

**IMPACT OF INCOME TAX ON THE PERFORMANCE OF SMALL SCALE BUSINESS
ENTERPRISES: CASE OF KABALAGALA,
MAKINDYE DIVISION**

BY

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DECLARATION

I hereby declare that this research report is my original work and has not been submitted for any academic award of any institution and where the work of others was used, due acknowledgement has been made.

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APPROVAL

This research has been submitted for examination with my approval as the University appointed supervisor.

Supervisor: MR: OKELLO MOSES

Signature.....



Date.....

29/08/2018

DEDICATION

I dedicated this research to our parents, for their spiritual, financial, and moral support.

Dear parents, you have toiled day and night to brighten our future, so much that you have sacrificed your whole life. We can never be able to repay you back for all you have done for us for we owe you all we have become and we all ever become.

Allah bless you in plenty.

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ABSTRACT

The study was about impact of income tax and the performance of small scale business enterprise at Kabalagala town in Uganda and it was guided by the following specific objectives; to assess the level of performance of small scale business enterprises in Kabalagala suburb, Makindye division, to find out whether income tax affects the performance of small scale business in kabalagala suburb, Makindye division, to establish whether there is relationship between income tax and the performance of small scale business. The study based on 80 respondents who were randomly selected among the small scale business enterprises. The researchers used frequency, correlation research design and descriptive research design which involved both quantitative and qualitative research methods of the study, the questionnaires were the main tools for collection of data from the field. Data was analyzed using descriptive statistics through the means and standards deviation. Tables was used to present the frequencies and percentages of different categories of data. Secondly, the inferential statistics was used via a correlation analysis.

The study showed a weak positive relationship between income tax and the performance of enterprises at Kabalagala town. This was further evidenced by the Pearson correlation results of $r = 0.276$ which was statistically significant at 5% level of significance.

The researcher recommends that council should find a way of assessing the tax in that the Social security boards (SSBs) should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously, introduce a scheme that allows taxpayers to pay the tax obligation in the installments over a given period as opposed to lump sum at once, URA should improve on the methods of collecting the taxes and URA should improve awareness amongst the taxpayers of the need to pay taxes and how their tax liability is determined and the time process of the tax assessment.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This part of the study was entailed the background of the study, problem statement, purpose, specific objectives, research questions, scope of the study, significance of the study and the conceptual frame work.

1.1 Background of the study

1.1.1 Historical background

Globally, Small and Medium-sized Enterprises (SMEs) have played an important role in the world economy and contributed substantially to income, output and employment. However, the recent global financial crisis created a particularly tough climate for SMEs, with a reduction in demand for goods and services and a contraction in lending by banks and other financial institutions. They make a huge contribution to gross domestic product (GDP) and employment. The global financial crisis of 2013, however, created new challenges for SMEs. SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Jackson, B., 2017). Japan has the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises. India, according to its Ministry of Micro, Small and Medium Enterprises, had 13 million SMEs in 2018, equivalent to 80% of all the country's businesses. In South Africa, it is estimated that 91% of the formal business entities are SMEs (Mimeo, 2017).

In Africa, Micro- and small enterprises are an important force for economic development and industrialization in poor African countries (Jackson, B., 2017). It is increasingly recognized that these enterprises contribute substantially to job creation, economic growth and poverty alleviation. The 2015 World Development Report suggests that creating "sustainable jobs and opportunities for micro

entrepreneurs are the key pathways out of poverty for poor people” (Barkman, et. al, 2017). A Study carried out by the Federal Office of Statistics shows that in Nigeria, Small Scale Enterprises make up 97% of the economy (Brunetti, A,2017).

In Eastern African Countries, such as Kenya, Tanzania, Rwanda, Burundi and Uganda, considerable fraction of the businesses are sole traders operating small scale business, locally owned and managed by individuals or families and often with very few employees working at a single location (World Bank Report, 2018). Income tax is therefore defined as; a tax imposed on a person’s taxable income at specific rates. A person includes an individual, company, partnership, trustee, government and sub divisions of government (Nsibambi, A., 2017).

In Uganda Small scale business are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Barkman, et. al., 2017). According to Bird. (2017), a tax is generally referred to as a compulsory levy imposed by government upon assesses of various categories and taxation is a compulsory and non-refundable contribution imposed by government for public purposes. Income tax is charged on every person who has chargeable income for every year of income. Chargeable income is derived from three main types of income, namely; business, employment and property. In September 2016, after a period of review the URA was established. All taxes including income tax came under the umbrella of the URA (Bird., 2016).

In Kabala gala suburb, this is one of the busiest towns in Kampala district having at least 50 small scale business enterprises which employees 2-4 people. These small scale businesses are locally owned and managed by private individuals who sometimes employ their family members. These small scale businesses bear a wide tax burden which has led to poor performance. Therefore, it was against this background that the researcher undertook the study to investigate more about the

problem using Kabalagala town as a case study to evaluate the impact of income taxes on performance of small scale business performance.

1.1.2 Theoretical perceptive

The study was guided by the business passive learning theory developed by Jovanic (2016) states that a firm enters a market without knowing its own potential growth. Jovanic added that only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates. Another is in defining a firm in a manner which is both realistic and compatible with the idea of substitution at the margin, so instruments of conventional economic analysis apply (R.Reinika, D. A. 2017).

1.1.3 Conceptual perceptive

Micro- and small enterprises: Micro- and small enterprises services refer to the provision of financial services to low-income poor and very poor self-employed people (Otero, 2014). These financial services according to Davidson, w. (2017) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2016) define microfinance services as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, in this study microfinance services involves the provision of financial services such as savings and micro loans to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector (R.Reinika, D. a. (2017).

Income tax: this is a tax imposed on a person's taxable income at specific rates. A person includes an individual, company, partnership, trustee, government and sub division of the government. It is charged on every person who has chargeable income for every year of income (Mwanga, 2015). Income tax is therefore, a tax raised by the government to generate revenue used to provide services to the public such as; Health centers, telecommunication, roads, schools and electricity and this have helped to improve on the performance of small scale business enterprises.

1.1.4 Contextual perceptive

Business enterprises play a big role in the development of the economy of a country like Uganda i.e. they provide employment to people, market for agro based products and also contribute 40% of revenue collected by government. Lift people's standard of living, through provision of essential goods and services. Despite various types of taxes introduced in Uganda such as to protect the home industry from foreign product competition and also to enhance the growth of the country, many businesses continue to collapse in their initial stage this at times may be due to poor planning, improper management, and ignorance about the requirements to be fulfilled before one starts to open an industry such as licenses (Chursov, A., 2016). This is probably caused by income tax burden imposed on domestic industries that encompasses number of taxes i.e. withholding tax, import duty, export taxes, license, payee, VAT, Corporation tax and if situations continue, many business enterprises are bound to collapse.

1.2 Statement of the problem

SMEs are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies. Uganda, like any other developing countries, has taken a number of measures to promote the growth of private sector and Small and Medium Enterprises (SMEs). In Kampala, SMEs were estimated to account for a significant share of Gross Domestic Product (GDP) of more than 30% (Davidson, W., 2017). The government of Uganda has formulated and implemented various policies aimed at increasing job

opportunities, development of infrastructure as well as income generation through the creation of new SMEs and improving the performance and competitiveness of existing one. Income tax is raised by the government to generate revenue used to provide services to the public such as; Health centers, telecommunication, roads, schools and electricity and this have helped to improve on the performance of small scale business enterprises.

However, in Uganda, like in most developing countries during the 2017, Micro, Small and Medium Enterprises (MSME) constituted the large part of the private sector with specific reference to their numbers and employment figures. Most of these enterprises were indigenously owned and family run, less than 30 years old and rarely grow beyond medium scale level due to economic factors such as lack of access to markets and finance, limited skills and enterprise -to-enterprise linkages that would provide opportunities for growth (Ayyagari, 2017).

Despite the services provided, small scale business enterprise's performance in Kabalagala town is still in a bad state. High tax rates and tax complicity discourage the growth of SMEs (Oludele and Emilie, 2018). This has the economic impact to the growth of the economy in the given country. From economic point of view, taxes increase production cost of goods and services which would eventually leads to higher price of goods/services to the final consumers According to a study report (Mnewa and Maliti, 2018), the majority of small businesses were less likely to attain or maintain the growing profitability in Kampala town council. The fact is SMEs in developing countries often face difficulties when dealing with tax matters.

This could be due to the increasing tax burden brought about by tax rates which are revised annually by the country and without expects return of their tax. These situations seem to be taking an upward trend (Gordon and Dawson, 2017) which has led to winding up of some small scale business enterprises. Income tax is a worm eating deeply and the large chunk of revenues generated by these small scale businesses for their growth and survival. These have led to increase in record of

death of Small and Medium Scale Enterprise This promote the researcher to investigate more about the impact of income taxes on performance of small scale business enterprises, as to reach a proper tax policy which can help both government and small scale business enterprises (Gordon and Dawson, 2017).

1.3 Purpose of the Study

This is research study was aimed at the evaluation of the effects of taxes on the performance of Small Scale business enterprises in Kampala town council especially in Kabala gala suburb, Makindye division.

1.4 Objectives of the study

- i. To assess the level of the performance of small scale business enterprises in Kabala gala suburb, Makindye division.
- ii. To find out whether income tax affects the performance of small scale business in Kabala gala suburb, Makindye division.
- iii. To establish whether there is a relationship between income tax and the performance of small scale business.

1.5 Research questions

- i. What is the level of the performance of small scale business in Kabala gala suburb, Makindye division?
- ii. What are effects of income tax on the performance of small scale business in Kabala gala suburb, Makindye division?
- iii. Is there any relationship between income tax and the performance of small scale business in Kabala gala suburb, Makindye division?

1.6 Research Hypothesis

Ho: There is no significant relationship between income tax and the performance of small scale business.

1.7 Scope of the study

1.7.1 Content Scope

The study covered small scale businesses in Kabalagala town. Specifically, the study investigated the performance of small scale businesses, the awareness of the tax payers regarding their obligations, problems faced by the tax payers and the relationship between the taxes paid and the performance of the small scale businesses.

1.7.2 Geographical scope

The study was carried out in Kabalagala suburb, Kampala district Makindye division the area is purposely selected.

1.7.3 Time scope

The study was done within a period of eight months (January2018- August2018). This period is selected to enable the researcher come up with coherent information from the respondents as it would enable those (Respondents) to give responses that are typical of their opinion from the observations made over this period.

1.8 Significance of the study

The findings of the study are significant on the following ways;

To scholars and researchers, the findings of the study are expected to contribute to the existing literature about income tax and the effect it causes to the economy as a whole.

To the tax authority and government, the study guides them in adjusting income tax policies so that they suit requirements of small scale businesses.

To future academicians will help in gaining insight about taxes and performance of small scale business enterprises. The accomplishment of the study will enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with

a lot of precision and proficiency. The study is vital for the public as it brings out the effect of taxes on investment, which will serve as a basis for future.

1.9 Definition of key terms

Tax administration: refers to the identification of the taxpayer, assessment of tax payable, collection of taxes and enforcement of tax liability in Kabalagala town. This is as well, a process of administering taxes like identifying the tax payers, assessing them and then levying reasonable taxes they are capable of paying (Ray Tomkinson, 2016). A survey by (Satich C Wadhawan and Clive Gray, 2015) reveals that uneven tax administration in Africa is a major contribution to revenue shortfalls that augment inflationary pressure while depriving governments' resources with which to provide public goods. Uneven tax administration also stimulates resort to more easily collected taxes on foreign trade with associated efficiency losses (Wadhawan and Gray, 2015) noted that theoretical and empirical research on why persons subject to tax comply or fail to comply with their legal liabilities has been pursued by social scientists from various disciplines. The direct benefit of successful tax evasion is obvious, it is the value of the payments evaded, comprising their resources thereby saved.

Income tax: annual charge levied on both earned income (wages, salaries, commission) and unearned income (dividends, interest, rents) in addition to financing government's operation in Kabalgala town.

Profitability: has been defined as an organizations ability to earn revenues in excess of expenses over a period in Kabalagala town.

Sales revenue: the amount realized from selling goods or service in the normal operation of firm in specified period in small scale business in Kabalagala town.

Investment: is putting money into an asset with the expectation of capital appreciation dividends or interest earnings in those business in Kabalagala town

Tax policy: is the choice by a government as to what taxes to levy, in what amounts, and on whom. It has both microeconomic and macroeconomic aspects. The macroeconomic aspects concern the overall quantity of taxes to collect, which can inversely affect the level of economic activity; this is one component of fiscal policy. The microeconomic aspects concern issues of fairness (who to tax)

and allocative efficiency (i.e., which taxes will have how much of a distorting effect on the amounts of various types of economic activity).

Tax assessment, or assessment: is the job of determining the value, and sometimes determining the use, of property, usually to calculate a property tax. This is usually done by an office called the assessor or tax assessor

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

While chapter one discussed about the background, scope and justification of the study, this chapter reviews theoretical and empirical literatures related to the study. The chapter focuses on the relevant knowledge areas of the reports which span the academic disciplines of economics and management. The literatures also provide conceptual framework to help researcher to clarify his research questions and objectives.

2.1 Concepts, opinion and ideas

(i)Income Tax

Income tax is a tax on income and is charged for each year of income upon all the income of a person whether resident or non-resident which accrued in or was derived from Uganda.

Where a resident person partly within and partly outside Uganda carries on a business. The whole of the project of that business is deemed to have accrued in or be derived in Uganda. The gross income of a resident person includes income derived from all geographical sources. Income tax is a compulsory levy on a person's income. Income tax is a portion of a person's income that is paid to government or central authority as a tax upon generation of income. Income tax is that part of direct taxes levied on income of individuals, Balunywa, (2014). Subject to the Income Tax Act 2014 part II sec, 5(1) a tax to be known as income tax shall be charged for each year of income and is here by imposed on every person who has chargeable income for the year of income. The income tax payable by a taxpayer for the year of income is calculated on the individual's net assessable income after making allowance for deductible expenses. The sources of assessable income for individuals include employment, business and property. However, different tax rates apply depending on whether the individual is a resident or non-resident of Uganda for tax purposes.

(ii)Tax Policy

This section reviews key concepts that guide tax policy analysis. As stated previously, tax policy is at the heart of the political debate as to the level of public services that should be provided and who should pay for them. To engage in this debate from the perspective of gender equality in taxation, it is important to understand the concepts that are used, as well their limitations. Tax policy analysis seeks to identify the impact of tax policy options on individuals, households, businesses, and economic growth and development, so that government decision-makers and the public can make informed policy decisions. Gender analysis of tax policy seeks to identify the differential impact on women and men of tax alternatives, to the extent that their social and economic roles and responsibilities are different, in order to ensure gender equity. In developing countries, most people – and especially most women – are poor, so the analysis of both income and gender equity is central to tax policy analysis.

In the wake of the recent financial and economic crisis, many OECD countries face the challenge of restoring public finances while still supporting growth. This report investigates how tax structures can best be designed to support GDP per capita growth. The analysis suggests a tax and economic growth ranking order according to which corporate taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful may not be easy. This report identifies those public and political economy tax reform strategies that will allow policy makers to reconcile differing tax policy objectives and overcome obstacles to reform. It stresses that with clear vision, strong leadership and solid tax policy analysis, growth-oriented tax reform can indeed be realized.

Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage small and medium enterprises SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting Tax deductions to market entities and

venture capitalists that invest in high- tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. Mnewa and Maliti, (2013) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection, It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown (Schreiner and Colombet, 2016).

(iii) Tax assessment

The local government in the United States, an assessor, also called a tax assessor, is an appointed or elected official charged with determining the value of each taxable property in a county, municipality, or township; this information is then used by the local governments to determine the necessary rates of taxation to support the community's annual public budgets. In Florida, this official is known as the property appraiser.

Assessment/Re-assessment is a procedure adopted to determine the correctness of the income disclosed by the assessee and tax payable thereon. Then what is reassessment and why there is need of reassessment? Section 147 and 148 of Income Tax Act is a well-designed weapon for the Income Tax Department empowering it to assess, re-assess or re-compute income, turnover etc., which has escaped assessment.

Section 147 and Section 148 of the Act contain the per-requisite conditions to be fulfilled for invoking the jurisdiction to reopen the assessment. This article is concentrated on procedure to be followed in case of re-assessment.

Income Tax Act (2013) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income. According to the income tax Act (2013 section 96 (1) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven days from the date the return was furnished. However, small-scale businesses are not required to submit in any return to the commissioner.

Tax assessment has adverse effect on business performance and profitability thus it is important that assessment be carried out accurately so that taxpayers are not excessively assessed. The tax bill if excessive will greatly affect the profitability and performance of the business, Wagner, (2014).

(iv) Profitability of small business enterprises.

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

There are many different ways for you to analyze profitability. This lesson will focus on profitability ratios, which are a measure of the business's ability to generate revenue compared to the amount of expenses it incurs. Let's look at a few of the primary analytical approaches.

The assessment of financial performance of profit entities has a well-established methodology that includes the computation and interpretation of univariate and multi-variate modes. Univariate predictors of performance of periods and their ratios assess liquidity position, profitability levels and efficiency, (Makerere Business Journal, 2014). A study carried out by USAID (2013) revealed that the small business enterprises sector employ about 20% of the population of working age and 60% of entrepreneurs in Uganda depend on their business for at least half of their business income. Profitability of Small Business Enterprises is therefore vital to the economy because a large percentage of the population depend on them for their livelihood, there is thus need to support these Small Business Enterprises (Kiiza, 2015)

Profitability determines whether a business stays in business. In this lesson, you'll learn about profitability and different ways to analyze it. A short quiz follows the lesson.

(v) Revenue

In business, revenue or turnover is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. In many countries and states, revenue is referred to as turnover. Some companies receive revenue from interest, royalties, or other fees. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time.

In general usage, revenue is income received by an organization in the form of cash or cash equivalents. Sales revenue or revenues is income received from selling goods or services over a period of time. Tax revenue is income that a government receives from taxpayers.

Revenue is the income that a business has from its normal business activities, usually from the sale of goods and services to customers. Revenue is also referred to as sales or turnover. Some companies receive revenue from interest, royalties, or other fees. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, earned during a period of time, as in "Last year, Company X had revenue of \$42 million". Profits or net income generally imply total revenue minus total expenses in a given period. In accounting, in the balance statement it is a subsection of the Equity section and revenue increases equity, it is often referred to as the "top line" due to its position on the income statement at the very top. This is to be contrasted with the "bottom line" which denotes net income (gross revenues minus total expenses).

For non-profit organizations, annual revenue may be referred to as gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's mission, and income from fundraising activities, membership dues, and financial securities such as stocks, bonds or investment funds.

In general usage, revenue is income received by an organization in the form of cash or cash equivalents. Sales revenue or revenues is income received from

selling goods or services over a period of time. Tax revenue is income that a government receives from taxpayers.

(v) Investment

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

In general, to invest is to allocate money (or sometimes another resource, such as time) in the expectation of some benefit in the future – for example, investment in durable goods, in real estate by the service industry, in factories for manufacturing, in product development, and in research and development. However, this article focuses specifically on investment in financial assets.

In finance, the benefit from investment is called a return. The return may consist of capital gains or investment income, including dividends, interest, rental income etc., or a combination of the two. The projected economic return is the appropriately discounted value of the future returns. The historic return comprises the actual capital gain (or loss) or income (or both) over a period of time.

Investors generally expect higher returns from riskier investments. Financial assets range from low-risk, low-return investments, such as high-grade government bonds, to those with high-risk and higher expected commensurate reward, such as emerging markets stock investments.

Investors, particularly novices, are often advised to adopt a particular investment strategy and diversify their portfolio. Diversification has the statistical effect of reducing overall risk Thorp, Edward (2014)

(vii) Performance of small and medium enterprises

Business performance is also defined as the level and extent to which the venture meets the objectives of the owner and expectations of the society of operation

(Cohen, 1993). One of the most popular objectives of most firms is profit. Growth is thus defined according to individual goals set for a given business. For example, if the business is set to serve ten villages and at the current state it is serving only one or two, it has not grown according to the expectations of the founder or society. Adhikary *et al* (2014) in Nieman *et al* (2013) defined successful enterprises as a business serving for longer than two years, having a staff complement of more than five but less than 30, making a profit and expanding in terms of infrastructure and growth.

Cohen (2013) showed that performance dimensions of an enterprise are grouped into personal and environmental factors. Personal factors include challenges the business owner experiences, self-concepts and adaptability, and previous exposure. Environmental factors include relationships with others (e.g. customers, subordinates, colleagues, family and friends), one's training and education and other environmental hardships. This implies that growth can be internal and external (or personal and environmental). This study considered internal and environmental or external growth. Internal growth involves personal benefits like increased profits, sales, personal satisfaction, expansion, etc. External growth involves increased employment opportunities, output, improved quality, relations, trained people, increased assets, etc. Factors like long-term survival may be both internal and external growth.

2.2 Theoretical review

The study was guided by the business passive learning theory developed by Jovanic (2013). He notes that a firm's interactions with the market may not be under its control (for instance because of sales taxes), but their internal allocations of resources are: Within a firm, market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur who directs production." He asks why alternative methods of production (such as the price mechanism and economic planning), could not either

achieve all production, so that either firms use internal prices for all their production, or one big firm runs the entire economy (Nieman, 2013).

2.3 Conceptual Frame Work

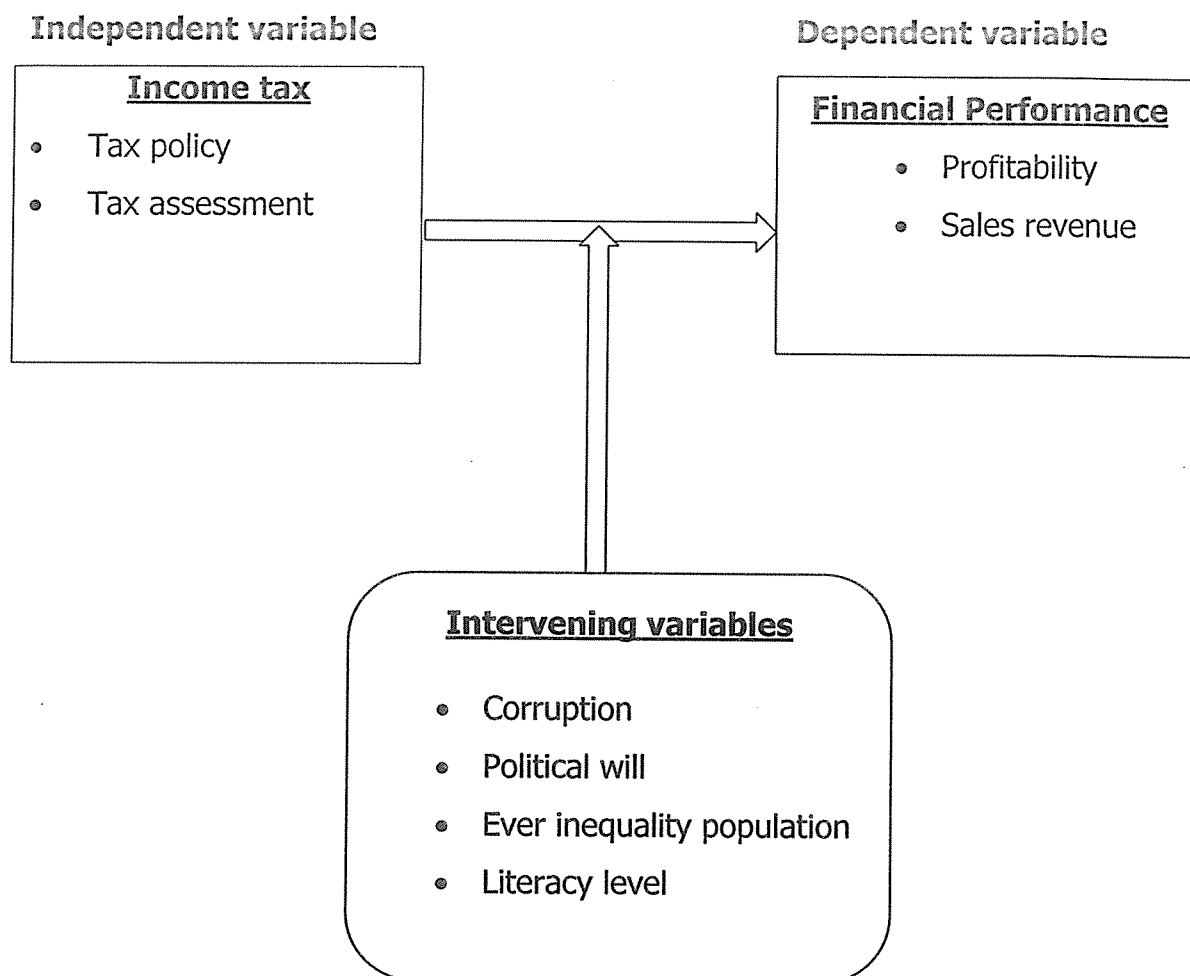


Figure 1: Conceptual frame work

According to Figure 1.given above, the researcher conceptualized tax income as dependent variable by identifying the activities embedded in tax administration which included tax assessment, tax payer services, tax payer administration based on capacity to pay and efficient revenue collection process in the sector. The attributes such as Corruption, Political will, Ever inequality population and Literacy level represent the intervening variable since the performance of SMEs is highly determined by three factors. Therefore as per the researcher's conceptual framework, performance of SMEs is comprised by profitability, sales revenue and

Investment to monitor the performance of SMEs in Kabalagala area, Makindye division.

2.4 Related literatures

2.4.1 Effects of tax policy on profitability

Profitability is considered as the most complicated feature for a company to be understood and evaluated. These ratios included in profitability are applied for evaluating business capabilities and making the wages in comparison with all cost during a specific period of time. In a more accurate way, the ratios indicate the profitability of a company, having calculated the total costs and tax on revenue, operational efficiency, and company pricing policies, assets profitability and company's shareholders. The approach applied in this research is descriptive-analytic. Using the data of 28 companies listed in Tehran Stock Exchange from 2013 to 2017 and using panel data approach, the tax effects over the paid profitability indices were studied in this paper. The results achieved from all estimation cases point out a negative significant effects on various profitability indices. It should be mentioned that in order to relate the taxes to the profitability indices, the costs and the debts of a corporation can be referred. Results of the study indicated that the debts ratio to asset and the type of the industry showed a negative effect on profitability and capital ratio to asset and the size of the company indicated positive significant effects on profitability index.

One of the Acts regulating the taxation practice relating to Companies Income in Nigeria is the Companies Income Tax Amendment Act 2014. Company Income Tax is charged on the chargeable profits of all companies operating in the country except those specifically exempted under the Act. The administration of the Companies Income Act and the tax is under the care and management of the Federal Board of Inland Revenue (the Board). The operational arm of the Federal Board of Inland Revenue is called the Federal Inland Revenue Service (the Service) and the Act that governed it, is called the Federal Inland Revenue Service Establishment Act (FIRSEA) 2014.

Historically, the formation of accountability and effective States has been closely associated with the emergence of taxation systems (Moore, 2014). Taxes underwrite the capacity of the States to carry out their goals; form one of the central arenas for the conduct of the State-Society relations and shape the balance between accumulation and redistribution that give States their social character. Without the ability to raise revenue effectively, States are limited in the extent to which they can provide security, meet basic needs or foster economic development. A general analysis of the tax policy was considered. The emphasis is on the trade-off of encouraging the development of resources versus extracting the maximum tax revenue. This constrained the ability of the State tax policy makers to achieve goals of maximum resource development and the tax yields simultaneously; and hence, affects the profitability of Corporate Organizations

Nigeria tax system, as it is today, is skewed towards raising fund to meet the State expenditures (recurrent and capital). Laudable as this is, it has however, obscured the need for tax system that can be used as a veritable tool for establishing and developing industries in Nigeria, particularly in the rural areas with its subsequent multiplier effects. Taking the forgoing into cognizance, the Nigeria tax architecture will need to be focused on the objective of industrial development, economic growth and employment generation. Therefore, it should look at the role of tax in promoting sound industrial performance and scale down unemployment

2.4.2 Effects of tax assessment on sales revenue

Income Tax Act (2013) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income. According to the income tax Act (2013 section 96 (1) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven days from the date the return was furnished. However, small-scale businesses are not required to submit in any return to the commissioner.

Tax assessment has adverse effect on business performance and profitability thus it is important that assessment be carried out accurately so that taxpayers are not excessively assessed. The tax bill if excessive will greatly affect the profitability and performance of the business, Wagner, (2014).

Changes in how revenue is recognized for financial statement purposes under US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS) may have significant implications on the tax revenue recognition methods currently used by many taxpayers. Since most taxpayers either follow book revenue recognition methods or determine tax revenue based on book income, changes in how revenue is recognized for financial statement purposes will affect not only how taxable income is calculated, but also potentially other tax and nontax calculations.

As further explained below, the IRS is evaluating the impact of the new standards on taxpayers' methods of accounting and is expected to issue procedural guidance to implement such method changes. Software, entertainment, life sciences, manufacturing, and construction industry businesses are likely to be particularly affected by the new guidance, which makes significant changes to revenue methods.

While the new standards do not take effect until tax years beginning after Dec. 15, 2018, for many businesses, a review of current and proposed book and tax accounting methods and revenue recognition is important in order to plan now for the repercussions and evaluate whether tax accounting method change(s) are necessary or desired to change to compliant method(s) or to follow the new book accounting method(s) or, alternatively, whether the client tracks the necessary data to continue using the current revenue recognition method(s). National tax resources are available to assist in this process. Public companies will need to accelerate this process as the new revenue recognition rules go into effect one year earlier for these entities and because income tax provisions of public companies may need to include the impact of new standards prior to actual adoption.

2.4.3 Level of the performance of small scale business enterprises

According to Tomlin (2013), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2013).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost as stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue 2014).

There was certain policy measures geared towards Small and medium scale enterprises (SMEs) growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (2013) believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Uganda for

increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of small scale business enterprises operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavorable. These small scale business enterprises constitute untapped revenue potential and an even playing field in many countries (International Tax Dialogue, 2014) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the small scale business enterprises. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2013).

Shahroodi, (2015) believes that for a tax system to be efficient the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense (Wadhawan and Gray, 2015).

Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage small and medium enterprises SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting Tax deductions to market entities and venture capitalists that invest in high- tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. Mnewa and Maliti, (2013) declared that special tax regimes for SMEs may

he appropriate policy instruments for minimizing the cost of collection, It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown (Schreiner and Colombet, 2016).

2.4.4 Effects of Income tax on the performance of small scale business

These are effects that result from the poor assessment of tax on the small businesses by the administrators. They occur because of poor tax administration. Muwanga J (2014), stated the following effects which are because of poor tax administration. Some of the taxes levied are complicated and not simple to understand and this has brought a lot of confusion for instance the value added tax that adversely affects the business activities in the formal sector. Thus leading to low profits hence reduced performance. There is always poor assessment of tax since many business people do not give correct information concerning their business in fear of paying higher taxes.

Tax administrators and collectors at times base on estimation to compute the tax liability on small-scale business. This implies that participants in the informal sector may either be over charged hence causing loss to these businesses. Poor tax administration leads to social, economic and political unrest, this has been common in Uganda and even in other developing countries. The increase in the tax rate erodes disposable income and people may react against the government hence affecting the economic activities (Mnewa and Maliti, (2013)

The assessment of financial performance of profit entities has a well-established methodology that includes the computation and interpretation or univariate and multi-variate modes. Univariate predictors of performance of periods and there ratios assess liquidity position, profitability levels and efficiency, (Chursov, A., 2016). A study carried out by USAID 1995) revealed that the small business enterprises sector employ about 20% or the population of working age and 60% of entrepreneurs in Uganda depend on their business for at least half of their business income. Profitability of Small Business Enterprises is therefore vital to the economy because a

large percentage of the population depend on them for their livelihood, there is thus need to support these Small Business Enterprises (Bird., 2013).

The World Bank has influenced many countries in under taking tax reform policies. For the case of Uganda, the tax base has remained significantly narrow since independence, leading to inadequate tax revenue. By May 2004, the tax ratio of tax revenue to GDP was just 18-20%. The composition of tax revenue has been predominantly important. Small scale businesses are taxed differently compared to corporation/business with an annual turnover of above 50 million shillings. Medical practices, legal practices, engineering service, accounting and audit practices are tax payers even when their turn over is less than 50 million shillings. As quoted by Bird. (2013), there are three broad approaches to tax policies and these are; Application of the standard tax provisions to all business activities; taxing various business activities differently to achieve economic business policy such as; increase in private investment, exports/employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and hence induce problems for compliance and adversely affect the general investment climate and Kenya has gone through a number of tax policy reforms, these include; gender, nationalization, and harmonization of tax rates and tariffs, abolition of wide ranging exemptions, new tax incentives and conditional exemptions (Bird., 2013).

According to Bird (2013), tax administration refers to the identification of the taxpayer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to Olman (1967), tax administration refers to a structure/procedure of identification of potential taxpayer, collection and laws governing taxation. Ayyagari, (2015) says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the taxpayer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion. Income tax is affected by the complexity of the rules and procedures to be followed in the

calculation of tax bands. This hinders tax administration in the economy and consequently the performance of the business sector (Ayyagari, 2015).

This is where tax administration begins. The identification of taxpayer is done with reference to natural or artificial person who earns an income. According to the lord Macnagten, "income tax if I may be pardoned for saying so, is tax on income. It is not meant to be anything else it is one tax not collection of taxes, essentially distinct...", (International Tax Dialogue, 2014). However, for the purpose of this research we shall confirm our selves to business as a taxpayer. Business is defined as any trade, profession, vocation or adventure in the nature of trade but does not include employment (Act, 2014). Business income means any income derived by a person in carrying on a business (sec19 (1)). The income tax act 2014 S.22 (1) lists a number of incomes exempted from tax.

Income Tax Act (2014) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income. According to the income tax Act (2014) section 96 (1) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven days from the date the return was furnished. However, small-scale businesses are not required to submit in any return to the commissioner.

According to the Income Tax Act (2014), small-scale businesses are those with growth turnover of less than 50 million shillings per annum. In Uganda, it is not only income tax Act that has tried to define small-scale businesses; there are also institutions, which have tried to define small-scale business (SSB) such as; Ministry of Finance Planning and Economic Development (MFPED), the Uganda Small Scale Industries Association (USSIA). The MFPED defines SSB as a unit with a capital investment not exceeding US\$ 300,000. The USSIA defines SSB as those with employees between 1-25 people and assets and capital exceeding US\$ 1,000,000 (International Tax Dialogue, 2014).

2.4.5 Relationship between income tax and the performance of small scale business.

In our definition of tax, it is clearly illustrated that a tax is not a price paid by the tax payer for any definite service or benefit from government, and tax payers have no right to any benefit from public expenditure on the ground that they are paying taxes. However to distinguish a tax from government receipts that may contain an external of compulsion the concept of *quid pro quo* is used as an illustration. The absence of a *quid pro quo* is necessary for a payment to qualify as a tax, (Chursov, A, 2016). The regime and authorities make management of micro and small enterprises very difficult whereby for example lump sum pre-payment and estimated assessments are imposed on the entrepreneurs. The existence of multiple taxes of operational businesses in general and to small business sector in particular has been ranked as second barrier after capital to entry into small business sector (Chursov, A, 2016).

Taxes tend to stifle the growth of small private sector and especially hinder the graduation of the informal sector firms to visible small and medium scale firms Mamun, A. (2015). The multiplicity of taxes whose burden also fall on the micro and small scale enterprises has a negative effect on their performance by reducing the firm's profits and its savings and investment potential. Given the fact that there are financial institutions and mechanism for collecting the community's savings and bringing them to investors, the level and patterns of investment will be greatly influenced by taxes. This is because the investors are basically interested in making profit yet profitability of investment can be affected through various tax measures in the following ways; the possibility of taxing savings themselves. If this happens, the investor will experience a low level of savings and the overall level of investment will be low. The authorities might tax earnings from investment to an extent that it might become a problem for the firm to raise adequate resources in the market, if the retained profits of the firm are taxed, they will not be able to depend much upon their internal resources for expansion; instead they will borrow and invest if at all they do so (Bhatia H.L, 2014).

In business, revenue or turnover is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. In many countries and states, revenue is referred to as turnover. Some companies receive revenue from interest, royalties, or other fees. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. In general usage, revenue is income received by an organization in the form of cash or cash equivalents. Sales revenue or revenues is income received from selling goods or services over a period of time. Tax revenue is income that a government receives from taxpayers (Mix, M., 2015).

Every taxpayer shall furnish a return of income for each year of income of the taxpayer not later than four months after the end of that year. According to the act; where the taxpayer files the final income tax return, payment of any unpaid tax relating to the assessment for the year of income is due or before the date when the income tax return is due for filing, for tax payers published in the self-assessment list. In any other case tax charged in any assessment is payable not later than 45 days from the date of service of the notice assessment (S. 104(1) (b)). By virtue of s.95 (5) tax payers, other than those listed under self-assessment are not deemed to have assessed their chargeable income when they make their final income tax return. Where assessment is raised by the revenue authority and served upon the tax payers, the tax payable in accordance with that assessment is due not less than 45 days from the date of service of the notice of assessment (Hassan A, 2015).

2.4.6 Relationship between tax policy and financial performance

In any economy, government participation in economic activities is largely determined and influenced by the type of economic system operating in that country. In a mixed economic system, which is predominantly practiced by most developing countries including Nigeria, that public sectors participated in the control of economic activities by means of public policy reforms along with the private sector is not a new dimension in the management of the economy. Government as an economic institution plays a vital role in the determination of the output performance

and capacity utilization of manufacturing industry in Nigeria. Apart from being the coordinating agent for manufacturing sectors and others, it also plays crucial roles in stimulating and influencing the market forces of demand and supply through its policy instruments.

The two major government policy instruments are monetary and fiscal policy through which it influences the developmental roles of the manufacturing sector. Though, the performance effect of monetary policy is less controversial, but the relevance of fiscal policy component of government policy to manufacturing firms' performance still remained the subject of empirical debate with inconclusive result in the literature. The most controversial component of fiscal policy is the tax policy possibly because of its role on the performance of manufacturing firms. Tax policy remains a major fiscal policy instrument of the government for generating revenue to meet up with public infrastructural challenges affect the production function of the manufacturing sector of the economy. Studies in developed countries suggest that by reducing marginal tax rates, or by replacing the federal income tax with a consumption tax, the work effort, saving, and investment can be increased, resulting in a tremendous increase in firm's output performance. The activities of manufacturing firms have significant impact on the development process of any economy as they account for a substantial proportion of total economic activities which reflect visibly in job creation and improved tax contribution in the developed economies.

In recent times however, there has been a growing concern on the declining performance of manufacturing firms in Nigeria which have been characterized by declining productivity rate despite various strategies and reforms put in place by government. This slow performance has resulted in unemployment generation, which is caused largely by inadequate electricity supply, smuggling of foreign products into the country, high exchange rate, inadequate financial support and lack of proper harmonization and coordination of tax policy and this has led to multiplicity of taxes, specifically, as at 2013, 40 different taxes and levies are shared by all three levels of government according to (Adeoye, (2015) and number increased to 47 in 2013 as reported by World Bank. This undesirable performance of manufacturing

firms in Nigeria has equally resulted into the reduction in capacity utilization and output of the manufacturing sector of the economy (Tomola, Adebisi and Olawale, 2013).

Literatures however, showed that there have been much studies in public finance (Lee and Gordon (2014), Koch, Schoeman and Tonder (2013)) in relation to its impact on growth, capital formation, capital stock, deficit and macroeconomic variables. However, adequate research on the nexus between tax policy and the manufacturing firms' performance has not been conducted in Nigeria as noted in the recent study of (Ezejiofor, 2015). Generally, while government is complaining of shortfall of tax revenue from manufacturing sector, the unimpressive performance in the sector has been attributed to problem of multiplicity of taxes (Micah, Ebere and Umobong, Unauthenticated Government Tax Policy and Performance of Listed Manufacturing Firms in Nigeria: Evidence... 3 2014). This calls for an empirical investigation most especially this time period of shortfall of oil revenue which has made the recent proposed 2016 National Budget of #6.08 trillion, the highest so far in the history of this country and equally based on the \$38 per barrel as the oil benchmark, the lowest so far, as recently proposed by government. This is clear evidence that the 2016 budget if approved by national assembly may be driven by more taxes in term of increases in tax base, tax rate and loans. This study ascertains the real effect of various tax components and policy on manufacturing sector performance with a view of identifying may be government over time does not return tax revenue collected in an efficient and effective manner by investing it in public infrastructures which is common in the developing countries or there is a level of corruption either on the part of government or manufacturing sector or both parties.

2.4.7 Relationship between tax assessment and financial performance

The issue of taxation as a major determinant of doing business is of great interest both for policy makers and business executives. Many well-established surveys investigate taxation and its effects on business. The most widely known methodology in that respect is the 'Doing Business/Paying Taxes' methodology

developed by PricewaterhouseCoopers and World Bank. According to this, countries are ranked on the three indicators total tax rate, number of tax payments and time to comply. The larger these figures are, the larger the negative effects of taxation on business are.

Global competitiveness report 2013–2014) identify taxation as one of the main barriers against business revenue in Romania, this paper empirically investigates the effects of taxation on Romanian firms' performance. In doing so, a unique dataset which contains not only profit taxes, but also non-profit taxes and labor-related taxes for all non-financial companies listed at the Bucharest Stock Exchange, was collected by hand for the 2013–2015 period. This dataset allows us to account for the whole corporate tax picture,

Therefore, the major contribution of this paper consists in investigating the overall corporate tax-mix as a determinant of firm performance. To the best of our knowledge, such an empirical investigation that aggregates all firms' tax liabilities is performed here for the first time, mainly because such data were previously unavailable. Companies do not usually report data on social security contributions charges or real-estate taxes, therefore none of the major suppliers of company data accounts is able to provide this type of data. To date, this type of data was collected only by PricewaterhouseCoopers in their Total Tax Contribution surveys, but solely for informative purposes as a figure of a company's overall tax contribution and for a limited number of countries (Australia, Belgium, Canada, India, Japan, Luxembourg, South Africa, Switzerland, United Kingdom and United States). Our paper develops and computes a firm-specific tax rate that aggregates the overall corporate tax-mix, while also accounting for differences in financing and accounting firm-specific policies to the extent possible, and investigates its effect on firm performance for non-financial Romanian public companies from the Bucharest Stock Exchange.

2.5 Gap of the study

This section is analyzed using a cross-section of literature dealing with income tax and the performance of SSBs. Income tax is cost in small scale business and revenue in government According Kitinisa (2013), Taxing various business activities

differently to achieve economic business policy such as; increase in private investment, exports/employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and hence induce problems for compliance and adversely affect the general investment climate is small scale business that do not have much capital. However, most of the literature reviewed does not give details about how income tax affects the performance of small scale businesses. Therefore there was need to carry out a primary research to close the gap between research variables as this was not made clear in literature reviewed. so we want to find out whether tax system is efficient and effective and how is impact to performance of small scale business we saw some small scale business are death and out of the market because tax so how government should come up with appropriate taxes system which is good for government and the growth of small scale business .

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter was entailed research philosophy, approach, strategy, study population, sampling techniques, sample size, instruments, validity and reliability, data collection procedures, data management, ethical considerations and limitations. This chapter generally contains the approach that will be used to achieve the objectives of the study.

3.1 Research design

The research design was based on quantitative, qualitative and correlation in nature. A survey method was enabled the researcher to gather data from a large number of respondents. In natural sciences and social sciences, quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or numerical data or computational techniques (Given, Lisa M., 2016). The objective on quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Quantitative data is any data that is in numerical form such as statistics, percentages, etc. (Given, Lisa M., 2016).

Quantitative research is often contrasted with qualitative research, which is the examination, analysis and interpretation of observations for the purpose of discovering underlying meanings and patterns of relationships, including classifications of types of phenomena and entities, in a manner that does not involve mathematical models (Kuhn, Thomas S., 2015). For example data collection was largely quantitative basing on use of a questionnaire with limited qualitative approach in explaining the results where possible. Pearson linear Coefficient

Correlation was used in explaining how income tax is correlated with the performance of SMEs found in the area of investigation.

3.2 Population

Target population according to Ngechu (2017), is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Population studies are more representative because everyone has equal chance to be included in the final sample that is drawn according to Amin, S., Rai, A. S., Topa, G. (2017). The target population is comprised by a population of 100 small-scale enterprises, which included Mini-supermarkets, hardware shops, construction shops and dealers in general merchandise and URA tax administrators.

3.3 Sample Size

A sample size of 80 respondents was selected from the population of 100 people using Slovic's formula as shown below;

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

Where n = sample size

N = population of the study

1 = constant

e = level of significance = 0.05 in social sciences

Basing on Slovic's formula, the minimum sample size will be:

$$\begin{aligned} n &= \frac{N}{1 + N(e)^2} \\ n &= \frac{100}{1 + 100(0.05)^2} \\ n &= \frac{100}{1 + 100(0.0025)} \\ n &= \frac{100}{1 + 0.25} \\ n &= \frac{100}{1.25} \end{aligned}$$

Therefore, n= 80 respondents

Table 1. Categories of respondents

Sample / department	Population	Formula.	Sample size
Mini-supermarkets	20	$\frac{20}{100} \times 80$	16
Electronic hardware shops	50	$\frac{50}{100} \times 80$	40
Construction hardware shops	30	$\frac{30}{100} \times 80$	24
Total	100		80

3.4 Research Instruments

The research instrument to be used in this study was questionnaires, interviews and observation. Respondents was free to Agree or Disagree with any statement on the questionnaire on a continuum ranging from Strongly Agree to Strongly disagree as follows: Strongly Agree (4 points), Agree (3 points), Disagree (2 points) and Strongly Disagree (1 points).

Table 2: Interpretation of the Mean Range

Scale	Response mode	Meaning
4	Strongly agree	Very high
3	Agree	High
2	Disagree	Low
1	Strongly disagree	Very low

Source: Primary data, 2018

Finally, the observation method was used by visiting different individual customers at their places in order to retrieve some useful information for this study.

3.6 Validity and Reliability of the Instrument

Whether the data is collected through in the form of direct observations, questionnaire, and focus groups or through interviewing; the quality of the research is often judged by the validity, reliability and trustworthiness of the research methodology and data. According to Patton (2015), validity and reliability are two

factors that any researcher should be concerned while designing a study, analyzing results and judging the quality of the study.

Validity referred to the extent to which a measure reflects the concept it tends to measure. If the measures used actually measure what they claim to, and if there are no logical errors when drawing conclusions from the data, the study is said to be valid (Trochim, 2015). On the other hand, reliability means dependability or consistency (Neumann, 2012: 196). It indicates the likelihood that a given measurement technique will repeatedly yield the same description of a given phenomenon. The role of reliability is to minimize the errors the errors and biases in a study (Yin, 1994).

Validity is the extent to which the instruments use during the study measure the issues they are intended to measure (Amin, 2015). To ensure validity of instruments, the instruments was developed under close guidance of the supervisor. After designing the questions, the researcher conducted a pre-tested. This helped to identify ambiguous questions in the instruments and abled her to re-align them to the objectives. The questionnaire was given to the supervisor to judge the validity of questions according to the objectives. After the assessment of the questionnaire, the necessary adjustments will be made bearing in mind the objectives of the study. Then a content validity index (CVI) of 0.81 has been measured by using the following formula,

$$CVI = \frac{\text{Number of items rated as relevant}}{\text{Total number of items rated in the questionnaire}}$$

$$CVI = \text{—————} = 0.81$$

Thus, if the CVI computed is above 0.7, the standard Cronbach alpha, the instruments was considered valid. This is also in line with Amin (2015) who noted that the overall CVI for the instrument should be calculated by computing the

average of the instrument and for the instrument to be accepted as valid the average index should be 0.70 or above.

In order to obtain reliable and valid results in this study several precautions has been made. All aspects of the research problem was covered by research question and was relevant to the purpose of this study and finally, the questionnaire has been approved by the supervisor. Moreover, the questionnaire has been pre-tested to two individuals before being taken to the field to be filled out by respondents and yield the same results; therefore the instruments have to be reliable.

The reliability of the research instrument has been examined by using Cranach Alpha Coefficient in statistical package for social (SPSS) this prompted the process of logical analysis careful critical examination of the items in the question was carried out which gave a result of 0.701 and the above is adjusted to improve on the clarity relevance and comprehensiveness of the questionnaire.

Reliability Statistics

Cronbach's Alpha	N of Items
.701	15

Source: Author 2018

3.7 Data collection Procedures

According to Ghauriet *al.* (2013) data collection can be either primary or secondary. Primary data is information that the researcher gathers on his own, for instance by using interviews, questionnaires and tests. On the other hand, secondary data refers to the data such as literature, documents and articles that is collected by other researchers and institutions (Bryman and Bell, 2014). In this research proposal, while primary data is collected in the form of questionnaire it also emphasis on secondary data. This is because it tends to compensate for the loop holes of primary data and as such the documents used for secondary data are from a broad range of sources such books, scientific articles, company reports and electronic sources as well as government institutions policy strategies and reforms.

3.7.1 During data gathering

Due to the nature of work and busy scheduled of some prospected respondents, the researcher through sector chiefs and individuals was scheduled an appointment for such respondents. The researcher was given necessary explanation on some questions where needed. Then the researcher used a pilot study before the actual research to check feasibility of the research instrument in order to make necessary improvement and adjustments in the tool and to avoid time wastage. The researcher used secondary data by reviewing available relevant texts books, journals articles, periodicals, manuals dissertation and publication.

3.7.2 After Data Gathering

After scheduled time, primary data was collected through questionnaires which respondents will return back to the researcher for data analysis. When Completed (SAQs) they were coded, edited, categorized and entered into a computer by using statistical package for social scientists (SPSS) for data processing and analysis.

3.8 Data Analysis

Firstly, data was analyzed using descriptive statistics through the means and standards deviation. Tables were used to present the frequencies and percentages of different categories of data. Secondly, the inferential statistics was used via a correlation analysis to measure the linear relationship between income tax and the performance of SMEs basing on Pearson's Linear Coefficient (PLCC) calculation. Lastly, to interpret the level of the performance of SMEs, the following numerical value and description was used as well:

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Poor

3.9 Ethical Considerations

To ensure utmost confidentiality for the respondents and the data was provided by them as well as reflect ethics practiced in this study, the following was done:

- ✓ All questionnaires were coded to provide anonymity of the respondents.
- ✓ Authors quoted in this study were recognized through citations and referencing.
- ✓ Presentations of findings were generalized.
- ✓ High levels of confidentiality was kept.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the analysis and discussion of the study results on the impact of income tax and the performance of small scale business in Kabalagala. It was guided by three objectives namely. To assess the performance of small scale business enterprises in Kabalagala suburb; to find out if income tax effect the performance of small scale business in Kabalagala suburb. To find out the relationship between income tax and the performance of small scale business. The bio data responses were analyzed using frequencies and percentage distributions as indicated in table1 and data got from the objectives were analyzed by using SPSS between the variables as well as ranks and means.

4.1 Personal Data

This section presents features that emerged from the analysis of the respondent's socio-demographic characteristics which includes; age, gender, marital status, education level, and years of experience. The aim was to find out whether there were variations in the respondents' background and whether these had an impact on the respondents' views. Their responses are summarised and shown below.

4.1.1 Gender of respondents

Table 3: Gender of respondents

Respondents were asked to state their gender status as shown in the following table

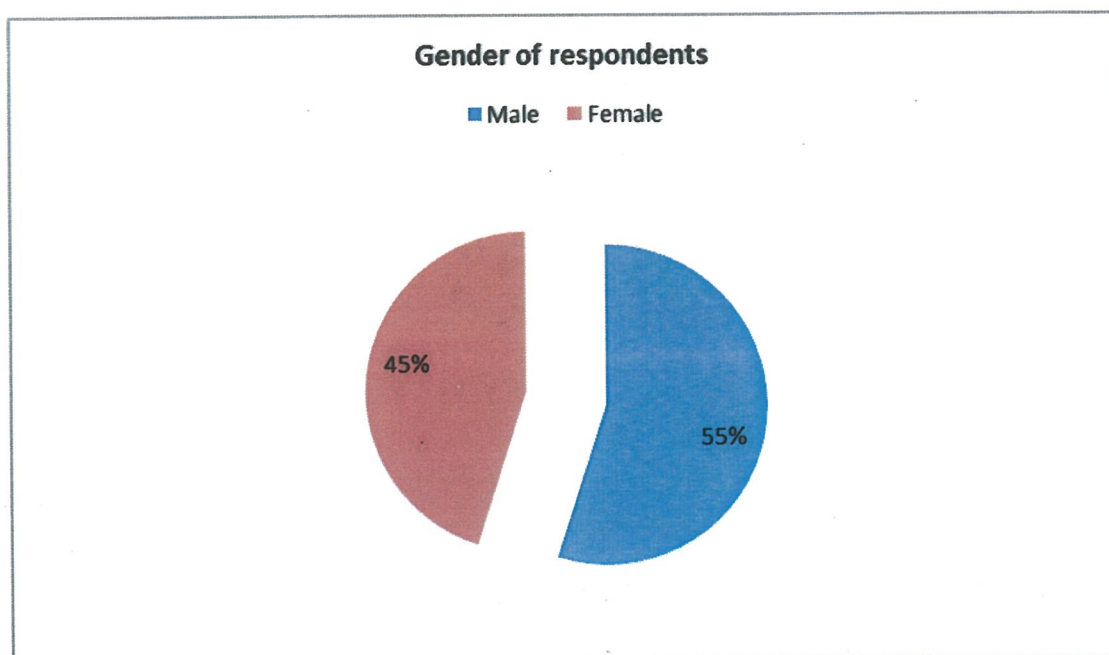
3:

Gender		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	44	55.0	55.0	55.0
	Female	36	45.0	45.0	100.00
	Total	80	100.0	100.00	

Source: primary data, 2018

Table 1 shows that the sex of the respondents and it was revealed that male is 40(55%) were as female were 36(45%).indicating that the view of males dominated the study.

Figure 2: Pie chart showing gender of respondents



Source: primary data, 2018

Figure1 shows that the sex of the respondents and it was revealed that male is 55% were as female were 45%.Indicating that the view of males dominated the study.

4.1.2 Marital status of the respondents

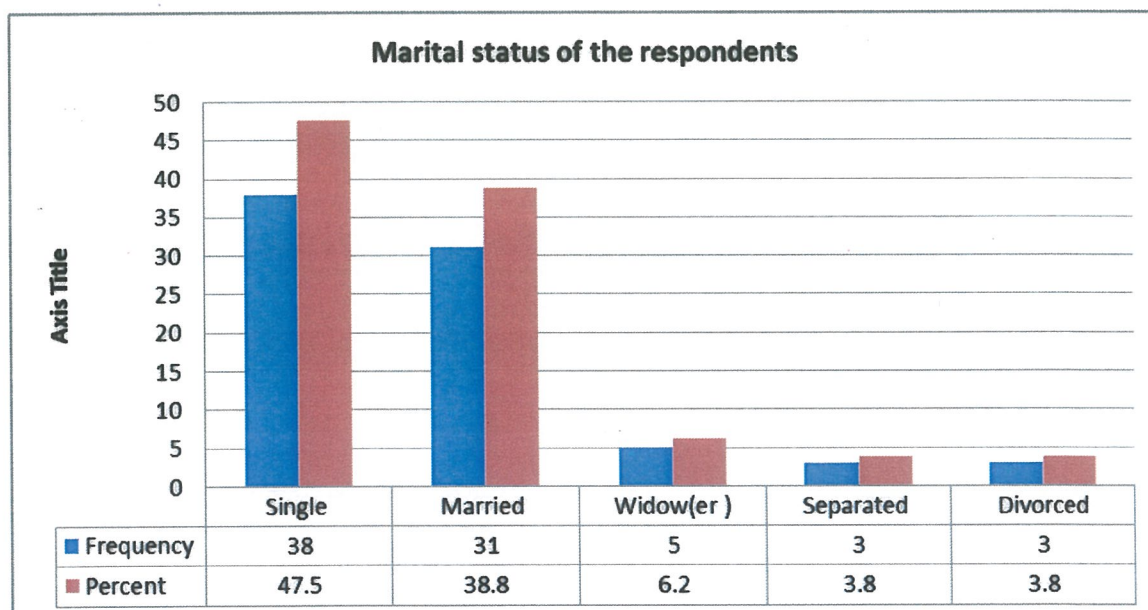
Table 4: Marital status of the respondents

Marital status		Frequency	Percent	Valid percent	Cumulative percent
Valid	Single	38	47.5	47.5	47.5
	Married	31	38.8	38.8	86.3
	Widow(er)	5	6.2	6.2	92.5
	Separated	3	3.8	3.8	96.3
	Divorced	3	3.8	3.8	100.00
	Total	80	100.0	100.00	

Source: primary data, 2018

Table 4 shows that the marital status of the respondents 38(47.5%) of the respondent were single, 31(38.8%) were married, 5(6.2%) were widowed, 3 (3.8%) were separated, 3(3.8%) were divorced. Therefore our research was largely influenced by married business owners.

Figure 3: Showing the marital status of the respondents



Source: primary data 2018

Figure 2. Shows that the marital status of the respondents 38(47.5%) of the respondent were single, 31(38.8%) were married, 5(6.2%) were widowed, 3 (3.8%) were separated, 3(3.8%) were divorced. Therefore our research was largely influenced by married business owners

4.1.3 Age of the respondents

Table 5: Marital status of the respondents

Age of the respondents		Frequency	Percent	Valid percent	Cumulative percent
Valid	Below 20	0	00.0	00.0	00.0
	21-30	41	51.2	51.2	51.2
	31-40	25	31.2	31.2	82.4
	Above 40 years	14	17.5	17.5	100.00
	Total	80	100.0	100.0	

Source: primary data, 2018

From above table 5, it is seen that no respondent was aged below 20years therefore. The respondent age indicated 41(51%) was found between 21-30years, 25(31.2%) 31-40years and 14(17.5%) above 40years this implies that the majority of the respondents were between 21-40 years of age because these are still energetic and desire to achieve a lot ahead.

4.1.4 Education level of the respondents

Table 6: Education level of the respondents

Gender		Frequency	Percent	Valid percent	Cumulative percent
Valid	o' level	7	8.8	8.8	8.8
	A level	13	16.2	16.2	25.0
	Certificate	5	6.2	6.2	31.2
	Diploma	24	30.0	30.0	61.2
	Degree	24	30.0	30.0	91.2
	Masters	7	8.8	8.8	100.00
	Total	80	100.0	100.00	

Source: primary data, 2018

Table 6 revealed there is no respondents level of education that is indicated by primary so therefore it will be 0% that range, 7(8.8%) were 'O'level, 13(16%) were 'A'level and 5(6.2%) were certificate, 24(30.0%) were diploma 24(30%) were also have degree and 7(8.8%) were masters, the study were dominated by the respondents of degree and diploma which have 60% of the respondents this indicates that most of the respondents have enough knowledge about income tax.

4.1.5 Education level of the respondents

Table 7: Education level of the respondents

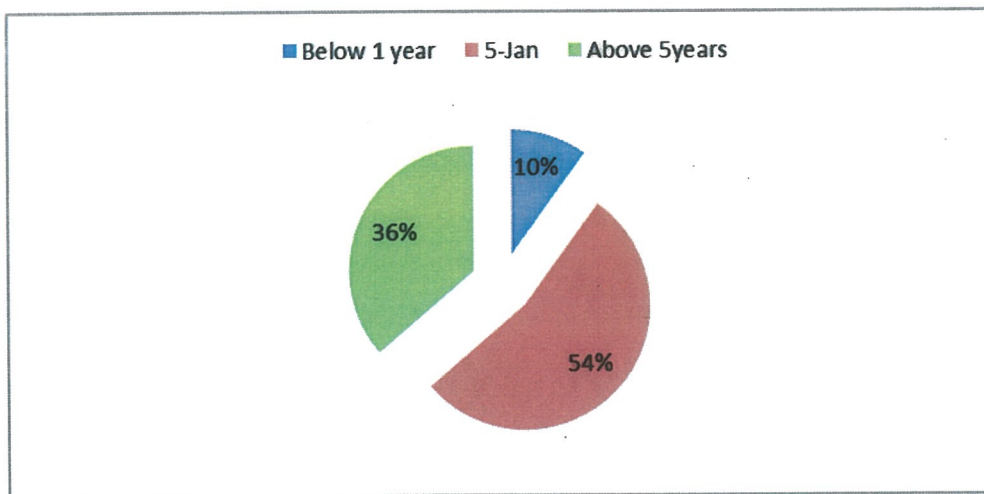
Education level		Frequency	Percent	Valid percent	Cumulative percent
Valid	Below 1 year	8	10.0	10.0	10.0
	1-5	43	53.8	53.8	63.8
	Above 5years	29	36.2	36.2	100.00
	Total	80	100.0	100.00	

Source: primary data, 2018

The bio-data table 5 above also show us the year of experience of the respondents which indicates that 8(10%) have below 1 year and 43(53%) of the respondents have experience between 1-5 years while 29(36.2) of the respondents have

experience above 5 years an indication that majority of them understand the taxation system and the business cycles that may lead to a change the profitability of the business.

Figure 4: Showing the education level of the respondents



Source: Primary data, 2018

Figure 3 above also show us the year of experience of the respondents which indicates that 10% have below 1 year and 53% of the respondents have experience between 1-5 years while 36% of the respondents have experience above 5 years an indication that majority of them understand the taxation system and the business cycles that may lead to a change the profitability of the business.

4.2 Analysis based on the objectives of the study

The major findings of the specific objectives of the study were exhaustively interpreted in this section. To get an exhaustive answer for this specific objective, the respondents were asked to rank various questions in the questionnaire by indicating the level of their agreement. Five point Likert scale were used with 1 denoting choice of those who strongly disagreed while 2 denoted those who just disagreed. For the respondents who agreed had the choice of 4 and 5 to showing their level of agreement with 4 denoting a choice for those who agreed and 5 for the respondents who strongly agreed. Those who had no choice and were neutral had a choice of 3 also to reveal their mind. The means and standard deviations for all the questions were computed, ranked and interpreted as revealed in the table below.

4.2.1 Level of performance of small scale business enterprises in Kabalagala suburb

The first objectives of the study was to find out the performance of small scale business enterprises in Kabalagala the variables investigated was financial performance such as profitability sales revenue and investment. For the first objective, the responses and interpretations were bases on the measurement tool of means as follows:

<i>Mean range</i>	<i>Response range</i>	<i>Interpretation</i>
3.26 - 4.00	Strongly agree	Very high
2.51 - 3.25	Agree	High
1.76 - 2.50	Disagree	Low
1.00 - 1.75	Strongly disagree	Very low

Table 8: Performance in small scale business in Kabalagala

Statements	Means	Std. Deviation	Interpretation	Ranks
Sales volume of my business has been increased in the last three years	3.33	1.02809	Very High	1
Selling cost increase when the rat of tax increase	2.78	1.00740	High	2
Business accumulated high profit last three years	2.67	.96512	High	3
Income tax reduced investment in the business	2.59	.86375	High	4
business have good book keeping	2.57	1.02801	High	5
Business has been able to meet its operating expenses	2.55	1.00745	High	6
The business has been expanding with the proceeds of income generation	2.53	.96519	High	7
Overall means	2.73		High	

Source: Survey data, 2018

The findings from the above table indicated that respondents when asked whether sales volume of my business has been increased in the last three years had the first mean value of 3.33, the corresponding standard deviation was rated very high and this was ranked as the 1st.

The results further showed that the selling cost increase when the rat of tax increase, the average value of was 2.78 and its corresponding standard deviation was rated high it can also be observed from the table above that this particular question was ranked the 2nd.

The average based on response that the business accumulated high profit last three years with standard deviation of 2.67 and with a rank of being the 3rd. The interpretation for this was that it was good implying most of the business operators in this area was comfortable working in that environment for daily works.

The rank on the income tax as in reducing investment in the business from the above table is 4th and this was interpreted as high to the financials and this is truly revealed by the corresponding mean value of 2.59 and standard deviation was rated high. This implies that the income tax is stressed by their work environment.

The results as can be seen from table also showed a mean value of 2.57 and standard deviation rated high for the statement of the business have good book keeping. The rank for this question was number 5th and this was interpreted as satisfactory meaning businessman can freely perform and record their data.

Additionally, the findings from the above table indicated that respondents when asked whether business has been able to meet its operating expenses had the first mean value of 2.55, the corresponding standard deviation was rated high and this was ranked as the 6th.

The results further showed that the business has been expanding with the proceeds of income generation, the average value of was 2.53 and its corresponding standard deviation was rated high. It can also be observed from the table above that this particular question was ranked the 7th.

Finally, by observing the overall mean, the above analysis reveals that most of the respondents were happy with level of performance of small scale business enterprises in Kabalagala suburb as the overall mean had a value of 2.73 and standard deviation was rated high and was therefore interpreted as satisfactory to the respondents. This implied that most respondents were satisfied with the positive development of results that exists in their business enterprises in Kabalagala suburb.

4.2.2. To find out if income tax affects the performance of small scale business in Kabalagala suburb

The second objective of the study was to find out whether income tax affects the financial performance of small scale business enterprises in Kabalagala. As far as our hypothesis was concerned which stated that there is no relationship between income tax and the performance of small scale business? The study reveals the following report

Table 9: Income tax affects the performance of small scale business in Kabalagala suburb.

Statements	Means	Std. Dev.	Interpretation	Ranks
Tax rates changes annually	3.48	.98300	Very High	1
I had receive expected return of tax i pay	3.44	.85101	Very High	2
tax rate are the same for both small and large enterprises	3.43	.95883	Very High	3
I satisfied amount of income tax	3.41	.86585	Very High	4
Income tax lowers the profitability of my business	3.39	.95883	Very High	5
Income tax administration is the major cause of my business stagnation in terms of profitability of small scale business enterprise	3.37	.86585	Very High	6
Tax authority given me any assistance as regards to tax awareness	3.36	.91246	Very High	7
Tax administration have relevant information about tax payer	3.31	.98300	Very High	8
Overall means	3.40		Very High	

Source: Survey data, 2018

The findings from table 9 indicated that respondents when asked whether s tax rates changes annually had the first mean value of 3.48, the corresponding standard deviation was rated very high and this was ranked as the 1st.

The results further showed that the I had receive expected return of tax i pay, the average value of was 3.44 and its corresponding standard deviation was rated very high It can also be observed from the table above that this particular question was ranked the 2nd.

The average based on response that tax rates are the same for both small and large enterprises with standard deviation was rated very high with a mean of 3.43 and ranked 3rd.

The rank on the statement that "I satisfied amount of income tax" from the above table 7 is 4th and this was interpreted as very high rated and this is truly revealed by the corresponding mean value of 3.41.

The results as can be seen from table also showed a mean value of 3.39 and standard deviation rated very high for the statement that the income tax lowers the profitability of my business. The rank for this question was number 5th.

Additionally, the findings from the above table indicated that respondents when asked whether Income tax administration is the major cause of my business stagnation in terms of profitability of small scale business enterprise had the first mean 6th valued to 3.37, the corresponding standard deviation was rated very high.

The results further showed that the tax authority given me any assistance as regards to tax awareness, the average value of was 3.36 and its corresponding standard deviation was rated very high it can also be observed from the table above that this particular question was ranked the 7th.

The results as can be seen from table also showed a mean value of 3.31 and standard deviation rated very high for the statement that the tax administration have relevant information about tax payer; the corresponding standard deviation was rated very high. The rank for this question was number 8th.

Finally, by observing the overall mean, the above analysis reveals that most of the respondents supported the agreement that income tax affects the performance of small scale business in Kabalagala suburb as the overall mean had a value of 3.40

and standard deviation was rated very high and was therefore interpreted as satisfactory to the respondents.

4.2.3 Relationship between income tax and the performance of small scale business enterprises in Kabalagala suburb.

However the study was guided by the null hypothesis, there is no relationship between income tax and the performance of small scale business enterprises in Kabalagala

Table 10: Pearson correlation between income tax and performance of small scale business

Correlations

	Income tax	performance
Income tax	1	.276*
Pearson Correlation		
Sig. (2-tailed)		.013
N	80	80
performance	.276*	1
Pearson Correlation		
Sig. (2-tailed)	.013	
N	80	80

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

Table 10 showing the relationship between income tax and the performance of small scale business enterprises at Kabalagala suburb, whereby the correlation results were; Pearson's correlation coefficient r value was 0.276* implying a weak positive relationship between the two variables under our study. A P-value of 0.013 and the alpha value of 0.025 were established. Due to the fact that the p value was less than the alpha, the researchers rejected the null hypothesis and accepted the

alternative to state that “there is significant relationship between income tax and the performance of small scale business enterprises at Kabalagala suburb.

4.2.4 Regression analysis

Table 11. ANOVA Coefficients^b

	Unstandardized Coefficients		Standardized		
	B	Std. Error	Beta		
(Constant)	1.076	.519		2.073	.040
Tax policy	.167	.077	.135	2.166	.032
Tax assessment	-.162	.078	-.132	-	.040
Income tax	.236	.083	.211	2.859	.005

Source: Author, 2018

a. Dependent Variable: Financial performance

The elements of independent variables are the factors influence financials' performance. This can be determined by the following equation method as below:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Y= financials 'performance

a = constant

X1 = Tax policy

X2 = Tax assessment

X3 = Income tax

b= regression of coefficient of X_i , $i=1, 2, 3$,

e=an error term, normally distributed of mean 0 (usually s assumed to be 0)

$$Y \text{ (financials' performance)} = 1.076 + 0.167 \text{ (Tax policy)} - 0.162 \text{ (Tax assessment)} + 0.236 \text{ (Income tax)}.$$

Under this regression equation, it illustrates the relationship between tax policy, tax assessment and income tax factors towards financials' performance. Based on the

Model Summary table, the three independent variables which are tax assessment of results, tax policy and income tax factors are slightly correlated with the dependent variable financials' performance. This is because the correlation (R) for this research is 0.505 whereas the coefficient of determination (R^2) is 0.255 for the examined regression model. From the analysis, it means the regression line could significant account for 25.50% of the total variations in financials' performance. In contrast, it shows that there is 74.50% of the variation of financials' performance could not be presented by the equation. This means there are other additional variables that are also important in explaining financial performance that has not been covered in this study. Hence, the results show that 25.50% of the variances in the financial performance have been slightly significantly explained by the three independent variables.

In the ANOVA table above, it shows that the F value of 13.305 is significant at the 0.05 level. This is because the p-value is 0.00 which is less than 0.05 ($p < 0.05$). In overall, there regression model with those three independent variables of tax assessment of results, tax policy and income tax factors were suitable in explaining the variation in financial performance.

Based on the Coefficient table, Tax policy has the significant positive influence towards financial performance since the $t=2.166$, $p=0.032$, $b_1= 0.167$. This means that for every one unit increase in tax policy, financials performance will increase by 0.167 units.

Besides, for tax assessment, it also shows significant negative influence towards financials' performance. From the results gain, $t=-2.069$, $p=0.040$, $b_2 =-0.162$. Thus, it shows that for every one unit increase in tax assessment, financials' performance will decrease by 0.162. In addition, there is also positive significant influence towards financials performance for income tax. The results shown was $t=2.859$, $p=0.005$, $b_3=0.236$. Hence, this shows that for every one unit increase in income tax, financials performance will be increased by 0.236.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the findings of the study and presents them in summaries, conclusions and recommendations made based on the findings of each objective. The summary presents findings from the study, its conclusions are then drawn from these findings and then recommendations are eventually made.

5.1 Summary of major findings

5.1.1 Level of performance of small scale business enterprises in Kabalagala suburb

Findings from the data analysis reveals that most of the respondents were happy with level of performance of small scale business enterprises in Kabalagala suburb as the overall mean had a value of 2.73 and standard deviation was rated high and was therefore interpreted as satisfactory to the respondents. This implied that most respondents were satisfied with the positive development of results that exists in their business enterprises in Kabalagala suburb. This is in line with Nieman (2003) who argued that the more profits a business realizes, the more it is assumed to be growing and vice versa. A growing company tends to have very profitable reinvestment opportunities for its own retained earnings. Baron & Markman (2003) argued that various factors interact to bring about enterprise growth; for example personal perceptions, sales levels, market forces, environmental conditions, industry trends and dynamics. Many researchers have identified various indicators of venture growth; for example Hisrich (2000) looked at increase in sales, income, employment and satisfaction; but Newton (2001) considered increased productivity, competitiveness, market share, profit and opening branches. Additionally, Zachary (2010) noted that in the SME sector, the growth in number of customers can also be indicated by clients directly advised in the business centre, either on a day by day basis or weekly or monthly or annually and also the number of clients who have been exactly serviced through the provision of various business services. Some customers also come not for direct services but to get some guidance or

information either by a personal visit, by telephone or visiting the enterprise websites for four minutes or more (Zachary, 2010).

5.1.2 Income tax affects the performance of small scale business in Kabalagala suburb

Income tax effects on the performance of small scale business in Kabalagala and the study was found out whether the tax rate changes annually and the majority of the respondents. The analysis reveals that most of the respondents were happy with level of performance of small scale business enterprises in Kabalagala suburb as the overall mean had a value of 2.73 and standard deviation was rated high and was therefore interpreted as satisfactory to the respondents. This implied that most respondents were satisfied with the positive development of results that exists in their business enterprises in Kabalagala suburb. This is in line with Kahil further noted that in the operation of the company, the management of the business directed by the profit motivate, keeps its eyes on what is left as profit for the stakeholders. Since the corporation must pay its federal income tax before it can pay dividends the taxes are thought of the same as any other uncontrollable expenses an outlay to be covered by the higher prices or however costs of which the principle cost is wage, since all competition in business is thinking the same was, prices and costs will tend to stabilize at a point which will produce a produce profit after taxes, sufficient to give industry access to a new capital at a reasonable price. When this finally happens as it must if the industry is to hold its own. The government's income tax on SMEs has been largely absorbed in higher prices and lower wages and thus negative impact on business success is negligible.

5.1.3 Relationship between income tax and the performance of small scale business enterprises in Kabalagala suburb

The study results on the relationship between income tax and the performance of small scale business enterprises at Kabalagala suburb whereby the correlation results were; r value was 0.276*, p value was 0.013 and the alpha value was 0.0025 in determining the research hypothesis, the researchers considered the alternative of

the null hypothesis which states that "there is significant relationship between income tax and the performance of small scale business enterprise at Kabalagala suburb" and also the null hypothesis which states that "there is no relationship between income tax and the performance of small scale business" was rejected. This made that the researchers to conclude that there is weak positive relationship between income tax and the performance enterprises at a Kabalagala suburb. This is in line with Nieman et al (2003) who noted that the small and medium business growth includes the extent to which SME generates significant positive cash flows or earnings, which increase at significantly faster rates. There are several indicators of SME growth such as profitability, sales growth, growth in number of customers, increase in number of workers employed and so on and all these can be affected by microfinance services. Profitability is one of the important measures of growth that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of enterprise as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors, then profitability measures are particularly attractive. This also implies that economic success is required by high performance firms.

5.1.4 Tax policy

Based on the Coefficient table, Tax policy has the significant positive influence towards financial performance since the $t=2.166$, $p=0.032$, $b_1= 0.167$. This means that for every one unit increase in tax policy, financials' performance will increase by 0.167 units.

In the ANOVA table above, it shows that the F value of 13.305 is significant at the 0.05 level. This is because the p-value is 0.00 which is less than 0.05 ($p < 0.05$). In overall, the regression model with those three independent variables of tax assessment of results, tax policy and income tax factors were suitable in explaining the variation in financial performance.

Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage small and medium enterprises SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting Tax deductions to market entities and venture capitalists that invest in high- tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. Mnawa and Maliti, (2013) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection, It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown (Schreiner and Colombet, 2016).

5.1.5 Tax assessment

Besides, for tax assessment, it also shows significant negative influence towards financials' performance. From the results gain, $t=-2.069, p=0.040, b_2 = -0.162$. Thus, it shows that for every one unit increase in tax assessment, financials' performance will decrease by 0.162. In addition, there is also positive significant influence towards financials performance for income tax. The results shown was $t=2.859, p=0.005, b_3=0.236$. Hence, this shows that for every one unit increase in income tax, financials performance will be increased by 0.236.

Tax assessment has adverse effect on business performance and profitability thus it is important that assessment be carried out accurately so that taxpayers are not excessively assessed. The tax bill was excessive and greatly affect the profitability and performance of the business, Wagner, (2014).

5.2 Conclusions

Based on the findings of the study; the following conclusions were made.

In generally the majority of the respondents are mature and they can give us the independent view and most of them have bachelor degree and diploma this shows that they have knowledge about income tax and also most of the respondents were unsatisfied with the income tax rate based on the sales turn over and some of the income tax administration did not fully have information about income tax and its payers. The findings of the study showed that the introduction of income tax has adversely affected the profitability of small-scale enterprises, according to the responses strongly agreed that income tax affects the profitability of their businesses. The study also showed tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth and Tax assessment has adverse effect on business performance and profitability thus it is important that assessment be carried out accurately so that taxpayers are not excessively assessed. The tax bill was excessive and greatly affect the profitability and performance of the business.

5.3 Recommendation

The researcher made the following recommendations as a way of reducing the burden of income taxes on SSBs as well as to increase the revenue of the Kabalagala suburb council.

- ✓ Kabalagala suburb council should find a way of assessing the tax in that the SSBs should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously.
- ✓ Kabalagala suburb council should introduce a scheme that allows taxpayers to pay the tax obligation in the installments over a given period as opposed to lump sum at once.
- ✓ The URA should improve on the methods of collecting the taxes.
- ✓ The URA should improve awareness amongst the taxpayers of the need to pay taxes and how their tax liability is determined and the time process of the tax assessment.

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APPENDIX I: QUESTIONNAIRE

Dear Respondents,

SAKARIE ABDULKADIR FARAH is a student of Kampala International University carrying out an academic research on the topic "Impact of income tax on the performance of small scale business enterprises in Kabalagala", as part of the requirement for partial fulfillment for the award of the degree of Bachelor of Economics and Applied Statistics in Kampala International University.

We therefore humbly request you to spare a few minutes of your time and fill in this questionnaire. Please do note that whatever information you will provide here will be strictly for academic purposes and will be treated with utmost confidentiality.

We take it prudent upon myself to thank you for your time.

Thank you for positive response.

SECTION A: Personal Data

Kindly tick [✓] in the blank spaces, the items that best describe your choice for each question

1. **Age of the respondent:** below 20 years [], 21-30 years [],
31-40 years [], above 40 years [].
2. **Gender:** Male [], Female [].
3. **Marital status:** Single [], Married [], Widow [], Separated [],
Divorced [].
4. **Education level:** Primary [], 'O' level [], A level [], Certificate [],
Diploma [], Degree [], masters [], none [].
5. **Years of experience:** Below 1year [], 1-5years [], above 5 years [].

**SECTION B: Level of the performance of small scale business enterprises
in Kabala gala suburb, Makindye division**

Please read each of the following statements carefully and select the scale that best describes

Please tick (✓) in the box provided basing the scale provided below.

Scale: 4: Strongly Agree 3: Agree 2: Disagree 1: Strongly Disagree

	Profitability	4	3	2	1
1	Increase in sales due to export expansion				
2	I improved production efficiency				
3	Reduction in procurement costs(manufacturing only)				
4	I increase in local market sales				
5	Increase in sales due to higher prices				
6	I made profit due to reduction in personnel expenses				
7	Increase in sales due to development of new products/service				

	Revenue	4	3	2	1
1	There is reduction of revenue due to a decrease in orders from clients				
2	Revenue increased due to production efficiency				
3	There is revenue reduction in the firm due to inflow of cheap imported goods into the local market				
4	revenue reduction hence no increase in new clients or markets				
5	Business accumulated high profit last three years				
6	Sales volume of my business has been increased in the last three years				
7	Revenue increased due to development of new products/service				

Effect of tax policy and tax assessment on the performance of small scale business enterprises in Kabala gala suburb, Makindye division

Please read each of the following statements carefully and select the scale that best describes

Please tick (✓) in the box provided basing the scale provided below.

Scale: 4: Strongly Agree 3: Agree 2: Disagree 1: Strongly Disagree

	Tax policy	4	3	2	1
1	Tax rates changes annually				
2	I had receive expected return of the tax I pay				
3	Cost of compliance are same for both small and large enterprises				
4	Tax rate are the same for both small and large enterprises				
5	I had receive tax compliance				
6	I satisfied amount of income tax				
7	Income tax lowers the profitability of my business				
8	Income tax reduces sales revenue and investment of my business				
9	I am aware of all their obligation and policies				

	Tax assessment	4	3	2	1
1	Tax assessment is the major cause of my business stagnation in terms of profitability of small scale business enterprise in Kabalagala				
2	Tax authority given me any assistance as regards to tax awareness				
3	Tax assessment are very helpful to taxpayers				
4	Tax assessment have relevant information about tax payer				
5	Income tax increased due to tax awareness				

(18)What is the basis used for computing income tax?

Sales [], Turn over [], Estimate [], Profits [], I do not know [],

(19) What is the range of income tax that you pay annually?

Zero	10,000- 190,00	200,000- 290,000	300,000- 390,00	Others specify

20) What do you suggest the government should do to improve income tax administration and tax policy? (At least two)

i.

ii.

SECTION C: Effects of income tax on the performance of small scale business in Kabala gala suburb, Makindye division.

Please Tick (√) in the space provided indicating your opinion.

	Scale: 4: Strongly Agree 3: Agree 2: Disagree 1: Strongly Disagree	4	3	2	1
	Sales volume of my business has been increased in the last three years				
	Selling cost increase when the rate of tax increase				
	Business accumulated high profit last three years				
	Income tax reduced investment in the business				
5	Business have good book keeping				
6	Business has been able to meet its operating expenses				
7	The business has been expanding with the proceeds of income generation				

(28) What are your suggestions of improving profitability of small-scale business enterprises in Uganda?

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Thank you for your cooperation

APPENDIX II: TIME FRAME WORK

Schedules	February	March	April	May	June	July	August
Starting writing the proposal							
Doing library research							
Doing field research							
Compiling the data collected							
Editing the report work							
General correction of the research report							
Handing in of the final report							

APPENDIX III: ESTIMATED BUDGET

No	Schedules	Items	Units	Total units
	Library	2	25,000/=	50,000/=
	Bundles	1GB	30,000/=	30.000/=
	Proposal works	Printing	4000/=	12,000/=
		Binding	1,500/=	4,500/=
	Report work	Printing	10,000/=	30,000/=
		Binding	8,000/=	24,000/=
	Fare	2 and front (14days)	4,000/=	56,000
General Total				206, 593/=