

**THE EFFECT OF TAXATION ON THE PERFORMANCE OF SMALL SCALE
BUSINESSES**

CASE STUDY: MBALE MUNICIPALITY

BY

NEKIMITE SANDRA JACKLINE

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DEDICATION

I dedicate this piece of work to my beloved father Mr. Shikanga Edward Wakooba and my mother Mrs. Shikanga Florence who put in much effort to see that I finish my studies.

Thank you for making me achieve my dreams.

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I thank the Almighty God for His unlimited blessings, wisdom and guidance through him, I managed to accomplish my course glory and honor goes to the Almighty God.

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Special thanks go to the management and staff of Mbale municipality and the proprietors of the selected businesses for the time they gave me.

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ABBREVIATIONS

GDP	:	Gross Domestic Product
MEPED	:	Ministry of Planning and Economic Development
PAYE	:	Pay As You Earn
SMEs	:	Small Medium Enterprises
SSB	:	Small Scale Businesses
USSIA	:	Uganda small scale Industries Association
VAT	:	Value Added Tax

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ABSTRACT

The study intended to investigate the effect of taxation on the performance of small scale business in Mbale municipality and the objectives of the study were tax policy and performance of small scale business, how tax rates affect the performance of small scale business and how tax assessment affects small scale business performance.

The study used a case study design. Both qualitative and quantitative approaches were used in the study and a sample of 92 respondents was selected from a population of 120 respondents. Both questionnaires and interview methods were used to collect data from the field and the data was presented in tabulated format with respective frequencies and percentages.

The findings show that tax policies created by the government and the local governments for example Mbale municipal council must favor small scale business, because poor tax policies make these businesses to suffocate and this lowers growth in economy. High tax rates also create a burden to small scale businesses because they tend to lower the profits of the entrepreneurs. Multiple tax assessment of small scale businesses by Mbale municipal council significantly affects the performance in terms of innovation due to different assessment of businesses and creates non compliance among the tax payers.

The government must revise the tax policies that it implements for example capital gains tax, when the mode of payment is not being complied by the small scale businesses, the government must do some adjustments in the tax policy The URA should reach out and educate the business community 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 SSBs community does not understand how the tax is arrived at as well as how it is paid URA 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. The tax authority should strengthen its tax systems to eliminate corruption among technocrats who enforce different taxes on the small scale business.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This dissertation is about the effect of taxation on (SSB's). This chapter presents the background to the study, problem statement, research objectives, research questions, scope of the study, significance of the study, definition of key terms and conceptual framework.

1.1 Background to the study

Taxation is an ancient and ubiquitous concept that forms one of the central pillars around which civilization has been built. In his 1925 treatise, *Taxation in Australia*, Stephen Mills noted that one of the certainties of history is that 'no structural society has ever arisen without taxation'. There is no doubt that taxation plays a critical role in society and has the capacity to affect the lives of everyone within it. As Benjamin Franklin once stated: "in this world nothing is certain but death and taxes."

Taxation is a compulsory levy, non-refundable fund that is imposed on citizens of various countries so as to support the activities of the government. The Oxford English Dictionary defines a 'tax' as: "a compulsory contribution to the support of government, levied on persons, property, income, commodities, transactions, etc." A tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as a penalty for any legal offence. It is a source of funds used to run governments' current and recurrent activities such as paying civil servants and improving infrastructure. Taxation is the principal means by which governments all over the world, raise revenue. Without taxation, governments would be unable to finance their operations or deliver the many public goods and services that they provide to the community.

According to *Taxation Handbook*, (2011), Taxation in Uganda traces its roots in the hut tax that was introduced by British colonial master way back in 1900 and it was a local government tax whose principle objective was to attract citizens into reproduction, and to mobilize voluntary labor for the production of cash crops and minerals for export. The hurt tax was transformed into

tax into 1905, following the introduction of cotton growing in Uganda. Poll tax was meant to raise revenue for the administration structure imposed by the colonial government on the natives.

The first tax legislation in Uganda was introduced in 1919 under the local authority's ordinances. It was subsequently subjected to amendments to iron out the problems of tax collection, and also meet government, weakness in tax enforcement machinery, increased resentment of the system and raised non-compliance by the natives.

The main objective of taxation in Uganda has always been to mobilize resources needed to meet the aspiration of government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in position to provide goods and services to the people adequately. The Uganda government has always had to ensure proper resources mobilization (Musa, 1992).

The government of Uganda in an attempt to widen the tax base and collect more revenue has had to levy several taxes especially on business enterprises which constitute a large part of the formal sector. The taxes especially on business enterprises in Uganda include; corporation tax, value added tax, presumption tax and exercise duty has created difficulty with business world thus was to give guidance in assessment and computation of taxes (Campy, 1997).

1.2 Problem statement

The economic growth in every country is defined by the performance of its production sector, in many countries; a great of this is achieved through its SMEs. This is because small scale businesses are considered the backbone of economic growth in all countries. Small enterprises represent over 90% of private businesses and contribute to more than 50% of employment and GDP in most African countries (UNIDO, 2009)

However the development of SMEs is heavily influenced by the level of taxation, its administration and compliance. Hence tax policy fundamentally shapes the environment in which trade and investment takes place.

According to Teriba (1978) taxation when applied excessively on the, income of corporate bodies discourages industrial growths and so brings about an increased unemployment in economy. Therefore, maintaining the ideal balance between tax rate, compliance costs, tax administration and economic development should be a main goal of every tax policy. This

research work therefore, is an attempt to establish effect of taxation on the performance of small business in Mbale municipality Uganda

1.3 Research objectives

1.3.1 General objective

To investigate the effect of taxation on the performance of small scale businesses in Mbale municipality Uganda.

1.3.2 Specific Objectives

- i. To find out how tax policy affects the performance of small scale businesses in Mbale municipality Uganda
- ii. To evaluate how tax rates affect the performance of small scale businesses in Mbale municipality Uganda
- iii. To find out how tax assessment affects performance of small scale businesses in Mbale municipality Uganda

1.4 Research questions

- i. How does a tax policy affect the performance of small scale businesses in Mbale municipality Uganda?
- ii. How do tax rates affect the tax rates affect the performance of small scale businesses in Mbale municipality Uganda?
- iii. How does tax assessment affect the performance of small scale businesses in Mbale municipality Uganda?

1.5 Scope of the study

1.5.1 Subject scope

The impact of taxation on small business has been a matter of increasing interest and concern to many persons. The scope of this research covered a critical examination of the impact of taxation on the performance of small-scale business enterprises in Mbale municipality. Taxation is the independent variable with sub variables like tax policy, tax rate and tax assessment whereas our dependent variable is the performance of small scale business

1.5.2 Geographical scope

The research study covered Mbale Municipality, Mbale District. Mbale Municipality is located in Mbale district in the eastern part of Uganda in Bugisu region.

1.5.3 Time scope

The study covered a period of five year tax performance from 2012-2017. This research is about the effects of taxation on the performance of small scale business and was approved in December 2017 and the final report produced by the end of the month of May, 2018.

1.6 Significance of the study

The findings of the study are will contribute to the existing literature about taxes and the effects it causes to the economy as a whole. Secondly, to the tax authority and government, the study may avail information that will guide the policy makers in adjusting tax policies so that they suit the requirement of small scale businesses. This research is of academic significance especially to future academicians of Uganda Martyrs University to the extent that it will serve for better understanding of the impact of taxation on small scale business in a developing economy

1.7 Definition of key terms

Tax

It can be defined as a compulsory and nonrefundable contribution executed by government for public purpose. Payment is not followed by concurrent benefit in return. A tax is generally referred to a compulsory levy imposed by the government upon assessing of various categories (Income Tax Act, 997).

Small scale businesses

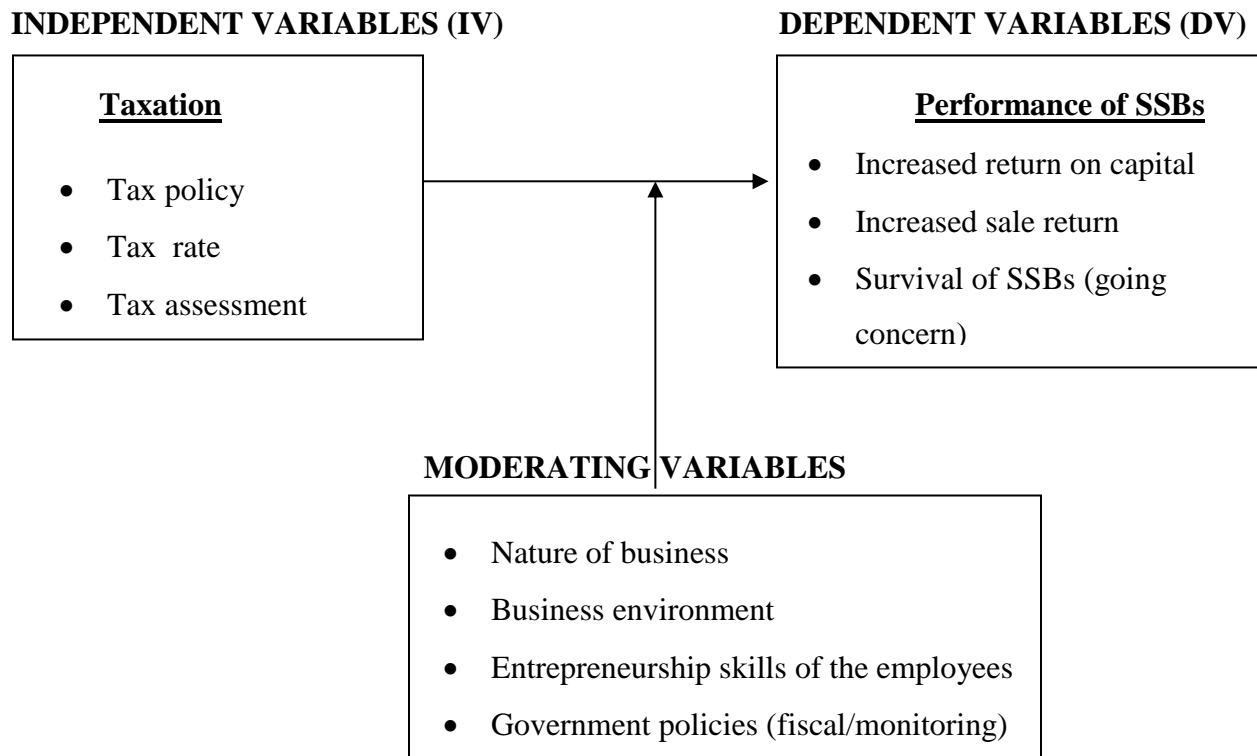
By Flora Richards – Gustafson, demand media. Small scale business enterprise to a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and operated by sole proprietorship, cooperatives or partnerships. The legal definition of small scale enterprises varies by industries and country.

Performance of small scale businesses

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

1.8 Conceptual framework

The conceptual framework had an independent variable with moderating variables as well. The independent variable is taxation and independent variable is performance of small scale business enterprises, a case study of Mbale Municipality.



(Mulooki & Mugisha, 2012:12): Adopted by the researcher

Figure 1.8.1 Conceptual frame work

The independent variable Taxation has three sub variables and these are tax policy, tax rate and tax assessment. Tax policy of the government might be progressive in nature or regressive in nature, progressive means as the income of small scale businesses increases, there is an increase in tax levied on the business, tax rate is the percentage of the total revenue that the small scale businesses give to the government, tax assessment is mostly done by the local government

authorities, before a business pays tax, there is an assessment officer who assess the worthy of the business and mostly in Mbale municipality is done by Mbale municipal council. There are moderating variables that influence the effect of taxation on small scale businesses and these are nature of business, business environment and entrepreneurship skills of the business owner and government policies of fiscal/monitoring When these are well implemented visa vie taxation, it leads to increased profits in the business, increased capital gains

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Taxes are a special kind of impost that can be distinguished from fees and fines on the basis that they are imposed on the community at large and are not specifically connected with the receipt of any particular services or the granting of any special rights or privileges. Taxpayers are compelled by law to pay taxes and are obliged to do so even though they may not necessarily receive any direct benefits in return.

This chapter presents the literature on the themes under study that is: tax policy and performance of small scale businesses, tax rate and performance of small scale businesses, tax assessment and performance of small scale businesses.

2.1 The Theoretical Review

The Concise Oxford Dictionary, 1999, 2001, defines tax or taxation as a compulsory contribution to the state revenue, levied by the government on personal income and business profits or added to the cost of some goods, services and transactions, at fixed rate mostly proportionate to the amount on which the contribution is levied. Taxation schemes simply means a complete set of tax options, rules and conditions. Therefore, the following are the theories of taxation in relation to their application in Uganda and their respective criticisms thereto.

2.1.1 Benefit Theory:

According to this theory, the state should levy taxes on individuals according to the benefits conferred on them. This means that, the more benefits a person derives from the activities of the state, the more he/she should pay to the government. This theory seeks to ensure that each individual's tax obligations are as far as possible based on the benefits that he or she receives from the enjoyment of public services. The application of this theory in Uganda is such that there are various taxes (levies) that are collected in the local jurisdictions for example, in markets, bus stands, parking charges, etc which are collected by various local government authorities. At the end this fund is further used to develop various social facilities which results to social benefit to the society members.

However, this theory faces various critics such as: if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax, as known, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year. In addition, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. Thus, if we get more from the poor by way of taxes, it is against the principle of justice

2.1.2 Proportionate theory/principle

J. S Mill and other classical economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. Hence, in order to satisfy the idea of justice in taxation, J. S. Mill and some other classical economists have suggested the "*Principle of proportionate in taxation*". The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with higher rates and those with low income at lower rates. They favor progressive system of taxation, in all modern tax systems. This theory limits small scale businesses because the same tax amount that large scale enterprises pay is the same amount small scale businesses also pay and who do not enjoy the economies of scale

2.1.3 Ability to pay theory:

The ability-to-pay approach treats government revenue and expenditures separately. This theory was developed due to inadequacies in benefit and sacrifice theories of taxation. This is the most popular and commonly accepted principle of equity or justice in taxation, that is, citizens of a country should pay taxes to the government in accordance with their ability to pay. Taxes are based on taxpayers' ability to pay; there is no *quid pro quo*. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay

more taxes than the latter. It seems that if the taxes are levied on this principle as stated above, then the justice can be achieved.

Taxes paid are seen as a sacrifice by a taxpayer, which raises the issues of what the sacrifice of each taxpayer should be and how it should be measured. The measure of such sacrifice is found in the giving up of enjoyments, which is, giving up a portion of individuals' means (income) of satisfying wants (consumption). Practically the sacrifice theory demands that individuals should only pay tax on that portion of income that is spent on luxuries, the sacrifice should only be in respect of individuals' means over and above subsistence.

This theory attempts to determine the burden that rests upon an individual in virtue of his payment of taxes and how much of his or her income remains for purpose of his own subsistence.

This theory best serves the small scale enterprises because different SMEs have different amount of stock and are in different sizes thus a SSB will able pay tax according to its ability

2.2The Conceptual Review

2.2.1 Taxation

Taxation is the process of imposing and collecting taxes; that is, it involves enumeration, assessment, tax collection, tax services and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2000). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to a proportionate to the tax paid (Bhatia, 2002). In addition to that, according to taxation handbook URA (Uganda), the evolution of taxation is attributed to the development of the modern state, which led to increased expenditure for infrastructures and public services.

Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain / quid pro-quo is promised by the government to the tax payer (Balunywa, 1988).

The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities, the local government authority and the central government authority through Uganda revenue authority (URA).

2.2.2 Small scale businesses

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's not only income Tax Act that has tried to define small scale businesses; there are institutions which have tried to define small scale business (SSB(such as; Ministry of Finance Planning and Economic Development (MEPED), defines SSB such as a unit with a capital investment not exceeding USS 300,000. The Uganda small scale Industries Association (USSIA) definesSSB as those with employees between 1-25 people and assets and capital exceeding USS 1,000,000.

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2.2.3Small scale business Performance

In small business economic literature, an approach to define and measure small firm performance remains controversial among the scholars, arguably due to the fact that, small firm performance measures are multi-dimensional (Wilcox and Bourne, 2003; Tzelepis and Skuras, 2004; Wood, 2006; Simpson et al., 2012) . However, Sandberg (2003) , attempt to define small business performance as ability of small business to contribute for jobs and wealth creation through business start –up, survival and growth.

Scholars also try to describe business performance in terms, how organizational objectives are well achieved (Jarvis et al., 2000; Wood, 2006). Business performance is assessed by measuring the success or failure of an organization in achieving its goals and can therefore be defined in a number of ways. Thus, Wood (2006) and Chittithaworn et al., (2011) argued that Performance of the firm can be described as the firm's ability to create acceptable outcomes and actions. Similarly, Komppula, (2004), described performance firms from the dimension how the firm is successful and use the performance and success interchangeably. Moreover, it is also evident that

Small firm performance termed to be the firm's success in the market, which may have different outcomes (Alasadi, 2007; Chittithaworn et al., 2011 and Emmanuel, 2013)

2.3 The Empirical Review

2.3.1 Tax policy and performance of small scale businesses

2.3.2 Capital gains tax policy

Clare *et al* (2002) studied the effect of capital gains tax policy on investment company capital gains realizations. They identified that investment companies dominate the United States equity markets, both in terms of the large proportion of equity capital they control and the sizable trading volume they generate. This shift in the ownership of U.S. equity securities could lessen the impact of changes in U.S. capital gains tax policy which are aimed at individual investors. The study examined the effect of capital gains tax rates on investment company capital gains realizations. Empirical tests on cross-sectional, time-series data provide evidence of an unlocking effect of lower marginal capital gains tax rates. Investment companies exhibit economic response behavior consistent with the lock-in effect characteristic of individual investors. Capital gains realized are higher during periods of low marginal capital gains tax rates. The significant permanent tax effects estimated in the analysis are strengthened when transitory effects are introduced into the model.

Horn-Chern and Zeng, (2005) examined the stock market reactions and capital gains tax. The study provides evidence suggesting capital gains tax affects stock returns and trading volume. The Canadian federal government budget of May 23, 1985 provided individual taxpayers with a cumulative tax exemption for capital gains, up to a lifetime limit of \$500,000. The empirical results, using daily stock return and trading volume data from the Toronto Stock Exchange, show that stock prices decreased three days before the announcement of the lifetime capital gains exemption. The empirical results also show that stock trading volume increased two days and four days before the announcement and five days following the announcement. These results are consistent with the argument that the capital gains tax constrained some individual shareholders from selling appreciated shares (often called "lock-in effect").

Teresa (2008), also looked at an analysis of dividend and capital gains tax rate differentials and their effect on the structure of corporate payouts. The aim of the study was to investigate whether

corporations consider shareholder-level taxes when setting corporate distribution policy. I investigate the relation between the tax-rate differential on dividend and capital gains income and its effect on firms' distribution policies. The author further found that firms consider shareholder-level taxes and that this association varies with the percentage of the firm owned by individual shareholders. Hence, firms increase share repurchases and decrease the percentage of total corporate payout in the form of a dividend as the tax rate differential increases. Thus, an increased substitution effect occurs as capital gains become relatively more tax advantaged compared to dividends.

2.3.3 Corporate Taxes

Stavroula and Theofanis (2012) did a study on the extent of corporate tax evasion and its implications on the protection of the shareholders and on the function of the capital market. The mean rate of tax evasion was estimated at about 16 per cent, showing that the incentive for tax evasion doesn't diminish when the companies are listed in the stock exchange. Specifically, the companies alter their tax behavior (i.e. appear more tax compliant) only in the year of the IPO and the year before. They also found out that the type of the audit firm is likely to affect the extent of tax evasion committed. This provided evidence that corporate tax evasion was widespread and calls for appropriate measures. This issue had become more crucial than ever, as Greece is in the middle of the financial crisis. Moreover, the findings regarding audit effectiveness in detecting tax evasion have significant implications, as the 2010 Greek tax bill grants the audit firms the right to issue certificates for tax purposes.

Antonio (2015) did a study on the Portuguese corporate tax reform and international trends. The purpose was to discuss if the Portuguese corporate tax reform, implemented in 2014, moved the system towards international trends. It was also used to analyze what areas the similarities and disparities are more pronounced when assessing the Portuguese reform against the Common Consolidated Corporate Tax Base. They found that Portugal was increasingly out of line with international trends in corporate taxation. The bailout asked for the Portuguese Government in 2011 placed a heavy burden in public finances, with an apparent lack of room to follow international trends of corporate tax reform. However, it can be concluded that, after convincing the troika that investment and growth were paramount to overcome the severe economic and social crisis that fell upon the country, the corporate tax was seen as an important policy tool to promote these goals.

The reform was thus possible even in the context of a restrictive public finance situation, and followed most guidelines put forward in highly regarded international reports. A broad corporate tax reform, including rate reduction, a participation exemption regime, a more flexible rule on cost acceptance, an extension of loss carryover period, to name a few, was possible in a very constrained public finance situation. By placing the emphasis on moving the system towards international trends and promoting measures to enhance investment and growth, international creditors could accept such a reform. Also, a consensus with the main opposition party was a very important factor in securing much needed political support. The findings from what can be considered as an experiment incorporate tax reform in tough economic and social times can be useful to policymakers, tax authorities and international bodies dealing with tax reform processes. The impact on managerial decisions such as investment and financing is also relevant (Antonio, 2015)

2.3.4 Value added tax policy

Gordon (1989) did a study on some macroeconomic implications of the value-added tax. His work examined the macroeconomic impact of consumption-based value-added tax (VAT) using simulations of a large-scale model. The VAT was imposed as a structural reform of the tax code rather than as a revenue-raising device, that is, the revenues from the VAT were offset by compensatory reductions elsewhere. Three basic scenarios were examined 1) VAT is offset by individual rate reductions, 2) Abolition of the corporate profits tax in conjunction with a small individual rate cut, and 3) Investment tax credit with the balance of the revenues offset by a personal rate cut. Additionally, Gordon (1989) examined the effects of the microeconomic incidence of the VAT, i.e., whether it is fully passed through to output prices or shifted back onto profits. The finding was that the VAT in general raises the long-term level of output, but at the cost of initial output losses, which are in evidence even when the associated rise in the price level is accommodated by a corresponding shift in monetary policy. In addition to changes in the temporal distribution of growth, there are significant changes in the composition of GNP, which shifts away from consumption, toward business fixed investment and net exports. These changes are particularly pronounced when the VAT is fully passed through. When the tax is partially shifted back, the gains in investment and trade are less marked, while business profits are reduced, and the long-term increase in output is smaller.

Swardt, and Oberholzer (2006) did a study about Digitized products on how compliant was South African value-added tax. One instance of this was that it had made the digitization of products possible. This shift had severe implications for traditional consumption taxes, which were developed under the premise of a physical presence in a tax jurisdiction. A large number of countries in the world that imposed Value-Added Tax (VAT) on the supply of goods and services, including South Africa, were affected by this shift. The Organization for Economic Cooperation and Development (OECD) had suggested a number of principles that should apply to consumption taxes in e-commerce. These principles were intended to provide fiscal climates in which e-commerce had to flourish and ensure taxation systems that secure individual countries' tax bases. A comparison between the principles and the rules pertaining to the imposition of VAT in South Africa on the supply of digitized products reveals several discrepancies and uncertainties. A baseline survey among VAT specialists in South Africa, conducted in order to substantiate these findings, confirmed these discrepancies and uncertainties in practice

2.3.5 Custom duty tax policy

A tax collected at the source of transactions (for example, excise duties) by a party other than the ultimate taxpayer will rank higher on the index of tax effectiveness than a tax, which depends on a declaration of liability by the taxpayer himself. Taxes with exemptions and deductions will be less effective than taxes that are imposed without exemptions and deductions on strictly defined bases. Taxes that are obtained from few collection points, such as customs duties on imports and excise duties on unmanufactured items, will be more effective than taxes that have to be collected from widely diffused sources. For the same reason, taxes imposed on manufacturers or wholesale distributors may be expected to rank higher on the effectiveness index than single-stage retail sales taxes. In sum, it can be said that direct taxes are more prone to evasion compared to indirect taxes. That is why countries that are not able to enforce their tax laws more effectively rely more on commodity taxes at source. Alternatively, as long as other sources of revenue do not develop, commodity taxes will be compulsory rather than choice for developing economies (Larkins, 2004).

2.4 Tax rate and performance of small scale business

It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a

sum of the sum evaded (Kaldor, 1956) One major tax evasion is the high personal income tax rates which tend to lead tax payers to evade tax. Too many and complicated rules and regulations imposed by the government tend to lead to tax evasion. Businesses find it generally difficult often not profitable to do business legally. The heavy taxation is also a subject of worry not only in developed countries like USA but also in Kenya and other less industrialized countries in Africa and Latin America. For instance, taxes in Kenya confront the large manufacturing sector in different shapes and shades example: import duties, export & excise duties, sales and VAT, withholdings and income taxes, and PAYE etc. (KRA, 2011).

The high levels of taxation of SMEs in Africa and in Kenya in particular, warrants attention on accelerated research areas aimed at addressing the overall effects of taxation on SMEs (Osambo, 2009) By studying taxation behavior in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), Derwent (2000) concluded that increased tax burden is a major threat. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behavior. People react to the higher prices by buying less of the product. When sales fall, some manufacturers cut back on production and some workers may lose their jobs. The productive resources i.e. land; capital, labor and entrepreneurship are allocated to other industries or go unused. For instance when the government increase taxes on items such as beer and cigarettes for the purpose of realizing revenue and discouraging their consumption people tend to buy local brews. Whenever prices increase due to increase in tax rates; prices of goods and service increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of

SMEs. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes (Mika Mungaya, IJMBS Vol. 2, Issue 3, and July - Sept 2012)

One of the important achievements of the State Committee for Entrepreneurship Development was lobbying for a law on fixed (lump-sum) tax, that was approved on February 13, 1998, as the Law of Ukraine «On Amendments to the Decree of Cabinet of Ministers of Ukraine «On Personal Income Tax». According to that law, citizens who are engaged in entrepreneurial activity without

enlisting hired labor or by enlisting members of their families may buy a license, whose price is set by local authorities. The price of this license must not exceed 200 UAH per calendar month. To start paying that fixed tax, citizens have to fulfill the following conditions: the number of people listed in the license must not exceed 5 (or the sum of fixed tax may be increased by 50% or less); turnover during the last 12 months must not exceed 119,000 UAH; an entrepreneur may work at the marketplace and pay the market tax; an entrepreneur must not be engaged in liquor or tobacco products trade. Those who pay the flat tax receive the following rights: there is no need to keep mandatory accounting of records; trade activity in retail trade need not be licensed; incomes that are covered by the fixed tax are not included in the income report for the end of the year (Law of Ukraine «On Amendments to the Decree of Cabinet of Ministers of Ukraine «On Personal Income Tax» 1998).

The advantages of the new tax are that entrepreneurs who pay it are excluded from making payments to the pay-roll tax, deductions and fees on roads, the trade tax, contributions to the Funds for Social Protection of the Population, contributions on mandatory social security and contributions to the fund for social protection of invalids. Also accounting system is simplified.

As those entrepreneurs, by the Law on Fixed Tax, pay a fixed sum, despite the level of income, it could be considered as a lump-sum tax. As it has been shown in the previous section, such a policy may have positive welfare effect on Ukraine. It is also worth mentioning that this lump-sum tax will be no distortionary as long as the amount of the tax is not too high. If it is set almost as high or higher than the income generated then the individuals would likely try to evade it or be forced to shut down.

Before the Law was approved, it was expected that a fixed tax would decrease the number of obstacles to small and medium enterprises, and that it would help to «bring out of the shadow economy» at least 1,5 million entrepreneurs that evade paying taxes (Golubenko 1998: 4)

In May, 1998, four months after the Law adoption, SCED evaluated the impact of new taxation policy. The evaluation was made in the form of a poll. The poll was done by NEWBIZNET (project of USAID) together with International Centre of Policy Studies (ICPS)¹⁷. Entrepreneurs that work in marketplaces were surveyed during the last week of May in 12 Ukrainian cities. 368 entrepreneurs were asked to fill in the questionnaire designed by ICPS.

According to that research, 77.5% of respondents in the marketplace pay the fixed tax by buying a license, or being included in the license of other persons. Among them 45.2% answered that the conditions of their businesses improved after the fixed tax was implemented. In the places where respondents did not indicate improvement, they evaluated the effect of fixed tax as neutral – 33.3% responding so. 42.2% of entrepreneurs surveyed were expecting a positive influence of the tax on their activity in future; a big part of the rest did not define that for themselves – 28.9% (Results of Poll «Fixed Tax in Ukraine» 1998).

2.5 Tax assessment and performance of small scale businesses

SMEs are faced with various issues when it comes to tax compliance. One of them has to do with the issue of multiple taxation. Multiple taxation has really affected SMEs a lot, the truth remains that this issue of multiple taxation has been left unresolved until date. To this end, SMEs now view relevant tax authorities as a threat to their business, and by so doing they find various ways to avoid these tax authorities. This has led to nothing but high tax evasion by SMEs. But there is need to understand that relevant government authorities have contributed to this turmoil in a very large way. Although it is important to understand that this issue connected with SMEs can also be attributed to ignorance faced among SMEs, there is also need to understand that the SMEs view tax as a danger to them. They view tax as an instrument used by relevant tax authorities and the government to punish them for doing business. There is need to understand that some of these SMEs are illiterates.

A compliance cost is expenditure of time or money in conforming to government requirements such as legislation or regulation. For example, people or organizations registered for value added tax have the extra burden of having to keep detailed records of all input tax and output tax to facilitate the completion of VAT returns. This may necessitate them having to employ someone skilled in this field, which would be regarded a compliance cost. Compliance costs normally include all costs associated with obeying the law, including planning and administration, in addition to the direct time and money spent filing paperwork. Businesses especially small ones often face heavy costs in the process of preparing, filing, and paying taxes in addition to the burden of tax payments. These compliance costs, added to fines, penalties, and the risks of inspections and demands for bribes, often deter business creation and growth in developing and transition countries. A tax compliance cost survey can provide useful information for the design of reforms to reduce compliance costs and risks for small businesses. This note highlights key

findings of tax compliance cost surveys conducted in South Africa, the Republic of Yemen, Ukraine, and Peru that measured the burdens on business. These surveys helped fine-tune the design of reforms to lower costs for businesses and improve their competitiveness (Coolidge, 2010).

High compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The full cost of a tax system is more than simply the amount of tax paid. It also includes the cost of tax planning and paperwork. Economists call these "tax compliance" costs, and the IRS estimates Americans spend 6.6 billion hours per year filling out tax forms—including 1.6 billion hours on the 1040 form alone. In a study carried out on tax compliance and simplifications (OECD, 2004) established that compliance costs tend to increase with the number of taxes that an entrepreneurism subject to, the complexity of the tax rules, the frequency of submitting tax returns and thenumber of levels of government involved in levying and collecting taxes. Taxes introducecomplexities and costs not relevant to SMEs and the complexities may increase where more thanone level of government is involved for example the devolved government in Kenya. This resultsto SMEs avoiding the paying of taxes as it affects the business

2.5.1 Conclusion

This chapter analyzed using a cross section of literature dealing with taxation and the performance of SSBs. However, most of the literature reviewed does not give details about how taxation affects the performance of small scale businesses. Therefore, there is need to carry out a primary research to close the gap between research variables of tax policy, tax rate, tax assessment and performance of small scale businesses as this was not made clear in literature reviewed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology of the study with a precise focus on the research design, study population, sample size, data collection methods, data collection instruments, quality control measures, data management and processing, data analysis, ethical considerations and limitations of the study.

3.1 Research design

According to Kombo (2009), research design is the “glue” that holds all the elements in a research project together.

The researcher used a case study research design and collected both qualitative and quantitative data. Qualitative research design is a strategy that emphasizes words rather than quantification analysis of data. On the other hand, quantitative research strategy can be viewed as one that emphasizes quantifications in the analysis of data. Qualitative data was obtained through questionnaires, interviews while quantitative data was obtained through computation and analysis.

S.Srejech et al (2014) defines a research design as a framework or blue print for conducting business research project in an efficient manner. It details the procedures necessary for collection, measurement and analysis of information which helps the researcher to structure or solve business research problems.

3.2 Area of study

The study area was Mbale Municipality specifically; the reason being that this area was chosen by the researcher to assess the effect of taxation on the performance of business enterprises. Mbale municipality is found in the heart of Mbale district and it is a regional town and one stop centre for most of traders in the eastern region of Uganda

3.3 Study population

The study targeted a total population of 120 business managers from different divisions of Mbale municipality i.e. 40 business managers from eastern division, 50 from northern division and 30 from industrial division.

3.4 Sample size

The sample size of 92 respondents was selected from the target population of 120 respondents. The 92 respondents will be distributed to the number of businesses. The sample size was determined using Slovene's formula

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

Where n-sample size

e – Proportion of sampling error or confidence level $(0.05)^2$

N = the estimate of population size

$$n = \frac{N}{1 + N(e)^2} = \frac{120}{1 + 120(0.05)^2} = \frac{120}{1 + 120 \times 0.0025} = \frac{120}{1.3} = 92.3 = 92$$

Table 3.1 shows Distribution of managers of small scale enterprises.

The table below shows the categories of the respondents in the study

Departments	Population	Sample size	Sampling techniques
Eastern division	40	30	Simple random sampling
Northern division	50	25	Simple random sampling
Industrial division	30	37	Simple random sampling
Total	120	92	

Source Primary data (statistics 2017)

3.5 Sampling techniques

The study used simple random sampling technique to obtain respondents to use in the study, simple random sampling was used to strike a balance among other respondents to avoid biasness in the research.

3.6 Data collection methods

The instruments comprised of the questionnaire, interview guide and documentary review. The study adopted five point Likert style-style rating scale method of questionnaire to obtain information from respondents. The Likert style rating method of questionnaire design enabled researcher to ask respondents on how strongly they agree or disagree with a statement or series of statements on a five point scale e.g. 5(strongly agree), 4(agree), 2(disagree), 1(strongly disagree). This formed most of the categorical variables for the study in the respondent questionnaire.

3.6.1 Questionnaire

A questionnaire is reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives (Human, 2009). 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. For this research closed ended questionnaire was constructed and given to the supervisor in order to get expertise judgment on validity. The questionnaire was equally used because the information had to be collected from a large sample in a short period of time yet the respondents could read and write (Saharan, 2003). The questionnaire was used in collection of data from respondents (owners of small scale businesses). The questionnaires were accompanied by a response option ranging from, strongly disagree, undecided, agree and strongly agree

3.6.2 Interview

The researcher administered interviews. An interview is a dialogue between an interviewer and interviewee. Here researcher will have a dialogue with some of the respondents. To ensure the validity of the interview, pertinent, questions were included in the checklist and for reliability purpose, the researcher used probe questions and keep repeating the already – asked questions

to see if the answers are the same and also collecting the attention of the respondents and when they are different

3.6.3 Documentary review

This involved exploring literature written by other researchers in line with the study parameters, and also in the personal files to ascertain the effect of taxes on the performance of SSBs in Mbale municipality.

3.7 Reliability and Validity

The questionnaire was pre-tested to check for reliability and validity before being administered to ensure that information is adequately tapped to the concept in the question. This was achieved through the supervisor's guidance and content, data collection and non contrived environment and representation of variables with roman numbered sections attributed to quality control.

3.8 Data presentation and analysis

After a successful issuing of the questionnaires, the next step was collecting the questionnaires and numbering them, editing to eliminate errors and arranged according to the parameters set by the research guide. Quantitative analysis involved the use of numerical figures presented in frequency tables for easy interpretations. Quantitative data was presented in form of descriptive statistics using frequency tables.

Qualitative analysis involved descriptive, discursive and explanatory content analysis to give a clear meaning to those intending to use the research. Qualitative data was sorted and grouped into themes. Qualitative data was presented using narrative text.

3.9 Ethical consideration

The researcher obtained an introduction letter from the institute of business management and administration UMU Mbale campus that introduced her to the field. This helped her seek permission from the authorities of the office of the town clerk Mbale district to carry out research in this respective area. And later the researcher prepared a report to confirm data collection. The

researcher treated all information provided by participants with maximum confidentiality. All sources that were consulted were clearly distinguished and acknowledged by means of references.

3.10 Limitations of the study

Financial constraints; Financing the research study may be too costly in terms of transport, feeding and processing of the proposal and research report but this will be overcome by drawing a budget plan for the study.

Limited time, 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. This will be overcome by drawing a work plan for the study.

Non-response; owners of business were busy attending to their customers and rarely spare time for the researcher and also they engage in competitive businesses, but this will be overcome by assuring the respondents that information collected is only for academic purposes only

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF THE RESEARCH FINDINGS

4.0 Introduction

This chapter presents the presentation; analysis and interpretation of the research findings about the themes of the study that is to say tax policy, tax rates and tax assessment in Mbale municipal council

4.1 Descriptive analysis

Descriptive analysis includes sex of respondents, age of respondents, educational level of respondents, marital status, and age of business of the respondent

Table 4.1 shows the sex of the respondents

There was a need to know the sex of respondents for purposes of gender balance and this was shown in the table below

Sex of respondent	Frequency	Percentage
Male	55	60%
Female	37	40%
Total	92	100%

Source: field data (2018)

The findings from the study in table 4.1 reveal that 60% of the respondents were male. 40% of the respondents were female. The findings show that there were more male respondents than the female. The findings imply that most entrepreneurs in Mbale municipal council are male

Table 4.2 shows the age of respondents

In order to fully establish the back ground of the respondents, the researcher found it important to know the age of the respondent

Age of respondents	Frequency	Percentage
20-30 years	46	50%
30-40 years	28	30%
40 and above years	18	20%
Total	92	100%

Source: field data (2018)

The findings from the study show that 50% of the respondents were in the age bracket of 20-30 years, 30% of the respondents were in the age bracket of 30-40 years and 20% of the respondents were in the age group of 40 and above years. The findings imply that most small scale business in Mbale municipal council are operated by youths which shows a good sign of development to the community.

Table 4.3 shows the educational level of the respondents

There was need to know the educational level of respondents therefore the table below shows the different qualification of respondents

Educational level	Frequency	Percentage
Degree	61	66.7%
Diploma	12	13.3%
Certificate	19	20%
Total	92	100%

Source: field data (2018)

The findings in table 4.3 above show that 66.7% of the respondents were degree holders, 13.3% of the respondents were diploma holders and 20% of the respondents were certificate holders who operated small scale business enterprises in Mbale municipal council. The findings imply that most business enterprises are operated literates and thus makes them know more information on taxation hence they provided correct information of the study..

Table 4.4 shows the marital status of the respondents

The researcher sought know the marital status of the respondents

Marital status	Frequency	Percentage
Married	40	43.3%
Single	40	43.3%
Divorced	12	13.3%
Total	92	100%

Source: field data (2018)

The findings from the study reveal that 43.3% of the respondents were married, and single respectively. 13.3% of the respondents were divorced or got separated in their relationship status. The findings imply that respondents were responsible enough to take on the enterprise since they were married and single entrepreneurs had more time to dedicate to their businesses.

Table 4.5 shows the age of business

The researcher also sought to know the different number of years that the business had existed

Age of business	Frequency	Percentage
1-3 years	34	36.7%
4-7 years	24	26.7%
10 years and above	34	36.7%
Total	92	100%

Source: field data (2018)

The findings from table 4.5 show that 36.7% of the respondents had their business enterprise for 1-3 years and 10 and above years respectively, 26.7% of the respondents had their businesses for

4-7 years. The findings imply that there are more people engaged in business in Mbale municipality because most businesses have survived a taste of time and more businesses are being opened up.

4.2 Tax policy and performance of small scale businesses in Mbale municipality

Tax policy is implemented by the government always has an effect on small scale business, the researcher sought to investigate the effect of tax policy on the performance of small scale business as shown in the tables below .

Table 4.6 shows whether respondents understand the term taxation

The researcher sought to whether the respondents understand the term taxation when carrying out the study

Response	Frequency	Percentage
Yes	92	100.0%

Source: Field data (2018)

The findings from the study reveal that 100% of the respondents understood taxation when carrying out business. The findings imply that business owners in Mbale municipality know their obligations to pay tax when engaging in business.

Table 4.7 shows the nature of tax the business enterprises pay in Mbale municipality.

The research sought to know the nature of tax different business enterprises pay in Mbale Municipality.

Nature of tax	Frequency	Percentage
Progressive	68	73.3%
Regressive	12	13.3%
Proportionate	12	13.3%
Total	92	100%

Source: field data (2018)

The findings from the table above show that 73.3% of the respondents were paying progressive tax, 13.3% of the respondents were paying both regressive and proportionate tax policies respectively. The findings imply that as the business enlarges, the business owners pay more tax that before in Mbale municipality. This is in line with the theory of ability to pay meaning that one pays tax according to his or her capacity.

Table 4.8 shows the type of tax policy the small scale business owners pay in Mbale Municipality.

The study also sought to know the type of tax policy that is implemented by Mbale Municipal council on small scale businesses

Tax policy	Frequency	Percentage
value added tax	18	20%
capital gain tax	21	23.3%
corporate tax	43	46.7%
custom duty	10	10%
Total	92	100%

Source: field data (2018)

The findings reveal that 46.7% of the respondents said that they pay corporate tax, 23.3% of the respondents said that they pay capital gain tax, 20% of the respondents pay value added tax and 10% of the respondents pay custom duty tax. The major tax for the business owners is the corporate tax which implies that every business entity in Mbale municipality pays corporate tax in terms of certificate of trading which is levied by Mbale municipal council .corporate taxes are important for SSBs because they tend to shape them for international market as shown by Antonio (2015) in literature review. This implies that corporate taxes enable SSBs adopt to the international trends.

Table 4.9 shows whether taxes increase long term level growth of business enterprises in Mbale municipality

The study sought to understand whether taxes increase long term level growth of business enterprises

Response	Frequency	Percentage
Agree	6	6.7%
Neutral	18	20%
Disagree	37	40%
strongly disagree	31	33.3%
Total	92	100%

Source: field data (2018)

The findings from the study reveal that 33.3% of the respondents strongly disagreed with the claim that taxes increase long term level growth of business, 40% of the respondents also disagreed with the claim, 20% of the respondents were neutral and 6.7% of the respondents agreed with the claim that taxes increase long term growth of business enterprises. The findings show that taxes do not increase long term growth of business enterprises and thus this limits the growth of SSBs. This is in line with literature put forward by (KRA, 2011) that heavy taxation tends to cause worry on SSBs for example import duties.

Table 4.10 shows whether tax policies are a burden to the business enterprises

The study also sought whether tax policies are a burden to business enterprises

Response	Frequency	Percentage
strongly agree	28	30%
Agree	64	70%
Total	92	100%

Source: field data (2018)

The findings from the study reveal that 70% of the respondents agreed that tax policies are a burden to the business enterprises, 30% of the respondent also strongly agreed with the claim that tax policies are a burden to the business enterprises. The findings imply that poor tax policies by the government or local government tax policies tend to limit the growth of business enterprises in Mbale municipality. This is in line with literature put forward by (KRA, 2011) that heavy taxation tends to cause worry on SSBs for example import duties.

Table 4.11 shows whether there is need to improve the tax policies in Mbale municipality and Uganda

The table below sought that there was need to know whether there was need to improve tax policies

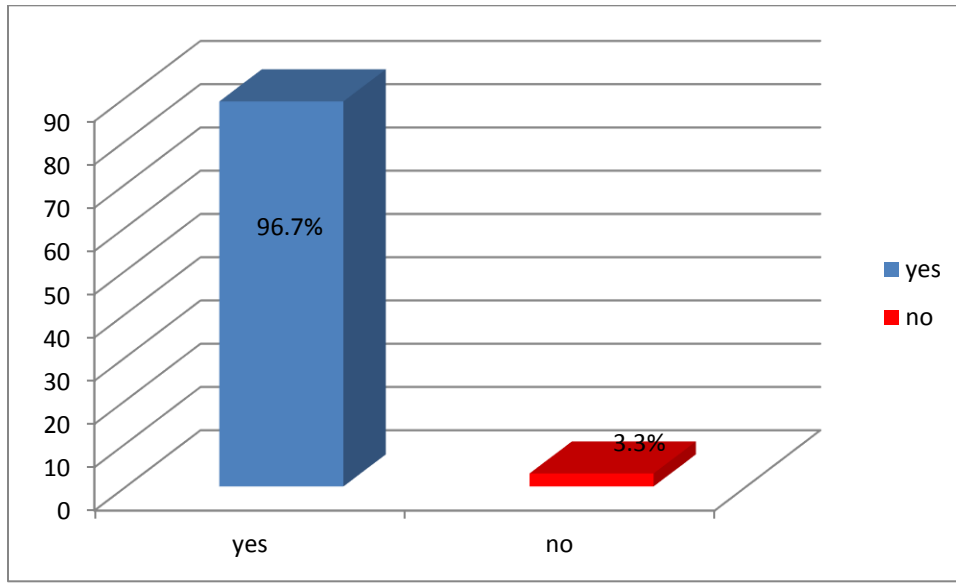
Response	Frequency	Percentage
strongly agree	67	73.3%
Agree	25	26.7%
Total	92	100.

Source: field data (2018)

The findings from table 4.11 above shows that 73.3% of the respondents strongly agreed that there was need to improve the tax policies in Mbale municipality by Mbale municipal council and the government, 26.7% of the respondents also agreed with the claim that there was need to improve the tax policies. The findings imply that there was need to improve the tax policies in Mbale municipality and Uganda at large. The tax policies limit the growth of small scale enterprises thus lowering the growth of gross domestic product of the country. This is in line with the literature put forward by Clare *et al* (2002) who investigated the effect of capital gains tax in USA and concluded that it need some adjustments in the model used to execute the it 4.3 Tax rate and performance of small scale businesses in Mbale municipality

The researcher sought to investigate how tax rates affect the performance of small scale business in Mbale municipality and the tables below tend to show different effect of tax rates on SSBs

Figure 4.1 shows whether tax rates are high in Mbale municipality



Source: field data (2018)

The findings show that 96.7% of the respondents said that the tax rates in Mbale municipality were high, 3.3% of the respondents said the tax rates were not high in Mbale municipality. The findings imply that tax rates are high and thus tend to limit the growth of small scale business in Mbale municipality. This is in line with literature put forward by (Kaldor, 1956) that one of the main causes of tax evasion is the high tax rates.

Table 4.12 shows whether individual enterprises are heavily taxed by Mbale municipal council.

The researcher also wanted to know whether individual enterprises are heavily taxed in mbale municipality .

Response	Frequency	Percentage
heavily taxed	55	60%
moderately taxed	31	33.3%
no idea	6	6.7%
Total	92	100%

Source: field data (2018)

The findings from the study show that 60% of respondents said their business enterprises are heavily taxed by Mbale municipal council and the tax authority, 33.3% of the respondents said

that their business enterprises are moderately taxed by Mbale municipal council and tax authority. 6.7% of the respondents had no idea about whether they are taxed. The findings imply that business enterprises are heavily tax and this suffocates the profits obtained the business enterprises thus making small scale business enterprises not to grow thus limiting the growth of gross domestic product of the country. This is in line with literature put forward by (KRA, 2011) that heavy taxation tends to cause worry on SSBs for example import duties.

Table 4.13 shows whether reduction in the tax rates has an impact on the performance of business.

This table below shows a relationship between tax rates and business performance

Response	Frequency	Percentage
business will grow	77	83.3%
no impact	6	6.7%
not sure	9	10%
Total	92	100%

Source: field data (2018)

From the table above, 83.3% of the respondents said that a reduction in the tax rates will lead to growth in business, 10% of the respondents said that they were not sure whether reduction in tax rates has an impact on the business whereas 6.7% of the respondents said that there is no impact between reduction of the interest rates and performance of business. The findings imply that when tax rates are reduced, this gives room for small scale business to grow and thus creating more employment opportunities to the public. This is in line with literature put forward by (KRA, 2011) that heavy taxation tends to cause worry on SSBs for example import duties and this tends to limit growth of SSBs .

4.4 Tax assessment and performance of small scale business in Mbale municipality

Before implementation of a certain tax, the authority carries out tax assessment, so the researcher intended to carry out the implication of tax assessment on the performance of small scale businesses in mbale municipality and the tables below answered information below in the table shows the implication of tax assessment

Table 4.14 shows whether information about taxation is readily available to the small scale businesses in Mbale municipality

The study also sought to discover whether information regarding taxation is readily available to small scale business

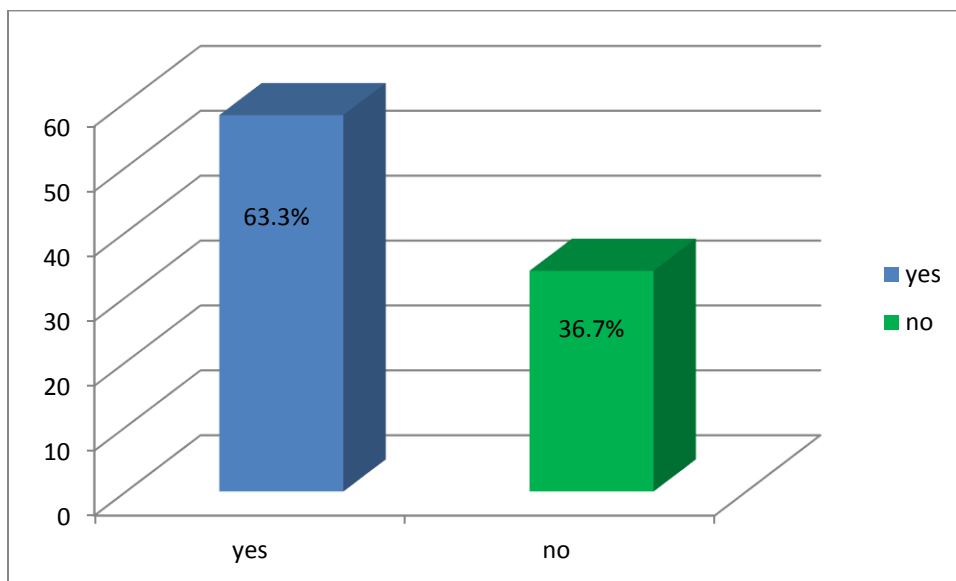
Response	Frequency	Percentage
Yes	40	43.3%
No	52	56.7%
Total	92	100%

Source: field data (2018)

From the findings in the table above, 56.7% of the respondents said that there is no readily information available to small scale businesses in Mbale municipality, 43.3% of the respondents said that there is readily information about taxation in Mbale municipality. The findings imply that there is so sensitization of taxation policies by the tax authority and this hinders tax collection on the side of the tax authority and makes the business owners illiterate about their tax obligations.

Figure 4.2 shows whether small scale business enterprise can calculate tax amount payable based on the tax information provided to them by Mbale municipal council

The figure below shows the findings whether small scale businesses in mbale municipality can calculate tax amount when assessed by the tax authority



Source : field data (2018)

63.3% of the respondents said that they can calculate tax amount payable based on the tax information provided to them by the tax authority, 36.7% of the respondents said that they cannot calculate the amount of tax payable given the tax information by Mbale municipal council and the tax authority. The study implies that owners of small scale businesses can meet the tax obligations if provided the information.

Table 4.15 shows whether there is multiple tax assessment in Mbale municipality

The researcher also sought to discover whether the small scale businesses in Mbale Municipality experience multiple tax assessment

Response	Frequency	Percentage
Yes	77	83.3%
No	15	16.7%
Total	92	100%

Source: field data (2018)

The findings from the study reveal that 83.3% of the respondents said that there is multiple taxation in Mbale municipality, 16.7% of the respondents said that there was no multiple taxation in Mbale municipality but the findings imply that small scale businesses undergo multiple tax assessment and this tends to slow the growth of the business. This is line with the literature put forward by (Ojeka, 2012) that SSBs face many challenges in form of tax compliance and obeying to tax requirements by the authorities.

Table 4.16 shows whether multiple tax assessment frustrate investments in business

The study also sought to discover whether multiple tax assessment by the tax authority frustrate investments in business

Response	Frequency	Percentage
strongly agree	40	43.3%
Agree	34	36.7%
Disagree	12	13.3%
strongly disagree	6	6.7%
Total	92	100%

Source: field data (2018)

The findings from table 4.16 above show that 43.3% of the respondents strongly agreed that multiple tax assessment frustrate investments in business, 36.7% of the respondents also agreed that multiple tax assessment frustrate investments, 13.3% of the respondents disagreed with the claim whereas 6.7% of the respondents strongly disagreed that multiple tax assessments frustrate investments in business in Mbale municipality. The findings imply that when there is multiple tax assessment of business entities, it slows down investments in business. This is line with the literature put forward by (Ojeka, 2012) that SSBs face many taxes in form of tax compliance and obeying to tax requirements by the authorities

Table 4.17 shows whether there is significant effect between multiple taxation on the performance of small scale business in Mbale municipality

The study also sought to discover the significant effect of multiple taxation on performance of small scale business

Response	Frequency	Percentage
strongly agree	52	56.7%
Agree	34	36.7%
Neutral	3	3.3%
strongly disagree	3	3.3%
Total	92	100%

Source: field data (2018)

From the findings above in the table reveal that 56.7% of the respondents strongly agreed that there is significant effect of multiple taxation on the performance of business, 36.7% of the respondents also agreed with the statement, 3.3% of the respondents were both neutral and strongly disagreed with the claim respectively. The findings from the study imply that multiple taxation inform of multiple tax assessment significantly affect the business thus limiting the growth of small scale businesses in Mbale municipality and Uganda at large. This is line with the literature put forward by (Ojeka, 2012) that SSBs face many taxes in form of tax compliance and obeying to tax requirements by the authorities. The compliance costs are inform of legal requirements, detailed record keeping for VAT

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION, RECOMMEDATIONS AND AREAS FOR FURTHER STUDY

5.0 Introduction

This chapter presents the summary of the findings, conclusions, recommendations of the study and areas for further study

5.1 Summary of the findings

5.1.1 Descriptive analysis

The findings show that there were more male respondents than the female shown by 60% of the respondents. The findings imply that most entrepreneurs in Mbale municipal council are male. The findings imply that most small scale business in Mbale municipal council are operated by youths which shows a good sign of development to the community since 50% of the respondents were in the age group of 20-30 years. The findings show that most business enterprises are operated literates and thus makes them know more information on taxation hence they provided correct information of the study shown by 66.7% of the respondents being degree holders The findings show that respondents were responsible enough to take on the enterprise since they were married and single entrepreneurs had more time to dedicate to their businesses. The findings reveal that there are more people engaged in business in Mbale municipality because most businesses have survived a taste of time and more businesses are being opened up.

5.1.2 Tax policy and performance of small scale business in Mbale municipality

The findings show that business owners in Mbale municipality know their obligations to pay tax when engaging in business. 73.3% of the respondents were paying progressive tax, this implies that as the business enlarges, the business owners pay more tax than before in Mbale municipality. The major tax for the business owners is the corporate tax which implies that every business entity in Mbale municipality pays corporate tax in terms of certificate of trading which is levied by Mbale municipal council. Taxes do not increase long term growth of business enterprises and thus this limits the growth of small scale businesses to large scale business as shown by 40% of the respondents disagreeing with the claim that taxes lead to long term level

Business growth. Poor tax policies by the government or local government tax policies tend to limit the growth of business enterprises in Mbale municipality. That 73.3% of the respondents strongly agreed that there was need to improve the tax policies in Mbale municipality by Mbale municipal council

5.1.3 Tax rate and performance of small scale business in Mbale municipality

96.7% of the respondents said that the tax rates in Mbale municipality were high, this implies that the high tax rates tend to limit the growth of business enterprises in Mbale municipality .that 60% of respondents said their business enterprises are heavily taxed, this suffocates the profits obtained the business enterprises thus making small scale business enterprises not to grow thus limiting the growth of gross domestic product of the country, 83.3% of the respondents said that a reduction in the tax rates will lead to growth in business, which implies that when the tax rates are reduced, it gives room for the small scale businesses to obtain profit.

5.1.4 Tax assessment and performance of small scale business in Mbale municipality

56.7% of the respondents said that there is no readily information available to small scale businesses in mbalemunicipality, this implies that there is so sensitization of taxation policies by the tax authority and this hinders tax collection on the side of the tax authority and makes the business owners illiterate about their tax obligations.63.3% of the respondents said that they can calculate tax amount payable based on the tax information provided to them by the tax authority, it implies that owners of small scale businesses can meet the tax obligations if provided the information or when taxation policies have been sensitized to the public.83.3% of the respondents said that there is multiple taxation in Mbale municipality which implies that multiple tax assessment of business enterprise by local government tends to confuse the entrepreneurs thus lowering their attitude towards business,56.7% of the respondents strongly agreed that there is significant effect of multiple taxation on the performance of business, when businesses undergo multiple tax assessment, it tends to cause norms or attitudes among the business owners of non compliance and this lowers innovation in business.

5.2 Conclusion

Tax policies created by the government and the local governments for example Mbale municipal council must favor small scale business, because poor tax policies make these businesses to suffocate and this lowers growth in economy. High tax rates also create a burden to small scale

businesses because they tend to lower the profits of the entrepreneurs. Multiple tax assessment of small scale businesses by Mbale municipal council significantly affects the performance in terms of innovation due to different assessment of businesses and creates non compliance among the tax payers.

5.3 Recommendations

5.3.1 Tax policy and performance of small scale businesses

The government must revise the tax policies that it implements for example capital gains tax , when the mode of payment is not being complied by the small scale businesses, the government must do some adjustments in the tax policy

5.3.2 Tax rate and performance of small scale business

The URA should reach out and educate the business community 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 SSBs community does not understand how the tax is arrived at as well as how it is paid.

5.3.3 Tax assessment and performance of small scale business

URA 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. The tax authority should strengthen its tax Systems to eliminate corruption among technocrats who enforce different taxes on the small scale business.

5.4 Areas for further study

- Factors affecting income tax compliance among SMEs in other regions of Uganda
- .A study on the relationship between voluntary tax compliance strategy and the deterrence measures kind of strategy.
- Factors that motivate SMEs to be tax compliant

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Makerere University

UGANDA MARTYRS UNIVERSITY

Faculty of business administration and management

Questionnaire

My name is Nekimite Sandra a student of Uganda Martyrs university pursuing a degree in Business Administration And Management . I humbly request you to be one of the participants in this study and your cooperation will be of great importance to this study. Your answers will be kept with utmost confidentiality and will be for academic purpose only .I am currently carrying out a study about the *effects of Taxation on the Performance of small scale businesses* in mbale municipality as a requirement for the award of a degree in business administration and management. Thank you very much for your time and cooperation.

SECTION A: PERSONAL DATA

Please tick in the boxes

1. Sex of respondents

Male Female

2. Age of respondents

20-30 30-40 40 and above

3. Educational level of respondents

Degree Diploma Certificate Other

4. Marital Status of respondents

Married Single Divorced

5. Age of business

1-3 years 7-4 years more than 10 years

**SECTION B: TAX POLICY AND PERFORMNACE OF SMALL SCALE
BUSINESSES**

6. Do you understand the term taxation?
Yes No
7. Which nature of tax does the business pay?
Progressive regressive proportionate
8. Which one these tax policy does your business pay?
Value added tax capital gain tax corporate tax custom duty
9. Do the taxes increase long term level growth of the business?
Strongly agree Agree Neutral disagree
Strongly disagree
10. Is the tax policies overburden to the business?
Strongly agree agree Neutral disagree
Strongly disagree
11. Do the tax policies by Mbale municipal council affect stock returns in business?
Strongly agree agree Neutral disagree
Strongly disagree
12. Is there need to improve the tax system in mbale municipal council and Uganda at large?
Strongly agree agree Neutral disagree
Strongly disagree

SECTION C: TAX RATE AND PEFORMNACE OF SMALL SCALE BUSINESS

13. Do you think that Uganda tax rates are high?
Yes No
14. Is your company tax heavily?
Heavily taxed moderately taxed tax free No idea
15. Do you think that there are many different forms of taxes in Uganda?
Yes No
16. Does the amount payable in tax affect the performance of business?
Yes No
17. Is there a relationship between taxation and survival of small scale business in mbale municipality?
Yes No
18. Does the reduction in the tax rates impact on the performance of business?
Business will grow No impact Not sure

**SECTION C: TAX ASSESSMENT AND PERFORMNACE OF SMALL SCALE
BUSINESS**

19. Is information in Uganda readily available?

Yes No

20. As an organization is u able to correctly calculate the tax amount payable based on available information?

Yes No

21. Does mbale municipal council have multiple tax assessment on your business?

Yes No

22. Do multiple taxes frustrate investments in your business?

Strongly agree agree Neutral disagree

Strongly disagree

23. Is there significant effect of multiple taxation on the performance of your business?

Strongly agree agree Neutral disagree

Strongly disagree

Thank you for your corporation