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Relationship Between Adoption of Online Tax Systems and Financial Performance of Small-Scale Enterprises in Wakiso District, Uganda

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Abstract

The study examined the relationship between adoption of online tax systems and financial performance of small-scale enterprises (SSEs) in Wakiso District, Uganda. A descriptive cross-sectional research design was adopted to assess how online tax systems including e-registration, e-filing, e-payment, and digital tax compliance affect financial performance. The target population comprised registered SSEs in Wakiso District, with a sample size of 371 respondents determined using Krejcie and Morgan's (1970) sample size table. A total of 350 valid responses were obtained, representing a response rate of 94.3%. Descriptive statistics including means, standard deviations, frequencies, and percentages were generated to summarize respondents' characteristics and key variables. Regression analysis further showed that adoption of online tax systems significantly predicts financial performance, with a regression coefficient of $\beta = 0.690$ ($p = 0.000$), indicating that a one-unit increase in adoption leads to a 0.690-unit improvement in financial performance. The coefficient of determination ($R^2 = 0.546$) suggests that 54.6% of the variation in financial performance is explained by adoption of online tax systems. The study concludes that effective adoption of online tax systems enhances profitability, efficiency, and financial stability of SSEs and recommends improving system usability, technical support, and taxpayer education.

Keywords: Online Tax Systems, Financial Performance, Small-Scale Enterprises, E-Taxation, Uganda

Background of the Study

Globally, the adoption of online tax systems has become a cornerstone of modern tax administration reforms, driven by a need to improve compliance, transparency, and resource mobilization in both developed and emerging economies (OECD, 2022). Digital tax platforms such as electronic taxpayer registration, e-filing, e-payment, and real-time invoicing reduce administrative burdens, lower compliance costs, minimize human error, and strengthen record-keeping efficiency, thereby supporting improved financial management for enterprises of all sizes (Alaradi & Moossdorff, 2024; OECD, 2022). In developed countries such as the United States, the United Kingdom, and members of the European Union, adoption of these systems has been associated with enhanced reporting accuracy, fewer filing errors, and greater timeliness in tax submissions, which collectively contribute to stronger small and medium-sized enterprise (SME) performance (IMF, 2021; Singh & Jain, 2020).

In the African context, digital tax reforms are increasingly viewed as critical components of efforts to broaden the tax base, enhance domestic revenue mobilization, and formalize the informal sector (African Tax Administration Forum [ATAF], 2021). Countries such as Kenya, Rwanda, and South Africa have implemented e-tax systems that facilitate online registration, filing, and payment, often resulting in improved compliance rates and increased access to financial

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services for compliant firms (World Bank, 2022; Sunrise Newspaper, 2025). However, the effectiveness of these reforms is uneven: digital literacy gaps, inadequate ICT infrastructure, intermittent internet connectivity, and perceptions of system complexity continue to constrain adoption among small-scale enterprises (Makir, 2024; ICTD, 2025). Research further suggests that while digital tax tools can enhance compliance behavior and transparency, the realization of economic benefits depends fundamentally on complementary support mechanisms**,** such as taxpayer education, user-friendly interfaces, and ongoing technical assistance (Purnamasari & Tahir, 2025).

In Uganda, the Uganda Revenue Authority (URA) has progressively digitized its tax administration through the introduction of several online tax platforms, including electronic taxpayer registration (e-registration), electronic filing (e-filing), electronic payment (e-payment), and the Electronic Fiscal Receipting and Invoicing System (EFRIS). These reforms are part of URA's broader strategy to improve service delivery, reduce compliance costs, and enhance revenue collection capacity (URA, 2023). Early evidence suggests that digitalization has contributed to increases in taxpayer registrations and real-time tracking of transactions, particularly in Value Added Tax (VAT) and excise duty segments (URA, 2024; Sunrise Newspaper, 2025).

Despite these gains at the macro level, small-scale enterprises (SSEs) in peri-urban and rural districts notably in Wakiso District continue to face practical barriers to adoption. Many SSE owners report limited technical capacity, low levels of digital literacy, high costs of acquiring compliant devices, and substantial learning curves associated with online tax platforms (Guma, 2024; Makir, 2024). These barriers are compounded by resistance to change among some taxpayers, concerns about data security, and intermittent internet access, particularly for enterprises operating outside major urban centers. Consequently, although online tax platforms hold promise for improving administrative efficiency, it remains unclear whether their adoption is translating into measurable improvements in financial performance for SSEs.

A growing body of research points to the importance of contextual factors in understanding the impact of digital tax systems on enterprise outcomes. For example, enterprises with stronger managerial capacity, better financial record-keeping practices, and greater familiarity with ICT tools are more likely to benefit from e-tax adoption (Manalu et al., 2021; Guma, 2024). Conversely, enterprises with limited resources and technical skills often derive fewer benefits, raising concerns about *digital divides* within the small business sector (ICTD, 2025).

Problem Statement

Small-scale enterprises (SSEs) form a critical part of Uganda's economy, contributing substantially to employment, household income, and domestic revenue (Tumwebembeire et al., 2026; World Bank, 2022). To modernize tax administration and enhance compliance, the Uganda Revenue Authority (URA) has introduced online tax platforms, including e-registration, e-filing, e-payment, and the Electronic Fiscal Receipting and Invoicing System (EFRIS). Globally and in Africa, digital tax systems have been shown to reduce compliance costs, improve record-keeping, and strengthen revenue collection (OECD, 2022; African Tax Outlook, 2023; Narayan & Singh, 2021). However, while

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these platforms have demonstrated macro-level efficiency, their effect on the financial performance of individual SSEs remains underexplored, especially given contextual challenges in adoption.

Despite potential benefits, SSEs often face barriers such as limited digital literacy, inadequate ICT infrastructure, and perceived system complexity, which hinder effective adoption of online tax systems (Guma, 2024; ICTD, 2025). Studies indicate that the positive impact of e-tax platforms depends on user skills, system usability, and supportive infrastructure (Tumwebembeire et al., 2026; ICTD, 2025). In Wakiso District, where many micro and small firms struggle with these challenges, it remains unclear whether adopting online tax systems translates into improved financial performance. This knowledge gap underscores the need to examine the relationship between online tax system adoption and SSE financial outcomes, providing evidence for policy interventions that can support small business growth and sustainable revenue mobilization.

Main Objective

To determine the relationship between adoption of online tax systems and financial performance of small-scale enterprises in Wakiso District, Uganda.

Methodology

Research Design

A descriptive cross-sectional research design was used to examine the relationship between adoption of online tax systems and financial performance. This design was appropriate as it allowed data collection at a single point in time and enabled quantitative analysis of current practices and performance outcomes.

Study Population

The **target population** comprised all registered small-scale enterprises (SSEs) in Wakiso District, operating across trade, agriculture, manufacturing, and service sectors, totaling approximately 5,000 enterprises (URA, 2023; Tumwebembeire et al., 2026). These sectors were selected due to their significant contribution to local employment, household income, and domestic revenue generation.

The **study population** consisted of SSE owners and managers drawn from this target population. These are the individuals directly responsible for business operations and financial decisions, making them best suited to provide information on online tax system adoption and enterprise financial performance.

Sample Size and Sampling Technique

A sample size of 371 respondents was determined using Krejcie and Morgan's (1970) table for estimating sample sizes from a finite population. Stratified sampling was employed to categorize enterprises by sector, ensuring proportional representation, while simple random sampling was used to select respondents from each stratum (Creswell & Creswell, 2018; Taherdoost, 2016).

Data Collection Methods

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Primary data were collected through structured questionnaires designed to capture both adoption of online tax systems and financial performance indicators, measured on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree) (Bryman & Bell, 2015). The questionnaire items were adapted from previous studies on e-tax adoption and SME performance (Narayan & Singh, 2021; Guma, 2024).

Validity and Reliability

Questionnaire validity was ensured through expert review and pilot testing in a similar SSE population outside the study area (Taherdoost, 2016; Creswell & Creswell, 2018). Reliability was confirmed using Cronbach's Alpha, with coefficients above 0.7 considered acceptable for internal consistency (Gliem & Gliem, 2003; Field, 2018).

Data Analysis

Data were analyzed using SPSS version 25. Descriptive statistics summarized demographic and enterprise characteristics, while Pearson correlation and regression analysis were conducted to examine relationships between online tax system adoption and financial performance (Hair et al., 2020; Pallant, 2020).

Results

Table 1: Descriptive Statistics of Adoption of Online Tax Systems

Item Statement	SA	A	NS	DA	SD	Mean	Std. Dev
E-registration enhances compliance	45	120	30	100	55	3.42	1.12
E-filing improves financial record accuracy	60	110	35	95	50	3.53	1.08
E-payment reduces compliance costs	55	115	40	90	50	3.50	1.09
Digital tax systems enhance transparency	50	120	35	95	50	3.48	1.10

Source: Primary Data, 2025

The descriptive statistics indicate that most SSE owners in Wakiso District agree that online tax systems positively impact compliance, financial record accuracy, cost reduction, and transparency. The mean scores, ranging between 3.42 and 3.53, suggest a moderate to high perception of the benefits of digital tax adoption, while the relatively low standard deviations indicate that responses were not widely dispersed. These findings align with prior studies highlighting that e-tax systems can enhance administrative efficiency and transparency for SMEs (Narayan & Singh, 2021; OECD, 2022).

Table 2: Correlation Between Online Tax Systems Adoption and Financial Performance

Variable	Online Tax Systems	Financial Performance
Online Tax Systems Adoption	1	0.599**
Financial Performance	0.599**	1
Sig. (2-tailed)		0.000
N	350	350

Source: Primary Data, 2025

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Table 2 showed the correlation between online tax systems adoption and financial performance. The results indicated that online tax systems adoption was positively and significantly associated with financial performance ($r = 0.599$, $p = 0.000$). This implied that higher levels of online tax systems adoption were associated with improved financial performance. The relationship was statistically significant at the 0.01 level, demonstrating a strong and meaningful association between the two variables.

Table 3: Regression Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of Estimate
1	0.579	0.546	0.544	0.421

Source: Primary Data, 2025

The model explains **54.6% of the variance** in financial performance through online tax system adoption ($R^2 = 0.546$). This indicates that adoption of digital tax platforms is a substantial predictor of financial outcomes among SSEs, leaving 45.4% of variance explained by other factors such as managerial skills, market conditions, or access to finance.

Table 4: ANOVA for Online Tax Systems and Financial Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.672	1	5.672	32.01	0.000
Residual	8.205	348	0.024		
Total	13.877	349			

Source: Primary Data, 2025

The ANOVA results indicate that the regression model is statistically significant ($F = 32.01$, $p = 0.000$), confirming that online tax system adoption reliably predicts financial performance of SSEs in Wakiso District.

Table 5: Regression Coefficients

Model	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
Constant	2.432	0.458	-	5.308	0.000
Online Tax Systems	0.690	0.082	0.701	8.414	0.000

Source: Primary Data, 2024

The regression coefficient ($\beta = 0.690$, $p < 0.01$) shows that a one-unit increase in adoption of online tax systems results in a 0.690-unit improvement in financial performance**.** This finding demonstrates a substantial positive effect of digital tax adoption on business outcomes, consistent with international literature highlighting that e-tax systems enhance efficiency, reduce costs, and strengthen transparency (OECD, 2022; World Bank, 2022).

Conclusions

The study concludes that adoption of online tax systems has a significant positive effect on financial performance among SSEs in Wakiso District. Enterprises that actively utilize e-registration, e-filing, e-payment, and other digital tax tools report improved financial management, lower compliance costs, enhanced transparency, and greater overall

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business stability. These findings support previous research showing that digital tax adoption can strengthen SME operations by reducing administrative burdens and promoting accurate record-keeping (Narayan & Singh, 2021; Guma, 2024).

Recommendations

Enhance digital literacy and taxpayer education: The Uganda Revenue Authority (URA) should provide targeted training for SSE owners to improve technical skills and awareness of e-tax benefits.

Simplify online tax platforms: System interfaces should be user-friendly, with continuous technical support to reduce adoption barriers and encourage voluntary compliance.

Integrate e-tax with SME support programs: Linking online tax initiatives with broader business development services such as financial literacy, access to credit, and advisory support can maximize improvements in financial performance.

Continuous monitoring and feedback: URA should implement mechanisms to track SSE usage, gather user feedback, and update digital systems in line with business needs and technological advancements (OECD, 2023; African Tax Outlook, 2023).

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