EFFECTS OF TAXATION ON THE PERFORMANCE
OF SMALL SCALE ENTERPRISES
A CASE STUDY OF NAKAWA
MARKET IN KAMPALA
DISTRICT

BY
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BBA/16372/71/DU

A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND
MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF A BACHELOR’S DEGREE IN BUSINESS
(ACCOUNTING OPTION) OF KAMPALA
INTERNATIONAL UNIVERSITY

MAY 2010
DECLARATION

I NNAM JANET hereby declare that this work is original; it has never been presented before for the award of any academic qualification elsewhere.

Student Name .................. NNAM JANET ..................
Signature .........................................................
APPROVAL
This dissertation has been supervised by me and submitted to the School of Business and Management with my approval

SUPERVISOR
DR. KINYATA STANLEY
SIGNATURE: ___________________________ DATE...................... 2010 1/may
DEDICATION

I dedicate this work to my parents and to my beloved sister in-law Rose and above all to the Almighty God.
This research also I dedicate to Kampala international university at large; this is because it ensured a peaceful co-existence during my stay in the university.
ACKNOWLEDGEMENT

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>GDP</td>
<td>Gross Domestic Product.</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority.</td>
</tr>
<tr>
<td>CTL</td>
<td>Commercial Transaction Levy.</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax.</td>
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<tr>
<td>PAYE</td>
<td>Pay As You Earn.</td>
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ABSTRACT

The study focused on the effect of taxation on the small scale businesses. The study initiated to find out the causes of continues failures of small scale businesses. The study was guided by the following objectives;
To ascertain how government collection affect the performance of small scale enterprises.
To assess the performance of small-scale enterprises in Uganda
To establish the relationship between taxation and performance of small-scale enterprises.

The findings after analysis and discussions were identified and are represented according to the objectives. There were several taxation systems which affected small scale businesses for example tax collection and administration.

On the constraints to the performance of small scale businesses, the study identified, lack of access to finance, level of technology, poor management, lack of market opportunities and lack of government creating conducive for these businesses. On the relationship between taxation and performance of small scale businesses, the relationship was established but its magnitude was not known. Several conclusions were drawn by the researcher on which based the recommendations of some of the suggested recommendations as regards performance of continuously train small business owners in managerial skills.
CHAPTER ONE

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

1.2 BACKGROUND OF THE STUDY
Taxation in Uganda is based on the system that existed in Britain by 1900 when the hut tax regulation was introduced and administered under the local government system and charged on each residential house. It was a simple tax intended to attract citizens into monetary production. It was followed by the poll tax in 1905, due to cotton growing in Uganda. It is aimed at raising revenue for the administrative; through promoting Africans voluntary labor necessary in the production of cash crops and minerals for exports. In 1919, the first law legislation was introduced under the local Authorities ordinance, which later governed tax collections. In 1925. In Uganda, most people are exempted from paying income tax because the majorities are peasants who relied on coffee and cotton for their income leaving the initial tax collection effort on the higher income. In September 1991, after a period of review, the Uganda Revenue Authority is established. All taxes include income taxes, customs taxes and the Authority collects excise duties according to (Manasseh, 2000).

Taxation is one of the major sources of government revenue. The government uses the realized revenue to carry out its ongoing activities to regulate the economy, to make social goods and services available. Therefore, with the aim to widen and increase on revenue, the government levies different forms of taxes on the economic activities of its nationals of which small-scale enterprises dominate the larger part of the informal sector, according to (Musgrave and Musgrave, 1985).
The taxes collected are of various classifications such as; Direct taxes are those that affect the individual of firm directly through a deduction, such as wealth tax, turnover. Indirect taxes are those that are paid to government by an intermediary then passed on to the consumer by including the tax in the final price, such as value added tax customs duty turnover tax. Proportional tax is one where the tax liability increases with the increase in income. Progressive tax is when the tax rate and absolute tax amount increases with the increases in revenue. Regressive tax, this is a tax whose tax liability falls with increase in income. Digressive tax, this is a tax where high-income earners pay less or low tax for the extra income earned, according to (Tusubir, 1994). In Uganda, there exist several small-scale enterprises undertakings, such as capital employed, according to Kawabibblah (1995), employing 5-50 workers. Sales turnover; According to Sejjaka (1997), a small-scale enterprises is any business pay VAT of US $ 20,000 as an agreed threshold.

The government of Uganda through the ministry of finance, planning and economic development consider enterprises with capital investment of less than US$5000000 both for public and private, according to URA, (2001), Tax Payer Guide. Small-scale enterprises contribute about 30% to GDP. Due to taxation, many small-scale enterprises today are coming out of operations; the owners claim that high taxes are disincentives for growth. Hence, taxation may be seen to affect the performance of these small-scale enterprises

1.3 PROBLEM STATEMENT

The performance of small-scale enterprises is popularly becoming an important point for a large number of people as self-employment in generating income for their survival. They play a vital role in the development of the economy with each employing 5-50 people, and contribute 30 percent of GDP. The government has put in place incentives like initial allowance of 50% to encourage their development if located in prescribed areas of Entebbe, Mukono, Jinja and Luwero. Despite the efforts by government, many of the small enterprises
cannot leave beyond one year. This is attributed to the many taxes imposed on them. For instance, Victoria in glass limit has recently closed down five hundred shops before their owners quickly paid their dues. This was due to high taxes levied on the retail shop operators. The high taxes have affected the performance of the small-scale enterprises leaving them with little or no revenue for their operation. (New Vision, July 11, 2003). The researcher will try to establish how tax policies affect the performance of small-scale enterprises and to recommend the way forward to help small-scale enterprises.

1.4 PURPOSE OF THE STUDY
Purpose of the study is to establish the effects of taxation and performance on small-scale enterprises and to find out the solution for small scale enterprises.

1.5 RESEARCH OBJECTIVES
a) To ascertain how government collection affect the performance of small scale enterprises.
b) To assess the performance of small-scale enterprises in Uganda
c) To establish the relationship between taxation and performance of small-scale enterprises.

1.6 RESEARCH QUESTIONS
a) How government revenue collection does affect the performance of small scale enterprises?
b) What is the performance of small-scale enterprises in Uganda?
c) What is the relationship between taxation and small-scale enterprises?

1.7 SCOPE OF THE STUDY
The study will be carried in Nakawa market, Jinja road of Kampala district in Uganda. The study will be conducted between February and April 2010. The study
will focus on the effects of taxation on the performance of small-scale enterprises of Nakawa market. The research design will include data collection by uses of sampling, interviews questionnaire and observation techniques. The researcher has chosen Nakawa market due to nearness to the researcher’s residence and easy access the effect of taxation on the performance of small-scale enterprises.

1.8 SIGNIFICANCE OF THE STUDY

By the end of this study, it is hopped that;

i. The study is to help add additional literature of Kampala International University on to existing ones.

ii. The study should provide a support for promoting future research hence making Uganda a better place for businesses.

iii. It is partial fulfillment of requirements for the award of degree in Bachelor of Business Administration of Kampala international University.
1.9 CONCEPTUAL FRAMEWORK

Independent variables

<table>
<thead>
<tr>
<th>Intervening variables</th>
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<tbody>
<tr>
<td>Positive effects</td>
</tr>
<tr>
<td>- Protect infant</td>
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<tr>
<td>- Reduce monopoly</td>
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<td>- Reduce income</td>
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<tr>
<td>- Inequality</td>
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<table>
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<th>Negative effects</th>
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<tbody>
<tr>
<td>- Inflation</td>
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<tr>
<td>- Collapse</td>
</tr>
<tr>
<td>- Smuggling</td>
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Dependent variables

Taxation

Small scale enterprise
CHAPTER TWO
LITERATURE REVIEW

2.0 INTRODUCTION
This chapter looks at the taxation in relation to performance of small-scale enterprise. It consists of existing literature on taxation by scholars and research studies, from textbooks, journals, newspapers and magazine. The chapter covers definitions classification of taxes, theories of taxation, taxation and enterprise performance, the purpose of taxation and performance, compared and constrained the information to come up with similarities or differences and identified issues that emerged and the possible relationship.

2.1 TAXATION
According to Balunywa, (1988), said that taxation is a compulsory levy imposed upon the tax assesse who may be individuals, groups of individuals or other legal entities.
This agrees with Bahemuka (2001) that taxation is based on economic theory, such as the process argument of leakage from the circular flow of income into the public sector, with exception of loans transactions and indirect payments for publicly produced goods and services.

According to Tumuhimbise, (2000), defined taxation refers to the administration and collection of taxes. In Uganda, it is the responsibility of Uganda Revenue Authority(URA). On the other hand, Bhatia, (2002), argued that, taxation is a process of tax administration that involves enumeration, assessment, collection and control. Therefore according Tusubira, (1994), taxation is a compulsory and non-refundable contribution exacted by government for public purpose. This payment is not followed by a concurrent benefit in return. Basing on the definitions of various definitions scholars above, taxation is legally compulsory
transfer of money from public to the government mainly as a source of government revenue.

2.1.1 TAX

According to Harper (1998) defined tax as a compulsory and unrefundable contribution executed by government for public purposes. Payment is not followed by a concurrent benefit in return and the laws institute the charge. Bhatia (2002) on the other hand argued that tax is a compulsory levy, those who are taxed have to pay the sums irrespective of any corresponding return of goods and services by the government. In agreement, Manasseh (2000) said that, tax is paid without a corresponding return in terms of goods and services to government and hence it is referred to as a non-quid-proquo payment.

Basing on the definitions of various scholars above researcher opinion, taxation is a process of administering and collecting taxes through tax assessments, collection and control.

2.1.2 CLASSIFICATION OF TAXES

The income Tax Act (1997) classifies taxes as;

**Proportional Vs Progressive Taxes**

Progressive Tax; Are those where with increasing income or tax bases activity the Tax liability not only increases in absolute terms but in proportion to the increase in the income; for example pay as you earn, presumptive.

Sometimes also, progressive taxes are defined as taxes in which the marginal tax rate rises as income rise. While proportional tax is one where the tax liability increases with the increases in income.

**Direct Vs Indirect Taxes;** The distinction between these two has not always been satisfactory or clear and consistent. However the basis of distinction includes;
Incidence of Tax; where the incidence of the tax rests upon the person paying the tax, then it is regarded as direct tax. Otherwise, the tax is deemed indirect when the burden falls on another person, rather than the person paying their tax.

Tax based or activity; activity tax on this basis taxes levied on production and incomes are generally direct taxes while those levied on consumption and expenditure are indirect.

The relationship between taxpayers and tax authority-Where the tax authority deals direct with a taxpayer such a tax is direct, while if the taxpayers deal with a tax authority through an intermediary then such tax is referred to as an indirect tax.

Mode of assessment: On this basis of distinction the liability in respect of a direct tax is determined directly with reference to the tax paying ability of a taxpayer. However, for indirect taxes the tax liability is assessed directly; i.e., there is no prior contact with the taxpayer to assess his/her ability to pay.

Regressive Vs Digressive Tax
Regressive tax is a tax whose tax liability falls with an increase in income/taxable activity. The burden falls more on the poor than the rich do. Most turnover taxes are regressive. While digressive tax is a tax where high-income earners pay less or low tax for the extra incomes earned.

2.1.3 THEORIES OF TAXATION
Hatred for tax by the taxpayers is a well-established fact world wide and is as old as man is. Strong statements from taxpayers like: “A tax collector should lead those people going to stay on the moon so as to make this earth a better place to live in...” are a confirmation that imposition of taxes can create great unrest in society. Therefore, efforts have to be made to ensure that there is justice in taxation in order to avoid disaster. In this regard, six theories have
been advanced to help achieve justice in taxation. According to (Okello, 2006),
These theories are examined below;

**Benefit Received theory**
This theory traces its origin from the contracts theory of the state, where the
state provides various goods and services to the member of the state and they
contribute to the cost of these supplies in proportion of the benefits received.
Normally, income is sometimes used as an indicator of the benefits received. In
this case it is assumed that without the protection of the state the economy
cannot exist and accordingly it may be inferred that benefits each member of
society derives from the state are in proportion to his income. Such an inference
would lead to policy recommendation for proportional taxation.

**Socio-political theory**
This theory is creation of Adolph Wagner, a German scholar. He asserted that in
contrast to the practicability theory, the social and political objectives should be
the cornerstones in designing a tax system. Wagner argued in his theory that a
society consisted of individual member. He further said that society had an
existence and entity of its own which needed preservation and taking care of. In
this regard, a tax system should not be designed to serve the needs of the
individual members but should be used to cure the ills of the society in so far as
it is possible. Wagner was specifically in favor of using taxation for reduction of
income inequalities, and so to achieve this objective, he advocated for small
incomes to be exempted from taxation or tax paying.

**Cost of service theory**
This theory implies that the citizens are not entitled to any benefits from the
state and if they receive any, they must pay the cost thereof. The theory
emphasizes the semi-commercial relationship between the state and the citizens
to a greater extent. The theory can notes a balanced budget policy since it
requires the state to give up its basic protection and welfare functions and embark on recovering the costs of services provided. This would leave neither deficits nor surplus in the economy.

**Practicability theory**

This theory asserts that the choice of various tax proposals, the authorities need not consider various economic and social objectives or the effect of the tax system. The authorities would in general want to pluck the goose where the feathers are thickest and there is a minimum amount of squawking.

**The theory of equal sacrifice**

This theory is closely related to the Ability-to-pay theory. It has its meaning derived from two angles, namely, the equity and the welfare view. The equity approach presupposed that each taxpayer should be made to undergo some amount of sacrifice irrespective of his income. It should therefore be envisaged that equal sacrifice admits of different interpretations and one such interpretation tallies with the welfare consideration.

**Ability-to-pay theory**

The theory suggests that citizen is to pay taxes because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. The theory emphasizes that the burden of taxation should be shared amongst the members of society so as to conform to the principles of justice and equity, and that this equity criterion will be satisfied if the tax burden is apportioned according to the relative ability to pay.

The theory of ability to pay is combined with the objective of maximum welfare of the society. The index of paying ability is translated in terms of equal-marginal sacrifice such that society undergoes the least aggregate sacrifice in meeting the tax liability. Therefore the ability to pay is not an absolute quantity. It is related,
among other things to the expenditure side of the government budget. Different indices are available for determining the relative ability to pay of the taxpayers; it could be income, wealth/property or consumption expenditure.

2.1.4 THE PURPOSE OF TAXATION

According to Tumuhimbise, (1996) argued that taxation is both an important source of government revenue and also important economic tool for government. In addition Balunywa, (1988) said that the failure of the market mechanism and the rationale for taxation.

On the other hand, According to the Uganda Economic Journal, (1973) on taxation and economic Development the main purpose of taxation is to reduce the quantity of resources consumed by the private sector. It further shows that in stressing the consumption reducing aspect, taxation may be there for other objectives such as to change the distribution of income, to reduce consumption of particular commodities which may be harmful such as cigarettes and to help stabilize the economy. Several scholars have argued that government has to perform three functions outlined below;

*Allocation function* that is based on the premises that certain goods cannot be efficiently provided by the market. In those circumstances if we leave provision of all goods and services to private sector will lead to market failure. Therefore government must step in to provide these goods.

*Distributive function*, this function is concerned with creating equity among members of society. Distribution is concerned with systems that will lead to equitable distribution of wealth and income. The distribution of income and wealth are initially dependent on factors endowments because of differing factor endowments and earning abilities differ.

*Stabilization function*, it involves use of fiscal policy to bring about full employment and price stability in a market economy. Without public policy
guidance the economy suffers from periodic or cyclical fluctuations that create unemployment.

Derived from the above functions therefore are three objectives for government to attain using taxation. It raises revenue for government and development expenditure. Through recurrent expenditure government is able to fund its day to day operations like payment of salaries and wages to government employees, facilitation of government schools with scholastic materials and drugs for hospitals.

Encourage development of local industries and protect against foreign competition with a view to providing employment and saving foreign exchange, by imposing high duties on competing imports.

To achieve greater equality in the distribution of wealth and income, the government may impose a progressive tax on the incomes and wealth of the rich. The revenue raised is then used to provide social services for the benefit of the society.

Encourage export of goods and services in order to make them more competitive in the world market, by reducing or removing tax on the exports. (Uganda Revenue Authority, coping with taxes, 2007).

2.2 PERFORMANCE OF SMALL SCALE ENTERPRISE

According to Pandy, (1979) defined performance as the process by which a business ensures the achievements of its set objectives by using the available resources. These include; maximizations, of profits, market share, and customer satisfaction in order to be assure of growth and survival. Performance as being defined in terms of financial analysis. Where financial analysis is the process of identifying the financial strengths and weakness of the firm by properly
establishing relationship between the items of the balance sheet and the profit and loss account. Poor performance administration greatly reduces the efficiency of taxpayers thereby reducing their ability to work. This leads to less production hence poor performance, the major obstacles to the growth and development of small scale businesses has been the taxation policies, which have serious implications on business profits and liquidity position. This is because of the unfair tax rates.

In addition to the above, Bahemuka (2001), defined performance as being defined in terms of financial analysis. Where financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. On the other hand Lipsery (1983) argued that performance is the process by which a business ensures the achievement of its set objectives by using the available resources, the objectives include maximization of profits, market share and customer satisfaction. In addition Drucker, (1990) said that profit is the responsibility of an enterprise to the society that is the first responsibility to an enterprise in the society is to make profit. This agrees with Richard, (1983) argument that profit is excess of revenue over all opportunity costs include those of capital in nature. For the purpose of this research much emphasis will be put on profit as per Drucker.

2.2.1 SMALL SCALE ENTERPRISE
According to Zake, (2005), said that the definition of small scale enterprise is quite broad, ranging from a one persons’ business or venture to a company registered under the legal provisions. He says the definition of small scale enterprise often revolves around such parameters like size, turnover or number of employees. On the other hand Druker (1990) argued that Small scale enterprise is applied to any type of enterprise that is operated by one or a few individuals commonly found in the service and retail fields. This agrees with
Income Tax Act of Uganda 1997 section 3 argument that small scale enterprise as a enterprise whose total annual sales turnover doesn't exceed Uganda shillings 50,000,000 million.

In addition Mugerwa (2003) said that small enterprise is basing on some general features. For instance a enterprise is relatively small with less volume and less number of employees who are most family members. The location of operation of small enterprise is normally near the resident of the owner and worker comes from same locality. The Provision of capital in small business capital is mainly provided by the proprietors.

Uganda Manufacturer Association, using the investment code enacted in 1993 groups enterprise in accordance with the people employed and the capital invested. For instance as Micro enterprise employed less than 30 people and capital investment less than two thousand five hundred dollars ($ 2500). Small enterprise employed from thirty to fifty people and capital investment is from two thousand to five hundred dollars ($ 2500).

Medium business employs from fifty to two hundred and fifty people and capital investment is five thousand to ten thousand dollars and above all the stated are treated as large enterprise. According to the Uganda Small Scale Industries Association, a small scale enterprise is one employing between to 25 people and with assets and capital not exceeding US$ 100,000. The Ministry of Finance, Planning and Economic Development defined small enterprise unit within a capital investment not exceeding $300,000.

According to Tax News March, (2003), the Private Sector Foundation, defined small enterprise as that which have an investment of between united state dollars five thousand to fifty thousand dollar. This agrees with Bhatia (2002) argument that small scale enterprises or industry according to its current
government definition include an undertakings having investment in fixed asset (plant and machinery). In addition Richard, (1983), said that small scale enterprise is small undertaking, characterized by small number of people and dependence on small market share. Thus small scale enterprises are normally located round markets and trading centers.

2.2.2 TAXES PAID BY SMALL SCALE ENTERPRISES IN UGANDA
Income Tax Act 1997 section 3 spells out the taxes paid by enterprises as follows;

Individual Income Tax; this is charged on income earn by an individual
For example a sole trader. The term is more applied to individual is self employed enterprises. However individual tax income is not limited to business income alone. It includes incomes earned by an individual from all sources except that income which is assessable separately.

Corporation Income Tax; this tax is charged on income earn by a persons companies and trust other than individuals. Like in the case of individual’s tax corporate income comprise of income from various sources of tax payers corporate income is charged at a rate of 30%.

Presumptive Tax; This taxi s charged on small scale enterprises whose gross turnover is less than the shillings 50,000million. The income paid by such a person is estimated and varies according to the segment of the gross turn over in which his/her sales falls for any given year.

Rental Income Tax; It is income tax charged on rent earn by individual by way of letting property. It is levied differently from other sources of income by the same person and taxed separately under the rental tax structure.
THE TURNOVER IS BROKEN DOWN INTO DIFFERENT AMOUNTS WITH THEIR CORRESPONDING RATES AS SHOWN BELOW.

<table>
<thead>
<tr>
<th>GROSS ANNUAL TURN OVER</th>
<th>TAX RATE</th>
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<tbody>
<tr>
<td>Less 5,000,000/=</td>
<td>NIL</td>
</tr>
<tr>
<td>5,000,000/= to less than 20,000,000/=</td>
<td>100,000/=</td>
</tr>
<tr>
<td>More than 20,000,000/= but less than 30,000,000/=</td>
<td>250,000/= or 1% of Gross turnover which whichever is lower</td>
</tr>
<tr>
<td>More than 30,000,000/= but less than 40,000,000/=</td>
<td>350,000/= or 1% of Gross turnover which whichever is lower</td>
</tr>
<tr>
<td>More than 40,000,000/= but less than 50,000,000/=</td>
<td>450,000/= of 1% Gross turnover which whichever is lower</td>
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TYPES OF TAXES AND SOURCES OF INCOME

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<th>Types of Taxes</th>
<th>Source of Income</th>
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<tbody>
<tr>
<td>Individual tax</td>
<td>Income earned</td>
</tr>
<tr>
<td>Presumptive tax</td>
<td>Gross turnover</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>Company income</td>
</tr>
<tr>
<td>Rental Income tax</td>
<td>Rental earned</td>
</tr>
</tbody>
</table>

2.2.3 FACTORS AFFECTING THE PERFORMANCE OF SMALL SCALE ENTERPRISES

Lack of market opportunity; In the poor countries, effective demand and consequently market opportunity is a constraining factor for small enterprises and indeed in enterprises development. This may not be the case in the developed countries. Consequently, even if is opportunity to exploit, it may be difficult to realize because of lack of market.

Kibera (1997), said that small enterprises has an important role to play in many economies, has enumerated the factors that affecting the small scale enterprises. These include lack of market opportunity, access to finance, enabling environment, market information and managerial skills, as explained below;

Another aspect is the fragmentation of African markets both physically and culturally. For instance selling in Uganda with over 40 languages becomes a nightmare for salesmen. Whereas in the developed countries, the commodity of culture and language eases the selling process. The level of development itself imposes additional constraints to small enterprises growth, because of usage of low level technology; small enterprises cannot compete with large enterprises that have benefits that arise from economies of scale.

Low level technology; Because of their being small, these enterprises end up using a cheap technology which is usually not top of the range. This results into high costs of production and un-competitiveness. For instance small enterprises cannot afford to use computers or even where they have a computer, to continuously upgrade their equipment. Therefore they cannot compete with large enterprises. This may not be the case in the developed countries, why because of market opportunity and likely success due to environmental enabling factors, it is easier to access new technology. Besides,
this technology originates from the developed countries and unlike in the developing countries where it must be imported, it is relatively cheap.

*Lack of access to finance;* The access of finance as one of the key constraints to small enterprises growth. This is worsened by the absence of financial markets in the developing countries. Small enterprises' owners cannot easily access finance to expand their enterprises and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. This means that they cannot access finance to enable them to grow to their heights. He makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, inability to evaluate financial proposals and lack of financial management skills as hindrance to small enterprises growth. Under developed financial markets impose additional constraints. There are no financial instruments and no independent financial sources that is market driven.

*Managerial skills;* The managerial skills is the most important constraint faced by small enterprises. At the formation stage a small owner is able to run a business but as it grows and ages, managerial demands arise. These are in the form of operational managerial requirements like production, sales, and finance, and most important is the ability to deal with them. Some owners have a hunch over these but in the long run they need to employ people. Some people believe that entrepreneurship skills are part of managerial skills. While others would wish to differ and go beyond that. Entrepreneurship is beyond management and not all managers are entrepreneurs.

*Enabling environment;* While many countries have acknowledged that small enterprises have an important role in their economies, not much effort has been done to facilitate their growth. They have to compete for finance, markets. Personnel and utilities like any other enterprises unit. In a few countries
especially India, there has been affirmative action to promote small enterprises over a long period. In Uganda the government has only paid a lip service. In fact, the Uganda Investment Authority (UIA) which was set up to promote investments in Uganda was not attractive for the small enterprises. The UIA would only support proposals from companies with more than US$ 50,000 to invest. The development banks in the country did not have programmes for small enterprises. It is only the non-governmental organizations (NGOs) and specialized financial institutions that have come in to assist small enterprises. It is easier for large enterprises to get land for industrial development and a license to operate the small enterprise. Large enterprises get easy access to utilities than small enterprises. Consequently, there is no enabling environment to promote small operators.

2.3 RELATIONSHIP BETWEEN TAXATION AND SMALL SCALE ENTERPRISE PERFORMANCE

Tumwine, (2001), the growth and performance of small scale enterprises has been retarded mostly by poor taxation policies. He revealed that high indirect taxes hinder enterprises expansion with a big proportion of enterprise profits ending up being paid a taxes therefore it is clear that profit of small enterprises are greatly reduced by the tax paid by them in order to survive, traders have been forced to increase the prices of their commodities so as to incorporate the tax elements. But this has left most of them unhappy as the number of customer’s decreases reduction in the sales and in some cases a subsequent closure of the enterprise are unavoidable facts in the same way.

On the other hand Hanson (1978) said that, high taxes affect consumption and consequently discourages investment in small scale enterprises. High direct taxes will lead to high prices of goods hence a shift in consumption pattern from highly goods to lowest priced goods hence taxation and performance of small scale enterprises are mutually related. Keynesian modes show that government
revenues can be realized through fiscal policy mechanism. This however, has adverse effect on enterprise in form of savings and propensity to consume. Fiscal policy includes tax policies therefore meaning that, taxation and small-scale enterprise performance are related.

In addition Zake (2003), said that high taxes are considerably reducing the profit margins of individuals undertaking, and act as a disincentives to further investments. These taxes are threatening the firm’s investments in the area to earn enough incomes, but they failed to do enterprise because of high taxes. This agrees with Frank, (1995) who argues that, earnings from income statement of small enterprise after netting taxes little income is left for appropriation this has scared new entrants in the industry, hence meaning that taxation and performance of small business are related. When taxes are high, the level of enterprise performance is low and when the taxes are low enterprise performance tend to be high.

From the above, summary suggests that, taxation being the process of administering and collecting taxes. It is concerned with public revenue, expenditure and public debt. The efficiency of taxpayers and reduction in ability to work will be due to poor tax administration which will negatively affect production levels. Hence, taxation is seen as major obstacles of small enterprise growth and performance.
CHAPTER THREE: METHODOLOGY

3.1 OVERVIEW
This chapter represents and describes the methods and techniques that will be used to collect and analyzes data. It will include the study, population, data collection instruments, processing and analyzing and limitation of data.

3.2 RESEARCH DESIGN
The study will use both qualitative and quantitative research designs. Qualitative design will be used to get detailed information from the diversity of multiple realities using methods such as interview and questionnaires. Quantitative research design will be used such that the researcher will put some information in numerical form or tabular form.

The study will be carried out in Nakawa market in Kampala district. Most respondents will be got from various vendors of Nakawa market.

3.3 STUDY POPULATION
The population under study will comprise of 200 business people sample size of 50 respondents will be selected randomly from different departments of Nakawa market.

3.4 SAMPLING DESIGN AND SIZE
3.4.1 SAMPLING DESIGN
In order to ensure representatives of the samples from study population of Nakawa market, sampling will be grouped according to chain of command. Random sampling technique will be used in picking the vendors on which the data will be collected. Thus respondents will then be randomly selected from Nakawa market. Thus sampling design will be preferred to minimize bias in sampling process to achieve maximum precision, which will give the research
constraints of the study. The city council senior management and other staff members will also be interviewed.

### 3.4.2 SAMPLE SIZE

Considering time and other constraints of the study, the researcher will select 50 respondents randomly from Nakawa market. These will consider representation of the study population consistent with the research questions in chapter one. The willingness of vendors to give information and respondents positions in Nakawa market will be the major factors considered in selecting the respondents sample.

### 3.5 DATA COLLECTION INSTRUMENT

The data collection instrument will be basically self administered questionnaire, which will comprise of open and closed ended question that require respondents to answer all the question to the best of his or her knowledge. Interviews will be also used in data collection from which the respondents answer from selected various small enterprises.

#### 3.5.1 INTERVIEWS

An interview guide will be used especially with the various small enterprises owners of Nakawa market. The researcher will carry face-to-face interview with the respondent. The will also explain to the respondent why the study will be carried out. The researcher will be preferred because of the fact that the researcher will have to face interaction with the respondent and to be able to ask probing questions relevant to the study.

#### 3.5.2 QUESTIONNAIRES

Data will be collected by the use of structured questionnaires designed by the researcher. The questionnaires will be sent to the department of city council and different vendors. This technique will be used because all the respondents are
literate. The major advantage of this method includes; free of biased information and enough time for the respondent to consider his/her points carefully than in an interview and they can be stored for future reference, they will give straightforward answers, and therefore easy to evaluate.

3.6 DATA PROCESSING AND ANALYSIS
Data collected will be edited and analysed using percentages, tables and graphs and simple statistical modules like the central tendency, frequency distribution to assess the effects of taxation on performance of small-scale enterprises. Quantitative data analysis will be performed in relation to research question.

Statistical findings will be interpreted in light of the objectives of study and conclusion will be made based on the literature review to attach more meaning.

3.8. LIMITATIONS OF THE STUDY
A number of limitations is expected during the research and some of which will include:

Time; Time allocated for research is not enough to allow one to exhaustively obtain all the information and data required for all the necessary conclusions to be made. Time problem is overcome by dedication that was to say the research sending most of the time doing research work.

Literature; There is limited data on research variables in the text books and even the little that was sometimes hard to understand in that it is a bit complicated to be related to the study (secondary data). Such literature problem is solved by hard work and much research in libraries.
CHAPTER FOUR

Presentation of Summaries of Finding, Interpretation and Discussion of Such Finding

4.1 Introduction

This section reflected findings of the study, the related interpretations and discussions on the effect of taxation on the performance of small scale enterprises in Nakawa market in Uganda.

This section of the study sought to find out from the respondent about their gender, age, educational background, and level of responsibility, working period, and the performance of small scale enterprises in Nakawa market.

4.2 Characteristics of Respondents

The respondents were classified under five different grounds in order to establish whether there was fair representation of the study population and that the respondents were informed to provide adequate data that would be relied on to make valid conclusion.

4.2.1 Characteristics according to Gender

Table 3; showing gender composition of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Male</td>
<td>34</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source; Primary Data
According to table and chart above, 42% were between 26-35 years, 26% were 25 years and below, 18% were 36-45 years and 14% were 40-55 years. This indicated that at least all age groups were represented except that above 55%. This was a fair representation.

4.2.3 Characteristics According to Education Background

Table 5; Showing education level for respondents

<table>
<thead>
<tr>
<th>Age(years)</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>o-level</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>A-level</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Certificate</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>Diploma</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Degree</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Post graduate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source; Primary Data
According to tables and chart above, 46% had certificate level, 24% had A-level, 16% had diploma level, 10% had O-level and 4% had degree level. There was also fair representation of the study population since the respondents had relatively good education.

4.2.4 Characteristics According to Experience on Nakawa market.

Tables 6; Period worked in Nakawa market

<table>
<thead>
<tr>
<th>Period(years)</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1-3</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>4-6</td>
<td>18</td>
<td>36</td>
</tr>
<tr>
<td>6 and above</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source; Primary Data
According to table and a chart above, 52% had worked with Nakawa market for over 6 years, 36% for 4-6 years and 12% for 1-3 years. There was good representation of the study population.

4.2.5 Characteristics According to Level of Responsibility of respondent

Table 7; Level of responsibility

<table>
<thead>
<tr>
<th>Level of responsibility</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staffs</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Vendors</td>
<td>34</td>
<td>68</td>
</tr>
<tr>
<td>Customers</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data
According to table and a chart above, 68% represented the vendors of Nakawa market, 26% represented the customers of Nakawa market and 6% the management staffs of Nakawa market.

The study population was well represented and it was believed that information got from the field was reliable. This was because the respondents had relatively high level of education, had taken relatively long period with the business and both the views of the female and males were collected.

4.3 Objective one: to ascertain how government collection affects the performance of small scale enterprises.

The research revealed that taxation referred to as a process of administering and collecting taxes, it’s concerned with public revenue, public expenditure and public debt. It is also a process of tax administration, which involves enumeration, assessment, tax collection, tax services and control. In Uganda tax administration is the responsibility of Uganda Revenue Authority. Taxes play an important role in the economy as one of the major sources of government revenue and even though the general behind taxation in the provision of public goods and services, they are a non-quid-pro-quo payment.

Different scholars in the subject have classified taxes as either direct or indirect basing on incidence, proportional versus progressive, regressive versus
digressive basing on their behavior in the relation to the tax base. It derived from the four functions of the government that is allocation, regulation, distribution and stabilization.

The study also found out that economists looked at taxation as a process of circular flow of income in public sector. The study also revealed on taxation that the performance of small scale enterprises to be called fair and for it to be able to achieve their objectives, they should consider the Income Tax Act 1997 section three.

The research revealed that in Uganda small scale enterprises pay different taxes is; Individual Income tax charged on income earn individual, Rental Income tax charged on rent earn by individual, Presumptive tax charged on small scale enterprises whose gross turnover is less than the shillings 50,000 million.

The research revealed that the presumptive tax is taxed according to their category of annual turnover in which the business income lies. Rental income tax and individual income tax are levied on a personal income of the taxpayers and reduce their revenue of small scale enterprises hence affecting their performance negative.

4.4 Objective two: The performance of small scale enterprises in Uganda

The study revealed on the performance of small scale enterprises, it was based on profits. The study found out that profit in simple term is the function of revenue and cost. Also the study found out the profit is the responsibility of n enterprise to the society that is the first responsibility of an enterprise in the society is to make profit. This means that the performance depends on the level of production. Where the level of production is low the profits will be low from
the operation of the enterprises while where the level of production is high there will be increased in profits.

The study found out that different scholars looked at profit is excess of revenue earned over total costs incurred in the process or event of providing goods and services. Hence profit is the first responsibility of an enterprise in the society.

The research revealed that Income Tax Act of Uganda section three defined small scale businesses as a business whose total annual sales turnover doesn't exceed Ugandan shillings 50,000,000 million. Also the study found out that small enterprise is based on some general features as explained in chapter three. Therefore the study found out that most business groupings are based on the investment code Act 1993, under Uganda Manufacturers Association. The various groups are in the terms of the number of people employed the capital investment in United State dollars;

4.5 Objective three: The relationship between taxation and performance of small scale enterprises

The research revealed that there is a relationship between taxation and small scale enterprises performance means that high direct taxes will lead to high prices of goods hence a shift in consumption pattern from highly taxation and performance of small scale enterprises are mutually related. The study also found out that Keynesian modes shows that government revenues can be realized through fiscal policy mechanism, fiscal policy include tax policies therefore meaning that, taxation and small scale enterprises performance are related. Hence own view taxation and small scale enterprises level is low business pay high taxes and when taxes are high the level of business is low. Therefore low taxes re paid leaving too many incomes for day today running of the enterprises and increase their performance.
The researcher also found out that apart from taxation lack of good managerial skills affect the performance of small scale enterprises. A challenge only comes when small enterprises fail to prepare proper books of accounts thus affecting their performances.
CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. INTRODUCTION
This chapter concerned with the conclusion drawn from discussions of findings and are closely related to the purpose and objectives of the study. It also recommended on the performance of small scale enterprises and further research basing on the literature review.

5.2 SUMMARY OF FINDINGS
The findings in chapter four indicated that taxation had a negative effect on the small scale enterprises performance in terms of profits. Taxes charged on small enterprises had gross effect on the expansion of these businesses as they encroached on the expected revenue. Hence reducing investment finance since most small enterprises are financed out of their profits and saving, as a result the performance of these small enterprises had been undermined.

The findings also revealed that taxation system on small scale enterprises had aimed at increasing tax revenue while maximizing constraints to small scale enterprises survival. Policy regarding tax burden like presumptive tax encouraged these firms to prepare proper books of accounts, locating taxpayers’ tax rates, tax penalties, incentives needed to be applied on small scale enterprises under different income levels. Thus taxation policies aimed at protecting them although tendering of tax collection endangers the objectives of tax collection.

5.3 CONCLUSION
Generally there had been poor taxation system by tax authority with their focus being on the small scale enterprises, hence resulting into a greater scope to
taxation for instance VAT. Also there was need to review and improve the legal system in order to ensure efficiency, enforcement of tax laws to increase compliance and to introduce tax education to enlighten small scale enterprises on the importance of paying taxes.

Poor performance of small scale enterprises was as a result of inadequate identification assessment and collection, which are aspects of taxation performance. Therefore tax policy had focused on improving taxation performance in favor of small scale enterprises. Likewise other factors that also affected this variable had been taken into account. Taxation performance remained a major area to be explored by revenue authorities of various classes of taxes, since improving taxation performance enhances almost all aspects of tax policy including tax from small scale enterprises.

Small scale enterprises are those annual gross turnover which does not exceed fifty million Ugandan shillings, while large scale enterprises are those with capital of more than fifty million Ugandan shillings. The small enterprises taxed depending on gross turnover and they pay fixed amount or 1% of the annual turnover which is lower while large enterprises are taxed at rate of 30%. Therefore URA tried to avoid business Income tax difference by imposing a fixed rate of 30% on enterprises regardless of whether it is a small enterprises or large. High direct taxes had been high prices of goods hence a shift in consumption pattern from highly taxation and performance of small scale enterprises is mutually related.

5.4 RECOMMENDATION
Basing on the study carried out, the researcher recommended the following;

1. The government through URA should embark on intensive tax education programme especially for enterprise community. This should be done through various media and in different languages on radio stations, televisions. URA should carry out massive
training of its staff about tax assessment and collection methods, as well as how to handle taxpayers.

2. Taxpayers should employ skilled people like accountants to ensure proper and complete records keeping in their enterprises. This will enable them to pay only the taxes that they must pay and infringe on their profits.

3. Tax education should be included in primary school syllabus to ensure greater sensation even among the young generation since a greater percentage of small scale enterprises owners have as far as primary least, with this knowledge taxpayers can control their liquidity position.

5.5 AREAS FOR FURTHER RESEARCH

The role of presumption tax on performance of small scale enterprises.

Tax evasion and tax avoidance of small scale enterprises in developing countries.

Effect of taxation on growth of small business enterprises
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APPENDICES:
INSTRUMENTS

4. QUESTIONNAIRE
EFFECTS OF TAXATION ON THE PERFORMANCE OF SMALL SCALE ENTERPRISES
A CASE STUDY OF NAKAWA MARKET IN KAMPALA DISTRICT

I NNAM JANET REGISTRATION NUMBER BBA/16372/71/DU a student at Kampala International University pursuing a Bachelors’ Degree in Business Administration kindly request you to fill in my questionnaire. I further assure you that the information given here shall be treated with all due respect and confidentiality and shall only be used for academic purposes. Please feel free to give all the relevant information as per the questions asked.

You do not have to put your name, addresses or signature.

Thank you in advance.

INSTRUCTIONS:
Please tick the choice you most agree with.

1. Age of the respondent in years
   (a) 20-30 [ ] (b) 31-40 [ ]
   (c) 41-50 [ ] (d) 50 and above [ ]

2. Gender of respondent
   (a) Female [ ] (b) Male [ ]
3. Highest level of education
   a) Primary       b) secondary
   c) Certificate   d) diploma
   e) Degree

4. Marital status
   a) Single       b) Married
   c) divorce/separated d) Widowed

5. How taxes are paid in Nakawa market?
   a) Cash
   b) bank
   c) Others (specify) .............................................. .

6. After how long do you pay the tax?
   a) Weekly
   b) Monthly
   c) Annually
   d) Others (specify) .................................................. .

7. How do you find the taxation system used in Nakawa market?
   A) Clear
   b) Not clear
   c) None
   d) Others (specify) .................................................. .

8. Indicate the most common form of taxation system used in Nakawa market?
   a) Progressive
   b) Proportional
   c) Regressive
   d) Digressive
   a) Yes □
   b) No □
   c) None □
   d) Others (specify) ..........................................................

Other questionnaires,
10. What are some of the obstacles to taxation in Nakawa market?
    ........................................................................................
    ........................................................................................

11. What are the solutions available for taxation problem?
    ........................................................................................
    ........................................................................................

12. What are the factors affecting small-scale businesses in Nakawa market?
    ........................................................................................
    ........................................................................................

Thank you
2. INTERVIEW GUIDE

Good morning sir/madam,

My name is Nnam Janet, a student of Kampala International University. I am carrying out a research study that is meant to find information on the effects of taxation on the performances of small-scale enterprises. Therefore, the information obtained will be treated with utmost confidentiality. I am very grateful for your audience and the time you have offered to me. Some of the guiding questions include:

1. How do you find the taxation system used in Nakawa market?
2. How are taxes paid in Nakawa market?
3. What are some of the obstacles to taxation in Nakawa market?
4. What are the factors affecting small-scale enterprises of Nakawa market?
5. How taxation does affect your business performances?
6. What type of taxes is commonly used in the market?
7. Which method do you use in paying your tax in the market?
8. After how long does the government require taxes to be paid by the vendors?
9. Are there possible solutions to these taxation problems?
APPENDIX A

The time frame of the study

<table>
<thead>
<tr>
<th>Task</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal</td>
<td>February</td>
</tr>
<tr>
<td>Data collection</td>
<td>March</td>
</tr>
<tr>
<td>Dissertation writing</td>
<td>April</td>
</tr>
<tr>
<td>Submitting</td>
<td>May</td>
</tr>
</tbody>
</table>

APPENDIX B

Budget for the study

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount in Uganda Shillings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typing and printing</td>
<td>150,000</td>
</tr>
<tr>
<td>Literature collection</td>
<td>100,000</td>
</tr>
<tr>
<td>Data collection</td>
<td>250,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>600,000</strong></td>
</tr>
</tbody>
</table>
APPENDIX C

DIGRESSIVE TAX

PROPORTIONAL TAX

REGRESSIVE TAX