



MAKERERE UNIVERSITY SCHOOL OF LAW

**A DOUBLE-EDGED SWORD? IMPLICATIONS OF EFRIS AS A TOOL FOR VAT
COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES**

BY

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Declaration

Declaration

I, **Nsemere Evelyn Angella**, declare that this research paper has been prepared independently. It is an original work that has never been submitted to any institution for any form of credit, award, or examination. All contributions from any other work in the form of literature have been duly acknowledged in the form of footnotes and references.

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Approval

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The research paper "**A Double-Edged Sword? Implications of EFRIS as a Tool for VAT Compliance among Small and Medium Enterprises**" has been prepared and submitted for examination under my guidance and supervision.

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Date: May 9th 2025

Dedication

To Uganda's Small and Medium Enterprises whose stories and insights inspired this paper, and to all tax practitioners working toward a fair and efficient tax system in Uganda.

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All errors and mistakes are mine.

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List of Abbreviations

DRM	Domestic Revenue Mobilisation
DTO	Domestic Taxes Officer
EBM	Electronic Biller Machine
EFD	Electronic Fiscal Device
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
ERCA	Ethiopian Revenue and Customs Authority
ETR	Electronic Tax Register
KII	Key Informant Interview
MoFPED	Ministry of Finance, Planning and Economic Development
MSME	Micro, Small and Medium Enterprise
p.	page
RRA	Rwanda Revenue Authority
SME	Small and Medium Enterprise
TAT	Tax Appeals Tribunal
TRA	Tanzania Revenue Authority
UGX.	Uganda Shillings
ULII	Uganda Legal Information Institute
URA	Uganda Revenue Authority
VAT	Value-Added Tax

ABSTRACT

This study explores the effects of the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) in Uganda on Value-Added Tax (VAT) compliance among Small and Medium Enterprises (SMEs); with a specific focus on the implications of EFRIS compliance for consumer behaviour. Introduced to enhance transparency and ease VAT compliance, EFRIS has some benefits like improved record keeping for businesses and real-time VAT reporting. However, the findings indicate that the system still grapples with issues like the increase in operational and compliance costs, which leads to an increase in the price of consumption and, consequently, consumer pushback. The study highlights the circular effect wherein compliance burdens on traders spread to consumers and ultimately discourage formalisation and compliance. Comparative studies with the Tanzanian, Ethiopian and Rwandan regimes indicate the importance of taxpayer sensitization, gradual implementation and technological infrastructure readiness by the government. The paper finally gives recommendations for policy reforms including better training, flexible enforcement approaches and infrastructure support by the government to ensure EFRIS achieves its intended purpose without straining consumers and jeopardizing SME growth.

Definition of Key Terms

Value-Added Tax (VAT): An indirect tax charged on the added value to consumer goods, at every stage of value added at each stage of production and distribution of a product.¹ The ultimate burden of VAT falls on the consumer.

Small and Medium Enterprises (SMEs): The definition of SMEs varies across the globe and across the continent. SMEs in Africa are most commonly distinguished by their number of employees, capital investment and revenue generation.² In Uganda, small enterprises employ up to 50 persons and have an annual turnover of up to 360 million Uganda Shillings. Medium enterprises employ over 50 persons and have an annual turnover of over 360 million Uganda Shillings.³

Consumer Behaviour: Consumer behaviour refers to how individual customers, groups or organisations select, buy, use and dispose of ideas, goods and services to satisfy their needs and wants. It refers to the actions of consumers in the marketplace and the underlying determinants of those actions.⁴

¹ J.M Sarmiento, *Taxation in Finance and Accounting: An Introduction to Theory and Practice* (Springer Texts in Business and Economics, 2023), p.210

² African Union Strategy for SME/I Development in Africa, Second African Union Specialized Technical Committee on Trade, Industry and Development in Africa, January 2019, p.3

³ Uganda Micro, Medium and Small Enterprise Policy; Ministry of Trade, Industry and Cooperatives, June 2015

⁴ Saraju Prasad, *Consumer Behaviour*, Utkal University Directorate of Distance and Continuing Education (2020), p.8

CHAPTER ONE

Introduction

1.0. Introduction

Taxation is a part of our day-to-day lives, existing for personal income, a firm's profits and almost every sale of goods and supply of services.⁴ Bakibinga notes that tax operates as a forced charge and does not in any way depend on the will or contractual assent expressed or implied by the taxpayer. It is a statutory liability.⁵ To that end, Article 17 of the 1995 Constitution of the Republic of Uganda (hereinafter referred to as the 1995 Constitution or Uganda's Constitution) lists one of the duties of a good citizen to be the payment of taxes. Article 152 of the same elaborates that tax is a creature of statute and there cannot be a tax without authority from an Act of Parliament.⁶ Tax compliance is therefore a statutory obligation from which citizens cannot turn away, lest they face statutory penalties.

Over time, methods of tax administration have evolved; with tax administrators (Uganda Revenue Authority for Uganda's case), engaging various tools in an effort to realise optimum revenue mobilisation. One of the most recent tools for Uganda's case is the Electronic Fiscal Receipting and Invoicing Solution (EFRIS), a positive step towards the digitization of tax administration.

The newly introduced EFRIS system involves the use of Electronic Fiscal Devices (EFDs), electronic invoicing or direct communication with business transaction schemes;⁷ to manage the issuance of e-receipts or e-invoices in accordance with

⁴ J.M Sarmiento, *Taxation in Finance and Accounting: An Introduction to Theory and Practice* (Springer Texts in Business and Economics, 2023), p. 1

⁵ Bakibinga D.J, *Revenue Law in Uganda* (Law and Publishing, Nairobi, Kampala, Dar.es.Salaam, 2nd Edition), p.1

⁶ Article 152 of the 1995 Constitution of the Republic of Uganda as amended

⁷ Regulation 4(1), Tax Procedures Code (E-Receipting and E-Invoicing) Regulations

2020 ⁹Section 92 Tax Procedures Code Act Cap 343 1

section 92 Tax Procedures Code Act.⁹The system enables businesses to record transactions, share transaction information with URA in real-time and ensure the collection of correct tax amounts from business owners.⁸

The intention of the tax man in introducing EFRIS was to combat fraud, ensure tax compliance and improve business transactions. The implementation of this system, however, has posed disadvantages, especially to Small and Medium Enterprises (hereinafter SMEs); in their efforts to comply with the system.

Small enterprises employ between five and forty-nine employees, have total assets from ten million but not more than 100 million Uganda Shillings, with annual turnover between 120 million shillings to 3.5 billion shillings. Medium enterprises employ between fifty and one hundred people, have total assets amounting between 100 million shillings but not exceeding 336 million shillings, and annual turnover 3.5 to 20 billion shillings.⁹ The majority of Small and Medium Enterprises therefore qualify to register for VAT and EFRIS based on the parameter in section 7 of the VAT Act which highlights the threshold for VAT registration.

SMEs are used for purposes of this study because they are pivotal in Uganda's economy; accounting for approximately 90% of the private sector and contributing up to 80% of Uganda's GDP.¹⁰ In addition, about 2.5 million Ugandans are employed by SMEs, underscoring their role in economic development and employment rates.

The challenges presented by EFRIS to SMEs include high implementation costs which pose a threat to operations in the informal sector; where the majority of SMEs fall; owing to complexities associated with transitioning to a digital system.

Additionally, traders suffer the burden of paying disproportionate and ambiguous penalties for errors and failure to comply with EFRIS.¹¹ A case in point is *Jazz*

⁸ URA, The EFRIS Handbook accessible at <https://ura.go.ug/en/efris-handbook/>

⁹ Uganda Bureau of Statistics, Statistics, 2010/11

¹⁰ <https://unctad.org/news/unctad-supports-uganda-develop-national-strategy-boost-entrepreneurship/>>

¹¹ KAA Tax Alert: EFRIS: Waiver of Penalties is not the Solution accessible at <https://www.kaa.co.ug/efriswaiver-of-penalties-not-the-solution/>. ¹⁴TAT Application No. 115 of 2021

Supermarkets Limited v URA,¹⁴ in which a penal tax of UGX. 84,000,000/= was imposed for failure to issue e-receipts for goods worth UGX. 500,200/=.

Implementation of EFRIS by some businesses has also created an unfair trading environment caused by hiking of prices by compliant businesses; frustrating favourable competition with non-compliant businesses.¹²

The subject matter of this paper involves the Value-Added Tax which is an indirect tax that falls on the consumer purchasing goods from VAT registered businesses. As earlier stated, the administration of VAT in Uganda now comes with a mandate for traders to file electronically via the EFRIS system, which involves the use of an electronic device to file VAT returns.

In this research, the author seeks to demonstrate the circular effect of implementing EFRIS as a tool for compliance with the Value-Added Tax on both consumer behaviour and SME growth; and demonstrate how the challenges faced by SMEs frustrate URA's intention of introducing the EFRIS system to the Ugandan SME arena.

1.1. Background

With an aim to combat fraud, ensure tax compliance and enhance business transactions, the Uganda Revenue Authority (URA) in 2020 introduced the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) as a tool for Value-Added Tax (VAT) compliance.¹³ Due to challenges in integrating the system, the due date for its implementation was pushed to 1st January 2021, making it mandatory for all VAT registered businesses.¹⁴

Under section 7(1) and 7(2) of the VAT Act, if within three (3) calendar months, one made taxable supplies excluding any tax, are worth more than a quarter of the annual threshold of 150 million shillings; or at the beginning of three calendar months, one reasonably expects to make taxable supplies worth more than a quarter of the annual

¹² URA EFRIS Rollout: Jinja Traders Demand for Action Against non-compliant Competitors. <https://chimpreports.com/ura-efris-rollout-jinja-traders-demand-action-against-non-compliant-competitors> accessed on 8th February 2025

¹³ Gazette Notice No. 595 of 23rd June 2020, p. 916

¹⁴ PwC Uganda, Is EFRIS a Necessary Evil? April 23rd 2024 Press Release <<https://www.pwc.com/ug/en/pressroom/efris-necessary-evil.html>> accessed on 10th January 2025

threshold exclusive of any tax; or they reasonably expect to exceed the annual threshold; they are required to register for VAT.

Small enterprises, per the Uganda Investment Authority (2008), have a taxable income of up to 360 million Uganda Shillings per annum; and medium enterprises have a turnover of more than 360 million Uganda Shillings per annum.¹⁵ To that end, the majority of small and medium enterprises qualify, and are mandated to register for VAT, and therefore implement the EFRIS system in their transactions.

The implementation of EFRIS to Uganda's VAT regime as a tool for VAT compliance has had notable effects on businesses, particularly SMEs; as well as the patterns of consumption of goods. A report by the Economic Policy Research Centre, for example, indicates that following the implementation of EFRIS in 2021, the business climate has not remained the same, with indicators of increase in prices of essential goods and a reduction in consumer purchasing power; which shifted spending to cheaper alternatives.¹⁶

Businesses face higher operational and production costs, which fall on the consumer and lower demand for non-essential items.¹⁷ The effect is circular in nature; wherein increased operational costs lead to reduction in consumption and profit making on the side of SMEs, frustrating their growth.

1.2. Research Problem

The EFRIS system, though designed to enhance VAT compliance by enforcing realtime VAT reporting and collection of accurate tax amounts, presents challenges; particularly increased operational costs which are passed on to consumers. EFRISdriven compliance forces traders to hike prices of goods to account for the cost of fulfilling their tax obligations. For compliant SMEs, the trading environment remains unfair, as non-compliant businesses benefit from consumers opting for cheaper alternatives.

¹⁵ F. Asimwe, Corporate Governance and Performance of SMEs in Uganda, International Journal of Technology and Management, Volume II Issue 1, June 2017, p. 2, para.4

¹⁶ Economic Policy Research Centre; Uganda Business Climate Report; Issue No. 47 April-June 2024, p.2

¹⁷ *ibid*

This research seeks to unravel the challenges presented by implementing the EFRIS system on SMEs, highlighting how increased operational costs stretch to consumers, causing them to opt for cheaper alternatives. Such consumer behaviour affects competition with non-compliant businesses; discouraging compliance with the system among SMEs and defeats the purpose of EFRIS which is to enhance VAT compliance.

1.3. Research Objectives

1.3.1. Major Objective

To highlight the challenges that implementing EFRIS poses to SMEs; how those challenges affect consumer behaviour, and the overall effect of EFRIS compliance on growth of SMEs.

1.3.2. Specific Objectives

- i. To examine the nature of the Value-Added Tax (VAT), how it works and why it exists.
- ii. To unpack the implications of EFRIS implementation on the VAT amount paid by the consumer.
- iii. To highlight the effect of the price of consumption in the face of EFRIS on consumer behaviour.
- iv. To highlight the effect of such consumer behaviour on SMEs; competition, profit-making, compliance and growth.
- v. To suggest recommendations on how to better implement the EFRIS system for SMEs to ensure both frictionless compliance and SME growth.

1.4. Research Questions

The major question of this research is: What is the impact of EFRIS as a tool of VAT compliance on SMEs and consumers?

The sub-questions are as listed below

- a. What is EFRIS and how does it work?
- b. What is the effect of EFRIS implementation on the operational costs incurred by the traders running SMEs?
- c. What is the effect of EFRIS implementation on the VAT amount imposed on the consumer?
- d. What effect does the change in prices have on SMEs that comply with the EFRIS system?

- e. What policy changes can be adopted to implement the EFRIS system to SMEs without jeopardizing their growth?

1.5. Methodology

1.5.1. Desk Review Method

The desk review method which is descriptive and applied was used in this research. A qualitative analysis of primary and secondary sources of data was applied to conceptualize the concepts surrounding Value-Added Tax, Electronic Fiscal Receipting and Invoicing Solutions, Small and Medium Enterprises and consumer behaviour.

The primary sources of data used included statutory law, and court decisions; all available at the Makerere University Library, Makerere School of Law book bank, Online platforms including My Library of Fingertips (MyLOFT), Uganda Legal Information Institute(ULII), among other relevant online platforms.

Secondary sources of information included scholarly work related to the subject matter, newspaper articles, institutional reports, and other important literature on SMEs, VAT, EFRIS, digital VAT administration, and consumer behaviour.

1.5.2. Interviews

In order to ascertain the experiences of SMEs using the EFRIS system and changes in consumer behaviour; the author curated a questionnaire to establish the stated challenges.

Additionally, a Key Informant Interview with a URA Domestic Taxes Officer who preferred anonymity was conducted, from which insights on the goals, achievements and challenges in implementing EFRIS from URA's point of view were highlighted.

1.5.3. Comparative Study

The researcher conducted a comparative study of Uganda and tax regimes from other jurisdictions to establish the success rates of the EFRIS system in other jurisdictions; highlighting the effects of such implementation on their consumption prices and SME growth.

The jurisdictions considered for the comparative study included Ethiopia, which was chosen because it has so far demonstrated best practices to ensure the gradual

adoption and reception of EFDs in its VAT regime, including the phased approach which targeted larger businesses and later expanding to smaller businesses.

Rwanda, a neighbouring country to Uganda, was used to demonstrate how efficient digitization can enhance compliance without disrupting the operations of SMEs.

Tanzania was selected for the extensiveness of literature with regard to the use of EFDs. Also similar to Uganda, Tanzania still faces challenges with regard to VAT compliance using EFDs; with issues like technical mishaps, taxpayer resistance, and enforcement gaps still prevailing. The existing literature on Tanzania's EFD regime highlights these problems and possible solutions that can be adopted by developing countries to realise optimum use of EFDs for VAT compliance.

By selecting Ethiopia, Rwanda, and Tanzania, the comparative study highlights challenges faced by developing economies like Tanzania in adopting digitized tax systems; and then identifies best practices from Rwanda and Ethiopia's successful tax systems. Solutions on how best to implement EFRIS without jeopardizing the growth of SMEs will be drawn from the comparative study.

1.6. Scope of the Study

This research focuses on the use of EFRIS to ensure VAT compliance, and its effects on consumer behaviour and growth of SMEs in Uganda; putting into key consideration, the nature of SMEs in Uganda, to examine whether it was appropriate to impose this tool on them.

The stated effects are addressed by looking at Uganda's fiscal years from 2021 to 2024, because the system was made compulsory in January 2021.¹⁸ The specified years are also characterized by the aftermath of the COVID-19 pandemic, which had dire effects on among other businesses, SMEs. The timeframe examined is pivotal in establishing the appropriateness of the EFRIS system's mode of imposition; and to suggest how best it can be implemented.

In total, 10 SMEs in the districts of Kampala and Wakiso were the sample space.

¹⁸ PwC Uganda, Is EFRIS a Necessary Evil? April 23rd 2024 Press Release <<https://www.pwc.com/ug/en/pressroom/efris-necessary-evil.html>> accessed on 10th January 2025

These were chosen because they are among the most active business areas in Uganda accessible to the author in the time available; with Kampala being the Central Business District. A Key Informant Interview with a URA tax practitioner was additionally conducted in order to establish the status quo on EFRIS, SMEs and consumer behaviour from URA's point of view.

1.7. Significance of the Study

This study will add to the existing literature on the EFRIS system in Uganda, which is still limited because the system is still in its early stages of use. This study therefore will be pivotal in highlighting some of the likely effects of imposing EFRIS on smaller businesses on both traders and consumers.

Policy reforms will be suggested herein, which if considered by the URA and other key stakeholders, the inevitable and much needed digitization of tax administration will be implemented more gradually; and it will achieve its intention of prevention of fraud, better record keeping and optimum domestic revenue mobilisation.

1.8. Literature Review

A literature search was conducted to identify studies that have covered the key themes of this study, to which it seeks to add. The key themes include; VAT administration, digital VAT reporting, Electronic Fiscal Devices, and their use for VAT compliance.

This literature search captured many studies that were conducted on the themes of this paper from outside Uganda, from jurisdictions including Tanzania, Ethiopia, Rwanda, and other jurisdictions.

Materials covered included books, PhD and Master's theses, journal articles, peer reviewed articles, reports and working papers, most of which were accessed through Google Scholar and MyLoFT.

1.8.1. VAT Administration, Compliance and the Use of Electronic Fiscal Devices

The Value-Added Tax (VAT) is a consumption based tax applied to goods and services at each stage of production and distribution, based on the value added at each stage.

It is considered a vital instrument in fiscal policy, contributing to economic stability and enhancing revenue generation for governments.¹⁹

Electronic Fiscal Devices (EFDs) were first introduced in Italy in 1980 by the Italian Ministry of Economics to record financial data including VAT, total sales and tax payer information.²⁰ The importance of using EFDs in tax administration was to enhance tax collection and government public revenue which finances economic activities and social services.²¹

Following the advantages of implementing the use of EFDs observed in Europe, African countries saw a need to adopt the same in their tax administration. In East Africa, Kenya was the first country to introduce EFDs in 2005, followed by Tanzania in 2010 and Rwanda in 2013.²²

The aim of introducing EFDs was to reduce administrative cost for both tax authorities and businesses, as well as to ensure more accurate reporting of VAT.²³ Kira states that introduction of EFDs followed a need to revolutionise and modernize VAT administration by resolving issues like failure of VAT registered taxpayers to issue invoices, slow growth of the VAT tax base, tax evasion and tax avoidance.^{24,25}

Evidence from the early introduction of EFRIS in Uganda showed that its introduction substantially increased the levels of compliance among SMEs, and many companies

¹⁹ OECD (2019), Tax Morale; What drives people and businesses to pay tax? OECD Publishing

²⁰ P, Casey. P, Castro. Electronic Fiscal Devices (EFDs); An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency. IMF Working Paper 15/73

B.Kaoma, M.Nyirenda, 'The Effect of Electronic Fiscal Devices (EFDS) Program on Tax Compliance: A Case of SMEs in Lusaka' International Journal of Educational Research and Development Vol. 6, Issue 1, 2024 ISSN 2664-7095 pp. 70-76

²¹ E. Magese, J.D. Chindegwiwe; The Perceptions of The Usage of Electronic Fiscal Devices Among Small Business Owners In Tanzania; International Journal of Multidisciplinary Research and Explorer, October 2021; pp.70-73 <https://doie.org/10.1016/IJMRE.2021444775>>

²² *ibid*

²³ Odd-Helge. F, Cecilia K., Ephraim M., Ingrid H., Vincent S., The Customer is king: Evidence on VAT Compliance in Tanzania, World Development 128 (2020) 104841

²⁴ A.R.Kira; The Perceptions of Taxpayers on the Adoption of Electronic Fiscal Devices (EFDs) In Revenue Collection In Tanzania: The Case of Dodoma: International Journal of Business and Social Sciences , 2016, Vol.

²⁵ , No.12 ISSN 2222-6990 pp. 39-55

were fulfilling their tax duties.²⁶ Guma D. found that the introduction of EFRIS in Uganda enhanced accurate VAT reporting among SMEs, reduced tax evasion, and that EFDs helped amplify transparency and escalate declarations.²⁷

The same was demonstrated in Kisumu, Kenya, where Naibei. K found that there was a positive relationship between the use of electronic fiscal devices and VAT compliance among business firms.²⁸

Similarly, in Rwanda research findings indicate that the introduction of EFDs has been a game changer, as traders widely acknowledge its convenience, efficiency, and accuracy. The system's contribution to reduced compliance costs, heightened taxpayer compliance, and increased government revenue underscores its effectiveness. Despite data security concerns, respondents recognize its role in improving tax collection performance processes, with a significant positive correlation observed between electronic tax filing and tax collection performance.²⁹

Dedine Kamana notes that before the introduction of the electronic tax system in Rwanda, tax collection was low, but the introduction of these systems has seen a significant increase in the tax collection rates by the Rwanda Revenue Authority (RRA). For example, between 2012 and 2013, tax collection rates increased drastically by 48.1% and 42.9% respectively. He states that digitized tax administration, with sufficient sensitization of taxpayers and technical assistance, is bound to increase tax compliance for taxes like the VAT.³⁰

To the contrary, Eilu cites Casey and Castro, to note that the introduction of EFDs does not in fact bring any substantial gains in VAT collection. He notes that there is a need

²⁶ Uganda Revenue Authority, Annual Performance Report 2021/2022, URA Publications, 2022

²⁷ Daniella Musiimenta Guma, The Effect of Electronic Tax Systems on Tax Compliance among Small and Medium Enterprises, Uganda Christian University, September 2024, p.43

²⁸ Naibei, K.I, Impact of Electronic tax registers on VAT Compliance: A Study of Private Business Firms, African research Review, An International Multi-Disciplinary Journal, Ethiopia, Vol.5(1), No.18, January 2011, ISSN 2070-0083, pp. 73-88

²⁹ Flora, C.H, Dr. Daniel Twesige, Effect of Electronic Tax System on Tax Collection Performance in Rwanda: A Case of Musanze District (2018-2021), Stratford Peer Reviewed Journal and Book Publishing Journal and Book Publishing Journal for Finance and Accounting Volume 8 Issue 3 pp.68-80, p.78

³⁰ Dedine Kamana, Influence of Electronic Tax System on Effectiveness of tax Collection in Rwanda: A Case Study of Rwanda Revenue Authority (RRA), University of Rwanda, June 2016, p. 49

to develop a model based on experience, for the future of EFD implementation in East Africa.³¹

Important to note is that in developing countries, despite some rules and sanctions; trust in technology and acceptance is still a major problem that hinders technological acceptance, specifically the acceptance of EFDs.³² Factors such as behaviour intention, user characteristics and cost of technology may also play a role in the acceptance of technology-in this case, EFDs.³³

As noted by Nkote and Luwagge, studies in Uganda and Tanzania revealed that even though there are positive effects of introducing EFDs to VAT administration, challenges with responsiveness have an impact on tax compliance.³⁴

Casey and Castro are also of the view that introducing EFDs to VAT collection is not enough to improve compliance and to reduce tax fraud, and that there might be more effective ways to achieve VAT compliance, especially in developing countries.³⁵

Related to the above paragraph is a finding by Odd-Helge et al, which is to the effect that 'the customer is king' and that customers asking for EFD receipts from suppliers is crucial in ensuring VAT compliance. The study revealed that in about 14% of the transactions in Tanzania, businesses issued receipts without using EFDs.³⁶ Such acts highlight that tax evasion schemes still do exist even with the introduction of EFDs that

³¹ Eilu, E. Adoption of electronic fiscal devices (EFDs) for value-added tax (VAT) collection in Kenya and Tanzania: A systematic review. The African Journal of Information and Communication (AJIC), 22,111-134. <https://doi.org/10.23962/10539/26169>>

P, Casey. P, Castro. Electronic Fiscal Devices (EFDs); An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency; IMF Working Paper 15/73

³² D.Bulali Dafi, F.Joseph Chille. Factors for Acceptance of Electronic Fiscal Devices in Tanzania International Journal of Business And Social Science Research Vol. 4 Issue 6, June 2023 <https://ijbssrnet.com/index.php/ijbssr>>

³³ *ibid*

³⁴ B.Kaoma, M.Nyirenda The Effect of Electronic Fiscal Devices (EFDS) Program on Tax Compliance: A Case of SMEs in Lusaka. International Journal of Educational Research and Development Vol. 6, Issue 1, 2024 ISSN 2664-7095 pp. 70-76,

Nkote, Luwagge. Effect of Automation and Customs Tax Administration in the Case of Uganda, 2018:53:22912118

³⁵ P, Casey. P, Castro. Electronic Fiscal Devices (EFDs); An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency; IMF Working Paper 15/73

³⁶ Odd-Helge. F, Cecilia K., Ephraim M., Ingrid H., Vincent S., The Customer is King: Evidence on VAT Compliance in Tanzania, World Development 128 (2020) 104841 p.10

are meant to combat fraud. The study recommends that research on such behaviour is investigated upon.

Similar to Ugandan traders, Weru et al, reveal that in Kenya, majority of businesses did not receive the use of EFDs well, and that they are not perceived well. Some traders who have EFDs still fraudulently evaded VAT by refusing to use the EFDs and there are some pending cases regarding the same.³⁷

Mnyawi.S, in Tanzania conducted a study to highlight the challenges facing the implementation of EFDs in revenue collection in Tanzania; and he found that the system to a great extent aided in bridging the loopholes of tax evasion. The authority however still faced resistance to adoption of the system due to challenges like regular power and internet breakdown, unfairness of the tax as reported by the taxpayers, lack of training on the use and maintenance of EFDs. The high cost of purchasing the EFDs was a notable concern pointed out by those who were interested in adhering to the system, but without capacity to purchase the EFDs.³⁸

Suffice to say, such non-compliance behaviours are exacerbated by the perception of taxpayers on VAT and the compliance mechanisms required of them. A study by Bwalya and Nyirenda in Lusaka, for example, revealed that taxpayers' perceptions of the advantages of EFDs greatly influence how well they use them. If they perceive EFDs as favourable, then they are encouraged to apply for them. One way of ensuring a positive perception is easing the use of EFDs, making them readily available and easy to access in terms of costs, and providing more training for their use and maintenance.³⁹

Similarly, Kisuule asserts that while technological advancements like the use of EFDs are **crucial**, they risk eliciting negative perceptions towards tax compliance by

³⁷ Weru M. Kamara,M.W and Weru N (2013) , Impact of Strategic Change: Introduction of ETR for enhancement of Tax Collection at KRA, International Journal of Social Sciences and Entrepreneurship

³⁸ S. Mnyawi, T. Chusi, R. A. Lumenyala; Challenges Facing the Implementation of Electronic Fiscal Devices (EFD) Use in Tax Revenue Collection: In Tanzania, Dodoma City. American Journal Of Finance ISSN 25200445 Vol. 7, Issue 1 2022, pp.1-8

³⁹ B.Kaoma, M.Nyirenda, 'The Effect of Electronic Fiscal Devices (EFDS) Program on Tax Compliance: A Case of SMEs in Lusaka', International Journal of Educational Research and Development Vol. 6, Issue 1, 2024 ISSN 2664-7095 pp. 70-76

taxpayers if complying with them is characterized by increased operational costs for businesses.⁴⁰

A study to establish the perceptions of usage of EFDs among small business owners in Tanzania indicated that the perception of business owners towards the usage of EFDs had a positive influence on the use of EFDs. This means that if business owners are given sufficient training and assisted in the procurement or subsidization of EFDs; their response to their use is likely to be positive.⁴¹

Rwanda's tax regime has done well in that regard, and findings reveal that after a complete sensitization of digital tax administration, tax collection efficiency rates have grown rapidly and significantly, following the revenue authority's exhaustive sensitization efforts. It was found that after full sensitization by RRA on electronic filing and payment, they collected 1.6 times more than what it collected before the sensitization completion.⁴²

The VAT regime in Ethiopia also demonstrates the effect of the perception of taxpayers on the use of EBMs for VAT compliance. The Ethiopian government has done well to that effect, with studies highlighting a generally positive attitude toward the electronic tax system among taxpayers, which supports the Ethiopian government's initiative to achieve a digital economy by 2025.⁴⁵ However, the system is still faced with challenges like language barrier, inadequate infrastructure, unreliable internet connection and power outages; which if addressed, optimum revenue mobilisation through EBMs can be realized.⁴⁶

⁴⁰ Kisuule Dalton, A Critical Examination of the Contribution of Tax Legitimacy to the Domestic Revenue Mobilization in Uganda, Makerere University School of Law, June 2024, p.36

⁴¹ S. Mnyawi, T. Chusi, R. A. Lumenyala; Challenges Facing the Implementation of Electronic Fiscal Devices (EFD) Use in Tax Revenue Collection: In Tanzania, Dodoma City. American Journal Of Finance ISSN 25200445 Vol. 7, Issue 1 2022, pp.1-8

⁴² Mugabe Roger, The Impact of Digital Tax Administration Enhancing Tax Growth in Developing Countries: Evidence from Rwanda Electronic Filing and Payment, International Journal of Academic Multidisciplinary Research (IJAMR) ISSN: 2643-9670 Vol. 5 Issue 9, September - 2021, pp. 93-98 ⁴⁵ Tekalign, N.K, et al, Practice, Opportunities and Challenges of Electronic Tax System from Tax Payer's

Perspective: Evidence from Ethiopia; Journal of tax reform. 2025;11(1), pp.6-24 ⁴⁶
ibid p.19

The findings of Azeez and Saheed in Nigeria corroborate the previous paragraphs, reflecting that better performance by SMEs in VAT compliance is rooted in better VAT implementation efficacy, which includes proper sensitization strategies. They also assert that the more SMEs generate sales, the more they are encouraged to comply with VAT.⁴³

The penalties for non-compliance with the use of electronic devices, as well as the burden that comes with compliance with the electronic filing system in some jurisdictions have also been found to have an influence on the perception of EFDs, and compliance with the system.

Surendran, et al, in a study conducted to determine the impact of taxpayer perceptions on the rate of EFD use by SMEs in Tanzania, focusing on fear of punishment, found that the fear of punishment does not impact the rate of EFD use. To that end, they advise that the use of intimidation by authorities is not an effective tool to ensure compliance with use of EFDs for VAT administration.⁴⁴ Additionally, they found that some traders deliberately refuse to purchase EFDs because of the burden they believe comes along with them, plus unnecessary expenses.

Similar to the findings in the paragraph above, Odd-Helge F. et al found that VAT compliance did not correlate with the business fear for detection and punishment, or perception of taxes and that there is a disconnect from what taxpayers believe about how their taxes are utilised and their tax practices.⁴⁵

Andrew Chege points out that among the facts to be considered in DRM strategies, is the income of the taxpayer, knowledge of tax dues, frequency of audit, probability of detection by tax authorities and the severity of penalties when caught on the wrong

⁴³ Azeez O.O., Saheed Akande S., Value-Added Tax Compliance and Small and Medium Enterprises(SMEs): Analysis Of Influential Factors In Nigeria Cogent Business & Management 10:2 2228553 <https://doi.org/10.1080/23311975.2023.2228553>>

⁴⁴ S. Pillay, A. Obalade, A. Elson Malima, Determining The Impact of Taxpayer Perceptions on the Rate of Using Electronic Fiscal Devices Among Small Businesses In Tanzania; Academy of Entrepreneurship Journal Vol.26, Issue 24, 2020, 1528-2686-4-415

⁴⁵ Odd-Helge. F, Cecilia K., Ephraim M., Ingrid H., Vincent S., The Customer is king: Evidence on VAT compliance in Tanzania, World Development 128 (2020) 104841

side.⁴⁶ In determining the threshold for VAT registration and the businesses to which mandatory use of EFDs is applied, it is important to put the highlighted factors into consideration.

With regard to tax payer income, Bishibura, et al notes that SMEs with a higher initial investment thrived better and were less likely to suffer harsh consequences from high VAT compliance costs than those with a lower initial investment.⁴⁷ This study was however limited to the extent that it has no definite conclusion on the effect of VAT compliance requirements on SMEs as pointed out in its objectives.

In sum, the questions posed by Kumar are imperative in expounding on the literature available on the relationship between VAT administration, EFDs, SMEs and consumer behaviour. What is the most efficient way to ensure everyone pays their taxes, while creating equal opportunities for everyone?⁴⁸ The answer to this is the introduction of fiscal technology; which is already being adopted in Uganda and other jurisdictions. The challenge now, is the method of implementation and sensitization of participants as suggested by the reviewed literature. This research seeks to highlight ways in which VAT reporting with EFDs can be adopted without frustrating the operations of SMEs.

1.9. Chapter Synopsis

The first chapter of this study gives a background of the study, the EFRIS system of VAT collection, highlighting its role in combating fraud and ensuring accurate tax collection. The chapter includes a review of some of the relevant literature on VAT administration, EFDs, use of EFDs by SMEs and the impact of VAT and EFDs on consumer behaviour.

⁴⁶ A.Chege, N. Kiragu, C. Lagat, G. Muthoni; Effect of Electronic Fiscal Devices on VAT Collection In Tanzania: A Case of Tanzania Revenue Authority; European Journal of Business and Management; ISSN 2222-2839, Vol. 7, No. 33, 2015, pp.125-133

⁴⁷ S.B. Erick, Christopher N. Mdoef .A. Mfinanga, Effects of Value-Added Tax Knowledge And Effects Of Factors Affecting SMEs Performance in Morogoro Tanzania Science Mundi Vol. (Issue 2) 2024 Pp. 21-28 ISSN 2788-5844

⁴⁸ Kumar R.N., Electronic Tax Register Systems; an Overview of the Fiscalisation of Devices, (Accountant), Nairobi, Kenya 2005 45-461

Chapter two delves into the nature of VAT, its historical development in Uganda, the rationale for its introduction in Uganda and some of the reforms it has undergone since its introduction in Uganda. The challenges it poses to SMEs and the effect of VAT on consumer behaviour are highlighted therein. The chapter further brings in the introduction of EFRIS in Uganda, and highlights its successes and failures in its time of existence and the same in relation with SMEs.

In the third chapter, the findings from the various interviews conducted are presented. From those findings, the impact of EFRIS on SMEs and changes in the patterns in consumer behaviour following the changes in prices brought about by EFRIS compliance are discussed. The said effects of EFRIS on SMEs and consumer behaviour are acquired by consulting both the taxpayers and URA. Additionally, the implications of the consumption patterns on SME growth are discussed in this chapter.

The fourth chapter is a comparative study, highlighting how other jurisdictions have gone about the implementation of EFD use for VAT administration. It points out their approaches, challenges, successes and shortcomings relative to SMEs and consumer behaviour.

Chapter five, in conclusion, summarizes the status quo with regard to EFRIS, SMEs and consumer behaviour in Uganda, and suggests policy reforms to various stakeholders on how to implement EFRIS without heavily impacting the price of consumption and jeopardizing SME growth.

CHAPTER TWO

A Background of the Value-Added Tax in Uganda until the Introduction of EFRIS

2.0. Introduction

In Uganda, the Value-Added Tax (VAT) regime was introduced in 1996 to replace the Sales Tax regime.⁴⁹ Since its introduction, the Ugandan VAT regime has undergone several changes and reforms to improve tax administration efficiency, broaden the tax base, and enhance domestic revenue mobilisation. The introduction of the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) system in 2020; and the its compulsory use by VAT registered businesses,⁵⁰ was intended to address the challenges in Uganda's VAT regime including lack of transparency, tax evasion and other forms of tax related fraud.⁵¹

In this chapter, the author gives a description of the nature of the Value-Added Tax, and its background in Uganda. The changes in rates and modes of VAT administration since its introduction in Uganda are highlighted, until the introduction of EFRIS. The author then examines the rationale for the introduction of EFRIS and its success and failures so far.

2.1. *The Nature and Background of the Value-Added Tax*

In essence, VAT is an indirect tax charged on consumption. It is designed to be charged at every stage of production, and businesses are able to credit taxes paid on

⁴⁹ Muzundo, T., Improving VAT Compliance, International Monetary Fund, March 25 1998

⁵⁰ Section 91 Tax Procedures Code Act Cap 343, read together with Gazette Notice No. 595 of 2020, p. 916

⁵¹ URA EFRIS Handbook 2024 accessible at <<<https://ura.go.ug/efris-handbook/>>>

their inputs against the charges charged on their sales. The VAT burden ultimately falls on the consumer. In Uganda, the VAT is charged on every import of goods other than an exempt import and the supply of imported services other than an exempt service by a person.⁵²

The VAT was first adopted in France in 1954 as a response to the economic challenges orchestrated by World War II; and to serve as a tool for mitigation of tax evasion and ensuring tax administration efficiency in the wake of post war economic and political instability. Following its initial success in France, the Value-Added Tax was adopted by many other countries; and it became a major tool for domestic revenue mobilisation across jurisdictions.⁵³

VAT has been embraced by many countries. By 2001, up to 123 countries had adopted the VAT, rendering it one of the most significant revenue mobilisation instruments globally. The wide adoption of VAT can be attributed to factors including its reliability and effectiveness in mobilising revenue without the cascading effects of turnover taxes, which encourages vertical integration and minimises tax liabilities. The VAT proved a more efficient source of revenue than the traditional forms of taxation.⁵⁴

Despite the widespread adoption of VAT globally, the approaches to its administration vary significantly across jurisdictions. Features like the tax offset mechanism, scope of taxation; tax rates and export taxation differ significantly in different jurisdictions. Some tax regimes, for example, restrict VAT credits on capital goods while some allow full refunds. With regard to the scope, some countries only charge VAT on goods and not services, and some limit it to manufacturing.⁵⁹

Most jurisdictions have a zero rating approach which is to the effect that exports go tax-free, with a refund for inputs to the business. This ensures that VAT is applied where there is consumption, and not production.

The VAT rates also vary across jurisdictions; starting from as low as 3% to up to 25% of the cost base. It is noteworthy that these rates tend to increase after implementation;

⁵² URA Publications, URA handbook 2022 accessible at <<https://www.ura.go.ug/en/value-added-tax-vat/>>

⁵³ <[Value-Added Taxes Begin in Europe](#)> accessed 20th April 2025

⁵⁴ International Monetary Fund, The Nature, Importance and Spread of VAT, p.6 ⁵⁹
ibid

and multiple VAT rates emerge, creating complexity in the nature of the tax over time. Notably, in the rare occasions where VAT has been repealed (for example in Ghana, Grenada, Vietnam), it has later been reinstated. This reflects the importance of VAT in domestic revenue mobilisation despite the complexities that it poses.⁵⁵

2.2. The Value-Added Tax in Uganda

Before the introduction of VAT in Uganda, the tax system relied majorly on income tax, custom duties, and excise duties. The system was characterized by challenges including a narrow tax base, high tax rates, complex tax laws and an inefficient revenue mobilisation. To address these challenges, in 1996 the government of Uganda introduced the Value-Added Tax (VAT); which was to be implemented pursuant to the VAT Act Cap. 349; with an initial rate of 17% which changed to 18% in 2004.⁵⁶ The VAT replaced the Sales Tax and the Commercial Transactions Levy.

The introduction of the VAT followed an indirect taxation system characterized by numerous taxes that made the tax system complex. The introduction of VAT was aimed at simplifying the system and improving tax compliance through a system that allowed for self-assessment. In addition, the VAT proved more equitable than the Sales Tax and the Commercial Transactions Levy; both of which only sought to increase revenue collection. The VAT aimed at optimising revenue mobilisation while upholding horizontal equity.⁵⁷

The structure of VAT in Uganda comprises an 18% rate applicable to most goods and services; and a zero rate on some supplies like exports and education supplies. Some goods and services are exempt; for example unprocessed foodstuffs, healthcare services.⁶³ Another notable feature is the threshold for businesses that have to compulsorily register for VAT, which currently stands at an annual turnover of 150

⁵⁵ International Monetary Fund, *The Nature, Importance and Spread of VAT*, p.12

⁵⁶ Ayoki, Milton and Obwona, Marios and Ogwapus, Moses; *Tax Reforms and Domestic Revenue Mobilization in Uganda*; Institute of Policy Research and Analysis, Economic Policy Research Centre, Ministry of Finance, Planning and Economic Development; January 2005 accessible at <https://mpr.ub.uai-muechen.de/80328/>, p.10

⁵⁷ Ayoki, Milton and Obwona, Marios and Ogwapus, Moses; *Tax Reforms and Domestic Revenue Mobilization in Uganda*; Institute of Policy Research and Analysis, Economic Policy Research Centre, Ministry of Finance, Planning and Economic Development; January 2005 accessible at <https://mpr.ub.uai-muechen.de/80328/>, p.9

⁶³ Schedule 3, VAT Act Cap 344

million Uganda shillings.⁵⁸ Voluntary registration is also acceptable for businesses that expect to reach the turnover threshold within the year of income.

2.3. The evolution of VAT administration in Uganda

Harelimana notes that VAT liability generates a paper-trail that strengthens the ability of a tax authority to enforce tax compliance across all domestic tax types. VAT revenues tend to dwarf all other revenue streams and so small improvements have relatively large impacts.⁵⁹ It is therefore important to note that the various changes in the VAT regime in Uganda were aimed at realizing improvements in revenue collection as VAT presents as one of the most reliable sources of domestic taxes.

Despite the introduction of VAT to simplify tax collection in Uganda, the URA still faced challenges including tax avoidance, tax evasion and a narrow tax base; which hindered optimum Value-Added Tax collection. Subsequently, various reforms have been adopted in Uganda's VAT regime to address these issues as elaborated hereunder.

2.3.1. Value-Added Tax Policy Reforms and Adjustments since the Introduction of VAT in Uganda

From 1996 till 2010, various policy reforms to the VAT were adopted in order to encourage both VAT compliance and business growth. Initially, the VAT rate was at 17% but in 2004, it was changed to 18% in order to compensate for the revenue losses incurred when the government abolished graduated tax.⁶⁰ The one percent increase followed a projection by the Ministry of Finance, Planning and Economic Development that this one percent increase would result in an additional UGX. 153 billion collected in VAT.⁶¹

Additionally, the one percent increase in VAT was intended to balance the need for equitable taxation within the East African Community and Uganda's economic

⁵⁸ Section 7, VAT Act Cap 344

⁵⁹ Harelimana, JB., Gayawira, P., The Impact of EBMs on VAT Compliance among SMEs in Rwanda, Journal of Management and Science, 2020

⁶⁰ Bakibinga, D., Kangave, J., Ngabirano, D., What Explains Calls for Reinstatement of a Tax Considered Unpopular? An Analysis of Graduated Tax in Uganda, ICTD Working Paper 79 (May 2018), p.14

⁶¹ *ibid*

realities.⁶² At that time, Uganda and Tanzania argued in the pre-budget consultations in Arusha, against a uniform 15% rate through the East African Community, citing that they would face difficulties sustaining low VAT regimes as that would lessen revenue.

Between 1996 and 2018, many exemptions were introduced and zero rating was extended to some goods to encourage business growth. Further, amendments were made to the 1996 Act to address compliance challenges. The amendments included the introduction of the VAT withholding tax,⁶³ strengthening the registration process and emphasizing tax audits and highlighting penalties for non-compliance.⁶⁴

The period between 2012 and 2015 saw modifications in the digital arena, and the VAT administration was adjusted to fit the trend. URA introduced the e-tax for online tax filing and payments in order to reduce paperwork involved in the tax compliance process.⁶⁵ The same period up until 2019, was also characterized by efforts by the URA to enhance VAT compliance measures through the introduction of reverse VAT charge mechanism for specific imported goods; efforts by the URA to widen the tax base; and the revision of VAT exemptions to favour local businesses.⁶⁶

2.3.2. Challenges and Limitations of VAT since its Introduction

The VAT administration system in Uganda was not without challenges. Because compliance with the tax involved self-assessment and filing, cases of tax evasion and avoidance persisted among traders. There was difficulty in accurately tracking supplies on which VAT was chargeable. Other challenges that were not particularly orchestrated by traders; like human errors in the process of filing, also persisted.⁶⁷

The optimum collection of VAT was hindered largely because the system involved manual filing and reporting, which was prone to human manipulation, lack of transparency and errors.

⁶² Okodan Akwap, Uganda: Cash Strapped Uganda Raises VAT to 18 Percent, The East African 13th March 2005 <<<https://allafrica.com/stories/200506140963.html>>> accessed April 23rd 2025

⁶³ Section 3(b) VAT (Amendment Act) 2018

⁶⁴ Sections 2, 3 VAT (Amendment)(No.2) Act 2008

⁶⁵ Section 3 ,VAT (Amendment)(No.2) Act 2008

⁶⁶ Sections 5, 6, Value-Added Tax (Amendment) Act, 2019

⁶⁷ URA, EFRIS Handbook Volume 1 Issue 1FY 2023/24, p.6

2.4. An Overview of SMEs and the Value-Added Tax

Small and Medium Enterprises (SMEs) in Uganda are defined using their annual turnover and number of employees as the parameter. Small enterprises are those that employ up to 50 persons and have an annual turnover of up to 360 million Uganda Shillings and Medium enterprises employ over 50 persons and have an annual turnover of over 360 million Uganda Shillings.⁶⁸ Based on the stated threshold and Uganda's VAT regime envisaged under the VAT Act,⁶⁹ a good number of SMEs qualify to compulsorily register for VAT.

Uganda's VAT regime has a significant role in the financial and operational landscape for Small and Medium Enterprises (SMEs). According to the definition of SMEs using annual turnover as the threshold, majority medium enterprises qualify for mandatory registration for VAT, and a few small businesses may register voluntarily for VAT for strategic reasons like recovery of credit for VAT related expenses and business credibility. VAT compliance comes along with challenges among SMEs as discussed below.

2.4.1. Challenges Faced by SMEs in VAT Compliance

VAT compliance comes along with various obligations that are not typical of Small and Medium Enterprises due to the fact that they operate majorly in the informal sector with limited administrative resources. The major challenges faced by SMEs with regard to VAT compliance revolve around compliance costs, lack of sensitization, and unfavourable competition with their non-compliant counterparts.

While citing A. Azmi, Kucerova asserts that VAT in itself has a different effect on businesses, increasing both their start-up and ongoing operational costs; an effect that is much stronger on SMEs.⁷⁰

Compliance with VAT requires detailed record-keeping, timely filing of returns and proper issuance of invoices. Owing to the limitation in terms of resources among SMEs, adherence to the said standards tends to raise challenges.

⁶⁸ Uganda Micro, Medium and Small Enterprise Policy; Ministry of Trade, Industry and Cooperatives, June 2015

⁶⁹ Section 7, VAT Act Cap 344

⁷⁰ Kucerova Vladimira (2017); VAT and Its Influence on Buying Behaviour Institute of Economic Research, Torun <https://hdlhandle.net/10419/219875>>

Koffi, et al revealed that imposing VAT on SMEs fosters record keeping, which is not typical of SMEs mainly due to lack of a defined structure of the majority of such businesses. They further highlight that keeping of records for purposes of VAT compliance exposes more traders to risks of incurring extra costs.⁷¹ In addition, VAT compliant traders are made less competitive with their non-compliant traders who attract more buyers; because VAT compliance implies higher costs of sale of goods.

The need to invest in accounting systems and seek professional help for VAT compliance; which now implies the installation of the EFRIS system, pauses significant challenges for SMEs. As noted by Mutalemwa, SMEs already face challenges and the expense of purchasing EFDs to adopt the EFRIS system would only add to their frustration.⁷²

As highlighted in the literature review section, the issue of lack of sensitization is not alien to SMEs. Navigating the tax requirements and complying with VAT obligations becomes more difficult for SMEs because of limited access to expert advice on how to navigate the system.

A study on VAT compliance among SMEs in Zimbabwe indicated that the characteristics of VAT, competencies of taxpayers, cost implications and environmental influences are major factors affecting VAT compliance among SMEs.⁷³ The same study pointed out that high VAT compliance costs, coupled with a complex system cause a strain in the operation of SMEs, predicting folding up of businesses.⁷⁴

In a nutshell, the existence of a Value-Added Tax, as demonstrated above has its implications on SMEs, which range from compliance burdens to the price of consumption. It is therefore imperative for both SMEs and policy makers to develop

⁷¹ Phillip Koffi Adom, SMEs Record Keeping in Ghana: Has VAT Made it Better? International Journal of Economics and Financial Issues Vol.4 No. 1, 2014 pp.152-169 ISSN 2146-4138

⁷² Mutalemwa, D.K., SMEs and the Adoption of ICT for Tax Compliance: A Case of Uganda. African Journal of Business Management, 2015, 9(10), 442-450

⁷³ Wadesango N., Gift Chirebvu, The Impact of Value-Added Tax (VAT) On Small and Medium Enterprises in A Developing Country Academy of Accounting and Financial Studies Journal Vol. 24 Special Issue 2 2020 15282635-Si24-2-631

⁷⁴ *ibid*

strategies on how to ensure VAT compliance without jeopardizing SME growth or revenue mobilization strategies by tax authorities.

2.5. The Effects of the Value-Added Tax on Consumer Behaviour

The influence of VAT on consumer behaviour is a noteworthy concept, because the existence of a Value-Added Tax undeniably has implications on the price of consumption. To that end, Kucerova reveals that changes in prices due to VAT have significant influence on consumers' decision making for purchase and consumption of goods. His conclusion therein is that the VAT rate strongly influences the price of goods, and that a rise in prices due to higher VAT dues reduces purchasing power and standard of living.⁷⁵

Contrary to the ability to pay theory of taxation which encourages tax assessment in accordance with the tax payer's financial capacity, VAT is applied uniformly to all goods and services irrespective of the taxpayer capacity. This disproportionately affects lower income earners who spend a greater portion of their income on basic goods and services subject to VAT.

The challenges posed by VAT compliance among SMEs affects consumer behaviour to the extent that heightened operational costs on the side of SMEs leads to increase in prices of consumer goods and services, and consequently, the patterns of consumption.⁷⁶

Research has demonstrated that VAT has an impact on consumer behaviour, particularly purchasing decisions; highlighting that consumers tend to show sensitivity to price changes orchestrated by compliance costs incurred by businesses and suppliers of services.⁷⁷

⁷⁵ Kucerova, Vladimira(2017); VAT and Its Influence on Buying Behaviour Institute of Economic Research, Torun <https://hdlhandle.net/10419/219875>>

⁷⁶ Erem, E., Wamani, J. Namuleme, H.,Edega, I., The Uganda Business Climate Index, Issue 47, EPRC, AprilJune 2024

⁷⁷ Akello, H., The Effects of the Value-Added Tax on the Growth of SMEs in Uganda: A Case of Ntinda Market, Uganda Christian University School of Business (2023), p.21

As an indirect tax on consumption, the VAT is regressive in nature and therefore consumers suffer disproportionate burdens; with lower income communities suffering a bigger burden than more affluent societies. The alteration of consumption patterns increases the economic disparities in society, and to that end consumption patterns keep taking a downward trajectory. Studies indicate that higher VAT rates tend to lead to reduction in consumption especially among low-income households which allocate large portions of their budget to essential goods.⁷⁸

As noted by Rahman Y, alteration of the relative prices of goods and services, taxes can encourage or discourage particular consumption behaviours, leading to shifts in demand patterns across various sectors of the economy.⁷⁹

Changes in VAT rates or actual VAT values significantly alter consumer behaviour. A reduction in the rates or actual values positively impacts the perception of taxes by consumers. Alastair finds that even if VAT is often perceived as regressive in nature, it can be made progressive if lower rates are applied to goods largely purchased by lower income earners.⁸⁰

In sum, the debates surrounding VAT rates, administration and economic implications offer a broad perspective on the intersection of taxation matters; consumer behaviour; and economic equity across jurisdictions, highlighting that high VAT rates tend to negatively affect the rates of consumption, especially in lower income earning communities.

2.6. The Introduction of EFRIS

The Uganda Revenue Authority introduced the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) in 2020, under section 92 of the Tax Procedures Code Act to record business transactions, share transaction information with URA in real time and to ensure collection of correct tax amounts from business owners. It was made mandatory for all VAT-registered taxpayers in 2020.

⁷⁸ Omondi, F., Effects of Value-Added Tax Reforms on Household Welfare and Collection Efficiency and the Determinants of its Compliance Gap in Kenya, Kenyatta University, School of Economics(2020) p. 110

⁷⁹ Rahman, Y., Effect of Taxes on Consumer Behaviour; a Macroeconomic Study, Golden Ratio of Taxation Studies 3(2), p.67 <<https://doi.org/1052970/grts.v312.633>> accessed 16th April 2025

⁸⁰ Alastair, T., Reassessing the Regressivity of the Value-Added Tax, OECD Working Paper No.49 (2020), p.37

EFRIS is an online invoicing and receipting system that tracks all transactions on which VAT is charged. It involves the use of an Electronic Fiscal Device (EFD), smart phone, or computer to access the URA web portal or application to set up the app or portal with a trader's goods for the issuance of e-receipts upon sale.⁸¹

The introduction of EFRIS was aimed at improving VAT collection and reducing evasion; enhancing transparency by providing real-time visibility into VAT transactions for both taxpayers and tax administrators and to increase efficiency by reducing errors associated with filing manually.

On the side of business owners, the URA elaborates that EFRIS is meant to enable business owners monitor their stock closely, knowing when to restock; detect theft; monitor which products are sold faster than others; pay the correct amount of VAT; reduce physical data loss; simplify the VAT return filing and maintain accurate and up to date business records to enable informed business decision making.⁸²

2.6.1. The Success of EFRIS since its Introduction in Uganda

Since its implementation, the EFRIS system has seen various successes with regard to the aims of its implementation; that is to say, combating tax fraud and enhancing accurate business record keeping and filing.

The introduction of EFRIS has seen an improvement in record keeping; which has made it easier for the URA and traders themselves to track sales and purchases; as well as to ensure accurate tax collection. Additionally, URA has registered improved compliance and enforcement, with seizure of cases of tax evasion especially in the informal sector in which tax evasion prevailed due to poor record keeping.⁸³

⁸¹ URA EFRIS handbook 2024 accessible at <<<https://ura.go.ug/en/efris-handbook/>>>

⁸² URA EFRIS handbook 2024 accessible at <<<https://ura.go.ug/en/efris-handbook/>>>

⁸³ Christopher Kiiza, How Digital Stamps, EFRIS Enabled URA to Surpass Revenue Targets <<https://chimpreports.com/how-digital-stamps-efris-enabled-ura-to-surpass-revenue-collection-targets/>>> accessed on March 20th 2025

The implementation of EFRIS has also increased taxpayer registration. For example, as of December 31 2023, the EFRIS register included up to 64428 taxpayers; with the EFRIS usage rate hitting 83%.⁸⁴

Overall, the major successes of the EFRIS system since its introduction revolve around the maintenance of accurate records, ability of the tax authorities to acquire information on sales in real time, and an increase in the tax base owing to the compulsory implementation by VAT- registered businesses.

2.6.2. The Failures of EFRIS since its Introduction in Uganda

In its short term of existence, the EFRIS system has already been presented with shortcomings. This is cemented by the fact that most traders did not receive the system well; and this was evidenced by a nationwide sit-down strike in which traders put down their tools in opposition against EFRIS.⁸⁵ Some of their grievances are highlighted hereunder.

The implementation of EFRIS comes with high compliance costs borne by the traders. Businesses that comply with the system of using EFDs for tax reporting, in this case VAT, incur higher costs with regard to compliance with the system.⁸⁶

Instead of reducing the burden borne by taxpayers with regard to compliance, the increase in operational costs because of EFRIS is seen to achieve the very opposite. As noted by Kisuule, if the use of technology for tax administration comes along with increased operational costs, the taxes and compliance with the same are rendered illegitimate before the taxpayers.⁸⁷

⁸⁴ URA VOTE 141 Ministerial Policy Statement, p.1

⁸⁵ The Independent, Traders Clash with URA over EFRIS System <https://www.independent.co.ug/traders-clashwith-ura-over-efris-system>> accessed 18th March 2025

⁸⁶ Praygod W.C., Batilda S.M. (2024), The Determinants of the Factors Affecting Customer Requisition of Electronic Fiscal Device (EFD) Receipts. African Journal of Economics and Sustainable Development 7(3), 1224. DOI: 10.52589/AJESD-DKB43BXH

⁸⁷ Kisuule, D., A Critical Examination of the Contribution of Tax Legitimacy to the Domestic Revenue Mobilization in Uganda, Makerere University School of Law, June 2024, p.56

Initial implementation involves heavy investment in new hardware and software; both of which are expensive to purchase. It also involves training of staff for some firms, which also has implications with regard to cost and time.⁸⁸

The system has been heavily criticized for the heavy penalties imposed on taxpayers for small and genuine errors, as well as failure to comply with the system. To that end, researchers have mentioned the EFRIS system among historically inherited coercive modes of tax administration.⁸⁹

Additionally, the system is characterized by ambiguities when it comes to the specificity in penalties as highlighted in *Embassy Supermarket (U) Limited v URA* where the applicant challenged the UGX. 84,000,000/= penal tax that had been imposed on them by URA for failure to issue EFRIS receipts in a space of 15 days.

One of the issues of contention was whether the penal tax prescribed by law⁹⁰ was chargeable per day or per transaction and the tribunal found that where there is an ambiguity as to the provisions of the law, the benefit of doubt is given to the taxpayer. Following that principle, the initially imposed UGX 84,000,000/= was set aside and the applicant was charged UGX. 6,000,000/=.⁹⁷

The earlier highlighted strike by traders points towards the fact that sensitization of traders about the EFRIS system has been very low. First and foremost, the majority of traders thought and still erroneously think that EFRIS is a new tax introduced by URA.⁹⁸ Some of the traders that were involved in the strike were not eligible to pay VAT, a fact of which they were unaware. The lack of awareness worsens tax apathy among traders, making it difficult to get them to comply with their tax obligations.

It is important to note that the implementation of EFRIS not only had an effect on traders' but it also stretched to consumers; as this paper intends to demonstrate. A report by the Economic Research Policy Centre indicated that following the

⁸⁸ Mutalemwa, D.K., SMEs and the Adoption of ICT for Tax Compliance: A Case of Uganda. *African Journal of Business Management*, 2015, 9(10), 442-450

⁸⁹ Kisuule, D., A Critical Examination of the Contribution of Tax Legitimacy to the Domestic Revenue Mobilization in Uganda, Makerere University School of Law, June 2024, p.37

⁹⁰ Section 91 Tax Procedures Code Act Cap. 343: The Commissioner General may establish and operate an electronic tax system and under section 91(2) prescribe conditions for the registration of taxpayers to participate in that system; read together with Section 7 of the VAT Act Cap. 344 which provides for the threshold of taxpayers

implementation of EFRIS, the business environment faced significant changes, including adjustment of prices by traders due to increased operational costs, and changes in the patterns of consumption; reducing demand for less essential goods.⁹⁹

In a nutshell, the introduction of EFRIS in Uganda, which was aimed at combating tax fraud and widening the tax base, has been met with both successes and failures; but so far, the failures by far outweigh the successes. This paper serves one of the efforts aimed at laying better strategies to adopt the EFRIS system, which is here to stay owing to the gradual transition to a digital economic system.

2.7. Conclusion

The introduction of the Value-Added Tax to Uganda's tax regime marked one of the efforts to maximize revenue collection while making the indirect tax system less complex and more equitable. As demonstrated in this chapter, the VAT has its

required to register for VAT. Under Gazette Notice No. 595 of 2020, the Commissioner General declared that the issuing of e-receipts and e-invoices in line with the Tax Procedures Code Act was mandatory for all VAT registered taxpayers

⁹⁷ Tax Appeals Tribunal Application 114/2021

⁹⁸ PWC Press Release, Is EFRIS an Necessary Evil?, <https://www.pwc.com/ug/en/press-room/efris-necessaryevil.html>> accessed 23rd March 2025

⁹⁹ Economic Policy Research Centre; Uganda Business Climate Report; Issue No. 47 April-June 2024, p.2

implications on businesses, particularly SMEs, many of which reach the threshold for VAT registration.

Studies highlighted herein suggest that this threshold is adjusted to allow businesses to grow first so that they can attain capacity to comply with VAT-related obligations. In the face of the challenges faced by SMEs in complying with VAT, URA introduced the mandatory use of EFDs or the EFRIS system in Uganda. However, as seen above, challenges related to compliance by SMEs have in some cases been exacerbated by the very system designed to simplify tax compliance.

The design of taxation systems includes inter alia enforcement mechanisms and plays a key role in determining the economic outcomes and consumer perceptions of

fairness, as well as consumer behaviour.⁹¹ The EFRIS system, as a mode of VAT compliance enforcement, is still faced with challenges with regard to the cost of compliance and its effect on SMEs and consumer behaviour. In the following chapters, the author demonstrates this circular effect and suggests a way forward for stakeholders to ensure more successful use of the system in Uganda.

⁹¹ Rahman, Y., Effect of Taxes on Consumer Behaviour; a Macroeconomic Study, Golden Ratio of Taxation Studies 3(2), p.67 <<https://doi.org/1052970/grts.v3i2.633>> accessed 16th April 2025

CHAPTER THREE

The Impact of EFRIS Compliance Costs on the Price of Consumption, Consumer Behavior, SME Growth, and VAT Compliance

30. Introduction

Compliance with indirect taxes like the Value-Added Tax comes along with cost implications, owing to the fact that it is a tax charged at all stages of consumption. The EFRIS system was designed to make VAT compliance easier for traders, but it involves high compliance costs including initial system installation costs, purchase of EFDs where required, internet connection costs, and payment of experts to aid the use of the system.

Considering that the final VAT charge falls on the consumer, the rise in operational costs compels traders and service providers to raise prices, and consequently, patterns of consumption are affected to the detriment of smaller businesses.

This chapter presents the findings from interviewing selected SMEs on their experiences and perceptions of the EFRIS system, as well as their experiences with regard to consumer behaviour since they implemented the system. The key findings from the Key Informant Interview on EFRIS with a URA Domestic Taxes Officer are also herein highlighted.

3.1. Respondents' Profile

The study involved 10 SMEs including retailers, wholesalers and service providers. The businesses interviewed were located in the districts of Kampala and Wakiso, 50% small enterprises, and 50% medium enterprises.

The majority of the businesses interviewed have been in operation for a short period of time, with most having operated for less than 7 years. Only 20% of the businesses had been in existence for more than 7 years.

Eighty percent (80%) of the participants were VAT registered and had implemented the EFRIS system by the time the interviews were conducted.

Type of Business
10 responses

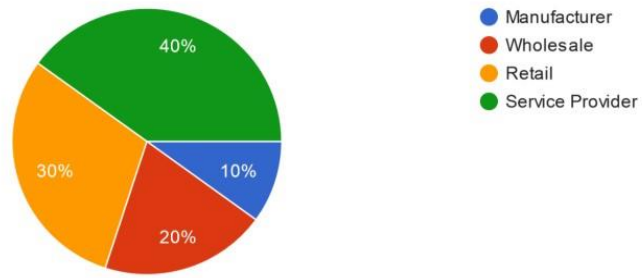


Figure 1: Type of Businesses

Size of Business
10 responses

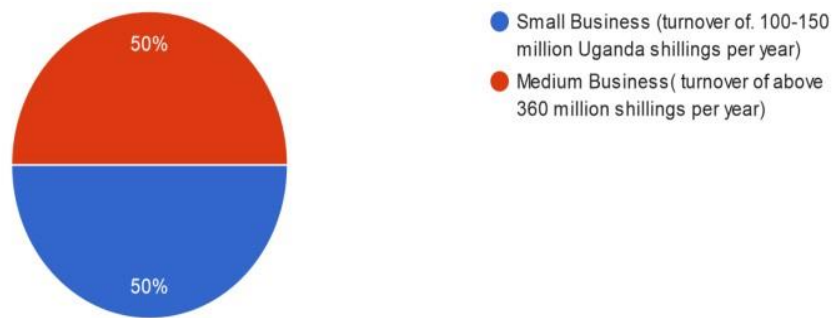


Figure 2: Size of Business

How long has the business been operational?
10 responses

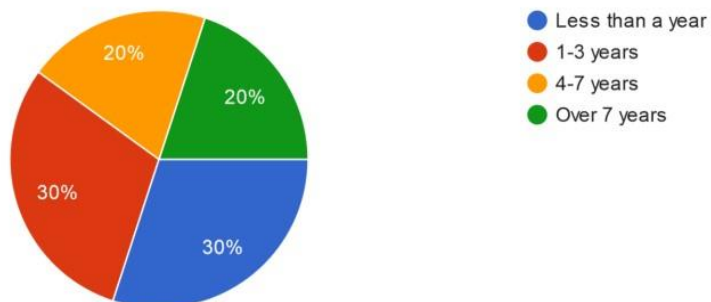


Figure 3: Duration of Operation

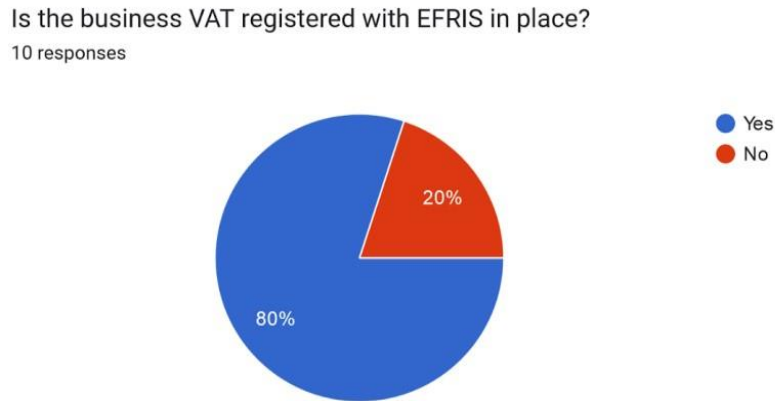


Figure 4: VAT and EFRIS Registration Status

3.2. Knowledge about EFRIS and Notable Advantages

The respondents were asked questions on their knowledge about the EFRIS system, first to establish if they were aware of their tax obligations, and secondly to rate how well versed they were with the EFRIS system since it was introduced in Uganda.

Most of the respondents knew about the EFRIS system and their responsibilities under it. However, when tasked to rate how well they knew how to utilise the system in their daily transactions, the average rating was 2.33 out of 5; which is poor.

From the interview with the URA official, she highlighted that awareness among taxpayers on the system is still a challenge that they seek to address through more extensive training on EFRIS.

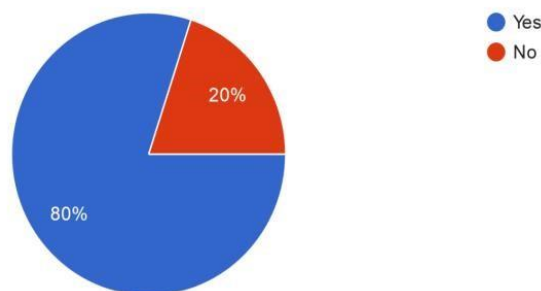
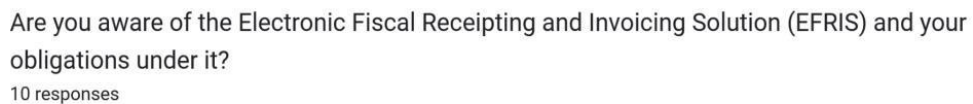


Figure 5: EFRIS Awareness among Respondents

How would you rate your understanding of EFRIS?(0-1 star is very poor; 2 stars is poor; 3 stars is moderate; 4 stars is good; 5 stars is very good.)

10 responses

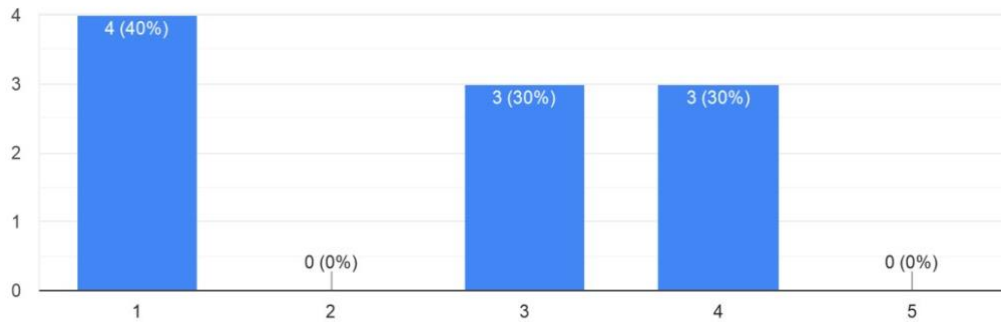


Figure 6: Rating of EFRIS Understanding by Respondents

Even though a larger section of respondents stated that the disadvantages of EFRIS so far outweigh its advantages, they pointed out that the system has notable advantages. Respondents noted that implementing EFRIS has improved their record keeping habits, eased VAT compliance, and that it has increased accountability and transparency. Others did not cite advantages on their side, but they stated that EFRIS has made VAT collection much easier for URA. Overall, at least 20% of the respondents noted that EFRIS is more advantageous than disadvantageous, while 40% of them believe otherwise. The rest could not pick a side.

Do you think the advantages of EFRIS are more than the disadvantages?

10 responses

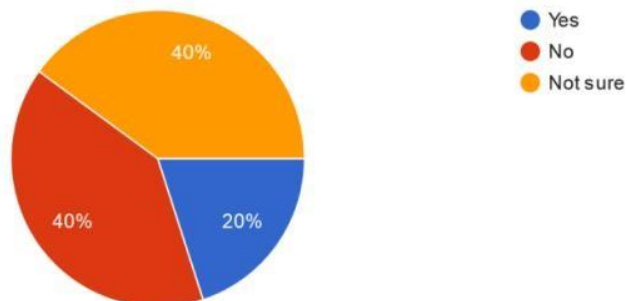


Figure 7: Respondents' Opinion on the Advantages and Disadvantages of EFRIS

3.3. EFRIS and VAT Compliance among SMEs

80% of the respondents had implemented the EFRIS system and they acknowledged that EFRIS had improved their VAT compliance habits. However, some expressed concerns about the compliance requirements, highlighting difficulty in using the system, as well the high expenses incurred in implementing the system.

Notwithstanding the fact that most EFRIS registered businesses now issue EFRIS receipts that reflect the VAT amount clearly; a large section (60%) of respondents stated that they did not use EFRIS for their daily transactions for among other reasons, the lack of training on the system.

Do you use EFRIS receipts for all transactions?
10 responses

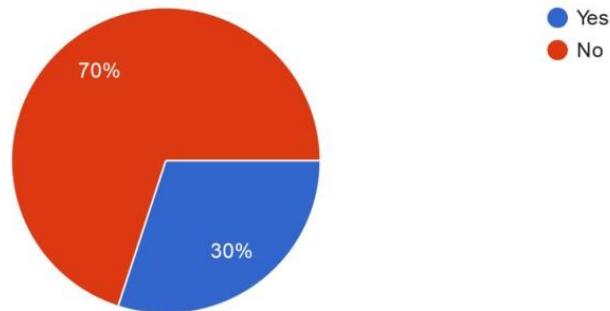


Figure 8: EFRIS Usage Rate

If you are NOT using EFRIS in your daily transactions, what is the reason?
10 responses

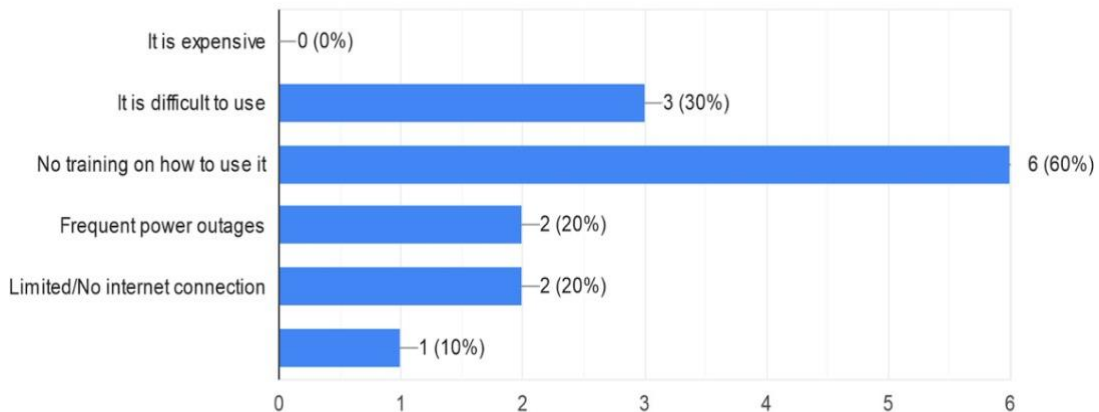


Figure 9: Reasons for Non-Usage of EFRIS

3.4. EFRIS, Operational Costs, and Consumer Behaviour

The effect of implementing EFRIS on consumer behaviour is one of the key themes of this paper, and it was therefore imperative to ask business owners on the changes in consumer behaviour since the implementation of EFRIS.

It was first established that most of the businesses had increased their prices because of the increase in operational costs.

Did implementing EFRIS increase your business operational costs?

10 responses

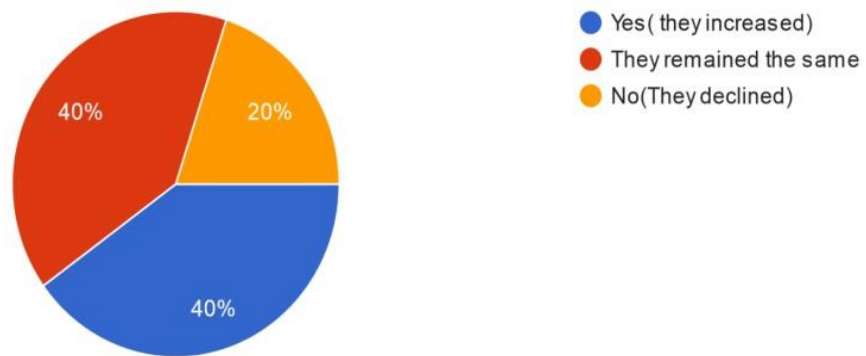


Figure 10: Impact of EFRIS on Operational Costs

What is the estimated increase in your monthly business operational costs since the installation of EFRIS?

10 responses



Figure 11: Estimated Increase in Operational Costs by Businesses Following EFRIS Implementation

Most respondents expressed concerns around the financial implications of implementing EFRIS; pointing out that the most expensive factors were having to hire professionals for training, purchase of EFDs or installation of computer systems and software. Other areas of concern were high internet costs and frequent power outages that make using the system more difficult.

In addition, respondents admitted to most times conducting transactions off the system; especially for low-value transactions to avoid perceived increase in prices of goods due to the addition of VAT. The effect of such price increase is reduction in purchases by consumers. When traders conduct transactions informally, they have the discretion to negotiate with consumers; which is not the case when transactions are conducted using the EFRIS system which records every transaction in detail.

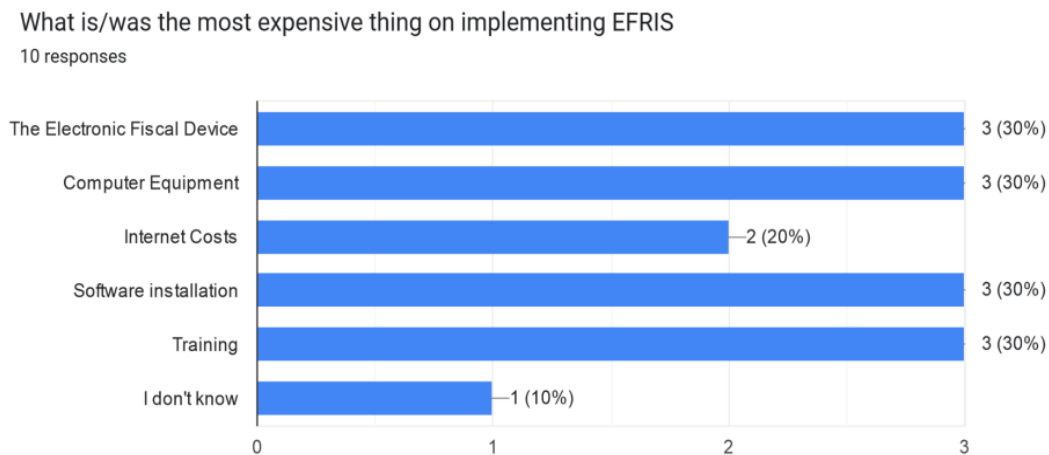


Figure 12: The Most Expensive Elements in EFRIS Compliance

To that end, respondents admitted to having to increase the prices of goods when they complied with the system. The major reasons they gave for increasing prices were; to make up for the operational costs, and to reflect VAT clearly as demonstrated below.

Have you adjusted your product/service prices after adopting EFRIS?

10 responses

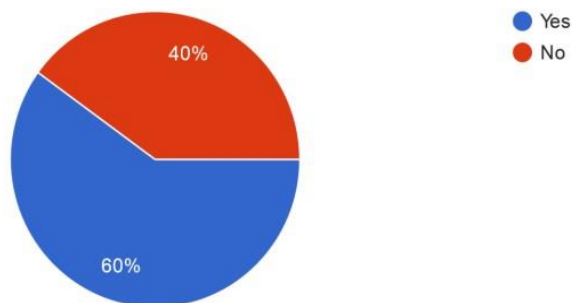


Figure 13: Consumer Goods Price Adjustment Rates

If you adjusted prices, what is the reason?

10 responses

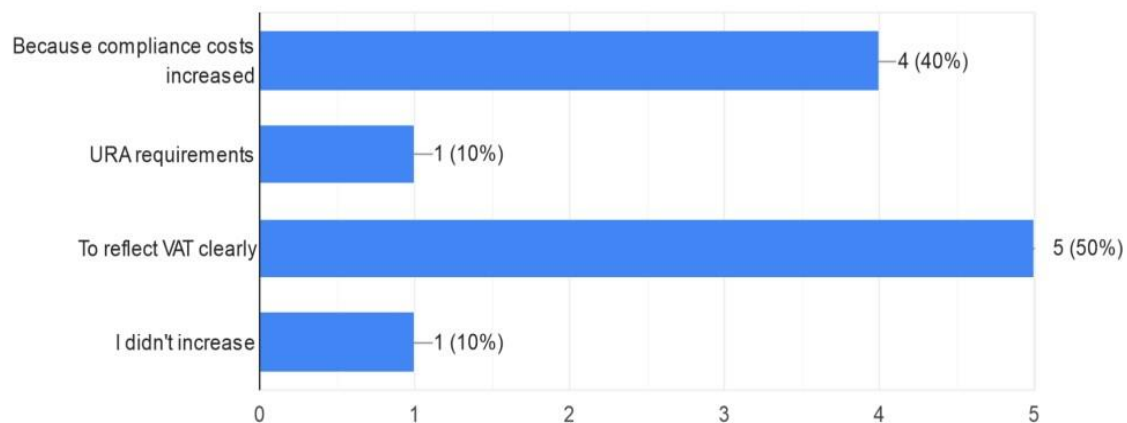


Figure 14: Reasons for Price Adjustments

90 % of the respondents reported that there was price sensitivity among the consumers and that the rate of consumption reduced due to the increase in prices of goods; which was majorly attributed to increase in operational costs.

Have customers complained about price increase after receiving EFRIS receipts?

10 responses

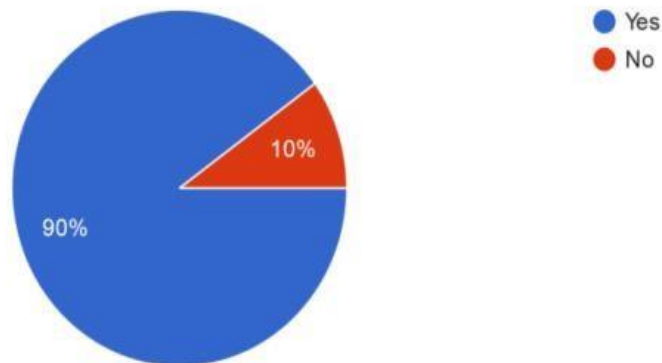


Figure 15: Consumer Reactions to Price Changes

What has been the effect of adopting EFRIS on customer buying patterns?

10 responses

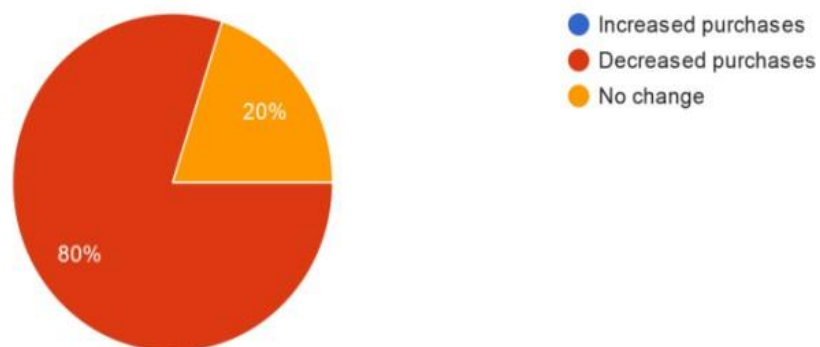


Figure 15: Effect of EFRIS on Consumption Patterns

It is important to note that from the Key Informant Interview, it was highlighted that some traders have taken advantage of the knowledge gap among consumers to use EFRIS as an excuse for increasing prices of goods; and this includes traders who do not comply with EFRIS and even those who do not meet the VAT registration threshold.

3.5. Insights from URA

A Key Informant Interview was conducted with a URA Domestic Taxes Officer (DTO), who preferred anonymity. The interview covered mainly sought to establish the objectives of URA for SMEs in the introduction of EFRIS, the notable indicators of the impact of EFRIS so far; the long term benefits of EFRIS for SMEs, and the impact of the use of EFRIS to consumer behaviour, from the tax man's point of view.

The objectives of URA highlighted were in sync with the known objectives; which are majorly the improvement of tax compliance, reduction of tax evasion, simplification of the tax compliance process; and to encourage formalisation by SMEs. Some of the notable indicators that she highlighted were increased compliance rates among SMEs, and better record keeping as noted by the other respondents from the first set of interviews conducted.

She noted that SMEs that comply with the EFRIS system are likely to benefit from long term advantages including sustainable business growth from better record keeping and formalisation; as well as increased opportunities to access other financial services.

With regard to the effect of EFRIS on consumer behaviour from the URA perspective, the DTO notably highlighted two types of transactions: the Business to Business (B2B) and the Business to Consumer (B2C) transactions. She noted that in B2B transactions, one needs a Fiscal Document Number to acquire an e-receipt; and that the more businesses demand for receipts, the higher the compliance rates due to the mandate to issue receipts. She stated that in B2C transactions, the likelihood of consumers to ask for receipts is relatively low, and that it is usually upon the seller's discretion in most cases to issue the receipts.

On the price of consumption, it was noted that some businesses take advantage of the knowledge gap on EFRIS among consumers to increase prices and blame it on EFRIS, and this in some cases is perpetrated by businesses that are not even VATregistered.

Challenges faced by URA in implementing EFRIS were highlighted and the major ones included the high resistance among traders against the system evidenced by the sit down strike orchestrated by traders from *Kikuubo*; which spread to the whole country. We agreed that such resistance is a result of inadequate training of traders on the system. The other issue highlighted was the difficulty navigating the system offline; which in most cases results in traders getting penalized erroneously by URA when they issue manual receipts from offline transactions.

To address the aforementioned issues, URA is actively taking steps like the use of alternative methods like USSD codes instead of strictly online transactions; sensitization of traders is underway through physical training programmes and via

other channels like the *Buuza Komisona* section that runs in the *Bukedde* newspaper every Wednesday.

In conclusion, the interview conducted indicates that URA is actively taking measures to support the use of SMEs to encourage the use of EFRIS; considering that it is designed to simplify tax compliance rather than complicate it.

3.6. Summary of Results

In sum, the results from the interviews conducted reflect the following findings: first, that the majority of SMEs that reach the VAT registration threshold under the VAT Act are registered for VAT; but those earning slightly less do not willingly register for VAT even if the act allows for voluntary registration.

Secondly, among the VAT registered SMEs are generally aware of the EFRIS system and their obligations under it; but their understanding of the system is still very low.

70% of the VAT registered respondents admitted to the fact that they do not always issue e-receipts for their daily transactions, and this was largely attributed to the fact that they do not have sufficient training on how to use the system (according to 60% of the respondents) and that it is difficult to use (according to 30% of the respondents).

A very important aspect to note is the fact that respondents admitted to increasing the prices of goods after implementing EFRIS; and such an increase was largely fuelled by an increase in operational costs incurred on internet connection; installation of software; training on the system; among other things.

The increase in prices was followed by pushback by customers; many of whom, according to traders and service providers, exhibited sensitivity to prices and complained about the price increase. The findings from interviewing the SMEs are summarized in the table below:

	Advantage	Disadvantage
VAT Compliance	Improved accuracy and bookkeeping	Knowledge Gap and Lack of Training
Operational Costs	-	Increase in monthly operational costs

Consumer Behaviour	Better transparency due to issuance of e-receipts	Reduction in demand due to increase in the cost of consumption
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Table 1: Summary of Findings

In conclusion, the introduction of EFRIS in Uganda, according to the results presented, has so far had an impact on the operation of SMEs with regard to operational costs; and subsequently the price of consumption and consumer behaviour. An analysis of the instant factors from varying literature is given here under.

3.7. Analysis of the Findings

3.7.1. The Effect of EFRIS Compliance on Operational Costs

From the findings presented, it has been established that the implementation of EFRIS has an impact on consumer behaviour and the patterns of purchasing consumer goods.

Siamand, et al, highlight that e-invoicing is designed to assist SMEs in minimizing tax errors and reducing compliance costs. However, firm productivity might suffer if compliance burden diverts resources from productive activities, and raises input costs without producing additional output.

The current technological innovations and interventions to tax administration make SMEs' sustainable competitiveness and growth contingent on the capacity to use digital technology;⁹² and among the determinants of that capacity, there is affordability. They additionally highlight that SMEs in Africa, Asia and the Middle East grapple with tax compliance; and that many SMEs in those regions incur more than 15% tax compliance turnover.⁹³

⁹² Siamand, H, Hatice, J. Glenn P.J; Digital Transformation of Tax Administration and Compliance: A Systematic Literature Review on E-Invoicing and Pre-filled Returns, Digital Government Research and Practice Vol.5, Issue 3 <<https://dl.acm.org/doi/full/10.1145/3687#abstract>> accessed 15th April 2025

⁹³ *ibid*

SMEs that comply with the system of using EFDs for tax reporting incur higher costs with regard to compliance with the system⁹⁴ and this was reflected in the findings of this research; where 40% of the respondents had their monthly operational costs increased by about one hundred thousand to five hundred thousand Uganda Shillings. Overall, 80% of the respondents noted that their operational costs had increased due to efforts to comply with EFRIS.

From the results presented in this chapter it was noted that there still exist VAT evasion schemes by traders even with the introduction of EFRIS. Respondents admitted to the fact that they do not always issue EFRIS receipts for all their daily transactions. Similar to this, are findings of Fergusson et al, who revealed that respondents agreed to making purchases without receipts in order to dodge VAT. It was noted that such evasion is more common in places with more informality (typical of smaller businesses) and less physical presence of the state.⁹⁵

3.7.2. The Effect of Increased Operational Costs on Prices and Consumer Behaviour

Following the increase in operational costs, respondents indicated that their hands were tied and they had no option but to increase prices of goods. The major reasons that the respondents gave for increase in prices were the increase in operational costs, clear reflection of VAT, and this was the assertion of 90% of the respondents.

While charging the final VAT value, the distributor puts into consideration; the compliance costs incurred which fall on the final consumer. Andrew Chege et al assert that producers and distributors typically pass the cost of VAT compliance to the final consumer in the form of increase in prices.¹⁰⁵

⁹⁴ Praygod W.C., Batilda S.M. (2024), The Determinants of the Factors Affecting Customer Requisition of Electronic Fiscal Device (EFD) Receipts. African Journal of Economics and Sustainable Development 7(3), 1224. DOI: 10.52589/AJESD-DKB43BXH

⁹⁵ L.Fergusson, C. Molina, Juan.F. Riano., Consumers As VAT “Evaders”: Incidence, Social Bias and Correlates in Colombia, *Economia*, Spring 2019 http://economia.uniandes.edu.co/investigaciones.y.publicaciones/cede/publicaciones/documentos_cede> 105

A.Chege, N. Kiragu, C. Lagat, G. Muthoni; Effect of Electronic Fiscal Devices on VAT Collection In Tanzania: A Case of Tanzania Revenue Authority; *European Journal of Business and Management*; ISSN 22222839, Vol. 7, No. 33, 2015, pp.125-133

The findings herein attest to the assertion by Bostan Popesau et al, which is to the effect that an increase in tax burden leads to secondary effects; and one of the immediate effects is decrease in consumption.⁹⁶

To rationalize the changes in prices and patterns of consumption following the transition to a digital VAT administration regime, the demand and supply theory as applied by Stephen Bishibura et al;⁹⁷ can be used to demonstrate how changes in costs induced by VAT compliance have an effect on supply decisions made by SMEs and how consumers respond to the changes in prices.

Hisham, et al interestingly apply Maslow's Hierarchy of needs⁹⁸ to rationalize the responses of consumers to the imposition of VAT. They suggest that the rise in costs of consumer goods pushes consumers to prioritize goods that they consider more essential.⁹⁹

From the interviews conducted, some respondents admitted to sometimes conducting transactions off the system; especially for low-value transactions to avoid perceived prices of goods due to the addition of VAT. The effect of such price increase is usually consumer pushback. When traders conduct transactions informally, they have the discretion to negotiate with consumers; which is not the case when transactions are conducted using the EFRIS system which records every transaction in detail. The instant testimony is evidence that the cost transfer to consumers due to increase in operational costs from implementing EFRIS has an impact on consumer purchasing decisions and that traders resort to conducting transactions informally when they are torn between increasing prices because of operational costs and unfavourably competing with their non-compliant counterparts.

⁹⁶ Bostan, Ionel; Popescu, Cristian; Costel; Robu, Ioan-Bogdan(2017): The Impact of Taxation of The Domestic Economic Transactions on the Vat Collection Through Electronic Fiscal Devices, Amfiteatru Economic Journal, ISSN 2247-9104, The Bucharest University of Economic Studies, Bucharest, Vol.19, Iss.45, pp.581-594

⁹⁷ S.B.Erick,Christopher N. Mdoef.A.Mfinanga Effects of Value-Added Tax Knowledge and Effects of Factors Affecting SMEs Performance in Morogoro Tanzania Science Mundi Vol. (Issue 2) 2024 pp. 21-28 ISSN 27885844

⁹⁸ Maslow A.H., Motivation and Personality, Harper and Row Publishers1954, pp.97-99

⁹⁹ Hisham A., Ryan A.A., Najwa S. A., Hamed.M. A., Maya.J.A., Assessing The Financial Effects of ValueAdded Tax (VAT) on University Students' Purchasing Behaviour In Oman ESIC Vol. 8 No. 3 Fall 2024 ¹¹⁰ Hamel,G, factors Influencing Purchasing Power (2013), <http://www.ehow.com/list_750340-factorsinfluencing-purchasing-power.html> accessed 18th April 2025

Hamel is of the view that the price of goods and services play very important roles in customer purchasing power. If prices increase, purchasing power reduces and the reverse is true. ¹¹⁰

With regard to the influence of taxation and tax systems (for purposes of this paper, VAT and the EFRIS system) on the price of consumption and consumer behaviour, Rahman Y highlights the intricate relationship between taxation and taxation systems on consumption patterns and consumer behaviour. He points out that the design of taxation systems, encompassing tax rates and enforcement mechanisms, plays a pivotal role in shaping not only economic outcomes, but also consumer perceptions and consumer behaviour.¹⁰⁰

In conclusion, the EFRIS system as a tool for VAT compliance so far has had a negative effect on SMEs to the extent that they are forced to increase prices of consumption due to increased operational costs. The effect of this increase on consumer behaviour, in turn negatively affects how SMEs perceive the system; discouraging compliance with the system.

3.8. Implications for SME Growth

The essence of introducing EFRIS in Uganda was to enhance VAT compliance and to among other reasons reduce the operational costs that come along with VAT compliance.

Studies have reflected that proper utilisation of digital systems for tax administration yields results, including the reduction of operational costs; better business record keeping by businesses (mostly SMEs that are largely informal) which collectively and in the long run give room for profit making by businesses.¹⁰¹

It has similarly been reflected from the findings in this chapter, that when these digital systems are not properly implemented, the very opposite of their goal can result.

¹⁰⁰ Rahman Y(2023), Effect of Taxes on Consumer Behaviour; A Macroeconomic Study, Golden ratio of Taxation Studies 3(2), pp. 67-75, <<https://doi.org/10.52970/grts.v3i2.633>> accessed 16th April 2025

¹⁰¹ Tekalign, N.K, et al, Practice, Opportunities and Challenges of Electronic Tax System from Tax Payer's Perspective: Evidence from Ethiopia; Journal of tax reform. 2025;11(1), pp.6-24

Notably, the debut of the controversial EFRIS system is a key example, as it has negatively affected a good number of businesses.

Following the rollout of EFRIS, businesses have raised concerns around their need to increase prices due to increased operational costs, and the effect of such increment of prices on their competition with non-compliant businesses that sell the same goods at cheaper prices.¹⁰²

The noted challenges of the EFRIS system include high operational costs; which are borne by the consumer in the form of price increments now present as bitter consequences of compliance with the system. If the status quo persists, then the growth of small and medium businesses in Uganda is jeopardized. This is because a tax administration characterized by consequences rather than benefits is likely to face negative perception, and therefore try to fulfil its goals in vain.¹⁰³

3.9. Conclusion

In a nutshell, the data collected reflects that the introduction of EFRIS has so far had structural benefits like the improvement of record keeping for SMEs, and it has, to an extent, eased VAT administration for URA. On the other hand, it has perpetrated significant operational and market challenges. The system has had an impact on operational costs whose increase leads to prices changes and changes in consumer behaviour.

Profit margins have also been significantly pressured due to the change in compliance-related operational costs. In sum, while EFRIS implementation is designed with benefits for both users and the tax man, its successful integration into the SME arena remains contingent on further capacity-building, digital infrastructure support and awareness campaigns to balance tax compliance and sustainability of the system.

¹⁰² URA EFRIS Rollout: Jinja Traders Demand for Action Against Non-Compliant Competitors. <<<https://chimprepts.com/ura-efris-rollout-jinja-traders-demand-action-against-non-compliant-competitors>>> accessed 23rd April 2025

¹⁰³ Rahman Y(2023), Effect of Taxes on Consumer Behaviour; A Macroeconomic Study, Golden ratio of Taxation Studies 3(2), pp. 67-75, <<https://doi.org/10.52970/grts.v3i2.633>> accessed 16th April 2025

CHAPTER FOUR

Lessons to Learn: A Comparative Study of Other Digital VAT Regimes

4.0. Introduction

As stated in the literature review section, the use of Electronic Fiscal Devices (EFDs) was first introduced in Italy in 1980 by the Italian Ministry of Economics to record financial data including VAT, total sales and tax payer information.¹⁰⁴ The use of EFDs in tax administration was designed to enhance domestic revenue mobilisation for the financing of economic activities and social services.¹⁰⁵

The advantages of implementing the use of EFDs observed in Europe compelled African countries to adopt the same in their tax administration. In East Africa, Kenya was the first country to introduce EFDs in 2005, followed by Tanzania in 2010 and Rwanda in 2013.¹¹⁷

Uganda adopted the EFRIS system in 2020 to combat fraud, ensure real-time filing of VAT records, improve record keeping, and to generally ease VAT administration.¹⁰⁶ However, the system seems to have done quite the opposite especially in the SME arena; as it has seen some SMEs face significant challenges due to high compliance costs, as well as other problems associated with complying with EFRIS.¹¹⁹ Generally,

¹⁰⁴ P, Casey. P, Castro. Electronic Fiscal Devices (EFDs); An Empirical Study of their Impact on Taxpayer Compliance and Administrative Efficiency. IMF Working Paper 15/73

B.Kaoma, M.Nyirenda The Effect of Electronic Fiscal Devices (EFDS) Program on Tax Compliance: A Case of SMEs in Lusaka. International Journal of Educational Research and Development Vol. 6, Issue 1, 2024 ISSN 2664-7095 pp. 70-76

¹⁰⁵ E. Magese, J.D. Chindegwiwe; The Perceptions of The Usage of Electronic Fiscal Devices Among Small Business Owners In Tanzania; International Journal of Multidisciplinary Research and Explorer, October 2021; pp.70-73 <https://doie.org/10.1016/IJMRE.2021444775>> ¹¹⁷ ibid

¹⁰⁶ URA Publications, The EFRIS Handbook, accessible at <<https://ura.go.ug/en/efris-handbook/>.¹¹⁹ <[Enforcement of EFRIS Affects 51% of Businesses: Report](#)> accessed 18th April 2025

Uganda's VAT regime under EFRIS still grapples with challenges revolving around difficulty in implementation, effects and perception of the system.

It is noteworthy that the SME arena has so far suffered the most with this system that has turned out to be more of a form of coercive tax administration than a tax administration solution. As such, Uganda has lessons to pick from other jurisdictions that have taken better approaches in the use of EFDs in their tax regimes.

In this chapter, the author compares Uganda's digital VAT regime to Ethiopia, Tanzania, and Rwanda with the focus on their transition to the digital era and the effect of that transition to consumer behaviour and the growth of SMEs.

Tax authorities in each of the selected countries present unique approaches to the digital transition, and taking advantage of the digital era to ensure optimum domestic revenue mobilisation. The chapter evaluates their frameworks in the implementation of digital systems such as electronic invoicing, compliance levels, consumer behaviour and challenges faced in the digitization of tax administration.

4.1. Uganda: The EFRIS System and its Challenges

Administered by the Uganda Revenue Authority, Uganda's VAT regime now has the EFRIS system as a novel key feature. The EFRIS system is characterized by real-time invoicing with the point of sale systems and mobile invoicing apps. The EFRIS system is currently only applied compulsorily in VAT administration, but it is later on expected to be used in the administration of other forms of taxes basing on its success under the VAT.

As demonstrated in the previous chapter, the EFRIS system's debut in Uganda has so far assisted clear maintenance of records, more accurate and timely reporting of VAT to URA. Guma D asserts that the stated advantages of EFRIS are pivotal to lessening businesses' burden in management and concentration on core operations.¹⁰⁷ From URA's point of view, the system has so far played a significant role in boosting adherence rates for SMEs.¹⁰⁸

¹⁰⁷ Daniella Musiimenta Guma, *The Effect of Electronic Tax systems on Tax Compliance among Small and Medium Enterprises*, Uganda Christian University, September 2024, p. 12

¹⁰⁸ Uganda Revenue Authority, *Annual Performance Report 2021/2022*, URA Publications, 2022

The EFRIS rollout has faced numerous challenges among SMEs; including challenges in procuring and maintaining technological infrastructure, and limitations in technological proficiency among numerous SME owners who reported difficulty in use of the system. Such difficulties, as noted by Guma, are a barrier to optimum utilisation of the system even with the potential it possesses.¹⁰⁹

Since VAT is a consumption tax and the final burden falls on the consumer, the highlighted challenges are bound to fall on the final consumer. Businesses incur higher operational costs which fall on the consumer; reducing demand, especially for nonessential goods.¹¹⁰

Notably, the results from the respondents interviewed in this research corroborated the findings reflected in a report by EPRC; which revealed that 51% of businesses experienced negative impacts of the EFRIS rollout.¹¹¹ 65.5% of these highlighted an increase in operational costs, as did 40% of the respondents from this research. 34.5% of the respondents from the EPRC report noted declines in sales and supply of services as a result of the strikes conducted by traders in protest of EFRIS, as well as the increase in operational costs that followed implementation of the system.¹¹²

Based on the above findings, it is imperative to conduct a comparative study of Uganda's VAT regime after the rollout of EFRIS to the VAT regimes of other countries that have similarly adopted the digitization of VAT administration. The comparison is meant to highlight the successes and failures of the jurisdictions selected with regard to VAT and digital systems among SMEs; and to pick lessons for the formulation of better policies in that area.

¹⁰⁹ Daniella Musiimenta Guma, The Effect of Electronic Tax systems on Tax Compliance among Small and Medium Enterprises, Uganda Christian University, September 2024, p. 12

¹¹⁰ Erem, E., Wamani, J. Namuleme, H., Edega, I., The Uganda Business Climate Index, Issue 47, EPRC, April/June 2024,

¹¹¹ <[Enforcement of EFRIS Affects 51% of Businesses: Report](#)> accessed 18th April 2025

¹¹² *ibid*

4.2. The Tanzanian VAT Regime and EFD Use

Most of the literature discovered under the literature review section on this topic was from Tanzania. Since Tanzania is a developing economy like Uganda, the author found it important to use it for this comparative study.

The Tanzania Revenue Authority (TRA) adopted the use of Electronic Fiscal Devices (EFDs) in July 2010; becoming one of the first countries in the East African region to adopt a digitized VAT system. It was designed to enhance VAT compliance and reduce tax evasion by ensuring real time reporting of all sales to the TRA.

The key features of Tanzania's EFD system are similar to those of other countries used in this study. The EFDs are connected to TRA servers; and alternative to the devices, taxpayers can use mobile applications to connect to TRA for real time VAT filing and audits. The use of EFDs or online VAT reporting is mandatory for all VAT registered businesses and those registered for other tax categories.¹¹³

The initial outcomes of the launch of EFDs in Tanzania indicated an increase in VAT compliance upon introduction of the system.¹¹⁴ However, the system still grapples with technological, infrastructural and sensitization challenges that hinder extensive and effective adoption and use of EFDs in Tanzania.¹¹⁵

Research findings show that EFD adoption, if properly approached, is associated with better compliance by taxpayers and enhanced revenue collection. Such compliance is advanced by factors including perception by taxpayers, perceived risk of detection and penalties, peer influence and consumer expectations and reactions.¹¹⁶

Notably, the Tanzania Revenue Authority (TRA) imposes strict penalties for noncompliance and conducts audits and field visits on a regular basis. Having such strategies in place echoes what Chege asserts; that among the facts to be considered

¹¹³ <<https://www.tra.go.tz/page/value-added-tax-vat>> accessed 20th April 2025

¹¹⁴ Lucian,S., The Effects of the Use of Electronic Fiscal Devices on Tax Collection in Iringa Municipality, Global Scientific Journals, volume 10, October 2022, p.8

¹¹⁵ S. Mnyawi, T. Chusi, R. A. Lumenyala; Challenges Facing the Implementation of Electronic Fiscal Devices (EFD) Use in Tax Revenue Collection: In Tanzania, Dodoma City. American Journal Of Finance ISSN 25200445 Vol. 7, Issue 1 2022, pp.1-8

¹¹⁶ Eissa, N. and Zeitlin, A., Karpe S., Murray, S., Incidence and Impact of EBMs for VAT in Rwanda, International growth Centre (November 2014)

in DRM strategies is the knowledge of tax dues, frequency of audit, probability of detection by tax authorities, and the severity of penalties when caught on the wrong side.¹¹⁷

Similar to Uganda, the issues of high cost of EFDs and lack of adequate training remain barriers to the use of EFDs for VAT compliance and reporting in Tanzania.

Consumption patterns also play a significant role in compliance by traders with the EFD filing system. Where consumers ask for receipts, traders are likely to comply.¹¹⁸ However, because the price of goods increases when receipts are issued, consumers connive with traders to conduct transactions outside the system; especially in more informal environments.¹¹⁹

As is the case with Uganda's VAT regime, the government of Tanzania through the TRA is also presented with the need to enhance the use of EFDs through addressing challenges like gaps in taxpayer training, power outages, technical faults and the high cost of EFDs.¹²⁰ Doing so will facilitate reduction in VAT compliance costs, improve perception by sellers and boost sales made by SMEs; resulting in their growth in both jurisdictions.

From Tanzania's digital VAT regime, Uganda can learn some key lessons in relation to managing compliance to the use of e-receipts and e-invoices among SMEs. Tanzania benefits from strict enforcement systems which include frequent audits as demonstrated. Tanzania's regime is characterized by mishaps with regard to training, technical faults, high cost of purchasing EFDs, and frequent power outages. Uganda can learn from those problems faced, and avoid them by addressing the issues outlined in order to have a more seamless transition to a digital VAT regime.

¹¹⁷ A.Chege, N. Kiragu, C. Lagat, G. Muthoni; Effect of Electronic Fiscal Devices on VAT Collection In Tanzania: A Case of Tanzania Revenue Authority; European Journal of Business and Management; ISSN 2222-2839, Vol. 7, No. 33, 2015, pp.125-133

¹¹⁸ Odd Helge, et al, The Customer is King; Evidence on VAT Compliance in Tanzania, ICTD Working Paper 83, October 2018, p. 18

¹¹⁹ *ibid*

¹²⁰ S. Mnyawi, T. Chusi, R. A. Lumenyala; Challenges Facing the Implementation of Electronic Fiscal Devices (EFD) Use in Tax Revenue Collection: In Tanzania, Dodoma City. American Journal Of Finance ISSN 25200445 Vol. 7, Issue 1 2022, pp.1-8

4.3. Ethiopia: Building from Scratch

In Ethiopia, the VAT is a work horse for the revenue system. As such, the adoption of the Electronic Tax Register (ETR) system to aid and enhance VAT administration came in handy and indeed boosted the collection of VAT in Ethiopia. The mandatory use of ETRs by VAT registered taxpayers in Ethiopia came into force on January 26th 2007 through the amendment of the Ethiopian Value-Added Tax Law 139/2007.¹²¹ Similar to Uganda, Ethiopia's SMEs are pivotal in economic development by offering employment of a significant portion of the population. Despite their potential, they also encounter significant challenges with respect to the country's tax policies; including the use of ETR machines for filing VAT in real time.

Unlike Uganda's experience with EFRIS that has so far been tainted by ongoing challenges, Ethiopia has benefited from more rigorous enforcement strategies like extensive training of taxpayers, frequent audits, a strategic investment in infrastructure, and the fact that the system in Ethiopia was introduced much earlier than Uganda's.

Initial reports indicate that the use of ETR machines for e-filing in Ethiopia significantly boosted VAT compliance by up to 48% due to enhanced oversight mechanisms by the Ethiopian tax authority. Findings to attest to the instant facts state that the successes in the use of ETRs for VAT filing in Ethiopia can be attributed to factors like the probability of audit, tax fines, penalties and numerous training sessions; which collectively play roles in the perception of ETR use by the targeted population.¹²²

With regard to the perception of ETR machines by taxpayers, the Ethiopian VAT regime demonstrates the positive effect of positive perception by taxpayers. The Ethiopian government has done well in that regard, as studies highlight a generally positive attitude toward the electronic tax system among taxpayers, which supports the Ethiopian government's initiative to achieve a digital economy by 2025.¹²³ Similar to

¹²¹ Dr. Abdu Muhammed, Zemenu Tasta, *The Impact of Electronic Tax Register Machines on VAT Compliance in Ethiopia; The Case of Bahir Dar City*, Institute of Customs Administration, Ethiopia, Civil Service University(2015)

¹²² Dr. Abdu Muhammed, Zemenu Tasta, *The Impact of Electronic Tax Register Machines on VAT Compliance in Ethiopia; The Case of Bahir Dar City*, Institute of Customs Administration, Ethiopia, Civil Service University(2015)

¹²³ Tekalign, N.K, et al, *Practice, Opportunities and Challenges of Electronic Tax System from Tax Payer's*

Uganda's, the Ethiopian system still grapples with challenges like language barrier, inadequate infrastructure, unreliable internet connection and power outages; which if addressed, optimum revenue mobilisation through the use of ETR machines can be realized.¹²⁴

To aid the smooth implementation of the use of ETR machines among businesses in Ethiopia, solutions like the increase in the VAT threshold have been suggested; considering that larger firms exhibit better compliance practices than their smaller counterparts.¹²⁵ The typical advice is that a relatively high registration threshold gives room for improvement of tax revenue collection from a smaller number of taxpayers who reach the threshold.¹²⁶ The decision of the optimal threshold should therefore be based on the record keeping habits and the administrative capacity of tax authorities and the taxpayers.¹²⁷

Notably, the Ethiopian Government has outlined a ten year development plan which underscores the need for strategic investments in technology and infrastructure, as well as the importance of addressing the technical and operational challenges that come with the initial stages of ETR implementation.¹²⁸

From Ethiopia's ETR regime, the key lessons for Uganda are mainly; the need to focus on building positive perceptions of EFRIS among SMEs through extensive hands on training; commitment to a clear long-term implementation roadmap supported by consistent enforcement and an evaluation of the VAT registration threshold, and carefully considering raising the threshold or offering more simplified and less expensive compliance pathways for small and medium businesses.

Perspective: Evidence from Ethiopia; Journal of tax reform. 2025;11(1), pp.6-24

¹²⁴ *Ibid* p.19

¹²⁵ Yesegat, W., Value-Added Tax in Ethiopia: A Study of Operating Costs and Compliance, <<http://hdl.handle.net/1959.4/43317/>>. accessed 20th April 2025

¹²⁶ Yesegat, W., Value-Added Tax in Ethiopia: A Study of Operating Costs and Compliance, <<http://hdl.handle.net/1959.4/43317/>>. accessed 20th April 2025

¹²⁷ *ibid*

¹²⁸ Dr. Abdu Muhammed, Zemenu Tasta, The Impact of Electronic Tax Register Machines on VAT Compliance in Ethiopia; The Case of Bahir Dar City, Institute of Customs Administration, Ethiopia, Civil Service University(2015)

4.4. Rwanda – The Embodiment of Digital Tax Efficiency

Rwanda has often demonstrated the best practice in the East African region with regard to her tax regimes. The digital tax regime is no exception, and that is why Rwanda has been selected for this study.

The Rwanda Revenue Authority (RRA) introduced digital VAT administration by use of RRA-approved Electronic Biller Machines (EBMs) in August 2013. The system was made mandatory for VAT-registered enterprises, and it had to have a Certified Invoicing System and a Sales Data Controller (SDC) working together.¹²⁹ Studies from Rwanda largely reflect the fact that the use of EBMs has generally improved tax collection for the Rwanda Revenue Authority; comparable to the first fruits of EFRIS in Uganda, that so far reflects a boost in the amount of VAT collected. Rwanda's success is attributed to more rigorous training on EBMs in order to improve the perception of taxpayers; and to the fact that the government of Rwanda has facilitated the provision of EBMs to businesses throughout the country.¹³⁰

On the downside, the Rwandan VAT regime under the use of EBMs has faced similar evasion problems to Uganda; where smaller businesses in some cases do not issue e-receipts for all transactions. In a study by Nada Eissa et al, a "mystery shopper" mechanism was engaged to find out how often traders issued receipts using EBMs.¹⁴⁴ It was found, first of all, that traders largely issued receipts upon request or demand by consumers; and secondly that the issuance of the receipts had an increase of prices of goods as a consequence. As such, it was reflected that the use of EBMs at that time led to an increase in prices of consumption and that full and strict compliance with the system was likely to cause a reduction in sales made.

Rwanda's digital VAT regime, like Uganda's is characterised by the mandatory use of real time tax filing by the use of EBMs. However, Rwanda does better than Uganda to the extent that RRA has conducted training on the system more rigorously and extensively. The findings of Harelimana and Gayawira reveal that the successful use

¹²⁹ Eissa, N. and Zeitlin, A., Karpe S., Murray, S., Incidence and Impact of EBMs for VAT in Rwanda, International growth Centre (November 2014)

¹³⁰ Ntakunyagwe Eric, K., Deya, J., Determinants of adoption of Electronic Payment Systems for Growth of Small and Medium Enterprises in Rwanda: Case of R-Switch, International Journal of Research, Engineering and Social Sciences, Vol. 07, Issue 6, pp.18-28 ¹⁴⁴ *ibid*

of EBMs in Rwanda can be attributed to the rigorous and extensive tax training conducted in the country.¹³¹

Additionally, the government of Rwanda has particularly made sure that EBMs are distributed and securely and robustly installed across the country; making sure that SMEs are also considered in the process.¹³² Uganda's, on the other hand, has neglected SMEs in that aspect, as those that seek to comply with the system either have to purchase EFDs at UGX. 1,100,000/= (One Million One Hundred Thousand Uganda Shillings),¹³³¹³⁴ or possess a smart phone or a computer; all of which are still expensive in Uganda. In addition, internet connection costs are still high in Uganda. A case in point is the fact that the most basic business bundle on MTN goes at UGX.130,000/= a month. It can be concluded therefore, that the government of Uganda and URA are still lagging with regard to aiding smaller businesses transition to the use of digital systems in their transactions, and tax filing for that matter.

Mugabe Roger has found that the use of e-payment and e-filing in Rwanda has been found to be the best way to mitigate tax evasion. It has also made VAT filing more convenient for businesses; facilitated a significant reduction in operational costs incurred by businesses, and boosted sales and supply of services.¹³⁵ The assertion by Kagabo, still from Rwanda corroborates the fact that EBMs, if used properly, ease the process of VAT compliance, lower transaction costs and stimulate higher consumption rates.¹³⁶

With the highlighted findings, it can be concluded that Rwanda's success in the use of EBMs for VAT compliance can be attributed to the RRA's approach to implementation

¹³¹ Harelimana, JB., Gawayira, P. Impact of EBMs on VAT Compliance among SMEs in Rwanda, *Journal of Management and Science*

¹³² Ntakunyagwe Eric, K., Deya, J., Determinants of adoption of Electronic Payment Systems for Growth of Small and Medium Enterprises in Rwanda: Case of R-Switch, *International Journal of Research, Engineering and Social Sciences*, Vol. 07, Issue 6, pp.18-28

¹³³ <<https://businessfocus.co.ug/ura-introduces-new-invoicing-methods-for-taxpayers/>> accessed on 16th April
¹³⁴

¹³⁵ Mugabe, R., The Impact of Digital Tax Administration Enhancing Tax Growth in Developing Countries: Evidence from Rwanda Electronic Filing and Payment, *International Journal of Academic Multidisciplinary Research (IJAMR)*, Vol. 5 Issue 9, September - 2021, pp. 93-98

¹³⁶ Kagabo, A., The Contribution of Online Tax Payment Systems on Revenue Collection in Rwanda : A Case of SMEs in Kicakoro District, University of Rwanda, College of Science and Technology, June 2021

of the system; which is characterized by support from the government in installing the system, and extensive training to make sure businesses can easily use EBMs and that they perceive them positively.¹³⁷ As a result, Rwanda has recorded a significant increase in VAT collections and compliance, not to mention that in Rwanda, the use of EBMs facilitates reduction in operational costs as it is designed to. EBMS are largely used and public perception is largely positive, compared to Uganda.

4.5. Conclusion

The digitization of VAT regimes is pivotal in improving tax compliance, combating fraud, and ensuring optimum domestic revenue mobilisation. While Uganda's adoption of EFRIS marks a positive step towards realising these objectives, it still faces challenges ranging from expenses incurred in complying with the system, a gap in training of taxpayers, and perception by both traders and consumers. It is noteworthy that SMEs feel the pinch deeper than their larger counterparts.

From this comparative study, it has been highlighted that the Tanzanian and Ethiopian digitized VAT regimes represent the diversity of progress within Eastern Africa; each with successes and limitations. Rwanda has portrayed outstanding progress with regard to digitization of VAT collection and filing; giving key insights on perception of the system by taxpayers, installation of technological infrastructure by the government and offering rigorous training to ease the use of the system by taxpayers.

Uganda is then challenged to adopt strategic policy adjustments from other jurisdictions in order to ensure that the intention of digitizing her VAT regime is fulfilled.

¹³⁷ Dedine Kamana, Influence of Electronic Tax System on Effectiveness of tax Collection in Rwanda: A Case Study of Rwanda Revenue Authority (RRA), University of Rwanda, June 2016, p. 49

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.0. Introduction

This chapter provides a summary of the findings and assertions from this paper; drawing conclusions from them and offering recommendations for the various stakeholders on what policies can be adopted in order to best utilize EFRIS for optimum VAT collection from SMEs, without jeopardizing their opportunities to grow.

5.1. *Summary of Findings*

The study herein set out to highlight the implications of EFRIS as a tool for VAT compliance on SME growth and consumer behaviour. To establish these implications, the parameters used included the ease with which SMEs adopt the EFRIS system; the obstacles to such adoption and the major one was found to be high operational costs. The implication of those operational costs on the prices of goods was highlighted; as well as the effect of such price changes on consumer behaviour. A comparative study was conducted; covering Rwanda, Tanzania and Ethiopia in order to give a perspective on how other countries in the Sub Saharan region have gone about the digitization of their VAT regimes.

In sum, the findings of this paper are to the effect that: many of the SMEs earning the threshold under the VAT Act are registered for VAT; but those earning slightly less do not willingly register for VAT even if the act allows for voluntary registration. Secondly, SME owners are generally aware of the EFRIS system and their obligations under the system; but their understanding of the system is still low.

Notably, respondents admitted to the fact that they do not always issue e-receipts for their daily transactions, and this was largely attributed to insufficient training on how to use the system and difficulty in its use. This reflects the fact that even though the system was designed to combat VAT evasion, it has not succeeded in that regard.

Respondents admitted to increasing the prices of goods after implementing EFRIS; and such an increase was largely caused by the increase in operational costs incurred on internet connection installation of software, and training on the system.

It was also found that some non-compliant businesses use the knowledge gap among consumers as an opportunity to illicitly increase prices of goods. Following the increase in prices, there was pushback by customers; many of whom, according to traders and service providers, exhibited sensitivity to prices and complained about the price increase.

5.2. Conclusion

From the findings summarized in the previous section, it can be concluded that the debut of the EFRIS system in Uganda has so far been characterized by a few advantages and numerous disadvantages. The good side is that there has been a slight increase in VAT compliance and improved VAT filing habits among various firms.

On the downside, businesses, especially SMEs have struggled, and they still struggle with initial installation costs of the EFRIS system, high operational costs when the system is installed, and difficulty utilising EFRIS effectively because of insufficient training on the system. The struggles of implementing EFRIS have not only affected SMEs, but they have also spread to their consumers, majorly because of the increase in operational costs which compels compliant firms to increase prices to reflect VAT clearly.

As reflected in the comparative study, the increase in prices affects consumer behaviour to the extent that they tend to shift buying priorities or where given the opportunity; they connive with traders to engage in tax evasion by preferring transactions to be conducted outside the system. It can therefore be said, that the goal for which the digitization of VAT regimes in Uganda and sub-Saharan Africa at large, which is to combat tax evasion, has not yet been realised especially when it comes to SMEs which form the largest section of the economy.

In conclusion, the introduction of EFRIS to Uganda's VAT regime was a necessary positive step towards the achievement of a digital cashless economy in Uganda. As seen from this paper, its success is contingent on various factors including

sensitization on the system, taxpayer perception, operational costs and consumer behaviour.

The effects of the aforementioned factors on VAT compliance also affect the potential growth of firms using the system, especially SMEs. With correct policies and implementation strategies in place, this author believes that Uganda can set the pace for African countries and other developing countries; on how best a digitized tax regime can be achieved.

5.3. Recommendations

Following the highlighted conclusions, the following recommendations are directed to the various stakeholders with regard to the effective implementation and use of EFRIS in Uganda's VAT regime.

5.3.1. To the Uganda Revenue Authority

One of the major issues highlighted by the respondents in this paper; and in the literature reviewed, was that the lack of proper training hindered proper use of the EFRIS system. In the comparative study, it was highlighted that jurisdictions that had done better with regard to training tax payers on the digital VAT regimes did better with regard to compliance and VAT perception.

It is therefore my strong recommendation to URA, that regular practical sessions should be held with taxpayers; particularly SMEs in order to ease use of the system, and better perception by taxpayers.

URA is also advised to provide technical and financial support to SMEs to help them acquire EFDs and access internet services; as the case is with RRA's EBM system in Rwanda.¹³⁸

5.3.2. To Policy Makers

Two major recommendations are given for policy makers. The first is that they should increase the VAT mandatory registration threshold in order to reduce the administrative strain of getting firms to comply with the system. The typical advice is that a relatively

¹³⁸ Eric, K., Deya, J., Determinants of Adoption of Electronic Payment Systems for Growth of Small and Medium Enterprises in Rwanda: Case of –Switch, International Journal of Research, engineering and Social Sciences, Vol.7 Issue 6, pp.18-28

high registration threshold gives room for improvement of tax revenue collection from a smaller number of taxpayers who reach the threshold.¹³⁹ Setting a low threshold can overwhelm tax administration with regard to ensuring compliance, and it is often associated with high compliance costs. The decision of the optimal threshold should therefore be based on the capacity of tax administration and the level of record keeping by the targeted tax payers.¹⁴⁰

The second is the integration of digital infrastructure in national planning in order to lessen the burden SMEs have to face implementing and complying with the EFRIS system. Additionally, the Ministry of Finance, Planning and Economic Development should consider providing taxpayer incentives like tax deductions. Rewards for those that demonstrate full compliance with EFRIS would also come in handy to encourage the use of EFRIS by SMEs.¹⁴¹

5.3.3. To Small and Medium Enterprises

For SMEs, it is highly encouraged for registered firms to maintain proper records and use of the system in order to avoid the heavy penalties, aid business growth and access any incentives by the URA which come along with faithful compliance with EFRIS.

SMEs are further advised to be on the lookout and utilise any opportunities for training by URA or peers; in order to better understand the advantages and how to use the EFRIS system; because it is here to stay.

5.4. Areas for Further Research

Other authors in the future could explore the following areas;

- Perspectives of consumers on EFRIS and electronic invoices
- The effectiveness of penalties for non-compliance with EFRIS on the compliance levels

¹³⁹ Yesegat, W., Value-Added Tax in Ethiopia: A Study of Operating Costs and Compliance, <<http://hdl.handle.net/1959.4/43317/>>. accessed 20th April 2025

¹⁴⁰ *ibid*

¹⁴¹ Harelimana, JB., Gawayira, P. Impact of EBMs on VAT Compliance among SMEs in Rwanda, Journal of Management and Science

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