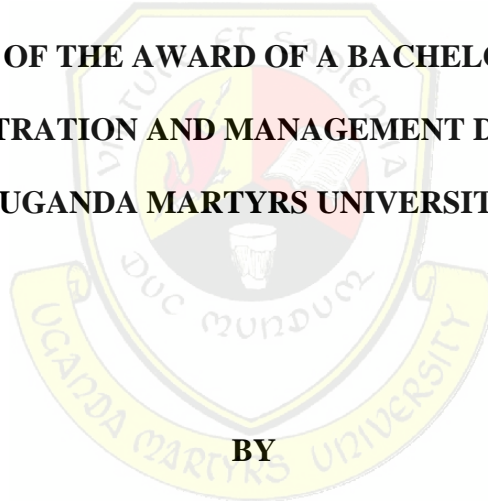


**THE EFFECT OF TAX ON THE PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN UGANDAN RURAL AREAS**

**CASE STUDY: KAYABWE TRADING CENTRE, MPIGI DISTRICT.**

**A RESEARCH REPORT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE AWARD OF A BACHELOR OF BUSINESS  
ADMINISTRATION AND MANAGEMENT DEGREE OF  
UGANDA MARTYRS UNIVERSITY**



**BY  
EMURON PETER**

**2011-B021-10094**

**Supervisor**

**DR. SIMEON WANYAMA**

**April 2014**

## **Dedication**

To all family members in particular, my grandmother Akello Francise for her commendable efforts in supporting me entirely during my school time ever since my childhood.

The Odeke family, Apio Ann, Alan Tingu, My mother Anyait Beatrice and Irene, Doreen.A, Emuron Joseph. Ouma patroba, Asio Shamela, Amuyan and Amuge, Wakida family, Aruo family, Chagga Gurdip and Maggie and Emuron Ann My supervisor Dr. Wanyama

Special thanks go to my best friend Ariko David for supporting me academically, morally and socially. Without him my academic progress would be sub-standard and not forgetting Otto Joseph who has always been supportive in all aspects of my entire campus life.

Lastly I dedicate to Sebina Benon, Agaba Bridget, Akena Sammuel, Okot Moses, Tovich, Toby, chalicima Paul and Baba Kakoza.

## **Acknowledgement**

I wish to extend my indebtedness to all the people who have contributed to the successful completion of this research. My greatest thanks go to my dear supervisor Dr. Wanyama whose kindness, guidance and encouragement were vital for the successful completion of this project.

Special thanks go to my grandmother Akello.F, Gurdip.C, Maggie and the whole family members for laboring to educate me.

I also extend my heartfelt thanks to the community of Kayabwe Trading Centre in Mpigi district for all the contributions they made especially in filling the questionnaires. You really did commendable work.

Finally I extend my thanks to God almighty and my friends especially Ariko David, Agaba Bridget for their tireless support during my studies.

God Bless you!

## TABLE OF CONTENTS

DECLARATION .....	i
Approval.....	ii
Dedication .....	iii
Acknowledgement.....	iv
Definition of concepts .....	ix
List of abbreviations/ acronym.....	xi
Abstract .....	xii
<b>CHAPTER ONE.....</b>	<b>1</b>
<b>1.1 Introduction .....</b>	<b>1</b>
1.1.1 General introduction.....	1
1.2 Background of the study .....	5
1.3 Problem statement .....	7
1.4 OBJECTIVES OF THE STUDY .....	8
1.5 Research Questions .....	9
1.6 Scope of the study .....	9
1.7 Significance of the Study .....	9
1.8 Conceptual Framework .....	11
<b>CHAPTER TWO.....</b>	<b>13</b>
<b>2.1 LITERATURE REVIEW .....</b>	<b>13</b>
Introduction .....	13
2.2 Meaning and scope of taxation and Small and medium enterprises .....	13
2.3 Different types of taxes paid by SMEs.....	16
2.4 Principles of a good tax system.....	18
2.5 Requirement of a Good Tax Structure / System .....	21
2.6 Small scale and medium enterprises and their contributions to the tax revenue.....	22
2.7 Small scale and Medium enterprises and factors affecting their operations .....	25
2.8 Recommendations to SMEs .....	28
<b>CHAPTER THREE .....</b>	<b>30</b>
<b>3.1 RESEARCH METHODOLOGY.....</b>	<b>30</b>
Introduction .....	30
3.2 Types of data .....	30
3.3 Research design.....	30
3.4 The study population and sampling .....	32
3.5 Sampling techniques .....	32
3.6 Data collection methods and tools .....	32
3.7 Pre-testing and interview process.....	34

3.8 Data analysis .....	34
3.9 Validity .....	35
3.10 Reliability .....	36
3.11 Ethical consideration .....	36
3.12 Limitations of the study.....	37
<b>CHAPTER FOUR.....</b>	<b>39</b>
<b>1.1 DATA PRESENTATION AND ANALYSIS .....</b>	<b>39</b>
4.2 Introduction .....	39
4.3 Background information about the respondents.....	39
<b>CHAPTER FIVE.....</b>	<b>54</b>
<b>5.1 SUMMARY OF FINDINGS AND RECOMMENDATIONS .....</b>	<b>54</b>
5.2 Summary and Findings.....	54
5.2.1 Contribution of SMEs to Ugandan’s tax revenue .....	54
5.2.2 The effect of tax on the performance of SMEs .....	54
5.2.3 Perception between public service deliveries and tax revenue .....	55
5.2.4 Other factors affecting SMEs other than tax .....	55
5.3 Conclusion.....	56
5.4 Recommendations .....	57
5.5 Suggestions for further research.....	58
References .....	59
Appendix i.....	63
Appendix ii.....	68
Appendix iii.....	69
Appendix iv .....	70

## **TABLE OF LISTS**

Table 1: Small business tax payer's rate.....	17
Table 2: share of local taxes in local margins, by sales quarterly in Rural and urban business in 6 Ugandan districts, 2003.....	24
Table 3: Respondents by gender (Sex) .....	39
Table 4: Age of respondents.....	40
Table 5: Income per month of the respondent .....	42
Table 6 showing the major factors influencing SMEs in Kayabwe .....	43
Table 7 duration of operation .....	44
Table 8 Taxes paid by SME's .....	46
Table 9 showing the perception of service delivery .....	48
Table 10 showing the rationale for tax payment by SMEs .....	50
Table 11 showing the effect of tax on SMEs profitability .....	51

## **Table of figures**

Figure 1 Occupation of the respondents .....	41
Figure 2 Challenges encountered by small-scale enterprises.....	45
Figure 3 Frequency of tax payment.....	47
Figure 4 showing possible recommendations to improve tax policies .....	52

## **Definition of concepts**

### **Small scale enterprises**

A small scale enterprise is one which is independently owned and operated and not so dominant in its field of operation UNHS (2005/08) such enterprises take into account the example of retail shops, taxi owners and operators, boda–boda cyclists, carpentry workshops, mental works, maize and groundnuts mills, hair salons, bar and restaurants, among others. Further the number of small scale enterprises grew by about 11% between 2002 and 2006.

Kasekende and Opondo (2003) noted that Small scale enterprises would generally mean enterprises with less than 50 workers and medium size enterprises would usually mean those that have 50 -99 workers. In Uganda, a small scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 5 0 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US\$ 30,000), and the annual income turnover of between Ugshs.10 -50 million (US\$6,000 - 30,000). A Medium sized enterprise is considered a firm, which employs between 50 - 100 workers.

### **Tax**

Uganda Revenue Authority (2011) defines tax as a monetary charge imposed by the government on persons, entities, transactions or property to yield public revenue. Taxation is the price we pay for government services and is a compulsory payment by individuals to the government.



## **Performance**

Kitinisa (2004) describes performance of small scale business as the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organisation include; survival, profit making and expansion.

## **List of abbreviations/ acronym**

SMEs	small and medium enterprises
OECD	Organization for Economic Co-operation and Development
UNPFA	United Nation Population Fund Activities
SBA	Small Business Act
BoU	Bank of Uganda
UMA	Uganda Manufactures Association
MSES	Micro Small and Medium Enterprises
AICPA	American Institute of Certified Public Accountants
UNIDO	United Nations Industrial Development Organization
UEB	Uganda Electricity Board
URA	Uganda Revenue Authority
UNHS	Uganda National Households survey
MSES	Micro Small and Medium Enterprises
VAT	Value Added Tax
PAYE	Pay As You Earn
SHS	Shillings
UG	Uganda

## **Abstract**

The study was carried out to determine the effect of tax on the performance of small and medium enterprises (SMEs). The objectives included to establish the perception between public service delivery to their contribution to the tax revenue, to establish policies for improving tax policy and practices for small and medium enterprises

The study was carried out involving a collection of both quantitative and qualitative data Sources. Primary data was collected using questionnaires and secondary data from, text books and journals. The findings revealed that taxation as a policy negatively affects a number of SME's in that public service sector is rotting in contrast to their tax payments which means SMEs don't get value for their money; profits which would have been ploughed back into the business are eroded away by tax.

Recommendations include; sensitization of income tax payers by URA officers in form of tax education should be done regularly. URA should also train their staff about tax assessment and collection methods as well as how to handle tax payers and small scale beginners regardless of the size and level of gross annual turnover should be exempted from income tax deposits

## **CHAPTER ONE**

### **1.1 Introduction**

This chapter presents the background, statement of the problem, objectives of the study, research questions, purpose of the study, significance of the study, scope of the study and the conceptual framework.

#### **1.1.1 General introduction**

Uganda Revenue Authority (2011) defines tax as a monetary charge imposed by the government on people, entities, transactions or property to yield public revenue. Taxation is the price we pay for government services and is a compulsory payment by individuals to the government. Younkins (2012) noted that if taxes were voluntary contributions, then many persons would quite likely not want to pay their shares unless they knew that everyone else would pay their share. While a tax policy is defined as what dictates where tax burdens shall lie. Politicians dictate the type of tax structure they wish to implement, hopefully keeping in mind how their policies and laws will affect the individual and businesses. Tax policy is a concerned reasoning behind how much revenue the government is collecting, what the revenue is being used for, and whether the government is collecting revenue in the most appropriate way (Edgar and Sandler, 2005).

Grant Thornton (2013) noted that the income tax rate for individuals depends on the income bracket in which the individual falls. Resident individuals enjoy a tax free annual income threshold of UGX. 2,820,000 per annum. The balance is taxed at 10%, 20% or 30% depending on the income bracket. For example a person who earns 2,820,000 to 4,020,000 is charged 10%, 4,020,000 to 4,920,000 is charged 20% and 4,920,000 to 120,000,000 is charged 30% and individuals who earn above UGX 120,000,000 per pay, an additional 10% on the income above

120 million is charged. In Uganda, the Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labor, pensions, interest and dividends. The benchmark we use refers to the Top Marginal Tax Rate for individuals. Revenues from the Personal Income Tax Rate are an important source of income for the government of Uganda.

For that reason, the approaches to employment creation all over the world have taken different forms depending on the country's specific objectives. Most significantly, emphasis has been put on skills development through education and training as put forward by the United Nations Population Fund (UNPFA, 2005). Therefore in reflection to the many difficulties people face to secure employment, several governments and other service providers are devising new approaches to address unemployment especially among the youth and other social groups. In here, they believe in combining education and training for wage employment or self-employment, and the promotion of small business enterprises (GOU/UNPFA, 2005).

Small and medium enterprises (SMEs) are part of an informal sector which helps to fill the gap of slow growth of the informal sector in the development of the country. There is no universal definition of SMEs (Opio, 2006). Definition depends on the number of employees, business turnover, assets and may vary from one economy to another. Small and medium Enterprises play a big role in the economy especially in the developing countries like Uganda. That is, they provide employment breeding ground for motivation in all sectors of the economy like the agriculture, mining and others; SMEs however much they have contributed to the economy, the growth is still slow.

Kasekende and Opondo (2003) noted that Small scale enterprises would generally mean enterprises with less than 50 workers and medium size enterprises would usually mean those that have 50 -99 workers. In Uganda, a small scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US\$ 30,000), and the annual income turnover of between Ugshs.10 -50 million (US\$6,000 - 30,000). A Medium sized enterprise is considered a firm, which employs between 50 - 100 workers.

According to <http://www.oecd.org/regional/leed/1918307>, SMEs are also defined as non subsidiary, independent firms which employ less than a given number of employees. This number varies across national statistical systems. The most frequent upper limit is 250employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most ten, or in some cases five, workers.

Onwe (2006) observed that Central Bank of Nigeria (2002) defined SME as a firm with capital outlay of not more than N200 m. National Council of Industry (2003) defined small industry as a project with capital investment of over N1.5 million but not more than N50 million and/or work force of between 1 to 100 workers.

A definition of small and medium scale enterprises which has enjoyed wider acceptance is the one given by the United States Committee for Economic Development (2002). It defined small scale enterprise as any enterprise that is characterized by, at least, two of the following features: management is dependent usually managers are also the owners; capital is supplied and

ownership is held by an individual or small group; area is localized; while workers and the owners are of one home or community, market need not be local; and the size of the firm is small relative to the industry.

In this age of globalization, taxation in most developing countries wants to become integrated with the international economy. However, they face significant challenges in this pursuit, including the need to increase tax revenues. Hence tax policy makers have to analyze the prevailing conditions in the country and determine the relevant mix of taxes that can raise sufficient revenue. Many developing countries, Uganda included, have increasingly begun to restructure their tax systems for this specific purpose. Despite numerous tax reforms that were intended to improve the economic and social situation by supporting infrastructure and increasing the quality of public goods provided by the government, the situation in Uganda remains fragile, and the country remains among the poorest in the world ([http://www.enteruganda.com/brochures/strategy\\_intro.html](http://www.enteruganda.com/brochures/strategy_intro.html)).

However, tax policy reforms were initiated as a key feature of reform programme to rebuild Government's revenue base, the main tax policy objective has been to raise public revenue rapidly and to increase tax revenue by 0.5% point of GDP per annum (Mugambe, 2007).

According to the Bank of Uganda Sector Report (2009), SMEs contribute to economic development through job creation, innovation, and the competitive disciplining of markets. This is a justification why developed, developing and emerging economies like Uganda have continued to recognize SMEs as a major economic entity, and SME performance, an opportunity for accelerating the country's sustainable economic growth.

The World Bank Symposium (1991) noted the link which was carried out in tax planning; between taxation policy and performance of SMEs so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/businesses that they would otherwise spend on private sector. This leads to loss of purchasing power which reduces the demand for units of products in the private sector.

## **1.2 Background of the study**

Since the 1960s to date, small and medium sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies (Yitzhaki, 2006)

In Uganda Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega, 2007).

Small and medium sized enterprises (SMEs) create for 60%-70% of employment and generate a large share of new jobs in OECD economies. They have specific strengths and weaknesses that may require special policy responses. As new technologies and globalization reduce the importance of economies of scale in many activities, the potential contribution of smaller firms is enhanced. (<http://www.oecd.org/regional/leed/1918307>)

Small and Medium Enterprises have been at the center of the policy debate for quite some time in both developed and developing countries, little analytical work has been undertaken in this area. The dearth information that exists among researchers on Small and Medium Enterprises however provides a sense of how important this sector is for sustainable development in



emerging economies (Medina, 2001). For instance, recent studies conducted by United Nations Industrial Development Organization (UNIDO) concur that SMEs are: labor-intensive, providing more opportunities for low-skilled workers, correlated with lower income distribution inequality, necessary for agriculture-dependent nations transitioning to an industrial and service oriented economy, excellent sites for innovation and sustainable initiatives due to their inherent flexibility and risk taking ability (Patricoff& Sunderland, 2005)

Globally, the growth of any economy is dependent on vibrant SMEs and when the reverse seems the case, the entire economy suffers. The stunted growth of the economy has often been blamed on many factors, top of which is the challenge of uncoordinated tax administration that has crippled production capacity of the SMEs (Yitzhaki, 2006). One of the major impediments to the growth of SMEs is the issue of taxation. Thuronyi (2009) says that taxes are heavy yokes that frustrates existing investors, and scares away prospective ones.

Therefore the target area of study is Kayabwe town council which is located in Mpigi district. At least 40 small scale business enterprises were selected in Kayabwe town council and almost all of them employ people. These small and medium businesses are locally owned and managed by private individuals who sometimes employ their family members. These small scale businesses bear a wide tax burden which has led to poor performance. Therefore, it was against this background that the researcher undertook the study to investigate more about the problem using Kayabwe town council as a case study to evaluate the impact of taxes on performance of small scale business enterprises.

### **1.3 Problem statement**

Prosspor(2013) notes that, many small businesses struggle to cope with what can be very large demands for income tax payments particularly where cash flow is an issue. In addition, many businesses face another potentially large tax bill after their income tax falls due. The stunted growth of the SMEs has often been blamed largely on the challenge of taxation (Gaskill at el, 1993).

In support with the above, taxation in general increases the costs of operation of running small and medium enterprises. To compensate for the increased costs of operation, prices on goods are raised thus causing the amounts of sales to go down. And the effects of reduced sales are reduced profits, reduced capital base and slow creation of employment resulting to slow growth (Thuronyi, 2009).

Therefore, a question that appears to generate surprisingly little debate in Uganda is the scope for legally mitigating taxes by individuals and SMEs. It is within this backdrop that the current study is established. Entrepreneurship is about change (Cantillon, 1730as quoted in Baer, 1993) and since entrepreneurs are innovators, they should devise ways and means of coping with the adverse and threatening effects of taxation in order to survive, grow and sustain their businesses. How then can Ugandan Individuals and business enterprises arrange their affairs within the current legal environment so as to minimize their tax burden? The current research will seek to answer this research question.

Derwent (2000) concluded that increased tax burden is a major threat on the overall growth of SMEs. A major area of concern therefore is how to reduce the effects of high tax burden on

SMEs. One contribution and response to this phenomenon, has been the role of entrepreneur's innovative characteristics (Stoner, 2002).

In developing countries like Uganda, the comparison of tax costs are difficult to measure and the few studies carried out on taxation have concluded that while total business tax costs tend to be higher for large companies, as a percentage of sales ,they are significantly also higher for SMEs (Osambo, 2009).

This therefore, prompted the researcher to investigate more about the impact of taxes on performance of small scale business enterprises.

## **1.4 OBJECTIVES OF THE STUDY**

### **1.4.1 General Objective**

The study sought to investigate the effect of tax on the performance of Small and Medium Enterprises in Kayabwe trading centre in Mpigi district.

### **1.4.2 Specific Objectives**

To establish the effect of tax on the performance of SMEs

To evaluate how Small and Medium Enterprises contribute to Uganda's tax revenue.

To establish the perception between public service delivery to SMEs contribution to the tax revenue

## **1.5 Research Questions**

1. What is the effect of tax on the performance of SMEs?
2. What is the contribution of Small and Medium Enterprises in Kayabwe trading centre to Uganda's tax revenue?
3. What is the perception of tax revenue on public service delivery in Kayabwe trading centre?

## **1.6 Scope of the study**

The study will focus on SMEs with the aim of assessing the effect of tax on Small and Medium Enterprises in Uganda with particular focus on Kayabwe trading centre located in Mawokota County in Mpigi District.

The major economic activities of the area include SMEs dealing in bakery, wood work, grain milling, Micro Finance Institutions, retail shops, supermarket, metal works and fabrications, salons (hair dressing), garages, transport (including Boda boda and taxis), which all fall under the SMEs.

The study will cover a period of 2006-2013, since this is the time when the activities of micro enterprises are believed to have experienced growth.

## **1.7 Significance of the Study**

The researcher hopes that the findings of the study will go a long way to improve the management of taxation in Uganda. In the first place, the findings will be useful to the Ministry of Finance in formulating a policy action plan to address the effect of tax on the performance of SMEs in Uganda. Similarly, the recommendations will provide useful suggestions to the players to enable them deal with the challenges facing the growth of SMEs.

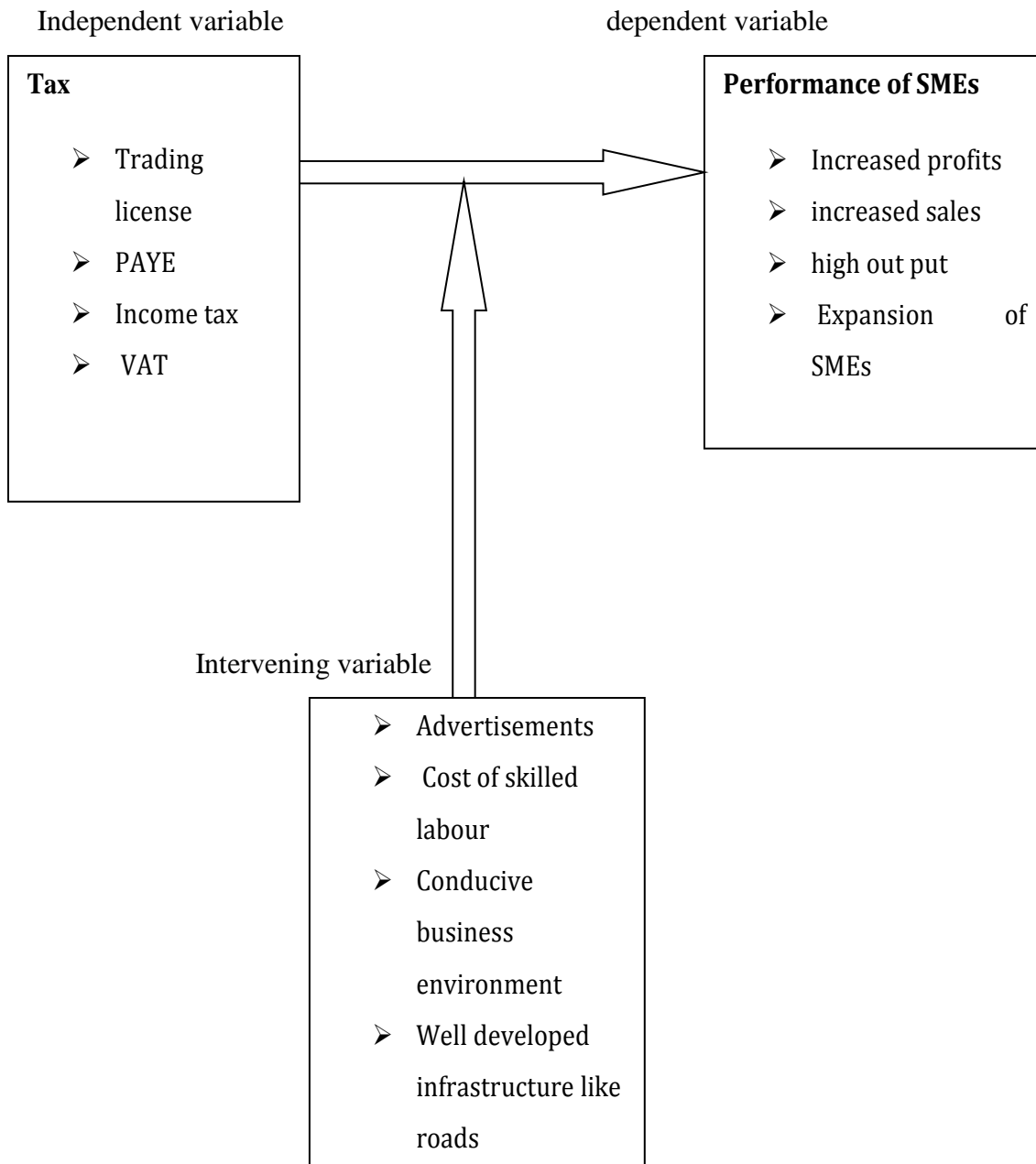
Furthermore, the outcomes of the study may become a very resourceful reference material to various stakeholders in the economy and readers in general interested in gaining more knowledge about the effect of taxation on the growth of SMEs

The study will disclose the benefits of targeting the informal sector (SMEs) by the government and other policy makers as a move to create employment to the people of Uganda.

Finally, the study results and recommendations may provide useful information to scholars keen on carrying out research in matters pertaining to taxation and their effect on the growth of SMEs.

## 1.8 Conceptual Framework

The model shows the relationship between tax and the performance of SMEs. The independent variable is tax and performance of SMEs as the dependent variable. The model shows how tax affects the performance of SMEs.



Source: primary data (2013).

From the above illustration, the independent variable which is tax that constitutes the trading license, PAYE, income tax and the VAT given to investors will go a long way in affecting public service delivery since the expected tax revenue will increase the real revenue. Besides good administration of the will encourage increased profits, increased sales and expansion. Additionally, intervening variables will determine the sales growth of any enterprise. Therefore if the tax policy is fair, with large enterprises being taxed more than small enterprises then sales growth will be achieved in both enterprises.

However, all the above performance of the SMEs are as a result of independent variables and also depends on intervening variables since the costs do affect the performance of SMEs too.

## **CHAPTER TWO**

### **2.1 LITERATURE REVIEW**

#### Introduction

This chapter will review the relevant literature to understand the above developed conceptual framework and deeper concepts highlighted in chapter one above. In this chapter, Review is done in respect to the meaning and scope of taxation and Small and medium enterprises, the different taxes levied on small and medium enterprises, principles of a good tax system, Small scale and medium enterprises and their contributions, Small scale and medium enterprises and factors affecting their activities.

#### **2.2 Meaning and scope of taxation and Small and medium enterprises**

Tumuhimbise (2000) noted that taxation refers to a compulsory and non refundable contribution enacted by government for public purposes. This payment is not followed by concurrent benefit in return the charge or levy is instituted by law.

According to <http://kalyan-city.blogspot.com/2010/12>, the tax revenue is the most important source of public revenue. A tax is a compulsory payment levied by the government on individuals or companies to meet the expenditure which is required for public welfare. According to Hugh Dalton, "a tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as penalty for any legal offence."

Balunywa (1998) argued that tax on the other hands is defined as a compulsory levy imposed by government up on assessment of various categories. This definition means that a tax is paid by



the assessors without a corresponding return in form of goods and services on government hence it is referred to as a non-*quid-pro-quo* payment (Balunywa, 1998).

A tax system, however, is a multi-layered, multi-dimensional accumulation of several types of taxes, as well as the consideration of non-tax revenue instituted by a government that combines to raise enough revenue to cover its necessary expenses. Assembling a tax system that achieves its principal purposes, such as raising enough revenue, maintaining efficiency, and is politically acceptable can be extremely tough waters to navigate.

According to Burns (1998), a small scale enterprise is defined as that enterprise that employs 1 to 10 people and is managed by its owners or part owners in a personalized way and not through the medium of a formalized management structure. The owner has overwhelming influence of the firm and his views determine activities of the organization.

In Uganda small scale enterprises have been separated into broader categories of micro-enterprises and small enterprises. Micro enterprises are defined as those employing less than five people, often family members, while small scale enterprises are those that employ a maximum of 50 people (Kloot.L 1999) however, notes that this distinction is not fixed as businesses often move from one level to another.

Bridge, O'Neill & Cromie (2003) noted Prior research documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation. The word enterprise has been used in a range of contexts and meanings. Arteetey (2000) adds that small-scale enterprises are those enterprises that employ one to twenty (1-20) people largely operating locally, and depend on internal

resources of capital. They range from manufacturing, retail trade, and construction to commercial services.

Small scale business is defined as one which is independently owned and operated, and not dominant in its field of operation. According to Small Business Act, 1953, it can also be defined in terms of sales volume and by the number of employees in the business. In Uganda, these businesses are very small employing up to a maximum of 50 people, who in most cases are members of the same family. They have working capital of less than USD 26,882 and revenue value of USD 5,376 - 26,882 throughout each year of operation.

In addition, Mbaguta (2002) noted they have an asset base of up to USD \$25,000. Bagazonzya (2003) added that the major activities of small scale businesses in Uganda are farming, buying produce, market vending, catering and confectionery, shop keeping, second hand clothing, health/herbal services, secretarial services, telephone services, handicraft, transport, and many others. The majorities of these operate in shared premises and are set up before they get licenses. Ownership and management is on family basis and as such has a small scale operation. It is labour intensive and skills are acquired on the job, often using adapted technology.

Keogh (2002) said that more than 50 percent of them fight an uphill battle from the start and fail in the first five years. Keogh (2002) further noted this is a common scenario for Ugandan small businesses, as most of them 'never celebrate their first anniversary.'

However, that the findings of a report by a Small Enterprise is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan Schillings 360 million and total assets of maximum Ugandan Schillings 360 million. A Medium Enterprise is defined as an enterprise employing more than 50 people; annual Sales/revenue turnover of

more than Ugandan Schillings 360 million and total assets of more than Ugandan Schillings 360 million.

There is a need for a coordination mechanism to enhance the development of the small scale enterprises sector. In general, recently small scale enterprises development policy has become an important part of development studies. In some countries, they have become the backbone of the economy. For instance, it is well conceived that small and medium scale enterprises account for more than 90 percent of all enterprises in developing countries. Furthermore, the small scale sector played an important role in classic development success stories for example Japan, Taiwan and Hong Kong. It is also recognized that small scale industrial employment makes up a high proportional of the employment in the entire industrial and manufacturing sector as well as the entire economy. Potential for employment creation in a country like Uganda through small enterprises is large for several reasons.

Practically, the small scale sector is an important segment of Uganda's industrial sector, as well as its agricultural sector, in terms of its contribution to employment, value output, regional development and growth.

### **2.3 Different types of taxes paid by SMEs**

Balunywa (1998) noted that the concept of taxation in Uganda is based on the system that existed in Britain since Uganda was a British colony. It is believed it begun in 1900 with the hut tax regulation which imposed standard charge for every hut or dwelling. It was followed by a poll tax; a tax that must be paid at the same rate by any adult in a given area, which is imposed and administered in non-government system characterized by a hierarchy of county and parish chiefs.

Atikoro (2006) further noted that, small scale enterprises are considered to be with capital investment including Capital ranging up to 100,000,000 and with less than so employees.

The sector will lead to another level especially from agricultural production to processing and marketing and also will provide local inputs to the manufacturing sector.

However, these enterprises like any other business in Uganda are liable to different types of taxes and these include income tax, pay as you earn (PAYE), corporation tax, and trading license, value added tax (VAT), capital gain tax, sales tax and customs duties that are paid at different stages of the business. (Balunywa 1988) for purposes of this study the emphasis is put on income tax which is levied on the incomes of all Ugandan residents.

According to the 1997 Income Tax Act, presumptive method for computation of tax liability is applied. There is always an option of either to pay a fixed amount or 1% of the annual gross turnover whichever is lower is always considered as shown in the table below;

Table 1: Small business tax payer's rate

Gross annual turn over	Tax liability/tax rates
Less than 5 million	Exempt
More than 5 million but less than 20 million	100,000
More than 20 million but less than 30 million	250,000 or 1% whichever is lower
More than 30 million but less than 40 million	350,000 or 1% whichever is lower
More than 40 million but less than 50 million	450,000 or 1% whichever is lower

Source: Income tax Act 1997.

## **2.4 Principles of a good tax system**

A good tax system is one which is designed on the basis of an appropriate set of principles (rules). The tax system should strike a balance between the interest of the taxpayer and that of tax authorities. Adam Smith was the first economist to develop a list of Canons of Taxation. When imposing any tax, some conditions have to be fulfilled for its easy implementation, administration and collection (Saleemi 1998). However in an attempt to achieve these, the following principles have to be observed. (Bhatia, 2003) noted these canons include simplicity, economic, convenience, flexibility and certainty among others.

These canons are still regarded as characteristics or features of a good tax system. At all levels of government national, state, and local the complexity of the various tax systems in place makes them extremely difficult to administer, let alone provide any meaningful analysis or proposal for improvement. Some might argue that a broad simplification of our tax laws would solve many problems. However, it is many of those complexities such as a mortgage interest deduction on our income tax return or even reduced property taxes for home steading taxpayers perceive as real and tangible benefits. As a result, they would be very difficult to remove from the system.

In 2001, the American Institute of Certified Public Accountants (AICPA) published a report outlining a set of ten principles to be followed in designing workable and fair tax systems. The following principles have been generally accepted and commonly cited as indicators of good tax policy. The weight and importance given to any one factor may vary from issue to issue, but all certainly maintain their relevance regardless.

## **Certainty**

AICPA (2001) noted that the tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined. Certainly helps to improve understanding and hopefully, compliance with the tax. According to Adam Smith, at the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax. Certainty generally comes from clear statutes as well as timely and understandable administrative guidance that are readily available to taxpayers.

## **Equity and Fairness**

Similarly situated taxpayers should be taxed the same. For example, two individuals with equal income should pay equal income taxes. The challenge posed by the principle of equity and fairness is in defining “similarly situated.” Adam Smith argued that the taxes should be proportional to income, i.e., citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state. While a tax system cannot be all things to all people and therefore cannot meet an all-encompassing definition of fair, in the context of good tax policy it is important to whether a tax system is perceived as fair (AICPA, 2001).

## **Convenience of Payment**

A tax should be payable when it is most likely to be convenient for the taxpayer. A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. Convenient tax system will encourage people to pay tax and will increase tax revenue besides convenience is important in ensuring compliance the more difficult a tax is to pay the more likely that it will not be paid (AICPA, 2001).

## **Economy in Collection**

The costs to collect a tax should be kept to a minimum for both the government and taxpayers. If the government will need to hire more revenue agents and collection officers to enforce the tax, this principle might not be met. This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. These costs include the administrative cost to the government as well as the compliance costs incurred by the taxpayer (AICPA, 2001).

## **Simplicity**

The tax law should be simple so that taxpayers can understand the rule and comply with them correctly and in a cost-efficient manner. Simplicity helps build and maintain respect for the tax system, which leads to improved compliance. Simplicity in the tax system is important both to taxpayers and to those who administer the various taxes. The tax system should not be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes (AICPA, 2001).

## **Neutrality**

The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum. The purpose of taxes is to raise revenue for government operations. The tax system's central aim should be to minimize distortions in the economy, and to interfere as little as possible with the decisions of free people in the market place (AICPA, 2001).

## **Transparency and Visibility**

Taxpayers should know that a tax exists and how and when it is imposed upon them and others. A good tax system requires informed taxpayers who understand how taxes, are assessed, collected and complied with. A transparent tax is important so that payers know when the tax will be imposed on them and how much it will be (AICPA, 2001).

## **Canon of Diversity**

This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. It is not advisable for the government to depend upon a single source of tax, it may result in inequity to the certain section of the society; uncertainty for the government to raise funds. A mix of taxes provides a more stable tax base because different types of taxes are affected differently by changes in the economy (AICPA, 2001).

## **Appropriate Government Revenues**

Tax systems should have some level of predictability and reliability to enable the government to determine how much tax revenue is likely collected and when. This is extremely important to levels of government that operate with a balanced budget requirement. The tax system should enable the government to determine how much tax revenue will likely be collected and when. The primary purpose of taxes is to raise revenue for government operations (AICPA, 2001).

## **2.5 Requirement of a Good Tax Structure / System**

The tax structure is a part of economic organization of a society and therefore fit in its overall economic environment. No tax system that does not satisfy these basic conditions can be termed a good one.



However, the state should pursue mainly following principles in structuring its tax system:

1. The primary aim of the tax should be to raise revenue for public services.
2. People should be asked to pay taxes according to their ability to pay and assessment of their taxable capacity should be made primarily on the basis of income and property.
3. Tax should not be discriminatory in any aspect between individuals and also between various groups.

## **2.6 Small scale and medium enterprises and their contributions to the tax revenue**

The Government has also taken note of the role of SMEs in the economy. SMEs are the prime source of new jobs and play a crucial role in income generation, especially for the poor. Preliminary estimates show that there are over 1.5 million Small and Medium sized enterprises in Uganda today that employ about 4 million people.

Akinsulire (2010) stated that Small and Medium-scale Enterprises accelerate rural development while decreasing urban immigration and the problems of congestion in large cities because they have lesser competition by serving dispersed local markets, are closer to their resources and are cheaper to establish in the urban areas entrepreneurs are attracted to invest thus discouraging rural-urban migration and making for an even development. SMEs also contribute to domestic capital formation, play a value-adding role, mobilize private savings and harness them for productive purposes.

Other contributions made by SMEs to the economy include being able to remain profitable even in turbulent conditions because they are accustomed to operating in highly fragmented and heterogeneous markets, Also, they often serve a special role in creating social capital (that is,

they are often 'entrenched' in local communities) another advantage is that because they are fast and flexible, and close to their customers, they can be a competitive spur to large firms. Output growth; they perform important sub-contract functions; they can perform an important import substitution role, while others are exporters (Hendy, 2003).

The priority of every tax policy is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. Bolnick, (2004) noted that in fulfilling the revenue function, a well designed tax system should be efficient in minimizing the distortionary impact on resource allocation, and equitable in its impact on different groups in society. It is important that the country's situation is properly analyzed before employing any tax policy in order have a properly working tax system because Slemrod, J. (n. d), viewed that most of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. The objective of a tax policy should be to achieve collection cost which calls for certainty of the tax; a canon explained clearly under the canons of taxation.

**Table 2: share of local taxes in local margins, by sales quarterly in Rural and urban business in 6 Ugandan districts, 2003**

Sales Quarter	Small rural business n=69	Small market traders n=39	Urban small and rural enterprises* n=30
Quarter I	47.2	47.2	25.5
Quarter II	36.5	21.2	12.3
Quarter III	9	12.1	7.2
Quarter IV	5	23.8	6.7

Sample size of small and medium enterprises taken in Mbale only

Sources: enterprises surveyed by the team during June and Sept 2003

For example for the largest sub-sample, of small rural business, the smallest enterprise was found to pay 47% of their gross margin in tax while the largest enterprises only paid 5%

Honlglang & Jiaozben (n. d) agree with the fact that SMEs foster economic growth through innovation by stating that during the economic globalization period and under fierce competition conditions, the research and development activities of small and medium-sized enterprises play an irreplaceable role in promoting technology innovation and national economic development because of their adaptive ability in market, flexible operation mechanism as well as innovation spirit. As a result of this, they can adapt to new situations more easily than large corporations. Hendy, (2003) viewed that innovation is also critical for getting new ideas into the economy. Small and Medium Enterprises serve as links between the large business enterprise and the

consumers as such, large enterprises can hardly survive without them. Therefore, the importance of small business enterprises cannot be over emphasized. Small business enterprises make a larger contribution pro rata in the economy and with efficient control and management techniques of SMEs the benefit it gives can be much greater.

## **2.7 Small scale and Medium enterprises and factors affecting their operations**

There is considerable variation in the criteria for success used in previous studies concerning factors affecting the activities of SMEs. The empirical studies of factors affecting SME success can be roughly divided into two groups according to whether they focus on a quite limited set of variables or try to capture more holistic profiles of successful SMEs. The informal sector is growing prominence in Uganda, and about 39% of house hold in the country own and operate non crop enterprises, (UNHS 2003/03). The same report further puts it that the major enterprises are in the manufacturing, and trends and services economic sector. Previous empirical research has used both surveys and case studies. There are also some compilations of the results of previous studies of the factors contributing to firm success. For instance, Storey (1994) has compiled the results of previous studies focused on the birth, growth and death of small firms, on the basis of which he presents some normative “dos and don’ts” lessons for small firms. Aminul, Ezaz and Hasmat (2008) in their study of SMEs in Bangladesh found that products and services, the way of doing business, management know-how and, external environment are most significant factors in determining the business success of SMEs.

Mwanje (2003) noted East Africa has the most expensive electricity on the continent. \$70 is charged per MWH in Kenya, \$80 in Tanzania, and \$46 in Uganda, yet the international standard is \$40. South Africa has even managed \$18. The privatization of Uganda Electricity Board (UEB), the costs of using electricity have increased and frequent power cuts have prompted the

installation of alternative sources of power, which are costly, thus minimizing chances of success. The issue of electricity is paramount if Uganda is to develop into an industrial economy.

Poor record keeping is also a cause for startup business failure. In most cases, this is not only due to the low priority attached by new and fresh entrepreneurs, but also a lack of the basic business management and skills. Most business people, therefore, end up losing track of their daily transactions and cannot account for their expenses and their profits at the end of the month. Biryabarema (1998) noted the importance of proper record keeping in that it enables a small business to have accurate information on which to base decisions such as projecting sales and purchases or determining the break-even point and making a wide range of other financial analyses. However, the persistent lack of proper records has seen the closure of some businesses, thereby making it a significant issue for business success.

Lack of capital is another impediment to businesses in their early stages. Results of the study indicated a significant proportion of respondents of about 48% raised this as a major problem. Snyder, (2000) noted first, these businesses were started with limited capital. As observed by Snyder, 'do not think that you can get a million-shilling start-up loan for a business. Even if you have 500,000 shillings, you can start small, small. Secondly, micro businesses lack collaterals such as cars or land titles that can be deposited to get loans from the traditional commercial banks. On the other hand, the loans provided by microfinance institutions are small, with a short repayment period and high interest rates. This is in line with Mbaguta's assertion that financing suitable for Small Medium Enterprises (SMEs) is still insufficient in Uganda, and this result in limited growth and survival of SMEs.

The Uganda government has so far realized the need for targeting the informal sector as a way of generating more employment to its people of Uganda. In here, the government recognizes employment and poverty eradication potential of the informal sector, though it has taken limited initiatives to strengthen the sector.

As a result micro, small, and medium enterprises (MSES) continue to take several constraints which include many other insufficient infrastructures, legal and regulatory constraint. Inadequate finance, poor information flow, limited business development services, quality and marketing problems.

External environment factors play a very important role as well for firm success. Social network, government support, and legality, are the key strategic dimensions in external environment in business success. Networks represent a means for entrepreneurs to reduce risks and transaction costs and also to improve access to business ideas, knowledge and capital. A social network consists of a series of formal and informal ties between the central actor and other actors in a circle of acquaintances and represents channels through which entrepreneurs get access to the necessary resources for business start-up, growth and success (Kristiansen, 2003). In developing areas, satisfactory government support has been shown to be important for small firm success (Yusuf 1995). In many cases, dealing with legal aspects has forced the SMEs to allocate significant amounts of financial resources due to bribery practices. Legal aspects are often also used in selection operating decisions in order to ensure future business success (Mazzarol & Choo, 2003).

## **2.8 Recommendations to SMEs**

### **Power shortage**

To eliminate the power problems in either short or medium term, you should purchase a generator and extend working hours from 5pm to say 11pm and beyond when power is there (Tushabomwe-Kazooba et al., 2006). If you are processing foods, you should aim at longer shelf-life products.

### **Customer service and staffing**

Tushabomwe Kazooba (2010), noted in one of his articles that poor customer service is not because of few employees, but, most likely because of unprofessional touch in handling the business. Probably four people are enough to run this business. He further stressed one could dismiss those who have been on and off. For those who will remain, you can send one by one on short business management courses. On the other hand, there seems to be lack of proper supervision on your part; lack of business skill or both. You need to look into these important issues of managing a business.

### **Tax payment and record keeping**

According to Tushabomwe Kazooba (2010), Uganda Revenue Authority (URA) is a tax body that was mandated by the Uganda government. Therefore, for URA to properly work, it needs to be fed with adequate, quality and complete tax information by tax payers, which you are obliged to do. By not furnishing tax returns to URA, you are acting dishonestly. He further argues one cannot hide it for long. If discovered, your business will be ruined. Honest thinkers think big; dishonest thinkers are small minded.

Therefore in order to achieve business success, many factors should be optimal simultaneously, since SMEs success is a Multidimensional phenomenon. Both firm internal and firm external

factors affect firm success. Entrepreneurs in successful SMEs and those in failed SMEs thought that pretty much the same factors are the most important for business success, and held the same views on the factors to be avoided in business.

### **Conclusion**

This chapter reviews the literature on tax and small and medium enterprises employee productivity plus a contrasting review of variables as presented by the past scholars. It is clear that taxation policies come with their own challenges but considering all that has been discussed in this chapter; they are rendered important tools if the SMEs are to enjoy good business environment.



## **CHAPTER THREE**

### **3.1 Research methodology**

#### **Introduction**

This chapter looks at how the study was conducted. Thus the chapter gives a detailed description of the research methods, the sample and population, sampling techniques, data collection procedure and the assessment of the data research design, sampling techniques, validity, reliability, research procedure, data analysis, ethical consideration, study limitation. It also give an over view on how the data was be presented.

#### **3.2 Types of data**

The researcher used primary data which basically required obtaining firsthand information with the application of various methods such as questionnaires and interviews. The researcher also used secondary data, by which related publications, articles, internet material to the topic was used. In-depth interviews formed the most dependable method because the researcher believed the interviews gave more detailed information.

#### **3.3 Research design**

The researcher used descriptive cross-sectional study design. Both qualitative and quantitative methods of data collection and analysis were used. Bonita (2006) noted that a cross-sectional study involves observation of all of a population, or a representative subset, at a given time. The choice of a descriptive cross sectional design was to suit the limited time within which this study was conducted. Qualitative methods were used to gain a detailed understanding of the contribution of firms' participation on taxation to the performance of SMEs: whereas

quantitative methods were used to explore the relationship between the dependent and independent variables.

Terry Lucey (2002) noted that the model below helps to calculate the relationship which the researcher used.

$$Y=a+bx$$

Where;

Y= dependent variable (performance)

a= constant

b= coefficient

X= independent variable (tax)

### **3.4 The study population and sampling**

Borg and Gall (1996) defines study population as all members of a real set of people, events or objects to which the researcher wishes to generalize the results of the research. Since the Trading Centre looks wide with a large sample, the researcher picked at a small sample that is representative. The researcher's survey populations was on the owners of small businesses dealing in bakery, wood work, salons, grain milling and these dealing in metal work and some of the employees in SMES. The sample was selected at random and the proportion of the sample was determined by the researcher's means and the available time to carry out the study. Sample of business people aged 14 years to 57 years selected was adjusted taking into account the level of non-response. The researcher therefore sampled 40 respondents out of the total population of 110 SMEs in Kayabwe from which the study was conducted.

### **3.5 Sampling techniques**

Sekaran (2003), defines sampling as a process of choosing the research units of the target population, which are to be included in the study. Systematic random sampling technique was used to choose each business enterprise for interview using a sampling interval of 100/70. In order to identify the first firm from which to start, a coin was tossed in the center of Kayabwe trading center and that determined the direction of the firm to start with. The rest of the enterprises were identified consecutively until the sample size of 40 was reached. The main formants for interview were purposively selected according to the people dealing SMEs which helped to get the information needed by the researcher.

### **3.6 Data collection methods and tools**

The researcher used both qualitative and quantitative methods, predominantly following qualitative design. Sarantakos (2005) argues that a questionnaire a method used to survey data

collection in which information is gathered through oral or written questionnaires. In quantitative design, data collection tools like cross-sectional structured survey questionnaire were employed to document the effect of tax on small scale and medium enterprises. English language structured questionnaire with both open and closed ended were prepared and supplied to the different sampled correspondents in the village. Since a large quantity of data was required and because most of the population under study could read and write, therefore made questionnaire suitable for this study. The questionnaires were collected from the different respondents after they had completed filling them.

Ochieng (2009) stated that interview refers to a meeting in which the interviewer puts questions to the interviewee and then records his or her responses. In the qualitative design, in-depth interviews were extensively employed to explore the continued effect of tax to the SMEs performance in the Kayabwe. Where need aroused, face to face interview, in-depth interview combined with group discussions were employed on the sampled correspondents. This was meant to language barrier by translating the questionnaires to Luganda which was the native language to suit the interviewees in their preferred language.

The researcher acquired an introduction letter from the dean faculty of Business and Administration introducing him to the sampled population. The researcher informed the respondents of the intention and confidentiality of the data to be filled in the questionnaires.

Secondary methods such as reading textbooks, reports, magazines, internet sites and any other relevant information to the study were also an important source.

### **3.7 Pre-testing and interview process**

Pre-testing of data collection tools was conducted in particularly assigned population. Before pre-testing, all tools were critically reviewed. During the pre-testing process, each process of interview was observed carefully to ensure clear understanding of questions by respondents and interviewers. Necessary adjustments of questionnaires were done in the process. The researcher interviewed the individuals at their convenience and had appointments made a week earlier.

### **3.8 Data analysis**

Oso and Onen (2008) noted that data analysis is the organization, interpretation and presentation of collected data. Therefore this involved the researcher in the process of analyzing the data that was collected which was supported by the questionnaire format that was used to conduct the study where the score card was used from the questionnaire analysis, for the questions necessitated agree/strongly agree/not sure answer. Coding, editing and tabulations were used while conducting the study;

The researcher made sure that the data was edited before leaving the correspondents because it was a primary research type of gathering information. The researcher ensured uniformity, accuracy, consistency, legibility and compressibility.

Data was then coded into meaningful categories so as to bring about meaningful patterns. The information that was got from records was coded to ensure manual exhaustiveness and representatives.

From the quantitative and qualitative data that was collected, the researcher analyzed quantitative data using spreadsheet program that was excel and strata. Qualitative data was analyzed using

informal analysis; frequency tables, pie charts and graphs were used to present, compare, and contrast.

### **3.9 Validity**

McMillan & Schumacher (2006) defined validity as the degree of congruence between the explanations of the phenomena and the realities of the world. It is the extent to which the instrument gives the correct answer.

Amin also defines validity as the ability to produce findings that are in agreement with theoretical or conceptual values. According to Oso and Onen (2005), validity is the extent to which research results can be accurately interpreted and generalized to other populations. Therefore, it is the extent to which research instruments measure what they are intended to measure. The reliability and validity of the methods was determined by the use of two methods that is split half and pretesting method in order to allow the researcher get actual facts to solve the problem under study. Split half method involved dividing the total number of questionnaires into two halves where the first half of the questionnaires was distributed. They were then retrieved from the field and then analyzed. Then there after the second half was distributed as well, retrieved and then analyzed. The pre-test method was used to see how accurate the responses in the questionnaires were. The validity was pre-tested using the coefficient of validity index (CVI).

$$CVI = \frac{\text{Items rated relevant}}{\text{Total number of items}} \times 100\%$$

Total number of items

In order to control quality, the researcher endeavored to attain validity and reliability coefficient of atleast 0.70 or 70% but if it was below that, then the data would not be valid or reliable.

### **3.10 Reliability**

Pak (2008) and Joppe (2000) defined reliability as “The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the re-search instrument is considered to be reliable”.

The reliability was improved using probability-based sampling techniques in order to have a sample that showed a representation of the SMEs affected by taxation in Kayabwe trading center.

Data collection tools were tested for reliability using the chrobach’s alpha scores. Any tool with a score of less than 0.50 was not considered reliable. List wise deletion was done to ascertain the reliability after elimination of individual questions one after another with replacement.

### **3.11 Ethical consideration**

Oso and Onen (2008) noted that, despite the high values of knowledge gained through research, knowledge cannot be pursued at the expense of human dignity.

Before interviews, verbal consent was sought from each respondent and anyone unwilling to participate in the interview was excluded. However, a replacement was got for a respondent who is not willing to be interviewed. While obtaining consent of the respondent, the researcher assured the respondents that no payment would be made for any information accorded for the purpose of this study.

The researcher assured the respondents of the confidentiality and ensures that the assurance was put into practice. This can be done through use of interview guides that are anonymous. During analysis, verbatim quoted in the study was not reflected the identity of any of the respondents.

The SMEs managers were briefed about the preliminary findings of this study before final report was made.

### **3.12 Limitations of the study**

Limitations refer to hindrances or anticipated constraints imposed on the methodology of the study. Oso and Onen (2008) noted that limitations should be identified because they partly define the scope of the study and provide the necessary precautions during data interpretation and generalization of results. Limitations can lower the reliability and validity of the data collected. The researcher therefore encountered the following limitations while in the field and during the whole research.

The time allocated for the research was not enough which made the researcher work under pressure. If the time was enough, the researcher would have used a bigger population sample. In this case, the researcher prioritized the available time so as to complete the research report in time

There were limitations in funding of transport and materials for the researcher as not all the available data would be got from the proposed case study and this was avoided by soliciting for fund from my guardian.

It was also expensive for the researcher in terms of making phone calls in order to collect the data for the proposal. This was avoided by having a research assistant who would go to the field to collect the data.



There was a slow response from the respondents mainly because most of them were very busy with their work. However, this did not impair the findings of this study because the researcher persisted to follow up the appointments until the exercise was completed.

However, I wish to conclude this section by saying that the above limitations did not change the quality of the findings that follow in the next chapter. They however, slowed down the pace at which the study was conducted

### **Conclusion**

This chapter gave an understanding on how the researcher has collected and analyzed data during the study including the population and the sample size. The researcher believed that through these methods presented the required results that are valid and reliable.

## CHAPTER FOUR

### 1.1 DATA PRESENTATION AND ANALYSIS

#### 4.2 Introduction

The study was intended to find out the effect of taxation on the performance of SME's. The circumstances under the research were in line of studying, finding and analyzing the effect of taxation on the performance of SMEs. The targeted sample space was 40 of which all provided response giving a rate of 100%. The following are the results generated from the study.

#### 4.3 Background information about the respondents

The respondents' background is shown in terms of gender, age, occupation (kind of business), income levels and marital status.

##### 4.3.1 Respondents by gender (Sex)

**Table 3: Respondents by gender (Sex)**

Category	No. of respondents	Percentage
Male	28	70
Female	12	30
Total	40	100

The research results were generated from 40 respondents who were available to offer the required information to the researcher. The number of males was larger than that of the females as illustrated in Table 3 above where the percentages were 70.0% and 30.0% for males and females respectively.. This portrayed that there are more male operating SMEs in Kayabwe

trading centre than females. This helped the researcher to get responses from both males and females hence making his research objective.

#### 4.3.2 Age of respondents

**Table 4: Age of respondents**

Age (years)	Frequency	Percentage (%)
14-24	6	15.00
25-35	24	60.00
36-46	8	20.00
46-57	2	5.00
>58	0	0.00
Total	40	100.00

**Source: Primary data 2014**

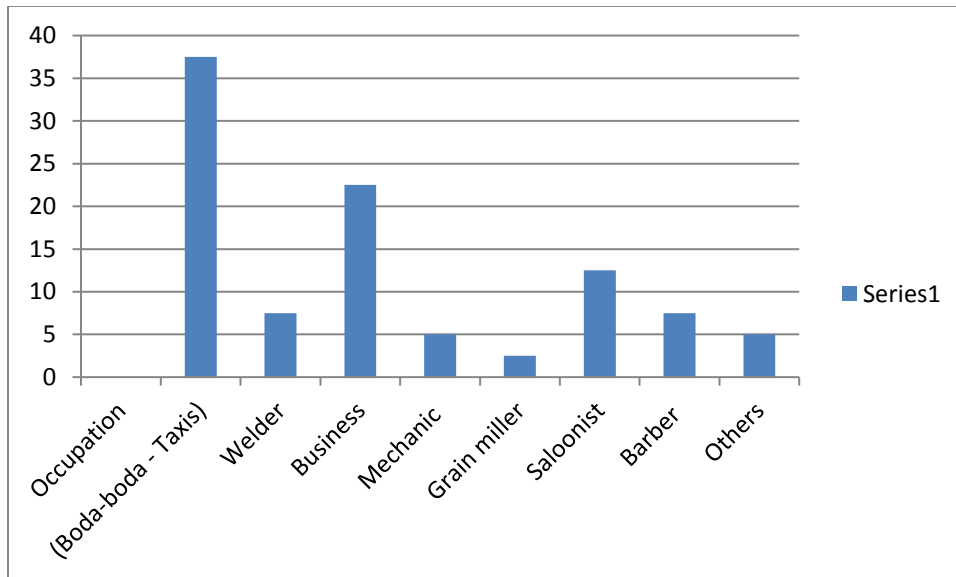
The study indicates that most businesses in Kayabwe Trading centre are dominated by the age group of people between 25-35years constituting 60%of the respondents, especially school dropouts and a few graduates who have resorted to business as a survival means. 20% between 36-46years, 15% between 14-24yrs, 5% are between 46-56 years. None of the respondents was above 58 years with a percentage of 0% being above 58years.

This therefore implies that the SME's in Kayabwe trading centre are being dominated by the youthful population of 25-35 years.

#### 4.3.4 Occupation of the respondents

From the figure 1 below, Majority of the respondents 37.5% of the persons employed in the transport sector majorly dealing in Boda-boda/Taxis operations with many plying the Nkozi trading centre and Kampala for boda-Boda and taxis respectively. 22.5% of the respondents revealed being involved in Business as an enterprise with many operating small shops and restaurants around Kayabwe.. 12.5% of the respondents were involved in Saloon businesses.7.5% of the respondents revealed being welders and a further 7.5% admitted to being barbers. 5.0% of the respondents were mechanics and a similar 5% dealt in other businesses. A minor 2.5% were grain millers.

**Figure 1** Occupation of the respondents



Source: Primary Data 2014

#### 4.3.5 Income levels

The results presented in table 5 below, imply that majority of persons employed by small and medium enterprises earn shs96, 000- shs149, 000 per month with 36.7%, and 17.5% earning between shs30, 999-shs 95,999. The study further showed about 15.0% of the employees earning between shs149, 999-shs199, 999 a month. 10% of the respondents earn less than 30,000 per month. 5% of the respondents earned between shs200, 000 –shs250, 000. 12.5% earned more than shs300, 000 a month while a minority 2.5 earned between shs 250,999-shs300, 000 implying low incomes among the small and medium enterprises in Kayabwe. This therefore implies that majority of the masses engaged in such enterprises earn incomes below the threshold amount to be subjected to tax.

**Table 5: Income per month of the respondent**

<b>Income per month</b>	<b>Frequency</b>	<b>Percentages</b>
<30,000	4	10.0
30,999 - 95,999	7	17.5
96,000- 149,000	15	37.5
149,999-199,999	6	15.0
200,000-250,000	2	5.0
250,999- 300,000	1	2.5
>300,000	5	12.5
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Primary Data 2014**

#### 4.3.6 Factors influencing the establishment of SMEs

Based on results in table 6, power is a very fundamental and instrumental factor for the establishment of such micro enterprise. This probably explains the increasing number of sprouting business enterprises such as for the increasing number of business such as salons and welding points in Kayabwe trading centre. 30% agreed with this factor. A further 25% felt the amount of tax charges inform of dues paid to local government among other tax charges are instrumental in small enterprise start ups. 20% o of inputs was the most important factor. 10% of the respondents thought labour was the most important factor.15% of the respondents revealed otherwise.

**Table 6 showing the major factors influencing SMEs in Kayabwe**

<b>Factors</b>	<b>Frequency</b>	<b>Percentages</b>
Power	10	25.0
Labour	4	10.0
Tax policies	12	30.0
Inputs	8	20.0
Others	6	15.0
<b>Total</b>	<b>40</b>	<b>100.00</b>

**Source: primary data 2014**

### 4.3.7 Duration of enterprise

The time period during which the business enterprises have existed was established by asking the respondents for how long they have been in business.

**Table 7: Duration of operation**

Years	Frequency	Percentage (%)
Less than 6 months	5	12.50
2 years	7	17.50
3 years	18	45.00
greater 3 years	10	25.00
Total	40	100.00

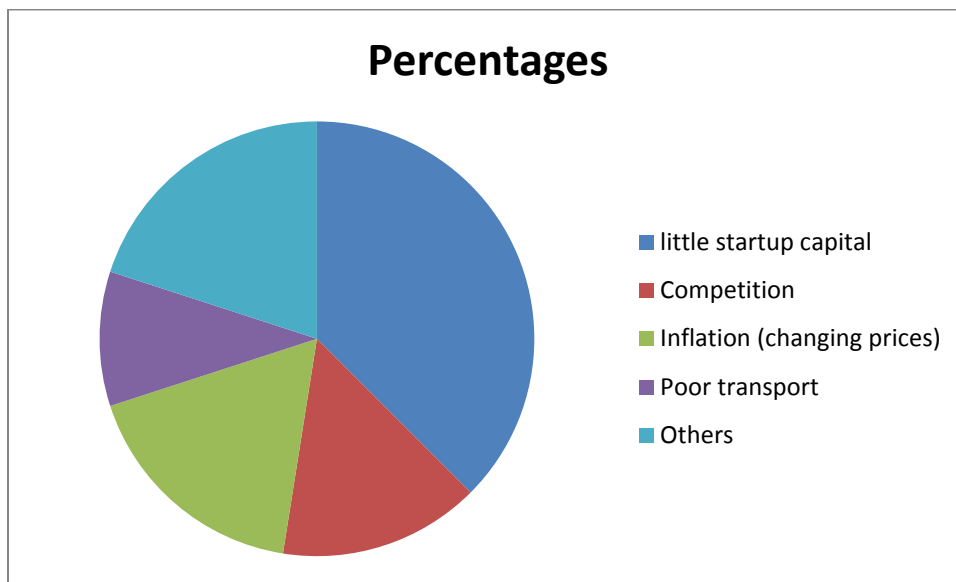
**Source; primary data (2013)**

The findings of the study revealed that a majority 45% of the enterprises had existed for 3 years which clearly revealed a trait of easy collapse for SMES while 17.5% of the SMEs had lived for 2 years, 25% of the enterprises had existed for more than 3 years. A small minority of 12.5% had been in existence for less than a year. This therefore shows that very few people are joining business and those joining are not able to sustain themselves on business beyond their second “birthdays”. It can also be emphasized that many of the respondents confessed to using bank loans to finance their businesses and many admitted to losing property to banks due to failed payment of loans.

#### 4.4 Challenges faced by SMEs other than tax challenge

Figure 2, shows that 37.5% of the respondents raised lack of capital as a key challenge faced by small and medium enterprises in the Kayabwe. A further 20.0% felt otherwise, while 17.5% revealed how inflation was a major concern for their enterprises. 15.0% of the respondents noted the problem of enterprise competition from other SMEs and large enterprises in the area. A minority 10% felt the transport system was a major challenge.

**Figure 2** Challenges encountered by small-scale enterprises



**Source: Primary Data 2014**

The results of table 8, strongly emphasize that lack of start –up capital is the biggest problem encountered by SMEs on top of the taxation challenge in all their executions indeed one of the respondents revealed that due to inadequate financial resources, many proprietors are forced to borrow money from micro finance institutions in order to finance their under takings. However, they are rendered into such without proper sensitization and monitoring on how to manage loans.



Thus this can be the reason to account for why several of these enterprises live for a maximum of one year.

#### 4.4.1 Different types of taxes paid by SMEs

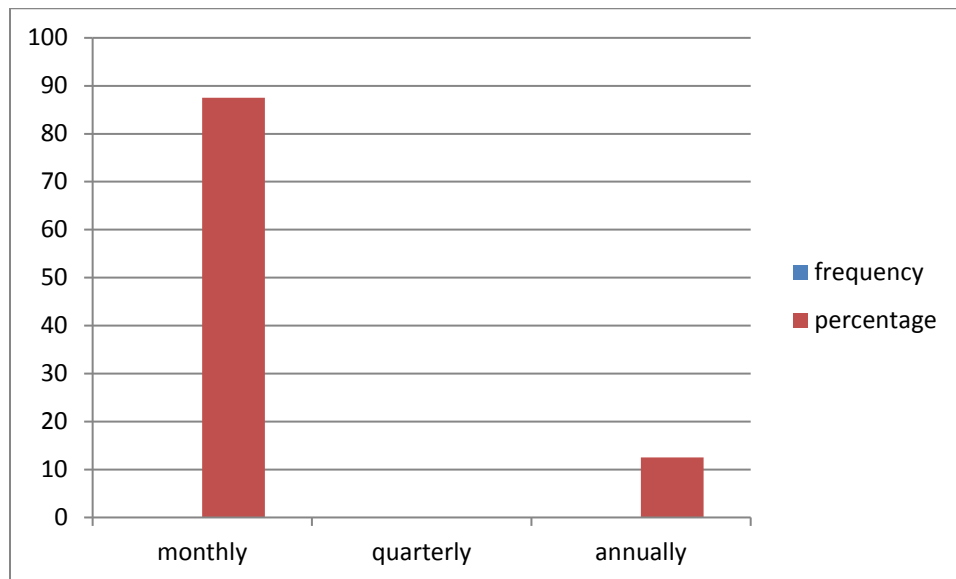
**Table 8 Taxes paid by SME's**

<b>Tax</b>	<b>Frequency</b>	<b>Percentage</b>
Withholding tax	3	7.5
Value added tax	1	2.5
Customs duty	6	15.0
PAYE	9	22.5
Trading license	8	20.0
Registration fees	13	32.5
Total	40	100.0

**Source: Primary data (2014)**

The study indicates that 32.5% of the respondents revealed paying registration fees especially the transport players (boda-boda/Taxis). The number of 22.5% respondents said PAYE was the tax obligation they paid as SMEs especially on their incomes (the few corporate respondents sampled). The study also indicates that 15.0% admitted to paying customs duty to tax authorities. A further 20% paid trading licenses to operate their business to the local government authorities for example the shop operators and guest house operators. In addition, 7.5% revealed paying withholding tax; a small 2.5% revealed paying value added tax to tax authorities especially the small processing factories such as milling plants. It also indicates that the business owners have mixed feelings on various types of taxes they pay since these affect their businesses at different levels as shown by the percentages as in the table above.

**Figure 3: Frequency of tax payment**



**Source: Primary data (2014)**

The findings indicate that 87.5% of the respondents revealed paying taxes on a monthly basis with the Kampala bound taxi drivers elaborating their monthly shs 120,000 paid to KCCA, the body responsible for running the city. None of the respondents admitted to paying taxes quarterly while a minority 12.5% of the respondents agreed to paying taxes annually especially the operators who pay for licenses like the grain millers. This therefore indicates that majority of the business owners are paying income tax monthly, this is possibly explains why they are so aggressive to the tax payment obligation and also partly explains their small profit ratios and eventual collapse of the SMEs.

## The disadvantages of paying tax by SMEs (perception on service delivery)

**Table 9** showing the perception of service delivery

Perception	Frequency	Percentage (%)
Impassable road Network	20	<b>50.0</b>
Poor sanitation/dirty markets	11	<b>27.5</b>
Increases complexity	3	<b>7.5</b>
Decreases business profits	5	<b>12.5</b>
Insecurity to businesses	1	<b>2.5</b>
Total	40	<b>100.0</b>

**Source: primary data 2014**

Table 9 indicates that 50% of the respondents decried impassable roads amidst the heavy taxation the SMEs bear in their operations for example the Kayabwe-Nkozi road. The Boda-boda/ taxi drivers were the most affected by the impassable roads with many decrying the continued maintenance of vehicles due to damages caused by poor roads. The percentage of 27.5 respondents felt the continued poor state of the markets in Kayabwe with very poor hygiene and recent insecurity concerns amidst the continued payment of license fees and registration fees. Then 12.5% argued that tax actually works hard on their profit margins and affects the possible expansion of their businesses. The number of 7.5% respondents revealed that there is tax increase complexity in the business environment which raises another expense as one super market owner noted he has to hire a technocrat to help calculate the amount due in tax which is an expense. Lastly 2.5% of the respondents noted the poor security that their businesses are exposed to with recent major robberies reported targeting SMEs.

#### 4.4.2 The Regression Analysis showing the effect of tax on the performance of SMEs

Terry Lucey (2002) noted that the model below helps to show the relationship. Therefore the researcher used the model to come up with the relationship between tax and performance of SMEs. The regression analysis is shown in appendix 4 and the calculations are shown below:

$$Y = a + bx$$

Where;

Y is the dependent variable (performance of SMEs)

a is a constant

b is a coefficient

x is independent variable (tax)

According to the regression analysis in appendix four:

$$Y = a + bx \text{ where; } a = 18.859, b = -0.805$$

$$Y = 18.859 - 0.805X$$

Y = 18.859 units without tax or when tax is zero unit, and increase in tax leads to a reduction in performance of SMEs by 0.805 units.

R-squared = 0.275 meaning that tax accounts for 27.5% of the changes in the performance of SMEs.

Adj R-squared = 0.255 means putting into consideration the degree of freedom, tax accounts for 25.5% of the changes in performance.

Prob >F =0.0006 means the overall model is significant, because it is less than 0.05.

The correlation=-0.524 meaning the model is significant and is moderate.

Therefore, the regression analysis indicates that tax accounts for 27.5% on the performance of SMEs besides other factors and the correlation analysis shows that the relationship is moderate.

#### 4.4.3 Contribution of taxation

**Table 10 Showing the rationale for tax payment by SMEs**

Contribution	Frequency	Percentage
Increase standards of living	8	20.0
Economic stability	6	15.0
Raising revenue	12	30.0
Protect infant industries	14	35.0
Total	40	100.0

Source: primary data 2014

The study shows 35% of the respondents revealed the need for tax shield to protect them from large established enterprises and foreign enterprises. Although many further argue how government undertakes to protect foreign enterprises rather than small infant industries/enterprises. The percentage of 30 respondents argued about the need to continually collect revenue for the government and finance government programs. However, many of the respondents were quick to decry the corruption tendencies. In addition, 20% of the respondents thought the taxes were for improving standards of living of the natives such as better security and

health services. A minor 15% revealed the need for taxes to improve economic stability with the need to be independent and reduce on the continued “begging” from foreigners.

#### 4.4.4 Effect of tax on profitability

**Table 11 showing the effect of tax on SMEs profitability**

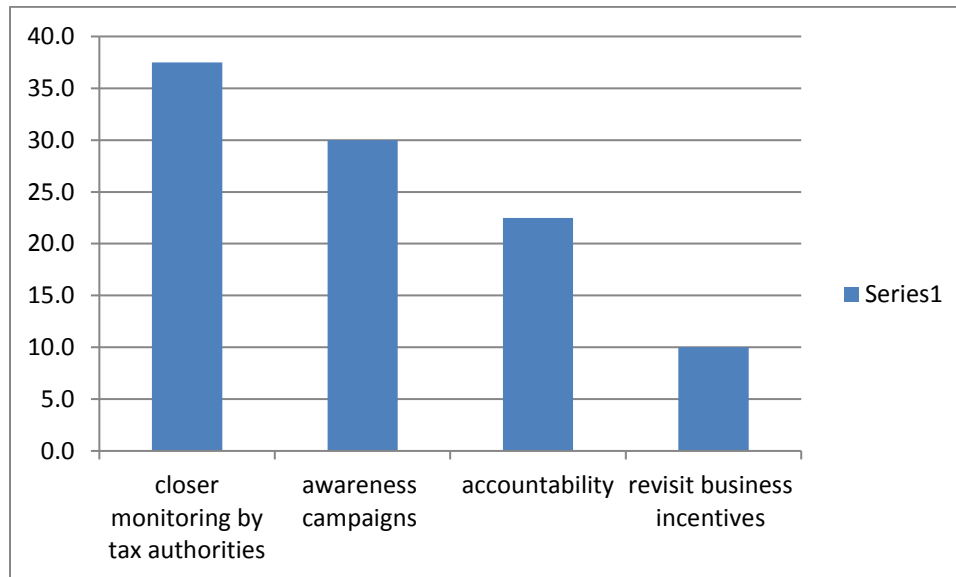
Effect	Frequency	Percentage(%)
Greatly	18	45.0
Moderate	14	35.0
Less	6	15.0
No effect	2	5.0
Total	40	100

Source: primary data 2014

The table above indicates that the majority of the respondents revealed that income tax greatly affects the profit levels of their businesses. This was represented by the 45% response rate causing many to collapse due to failure to pay loans to different financial institutions therefore from the respondent views clearly many feel the taxation policy is a little harsh on SMEs. A closer 35.0% revealed a moderate impact of tax on their profits. A small minority of 5% felt there was no effect of tax on their profits for example one welder who insisted he saw no argument on the whole tax policy since he has grown his business steadily fast due to hard work.

#### 4.4.5 Recommendations to improve tax policy

Figure 4 showing possible recommendations to improve tax policies



Source: Primary data 2013

From the figure above, 37.5% of the respondents called for closer Monitoring of tax authorities to ensure fair taxation policy for all enterprises; With some arguing about the continued payment of dues without receipts in the local council. 30% of the respondents felt more accountability for the tax income collected should be emphasized as reports of the tax payers “sweat” being milked by the few rich government authorities. 22.5% of the respondents called for continued awareness campaigns to encourage tax payments by citizens as it is a responsibility for all citizens. This will go a long way to reducing on tax avoidance and evasion. A small 10% revealed the need to revisit the incentives given to large enterprises by the government at the expense of the small enterprises that employ local labour and materials.

## **Conclusion**

The above findings and analysis clearly help the researcher to answer and achieve his intended objectives. The chapter quantitatively explains the effects of tax on the performance of SMEs and further assesses the effect of taxation on the costs of performance. The chapter also clearly reveals the contribution of taxation on Uganda's tax revenue; the chapter plays a formidable part in the final chapter of the research report.



## **CHAPTER FIVE**

### **5.1 Summary of findings and recommendations**

In this chapter the researcher presents conclusions from the findings and makes recommendations in the field of tax and SMEs performance.

### **5.2 Summary and Findings**

According to the findings, 70% of the respondents involved in SMEs were Males while the major age bracket involved in the SMEs activities were youths within the 25-35 with a percentage of 60%. Additionally 37.5% of the respondents were largely involved in Boda boda/ Taxi operations as an enterprise. Most of the people involved in SMEs revealed earning between 96,000-149,000 a month.

#### **5.2.1 Contribution of SMEs to Ugandan's tax revenue**

The study revealed that 35% of the respondents dealing in SMEs need to pay tax to finance government activities and projects. This was backed by the decreasing dependency on aid which means many of the respondents feel that they need the initiative to pay tax. However, many were quick to note that the protection is given to foreign firms in form of tax incentives leaving the SMEs with the whole tax burden. This therefore gives a reason why SMEs do pay tax in Kayabwe trading centre since many see it as a responsibility. This is in line with the findings in the literature review that indicates the importance of tax payment.

#### **5.2.2 The effect of tax on the performance of SMEs**

From the regression analysis in chapter four, it indicates that tax accounts for 27.5% of underperformance of SMEs with the remaining 72.5% being other factors affecting SMEs such as poor roads, poor sanitation, decrease in business profits and insecurity to businesses.

Therefore, the correlation is -0.524 meaning that the relationship between tax and performance of SMEs is moderate and the regression of tax against the performance of SMEs shows that the performance of SMEs is dependent on the tax which confirms the researcher's problem statement.

### **5.2.3 Perception between public service deliveries and tax revenue**

The study also found out that 50% of the respondents declared impassable roads amidst the heavy taxation the SMEs bear in their operations. This therefore indicates that the returns on their tax payments fall below the expected standard. And since many of the respondents were involved in the transport business (Boda-boda/taxi) the argument about the poor impassable roads was the most raised.

As a result, taxation is linked to private investment in two ways: it reduces both the expected revenue from a given investment project and the availability of finance. Even if there were adequate number of profitable investment projects available, high business taxation is likely to have a negative effect on the level of private investment by constraining liquidity.

### **5.2.4 Other factors affecting SMEs other than tax**

Besides taxation, the respondents argued that they face number of other problems such as lack of enough capital, swift competition, lack of knowledge and procedures about financial sourcing, problems of bad debts. And high interest rates from money lending institutions.

## **5.3 Conclusion**

### **Contribution of SMEs to Uganda's tax revenue**

From the perspective of foreign investors, Uganda appears to be a more highly taxed environment compared with its neighboring countries, particularly Kenya. Tax administration, if not fair and efficient, can distort the best intentions of policy-makers and produce a very different outcome in terms of the actual tax burden faced by firms. Taxes have an important role to play in the investment as it can have substantial effect on the desirability or otherwise of an investment opportunity.

In conclusion, SME businesses have a good understanding of their tax obligations and this has remained consistent over time. However, SMEs are finding their business tax affairs becoming increasingly complex to manage. For example the tax terms and conditions that are not understood by a larger number of people besides high taxes.

### **The effect of tax on the performance of SMEs**

The tax system affects the standard of living in different ways for different groups of the population. It is through taxation that the government gets money from business people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production in SMEs. High taxes destroy the incentive of business people and employees to work harder and more efficiently. This therefore calls for a thorough analysis of any proposed changes in the tax system.

In conclusion, I strongly argue that the proposed changes to the Uganda tax system will only be sensible if and only the additional revenue raised is spent in a progressive manner. However, if any of such businesses feel that it should submit returns, then it must comply with all the procedures and regulations of tax assessment.

## **Perception between public service deliveries and tax revenue**

Amidst the heavy taxation the SMEs bear in their operations, there are still poor sanitation and impassable roads that render business, in Kayabwe difficult in terms of mobility of goods and services. And since many of the respondents were involved in the transport business (Boda-boda/taxi) the argument about the poor impassable roads was the most raised. This therefore indicates that the returns on their tax payments fall below the expected standard.

In conclusion, taxes are linked to SMEs in two ways; it reduces both the expected revenue from a given investment project and the availability of finance. Even if there were adequate number of profitable investment projects available; high business taxation is likely to have a negative effect on the level of private businesses by constraining funds.

## **5.4 Recommendations**

### **Contribution of SMEs to Ugandan's tax revenue**

Sensitization of tax payers by URA officers in form of tax education should be done regularly. This can be done by the use of various media such as radios, TVS and newspaper. Tax education should be conducted in various local languages so as to enable all the business operators understand the tax policy.

URA should also train their staff about tax assessment and collection methods as well as how to handle tax payers.

### **The effect of tax on the performance of SMEs**

Findings revealed that tax has negative effect on SMEs' survival and the relationship between SMEs' size and its ability to pay taxes is significant. The researcher therefore, recommends that government should come up with a uniform tax policy that will favour the development of SMEs in Uganda and government should put into consideration the size of SMEs when setting tax policies.

A large proportion of the business community is ignorant about the taxes they pay, how these taxes are computed, what taxes are used for. This is because of lack of enough knowledge from the business people that is attributed to the poor methods of sensitization used by URA.

### **Perception between public service deliveries and tax revenue**

For URA to properly work, it needs to be fed with adequate, quality and complete tax information by tax payers, which you are obliged to do. By not furnishing tax returns to URA, you are acting dishonestly. The government should also do its role of improving the public services like roads, good sanitation and security so as to motivate the performance of SMEs so that there is no biasness since the tax payment falls within the tax payer's standard.

### **5.5 Suggestions for further research**

Further research should be made in the area taxation policies to the SMEs performance with more emphasis given to the profitability and sustainability of the enterprise. The research should aim at finding out whether the current tax system is unfair to the SMEs and how to bring about shared responsibility with large enterprises. The research should also come up with other sources of revenue to government rather than taxation.

## References

<<http://unpan1.un.org/intradoc/groups/public/documents/caimed/unpan018702.pdf>> Accessed at 10:38 pm on 09/11/2013

<[http://www.enteruganda.com/brochures/strategy\\_intro.html](http://www.enteruganda.com/brochures/strategy_intro.html)> Accessed at 2:55 pm on 18/10/2013

<<http://www.itdweb.org/smeconference/documents/plenary/PI%20Slemrod%20ENG.pdf>> Accessed at 12:45 pm on 11/10/2013

<<http://www.tradingeconomics.com/uganda/personal-income-tax-rate>>Accessed at 9:54 am on 12/10/2013

Akinsulire, O., (2010). Financial Management. Lagos: Ceemol.

Arteetey, E. et al., (2000). “supply and Demand of Finance for Small Scale Enterprises in China,” Technical Discussion paper, World Bank, Washington D. C. pp. 6-12.

Avolio, C. (n. d.). Policies for business in the Mediterranean Countries Slovenia. Retrieved from Baganzonzya. H (2003), “Financing of micro and small enterprises in Uganda”, A paper presented at the ACCA seminar in Uganda held on 15th September.

Balunywa, W.,(1998).“Creating Competitiveness in Ugandan Business”. Discussion paper, World Trade Seminar, Makerere University Business School.

Bank of Uganda.,2009. Annual report. Kampala: Bank of Uganda.

Bhatia, H. L., (1996). Public Finance. 19thEd. Kampala: Vikas Publishing House Ltd.

Bolnick, B. (2004). Effectiveness and Economic Impact of Tax Incentives in the SADC Region. Arlington, Virginia: Nathan Associates Inc.

Bridge, S., O'Neill, K. & Cromie, S., (2003). Understanding Enterprise, Entrepreneurship and Small Business. 2nd Ed. New York: Palgrave Macmillan.

Burns, P., (1998). "Growth and Performance of Small Scale Enterprises," Journal of the Finance at the Frontier, World Bank Washington D.C.

Derwent, J., (2000). Dismantling the Barriers: A Pan-European Survey on the Use of Patents and Patent Information by Small and Medium-Sized Enterprises. New York: Houghton Ltd.

Dixon, J. R., (1990). "The New Performance Challenge", Harvard Business Review 69-78. GoU /UNFPA (2005), "State of Uganda population report".

Gaskill, L. R., Auken, H. E. & Manning, R. A., (1993). A factor analytic study of the perceived causes of small business failure: Journal of Small Business Management. 31(4) pp. 18-30.

Hendy, P., (2003). Threats to Small and Medium sized Enterprises from Tax and other Regulations. Paper presented at the Australian Taxation Studies Program Small Business Tax Symposium, Developing Good Tax Policies for SMEs, Sydney.

Honglang, L., & Jiaozhen, H., (2010). Research on R&D financing support for small and medium-sized enterprises. Orient Academic Forum. Retrieved from <<http://www.seiofbluemountain.com/upload/product/201009/2010cwjrhy04a1.pdf>> accessed at 9:14 am on 18/10/2013

Income Tax Act (1997), LCD publishing and printing press, Kampala.

Mugambe, K. et al., (2007). Tax Policy and Administration: Case of Uganda. Accra, Ghana.

Kloot, L., (1999). "Performance Measures in Small Scale Enterprises", the International Journal of Management Vol. 12, No 7. Pp 565 – 584.

Kristiansen, S., (2003). Linkages and Rural Non-Farm Employment Creation: Changing Challenges and Policies in Indonesia. Rome.

Mazzarol, T., &Choo, S., (2003). A study of the factors influencing the operating location decisions of small firms. Property Management, 21(2), p.190-208

Mbagutta, H., (2002). "The Uganda government policy frame work and strategy for promotion and development of small and micro enterprises" in processing of the symposium on modalities for financing MSMES in Uganda, UN conference on trade and development

Aminul, M. I, Ejaz, M and Muhammad H. A., (2008). Determinants of Business Success of Small and Medium Enterprises (SMEs) in Bangladesh. Business Review, Vol. 4, No. 2, p.45-57.

OECD, (2000). Towards a Knowledge-Based Economy-Recent Trends and Policy Directions from the OECD Press.

Slemrod, J. (n. d). Taxation of SMEs and sustainable economic development. Retrieved from

Tushabomwe-Kazooba, C. and Kemeza, I., (2006). "Uganda's drought and power blackout – a systematic crisis". A paper accepted for publication by Disaster Recovery Journal

Tushabomwe-Kazooba, C., (2010). "Small and medium-sized enterprises in East Africa". September 1- 7, 2010. Issue 280.



World Bank Symposium (1991). A study on Uganda in comparison with neighboring countries. Africa working paper No. 3.

Yusuf, A., (1995). Critical success factors for small business: perceptions of South Pacific entrepreneurs: *Journal of Small Business Management*, 33 (2), p.68-73.

Bonita, B. A., 2006. *Epidemiology*. Geneva: World Health Organization available at <http://www.businessdictionary.com/definition/national-taxpolicy.html> Accessed on 26/2/2014 at 2:21pm.

Terry. L., 2002. *Quantitative techniques*. 6th ed: book power, London.

Borg and Gall. 1996. *Educational Research*, New York. Longman.

*Oso W.K and Onen D. 2008: A General guide to writing research proposals and report*. 2nd ed: Kampala.

Grant Thornton, 2013 available at [http://www.gtuganda.co.ug/docs/taxation\\_in\\_uganda.pdf](http://www.gtuganda.co.ug/docs/taxation_in_uganda.pdf), the income tax rate. Accessed on 30/2/2014 at 10:11 am.

Mcmillan, J. H. & Schumacher, S. (2001). 5<sup>th</sup> ed, *Research in Education*. London: Addison Wesley Longman.

## **APPENDIX i**

### **QUESTIONNAIRE**

The community of Kayabwe Trading Centre

Dear respondent I am a student at Uganda martyrs University, Nkozi conducting a study about the impact of taxation policies on the performance of small scale and medium enterprises. This study is aimed at curbing the possible tax problems between SMEs and large urban enterprises. Therefore any assistance granted by answering the questionnaire will be vital.

Any information given will be used for academic purposes only and will be treated with confidentiality. I would be very grateful if information requested in this questionnaire is provided.

#### **A. BIO -DATA**

#### **INSTRUCTIRONS**

Tick the appropriate code/response

1. Sex of respondents

a) Male

b) Female

2. Respondents age bracket;

- a) 14-24                       b) 25-35   
c) 36-46                       d) 47-57   
e) >58

3. Marital status

- a) Single                       b) married                       c) widowed

4 Occupation

- a) Boda –boda orTaxi                       b) Welder   
c) Business                       d) Mechanics   
e) Grain miller                       f) Hair dressing   
g) Saloon                       h) Others

5 Income per month

- a) <30,000                       b) 30,999 - 95,999   
c) 96,000- 149,000                       d) 149,999-199,999   
e) 200,000-250,000                       f) 250,000- 300,000   
g) >300,000

B: Small scale enterprises

Please tick the most appropriate of the following questions

6 Which of the following are you involved in as an enterprise

- a) Bakery
- b) Wood work
- c) Grain milling
- d) Super markets
- e) Shops
- f) Garages
- g) Others

7 The following factors influence the establishment of these small scale enterprises in the area.

- a) Market for input and out put
- b) Power
- c) Labour
- d) Tax policies
- e) Input presence
- f) Others

8 The following are the challenges faced by SMEs apart from tax laws

- a) inadequate of starting up capital
- b) operating expenses
- c) Fluctuating prices
- d) Others

10 How long have you been in business?

Less than 6 months	1 year	2 years	3 years	More than 3 years

C. Taxation policies.

9. How much does your business pay in taxes expressed in percentages (%)

<5  6-10  11-16  17-22  23-25  >25

10. Which of the following taxes is an obligation for your enterprise?

Withholding tax  Value added tax  Pay as You Earn

Trading license  Income tax  Customs duty

Registration fees  All the above

11. How do tax policies affect performance of SMEs in Kayabwe trading centre

Increased profit  increased sales  High output

expansion of SMEs

12. How are small and medium enterprises contributing to Uganda's tax revenue?

.....

.....

.....

13. How is taxation affecting the cost of performance of SMEs

- |                         |                          |                              |                          |
|-------------------------|--------------------------|------------------------------|--------------------------|
| Impassable road Network | <input type="checkbox"/> | decrease on business profits | <input type="checkbox"/> |
| Dirty Market areas      | <input type="checkbox"/> | Insecurity to businesses     | <input type="checkbox"/> |
| Increases complexity    | <input type="checkbox"/> |                              |                          |

14. What recommendations do you argue to improve tax policy and practices for small and medium enterprises?

- |                                      |                          |                                      |                          |
|--------------------------------------|--------------------------|--------------------------------------|--------------------------|
| Closer monitoring of tax authorities | <input type="checkbox"/> | Revisit incentives for big companies | <input type="checkbox"/> |
| Improve accountability to citizens   | <input type="checkbox"/> | Tax awareness campaign               | <input type="checkbox"/> |
| All the above                        | <input type="checkbox"/> |                                      |                          |

**Thanks a lot for your co-operation**

## Appendix ii

### 8.1 Estimated Budget

Stationary	250,000/=
Transport	200,000/=
Communication (Air time)	100,000/=
Facilitation	200,000/=
<b>Total</b>	<b>700,000/=</b>

### Appendix iii

#### Time frame

This was the estimated time for accomplishing the research report.

<b>Activity</b>	<b>Area</b>	<b>Time period</b>
Topic selection	UMU	28 <sup>th</sup> September 2013 to 15 <sup>th</sup> October 2013
Approval to chapter one	UMU	20 <sup>th</sup> October 2013 to 12 <sup>th</sup> November 2013
Approval of chapter two	UMU	20 <sup>th</sup> November 2013 to 5 <sup>th</sup> December 2013
Approval of chapter three	UMU	8 <sup>th</sup> December 2013 to 18 <sup>th</sup> December 2013
Questionnaire designing	UMU	8 <sup>th</sup> December 2013 to 18 <sup>th</sup> December 2013
Data collection and analysis	Kayabwe	15 <sup>th</sup> January 2014 to 3 <sup>th</sup> March 2014
Approval of chapter four and five	UMU	20 <sup>th</sup> March 2014
Report Submission	UMU	22 <sup>nd</sup> April 2014



## **Appendix iv: Regression analysis**