful and costs in terms of penalties if it is not. It is just a matter of adding up the expected utility in financial terms of every decision to comply or not to comply with the requirements of the tax system. (Alm, 1998).

This economic approach presupposes that individuals are immoral and operate in some sort of social vacuum. Tax evasion is then explained simply in terms of factors such as the level of tax rates, the probability of being caught evading, the penalties that would be imposed and the degree of risk aversion. This approach based on economic rationality, narrowly defined, has limitations. Furthermore, in the specific case of compliance, some of the conclusions of the economic approach do not seem to be consistent with taxpayer behaviour. Indeed, according to Smith and Kinsey (1987, as cited in James & Alley, 2004), the analysis predicts that most people evade tax, which does not seem to be severally true. In fact, there is empirical evidence that many taxpayers are inherently honest and will disclose their financial affairs accurately regardless of the incentive to cheat (Erard and Feinstein, 1994b; Gordon, 1989). Indeed, the level of tax compliance appears to be generally quite high with most countries (James, 2004; Alm, 1998).

In contrast, the behavioral approach draws on other academic disciplines in suggesting that there might be additional factors that are important in motivating taxpayers regarding compliance. Sociological studies, for example, have identified a number of possible explanatory factors, such as social support, social influence, attitudes and certain background characteristics such as age,

gender, race and culture (Jackson & Milliron, 1986, as cited in James and Alley, 2004). Attitudes towards the state and revenue authorities are as important as are perceptions of equity. Individuals' roles in society and accepted norms of behaviour are also important. The essential thrust of these contributions from sociology and psychology are that individuals are not simply independent, selfish, utility maximizers (though this may be partly true); they also interact with other human beings according to differing attitudes, beliefs, norms and roles (James & Alley, 2004).

Wallschutzky (1993) pointed out that traditionally most of the attention paid to tax compliance by revenue authorities and others has been devoted to why some taxpayers do not comply rather than why others do so. It might easily be argued the other way round. The norm is usually to comply rather than not to comply and for a tax system to be effective it must have the willing cooperation of a majority of tax payers. It follows that there may be greater gains in assisting compliant tax payers meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full but are unable to do so because they are not aware of, or do not understand, the extent of their obligations (James & Alley, 2004).

Therefore tax compliance can be viewed as a complex subject with broad implications. There is a clear need to strike the right balance in encouraging voluntary compliance as well as deterring willful non-compliance. And therefore, a more immediate task is the development of an approach that incorporates both the economic and behavioral approaches to tax compliance. No doubt taxpayers are influenced by both economic and other motives, and a successful strategy for

tax compliance must give due weight to all relevant factors and their interaction (James & Alley, 2004).

2.2.2 THE ATO COMPLIANCE MODEL

The ATO compliance model advocates a hierarchical approach to compliance improvement which suggests that, in the first instance, a tax authority's strategies should aim at encouraging voluntary compliance through approaches like education and convenient and efficient service delivery. The tax body will, however, have access to an escalating enforcement regime with a hierarchy of sanctions which will be accessed when there is evidence that measures to encourage voluntary compliance have been unsuccessful in changing compliance behavior (ATO, 1998).

The compliance model is depicted in the figure 2 below.

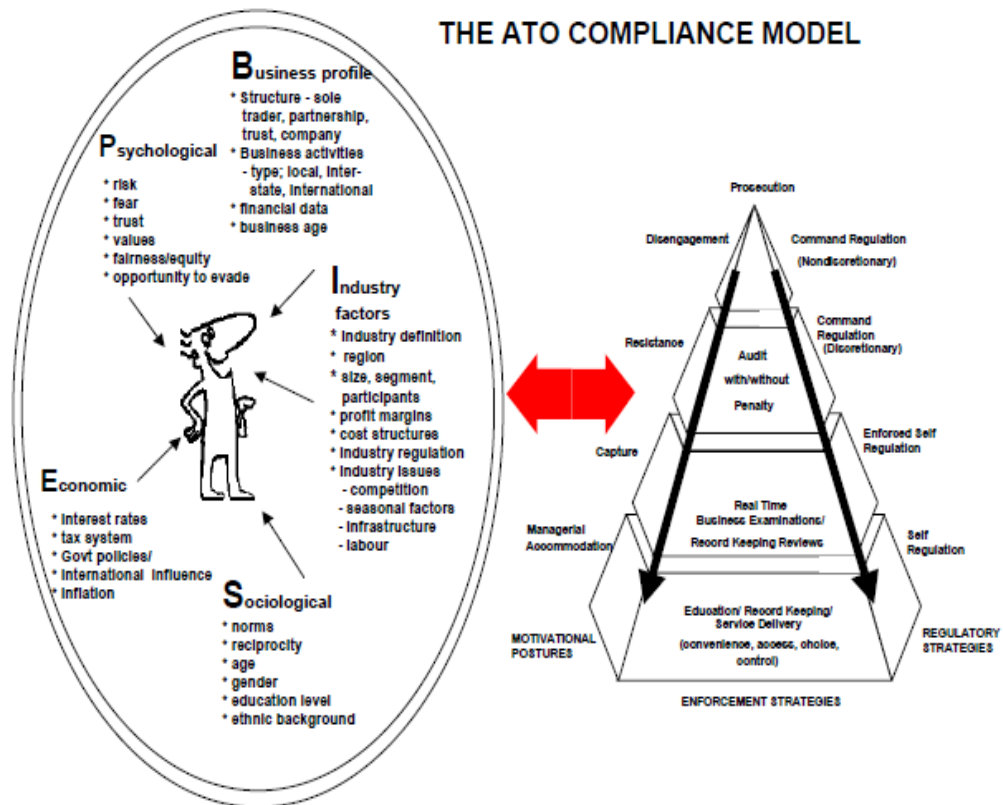


Figure 2. The ATO Compliance Model

(Source: Cash Economy Task Force Report, 1998: 58).

As can be seen in the figure 2 above, there are three parts to the ATO compliance model:

- understanding the whole of the environment in which the regulatory act occurs at the far left of the model,
- the attitude of the taxpayer to their tax obligations on the left hand side of the pyramid,
- and the range of available regulatory strategies on the right hand side of the pyramid.

The left hand side of the pyramid represents the stances or postures that can be adopted by taxpayers as described by Braithwaite (1994) and the right hand side represents the pyramid of regulatory strategy as described by Ayres and Braithwaite (1992). The centre face of the pyramid illustrates the strategies which could be applied to an industry. The levels and methods of enforcement listed in the figure above are a demonstration only of the way a hierarchical approach could work. A tax body should consider expanding the options at each level of regulation to ensure that tax payers are given every opportunity to comply at the lower level before they are moved up to the next level.

A tax body's preferred approach should be to develop and apply strategies that encourage self regulation, or voluntary compliance, emphasizing cooperation and the building of relationships between the tax body, individual taxpayers, and third parties. The arrows in the compliance model represent the desirability of the tax body to apply strategies that encourage a down ward movement of tax payers from resistance to the preferred self regulation (ATO, 1998). The top of the pyramid depicts the ability and willingness of the tax body to escalate enforcement.

The ATO model however, presents some challenges in its application since it emphasizes the process of enforcement ('managing relationships') rather than any one regulatory or enforcement mechanism (Sagit, 2007). Considerable time and effort is needed to develop and test the effectiveness of various regulatory and enforcement measures required in different regulatory contexts. It is unclear, for example, which regulatory and enforcement tools best encourage voluntary compliance at the bottom of the pyramid; how tax administrators can effectively

present the non-compliance repercussions to taxpayers in a way that encourages them to comply early in the regulatory process; which deterrent measures tax administrators can carry out (and to what extent) without unnecessarily alienating taxpayers; and how tax administrators can achieve incapacitation in taxation through measures other than prosecution and incarceration (Sagit, 2007).

All these questions and others, argues Sagit (2007) “may be addressed partly through the trial and error of enforcement efforts and partly through survey information, empirical and experimental work” (p.19). The main advantage of the ATO model however, may be its ability to offer regulators and researchers a broad roadmap for enforcement that incorporates a set of checks and balances on punitive deterrence. Further, the ATO model touches on critical issues in compliance and regulation that deserve policy attention and debate. Given that the model doesn’t provide a self-explanatory guide, it forces tax administrators and policy makers to debate and reach flexible decisions tailored to their environment (Sagit, 2007).

2.2.3 DETERRENCE AND ACCOMMODATIVE MODELS

There are two alternate approaches to regulation which have been termed the ‘deterrence’ and ‘accommodative’ models of regulation. The deterrence model views individuals and firms as ‘rational actors’ who are motivated entirely by profit seeking. They carefully assess opportunities and risks, and disobey the law when the anticipated fine and probability of being caught are small in relation to the profits to be made through non-compliance. Advocates of this view therefore believe that harsh sanctions and penalties should be used to ensure compliance (Murphy, 2004).

The deterrence model of enforcement has been criticized on a number of dimensions. One criticism has been that it does not satisfactorily explain the high levels of voluntary compliance observed in many situations. If people were simply rational actors motivated purely by self-interest, one would expect that compliance with rules and regulations would be significantly lower than what has currently been observed (Wenzel, 2001, as cited in Sagit, 2007). For example, though the Australian tax system is based largely on self assessment and voluntary compliance by tax payers, the majority of Australian taxpayers still comply with their obligations and pay their taxes with good will (Braithwaite, 2003). Smith and Kinsey (1987, as cited in Murphy, 2004) also found that the majority of American taxpayers were compliant even when the possibility of detection and punishment for non-compliance was obviously slim.

The accommodative model of enforcement is mainly based on persuasion and cooperation as a regulatory tool for gaining compliance. This model views individuals and firms as ‘social actors’ who are ordinarily inclined to comply with the law (Kagan and Scholz, 1984, as cited in Murphy, 2004). Advocates of this model tend to be more oriented toward seeking results through cooperation rather than coercion. Both the deterrence and accommodative approaches to regulatory enforcement have their advantages. However, each approach also has major disadvantages if regulators choose to adopt one exclusively over the other. For example, Bardach and Kagan (1982, as cited in Murphy, 2004) has shown that the problem of a mostly punitive policy is that it fosters resistance to regulation and may produce a culture of legal resistance (Sandmo, 2005, Cheng, 2006, Cowell, 2004, as cited in Sagit, 2007).

However, adopting a purely accommodative model of regulation, which basically views all individuals as good and honest, would be naive. This regulatory style fails to recognize that there are individuals who are not so honest and who will take advantage of being presumed so. For example, one study conducted in Canada found that the same companies continued to violate health and safety regulations, despite being given lenient treatment (Brown, 1994, as cited in Murphy, 2004). Therefore, a regulatory enforcement strategy based solely on either accommodation or deterrence may not effectively improve compliance.

2.2.4 RESPONSIVE REGULATION MODEL

Braithwaite (1985, as cited in Murphy, 2004) argued that sound regulatory enforcement could not be developed unless regulators understood the fact that sometimes those being regulated were solely motivated by making money and sometimes they were motivated by a sense of social responsibility. In other words, it is possible that a taxpayer or firm may be a responsible citizen and social actor today but a rational actor calculating costs and benefits next month. A regulatory strategy based totally on persuasion or punishment cannot sustain compliance. A convergence of the two approaches as proposed by Braithwaite and Ayres (1992) would be more suitable. This is seen in figure 3 below.

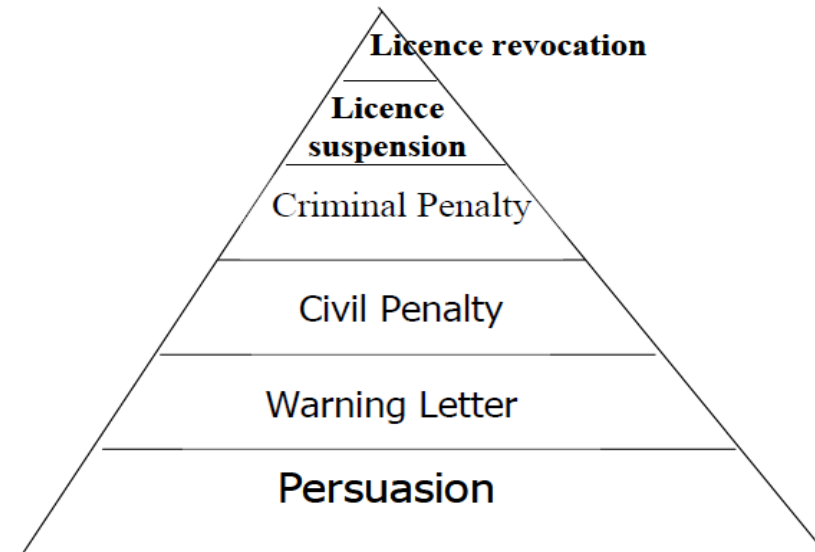


Figure 3: Ayres and Braithwaite’s enforcement pyramid

(Source: Ayres & Braithwaite, 1992: 35)

This new theoretical approach to regulation is known as Responsive Regulation Model, and it is now being recognized that regulatory agencies that do best at achieving their compliance goals are those that strike some sort of sophisticated and dynamic balance between the deterrence and accommodative models of regulation. The basic contention of Braithwaite and Ayres’s theory of responsive regulation is not whether to punish or to persuade, but when to punish and when to persuade. Braithwaite and Ayres further suggested that regulatory officers should be prepared to shift from strict regulators to educators and back again according to their analysis of a particular case. They also suggested that this flexibility style could be adopted through the use of an enforcement pyramid of regulation (Murphy, 2004).

From the theoretical concepts reviewed above, the ATO Compliance Model and the Responsive Regulation Model underpinned this study. This was because the two models clearly defined the regulatory environment within which tax compliance could be enhanced putting into consideration the different drivers of compliance. Both the ATO Compliance Model and the Responsive Regulation Model encourage tax authorities to read motivational postures, understand the sensibilities (factors) that shape them, and tailor a regulatory intervention accordingly. Furthermore, these two models appear to be hybrids of the Economic and Behavioural and Deterrence and Accommodative models.

2.3 ENFORCEMENT AND COMPLIANCE IMPROVEMENT

Several researchers have shown that tax compliance generally increases through application of enforcement strategies (Wallschutzky,1993; James and Alley,2004; Braithwaite,1995; Braithwaite and Braithwaite,2001; Phil,1996; Alm,1998; Murphy,2004a; Murphy,2004b; OECD,2006; Armando,etal,2006; Sagit,2007; Cummings,etal,2006). Other researchers have further shown that tax compliance improvement is largely dependent on the attitude (motivational postures) of taxpayers (Braithwaite, 2003; Braithwaite and Braithwaite, 2001; Murphy, 2004; Sagit, 2007). However, no comparative assessment of the effectiveness of these compliance strategies has been undertaken (OECD, 2004).

A study by Prachi, Arvind and Topalova (2007) on the effect of tariff policies on evasion of customs duties, in the context of the trade reforms in India of the 1990s identified a robust positive elasticity of evasion with respect to tariffs. Their findings also provided some evidence

on the impact of Customs enforcement on evasion of duty. While they couldn't identify the direct impact of enforcement on evasion of duty, they established the extent to which enforcement-related factors, such as product characteristics (that determine the ease of detection of evasion), affected the evasion elasticity. Their results rendered support to the hypothesis that improvements in enforcement can reduce the responsiveness of evasion to tariffs.

A similar study undertaken by Fisman and Wei (2004, as cited in Prachi, Arvind, and Topalova, 2007) found the same results for China Customs. However, a comparison between the quality of enforcement in India and China by Prachi, Arvind, and Topalova (2008) found that India's customs enforcement was potentially twice as effective as that of China's in 1998. They however further observed that this disparity was being reduced over time because of lack of sufficient improvements in India's customs enforcement and substantial increase in collection efficiency in China over time. Relatively less attention, however, has been paid in the empirical literature to the effect of, what might be called enforcement on evasion and especially on the elasticity of evasion with respect to tax rates. This is not surprising because it is much more difficult to quantify and isolate the enforcement effect.

Besides the level of effect that the enforcement regime can have on evasion, Slemrod (1994) and Slemrod and Kopczuk (2002) point to a conceptually separate impact that enforcement improvements may have on the slope of evasion. They argue that the enforcement regime can shape the behavioral response of agents to changes in tax rates and thus may be an important policy tool. But isolating the enforcement effect and measuring its contribution to evasion and

the elasticity of evasion with respect to taxes is a challenge (Prachi, Arvind, and Topalova, 2008).

Mubiru(2007) citing Cummings, McKee, Togler & Jorge (2005) argued that, although there was considerable evidence that enforcement efforts can increase tax compliance, there must be other forces at work because observed compliance level cannot be fully explained by the level of enforcement actions typical of most tax authorities.

The Inland Revenue Service (IRS) of the United States of America has until recently, largely relied on enforcement as the underpinning of its compliance programs. Enforcement produces direct revenues. The IRS believes enforcement has an ancillary effect on compliance. Others not subject to enforcement modify their behaviour because of potential enforcement (Phil, 1996).

2.4 EFFECT OF PENALTIES ON TAX COMPLIANCE

Allingham and Sandmo (1972) cited in Murphy (2008) found out that a higher penalty rate and probability of detection deterred individuals from evading their taxes. Similarly, there is evidence for the positive effects of penalties on tax compliance (Alm et al. 1995, Wenzel 2004, as cited in Murphy, 2008). Many studies have generally found that sanctions have a positive effect on tax compliance, although only mixed evidence has been found on how sanction severity impacts on compliance. The majority of studies which have examined sanctions as a compliance variable have either attempted to manipulate the penalty level in an experimental setting, or have used the actual penalty rates in the particular tax system being investigated. This has been the main failing of the research, as it is taxpayers' perceptions of the penalty level rather than the

real penalties which influence compliance. The effect of different sanction types has also led to mixed results with respect to tax compliance research (Devos, 2007).

Social sanctions, such as naming and shaming, have produced positive results, as have the introduction of, and an increase in, penalties. This has been due to a number of reasons, for example cultural differences, different subject pools and occupational status. On the other hand, moral pleas and positive inducements have also been found to have a significantly greater effect in improving taxpayer compliance than sanction communications alone. Consequently, despite the penalties variable being an important feature in measuring deterrence, it apparently needs to be supplemented by other tax compliance variables and measured in alternative ways. Although strictly not a variable within the economic deterrence model, it is considered important to analyze the deterrent aspect of sentencing upon taxpayer compliance (Devos, 2007).

The strength of any penalty or sanction ultimately relies upon its imposition, it is important to consider the judicial opinion of deterrence. Devos (2007) observes that in the case of *R v Williscroft*, the majority cited with approval the passage from the New Zealand case of *R v Radich* that stated: “one of the main purposes of punishment ... is to protect the public from the commission of such crimes by making it clear to the offender and to other persons with similar impulses that, if they yield to them, they will meet with severe punishment. In all civilized countries, in all ages, that has been the main purpose of punishment and still continues so. It has also remained an ‘article of faith’ for the courts that punishment deters offenders.”(p.193).

The empirical works on the effects of the penalty rate on taxpayers' compliance found that a large fine was a more effective deterrent to tax evasion than a high probability of detection (Friedland, et al, 1978, Crane and Nourzad, 1986, as cited in Siti, 2004). Higher fines simply make evading taxes more hazardous for taxpayers and should, therefore, deter evasion. Mubiru (2007) citing Feld & Frey, (2005); Alm, Sanschez and De Juan (1995) observed that Tax compliance can be boosted if expected fines and penalties are sufficiently high to deter tax payers from cheating ;where as Scholz and Lubell (2001, as cited in Mubiru, 2007) found a crowding out of tax compliance when penalties were introduced. Further, Sandmo (2006, as cited in Mubiru, 2007) showed that an increase in the penalty rate could still deter people from reducing tax evasion and hence the effect may not be felt.

However, some empirical studies have indicated that the deterrent effect of fines cannot always be supported. The observed effects are weaker than expected and some studies even suggest that an increase of penalties can have undesirable effects and result in more tax avoidance (Kirchler, Muehlbacher, Kastlunger & Ingrid, 2007). Supporting evidence for the effect of fines is reported by Alm, Jackson, and McKee (1992, as cited in Kirchler, et al. 2007) though its impact on compliance was virtually zero. In experiments by Friedland, Maital, and Rutenberg (1978), and by Park and Hyun (2003, as cited in Kirchler, et al. 2007) compliance was strongly affected by the amount of fines than by audit probabilities. On the contrary, Alm, Sanchez, and De Juan (1995) cited in Kirchler, et al. (2007) point out that fines are only effective in combination with high audit rates. The interaction of both variables seems to be more important than their separate effects.

Studies by Pommerehne and Weck-Hannemann (1996, as cited in Kirchler, Muehlbacher, Kastlunger & Ingrid, 2007) found no impact of penalty rate in their comparison of tax compliance in different Swiss cantons. Ali, Cecil, and Knoblett (2001, as cited in Kirchler, Muehlbacher, Kastlunger and Ingrid, 2007) analyzed compliance behavior of American taxpayers between 1980 and 1995, and found that although in this period penalty rate increased from 5% to 30% of the evaded tax, the overall increase in the fines had no impact on compliance. However, high and low-income earners reacted differently.

Whereas low-income earners showed no change in compliance, high-income earners reacted as expected and increased their tax payments. Furthermore, in experiments by Baldry (1987) and by Webley, Robben, Elffers, and Hessing (1991, as cited in Kirchler, et al. 2007) compliance was unaffected by the amount of fines, though fines should have stronger effects in the laboratory than in the field due to the artificial situation of gambling with the experimenters. Fjeldstad and Semboja (2001, as cited in Kirchler, et al. 2007) report comparable results from a survey study they conducted in Tanzania. Oppressive tax enforcement and harassment of taxpayers increased resistance to pay taxes. Accordingly, a survey study by Strümpel (1969, as cited in Kirchler, et al. 2007) revealed that unfair penalties have a negative impact on taxpayers' attitudes toward the tax office.

Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent audits. The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one

hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid their taxes (Kirchler, et al. 2007).

2.5 EFFECT OF PROSECUTION ON TAX COMPLIANCE

Williams(2001), as cited in Murphy(2008) analyzed tax return data from 528 taxpayers who had previously been prosecuted for failing to lodge their tax returns with the Australian Taxation Office. His results showed that prosecutions were successful in obtaining subsequent lodgment compliance, but he qualified this by showing that lodgment rates reduced significantly in subsequent years once the initial threat of deterrence had subsided. Roche (2006) conducted a study on 34 taxpayers who had been prosecuted by the Australian Tax Office and found that the effectiveness of prosecution is undermined by a lack of concern for procedural injustice, the informal effects of formal penalties, and possible enforcement biases. He further observes that although respondents did not object to the fact that they were prosecuted, many objected strongly to the manner in which they were prosecuted.

The most common complaint was about the length of time it took for a case to reach court. What particularly irked respondents was the delay between admitting their offence to an ATO officer and receiving a formal summons to attend court. In the most extreme case a period of five years elapsed before court charged them. Everyone else who complained about delay described the experience of waiting to be prosecuted and imprisoned as burdensome and unpleasant (Roche,

2006). There is considerable empirical psychological evidence that if people perceive their treatment by authorities to have been unfair, the risk of them reoffending increases (Tyler 1990, Murphy 2003, Murphy 2005, Tyler & Huo 2002, as cited in Roche, 2006). The implication of this is that if a regulator is interested in encouraging future compliance, it should ensure that it enforces the law in a way that is perceived as fair. This includes ensuring that enforcement is swift.

Roche (2006) further observes that from the interviews of the prosecuted taxpayers, the most painful part of criminal prosecution is often not the formal punishment itself, but the repercussions of the process of prosecution, conviction and imprisonment for an offender's relationships, employment prospects, and psychological wellbeing. None of the respondents in this study rated prison as the most difficult aspect of their experience with prosecution. All interviews regarded the side effects, or by-products, of going to prison as worse than prison itself. Roche (2006) also noted that a common perception among the people that were interviewed was that the Tax Office does not prosecute the most serious tax evaders as vigorously as it prosecutes less serious tax evaders. However, just as people assess the fairness of the tax burden by comparing themselves with others, so too do they consider the fairness of enforcement by comparing the action taken against them with the action perceived to be taken against others. People expect some rough proportionality in enforcement, that is, the most serious offences should warrant the toughest enforcement.

2.6 TAXPAYER ATTITUDES AND COMPLIANCE IMPROVEMENT

In the context of compliance with tax law, motivational postures describe how taxpayers see themselves as they relate to the tax system and its administration and, particularly, the amount of social distance they wish to place between themselves and the authority (Braithwaite, 2003b, as cited in Sagit, 2007). When taxpayers decide how much they want to associate or be aligned with an authority, and how much they want to be out of reach of and out of contact with the authority, they are indicating the social distance they wish to place between themselves and the authority (Braithwaite,2003b).This distance indicates the taxpayers' degree of acceptance or rejection of the tax system and authority and, accordingly, the extent to which taxpayers are open to their influence(Braithwaite & Job,2003, as cited in Sagit,2007).

Individuals and groups articulate their beliefs, develop rationalizations for their feelings, and use values and ideologies to justify the ways they position themselves in relation to legally sanctioned authorities (Griffin & Buehler, 1993; Bersoff, 1999, as cited in Braithwaite, 2003b). The interconnected sets of beliefs and attitudes that are consciously held and openly shared with others are called motivational postures. Four motivational postures have been identified as important in the context of taxation compliance: (a) commitment, (b) capitulation, (c) resistance, and (d) disengagement (Braithwaite, 2003b). The first two postures reflect an overall positive orientation to authority and the last three postures reflect an overall negative orientation to authority. Commitment reflects beliefs about the desirability of tax systems and feelings of moral obligation to act in the interest of the community and pay one's tax with good will. Capitulation reflects acceptance of the tax office as the legitimate authority and the feeling that

the tax office is a benign power as long as one acts properly and defers to its authority. In contrast to these postures of deference, are two postures of defiance. The first is the familiar posture of resistance. Resistance reflects doubts about the intentions of the tax office to behave cooperatively and benignly towards those it dominates and provides the rhetoric for calling on taxpayers to be watchful, to fight for their rights, and to curb tax office power (Braithwaite, 2003b). Disengagement is also a motivational posture that communicates resistance, but here the disenchantment is more widespread, and individuals and groups have moved beyond seeing any point in challenging the authorities. The tax office and the tax system are beyond redemption for the disengaged citizen, the main objective being to keep both socially distant and blocked from view.

A national survey conducted by the Centre for Tax System Integrity at the Australian National University (Braithwaite, 2001; Braithwaite, Reinhart, Mearns and Graham, 2001, as cited in Braithwaite,2003b) to establish whether individual taxpayers identified with the postures of commitment, capitulation, resistance, and disengagement; and secondly, whether individuals held these postures (or a subset of them) simultaneously; found that each factor was defined predominantly by statements representing one of the postures (Braithwaite,2003b).

This means that the four postures are relatively distinctive. In other words, these data provide evidence that the motivational postures are fairly coherent sets of beliefs that are part of the way individuals think about themselves in relation to tax authorities. Further, the results showed some relationships among the postures. Commitment and capitulation are compatible postures, but where these exist, one is less likely to find disengagement and resistance. Disengagement is a

posture that is compatible with resistance. None of these correlations, however, are sufficiently high to justify an assumption that taxpayers can be placed on a simple adversarial-cooperative dimension. Although the correlations demonstrate that the four postures are not likely to be equally strong in any one individual at any one time, having one posture does not rule out the possibility of having another for any individual taxpayer. Taxpayers can demonstrate more than one posture in any specific encounter (Braithwaite, 2003b).

2.7 CONCLUSION

The literature reviewed showed that enforcement actions have both a direct and indirect impact on compliance improvement. Studies on the impact of penalties on tax compliance have been found to vary, with some researchers indicating that penalties increase tax compliance and others indicating that there is no observed improvement in compliance. Likewise studies on the impact of prosecution on tax compliance show a similar trend.

There appeared however to be a general consensus by researchers that punitive enforcement strategies, albeit enhancing compliance cannot be sustained (Wallschutzky, 1993; James and Alley, 2004; Braithwaite, 1995; Braithwaite and Braithwaite, 2001; Phil, 1996; Alm, 1998; and Murphy, 2004). It is therefore apparent, that a responsive regulatory approach in combination with the ATO Compliance model of enforcement is most likely to sustain compliance.

Although the literature showed that enforcement variables comprising the use of penalties and prosecution increases tax payer compliance, there was no empirical studies that showed the level of compliance achieved through the application of these enforcement measures. Furthermore,

there was hardly any evidence from literature regarding the impact of forfeiture of taxpayers' goods on their compliance and the impact of quality of personnel and resources allocation on compliance. The literature reviewed on the impact of the variables of penalties, and prosecution on tax payer compliance didn't demonstrate how these same variables would impact on compliance from the Customs point of view. In terms of the effectiveness of Customs enforcement in improving compliance towards payment of Customs duties, this research was the first in Uganda and beyond. This study therefore filled in the knowledge gap in this regard.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This section describes the methods and procedures that were employed in conducting the study. It includes: the research design, population, sample size, sampling procedure, data collection procedures, and data analysis.

3.2 RESEARCH DESIGN

The study employed a cross-sectional research design using both qualitative and quantitative methods of data collection and analysis. Qualitative methods were used to collect non-numerical data while quantitative methods were used to collect numerical and categorical data. The research design enabled acquisition of in-depth information from the taxpayers and URA personnel. A cross-sectional research design was used because it was relatively inexpensive and took up little time to conduct; it was easy to estimate prevalence of outcome of interest because the sample was taken from the whole population; and also the study was descriptive in form of a survey. (Kate, 2006).

3.3 STUDY POPULATION

The study target population comprised all Customs staff and importers. The accessible population included the Customs enforcement staff whose population size was 153 and importers who dealt in Textiles & Garments, Footwear and Wines and Spirits whose mean population size for the period 2006 to 2010 was 5252 based on the Customs importation statistics. Out of 5252 importers, 1068 importers dealt in Footwear; 139 in Wines & Spirits; and 4046 in Textiles & Garments. The industry entities of Textiles & Garments, Footwear and Wines & Spirits are part of the Small & Medium Enterprise (SME) segmentation and were chosen for this study because they generally attract high tax revenues; and as such gave a good indication of taxpayer compliance levels.

3.4 SAMPLE SIZE SELECTION

According to Cochran (1977) cited in Bartlett, Kotrlik, & Higgins, 2001, the sample size for categorical data was determined using his formula below;

$$n = \frac{Z^2 pq}{e^2}$$

Where, n = sample size

Z = critical value at 95% confidence interval which corresponds to 1.96. In Cochran's formula, the alpha level is incorporated into the formula by utilizing the z-value for the alpha level selected (e.g., z-value for alpha level of .05 is 1.96 for sample sizes above 120).

p = proportion of the variable of interest based on previous experience.

Basing on the Customs declaration records and Enforcement offence records, 70% of importers who import textiles and garments, footwear or wines and spirits were found to underpay the Customs duties on these goods. Hence, $p = 0.7$.

$$q = 1 - p = 1 - 0.7 = 0.3.$$

$(p)(q)$ = estimate of variance

e = acceptable margin of error for proportion being estimated (that is, error researcher is willing to accept).

The general rule relative to acceptable margins of error in educational and social research is that: For categorical data, 5% margin of error is acceptable, and, for continuous data, 3% margin of error is acceptable (Krejcie & Morgan, 1970, as cited in Bartlett, Kotrlik, & Higgins, 2001).

Therefore, the margin of error, e, was assumed to be 5% (or 0.05).

Thus the sample size, n, was computed as:

$$n = \frac{(1.96) \times (1.96) \times (0.7) \times (0.3)}{(0.5) \times (0.5)} = \frac{0.806736}{0.0025} = 323$$

The sample size for the study was **323**. This sample included **40** enforcement staff and **283** importers of Textiles & Garments (218), Footwear (58) and Wines and Spirits (7).

It should be noted that this sample size closely approximated the one determined using Krejcie and Morgan (1970, sample size tables as cited in Sekaran, 2003) using the same accessible population of 5405 which gave a sample size of 357. Roscoe (1975, as cited in Sekaran, 2003) in one of his thumb rules for determining sample size observed that sample sizes larger than 30 and less than 500 (such as the one determined above) were appropriate for most research.

3.5 SAMPLING PROCEDURES

Both disproportionate stratified sampling and purposive (judgmental) sampling were employed to select the participants within the sample. The objective of stratified random sampling was to achieve the desired representation from various subgroups in the population. Hence under the SME segmentation, the following industry entities were selected: Wines and Spirits, Textiles and Clothing (Garments), and Footwear. These were chosen because these sectors generally attract high tax revenues. For instance, Wines and Spirits attract import duty of 25%, Excise duty of 70%, VAT of 18% and Withholding tax of 6% and as such the probability for duty evasion on such goods is very high.

Disproportionate stratified sampling was employed because the industry stratum of Wines & Spirits (with a sample size of 7 importers) was very small and would not truly reflect how all importers of Wines & Spirits at that level would respond; while the industry stratum of Textiles and Garments(with a sample size of 218 importers) was very large. Furthermore, the participants in this sample were purposively selected to include all those importers of Footwear, Garments & Textiles and Wines and Spirits who were involved in the commission of Customs offences between 2006 and 2010.

Specific individual taxpayers were selected from these industries depending on the observed level of their non-compliance basing on the frequency of occurrence of that taxpayer on the list of penalized taxpayers or taxpayers with top-ups (arising from having been selected under the red channel risk criteria) or taxpayers with tax arrears (arising from other tax enforcement interventions such as audits). The red channel consists of importers who had been profiled as being very high risk because they had a history of non-compliance and high probability of evading duty. The enforcement staff were also purposively selected to include Managers, Supervisors and officers who had worked in the enforcement division for at least 4 years. The table 1 below shows the distribution of the participants in each stratum.

Table 1: Sample size for the study

Category	Accessible Population	Sample Size	Sampling Technique employed
Importers of:			
Footwear	1068	100	Disproportionate / Purposive
Garments & Textiles	4045	150	Disproportionate / Purposive
Wines & Spirits	139	33	Disproportionate / Purposive
Enforcement staff			
Managers	02	02	Purposive
Supervisors	10	08	Disproportionate / Purposive
Officers	119	30	Disproportionate / Purposive
Total	5383	323	

Source: *Customs Planning Unit(2011)*.

3.6 DATA COLLECTION METHODS

Data was collected using the methods of: Documentary review, Questionnaire Survey, and observation as described below.

3.6.1 DOCUMENTARY REVIEW

The researcher reviewed the necessary records related to the research variables that provided a good source of secondary data. The documents reviewed included among others Customs offence registers and reports, Customs statistical reports, HR records, declaration records and prosecution reports. This method was good due to its low costs in terms of time and cost and data was easily obtained (Sekaran, 2003).

3.6.2 QUESTIONNAIRE SURVEY

Self- administered questionnaires were used to collect data from both the enforcement staff and the importers. This method of data collection was efficient since the variables of interest to be measured were clearly known. Also questionnaires were easy and cheap to administer either personally, mailed to the respondents, or electronically distributed (Sekaran, 2003).

3.6.3 OBSERVATION

Under this method, the researcher observed URA enforcement work environment, visited the work sites of staff and interacted with them so as to establish availability and adequacy of

resources in use. This method was useful especially in collecting data on the variable of resources allocation.

3.7 DATA COLLECTION INSTRUMENTS

3.7.1 DOCUMENTARY REVIEW CHECKLIST

A documentary review checklist as shown in Annex V was used to collect data on the variables of penalties, quality of personnel, and resources allocation.

3.7.2 QUESTIONNAIRE

Both structured (closed) questions and unstructured (open-ended) questions were administered to the respondents. Closed questions helped the respondents to make quick decisions to choose among the several alternatives before them. Also they were easy to code for subsequent analysis. Responses to open-ended questions were edited and categorized for subsequent data analysis.

In order to measure the variable of taxpayer attitudes, the researcher adopted previous work by Braithwaite, Braithwaite, Gibson & Makkai (1994) to suit the taxation context. The questionnaires administered are attached in appendices II and III.

3.7.3 OBSERVATION CHECK LIST

An observation check list (shown in appendix IV) was used which looked at aspects of facilitation and office equipment that support officers to perform their roles.

3.7.4 VALIDITY

Validity test was computed using content validity index (C V I) basing on four (4) point scale of relevant, quite relevant, somewhat relevant, and not relevant. The proportion of relevant and quite relevant was computed from three experts and all the proportions were above 0.5. These findings were in agreement with the results of Krishnaveni & Ranganath (2011), who showed that any content validity index (CVI) that is greater than 0.5 showed the concepts being measured were valid.

3.7.5 RELIABILITY

To ensure reliability of the instruments, they were pretested using a small number of respondents. Cronbach's alpha reliability coefficient was used to measure internal consistency reliability. The Cronbach's alpha coefficient for internal consistency reliability for this study was found to be closer to 1. This was in agreement with Sekaran (2003), who stated that the closer Cronbach's alpha is to 1, the higher the internal consistency reliability. The results of both the validity and reliability tests are summarized in table 2 below.

Table 2: Results from the pretesting of the Instruments

Variable	Anchor (Likert scale)	Cronbach Alpha Coefficient	CVI
Tax Payer Attitudes	5 point	0.791	0.742
Penalties	5 point	0.820	0.722
Forfeiture	5 point	0.665	0.566
Prosecution	5 point	0.607	0.538
Tax compliance	5 point	0.783	0.673
Resources allocation	5 point	0.891	0.781
Quality of personnel	5 point	0.931	0.782

Source: primary data

3.8 DATA ANALYSIS

After data was obtained through questionnaires, observation and documents review, it was edited, coded, and categorized. A statistical software program (SPSS) was then used to enter data for analysis. Data was then analyzed according to the type of data as described below.

3.8.1 QUANTITATIVE DATA ANALYSIS

Data was analyzed using both Descriptive statistics and inferential statistics. Descriptive statistics such as maxima, minima, mean, standard deviation and variance was obtained for the interval-scaled independent and dependent variables. In Inferential statistics, the Pearson correlation coefficient matrix was used to measure the strength and direction of relationships between the study variables. Multiple regression analysis was used to predict the level of tax compliance contributed by the independent variables.

3.8.2. QUALITATIVE DATA ANALYSIS

Qualitative data was mainly analyzed using Content analysis - which is the systematic description of behavior asking who, what, where and how questions within formulated systematic rules to limit the effects of analyst bias (Krippendorff, 1980 cited in Stemler, 2001). Key themes from the participants' responses were identified, coded, the number of times that theme was mentioned (frequency) was noted and these responses were quantitatively analyzed to generate quasi statistics.

3.9. MEASUREMENT OF VARIABLES

The research variables were measured using an interval scale. The interval scale makes it possible to measure the distance between any two points on the scale. This made it possible to compute the means and the standard deviations of the responses on the variables (Sekaran,2003).

The Likert scale was used as the rating scale to examine how strongly respondents agreed or disagreed with statements on a 5-point scale with the following anchors:

Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	2	3	4	5

The advantages of using the Likert scale were that it was simple to construct, each item on the scale was of equal value so that respondents were scored rather than items, and it was likely to produce a highly reliable scale (Hilary, 2003).

CHAPTER FOUR

PRESENTATION OF FINDINGS, INTERPRETATION AND OBSERVATIONS

4.1 INTRODUCTION

This chapter presents and discusses the results of the study. The discussion is guided by the research objectives and the statistics were generated with the aim of obtaining responses to the research questions. The first part of the chapter describes the sample characteristics of the respondents such as training programs attended by Customs Enforcement staff as part of the sample.

4.2 RESPONSE RATE

Out of a sample of 323 respondents, 40 were Customs enforcement staff and 283 were taxpayers. Out of 40 enforcement staff 39 responded and 134 taxpayers responded giving a total of 173(53.6%) responses. This response rate, while fairly low in absolute terms, compares favourably with rates reported for other tax surveys (Pope, Fayle and Chen, 1993; Wallschutzky, 1996; Kirchler, 1999; Webley, Adams and Elffers, 2002, as cited in Braithwaite, 1995). The main constraint in obtaining responses from taxpayers was the failure to locate their physical addresses such as street, plot number, building name and telephone contacts. The addresses recorded with URA at the time of settling the offences had since been changed. Descriptive

statistics such as, frequencies and percentages, and inferential statistics were used to generate results.

4.3. EFFECT OF PENALTIES ON TAXPAYERS' COMPLIANCE (PRIMARY DATA)

From the results in table 3 below, respondents only agreed with three (18.75%) of the sixteen statements on the impact of penalties on taxpayers' compliance. Respondents were uncertain with Nine (56.25%) of the sixteen statements; and they disagreed with four (25%) of the statements. Although the respondents agreed that they paid their taxes whenever they imported goods (M=4.41, SD=.94); and they paid all taxes expected on their goods (M=4.30, SD=.95) and

Table 3: Taxpayers' responses on the impact of Penalties on taxpayers' compliance

Descriptive Statistics						
	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>	
I pay my taxes whenever I import goods	133	1	5	4.41	.94	
I pay all taxes expected on my goods	133	1	5	4.30	.95	
I have been involved with Customs enforcement in the clearance of my goods	132	1	5	3.00	1.38	
Customs Enforcement has ever seized my goods	131	1	5	2.52	1.34	

I know the reason(s) why my goods were seized	130	1	5	2.79	1.32
I accepted to pay the penalties that were imposed on me	128	1	5	3.05	1.35
I would still pay penalties if my goods were seized again by enforcement	129	1	5	3.36	2.93
I have paid penalties more than once	130	1	5	2.22	1.27
I would avoid paying penalties if my goods were seized again	129	1	5	2.33	1.23
I would rather be penalized than paying all taxes on my goods	131	1	5	1.89	1.21
After my experience with enforcement, I now pay all taxes on my goods.	128	1	5	3.60	1.24
The penalties imposed by URA were very high compared to the offences committed	126	1	5	3.44	1.31
It would be good if penalties were progressively increased from low to high penalties.	130	1	5	2.47	1.35
Second and subsequent offenders should be assessed higher penalties than First-time offenders.	132	1	5	3.30	1.39

The offence(s) committed and the section(s) of the Customs	127	1	5	2.86	1.25
--	-----	---	---	------	------

law contravened were clearly explained to me before penalizing me

While determining the amount of penalty to pay customs	128	1	5	3.06	1.16
--	-----	---	---	------	------

Enforcement considered the circumstances under which the offence was committed

Source: primary data

that after their experience with enforcement, they now paid all taxes on their goods (M=3.60, SD=1.24), the said respondents also disagreed with the statements that: they would rather be penalized than paying all taxes on their goods (M=1.89,SD=1.21); they had paid penalties more than once (M=2.22,SD=1.27); they would avoid paying penalties if their goods were seized again(M=2.33,SD=1.23); and that it would be good if penalties were progressively increased from low to high penalties(M=2.47,SD=1.35). A majority of the respondents expressed uncertainty over: having been involved with Customs enforcement in the clearance of their goods(M=3.00,SD=1.38); Customs Enforcement having ever seized their goods(M=2.52,SD=1.34); knowing the reason(s) why their goods were seized (M=2.79,SD=1.32); accepting to pay the penalties that were imposed on them(M=3.05,SD=1.35) ; still paying penalties if their goods were seized again by enforcement(M=3.36,SD=2.93); the penalties imposed by URA being very high compared to the offences committed(M=3.44,SD=1.31); second and subsequent offenders being assessed

higher penalties than first-time offenders(M=3.30,SD=1.39); the offence(s) committed and the section(s) of the Customs law contravened having been clearly explained to them before penalizing them(M=2.86,SD=1.25) and Customs Enforcement having considered the circumstances under which the offence was committed while determining the amount of penalty to pay (M=3.06,SD=1.16). The overall results indicated there was uncertainty on the effect of penalties on taxpayers' compliance. The implication herein would be that increased application of penalties wouldn't guarantee increased tax payer compliance.

4.3.1. EFFECT OF PENALTIES ON TAXPAYERS' COMPLIANCE (SECONDARY DATA)

Customs offence registers and Customs declaration records were examined for the period 2006 to 2010 with the view of tracking taxpayers who had been penalized due to under payment of Import duties. Note that under payment of import duty arises from mis-declaration of goods; under-declaration of quantity of goods; under-invoicing of goods(undervaluation); misapplication of rules of origin on goods and Customs Procedure Codes(CPCs),for instance, manufacturers importing raw materials are exempted from import duty under the CPC of 450; and outright smuggling of goods without payment of duty.

The number of times these taxpayers were penalized was also considered and declaration records were examined to find out whether improvement was registered in the area of making correct Customs declarations (that is, Accurate reporting of the quantity of goods and respective weight and unit of measure, Accurate description of goods on the Customs Bill of Entry, Accuracy of

container marks and numbers, Proper country of origin marking on goods; Proper particulars of consignee), correct tariff classification of goods (to determine the applicable tax rates), declaring the correct Customs Value (from which duties are computed) and paying the due Customs duties. The key indicator of correct Customs declarations was considered as the Frequency of top-ups (that is, additional duties levied by Customs officers after the taxpayer had paid his self-assessed duties). The fewer the number of top-ups, the better the declarations by the taxpayer; and the more compliant that taxpayer would be. The table 4 (shown in appendix VI) summarizes results of 63 taxpayers whose records were examined. The results were viewed from two perspectives:

- those taxpayers who were penalized either once or more than once and several (more than 15%) of their declarations attracted top-ups; and
- those taxpayers who were penalized either once or more than once and had few (less than 15%) of their declarations or none where top-ups were raised.

The results showed that out of the 63 taxpayers whose records were examined, 53(84.13%) of them committed 81 offences. Further, their total declarations amounted to 1625 declarations; and 754(46.4%) out of these were top-ups. 10 taxpayers who committed 16 offences made declarations totaling to 1006; and 23(2.29%) out of these were top-ups.

In both scenarios a few exceptions were observed. For instance, under scenario one above; one taxpayer who committed 4 offences and made 213 declarations, had 106 of his declarations attracting top-ups; another taxpayer with 11 offences made 481 declarations and 59 of his declarations attracted top-ups and another one who was penalized once had 33 of his 35 declarations attracting top-ups. Under scenario two above, one taxpayer who was penalized thrice and made 55 declarations had none of them attracting top-ups; and so was another

taxpayer who had been penalized once had none of his 29 declarations attracting top-ups. The overall observation was that these results indicated that penalties to some extent enhanced taxpayer compliance.

4.4. EFFECT OF FORFEITURE ON TAXPAYERS' COMPLIANCE

From the results in table 5 below, respondents agreed that if the nature of goods was such that they were restricted or prohibited by government, then it was alright for URA to forfeit such goods if seized from a tax payer (M=3.74, SD=1.29). However, the respondents disagreed that forfeiture of tax payers' goods was better than paying more money to URA in form of penalties (M=2.40, SD=1.38). Respondents also expressed uncertainty over the statements that: Forfeiture of taxpayers' goods was alright as long as URA explained the reason(s) for their forfeiture (M=2.83, SD=1.36); they had ever lost their goods to URA through forfeiture (M=2.55, SD=1.36); after forfeiting their goods, they were now more willing to pay all taxes on their goods than lose them (M=3.22, SD=1.18).

Table 5: Taxpayers' responses on the effect of Forfeiture on taxpayers' compliance

Descriptive Statistics

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
Forfeiture of tax payers' goods is better than paying more money to URA in form of penalties.	131	1	5	2.40	1.38

Forfeiture of taxpayers' goods is okay as long as URA explains the reason(s) for forfeiture.	132	1	5	2.83	1.36
If the nature of goods is such that they are restricted or prohibited by government, then it is okay for URA to forfeit such goods if seized from a tax payer.	120	1	5	3.74	1.29
I have ever lost my goods to URA through forfeiture	131	1	5	2.55	1.36
After forfeiting my goods, am now more willing to pay all taxes on my goods than lose them	127	1	5	3.22	1.18

Source: primary data

The overall results indicated that forfeiture of taxpayers' goods had an effect on their compliance. The implication herein would be that increased application of forfeiture would guarantee increased tax payer compliance.

4.5. EFFECT OF PROSECUTION ON TAXPAYERS' COMPLIANCE

From the results in table 6 below, respondents agreed that they would be willing to pay all their taxes instead of being prosecuted (M=4.24, SD=.70); and that they would try to settle any offence with customs enforcement instead of being prosecuted (M=4.08, SD=.93). However, the respondents expressed uncertainty over whether they would accept to be prosecuted if they committed an offence with customs enforcement (M=2.72, SD=1.22). They also disagreed with

the statements that they had ever been prosecuted by URA (M=2.01, SD=1.23); and that they would rather be prosecuted than pay all taxes imposed by URA (M=1.58, SD=.87).

Table 6: Taxpayers’ responses on the effect of Prosecution on taxpayers’ compliance

Descriptive Statistics						
	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>	
I would accept to be prosecuted if I committed an offence with customs enforcement	133	1	5	2.72	1.22	
I would try to settle an offence with customs enforcement instead of being prosecuted	131	1	5	4.08	.93	
I would be willing to pay all my taxes instead of being prosecuted	133	1	5	4.24	.70	
I have ever been prosecuted by URA	133	1	5	2.01	1.23	
I would rather be prosecuted than pay all taxes imposed by URA	132	1	5	1.58	.87	

Source: primary data

The overall results indicated that prosecution of taxpayers had an effect on their compliance. The implication herein would be that increased application of prosecution would lead to increased tax payer compliance.

4.6. STAFF RESPONSES ON IMPACT OF PENALTIES, FORFEITURE AND PROSECUTION ON TAX COMPLIANCE

From the results in table 7 below, officers agreed that penalizing non-compliant tax payers by Customs Enforcement had increased their Compliance towards payment of Customs duties(M=4.11,SD=1.06); and that the offences committed and the sections of the Customs law contravened were always clearly explained to taxpayers before penalizing them(M=4.39,SD=.57). Furthermore, that while compounding and assessing an offence, Customs Enforcement usually considered the circumstances under which a tax payer committed that offence (M=4.21, SD=.63); and that Second and subsequent offenders should be given higher penalties than first-time offenders (M=4.43, SD=.83). However, officers expressed uncertainty regarding whether there would be increased compliance if tax payers were given heavier penalties than what Customs Enforcement was applying(M=3.29,SD=1.38); and whether Penalties would be effective in enhancing tax payer compliance if they were progressively increased from low to high penalties (M=3.33,SD=1.24). also officers expressed disagreement over the observation that the penalties imposed by Customs Enforcement were very high compared to the offences committed by tax payers (M=2.14,SD=.75).

Table 7: Staff responses on effect of Penalties, Forfeiture & Prosecution on tax compliance

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
Impact of Penalties					
Penalizing non-compliant tax payers by Customs Enforcement has increased their Compliance towards payment of Customs duties	39	1.00	5.00	4.11	1.06
The offence(s) committed and the section(s) of the Customs law contravened are always clearly explained to the taxpayer before penalizing them.	39	3.00	5.00	4.39	.57
While compounding and assessing an offence, Customs Enforcement usually considers the Circumstances under which a tax payer committed that offence	39	2.00	5.00	4.21	.63
There would be increased compliance if tax payers were given heavier penalties than what Customs Enforcement is applying	39	1.00	5.00	3.29	1.38
The penalties imposed by Customs Enforcement are very high compared to the offences committed by tax payers	39	1.00	4.00	2.14	.75

Penalties would be effective in enhancing tax payer compliance if they were progressively Increased from low to high penalties.	39	1.00	5.00	3.33	1.24
---	----	------	------	------	------

Second and subsequent offenders should be given higher penalties than first-time offenders.	39	1.00	5.00	4.43	.83
---	----	------	------	------	-----

Impact of forfeiture

Forfeiting goods of non-compliant tax payers by Customs enforcement has increased their Compliance towards payment of Customs duties	39	1.00	5.00	3.59	1.05
--	----	------	------	------	------

The decision to forfeit tax payers' goods is usually based on the offence committed and the law contravened.	39	2.00	5.00	4.25	.70
--	----	------	------	------	-----

The decision to forfeit tax payers' goods is usually based on the nature of the goods involved.	39	1.00	5.00	3.68	1.33
---	----	------	------	------	------

The decision to forfeit tax payers' goods is usually based on the tax payer's previous offence record (i.e. the frequency of committing offences).	39	1.00	5.00	2.46	1.14
--	----	------	------	------	------

Impact of prosecution

Prosecuting non-compliant tax payers by Customs enforcement has increased their compliance towards payment of Customs duties	39	1.00	5.00	3.45	1.08
--	----	------	------	------	------

Prosecuting tax payers is usually based on the taxpayer's previous offence record (i.e. the frequency of committing offences)	39	2.00	5.00	3.00	.98
Prosecuting tax payers is usually based on the severity (magnitude) of the offence committed	39	1.00	5.00	3.69	1.12
Customs Enforcement usually gives due diligence to the evidence gathered against the taxpayer and the skills of the prosecution officers before prosecuting taxpayers	39	2.00	5.00	3.86	.76
Prosecuting tax payers should be the last option by Customs Enforcement	39	1.00	5.00	3.57	1.29

Source: primary data

Regarding forfeiture of taxpayers' goods, officers were in agreement that Forfeiting goods of non-compliant tax payers by Customs enforcement had increased their Compliance towards payment of Customs duties (M=3.59,SD=1.05); and that the decision to forfeit tax payers' goods was usually based on the offence committed and the law contravened (M=4.25,SD=.70); and that the decision to forfeit tax payers' goods was usually based on the nature of the goods involved (M=3.68,SD,=1.33). However, officers disagreed regarding the observation that the decision to forfeit tax payers' goods was usually based on the nature of the goods involved (M=2.46, SD=1.14).

Regarding prosecution of taxpayers, officers agreed that Prosecuting tax payers was usually based on the severity (magnitude) of the offence committed (M=3.69, SD=1.12); and that Customs Enforcement usually gave due diligence to the evidence gathered against the taxpayer and the skills of the prosecution officers before prosecuting taxpayers (M=3.86, SD=.76). Furthermore, that prosecuting tax payers ought to be the last option by Customs Enforcement (M=3.57, SD=1.29). However, officers expressed uncertainty as to whether prosecuting non-compliant tax payers by Customs enforcement had increased their compliance towards payment of Customs duties (M=3.45, SD=1.08); and that prosecuting tax payers was usually based on the taxpayer's previous offence record (M=3.00, SD=.98).

4.7. QUALITY OF PERSONNEL

Skills acquisition by enforcement staff was considered as a key indicator of quality of personnel. Therefore Training programs attended by Customs enforcement staff were used to measure the variable of quality of personnel. This is in line with the World Customs Organization Professional Standards 2008 which provides for Professionalism in Customs and workforce development (WCO, 2011). The training programs were categorized as Basic and Specialized. Basic training programs are those programs that are provided to all enforcement staff to enable them competently perform their role of enforcing compliance to the Customs laws and regulations. Specialized training programs are additional skills that are provided to officers to enable them manage different compliance requirements of Customs.

Customs enforcement is concerned with the protection of society and fighting trans-national organized crime based on the principles of risk management. In discharging this mandate, Customs enforcement services are involved in a wide range of activities relating to information and intelligence exchange, combating commercial fraud, counterfeiting, the smuggling of highly taxed goods (especially cigarettes and alcohol), drug trafficking, stolen motor vehicles, money laundering, electronic crime, smuggling of arms, nuclear materials, toxic waste and weapons of mass destruction. Enforcement activities also aim to protect intellectual and cultural property and endangered species of plants and animals. It is on the basis of this enforcement mandate that the training programs highlighted in tables 8 and 9 below were chosen.

From the results in table 9 below, all enforcement staff had undergone basic training that would make them adequately competent to enforce compliance. The course attended by most officers was Customs Basic Course reported by 92.9% of the respondents to have attended followed by Intelligence (82.1%), then military training (75%) and Risk Management (67.9%). This implies that the enforcement staff were skilled enough to perform the Customs enforcement function. Suffice to note that the variation in the staff responses especially on the basic courses were due to the fact that officers were deployed in Enforcement at different times and therefore trained at different intervals.

Table 8: Basic Training programs attended by Customs enforcement staff

	<i>Yes</i>	<i>No</i>	<i>Total</i>
Basic Military Course	75.0	21.4	100.0
Customs Basic Course/Total Tax Person	92.9	7.1	100.0
Intelligence	82.1	17.9	100.0
Risk Management	67.9	32.1	100.0

Table 9: Specialized courses attended by Customs enforcement officers

	<i>Yes</i>	<i>No</i>	<i>Total</i>
Intellectual Property Rights (IPR)	21.4	78.54	100.0
Intelligence Analysis	35.7	64.3	100.0
Rules of Origin	57.1	42.9	100.0
Customs Valuation	53.6	46.4	100.0
Harmonized System Classification	53.6	46.4	100.0

Explosives, Investigation and Compliance	7.1	92.8	100.0
Drugs and Narcotics Enforcement	3.6	96.4	100.0
Marine Operations	14.3	85.7	100.0

The results in table 9 above indicate that the specialized training course undertaken by most enforcement staff was Rules of Origin (57.1%), followed by Customs Valuation (53.6%) and Harmonized System Classification (53.6%) and then Intelligence Analysis (35.7%). These training programs were intended to provide further skills to officers to enable them enforce Customs compliance from a wider perspective. These findings show that the quality of personnel is largely dependent on acquisition of skills. These skills acquired by enforcement officers enable them to easily detect and prevent non-compliance. For instance, a look at the total number of seizures obtained by enforcement officers as reflected in table 10 below demonstrates the extent to which officers were able to detect Customs offences.

Table 10: Customs Enforcement Recoveries from 2006 - 2010

Financial Year	Total Seizures	Total Recovery (Ug.Shillings)
2009/10	6,619	9,974,813,222
2008/09	5848	7,130,888,562
2007/08	4,039	6,771,357,878
2006/07	2,840	7,685,081,803

Source: Customs Enforcement Report (2011)

The trend in data shows that over the years enforcement officers have gained skills and experience to easily identify Customs offences hence the observed increase in the number of seizures between 2006 and 2010 indicating an increase of 133% in 2010 compared to 2006.

4.8. RESOURCES ALLOCATION TO ENFORCEMENT OPERATIONS

Existence of a business plan and a budget were considered as good indicators of Resources allocation. The table 11 below summarizes the responses of enforcement officers. Slightly more than half of officers (53.6%) reported that Customs Enforcement division developed a business plan at the beginning of every financial year and about 7 in 10 (67.9%) reported that customs enforcement division was allocated a specific budget for its operations. However, about one fifth (17.9%) reported that the budget was communicated to staff at the beginning of each financial

year and nearly 4 in 10 (39.3%) reported that Customs enforcement budget was allocated based on the division's activity plan. Further, the following resources reflected in table 12 below were considered critical to enforcement operations.

Table 11: Resources allocation to Customs Enforcement

	<i>Yes</i>	<i>No</i>	<i>I Don't Know</i>	<i>Total</i>
	<i>%</i>	<i>%</i>	<i>%</i>	
Customs Enforcement division develops a business plan at the beginning of every financial year	53.6	17.9	28.6	100.0
customs enforcement division is allocated a specific budget for its operations	67.9	3.6	28.6	100.0
the budget is communicated to staff at the beginning of each financial year	17.9	60.7	21.4	100.0
customs enforcement budget is allocated based on the division's activity plan	39.3	14.3	46.4	100.0

Table 12: Resources allocation considered critical to Customs Enforcement

	<i>Yes</i>	<i>No</i>	<i>Total</i>
Vehicles for covert operations	60.7	39.3	100.0
Vehicles for visible policing	89.3	10.7	100.0
Mobile Phones(<i>Kabiriti</i>)	85.7	14.3	100.0
Air time	64.3	35.7	100.0
Allowances	46.4	53.6	100.0
Radio calls	7.1	92.9	100.0
Manpower	75.0	25.0	100.0
Laptops/PDAs	25.0	75.0	100.0

Source: primary data

60.7% reported that vehicles for covert operations were provided, while 89.3% reported that vehicles for visible policing were provided. Other resources provided included: Air time (64.3%), Human resource (75%), Allowances (46.4%), Mobile phones (85.7%), Radio Calls (7.1%), Laptops (25.0%).

An observation checklist was made for resources allocated to enforcement operations. The observation was made in terms of availability and adequacy of resources. Availability means that the resource is at the disposal of an officer each time there is a need for it. Adequacy means that the resource is able to satisfy the perceived or the real need. A resource was considered available if that resource was 70% of the time at the disposal of an enforcement officer; and adequacy of that resource was considered if that resource satisfied 80% of the need. The findings are reflected in table 13 below. The division had 72.72% of the resources needed for its operations available; however, of these available resources only 37.5% were found adequate.

Table 13: Observation Checklist for Resources Allocation to enforcement operations

Resource Item	Availability		Adequacy	
	Available	Not Available	Adequate	Inadequate
Vehicles for covert operations	√√			√√
Vehicles for visible policing (patrols or overt operations)	√√			√√
Mobile phones	√√		√√	
Air time	√√			√√

Allowances while on special operations	√√		√√	
Radio calls		√√		
Human Resource	√√			√√
Laptops / PDAs	√√			√√
Operational funds	√√			√√
Office premises with work stations		√√		
Automated work environment	√√		√√	

Source: primary data

The impact of resources allocation is seen in the observed increase of seizures of cigarettes between 2009 and 2010 as shown in table 14 below in the Northern Uganda stations of Pakwach, Arua and Bibia (Nimule) following the allocation of a vehicle to each of these stations and providing them with funds for focused operations against illicit cigarettes.

Table 14: Seizures of Cigarettes in Northern Uganda

Station	Period(in years)				
	2006	2007	2008	2009	2010
Pakwach	-	-	15	26	36
Arua	-	3	6	14	32
Bibia	-	8	19	41	38
Total	-	11	40	81	106

Source: *Customs Enforcement Reports*

Further, resources allocated to a focused operation by Enforcement against diversion of fuel in transit to DRC indicated a significant reduction in the diversion of fuel. Overall there was a reduction in the daily average volume of fuel to DRC in terms of trucks from 18 trucks to 11 trucks. This amounted to approximately a reduction of 5,080,000 Litres and accounted for 12.2% overall reduction. In monetary terms, the focused operation saved URA UGX.3.08Billion in taxes that would have been lost through diversion of transit fuel. The project also led to increased collection of duties on fuel imported for Uganda's home consumption following a significant increase in the number of trucks for home consumption from 8108 to 9266. Several requests to alter destination of previously transit bound fuel to home consumption and pay requisite duties were received during this operation (URA, 2010).

4.9. MEASUREMENT OF MOTIVATIONAL POSTURES (TAXPAYER ATTITUDES)

Twenty four (24) attitude statements were used to measure motivational postures, to which respondents indicated levels of disagreement to agreement on a scale from 1 to 5. First, the motivational postures of commitment was measured, followed by capitulation, resistance, and disengagement. These attitude statements were adapted from previous work by Braithwaite, Braithwaite, Gibson and Makkai, 1994 cited in Braithwaite (1995) to suit the taxation context. The posture that received the strongest endorsement was commitment, followed by capitulation, resistance, and disengagement.

4.9.1 MOTIVATIONAL POSTURE OF COMMITMENT

Findings from table 15 below revealed that the majority of the respondents strongly agreed that paying taxes is the right thing to do ($M=4.57$, $SD=.65$). Respondents further, agreed that Paying tax is a responsibility that should be willingly accepted by all Ugandans ($M=4.36$, $SD=.72$) and respondents thought of paying taxes as helping the Government develop the country ($M=4.36$, $SD=.90$). Respondents also agreed that they felt a moral obligation to pay taxes ($M=4.17$, $SD=.87$). Furthermore they accepted responsibility for paying their fair share of taxes ($M=4.08$, $SD=.89$) and that they paid their taxes willingly ($M=3.84$, $SD=1.12$). However, respondents also reported uncertainty over whether they resented paying taxes ($M=2.82$, $SD=1.38$).

Table 15: Motivational Posture of Commitment

Descriptive Statistics

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
Paying tax is the right thing to do.	134	1.00	5.00	4.57	.65
Paying tax is a responsibility that should be willingly accepted by all Ugandans	134	1.00	5.00	4.36	.72
I feel a moral obligation to pay my tax.	133	1.00	5.00	4.17	.87
Paying my tax ultimately benefits everyone	134	1.00	5.00	3.54	1.43
I think of paying taxes as helping the Government develop the country	134	1.00	5.00	4.36	.90
I pay my taxes willingly	133	1.00	5.00	3.84	1.12
I resent paying tax.	128	1.00	5.00	2.82	1.38
I accept responsibility for paying my fair share of tax.	134	1.00	5.00	4.08	.89

The overall responses obtained from the respondents demonstrated they possessed the motivational posture of Commitment (M=4.00, SD=1.00). The implication herein would be that

where enforcement measures such as application of penalties are used against instances of non-compliance, and the taxpayers possess the attitude of commitment, tax compliance will be enhanced.

4.9.2 MOTIVATIONAL POSTURE OF CAPITULATION

Findings from table 16 below revealed that the majority of the respondents agreed that if taxpayers cooperate with URA, the latter is likely to be cooperative with them (M=4.10, SD=1.00). Respondents further, agreed that no matter how cooperative or uncooperative URA is, the best policy is to always be cooperative with them (M=3.90, SD=.99). However, respondents reported uncertainty over whether URA encouraged those who have difficulty meeting their obligations through no fault of their own (M=2.85, SD=1.17) and also if URA found taxpayers doing something wrong, they would respect them as long as taxpayers admitted their mistakes (M=2.87, SD=1.37).

Table 16: Motivational Posture of Capitulation

Descriptive Statistics

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
If you cooperate with URA, they are likely to be cooperative with you.	134	1	5	4.10	1.00
Even if URA finds that I am doing something wrong, they will respect me as long as I admit my mistakes.	134	1	5	2.87	1.37
URA encourages those who have difficulty meeting their obligations through no fault of their own.	131	1	5	2.85	1.17
The tax system may not be perfect, but it works well enough for most of us.	134	1	5	3.43	1.08
No matter how cooperative or uncooperative URA is, the best policy is to always be cooperative with them.	134	1	5	3.90	.99

Source: primary data

The overall responses obtained from the respondents demonstrated they possessed the motivational posture of Capitulation (M=3.00, SD=1.00). The implication herein would be that where enforcement measures such as application of penalties are used against instances of non-

compliance, and the taxpayers possess the attitude of capitulation, tax compliance will be enhanced.

4.9.3 MOTIVATIONAL POSTURE OF RESISTANCE

Findings from table 17 below revealed that the respondents agreed that if taxpayers don't cooperate with URA, the latter will get tough with them (M=4.27, SD=.99). Respondents further, agreed that it was important not to let URA push taxpayers around (M=3.91, SD=.87); and that it was impossible to fully satisfy URA (M=3.55, SD=1.43). However, the majority of the respondents reported uncertainty over whether URA was more interested in catching taxpayers for doing the wrong thing, than helping them do the right thing (M=3.13, SD=1.42) and also if URA has branded a taxpayer as non-compliant, they will never change their minds (M=3.29, SD=1.34). Respondents were also uncertain as to whether the society needed more people willing to take a stand against URA (M=2.72, SD=1.41).

Table 17: Motivational Posture of Resistance

Descriptive Statistics -Resistance

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
If you don't cooperate with URA, they will get tough with you.	131	1	5	4.27	.90
URA is more interested in catching you for doing the wrong thing, than helping you do the right thing.	131	1	5	3.13	1.42
It's important not to let URA push you around.	129	1	5	3.91	.87
It's impossible to fully satisfy URA.	132	1	5	3.55	1.43
Once URA has you branded as a non-compliant taxpayer, they will never change their minds.	130	1	5	3.29	1.34
As a society, we need more people willing to take a stand against URA.	130	1	5	2.72	1.41

Source: primary data

The overall responses obtained from the respondents demonstrated they possessed the motivational posture of Resistance (M=3.00, SD=1.00). The implication herein would be that where enforcement measures such as application of penalties are used against instances of non-compliance, and the taxpayers possess the attitude of resistance, tax compliance will not be enhanced.

4.9.4 MOTIVATIONAL POSTURE OF DISENGAGEMENT

Findings from table 18 below revealed that the majority of the respondents disagreed that if taxpayers found out that they were not doing what URA wanted, they were not going to lose any sleep over it (M=2.39, SD=1.22). Respondents further, disagreed with the statement that they personally didn't think that there was much URA could do to them to make them pay taxes if they didn't want to (M=2.06, SD=1.10); and that if URA got tough on taxpayers, they would become uncooperative with URA (M=2.05, SD=1.19). Respondents also disagreed with the statements that they didn't really know what URA expected of them and they were not interested in asking (M=1.90, SD=1.07); and that they didn't care if they were not complying with URA's tax laws and regulations (M=1.79, SD=1.02).

Table 18: Motivational Posture of Disengagement

Descriptive Statistics

	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
If I find out that I am not doing what URA wants, I'm not going to lose any sleep over it.	130	1	5	2.39	1.22
I personally don't think that there is much URA can do to me to make me pay tax if I don't want to	127	1	5	2.06	1.10
I don't care if I am not complying with URA's tax laws and regulations	133	1	5	1.79	1.02
If URA gets tough on me, I will become uncooperative with them.	133	1	5	2.05	1.19
I don't really know what URA expects of me and I'm not interested in asking.	133	1	5	1.90	1.07

Source: primary data

The overall responses obtained from the respondents demonstrated they did not possess the motivational posture of Disengagement (M=2.00, SD=1.00). The implication herein would be that where enforcement measures such as application of penalties are used against instances of

non-compliance, and the taxpayers possess the attitude of disengagement, tax compliance will not be enhanced.

From the results, the dominant motivational posture was Commitment (M=4.00, SD=1.00); followed by Capitulation (M=3.00, SD=1.00) and Resistance (M=3.00, SD=1.00) and finally Disengagement (M=2.00, SD=1.00).

These findings show some relationships among the postures. Commitment and capitulation are compatible postures, but where these exist, one is less likely to find disengagement and resistance. Disengagement is a posture that is compatible with resistance. Taxpayers can demonstrate more than one posture in any specific encounter. Because motivational postures can be held simultaneously, it is relatively easy for them to wax and wane over time. When instructions arrive in the mail for the yearly tax return we might feel committed, or at least, capitulate to the system.

As we look in detail at how much tax we have paid or owe, we might feel resistance, disengagement, or perhaps even a desire to play games. Having completed the transaction, however, we might revert to our committed posture, believing that paying tax is the right thing to do. In other words, as the context in which we find ourselves changes, our motivational postures change, making us cooperative at times, uncooperative at others (Braithwaite, 1995).

A study conducted by Braithwaite, Reinhart, Mearns and Graham(2001) on preliminary findings from the community hopes, fears and actions survey found that as expected in a democracy, the dominant postures were those reflecting a positive orientation to authority, that is, commitment

($M = 3.85$, $SD = .54$) and capitulation ($M = 3.40$, $SD = .54$). Approximately 92 per cent of respondents relate positively to the posture of commitment and 73 per cent recognize themselves in the posture of capitulation. Resistance ($M = 3.18$, $SD = .54$) was the next most widely endorsed, again a sign that democracy was working as it should be in that a sizeable proportion (55%) were willing to question the tax office openly.

Least pervasive in the community was disengagement ($M = 2.31$, $SD = .52$). Disengagement is the posture that, on the basis of previous research, was the least easy for regulators to manage (Braithwaite et al., 1994). Only 7 per cent of respondents recognized themselves in this posture. The relative popularity of these postures is depicted in Figure 4. Scores range from 1 (strongly disagree) to 5 (strongly agree) [Braithwaite, Reinhart, Mearns and Graham (2001)]. The implication herein would be that tax compliance can only be enhanced in instances where taxpayers possess the compliant motivational postures of commitment and capitulation.

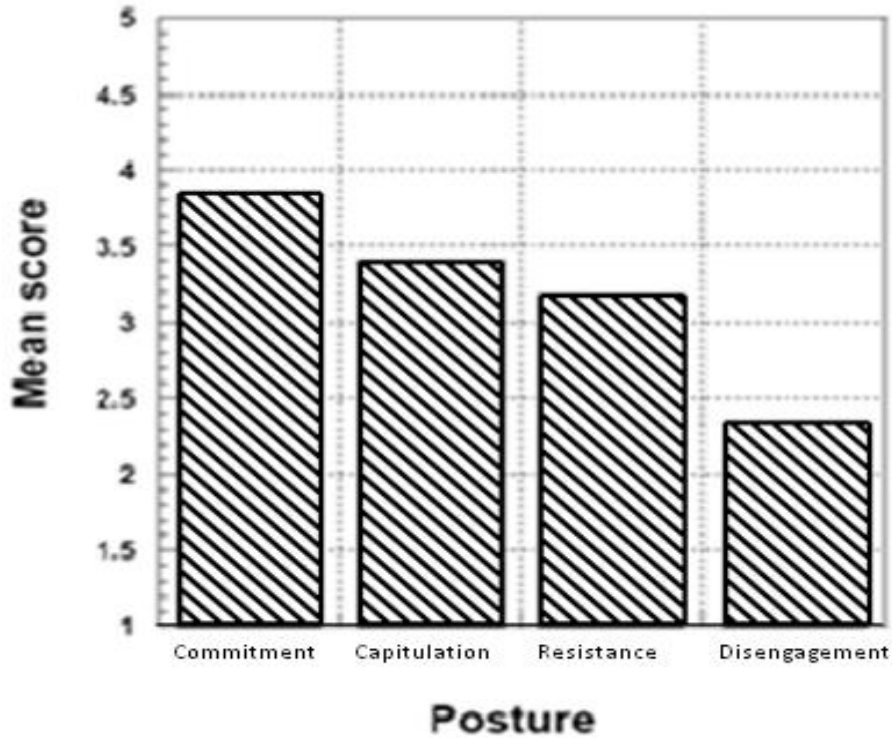


Figure 4: Levels of endorsement for motivational postures among taxpayers

4.10. PEARSON (R) CORRELATION COEFFICIENT.

The Relationships between the variables of Penalty, Forfeiture, Prosecution, Resources Allocation, Quality of Personnel and Attitudes were examined using the Pearson (r) Correlation coefficient below.

Table 19: Pearson zero order correlation

	1	2	3	4	5	6	7
Penalty-1	1.000						
Forfeiture-2	.167	1.000					
Prosecution-3	.221*	.342**	1.000				
Resource Allocation-4	.037	.076	.004	1.000			
Quality of personnel-5	.028	.087	.060	.778**	1.000		
Attitudes-6	.112	.164	.014	.036	.066	1.000	
Tax Compliance-7	.080	.283**	.172*	.185*	.243**	.401**	1.000

* Correlation is significant at the 0.05 level (2-tailed).

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

The results from table 19 above show that the variables of Forfeiture, Prosecution, Resources Allocation, Quality of personnel and Attitudes are all significantly positively correlated to Tax

Compliance (sig.<.01 and <.05). In conformity to the research objectives, the following results were obtained.

4.10.1. Examine the extent to which the use of penalties affects taxpayer's compliance in regard to payment of customs duties.

Results from the table 19 above showed that there was no correlation between penalties and tax compliance, ($r = 0.080$, $p > .05$). This implies that any increase in application of penalties will not have any impact on tax payer compliance.

4.10.2 Assess the extent to which forfeiture of taxpayers' goods affects their compliance to Payment of customs duties.

Results from the table 19 above, show that forfeiture of taxpayers' goods significantly correlates with tax compliance ($r = 0.283$, $p < 0.01$). This implies an increase in forfeiture of taxpayers' goods enhances their compliance to payment of customs duties. This observation was made at the 99% confidence level shown above. The study also revealed that forfeiture contributed 28.3% to tax compliance.

4.10.3 Examine the extent to which prosecution of taxpayers enhances their compliance to payment of customs duties.

The researcher observed that there was a statistically significant relationship between prosecution and tax compliance($r = .172$, $p < 0.05$). This implies that prosecution of taxpayers

improves their compliance to payment of customs duties. This observation was made at the 95% confidence level shown above. The study also revealed that prosecution of tax payers contributed 17.2% to tax compliance.

4.10.4 Assess the extent to which the quality of enforcement personnel influences taxpayers' compliance in regard to payment of customs duties.

The researcher observed that there was a significant relationship between quality of enforcement personnel and tax compliance($r = .243$, $p < 0.01$). This implies that quality of enforcement personnel improves tax payer compliance to payment of customs duties. This observation was made at the 99% confidence level shown above. The study also revealed that quality of enforcement personnel contributed 24.3% to tax compliance.

4.10.5 Assess the extent to which resources allocation impacts on taxpayers' compliance in relation to payment of customs duties.

The researcher observed that there was a significant relationship between resources allocation and tax compliance($r = .185$, $p < 0.05$). This implies that resources allocation to enforcement personnel improves taxpayers' compliance to payment of customs duties. This observation was made at the 95% confidence level shown above. The study also revealed that resources allocation contributed 18.5% to tax compliance.

4.11. MULTIPLE REGRESSION ANALYSIS

Regression was used to determine the level of prediction of the independent variable (Penalty, Forfeiture, Prosecution, Resource Allocation, Quality of personnel, and Attitudes) on dependent variable (Tax Compliance). The regression model was used as indicated in the table 20 below.

4.10.1. Regression Analysis of Customs Enforcement on Tax Compliance

Table 20: Regression of Customs Enforcement on Tax Compliance

Model	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	T	Sig.
	B	Std. Error			
(Constant)	.721	.714		1.009	.315
Penalty	.091	.076	.100	1.200	.233
Forfeiture	.173	.070	.212	2.455	.016
Prosecution	.116	.079	.128	1.477	.143
Resource Allocation	.044	.258	.022	.170	.866
Quality of personnel	.542	.314	.221	1.723	.088

Attitudes	.630	.135	.379	4.663	.000
-----------	------	------	------	-------	------

Dependent Variable: Tax Compliance

R Square	.305
----------	------

Adjusted R Square	.267
-------------------	------

F Statistic	8.118
-------------	-------

Sig.	.000
------	------

Source: primary data

The regression model indicates that Penalty, Forfeiture, Prosecution, Resources Allocation, Quality of personnel, and Attitudes have the potential to account for 26.7% of the variance in the Tax Compliance (Adjusted R Square = .267). Furthermore, attitude was observed to be the most significant predictor of tax compliance (Beta .379, sig = .000). It means a positive change in the tax payer's attitudes leads to 0.379(37.9%) positive change in Tax Compliance. Results further revealed that forfeiture was also a significant predictor of tax compliance (Beta .212, sig = 0.016). It implies a positive change in the forfeiture of taxpayers' goods leads to 0.212(21.2%) positive change in Tax Compliance. The overall model was significant at (F = 8.118, sig. =.000).

4.11.2. *Assess the impact of taxpayer attitudes as a moderating variable on penalties, forfeiture and prosecution in enhancing taxpayer compliance.*

The regression model was also used to assess the impact of taxpayer attitudes as a moderating variable on penalties, forfeiture and prosecution in enhancing taxpayer compliance as shown in the table 21 below.

4.11.3. REGRESSION ANALYSIS OF PENALTY, FORFEITURE, PROSECUTION, ATTITUDES ON TAX COMPLIANCE

The regression model in table 21 below indicates that the Penalty, Forfeiture, Prosecution, and Attitudes have the potential to account for 21.9% of the variance in Tax Compliance (Adjusted R Square = .219). Furthermore, attitude was observed to be the most significant predictor of tax compliance (Beta .366, sig = 0.000). It means a positive change in the tax payer's attitudes leads to 0.366(36.6%) positive change in Tax Compliance. The overall model was significant at (F = 9.836, sig. =.000).

Table 21: Regression Analysis of penalty, Forfeiture, Prosecution, Attitudes on Tax Compliance

Model	<i>Unstandardized Coefficients</i>		<i>Standardized</i>		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-.312	.702		-.444	.658
Penalty	.118	.078	.125	1.519	.131
Forfeiture	.178	.071	.215	2.510	.013
Prosecution	.114	.078	.125	1.465	.146
Attitudes	.622	.137	.366	4.551	.000
Dependent Variable: Tax Compliance					
R Square	.244				
Adjusted R Square	.219				
F Statistic	9.836				
Sig.	.000				

Source: Primary data

4.11.4. REGRESSION ANALYSIS OF PENALTY, FORFEITURE, & PROSECUTION ON TAX COMPLIANCE

The regression model in table 22 below indicates that the combination of Penalty, Forfeiture, and Prosecution, have the potential to account for only 9.4% of the variance in Tax Compliance (Adjusted R Square = .094). However, it was observed that forfeiture (Beta .285, sig = .002) was the most significant predictor of tax compliance followed by penalty (Beta.174, sig. = 0.050).

Table 22: Regression Analysis of Penalty, Forfeiture, & Prosecution on Tax Compliance

Model	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.312	.432		5.356	.000
Penalty	.164	.083	.174	1.976	.050
Forfeiture	.236	.075	.285	3.138	.002
Prosecution	.096	.084	.105	1.143	.255

Dependent Variable: Tax Compliance

R Square	.115
Adjusted R Square	.094
F Statistic	5.353
Sig.	.002

Source: primary data

The model was significant at ($F = 5.353$, $sig. = .002$). This implies that in the absence of taxpayer attitudes as a moderating variable, the impact of penalty, forfeiture and prosecution on tax compliance is very limited.

4.12. INTERPRETATION OF QUALITATIVE DATA

When respondents were asked in what ways they thought the use of penalties improved taxpayers' compliance towards payment of taxes as shown in table below, 66.7% observed that the use of penalties caused taxpayers to comply; while 21.9% observed no impact of penalties on taxpayers' compliance. Further, 11.4% of the respondents expressed uncertainty as to whether penalties improved taxpayers' compliance. The table 23 and figure 5 below summarize the responses on the impact of penalties on taxpayer compliance.

Table 23: Ways in which the use of penalties by URA improves taxpayers' compliance towards payment of taxes.

	<i>(F)</i>	<i>(%)</i>
Use of penalties by URA increases willingness to pay taxes	7	6.7
Use of penalties by URA causes tax payers to comply	63	60.0
Penalizing tax payers does not improve compliance	23	21.9
Not sure whether penalties improve compliance	12	11.4
Total	105	100.0

Although quantitative data showed that penalties didn't have a significant impact on taxpayers' compliance, the findings under qualitative analysis generally tend to also agree with these observations. This is owing to the observation that though 66.7% of the respondents under qualitative analysis agreed that penalties improved taxpayers' compliance, the respondents were fewer than expected (that is, 70 out of 173 answered in the affirmative).

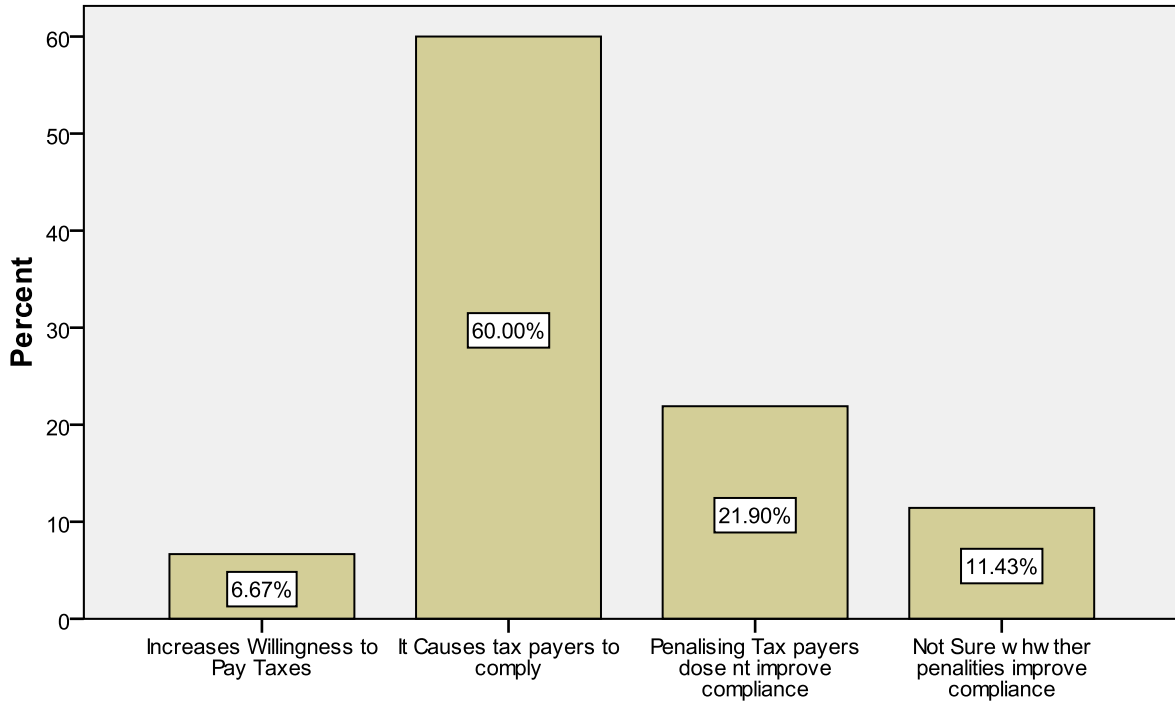


Figure 5: Responses on impact of penalties on taxpayers' compliance

When respondents were asked in what ways they thought forfeiture of taxpayers' goods improved tax payers' compliance towards payment of taxes as shown in table 24 below, 64.8% observed that forfeiture of taxpayers' goods caused taxpayers to comply; while 18.1% observed little impact of forfeiture on taxpayers' compliance. Further, 14.3% of the respondents expressed uncertainty as to whether forfeiture improved taxpayers' compliance. The table 24 and figure 6 below summarizes the responses on the impact of forfeiture on taxpayer compliance.

Table 24: Ways in which the forfeiture of goods by URA improve taxpayers' compliance

Towards payment of taxes

	<i>(F)</i>	<i>(%)</i>
Forfeiture of Tax payer's goods provide little impact on improving tax Compliance	19	18.1
Forfeiture of tax payer's goods improve compliance	68	64.8
Uncertain whether forfeiture has impact on compliance	15	14.3
Total	102	97.1
Missing System	3	2.9
	105	100.0

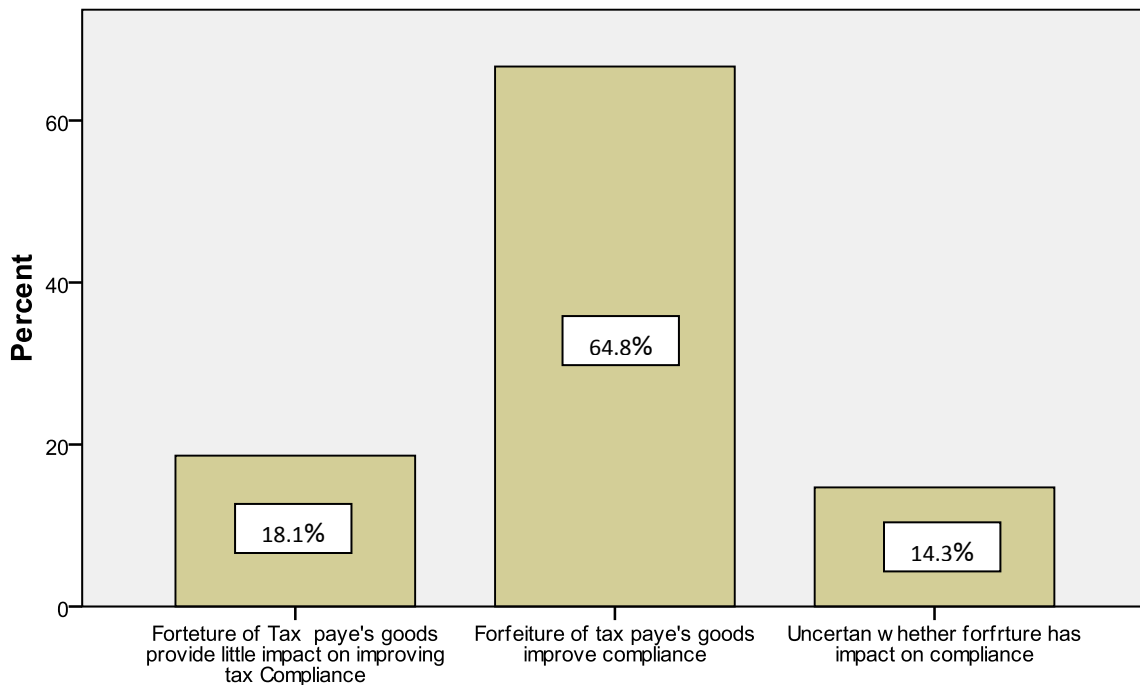


Figure 6: Responses on impact of forfeiture on taxpayers' compliance

The findings in both qualitative and quantitative analyses showed that forfeiture of taxpayers' goods improved compliance.

When respondents were asked in what ways they thought the use of prosecution improved tax payers' compliance towards payment of taxes as shown in table below, 49.5% observed that the use of prosecution caused taxpayers to comply; while 39.0% observed no impact of prosecution on taxpayers' compliance. Further, 7.6% of the respondents expressed uncertainty as to whether prosecution improved taxpayers' compliance. The table 25 and figure 7 below summarize the responses on the impact of prosecution on taxpayer compliance.

Table 25: Ways in which use of prosecution by URA improve taxpayers' compliance towards payment of taxes.

	<i>(F)</i>	<i>(%)</i>
Use of prosecution by URA improves tax payer's compliance	52	49.5
Use of prosecution by URA does not improve tax payers compliance	41	39.0
Uncertain whether prosecution improve tax payer's compliance	8	7.6
Total	101	96.2
Missing System	4	3.8
Total	105	100.0

Source: primary data

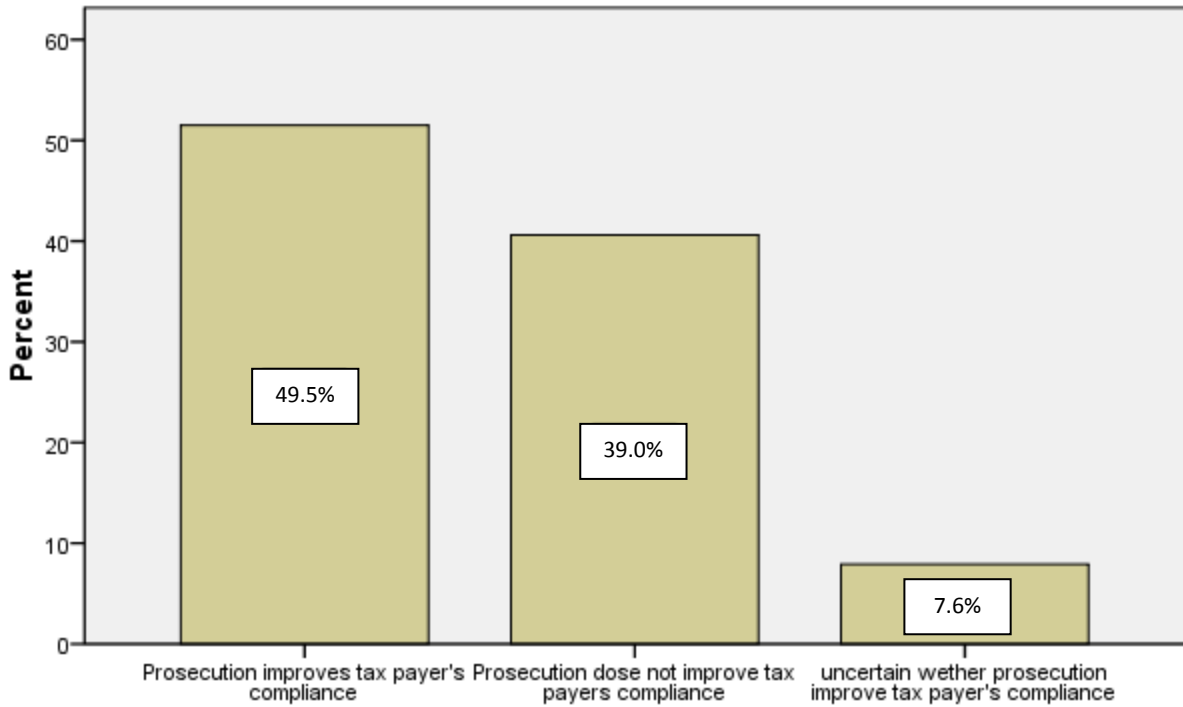


Figure 7: Responses on impact of prosecution on taxpayers' compliance

The findings in both quantitative and qualitative analyzes indicate that prosecution improves tax payers' compliance. However, the extent of improvement is not very significant as reflected in both analyses.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

5.1. INTRODUCTION

This chapter summarizes the findings of the study. It also makes the conclusion of the study and presents the recommendations arising out of this study. The findings of the study showed that Customs enforcement measures such as the application of penalties; forfeiture of taxpayers' goods and prosecution of tax payers enhanced tax compliance although the extent (level) of tax compliance varied from one enforcement variable to another. Tax compliance was further enhanced when the quality of enforcement personnel was high since this increased the likelihood of officers easily detecting and preventing areas of non-compliance. Availability and adequacy of resources played a significant role in enhancing tax compliance.

5.2. Effect of penalties in enhancing taxpayers' compliance in relation to payment of customs duties.

The Pearson correlation coefficient matrix($r = 0.080$, $p > .05$) showed there was no correlation between penalties and tax compliance. The results obtained demonstrate that penalties don't have a significant effect on taxpayer compliance. These results are in agreement with several researchers such as Kirchler, et al.(2007); Park and Hyun (2003); Alm, Sanchez and De Juan (1995); Ali, Cecil and Knoblett (2001) who found out that compliance was unaffected by the

amount of fines. Kirchler, et al. (2007) citing Alm, Jackson, and McKee (1992) also found out that the impact of penalties on compliance was virtually zero.

5.3. Effect of Forfeiture in enhancing taxpayers' compliance in relation to payment of customs duties.

The results obtained demonstrate that forfeiture of taxpayers' goods increases taxpayer compliance. Further, as seen from both the Pearson correlation coefficient matrix ($r = 0.283$, $p < 0.01$) and the Regression Analysis model, the effect of forfeiture on tax compliance is very significant. And since there are hardly any previous studies that have been conducted on the impact of forfeiture on tax compliance, these findings offer an excellent opportunity for further research into this area.

5.4. Effect of Prosecution in enhancing taxpayers' compliance in relation to payment of Customs duties.

The results obtained demonstrate that prosecution increases taxpayer compliance. However, as seen from the Pearson correlation coefficient matrix and the Regression Analysis model, the effect of prosecution on tax compliance is very limited. In fact the Regression analysis model clearly shows that prosecution is not a predictor of tax compliance. These results tend to agree with the findings of Williams (2001, as cited in Murphy, 2008) who found out that although prosecution increased tax returns lodgment compliance, the compliance reduced significantly in subsequent years once the initial threat of deterrence had subsided. Roche (2006)'s findings on 34 taxpayers who had been prosecuted by the Australian Tax Office, found that prosecution wasn't effective in enhancing their compliance due to factors such as procedural injustice, the informal effects of formal penalties, and possible enforcement biases.

5.5. Effect of quality of personnel in enhancing taxpayers' compliance in relation to payment of customs duties.

Quality of personnel was looked at from the perspective of the staff competences in terms of their skills base. Watkins(2003) observed that a skills base comprised of four types of knowledge namely: Individual expertise gained through training, education and experience(level of exposure); Relational knowledge –an understanding of how to work together to integrate individual knowledge to achieve specified goals; Embedded knowledge-which is the core technologies on which one's group's performance depend such as customer databases; and Meta-knowledge- the awareness of where to go to get critical information; for example, through external affiliations such as research institutions and technology partners. The results obtained from data analysis demonstrate that quality of personnel increases taxpayer compliance. The Pearson correlation coefficient matrix (($r = .243$, $p < 0.01$) showed that the effect of quality of personnel on tax compliance was very significant. The researcher observed that there was a significant relationship between quality of enforcement personnel and tax compliance

5.6. Effect of resources allocation in enhancing taxpayers' compliance in relation to payment of customs duties.

The Pearson correlation coefficient matrix ($r = .185$, $p < 0.05$) showed that the effect of resources allocation on tax compliance was very significant. The findings clearly indicate that adequate allocation of resources to enforcement operations increases the ability of officers to detect and prevent commission of customs offences and in so doing contributes to tax payer compliance.

5.7. Effect of taxpayer attitudes as a moderating variable on penalties, forfeiture, and prosecution in enhancing taxpayer compliance

Both the Pearson correlation coefficient matrix and the Regression Analysis model indicated a very significant effect of taxpayer attitudes on tax compliance. The Regression analysis model further showed that tax payer attitudes as a moderating variable on penalties, forfeiture and prosecution is a very significant predictor of tax compliance. Indeed in the absence of tax payer attitudes as was observed in table 23, the three variables had a very small impact on tax compliance. Needless to note however, was the fact that the two compliant motivational postures of commitment and capitulation were the most dominant among the respondents, further showing that tax compliance significantly increases when enforcement measures such as penalties, forfeiture and prosecution are applied on taxpayers; and mainly when taxpayers possess the compliant postures of commitment and capitulation.

These results are in agreement with the findings of Braithwaite, Murphy, and Reinhart (2007) who conducted a study on how motivational postures caused taxpayers to respond to the threat of taxation by the Australian Taxation Office (ATO). Tens of thousands of Australian taxpayers who had been involved in the scheme of aggressive tax planning resented and resisted all efforts by the ATO to recover taxes that had been lost through this scheme. Taxpayers resented the ATO enforcement action and the implication that they were “tax cheats,” and were disappointed that they had not been consulted over the matter (Murphy 2003a as cited in Braithwaite, Murphy, and Reinhart, 2007).

In an attempt to finally resolve the matter, the ATO acknowledged that many investors had been the victims of bad advice. This final settlement involved withdrawing interest and penalty on the tax debt, and offering a two-year interest-free period in which to repay the remaining tax shortfall. After four years of active resistance, 87 percent of all taxpayers finally agreed to settle their debt (ATO, 2002, as cited in Braithwaite, Murphy, and Reinhart, 2007) The study showed that when the taxpayers adopted the compliant postures of commitment and capitulation where they took on a coping sensibility of “thinking morally” (that is, taxation was reframed as a social necessity and rendered the threat of taxation as benign), they complied and met their tax obligations.

5.8. CONCLUSION

The findings of the study show that Customs enforcement measures such as the application of penalties, forfeiture of taxpayers’ goods and prosecution of tax payers enhances taxpayer compliance although the extent (level) of compliance varies from one enforcement variable to another as shown hereunder.

Application of penalties against taxpayers has a limited impact on their compliance.

Forfeiture of taxpayers’ goods has a significant impact on their compliance.

Prosecution of taxpayers has a limited impact on their compliance.

Tax compliance is significantly enhanced when the quality of enforcement personnel is high since this increases the likelihood of officers easily detecting and preventing areas of non-compliance.

Allocation of resources to enforcement work has a significant impact on compliance.

The impact of penalties, forfeiture, and prosecution in enhancing taxpayer compliance is significantly moderated by Taxpayer attitudes.

Therefore, since the overall objective of this study was to assess the effect of Customs enforcement measures on taxpayer compliance in payment of customs duties, it can thus be concluded that Customs enforcement has a significant effect on tax payer compliance.

5.9. RECOMMENDATIONS

The findings of the study showed that although the enforcement variables under consideration enhanced taxpayer compliance in the payment of Customs duties, the extent of compliance amounted to close to 30%. This means that there are other factors not considered under this study that contribute significantly (70%) to tax compliance. These factors could include among others tax payer education, improving Customer services, auditing of taxpayers.

It is therefore recommended that URA takes a very keen interest in taxpayer attitudes and the drivers of taxpayer behavior since attitudes play a very significant role on taxpayer compliance.

It is further recommended that though URA should continue the application of penalties as an enforcement measure to enhance taxpayer compliance, the application of penalties should be done with due consideration since its impact is minimal. In escalating the penalty regime, it would be appropriate for URA to adopt the ATO Compliance model or the Responsive Regulation model of starting with persuasion, then warning letters and then penalties (civil or criminal).

Similarly URA should give due consideration before prosecution of taxpayers is considered. Since prosecution is a very expensive venture for both the taxpayer and URA and whose outcome solely depends on the courts of law, this enforcement measure should be applied selectively as a last resort when all other measures have failed to solicit taxpayer compliance.

URA should invest in recruiting and maintaining quality personnel for enforcement work. They should be trained in both Basic and specialized enforcement training programs in line with the World Customs Organization Professional Standards 2008.

It is recommended that URA allocates optimal resources towards enforcement operations. Optimal resources should be considered in terms of availability and adequacy implying that these resources should be 70% of the time at the disposal of enforcement officers and should satisfy 80% of the operational needs.

URA should consider increased application of forfeiture as an enforcement measure especially for habitual tax offenders.

AREAS OF FURTHER RESEARCH.

URA should explore additional measures of enhancing taxpayer compliance especially taxpayer education and improving taxpayer services.

Other measures such as the impact of liens, suspension of Customs agents' licenses and agency notices should be further studied.

Given the scarcity of studies conducted on the impact of forfeiture on tax compliance, further studies should be conducted on this variable.

It would also be interesting to study the impact of regulators' attitudes (that is, attitude of officers) and their integrity in enhancing tax compliance.

REFERENCES

Australian Tax Office.(1998).Cash Economy Task Force. *Improving tax compliance in the cash economy*. Australian Taxation Office, Canberra.

Ayres,I & Braithwaite,J.(1992). *Responsive regulation, transcending the deregulation debate*, pp3-53, Oxford University Press, New York.

Barrie,R. (2010). *Revenue administration: Developing a taxpayer compliance program*. International Monetary Fund Fiscal Affairs Department.

Bartlett,J.E., Kotrlik,J.W., & Higgins,C.C.(2001). *Organizational research: Determining appropriate sample size in survey research*. Information technology, learning, and performance journal, Vol. 19, No. 1, pp43-50.

Braithwaite, V., and Braithwaite,J.(2001). *An evolving compliance model for tax enforcement*. In N.Shover, and J.P. Wright (Eds.), *Crimes of privilege*. New York: Oxford University Press.

Braithwaite, V., Braithwaite,J., Gibson,D & Makkai,T.(1994). *Regulatory styles, motivational postures and nursing home compliance*. Journal of law and policy, Vol.16 (4), pp363-94.

Braithwaite, V. (1995). *Dancing with tax authorities: Motivational postures and non-compliant actions*. In games of engagement: Postures within the regulatory community,

Law and Policy, vol. 17, pp. 225-55.

Braithwaite, V., Reinhart, M., Mearns, M. and Graham, R. (2001). *'Preliminary findings from the community hopes, fears and actions survey'*, Centre for Tax System Integrity Working Paper No. 3, The Australian National University, Canberra.

Braithwaite, V., Murphy, K., and Reinhart, M. (2007). *Taxation threat, motivational postures, and responsive regulation*. Journal of Law and Policy, Vol. 29, No. 1, pp.138-58.

Customs Enforcement Division. (2010). *Transit fuel project report*.

Devos, K. (2007). *Measuring and analyzing deterrence in taxpayer compliance research*. Journal of Australian Taxation. Vol. 10(2) pp 182-219.

Diarietou, G., & Baumont-Keita, C. (2010). African Development Bank Group. *Domestic resource mobilization for poverty reduction in East Africa: Uganda case study, regional department East Africa (OREA)*.

Foreign Affairs and International Trade Canada. Import Regulations – Australia. Retrieved February 15, 2012 from

<http://www.tradecommissioner.gc.ca/eng/document.jsp?did=10460&cid=511&oid=168>

Glenn, P.J., & Forlemu, E.N. (1993). *Enhancing voluntary compliance by reducing compliance costs: A taxpayer service approach*.

Hilary.P.B.(2003). *The value of Likert scales in measuring attitudes of online learners*
<http://www.hkadesigns.co.uk/websites/msc/remel/likert.htm>

Investment Climate *Advisory Services* of the World Bank Group. (2009). *A handbook for tax simplification*. The World Bank Group 1818 H Street, NW, Washington D.C., 20433

James, A.(1998). *Tax compliance and administration*. Working paper No 98-12. Center for Economic Analysis. Department of Economics, University of Colorado at Boulder.

James,S., & Alley,C.(2004). *Tax compliance, self-Assessment and tax administration*. Journal of Finance and Management in Public Services. Volume2 Number2 pp27-42.

Kate.A.L.(2006). *Study design III: Cross-sectional studies in evidence-based dentistry*. 7, 24–25.
Dental Health Services Research Unit, University of Dundee, Dundee, Scotland, UK.

Kirchler.E., Muehlbacher.S., Kastlunger.B., & Ingrid. W. (2007). *Why pay taxes? A review of tax compliance decisions*. International Studies Program. Working Paper Andrew Young School of Policy Studies Georgia State University Atlanta, Georgia 30303, United States of America.

Krishnaveni R. and Deepa Ranganath (2011). *Development and validation of an instrument for measuring the emotional intelligence of individuals in the work environment – In the Indian Context*. The International Journal of Educational and Psychological Assessment.

Kristina,M.(2004). *Moving Towards a More Effective Model of Regulatory Enforcement in the Australian Taxation Office*. Working Paper No.45.Centre for Tax System Integrity. The Australian National University.

Kristina,M.(2008). *Enforcing tax compliance: To punish or persuade?* Journal of Economic Analysis & Policy. , Vol. 38 No.1, pp.113-35

Mubiru.J.(2007). *Perceived fairness to tax payers, perceived enforcement of penalties and tax compliance in Uganda*. (Unpublished Master's thesis). School of Post Graduate studies. Makerere University, Kampala

Organization for Economic Co-operation and Development (OECD). (2001). *Principles of good tax administration – Practice note*, Centre for Tax Policy and Administration (CTPA). GAP 001 issued 25th June 1999. Amended 2nd May 2001.

OECD.(2004).*Compliance risk management: Managing and improving tax compliance*. Guidance note. Forum on Tax Administration, CTPA,

OECD.(2008). *Monitoring taxpayers' compliance: A practical guide based on leading revenue body experience*. Centre for Tax Policy and Administration.

Phil,B.(1996). *Compliance: A 21st century approach*. National Tax Journal. Vol. 49. No.3, pp.413-19.

- Prachi,M., Arvind,S., & Topalova,P.(2008). *Policies, enforcement, and customs evasion: Evidence from India*. IMF Working Paper.
- Roche.D.(2006). *Tax office prosecutions: Firm and fair regulatory enforcement?* Regulatory Institutions Network, Research School of Social Sciences, Australian National University. Occasional Paper No 9. Centre for Tax System Integrity.
- Sagit L. (2007). *An overview: A new era of tax enforcement—From ‘big stick’ to responsive regulation*. Retrieved February 18, 2011 from <http://ssrn.com/abstract=1082247>
- Siti N.S.O.(2004). *The influence of penalties on taxpayers’ compliance: A comparison of the theoretical models*. Journal of Economics and Management. 12(1).pp81-113.
- Stemler, S.(2001). *An overview of content analysis. Practical assessment, research and evaluation*,7(17).Retrieved July 02, 2011 from <http://pareonline.net/getvn.asp?v=7&n=17>
- Uma Sekaran. (2003). *Research methods for business. A skill –Building Approach*. Fourth Edition. John Wiley & Sons, Inc. USA.
- Wallschutzky, I.G. (1993). *Achieving compliance*. Proceedings of the Australasian Tax Teachers’ Association, Christchurch, New Zealand.
- Watkins,M.(2003), *The First 90 Days. Critical success strategies for new leaders at all levels*. Harvard Business School Press, Boston, Massachusetts.

Widdowson,D.(1998). *Customs partnerships: A two-way street*. The Centre for Customs and Excise Studies, University of Canberra, Australia.

World Customs Organization. *Enforcement and Compliance*. Retrieved February 15, 2012 from http://www.wcoomd.org/valelearningoncustomsvaluation_eprilo.htm

World Customs Organization.(2003). *Risk management guide*.

World Customs Organization.(2011). *Professionalism in customs and workforce development*.

World Customs Journal. Volume 5, Number 2.pp 141-4. Retrieved November18,2011 from http://www.worldcustomsjournal.org/media/wcj/-2011/2/Special_Report.pdf

World Customs Organization. *WTO valuation agreement*. Retrieved November18, 2011 from http://www.wcoomd.org/home_valoverviewboxes_agrvaluation.htm

World Intellectual Property Organization. *What is Intellectual Property?* Retrieved February 15, 2012 from <http://www.wipo.int/about-ip/en/>

APPENDIX I

TABLE I. REGIONAL CUSTOMS COLLECTIONS FOR URA, KRA & TRA

YEAR	KRA (Mn KSHS)			URA (Mn UGX)			TRA (Mn TSHS)		
	Target	Collns	%	Target	Collns	%	Target	Collns	%
2006/7	142,449	140,353	98.5	1,252,080	1,376,398	109.9	1,127,386	1,050,554	93.2
2007/8	158,564	157,307	99.2	1,710,479	1,704,225	99.6	1,556,035	1,541,424	99.1
2008/9	179,726	179,361	99.8	1,986,858	1,957,841	98.5	1,984,272	1,784,128	89.9
2009/10	201,352	193,752	96.2	2,349,265	2,038,712	86.8	2,089,197	1,957,711	93.7

Source: URA Records, Research, Planning & Development Division

TABLE II. UGANDA CUSTOMS NET COLLECTIONS PER YEAR

Year	Collections (UGX Bn)	Target (UGX Bn)	Performance (%)
2004/05	958.22	931.26	102.90%
2005/06	1,127.84	1,081.38	104.30%
2006/07	1,376.40	1,252.08	109.93%
2007/08	1,704.23	1,710.48	99.63%
2008/09	1,957.84	1,986.86	98.54%
2009/10	2,017.89	2,349.27	85.89%

Source: Customs Planning Unit, Customs department.

TABLE III. CUSTOMS ENFORCEMENT RECOVERIES FROM 2006 - 2010

FINANCIAL YEAR	TOTAL SEIZURES	TOTAL RECOVERY
2009/10	6,619	9,974,813,222
2008/09	5848	7,130,888,562
2007/08	4,039	6,771,357,878
2006/07	2,840	7,685,081,803

Source: URA Records, Customs Enforcement Division

APPENDIX II

James Kisaale
Uganda Revenue Authority
Customs Department
P.O.Box 7279, Kampala.
10 June 2011

Dear Participant,

This questionnaire is designed to study and assess the effectiveness of the Customs Enforcement function of Uganda Revenue Authority (URA) in enhancing compliance to payment of Customs duties among selected importers. The information you provide will help me achieve this objective.

You have been specifically identified because of your long experience with URA; and therefore I request you to respond to all questions herein frankly and honestly. Your responses will be kept strictly confidential. Only my University (Uganda Management Institute) and I will have access to the information you give. Thank you very much for your time and cooperation. I greatly appreciate your help in furthering this research endeavour.

Cordially,

James Kisaale

Researcher.

Tel. contact 0717440245 / 0417442188

INFLUENCE OF TAX PAYER ATTITUDES ON COMPLIANCE

Using the scores below which range from 1 (strongly disagree) to 5 (strongly agree), state the extent to which you agree with each of the following statements. Indicate your response by ticking (✓) the appropriate number in front of each statement.

Strongly	Disagree	Neither Agree	Agree	Strongly
Disagree		Nor Disagree		Agree
1	2	3	4	5

SECTION A (COMMITMENT)

- | | | | | | |
|--|---|---|---|---|---|
| 1. Paying tax is the right thing to do. | 1 | 2 | 3 | 4 | 5 |
| 2. Paying tax is a responsibility that should be willingly accepted by all Ugandans. | 1 | 2 | 3 | 4 | 5 |
| 3. I feel a moral obligation to pay my tax. | 1 | 2 | 3 | 4 | 5 |

- | | | | | | |
|---|---|---|---|---|---|
| 4. Paying my tax ultimately benefits everyone. | 1 | 2 | 3 | 4 | 5 |
| 5. I think of paying taxes as helping the
Government develop the country | 1 | 2 | 3 | 4 | 5 |
| 6. I pay my taxes willingly | 1 | 2 | 3 | 4 | 5 |
| 7. I resent paying tax. | 1 | 2 | 3 | 4 | 5 |
| 8. I accept responsibility for paying my
fair share of tax. | 1 | 2 | 3 | 4 | 5 |

SECTION B(CAPITULATION)

- | | | | | | |
|---|---|---|---|---|---|
| 9. If you cooperate with URA, they are likely to
be cooperative with you. | 1 | 2 | 3 | 4 | 5 |
| 10. Even if URA finds that I am doing something
wrong, they will respect me as long as I admit
my mistakes. | 1 | 2 | 3 | 4 | 5 |
| 11. URA encourages those who have difficulty
meeting their obligations through no fault of
their own. | 1 | 2 | 3 | 4 | 5 |

12. The tax system may not be perfect, but it works well enough for most of us. 1 2 3 4 5

13. No matter how cooperative or uncooperative URA is, the best policy is to always be cooperative with them. 1 2 3 4 5

SECTION C (RESISTANCE)

14. If you don't cooperate with URA, they will get tough with you. 1 2 3 4 5

15. URA is more interested in catching you for doing the wrong thing, than helping you do the right thing. 1 2 3 4 5

16. It's important not to let URA push you around. 1 2 3 4 5

17. It's impossible to fully satisfy URA. 1 2 3 4 5

18. Once URA has you branded as a non-compliant taxpayer, they will never change their minds. 1 2 3 4 5

19. As a society, we need more people willing 1 2 3 4 5
to take a stand against URA.

SECTION D(DISENGAGEMENT)

20. If I find out that I am not doing what URA 1 2 3 4 5
wants, I'm not going to lose any sleep over it.

21. I personally don't think that there is much URA 1 2 3 4 5
can do to me to make me pay tax if I don't
want to.

22. I don't care if I am not complying with URA's 1 2 3 4 5
tax laws and regulations.

23. If URA gets tough on me, I will 1 2 3 4 5
become uncooperative with them.

24. I don't really know what URA expects of me 1 2 3 4 5
and I'm not interested in asking.

**INFLUENCE OF PENALTIES, FORFEITURE AND PROSECUTION ON
COMPLIANCE**

Using the scores below which range from 1 (strongly disagree) to 5 (strongly agree), state the extent to which you agree with each of the following statements. Indicate your response by ticking (✓) the appropriate number in front of each statement.

Strongly	Disagree	Neither Agree	Agree	Strongly
Disagree		Nor Disagree		Agree
1	2	3	4	5

SECTION A (INFLUENCE OF PENALTIES)

- | | | | | | |
|--|---|---|---|---|---|
| 1. I pay my taxes whenever I import goods | 1 | 2 | 3 | 4 | 5 |
| 2. I pay all taxes expected on my goods | 1 | 2 | 3 | 4 | 5 |
| 3. I have been involved with Customs enforcement
in the clearance of my goods | 1 | 2 | 3 | 4 | 5 |
| 4. Customs Enforcement has ever seized my goods | 1 | 2 | 3 | 4 | 5 |

- | | | | | | |
|--|---|---|---|---|---|
| 5. I know the reason(s) why my goods were seized | 1 | 2 | 3 | 4 | 5 |
| 6. I accepted to pay the penalties that were imposed on me | 1 | 2 | 3 | 4 | 5 |
| 7. I would still pay penalties if my goods were seized again by enforcement | 1 | 2 | 3 | 4 | 5 |
| 8. I have paid penalties more than once | 1 | 2 | 3 | 4 | 5 |
| 9. I would avoid paying penalties if my goods were seized again | 1 | 2 | 3 | 4 | 5 |
| 10. I would rather be penalized than paying all taxes on my goods | 1 | 2 | 3 | 4 | 5 |
| 11. After my experience with enforcement, I now pay all taxes on my goods. | 1 | 2 | 3 | 4 | 5 |
| 12. The penalties imposed by URA were very high compared to the offences committed | 1 | 2 | 3 | 4 | 5 |
| 13. It would be good if penalties were progressively increased from low to | 1 | 2 | 3 | 4 | 5 |

high penalties.

- | | | | | | |
|---|---|---|---|---|---|
| 14. Second and subsequent offenders | 1 | 2 | 3 | 4 | 5 |
| should be assessed higher penalties than
First-time offenders. | | | | | |
| 15. The offence(s) committed and the section(s)
of the Customs law contravened were clearly
explained to me before penalizing me | 1 | 2 | 3 | 4 | 5 |
| 16. While determining the amount of penalty to pay,
Customs Enforcement considered the circumstances
under which the offence was committed. | 1 | 2 | 3 | 4 | 5 |

SECTION B (INFLUENCE OF FORFEITURE)

- | | | | | | |
|---|---|---|---|---|---|
| 17. Forfeiture of tax payers' goods is better
than paying more money to URA in form
of penalties. | 1 | 2 | 3 | 4 | 5 |
| 18. Forfeiture of taxpayers' goods is okay
as long as URA explains the reason(s) for
forfeiture. | 1 | 2 | 3 | 4 | 5 |

- | | | | | | |
|---|---|---|---|---|---|
| 19. If the nature of goods is such that they
are restricted or prohibited by government,
then it is okay for URA to forfeit such goods
if seized from a tax payer. | 1 | 2 | 3 | 4 | 5 |
| 20. I would pay all taxes on my goods instead
of forfeiting them to URA. | 1 | 2 | 3 | 4 | 5 |
| 21. I have ever lost my goods to URA through
forfeiture | 1 | 2 | 3 | 4 | 5 |
| 22. After forfeiting my goods, am now more
willing to pay all taxes on my goods than
lose them | 1 | 2 | 3 | 4 | 5 |

SECTION C (INFLUENCE OF PROSECUTION)

- | | | | | | |
|--|---|---|---|---|---|
| 23. I would accept to be prosecuted if I committed
an offence with customs enforcement | 1 | 2 | 3 | 4 | 5 |
| 24. I would try to settle an offence with customs
enforcement instead of being prosecuted | 1 | 2 | 3 | 4 | 5 |

25. I would be willing to pay all my taxes instead of being prosecuted 1 2 3 4 5

26. I have ever been prosecuted by URA 1 2 3 4 5

27. I would rather be prosecuted than pay all taxes imposed by URA 1 2 3 4 5

28. Basing on your experience, in what ways does the use of penalties by URA improve taxpayers' compliance towards payment of taxes?

.....

.....

.....

.....

.....

29. Basing on your observation, in what ways does forfeiture of goods by URA improve taxpayers' compliance towards payment of taxes?

.....

.....

.....

.....

.....

30. Basing on your observation, in what ways does the use of prosecution by URA improve taxpayers' compliance towards payment of taxes?

.....

.....

.....

.....

.....

APPENDIX III

INFLUENCE OF PERSONNEL, RESOURCES ALLOCATION, PENALTIES, FORFEITURE AND PROSECUTION ON TAX PAYER COMPLIANCE

SECTION A (INFLUENCE OF PERSONNEL)

Using the scores below which represent 1 (Yes), and 2 (No), provide your responses to the following statements. Indicate your response by ticking (✓) the appropriate number in front of each statement.

Yes

No

1

2

1. I have attended the following training

programs since I joined Customs Department:

- | | | | |
|---|---|---|---|
| • Basic Military Course | 1 | 2 | 3 |
| • Customs Basic Course/Total Tax Person | 1 | 2 | 3 |
| • Intelligence | 1 | 2 | 3 |
| • Risk Management | 1 | 2 | 3 |

2. I have attended the following specialized technical courses:

• Intellectual Property Rights (IPR)	1	2	3
• Intelligence Analysis	1	2	3
• Rules of Origin	1	2	3
• Customs Valuation and Harmonized System Classification	1	2	3
• Explosives, Investigation and Compliance	1	2	3
• Drugs and Narcotics Enforcement	1	2	3
• Marine Operations	1	2	3
• CITES	1	2	3

3. To what degree has the training helped you to enforce compliance?

.....

.....

.....

.....

.....

.....

-
-
4. In what ways have your skills and experience as an enforcement officer enhanced your ability to enforce tax payer compliance?

.....

.....

.....

.....

.....

.....

.....

.....

.....

SECTION B(INFLUENCE OF RESOURCES ALLOCATION)

Using the scores below which represent 1 (Yes), 2 (No) and 3 (I don't know), provide your responses to the following statements. Indicate your response by inserting the appropriate number in the box in front of each statement.

Yes	No	I don't Know	
1	2	3	

- | | | | |
|---|---|---|---|
| 5. Customs Enforcement Division develops a Business Plan at the beginning of every financial year | 1 | 2 | 3 |
| 6. Customs Enforcement Division is allocated a specific budget for its operations | 1 | 2 | 3 |
| 7. This budget is communicated to staff at the beginning of each financial Year | 1 | 2 | 3 |
| 8. Customs enforcement budget is allocated based on the division's activity plan | 1 | 2 | 3 |
| 9. The following resources are provided to enforcement staff: | | | |
| • Vehicles for covert operations | 1 | 2 | 3 |
| • Vehicles for visible policing | 1 | 2 | 3 |

- Mobile phones 1 2 3
- Air time 1 2 3
- Allowances 1 2 3
- Radio calls 1 2 3
- Manpower 1 2 3
- Laptops/PDAs 1 2 3

SECTION C (INFLUENCE OF PENALTIES)

Using the scores below which range from 1 (strongly disagree) to 5 (strongly agree), state the extent to which you agree with each of the following statements. Indicate your response by ticking(✓) the appropriate number in the box in front of each statement.

Strongly	Disagree	Neither Agree	Agree	Strongly
Disagree		Nor Disagree		Agree
1	2	3	4	5

10. Penalizing non-compliant tax payers by 1 2 3 4 5
 Customs Enforcement has increased their
 compliance towards payment of Customs duties

11. The offence(s) committed and the section(s) 1 2 3 4 5
 of the Customs law contravened are always

clearly explained to the taxpayer before penalizing them.

12. While compounding and assessing an offence, Customs Enforcement usually considers the circumstances under which a tax payer committed that offence

1	2	3	4	5
---	---	---	---	---

13. There would be increased compliance if tax payers were given heavier penalties than what Customs Enforcement is applying

1	2	3	4	5
---	---	---	---	---

14. The penalties imposed by Customs Enforcement are very high compared to the offences committed by tax payers

1	2	3	4	5
---	---	---	---	---

15. Penalties would be effective in enhancing tax payer compliance if they were progressively increased from low to high penalties.

1	2	3	4	5
---	---	---	---	---

16. Second and subsequent offenders should 1 2 3 4 5
be given higher penalties than first-time offenders.

SECTION D(INFLUENCE OF FORFEITURE)

17. Forfeiting goods of non-compliant tax payers 1 2 3 4 5
by Customs enforcement has increased their
compliance towards payment of Customs duties

18. The decision to forfeit tax payers' goods 1 2 3 4 5
is usually based on the offence committed
and the law contravened.

19. The decision to forfeit tax payers' goods is 1 2 3 4 5
usually based on the nature of the goods
involved.

20. The decision to forfeit tax payers' goods 1 2 3 4 5
is usually based on the tax payer's previous
offence record (i.e. the frequency of committing
offences).

SECTION E(INFLUENCE OF PROSECUTION)

- | | | | | | |
|--|---|---|---|---|---|
| 21. Prosecuting non-compliant tax payers by Customs enforcement has increased their compliance towards payment of Customs duties | 1 | 2 | 3 | 4 | 5 |
| 22. Prosecuting tax payers is usually based on the taxpayer’s previous offence record (i.e. the frequency of committing offences) | 1 | 2 | 3 | 4 | 5 |
| 23. Prosecuting tax payers is usually based on the severity (magnitude) of the offence committed. | 1 | 2 | 3 | 4 | 5 |
| 24. Customs Enforcement usually gives due diligence to the evidence gathered against the taxpayer and the skills of the prosecution officers before prosecuting taxpayers. | 1 | 2 | 3 | 4 | 5 |
| 25. Prosecuting tax payers should be the last option by Customs Enforcement | 1 | 2 | 3 | 4 | 5 |
| 26. Basing on your observation, to what extent has the use of penalties improved taxpayer compliance towards payment of Customs duties?
.....
.....
.....
.....
.....
.....
.....
.....
..... | | | | | |
| 27. Basing on your observation, to what extent has the use of prosecution improved taxpayer compliance towards payment of Customs duties?
..... | | | | | |

.....
.....
.....
.....
.....
.....
.....
.....

28. Basing on your observation, to what extent has the forfeiture of taxpayers' goods improved taxpayer compliance towards payment of Customs duties?

.....
.....
.....
.....
.....
.....

APPENDIX IV

OBSERVATION CHECKLIST FOR RESOURCES ALLOCATION

Resource Item	Availability		Adequacy	
	Available	Not Available	Adequate	Inadequate
Vehicles for covert operations				
Vehicles for visible policing (patrols or overt operations)				
Mobile phones				
Air time				
Allowances while on special operations				
Radio calls				
Manpower				
Lap tops / PDAs				
Operational funds				
Spacious office premises with work stations				
Automated work environment				

APPENDIX V

DOCUMENTARY REVIEW CHECKLIST

S/no	Documents to be reviewed	Yes/ No	Remarks
1	Customs offence registers		
2	Customs offence reports		
3	Ayscuda Reports (Red lane selectivity)		
4	Customs Revenue Reports		
5	Customs statistical reports		
6	HR records		
7	Declaration records		
8	Prosecution reports		

APPENDIX VI

TABLE 41: EFFECT OF PENALTIES ON TAXPAYERS' COMPLIANCE

IMPORTER'S CODE	FREQUENCY OF OFFENCES COMMITTED	TOTAL DECLARATIONS (2006- 2010)	FREQUENCY OF TOP-Ups (2006- 2010)	REASON FOR A TOP-UP
001	1	1	1	Outright smuggling
002	1	1	1	False declaration
003	1	9	8	Under valuation
004	1	1	1	Outright smuggling
005	1	1	1	Under valuation
006	2	1	1	Under valuation
007	1	1	1	False declaration
008	3	77	42	Under valuation
009	1	1	1	Under valuation
010	1	4	4	Under valuation
011	1	1	1	False declaration & under valuation
012	1	1	1	Outright smuggling
013	1	1	1	Outright smuggling
014	1	1	1	Under valuation
015	1	1	1	Under valuation
016	1	11	6	Under valuation
017	1	1	1	Outright smuggling
018	1	1	1	Outright smuggling

019	1	14	12	False declaration & under valuation
020	1	190	6	Under valuation
021	2	157	1	False declaration & under declaration
022	11	481	59	Under valuation
023	1	118	2	Under valuation
024	2	372	4	Under valuation
025	2	116	62	Under valuation
026	1	12	8	Under valuation
027	1	12	8	Under valuation
028	1	16	16	Under declaration Under valuation
029	4	213	106	Under valuation
030	2	45	29	Under valuation
031	1	10	9	Under valuation
032	1	27	24	Under valuation
033	2	19	18	Under valuation
034	1	23	22	Under valuation
035	1	11	10	Mis-declaration under valuation
036	1	22	11	Under declaration Under valuation
037	1	41	6	Under valuation
038	1	1	1	False declaration
039	1	60	29	Under valuation
040	3	2	0	No issues
041	1	25	2	Under valuation
042	1			

		17	2	under valuation
043	1	29	0	No issues
044	1	7	7	Under valuation
045	3	55	0	No issues
046	1	14	6	Under valuation
047	1	12	6	Under valuation
048	1	5	5	Under valuation
049	1	36	15	Under valuation
050	1	4	3	Under valuation
051	1	13	9	Under valuation
052	1	26	7	Under valuation
053	1	6	5	Under valuation
054	1	35	33	Under valuation
055	2	4	3	Under valuation
056	1	19	15	Under valuation
057	1	14	14	Under valuation false declaration
058	1	2	2	Under valuation
059	2	50	30	Under valuation
060	4	45	22	Under valuation
061	2	56	33	Under valuation
062	1	14	9	Under valuation
063	5	66	32	Under valuation
TOTAL	97	2631	777	

Source: Customs Enforcement reports