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Application of the slippery slope framework: an analysis of the compliance behaviour among Uganda's corporate small and medium enterprises

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Abstract

We examine the role of trust in authorities on voluntary compliance, the power of authorities on enforced compliance and the interaction of legitimate power and trust on voluntary compliance among small and medium enterprises (SMEs) in Uganda. Findings from 386 SME managers provide significant support for the slippery slope framework (SSF) assertions. Coercive power indirectly affects enforced compliance through legitimate power. However, tax fairness can positively affect voluntary tax compliance when there is trust. The interaction between legitimate power and trust shapes voluntary compliance. Lastly, social-psychological factors contribute more to tax compliance. This study contributes to the understanding of the SFF in explaining tax compliance among SME firms.

Keywords: tax fairness; coercive power; legitimate power; trust; tax compliance

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1. INTRODUCTION

Taxation is pre-eminently the source of revenue that most governments rely on for their public expenditures (Dziobek et al., 2011). With this kind of funding, governments may find it relatively easier to spend this revenue in ways they deem reasonable as opposed to other sources that come with limits, like donor funding (Gobena & Van Dijke, 2016). Although many governments globally experience shortfalls in their national budgets, taxpayers continue to cheat on the taxes they ought to pay to the tax authorities (Ali, Fjeldstad & Sjursen, 2014). This, therefore, means that tax authorities must find ways to encourage taxpayers to contribute their fair share if governments are to reduce their budget deficits (Kornhauser, 2007; Nkwe, 2013). Consequently, it is very important for both authorities and taxpayers to understand what can motivate tax compliance behaviour.

In past decades, income tax compliance has received significant consideration from scholars globally with two broad limitations. First, many studies (see, for instance, Hansford & Hasseldine, 2012; Lignier & Evans, 2012) have investigated personal income tax compliance. Secondly, most studies in this field of scholarly work have been conducted in the context of advanced countries, with only preliminary research having been done in developing countries, especially Sub-Saharan Africa. As a result, little research has been done on corporate income tax in both developed and developing countries. This might probably explain why income tax has taken on only the second-best alternative position to value added tax in Uganda.

Furthermore, extant scholarly work reveals that a number of factors influence tax compliance behaviour, i.e., deterrence, or economic factors, and socio-psychological factors (Muehlbacher, Kirchler & Schwarzenberger, 2011). Until now, studies show that these factors have typically been examined separately. The deterrence model (power of authorities or coercive power) (Allingham & Sandmo, 1972; Slemrod & Yitzhaki, 2002), for instance, suggests that taxpayers can only be encouraged to comply with the tax laws and regulations when tax authorities institute audits to detect non-compliance and that, where tax evasion has been identified, sanctions should be executed in the form of penal taxes to deter self-interested taxpayers who fail to comply with tax rules and regulations. This model has, however, been criticised for being inadequate in explaining tax compliance behaviour (Feld & Frey, 2007; Andreoni, Erard & Feinstein, 1998). Despite the criticism, Kogler and co-authors (2020), in their study of information processing in tax decisions, indicate that the Allingham and Sandmo (1972) model still holds; however, they attribute the deviations from the model's assertions to weaknesses where all relevant parameters are not integrated. The socio-psychological model, in contrast, attributes tax compliance to several social factors, for instance, the way taxpayers are treated by tax authorities and taxpayers' trust in authorities. It also looks at how taxpayers perceive the tax system to be fair and how legitimate the tax authorities are perceived to be (Mas'ud, Manaf & Saad, 2014; Kogler, Muehlbacher & Kirchler, 2013), which can all determine tax compliance behaviour.

The slippery slope framework (SSF) proposes two dimensions of tax climate in a society, which can vary first as an antagonistic and secondly as a synergistic climate. In an antagonistic climate, taxpayers are treated as dishonest actors who will evade taxes as and when the opportunity arises, and they therefore need to be kept under check. This, therefore, means that taxpayers and tax authorities work against each other, which increases their social distance. On the other hand, a synergistic climate is viewed in the sense that tax authorities provide a service for the same community they belong to as taxpayers. The model postulates that tax authorities' objective is to provide transparent procedures for taxpayers but also to be respectful and offer supportive treatment to taxpayers to improve tax compliance as an obligation. This is expected to reduce the social distance between taxpayers and tax authorities (Braithwaite, 2009; Kirchler, 2007). Therefore, tax compliance can be seen to happen in two dimensions: the power of authorities and trust in tax authorities. The power of tax authorities is the perception that taxpayers have about the ability of the tax officers to detect tax evasion through frequent and thorough audits and to impose penalties for tax evasion. This means that an increase in the power of authorities will enhance enforced tax compliance. In contrast, trust in authorities is a general perception that individuals and social groups hold that tax authorities are kind and work helpfully for the good of all citizens, a positive quality of a relationship. The framework, therefore, assumes that increasing the level of trust by fairly treating taxpayers at low levels of power enhances voluntary tax compliance (Kirchler, Hoelzl & Wahl, 2008). The proponents indicate that the power of authorities can have a negative relationship with voluntary tax compliance.

Combining the two strands (power of authorities and trust in authorities) to motivate enforced and voluntary tax compliance, respectively, as formulated, this article attempts to extend and apply the SSF (Kirchler et al., 2008). This model separates the power of authorities from the legitimate power employed by the tax authorities. The SSF model claims that tax fairness positively influences voluntary tax compliance as well as trust in authorities, and trust in authorities positively influences voluntary tax compliance. The model also suggests that the power of authorities significantly influences enforced tax compliance based on enforcement mechanisms, audit probability and sanctions, i.e., the power of authorities.

In empirical studies, findings by Hofmann and co-authors (2014), for example, in their study of powers wielded by authorities reveal that coercive power increases an antagonistic climate and enforced compliance, whereas legitimate power enhances trust, service climate and voluntary cooperation. Legitimate power, on the other hand, had a negative effect on an antagonistic climate and a positive effect on enforced compliance. Faizal and co-authors (2017), in their study of power and trust as factors influencing tax compliance behaviour in Malaysia, only found trust in authorities to have a significant relationship with tax compliance, and neither legitimate power nor coercive power influenced tax compliance. Kirchler and Wahl (2010) found that trust increases voluntary compliance and power reduces voluntary compliance. Batrancea and co-authors (2019), on the other hand, demonstrate that trust and power are not exclusively complementary given the negative interaction effect, while Kogler and co-authors (2013) indicate that conditions of strong trust and power resulted in the highest degree of compliance and the lowest amount of tax evasion. Ahmed and Braithwaite (2005) note that when the perceptions of procedural fairness are positive, small businesses pay more taxes than when they are perceived negatively.

Furthermore, we contend that the study variables in the SSF complement each other (Gangl, Hofmann & Kirchler, 2015), and based on this assertion, first, both perceptions of tax fairness and the power of authorities positively influence the legitimate power of authorities. Second, legitimate power positively relates to both trust in authorities and voluntary tax compliance. We, however, find tax fairness negatively influencing both enforced and voluntary tax compliance, though significant as predicted by the SSF model for enforced compliance. The study also finds a positive relationship between the power of authorities (antagonistic climate) and the legitimate power of authorities, which would not be the case otherwise. The hypotheses and findings as to the interrelations among the variables in the SSF model form the major contribution of this study. These findings lead to modifications to the theoretical assumptions and implications for theory and practice. The rest of the article is set out as follows: section 2 provides a literature review, section 3 sets out the methods used in the study, section 4 sets out the research findings and section 5 provides discussion and implications of the findings. Finally, section 6 provides the conclusions, limitations of the study and areas for further research, and section 7 sets out the contribution that the study makes.

2. LITERATURE REVIEW

2.1 Tax fairness, trust and voluntary tax compliance

Fairness is a perception resulting from a comparison that people make about themselves and those they relate to (Farrar, Donnelly & Dhaliwal, 2013). This, therefore, implies that individuals are likely to develop a sense of satisfaction and will tend to trust the authorities that instituted such a system to significantly influence voluntary tax compliance (Schweitzer & Gibson, 2008). In fact, trust in authorities will be enhanced when taxpayers perceive the government to be providing proportionate goods and services from tax revenue (Fajriana, Irianto & Andayani, 2023). Equally, when taxpayers perceive that there is a proportionate tax burden across all taxpayers, perceptions of trust in authorities will be higher (Wenzel, 2004; Brickman et al., 1981), as this might represent fair treatment of taxpayers (Niesiobedzka, 2014). Therefore, tax authorities that are perceived by taxpayers as fair in their processes will be highly trusted, and they will enjoy more voluntary tax compliance than those that are perceived as unfair in the way they treat taxpayers (Saad, 2010; Gobena & Van Dijke, 2016; Kugler & Bornstein, 2013). We therefore present the hypothesis that:

H_1: *Tax fairness significantly and positively affects trust in authorities and voluntary tax compliance but negatively influences enforced tax compliance among small and medium enterprises (SMEs) in Uganda.*

2.2 Coercive power and legitimate power of authorities and enforced tax compliance

On the other hand, the SSF (Kirchler et al., 2008) suggests that the tax environment can vary between an antagonistic climate (where taxpayers and tax authorities work against each other) and a synergistic climate (where taxpayers and tax authorities work together). However, in an antagonistic environment, the tax authorities believe that taxpayers evade taxes when they can (Kirchler et al. 2008), which should trigger careful monitoring through coercive power. This environment also activates taxpayers to believe that hiding from the tax authorities' persecution is the appropriate thing to do. Nonetheless, it is possible to have proper enforcement mechanisms where audit probability and detection would lead to sanctions and penal taxes (Kogler et al., 2020). When this happens, taxpayers are likely to consider the tax authority legitimate, hence the legitimate power of the authorities. Yet, legitimate power has the ability to instil perceptions of trust in authorities as well as encourage voluntary tax compliance behaviour (Faizal et al., 2017; Kirchler et al., 2008; Gangl et al., 2015). From the foregoing discussion, it is hypothesised as follows:

H_2: *Enforced tax compliance among SMEs can be achieved directly through legitimate power when coercive power of authorities is instituted.*

2.3 Power of authorities, legitimate power of authorities, trust and tax compliance

Power is the capacity to achieve desired objectives with the help of other people (Van Dijke & Poppe, 2006). Compliance with authorities (power holders) is normally motivated by two factors: avoiding punishment by authorities (Ariel, 2012) and accepting distinct roles by both the authorities and subordinates. By accepting such roles, people therefore view the authorities' power as legitimate, which should normally be criticised in a shared environment (Gobena & Van Dijke, 2016; Kastlunger et al., 2013). The peculiarities of the power of authorities and legitimate power may be very important in guiding researchers to understanding the concept of tax compliance behaviour with regard to the authorities' fairness in motivating trust in authorities and voluntary and enforced tax compliance.

The SSF (Kirchler et al., 2008) offers a distinction between coercive power and legitimate power with regard to the tax authorities. This separation, however, has not provided adequate clarity on the effects of the power of authorities on legitimate power and ultimately on trust in authorities, voluntary tax compliance and enforced tax compliance. Prior studies reveal inconsistencies in the results between, for instance, the legitimate power of authorities and tax compliance. Gangl and co-authors (2015), for example, report a positive effect of the legitimate power of authorities on voluntary tax compliance but a negative effect on enforced tax compliance behaviour. However, Kastlunger and co-authors (2013) report a negative relationship between the legitimate power of authorities and voluntary tax compliance and a positive relationship between legitimate power and enforced compliance. In this study, we predict that the legitimate power of authorities positively affects trust in authorities, voluntary compliance and enforced tax compliance.

Indeed, legitimate power is an important factor to consider in the relationship between tax fairness and voluntary tax compliance. Certainly, legitimate power is the power of an accepted authority to which individuals voluntarily submit (Tyler, 1997; Gobena & Van Dijke, 2016; Tusubira, 2018). This, therefore, means that a high level of coercive power can result in perceptions of legitimate power for the tax authorities to be perceived as worthy of being complied with. Through the lens of tax fairness, this implies that tax authorities deserve compliance when they are perceived to have legitimate power motivated by their level of fairness (Gangl et al., 2015). High levels of coercive power and tax fairness should be in place to shape the level of legitimate power as well as trust in authorities, voluntary tax compliance and enforced tax compliance.

It is also important to mention that legitimate power is the power of accepted authorities and is viewed as the appropriate type of power that is effective in shaping taxpayers' compliance behaviour as opposed to severe controls and punishment (Gangl et al., 2015; Tyler, 2006). In this context, authorities are likely to use information regarding, for instance, expertise attributed to knowledge and skill to discover tax non-compliance, and charisma and shared values to notify taxpayers that cooperation is the only correct thing to do. Through these processes, high levels of legitimate power can be built among taxpayers as well as trust in authorities (Fjeldstad, Fundanga & Rakner, 2016). Accordingly, perceptions of the legitimate power of authorities would positively influence both trust in authorities and voluntary tax compliance, where taxpayers accept authorities with the perception that they hold legitimate power. With these views, the following hypothesis is proposed:

H$_3$: *Legitimate power of authorities will have positive and significant effects on trust in authorities, voluntary tax compliance and enforced tax compliance.*

2.4 Interaction between legitimate power and trust in authorities and voluntary tax compliance

To enhance tax compliance, tax authorities must prioritise fairness perceptions (Saad, 2010; Alabede, Zainol Ariffin & Idris, 2012). This therefore means that authorities should consider how taxpayers perceive the fairness of the tax system. As noted previously, perceptions of trust in authorities are anchored in tax system fairness in a synergistic tax environment (Wenzel, 2004; Kirchler et al., 2008). In other words, trust in authorities will be enhanced when the tax system is perceived as fair in terms of tax and government resource allocation procedures and distribution for the equitable benefit of all citizens after consideration of their tax burden, needs and efforts (Kirchler, 2007; Yong & Rametse, 2010; Torgler & Schneider, 2009). Additionally, when both legitimate power and trustworthiness are combined, greater tax compliance arises compared to situations where only power or trustworthiness is present. This could be due to the perception that when a tax authority possesses both power and trustworthiness, their influence is seen as legitimate and expert-driven, which in turn encourages people to comply with tax regulations (Hofmann et al., 2014). Thus, whereas trust in authorities and legitimate power can separately be influential, their interaction can have a significant effect on voluntary tax compliance behaviour among corporate SMEs in Uganda. From the discussion above, we propose the following hypothesis:

H$_4$: *Perceptions of trust in authorities and legitimate power significantly influence each other, and their interaction significantly affects voluntary tax compliance.*

3. Methods

3.1 Participants

A cross-sectional quantitative research approach was used for this study, which adopted a purposive sampling method. The sample size for the study included 386 SME taxpayers, representing a 44.6% response rate, which constituted the units of analysis. Data was collected from owners and managers of corporate taxpaying SMEs within Uganda's Kampala Capital City Authority (KCCA), central and eastern regions, with each representing one unit of analysis. Corporate SME sectors considered for the study included utilities, construction and real estate, trade, hotels and restaurants, transport and storage, financial intermediaries, insurance, business services and manufacturing and agriculture. The majority of the sampled SMEs were trading firms (38.6%), followed by business service firms (20.2%), and manufacturing and agriculture at 12.2%. The categories with the smallest representation were utilities and insurance, each with a response rate of 1.6%. These sectors dominate the economy, employing over 80% of the population (Uganda Bureau of Statistics (UBOS), 2011), yet pay less than 1% of the tax revenue (Uganda Revenue Authority (URA), 2016).

The respondents in the study were predominantly male (57.8%) compared to female (42.2%), with an average age that fell within the range of 31 to 50 years. Most of the respondents (92.5%) had university degrees, while the remaining 7.5% had diplomas. This suggests that the data collected is likely to be reliable since the majority of respondents had formal education. Among the corporate SMEs surveyed, 96.2% had turnovers that ranged from just over UGX 12,000,000 (AUD 4,800) to not more than UGX 30,000,000,000 (AUD 12,000,000). Additionally, a significant portion (94.8%) of these corporate SMEs had a capital base above UGX 12,000,000 (AUD 4,800).

3.2 Materials

We collected data through a survey questionnaire anchored on a seven-point Likert scale. On the scale, the power of authorities was measured by the URA's likelihood of effectively and efficiently carrying out audits on SME firms and imposing sanctions in the form of penalties and interest on outstanding income taxes. Nine items were used to measure the power of authorities: five for audit probability and detection with a reliability of α =.88 and four items for sanctions with a reliability of α =.72 (see Bobek, Hageman & Kelliher, 2013). On the other hand, tax fairness was measured by two dimensions: distributive fairness through public service delivery and procedural fairness in error correction and consistency for all SMEs over time (Saad, 2010; Gilligan & Richardson, 2005). The reliability of the fairness constructs of distributive fairness (measured with five items) and procedural fairness (three items) was α =.96 and α =.93, respectively. Legitimate power was measured by how SMEs feel about the technical competence of URA to effectively identify tax non-compliance, as measured by three items with a reliability of α =.92 (Kogler et al., 2013; Hofmann et al., 2014). Trust in authorities was measured by education and service-oriented practices of the tax authority, interest in supporting taxpayers to comply, and treatment of taxpayers with respect. Three items were used for this construct with a reliability of α =.93 (Kogler et al., 2013). Additionally, tax compliance was measured by voluntary tax compliance and enforced tax compliance using scales from TAX-I (Kirchler & Wahl, 2010), which have also been applied by Onu, Oats and Kirchler (2019). Construct measurement was as set out in the Appendix. Also, the small and medium firms considered for analysis had generally operated businesses for more than one year; over 66% of these firms had operated their businesses for more than 10 years. The collection of data from such firms would ensure consistency.

4. Research findings

Confirmatory factor analysis (CFA) to confirm the reliability of the survey questionnaire was determined first, by computing the Cronbach's alphas. Composite reliability (CR) coefficients were computed as well, and all dimensional scores were over 0.70, indicative of adequate reliability. We measured convergent validity using the Average Variance Extracted (AVE), which is acceptable at a level of ≥0.50 (Fornell & Larcker, 1981; Rosid et al., 2016). For discriminant validity, Fornell and Larcker (1981) and Bagozzi and Yi (1988) argue that it is attained when the construct AVE is higher than the square of correlations between two latent constructs. In this study, we compared the computed AVE and the square of the correlations, and the square of the correlations remained low, as shown in the diagonal of the descriptive statistics in Table 1 that follows. This means that the constructs were not measuring the same thing or were not related in any way. The Likert scale (Likert, 1932) in this study measured responses from negative to positive where expected responses were 'completely disagree' (1) to 'completely agree' (7) for all variables except for audit probability and detection where the responses were 'highly unlikely' (1) to 'highly likely' (7).

The data were then analysed using structural equation modelling (SEM) by way of a two-stage evaluation approach, first the measurement model and then the structural model. SEM is a potent analysis tool (MacCallum & Austin, 2000) that considers analysis of several equations simultaneously (Beran & Violato, 2010). SEM was utilised in the analysis of latent variables of power of authorities and tax compliance. The measured variables were: power of authorities; legitimate power; trust in authorities, and enforced and voluntary tax compliance. The study further conformed to the SEM requirement of adhering to a large sample size of at least 200 (Hussey & Eagan, 2007). At the first stage, the measurement model was specified to estimate the confirmatory factor analysis (CFA) for more accurate results (Anderson & Gerbing, 1988). The model fit was tested by a number of scores: chi-square/df ratio, which should be <3, probability p <.001, GFI≥.9, Normed Fit Index (NFI) ≥.9, Incremental Fit Index (IFI) ≥.9, Tucker-Lewis Index (TLI) ≥.973, Comparative Fit Index (CFI) ≥.976, and Root Mean Square Error of Approximation (RMSEA) <.08 (Brown, 2006; Hailu & Rooks, 2016). The model fit well with the data and was identified by the Analysis of Moment Structures (AMOS) version 23, following the research hypotheses from the literature review (Kirchler et al., 2008; Gangl et al., 2015).

The results indicate that corporate SMEs perceived procedural fairness, distributive fairness, trust in authorities, and audit probability and detection to be average. However, taxpayers felt that sanctions were relatively severe, as reflected in the relatively high responses to enforced compliance, with a mean of over 5. Also, SMEs firms showed high level motivation to voluntarily comply with the tax law, as shown in Table 1 below.

Table 1: Correlation Coefficients

	Mean	SD	1	2	3	4	5	6	7	8
Enforced compliance (1)	5.45	1.35	**.92**							
Voluntary compliance (2)	5.39	1.34	.38**	**.89**						
Trust dimension (3)	4.76	1.08	-.10	-.01	**.90**					
Legitimate power (4)	4.89	1.08	.03	.21**	.42**	**.89**				
Audit probability (5)	4.70	.97	-.07	-.03	.42**	.42**	**.72**			
Sanctions (6)	5.11	.99	.28**	.11*	.01	.09	.13**	**.76**		
Procedural fairness (7)	4.57	1.46	-.19**	-.18**	.55**	.29**	.39**	-.10	**.91**	
Distributive fairness (8)	4.08	1.44	-.19**	-.17**	.38**	.14**	.29**	-.07	.49**	**.91**

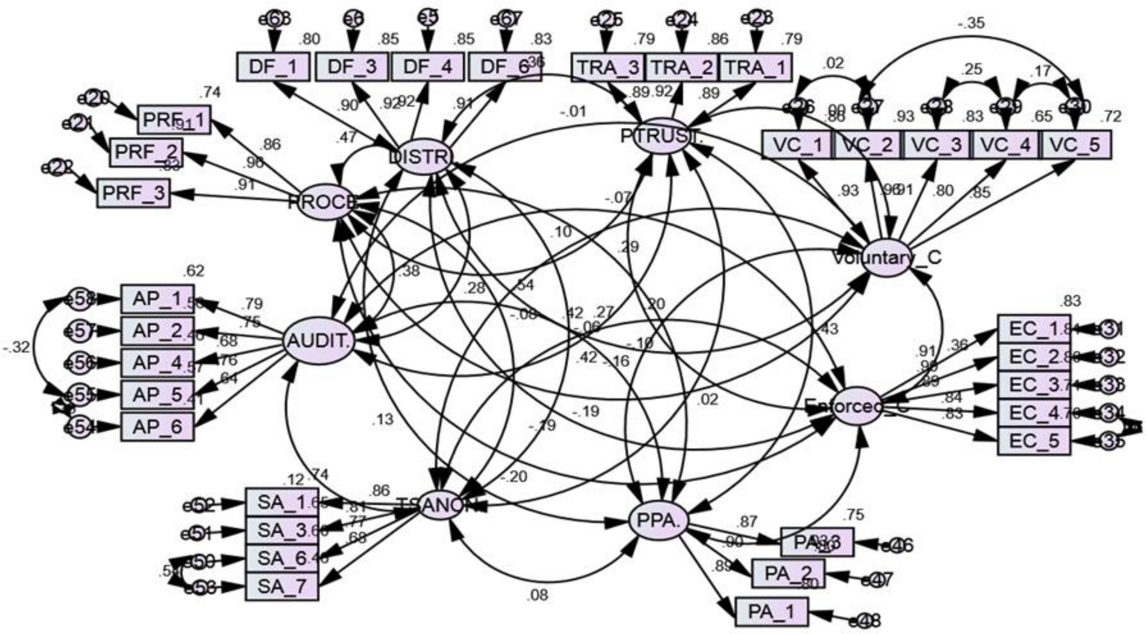
*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The means (M) and standard deviation (SD) of the study variables set out in Table 1 show how the constructs were spread. Pearson correlation coefficients were computed to assess the linear relationships between the variables, and the results were surprising. They showed significant negative correlations between procedural fairness (r = -.18, *p* <.01) and voluntary corporate SMEs' compliance, as well as distributive fairness r = -.17, *p* <.01) and voluntary corporate tax compliance by SMEs. This may be an indication of corporate tax system unfairness or cultural beliefs within the country. In addition, enforced corporate tax compliance negatively correlated with both procedural and distributive fairness (r = -.19, p <.01), significantly with the same magnitude. This implies that, as perceptions of the fairness of a corporate tax system improve, less corporate tax compliance enforcement might be necessary, hence a move to voluntary compliance. There was a significantly positive correlation between enforced compliance and voluntary compliance (r =.38, p <.01).

Conversely, only one of the two dimensions of power of authorities, audit probability and detection (r =.42, p <.01), positively and significantly correlated with the power dimension. Sanctions (r =.09, p >.05) did not show any significant correlation with legitimate power, as theory suggests, but significantly correlated with perceived trust in authorities (r =.33, p <.01). Surprisingly, legitimate power positively correlated with trust in authorities (r =.42, p <.01) and corporate voluntary compliance (r =.21, p <.01). Therefore, SMEs might willingly pay their corporate taxes if they perceive tax authorities to have legitimate power when they hold power of enforcement and are perceived as fair in their tax dealings since they will be trusted.

The reliability indices show an overall Cronbach's alpha (α) coefficient of α =.90, which demonstrates that the survey instrument was reliable. Also, the breakdown, for instance, shows that the smallest Cronbach's alpha for the individual constructs tested is for tax compliance with α =.81, which represents good reliability coefficients. In addition, the reliability of the questionnaire was tested by calculating composite reliability (CR) for each latent construct. The CR for all the constructs in the model was over 0.8, which demonstrates that the survey instrument used in this study is reliable.

Fig. 1: Confirmatory Analysis for Power of, and Trust in, Authorities' Model



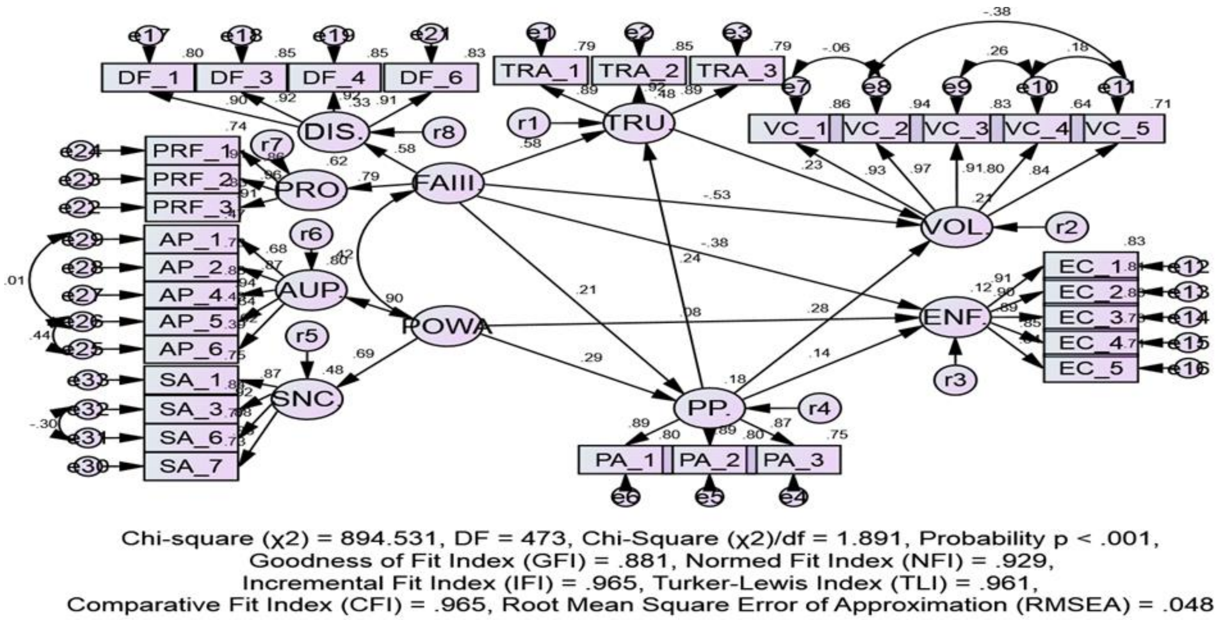
Chi-Square (χ2) = 722.382, DF = 459, Chi-Square (χ2)/df = 1.574, Probability p < .001, GFI= .897, Normed Fit Index (NFI) = .938, Incremental Fit Index (IFI) = .976, Tucker-Lewis Index (TLI) = .973, Comparative Fit Index (CFI) = .976, and Root Mean Square Error of Approximation (RMSEA) = .039.

Key: AUDIT is audit probability and detection; TSANCN is sanctions; PPA is legitimate power; PROCE is procedural fairness; DISTR is distributive fairness; PTRUST is trust in authorities; Voluntary_C is voluntary tax compliance; enforced_C is enforced tax compliance.

The AVE was used to measure convergent validity. As indicated in Table 1, audit probability and detection show an AVE of .53, sanctions indicate an AVE of .58, and legitimate power shows AVE of .78. Furthermore, procedural fairness shows AVE =.83, AVE for distributive fairness is .84, trust in authorities AVE is .81, voluntary compliance AVE =.80, and enforced compliance shows AVE of .77. In order to ensure that the latent constructs measure different concepts, discriminant validity was tested between the underlying constructs presented in Table 1 above. The square root of all AVE scores is over and above the largest correlation, as demonstrated in the diagonal of Table 1, hence the latent constructs in this study do not measure the same concepts.

The analysis of the measurement model for purposes of confirmatory factor analysis also resulted in covariance results, which demonstrate mixed results, with some of their *p*-values being significant and others being insignificant. Covariance, however, may not reveal the most influential variable in explaining SME corporate tax compliance, hence the path analysis for regression as presented in Figure 2 and Table 2 that follow.

Fig. 2: Structural Model for Testing the Hypothesised Paths



Key: PP = legitimate power; TRU = trust in authorities; ENF = enforced tax compliance; VOL = voluntary tax compliance; FAIII = fairness perceptions; POWA = power of authorities; AUP = audit probability and detection; SNC = sanctions; DIS = distributive fairness; PRO = procedural fairness.

The regression model specified in Figure 2 shows that the model fits well with the data. Specifically, the model fit indices show acceptable measures so as to proceed with the interpretation of the model results compared to the initial rival model (Hair et al., 2010), which could only explain 0.08% and 17.4% of the variances in enforced and voluntary tax compliance, respectively. Indeed, this model explains 11.9% and 20.8% of the variance in enforced and voluntary corporate tax compliance, respectively.

Results from Table 2 show a positive significant and relationship between perceptions of the power of authorities and legitimate power (β =.29, p <.001), and the relationship between legitimate power and enforced compliance is positive and significant (β =.14, p =.028). This means that Hypothesis 2 is partially supported since the coercive power of authorities is not significantly related to the enforced tax compliance of SMEs (β =.08, p =.24). This implies that although URA is perceived as a legitimate tax authority, its ability to carry out enforcement is weak. This therefore calls for the authority to conduct effective audits of SME taxpayers to raise the probability of detection of tax non-compliance so that fair penal sanctions can be imposed across all taxpayers.

However, inefficiencies in implementation of enforcement mechanisms might weaken the tax system and hence increase tax non-compliance.

Table 2: Standardised Regression Weights Using Maximum Likelihood Estimates

Endogenous variables	Hypothesised paths	Estimate Unstandardised (B)	Estimate standardised (β)	p	Supported
VOL(R^2) = .21	POWA →PP (1)	.51	.29	***	Yes
ENF(R^2) = .12	PP→TRU (3)	.25	.24	***	Yes
TRU(R^2) = .48	PP→VOL (3)	.34	.28	***	Yes
PP (R^2) = .18	FAIII→VOL(2)	-.61	-.53	***	Yes
	FAIII→ENF(4)	-.45	-.38	***	Yes
	POWA→ENF(1)	.18	.08	.238	No
	FAIII→TRU(2)	.57	.58	***	Yes
	TRU→VOL(2)	.27	.23	.011	Yes
	PP→ENF (1)	.17	.14	.028	Yes
Note: Group number 1 – default model					

PP = Legitimate Power, TRU = Trust dimension, ENF = Enforced compliance, VOL = Voluntary compliance, FAIII = Fairness perceptions, POWA = Power of authorities.

Results also show a significant positive relationship (β =.58, p <.001) between perceptions of tax system fairness and SMEs' trust in authorities, and between trust in authorities (β =.23, p =.011) and voluntary compliance behaviour among SME firms in Uganda. Additionally, tax fairness and voluntary compliance are statistically significant, though negative (β = -.53, p <.001). Also, findings reveal that the relationship between corporate tax system fairness and enforced compliance among SMEs (β = -.38, p <.001) demonstrates a statistically significant negative path. This means that improved perceptions of tax system fairness are likely to reduce the level of enforcement that URA might use to motivate corporate SMEs to comply with the tax code, as the majority would willingly pay their taxes. These findings are in line with the SSF (Kirchler et al., 2008), though they partially support Hypothesis 1. However, the negative relationship between fairness and voluntary tax compliance might be explained by factors other than tax system fairness, as it might not exhibit true intrinsic motivations to comply with the law.

The relationship between the perceptions of legitimate power and trust in authorities of SMEs in their tax compliance was investigated, and the results reveal a significant positive relationship (β =.24, p <.001). Moreover, positive and significant paths (β =.28, p <.001) and (β =.14, p =.028) are revealed between perceptions of the legitimate power of authorities and voluntary and enforced tax compliance. These results are consistent with the slippery slope framework (Kirchler et al., 2008) and support Hypothesis 3. This implies that SMEs' perception of legitimate power explains their level of trust in tax authorities, voluntary tax compliance and enforced tax compliance. Ideally, when tax officers can effectively perform audits, unearth tax non-compliance practices and punish the offenders appropriately through penalties, a twofold direct influence can be experienced. First, legitimate power can lead to enhanced trust in the URA and, second, the commitment of SMEs to voluntarily pay corporate tax, which therefore supports a recommendation for the URA's assurance to build the institution's image through quality audits to enhance enforced tax compliance with impartial application of sanctions.

We also tested the model's performance when trust in authorities was allowed to have an influence over the legitimate power of the tax system. The whole performance of the model improved when the path between trust and legitimate power was changed, as can be seen in the results of the endogenous variables in Table 3 below compared to their corresponding values in Table 2 (see, for example, R^2 =.215 for voluntary compliance compared to R^2 =.208 in the previous model in Table 2). This is to say, when trust was set to influence legitimate power, trust was found to have a significant relationship with legitimate power (β =.34, p <.001), compared to the significant path when legitimate power was meant to relate to trust in authorities (β =.24, p <.001). These results demonstrate that trust in authorities and legitimate power interact with each other since they significantly influence one another, which confirms the assertion of the SSF (Kirchler et al., 2008). The coercive power of authorities, however, continues to persist as insignificant in a relationship with enforced tax compliance.

Table 3: Results When Trust Is Meant to Have an Effect on Legitimate Power

Endogenous variables	Hypothesised paths	Estimate Unstandardised (B)	Estimate standardised (β)	*p*	Supported
VOL(R^2) = .22	POWA →PP	.46	.27	***	Yes
ENF(R^2) = .12	TRU→PP	.33	.34	***	Yes
TRU(R^2) = .45	PP→VOL	.35	.29	***	Yes
PP (R^2) = .24	FAIII→VOL	-.65	-.53	***	Yes
	FAIII→ENF	-.47	-.39	***	Yes
	POWA→ENF	.20	.09	.183	No
	FAIII→TRU	.67	.67	***	Yes
	TRU→VOL	.29	.25	.006	Yes
	PP→ENF	.17	.14	.021	Yes

PP = Legitimate Power, TRU = Trust dimension, ENF = Enforced compliance, VOL = Voluntary compliance, FAIII = Fairness perceptions, POWA = Power of authorities.

Additionally, an interaction between trust in authorities and legitimate power was also computed to investigate further its relationship with voluntary tax compliance (see Table 4 below).

Table 4: Trust in Authorities and Legitimate Power Interaction on Voluntary Compliance

Endogenous variables	Hypothesised paths	Estimate Unstandardised (B)	Estimate standardised (*β*)	*p*	Supported
VOL(R^2) = .31	POWA →PP	.45	.26	***	Yes
ENF(R^2) = .12	TRUxPP→VOL	.05	.34	***	Yes
TRU(R^2) = .45	PP→VOL	.12	.09	.093	No
PP (R^2) = .24	FAIII→VOL	-.63	-.50	***	Yes
	FAIII→ENF	-.47	-.39	***	Yes
	POWA→ENF	.20	.10	.179	No
	FAIII→TRU	.67	.67	***	Yes
	TRU→VOL	.04	.03	.725	No
	PP→ENF	.17	.13	.026	Yes

PP = Legitimate Power, TRU = Trust dimension, ENF = Enforced compliance, VOL = Voluntary compliance, FAIII = Fairness perceptions, POWA = Power of authorities, TRUxPP = Interaction between trust and legitimate power.

An interaction term between trust in authorities and legitimate power was added in the model to establish its relationship with voluntary tax compliance; a significant relationship was revealed (β =.34, p <.001) which conforms to Hypothesis 4. This interaction between trust and legitimate power generally improved the percentage of voluntary tax compliance explained by the model from 21.5% (R^2 =.215) in the previous model to 30.6% (R^2 =.306), confirming the assertion of the SSF (Kirchler et al., 2008). However, the introduction of the interaction term in the model means that legitimate power (β =.09, p <.093) and trust in authorities (β =.03, p <.725) may not individually have significant influence on voluntary tax compliance.

5. DISCUSSION AND IMPLICATIONS OF THE FINDINGS

The current results are powerfully consistent with the formulations of the SSF (Kirchler et al., 2008) and therefore can be used with regard to tax compliance of small- and medium-sized firms in Uganda. However, the results reveal a negative relationship between fairness perceptions and voluntary tax compliance, with no significant relationship between coercive power and enforced compliance, even though significant relationships exist between perceptions of the legitimate power of authorities and voluntary compliance. These results further reveal that to achieve optimum tax compliance results, the different constructs of the model have to work together (Kirchler et al., 2008; Gangl et al., 2015).

The results presented in Tables 2, 3 and 4 show that the power dimensional structure was slightly different, though with a very strong relationship between coercive power and the perceptions of legitimate power as hypothesised in Hypothesis 2. Coercive power is the ability of the authority to detect and punish tax evasion, which can define how taxpayers will perceive the tax authority as legitimate (Gangl et al., 2015). Kirchler and co-authors (2014) explain that in a tax system where tax officials can effectively conduct recurrent audits and direct fines to offending taxpayers, legitimate power can be implicitly high. Instituting coercive power does not, however, mean that enforced tax compliance will be achieved. Accordingly, though our results indicate that SMEs appreciate the URA's efforts in conducting tax audits in a bid to detect non-compliance and impose appropriate penal taxes, it might not enhance enforced compliance but create legitimacy in the whole tax collection process. It is therefore important that tax authorities carry out quality audits and impose sanctions appropriately for SMEs to increase acceptance that tax officers possess expert authority to influence income tax compliance (Gangl et al., 2015).

Unexpectedly, significant negative results are revealed between tax fairness and voluntary tax compliance. Although significant, these results show an inverse relationship, even though ordinarily a fair tax system would be expected to positively relate with voluntary tax compliance (Kirchler et al., 2008). This finding signals a state of the corporate tax system that is perceived as unfair by the SMEs given other determining factors of tax fairness. These firms might find the tax system unfair due to the way in which government spends tax revenues based on the existing policy (Slemrod, 2007; Andreoni et al., 1998; Daunton, 2001) and procedures that might be susceptible to corruption (Batrancea et al., 2019). For instance, the government might be spending tax revenue outside of the designated services that are necessary for improving social welfare due to corruption, even when taxpayers pay taxes willingly (Tusubira, 2018). Also, other factors like social norms might be responsible for the influence shown in the change of direction where tax fairness negatively influences voluntary compliance. These results demonstrate that even when there is trust in authorities, tax fairness may not necessarily be a direct positive prediction of voluntary compliance among corporate SMEs in Uganda as a developing nation.

Considering Hypothesis 1, results reveal that tax system fairness and enforced compliance are negatively and significantly related (Kirchler et al., 2008). This implies that tax fairness might be supportive of tax authorities in reducing enforcement mechanisms and related costs. This can be related to the motivational postures (Braithwaite, 2003) of commitment and capitulation, where taxpayers become willing to cooperate with the tax authority in compliance with the regulation. Indeed, perceptions of tax system fairness as one of the mainstays can build a sense of trust in the authorities, reduce resistance and improve commitment among SME taxpayers to voluntarily comply with the tax regulations (Murphy & Torgler, 2004; Kirchler et al., 2008). Therefore, to build on SMEs' trust so that they comply freely, authorities should, as far as practicable, attempt to build and maintain a fair tax system by providing the people with essential outputs including, among other things, quality infrastructure, health care and education, which are fundamental in the management of relationships (Braithwaite, 2003).

In addition, the effect of legitimate power on both trust in authorities and voluntary compliance was investigated under Hypothesis 4. Findings reveal a significant regression weight of .24 and .28, respectively. These results suggest that when Uganda's SMEs perceive the URA officers to have the technical competence to discover tax non-compliance and punish offenders appropriately, their trust in the revenue authority and voluntary compliance improve. This implies that the relationship between legitimate power and trust in authorities cannot be interpreted in isolation if valid results are needed to enhance trust and voluntary tax compliance (Kirchler et al., 2008; Gangl et al., 2015).

Also, to confirm the interaction, results reveal that voluntary tax compliance is further enhanced when trust and legitimate power are allowed to interact if they all individually have significant influence on compliance before the interaction. Therefore, the URA must employ audit probability and detection and sanctions mutually with fair interaction with taxpayers to achieve legitimacy (Muehlbacher & Kirchler, 2010). This assertion is also consistent with the significant results on the relationship between legitimate power and voluntary tax compliance under Hypothesis 3. This suggests that perceptions of efficiency and effectiveness in tax audits and justice in the implementation of sanctions can encourage corporate SMEs to trust in authorities as well as increase their level of voluntary tax compliance (Alm & Torgler, 2011).

6. CONCLUSIONS, LIMITATIONS OF THE STUDY AND AREAS FOR FURTHER RESEARCH

The results of this study add to the theoretical developments in the area of tax compliance, principally Kirchler and co-authors' (2008) slippery slope framework, by revealing that the model can work for SMEs in developing countries like Uganda. Further research might be needed to investigate other factors that might be responsible for the inverse relationship between fairness and voluntary compliance as well as the insignificant relationship between coercive power and enforced tax compliance. Factors such as resistance, disengagement and game playing under motivational postures (Braithwaite, 2003) might be responsible as a reflection of doubts about tax system fairness, where taxpayers become sceptical and would want to fight for their rights. Where resistance becomes widespread, the taxpayer might not want to associate with the tax office in any way. It has been demonstrated that coercive power represented by audit probability and detection and sanction significantly influence the legitimate power of authorities. Moreover, legitimate power positively and significantly influences trust in authorities as well as voluntary corporate tax compliance by SMEs within the same model. Optimum tax compliance can be achieved when, in addition to the efficiency and effectiveness of audits and sanctions, an interaction between tax authorities and taxpayers is allowed and encouraged (Braithwaite, 2003).

The study's findings have some policy implications for the URA and the government of Uganda as a whole. First, the willingness of corporate SMEs to comply, as reflected in voluntary compliance, does not reflect the fairness of the corporate tax system per se but could be due to the need to satisfy income tax law requirements (Gangl et al., 2015). Social distance between the SMEs and URA could be in play (Braithwaite, 2003), causing resistance among them due to factors like corruption, and social norms could be investigated (Batrancea et al., 2019). Second, tax authorities ought to establish and maintain legitimate power through effective audits and penalties, and maintain a fair interaction with taxpayers beyond the legitimacy of the law so as to encourage trust in authorities and voluntary tax compliance. This could mean that the URA ensures the use of service-oriented procedures in the assessment and collection of corporate tax from SMEs by treating them with respect, offering advice for compliance and allowing them to take consistent corrective action on faulty returns. Third, it is probable that corporate SMEs find audits irregular, uncoordinated, untargeted, unfair and not to be carried out efficiently enough to send a strong signal to dissenting SMEs to respond to this enforcement mechanism and pay tax.

This study, however, has some limitations which might affect the interpretation of the results. First, the study used cross-sectional data, therefore constraining the possibility of monitoring the changes that would occur within the SMEs' tax compliance over time.

Secondly, none of the item scales adopted in the study were originally developed for use in the corporate tax regulatory setting. Most studies undertaken to try to formalise the SSF have been focused either on self-employed taxpayers or on individual taxpayers and, to the knowledge of the researchers, none have investigated the SSF as applied to corporate firms. Without downplaying the findings of this study, the researchers are of the view that there may be a need to develop scales especially for the corporate tax environment, since the unit of inquiry was still individual corporate owners and managers.

In order to underscore factors that motivate tax compliance, there is a need to carry out research to clarify the surprising results obtained in this study. These results show that perceptions of corporate tax fairness had a significant negative effect on the voluntary tax compliance behaviour of SMEs, and the power of authorities had insignificant effects on perceptions of enforced corporate tax compliance behaviour.

7. Contribution

There is a dearth of literature pertaining to coercive power and enforced compliance, and trust in authorities and voluntary tax compliance. Moreover, tentative research relating to voluntary tax compliance and enforced tax compliance exists about SME firms in most developing countries like Uganda (Gobena & Van Dijke, 2016). The most recent study by Batrancea and co-authors (2019), while investigating trust and power as determinants of tax compliance across 44 countries and using 14,509 undergraduate and graduate students in the experiment, revealed that the power of authorities is positively related to tax compliance. However, tentative investigations have been carried out to identify the effect of fairness on voluntary compliance, to which this study contributes. Furthermore, Batrancea and co-authors' (2019) study only included four countries that seem to be less advanced in development than Uganda. In addition, the countries studied by these authors rank relatively highly in the management of corruption behaviour than Uganda where this study is centred. Like Batrancea and co-authors' (2019) study, this article advocates for a multidimensional approach to tax compliance, employing trust and legitimate power interchangeably. Their interaction could be more effective in enhancing voluntary tax compliance. Although literature has established that tax system fairness positively and significantly affects the voluntary compliance of individual taxpayers (Kogler et al., 2013), this study has established a significant negative relationship between tax system fairness and voluntary compliance. This implies that the conditions in less developed nations can reveal differing results from similar studies in advanced ones, even when a significant positive relationship between the power of authorities and legitimate power might be similar. Nonetheless, no significant relationship was established between the power of authorities and enforced tax compliance among corporate SMEs in Uganda compared to that found in other studies, which might also provide a motivation for further research studies to be conducted.

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9. APPENDIX

Power of authorities

Scenario: PAEST Business Traders Ltd owns a Pickup Van which Mr. Mudasi one of the managing Directors uses for business operations. However, Mr. Mudasi has the freedom also to use the van for his personal errands. The Income Tax Act provides that expenses are deductible to the extent the van is used for business purposes. In preparing the corporate income tax return, Mr. Mudasi establishes that the van was used 70% for business. However, he also calculates if he WRONGLY claimed it was used 95% for business, the company's deduction would rise by UGX 3,500,000 and would save UGX 1,000,000 in taxes.

Imagine you were Mr. Mudasi, how do you think you would act in his place?

Audit probability and detection (*1 = highly unlikely to 7 = highly likely)*

a) Unaudited companies may comply if they become aware that others have been subjected to audits.

b) Most corporate tax returns audited by the URA would be found to be erroneous, with less income declared.

c) Largely, corporate income tax returns from 2014 and 2015 would be audited by the URA.

d) If audited, how likely is it that the deduction of UGX 3,500,000 would be disallowed?

e) If Mr. Mudasi deducts UGX 3,500,000 in van expenses, how likely is it that the URA would audit the company?

Sanctions (1 = completely disagree to 7 = completely agree)

a) The level of punishments by the URA for not complying with the law is very high.

b) At times, the URA closes down some companies for failure to fulfil corporate income tax requirements.

c) Late payment of corporate tax means we have to pay higher interest on that amount of tax.

d) The tax fines imposed for not complying with the corporate tax law are high for our company.

Legitimate power (1 = completely disagree to 7 = completely agree)

a) The Uganda Revenue Authority has extensive means by which to force corporations to be honest about income tax.

b) Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party information reports in a systematic way.

c) The Uganda Revenue Authority has good reputation and is respected for the good work.

Trust in authorities (1 = completely disagree to 7 = completely agree)

a) The Uganda Revenue Authority treats me fairly in my dealings with them.

b) The Uganda Revenue Authority treats us respectfully in our dealings with them.

c) We trust the URA and government when dealing with them on corporate tax matters

Tax fairness (from 1 = completely disagree to 7 = completely agree)

Distributive fairness

a) I believe the government utilises a realistic amount of tax revenue to achieve social goals.

b) I think the government spends too much tax revenue on unnecessary welfare assistance (*Reversed*).

c) We receive fair value of services from the government in return for our corporate tax paid.

d) We pay high corporate taxes when compared to the services we get from the government (*Reversed*).

Procedural fairness

a) There are a number of ways available to the company to correct errors in the calculation of corporate tax liability, if necessary, at no additional cost.

b) The administration of the corporate tax system by the URA is consistent over the years.

c) The administration of the corporate tax system by the URA is consistent for all corporate taxpayers.

Tax compliance materials (1 = completely disagree to 7 = completely agree)

Voluntary tax compliance

My company pays corporate taxes as required by the regulations because….

… it’s clear that is what we have to do.

... of the need to support the state and society as a whole.

... we like to make a contribution towards everyone's good.

... for us it's the natural thing to do.

... we regard it as our responsibility as citizens.

Enforced compliance

When we pay corporate taxes as required by the regulations, we do so because ...

... a large number of tax checks are carried out.

... the tax office often carries out checks.

... we know that the company will be audited.

... the punishments for tax evasion are very severe.

... we do not know exactly how to evade taxes without attracting attention.