

**THE EFFECTS OF TAXATION ON PROFITABILITY OF FIRMS  
A CASE OF MTN (UGANDA)**

**BY  
NJUGUNA LIZA WAIRIMU  
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## DECLARATION

I hereby declare that this is my Original work and has not been published for any other degree/ diploma to any other university/ institution before.

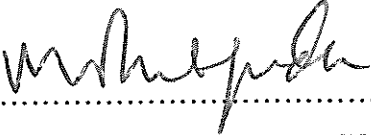
Signed ... *Liza* .....

Date... *07/06/07* .....

NJUGUNA LIZA WAIRIMU

## APPROVAL

This thesis has been submitted for examination with my authority as a University/ institution supervisor.

Signed  .....

Date... 07/06/07 .....

MICHAEL RUTEGANDA BBA (USA), MSc(U.K), A.C.I.S

## **DEDICATION**

I dedicate this work to Mr and Mrs Njuguna, my brothers; George, Simon and Brendan, and sisters; Lydia, Margaret and Lucy.

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## **ABSTRACT**

Uganda's tax system has been characterized by several types of taxes. These have however not helped to widen the tax base of the country and hence there has been low revenue collection as opposed to the objective of government policy to increase revenue out-turn. With the above view in mind, the government decided in 1994, to change her current tax system to a new one, whereby Sales Tax (ST) and Commercial Transaction Levy (CTL) tax were replaced by VAT, with hope that URA at the wheel, will be obtained, just like revenue collection have been increasing every year since 1992.

The objectives of the study were to examine the effect of imposing tax on traders, identifying its effect on administration, identifying the perceptions of business community, implementation process and the way forward (solutions) on whether to continue with it or not.

The study was conducted within the heart of MTN where I interviewed 30 members of staff and 15 U.R.A officials which were chosen on a random basis. The data was basically primary and secondary which was collected from different categories of respondents such as traders, URA officials and other professionals.

The findings revealed that since the imposition of tax, its impact on traders was not immediately realized but to date, traders have started to realize its effect though its still a mixed feeling more particularly regarding the knowledge about its impact on the sales turnover, profits and taxable capacity.

The result of the study showed that taxation system is bound to be much successful but after much more ground has been leveled for some of the reasons such as competent and committed manpower, political will, appropriate tax administration or laws, proper book keeping system, voluntary compliance and the entire public support.

## **CHAPTER ONE**

### **1.0 Introduction**

This chapter introduces the study by giving background information of how profitability of firms is affected by taxation in one's country, presenting definition, and illuminating the concept with respect to expert's opinion on its challenges, advantages and its common use. In addition, it presents a statement of the research problem, the purpose of the study, objective research problem, the purpose of the study, objective, research question, hypothesis, scope and significant of the study and conceptual framework.

### **1.1 Background to the study**

During the 1980, almost all African economies including Uganda entered through in different degrees, a period of sharp economic decline, some like Ghana and Uganda having done it earlier enough. This decline was manifested in the decline in output, export revenue and capital in flows, combined with massive and in serviceable debt burden, the highest in relation to gross national product (GNP) in the third world. In attempt to restore capital inflow in Uganda government had to hand resources to the International Monetary Fund (IMF) and world bank, to reach agreements, with them (and this is indirectly more with lenders) or condition for debt management and future loans.

Taxation being government's share of wealth which a business creates through its, active. However, due to economic decline and debt crisis, the Uganda government decided to cooperate with the World Bank and international monetary fund (IMF) in order to attract resources for implementations. This was mainly intended to reduce public expenditure, reform the financial institutions e.g. privatizing commercial banks, improving revenue base through improved revenue collection by forming Uganda Revenue Authority (URA) in the year 1991 whose major function was and is still tax collection and administration.

### **Historical Nature of Taxation in Uganda**

Africans had long time realized the need of taxation even before the coming of colonial administration, tax payers, were to pay hypo and a zebra in order to discharge their tax obligation this was a task which many tax payers cannot fulfill.

Taxation was introduced in East Africa by Earlier British Colonial Administrators. This was by way of institution of a system of compulsory public works as social.

Constitution and repair, forest clearance, bridge construction and repair. However the recommendation from the human finance experts from Britain, women from East Africa was exempted from participation in any type of public work on the ground that they have enough domestic work to occupy them fully.

In order to introduce the nature to a manual economy, the colonialist demanded tax payment in form of tax rather than public work. The tax took the form of poll tax levied at a flat rate on all adults. These taxes were designed to reduce the reduce on custom, duties and place a sense of responsibility for government service and encourage them to enter the market sector of the economy by setting a portion of their produce or hiring out their services, as it was not easy to ascertain the age of youth who were due to pay taxes on attaining adulthood the colonial administrators, devised ways of determining the age of the youth using the two methods;

- a) As youth who had grown 32 teeth was deemed to be an adult and therefore had to pay tax
- b) The growth of hairs around the armpit was another indication of adulthood

A hut tax was introduced and was widely adopted in East & Central Africa. In Uganda two other taxes were paid by the natives namely;

**Poll tax** which has imposed as a flat rate of sh.6. Only payable to the central government.

**Luwalo**, this was paid to African local government (district tax administration) the amount of tax valued between 10-25 shillings in different districts according to their economic circumstances.

In 1953 Mr. Wallis recommended in his report the introduction of a system of graduated tax to replace the old flat rate so that the African authorities would increase their revenues by levying higher taxes on those who are able to pay them. Since then a series of taxation laws were introduced.

### **Background to the case study**

On October 21 1998, MTN Uganda launched commercial services in Uganda, just six months after acquiring and signing of the license. MTN has since grown to be the leading telecommunication company in Uganda servicing in excess of 1,400,000 customers and we are still growing.

The license required that MTN provide 89,000 lines in the first five years of operation, MTN adopted wireless approach to providing telecommunications services to the Ugandan market.

The wireless approach has proved to be convenient and quicker in achieving most rolling out services. Despite insufficient infrastructure (power, roads etc) MTN has covered in excess of 90% of the urban population, providing services in over 150 towns and villages and their immediate environments. MTN Uganda's policy of affordable tariffs and availability of services, blocked by distribution and innovative marketing, opened up a broad market to telecommunication. As a result, Uganda's tele-density has more than quadrupled. Before MTN launched its services, the tele-density in Uganda was one of the lowest in African at 0.27%. Today MTN has contributed to the growth in tele-density in Uganda of about 7%.

- MTN is proud to be the leading telecommunications company in Uganda. Since launch in October of 1998, they managed to establish unprecedented consumer popularity and brand recognition. They were voted investor of the year 2000 by Uganda investment authority and subsequently named as the leading telecommunications company in East Africa in the annual and prestigious price water house cooper most respected company survey.

### **Coverage of MTN**

They now cover in excess of 150 cities, towns and villages in Uganda and their coverage initiatives in rural countries and sub-countries where no modern telecommunications services has ever existed, continues unabated. Through their quality and extensive network coverage using GSM wireless and fixed lines, the average villager can use a phone to speak to anyone, anywhere, thus touching the lives of millions of Ugandans, directly, and indirectly. MTN village phone, a joint venture between MTN Uganda and the Graeme Foundation of the United States and in partnership with local micro-finance institutions, forms part of our public access strategy, protracting access to basic telephone services in remote area.

Other successful achievements that deserve mention in the brief introduction are their fiber to the door project in Kampala now extended to other parts of the country. These investments together with MTN participation in the planned East Africa submarine system (EASS) ensure that MTN is firmly placed as a relevant regional and international telecom company.

Every aspect of business has a social dimension, CSR corporate social responsibility mean open and transparent business practices that are based on ethical values and respect for employees,

communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders. MTN's CSR is modeled on the heritage of giving back to the communities in which we live and work. Being a good citizen has been inherent in the fabric of the company since its inception.

## **1.2 Statement of the problem**

Despite the benefits accruing from introduction of taxation way back in Uganda, as a more simplified, modern and broad-based form of generating more revenue for the government, its contribution towards efficiency of tax collection in Uganda is not that much as it was expected. The collection is yet to achieve the desired level of performance. This research was therefore carried out to find out the relationship between profitability of firms and efficiency of tax collection as its impact on firms was not well realized though, today traders have started to realize its effects through its still a mixed teaching more particularly regarding the knowledge about its impact on the scales turnover, profits and taxable capacity.

Despite government policy reform envisage to improve revenue performance, there has been a significantly low contribution from taxes; this can be depicted by the divergences between budgeted or forecasted income. This leading to poor budgeting performance and frustration of other revenue collection objectives like stabilization of the economy and distribution of income.

## **1.3 Objectives of the study**

### **1.3.1 General objective:**

The overall objective of the study is to find out how taxation affects the profitability of most business firms in Uganda.

### **1.3.2 Specific objectives of the study**

- To examine the impact of imposing tax on business firms
- To find out the effects of taxation on MTN
- To identify the perceptions of business community towards taxation.

## **1.4 Significance of the study**

the findings of the study was useful as follows;

1. To URA officials; it helped them to come up with the most reliable methods of tax collection in order to reach the required objectives that are efficiency in tax collection.
2. The study also assisted the tax payers, to understand the importance of taxation and respond positively to the methods applied by URA in tax collection leading to efficiency of taxation.
3. In addition, the study was useful to different academicians in understanding the general view of taxation and its major effect and contribution on profits of business firms.

### **1.5 Scope of the study**

The scope of the study in this regard was based on the geographical time and study aspects.

Geographical – geographically the study was carried out in MTN Uganda, in intend to have an interview with the C.E.O, IMO and section manager, It also got some information from the university library, internet to find out what was already known about my research.

Time scope: The time period was estimated to be two months due to time constraints.

Area / study scope: the study was centered on the relationship between effects of taxation on profitability of firms.

### **1.5 Research questions:**

1. How has the imposition of tax affected business activities?
2. what are the effects of taxation on MTN?
3. What is the perception of taxation in firms?

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.0 Introduction:**

This chapter tries to engage in the review of related literature on the question under study. The researcher made an attempt to review some relevant literature about taxation in particular.

This chapter also entails the theoretical framework, taxation and government policy, characteristics of a good tax system, rules that should be observed in tax assessment, collection and administration of tax system, the nature, structure and definition of taxation, importance of taxation administration and its impacts on the business community and its profitability.

#### **2.1 Theoretical framework**

The impact of tax collection on traders arises from the interaction between the traders who are the tax payers and the government.

The mutual relationship is based on policies put forward by the government, the revenue structure and administration procedure used to implement the policies. A study of this relationship gives an appropriate base from which to investigate the impact of taxation on the profitability of firms.

#### **2.2 Taxation and Government Policy**

Until the end of the nineteenth century, worldwide, the functions of the state were concerned mainly with defense, law and order. Taxes were leveled primarily for revenue purposes. These taxes regulating trade having been abolished in the previous century. To meet vast increase in government spending over the last fifty years, high rates of taxes having been imposed new taxes introduced by governments. Taxation provides a means for promoting economic growth and social policies in all economies worldwide, Uganda inclusive.

Taxation helps the government to exercise all overall control of the economy mainly with the objective of achieving full employment. This may be achieved by varying the relationship between its own expenditure and revenue through the budget surplus or deficit, or by adjusting individual taxes in order to influence consumption, savings and investment.



Taxation promoted economic growth by such measures as taxing profits reinvested at a lower rate and giving generous investment allowances. Taxation is used by government as a tool to modify the influence of the price system.

This is mainly done to;

- a) Protect “infant” industries from competitive foreign products.
- b) Develop vital or “key” industries, factors of production may be moved to ‘key’ industries from competing consumer goods industries by changes in the purchase structure.
- c) Cushion the impact on an industry of fundamental changes in the conditions of demand and supply.
- d) Promote international and local trade. Trade link may be strengthened by duties which give favorable treatment to trade partners.
- e) Improve on terms of trade by laying an import duty on good, whose supply is realistic than the demand for them. The government also uses taxation as a tool to improve on the balance of payment (B.O.P) by imposing duties to restrict imports.
- f) Further more, government imposes taxes in order to achieve greater equitability in the distribution of wealth.

## **2.3 Characteristics of a Good Tax System / Structure**

A good tax system should exhibit as many of the following characteristics as possible;

### **a) Efficiency and effectiveness.**

The time basic objectives of a tax system are:-

1. To supply enough revenue to pay for government expenses
2. To redistribute wealth
3. To ensure economic stability

When a tax structure realizes these three objectives, it can be regarded as effective but because of too many unknown variables; it is unlikely that these objectives can ever be fully realized in practice.

### **b) Flexibility**

The tax system ought to be able to respond easily to changed economic circumstances.

### **c) Neutrality**

A tax should not distort the way a community would otherwise use its resources unless it's very clear that a change is socially desirable. (Aronson and Schwartz 1981:123).

## **2.4 Rules that should be observed In Tax Assessment; Collection and Administration of a Tax System.**

Adam Smith a renowned economist postulated that in the assessment, collection and administration of a tax the following principles or cannons should be adhered to:-

- a) Convenience:  
The convenience of a tax payer should be studied as regards tax payment. A tax should be convenient to pay, with billing dates that concede with the income flow of tax payers.
- b) Simplicity:  
Simplicity refers to understanding the structure of law and administration. This minimizes resentment by tax payers and maximizes compliance to the tax authority. It should be easy to understand.
- c) Equity  
Matching tax liability and tax payer income and expenditure levels is an important criterion of levying taxes. However equity is more of a political issue rather than an economic one because it seeks justice in tax policy formulation and implementation.
- d) Certainty:  
A tax should be certain and clear to everybody concerned. The rules of taxation should be simple, clearly stated and evenly applied.
- e) Productivity  
A tax should produce sufficient, stable revenues
- f) Fairness:  
A person should pay tax according to their ability. A tax should reflect the ability to pay those who bear it.

## **2.5 Effects of Taxes on Forms of Business Organization**

Tax factors should be carefully considered at the time business is organized. As a single proprietor or partner, a business man will pay federal and provincial taxes as individual rates, ranging currently from 18% to 61% on his share of the business income earned in any year whether or not he withdraws it from the business. Corporations, on the other hand, are taxed on earnings at a dual rate of 24% on the first \$50,000 of income and 49% on income in excess of \$50,000. Corporate may deduct salaries paid to owners and to owners' spouses for services but may not deduct dividend paid to stockholders. Both salaries and dividend are taxed to their recipients.

These factors must be weighed in deciding in any given situation whether the corporate or non corporate form of business organization is preferable. There is no simple rule of thumb, even considering only these basic difference as weigh. Mosich Johnson Blazouke researched.

## **2.6 Impact of Taxation**

Taxes are often perceived to be the measure for raising resources for the government. In the primitive barter economies of ancient African Economy, the primary objective of taxation was to raise resources for the economy. However, taxes do not just provide revenue to the government; they also affect the economic behavior of the people and the level of economic activities in a significant way.

Effects of taxation are felt all over the economy. This is because the tax influences several variables such as saving, investments, employment, distribution, prices and efficiency of resources. Some of these variable are directly affected by taxation where as the effect on other is indirect.

The impact of tax on traders is normally felt by the person who directly or immediately bears the burden of the tax as soon as its imposed, to the extent of affecting his or her income or amount of profit gained. It may however be able to shift the burden backward or forward.

Ronald Akankwasa (2005). Taxation rate has been increased from 17% to 18%. This measure is expected to result in increase in prices of goods and services.

### **Price effects**

According to Mashesh C. Purohit (1975), the effects of taxation on prices are tremendous and direct. The effect, however, depends upon whether the tax is a new levy (intended to mobilize additional resources) or simply a replacement for the existing tax (es) to recover the lost revenue from other taxes reduced or replaced by taxation. This could comply a complex mixture of changes in factor price and producer prices at manufacturing and whole sale levels. However, in general, taxation causes, increase in price of commodities depending upon the elasticity of demand and supply of the commodity concerned. Normally, it's fully shifted forward because traders would wish to maintain their level of profit by shifting taxation ahead. All traders will initially bear tax and compliance costs but would like to record them in due course, sometimes even to take advantage of the situation to change prices some what higher than warranted VAT.

### **Distribution effects**

Supra, refers distribution effects as the incidence and equity aspects of the tax. Thus is, the issue of distributional effects is who really bears the burden of the tax.

In the case of taxation, this depends upon various possibilities of shifting, a violence and evasion of tax, as well as on the composition of the users of a commodity. The aspects of avoidance and evasion are related both to the structure as well as to the administration of the tax.

According to Oboone A (1990), the most serious and adverse effects of the highly progressive tax are that it affects adversely the ability and willingness to work, save and invest. This is because whatever margin is left over after payment of the tax would rather be consumed than saved.

He also earlier observed the higher the tax rate the less the profits. And hence these taxes affect disposable income of the business owners.

According to Pigou C.A (1998), taking substance results in diminished efficiency of workers. This reacts on quantity and price of the goods produced.

Society thus pays for it rather than taking an individual tax payer. However, the impact of the introduction of a new tax system on various tax payers researched on, may have their own impacts.

Rodney A. (1997) also mentions that heavy tax rates effects consumption patterns in respect to individual spending such as on housing, medical care, education, leisure and nutrition standards. These in turn affect the working efficiency of the population as a whole, thereby ret arching the growth and of the economy.

In analyzing the profit margins Saleem N. (1992), asserts that taxes which considerably reduce profit margins of individual business act as disincentives to further enterprise. Therefore, according to him a moderate and reasonable tax rate should not have such adverse effect, but on convey it should act as an incentive to further saving and investment.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

Looking at this chapter, it describes the various methods that were used in the study which information was gathered. There are several methods of data collection which were used in this study living others in which findings, interpretations and conclusions were made. They included, data collection and instrument used, the research design, the study area, target population and sample size and selection.

#### **3.1 Research design**

This is simply a framework or plan for a study that is used as a guide in collecting data which research project was conducted scientifically and has a specific framework from the problems identification to the presentation of the research report to give the impact of taxation on the profitability of business firms.

Sample of respondents were drawn from staff of MTN, URA officials and traders themselves. Additional information was through observation by means of discussions and interviews.

#### **3.2 Study area**

This research was carried out in the heart of Kampala city with the help of staff of MTN.

This area was chosen basing on the easy accessibility in carrying out my research as it's in the capital city.

#### **3.3 Sample size and selection**

This involved the sampling frame, sample selection process and the size of the sample. Sample design was useful in deciding of primary data as well as secondary data which helped me in the field while carrying out the field work project.

It was a cross sectional descriptive study that may involve stages like sample survey, focus group, discussion or interview.

#### **3.4 Data collection and instrument:**

As a research student, the data that I will collected using the following techniques and instruments of data collections.

#### **3.4.1 Questionnaire:**

This technique helped me to improve the accuracy of surveys when collecting primary data based on self-administered structure questionnaires with both open ended response questions and fixed alternative questions.

#### **3.4.2 Interviews:**

here mainly i interviewed the traders and staff of MTN, through face to face contact together information regarding the effects of taxation.

#### **3.4.3 Observation:**

This method involve the critical use of a kin eye to record the behavior patterns of traders and occurrences such as prices of the products and the degree of bargaining by both customers and traders and finally their perception towards taxation and how it's administered.

#### **3.5 Secondary data:**

Here the data collected is compiled by another agency other than me, not gathering for the immediate study at hand but for some other purpose. They are both internal and external secondary data. It is useful because some respondents may not provide some of the information indeed.

#### **3.6 Data processing analysis:**

Here the data was gathered and analyzed both manually and using computers by way of descriptive statistic such as the percentages, graphs, tables, pie charts, and the presentation of findings that made it very easy to comprehend and draw conclusions based on the findings refer to appendix for examples. Basically, data processing and analysis were based on the following method below;

##### **3.6.1 Editing:**

Frequently, certain editing was done every other day mechanically to avoid personal business. By editing, I involved inspection and correction of each questionnaire of observation form to eliminate errors and confusion.

### **3.6.2 Coding:**

With coding, I assigned symbols and numerals to each answer to categorize data. Here I transformed raw data (unprocessed data) into symbols and numeral which were tabulated and counted. The transformation was based on certain criteria & judgments.

### **3.7 Definition of Terms**

#### **TAX:**

- a) According to Dr. Dolton principles of public finance, 1951 tax can be defined as a compulsory contribution imposed by the public authority irrespective of the amount of services rendered to the tax payer in return.
- b) In relation to professor Seligman Essays in Taxation (1993) on the other hand defines tax as a compulsory contribution from a person to the government to cater for the expenses incurred in the common interest of all without reference to special benefits conferred.
- c) The tax may also be defined as a compulsory contribution of wealth of persons for the services of public authority or power.

#### **VAT:**

- a) According to D.J Bailing Revenue law in Uganda (2003) VAT is a consumption tax, which is levied or imposed at each stage of production on value added at each of these stages.

The recognized are manufacturing, wholesale, retailers.

- b) According to Mahesh C. Purohit (1993), VAT is a tax on consumption. The final and total burden of the tax is fully and exclusively borne by the domestic consumer of goods and services.

If being a tax on domestic consumption, no VAT is chargeable on goods exported. It's an alternative mechanism of collection of tax. In many respects it is equivalent to a last point resale's tax.

#### **TAXATION:**

The process whereby charges are imposed on individuals or property by the legislative branch of the federal government and by many state governments to raise funds for public purposes. The theory that underlines taxation is that charges are imposed to support the government in

exchange for the general advantages and protection afforded by the government to the taxpayer and his or her property. The existence of government is a necessity that cannot continue without financial mean to pay its expenses; therefore, the government has the right to compel all citizen and property within its limits to share its costs.

The state and federal government both have the power to impose taxes upon their citizen.

### **Kinds of taxes:**

The two basic kinds of taxes are excise taxes and property taxes:

- a) An excise tax is directly imposed by the law-making body of a government on merchandise, products or certain types of transactions, including carrying on a profession or business, obtaining a license or transferring property. It is a fixed and absolute charge that does not depend upon the taxpayer's financial status or the value that the taxed property has to the taxpayer.

### **Types of excise taxes:**

- i. Estate tax, a tax that is placed on, and paid by, the estate of a decedent prior to the distribution of the property among the heirs in exchange for the privilege of transferring the property.  
Individuals who inherit property may be required to pay an inheritance tax on the value of the particular property received. Gift taxes are incurred by an individual who gives another a valuable gift.
- ii. Sales Tax; which is placed on certain goods and services. Precisely what goods and services are taxed is determined by the individual state legislative. In some instances, a sales tax placed upon expensive items that are considered luxuries is known as a luxury tax.
- iii. A corporate tax: is an excise tax imposed upon the privilege of conducting business in the corporate capacity, which provides certain advantages to individual, such as limited liability. It is measured by the income of the corporation involved.

Other common examples of excise taxes are those imposed upon the processing of meat, tobacco, cheese and sugar



## **TAX:**

A property tax takes the taxpayers wealth into account, as represented by the taxpayer' income or the property he or she owns.

Income tax: for example is a property tax that is assessed and levied upon the taxpayer's income. Property taxes are imposed mainly on real property.

### **3.8 Limitation encountered when carrying out the research**

The following are some of the limitation I expect to face during my research;

1. Denying of the information, bearing in mind that some individuals are always not ready to disclose the facts directly as enquired, and thus getting difficulties in finding the necessary data for interpretation.
2. Negative attitudes, the respondent may at times have a negative attitude and incorporative in such a way that they are not ready to fill in the questionnaires even if the purpose of the research, is clearly understood.
3. The research study proves to be very costly in terms of money and time as it's the period am doing my final exams and require time to read my books and me being a student, am still a dependent on my parents money thus cost is high in terms of transport, printing and photocopying the work.
4. Scarcity of the managers as they are always busy.
5. Language barrier, is the major problem I might face, I being a foreigner with little knowledge of Luganda and also since questionnaires are written in English thus limiting the respondents who are not good at reading or writing.

## CHAPTER FOUR

### FINDINGS, INTERPRETATIONS AND ANALYSIS

#### 4.0 Introduction

This chapter presents findings as well as their interpretations and analysis in relation to the objectives of the study. The study was carried out with the major aim of establishing answers to the research objectives using percentages and frequencies, tables and charts. The study was carried out in a manner that categorized the respondents into two groups. From senior management and employees of URA and from senior management and employees of MTN.

#### 4.1 General Information From senior management and employees of URA

**Table 1 Sex of the respondents**

Sex	Frequency	Percentage
Male	18	60-%
Female	12	40%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table above shows that the majority of the respondents were male 60% and 40% female showing gender balance in the respondents, this is important because taxation affects both genders, thus it enabled in getting different views from both genders.

**Table 2: Education level of the tax administrators and consultants**

Level of education	Frequency	Percentage
Certificate level	0	0%
Diploma level	3	10%
Degree level	18	60%
Masters level	6	20%
Other levels	3	10%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data.**

The table above shows that the majority of the respondents are degree holders (60%), 20% have masters while 10% are diploma holders and other qualifications relating to finance, accounting and taxation in generation. It therefore shows that the body had qualified employees necessary for the execution and implementation of duties as planned leading to efficiency of tax administration in general.

**Table 3: Number of years spent in an organization of the tax officials in U.R.A**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Below 5 years	2	6.6%
5 – 10 years	10	33.3%
Over 10 years	18	60%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table above shows that 6.6% of the workers have worked with the organization for 5 years and below, while 33.3% 5 – 10 years and 60% have worked for over 10 years. The researcher is of the view that by having the majority of the employees who have been working with U.R.A over 10 years helped very much in my data collection; this is because most of them have experience in the field of tax.

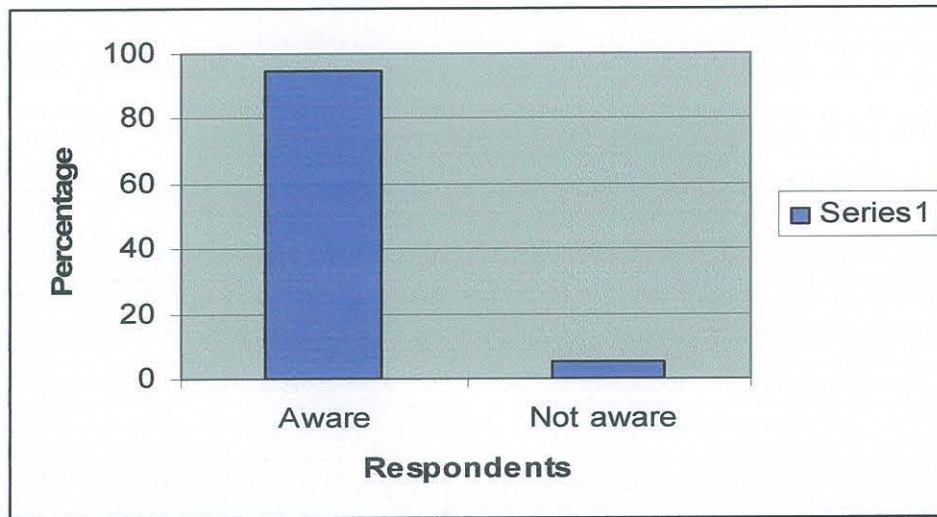
**Table 4: Job status of the respondents**

<b>Level held</b>	<b>Frequency</b>	<b>Percentage</b>
Lower management	10	33.3%
Mid management	16	53.3%
Top management	4	13.3%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table shows that 33.3% of the workers work in the lower management, 53.3% work in the mid management and only 13.3% work in the top management. The researcher found that by having the majority of the respondents in the middle management helped in getting the relevant data because it is at this level that is involved mostly in implementation of important duties in the field of tax as a whole.

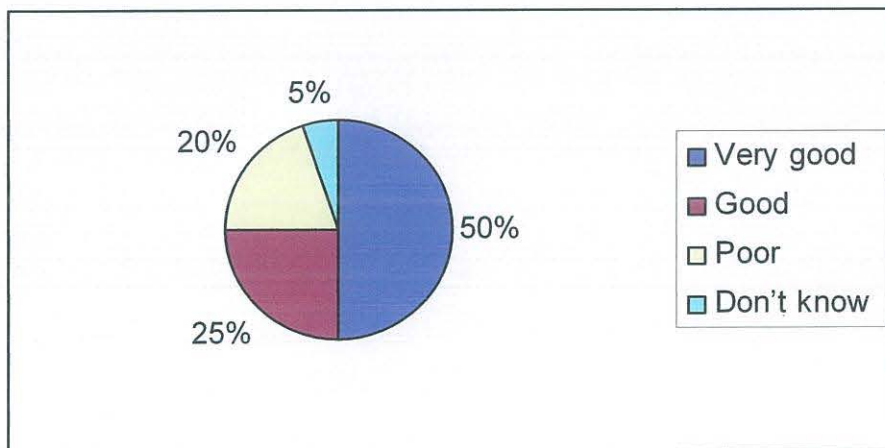
**Figure 1: Awareness of taxation**



The above figure shows 95% of the respondents are aware of what tax is and only 5% are not aware. The researcher is of the view that the respondents have some knowledge about tax. This is because U.R.A has put in much effort in letting the tax payers know about the importance of paying tax so that it's easy for them to calculate and pay the required tax liability.

#### **4.2 Measurement of Performance of Business Firms in Relation to its Profits**

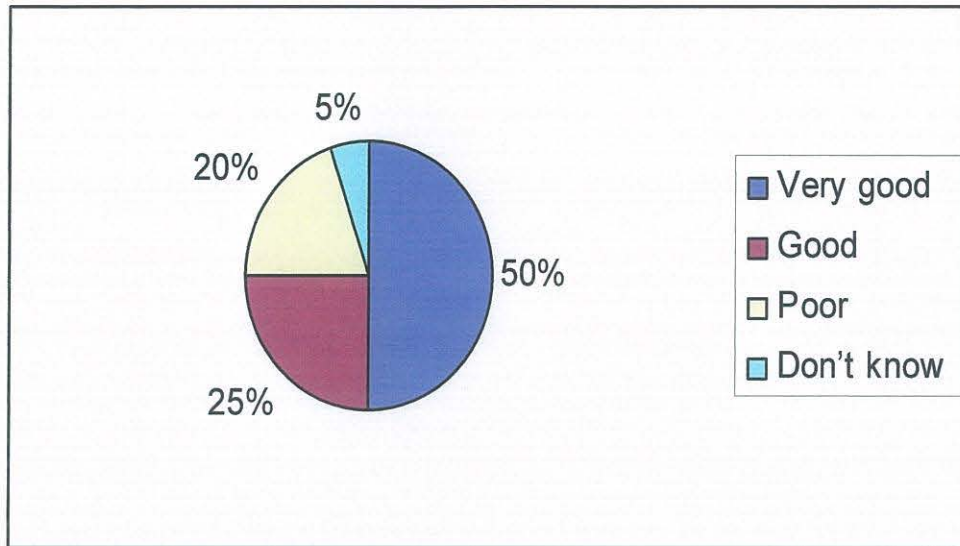
**Figure 2: Before imposition of tax**



**Source: Primary source**

The figure above shows that the respondents measured the performance of business firms in relation to its profits as 50% very good, 25% good, 20% poor and 5% didn't know.

**Figure 3: After imposition of tax**



**Source: Primary data**

The figure shows that 50% of the respondents said that the business performance after the imposition of tax was poor, 25% good, 20% very good, 5% didn't know. By comparing between figure 2 and 3 above, the researcher is of the view that the imposition of tax lead to low performance of business firm this is because figure 2 above (before the imposition of tax) the majority responded to a very good performance where as figure 3 (performance after imposing tax) the majority responded to a poor performance.

**Table 5: Problems resulting from imposing of tax**

Variable	Respondents	Percentage
Corruption in U.R.A	15	50%
Slow economic performance	6	20%
Bureaucracy	9	30%
TOTAL	30	100%

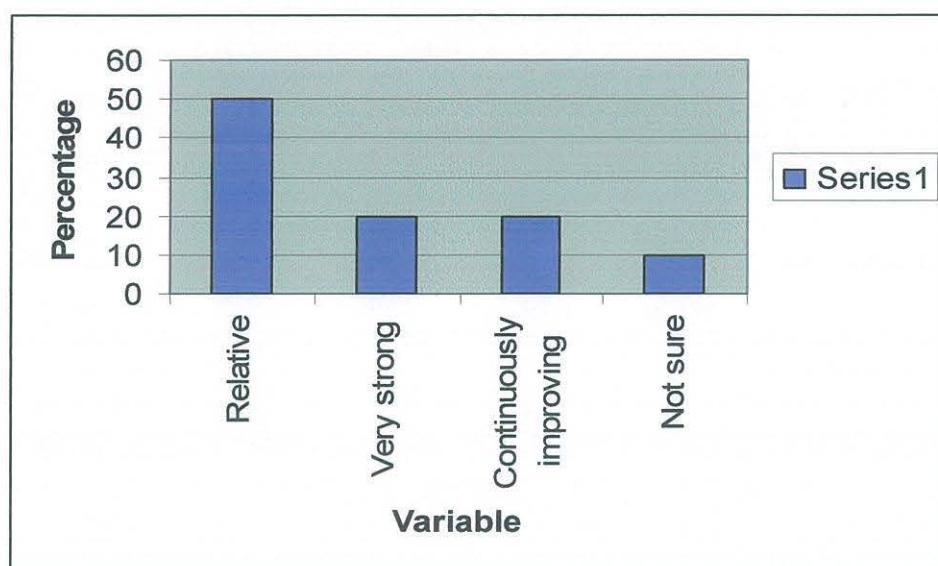
**Source: Primary data**

The table shows that 50% of the respondents said that there is corruption as the major problem, 30% responded to slow economic performance and 20% said that there was bureaucracy in the system of taxation.



The researcher's view according to this is that corruption being the major problem is due to the low pay the tax collectors receive which do not cater for the life necessities hence they are looking for the way of increasing their income thus leading to corruption in tax administration and collection.

**Figure 4: Relationship between tax collection and tax administration since the inception of VAT**



**Source: Primary data**

The figure above shows that 50% of the respondents suggests that the relationship between tax collection and tax administration is relative, 20% said that it is continuously improving, 20% said that it is very strong and 10% were not sure.

The researcher is of the view that tax collection is relative to the tax collection, this is because the introduction of VAT aimed at bringing about the smooth efficient system of tax collection that would lead to the efficiency of tax collection.

**Table 6: Efficiency in tax collection as a method of revenue earning by the government**

Variable	Frequency	Percent
Effective	21	70%
Very effective	6	20%
Poor	3	10%
Very poor	-	0%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary source**

The table above shows that 70% of the respondents said that taxation is effective as a method of revenue earning for the government, 20% said that it is very effective, 10% said that it is poor. The researcher found that the method is effective reliable in increasing government revenue.

**Table 7: Opinion on taxation**

Variable	Frequency	Percent
Positive	15	20%
Negative	6	20%
Relative	9	30%
I don't know	-	0%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table above shows that 50% of the respondents have a positive attitude towards tax, 30% relative, 20% showed a negative attitude. This shows that most people accept tax as a method of government revenue and if its effectively implemented and administered it will be an efficient method in the country.

**Table 8: Tax affects business performance**

Responses	Frequency	Percent
Strongly agree	15	50%
Agree	8	27%
Disagree	5	16.7%
Not sure	2	6.7%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table above shows that 50% agree while 16.7% disagree and 6.7% not sure of whether tax affects business performance. The researcher found that the majority accept that tax affects the business performance in an economy. This is mainly due to the reason that it is the final consumer who feels the burden of paying the tax and it is the final consumer who determines the performance of any business and with this reason therefore, business is automatically affected.

**Table 9: Adequate of 50 million thresholds**

Responses	Frequency	Percent
Strongly agree	-	-
Fair	18	60%
Not fair	12	40%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**

The table above shows that 60% of the respondents agree with the 50 million threshold and 40% showed a negative response. The research revealed that the majority accept the threshold set up by U.R.A although some said that it is not fair.

**Table 10: Perception of traders towards calculation of tax**

Perception by respondents	Number	Percentage
Difficult	21	70%
Easy	09	30%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

**Source: Primary data**



The study also examined how traders calculate tax. Most traders didn't know how to calculate tax so they had to employ accountants to help them. 70% didn't know how to calculate tax while 30% of the respondents had no problem with calculating tax. Hajji Swaibu of Dubai Electronics said that; though U.R.A has started teaching traders how to calculate TAX, they usually take long to hold work shops and seminars.

## **CHAPTER FIVE**

### **SUMMARY, RECOMMENDATIONS AND CONCLUSIONS**

#### **5.0 Introduction**

This chapter gives a summary of findings, conclusions and recommendations made on the study to find out the relationship between taxation and profitability of business firms, under the case of MTN.

#### **5.1 Summary of Findings**

The study's participation includes 60% of male and 40% of female as respondents. The study involved both tax administrators at top management, middle and low, it also included the senior management and the employees of MTN.

The study revealed as follows;

- The majority are aware of what tax is.
- Taxation leads to an increase in revenue as it has a wide coverage in the collection chain.
- The performance of business firms in terms of its profitability before the imposing of tax was very good but it reduced after introduction of tax.
- There are adequate collection measures but these ones face a number of problems like corruption and lack of proper record keeping by the tax payers leading to tax evasion.
- There is a relationship between tax collection and tax administration since the inception of VAT.
- Taxation is a reliable and effective method of earning government revenue.
- The 50 threshold was highly contented, some said that it should be reduced and others said it is unfair.
- Tax payers do not want to submit tax returns and those who do it, do not do it in time.
- There is poor working relationship between tax payers and collectors.
- There is poor tax culture and record keeping among tax payers.

### **5.1.1 Perception of traders about tax**

According to the study, business owners' perception about tax was as follows;

- Traders revealed that the administration of tax was not that entire okay because of high rates, mode of filing returns every month was a problem to the majority and tax assessment was not favorable to most of the payers.
- The business community at first found a lot of problems in calculating and understanding tax, therefore, the traders had to spend some money on accountants to calculate tax for them.
- Traders revealed that the period for submission of returns was quite short therefore in most cases; traders would under declare their monthly revenues and would therefore prefer to be given an appropriate assessment.

### **5.2 Conclusion**

From the study, taxation is so far the most reliable method used by U.R.A in collecting government revenue. Uganda Revenue Authority is not realizing its set targets in the collection of tax, although it has adequate collection measures in place. This is due to administrative loop holes that exist in the department of tax and to some extent factors beyond control like the economic performance of the country which is not stable.

It can also be noted that there is need for more mass education as people are not well conversant with its calculation and assessment and what its possible effects are. However, people are behind the whole process simply because it's a government policy.

On voluntary compliance, a good number of business owners agreed to abide by the government policy and it could therefore be noted that taxation was implemented; there is voluntary compliance and public support.

According to information got from traders, MTN staff and even U.R.A official, there is gradual understanding of the required book keeping system until the required standard is reached.

It should be noted that there is an appropriate tax administration and laws to handle the tax system.

### 5.3 Recommendations

The recommendations are to improve on administration of tax. These recommendations include;

- Reduce the 50 threshold million to include more tax payers.
- Lift the BAN on strong enforcement measures and tax education.
- Carry out comprehensive audits to verify information given by tax payers returns submitted.
- Improve coordination among the various departments in the Uganda Revenue Authority.
- Employ adequate manpower to carry out assessments, audits and enforcement.
- Improve the public image of the tax collectors among tax payers.
- Expeditious measures should be put in place to ensure that tax payers recover their tax refunds in time in order to boost the morale on paying tax.

## REFERENCES

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| URA (1996)                        | an overview of performance in VAT<br>Department.   |
| VAT Statute (1996)                | VAT Department in Kampala.   |

## Appendix 1: Questionnaire for senior management and employees of URA.

Kampala International University

THE EFFECT OF TAXATION ON PROFITABILITY OF FIRMS. A CASE STUDY OF MTN (UGANDA).

### Primary data collection

#### Introduction

This research is being undertaken as a partial fulfillment of the requirement of the award of a Bachelor of International Business Administration.

I therefore request that you provide accurate information that will enable me to obtain quality data for analysis. The information gathered is purposely for academic purposes and its confidentiality is highly guaranteed. (Fill in or tick as appropriate)

#### A) Personal data

Age    25-25   ☐    36-50   ☐    over 50   ☐

##### Marital status

Single   ☐

Married   ☐

Divorced   ☐

Widowed   ☐

Education level    Certificate   ☐    Diploma   ☐    Degree   ☐

Gender    Male   ☐    Female   ☐

#### Number of years in an organization

Below 5   ☐    10   ☐    over 10   ☐

Job status:    Top Management   ☐    Middle management   ☐  
Lower management   ☐

#### Data relating to taxation in Uganda

- i. What is the percentage rate in Uganda?
- ii. What is the output tax?
- iii. What are taxable supplies?
- iv. Are there other kinds of supplies?
- v. How do I know if my supplies are exempt or zero-rate?
- vi. When is tax charged in the production chain?  
 Middle ☐ End ☐ Beginning ☐  
 I don't know ☐
- vii. Does ST and CTL still exist?  
 Yes ☐ No ☐
- viii. Who has to be registered for taxation?

**Relationship between profitability of firms and efficiency of tax collection.**

1. How would you measure the performance of business firms in relation to its profits?
  - a) Before the introduction of tax  
 Good ☐ very good ☐ poor ☐ I don't know ☐
  - b) After the introduction of tax  
 Good ☐ very good ☐ poor ☐ I don't know ☐
2. What have been the problematic issues after the introduction of tax?  
 Corruption in URA ☐ Moderate economic performance ☐  
 Bureaucracy ☐ ☐
3. How would you grade the relationship between tax collection and tax administration since the inception of VAT?  
 Relative ☐ very strong ☐ continuously ☐  
 Improving ☐ not sure ☐
4. Using tax collection as above, how would you gauge the efficiency of firms and its profitability?  
 Very good ☐ good ☐ poor ☐ very poor ☐
5. How would you gauge the efficiency of tax collection as a method of revenue earning by the government.  
☐ 29 ☐ ☐

Effective                      very effective ☐      poor                      very poor

6. How would you rate the effectiveness of tax collection?

Excellent	<input type="checkbox"/>	good	<input type="checkbox"/>	average	<input type="checkbox"/>
Poor	<input type="checkbox"/>	very	<input type="checkbox"/>	no option	<input type="checkbox"/>

7. Any general comment?

**Thank you very much for your valuable time and co-operation**



**Appendix II: Questionnaire for Senior Management and Employees of MTN**  
**Kampala International University**  
**THE EFFECT OF TAXATION ON PROFITABILITY OF FIRMS. A CASE STUDY OF MTN**  
**(UGANDA).**

**Primary data collection**

**Introduction**

This research is being undertaken as a partial fulfillment of the requirement of the award of a Bachelor of International Business Administration. This interview guild will assist in gathering and evaluating the effect of taxation on profitability of business firms and its implications.

You as a trader, you are in a better position to provide me with relevant data that will make this report a success.

The information given shall be treated with a high degree of confidentiality and shall not be used for any other purpose except for this research study.

**Personal data:**

**Age**    under25                      25-35                      36-50                      over 50

**Marital status**

Single    ☐    Married    ☐    Divorced    ☐    Widowed    ☐

**Gender:**    Male    ☐    Female    ☐

**Education level:** Certificate    ☐    Diploma    ☐    Degree    ☐  
    Master    ☐    PHD    ☐    Others    ☐

What is the nature of your business?

Wholesale    ☐    Importer    ☐    Retailer    ☐  
 Exporter    ☐    Manufacturer    ☐    Provide services    ☐  
 Others    ☐

**Data relating or taxation:**

1.    Are you registered for taxation? Yes    ☐    No    ☐

2. What is your opinion on taxation? Positive  
Negative ☐ Relative ☐ I don't know ☐
3. How often do you pay tax  
Often ☐ Very often ☐ rarely ☐ I am not sure ☐
4. Does taxation affect your business performance?  
Strong agree ☐ Disagree ☐ Agree ☐  
I am not sure ☐
5. In your own opinion, what have been the taxation effects on the performance of business?
6. How do you rate the tax administration?  
Very poor ☐ Good ☐ Poor ☐ I don't know ☐
7. Do you consider the threshold of 50 million as adequate?  
Strongly agree ☐ fair ☐ not fair ☐
8. Do you think that tax collection has improved Ugandans infrastructure? Yes  
No ☐ Not really ☐ ☐ ☐
9. What do you find interesting about taxation?  
Tax Refund ☐ Open Calculation ☐  
Easily Administered ☐ Nothing Interesting ☐
10. How taxation affected the level of your profit?  
Yes ☐ No ☐ I don't know ☐
11. If yes how?
12. Has taxation affected the number of your customers per day?  
Yes ☐ No ☐ Maybe ☐ n't know ☐
13. What do you think the government should do about taxation?  
Educate people ☐ Encourage ☐ Lower the rates ☐  
Scrup it off ☐ Monitor the collection ☐
14. Any comments or questions?

**Thank you very much for your valuable time and cooperation**

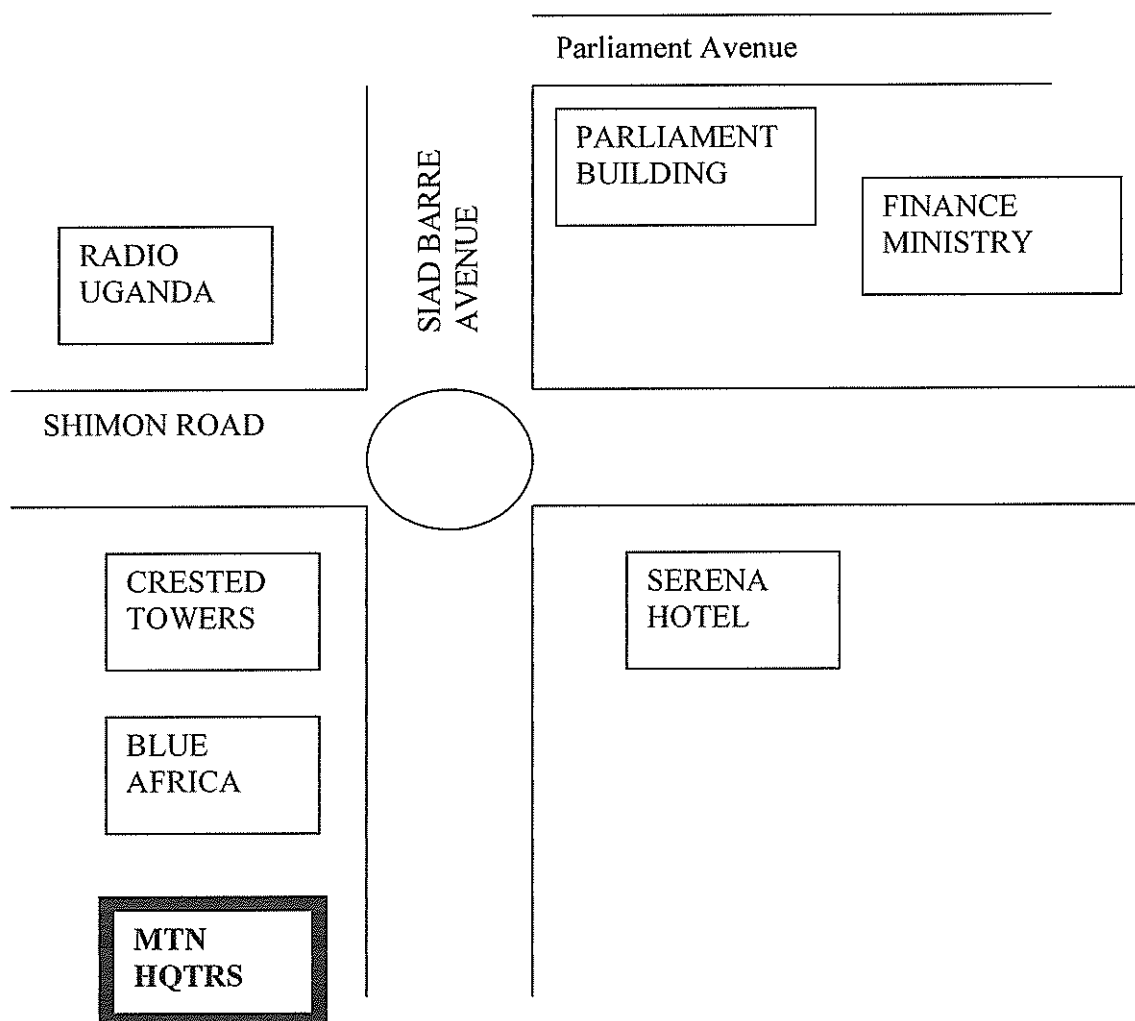
### Appendix III: Budget

NO.	ACTIVITY	COSTS
		USHs
1.	STATIONARY	30,000
2.	TYPING AND PRINTING	50,000
3.	TRANSPORT	20,000
4.	MEALS	50,000
5.	PHOTOCOPY	20,000
6.	INTERNET AND AIRTIME	50,000
7	BINDING	80,000
TOTAL		300,000

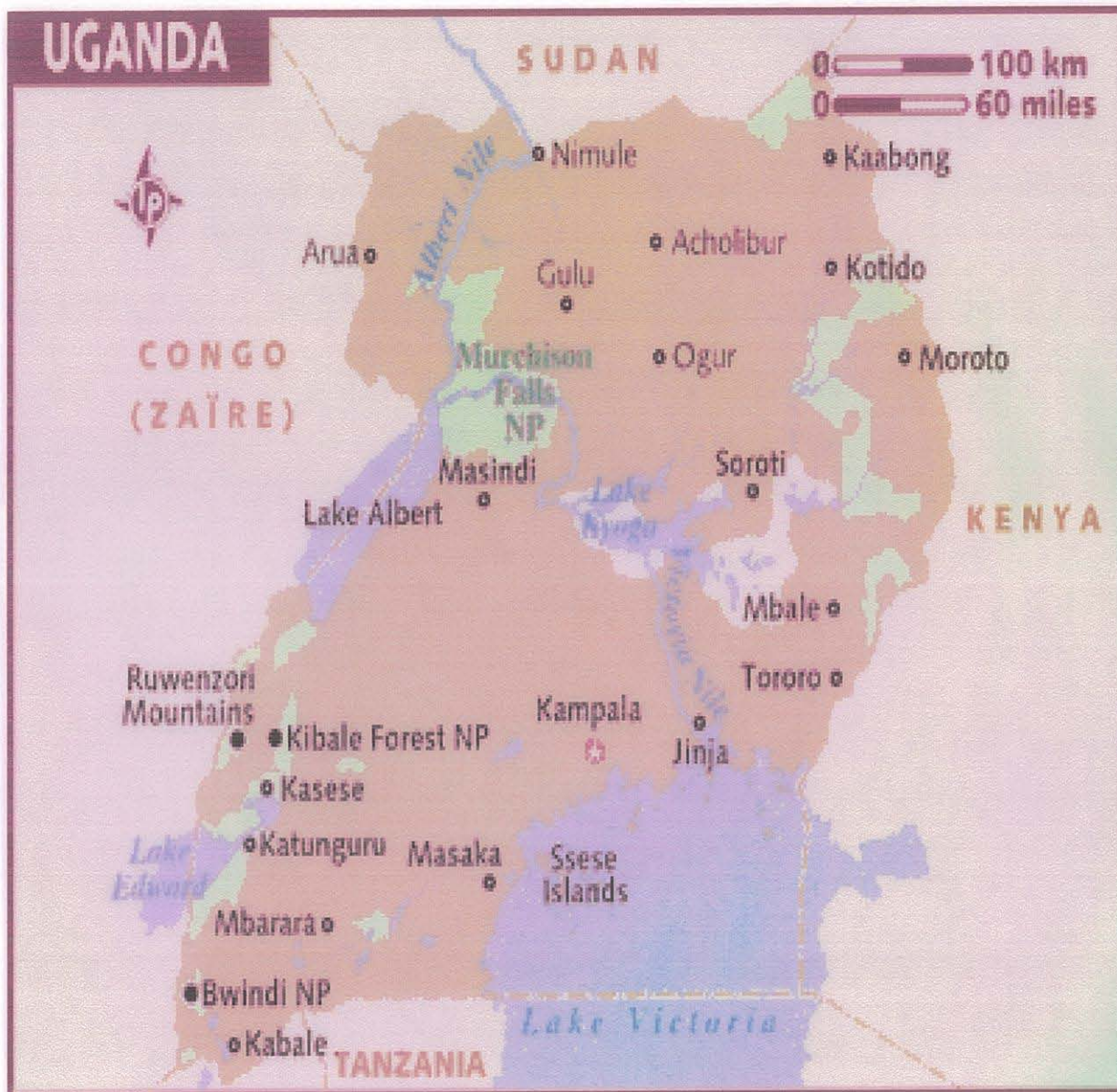
#### Appendix IV: Activity Plan

ACTIVITY	PERIOD	OUTPUT
Proposal writing	1st April 2007	Proposal submission for approval
Field customization	27 April 2007	initial information collection
Developing research instruments	31 April 2007	Developing of instruments
Data collection	2nd May 2007	Coding and entering of data
Data analysis	29th May 2007	Analyzing and interpretation of data
Preparation of report	2nd May 2007	Submission of dissertation

## Appendix V: Street Map showing MTN



## Appendix VI: The Map of Uganda









## **Appendix VII: Curriculum Vitae**

### **PERSONAL INFORMATION**

NAME; NJUGUNA LIZA WAIRIMU  
DATE OF BIRTH; 1<sup>ST</sup> SEPTEMBER 1984  
MARITAL STATUS; SINGLE  
NATIONALITY KENYAN  
SEX; FEMALE  
TELEPHONE; 0712-558437, 0774-852426, +254-736224874  
E-MAIL ADDRESS; nimulizdan@yahoo.com  
LANGUAGE SPOKEN; ENGLISH , KISWAHILI

### **EDUCATIONAL BACKGROUND:**

<b>YEAR</b>	<b>SCHOOL</b>	<b>AWARD</b>
2004-2007NOV	KAMPALA INTERNATIONAL UNIVERSITY	BACHELOR IN INTERNATIONAL BUSINESS AND ADMINISTRATION MANAGEMENT.
APRIL-SEPT2004	KAMPALA INTERNATIONAL UNIVERSITY	CERTIFICATE OF MATRICULATION
1999-2004	JOMO KENYATTA HIGH SCHOOL	KENYA CERTIFICATE OF SECONDRY EDUCATION
1991-1998	BUSARA FOREST VIEW ACADEMY	KENYA CERTIFICATE OF PRIMARY EDUCATION

### **OTHER COMPETENCIES**

<b>CORSE</b>	<b>INSTITUTION</b>	<b>YEAR</b>
COMPUTER OPERATION;	KENYA INSTITUTE OF MANAGEMENT;	2003

PROFICIENCY IN:-

CC01 ; Windows 2000  
CC02 ; Word processing- Microsoft  
CC03 ; Spreadsheets-Microsoft Excel  
CC04 ; Databases-Microsoft Access  
CC05 ; Presentation- Microsoft power point  
CC06 ; Information network services

OVERAL RESULTS: \*\* CREDIT \*\*

CERTIFICATE OF TRAINING IN PEER COUNCELLING AND GUIDANCE.	FAMILY LIFE NETWORK	2006
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CERTIFICATE OF ATTENDANCE IN HUMAN RESOURCE MGT. CLUB.	KAMPALA INTERNATIONAL UNIVERSITY	2006
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**REFEREES:**

APPOLO KIARRI NGANGA  
PERSONEL MANAGER AT  
RED LAND, ROSES  
TEL: +254-733869897  
NAIROBI-KENYA

MRS; TERESIAH NJUGUNA  
BUSINESS WOMAN  
TEL: +254-723338792  
NAKURU KENYA