

**THE IMPACT OF TAXATION ON THE PERFORMANCE OF SMALL AND MEDIUM
BUSINESS ENTERPRISES IN UGANDA**

CASE STUDY: NAKASERO MARKET KAMPALA, UGANDA.

**A Dissertation submitted to the Faculty of Science, Uganda Martyrs University, in partial
fulfillment of the requirement for the award of the degree of Bachelor of Science in Business**

Economics

Uganda Martyrs University

by

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2011- B151- 10024

May, 2016

DEDICATION

The work presented throughout this research is dedicated to my parents Mr. Patrick Edward Bugingo Mulinde and Mrs Nambi Mastula for the moral support they have extended to me throughout my pursuit of academic excellence.

ACKNOWLEDGEMENT

Completing this work would have been an insoluble task had there not been support from various people. Therefore, it is against this that I would like to express my heartfelt thanks and appreciation to the following people.

Firstly, sincere thanks go to my father Mr. Patrick Edward Mulinde Bugingo for the moral and financial support he extended to me during the time of the research.

Secondly, my supervisor Mr. Kakuru Anthony deserves special thanks for his guidance, support, insights and ideas, encouragement, and willingness to assist me whenever approached throughout this research.

My heartfelt thanks and appreciation goes to my brothers Kazibwe Paul Anderson and Joseph Semmanda for their priceless love and support extended to me throughout this research

I also express my sincere gratitude to all my friends and classmates who have given me an opportunity to complete the course with invaluable memories.

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ABSTRACT

This study sought to examine the impact of taxation on the performance of small and medium business enterprises in Uganda taking Nakasero market as the case study. Taxation relatively affects the businesses in the form of reduction in the capital employed as well the profits earned in terms of revenue. The study is expected to contribute to the body of knowledge and evidence necessary as regards to underlining the impact of taxation as a core contributing factor towards the effectiveness and efficiency in performance of small and medium enterprise in Uganda. The objectives of this study were; to assess the impact of value added tax on the performance of small and medium enterprises in Nakasero market; to find out if customs tax influences the performance of small and medium enterprises in Nakasero market; to establish whether fines and licenses affects the performance of small and medium enterprises in Nakasero market and to ascertain whether income tax has a direct effect on the performance of small and medium enterprises in Nakasero market.

The study employed quantitative and qualitative approaches of data collection and analysis. A sample of 44 respondents from Nakasero market was studied. Qualitative and quantitative data was collected using semi-structured questionnaires, interview guides and use observation methods.

The researcher found out that taxation has a negative impact on the small and medium enterprises since regardless of the capital and revenue, one has to pay a specific type of tax as stated by the regulatory and tax body which is Kampala City Council Authority. The researcher recommended that Kampala City Council Authority should reduce taxes imposed on the small and medium businesses to enhance growth which eventually increases the tax base.

The researcher found out that Value added tax does not affect the performance of small scale and medium enterprises because such businesses mostly deal in unprocessed foodstuffs and agricultural products which are exempted from Value added tax. The researcher recommended that traders should be sensitized about goods on which value added tax is applied to avoid exploitation from fraud authorities.

The researcher in regard to the impact of customs tax on the performance of small and medium business enterprises found out that customs duty does not affect the performance of these businesses. This is because the products sold by these businesses are acquired from within the borders of Uganda hence no need to levy customs duty. The researcher recommended that traders should be sensitized about goods on which customs duty is applied to avoid exploitation from fraud authorities.

The researcher in regard to whether fines and licenses affect the performance of small scale and medium business the researcher found out that fines and licenses have a negative impact on the performance of the businesses. This is because the fines and license fees reduce the operating capital as well as the profits of the business hence hindering the development and growth of such businesses. The researcher hence recommended that clear laws, rules and regulations regarding payment of fines and licenses should be put in place to avoid exploitation of the traders as result of excess payment of taxes.

The researcher in regards to whether income tax has a direct effect on the performance of small scale and medium enterprises found out that income taxes has an effect on the performance of these businesses. This is because the all businesses are liable to pay a certain amount of tax inform of market charges and dues on a daily, weekly or monthly basis. This hence reduces the operating capital and profits of the business. The researcher recommended that affordable market dues and charges should be put place in order to reduce on income tax burden on businesses.

CHAPTER ONE

GENERAL INTRODUCTION

The researcher intended to find out the impact of taxation on the performance of small and medium business enterprises. This research aims at finding out if taxation has a significant effect on the performance of small and medium business enterprises in Uganda. In this chapter, the researcher discussed the background of the study, the statement of the problem, objectives of the study both general and specific, research questions, and justification of the study, conceptual frame work of the variables, limitations of the study and the definitions of key aspects.

The term *impact* in broad terms can be defined as an effect or impression of one thing onto another. It also means the power of making strong, immediate impression onto a thing by another. The researcher therefore defined the term impact as the effects of one thing onto another.

According to Manasseh (2000), *taxation* can be defined as the process of assessment, collection, administration and management of taxes in any given economy. Taxation generally deals with raising public revenue, managing public expenditure and public debt.

The term *Small scale business enterprises* on the other hand refer to basically privately owned enterprises or franchises that employ a few people hence benefit from the various government programs. In Uganda, these small scale business enterprises make up the biggest percentage of domestic production and these are usually constitute markets.

1.1 Background of the study

In the study, the researcher took a keen interest in Nakasero market, Kampala as the area of interest for the research work. The researcher intended to use Nakasero Market for his study because the market has a diversity of cultures and a number of traders that could help him in the research study, the market to the researcher also seemed easily accessible and presented cheaper costs of the whole research procedure.

The European Union also defines small and medium scale business enterprises as business enterprises with fewer than 250 persons and has an annual turnover not exceeding £50m and or an annual balance sheet not exceeding £43m. While such a definition is helpful to coordinate language, most of the special tax regulations that target smaller businesses will fail

to coherently comply with any single definition of the small and medium business enterprises but the definitions of the benefiting businesses will strongly differ across countries across different types of taxes and even within a single tax code.

At a regional level, the small and medium business enterprises aim at providing a platform for strategic linkages aimed at value addition to the economy, assist in the growing of the small enterprises into efficient medium sized firms, spearheading the creation of an award scheme for public and private sector institutions that support the small and medium business enterprise development in the region. This is to interest a collaborative initiative towards assisting the small and medium business enterprise sector growth in the east African region.

Locally, the Uganda Investment Authority has put up guidelines that are responsible for the running of the small and medium business enterprises and this has enabled them to operate smoothly.

According to Manasseh (2000), small business enterprises play a vital role in achieving industrial growth and industrial diversification. On a global scale, for a business to be called a small scale business is when it undertakes investment in fixed assets, in plant and machinery whether held on ownership basis or on lease or on hire purchase. In Uganda, it is the responsibility of Kampala Capital City Authority to undertake the process of taxation. The general idea behind taxation is the provision and maintenance of public goods and services within any given economic setting.

According to the Income Tax Act (1997), a small scale business enterprise is that with growth turnover of less than 10 million shillings per annum.

There are two main tax authorities in Uganda; the local government authority and the central government authority through Kampala Capital City Authority (KCCA).

The USSIA defines Small scale Business enterprises as those with employees between 1-25 people and assets and capital not exceeding Uganda shillings 10,000,000.

However there are other basic features that generally characterize small scale business enterprises and these include;

- i. A business which employees of about 1-10 people.
- ii. Has a capital investment of less than shillings 10 million.

Has average annual revenue/sales of less than shillings 20 million

In Uganda, there are other institutions that have defined small scale business enterprises and these include; Ministry of Finance Planning and Economic Development (MFPED), the Uganda Small Scale Industries Association (USSIA). The MFPED defines Small Scale Business enterprises as a unit with a capital investment not exceeding US\$ 300,000.

Bhatia (2002), presented the concept of taxation as basically the process of assessment, collection, administration and management of taxes in any given economy. He further explains that taxation deals with raising public revenue, managing public expenditure and public debt.

Balunywa (1998) emphasizes that taxation in any nation is a compulsory non-*quid pro-quo* payment which cannot be avoided without attracting a punishment. This implies that no return or gain is promised by the government to the tax payer. The government therefore is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities resulting from the payment of such taxes.

In the research study, the researcher put an emphasis on Nakasero Market as the area of study. Nakasero Market is located in Kampala District and is Kampala's most famous market and is just below Kampala Road. It is divided into two areas, one partially covered, where produce is sold for example vegetables and other food stuffs, and another located in an attractive old building, where hardware, clothes and even a few tourist items are on sale. The traders mainly operate in locally made stalls that are usually small to accommodate their produce and a few things that they have on sale. The market has a large number of traders ranging from 500- 1000 traders and the researcher intended to select at least 50 small scale business enterprises in Nakasero market for the study. Almost all of the traders in Nakasero Market employ 1-10 people to help them with their work. These small scale businesses are locally owned and managed by private individuals who sometimes employ their family members to engage in trade. These small scale businesses bear a wide tax burden which has led to poor performance. Therefore, it is against this background that the researcher undertook the study to investigate more about the problem using Nakasero Market as a case study to evaluate the impact of taxes on performance of small scale business enterprises in Uganda.

1.2 Statement of the problem

According to Kitinisa (2003), taxes serve no necessity other than to finance government activities in any particular country. Regrettably, policymakers often make the mistake of viewing taxes as only funds available for allocation among competing programs. In doing so, they often ignore the dramatic effects of incentives created by taxes and the important influences of the tax policy on the economic activities in the country.

According to Gordon and Dawson (2007), taxation in Uganda has continuously influenced the decisions of the small scale businesses and thus an impact on their performance in the long run. Taxes are raised by the government to generate revenue used to provide services to the public such as; Health care, communication, transportation, education, power and these somehow are used by these small scale business enterprises in their day to day running hence having a positive impact on their performance. Recent reports show that despite the services provided, small scale business enterprise's performance in Nakasero Market is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually.

According to Gordon and Dawson (2007) still, the annual Value added tax registration threshold has been increased from UGX 50m to UGX 150m and the cash basis accounting for value added tax purposes threshold increased from UGX 200m to UGX 500m. This implies an upward trend which has led to winding up of some small scale business enterprises.

Tax identification numbers (TIN) have become mandatory meaning that every local authority, government institution or regulatory body shall require a tax payer. The Tax identification number from any person applying for a license or any form of authorization necessary for the purpose of conducting any business in Uganda. This implies that any business whether starting up or already established is required to pay a tax to the government. Given this background, the researcher was prompted to investigate more about the impact of taxes on performance of small scale business enterprises in the country.

1.3 The main objective of the study

The impact of taxation on the performance of small and medium business enterprises in Nakasero market Area, Kampala Uganda.

1.4 Specific objectives of the study

- i. To assess the impact of Value Added Tax on the performance of small scale and medium business enterprises in Nakasero Market.

- ii. To find out if Customs tax influences the performance of small scale and medium business enterprises in Nakasero Market
- iii. To establish whether fines and licenses affect the performance of small scale and medium businesses in Nakasero Market.
- iv. To ascertain whether income tax has a direct effect on the performance of small scale and business enterprises in Nakasero Market.

1.5 Research questions

- i. Does Value Added Tax have an effect on the performance of small scale business enterprises in Nakasero Market?
- ii. Does Customs tax influence the performance of small scale businesses in Nakasero Market?
- iii. Do Fines and Licenses affect the performance of the small scale businesses in Nakasero Market?
- iv. Does income tax have a direct impact on the general performance of the small scale business enterprises in Nakasero market?

1.6 Research hypothesis

- i. Value added tax has an effect on the performance of the small scale business enterprises in Nakasero Market.
- ii. Customs duty influences the performance of small scale business enterprises in Nakasero market.
- iii. Fines and Licenses affect the performance of small scale business enterprises in Nakasero market.
- iv. Income tax has a direct impact on the general performance of the small scale business enterprises in Nakasero market.

1.7 Scope of the study

1.7.1 Subject scope

The research study covered small scale businesses in Nakasero Market. Specifically, the study investigated the performance of small scale businesses, the impact of the different taxes that are imposed onto the business owners in Nakasero market, awareness of the tax payers regarding their tax obligations, problems they face in complying with these taxes and the relationship between the taxes paid and the performance of the small scale businesses in the country.

1.7.2 Geographical scope

The researcher intended to carry out the study in Nakasero Market, Kampala District. The researcher purposely selected the area because the researcher lives within the vicinity and therefore it would be easier and cheaper to acquire the data and information from the traders during the research study. The researcher also found Nakasero Market to be endowed with a diversity of traders from all around the country and this would give him a wider scope for the research study that he was conducting about the impact of taxes on the performance of the small scale enterprises in the country.

1.8 Justification of the study

The researcher intended to be carry out the research in order to find out the impact of direct and indirect taxes imposed on to the small scale and business enterprises in the country putting emphasis on Nakasero Market. Taxation of goods and services is mandatory in Uganda according to the Income Tax Act (2007) and as well all commodities and services exempt to tax are stated. All registered businesses have to pay a certain amount of tax as stated by the regulatory bodies. A high income tax reduces the operating capital and profits of a business which hinders both its sustainability and growth in the long run. Therefore, however much the tax burden is levied on businesses, it should be known and affordable to the tax paying businesses to enable corporation with the relevant authorities.

1.9 Significance of the study

The findings of the study were significant in the following ways;

- I. To scholars and researchers, the findings of the study were expected to contribute to the existing literature about taxation and the effect it causes to the economy as a whole.
- II. To the tax authority and government, the study would guide them in adjusting tax policies so that they suit requirements of small scale businesses.
- III. To future academicians especially of Uganda Martyrs University, the study would help in gaining insight about taxes and performance of small scale business enterprises.
- IV. The accomplishment of the study would enable the researcher acquire hands on skills about processing of research work and data analysis. This proficiency would enable the researcher to handle such related work with a lot of precision and proficiency.

1.10 The conceptual framework

The conceptual frame work basically shows the relationship between the two variables that is the independent variable (impact of Taxation) and the dependent variable (the performance and productivity of small scale enterprises). The assumption to be used for this conceptual a framework is that less taxes levied, the higher the performance of businesses,

The independent variables of Value added tax, Customs duty, Fines and License and Income tax affect the independent variables of High traders' productivity, Profits, Realization of traders' goals and Turnover. Therefore the performance of the dependent variables is affected by the scale of independent variables. However the relationship between the independent and dependent variables is affected by the moderating factors such as Government policy, Competitiveness, Economic conditions.

worldwide have been regarded as engines of growth and development and in some countries there has been some considerable effort to support them so as to create the necessary employment opportunities.

According to the Income Tax Act (1997), small scale businesses in Uganda are those with growth turnover of less than 50 million shillings per annum.

- III. Customs duty:** This generally refers to the tax that is levied on to goods that are entering and at times those that are leaving the country. This is done in order to raise state revenue and (or) to protect the domestic industries from more efficient or predatory competitors from abroad.
- IV. Value added tax:** This basically means the estimated market value added on to a product or material at each stage of its manufacture or distribution, ultimately passed down to the customer.
- V. Pay As You Earn (PAYE):** This is a tax payment method in which an employer is required by law to deduct income tax (and national insurance, if applicable) from an employee's taxable wages or salary.

1.12 Conclusions

This chapter discussed the background of the study, statement of the problem, purpose of the study, specific objectives of the study, research questions, hypotheses, scope, and justification, significance of the study, conceptual framework and definition of the terminologies to be used in the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter basically looks at taxation and its impact on the performance of small and medium business enterprises in Uganda taking a keen interest on Nakasero Market, Kampala putting into consideration the different objectives as illustrated in chapter one given by different scholars.

In this chapter, the researcher intended to present the existing literature on taxation by different scholars and research studies from magazines, text books, journals and newspapers and other primary and secondary sources that present the idea in a broader manner.

This chapter also covered tax, taxation, its classification, and purpose in any given economic setting. This chapter also particularly addressed the problems affecting tax payers, the awareness of the tax obligation and performance of small scale business enterprises in Nakasero Market.

Martyn Shuttleworth (2009), describes literature review as a critical and in depth evaluation of previous research. It is generally a summary and synopsis of a particular area of research, allowing anybody reading it to establish why the researcher is pursuing this particular research program and emphasizes that a good literature review expands upon the reasons behind selecting a particular research question.

2.1 The concept of taxation

Taxation basically refers to the process of assessment, collection, administration and management of taxes in any given economy. Taxation generally deals with raising public revenue, managing public expenditure and public debt. According to Manasseh (2000), in Uganda, it is the responsibility of Kampala Capital City Authority to undertake the process of taxation. The general idea behind taxation is the provision and maintenance of public goods and services within any given economic setting. However in accordance with Bhatia (2002), the benefits received by tax payers from the government are not related to or proportionate to the tax paid. This presents a controversy in any country as the taxes paid by the tax payers are not directly proportionate to the public services and goods that they receive from the government.

Balunywa (1998) emphasizes that taxation in any nation is a compulsory payment which cannot be avoided without attracting a punishment and in return of which no gain is promised by the government to the tax payer. Taxation is therefore a non-*quid pro-quo* payment made to the government by the citizens in the country. The government therefore is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities resulting from the payment of such taxes.

There are two main tax authorities in Uganda; the local government authority and the central government authority through Kampala Capital City Authority (KCCA) and these take charge of the taxation process in the capital city. However, the major tax body is Uganda Revenue authority and it is this body that authorizes KCCA to tax the markets in the city center.

2.1.1 Tax

According to the Income Tax Act (1997), a tax can be defined as a compulsory and non-refundable contribution executed by government through its tax bodies for public purposes. Payment is not followed by concurrent benefit in return hence making tax a non-*quid pro-quo* payment made to the government by the tax payers or the citizens. This is because a tax is paid without a corresponding return in terms of goods and services from the government.

Tayebwa (1998) also defines a tax can as a contribution imposed on any person, business or property for supporting the local or central governments in the execution of their tasks and objectives in the country.

2.1.2 Classification of taxes

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

a. Direct tax vs. Indirect tax:

- I. According to Manasseh (2000), Direct taxes are those that affect the individuals or firms directly through a deduction from the actual earnings for example individual income tax, corporation tax, taxes on property and others.
- II. Manasseh (2000) clearly states that 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. For examples; export and import duties, excise and local production, value added tax (VAT) among others.

b. Proportional vs. Progressive tax:

Balunywa (1998), classified taxes as proportional/progressive on the basis of equity. 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. A proportional tax therefore is one that is levied at the same rate on tax bases of different amounts and therefore regarded as a flat tax.

According to Balunywa (1998), a progressive tax on the other hand is a tax where the tax rate increases as the taxable base amount increases. This in broader terms means that the tax rises from low to high, with the result that the average tax rate is less than the highest marginal tax rate in any given economy.

2.2 The purpose of taxation

According to Income Tax Act (1997), taxation is an important source of government revenue and an economic policy tool by government to attain economic growth. The importance of taxation therefore arises from debate of whether government should interfere in the operations of the market mechanism. Income Tax Act (1997) further noted that taxes may be levied for other reasons but revenue remains the prime objective of most taxes.

Balunywa (1988) noted that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice in any given economic setting.

Bhatia (2002) further noted that the primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. Such countries face a number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has to be designed to help the economy.

According to the Uganda economic journal (2007), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (2007) also shows that, in stressing consumption reducing aspect, taxes may change the distribution of income and help to stabilize the economy.

2.3 Tax policies employed

According to the recent reports from the World Bank Symposium (2011), many countries are influenced in under taking tax reform policies. The World Bank generally has a say in the terms and policies of the taxes imposed in any country. For the case of Uganda, the tax base has remained significantly narrow since independence, leading to inadequate tax revenue. By May 2004, the tax ratio of tax revenue to GDP was just 18-20%. The composition of tax revenue has been predominantly important. Small scale businesses are taxed differently compared to corporations or businesses with an annual turnover of above 50 million shillings. Medical practices, legal practices, engineering service, accounting and audit practices are tax payers even when their turn over is less than 50 million shillings.

According to Kitinisa (2003), there are three broad approaches to tax policies in Uganda and these are analyzed as shown below:

- i. Application of the standard tax provisions to all business activities
- ii. Taxing various business activities differently to achieve economic business policy such as; increase in private investment, exports/employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and hence induce problems for compliance and adversely affect the general investment climate.
- iii. Uganda has gone through a number of tax policy reforms, these include; gender, nationalization, and harmonization of tax rates and tariffs, abolition of wide ranging exemptions, new tax incentives and conditional exemptions.

2.4 Approaches to tax administration

According to Bird (1992), tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to Olman (2005), tax administration refers to a structure/procedure of identification of potential tax payer, collection and laws governing taxation.

RoyBahl (2010) says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the

tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

2.4.1 Identification of a tax payer

According to the Income Act (1997). Taxes are levied on individuals, groups or legal entities income earned. The identification of a tax payer is done with reference to natural or artificial persons who can earn income.

However, for the purpose of this research we shall confine ourselves to business as a tax payer and a business can be defined as vocation, trade, profession, adventure in the nature of trade but does not include employment.

2.4.2 Assessment of taxes

Income Tax Act (1997) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income.

According to the income tax Act (1997) section 96 (11) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven years from the date the return was furnished. However, small scale businesses are not required to submit in any return to the commissioner.

2.5 Fines and penalties on performance of small scale business enterprises

Musgrave (2004), argued that in all matters of legal rules, better compliance can be served either by a higher penalty if the offender is caught or by well facilitating the enforcements so as to increase the probability of being caught. However, Bird (2004) argued that the law should provide an adequate penalty structure, appeal system and general administration.

According to Pius (2001), the penalty structure should be primarily financial in character and probably progressively related to the amount of tax evaded and the seriousness of the offence in case a tax payer fails to pay any tax including; provisional tax, any withholding tax or tax required to be withheld, the penalty is 2% simple interest per month on the amount unpaid calculated from the date on which payment was due until the date on which payment is made. Under estimating provisional income return is less than 90% of the tax payer's actual chargeable assessed for the year of income, the penalty is 20% of the difference between

taxes based on provisional return as revised, and tax calculated in respect of the 90% of the actual income for the year of income.

2.6 Taxation on performance of small scale business enterprises

Musgrave (2004) suggested that taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures.

Kitinisa (2004) described performance of small scale business as the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organization include; survival, profit making and expansion of the premises. However the taxes levied should not affect the goals and objectives of the organization

According to Padey (2009), the performance of the small and medium enterprises can be analyzed through financial analysis. Pandey (2009) also looks at financial analysis as a measure of the business performance. The assessment of financial performance of business entities has a well-established methodology which includes the enterprise's tax obligations.

According to Makerere Business Journal (2006) Unilate predictions of performance are single ratios calculated for efficiency. Performance of small scale business as the ability of the business:

- i. To meet its tax obligations.
- ii. Cover its operating expenses and still retain some profits which can either be used for re-investment or otherwise.
- iii. The ability of the business to make sales that sustain its expenses.

According to Gordon and Dawson (2007), through taxation, the government takes away money from people they would otherwise spend on the private sector. As a result, purchasing power reduces per unit of production in the private sector to the public sector. They further asserted that, one of the most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently.

According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people or business they would otherwise spend on private sector. According to Gordon and Dawson (2007), this loss of purchasing power reduces the demand for units of products in the private sector.

2.7 Taxes on profit levels

According to Manasseh (2000), the taxable profits of business are always different from the normal business account profits for three major reasons;

- i. Certain income which may be considered in the normal accounting system may not be liable to tax.
- ii. Certain expenses that are deducted on profit and loss account may not be available when determining taxable income.
- iii. Some tax allowances may be provided and will not be reflected in business account.

Gordon and Dawson (2007) assert that many business people have complained probably with some justification that taxes interfere with the opportunities to re-invest their profits in their businesses.

2.7.1 Taxation on investment

Given the fact that there are financial institutions and mechanisms for collecting the community's savings and bringing them to investors, the level and patterns of investment will be greatly influenced by taxes. This is because the investors are basically interested in making profit yet profitability of investment can be affected through various tax measures in the following ways;

- i. The possibility of taxing savings themselves. If this happens, the investor will experience a low level of savings and the overall level of investment will be low.
- ii. The authorities might tax earnings from investment to an extent that it might become a problem for the firm to raise adequate resources in the market.
- iii. According to Bhatia (2002), if the retained profits of the firm are taxed, they will not be able to depend much upon their internal resources for expansion, instead they will borrow and invest if at all they do so.

2.8 Tax compliance

In accordance with Ravenous (2005), 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.

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 Kampala Capital City Authority.

According to Ravenous (2005), the following are some of the problems faced by tax payers;

- i. There is unfair treatment of tax payers, some of which are not necessary tax obligations and thus not met as a result of this process.
- ii. Tax payers have little understanding of the obligation as a result of lack of tax education. It is said that Kampala Capital City Authority would get fewer problems with tax payers if they were able to understand how their liabilities come about.

According to Ndandiko (2000), the taxation of small and medium business enterprises faces several major policy challenges and these basically concern compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium business enterprises are affected disproportionately by these costs; when scaled by sales and assets, the compliance costs of small and medium business enterprises are higher than those of the large businesses. Ndandiko (2000) further emphasizes that the government should therefore try to generally simplify tax administration for these businesses. At the same time, special response targeted to these businesses are conceivable for example, a wider observed measure to reduce the cost for small businesses are exemption thresholds under value added taxation.

Therefore non compliant traders towards the taxes tend to have higher operating capital and profits as a result of not paying taxes while the compliant traders will have low operating capital and profits because their revenue is limited and reduced by the available tax rates.

2.9 Tax payer's knowledge

According to Ndandiko (2000), most Ugandans have poor knowledge or 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.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents and discusses the research methodology that the researcher applied in his research study and it includes; the research design, the study area, the study population, sampling, and study variables, sources of data, data collection methods and instruments, data processing, analysis and presentation and limitations of the study.

3.1 Research design

The research was a descriptive research which described a description phenomenon in a population to ascertain the facts on the performance of the small scale business enterprises in Nakasero Market. The researcher used a cross sectional survey design basing on the use of qualitative and quantitative approaches that were adopted to establish the relationship between taxation and performance of small scale businesses. This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Study population

Population refers to the complete collection of all elements that are of interest in a particular investigation. The study comprised of owners and employees of small scale businesses in Nakasero market. The researcher chose 50 respondents from the open side of Nakasero Market that comprises of basically sellers of agricultural produce.

3.3 Sampling designs and sample size

3.3.1 Sampling designs

According to Trochim (2006), Sampling is the process of selecting units (e.g., traders in a market) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they will be chosen.

It is impossible to study the whole targeted population due to factors like time and therefore the researcher decided on taking a sample of the population.

The study mainly used two methodologies. These were stratified sampling, and simple random sampling methodology. The study covered traders in the open side of Nakasero Market that sell agricultural produce. To obtain the required sample that can represent these traders, random sampling was used. The Taro Yamane (1973) formula was used to calculate the sample size as also recommended the Krejcei and Morgan (2005) as follows;

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

Given n= Number of samples

N= Total population

e=Sampling error, designating at the 0.05 significant level

from the formula above, 44 respondents were given questionnaires to help with the research as analyzed below:

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

$$n = \frac{50}{1 + 50(0.0025)}$$

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

$$n = 44$$

therefore the researcher used a sample size of 44 respondents in the study.

3.3.2 Sample size

The researcher intended to involve 50 respondents from the open end of Nakasero Market that has traders dealing in agricultural produce. This sample size was assumed by the researcher to be representative enough of the entire population of that end of the market. However, the researcher managed to acquire information from only 44 respondents in Nakasero market because the other information gotten was irrelevant and the researcher did not consider the 6 questionnaires.

3.4 Study variables

The independent variable in this case is impact of taxes; the dependent variable is performance of small scale businesses. That is to say, the study is carried out to establish the relationship between how taxes affect the performance of small scale businesses in Nakasero market.

3.5 Data collection methods

The researcher basically used two methods of data collection for purposes of research. These are primary methods of data collection and the secondary methods of data collection.

3.5.1 Primary methods of data collection

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

3.6 Data collection instruments

3.6.1 Questionnaires

A questionnaire is a form consisting of interrelated questions prepared by the researcher about the research problem under investigation. It is generally a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the information will have to be collected from a large sample in a short period of time yet the respondents could read and write. The questionnaire was intended to be used in collection of data from respondents (owners of small scale businesses). The questionnaires consisted of both open and close ended questions administered to respondents of Nakasero Market.

3.6.2 Interviews and Interview guides

The researcher also administered interviews as a way of getting data from the traders in Nakasero Market. An interview is a method of collecting data which involves verbal interactions between the researcher and the respondents. Basically an interview is a dialogue

between an interviewer and interviewee. This is a method where a researcher interviews respondents to obtain information on the issue of interest. In this case, the interviews during this research were structured and specifically administered to staff of Nakasero Market.

3.6.3 Documentary review

Documentary review in search of secondary data were also used by the researcher to study and collect secondary information from different sources like text books, internet, journals and articles among other research studies. This information was reviewed by visiting the library, online libraries and internet websites.

3.6.4 Observation

The researcher observed the tickets from the tax council that the business operators pin in the shelves of the businesses as well as counter books that are used to record the customers who take goods on credit.

3.7 Validity and reliability

3.7.1 Validity

Validity can be defined as the degree to which a test measures what it is supposed to measure.

Esaiasson, et al (2003) defines validity in different ways that is; the agreement between theoretical definition and operational indicators; the absence of systematic mistakes among others. The questionnaires were pre-tested in two departments to establish the suitability of the questions. Some questions were reviewed based on the comments and suggestions from the respondents and redefined using expert judgment method (Mason and Bramble, 1989). The instruments were tested by use of the content Validity Index as below;

$$C.V.I = \frac{\text{Number of Items regarded relevant by experts (n)}}{\text{Total Number of items (N)}}$$

Total Number of items (N)

Where n is the number of relevant items in the questionnaire

N is the total number of items in the questionnaire.

Data is valid if the questionnaires give a content validity index of 0.5.

For example in this study questionnaire; n=44, N=50.

$$CVI = \frac{40}{44} \times 100$$

$$CVI = 90.9$$

Therefore a 90.9% of the CVI implied the relevance and efficiency of the data collected.

Thus the validity of the questionnaires was considered only when the coefficient measured was 50% or 0.5 and above as according to Mason and Bramble, (1989) making the degree of validity and quality of data high.

In addition, to measure validity the researcher set out to measure the impact of taxation on performance of small scale business enterprises and the questions in the questionnaire were clear and they were framed in English the most commonly used language at the work place.

3.7.2 Reliability

In accordance with Sekaran & Bougie (2010), reliability is the extent to which the instrument consistently measures whatever it is measuring. It is a measuring instrument to test consistency and stability of a set of scale items.

According to Trochim (2005), reliability has to do with the quality of measurement. In its everyday sense, reliability is the “consistency” or “repeatability of your measures. Before one can define reliability precisely one has to lay the groundwork. First one needs to learn about the foundation of reliability, the true score theory of measurement. The reliable instrument should yield the same results over repeated measures.

The researcher determined reliability of the questionnaires by carrying out a pilot test in Nakasero Market. The questionnaires were pre-tested using 1 respondent from all the departments of the area of study mentioned in the scope of this study and they were randomly selected from their respective departments. Therefore, the higher the reliability coefficient, the lower the error variance hence the more reliable the tool is for data collection.

The researcher also used various other methods to ensure that excellent quality of information provided involves consultation of the supervisors on the data collected. I also used the gathered information from the Uganda Investment Authority and other top managers of the corporation so as to acquire valid information.

3.8 Data analysis

Quantitative data collected was analyzed, interpreted, arranged and tabulated and the frequencies generated were used to analyze and interpret the findings of the study. Analysis of qualitative data was done through description of events and occurrences as gathered from the interviewees and in the questionnaires as well. Judgment was made on the basis of highest percentages or otherwise depending on the facts on the ground (Amin, 2005)

3.8.1 Data editing

This was done to make the data ready and simpler for presentation. The filled questionnaires were edited one by one to correct errors and determine omissions that were made by the respondents. Data was edited in order to check for accuracy.

3.8.2 Data presentation

The edited data was presented using tables and text writing.

3.9 Ethical considerations

The researcher complied with the ethical values to abide by like not asking for answers from respondents through giving them money. The researcher also informed the respondents about the objective of the study and why he wanted information from them and also kept the information from the respondents confidential.

3.10 Limitation of the study

- i. Financial constraints were a huge setback for the researcher during the entire research procedure. Just like any other research work, the financing was too costly for example in terms of transport costs, air time costs and processing of the proposal and research report. The researcher therefore needed a strong financial base to capture enough funds to run the research study. The researcher however obtained financial support from the family members to enable facilitate the entire research procedure.
- ii. Limited time for the research procedure. Inadequate time frame required for a detailed research study. Comprehensive research study involves a great deal of collecting, analyzing and processing that requires a lot of time to the researcher, the time may not be available since the researcher also has other ventures to accomplish for example the lectures that require his urgent attention as well.

- iii. The unwillingness of individuals to sacrifice some time to fill the questionnaires and the traders' concern over what can be the benefits of the investigation to them and the market. This limited the quality and depth of the data which can be collected but the researcher used more effort to ensure that data is collected within the period range and collected enough, quality and depth data for analysis.

3.11 Conclusion

The chapter presented the research design used, area of study, study population, sample size and selection, data collection methods and instruments, data quality control, data analysis and presentation, research procedure, ethical consideration and limitations of the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

4.0 Introduction

This chapter analyses, presents and discusses the data collected in the process during the study. The chapter involves presentation, analysis and interpretation of the study results. This presentation is facilitated by the use of frequency tables and percentages. The analysis and interpretation of the data is intended to enable the researcher make appropriate conclusions and recommendations for better understanding of the research problem basing on the following research questions.

- i. Does taxation have a significant effect on the level of business performance of small and medium business enterprises?
- ii. Does Value Added Tax have an effect on the performance of small scale business enterprises in Nakasero Market?
- iii. Does Customs tax influence the performance of small scale businesses in Nakasero Market?
- iv. Do Fines and Licenses affect the performance of the small scale businesses in Nakasero Market?
- v. Does income tax have a direct impact on the general performance of the small scale business enterprises in Nakasero market?

This study was carried out to establish the impact of taxation on the performance of the small and medium business enterprises in Uganda. The case study was Nakasero market, Kampala and the sample size calculated was 44 traders. This analysis and interpretation was based on the 44 questionnaires received.

4.1 Background characteristics of the respondents

The characteristics of the respondents included mainly age, sex, education level and marital status. Findings on the age of the respondents revealed the following information/results.

4.1.1 Age of the respondents

RESPONSE	FREQUENCY	PERCENTAGE
31-40	20	45.4%
20-30	12	27.3%
41-50	8	18.2%
51 AND ABOVE	4	9.1%
TOTAL	44	100

Source: Primary source

Table 1: Findings on the age of respondents

From the table above, the majority 45.4% of the respondents range between 31-40 years, simply because most of them have dependants and lack other steady income generating means while others have deserted their low paying jobs and undertaken these as sources of income, 27.3% were between 20-30 years, 18.2% were between 41-50 years while 9.1% were above 51 years.

4.1.2 Response on the level of education of the respondents

Here respondents were asked about their highest level of education that is those with Certificates, Degree, Diploma and others(primary and secondary levels). The results were as follows;

LEVEL OF EDUCATION	FREQUENCY	PERCENTAGE
Others (Primary and secondary levels)	20	45.4%
None	09	20.5%
Degree	06	13.6%
Certificate	05	11.4%
Diploma	04	9.1%
Total	44	100

Source: Primary source

Table 2: Findings on the level of education

From the table, the majority 45.4% had attained up to either primary or secondary qualifications but dropped out of school and hence were not able to get better paying jobs thus resorted to self employment, 20.5% did not go to school at all, 13.6% had degrees, 11.4% had acquired certificates while 9.1% had diplomas.

4.1.3 Findings on the gender of respondents

Here respondents were asked their gender whether male or female and the following results were obtained.

GENDER	FREQUENCY	PERCENTAGE
MALE	28	63.6%
FEMALE	16	36.4%
TOTAL	44	100

Source: Primary source

Table 3: Shows gender of respondents

From table 3, majority of the respondents, 63.8% were male while 31.7% were female. This means that most of the small scale businesses in Nakasero market were operated by the male traders basically because of the physicality required in the day to day operations of the market.

4.1.4 Findings on the marital status of the respondents

Here respondents were asked if they were married, single, separated or widowed and the results were as follows;

MARITAL STATUS	FREQUENCY	PERCENTAGE
MARRIED	21	47.7%
WIDOWED	11	25%
SEPARATED	07	15.9%
SINGLE	05	11.4%
TOTAL	44	100

Source: Primary source

Table 4: Shows marital status of the respondents

From table 4, the majority, 47.7% were married because of the responsibilities that come with having a family and other dependants, 25% were widowed, and 15.9% were separated while 11.4% were single. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of funding for their families including opening up small scale businesses.

4.2 Findings on performance of the business

Here respondents were asked about stock levels held in their businesses, if they have ever experienced any shortages affect level of profitability, average daily sales, capital employed, average amount of tax paid per year and the number of people employed. This helped in determining the performance of the business.

The results were as follows;

4.2.1 Response on stock levels of held in the business

RESPONSE	FREQUENCY	PERCENTAGE
JUST ENOUGH	20	47.7%
AVERAGE	14	29.5%
EXCESSIVE	05	11.4%
INADEQUATE	05	11.4%
TOTAL	44	100

Source: Primary source

Table 5: Shows stock levels held in the business

From table 5 above, 47.7% said they always kept just enough stock in their business because they deal in perishables that they sell on a daily basis and require restocking daily, 29.5% kept stock on average, 11.4% indicated they kept stock in excess while 11.4% kept inadequate stock and that this is due to shut down in the production.

4.2.2 Shortage in the stock levels

Respondents were asked if they have experienced shortages in the stock levels and the results were as follows;

RESPONSE	FREQUENCY	PERCENTAGE
YES	40	90.9%
NO	04	9.1%
TOTAL	44	100

Source: Primary source

Table 6: Shows whether the business has ever experienced shortages in the stock Levels

From table 6 above, most of the respondents said that they have ever experienced shortages in stock. Given the fact that most traders deal in perishable goods such as tomatoes, greens and fruits which can easily be affected by heavy rain, too much sun shine as well as poor handling

especially during transportation to the market place hence damage thus leading to stock shortage. This was agreed to by 90.9% respondents as compared to 9.1% who disagreed.

4.2.3 Stock levels and profitability

Respondents were asked if stock levels affect profitability and the findings are indicated below.

RESPONSE	FREQUENCY	PERCENTAGE
YES	32	72.7%
NO	12	27.3%
TOTAL	44	100

Source: Primary source

Table 7: Showing whether stock level have an effect on the level of profitability

From table 7, above, 72.7% said that the stock level has an effect on the profitability of the business and 27.3% said that stock level don't have an effect on profitability. This is because the more stock in the business, the more profitability of the business.

4.2.4 Average daily sales

Respondents were asked about daily sales made by their businesses and the results were as follows.

RESPONSE	FREQUENCY	PERCENTAGE
30,000 – 49,000	17	33.7%
10,000 – 29,000	09	20.5%
50,000 – 69,000	06	13.6%
90,000/= +	05	11.4%
70,000 – 89,000	04	9.1%
LESS THAN 10,000	03	11.7%
TOTAL	44	100

Source: Primary source

Table 8: Showing average daily sales

According to table 8, the majority of traders ,33.7% made sales of between UGX 30,000 – UGX 49,000 20.5% made sales between UGX 10,000 – UGX 29,000, 13.6% made sales between sales between UGX 50,000 – UGX 69,000, 11.4% made sales of 90,000 and more while 9.1% made sales between UGX 70,000 – UGX 89,000 and 11.7% businesses made sales of less than UGX 10,000. This means that most of the Small and Medium Business enterprises in Nakasero market made sales of over UGX 30,000 meaning that most of the businesses in the market have an annual turnover of less than 50 million Uganda Shillings. This agrees with Income Tax Act (1997) which characterizes small scale businesses as those with an annual turnover of less than 50 million Uganda Shillings, thus the taxes to be paid should be in the range of small scale enterprises as stated in the Income Tax Act (1997).

4.2.5 Capital employed

This aspect was investigated because it helps in the determination of the size of the business. The results were as follows;

RESPONSE	FREQUENCY	PERCENTAGE
LESS THAN 0.5M	20	47.7%
0.5M-0.9M	11	25.0%
1M-4.9M	07	15.9%
5M-9M	04	9.1%
OVER 10M	02	2.3%
TOTAL	44	100

Source: Primary source

Table 9: Showing capital employed

According to table 9, 47.7% employed capital of less than 0.5m, 25.0% employed capital of between 0.5m-0.9m, 15.9 % employed capital of between 1m-4.9m, and 9.1% employed capital of 5-9m while 2.3% employed capital of over 10 Million. This implies that most businesses in Nakasero market have capital contribution of less than 0.5m. This implies that the businesses are small scale as defined by USSIA and the Income Tax Act (1997). However, through the research, the researcher identified that there is a high level of capital employed by some traders in Nakasero market due to tax evasion as a result of not clearing up with the tax liabilities with the authority in charge.

4.2.6 Daily expenses

This also helped to determine the performance and size of the business. The results were as follows.

RESPONSE	FREQUENCY	PERCENTAGE
LESS THAN 10,000/=	20	47.7%
10,000 – 19,000/=	10	20.8%
20,000 – 39,000/=	08	18.2%
40,000 – 49,000/=	06	13.3%
50,000 – 59,000/=	0	0%
60,000/=	0	0%
TOTAL	44	100

Source: Primary source

Table 10: Showing daily expenses

From the table 10 above, 47.7% spend less than 10,000/= Uganda Shillings, 20.8% spend between 10,000/= - 19,000/=, 18.2% spend between 20,000/= – 39,000/=, 13.3% spend between 40,000/= – 49,000/= and of all businesses sampled. None of the respondents indicated that they spend more than 49,000/= on average daily. Thus the majority of traders have an average daily expenses of less than 19,000/=. By implication, these business units spend less money because their daily sales are averagely low given the fact that they employ little capital and make small sales on a daily basis and have a tax burden which is either daily or monthly and this reduces on their expenditure.

4.2.7 Average amount of tax

Respondents were also asked about how much on average the amount they pay as taxes annually. The table below illustrates the response.

RESPONSE	FREQUENCY	PERCENTAGE
ZERO	0	0%
100,000/=	31	70.5%
100,000 – 190,000/=	7	15.9%
200,000 – 290,000/=	6	13.6%
300,000 – 390,000/=	0	0%
400,000 – 500,000/=	0	0%
TOTAL	44	100

Source: Primary source

Table 11: Showing average amount of tax paid

According to table 11, among the businesses sampled, no business does not pay taxes, 70.5% pay average tax of 100,000/=, and 15.9% pay on average between 100,000/= – 190,000/= while 13.6% of the businesses pay between 200,000/= and 290,000/=. By implication, basing on the working capital that small scale business employ and the kind of the merchandize they deal in, the above results show that the small scale businesses in Nakasero market were paying more money in taxes. However, though all traders claim to pay tax, an underground check was carried out by the researcher and it was found out that some of the businesses are not registered and may be seasonal which relieves them of the tax burden.

4.2.8 People employed

The respondents were asked how many people are employed in their business, they responded by giving different figures and most of them employ two to four people and some are sole proprietors who manage their own businesses and employ family members.

4.3 Awareness of the tax payers

Respondents were asked if they were aware of their tax obligations and policies, taxes they pay, if business has ever been assessed for tax purposes, any record kept by the firm, how records are kept, if the tax authority has given any assistance as regards tax awareness and what kind of assistance. The following results were obtained.

4.3.1 Taxes

Respondents were asked if they were aware of taxes they paid and which taxes they paid. The table below illustrates the results.

RESPONSE	FREQUENCY	PERCENTAGE
YES	35	79.5%
NO	9	20.5%
TOTAL	44	100

Source: Primary source

Table 12: Showing of taxes paid

According to table 12, 79.5% agreed that they were aware of the taxes they ought to pay due to the sensitization by Kampala Capital City Authority about their tax obligations while 20.5% indicated that they were not aware about all the taxes that they were meant to pay. This arises from their busy schedules which do not allow them to attend the KCCA sensitization workshops hence remain ignorant about their tax obligations using this to their advantage to evade tax.

4.2.2 Tax assessment

Respondents were asked if they have ever been assessed for tax purposes, the table below illustrates their responses.

RESPONSE	FREQUENCY	PERCENTAGE
STRONGLY AGREE	17	38.5%
AGREE	12	27.3%
UNCERTAIN	5	11.4%
DISAGREE	5	11.4%
STRONGLY DISAGREE	5	11.4%
TOTAL	44	100

Source: Primary source

Table 13: Showing if the businesses have ever been assessed for tax purposes.

Table 13 shows that 38.5% of the business entrepreneurs strongly agreed that their businesses have ever been assessed for tax purposes, 27.3% agreed, 11.4% indicated that they were not certain, 11.4% disagreed and 11.4% strongly disagreed respectively. In all, majority 65.8% agreed that their businesses had been assessed for purposes of paying taxes. This implies that Nakasero market carries out assessments of the small scale businesses before the tax they are meant to pay is levied. However, the researcher found out that the 11.4% that are uncertain of tax assessment either pay more or less of what they are supposed to pay to KCCA. On the other hand, the 22.8% that disagree and strongly disagree tend not to know how much tax they are supposed to pay hence some taking this advantage to evade the tax.

4.2.3 Value added tax on performance

The respondents were asked if there was an impact of value added tax on the performance of their businesses

RESPONSE	FREQUENCY	PERCENTAGE
NO	44	100%
YES	0	0%
TOTAL	44	100

Source: Primary source

Table 14: Showing impact of value added tax on performance.

Table 14 shows that all the traders in Nakasero Market do not directly feel the effect of Value added tax hence it does not affect their operating capital and profits since they deal in unprocessed and agricultural products which are exempted from tax according to the income tax act.

4.2.3 Customs Tax On Performance

Respondents were asked if there was an effect of customs duty on the performance of small scale business.

RESPONSE	FREQUENCY	PERCENTAGE
NO	44	100%
YES	0	0%
TOTAL	44	100

Source: Primary source

Table 15: Showing impact of customs duty on performance.

Table 15 shows that all the traders in Nakasero market are not affected by the customs duty since they get their stock from within the country and sell to the local market hence customs duty does not affect their performance hence this kind of tax has no impact on their operating capital and profits.

4.2.4 Fines and Licenses on Performance

The respondents were also asked if the fines and licenses they incur actually affect the performance of the businesses.

RESPONSE	FREQUENCY	PERCENTAGE
YES	44	100%
NO	0	0%
TOTAL	44	100

Source: Primary source

Table 16: showing impact of fines and licenses on performance.

Table 16 shows that all the respondents are aware and affected by the fines and licenses that Kampala Capital City Authority imposes on them. Licenses vary since some are paid monthly or even annually by the traders. This generally reduces the operating capital of the business hence a negative effect to the general performance of these businesses. The researcher also discovered that some traders dodge the fines that are imposed on them by KCCA which as a result boosts their performance. On the other hand some businesses illegally operate that is to say are not registered and licensed which relieves them of their obligation to pay tax hence performing better than those that pay the taxes.

4.2.5 Income Tax on Performance.

The respondents were also asked if income tax had a direct impact on the performance of the businesses.

RESPONSE	FREQUENCY	PERCENTAGE
YES	44	100%
NO	0	0%
TOTAL	44	100

Source: Primary source

Table 17: Showing impact of income tax on performance.

Table 17 shows that all traders are directly affected by income tax in terms of payment of daily, weekly and monthly market dues and charges hence impacting their daily or weekly or monthly sales. Hence the higher the income tax the less the net income to reinvest in the business leading to a stagnant nature of the business.

4.2.6 Record keeping and management

RESPONSE	FREQUENCY	PERCENTAGE
STORE LEDGERS	26	50.1%
BOTH	14	31.8%
BIN CARDS	04	9.1%
TOTAL	44	100

Source: Primary source

Table 18: Showing how businesses keep their records

From table 18 above, 50.1% of the small scale business sampled, keep their records using ledgers, 31.8% used bin cards and 9.1% used both bin cards and store ledgers.

4.2.7 Assistance as regards tax payments

The researcher asked respondents if the small scale business entrepreneurs have got any assistance as regards tax payments and the form of assistance. The table below illustrates how they responded.

RESPONSE	FREQUENCY	PERCENTAGE
YES	25	56.8%
NO	19	43.2%
TOTAL	44	100

Source: Primary source

Table 19: Shows if the tax authority has ever given assistance as regards tax awareness.

From the table 19 above, 56.8% of the respondents said they had received assistance from Kampala Capital City Authority towards tax payment through the tax workshops and seminars and manuals hence they know how to make the tax payments. However, the 43.2% said they had not received any assistance on tax payment and hence some use this to their advantage not to pay the taxes.

4.3 Problems faced by tax payers

The researcher asked if there are problems faced as regards mode of tax assessment, mode of tax collection, the collector, and efficiency in identifying potential tax payers by the tax officers, specific effects of taxes on business and suggest about the problems encountered which comply with the obligations.

4.3.1 Mode of assessment, collection and the tax Authority

The table below illustrates in percentage the way they responded.

RESPONSE	AGREED (YES)	DISAGREE D (NO)	TOTAL PERCENTAGE
The Methods Used In Assessing The Taxes Are Fair	17 (38.6%)	27 (61.4%)	100%
Whenever Taxes Are Collected From Me, The Methods Used Are Friendly	10 (22.8%)	34 (77.2%)	100%
Tax Collectors Do Not Harass Me Whenever They Come To Collect The Tax	15 (34.1%)	29 (65.9%)	100%

Source: Primary source

Table 20: Problems related to mode of assessment, collection and the tax collector

According to table 20 above, 38.6%, of the respondents agreed that the methods used in assessing the taxes are fair while 61.4% disagreed that the methods used were fair for example in failure to comply with the tax, the authority can close down the business and confiscate the property. This retards and affects the performance of the business enterprises in Nakasero market.

Table 20 further shows that 22.8% of the respondents agreed that whenever taxes were collected from them, the policies used were friendly while majority, 77.2% disagreed. This implies that the tax authorities in Nakasero market use unfair tax policies that could even encourage the tax payers to evade paying taxes.

From table 20, 34.1% of the respondents agreed that tax collectors do not harass them whenever they come to collect the tax while 65.9% disagreed. This implies that tax collectors in Nakasero market were harsh to the tax payers.

From the study, it is seen that over 50% of the business people had at least a problem with the mode of assessment, the mode of tax collection or with the tax collector. This is agreed with Kitinisa (2003) where it was quoted that there was unfair treatment of tax payers by the tax collectors. Mugulusi (2001) also agreed with this. He said that large proportion of the business community is ignorant about the taxes they pay let alone how they are computed.

4.3.2 Efficiency of the tax officers

Respondents were asked if the tax officers are effective in identifying and registering potential tax payers. The table below illustrates how they responded.

RESPONSE	FREQUENCY	PERCENTAGE
DISAGREE	19	43.2%
UNCERTAIN	10	22.8%
STRONGLY AGREE	7	15.9%
AGREE	6	13.6%
STRONGLY DISAGREE	2	4.5%
TOTAL	44	100

Source: Primary source

Table 21: Respondents' views on whether Tax officials are efficient

From table 21, 43.2% Disagreed that the tax officials are effective in identifying and registering potential tax payers, 22.8% were uncertain, 15.9 strongly agreed 13.6 agreed while 4.5% strongly disagreed. Since majority of the respondents disagreed, it implies that there is too much inefficiency among the tax collectors in Nakasero market.

4.3.3 Specific effects of the taxes on businesses

The following are specific effects that were given by the proprietors of Small and Medium Business enterprises in Nakasero market.

Loss of stakes; this is mainly as a result of closure of business premises by Nakasero market staff on default during the time when the premises are closed, operation is halted therefore no sales made.

Loss of equipment; this happens when due to rough handling by the Nakasero market staff. Sometimes machines and equipment are confiscated by the tax collectors when the owners have failed to meet the tax obligations. During confiscation, equipment are damaged and sometimes lost.

Loss of stock. Some business proprietors said they so lose capital as a result of heavy fines imposed on them when they default of their tax obligation. This somehow agrees with Bhatia (2002) where he said that the authorities might tax earnings to such an extent it might become a problem for firms to rise adequate resources for further investment.

Inconveniencing business operations; this happens when the staff of the tax authority visits business premises in the routine checkups on business. Sometimes they ask for books of accounts and try to interview the business owners and in the effects it was noted that 40% of business in Nakasero market lose capital as a result of heavy fines imposed on them when they default of their tax obligation.

4.3.4 Suggestions from tax payers

Respondents were asked to give suggestions on how their problems can be dealt with. The following were the responses.

Tax authority should improve on increase period of deadlines which they give out to tax payers when giving warnings.

More efforts should be put in tax education so as to increase awareness and understanding of the mode of assessment. This agrees with Kitinisa S. (2003) where it is said that tax payers have little understanding of the tax obligations as a result of lack of tax education.

They further suggested that the tax authority should reduce taxes imposed on the tax payers.

4.4 conclusion

This chapter has highlighted key findings from the study the impact of taxation on the performance of small scale business enterprises. The researcher found out that the tax system used on traders in Nakasero market has a negative impact on the performance of the businesses. The tax tends to reduce the capital employed since it is a legal requirement to pay up trade licenses and Registration fees before starting operation. This leaves the traders with less capital to invest into their businesses. However, some businesses do not pay up the registration fees and licenses hence operating illegally. These businesses tend to have higher start up capital compared to those that actually comply with their tax obligations.

The businesses are mandated to pay a certain amount of tax during the business's operation cycle and this is either daily, monthly or annually. This becomes an expense burden to the business since it tends to reduce the profitability of the business hence having a negative

effect on the general performance of the business. However evasion of tax is high in Nakasero market is high due to the poor tax system, seasonal traders, illegal unregistered businesses and a large informal sector. Such businesses tend to earn higher profits and perform better compared to the tax complying businesses in Nakasero market.

In conclusion, the researcher concluded that tax reduces the profit of any business hence having a negative effect on its general performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of findings, conclusions and recommendations on findings as far as customer service and retention are concerned.

5.1 Summary of findings

The respondents from the research study recognize high taxes as a hindrance to the performance of small and medium businesses enterprises in Nakasero market. This is evidenced but the stagnant nature of the businesses in Nakasero market as a result of low operating capital and profits after taxes have levied onto the incomes. The study further revealed that taxes mainly affects the performance of Small and Medium Business enterprises through lost sales during closure of the business premises by Kampala Capital city Authority, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by Kampala Capital City Authority onto Small and Medium Business enterprises that default on their tax obligation.

Overall business performance was fair as most businesses could duly cover up their expenses, had enough stock, awareness of tax payers was poor and a number of problems were encountered.

5.2 Conclusion

It can be concluded that taxes are major limitations to the growth and expansion of Small and Medium Business enterprises in Nakasero market. This is because very little and sometimes nothing is left after covering expenses and tax to allow for the expansion and growth of the existing Small and Medium Business enterprises. This was clearly shown by the fact that over 60% of all the businesses sampled in Nakasero market had occupied their current premises, over 70% of businesses surveyed had been closed at one time due to nonpayment of taxes.

5.3 Recommendations

The researcher made the following recommendations as a way of reducing the burden of taxes on Small and Medium Business enterprises as well as to increase the revenue of the Nakasero market. Nakasero market should find a way of assessing the tax in that the Small and Medium Business enterprises. The businesses should also pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously. Nakasero market should introduce a scheme that allows tax payers to pay the tax obligation in the installments over a given period of time as opposed to lump sum at once.

The Kampala Capital City Authority should reach out and educate the business communities about its different tax rates and mode of payment. The study revealed that the biggest problem with the tax paid is in fact that the Small and medium Business communities do not understand how the tax is arrived at as well as how it is paid but not because it is too high. The Kampala Capital City Authority is should improve on the methods of collecting the taxes. It should adopt the closure of business premises on default only as a last resort after all the other methods of collection have failed. This should be an exception and not a rule.

5.4 Areas for further research

The researcher carried this study in order to examine the impact of taxes had on the performance of small scale businesses in Nakasero market as a case study but the study was not exhaustive owing to constraints in terms of scope, time and finance. Further research is therefore needed in areas such as;

- i) Factors leading to tax evasion among small scale businesses.
- ii) The effect of firms' management technique on the performance.

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APPENDICES

Appendix I

The Questionnaire.

I am a third year student of Uganda Martyrs University Nkozi, offering Bachelor of Science in Business Economics. I am humbly requesting you to assist in answering the following questions which are in the fulfillment of the partial requirement for the Award of the Degree in Bachelor of Science in Business Economics. These questions are intended to find out the impact of Taxation on the productivity and performance of Small and Medium Business Enterprises in particular NAKASERO MARKET, KAMPALA. Your positive response will be highly appreciated.

Personal Information.

(Please tick the most appropriate answer)

1. GENDER

MALE

FEMALE

2. AGE

21-30

31- 40

41-50

51 +

3. Level of education of the traders

Certificate

Diploma

Degree

Others

4. Marital status of the traders

Single	<input type="checkbox"/>	Separated	<input type="checkbox"/>
Married	<input type="checkbox"/>	Windowed	<input type="checkbox"/>

The General Performance of the Business:

1. The level of Stocks of the business held in a year:

Exclusive	<input type="checkbox"/>	Average	<input type="checkbox"/>
Just Enough	<input type="checkbox"/>	Inadequate	<input type="checkbox"/>

2. Do you experience shortages in the level of stocks of the business

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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3. Do the stock levels affect the profitability of the business?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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4. What sales are made daily in the business?

Less than 10,000	<input type="checkbox"/>
10,000 – 29,000	<input type="checkbox"/>
30,000 – 49,000	<input type="checkbox"/>
50,000 – 69,000	<input type="checkbox"/>
70,000 – 89,000	<input type="checkbox"/>
90000 +	<input type="checkbox"/>

5. What level of capital did you employ at the start of your business?

Less than 0.5m

0.5m-0.9m

1m-4.9m

5m-9m

Over 10m

6. On average, how much do you spend on your business per day?

Less than 10,000/=

10,000 – 19,000/=

20,000 – 39,000/=

40,000 – 49,000/=

50,000 – 59,000/=

60,000/=

Impact of tax

1. Does value added tax affect the performance of the business?

Yes

No

2. Does customs tax affect the performance of the business?

Yes

No

3. Do fines and licenses affect the performance of the business?

Yes

No

4. Does income tax directly affect the performance of the business?

Yes

No

Tax Assessment and Efficiency:

1. Are you aware of all the taxes that you pay every month?

Yes

No

2. How much do you pay in taxes every month?

Zero

100,000/=

100,000 – 190,000/=

200,000 – 290,000/=

300,000 – 390,000/=

400,000 – 500,000/=

3. Do you receive assistance as regards to tax payment?

Yes

No

The numbers in the questionnaire will be representing the following;

Disagree	Strongly Disagree	Neither	Agree	Strongly Agree
1	2	3	4	5

Tax assessment:

	Question	1	2	3	4	5
1	Have you ever been assessed for tax purposes?					
2	Are the tax officials efficient and effective in identifying and registering all the potential tax payers?					
3	The methods used in assessing the taxes are fair					
4	Whenever taxes are collected from me, the methods used are friendly					
5	Tax collectors do not harass me whenever they come to collect the tax					

Book Keeping and the Business Records:

1. How often do you keep the business records?

Bin Cards

Both

Ledger books

No records

-THANK YOU FOR YOUR COOPERATION-

Appendix II: Table for Determining Sample Size from a Given Population

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

Note: “N” is population size

“S” is sample size.

From : Krejcie, Robert V., Morgan, Daryle W., “Determining Sample Size for Research Activities”, Educational and Psychological Measurement, 1970.