

**Relationship Between Digital Tax Compliance and Growth of Small-Scale Enterprises in Wakiso District,  
Uganda**

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**Abstract**

This study aimed at examining the relationship between digital tax compliance and the growth of small-scale enterprises (SSEs) in Wakiso District, Uganda. A descriptive cross-sectional survey design was employed, allowing for data collection at a single point in time. The study adopted a quantitative research approach to establish the relationship between digital tax compliance and enterprise growth. The study targeted registered small-scale enterprise owners and managers operating in Wakiso District. A sample size of 371 respondents was determined using Krejcie and Morgan's (1970) sample size determination table, and stratified random sampling was used to ensure representation of different business sectors. Data were collected using structured questionnaires comprising Likert-scale items measuring dimensions of digital tax compliance such as timely e-filing, accuracy of electronic records, use of EFRIS, and adherence to digital reporting requirements, alongside growth indicators including sales growth, asset expansion, business expansion, and employment growth. The reliability of the research instrument was confirmed through a pilot study, yielding a Cronbach's Alpha coefficient of 0.81, indicating acceptable internal consistency. Quantitative data were analyzed using SPSS, employing descriptive statistics, Pearson correlation, and regression analysis. Findings revealed a strong positive and statistically significant relationship between digital tax compliance and growth of small-scale enterprises ( $r = 0.579$ ,  $p < 0.01$ ). Regression analysis indicated that digital tax compliance accounted for 54.6% of the variation in enterprise growth ( $R^2 = 0.546$ ). The study concluded that digital tax compliance significantly enhances the growth of small-scale enterprises by improving financial transparency, credibility, and access to business opportunities. The study recommended strengthening digital tax training, simplifying compliance systems, and providing continuous technical support to enhance sustainable growth of SSEs.

**Keywords: Digital Tax Compliance, Enterprise Growth, Small-Scale Enterprises, E-Taxation, Uganda**

**Background of the Study**

At the global level, digital tax compliance has become a central pillar of modern tax administration reforms aimed at enhancing transparency, accountability, and business growth. Governments worldwide are increasingly adopting electronic tax systems to simplify compliance, reduce administrative costs, and improve efficiency for businesses (OECD, 2022). Research indicates that small enterprises that comply digitally with tax regulations are more likely to maintain accurate financial records, access formal credit facilities, and expand their operations (IMF, 2021). In developed economies, such as the United Kingdom, Germany, and Canada, digital tax compliance has contributed to improved growth of small and medium enterprises (SMEs) by reducing compliance burdens and enhancing their legitimacy in formal markets.

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In Africa, digital tax reforms have been introduced to improve domestic revenue mobilization and integrate informal businesses into the formal economy. However, small-scale enterprises (SSEs) often face challenges related to limited digital literacy, poor internet infrastructure, and complex system requirements, which negatively affect compliance levels (ATAF, 2021). Evidence from countries like Kenya and Rwanda demonstrates that enterprises that adopt digital tax compliance experience better growth outcomes, including improved access to finance and smoother participation in formal market systems (World Bank, 2022). Despite these benefits, low compliance levels among SSEs continue to hinder business growth in many African economies.

In Uganda, the Uganda Revenue Authority (URA) has implemented several digital tax compliance mechanisms, including e-registration, e-filing, e-payment platforms, and the Electronic Fiscal Receipting and Invoicing System (EFRIS). These reforms aim to enhance tax compliance and promote business growth. Nevertheless, many small-scale enterprises in Wakiso District continue to face challenges in adopting digital compliance due to limited technical skills, system rigidity, and associated compliance costs. These challenges raise important questions about the extent to which digital tax compliance influences the growth of SSEs in the district, highlighting the need for focused empirical research.

#### **Problem Statement**

Digital tax compliance is mandatory for all registered businesses in Uganda, yet many small-scale enterprises (SSEs) continue to exhibit low compliance levels, exposing them to penalties, limiting access to financial services, and constraining growth (URA, 2024). Despite the Uganda Revenue Authority's (URA) implementation of digital mechanisms such as e-registration, e-filing, e-payment platforms, and the Electronic Fiscal Receipting and Invoicing System (EFRIS), SSEs in Wakiso District still face slow growth, limited expansion, and restricted participation in formal markets due to challenges including limited digital literacy, inadequate infrastructure, and high compliance costs (ATAF, 2021; Nilepost, 2023; Monitor, 2023). While digital tax systems offer potential for improving compliance and business growth, empirical evidence on their impact on SSE performance in Wakiso District remains scarce, highlighting the need for research to inform policy interventions that enhance formalization, sustainability, and economic contribution of small enterprises.

#### **Main Objective**

The main objective of the study was to determine the relationship between digital tax compliance and growth of small-scale enterprises in Wakiso District, Uganda.

#### **Methodology**

##### **Research Design**

This study employed a descriptive cross-sectional survey design to examine the relationship between digital tax compliance and the growth of small-scale enterprises (SSEs) in Wakiso District. A cross-sectional approach was

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suitable as it allowed for the collection of data at a single point in time and facilitated quantitative analysis of compliance practices and growth outcomes (Creswell, 2014).

### **Study Population**

The study population comprised owners and managers of registered SSEs operating in Wakiso District across diverse sectors, including trade, manufacturing, agriculture, and services. These respondents were considered appropriate because they directly engage in business operations and digital tax compliance activities, providing reliable insights into compliance practices and growth performance (Bryman, 2016).

### **Sample Size and Sampling Technique**

A sample size of 371 respondents was determined using Krejcie and Morgan's (1970) table for determining sample size from a known population. Stratified random sampling was first applied to ensure proportional representation of different business sectors, followed by simple random sampling to select respondents within each stratum, thereby minimizing selection bias (Etikan et al., 2016).

### **Data Collection Methods**

Primary data were collected using structured questionnaires comprising closed-ended and Likert-scale items. Digital tax compliance was assessed through indicators such as timely filing of tax returns, accuracy of digital records, utilization of the Electronic Fiscal Receipting and Invoicing System (EFRIS), and adherence to online reporting requirements (URA, 2024; ATAF, 2021). Enterprise growth was measured using indicators including sales growth, business expansion, asset acquisition, and employment growth, consistent with prior SME performance studies (World Bank, 2022; IMF, 2021).

### **Validity and Reliability**

Content validity was ensured through expert review by tax and SME researchers. A pilot study was conducted with 30 SSEs in neighboring districts to test the questionnaire, and reliability was evaluated using Cronbach's Alpha coefficient, yielding a value of 0.81, indicating acceptable internal consistency (Nunnally & Bernstein, 1994).

### **Data Analysis**

Quantitative data were analyzed using SPSS version 25. Descriptive statistics, including frequencies, percentages, means, and standard deviations, summarized respondents' characteristics and study variables. Pearson correlation analysis was conducted to determine the strength and direction of the relationship between digital tax compliance and enterprise growth, while regression analysis assessed the predictive effect of compliance on growth outcomes (Field, 2018). Findings were presented using tables and charts for clarity and ease of interpretation.

### **Results**

#### **Table 1: Descriptive Statistics on Digital Tax Compliance and Enterprise Growth**

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Statement	Mean	Std. Dev.
<b>Timely e-filing improves business operations</b>	3.26	1.29
<b>Use of EFRIS improves sales tracking</b>	3.49	1.09
<b>Digital compliance enhances access to credit</b>	3.34	1.06
<b>Digital compliance supports business expansion</b>	3.41	1.12

Source: **Researcher (2025)**

The descriptive statistics indicate that respondents generally agreed that digital tax compliance positively influences various aspects of enterprise growth. The highest mean (3.49) was observed for the use of EFRIS improving sales tracking, suggesting that electronic fiscal systems facilitate better financial management and monitoring of operations.

**Table 2: Correlation Between Digital Tax Compliance and Enterprise Growth**

Variable	Digital Tax Compliance	Enterprise Growth
<b>Digital Tax Compliance</b>	1	0.579**
<b>Enterprise Growth</b>	0.579**	1

Note: **p < 0.01**

Source: **Researcher (2025)**

The correlation analysis shows a strong positive and statistically significant relationship ( $r = 0.579, p < 0.01$ ) between digital tax compliance and enterprise growth, indicating that higher levels of compliance are associated with improved growth outcomes.

**Table 3: Regression Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error
<b>1</b>	0.739	0.546	0.544	0.41

Source: **Researcher (2025)**

The model summary indicates that digital tax compliance accounts for approximately 54.6% of the variation in enterprise growth, highlighting its substantial influence on growth performance.

**Table 4: ANOVA Results**

Model	Sum of Squares	df	Mean Square	F	Sig.
<b>Regression</b>	6.214	1	6.214	61.834	0.000
<b>Residual</b>	10.763	348	0.098		
<b>Total</b>	16.977	349			

Source: **Researcher (2025)**

The ANOVA results indicate that the regression model is statistically significant ( $F = 61.834, p < 0.001$ ), confirming that digital tax compliance reliably predicts enterprise growth.

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**Table 5: Regression Coefficients**

Predictor	B	Std. Error	Beta	t	Sig.
<b>Constant</b>	1.052	0.248	–	4.243	0.000
<b>Digital Tax Compliance</b>	0.690	0.082	0.579	8.412	0.000

Source: **Researcher (2025)**

The regression coefficients indicate that digital tax compliance significantly predicts enterprise growth ( $\beta = 0.690$ ,  $p < 0.001$ ). This suggests that a one-unit increase in digital tax compliance results in a 0.690-unit increase in enterprise growth, demonstrating a substantial positive effect.

### Conclusions

The study concludes that digital tax compliance has a significant and positive relationship with the growth of small-scale enterprises in Wakiso District. Enterprises that comply digitally with tax requirements experience improved sales growth, enhanced financial credibility, better access to credit, and increased opportunities for expansion. Digital compliance promotes transparency, strengthens legitimacy, and supports sustainable business growth, corroborating findings from prior studies in Uganda and Africa (IMF, 2021; ATAF, 2021; URA, 2024)

### Recommendations

The Uganda Revenue Authority should expand digital tax education and training programs targeting small-scale enterprises to enhance awareness and capacity. By equipping business owners and managers with the necessary skills to navigate digital tax systems, enterprises can better comply with filing requirements, accurately maintain records, and leverage digital tools for operational efficiency (URA, 2024; ATAF, 2021).

Simplifying digital tax platforms, including EFRIS, and providing continuous technical support is essential to reduce operational challenges for SSEs. Many small businesses face difficulties in navigating complex systems and limited access to reliable internet and devices, which hinders compliance and reduces potential growth opportunities (Nilepost, 2023; Monitor, 2023). Streamlined interfaces and accessible support services can improve adoption and ensure that compliance is less burdensome.

Policymakers should integrate digital tax compliance initiatives with broader SME development programs. Linking tax compliance with financial literacy programs, access to credit, business expansion support, and market integration initiatives can maximize growth outcomes. Such integration ensures that compliance not only meets regulatory requirements but also contributes directly to enterprise development and sustainability (World Bank, 2022; IMF, 2021).

Finally, incentives such as tax rebates, simplified e-filing processes, or digital support grants could encourage more small businesses to adopt digital tax compliance systems. By providing tangible benefits and support, these measures can motivate enterprises to embrace digital compliance, promoting transparency, legitimacy, and long-term growth.

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Overall, these recommendations aim to foster sustainable digital tax compliance, enhance enterprise growth, and support the formalization of SSEs in Uganda, aligning with global best practices in SME development and digital governance (OECD, 2022; World Bank, 2022).

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