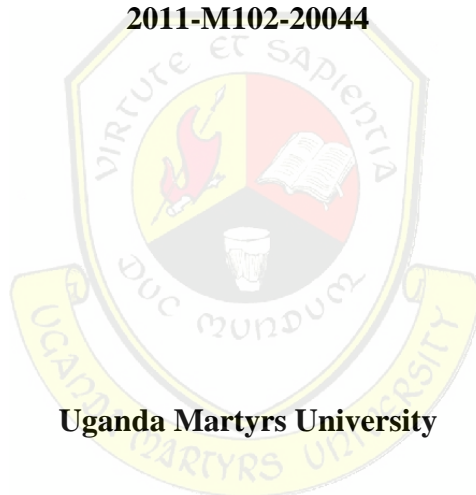


**LOCAL GOVERNMENT TAXES AND PERFORMANCE OF SMALL SCALE  
ENTERPRISES**

**A CASE OF MPIGI TOWN COUNCIL**

**LWANGA HENRY**

**2011-M102-20044**



**Uganda Martyrs University**

**OCTOBER, 2016**

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**A CASE OF MPIGI TOWN COUNCIL**

**A postgraduate Dissertation presented to faculty of Business Administration and  
Management in partial fulfillment of the requirement for the award of a Masters'  
Degree in Business Administration (MBA)**

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## **DEDICATION**

To my dearest the late Mother Elizabeth Nakaggwa, in gratitude for her dedicated effort to transform me into what I am today, and all family members. Thank you for parenting me. To my wife Namale Resty and children; Namulema Hillary, Nanjogo Hilda, Sserumaga Harold, Musoke Alippo Humphrey and Joan Nalwanga thank you for your love and support you have given me.

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## **LIST OF ABBREVIATIONS**

LG FAR:	Local Government Financial and Accounting Regulation.
KCCA :	Kampala City Council Authority
UTODA:	Uganda Tax Operators Drivers Association
PSF-U	Private Sector Foundation- Uganda
PHC :	Primary Health Care
LG	Local Government
LGDP:	Local Government Development Programs
LST	Local Service Tax
LHT	Local Hotels Tax
PAF:	Poverty Alleviation Fund
SSEs :	Small Scale Enterprises
SPSS	Statistical Package for Social Sciences
DCC:	District Contracts Committee
IMF:	International Monetary Fund
UBOS	Uganda Bureau of Standards
USAID:	United States Agency for International Development
LGFC:	Local Government Finance Commission.

## ABSTRACT

In Uganda, 90% of business owners admit that taxes are a huge constraint to their businesses UBOS (UNHS, 2011), they claim that taxes are high and do not allow new businesses to cover up initial cost. Odongo (2011) points out that Tax mainly affects the performance of small scale enterprises through lost sales during closure of the business premises, loss of machinery and equipment due to delay in remitting tax and the loss of capital due to fines imposed.

Thus the purpose of the study was to investigate the relationship between Local Government Taxes and performance of Small Scale Enterprises in urban local governments in Uganda taking the case of Mpigi Town Council. Specifically, the study set out to find the relationship between trade licenses and performance of small scale enterprises, to examine the relationship between market fees and performance of SSEs and also to determine the relationship between local service tax and performance of small scale enterprises in Mpigi Town.

The study used a cross sectional study design adopting a combination of quantitative and qualitative techniques. This prompted the research to use primary and secondary data to which end it used questioning/ interviewing, key informants. Documentary review on local government tax policies and documentation on small scale enterprises was employed. Out of the targeted sample size of 181 the study drew responses from 179 respondents giving a 99% response rate. Quantitative data was entered and cleaned in Epidata and analyzed using SPSS version 17.0. Pearson's correlation coefficient and regressions were further used to show the relationships among the dimensions of variables. While qualitative data was analyzed by categorizing themes basing on the objectives of the study

From the findings of the study a positive significant relationship between local government taxes and performance of small scale enterprises was clearly indicated, with the trade license providing a better explanation of performance of small scale enterprises as compared to local service taxes and market fees. The study also indicated that all the three dimensions of local government taxes relate positively with small scale enterprises' performance.

The study recommended that more awareness should be made on local government taxes by local government authorities, sensitization and collection of taxes should be done in a more friendly manner and local governments should consider abolishing Tax Sir charges for late payments as they cause more pain to tax payers.



## **CHAPTER ONE**

### **GENERAL INTRODUCTION**

#### **1.0 Introduction**

The proposed research is a case study about the relationship between local government taxes and performance of Small Scale Enterprises in urban areas in Uganda. Whereas local government taxes takes on different variables like local service tax, trading license and market fees, performance of Small Scale Enterprises on the other hand reflect variables like sales turnover, profitability of the firm and growth of capital.

#### **1.1 Back ground to the study**

Small scale enterprises worldwide have been recognized as engines of growth and development (Harper, 1984; et al, 1997; Ba-el and Felsenstein, 1990) as cited by Balunywa (2007) and in many countries there has been some considerable effort to support them so as to create the necessary employment opportunities, incomes and productive capacity. Besides, reasons why small enterprises are preferred include: ease of formation, capital requirements, flexibility, mobility and a variety of other factors. Seen from a global perspective, small scale businesses have a specific niche in global economic affairs. The global market is dominated by world class competitors in the form of multinationals and for the developing countries; small business appears to be the way to compete. In Uganda Small Scale Enterprises (SSEs) are reported to contribute over 30% of Uganda's Gross Domestic Product (Uganda Investment Authority, 2012).

It is also reported by the Ministry of Planning and Economic Development (2014) that over 70% of Uganda's manufacturing output is by small scale enterprises. The sector also employs over 5 million people in Uganda (Uganda Investment Authority, 2014). Despite the importance of small scale enterprises, they appear not to have been very successful in the Saharan Africa. Many studies that have been done (Wanyama, 1991; Ngobo, 1995; Sewanyana, 1997; Mutazindwa, 1997) as cited by Balunywa 2007 indicate that small businesses have a variety of problems some of which are managerial and lack of markets. Since the small units have been identified as important players in the world markets, it is important that they are supported in their development. The emerging pattern of business in Uganda is that small businesses will continue to be the source of jobs and growth in the economy. Many studies have been undertaken and have identified numerous problems as being associated with small businesses, such as lack of finance and access to it, lack of market information, lack of managerial skills and many others. Little attention however has been paid to tax liabilities which is the underlying factor to the development of any business. We recognize that small business has an important role to play in many economies. We must therefore understand what constrains them to be able to support them. Various studies (Kibera and Kibera, 1997; Thembe et al, 1997; Alila and McCormick, 1994) as cited by Balunywa (2007) have enumerated the factors that are generally agreed on as the constraints to the growth of small business especially in the African setting. These include lack of market opportunity, access to finance, enabling environment, market information, and managerial skills.

### **1.1.2 Conclusion on Small Scale Enterprises**

Taxes have existed virtually as there have been organized governments. The first tax law registration was introduced in 1919 and ever since the taxation has evolved through a number of reforms. The government in attempt to widen the tax base and collect more revenue has had to levy several taxes especially on small scale businesses. Examples of such taxes include among others trade licenses, market fees and local service tax. It was by 1997 when the Income Tax Act was amended by the Parliament of Uganda. This was to give guidance in assessment and computation of taxes and cater for the interests of the large tax payers. A quality Assurance, inspectorate and appeal was created and a tax appeal tribunal (TAT) was also constructed (Balunywa, 2007). According to (Wylie, 2008), consumer Economics, 10th edition, A tax is a compulsory contribution of money made to a government to provide for services for the common good. This definition therefore distinguishes taxation from payments to government agencies, for instance, postage pays for services, but its use is not compulsory unless the services is desired.

According to Musgrave (1973) and as cited by Muhangi (2011) the major source of government revenue that is used for achieving the function of allocation, re-distribution, stabilization and promotion of economic growth should be raised with or no minimum distributors in the economy. It is noted that the Ugandan government has a narrow and limited revenue base which is attracted to the small portions of the formal sector as the result of the marginal tax rates are high and cases for avoidance and evasion taxes by small scale businesses operators are high. In the recent past, public and private sector has been forced to organize consultancy forums meant to harmonize the tax systems so to re-define the objectives. It was noting that the small scale enterprises contribute significantly in the economic sector growth but because of its informal nature there is redundancy in the growth of small scale Enterprise.

## **1.2 Problem Statement**

Taxes are important for governments world over as they are one of the major sources of funds for implementation of government programs to improve service delivery. Thus it is an obligation for everybody to pay taxes including small scale enterprises. According to Uganda bureau of statistics (UBOS), in Uganda, small and medium enterprises make up over 60% of the business sector in the economy (UNHS, 2011).

In Uganda, 80% of small scale enterprises/ businesses die before their 5th anniversary Private Sector Foundation- Uganda (PSF-U). Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens.

Although local government taxes are imposed to improve service delivery in local governments, many Ugandans perceive that tax is a burden and a major constraint to the extent that others think some business entities are favored while others not. According to a study conducted by UBOS (UNHS, 2011), it was reported in a survey that “90% of business owners admitted that taxes were a huge constraints to their businesses” they claimed that taxes are high and do not allow new businesses to cover up initial cost. Odongo (2011) pointed out that "Tax mainly affects the performance of small scale enterprises through lost sales during closure of the business premises, loss of machinery and equipment due to delay in remitting tax and the loss of capital due to fines imposed". This has however, posed a serious knowledge gap and to the extent that there has been no study focusing on the relationship between local government taxes and performance of small scale enterprises.



### **1.3 General objective**

The study investigates the relationship between Local Government Taxes and performance of Small Scale Enterprises in urban local governments in Uganda.

#### **1.3.1 Specific Objectives**

To examine the effect of Trading Licenses and performance of Small Scale Enterprises.

To establish the relationship between market fees and performance of Small Scale Enterprises.

To evaluate the relationship between local service tax and performance of Small Scale Enterprises.

#### **1.3.2 Research questions**

(i) What is the relationship between Trade licenses and performance of Small Scale Enterprises?

(ii) What is the relationship between market fees and performance of Small Scale Enterprises?

(iii) What is the relationship between local service tax and performance of Small Scale Enterprises?

#### **1.3.3 Hypothesis**

There is a relationship between Local Government Taxes and performance of Small Scale Enterprises.

## **1.4 Scope of the Study**

### **1.4.1 Geographical Scope**

The study was carried out in Mpigi Town Council, with special focus on areas of; Ward A, B C and D. Mpigi town council has the mandate to improve service delivery among numerous business categories using funds generated from local taxes Mugabi (2004). It is also one of the oldest decentralized lower local governments in Uganda declared in 1977 (5-Year Development Plan 2010/11- 2015).

### **1.4.2 Content**

According to Local Government Act CAP 243 (2012 as amended) Fifth Schedule, the study drew up on local government taxes as the independent variable and specifically focusing on the dimensions of trading licenses, market fees and local service tax. Whereas performance of Small Scale Enterprises as dependent variable depicted the dimensions of sales turnover, profitability, and capital growth as pointed out in the extract of World Bank Publication on Business Taxation in a low revenue economy. Furthermore the study investigated the relationship between performance of small scale enterprises and the dimensions of local government taxes that is; trade license, market fees and local service tax.

### **1.4.3 Time Scope**

The time scope of the study specifically covered the past 5 years (2010-2015). The researcher decided to cover this time, because this was the time when the country went through many local government tax reforms and at the same time registered a number of small scale enterprises Muwanga (2004).

### **1.5 Justification of the study**

There have been recent legal reforms from Local Government Act 2007 to Local Government Act 2012 together with Local Government Finance and Accounting Regulations (2007) (LGFAR) leading to the introduction of new taxes in local government geared towards improving service delivery, yet the emergency of many small scale enterprises coming on board in urban areas continued to be observed. However, there are no studies conducted in relation to this phenomenon, where others have tried the extent to which local government taxes affect performance of small scale enterprises has not been tackled.

### **1.6 Significance of the study**

The study will inform the authorities at Mpigi town council to initiate informed policies that facilitate the strengthening and improvement of local government taxes in relation to performance of Small Scale businesses.

The study will provide scholars with reference material in the same or related research field. This will widen the scope of understanding of local government taxes and performance of Small Scale businesses.

The study will inform and enrich the body of existing knowledge and literature about local government taxes and performance of Small Scale local enterprises.

## **1.7 Definition of Terms and Concepts**

### **Local Service Tax**

Is a tax levied on wealth and incomes of all persons in gainful employment and is paid once a year

### **Organisation performance**

This can be measured in terms of market shares, sales volume and profitability Handerson (1991).

### **Business Growth**

This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by Church (1983).

### **Fiscal Decentralization;**

The transfer of financial powers from Central government to lower local governments, LG Act 1997 and (LGFAR) 1998 empowers the local council to levy, charge and collect fees, market dues or any other revenue as far as performance is concerned.

<b>Taxation</b>	This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt
<b>Small Scale Enterprise</b>	small-scale businesses are those with growth turnover of less than 50 million shillings per annum
<b>Sales turn over</b>	This is where an enterprise has a monthly sales turnover of about Shs.1.5 million (about US\$500) and a daily turnover of about Shs.75,000 (about US\$230).
<b>Tax</b>	A tax is also defined as a contribution levied on any person, property or business for supporting local or national government (Income Tax Act, 1997).
<b>Appropriate Technology</b>	Locally customized, versatile and friendly technology that satisfy the interest of end users
<b>Economic Growth:</b>	A situation where a Town Council registers employment opportunities increased per capita income, equal allocation and access to quality services and products.
<b>Entrepreneurship:</b>	Ability of local government agents and SSEs to create competitive ventures that satisfy public interest and enhance economic growth and employment opportunities
<b>Innovation:</b>	The means by which local government taxes agents and SSEs

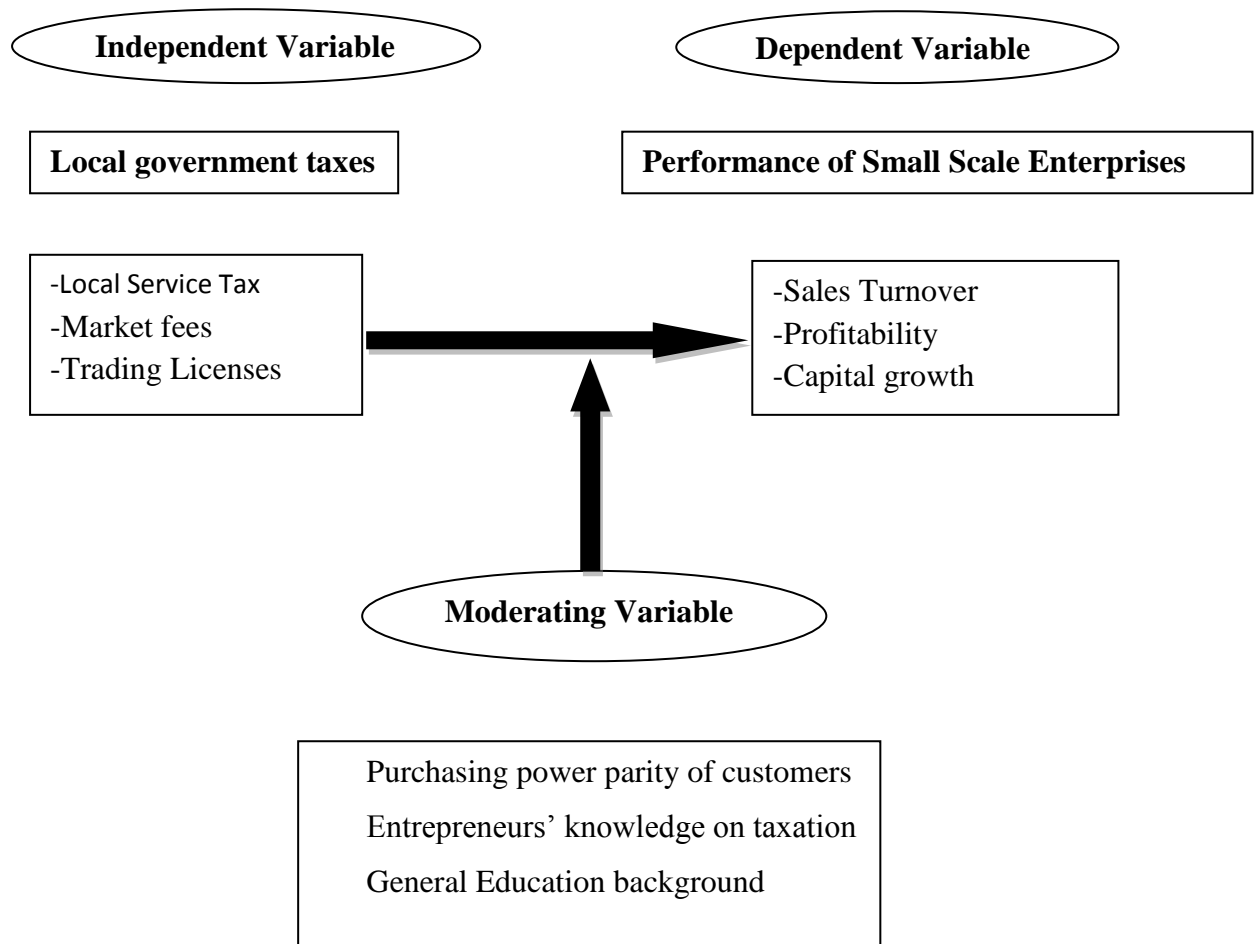
Exploit change as an opportunity for a different local or service in a quest to meet public interest.

**Market Failure:** Economic Circumstances where private interest does not lead to an efficient use of society's good.

## **1.8 Conceptual Framework**

The Conceptual frame work shows the inter linkage between the independent variable and the dependent variable. The Local Government Taxes as the independent variable entails; trading licenses, market fees and local service tax (Local Government Act, 2012.) and how they work to influence the dependent variable which is Small Scale Enterprise performance in terms of sales turnover, profitability and growth. Small Scale Enterprise Performance can also be influenced by moderating variables like business skills of Small Scale directors, customers' power purchasing parity and political environment. However, such variables were controlled for the purpose of this research. Heinrich (1984) observes that a conceptual framework in research is something that is constructed not found, that it incorporates pieces that are borrowed from elsewhere, but the structure and the overall coherence is something that is built by the researcher, not something that exists readymade. It's on that basis that the researcher has attempted to generate a relationship between independent variable (Local Government Taxes), dependent variable (Small Scale Enterprise performance) and moderating variables.

**Figure 1.1 Showing the Inter-linkage of independent with dependent variables.**



**Source: Local Government Act CAP 243 (2012 as amended), Parker (1996) World Bank Publication.**

Figure 1.1 above shows that the performance of small scale business as manifested under dependent variables like sales turn over, profitability of the business, capital growth and liquidity depends on independent variables of (Trading licenses, market fees and local service tax). However they are some moderating factors that indirectly contributes to the performance of small scale enterprises such as Local skills of Small Scale Enterprise

directors, purchasing power parity of customers, Political environment, Entrepreneurs knowledge on taxation, Entrepreneurs knowledge on book keeping, Market share/forces and General Education background as demonstrated in the figure above

## **Conclusion**

This chapter attempted to establish the extent to which local government taxes influence the performance of Small Scale Enterprises. The significance of the study suggested plausible as well as participatory strategies on how to ameliorate the undesirable situation. The objectives of the study were translated into the conceptual frame work in a manner that clearly spells out the thematic areas that can address the research question and alternative hypotheses under investigation. It is therefore upon the pragmatic investigations through gathered empirical evidence from statistical and descriptive analysis of variables and in-depth understanding of events that will systematically explain the relationship between local government taxes and performance of SSEs and the general economic development of Mpigi Town.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter looks at local government tax and its impact on the performance of small scale business enterprises in Uganda particularly in Mpigi town council. It consists of existing literature on income tax, its administration and performances of SSEs, by different scholars/research studies from magazines, textbooks, journals, and newspapers and internet

#### **2.1 Background of the study**

##### **2.1.1 Graduated tax in Uganda**

Graduated tax was mentioned in our constitution as one of the taxes that local governments can derive revenue from (Article 191(2) of the 1995 Constitution of the Republic of Uganda). The fifth schedule of the Local Governments Act, 1997 further specified that graduated tax be collected from all able bodied male persons above the age of 18 and all able bodied women engaged in gainful employment. Graduated tax constituted a major source of local revenue for local governments by then. According to studies undertaken by the local government finance commission (LGFC 2001), graduated tax contributed to about 75% of total local revenues that accrued to rural local governments in 1997/98, and about 35% of revenues to urban ones in the same year.

Despite the significance and importance of graduated tax to local governments, there was a lot of pressure from some politicians to abolish the tax all together, arguing that it was primitive and crudely collected. The Local Government Finance Commission argued that before an abolition option is taken up, a viable and effective alternative source of revenue should first be developed. The Commission also contended that the major problems with the graduated tax relate to weaknesses in its administration and collection, which can be solved without necessarily abolishing the tax (Local Government Finance Commission 2001).

### **2.1.2 Recommendations from local government finance commission on abolishing graduated tax.**

Much as the difficulties of administering and managing the graduated tax in predominantly peasant households such as ours should be appreciated, focus should not be lost on the fact that graduated tax is the major contributor to revenue of local governments. A hurried abolition of the tax when a replacement is not in place will create more problems. The Local Government Finance Commission therefore recommended that the Graduated tax be retained (LGFC, 2001).

### **2.1.3 Implication of Abolishing Graduated Tax.**

A non-systematic abolition of the graduated tax without developing a viable alternative replacement source of own revenue to local governments in general undermined the decentralization process and in particular implied some of the following; that sub-counties, divisions and lower level councils who depend entirely on local sources of revenues (graduated tax being the predominant) would be crippled and would not have the funds for operation, grass-root

development and mobilization – the way they had it then. That alternative source of finance to fund costs of administration, council expenses and allowances and operation of some statutory bodies such as the district tender board had to be found. At that moment the activities were funded using local revenues of which graduated tax was predominant (Local Government Finance Commission 2001). That greater pressure would be exerted on the already highly constrained consolidated fund as the Ministry of Finance would be made to immediately find alternative finance to bridge the gap that would have been created by scrapping graduated tax. Pressure on the consolidated fund would also mean that government will have to cut its expenditures in some sectors (Local Government Finance Commission 2001). That government would have to bear an added cost of transferring money to local governments and will have to face a number of equity related challenges of transfers especially given that the present set-up of revenue sharing still have a lot of shortcomings yet to be addressed and If local governments are brought up relying on central transfers, it would mean that they would adopt accountability for the central government practices rather than practicing accountability and good governance for the populace. In this way transparency might be compromised and the whole essence of decentralization would have been put to question (Local Government Finance Commission, 2001).

## **2.2 Small scale enterprises**

To be able to understand the problem at hand, it is important that we articulate the issue we are researching /discussing upon. Small Scale Enterprises are defined differently in different countries. It is true that a SSE in the United States may be a large enterprise in India and a very large enterprise in Uganda. While the absolute figures involved in the definition of these

enterprises may differ, there are some underlying similarities in the concept used in the definitions. The following are common measures of defining a small scale enterprise.

### **2.2.1 Number of people employed**

The number of people varies from country to country. In Uganda the figure is put to between 5 -50. (Kalibbala, 1994: Ngobo, 1995) In India, the figure is that between 30 -100. In the European Union, this figure including what they call medium enterprises is one that employs up to 250 people (The Netherlands, 1997). Stoner et al (1996) reports that in the United States, small enterprises are those which employ less than 500 people. Kibera and Kibera (1997) noted that in Kenya business with 10 or fewer workers are called micro enterprises. Those with 11 - 50 are small enterprises and 51 - 100 are medium.

### **2.2.2 Capital Employed.**

The number of people employed may not be a good indicator especially if the industry is labour intensive. This is true in countries like India where there is a labour intensive approach to industrialization as a policy. In some cases trading organizations can transact huge sums of business worth transactions and yet they employ a few people. Consequently, capital employed is at times used as a measure of defining small business. In Uganda there is no proper agreement as to the capital employed though a figure ranging between US\$1,000 to US\$50,000 is a reasonable estimate. The Uganda Investment Authority has put this figure to now Shs.50 million (about US\$16,500). The Ministry of Industry however had indicated a figure of an investment not exceeding US\$100,000. This figure of course varies from country to country but in the Ugandan conditions, Shs. 5 - 50 million (US\$1,000 – 16,500) would be a reasonable amount.

### **2.2.3 Performance Measurement of SSEs**

According to draft and Marcic (1998) revenue performance is the organizations ability to attain its ability by using resources in an effective and efficiency manner. According to Kelly (1999) and as used by Nsamba (2002) the indicators of local revenue performance are, coverage ratio (This is amount of tax base property captured in fiscal cadastre, divided by the total taxable property in jurisdiction) and its improvements is a matter of establishing the appropriate administrative structures and operating procedures, providing the training and incentives to the administrative staff and ensuring that the procedures maintained in systematic manner. Collection performance which is the percentage of expected revenue that is really collected and relative performance of different revenue performance, (Mulindwa, 2000).

Foreman et al. (2004) asserts that in all advanced economies, small business enterprises produce a high proportion of National output and provide an even greater proportion of employment. To him profits are necessary for survival in the long run in a competitive environment but small business enterprises management may choose not to grow. Therefore revenue performance of small business is measured against profitability, growth and productivity is just an intermediate factor. Growth determinants of performance of small business enterprises investments fall in three categories namely; businesses strategy management characteristics and firm characteristics (Storey, 1994).

Static theories of the firm are particularly environmental influences, legislation especially as determines the impact of taxation as major determinants of small business growth and profitability. This was confirmed by Reinikka and Svenson, (2001). Study that found out that

Ugandan business firms indeed invest to meet increase in demand provided that they have sufficient funds, that is adequate profits to do so. If they don't have adequate profits, they cannot invest if the demand for their products is increasing. This affects growth potential.

### **Sales Turnover**

Another criteria for indicating what a small enterprise is, is the annual sales turnover. In the Ugandan conditions, in an attempt to define who was eligible to participate in the Value Added Tax (VAT) Administrative structures, a figure of Shs.20 million (US\$6500) was agreed on as a threshold (Sejjaaka, 1997). The assumption here is that such an enterprise has a monthly sales turnover of about Shs.1.5 million (about US\$500) and a daily turnover of about Shs.75,000 (about US\$230). Using sales turnover to define small business, this, therefore, can be related to other methods and say that in the Uganda conditions, Shs.50 million (about US\$16,500) would be an ideal average turnover for identification of a small scale enterprise.

Heinz (1996). Stated that “turnover and eventual profitability is a factor that allows freedom and flexibility to undertake more extensive financial reporting”. However, when firms are taxed on gross turnover rather on revenues generated, the tax becomes like a sales tax (Thuronyi, 1996).

Dalton (1991). Noted that the effect of any specific tax upon the desire to work upon and save depends partly on the nature of tax. Taxation creates diversion of resources that enhance the revenue base of a firm through increased turnover.

This view was supported by Keith (1994), who suggested that “taxes affect growth in turnover and eventually overall revenues by influencing the aggregate supply of the main

factors of production by raising or lowering net return, secondary by influencing the efficiency of the resources utilization”.

There is some evidence from more fluent societies; Eckstein (1980) pointed out that” people will work more if income taxes fall”. Lindibeak (1999) corroborated this view by noting that high tax rate can foster an underground economy where revenues and incomes are not reported to all the tax authorities. Musgrave (1998) observed some effects of taxation on the capacity output of the firms.

### **Liquidity of a Firm**

Odyeket (2015) defines liquidity of the firm as the degree to which an asset or security can be bought or sold in the market without affecting the assets price

## **2.3 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 taxpayers 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 the government promises no gain/quid pro-quo to the taxpayer (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).

### **2.3.1 Tax**

A tax can be defined as a compulsory and non-refundable contribution exerted by government for public purposes; such payment is not followed by concurrent benefit in return (Tayebwa, 1998). A tax is generally referred to as a compulsory levy imposed by the government upon the assessment of various categories. 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 proquo payment (Income Tax Act, 1997). A tax is also defined as a contribution levied on any person, property or business for supporting local or national government Muwanga (2004). This annual payment has an impact on the revenue performance of small-scale enterprises because it covers the annual sales turnover and this has negative effects on profitability.

### **2.3.2 Local Service Tax**

According to KCCA local service tax (Assessment and Payment, June 2014), LST is a tax levied on wealth and incomes of all persons in gainful employment, self employed artisan commercial farmers and businessmen and women who include owners of shops, fuel stations, restaurant, bars, furniture workshops, butchers real estate service providers and commercial farmers. This tax is paid once in a calendar year and for businesses before being issued a trade license. Gordon and Keith (1957) noted that “personal income levies reduce the disposable income of persons in the middle and upper-income classes”. Similarly, save for making it difficult for small scale enterprises to finance necessary growth, high taxes on business income are said to destroy the incentive for growth and efficiency.

### **Markets**



Most of the markets are privately owned and some are owned by the by Local Governments. The management has not been easy for a long time and most of the markets are officially contracted out through the District Contracts Committee. Some markets are operating informally and tend to out complete the gazetted markets for customers making the gazetted markets unviable in revenue collection.

### **Building Plans**

Revenue from this source is the fee charged on open submission of building plans for approval by the Council. The revenue potential is still high if the local residents are well sensitized about the needs and benefits accruing from the approved plans.

Uganda's local revenue collection provides interesting lesson for public private partnership on the market fees and licenses, local revenue is collected by private sector contractors. But often times firms have to pay bribe to be awarded contracts. Besides some private collectors pass on government only 1/10 of what they collected (Francis and James, 2003)

## **2.4 Classification of taxes**

According to Manasseh (2000) taxes are classified as direct versus either 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; local service tax, market dues, trade licenses, individual income tax, corporation tax and taxes on property.

**b. 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 and value added tax (VAT).

### **Proportional versus progressive tax**

Based on 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.

#### **2.4.1 Income tax**

Income tax is a tax on income and is charged for each year of income upon all the income of a person whether resident or non-resident which accrued in or was derived from Uganda. Whereas, resident person partly within and partly outside Uganda carries on a business. The whole of the project of that business is deemed to have accrued in or be derived in Uganda. The gross income of a resident person includes income derived from all geographical sources. Income tax is a compulsory levy on a person's income.

Income tax is a portion of a person's " income that is paid to government or central authority as a tax upon generation of income. Income tax is that part of direct taxes levied on income of individuals, Balunywa, (1988). Subject to the Income Tax Act 1997 part II sec, 5(1) a tax to be known as income tax shall be charged for each year of income and is here by imposed on every person who has chargeable income for the year of income. The income tax payable by a taxpayer for the year of income is calculated on the individual's net assessable income after making allowance for deductible expenses. The sources of assessable income for individuals

include employment, business and property. However, different tax rates apply depending on whether the individual is a resident or non-resident of Uganda for tax purposes.

## **2.5 Theoretical Framework**

### **2.5.1 Theory of Fiscal decentralization**

Tayebwa (1998) define local revenue as revenue that do not reach the central government treasury and they include those revenue collected by local Administration cities and municipal councils. They include license fee, rent, gate collection and others. The constitution of the republic of Uganda, (1995) Article 191 clause (1) and (2) spelt out the local revenue where charges levy by local government and they include rents, rates, royalties, stamp duties, and fees collected in accordance with the law enacted by parliament by virtue of article 152 of the constitution.

The Arlington country profile provides an analysis on revenue trends and projections. The economic climate in Arlington country serves as the basis for discussion about how financial year 2006 proposed revenue estimates are derived. This section includes revenue estimate for financial year 2005 for revenues, based on year-to-date revenue collections and other factors that were not known when the budget was adopted. All other revenues in this section show the adopted budget amounts for the financial year 2005, reflecting the budgeted levels from the financial year 2005 adopted budget.

Fiscal Decentralization strategy pilot Guideline for District and municipalities (1987) stated that local revenue is receipts or money received and recorded in line with the local

government financial and Accounting Regulations (LGFAR) and Bank in general fund Account of the (LGFAR, 1998) defined local revenue as charges levy by the local government as defined under section 27 of the regulation.

It also clarified the responsibilities of the chief financial officer and revenue collectors to properly ensure that revenue is collected and Banked.

Muwanga (2004) pointed out in the *Joint Annual Review of Decentralization held in Kampala* quoted the discussion on inter-governmental, fiscal issue covering operation and importance of local revenue accountability of the local government.

The permanent secretary ministry of local government emphasized on the budget of local revenue and control as the major causes of loss of revenue which should be addressed by all local administration and municipalities.

The Uganda constitution 1995 governs local government as a ministry which is regulated by local government Act 1997. The Act provides for revenue, political and administrative set up of revised and financial autonomy at lower council. The Local Government Act (2002) local government shall have the right and power to increase or expand on their revenue base provided the local council approves it. Each division/sub-country in the municipality has the Autonomy in implementing the budget so as to revenue in performance.

Under the Local Government Act 1997, the local government council is provided for in section 81 and 84 and Local Government Financial and Accounting regulation (LGFAR) 1998 which empowers the local council to levy, charge and collect fees, market dues or any other revenue as far as performance is concerned.

Professor of accounting (Duncan Williamson, 1998) in his book cost and management Accounting analyzed the objectives of budget as a measure of profitability and revenue which management had to monitor in order to attain performance objectives.

Efforts by the Mpigi Town Council Administration to enhance local revenue collection ranging among others from recruitment of graduate staff as Assistant Town Clerks, sensitizing the local communities on the relevance of improving the road network, Tendering out markets and provision of some logistical support to revenue collectors have been made. The main reasons behind all these efforts were to encourage revenue performance through proper implementation of the budget. However despite all the above efforts, local revenues performance levels have remained low and on average falling below 50%.

In Mpigi Town Council, the budget of financial year June 2014/July 2015 provided a detailed revenue performance of the major revenue source as shown bellow;

### **2.5.2 Theory of Business Growth**

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect (LPE); (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size, by implication it would mean that large firms are preferable in context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge.

According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older ones (businesses) for the reasons discussed

earlier; Jovanovich deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by. Church and Lewis, (1983) as cited in Olawale and Garire (2010) on the other hand claim that as a new small firm start and develops, it moves through some growth stages, such with its own distractive characteristics.

He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SSEs growth including the distinguishing characteristics, problems and requirement of growing SSEs and explains business growth process amongst SSEs, The precise moment in time in which a startup venture becomes a new business has not yet been theoretically determined.

However the ideal of business survival could be equated with a firm that has fully completed the transaction to stage - two of the organization in the five stages of small business growth.

### **2.5.3 Small Scale Business.**

According to the Income Tax Act (1997), small-scale businesses are those with growth turnover of less than 50 million shillings per annum. In Uganda, it is not only income tax Act that has tried to define small-scale businesses; there are also institutions, which have tried to define small-scale business (SSB) such as; Ministry of Finance Planning and Economic Development (MFPED), the Uganda Small Scale Industries Association (USSIA). The MFPED defines Small Scale Enterprise as a unit with a capital investment not exceeding US\$ 100,000. The USSIA defines SSB as those with employees between 1-25 people and assets and capital exceeding US\$ 100,000. The study is to assume a small-scale business as one with the following features; a business which employees 1-50 people, a capital investment of

less than shillings 40 million and with an average annual revenue/sales of less than shillings 50 million.

Tax assessment has adverse effect on business performance and profitability thus it is important that assessment be carried out accurately so that taxpayers are not excessively assessed. The tax bill if excessive will greatly affect the profitability and performance of the business, Wagner, (2002).`

## **2.6 Tax compliance**

Most businesses in Uganda are owned and managed by persons who are unskilled in the profession of accounting and thus do not keep proper books of accounts. These are especially sole proprietors and family businesses or partnerships. These generally do not keep books of accounts; have low sales turn over and change hands and business very often (Ravenous, 2005). Mugulusi (2001) found out that a large proportion of business community is ignorant about taxes they pay, how these taxes are computed, lack of knowledge is attributed to the poor methods of sensitization used by URA. According to Ravenous (2005) the following are some of the problems faced by taxpayers; there is unfair treatment of taxpayers, some of which are not necessary tax obligations and thus not met because of this process. Secondary, taxpayers have little understanding of the obligation because of lack of tax education. It is said that URA would get fewer problems with taxpayers if they were able to understand how their liabilities come about.

## **2.7 Tax payers' knowledge**

Most Ugandans have poor/lack understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). As a result, the tax compliance in

Uganda is still very low. Besides that, various surveys conducted on small scale businesses 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). Alwedi (2002) found out that most SSBs are managed on unprofessional lines (poor or no business records) thus there is great uncertainty among traders in Uganda as regard to tax matters and to some extent due to their own making.

Ludega (2002) asserts that many traders have expressed ignorance about taxes imposed on their businesses. 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. The sensitization should be done on different taxes that impact the business owners and the rationale that underlines the imposition of taxes, because tax payers are not aware of the reasons for paying taxes, evasion of tax duties, laws and regulations are very rampant. (World Bank Survey, 1994).

## **2.8 Tax administration**

Taxation, sensitive as it is, has had laxity in its administration and the policy makers seem to undermine the role of proper tax administration for harmonious tax system. The American institute for tax administration (1988) identifies three major areas of tax administration namely; tax law, tax policy and tax administration. Musgrave (1980) observes that while policy and tax laws are being taught the area of tax administration that transforms the tax policy and law to reality has been neglected. In most cases, tax policy and law are taken without regard as to how they relate to tax administration.



This starts a chain of development with far reaching desirable results since in large measure, it is effectiveness of the administration of a tax system that controls compliance with in that system and this is common in many countries of which Uganda is not an exception. As a result, primary concern should shift to the area of tax administration. If one cannot administer a policy or a law then all the other effort involved in the exercise will be futile. Not only will such effort fail to bring the desired revenue but also such an approach will in the due course bring disrepute to the fiscal authority and the government. (American institute of tax administration, 1988).

It is therefore worth noting that the three phases of taxation are independent and the achievement on the overall sound system requires greater awareness of this independence. Even those with legal bias now recognize that the quality of tax administration is as important as its legal framework. (Zake 2001) attempts to explain the nature of man, which may also explain the un willingness of people to pay taxes. Some taxpayers in Uganda always try some means of dodging to pay taxes despite the fact that it is through taxes that the government receives the revenue required to provide protection and security, Kibwika (2004) suggests that unwillingness of people to pay tax depends to some extent on the tax system.

He identified the cannons of taxation that must be followed for the administrators to realize the intended objectives, and these are equality, certainty and convenience.

The nature of taxation In Uganda that is regressive that makes poor people pay relatively more than the rich. There are indicators to show rural dwellers especially growers of cotton and coffee pay substantially higher proportion of their income in taxes than the middle income and upper income urban dwellers. With the different intensity in the tax burden because of difference in incomes, the Marxism of equality is difficult to achieve thus

dissatisfaction and discontents are likely to arise. In the case of Uganda, the tax levied has not been convenient and yet every tax ought to be levied at the time and in the manner in which it is most convenient for contributors to pay. The costs of collection have to be balanced with the convenience of the taxpayers, (Kibwika 2004).

There is uncertainty regarding the amount to be paid to avoid squeezing too much from the tax payers. It is the role of the tax administrators to make sure that the tax assessed is certain. The tax, which each individual is bound to pay, ought to be certain and not arbitrary at the time of payment, the manner of payment, the quantity to be paid out, all should be clear and plain to the contributors and every other person. In most developing countries, the lack of a clear picture of the scope of the tax system and the different tax rates imposed may lead to a single commodity or transaction being subjected to a number of taxes.

## **2.9 Profitability of Small Scale Businesses**

Profits can be defined and measured in terms of gross or net profit to sales. In this case the total profits of a firm including the cost of materials and other expenses will be compared to total sales to get the net profit of a firm. The emphasis will be put on the ratio of profits before interest and taxes (PBIT) to total revenue or sales times 100%. *Thus  $PBIT/Sales \times 100\%$*  Business performance can be measured in terms of market shares, sales volume and profitability Handerson Vernon J and Poole William, (1991). Boggers (1967) further describes profitability as the organizations desired state where turnover is greater than input cost. This is corroborated by Hermanson, et al., (1987).Who said profitability is the organization's ability to generate revenue. Therefore, profitability must reflect only in the income statement of the organization to certify that revenue generated is greater than the input cost.

Poor profitability of small-scale enterprises can be attributed to credit problems, which is caused by inadequate or poor management (Drucker 1999). Poor profitability has also been attributed to general lack of credit ethics. People acquire credit but do not pay back, and even if they pay back, they do not pay as scheduled, Mc Cord, (1998). Many business people complain and probably with justification that high taxes interfere with their opportunities to reinvest their profits in their businesses Gordon and Dawson (1987). Fitzgerald et al. (1989) explains the performance of small-scale business in the following ways; financial performance concentrating on profitability, liquidity, capital structure, efficiency and market share. Secondary, it can also be explained basing on innovation which is assessed in terms of both innovation process and success full individual innovations.

Furthermore in Fitzgerald's analysis of small scale business performance, he points out resource utilization as a parameter that considers how efficiently resources are being utilized and lastly flexibility where the organization's ability to deliver at the right time to respond to precise customer specification and to cope with fluctuation demand is assessed.

For the purpose of this research study, performance was only limited to profitability, liquidity capital growth and sustainability performance.

Generally speaking the principle motive of any small business enterprises is profitability. Maximization of profits is not the only motive of small businesses but typically the most important therefore the success of any business depends on the profits it enjoys (Batty, 1978). The greater the percentage returns, the more successful the business is regarded. Barabwa (1996) noted that profits in small business enterprises are maximized through cost minimization, good management skills and good budgetary control.

Pandey (1995) indicated that profits are made to measure the operating efficiency of the business firm. The ownership of small business enterprises is interested in the profitability of the firm which enables the owners to get a reasonable return. Livesey (1987) was in agreement with this view, when he argues that profits are a reward for successful entrepreneurial activities and that profits are a source of finance for future ventures and growth of the small business firms. The owner should evaluate the performance of his in terms of profits.

Gibutayi (1999) argued that since small-scale businesses employ above 60% of the entrepreneurs in Uganda, their revenue performance is vital since it determines the level of development in an economy. Gibutayi further argued that people employed in small scale businesses earn some income which they use in paying taxes, feeding families and providing all kinds of necessities to their families which all show economic development in the country

## **2.10 LG Tax and Performance of SSEs**

In our definition of tax, it is clearly illustrated that a tax is not a price paid by the tax payer for any definite service or benefit from government, and tax payers have no right to any benefit from public expenditure on the ground that they are paying taxes. However to distinguish a tax from government receipts that may contain an external of compulsion the concept of quid pro-quo is used as an illustration. The absence of a quid pro quo is necessary for a payment to qualify as a tax Balunywa (1996). The regime and authorities make management of micro and small enterprises very difficult whereby for example lump sum pre-payment and estimated assessments are imposed on the entrepreneurs. The existence of multiple taxes of operational businesses in general and to small business sector in particular has been ranked as second barrier after capital to entry into small business sector, Kibwika (2004) asserted that taxes tend to stifle the growth of small private sector and especially

hinder the graduation of the informal sector firms to visible small and medium scale firms Siminyu (1992). High taxes can affect the size and strength of the small business population in several ways; 1) it reduce the number of business births 2) can slow down the rate at which small scale enterprises are able to grow thus making it difficult to finance a rapid expansion and 3) it weakens the desire and the ability of small businesses to survive as independent enterprises Gordon and Keith (1957). The multiplicity of taxes whose burden also fall on the micro and small scale enterprises has a negative effect on their performance by reducing the firms' profits and its savings and investment potential Desoto (1989).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This study examined the relationship between Local government taxes and the performance of Small Scale Enterprises in Mpigi District with a particular focus on Mpigi Town Council, the cardinal purpose of the study was to determine the relationship between local government taxes and performance of Small Scale Enterprises in Mpigi Town.

This chapter presents how and where the research was conducted, it explains the research design, population study, sampling procedures and techniques, data collection methods and instruments, quality control methods, data management procedures and analysis, ethical consideration and limitations to the study.

#### **3.2 Research Design**

The study adopted a case study design that combined both quantitative research designs to a great extent and qualitative research. This enabled an in depth analysis into the variables. Triangulation was also used during data analysis to give the researcher both a wide and deep perspective as advised by Mugenda and Mugenda, (2003) and Descombe (2000). The quantitative research design adopted a self-administered structured questionnaire while qualitative research, an interview guide was employed targeting key informants.

### **3.3 Area of Study**

Geographically the study was conducted within Mpigi Town particularly in the wards of Mpigi Town ward A, Ward B, ward C, Maziba, Kyali, Bumoozi, Kafumu and Kakoola in a decentralized frame work.

### **3.4 Study Population**

The study population is a set of individuals, cases or objects with common observable characteristics Mugenda and Mugenda (2003). The study was drawn from the promoters, owners and managers of small scale enterprises in Mpigi town council and key staff team that can provide an in depth insight of views of the research topic. Mpigi town council has 523 small scale enterprises both registered and nonregistered who are basically traced through revenue assessment exercise (Revenue assessment report, 2015/2016). The Town Council has a cross section of small scale businesses operating in various sectors these include; retail shops, mobile money agents, market vendors, poultry keepers, restaurants, mechanics, carpenters and among others printing and computer services. The above small scale businesses are governed by mostly business owners and to a certain extent workers who have delegated authority.

**Table 3.1 Showing business population by category**

No.	<b>SMALL SCALE BUSINESSES BY CATEGORY</b>	<b>POPULATION</b>
1	Retail shops	200
2	Mechanics and Welders	50
3	Guest House	5
4	Carpentry	10
5	Agro-shops	20
6	Mobile Money agents	60
7	Market vendors	70
8	Poultry keepers	11
9	Private schools	12
10	Private clinics	13
11	Micro finance institutions (MFIs)	10
	Bars and Pubs	7
12	Restaurants	20
13	Printing and Computer Services	10
14	Snack Kiosks (Chapati Makers)	25
	<b>Total Population</b>	<b>523</b>

**Source: Mpigi Town Council Business Register 2015/2016**



### **3.5 Sampling Procedure**

Ochieng (2009) noted that “sampling is getting few people and carries out sample on them or this is a representative portion or section of the entire population. It is a section of the people (targeted-population) who were involved in the research process”. Therefore, as the study targeted a certain population, not everyone was expected to participate in the study. Only a proportion of the subjects from the targeted population were taken and this proportion, which was taken, is called a sample. Therefore, the sample size was limited to only those individuals/ small scale businesses that were mentioned before and specifically to those the researcher thought that they had relevant information about the problem.

Judgmental sampling involved selecting a certain number of respondents based on the nature and type of small business in relation to the local government taxes. This method was appropriate because the sample which was selected comprised of informed owners of small scale enterprises who could provide data that were comprehensive enough to gain better insight into the problem. In this way every member in the selected strata had a chance of being represented.

#### **3.5.1 Sampling Approaches.**

The stratified random sampling was used because as it involved selecting respondents from the population listing. Stratification of the population into mutually exclusive categories and then randomly selecting subjects from each category was made as advanced by Sekaran (2003). In this way, each and every member had an equal opportunity of being selected. The shortcoming of this technique which the researcher faced was to do with bias which was almost to diminish the integrity of random selection. However, this was overcome by some

purposive selection method where some people in the population were members with vital information relevant for the study and therefore anyone who was selected was in position to give a representative data.

### **3.5.2 Sample Size**

The sample size of 181 respondents was determined in accordance with the rule of Krejcie et, al (1970). The study mainly targeted small scale business owners and delegates of similar enterprises because of their specialized experience and knowledge small scale enterprise performance and have greatly interacted with town council authorities. Accordingly, all departmental heads at town council particularly finance and internal audit were targeted as respondents in interviews. However, greater emphasis was laid on capturing owners of small scale enterprises like; retail shops, mobile money agents, market vendors, poultry keepers, restaurants, mechanics, carpenters and among others printing and computer services. The researcher therefore used the stratified random sampling (See table below showing sample selection per category). The target population therefore was 337 and a sample size of 181 was chosen as per the rule of Krejcie et, al (1970).

**Table 3.2 Computation of Sample Size**

No.	Small scale businesses by category	Target population	Analysis of sample size	Percentage
1	Retail shops	177	$177/181 * (100) = 97$	53
2	Mechanics and Welders	50	$50/181 * (100) = 27.6$	15
3	Guest House	05	$5/181 * (100) = 2.7$	1
4	Carpentry	10	$10/181 * (100) = 5.5$	3
5	Agro-shops	10	$10/181 * (100) = 5.5$	3
6	Restaurants	10	$10/181 * (100) = 5.5$	3
7	Public officer	15	$15/181 * (100) = 8$	4
8	Printing & Computer services	10	$10/181 * (100) = 5.5$	3
9	Mobile Money	20	$20/181 * (100) = 11$	6
10	Market vendors	20	$20/181 * (100) = 11$	6
11	Poultry keepers	10	$10/181 * (100) = 5.5$	3
	<b>Total</b>	<b>Target population 337</b>	<b>Sample 181</b>	<b>100</b>

Source: Primary data

### 3.6 Data Sources

#### 3.6.1 Primary Data Source.

The researcher collected primary data by administering questionnaires, interviewing key informants and observation method. For this particular research, primary data was collected using 181 closed ended self- administered questionnaires requiring for a respondent to circle or tick the most appropriate response. They were basically addressed to managers of small

scale enterprises and the interview guide together with the observation check list addressed key informants at Mpigi town council.

Schloss and Smith (1999) pointed out that “interviews are flexible in that they help to lead the interviewer to questions that are appropriate at particular times during the interview. Given the interview method, the interviewer gets to know the spontaneous answers and the response rate is better than the mailed questionnaires.” However, interviews were very costly in terms of time schedules and inconvenience to the respondents.

To strengthen the interview method, the observation method was employed on finance committee reports, council minutes, five-year development plan, revenue enhancement plan and revenue assessment reports as advised by Bailey (1994).

### **3.6.2 Secondary Data Collection**

Secondary data was also obtained from several legal instruments, town council records for instance; Finance committee reports, minutes, fiscal Annual work plans, 5-year development plan, local revenue registers and other sources of secondary data included internet, newspapers, journals and text books.

### **3.7 Data Collection Tools**

The researcher adopted two research tools that include; questionnaires which were self-administered in nature and interviews which were conducted using an interview guide this was followed by an observation list. These research instruments captured information on socio- economic and demographic characteristics of the respondents, experience and knowledge base of key informants among others.

### **3.7.1 Interviews**

Using the interview guide a good rapport was built to encourage respondents and key informants express their feelings in a free manner so as to gain an in-depth view of the relationship between local government taxes and Performance of Small Scale Enterprises. The interview method was used owing to its flexibility and in-depth understanding of respondents' background, the interface between managers of SSEs who pay local government taxes and the key informants who assesses and collect local government taxes from the business proprietors of Mpigi town council. Schloss (1999) noted that "interviews are flexible in that they help to lead the interviewer to questions that are appropriate at particular times during the interview, with interviews the interviewer can get to know the spontaneous answers and the response rate was better than the mailed questionnaires". However, Bailey (1994) noted that interviews could be very costly in terms of time schedules and inconvenience to the respondents. To strengthen the interview method, the observation method was employed on Finance committee reports, minutes, fiscal annual work plans, 5-year development plan and local revenue registers.

### **3.7.2 Questionnaire**

Questionnaires were used as data collection tools to enable views from a wide section of SSE managers and staff of town council in a short time and confidently. This primary data was collected using 181 closed ended self-administered questionnaires requiring for a respondent to circle or tick the most appropriate response. Questionnaires supported the interviews. Secondly, the researcher ably obtained primary information on behavioral aspects of key informants. This was adopted due to its convenience and time saving on the side of respondents.

### **3.8 Quality Control Methods**

In order to ensure quality data, due care was accorded to the random assignment of certain respondents in order to limit biases and minimize the effects of people's attitude towards local government taxes. This was done during data collection. After field work, data was coded, edited, and checked for accuracy and relevance of the information that was got from respondents.

#### **3.8.1 Validity**

In this case study data validity referred to whether data collected actually represented what the researcher thought was to be measured Sekaran and Bougie (2010). The researcher carefully designed the questionnaire and interview guide and subjected them to peer- review for pre-testing before sample survey execution. The researcher endeavored to ask relevant questions so as to generate key information. Received questionnaires were first edited to check for consistence and completeness of data Amin (2005). In this way validity of questions in the questionnaire of the data collected was realized in the entire study.

### 3.8.2 Reliability

To determine the reliability of data collected the researcher employed SPSS (Statistical Package for Social Science) to construct Cronbach alpha coefficient using 10 pretested questionnaires. Each question/ item in various sections in the 10 questionnaires was tested. All these items in each section were deemed reliable for the study, because they are above 70% as recommended by Winer (1991).

**Table 3.3 Reliability Statistical Analysis**

RELIABILITY STATISTICS	CRONBACH'S	NO. OF ITEMS
SECTION	ALPHA	
Section BA	.076	10
Section BB	.836	10
Section BC	.938	10
Section CA	.842	10
Section CB	.770	10
Section CC	.974	10

Source: Primary data

### **3.9 Data Analysis and Presentation of Data**

#### **3.9.1 a Quantitative Data Analysis**

Quantitative data was analyzed using Statistical Package for Social Science 17.0 program and Excel spread sheet for better organization. Under this program descriptive statistical analyses of socio-economic characteristics of respondent and other variables were used under investigation. Bi- variate analysis of Chi-square tests and regressions were applied to find the associations between Local government taxes and performance of small scale enterprises, regression analysis and multi-regression analysis were used to find out the significant dimensions of Local Government taxes on performance of small scale enterprises.

#### **3.9.2 b Qualitative Data analysis**

The study employed an interview guide to obtain views and opinions of the respondents after which responses were categorized basing on the objectives of the study. Themes were isolated and data was presented narratively and by verbatim

### **3.10 Ethical Consideration**

The study adhered to all norms, values and principles governing research. Professional ethics was assured by recognizing other people's work in form of citations and references. An introductory letter from the faculty of Business Administration and Management (BAM) was presented to the town council authority as well as small scale enterprise leadership. Fortunately, this raised the level of acceptability and eventual rooted rapport.



The study laid a conducive environment that permitted small scale enterprises a free as well as voluntary participation particularly in data collection.

Confidentiality of respondents was strictly observed; this strengthened the free interaction culminating into voluntary informed responses. Owing to the academic purpose of the study geared towards building on the existing knowledge, respondents felt at liberty to either declare their names or not.

### **3.11 Limitation of the Study**

During the course of carrying out the study, the researcher faced a number of challenges which were also addressed accordingly. Firstly, some respondents took long to return the questionnaires; this prompted the researcher to take the questionnaires by himself and patiently waited at the office for the feedback. Some of the members failed to respond to some questions as they feared to be quoted. With such fears to give information the researcher assured the respondents that the information given was for purely academic purposes

In addition, research was too costly as it involved research assistants who had to be paid every day. The researcher adjusted the budget accordingly to suit the prevailing conditions. Lastly, there was threat of response errors during data collection this was however addressed by purposively selecting respondents so as to limit the number of response errors.

## **Conclusion**

The study adopted a triangulated methodological approach; these complimented with a questionnaires, interviews and observations which were critical in the collection and analysis of data. The sample size of 181 respondents was enough representative of the targeted population. Despite some few challenges highlighted, the study was carried out as planned.

## **CHAPTER FOUR:**

### **PRESENTATION OF RESULTS AND DISCUSSION OF THE FINDINGS.**

#### **4.1 Introduction**

This chapter presents information on local government taxes and performance of small scale enterprises in Mpigi town council, data has been collected from all over the existing business establishment in sampled area but based on sample, analysis has been based on results of 179 returns from the field. This information in particular includes back ground data (socio - demographic characteristics of the respondents), the independent variables being local government taxes, its dimensions include, local government tax of trade license, town council market fees, and local service tax.

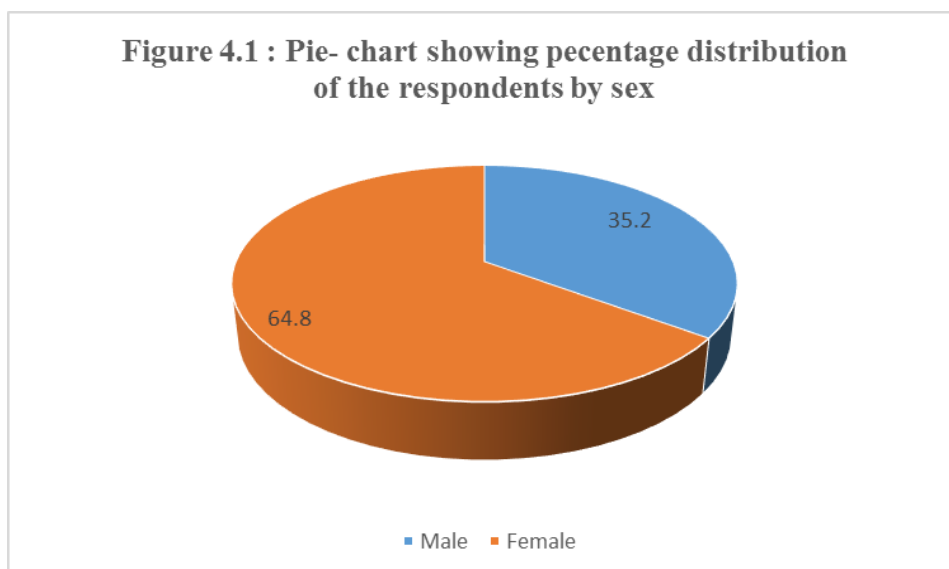
The dependent variable being performance of small scale enterprises, its dimensions include, sales turn over performance, small scale enterprise profitability and growth performance. Findings and interpretation of the results basically depended on the data collected from the field, however to substantiate the validity and reliability of the results similar secondary source of information was used and cited to beef up the study in analysis and discussion of the findings.

Data has been analyzed at three levels, there was descriptive analysis of socio economic and demographic characteristics of the respondents, the independent and dependent variables, then bivariate analysis was also carried out to find the associations between local government taxes and performance of small scale enterprises here there has been use of chi square statistic, at the third level regression analysis was used to find out the significant dimensions

of local government taxes on performance of small scale enterprises, all the data collected has been presented in this report.

#### **4.2 Demographic Characteristics of the respondents.**

Respondents were asked about a series of variables including sex, age, education level, position held in the business, period worked for, number of people employed and the experience in tax payment. Information got from the field returns showed that 35.2% of the respondents were males while 64.8% were females as shown in figure 4.1



Source: Primary data.

**Table 4.1.1 shows percentage distribution of the current position in business of the respondents by sex.**

<b>Current Position in the Business</b>	<b>Male</b>		<b>Female</b>	
	<b>Frequency</b>	<b>%</b>	<b>Frequency</b>	<b>%</b>
Business owner	29	41.4	41	58.6
Employee	34	31.2	75	68.8
<b>Total</b>	<b>63</b>	<b>35.2</b>	<b>116</b>	<b>64.8</b>

**Source: Primary data**

#### **4.2.1 Current positions in business**

Respondents were asked their current position in business, 39% said that they were business owners, of these 41.4% were males while 58.6% were females. Considering those who responded as employees (60.9%), 31.2% were males while 68.8% were females.

**Table 4.1.2 shows percentage distribution of the number of people employed by sex.**

<b>Number of people employed</b>	<b>Males</b>		<b>Female</b>	
	<b>Frequency</b>	<b>%</b>	<b>Frequency</b>	<b>%</b>
Less than Two	53	51	51	49
Between 2-4	9	14.8	52	85.2
More than 4	1	7.1	13	92.9
<b>Total</b>	<b>63</b>	<b>35.2</b>	<b>116</b>	<b>64.8</b>

**Source: Primary data**

#### 4.2.2 Number of people employed.

Considering the number of people employed in the business, 58.1% of the respondents said that the number of people employed in their business establishment were less than two, of these 51% were males while 49% were females, in business establishment of 2-4 people (34.1%) of these 14.8% were males while 85.2% were females, considering those of more than four people (7.8%), 7.1% were males while 92.9% were females

**Table 4.1.3 shows percentage distribution of the age group of the respondent by sex.**

Age group	Male		Female	
	Frequency	%	Frequency	%
18-25	18	60	12	40
26-30	21	28	54	72
31-35	9	23.1	30	76.9
36-40	8	40	12	60
41-45	7	46.7	8	43.3
<b>Total</b>	<b>63</b>	<b>35.2</b>	<b>116</b>	<b>64.8</b>

**Source: Primary data**

#### 4.2.4 Age

In relation to age, it was categorized into groups as shown in table 4.1, 16.8% were aged between 18-25, of these 60% were males while 40% were females. Considering the age group 26-30 (41.8%), 28% were males while 72% were females, with age group 31-35 (21.8%), 23.1% were males while 76.9% were females. Looking at those of 36-40 (11.2%) 40% were

males while 60% were females, in relation to those of 41-45 years (8.4%) 46.7 were males while 43.3% were females.

**Table 4.1.4 shows percentage distribution of the level of education of the respondent by sex.**

Level of Education	Male		Female	
	Frequency	%	Frequency	%
Non Formal	-	-	-	-
P1-P7	18	26.1	51	73.9
Secondary Level	37	60.7	24	39.3
Certificate	-	-	30	100
Diploma	4	33.3	8	66.7
Degree	4	57.1	3	42.9
Post Graduate	-	-	-	-
<b>Total</b>				
<b>Total</b>	<b>63</b>	<b>35.2</b>	<b>116</b>	<b>64.8</b>

Source: Primary data

### 4.2.3 Education level

Information from table 4.1 shows that 38.6% were from P1-P7, of these 26.1% were males while 73.9% were females. Looking at those on the secondary level, 34.1% were holding so, of these 60.7% were males while 39.3% were females. In relation to diploma, 33.3% were holders of a diploma, of these 33.3% were males while 66.7% were females. In relation to a degree only 3.9% of the respondents interviewed had a degree see table 4.1 for disaggregation by sex.

**Table 4.1.5 shows percentage distribution of the experience in tax payment of the respondent by sex.**

Experience in Tax Payment.	Male		Female	
	Frequency	%	Frequency	%
1-5 Years	21	63.6	12	36.4
6-11 Years	10	43.5	13	56.5
12-17 Years	22	22.9	74	77.1
18-23 years	10	37	17	63
<b>Total</b>	<b>63</b>	<b>35.2</b>	<b>116</b>	<b>64.8</b>

**Source: Primary data**

#### **4.2.5 Experience in tax payments.**

Respondents were also asked their experience in tax payments, 18.4% said that they had an experience of 1-5 years, and of these 63.6% were males while 36.4% were females, in relation to experience of 6-11 years (12.9%), 43.5% were males while 56.5% were females, looking at those between 12-17years (53.6%), 22.9% were male while 77.1% were females. Those of 18-23 years (15.1%) 37% were males while 63% were females.



#### 4.2.6 Descriptive Statistics on local government tax dimensions.

**Table 4.1.6 Descriptive Statistics on trade licenses**

Trade license	N	Minimum	Maximum	Mean	Std. Deviation
Knowledge about trade license	179	1	5	2.29	1.470
Trade license assessment being transparent to tax payer	179	1	4	2.36	.986
Tax offices being open always during working hours	179	2	5	2.83	1.203
Attendance to town council workshops on trade licenses	179	1	5	2.35	1.299
My business is registered for trade license	179	1	4	2.23	.860
Payments of sir charge due to failure to clear trade license	179	1	3	2.03	.644
Closure of business for delaying to pay trade license by town council enforcement team	179	1	4	2.23	.860

**Source: Primary data.**

Results from table 4.16 shows that on average, responses from the field data indicate that most respondents strongly agreed or agreed with all the entire dimension in the variable of local government taxes of trade licenses as indicated above with a mean deviation of 2 and standard deviation of 0.6 to 1.2 this implies that the variations of the fact from the mean are not far.

**Table 4.1.7 Descriptive Statistics on Market fees**

<b>Market fees</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Knowledge about market fees	179	1	3	1.97	.775
Sensitization seminars on market fees	179	1	4	2.08	.831
Satisfaction with market fee assessment	179	1	4	1.99	1.112
Market fees collected being used to provide service delivery,	179	1	4	1.99	1.112
Payments of equal amounts with other traders for market fees	179	1	4	2.20	1.109
Keeping business records for market fee determination	179	1	4	2.48	.870
Satisfied with how contractor collects market fees	179	1	4	2.36	.898

**Source: Primary data.**

Results from table 4.17 shows that on average responses from the field data indicate that most respondents strongly agreed or agreed with all the entire dimension in the variable of town council market fees as indicated above with a mean deviation of 2 and standard deviation of 0.68 to 1.1 this implies that the variations of the fact from the mean are not far.

**Table 4.1.8 Descriptive Statistics on local service taxes**

<b>Local service tax</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Knowledge about local service tax	179	1	3	1.63	.741
Business monthly turn over being five hundred thousand and above	179	1	5	2.36	1.198
Use of bank payments device to local service tax	179	1	4	2.52	1.056
Payments of sir charge of 50% after local service tax is due	179	2	4	2.42	.702
Sensitization seminars on local service tax	179	1	4	2.32	1.114
Payments of local service tax before clearing trade licenses	179	1	4	2.37	.892
local service tax collection being used to provide service delivery	179	2	4	2.77	.733

**Source: Primary data.**

Results from table 4.18 shows that on average responses from the field data indicate that most respondents strongly agreed or agreed with all the entire dimension in the variable of service tax as indicated above with a mean deviation of 2 and standard deviation of 0.4 to 1.1 this implies that the variations of the fact from the mean are not far.

#### 4.2.7 Descriptive Statistics on performance of small scale enterprises

**Table 4.1.9 Descriptive Statistics on sales turn over**

Sales turn over	N	Minimum	Maximum	Mean	Std. Deviation
Daily sales turn over being between seven hundred thousand to one million	179	1	3	1.92	.661
Business being liked by customer	179	2	2	2.00	.000
Customer care service being practiced by my business,	179	2	3	2.18	.384
Customers finding my business convenient	179	1	4	2.16	.840
Giving back to customers from business proceeds,	179	1	5	2.36	1.198
Customers appreciating business product benefits	179	1	4	2.48	.870
Business approaches being discussed with customers	179	1	4	2.36	.898
Giving back to people in the community	179	1	3	1.63	.741

**Source: Primary data.**

Results from table 4.19 shows that on average responses from the field data indicate that most respondents strongly agreed or agreed with all the dimension in the variable of sales turnover performance. as indicated above with a mean deviation of 2 and standard deviation of 0.4 to 1.1 this implies that the variations of the fact from the mean are not far.

**Table 4.1.10 Descriptive Statistics on Profitability.**

<b>Profitability</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Using less money to purchase goods	179	1	5	2.56	1.171
Business generating revenues	179	1	4	2.59	.940
Getting increased business sales	179	1	4	2.16	.813
Business experiencing less cost of sales	179	1	4	1.91	.926
Cost of doing business being low	179	2	4	2.77	.677
Some money ploughed being put back in business,	179	1	4	2.59	.940
Business generating profits.	179	1	4	2.59	.940

**Source: Primary data.**

Results from table 4.10 shows that on average responses from the field data indicate that most respondents strongly agreed or agreed with all the dimension in the variable of small scale enterprise profitability as indicated above with a mean deviation of 2 and standard deviation of 0.6 to 1.6 this implies that the variations of the fact from the mean are not far.

**Table 4.1.11 Descriptive Statistics on Capita growth.**

<b>Capital Growth</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Business acquiring assets	179	1	4	2.37	.892
Increase in working capital,	179	2	4	2.77	.733
Acquiring new business knowledge and information	179	1	3	1.92	.661
Business employing workers	179	1	2	1.71	.455
There is additional capital investment in business	179	2	3	2.18	.384
Business having an average revenue worth 20 million	179	1		2.59	.940

**Source: Primary data.**

Results from table 4.11 shows that on average responses from the field data indicate that most respondents strongly agreed or agreed with all the dimension in the variable of growth performance as indicated above with a mean deviation of approximately 2 and standard deviation of 0.4 to 0.9 this implies that the variations of the fact from the mean are not far.

### **4.3 Local government taxes**

Local government taxes as an independent variables had various dimensions from which sampling units were asked to respond to, these included local government taxes of trade license, town council market fees and local service tax. Each of these dimensions had various aspects from which respondents provided correct options indicated in the questionnaire.

#### **4.3.1 Trade Licenses**

Under local government taxes of trade license respondents were asked whether they strongly disagree, disagree, not sure, agree or strongly agree on these aspects which include knowledge about trade license, trade license assessment being transparent to tax payer, tax offices being open always during working hours, business being registered for trade license, attendance to town council workshops on trade licenses, payments of sir charge due to failure to clear trade license and closure of business for delaying to pay trade license by town council enforcement team

**Table 4.2 shows Percentage distribution of various aspects of trade License.**

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
<b>Trade license</b>	<b>Percentage Distribution</b>				
Knowledge about trade license	40.2	28.5	12.3	11.8	7.2
Trade license assessment being transparent to tax payer	17.9	47.5	15.6	10.3	8.7
Tax offices being open always during working hours	6.3	60.2	6.8	11.1	15.6
Attendance to town council workshops on trade licenses	19	63.1	-	-	17.9
My business is registered for trade license	11.4	59.8	5.3	14.5	9
Payments of sir charge due to failure to clear trade license	19	58.7	22.3	-	-
Closure of business for delaying to pay trade license by town council enforcement team	13.4	64.8	7.3	9	5.5

**Source: Primary data.**

Table 4.2 shows percentage distribution of different aspects of local government taxes on trade license, considering Knowledge about trade license, 40.2% strongly agreed, 28.5% agreed, 12.3% were not sure, 11.8% disagreed while 7.2% strongly disagreed.

In relation to trade license assessment being transparent to tax payer, 17.9% strongly agreed, 47.5% agreed, 15.6% were not sure 10.3% disagreed while 8.7% strongly disagreed. It was revealed in an interview that all local government taxes are levied on capital other than profits and this seemed to drastically reduce their working capital.



Considering tax offices being open always during working hours 6.3% strongly agreed, 60.2% agreed, 6.8% were not sure, 11.1% disagreed while 15.6% strongly disagreed. With the attendance to town council workshops, 19% strongly agreed, 63.1% agreed while 17.9% strongly disagreed. In relation to business being registered for trade license, 11.4% strongly agreed, 59.8% agreed, 5.3% were not sure, 14.5% disagreed while 9% strongly disagreed. With the payments of sir charge due to failure to clear trade license 13.6% strongly agreed, 58.7% agreed, while 22.3% were not sure. Looking at closure of business for delaying to pay trade license by town council enforcement team 13.4% strongly agreed, 64.8% agreed, 7.3% were not sure, 9% disagreed while 5.5% strongly disagreed.

#### **4.3.2 Market fees**

Under town council market fees there is knowledge about market fees, sensitization seminars on market fees, satisfaction with market fee assessment, market fees collected being used to provide service delivery, payments of equal amounts with other traders for market fees, keeping business records for market fee determination, satisfied with how contractor collects market fees.

**Table 4.3 shows Percentage distribution of various aspects of Market fees**

	Strongly agree	agree	Not sure	Disagree	Strongly disagree
<b>Market fees</b>	<b>Percentage Distribution</b>				
Knowledge about market fees	31.3	32	28.5	5.4	2.8
Sensitization seminars on market fees	10.2	69.1	12.8	3.3	4.6
Satisfaction with market fee assessment	44.2	14.6	19.3	8.6	12.2
Market fees collected being used to provide service delivery,	49.2	15.6	22.3	12.8	-
Payments of equal amounts with other traders for market fees	41.2	12.1	32.3	12.5	1.9
Keeping business records for market fee determination	11.3	38.2	33.6	8.5	8.3
Satisfied with how contractor collects market fees	11.8	54.6	14.9	12.6	6.1

**Source: Primary data.**

Table 4.3 shows percentage distribution of different aspects of town council market fees considering knowledge about market fees, 31.3% strongly agreed, 32% agreed, 28.5% were not sure, 5.4% disagreed while 2.8% strongly disagreed. In relation to sensitization seminars on market fees, 10.2% strongly agreed, 69.1% agreed, 12.8% were not sure 3.3% disagreed while 4.6% strongly disagreed. Considering satisfaction with market fee assessment 44.2% strongly agreed, 14.6% agreed, 19.3% were not sure, 8.6% disagreed while 12.2% strongly disagreed.

With the market fees collected being used for service delivery, 49.2% strongly agreed, 15.6% agreed 22.3% were not sure while 12.8% disagreed. In relation to payments of equal amounts with other traders, 41.2% strongly agreed, 12.1% agreed, 32.3% were not sure, 12.5% disagreed while 1.9% strongly disagreed. It was also disclosed in an interview that traders are double taxed from council and UNRA and URA. With keeping business records for market fee determination 11.3% strongly agreed, 38.2% agreed, 33.6% were not sure, 8.5% disagreed while 8.3% strongly disagreed. Looking at satisfaction with how the contractor collects markets fees 11.8% strongly agreed, 54.6% agreed, 14.9% were not sure, 12.6% disagreed while 6.1% strongly disagreed.

#### **4.3.3 Local service taxes**

Under local service tax there is knowledge about local service tax, business monthly turn over being five hundred thousand and above, use of bank payments device to local service tax, payments of sir charge of 50% after local service tax is due, sensitization seminars on local service tax, payments of local service tax before clearing trade licenses, local service tax collection being used to provide service delivery

**Table 4.4 Shows Percentage distribution of various aspects of local service tax.**

	Strongly agree	agree	Not sure	Disagree	Strongly disagree
<b>Local service tax</b>	<b>Percentage (%) distribution</b>				
Knowledge about local service tax	45.5	30.5	11.6	4.8	7.6
Business monthly turn over being five hundred thousand and above	15.7	54.9	12.3	14.9	2.2
Use of bank payments device to local service tax	25.1	15.6	41.3	13.6	4.3
Payments of sir charge of 50% after local service tax is due	68.8	16.5	13.3	1.4	-
Sensitization seminars on local service tax	36.9	8.4	40.8	6.8	7.2
Payments of local service tax before clearing trade licenses	9.1	54.2	17.9	15.6	3.2
local service tax collection being used to provide service delivery	11.4	29.4	41.3	11.7	6.2

**Source: Primary data.**

Table 4.4 shows percentage distribution of different aspects of local service tax, considering knowledge about local service tax, 45.5% strongly agreed, 30.5% agreed, 11.6% were not sure, 4.8% disagreed while 7.6% strongly disagreed. In relation to monthly business turn over being five hundred thousand and above, 15.7% strongly agreed, 54.9% agreed, 12.3% were not sure 14.9% disagreed while 2.2% strongly disagreed. Considering use of bank payment device to local service tax 25.1% strongly agreed, 15.6% agreed, 41.3% were not sure, 13.6% disagreed while 4.3% strongly disagreed. With payment of sir charge of 50% after local service fee is due, 68.8%% strongly agreed, 16.5% agreed 13.3% were not sure while 1.4% disagreed. In relation to sensitization seminars on local service tax, 36.9%

strongly agreed, 8.4% agreed, 40.8% were not sure, 6.8% disagreed while 7.2% strongly disagreed. With payment of local service tax before clearing trade licenses 9.1% strongly agreed, 54.2% agreed, 17.9% were not sure, 15.6% disagreed while 3.2% strongly disagreed. Looking at local service tax collection being used to provide service delivery 11.4% strongly agreed, 29.4% agreed, 41.3% were not sure, 11.7% disagreed while 6.2% strongly disagreed.

#### **4.4 Performance of small scale enterprises**

Performance of small scale enterprises as a dependent variables had various dimensions from which sampling subjects were asked to respond to, these included sales turn over performance, small scale enterprise profitability and growth performance. Each of these dimensions had various aspects from which respondents provided correct options indicated in the questionnaire.

##### **4.4.1 Sales turn over**

Under sales turn over performance respondents were asked whether they strongly disagree, disagree, not sure, agree or strongly agree on the these aspects which include daily sales turn over being between seven hundred thousand to one million, business being liked by customer, customer care service being practiced by my business, customers finding my business convenient, giving back to customers from business proceeds, customers appreciating business product benefits, business approaches being discussed with customers and giving back to people in the community

**Table 4.5 shows Percentage distribution of various aspects of sales turn over**

	Strongly agree	agree	Not sure	Disagree	Strongly disagree
<b>Sales turn over</b>	<b>Percentage (%) distribution</b>				
Daily sales turn over being between seven hundred thousand to one million	9.6	5.4	2.9	55.9	26.3
Business being liked by customer	24.4	6.1	25.8	16.9	26.8
Customer care service being practiced by my business,	42.9	40.2	7.8	5.3	3.8
Customers finding my business convenient	15.6	65.9	5.6	12.8	-
Giving back to customers from business proceeds,	13.2	55.9	12.3	14.1	4.5
Customers appreciating business product benefits	12.4	40.2	34.6	12.8	-
Business approaches being discussed with customers	10.8	53.6	17.9	15.3	2.4
Giving back to people in the community	18.9	30.8	14.6	12.6	21.1

**Source: Primary data.**

Table 4.5 shows percentage distribution of different aspects of sales turn over performance, considering daily sales turn over being between seven hundred thousand to one million, 9.6% strongly agreed, 5.4% agreed, 2.9% were not sure, 55.9% disagreed while 26.3% strongly disagreed. In relation to business being liked by customers, 24.4% strongly agreed, 6.1% agreed, 25.8% were not sure 16.9% disagreed while 26.8% strongly disagreed. Considering customer care service being practiced by my business 42.9% strongly agreed, 40.2% agreed, 7.8% were not sure, 5.3% disagreed while 3.8% strongly disagreed.

With customers finding my business convenient, 15.6% strongly agreed, 65.9% agreed, 5.6% were not sure while 12.8% disagreed. In relation to giving back to customers from business

proceeds, 13.2% strongly agreed, 55.9% agreed, 12.3% were not sure, 14.1% disagreed while 4.5% strongly disagreed. With the customers appreciating business product benefits 12.4% strongly agreed, 40.2% agreed, 34.6% were not sure while 12.8% disagreed. Looking at business approaches being discussed with customer's 10.8% strongly agreed, 53.6% agreed, 17.9% were not sure, 15.3% disagreed while 2.4% strongly disagreed. With giving back to people in the community 18.9%strongly agreed, 30.8% agreed, 14.6% were not sure, 12.6% disagreed while 21.1 strongly disagreed.

#### **4.4.2 Profitability**

Under small scale enterprise profitability respondents were asked whether they strongly disagree, disagree, not sure, agree or strongly agree on these aspects which include using less money to purchase goods, business generating revenues, getting increased business sale, business experiencing less cost of sales, cost of doing business being low, some money ploughed being put back in business, business generating profits.

**Table 4.6 shows Percentage distribution of various aspects of profitability**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Not sure</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Profitability</b>	<b>Percentage (%) distribution</b>				
Using less money to purchase goods	1.9	2.9	1.2	77.8	16.2
Business generating revenues	14.1	31.2	36.8	14.7	3.2
Getting increased business sales	12.3	73.7	5.4	3.8	4.8
Business experiencing less cost of sales	30.3	40.2	12.8	12.5	4.2
Cost of doing business being low	36.9	48.2	14.9	-	-
Some money ploughed being put back in business,	14.3	31.3	36.5	15.5	2.4
Business generating profits.	11.9	29.3	34.9	17.2	6.7

**Source: Primary data.**

Table 4.6 shows percentage distribution of different aspects of small scale enterprise profitability, considering using less money to purchase goods, 1.9% strongly agreed, 2.9% agreed, 1.2% were not sure, 77.8% disagreed while 16.2% strongly disagreed. In relation to business generating revenue 14.1% strongly agreed, 31.2% agreed, 36.8% were not sure 14.7% disagreed while 3.2% strongly disagreed. With getting increased business sales 12.3% strongly agreed, 73.7% agreed, 5.4% were not sure, 3.8% disagreed while 4.8% strongly disagreed. With business experiencing less cost of sales 30.3% strongly agreed, 40.2% agreed, 12.8% were not sure, 12.5% disagreed while 4.2% strongly disagreed. In relation to cost of doing business being low, 36.9% strongly agreed, 48.2% agreed, while 14.9% were not sure.

With some money ploughed being put back in business 14.3% strongly agreed, 31.3% agreed, 36.5% were not sure 15.5% disagreed while 2.4% strongly disagreed. Looking at



business generating profits 11.9% strongly agreed, 29.3% agreed, 34.9% were not sure, 17.2% disagreed while 6.7% strongly disagreed.

### 4.4.3 Capital Growth

Under growth performance respondents were asked whether they strongly disagree, disagree, not sure, agree or strongly agree on the these aspects which include business acquiring assets, increase in working capital, acquiring new business knowledge and information, business employing workers, there is additional capital investment in business and business having an average revenue worth 20 million

**Table 4.7 shows Percentage distribution of various aspects of capital growth**

	Strongly agree	agree	Not sure	Disagree	Strongly disagree
<b>Capital Growth</b>	<b>Percentage (%) distribution</b>				
Business acquiring assets	18.3	42.2	20.3	12.4	6.8
Increase in working capital,	35.8	41.6	15.6	2.3	4.7
Acquiring new business knowledge and information	26.3	51.6	16.8	5.3	-
Business employing workers	29.1	58.4	-	12.5	-
There is additional capital investment in business	-	4.5	14.1	45.6	35.8
Business having an average revenue worth 20 million	14.9	30.4	36.9	13.2	4.6

**Source: Primary data.**

Table 4.7 shows percentage distribution of different aspects of growth performance, with business acquiring assets 18.3% strongly agreed, 42.2% agreed, 20.3% were not sure, 12.4% disagreed while 6.8% strongly disagreed. In relation to increase in working capital 35.8% strongly agreed, 41.6% agreed, 15.6% were not sure 2.3% disagreed while 4.7% strongly

disagreed. With acquiring new business knowledge and information 26.3% strongly agreed, 51.6% agreed, 16.8% were not sure while 5.3% disagreed. With business employing workers 29.1% strongly agreed, 58.4% agreed while 12.5%. In relation to additional capital investment in business, 4.5% agreed, 14.1% were not sure 45.6% disagreed while 35.8% strongly disagreed. With business having an average revenue worth 20 million 14.9% strongly agreed, 30.4% agreed, 36.9% were not sure 13.2% disagreed while 4.6% strongly disagreed.

#### **4.5 Relationship between local government taxes and performance of SSEs**

This section answers the broader objective of the study. The relationship between local government tax and performance of small scale enterprises was investigated using sales turn over performance, small scale enterprise profitability and growth performance as dimensions dependent variables while local government tax of trade license, town council market fees and local service tax were dimensions of the independent variables.

In order to determine the relationship between the two above the independent variable local government tax through its dimensions (local government tax of trade license, town council market fees and local service tax) were regressed with dependent variable, performance of small scale enterprise through its dimension (sales turn over performance, small scale enterprise profitability and growth performance) to ascertain whether there significant effect of local government tax on performance of small scale enterprises. Pearson correlation parameter was tested to find out whether there is a relationship between the two, and to further investigate the significant effect of local government tax of trade license, town council market fees and local service tax on performance of small scale enterprises.

#### 4.5.1 Pearson correlation of local government taxes and performance of SSEs

A Pearson correlation analysis was carried out to ascertain whether there is as significant effect of the selected dimensions in local government tax (local government tax of trade license, town council market fees and local service tax) on performance of small scale enterprises(sales turn over performance, small scale enterprise profitability and growth performance).

**Table 4.8: Pearson’s Correlation analysis: LG Trade license Vs performance of SSEs**

	Sales turn over	Profitability	Capital Growth
Trade licenses	0.297**	0.134*	0.219**

\*\*  $\sigma=0.01$  (correlation is significant at 0.01 level (2-tailed))

\*  $\sigma=0.05$  (Correlation is significant at 0.05 level (2-tailed))

The correlation table presents the relationship between local government tax of trade license, against performance of small scale enterprises, measured by sales turn over performance, profitability and growth performance. There is a positive significant relationship between trade license and small scale enterprises as measured by Sales turn over, profitability and capital growth. ( $r = 0.297, p < 0.01$ ;  $r = 0.134, p < 0.05$ ;  $r = 0.219, p < 0.01$ ) respectively. The clear interpretation of correlation analysis in table 4.8 is that the researcher is 99% confident that local government taxes of trade licenses affects sales turn over by 29.7% and capital growth by 21.9%. Furthermore the researcher is 95% confident that local government taxes of trade licenses effect profitability by 13.4%

**Table 4.9: Pearson’s Correlation analysis: Market fees Vs performance of SSEs**

	Sales turn over	Profitability	Capital Growth
<b>Market fees</b>	0.012*	0.368**	0.149**

\*\*  $\sigma=0.01$  (correlation is significant at 0.01 level (2-tailed))

\*  $\sigma=0.05$  (Correlation is significant at 0.05 level (2-tailed))

The correlation table presents the relationship between market fees, against performance of small scale enterprises, measured by sales turn over, profitability and capital growth. There is a positive significant relationship between market fees and small scale enterprises as measured by Sales turn over, profitability and capital growth. ( $r = 0.012$ ,  $p < 0.05$ ;  $r = 0.368$ ,  $p < 0.01$ ;  $r = 0.149$ ,  $p < 0.01$ ) respectively. The clear interpretation of correlation analysis in table 4.9 is that the researcher is 95% confident that market fees affects sales turn over by 1.9% and is 99% confident that markets fees affects profitability by 36.8% while capital growth is by 14.9%.

**Table 4.10: Pearson’s Correlation analysis: Local service taxes Vs performance of SSEs**

	Sales turn over	Profitability	Capital Growth
<b>Local service taxes</b>	0.288**	0.248**	0.291**

\*\*  $\sigma=0.01$  (correlation is significant at 0.01 level (2-tailed))

\*  $\sigma=0.05$  (Correlation is significant at 0.05 level (2-tailed))

The correlation table presents the relationship between local service tax against performance of small scale enterprises, measured by sales turn over, profitability and capital growth. There is a significant relationship between local service tax and small scale enterprises as measured by Sales turn over, profitability and capital growth. ( $r = 0.288$ ,  $p < 0.01$ ;  $r = 0.248$ ,  $p < 0.01$ ;  $r = 0.291$ ,  $p < 0.01$ ) respectively.

= 0.291,  $p < 0.01$ ) respectively. The interpretation of correlation analysis in table 4.10 is that the researcher is 99% confident that local service taxes affects sales turn over by 28.8%, profitability by 24.8% and capital growth by 29.1%.

#### 4.5.2 Regression Analysis

Regression analysis was carried out to ascertain the fact of effect of local government tax with its dimensions (local government tax of trade licenses, town council market fees and local service tax) on performance of small scale enterprises.

**Table 4.11: Multiple Regressions**

Variable	Standard Coefficients (B)	t-test	Sig	R <sup>2</sup>	Adj. r <sup>2</sup>	F	Sig.F
		3.489	0.029	0.318	0.149	78.90	0.000
Local government tax of trade license	0.436	3.674	0.000				
Town council market fees	0.289	2.684	0.000				
Local service tax	0.149	4.735	0.000				

*Source: Primary data*

Table 4.11 above illustrates that, the independent variable (local government tax), through its dimensions; (local government tax of trade license, town council market fees and local service tax) explains the variation in the dependent variable up to 0.149 (14.9%) as denoted by adjusted R<sup>2</sup> value in the table. Similarly, considering the dimensions of local government tax in this study, local government tax of trade license seems to provide better explanation in

the variation in the dependent variable by a standardized coefficient of 0.436 followed by town council market fees of 0.289 and local service tax 0.149, respectively. The results seem to re-enforce the correlations established under tables 4.8, 4.9 and 4.10. This finding further confirms the explanation given under the Pearson correlation analysis. The implication of the results under multiple regressions is that local government tax of trade license affects the general performance of small scale industries up to 43.6%, with town council market fees it affects the general performance by 28.9% while that of local service taxes it affects general performance by 14.9%

## **CHAPTER FIVE:**

### **5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents; the summary, conclusions and recommendations of the study, objective by objective basing on the research topic, the relationship between local government taxes and performance of Small Scale Enterprises in Uganda particularly in Mpigi Town Council. The research was guided by the Hypothesis that there is a relationship between Local Government Taxes and performance of Small Scale Enterprises in Uganda.

#### **5.2 Summary of findings:**

Interpretation and analysis from field findings were presented in chapter four; these confirmed that there was a positive significant relationship between different dimensions of local government taxes as specified in objectives and performance of Small Scale Enterprises in urban areas in Uganda.

##### **5.2.1 The relationship between Trade licenses and performance of SSEs**

Research question one asked the relationship between Trade licenses and performance of Small Scale Enterprises. Results from table 4.8 shows that there is a positive significant relationship between Trade licenses and performance of Small Scale Enterprises. The results show that the dimension of trade license related positively. Local government tax of trade licenses related positively with sales turn over performance, profitability and capital growth performance.

### **5.2.2 The relationship between market fees and performance of Small Scale Enterprises**

Research question two asked if there is a relationship between market fees and performance of Small Scale Enterprises. Results from table 4.9 shows that there is a positive significant relationship between market fees and performance of Small Scale Enterprises. The results show that the dimension of market fees related positively. Market fees related positively with sales turn over performance, profitability and capital growth performance.

### **5.2.3 The relationship between local service tax and performance of Small Scale Enterprises**

Research question three asked the relationship between local service tax and performance of Small Scale enterprises. Results from table 4.10 above shows that there is a positive significant relationship between local service tax and performance of Small Scale Enterprises. Local service tax related positively with sales turn over performance, small scale profitability and capital growth performance.

## **5.3 Conclusion**

In conclusion all the dimensions of local government taxes turned out significant and positive for sales turn over performance. In other words there was a positive significant relationship between different dimensions of local government taxes as specified in objectives and performance of Small Scale Enterprises in urban areas in Uganda. The results from the preceding tables in chapter four clearly showed that all the dimensions relate positively with different varying magnitude. This was in tandem with Musgrave, (1994) who observed that taxes affect the capacity output of the Firm.



Considering the dimensions of local government tax in this study individually as highlighted in the specific objectives, local government tax of trade license seemed to have provided better explanation in the variation of dependent variable, followed by town council market fees and local service tax, respectively. This was supported by Keith (1994) who suggested that taxes affects growth of in sales turn over and eventually overall revenues by influencing the aggregate supply of the main factors of production through lowering the net returns.

## **5.4 Recommendations**

### **5.4.1 Relationship between Trade licenses and performance of SSEs**

Local Governments need to do more awareness in Trade licenses, in addition to timely opening of Tax offices.

### **5.4.2 Relationship between market fees and performance of SSEs**

Market fees collection should be done in a more flexible and friendly manner and more sensitization of its usefulness should be done to do away with negative attitude and perception

### **5.4.3 Relationship between local service tax and performance of SSEs**

Local Governments should consider abolishing Tax Surcharges for late payments as they cause more pain to tax payers

## **5.5 Suggestions for Further Research.**

The study analyzed the relationship between local government taxes and performance of Small Scale Enterprises in urban areas using a case study of Mpigi town council. The interested future researchers and scholars can explore the same topic in investigating other factors that can lead to performance of small scale enterprises other than local government taxes.

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## Appendix I : QUESTIONNAIRE

Dear respondent,

I am Lwanga Henry; I am pursuing a Master's Degree in Business Administration (MBA) from Uganda Martyrs University Nkozi. The award of this Degree partially requires presenting a researched paper-dissertation.

It is for this reason that I designed a questionnaire to help me gather information about “**local government taxes and performance of small scale enterprises in Mpigi Town Council**” the information given is purely for academic purpose and will be treated with confidentiality.

Thank you for your collaboration.

### SECTION A: Background Information (*Data about the Respondent*)

---

#### 1. Current position in the business

1	Business Owner	2	Employee
Tick			

#### 2. People employed in your business

Less than two	Between 2 & 4	More than 4

#### 3. Sex

1	Male	2	Female
Tick			

#### 4. Age (Completed Years)

18-25	26-30	31-35	36-40	41-45

#### 5. Level of education

No formal education	Up to P7	Secondary level	Certificate	Diploma	Degree	Post graduate

#### 6. Experience in tax payment (years)

1-5 Years	6-11 Years	12-17 Years	18-23 Years

**SECTION B: - LOCAL GOVERNMENT TAXES: Scale: 1= Strongly Disagree; 2= Disagree; 3= Not Sure  
4=Agree; 5= Strongly Agree**

<b>A</b>	<b>Local Government Tax of Trade License</b>					
1	I have knowledge about trade licenses	1	2	3	4	5
2	Trade License assessment is transparent to me as a tax payer	1	2	3	4	5
3	Tax offices are always open during working hours	1	2	3	4	5
4	I attend town council workshops on trade licenses	1	2	3	4	5
5	My business is registered for trade license	1	2	3	4	5
6	I pay Sir-charge due to failure to clear trade license obligation	1	2	3	4	5
7	The town council enforcement team closes businesses for delaying trade license payment.	1	2	3	4	5
<b>B</b>	<b>Town Council Market fees</b>					
1	I have knowledge about market fees	1	2	3	4	5
2	I get sensitization seminars on market fees	1	2	3	4	5
3	I am happy with the market fee assessment	1	2	3	4	5
4	Market fees collected are used to provide service delivery	1	2	3	4	5
5	I pay equal amounts with other traders for market fees.	1	2	3	4	5
6	I keep business records for market fee determination	1	2	3	4	5
7	I am happy with how the contractor collects market fees	1	2	3	4	5
<b>C</b>	<b>Local Service Tax (LST)</b>					
1	I know what is all about local service tax	1	2	3	4	5
2	My business monthly turnover is 500,000/= and above	1	2	3	4	5
3	I use Bank payment advice form to pay local service tax	1	2	3	4	5
4	I pay a Sir-charge of 50% after local service tax is due	1	2	3	4	5
5	I get sensitization seminars on Local Service Tax	1	2	3	4	5
6	I pay local service tax before clearing trade licenses	1	2	3	4	5
7	Local service tax collection is used to provide service delivery	1	2	3	4	5

**SECTION C: - PERFORMANCE OF SMALL SCALE ENTERPRISES**

Scale: 1= Strongly Disagree; 2= Disagree; 3= Not Sure; 4=Agree; 5= Strongly Agree

<b>A</b>	<b>Sales turn over Performance</b>					
1	My daily sales turnover is between 750,000/= to 1m	1	2	3	4	5
2	My business is liked by customers	1	2	3	4	5
3	Customer care/ service is practiced in my business	1	2	3	4	5
4	Customers find my business convenient	1	2	3	4	5
5	I give back to customers from business proceeds	1	2	3	4	5
6	Customers appreciate my business product benefits	1	2	3	4	5
7	I discuss with customers about business approaches.	1	2	3	4	5
8	I give back to people in the community	1	2	3	4	5
<b>B</b>	<b>Small Scale Enterprise Profitability</b>					
1	I use less money to purchase goods.	1	2	3	4	5
2	My business generates revenues.	1	2	3	4	5
3	I get increased business sales	1	2	3	4	5
4	My business experience less cost of sales	1	2	3	4	5
5	My cost of doing business is low.	1	2	3	4	5
6	Some money ploughed is put back in business	1	2	3	4	5
7	My business generates profits	1	2	3	4	5

<b>C</b>	<b>Growth Performance</b>					
1	My business has acquired assets	1	2	3	4	5
2	There is an increase in working capital	1	2	3	4	5
3	I acquire new business knowledge and information	1	2	3	4	5
4	My business employs workers	1	2	3	4	5
5	There is additional capital investment in the business					

6	The business has an average revenue worth 20 million					
---	--	--	--	--	--	--

What are your proposals (views/opinions) for boosting your business in respect to paying trade licenses, market fees and local service tax?

.....  
 .....  
 .....  
 .....

1. Suggest ways how trade licenses, market fees and local service tax can be collected without compromising small scale enterprise performance?

.....  
 .....  
 .....  
 .....  
 .....

Thank you very much for your time and the valuable information provided above  
**GOD BLESS YOU!!!**

## **Appendix II**

### **INTERVIEW GUIDE FOR KEY INFORMANTS AND TOP MANAGEMENT**

#### **SECTION A**

1. What is your opinion on Local Government taxes?
2. How has the Town Council imparted knowledge and information to business proprietors?
3. How has your business improved performance?
4. Are you satisfied with the level of service delivery at Town Council?
5. How has the assessment and collection of local government taxes affected small scale enterprise performance?
6. How do the officers at the town council receive and attend to business proprietors?
7. How do your sales increase?
8. How best can small scale enterprise performance be maintained?
9. What is your opinion on business profitability?
10. How does your business grow?
11. What is the purpose of paying local government taxes at Town Council?
12. In your view, how can businesses perform better, in view of local government taxes?

**Thank you for your cooperation**

## **Appendix III.**

### **Observation Check List**

- Town Council Revenue Enhancement Plan Financial Year 2015/2016
- Revenue Assessment Reports Financial Years 2012/ 2013 - 2015/2016
- Town Council Five Year-Development Plan 2015/16- 2020
- Finance Committee reports Financial Year 2015/2016
- Town Council Minutes Financial Year 2015/2016

## **Appendix IV**

### **INTERVIEW GUIDE FOR KEY INFORMANTS**

- 1) What is your opinion on Local Government taxes?
- 2) How has the Town Council imparted knowledge and information to business proprietors?
- 3) How has your business improved performance?
- 4) Are you satisfied with the level of service delivery at Town Council?
  
- 5) How the assessment and collection of local government taxes have affected business performance?
  
- 6) How do the officers at the town council receive and attend to business proprietors?
- 7) How do your sales increase?
- 8) How best can small scale enterprise performance be maintained?
  
- 9) What is your opinion on business profitability?
- 10) How does your business grow
  
- 11) What is the purpose of paying local government taxes at Town Council?
- 12) In your view, how can businesses perform better, in view of local government taxes?

## Appendix V

### DETERMINING THE SAMPLE SIZE FROM A GIVEN POPULATION

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

- Note: "N" is population size
- "S" is sample size.
  - Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.



## Appendix VI

### Research budget

No	Activity	Frequency	Unit cost	Total Amount
1	Purchase of a Laptop	1	2,000,000/=	2,000,000/=
2	Research Assistant's remuneration	3people x six days	@ 100,000/=	1,800,000/=
2	Secretarial work	6 copies	250,000/=	1,500,000/=
3	Transport			250,000/=
	Phone calls			100,000/=
	Refreshments			100,000/=
4	<b>Total</b>			<b>5,750,000/=</b>