

**THE IMPACT OF TAX INCENTIVES ON THE FINANCIAL PERFORMANCE OF
SMALL SCALE ENTERPRISES A CASE STUDY OF SELECTED
SMALL ENTERPRISES IN MASAKA MUNICIPALITY**

BY

NALUWAGA NOELINE

2015-BO22-30028



**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS
ADMINISTRATION AND MANAGEMENT IN THE PARTIAL FULFILLMENT FOR
THE AWARD OF A BACHELORS DEGREE IN BUSINESS ADMINISTRATION AND
MANAGEMENT OF UGANDA MARTYRS UNIVERSITY**

MAY 2018

DEDICATION

I dedicate this research to the family of the late Lubembe Denis who was my father and to all the people who have been there for me especially Rev Fr.Nestus Mugisha, Kabalyenda Paul my brother and my sisters, my late mother Namatovu Florence and all my friends.

ACKNOWLEDGEMENT

First of all, I give glory to almighty God for his protection in health, knowledge, wisdom and determination to cover this journey.

I express my special appreciation to my supervisor, Mr. Agume Anthony for the valuable guidance and advice that enabled me to successfully complete this study.

I extend my heartfelt appreciation to my guardian Rev Fr.Mugisha Nestus of St. Luke Mannya parish Catholic Parish who has been there for me since my primary education, my sponsors Cotton on Foundation, Fr. Peter Foley, Br.Russel Peter in Australia, who has been there for my studies since primary up to the University, Lecturers, sisters and brothers, my colleagues like Ssebatta Derrick, Ssempijja Patrick, Nsubuga Jessy, Nabukenya Suzan, Katabira Joseph and others for valuable the advice and assistance given during my period of study. May the God reward you abundantly.

I also thank the administration of UMU-Masaka branch especially Madam Maria, Viola, Mr. Katoorogo Nicholus and Rev. Fr. Ssembatya who have been good to me as far as academic assistance was concerned thank you very much.

Let the Almighty God bless all of you.

Table of contents

DECLARATION..... i

APPROVAL ii

DEDICATION..... iii

ACKNOWLEDGEMENT iv

List of tables..... xi

List of figures..... xiii

List of Abbreviations xiv

ABSTRACT..... xv

CHAPTER ONE 1

INTRODUCTION..... 1

1.2 Background of the Study..... 1

1.3 Problem Statement..... 3

1.4 Purpose of the Study 5

1.5 Objectives of the Study 5

1.6 Research Questions 5

1.7.1 Scope of the study..... 5

1.7.2 Time scope 6

1.7.3 Content scope 6

1.8 Significance of the Research Study 6

1.9: Definition of key terms	7
Tax incentives	7
Financial performance.....	7
1.10: Conceptual framework.....	8
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Framework.....	9
2.2.1 Neo-classical Theory	9
2.2.2 Agency Theory of Tax Incentive.....	10
2.3 Kinds of tax incentives that determine financial performance of Small Scale Enterprises.....	10
2.3.1 Tax Credits and Double Taxation Treaties.	10
2.3.2 Reduced Corporate Taxes.....	11
2.3.3 Exemptions, Zero-Rating and Remissions.....	11
2.3.4 Capital Allowances/ Deductions	11
2.3.5 Investment Deduction on the financial performance of small scale enterprises.....	12
2.3.6 Shipping Investment Deductions	12
2.3.7 Mining Allowance	12
2.3.8 Subsidy or grant by the bigger entities and government.	13

2.4 Relationship between tax incentives and financial performance of SSEs	13
2.5 The key financial performance measures of Small Scale Enterprises	16
2.5.1 Return on Assets (ROA).....	17
2.5.2 Return on Investment and Productivity	17
2.5.3 Operating Profit Margin (OPM) & Asset Turnover Ratio (ATR).....	18
2.5.4 Return on Equity (ROE)	18
2.5.6 Profitability and market value of the firm	19
2.5.7 Balance scorecard	20
2.5.8: Conclusion	20
CHAPTER THREE	21
METHODOLOGY	21
3.0 Introduction.....	21
3.1 Research Design	21
3.2 Study Population.....	21
3.3 Determination of the sample size.....	22
3.5 Sampling Techniques and Procedure	23
3.5.1 Purposive Sampling	23
3.5.2 Simple random sampling.....	23
3.6 Data Collection Methods	23
3.6.1 Questionnaire Survey	24

3.6.2 Interview	24
3.6.3 Documentary review	25
3.7 Quality Control /Validity and Reliability).....	25
3.7.1 Validity.....	25
3.7.2 Reliability	25
3.8 Measurements of variables (Quantitative Studies).....	25
3.9 Ethical Considerations	26
3.9.1 Limitations and Delimitations of the study	26
3.9.2: Conclusion	27
CHAPTER FOUR.....	28
PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS.	28
4.0 Introduction.....	28
4.1 Personal data	28
4.1.2 Gender of respondents.....	28
4.1.2 Age of respondents	30
4.1.3 Respondents' position in the organization.....	31
4.1.4 Working Experience	31
4.1.5 Level of education	33
4.2 Kinds of tax incentives and the financial performance of SSEs	34
4.2.1: Income Tax Act permits Tax Credit and double taxation treaties	34

4.2.2: Income tax provides Tax Exemption	35
4.2.3 Income Tax Act provides Capital deduction.	35
4.2.4: Income Tax Act provides Shipping Investment Deduction.	36
4.2.5: Income tax provides Government Grants.	37
4.2.6: General Summary of kinds of tax incentives Statistics.	37
4.3 Relationship between tax incentives and financial performance of SSEs	38
4.3.1: Tax incentives aid the recovery of Capital expenditures.	38
4.3.2: Tax incentives encourage and stimulate economic activities.	39
4.3.3 Tax incentives influence the development and growth of SSEs.	39
4.3.4: Tax incentives have impact on investment and entrepreneurship of SSEs.	40
4.3.5: Taxation policy stimulates the development of SSEs.	41
4.3.6: General summary of the relationship between tax incentives and financial performance of SSEs.	41
4.4 The Key financial performance measures of SSEs	42
4.4.1: Return on Assets (ROA).....	42
4.4.2: Rate of ROA measure of financial efficiency and profitability.	43
4.4.3: Return on Equity (ROE).....	43
4.4.4: ROE is also useful measure of the performance of the firm owners.	44
4.4.5: Profitability, Return on Asset and Equity.....	45
CHAPTER FIVE	48

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.	48
5.0 Introduction.....	48
5.1 Summary Findings.....	48
5.1.1 Kinds of tax incentives that determine the financial performance of SSEs.	48
5.1.2 Relationship between tax incentives and financial performance of SSEs.	48
5.1.3 The key financial performance measures of SSEs.....	49
5.2 Recommendations and Conclusions.....	49
5.2.1 Conclusions.....	49
5.2.2 Recommendations.....	49
5.3 Areas for Further Research.....	50
References.....	51
APPENDIX 1: LETTER OF INTRODUCTION.....	54
Appendix 2: Questionnaire.....	55
APPENDIX 3: TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION.....	62
Appendix 4: Work Plan.....	63
Appendix 5: Budget Research Frame Work.....	64

List of tables.

Table 1: Showing the Background general information statistics for respondents.....	34
Table 2: Showing Income Tax Credits and double taxation treaties.	34
Table 3: Showing Tax Exemption.	35
Table 4: Showing Capital deduction.	36
Table 5: Showing Shipping Investment Deduction.....	36
Table 6: Showing Government grants	37
Table 7: Showing the General Summary of kinds of tax incentives.....	38
Table 8: Showing the recovery of Capital expenditures.....	38
Table 9: Showing how tax incentives encourage and stimulate economic activities.....	39
Table 10: Showing the influence of the development and growth of SSEs.....	39
Table 11: Showing the impact on investment and entrepreneurship of SSEs.	40
Table 12: Taxation policy stimulates the development of SSEs.	41
Table 13: Showing the General summary of the relationship between tax incentives and financial performance of SSEs.....	41
Table 14: Showing the Return of Assets (ROA).....	42
Table 15: Showing the Rate of ROA measure of financial efficiency and profitability.	43
Table 16: Showing the Return on Equity (ROE)	44
Table 17: Showing that ROE is a useful measure of the performance of the firm owners..	44
Table 18: Showing the profitability, ROA and Equity.....	45
Table 19: Showing the Balance scorecard.	46

Table 20: General and summary of the key financial measures of entity's performance. .. 47

List of figures.

Figure 1: Conceptual framework 8

Figure 2: showing the gender of respondents..... 29

Figure 3: Showing the Age of respondents 300

Figure 4: showing the respondents' position in the organization..... 311

Figure 5: Showing working experience..... 322

Figure 6: Showing the level of education 333

List of Abbreviations

EPZ- Export Processing Zone

FDI- Foreign Direct Investment

GDP- Gross Domestic Product

IBD- Industrial Building Deductions

ID- Investment Deductions

ITA- Income Tax Act

OECD- Organization for Economic Cooperation and Development

ROA- Return on Asset

ROE- Return on Equity

ROI- Return on Investment

ROS- Return on Sales

SPSS- Statistical Package for Social Science

SSEs- Small Scale Enterprises

VAT- Value Added Tax

W&T- Wear and Tear

ABSTRACT

The purpose of this study was to establish the impact of tax incentives on performance of SSEs in Uganda. The objectives of the study were to find out the various kinds of tax incentives that determine the financial performance of SSEs, the relationship between tax incentives and financial performance of SSEs, and finally to assess the key financial performance measures of SSEs.

The study adopted the use of quantitative descriptive design. For the purpose of the research, the population constituted a few selected SSEs in Masaka municipality. A census was conducted for all the SSEs using a questionnaire. Data collected was analyzed using SPSS software to establish the association between tax incentives and performance of the SSEs.

The study revealed that there was a need for the government to inform SSEs about the presence of tax incentives and also highlight them about how they affect their enterprises.

From the findings on the SSEs, the study found out that tax incentives influenced the financial performance of SSEs in Uganda.

The researcher recommended that there is need for the government to review the performance and extension of tax incentives as the study revealed that most of the SSEs stakeholders were not aware of the various kinds of tax incentives that existed in relation to their impact on the performance of their SSEs.

The study should seek to establish the impact of tax incentives on performance of SSEs. The study also recommends a study to be done on the impact of Tax reforms on revenue collection by the Ugandan Revenue Authority.

Further it recommends a study to be done on the effects of tax incentives on financial performance of SSE's in Kampala district. It also recommends a study to be carried out on the effects of tax reforms on compliance of manufacturing firms in Uganda.

CHAPTER ONE

INTRODUCTION

The broad area of the study under which my Research Report falls is under the impact of tax incentives on the financial performance of small scale enterprises. This chapter examined the Background of the Study, Problem Statement, Purpose of the Study, Objectives of the Study, Research Questions, and Scope of the Study and the Significance of the Study.

1.2 Background of the Study

Small Scale Enterprises are an important force for economic development and industrialization in poor countries (Helmsing and Kolstee 1993; Mead and Liedholm 1998; Liedholm and Mead 1999; McIntyre and Dallago 2003). It is increasingly recognized that these enterprises contribute substantially to job creation, economic growth and poverty alleviation. The 2005 World Development Report suggests that creating “sustainable jobs and opportunities for micro entrepreneurs are the key pathways out of poverty for poor people” (World Bank, 2004:19). The Republic of Uganda, like any other developing countries, has taken a number of measures to promote the growth of private sector and Small Scale Enterprises (SSEs). In Uganda, SSEs were estimated to account for a significant share of Gross Domestic Product (GDP) of more than 30% (IPP Media, 2012).

The government of Uganda formulates and implements various policies aimed at increasing job opportunities, development of infrastructure as well as income generation through the creation of new SSEs and improving the performance and competitiveness of existing one. For the purposes of protect and control the operation of SSEs in Uganda, Government of Uganda imposes several

types of taxes which aim in protecting home/infant industries (protectionism) and ensure fair competition among SSEs. High tax rates and tax complicity discourage the growth of SSEs (Oludele an Emilie, 2012). This has the economic impact to the growth of the economy in the given country. From economic point of view, taxes increase production cost of goods and services which would eventually leads to higher price of goods/services to the final consumers. On the other hand, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005).

If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affecting the final consumer due to the shifter ability of tax. According to a study report (Mnewa and Maliti, 2008), the majority of small businesses were less likely to attain or maintain the growing profitability in Uganda. SSEs in developing countries often face difficulties when dealing with tax matters. It would be rare indeed not to hear complaints about the complexity and/ or ambiguity of the tax laws, high tax rates, and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community (Baurer, 2005).

This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the enterprises. Assessing the impact of tax systems on SSEs is not simply a matter of looking at tax rates. Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SSEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy (ITD, 2007). Kolstad

et al, (2006) indicated that taxes are perceived to be a major problem for both young and old firms. Therefore, taxation has showing a way towards impacting small and medium enterprises. Despite of the contribution that taxation can make towards the Gross Domestic Product (GDP) in general, much attention is also needed to the side effects of tax towards the growth of SSEs. This is because SSEs play a crucial role in driving economic growth in both developing and developed countries.

As a group, they not only generate more new jobs than large firms or macro-enterprises but also introduce innovative ideas, products, and business methods. It has also been observed that less attention has been given to the side effects of tax towards the growth and development of SSEs despite their contribution in the overall GDP of the country. The situation raises a serious concern about the issue of aligning the tax-planning system to the specific requirements of a particular country's growth need, as it has to balance both short-term and long-term impact of the policy.

This also triggers need for an in depth study of the different issues, preventing the development and implementation of effective tax policy and system, particularly in context of the SSEs.

Therefore the present study intends to do fill this knowledge gap by addressing the main objective of tax system impact assessment on the growth of Small Scale enterprises in Masaka Municipality in Uganda, which is one of the slow-growth SSE regions in the Country.

1.3 Problem Statement

Tax is a compulsory contribution imposed on the individuals by the state to meet the expenses which are incurred for a common use. In context of SSEs, basically Tax can be classified into two major categories basing on the incidence of tax as well as 'tax to income' ratio. According to

the final resting (incidence) of tax there is direct tax and indirect tax. The direct taxes include corporate income tax, property tax and tariffs whereas the indirect tax comprises of sales tax and Value Added Tax (VAT) (Tax Types, 2011). Value Added Tax (VAT) is a tax levied at each stage of production and distribution chain up to the retail stage. The VAT is charged on any supply of goods or services in Uganda where it is a taxable supply made by a taxable person in the course of or in furtherance of any business carried on by him (VAT Act, 1998).

This is a tax placed on the value that manufacturers add to each stage of production. It is a tax on consumption instead of income (Clayton, 1995). Tax incentives are meant to encourage those business and individuals to engage in behavior that is socially responsible and or benefits the community (Boadway and Shah, 1995). This enhances the firm's performance and hence economic growth. Firms that qualify enjoy tax incentives are able to save and invest their money leading to increased profitability (IBRD, 1998). The objective of granting tax relief and incentives to small enterprises in Uganda is to enhance their growth and development, thus contributing to the overall economic development of the country. But the objective cannot be achieved in a situation where the would-be beneficiaries are not even aware of the existence of such incentives (Wafula, 2010). Moreover, the few who are aware of these incentives do not even bother to apply for them due to the poor and inefficient tax administration. Therefore, there is need to proffer solutions to these problem to ensure the growth and development of our economy. Therefore the present study intends to do fill this knowledge gap by addressing the main objective of tax system impact assessment on the growth of Small Scale enterprises in Masaka district in Uganda, which is one of the slow-growth SSE regions in the Country.

1.4 Purpose of the Study

In this research, the researcher aimed at finding out the impact of tax incentives on the financial performance of small scale enterprises, using a case study of a few selected small scale enterprises in Masaka Municipality.

1.5 Objectives of the Study

The following research questions guided the researcher;

- To examine the various ways of measuring the financial performance of SSEs.
- To find out the relationship between tax incentives and financial performance of SSEs.
- To find out the kinds of tax incentives that determines the financial performance of SSEs.

1.6 Research Questions

The following research questions were applied in order to achieve each of the related objectives of the study above;

- What are the various ways of measuring the financial performance of SSEs?
- What are the relationship between tax incentives and financial performance of SSEs?
- What are the kinds of tax incentives that determine the financial performance of SSEs?

1.7.1 Scope of the study

The Study was carried out in Masaka Municipality, in Uganda using a Case Study of a few selected Small Scale Enterprises. The researcher chose this area because it has a number of Small Scale Enterprises which could be employed in her research as a case study. And it was focused on the tax incentives and the financial performance in SSEs.

1.7.2 Time scope

The study considered information relating to the period of five years that is 2013 - 2018 in order to capture previous and latest statistics and trends to ensure reliability and validity for the presented findings. The study was done between 2013 to May 2018. Furthermore, the time was enough to provide more information for the study upon which conclusions and recommendations were based.

1.7.3 Content scope

The research study was intended to find out the impact of tax incentives on the financial performance of small scale enterprises, using a case study of a few selected small scale enterprises in Masaka Municipality. The study also aimed at finding out the various kinds of tax incentives that determined the financial performance of SSEs, the effects of tax incentives on the financial performance of SSEs and the relationship between tax incentives and financial performance of SSEs in Masaka Municipality.

1.8 Significance of the Research Study

- The findings of this study were used to guide the policy makers in setting up of policies that govern the performance of SSEs. This provided insight for recommendations to the government on the possible areas that require improvement, to make the program more applicable and more attractive to the users especially SSEs operators.
- The study findings also enlightened other market players in the SSEs industry and in other sectors to learn the benefits of tax incentives and ways in which SSEs can derive maximum benefits to achieve profitability. The study contributed to the existing literature

on the usefulness of tax incentives, its benefits and how it contributes to improved financial performance of the SSEs. The study also enriched the theories related to tax incentives and the empirical studies in respect to SSEs' performance.

- The research proposal was to be used as an asset in the library of Uganda Martyrs University – Masaka and the students will use it in their work assignments during their classroom applications.

1.9: Definition of key terms

Tax incentives

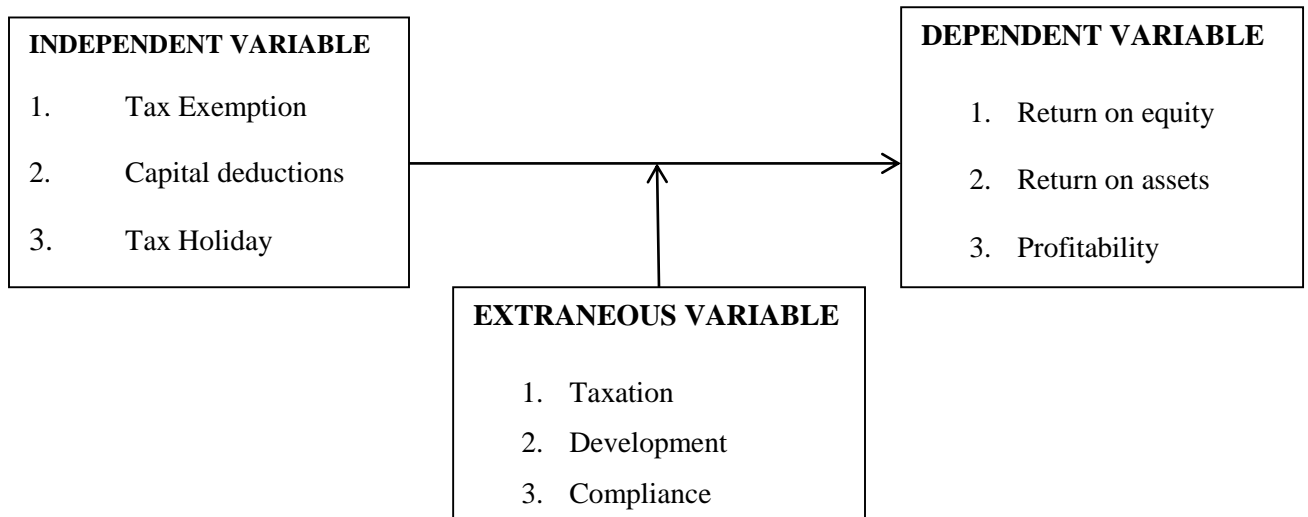
According to Fletcher (2003) tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reduction in tax rates and indirect tax incentives.

Financial performance

Liargovas and Skandalis (2008) indicate performance as the level of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Some of the indicators of financial performance are return on equity, liquidity ratios, and asset.

1.10: Conceptual framework

Figure 1: Conceptual framework



1.10.1 Source: Researcher Compilation.

The conceptual framework above, demonstrates the relationship between the tax incentives and financial performance. It indicates tax incentives as an independent variable which involves tax exemption, tax holiday, and capital deductions among other tax incentives enjoyed by the small scale enterprises. The various ways of measuring Small Scale Enterprises which include; development, compliance capability, to pay taxes, government policies among others which are the extraneous variable. The financial performance which is the independent variable which can be analyzed by looking at the ability of Small Scales Enterprises return on equity, liquidity ratios, return on investment and among others.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter was covering the review of literature. In academic research, literature review is an imperative discussion that facilitates uncovering of past work and knowledge in research study. The chapter covered theoretical framework, reviews of literature on tax incentive and the summary of the literature review.

2.2 Theoretical Framework

This part covered the theories that support the relationship between the tax incentives and financial performance. These theories are; Neo classical theory, and agency theory of tax incentives.

2.2.1 Neo-classical Theory

Neo-classical economic theory argues that providing tax incentives to one group of investors rather than another violates one of the principal tenets of a good tax system, that of horizontal equity. This inequality distorts the price signals faced by potential investors and leads to an inefficient allocation of capital (Boadway and Shah, 1995). The justification most often given for special incentives is that there are market failures surrounding the decision to invest in certain sectors and locations, which justify government intervention. Market failures result in either too much or too little investment in certain sectors or locations .The key market failures most often cited; Positive externalities not internalized in the project's rate of return are higher in certain sectors than in others.

2.2.2 Agency Theory of Tax Incentive

Despite the lack of evidence to support the efficacy or efficiency of fiscal incentives, governments continue to offer them. Wells et al. (2001) argue that tax incentives offer an easy way to compensate for other government-created obstacles in the business environment. In other words, fiscal incentives respond to government failure as much as market failure. It is far harder, and takes far longer, to tackle the investment impediments themselves low skills base, regulatory and compliance cost than to put in place a grant or tax regime to help counterbalance these impediments. Although it is a second-best solution to provide a subsidy to counteract an existing distortion, this is what often happens in practice.

2.3 Kinds of tax incentives that determine financial performance of Small Scale Enterprises.

2.3.1 Tax Credits and Double Taxation Treaties.

ITA 2010 permits deduction of foreign tax payable in respect of income derived by a person resident in Uganda as a credit against tax chargeable in respect of that income if Uganda and that foreign country have a double taxation treaty. Irish (1978) observes that most double taxation treaties are structured to favour the developed countries. OECD has developed a model tax treaty to help standardize international taxation agreements and to facilitate the implementation of new tax treaties between nations. It is important to note that a double taxation treaty will take precedence over the domestic legislation where the two conflict.

2.3.2 Reduced Corporate Taxes

The corporate tax rate for resident companies is 30% while non-resident companies are taxed at 37.5%. EPZs are taxed at 25% for the 10 years succeeding the tax holiday. ITA (2010) provides that private companies listing on the Capital Markets. Authority should enjoy reduced corporate tax rates. Companies listing at least 20%, 30% and 40% of the issued share capital are taxed at 27% for three years, 25% for the five years and 20% for five years respectively (ITA, 2010).

2.3.3 Exemptions, Zero-Rating and Remissions

Tax exemption refers to monetary exemption which reduces taxable income. The tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items. Zero rating on the other hand refers to a case where the tax rate applicable for the good or service is Zero. The VAT Act has exempted or Zero rated certain goods while the ITA has exempted certain classes of income of specific bodies from corporation tax. The exemptions include: import duties on machinery, raw materials, and inputs; stamp duty and VAT on raw materials, machinery and other inputs and the products from export taxes and levies.

2.3.4 Capital Allowances/ Deductions

Governments through capital allowances attempt to influence physical and financial capital. The Income Tax Act provides for various tax incentives through capital deductions. The government has allowed a claim of 150% for companies who invest outside the 3 cities and incur expenditures of more than 200 million. It has further been proposed in the Amendments to the Income Tax Act in the 2015/16 Budget statement 100% for ships from the initial allowance of 40% and capital deduction for buildings used for educational and training services to be increased from 50% to 100 %.

2.3.5 Investment Deduction on the financial performance of small scale enterprises.

It is granted to companies that incur capital expenditure on the construction of a building and on the purchase of and installation of new machinery and the owner of that machinery being also the owner or lessee of that building uses it for manufacturing or for the following ancillary purposes: generation, transformation and distribution of electricity; clean-up and disposal of effluents and other waste products; reduction of environmental damage; water supply or disposal and workshop machinery for the maintenance of the machinery.

2.3.6 Shipping Investment Deductions

ITA (2010) provides that a resident person carrying on a trade and incurs capital expenditure on the purchase of a new ship for the purpose of trade shall claim 40% in the first year and 10% in each of the following six years for expenditures on purchase of a new and unused power driven ship of more than 495 tons gross; or on the purchase, and subsequent fitting of a used power-driven ship of more than 495tons used for business.

2.3.7 Mining Allowance

Mining industry is capital intensive. ITA (2010) provides for a deduction of 40% in the first year and 10% in each of the subsequent six years for persons incurring expenditure on the business of mining. The costs provided for in the act include: searching for or in discovering and testing deposits of minerals, provision of mining machinery and construction of a building or works specifically for the purpose of the mines, costs of development, general administration, and management.

2.3.8 Subsidy or grant by the bigger entities and government.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors. Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

2.4 Relationship between tax incentives and financial performance of SSEs

Tax incentives provide limitless advantages to Small Scale Enterprises. The major tax incentives granted to Small Scale Enterprises are in the form of capital allowances which include: ID, IBD and Wear and Tear. In Uganda, the capital allowances qualified for in the year are deducted from the overall corporate tax liability. The tax incentives therefore open doors for Small Scale Enterprises to report higher profits after tax. The tax incentive thus aids the recovery of capital expenditures incurred by Small Scale Enterprises especially during the current period of poor performance by tourism sector under which SSEs fall.

Tax incentives are meant to encourage and stimulate the economic activities of enterprises and investments. They are fiscal policies designed by the government to revive, rehabilitate and stabilize individuals and corporate bodies. The tax incentives are also used by the government to

channel some specific economic activities towards the vital sectors of the economy where they are not felt or non-existent (Kaplan, 2001). Philips (2010) observed that tax incentives will not only generate employment but will motivate the self-employed to incorporate into limited liability companies. This will lead to improved profitability of the firm. Okelle (1995) noted that an economy can be healthy through generous tax incentives to corporate tax payers, to projects, the profitability of which may not likely materialize until about three to five years.

Small scale enterprises play an important role in production sector of many developed countries. The higher is the share of small scale enterprise businesses in the economy, the higher productivity can be potentially realized with the small scale sector. Therefore, maintaining the ideal balance between tax rate, compliance costs, tax administration and economic development should be a main goal of every tax policy.

The development of small scale enterprises is greatly affected by the level of taxation, its administration and compliance: the higher the tax rate is, or the greater the efforts to fulfill taxation requirements are, as well as to check how those requirements are met, the lower the initiatives are for small scale enterprises to perform well. In Ukraine, the SSEs sector has only started developing – the first Law of Ukraine (On Entrepreneurship) was adopted in February, (1991). Lack of proper incentives as well as unfavorable government policy towards small scale enterprises has had a negative impact on the Ukrainian economy. Weak legislative support, administrative barriers, lack of financial assistance and uncertainty of an often changed taxation system in particular force the main part of small scale enterprises to operate in shadow.

As just seen, proper taxation policy for small scale enterprises has become better appreciated. A correct level of taxation as well as clarity of taxation requirements will lead to higher development of the sector that in its turn will cause an increase in the degree of competitiveness of the economy, a rise in production and more stable government revenues.

There are many factors that can influence the development of small scale enterprises in the economy. The most frequently mentioned among them are: state support of the sector, proper legislative support and mechanisms of its fulfillment, access to financial resources and investment incentives (Small Business to Ukraine 1997 122). However, one of the most important factors that promotes development and growth of small scale enterprises is the taxation system. Research made in different countries has shown that the countries where the level of tax rates, the costs of fulfilling taxation requirements as well as costs of auditing are high, the sector of small scale enterprises is comparatively small.

Small scale enterprises play an important role in transitional economies due to some of their special features: flexibility, quick adaptation, minimum bureaucracy; and special functions: creating of additional working places, active promotion of innovations, creating a competitive environment. Different policy incentives are able to influence the development and growth of the Small scale sector.

Thus, an ideal taxation policy should, where possible, include lump-sum taxes to eliminate welfare deadweight losses to the society, as well as try to hold administrative, compliance and other additional costs of taxation to a minimum level. However, here a number of problems arise. One problem lies in determining the right size of the tax. Another problem is how to tax different

activities. These issues could create a complex system of lump-sum taxes that would consist of different sums for different industries and different sums for businesses of different size within one industry. There are several ways of decreasing compliance costs: imposing low tax rates, introducing severe penalties and creating high probability of audit. As many studies have shown (Pyle 1991, Webley 1983, Dubin 1987, Reinganum and Wilde 1983), the first two policies have not so much effect on compliance costs. On the other hand, compliance costs revealed an inverse relation to a high probability of auditing in the business sector.

One more important thing to remember is that we introduce taxation into a dynamic model. The level of taxation has a great impact on investment and entrepreneurship. For instance, if an entrepreneur has to pay an excise tax on the value of sales, there is tempting pressure to understate those in order to pay less. In other words, he or she moves to the shadow, and volume of unofficial economy increases. On the other hand, if an entrepreneur has to pay taxes on capital, he or she has no incentive to invest in physical capital and expand business.

Therefore, taxation policy should be developed in such a way that it would stimulate rather than stop the development of enterprises in order for government revenue not to decrease.

2.5 The key financial performance measures of Small Scale Enterprises

Liargovas and Skandalis (2008) indicate financial performance as the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

According to Miller, Boehlje & Dobbins (2001) in their paper on key financial performance measures discussed the below key financial performance measures;

2.5.1 Return on Assets (ROA)

Capital employed must be used productively. Capital is mobile and if not used productively, will eventually move to where it can generate a competitive return. ROA provides a measure for assessing the overall efficiency with which the assets are used to produce net income from operations. It also is indicative of management's effectiveness in deploying capital, because it is certainly possible to be efficient and yet poorly positioned in terms of how capital is being utilized. Return on assets, is calculated by dividing profit after tax (PAT) and interest by total assets. Return on assets is probably the single best overall measure of operating performance. It ties together the results of operations with the resources used to produce those results. It is also relatively easy to interpret.

2.5.2 Return on Investment and Productivity

According to Ghalayini and Noble (1996), the literature concerning performance measurement evolved in two phases, the first which began in the late 1880's and concluded in the 1980's. In this phase, the emphasis was on financial measures such as profit, return on investment, and productivity. The second phase started in the late 1980's as a result of changes in the world market, specifically in the corporate environments. These organizations discovered that performance measurement, as traditionally practiced, is limited.

2.5.3 Operating Profit Margin (OPM) & Asset Turnover Ratio (ATR)

The rate of return on assets measure is itself the product of a measure of financial efficiency and a measure of profitability. The rate of return on assets may be calculated by multiplying the operating profit margin ratio (OPM) times the asset turnover ratio (ATR). The interrelatedness of these three performance measures emphasizes the fact that there are two primary ways to enhance the efficient use of resources to produce profit. One is to increase the profit per unit of output. Operating profit margin is a measure of profit per unit of product produced or output. A firm operation that has a high operating profit margin percentage is a low cost producer.

The other way to enhance performance is to increase the revenues generated per unit of an asset, as indicated by the asset turnover rate. For a given set of farm resources or size of farm, operating profit margin and asset turnover are the two key determinants of profit that the general manager must try to influence in order to improve financial performance. An increase in either or both will increase ROA and is generally indicative of improved financial performance.

2.5.4 Return on Equity (ROE)

Debt is an important component of the capital structure of a firm. Debt provides needed resources to take advantage of profit opportunities. When used productively, debt can leverage equity capital in a way that is very beneficial financially. But financial leverage is impartial and unforgiving. Debt works just as well to the detriment of a business when it is used unproductively, as it works to benefit a farm that is managed wisely. A firm needs to know whether and to what extent financial leverage is working either for or against their farm business. The rate of return on equity (ROE) provides useful information about the performance of debt in the capital structure. ROE is calculated by dividing net income by shareholder's equity. ROE

should exceed ROA for firms that borrow money. If ROE doesn't exceed ROA, it means that borrowed capital isn't earning enough to pay its cost. Alternatively, ROE may be way higher than ROA and may indicate potential to benefit from additional in the firm.

ROE is also a very useful measure of the performance of the firm owners' invested or equity capital. Investors generally have other alternatives to investing in the firm operation and need a basis for evaluating their investment alternatives. ROE is not a risk-adjusted return measure. So ROE should be adjusted for differences in the perceived riskiness of alternative investments when making head-to-head comparisons. ROE is related to and heavily influenced by ROA. Increasing ROA by taking management action that will either increase operating profit margin and/or asset turnover should have a favorable impact on ROE.

2.5.6 Profitability and market value of the firm

The financial measurement of performance is the traditional and most commonly used tool as a measure of an organizations performance. Financial measures are typically focused on profitability, market value of the firm, return on assets, investment and equity, liquidity and various other ratios. The internal business perspective is based on the assumption that to satisfy customers and earn a financial return, the organization must be efficient and effective at what it does. Thus, this perspective's measurement is typically based on the objective of producing products and providing services that meet customer satisfaction efficiently and effectively.

2.5.7 Balance scorecard

The balanced scorecard was developed by Norton and Kaplan (1992) and is perhaps the most well-known performance measurement framework. It is formulated to include financial measures that report results on customer satisfaction, internal processes, and the improvement activities – operational activities or measures that are drivers for the future financial performance (Kaplan and Norton, 1992). The Balance Scorecard suggests that managers should view organization's performance from four perspectives, namely; customer perspective, financial perspective, internal perspective and innovation and learning perspective.

Hanif and Manarvi (2010) evaluated the usage of a Balanced Scorecard approach in 38 Pakistani small scale enterprises from the manufacturing and service sectors. The researchers revealed that despite the limited knowledge of managers on this approach, performance measurement in the small scale enterprises was not purely financial. Indeed, manufacturing companies were more concerned about quality and productivity measures such as product functionality, product quality and the input/output ratio.

2.5.8: Conclusion

From the literature review, the empirical findings have depicted mixed results from the empirical studies conducted in different sectors other than the tourism industry; Kimeu (2013), Otumba (1995), Ojochogwu and Ojeka (2012). The above theories have indicated that there exists a positive relationship between tax incentives and financial performance of SSEs.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methodology used in this study. It covered the research design, study population, sample population, size, sampling procedures, data collection methods and their corresponding data collection instruments, data management and analysis procedures, reliability, validity and the ethical considerations limitations and delimitations of the Study.

3.1 Research Design

The study used a case study design considering both quantitative and qualitative approach using structured questionnaires, interviews and documentary review. A triangulation of quantitative and qualitative research techniques were adopted, in order to exploit the synergies offered by different methodologies. Both primary and secondary data were collected through interviews, and Questionnaires. The rationale for adopting the mixed approach design was to execute any research activity notwithstanding the paradigm and this was supported by Tashakkori and Teddlie (1998) in their submission that the mixed approach of research design has the advantages of one compensating for the weakness of the other.

3.2 Study Population

The study was to consider the following target population, senior managers, accountants and other employees in other departments. The study was to have a study population of 50

respondents from the Financial Institution Limited. The researcher chose a sample from the entire group of the population that he will investigate (Sekaran 2003).

3.3 Determination of the sample size

The sample is a collection of some (subset) elements of a population (Amin 2005). The study used a sample size of 44 respondents from a study population of 50 employees of Pride Microfinance Ltd as estimated basing on Krejcie and Morgan table (1970) as adapted by Sekaran (1999) for decision on sample size selection.

$$n = \frac{N}{1 + Ne^2}$$

Whereby n=sample size, N=Population, e=confidence level (0.05).

$$n = \frac{N}{1 + N(0.05^2)}$$

$$n = \frac{50}{1 + 50(0.05^2)}$$

$$n = \frac{50}{1.125}$$

$$n = 44$$

$$n = 44$$

$$1.125$$

= 44 respondents

In all, the study used a sample size of 44 respondents selected from a study population of 50 employees in the institution who were used to generate the needful information. The respondents were evenly selected from all the departments in the organization and all areas were represented.

3.5 Sampling Techniques and Procedure

3.5.1 Purposive Sampling

Sampling refers to the number of elements selected from a given population (Denscombe, 2014). Sample size determination is the act of choosing the number of observations or replicates to include in a statistical sample (Singh, 2008) hence purposive sampling was subjected to the Human Resource officer, Managers and Supervisors. It was used because it was best suited for selecting information rich cases for in depth study.

3.5.2 Simple random sampling

Cooper and Schindler (2001) state that sampling refers to the process by which part of the population is selected and conclusions are drawn about the entire population. Simple random sampling was also subjected to other employees so as to give equal chance to all members in the study population.

3.6 Data Collection Methods

Schindler (2011) states that data collection methods refer to the process of gathering data after the researcher has identified the types of information needed which is; the investigative questions the researcher must answer, and has also identified the desired data type (nominal, ordinal, interval or ratio) for each of these questions and also ascertained the characteristics of the sample unit that is, whether a participant can articulate his or her ideas, thoughts and experiences. The researcher used both primary and secondary data collection methods. Both qualitative and quantitative techniques were used. The study used questionnaire surveys, interviews and documentary reviews.

3.6.1 Questionnaire Survey

Sampling techniques according to Blumberg et al (2008) is a scientific method of selecting the sampling units that would offer the requisite estimates with their related margins of uncertainty. This is a formulated written set of questions that were used to obtain information about the study objectives from the study population. The questionnaire was also used because respondents could read and write the answers, the respondents were willing to answer the questions honestly and was less expensive for data collection. The respondents recorded their answers within closely defined alternatives. In this study the questionnaires were hand delivered to the respondents. The questionnaire was subjected to the respondents from the other departments. The questionnaire method helped me to get the information and data concerning the topic of my study. The researcher set close and open ended structured questions on a sheet of paper arranged according to the study objectives. These questionnaires were distributed to the employees to fill in the possible answers.

3.6.2 Interview

This method of data collection also involved the researcher and the respondent to meet physically. The respondent answered the questions that were asked. Interviews were employed because they were easily adaptable and effective since they encourage probing for deeper information on part of the researcher. The interviews were structured and thus comprised of a set of issues on which the researcher wished to draw data and the same questions were posed to the respondents using a guide to conduct the interview. The researcher interviewed the Human Resource officer, Managers and Supervisors. This meant that possibilities of rigidity which could be associated with interviews were eliminated (Bryman, 2008; Mutasa, 2010).

3.6.3 Documentary review

Document analysis involved reviewing existing published and unpublished information relating to the topic under investigation. The researcher reviewed publications and reports from the Financial Institution and other research generated documents, journals and reports. References from which data was drawn were recognized in the study.

3.7 Quality Control /Validity and Reliability).

3.7.1 Validity

The researcher made sure that the questionnaire and interview guide was approved by experts to avoid ambiguity of the questions that needed several answers. This aimed at finding out whether the instruments could achieve the required results. The questionnaire was subjected to expert face validity and theoretical content validity tests.

3.7.2 Reliability

To ensure reliability of the instruments necessary adjustments were done. The revised instruments were administered before being used for data collection. Administration of the instruments was prepared in clear and in an understandable language. This greatly contributed to getting valid and reliable information.

3.8 Measurements of variables (Quantitative Studies).

The variables were measured by operationally defining concepts. These were channeled into observable and measureable elements that enabled the development of an index of the concept. A

five stage like scale based on (5) strongly agree, (4) agree, (3) not sure (2) disagree, (1) strongly disagree was used to measure both the independent and dependent variables.

3.9 Ethical Considerations

The major ethical issues that the researcher faced include; informed consent, deception and confidentiality as in the Bailey's book. The research was steered by the principles guiding ethical concerns in social science research (Mutasa, 2010). In this way, the researcher followed the principles of harm to participants, lack of informed consent, invasion of privacy and deception (Bryman, 2008). The data collected from various sources was treated with secrecy, honest and handled in the most reliable manner. It was only exposed to the beneficiaries concerned who viewed it as reliable, truthful and dependable. Hence the researcher obtained clearance for the study and consent after persuading the respondents that the research was made for study purposes.

3.9.1 Limitations and Delimitations of the study

In pursuing this investigation and study, lots of impediments and obstruction were encountered as the research was progressing. All these impediments were expected to bring about a conspicuous clause with the research work. They included;

- Lack of relevant data due to poor responses
- Time constraint
- And financial conditions.

However, the research overcame them in the following way;

The researcher translated the language used in the questionnaires and oral interviews to easy and possible language that were understood by every respondent to avoid poor responses from the respondents. The researcher used a time schedule to program herself well for each and every expected activity that was performed. This enabled her to complete everything in time. The researcher borrowed money from the closest friends and relatives to enable her overcome the constraints of financial shortages under matters which needed funding to facilitate the researcher's fieldwork with a lot of ease.

3.9.2: Conclusion

The chapter has provided an insight on the how the research study was carried out. A descriptive cross sectional survey was used where both qualitative and quantitative approaches were adopted. The study also affirms the population from which the sample size was determined which was based on Krejcie & Morgan table (1970). Though, during the study certain challenges were faced by the researcher which is also highlighted; solutions to the challenges are provided too.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS.

4.0 Introduction

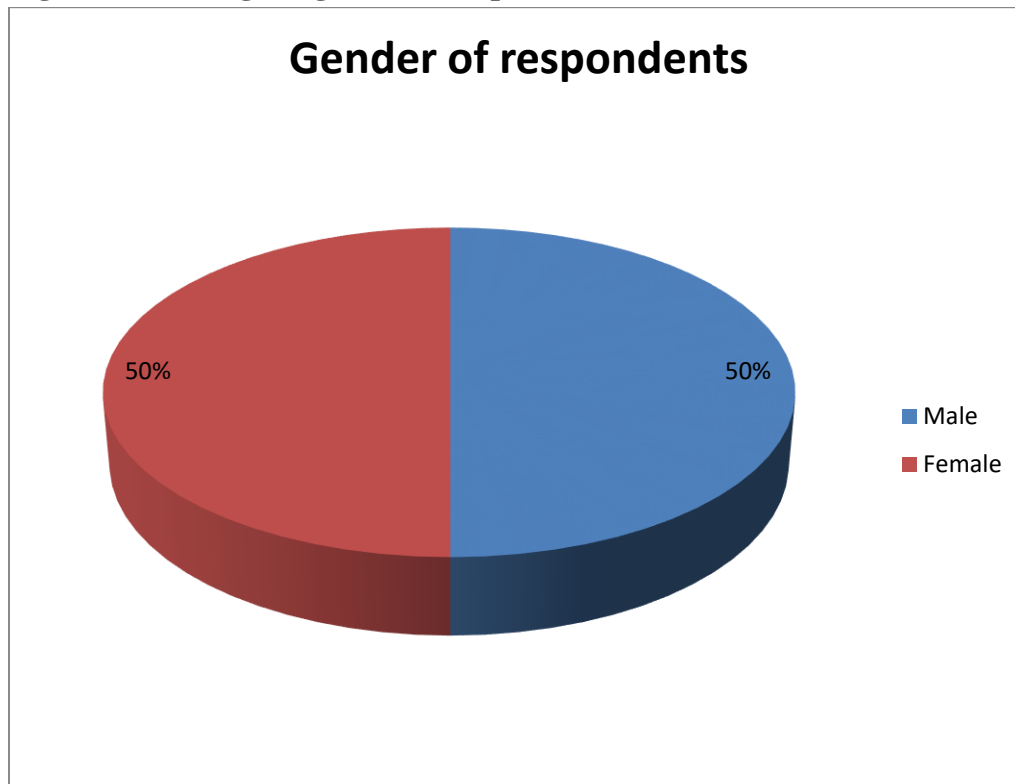
This chapter presents analysis and findings of the study as earlier on set out in the research methodology. The study findings were presented to establish the impact of tax incentives on the financial performance of small scale enterprises, using a case study of a few selected small scale enterprises in Masaka Municipality. They were presented and analyzed using frequency tables and percentage. The data was gathered exclusively from the questionnaire as the research instrument which was designed in line with the objectives of the study.

4.1 Personal data

The researcher investigated the gender, the level of education, position of respondents and the experience of respondents. The purpose of this was to discover if there is any relationship between gender, education level, and experience of respondents.

4.1.2 Gender of respondents

Figure 2: showing the gender of respondents

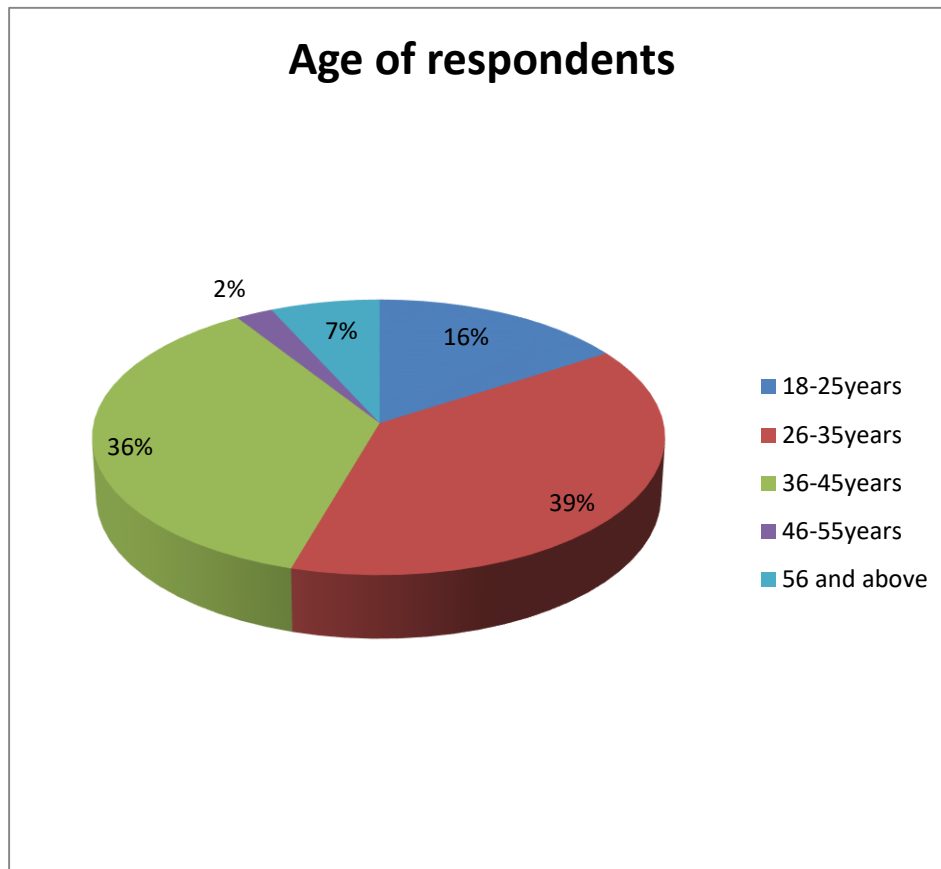


Source: Primary Data

From the tabulated findings above, it was revealed that the number of male respondents' who participated in the research study was the same the number of females who participated in the research study 50%. This implies there was gender balance during the selection of the participants using simple random sampling, this prevented bias that would disrupt the validity and reliability of data.

4.1.2 Age of respondents

Figure 3: Showing the Age of respondents.

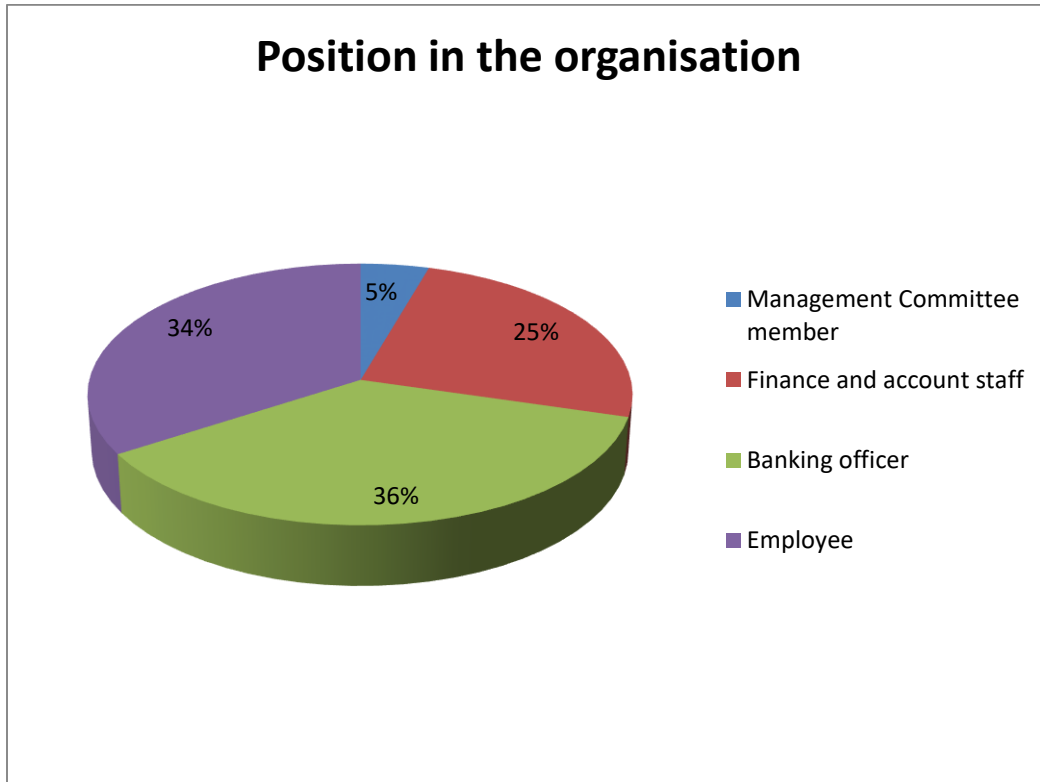


Source: Primary Data

From the findings tabulated in the table above; 39% of the majority of the respondents were in the age bracket of (26 – 35) years, followed by 36% of the respondents in the age bracket of (36 – 45) years, followed by 16% of the respondents who were in the age bracket of (18 – 25) years, 7% of the respondents in age bracket of (56 and above) years. This implies that most of SSEs selected by the researcher were operated by young male and female youths. The least category had a few respondents who were 56 and above years, a sign that implied that most the respondents who were above this age had retired.

4.1.3 Respondents' position in the organization

Figure 4: showing the respondents' position in the organization.

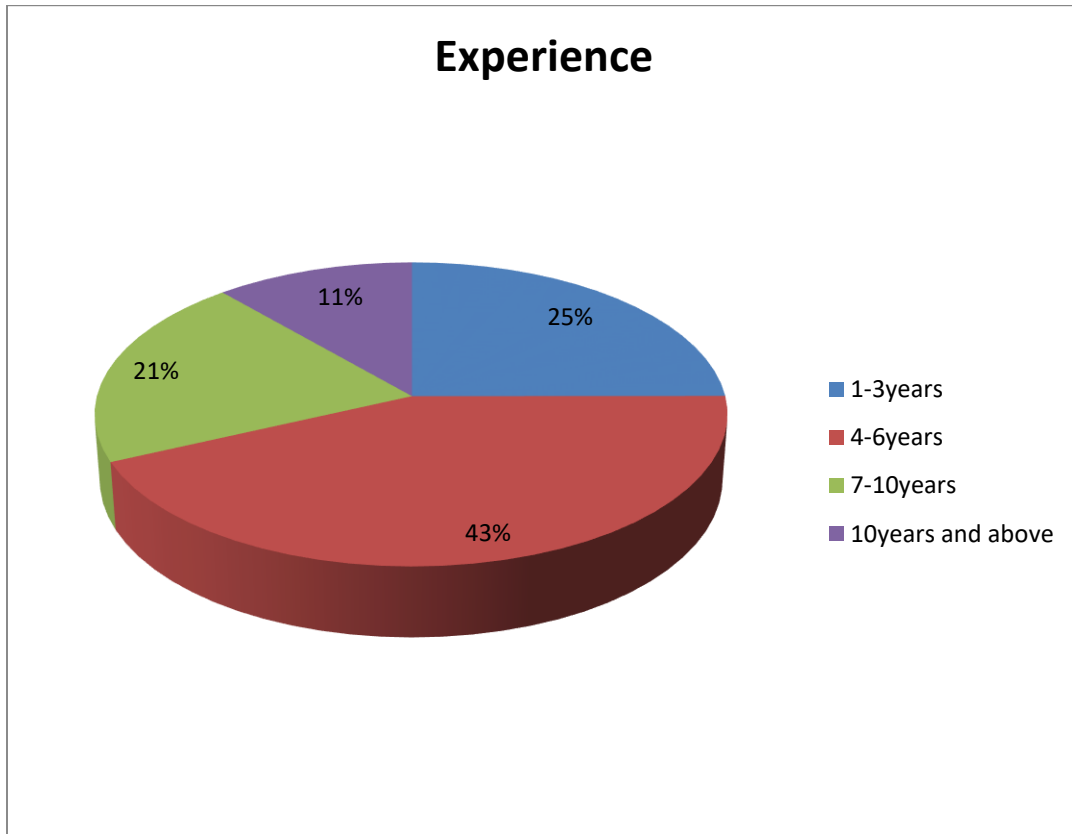


Source: Primary Data

Basing on the research findings tabulated in table 3, respondents occupied different capacities within their organization,; 36% of the respondents worked as banking officers, 34% of the respondents worked as employees, 25% respondents worked in the finance and accounts position, while 5% of the respondents worked as management committee members. This implies that most of the respondents who participated in the study were banking officers of the entity.

4.1.4 Working Experience

Figure 5: Showing working experience

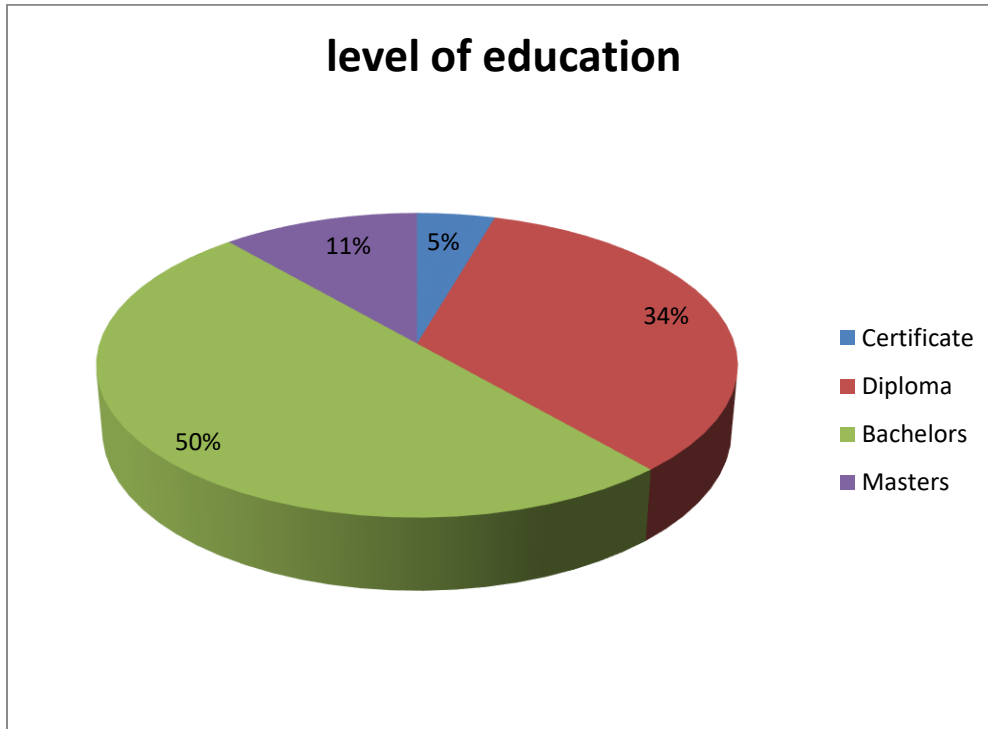


Source Primary Data

From the findings by the researcher; 43% of the respondents had experience that varied between 4 and 6 years, 25% of the respondents had experience that ranged between 1 and 3 years, 21% of the respondents had experience that varied between 7 and 10 years, 11% of the respondents had experience that was 10 years above. The results revealed that most of the respondents who participated in the study were still new in the field working hard to acquire better knowledge and skills.

4.1.5 Level of education

Figure 6: Showing the level of education



Source: Primary Data

Basing on the findings tabulated above; 50% of the respondents had a Bachelor's degree, 34% of the respondents had a diploma, 11% of the respondents, 5% of the respondents had certificates. The final results according to the researcher showed that most of the participants of the study had more knowledge and skills since they were highly educated.

4.1.6 Background general information statistics for respondents.

Table 1: Showing the Background general information statistics for respondents.

	Gender	Level of education	Position in the organization	Age bracket	Experience
Mean	1.50	2.68	3.00	2.45	2.18
Std. Deviation	.506	.740	.889	1.022	.947
Minimum	1	1	1	1	1
Maximum	2	4	4	5	4

Source: Primary Data

The presented findings above in the table 8, present the general information about the background initials of the respondents in more detailed and sophisticated way. It describes the gender, level of education, position in the organization, age bracket, and experience of respondents in a more detailed way.

4.2 Kinds of tax incentives and the financial performance of SSEs

4.2.1: Income Tax Act permits Tax Credit and double taxation treaties

Table 2: Showing Income Tax Credits and double taxation treaties.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	4	9.1	9.1	9.1
Disagree	4	9.1	9.1	18.2
Not sure	18	40.9	40.9	59.1
Agree	14	31.8	31.8	90.9
Strongly agree	4	9.1	9.1	100.0
Total	44	100.0	100.0	

Source: Primary Data.

From the presented findings tabulated above; 40.9% of the respondents were not sure, 31.8% of respondents agreed, 9.1% of the respondents strongly agree, 9.1% of the respondents disagree, 9.1% of the respondents strongly disagree. The results implies that majority of the respondents in the study were not sure about whether income Tax Act permits deduction on foreign tax payable.

4.2.2: Income tax provides Tax Exemption

Table 3: Showing Tax Exemption.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	4	9.1	9.1	9.1
Disagree	8	18.2	18.2	27.3
Not sure	8	18.2	18.2	45.5
Agree	12	27.3	27.3	72.7
Strongly agree	12	27.3	27.3	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the above tabulated findings in table 9; 27.3% of respondents agreed, 27.3 of the respondents strongly agreed, 18.2 of the respondents were not sure and disagree were 18.2. 9.1% of the respondents strongly disagreed. Since the majority agreed, it's an indication that income tax provides tax exemption.

4.2.3 Income Tax Act provides Capital deduction.

Table 4: Showing Capital deduction.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	5	11.4	11.4	11.4
Disagree	8	18.2	18.2	29.5
Not sure	10	22.7	22.7	52.3
Agree	13	29.5	29.5	81.8
Strongly agree	8	18.2	18.2	100.0
Total	44	100.0	100.0	

Source: Primary Data

Using the tabulated findings above, 29.5% of the respondents agreed, 22.7% of the respondents were not sure, 18.2% strongly agreed and also 18.2% of the respondents disagreed, 11.4% of the respondents strongly disagreed. Since the majority of respondents were in agreement with the researcher, it is a sign that income tax act provides capital deduction.

4.2.4: Income Tax Act provides Shipping Investment Deduction.

Table 5: Showing Shipping Investment Deduction.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	6.8	6.8	6.8
Disagree	12	27.3	27.3	34.1
Not sure	12	27.3	27.3	61.4
Agree	12	27.3	27.3	88.6
Strongly agree	5	11.4	11.4	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the table above, 27.3% of the respondents who agreed, were not sure and respondents who disagreed. 11.4% of the respondents however strongly agreed while 6.8% of the respondents strongly disagreed. Because the total percentage of those respondents who were disagreeing with the researcher was bigger than the total percentage of respondents who were in agreement with

the researcher, it implies shipping investment deduction provided by the income tax act never benefited the participants entities' who participated in the study.

4.2.5: Income tax provides Government Grants.

Table 6: Showing Government grants

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	5	11.4	11.4	11.4
Disagree	10	22.7	22.7	34.1
Not sure	7	15.9	15.9	50.0
Agree	14	31.8	31.8	81.8
Strongly agree	8	18.2	18.2	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the researcher's findings, 31.8% of the respondents were in agreement, 22.7% of the respondents disagreed with the researcher, and 18.2% of the respondents were in line with the researcher, 15.9% of the respondents were not sure, while 11.4% of the respondents strongly disagreed with the researcher's view. Because the biggest percentage of the majority was backed by an agree option, it is revealed that government provides grants.

4.2.6: General Summary of kinds of tax incentives Statistics.

Table 7: Showing the General Summary of kinds of tax incentives.

	Income Tax Act permits Tax credit and double taxation treaties.	Income Tax Act provide Tax exemption	Income Tax Act provides Capital deduction	Income Tax Act provides Shipping Investment Deduction	Income tax Act provides government grants
Mean	3.23	3.45	3.25	3.09	3.23
Std. Deviation	1.054	1.320	1.278	1.137	1.309
Minimum	1	1	1	1	1
Maximum	5	5	5	5	5

Source: Primary Data

The above table 13 provides a summary and general statistics about various kinds of tax incentives and their contribution in a detailed manner. It consists of deduction on foreign tax payable, tax exemption, capital deduction, investment deduction and government grants.

4.3 Relationship between tax incentives and financial performance of SSEs

4.3.1: Tax incentives aid the recovery of Capital expenditures.

Table 8: Showing the recovery of Capital expenditures.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	4.5	4.5	4.5
Disagree	7	15.9	15.9	20.5
Not sure	15	34.1	34.1	54.5
Agree	11	25.0	25.0	79.5
Strongly agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary data

Using the above information, it is revealed that majority of the respondents strongly agreed 200.5% and also agreed 25.0% with researcher’s suggestive question. This implied that tax incentives aid the recovery of capital expenditures incurred by SSEs.

4.3.2: Tax incentives encourage and stimulate economic activities.

Table 9: Showing how tax incentives encourage and stimulate economic activities.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	6.8	6.8	6.8
Disagree	8	18.2	18.2	25.0
Not sure	7	15.9	15.9	40.9
Agree	15	34.1	34.1	75.0
Strongly agree	11	25.0	25.0	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the findings presented above in the table 16; it is revealed that the majority of the respondents agreed with the researcher by percentages of 25.0% and 34.1%, an indication that tax incentives encourage and stimulate economic activities.

4.3.3 Tax incentives influence the development and growth of SSEs.

Table 10: Showing the influence of the development and growth of SSEs.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	7	15.9	15.9	15.9
Disagree	9	20.5	20.5	36.4
Not sure	6	13.6	13.6	50.0
Agree	11	25.0	25.0	75.0
Strongly agree	11	25.0	25.0	100.0
Total	44	100.0	100.0	

Source: Primary Data

Using the calculated data in the table above, results indicated that 25% of the respondents strongly agreed with the researcher and 25.0% of the respondents also agreed with the researcher the biggest percentages, implying that respondents' with SSEs who participated in the study their growth and development had been influenced by tax incentives.

4.3.4: Tax incentives have impact on investment and entrepreneurship of SSEs.

Table 11: Showing the impact on investment and entrepreneurship of SSEs.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	4.5	4.5	4.5
Disagree	5	11.4	11.4	15.9
Not sure	14	31.8	31.8	47.7
Agree	8	18.2	18.2	65.9
Strongly agree	15	34.1	34.1	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the above data presented, it is revealed that majority of the respondents with 34.1% strongly agreed with the researcher, 31.8% of the respondents were not sure with the researcher question, 18.2% of the respondents agreed with the researcher, however 11.4% of the respondents disagreed with the researcher question and 4.5% of the respondents strongly disagreed with the researcher. These shown that tax incentives have an impact on the investment of SSEs.

4.3.5: Taxation policy stimulates the development of SSEs.

Table 12: Taxation policy stimulates the development of SSEs.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	6.8	6.8	6.8
Disagree	8	18.2	18.2	25.0
Not sure	12	27.3	27.3	52.3
Agree	12	27.3	27.3	79.5
Strongly Agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the above data presented; it is revealed that the majority of the respondents were not in agreement with the researcher through 27.3% and 20.5% which totaled less than the total percentages of other responses, an indication that taxation policies never stimulate the development of their SSEs.

4.3.6: General summary of the relationship between tax incentives and financial performance of SSEs.

Table 13: Showing the General summary of the relationship between tax incentives and financial performance of SSEs.

	Tax incentives aids the recovery of Capital expenditures	Tax incentives encourage and stimulate economic activities	Tax incentives influence the development and growth of the SSEs	Tax incentives has impact on investment and entrepreneurship of SSEs	Taxation policy stimulates the development of SSEs
Mean	3.41	3.52	3.23	3.66	3.36
Std. Deviation	1.127	1.248	1.445	1.200	1.203
Minimum	1	1	1	1	1
Maximum	5	5	5	5	5

Source: Primary Data

The table above includes the general information of the relationship between tax incentives in relation to entities' performance summarized using various computations with the help of SPSS software program.

4.4 The Key financial performance measures of SSEs

4.4.1: Return on Assets (ROA)

Table 14: Showing the Return of Assets (ROA)

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	4	9.1	9.1	9.1
Disagree	6	13.6	13.6	22.7
Not sure	14	31.8	31.8	54.5
Agree	14	31.8	31.8	86.4
Strongly Agree	6	13.6	13.6	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the researcher’s point of view; the majority were the respondents who were not in agreement with the researcher in total indicated by percentages of 31.8%, 13.6%, and 9.1%, an implication that majority of the respondents had heard little about ROA as a measure of entity’s performance.

4.4.2: Rate of ROA measure of financial efficiency and profitability.

Table 15: Showing the Rate of ROA measure of financial efficiency and profitability.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	4	9.1	9.1	9.1
Disagree	9	20.5	20.5	29.5
Not sure	11	25.0	25.0	54.5
Agree	11	25.0	25.0	79.5
Strongly Agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary Data

Using the findings presented in the table above; again the majorities were the respondents who were not in agreement with the researcher in total indicated by percentages represented by 9.1%, 20.5%, 25.0%, an implication that majorities of the respondents knew little about ROA.

4.4.3: Return on Equity (ROE)

Table 16: Showing the Return on Equity (ROE)

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	6	13.6	13.6	13.6
Disagree	6	13.6	13.6	27.3
Not sure	13	29.5	29.5	56.8
Agree	10	22.7	22.7	79.5
Strongly Agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary Data

Using the presented data in the table, the majorities of the respondents were not sure about the performance of debt in the capital structure; this revealed that majority of the respondents in their SSEs had not employed ROE to find out its benefits as a measure of business performance.

4.4.4: ROE is also useful measure of the performance of the firm owners.

Table 17: Showing that ROE is a useful measure of the performance of the firm owners.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	9	20.5	20.5	20.5
Disagree	5	11.4	11.4	31.8
Not sure	10	22.7	22.7	54.5
Agree	11	25.0	25.0	79.5
Strongly Agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the table above, the majority of respondents with 25.0% agreed with the researcher question, 22.7% of the respondents were not sure with the researcher question, 20.5% of the respondents strongly agreed with the researcher, however 20.5% of the respondents strongly disagreed and 11.4% of the respondents disagreed. This shown that Return on Equity provides useful measure of the performance of the firm owners.

4.4.5: Profitability, Return on Asset and Equity.

Table 18: Showing the profitability, ROA and Equity.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	7	15.9	15.9	15.9
Disagree	5	11.4	11.4	27.3
Not sure	8	18.2	18.2	45.5
Agree	15	34.1	34.1	79.5
Strongly Agree	9	20.5	20.5	100.0
Total	44	100.0	100.0	

Source: Primary Data

With the presented and calculated data in the table above; it is evident that 34.1% of the respondents agreed with the researcher's suggestive question, 20.5% of the respondents strongly agreed with the researcher as well. However; 18.2% of the respondents were not sure, 11.4% of the respondents had disagreed, and meanwhile 15.9% had also strongly disagreed with the researcher. It is shown that the majority were those respondents who were in line with the researcher, a sign that implied that financial measures are focused on profitability, ROA, Equity.

4.4.6: Balance scorecard

Table 19: Showing the Balance scorecard.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	6.8	6.8	6.8
Disagree	12	27.3	27.3	34.1
Not sure	8	18.2	18.2	52.3
Agree	14	31.8	31.8	84.1
Strongly Agree	7	15.9	15.9	100.0
Total	44	100.0	100.0	

Source: Primary Data

From the table above, the majority of respondents with 31.8% agreed with the researcher's questions, 27.3% of the respondents disagreed with the researcher question; however 18.2% of the respondents were not sure, meanwhile 15.9% of the respondents strongly agreed with the researcher and 6.8% of the respondents strongly disagreed with the researcher. It is shown that the majority of the respondents suggested that the balanced scorecard is the financial performance measures of SSEs are drivers for the future financial performance.

4.4.7: General and summary of the key financial measures of entity's performance.

Table 20: General and summary of the key financial measures of entity's performance.

	ROA provides a measure for assessing the overall efficiency	ROA is the single best overall measure of operating performance	Rate of ROA measure of financial efficiency and profitability	Rate of ROE provides useful information about the debt	Financial measures are focused on profitability, ROA, Equity	Balance scorecard is formulated on customer satisfaction	ROE is also useful measure of the performance of the firm owners
Mean	3.55	3.27	3.27	3.23	3.32	3.23	3.14
Std. Deviation	1.210	1.149	1.264	1.309	1.360	1.217	1.424
Minimum	1	1	1	1	1	1	1
Maximum	6	5	5	5	5	5	5

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.0 Introduction

The current chapter presents the summary, conclusions and recommendations of the findings that are presented objective by objective. The presentation was guided by the three research questions which guided the whole process of data collection and analysis. They included;

- Examine the various kinds of tax incentives that determine the financial performance of SSEs?
- Find out the relationship between tax incentives and financial performance of SSEs?
- Assess the key financial performance measures of SSEs?

5.1 Summary Findings.

5.1.1 Kinds of tax incentives that determine the financial performance of SSEs.

The findings revealed that the Government of Uganda imposes several fair types of taxes which aim in protecting home/infant industries (protectionism) and ensure fair competition among SMEs as high tax rates and tax complicity may discourage the growth of SSEs.

5.1.2 Relationship between tax incentives and financial performance of SSEs.

The tax incentives open doors for SSEs to report higher profits after tax. The tax incentive aids the recovery of capital expenditures incurred by SSEs especially during the current period of poor performance by the economy under which SSEs fall.

5.1.3 The key financial performance measures of SSEs

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Some of the indicators of financial performance are return on equity, liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios.

5.2 Recommendations and Conclusions

5.2.1 Conclusions

The study further revealed that there was a strong positive relationship between the study variables which concurs with Philips (2010) who observed that tax incentives will not only generate employment but will motivate the self-employed to incorporate into limited liability companies hence this will lead to improved profitability of the firm. From the findings on the SSEs, the study found out that tax incentives influenced the financial performance of SSEs in Uganda.

5.2.2 Recommendations

From the findings and conclusion, the study recommends that there is need for the government to review the performance and extension of tax incentives as the study revealed that most of the SSEs stakeholders were not aware of the various kinds of tax incentives that existed in relation to their impact on the performance of their SSEs. There is also need for the government to encourage provision of W&T which increases return on assets of SSEs found in Masaka district in Uganda.

5.3 Areas for Further Research

The study sought to establish the impact of tax incentives on performance of SSEs. While this study was done, it recommends a study to be done on the impact of Tax reforms on revenue collection by the Ugandan Revenue Authority. Further it recommends a study to be done on the effects of tax incentives on financial performance of SSE's in Kampala district. It also recommends a study on the effects of tax reforms on compliance of manufacturing firms in Uganda.

References

- Barbour, P. 2005. *An Assessment of South Africa's investment incentive regime with a focus on the manufacturing sector*, ESAU Working Paper 14, Overseas Development Institute, London.
- Barnet, K. & Caren, G. 2004. *Gender impact of government revenue collection*: London, United Kingdom.
- Boadway, R. & Shah, A. 1995. *Perspectives on the Role of Investment Incentives*, Fiscal Incentives for Investment and Innovation, Washington, DC: World Bank.
- Bolnick, B. 2004. *Effectiveness and Economic Impact of Tax Incentives in the Southern Africa Development Community (SADC) Region*, Gaborone, Botswana: SADC.
- Bronos, R. & McDonald, A. 2008. *Perspectives on the role of investment incentives*, Fiscal Incentives for Investment and Innovation, Washington, DC: World Bank.
- Chua, D. & Shome .1995. *Tax Policy Handbook, International, Monetary Fund*, Washington, DC: World Bank.
- Chukwumerije, T. & Akinyomi, O. 2011. *The impact of tax incentives on the performance of small-scale enterprises*, Redeemer's University, Ogun State, Nigeria
- Fletcher, K. 2003. *An Evaluation of Marginal Effective Tax Rates on Domestic Investment*, University of Witwatersrand.
- Musyoka, K. 2012. *The relationship between tax incentives and foreign direct investment*, University of Nairobi
- Ojochogwu, A. & Ojeka, A, 2012. *Relationship between tax policy, growth of SMEs and the Nigerian economy*, International Journal of Business and Management; 7 13.

Otumba, G. 1995. *ICAN 1995 Budget Review*

Pandy, I.M. 2005. *Financial Management*, New Delhi, India, Vikas Publishing House. Pass, L.C.

Philips, E. 2010. *Tax Incentive and employment opportunities in an economy*, Washington, DC: World Bank.

Sounders, M., Lewis, P. & Thornhill, A. 2009. *Research Methods for Business Students*, 5th Ed Pearson Education Limited

Wachira, D.W. 2011. *A survey of tax avoidance and incentives schemes*, University of Nairobi

Wadongo, B. Odhuno, E. Kambona, O. & Othuon, L. 2010. *Key performance indicators in the Kenyan hospitality industry: An International Journal*.

Wafula, B.W. 2010. *A survey of the incentives offered to housing developers in Kenya*. University of Nairobi.

Wells, L., Allen, N., Morisset, J. & Pirnia, N. 2001. *Tax Incentives to Compete for Foreign Investment*: Washington, DC.

Githaiga, I. 2013. *The impact of tax incentives on foreign direct investments*, University of Nairobi

International Bank for Reconstruction and Development (IBRD). (1998). Report No. EC – 102, 1998

Institute of Economic affairs. 2012. Tax incentives and exemption regime in Kenya: Is it working? Issue No. 30

Irish, C. 1978. *Studies on Taxation and Economic Development-* International income taxation and African Developing countries. VOL IV

Kaplan, D. 2001. *Rethinking Government Support for Business Sector R&D in South Africa*, The South African Journal of Economics, 69,1, 72-73

Kimeu, G. 2013. *The effect of tax reforms on financial performance of real estate firms in Kenya*, University of Nairobi

Kothari, C.R. 2004. *Research methodology*, 2nd Ed. New Delhi: New Age in International Publisher

Lee, S. 2008. *Ownership structure and financial performance: evidence from panel data of South Korea*, Corporate ownership and control, 6(2), 1-30.

Liargovas, P. & Skandalis, K. (2008). Factor affecting firms financial performance The Case of Greece, University of Peloponnese.

Lumpkin, G. & Dess, G. 1999. Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment, firm age, and industry life cycle, Journal of Business Venturing; Forthcoming;

Mainelli, M. & Giffords, B. 2010. Size matters: risk and scale, The Journal of Risk Finance, 11, 344-348. Marina , K. & Kilis, D. (2002). The Citizen's Guide to Taxation. Zagreb: Institute of Public Finance

Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.s



23rd/05/2018

Dear Sir/Madam,

LETTER OF INTRODUCTION

This is to introduce to you NALUWAGGA Noeline Reg. No. : 2015-B022-30028 who is a third year student of Business Administration & Management here at UMU-Masaka Branch. The student is required to carry out research as a requirement for the award of a Bachelors of Business Administration & Management.

Topic: The Impact of Tax Incentives on the Financial Performance of Small Scale Enterprises.

Case Study: Few Selected Small Enterprises in Masaka Town.

I would like to request you, therefore, to render our student any possible assistance in collecting the information needed.

Thanks very much.

Yours Sincerely,

Nabukenya Mary
Nabukenya Mary
Administrator



Appendix 2: Questionnaire

The impact of tax incentives on the financial performance of small scale enterprises, using a case of a few selected small scale enterprises in Masaka Municipality.

Dear Respondent, my name is **Naluwaga Noeline**. I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Bachelor’s Degree of Business Administration and Management at Uganda Martyrs University. The topic of study is the impact of tax incentives on the financial performance of small scale enterprises. You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality.

Please feel free and answer all the questions.

SECTION A

Respondent’s Background

1. Gender (Please tick appropriately).

Male

Female

2. What is your highest level of education?

Certificate

Diploma

Bachelor

Masters

Other (Specify).....

3. What position do you currently hold in the Organization/Institution that you work for?

Management Committee member

Finance and Accounts staff

Banking officer

Employee

4. In what age bracket do you fall? (Tick where appropriate).

18-25years

26-35years

36-45years

46-55years

56 and above

5. For how long have you served in your organization/bank?

1-3 years

4-6 years

7-10 years

10yrs and above

SECTION B

Kinds of Tax incentives and financial performance of SSEs.

Examine the various kinds of tax incentives and the financial performance of SSEs? Please (Tick) where necessary.

1– Strongly disagree, 2 – disagree, 3 – Not sure, 4 – Agree and 5 – Strongly agree

No.	Tax incentives and financial performance	1	2	3	4	5
1	Income Tax Act permits deduction of foreign tax payable in respect of income derived by a person resident in					

	Uganda as a credit against tax chargeable in respect of that income.					
2	The tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items.					
3	The Income Tax Act provides for various tax incentives through capital deductions.					
4	Income Tax Act provides that a resident person carrying on a trade and incurs capital expenditure on the purchase of a new ship for the purpose of trade shall claim 40% in the first year and 10% in each of the following six years for expenditures on purchase of a new and unused power driven ship of more than 495 tons gross.					
5	Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.					

2. State the different kinds of tax incentives that you know?

.....

.....

3. How often does your enterprise receive tax incentives?

.....

.....

4. Have the tax incentives improved the performance of your enterprise in any way?

.....

.....

5. Discuss the various kinds of tax incentives well known to you?

.....

.....

SECTION C

Relationship between tax incentives and financial performance of SSEs.

Rate each of the following items as; 1, 2, 3, 4, 5 where (1) will imply strongly disagree (2) for disagree (3) for not sure, (4) for agree and (5) for strongly Agree.

No.	Statement	1	2	3	4	5
1	The tax incentive thus aids the recovery of capital expenditures incurred especially during the current period of poor performance.					
2	Tax incentives are meant to encourage and stimulate the economic activities of enterprises and investments.					
3	Different policy incentives are able to influence the development and growth of the Small scale sector.					
4	The level of taxation has a great impact on investment and entrepreneurship.					
5	Taxation policy should be developed in such a way that it					

	would stimulate rather than stop the development of enterprises					
--	---	--	--	--	--	--

2. Discuss the relationship between tax incentives and financial performance in SSEs?

.....

3. What will be the consequences of reducing tax incentives towards the financial performance of SSEs?

.....

4. What will be the consequences of increasing tax incentives towards the financial performance of SSEs?

.....

5. Discuss the various ways how tax incentives can affect the financial performance of SSEs?

.....

6. To what extent are tax incentives related to financial performance of SSEs?

.....

SECTION D

The Key financial performance measures of SSEs.

Rate each of the following items as; 1, 2, 3, 4, 5 where (1) will imply strongly disagree (2) for disagree (3) for not sure, (4) for agree and (5) for strongly Agree.

No.	Statement	1	2	3	4	5
1	ROA provides a measure for assessing the overall efficiency with which the assets are used to produce net income from operations.					
2	Return on assets is probably the single best overall measure of operating performance.					
3	The rate of return on assets measure is itself the product of a measure of financial efficiency and a measure of profitability.					
4	The rate of return on equity (ROE) provides useful information about the performance of debt in the capital structure.					
5	ROE is also a very useful measure of the performance of the firm owners' invested or equity capital.					
6	Financial measures are typically focused on profitability, market value of the firm, return on assets, investment and equity, liquidity and various other ratios.					
7	Balance scorecard is formulated to include financial					

	measures that report results on customer satisfaction, internal processes, and the improvement activities – operational activities.					
--	---	--	--	--	--	--

2. Assess 3 key financial performance measures of SSEs well known to you?

.....

.....

3. How are the key financial measures employed to assess the financial performance of SSEs?

.....

.....

4. Mention 2 key financial measures that are employed by your enterprise to assess its financial way of performing?

.....

.....

“THANKS FOR YOUR TIME AND PARTICIPATION”

**APPENDIX 3: TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN
POPULATION**

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size "S" is sample size.

Appendix 4: Work Plan

MONTH	ACTIVITY
23 rd April, 2018	<ul style="list-style-type: none">• Submission of the 1st draft of the proposal to the research supervisor.
14 th May – 30 th May , 2018	<ul style="list-style-type: none">• Submission of 2nd draft to Research Supervisor
31 st May, 2018	<ul style="list-style-type: none">• Submission of final copy entire to the BAM office.

Appendix 5: Budget Research Frame Work

ITEMS	QUANTITY	UNIT COST (UGX)	TOTAL COST (UGX)
Stationery			
Ream of paper	1	12,000	12,000
Pens	1	500	500
Note book	1	1,500	1,500
Research Proposal			
Printing of proposal	1	10,000	10,000
Binding	1	3,000	3,000
Dissertation			
Airtime	-	20,000	20,000
Transport	-	25,000	25,000
First draft printing	1	15,000	15,000
Compact Disk (CD)	1	2,000	2000
Printing final copy	2	25000	50,000
Binding	2	3000	6000
Miscellaneous	-	15000	15000
TOTAL COSTS:			160,000