

**THE EFFECT OF TAXATION ON THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES, A CASE STUDY OF KAMPALA OLD TAXI PARK, KAMPALA
DISTRICT**

BY

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DEDICATION

This research is sincerely dedicated to my Father, mother, my brothers and sisters who sacrificed everything moral and financial with the aim of enhancing me to attain this level of education.

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LIST OF ABBREVIATIONS

ACCA	ASSOCIATION OF CERTIFIED ACCOUNTANTS
CIPS	CHARTERED INSTITUTE OF PURCHASING AND SUPPLY
IOD	INSTITUTE OF DIRECTORS
KCCA	KAMPALA CITY COUNCIL AUTHORITY
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
SMEEIS	SMALL AND MEDIUM ENTERPRISE EQUITY INVESTMENT SCHEME
SMES	SMALL AND MEDIUM ENTERPRISES
SPSS	STATISTICAL FOR SOCIAL SCIENTISTS
SSB	SMALL SCALE BUSINESS
TAPSCOM	TAXI PARK/STAGE CO-ORDINATING COMMITTEE
URA	UGANDA REVENUE AUTHORITY
URSA	UGANDA REGISTRATION SERVICE BUREAU
USSIA	UGANDA SMALL SCALE INDUSTRIES ASSOCIATION
VAT	VALUE ADDED TAX

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ABSTRACT

The study was carried out to find out the effect of taxation on the performance of SMES in Kampala district; taking a case study of Kampala old taxi park. To assess the effect of tax rates on the performance of SMES, to find out the relationship between the tax base on the performance of SMES, to find out if SMES owners are aware of all their tax obligations and the policies.

The study applied both qualitative and quantitative approaches with a case study design where interviews and questionnaires were used for data collection. The study was from a sample size of 44 respondents.

From the findings, the study revealed that statistically significant correlation existed between taxation and performance of SMES with a positive relationship ($r=262$, $N=44$, $P>.024$). This indicates that an increase or decrease in taxation significantly relates to an increase or decrease in the performance of SMES.

Recommendations included: The government needs to sensitize the SMES about the taxes so as to improve on the performance, SMES should be levied lower amounts of taxes in terms of tax rates so that they are able to have enough funds for their activities which will lead to business growth.

CHAPTER ONE

1.0 Introduction

The chapter contains the introductory aspect of the study under the following subheadings: the background of the study, statement of the problem, Objectives, Research Questions, Research Hypothesis, Scope of the study, Significance of the study and conceptual framework.

1.1 Background of the study

Tax is generally a compulsory levy imposed by the government upon assesses of various categories. Taxation is a compulsory and non refundable contribution imposed by the government for public for public purposes. Taxation in Uganda started in 1900 with the hut regulation which imposed a standard charge for every hut dwelling. Taxation based on a system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British Administration. This is according to Manasseh (2000)

According to Moore (2007), taxation increases incentives for public participation in the political processes and creates pressure for more accountability, better governance and improved efficiency of government spending. It also creates incentives for government to upgrade their institution for tax collection, administration and to provide more public services.

Taxation can contribute to the development and to the welfare of an economy through three sources: it must be able to generate sufficient funds for financing public services and social transfers at a high resource, finally it should be able to relocate income. In the case of SMEs, it must at the same time be done in such a manner that puts their income and needs for survival into consideration.

Campsey (1997), provides that tax law legislation was introduced in 1919 and taxes have evolved through a number of reforms ever since. In order to widen the tax base, and collection of more revenue, the government has levied several taxes especially on the business enterprises for example the corporate tax, VAT, presumption tax and excise duty. Income Tax Act was introduced in 1997 to give guidance in the assessment and computation of taxes.

Ojochogwa Winnie Atawodi and Stephen Aannu Ojeka provide that many government policies, small and medium Enterprises are usually viewed and treated in the same light as large corporations. However, their size and nature makes them unique. Therefore in dealing with small and medium Enterprises, the unique qualities how these policies can be designed to bolster the growth of SMEs and the most effective ways to administer them. The importance of SMEs as a mechanism of economic growth and development is often ignored. They are perceived as minute establishments that have minimal effect on the state of the economy. However, if a thriving environment is created for these SMEs to grow through proper regulations, the SME sector has the highest propensity to transform developing economies.

With the dismantling of trade and other barriers, the world has been transformed into a global village. Consequently, SMEs in developing countries are struggling to survive under intense competitive environments both domestic and international. In developing countries like Nigeria, here is an urgent need to provide the required necessities enabling environment for the development of SMEs, so that they could adequately play a role expected of them in the economic transformation. Such role includes mobilization of domestic savings for investment, appreciate contribution to gross domestic production, increased harnessing of local raw materials, employment generation and significant contribution of poverty reduction efforts

through sustainable livelihoods and enhancement in personnel income, technological development and export diversification (Smtrakaler 2006). It is for this reason that an ideal tax policy needs to be adopted to ensure economic growth and proper utilization of resources.

According to (Hatega 2007), In Uganda Small and Medium enterprises (SMEs) are increasingly seen as engines of economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector. This is because they contribute to sustained creation of employment approximated to be 2.5 million, improve living standards and ensure social and political stability.

In the year 2013, there was a new tax bracket of 39.6% and this is according to the media (WBS), Kampala Capital City Authority charged 120,000 Uganda shillings on the taxi drivers so as to recover the 1,200,000 shillings but the levy charged was high and most tax drivers were unable to pay which thus resulted to defaults and finally resulted to failure of the tax payers to perform their duty of transporting people to their respective destinations.

According to Mustapha Mayambala (2014) the chairman of (DCCA) Drivers and Central Conductor Association called upon KCCA to clarify the right amount of money each driver is expected to pay per month else they shun the taxes. Drivers in different parks are exploited by TAPSCOM Company that was authorized to collect taxes from the drivers.

Kampala old taxi park is located in the city center with a number of small and medium enterprises like, kiosk owners, vendors, shoe sellers, jewelry sellers, saloons, restaurants and taxis in operation. Small and medium enterprises 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 Kampala old taxi-park as a case study to evaluate the effect of taxes on performance of small and medium enterprises.

1.2 Statement of the problem

In a new report, tax – the weighty burden 2011, the IOD claims that SMEs suffer true tax rates between 32% - 43% as a result of additional levies including employers' National Insurance, business rates on road fuel duty. There is limited scope for radical cuts in the short term. This is according to the Institutes head of Taxation in Uganda, Richard Baron because of this reason, many business owners perceive taxes are a burden and opt to evade the taxes but no research has been conducted to prove how this affects their performance. It is because of this reason therefore that prompted the researcher to research about the effect of taxation on the performance of small and medium enterprises.

1.3 Objectives of the Study

1.3.1 Major objective

To examine the relationship between taxation and performance of SMES in Kampala Old Taxi park.

1.3.2 Specific objectives

To assess the effect of tax rates on the performance of SMES in Kampala Old Taxi Park.

To establish the effect of tax base on the performance of SMES in Kampala Old Tax Park.

To find out if SME owners are aware of all their tax obligations and the policies in Kampala Old Tax park.

1.4 Research Questions.

What is the effect of tax rates on the performance of SMES in Kampala Old Taxi Park?

How does the tax base affect the performance of SMES in Kampala old Tax Park?

Are SME owners aware of their obligations and the existing policies in Kampala Old taxi Park?

1.4.1 Research Hypothesis.

There is an effect of tax rates on the performance of SMES in Kampala Old Tax Park.

There is an effect of tax base on the performance of SMES in Kampala Old taxi Park.

There is an effect of taxation on the performance of SMES as a result of inadequate awareness about their obligations and the policies of taxation.

1.5 Scope of the study

The study considered a period of three years (2010-2013). The period was selected because it is favorable for the researcher.

1.5.1 Geographical Scope

The study was carried out in old taxi park located in Kampala district in Central Uganda. The park not only is it used for parking taxis and other transportation means but also it has got a number of small scale businesses such as supermarkets, kiosks, dairies, mobile money shops, groceries and restaurants which are all taxed.

1.5.2 Content of the Study

The study focused on the role of taxation on the performance of SMES in Kampala Old Taxi Park which involved taxis and kiosks.

1.6 Significance of the study

The study on the effect of taxation on the performance of SMES in Uganda – Kampala Old Tax Park is of great importance and significant in the following ways:

To scholars and researchers, the findings of the study are expected to contribute to the existing literature about taxation and the effect it causes on the economy.

To tax authority and the government, the study will guide them in adjusting taxation so that they suit the requirements of the Small and Medium Enterprises.

The study findings are an addition to the already existing knowledge especially in the field of taxation and the performance of the Small and medium Enterprises (SMEs)

1.7 Definition of key terms

Obligation: The legal responsibility to meet terms of a contract

Awareness: Having knowledge about the existence of something.

Tax rates: Average rate at which an individual or corporation is taxed. The rate of a business is computed by dividing total tax expenses by the firm's earnings before taxes.

Tax base: Assessed value of a set of assets, investment or income streams that is subject to taxation, or the assessed value of a single asset that is subject to taxation.

Profitability Margin: The ratio of profit after taxes to cost of sales, often expressed as a percentage. It is one of the measures of the profitability of a firm.

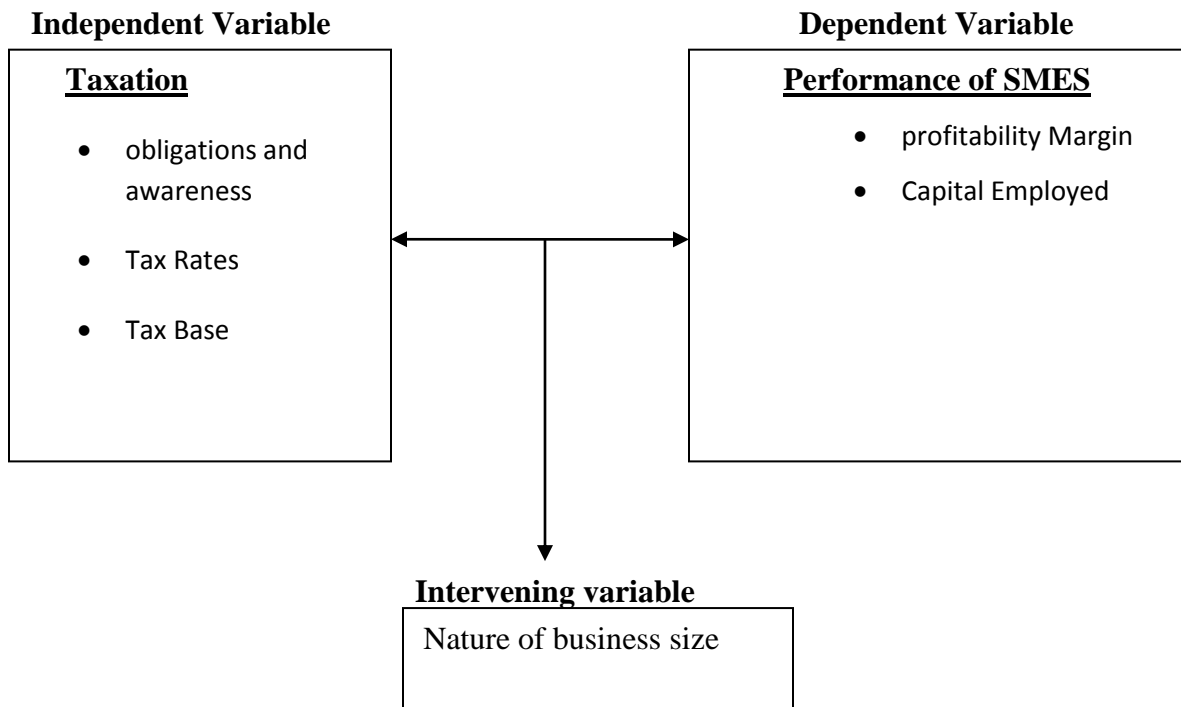
Capital employed: The total amount of capital used for the acquisition of profits. The value of all the assets employed in the business

1.8 Conceptual Framework.

The conceptual frame work shows the relationship between taxation and the performance of SMES.

Performance of SMES is measured in terms of profitability margin, Stock levels; Capital employed is influenced by taxes charged on the businesses which consist of the tax rates, tax base and most importantly the tax policies, obligations and awareness by tax payers which affects their performance.

Figure 1: The conceptual framework



Source: OD Bosco. 2011, as modified by the researcher.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at the effect of taxation on the performance of small and medium business enterprises in Uganda particularly Kampala old Tax park. It consists of existing literature on taxation by different scholars/research studies from journals, news papers, magazines and text books. This chapter covers taxation, classification, and purpose of taxation. However it particularly addresses the effect of tax rates, relationship between tax base on performance of small and medium enterprises and the awareness of small and medium enterprise owners about the tax obligation and policies.

2.1 Conceptual Reviews

2.1.1 The concept of taxation

This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2000). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2002). Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer (Balunywa, 1988). The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

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

2.1.2 The Concept of SMES

Small scale enterprises have so many definitions due to different criteria employed by different people and institutions in defining it. There is no single, uniformly accepted definition of a small firm (Storey, 1994).

According to Beyene, (2002), SMES are universally acknowledged as effective instruments for employment generation and economic growth, and in Africa where the Private sector is not well developed, SMES are playing a critical role in stimulating development and alleviating poverty.

Although some authors argue that there is no universal agreed definition in Africa (Beyene,2002 and Mutula & Brakel, 2006) SMEs are widely defined in terms of employee size and income turnover. For developing countries, 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 (UNIDO 2003).

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 Ugshs.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 (UIA 2008).

The term SMES typically encompasses a broad spectrum of definitions a cross countries and regions. Many countries and international organizations set their own guidelines for defining an SME, often based on the number of employees, sales or assets. The European Union (EU) (Nov,2010) defines SMES as firms with 10-250 employees with less than 50million in turnover or less than Euro 430 million in balance sheet. Cited from Financial Inclusion Expert Group SME Financial Sub-group (Nov, 2010).

According to Bolton Committee (1971), SME is a firm that meets the following criteria: Has a relatively small share of their market place, it is managed by owners in a personalized way and not through the medium of a formalize management structure and it is independent, in the sense of not forming part of a large enterprise.

There are various criteria of size that might be used to define SME which include, turnover number of employees, capital base profits, extent of import and exports and various definitions have indeed been developed for application in a range of countries. The centre for industrial research and development (1990), defines SMES as those whose total assets in capital equipment, plant and working capital are less than two hundred and fifty thousand (25,000) naira and employing fewer than 50 full time employees.

2.1.3 Characteristics of SMES

The concept of SMES is relative and dynamic (Olorunshola, 2003). SMES are characterized by uncertainty, innovation and evolution. A firm understanding of SMES would require a good knowledge of its features.

As noted by Aderemi (2003), SMES in Uganda are usually small, owner or family managed business offering basic goods and services, which tend to lack organizational and management structures with the urban ones tending to be more structural than their rural counterparts.

Udechukwu (2003) goes on to state that they are mostly sole proprietorships or partnerships although on the surface, they may be registered as Limited Liability Companies as such they are usually not separate legal entities. Olorunshola (2003) explains that this ownership style has led small and medium enterprises to have a simple management structure. They also require a lower startup capital than the larger companies (Akinsulire, 2010). The decisions of the managers have a higher tendency to be subjective given that they are managed and controlled by the same individual. The employee-employer relationship found in most SMES is predominantly informal.

Another key feature of the SME sector in any country is that it is heterogeneous varying in size from small retail outlets to highly paid professionals, and substantial manufacturing enterprises. SMES are also likely to vary in organizational form from sole proprietorships (with or without employees), small corporations (public or private), professionals and partnerships. This feature usually results in different obligations for record keeping for the enterprise.

A part from the numbers of employees, there are other key factors that characterize the SMES and these are related to management and the nature of operations. The SMES may be managed by their owners who are often assisted by family members (Okello-Oburra et al 2009), in this regard, the decision making system is quite flexible, informal and dependent on the personal drive of one or more of the executives. By their very nature of operation, SMES have a narrow range of products or services and a relatively simple and unsophisticated management structure with narrow tolerance range of risk. Individual SMES experience difficulties in achieving economies of scale in the purchase of inputs and are often unable to take advantage of market

opportunities that require large production that are homogenous standards and regular supply. Above all, SMES are confronted with situations where decisions are made haphazardly and not based on accurate business information.

2.2 Tax

Balungwa (1998) defined tax as a compulsory levy imposed by the government upon assessment of various categories. This definition means that a tax paid by the asseses without a corresponding return inform of goods and services on government hence it is referred to as a non-quid pro quo payment.

Justine. H (1999) defines tax as a price of civilization and this is the most appropriate definition considered by URA. Economics also stated that a tax is a leakage from the circular flow of income into the public sector with the exception of loan transactions and direct payment of publicly produced goods and services.

It can be defined as a compulsory and non refundable contribution executed by government for public purposes. Payment is not followed by concurrent benefit in return. A tax is paid without a corresponding return in terms of goods or services from the government and hence it is referred to as a non quid pro-quo payment (Income Tax Act, 1997)

2.2.1 Classification of taxes.

According to Manasseh (2000), taxes are classified as either direct versus indirect or proportional versus progressive tax.

a. Direct versus indirect.

1. Direct taxes are those that affect the individuals/firms directly through a deduction from earnings. Examples include; individual income tax, corporation tax, taxes on property and others.
2. Indirect taxes are those taxes that are paid to government by an intermediary and then passed on to the final user by including the tax in the final price. Examples include; export and import duties, excise and local production, value added tax (VAT) and others.

b. Proportional versus progressive tax

On the basis of equity, taxes are classified as proportional/progressive. A tax is said to be progressive when with increasing income the tax liability not only increases in absolute terms but also proportionate to income.

2.2.2 The purpose of taxation

According to Income Tax Act (1997), taxation is an important source of government revenue and an economic policy tool by government to attain economic growth. The importance of taxation therefore arises from debate of whether government should interfere in the operations of the market mechanism. Income Tax Act (1997) further noted that taxes may be levied for other reasons but revenue remains the prime objective of most taxes. Balunywa (1988) noted that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice.

The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. These countries face a number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has

to be designed to help the economy (Bhatia, 2002). According to the Uganda economic journal (1973), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (1973) also shows that, in stressing consumption reducing aspect, taxes may change the distribution of income and help to stabilize the economy.

2.2.3 Taxation of SMEs

Fiscal policy is one of the main components of macroeconomic policy and its tasks have been considered in a double context: first, the core of fiscal policy, and second, the consistency with the monetary policy (Holban, 2007). In general terms, the choice of tax policy to employ depends on the use of one or both two groups of instruments; the first one being the use of special tax preferences and the other incentives to support start-up and growth of small companies.

The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well designed tax system should be efficient in minimizing the distorting impact on resource allocation, and equitable in its impact on different groups in society (Bolnick, 2004).

The objective of a tax policy should be to achieve collection cost www.ccsenet.org/ijbm International Journal of Business and Management Vol. 7, No. 12; June 2012 90 ISSN 1833-3850 E-ISSN 1833-8119 savings while minimizing the revenue loss, disruption to the economy, and the inequity and capriciousness of the tax burden.

2.2.4 Approaches to tax administration

According to Bird (1974), tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. An effective and efficient tax administration system is integral to any country's well being, it is as a result of this that Baurer (2005) believes that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the Ability-to-Pay Principle and the Equal Distribution Principle. These two principles stress equality and fairness. While the Ability-to-Pay talks pushes that individuals should be levied taxes based on their ability to pay, the Equal distribution Principle suggests that income, wealth, and transaction should be taxed at a fixed percentage; that is, people who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes (Gabay, Remotin, & Uy, n.d)

2.2.5 Identification of a tax payer

Taxes are levied on individuals, groups/legal entities income earned. The identification of a tax payer is done with reference to natural/artificial persons who can earn income. However, this research shall confine to business as a tax payer and a business can be defined as vocation, trade, profession, adventure in the nature of trade but does not include employment (Income Act, 1997).

2.2.6 Assessment of taxes

Income Tax Act (1997) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of

tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income. Small and medium enterprises are not required to submit in any return to the commissioner. According to the income tax Act (1997) section 96 (11) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven years from the date the return was furnished..

2.2.7 Fines and penalties

The penalty structure should be primarily financial in character and probably progressively related to the amount of tax evaded and the seriousness of the offence in case a tax payer fails to pay any tax including; provisional tax, any withholding tax or tax required to be withheld, the penalty is 2% simple interest per month on the amount unpaid calculated from the date on which payment was due until the date on which payment is made (Pius, 2001). Musgrave argues that in all matters of legal rules, better compliance can be served either by a higher penalty if the offender is caught or by well facilitating the enforcements so as to increase the probability of being caught.

2.3 Performance of small and medium enterprises

Kitiniasa (2004) describes performance of small and medium enterprises as the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organization include: Survival, profit making and expansion. Pandey (1979) looks at financial analysis as a measure of the organization or business performance. The assessment of financial performance of business entities has a well established methodology that includes computation and interpretation of univariate and multivariate models.

2.3.1 Taxation and business performance

Taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures (Musgrave and Musgrave, 1984). According to Gordon and Dawson (1987), through taxation, the government takes away money from people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production in the private sector to the public sector. According to the World Bank Symposium (1991), businesses carry out tax planning 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/business they would otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

Economists argue that the resources SMEs direct towards the tax compliance are resources that could otherwise be used for re-investment, facilitating future growth. Based on the belief that taxes and a complex tax system put disproportionate pressure on smaller businesses and that small businesses are an important part of the economy, a system of tax exemptions, credits and deductions exists in Canada to help SMES become more competitive. In so far as the preferential tax provision have worked to promote a more favorable environment for small businesses giving them reprieve from onerous tax requirement and allowing them to be competitive despite their size they can be considered a success. As cited in Ben Tomlin (no 264, May, 2008).

2.3.2 Tax Avoidance Measures

Allingham and Sandmo (1972) treat taxpayers as perfectly moral, risk-neutral or risk-averse decision-makers who maximize utility. Within this framework, factors that determine the

monetary cost of compliance, like the tax rate, detection probability, level of income and penalty structure, drive compliance behavior.

Falkinger (1988) maintains there is some theoretical support for tax avoidance or a rationalization of past behavior. He believes that inequity as a rational causal factor of avoidance becomes more credible at a low tax level. In order to determine causality, it is important to hold the variable that is assumed to cause the change in the other variable(s) constant and then measure the changes in the other variable(s). This type of research is very complex and the researcher can never be completely certain that there are not other factors influencing the causal relationship, especially when dealing with people's attitudes and motivations. There are often much deeper psychological considerations, which even the respondent may not be aware of. **2.5**

2.4 The effect of Tax rates on the performance of SMES.

Income tax rates have an effect on mobilizations through their effect on tax payer attitude. High tax rates encourage tax evasion because the benefits of not paying are high while low rates encourage compliance. The government of Uganda has over the years considerably decreased the statutory income tax rates in a bid to boost compliance and thereby increase domestic revenue mobilizations. Corporation tax rate was reduced from 60% to 30% in 1992/93 (Budget Speech 1993/94).

The decrease of the rate, however appears not to have had a big impact on income tax mobilizations which have remained low as a percentage of total domestic revenue mobilization, when compared to other countries Tanzania 25% and Rwanda 26%. The income tax rates in Uganda are among the lowest in the region. Their failure to boost income tax mobilizations by significant levels suggests that the main cause of the low income tax mobilizations lies elsewhere.

Tax evasion is basically independent of the tax rate and cheating is a habit, once people are accustomed to evading tax, they continue to do so even if tax rates are lowered. Decreasing tax rates further is not an option (Mambule, 2003).

There are a number of studies - influenced by the new growth theories which have taken a “top-down” approach and attempted to assess the impact of taxes on per capital income and growth at the macro-level. Several of them purport to demonstrate a significant negative relationship between the level of the tax/GDP ratio (or the government expenditure ratio) and the growth rate of real GDP per capita, implying that high tax rates reduce economic growth. (Leibfritz).

The greater tax avoidance opportunity by the self-employed could induce individuals to become self employed due to increase in the income tax rates. This is because the gains from tax avoidance for the self-employed are higher with income tax rates. Studies based in United States and United Kingdom data suggest that there is a greater possibility for the self-employed to avoid and evade taxes. Therefore some studies find a perverse relationship where by increased income tax rates raised the self- employment rates this is according to Long, 1982, Blau 1987, Evans and Leighton 1989, parker 1996 and Robson 1998. Higher tax rates increase the entry into self- employment while reducing the profitability of leaving self-employment (Bruce 2000, 2001). One of the channels by which entry occurs is through the formation of small business by wage earners to take advantage of tax benefits without giving up their main wage earning jobs.

This thus reduces average share of the effort directed towards the entrepreneurial venture (Bruce and Holtz-Eakin2001) or put more simply, higher tax rates reduces the desired level of work effort. Thus, simple counting exercise may suggest an increase in the number of self –

employment with increase in the personal income tax rate. However, such increases may not have the desired benefit associated with the true state of entrepreneurship.

According to Duanjie et al, many OECD countries have lower tax rates for SMEs to foster their competitiveness. These include (Belgium, Canada, France, Germany, Ireland, Japan, Korea, Luxembourg, Mexico, the Netherlands, Portugal, Spain the United Kingdom, the United States. These measures are often motivated by both efficiency and equity objectives. The efficiency objectives are based on the notion that small businesses are prone to market failure for example due to higher compliance costs with regulations associated with diseconomies of scale and reduced access to financing, necessitating government policy. The equity objectives are in part motivated by the lower the profits earned by the SMEs.

Corporate tax rates can influence investment and financing of decision as well as the choice of organization form. The rates which are below top marginal personal income tax rates along with provisions for deferral of personal taxation through reinvestment of profits can provide incentives for the self employed to incorporate their business (Kings 1977.)

A decrease in the tax rates of corporate tax increases the incentives for incorporation, *ceteris paribus*, and results in a lower level of self-employed than might otherwise have been the case (Robson 1998). This type of tax induced changes in the form of organization may trigger income shifting in the form of compensation without affecting the real activity ignoring the presence of market and externalities such a tax system distorts the allocation of resource and economic efficiency (Gordon 1998 .) At the same time, there are advantages associated with reduced tax rates of SME, increased after tax earnings and thus lower cost of equity funds, increased equity investment and reduced tax distortion in favor of debt.

Favorable corporate tax treatment of SMES may encourage under reporting of income or lead entrepreneurs to divide business into separate corporations for tax purposes, lower corporate tax rates which can help address market failures in the availability of SMES finance, should perhaps be accompanied by anti-fragmentation rules to prevent large firms from artificial tax-induced divisions, for example the United Kingdom has special rules to prevent business from establishing very small companies in order to benefit from the 10% corporate tax rate. Canada also has “associate corporation” rules to address the same issue. Duanjie et al as cited in OECD science, technology working papers 2002/2009.

SMES are taxed differently compared to corporations or businesses with an annual turnover of above 50 million shillings. According to Shahroodi (2010), he stated that for a tax system to be efficient, the tax policy needs to be designed such that tax rates are appropriate and rationale, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be more intense.

SMES being profit generating establishments are also expected to pay their dues. The important question however is “how much tax should they be levied”. SMES are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Ugandan SMES choose to remain in the informal sector because they feel the cost of compliance is too high, and the considerable number of those who pay do so because they are coerced by the authorities. According to Ojachogwa Winnie (2012) et al.

The above light reasons why the issue of taxation of SMES is very important. First, the taxes provide revenue to the government to create an environment that will ease the running of all businesses, SMES inclusive. At the same time, if an SME is faced with high compliance costs, it has a tendency to avoid paying taxes thus; the revenue that would have been used to create this environment is diminished thereby reducing the SME'S chances of survival. cit

2.5 The effect of taxation on the performance of SMES as a result of inadequate awareness about Tax policies.

Tax policies can be designed in such a way that they do not only directly affect SMES but also indirectly push for voluntary compliance and their growth. Yaobin (2007), emphasized declared that special tax regimes for SMES may be appropriate policy instruments for minimizing the cost of collection. Because awareness of the dangers of inadequate taxation of SMES has grown because of the potential of uneven tax enforcement to cause distortions of competition, voluntary compliance by larger enterprises and by wage earners, (International Tax Dialogue, 2007), government intervention should help maintain balance while ensuring that countries exploit the social benefits from greater competition and entrepreneurship.

Most SMEs are managed on unprofessional lines (poor or no records) thus there is great uncertainty among traders in Uganda as regard to tax matters and to some extent due to their own making, they are forced to pay a higher income tax since tax collectors will estimate the value of the assets and stock and come up with a likely profit from such a business since there are no records to refer to. This is according to Alwedi 2002

Tax compliance in Uganda is still very low. This is because most Ugandans have poor understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). . Besides that, various surveys conducted on small scale and medium

enterprises in Uganda suggest that about 60% of them keep no records at all, while 25% keep partial records making it difficult to assess taxes (Ndandiko, 2000).

Ludega (2002) asserts that many traders have expressed ignorance about taxes imposed on their business. They say that this is highly attributed to the poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed, advantages of paying taxes and the use to which it is put. Therefore there is a need to sensitize the public especially business owners of Kampala Old taxi park. This should be done on the different taxes that impact the business owners such as income tax, and the rationale that underlines the imposition of taxes, because tax payers are not aware of the reasons for paying taxes.

SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilization of quality business information have been identified as crucial in attaining long-term and sustainable economic growth for developing countries, a like (Corps 2005.) However, in most developing countries, the SMEs sector suffer from inadequacy in the provision of business information which is only available from stand- alone institutions, often slow and cumbersome to access: it is limited in scope and is not provided in an integrated manner (UNIDO 2005.) SMEs need other tailor – made information solution like business information services that access, verify and apply information to a specific business problem.

According to Ladzani (2001) the priority ranking of the SMEs needs clearly puts information provision at the top of the list of services to be provided. The SMEs development is hampered by an “information-poor” environment. Market signals on business opportunities, customer trends, methods of organization and taxation policies are not communicated effectively to the SMES.

The SMES perform better in information-rich environment (Moyi 2000 and Ladzani 2001). If the SMES are crucial for poverty eradication, this could confirm why there is a high level of poverty in Uganda. The SMES in most parts of the country operate in information-poor environment and this is not because there is no information but because there is lack of an efficient, formal information system to address their information needs coupled with problems that affect accessibility to information.

According to Shokane (55), information is a crucial resource in gaining a sustainable, competitive advantage to modern business development in Uganda, economic agents in Northern Uganda operate in a business environment characterized by fragmented and incomplete information where an awareness of markets, technology, finance, tax policies and regulations is limited, therefore businesses in Uganda fail to receive timely business information.

Cochrane 6 provides that there is no meaningful information system in place to facilitate efficient and effective access to business information by the business enterprises. Traders and other small companies are simply “out of loop” in developing strategic business relationships that occur more frequently in Uganda’s capital city.

A recent study by the Uganda Bureau of Statistics (2005:30) established that the majority of the business enterprises depend on “word of mouth”. This could simply imply that the SMEs are facing a number of problems in accessing business information.

2.6 The effect of tax base on the performance of SMES.

The tax base is the set of economic activities and assets that is taxed. Broadening the tax base by widening the payer net does not necessarily mean more revenues will be collected as the cost of collection must be considered. Any attempt to broaden the tax net needs to take into account

whether the extra revenues outweigh the collection costs. One of the new measures proposed by the government in 2013/2014 budget is to provide a legal framework through which URA can collaborate with the Uganda Registration Services Bureau, local government and KCCA to increase the tax base. The objective of this collaboration is to identify taxpayers and collect taxes from small businesses which are hard to reach by URA. This will ensure that small and medium enterprises contribute their fair share to the treasury as is required by the tax law.

According to estimates by the Private Sector Foundation Uganda there are over 1.1million micro, small and medium enterprises in Uganda employing over 2.5 million people in total. Most of these enterprises are private limited companies registered by URSB and also have trading licenses and permits issued by KCCA and other local authorities. However, many of them are not on URA's register as taxpayers. These are the taxpayers that the government is looking for to bring into the tax base.

According to the background to the Budget that was published on 2nd July 2013 by the ministry of Finance, it is estimated that the URA is collecting between 54 per cent and 65 per cent of all the tax that should be collected in the country. This means that between 46 per cent and 35 per cent of the total taxes payable is currently not being paid to the government. This translates to about Shs3.3 trillion and Shs5.3 trillion in taxes not being collected. Faced with this challenge, the government is looking to different ways of closing this huge tax gap and brings more taxpayers in the tax net in order to mobilise the much needed resources to finance the national budget.

Under the proposed new measures all traders are required to have TINs issued to them by URA before they can be issued with a local trading permit or trading license. This means that however small a business might be, as long as it needs a permit or license to trade, you will have to ensure that you register as a taxpayer with the URA. URA needs to carry out extensive taxpayer education to ensure that taxpayers understand these new measures and do not resist them.

According to OECD pg 15(2009) the paper presents arguments that address the possibility that uniform application to firms of all sizes of certain basic tax provisions that is non targeted, generally applicable tax policies and tax administration rules and procedures may result in a relatively high tax burden on SMES, and thereby discourage SME creation and growth, at least in certain cases. In this context, the following provisions are considered: double taxation of corporate profit and implied cost of capital effects for SMES the inability to deduct interest expenses (for business start-ups unable to access debt financing), limited loss offset provisions that may discourage risk-taking, across boarder tax planning opportunities limited to multinational firms, a relatively high compliance burden on SMES and taxation on sale or inheritance of SME.

The World Bank has influenced many countries in undertaking reform policies. For Uganda, the tax base has remained significantly narrow ever since independence, leading to inadequate tax revenue. By May 2004, the composition of tax revenue has been predominantly important, SSES are taxed differently compared to corporations and businesses with an annual turnover of above 50millions.

According to Kitinisa 2003, there are three broad approaches to tax policies and they include:

- Application of the standard tax provision to all business activities.

- Taxing various business activities differently to achieve economic business policy such as: increase in private investment, exports or employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and thus induce problems for compliance and adversely affect the general investment climate.
- Uganda has gone through a number of tax reforms which include: gender nationalization and harmonization of tax rates and traits, abolition of wide ranging exemptions, new tax incentives and conditional exemptions.

2.7 Conclusions

Based on the literature above, when it comes to taxation of SMEs, high tax rates are the primary problem of entrepreneurs. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. Hence, SMEs are deprived of the benefits that arise if the government had enough tax revenue to embark on some development projects provision of amenities such as electricity and good roads which are tools that create an enabling environment for SMEs to thrive.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers the background against which data was gathered. It discusses the research design, study population, sampling, and study variables, sources of data, data collection methods and instruments, data processing, analysis and presentation and limitations of the study.

3.1 Research design

The researcher used a cross sectional survey design basing on the use of qualitative and quantitative approaches that were adopted to establish the relationship between taxation and performance of SMES (Amin, 2005) The use of qualitative and quantitative techniques was to assist in the data collection process through the focus on descriptive information and internal statistics with the view of developing tables respectively. This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Area of the study

The study was conducted in Kampala old taxi park which is located in the city center. The study embarked on the effect of taxation on the performance of SMES

3.3 Study population

Borg and Gall (1996) defines 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. According to Chein (1981), a population is the aggregate of all cases that conform to some designated set of

specifications (Frankfort-Nachmias & Nachmias, 1996, p.179).

The population for the research involved categories of SMEs for example kiosk owners, taxi-operators, vendors, hotels, hawkers, vendors, jewelry sellers and shoe sellers. Small scale units responded on behalf of their businesses because they were at the centre of operation of their businesses and the decisions depend much on them. The researcher's target was on people who carry out business on small and medium scale.

3.4 Sample size

A sample size of 44 respondents out of a population of business owners was considered in this study. The sample size was selected basing on the standard sample size determination table provided by Krejcie and Morgan (1970 pp.605-607), and it was modified by the researcher.

3.5 Sampling technique

The sampling technique used comprised of both none probability and probability techniques. This was because the population was not homogeneous. The researcher therefore used techniques such as purposive sampling and stratified random sampling since the best option in this case was purposive sampling that focused on expert knowledge while stratified sampling focused on groups of people.

3.5 Data Collection method and Instruments.

3.5.1 Questionnaires.

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the

information had to be collected from a large sample in a short period of time yet the respondents could read and write (Sekaran, 2003). The questionnaire was used in collection of data from respondents (owners of small scale and medium business enterprises). The questionnaires consisted of both open and close ended questions administered to respondents of Kampala old tax park. The questionnaires were typed in English being the official language in Uganda today. The current study will also use them because the population under study can read and write and the researcher did not mail the questionnaires but administered them directly and with the issue of ambiguous items, the researcher will review the reliability and validity of these items with the help of supervisors and peers.

3.5.2 Interviews

The researcher also administered interviews. An interview is a dialogue between an interviewer and interviewee. It is an organized conversation aimed at gathering data about a particular topic. This is a method where a researcher interviews respondents to obtain information on the issue of interest. In this case, the interviews during this research were structured and were specifically administered to staff and business owners of Kampala old tax park.

3.5.3 Secondary data Collection

Roston (2001) defines secondary data as that kind of data that is available, already reported by some other scholars. Secondary data included policy documents and abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study was got from sources like libraries, archived records from KCCA, records of selected small scale and medium business enterprises, unpublished research reports, online information, text books, news

papers, and government publications. This was because it was readily available and easier to comprehend, as it comprised of extensively researched work.

3.5.4 Primary Data collection

According to Roston (2001), primary data is that kind of data that has been gathered for the first time, it has never been reported anywhere. Challenges of secondary data sources such as out datedness and inadequacy in terms of coverage necessitated the use of primary source for first data. Self administered questionnaire was used and this enabled the researcher to cover a large population at a reasonable cost and quickly.

3.6 Quality Control Methods

3.6.1 Validity of instruments.

For qualitative data, the researcher during data collection exercise ensured that the data recorded from interviews reflected the actual fact, response and events. The researcher took multiple measures, samples and checked the rationality of the research with an expert to verify response consistency and customize questions so that only appropriate questions are asked.

3.6.2 Reliability of instruments.

For qualitative data, reliability of the instruments was ensured through discussing with colleagues, respondents and participants about the instruments intended to measure and asking them whether the instruments designed would capture the required data.

3.7 Data management and processing

Data collected was checked for completeness, categorized, coded and entered into a computer where it was summarized into frequency tables.

3.7.1 Data Presentation

Quantitative data was presented in form of descriptive statistics using frequency tables. Qualitative data was sorted and grouped into themes. The researcher thereafter evaluated and analyzed the adequacy of information in answering the research questions through coding of data, identifying categories and parameters that emerge in the responses to the variables of the study. Qualitative data was presented using narrative text.

3.8 Data analysis

The data got was analyzed automatically using SPSS (Statistical Package for Social Sciences) version 2.2. The SPSS package was opted for, because it handles a large number of variables. Pearson's 16

Linear correlation index was used in order to correlate taxation and performance of small scale business performance. The index was selected because it measures the degree and direction of the relationship between variables.

3.9 Research and ethical consideration

The researcher put into consideration the need to handle the respondents with due respect and care. The researcher assured all the respondents that the information collected is to be confidential and only used for research purposes. The researcher also first thought the consent of the respondents before seeking for information from them.

3.10 Limitation of the study.

Time limitations together with financial constraints did not permit in-depth investigation given the intensity of research. Also some respondents required money before they could respond. Comprehensive research study involves a great deal of collecting, analyzing and processing that

requires a lot of time. The researcher mitigated this by trying to work within the limits of the budget to make the study a success.

The study was affected by non – response from some of the Small and Medium Enterprises contacted most especially the small firms who were very much sensitive to taxation issues and considered the information required private. The researcher obtained a letter of introduction and tried to convince the respondents that the research was for study purposes and their responses would be kept confidential.

There was a limitation of lack of proper records and even non existence of some due to the fact that most SMEs do not keep or do not have records. However the researcher tried to get the necessary information for the study.

Also some respondents could not release some information because they expected to get no return for their information.

Another limitation was getting wrong information due to excitement of respondents.

In conclusion, the researcher tried to establish from the respondents whether they had ever delayed paying taxes beyond the stipulated time. The analysis of the pre-tested questionnaires indicates high internal consistency for the instrument in capturing income tax compliance in Uganda.

CHAPTER FOUR

PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the analysis and interpretation of the findings of the study. This study is aimed at analyzing the effect of taxation on the performance of SMES in Kampala district. The focus is to assess the effect of tax rates on the performance of SMES, to find out the relationship between the tax base on the performance of SMES, to find out if SMES owners are aware of all their obligations and the policies in Old Taxi Park, Kampala district.

4.1.0 Background Information

4.1.1 Gender category of respondents

Frequency tabulation was used by the researcher to present the gender distribution of the respondents. This is shown in the table below.

Table 4.1 showing gender of the respondents

	Frequency	Percent
valid male	19	43.2
female	25	56.8
Total	44	100.0

Source: Primary Data, 2014

From the results in the table above, the results revealed that the majority of the respondents who provided information were female 56.8% whereas 43.2% were male respondents. According to the table, more female were engaged in the SME businesses.

4.1.2 Age groups of the respondents

Frequency tabulation was used by the researcher to present the age distribution of the respondents. This is as shown in the table below:

Table 4. 2 showing the age groups of the respondents

	Frequency	Percent
Valid 20-30 years	10	22.7
31-40 years	16	36.4
41-50 years	15	34.1
above 50 years	3	6.8
Total	44	100.0

Source: Primary data, 2014

From the results in table2 above, the results revealed that the majority of the respondents who provided information were in the age groups of 31-40 years (36.4%), 41-50years (34.1%), 20-30 years (22.7%), and 50 and above had a percentage of (6.8%). This therefore confirms that since most respondents were mature, valid data was provided.

4.1.3 Marital status of the respondents

Frequency tabulation was used by the researcher to present the marital status of the respondents.

This is as shown in the table below:

Table 4. 3 showing the marital status of the respondents

	Frequency	Percent
Valid Married	11	25.0
Single	15	34.1
Separated	10	22.7
Others	8	18.2
Total	44	100.0

Source: Primary data, 2014.

From the results in table 3 above, the results revealed that 34.1% were single, 25% were married, 22.7% were separated and 18.2% belonged to others like widows or widowers.

4.1.3 Education levels of Respondents

Frequency tabulation was used by the researcher to present the education of the respondents. This is as shown in the table 3 below.

Table 4. 4: Showing education levels of respondents

	Frequency	Percent
Valid degree	18	40.9
diploma	8	18.2
certificate	7	15.9
None	11	25.0
Total	44	100.0

Source: primary data, 2014

From the table above, the results showed that the majority of the respondents who provided information were degree holders with a percentage of 40.0%, 25% belonged to the category of none which comprised of the un educated respondents, 18% of the respondents were diploma holders, and 15.9%e respondents were certificate holders.

4.1.4 Longetivity of the business

Frequency tabulation was used by the researcher to present the period for which the businesses existed. This is shown in the table 4 below:

Table 4. 5: showing the Longetivity of the business

	Frequency	Percent
Valid below 1 year	12	27.3
2-5 years	18	40.9
above 5years	14	31.8
Total	44	100.0

Source: primary data 2014

From the results in the 4 above, the results revealed that the 27.3% of the SMES had been in existence for less than one year, 40.9% being the majority had been in business for between 2-5 year and 31.8% had been in business for 5years and above, this is an indication that majority were young growing businesses.

4.2 The study objectives

4.2.1 Awareness about tax policies and obligations on performance of SMES

In order to establish how awareness about taxes by the business owners affects the performance of SMES the respondents, item mean results were generated to show the average response of the respondents on each item. The items were anchored on a five point likert scale ranging between strongly disagree, disagree, not sure, agree and strongly agree. The findings are shown below:

Table 4. 6: showing the effect of tax awareness and obligations on the performance of SMES

	Mean	Std. Deviation
There is meaningful information system put in place to facilitate access to business information as regards to taxes.	1.64	.650

Source: primary data 2014

From the results in table 4.5 above on the respondents' views on the effect of awareness on tax policies and the obligations on the performance of SMES, (mean =1.64, standard deviation =0.654) indicated that the majority of the respondents disagreed and there was a narrow variance in terms of the data given by the respondents. This revealed that there was inadequate

information system put in place to facilitate access to business information as regard to taxes paid.

This is in support of Alwedi (2002) who asserts that the majority of SMES are managed on unprofessional lines (poor or no records) thus there is great uncertainty amongst the traders in Uganda as regard to tax matters and to some extent, due to their own making, they are forced to pay higher taxes since tax collectors will estimate the value of assets and stock to come up with a likely profit on which tax is to be imposed.

According to the interview that was carried out, it indicated that the majority of SMES were not having proper books of records and the minority who kept books of records used bin cards and store ledgers.

4.2.2 Tax rates and the performance of SMES

In order to establish the effect of tax rates on the performance of SMES, item mean results were generated to show the average response of the respondents on each item. The items were anchored on a five point likert scale ranging between strongly disagree, disagree, not sure, agree and strongly agree. The findings are shown below:

Table 4. 7: showing the effect of tax rates on the performance of SMES

	Mean	Std. Deviation
The tax rates determine the performance of SMES	3.39	1.104
The tax rates contribute to the evasion of taxes by the business owners	3.36	1.143
The performance of SMES is motivated as a result of deductions in the tax rates	3.70	1.069

Source: primary data 2014

From the results in table 4.6 above on the respondents' view on the effect of tax rates on the performance of SMES, this revealed that the tax rates determine the performance of SMES (mean=3.39, standard deviation=1.104), this indicated that there was a wide variation, the tax rates have contribute to evasion of taxes by the business owners (mean=3.36, standard deviation =1.143), the variation indicates that it was wide, the performance of SMES is motivated as a result of deductions in the tax rates (mean=3.70, standard deviation=1.069) and this showed that there was a wide variance in terms of information provided by the respondents. The mean

indicated that majority of the respondent agreed to the statements that were in regards to tax rates.

This is in line with the Budget speech (1993/1993), which asserts that high tax rates encourage evasion of taxes because the benefits of not paying are high while low tax rates encourage compliance, however, mambule (2003), contradicts the findings stating that tax evasion is independent of tax rates and cheating is a habit, once people are accustomed to it, a deduction in tax rates is not an option. Economists argue that resources SMES direct towards the tax compliance are resources that could otherwise be used for re-investment, to facilitate further growth implying that a high tax rate would affect the performance of SMES in terms of expansion.

4.2.3 Tax base on the performance of SMES

In order to establish the effect tax base on the performance of SMES, item mean result were anchored on a five point likert scale ranging between strongly disagree, disagree, not sure, agree and strongly disagree. The findings are shown in table below.

Table 4. 8: showing the effect of tax base on the performance of SMES

	Mean	Std. Deviation
The tax base target is achieved through appropriate tax reforms put in place.	3.18	1.193
the tax officers are effective in identifying and registering potential tax payer	2.32	.934

Source: Primary data 2014

From the results in the table 4.7 above on the respondents' views on the effect of tax base on the performance of SMES, the information revealed that the tax base is achieved through appropriate tax reforms put in place (mean =3.18, standard deviation= 1.193), this indicated that there was a wide variation, however, the tax officers are not effective in identifying and registering potential tax payers (mean= 2.32, Standard deviation=0.934), it indicated that there was a narrow variation and this is a great weakness since it results to high levels of tax evasion.

This is in support of Kitinisa (2003) who provides that Uganda is going through tax reforms like gender nationalization and harmonization tax rates and traits , abolition of wide ranging exemptions, new tax incentives and conditional exemptions which all aim at achieving the tax

base, Ludega (2002) asserts that there is poor work done by the tax officers in sensitizing tax payers about the taxes and this indicates that the officers are also inefficient and ineffective in terms of identifying and registering potential tax payers.

4.3 The relationship between taxation on the performance of SMES

In order to find out the relationship between the independent variable and the dependent variable, correlation analysis was used by the researcher to show the response of the respondents using Pearson correlation

Table 4. 9: showing the relationship between taxation and performance of SMES

		Taxation	Performance
taxation	Pearson	1	.262*
	Correlation		
	Sig. (2-tailed)		
	N	44	44

*. Correlation is significant at the 0.05 level (2-tailed).

From table 4.8 above, the results revealed that statistically significant correlation existed between taxation and performance of SMES with a positive relationship ($r=.262$, $N=44$, $P < .029$). This indicates that an increase or decrease in taxation significantly relates to an increase or decrease in the performance of SMES.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction

This chapter presents the discussions, conclusions and recommendations arising out of the research findings in chapter four and suggestions for further research.

5.1 Summary of findings

The study was aimed at determining the effect of taxation on the performance of SMES in Kampala old taxi park. The results revealed that the effect of taxation on the performance of the SMES is quite significant. The study further revealed that taxes on the performance of SMES through tax rates highly contributes towards the performance of SMES because high tax rates reduce on the resources of these businesses and yet the resources would be used to re-invest into the business.

The study also revealed that performance of SMES is also affected by limited access to the tax information by the business owners, this resulted to ignorance and the business were taxed basing on the assets and stock since no proper books of records were kept.

5.2 Conclusions

The conclusions are drawn on the basis of the research objectives of the study as presented below:

From the findings on awareness and obligations of taxes on the performance of SMES, the study revealed that there is inadequate information system put in place to facilitate access to business information as regards to taxes and majority of the businesses have poor record keeping, the minority who keep records use bin cards and store ledgers.

From the findings in regards to tax rates on the performance of SMES, the performance of SMES is determined by the tax rates, it revealed that evasion of taxes by business owners is attributed towards the tax rates which indicated that high tax rates reduce resources of the business and evasion of taxes comes with some benefit to the business owners. The performance of SMES is motivated as a result of deductions in the tax rates.

From the findings in regard to tax base, it was revealed that the tax base target is achieved through appropriate tax reforms put in place but tax officers are not effective in identifying and registering potential tax payers.

From the findings in regard to the relationship between taxation on the performance of SMES, it was revealed that there was a positive correlation. This indicates that an increase or decrease in taxation significantly relates to an increase or decrease in the performance of SMES.

5.3 Recommendations

The researcher made the following recommendations as a way of reducing burden of SMES as well as to increase the revenue got from Kampala Old Taxi Park.

SMES should be levied lower amounts of taxes so that they have enough funds for other activities that will lead to business growth. Furthermore, it will help SMES to get better and equipped to survive in a competitive market.

The government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will also encourage voluntary compliance.

KCCA should find a way of assessing the tax in that SMES should pay earlier in the financial year in order to give enough time to the business to pay their dues rather than make an assessment and demand for payment.

URA should put more emphasis on dissemination of concrete tax knowledge when conducting its tax education campaign given that it has been found to positively affect taxpayer's compliance behavior. URA should utilize more of the expertise of the educational institutions like universities in its tax education activities given that they are better placed to provide the required technical knowledge.

The small business taxpayers should also be encouraged to seek tax advisors' services, as they might not be able to understand the technical taxation issues given the need for specialized training.

URA should introduce a scheme that allows tax payers to pay the tax obligation in the installments over a given period of time as opposed to lump some at once. URA should reach out and educate the business community about its different tax rates and mode of payment. URA should adopt the closure of business premises on default only as a last resort after all the other methods of collection have failed. This should be an exception and not a rule.

The government of Uganda should ensure that taxpayers take confidence of its service provision as being effective, efficient and economical, and making fair accountability for the resources entrusted to them by the taxpayer. This will improve taxpayers' perception of fairness i.e. having an equitable exchange with government.

The government of Uganda and URA should step up efforts of using more behavioral measures of encouraging SMEs' taxpayers to comply than concentrating on using deterrence (economic) measures to encourage compliance.

5.4 Areas for further research

The researcher carried this study in order to examine the effect of taxation on the performance of SMES in Kampala old Taxi Park as a case study but the study was not exhaustive owing to

constraints in terms of scope, time and finance. Further research is therefore needed in areas such as;

More studies can be done to assess the magnitude of tax knowledge effects on the performance of SMES as it has not clearly been studied in here.

The current study can be expanded further by increasing the population studied to include all Uganda's SME taxpayers.

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APPENDIX I:

QUESTIONNAIRE FOR BUSINESS OWNERS

Dear participant, I am Kihunde Irine , an undergraduate student of Uganda Martyrs University Nkozi pursuing a Bachelor's Degree in Business Administration and Management. I am undertaking a research project entitled the effect of taxation on the performance of Small and Medium Enterprises a case of Kampala Old taxi Park. You have been selected to participate in this study so as to be able to obtain your perception and views regarding the taxation on SMEs. Your responses will be used only for research purposes and shall be treated with supreme confidence. I will be grateful if you agree to answer the questions below. Thanks

Part A: General Information

1. What is your Sex?

Male Female

2. Which age group do you belong to?

20-30 years 31-40 years

41-50years Above 51 years

3. What is your marital status?

Married Single

Separated Others

4. What is your highest level of Education?

Certificate Diploma

Degree others

5. How long has the business been in existence?

Below 1 year 2-5 years above 5 years

Part B: Awareness about the policies and obligations on the performance of SMES

6. There is meaningful information system put in place to facilitate access to business information as regards to taxes.

Strongly disagree

Disagree

Not sure

Agree

Strongly agree

Part C: Tax base on the performance of SMES

7. The tax base target is achieved through appropriate tax reforms put in place.

Strongly disagree

Disagree

Not sure

Agree

Strongly agree

8. The tax officers are effective in identifying and registering potential tax payers.

Strongly disagree

Disagree

Not sure

Agree

Strongly agree

Part D: Tax rates on the performance of SMES

9. The tax rates determine the performance of SMES

Strongly disagree

Disagree

Not sure

Agree

Strongly agree

10. The tax rates contribute towards evasion of taxes by the business owners

Strongly disagree

Disagree

Not sure

Agree

Strongly disagree

11. The performance of SMES is motivated as a result of deduction in tax rates.

Strongly disagree

Disagree

Not sure

Agree

Strongly agree

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12. What are the daily sales of the business?

.....

13. How much capital is employed in the business?

.....

14. Has the tax authority ever given you assistance in regards to tax awareness?

.....

15. Has your business ever been assed for tax purposes?

.....

16. If yes, which kind of taxes does your business pay?

.....

Thank you very much for your valuable time