INCOME TAX ASSESSMENT AND PERFORMANCE OF SMALL SCALE BUSINESS ENTERPRISES. A CASE STUDY OF FABTECHNOID ELECTRONIC HARDWARE AND SOFTWARES IN MUKONO DISTRICT.

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS MANAGEMENT STUDIES IN DEPARTMENT OF BUSINESS STUDIES IN

PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE

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KAMPALA INTERNATIONAL

UNIVERSITY

SEPTEMBER, 2018

DECLARATION

I, Kaaye Isaac do hereby declare that this work is original and has never been submitted to any other institution for a ward of any Degree or Diploma. Where the work of others has been used, reference has been made there of.

Signed: ....   Date: 31st Oct, 2018

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APPROVAL

This report Titled "Income tax assessment and Performance of small scale business enterprises of Fabtechnoid Electronic Hardware and Softwares in Mukono District" has been submitted by Kaaye Isaac for examination with my approval as the University Supervisor, and it's now ready for presentation for the award of a Bachelor of Business Administration of Kampala International University.

Signed: ....

Date: 31st October, 2018

MRS. MUDONDO ERINAH

(SUPERVISOR)

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My deepest appreciation to Lord Almighty, for giving me good health, wisdom and patience and to my family for always being by my side throughout my study.

Special thanks go to my beloved parents Mr. Ddamba Stuart and Ms. Nalukenge Teddy for their entire effort during my career.

I sincerely thank my supervisor, Mrs. Mudondo Erinah for her guidance, encouragement and patience throughout the period of this project despite her busy schedule.

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In this special regard I extend special gratitude to the staff of Kampala International University (KIU) specifically college of economics and management whose advice and support have been so much instrumental in my pursuing of this course.

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I extend my sincere gratitude to the staff of Fabtechnoid Electronic Hardware and Softwares in Mukono District for setting aside their valuable time to respond to the requirement of the research instruments, which has laid a basic ground for the report compilation.

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

BUDS	Business Uganda Development Scheme
CPA	Certificate of Public Accountants
CVI	Content Validity Index Test
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
I	Irrelevant
MCP	UNIDO Master Craftsman Programme
MCP	Master Craftsman Programme
MFPED	Ministry of Finance Planning and Economic Development
MOP	Microfinance Outreach Plan,
N	Neutral
PMA	Plan for Modernization of Agriculture
SMES	Small and Enterprises
SPSS	Statistical Package for Social Sciences
SSB	Small Scale Business
TPB	Theory of Planned Behavior
URA	Uganda revenue authority
USE	Uganda Securities Exchange
USSIA	Uganda Small Scale Industries Association
VAT	Value Added Tax

DEDICATION

This work is basically dedicated to my beloved Parents, Mr. Ddamba Stuart and Ms. Nalukenge Teddy, for their great care and support during my struggle in producing all this work. I love you my family, may the almighty Father be by your side all the time.

TABLE OF CONTENTS

ABSTRACT

The study was to evaluate the income tax assessment and performance of small scale business enterprises of Fabtechnoid Company in Mukono District.

The study was based on three specific objectives; to assess the performance of small scale business enterprises of Fabtechnoid Company Mukono District, to find out if tax payers are aware of all their tax obligations and policies of Fabtechnoid Company Mukono District and to find out problems affecting tax payers and their business of Fabtechnoid Company Mukono District.

It was based on a cross sectional survey design basing on the use of qualitative and quantitative approaches that will be adopted to establish the relationship between taxation and performance of small scale businesses. A random sampling system used in the study. Interviews and Questionnaires were used to collect primary and secondary sources of data from 60 out of 72 respondents, using simple random sampling. Data analysis was done using SPSS's frequencies and percentage means. Finally the report looked at the study results and gave the discussion of each finding. Therefore, here, data analysis, procedures and response rate are focused on.

Then the findings conclusions and recommendations are presented. The report also showed the work plan for the whole research, the budget as distributed right from the topic inception up to research presentation, the questionnaire and finally the observation guide.

The study finding further revealed that, taxes mainly affects the performance of SSBs through lost sales during closure of the business premises by URA, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by URA onto SSBs that default on their tax obligation. Overall business performance was fair as most businesses could duly cover up their expenses, had enough stock, awareness of tax payers was poor and a number of problems were encountered.

This was clearly shown by the fact that over 60% of all the businesses sampled in Fabtechnoid Electronic Hardware and Softwares in Mukono District had occupied their current premises, over 70% of businesses surveyed had been closed at one time due to non-payment of taxes.

The URA should reach out and educate the business community about its different tax rates and mode of payment. The study revealed that the biggest problem with the tax paid is in fact that the SSBs community does not understand how the tax is arrived at as well as how it is paid but not because it is too high.

We obtained the findings and analyze the data by use of tables (hypothetical) and charts which helped to present data and arrive at conclusion and recommendations. This piece of work has been compiled and is presented in a very simple language easy to understand, a lot of terminologies have been avoided. I therefore welcome you to have a humble time in reading this work. There are new and knowledge building findings in the work, a lot of inspirations.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

The study is meant to establish the impact of taxes on performance of small scale business enterprises in Mukono District. This chapter consists of the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope and significance of the study.

1.1 Background of the study

1.1.1 Historical background Perspective

Taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. Taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services Kimaru, 2014). Taxes have existed virtually as long as there have been organized governments. The first tax law legislation was introduced in 1919 and ever since then taxes have evolved through a number of reforms. The government in an attempt to widen the tax base and collect more revenue has had to levy several taxes especially on business enterprises in Uganda which constitute a large part of the formal sector. The taxes charged on business enterprises in Uganda include; corporation tax, value added tax, presumption tax and exercise duty. In 1997 the Income Tax Act was made. This was to give guidance in assessment and computation of taxes (Abu-Rub, 2012). The Ugandan government has made some recommendable efforts to promote development through taxation since the inception of the current taxation laws for purposes of promoting development. The main objective of taxation in Uganda has always been to mobilise resources needed to meet the aspiration of government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in position to provide goods and services to the people adequately. The Ugandan government has always had to ensure proper resource mobilization (Bhagat, 2008).

According to Manasseh (2000), a tax is generally referred to as a compulsory levy imposed by government upon assessees of various categories and taxation is a compulsory and nonrefundable contribution imposed by government for public purposes.

1

In Uganda a 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 (Uganda development bank report, 1988). Taxation in Uganda is based on system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British administration. This process began in 1900 with the hut tax regulation which imposed a standard charge for every hut/dwelling. During that period, taxation was aimed at raising revenue for the administrative structure imposed by the colonial government but also as a means of encouraging monetary/economic activities. It was the Local Authority Ordinance of 1991 that governed the collection of taxes. In September 1991, after a period of review the URA was established. All taxes including income tax came under the umbrella of the URA. From 1992, URA has been organizing and strengthening the administrative procedures and in 1993 this process assisted by a grant from the British government of approximately US$ 10 million in Mukono district. (Brid, 2008).

1.1.2 Theoretical perspective

The Ability-to-pay theory suggests that citizen is to pay taxes because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. The theory emphasizes that the burden of taxation should be shared amongst the members of society so as to conform to the principle of justice and equity, and that this equity criterion will be satisfied if the tax burden is apportioned according to the relative ability to The theory of ability to pay is combined with the objective of maximum welfare of the society. The index of paying ability is translated in terms of equal-marginal sacrifice such that society undergoes the least aggregate sacrifice in meeting the tax liability. Therefore to pay is not an absolute quantity. It is related, indices are available for determine the relative ability to pay of the taxpayer; it could be income, wealth property or consumption expenditure. The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767-1832) and the English economist John Stuart Mill (1806-1873).

The theory of equal sacrifice is closely related to the ability to pay theory. It has its meaning derived from two angles namely, the equity and the welfare view. The equity approach presupposed that each taxpayer should be made to undergo amount of sacrifice irrespective of his

2

income. It should therefore be envisaged that equal sacrifice admits of different interpretation and one tally with the welfare consideration. Eisenhardt, K.M. (1998).

1.1.3 Conceptual perspective

Tax: It can be defined as a compulsory and nonrefundable contribution executed by government for public purposes. Payment is not followed by concurrent benefit in return. A tax is generally referred to as a compulsory levy imposed by the government upon the assesses of various categories. A tax is paid without a corresponding return in terms of goods or services from the government and hence it is referred to as a non-quid proquo payment (Income Tax Act, 1997)

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

Tax compliance means making tax payments and producing and submitting information to the tax authorities on time and in the required formats. We have developed a tax compliance management software which helps to manage the tax compliance of your organization.

Income tax Assessment under Section 143 (1) is like preliminary checking of the return of income. At this stage no detailed scrutiny of the return of income is carried out. At this stage, the total income or loss is computed after making the following adjustments (if any), namely:-

(i) Any arithmetical error in the return; or

(ii) An incorrect claim (*), if such incorrect claim is apparent from any information in the return;

(iii) Disallowance of loss claimed, if return of the previous year for which set-off of loss is claimed was furnished beyond the due date specified under section 139(1); or

Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating a SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees.

3

1.1.4 Contextual perspective

Mukono Nabuti Rd, Mukono Fabtechnoid is a Ugandan privately owned company that deals in many forms of Electronic Hardware and softwares for various equipment. Mukono Fabtechnoid At least 50 small scale business enterprises are selected in Mukono municipality and almost all of them employ 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. Mukono Fabtechnoid as a case study to evaluate the Income tax assessment and performance of small scale business enterprises. Chigbu, E. E., Eze, A. L. & Ebimobowei, A. (2012).

1.2 Statement of the problem

Taxes are 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. Despite the services provided, small scale business enterprise's performance in Mukono Fabtechnoid is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually. These rates seem to be taking an upward trend (Gordon, 2010). Which has led to winding up of some small scale business enterprises? This prompted the researcher to investigate more about the Income tax assessment and performance of small scale business enterprises.

1.3 Purpose of the study

The purpose of the study was to evaluate the income tax assessment and performance of small scale business enterprises of Fabtechnoid Company in Mukono District.

1.4 Objectives of the study

1. To assess the performance of small scale business enterprises of Fabtechnoid Company Mukono District.

2. To examine if tax payers are aware of all their tax obligations and policies of Fabtechnoid Company Mukono District.

3. To examine the problems affecting tax payers and their business of Fabtechnoid Company Mukono District.

4

1.5 Research questions

The following are the research questions for the study.

1. What is the performance of small scale business of Fabtechnoid Company Mukono District?

2. Are tax payers aware of all their obligations and policies of Fabtechnoid Company Mukono District?

3. What are the problems faced by tax payers of Fabtechnoid Company Mukono District?

1.6 Research hypothesis

There is statistical significance between performances of small scale business enterprises of Fabtechnoid Company.

There was a statistical significance between tax payer's awareness of all tax obligations and policies of Fabtechnoid Company Mukono District.

There are statistical problems faced by tax payers of Fabtechnoid Company Mukono District?

1.7 Scope of the study

1.7.1 Subject scope

The study covered small scale businesses in Mukono Fabtechnoid Company. 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

Mukono Nabuti Rd, Mukono Fabtechnoid Company is a Ugandan privately owned company that deals in many forms of Electronic Hardware and softwares for various equipment.

1.7.3 Time scope

The study took a period of 5 months from June to September 2018. This period was selected to enable the researcher come up with coherent information from the respondents as it enabled those (Respondents) to give responses that will be typical of their opinion from the observations made over this period.

1.8 Significance of the study

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

1. To scholars and researchers, the findings of the study was expected to contribute to the existing literature about taxation and the effect it causes to the economy as a whole.

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

3. To future academicians especially of Kampala International University, the study was to help in gaining insight about taxes and performance of small scale business enterprises.

4. The accomplishment of the study was enabling 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.

1.9 Conceptual frame work

Figure 1: 1.1 shows the Conceptual frame work

INDEPENDENT VARIABLE		DEPENDENT VARIABLE
INCOME TAX ASSESSMENT		**BUSINESS PERFORMANCE**
Reduction in income tax assessment	Leads to:	• Increase in profit retention by owners for business survival • Increased salaries and wages • Increased activities widening the scope of business operation hence boosting business performance.
An increase in income tax assessment	Results into:	• A fall in profit retention killing business survival • A fall in business operations • Reduction of salaries, wages etc leading to a decline in business performance

The independent variables were perceived as the income tax assessment whereas the dependent variable was the business performance. The professed goal of making SME will improve the welfare of people living in Mukono District Mika, *M et al (2012)*.

The less number of clients of SME will contribute to less profit gained by the business men in Mukono District.

Conceptual capacity with high number of people SME increases on the profit of the business with the performance of improving household income in Mukono District.

The core reason for SME to exist will improve on the standards of living of the people and as a result, their investments increase.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter presents a comprehensive review of relevant literature in an attempt to position the study in an appropriate theoretical framework, thus discussing findings of related researches to this study. It consisted of existing literature on taxation by different scholars/research studies from magazines, text books, journals and newspapers.

2.1 Theoretical perspective

Ability-to-pay theory

The Ability-to-pay theory suggests that citizen is to pay taxes because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. The theory emphasizes that the burden of taxation should be shared amongst the members of society so as to conform to the principle of justice and equity, and that this equity criterion will be satisfied if the tax burden is apportioned according to the relative ability to The theory of ability to pay is combined with the objective of maximum welfare of the society. The index of paying ability is translated in terms of equal-marginal sacrifice such that society undergoes the least aggregate sacrifice in meeting the tax liability. Therefore to pay is not an absolute quantity. It is related, indices are available for determine the relative ability to pay of the taxpayer; it could be income, wealth property or consumption expenditure. The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767-1832) and the English economist John Stuart Mill (1806-1873). The theory of equal sacrifice is closely related to the ability to pay theory. It has its meaning derived from two angles namely, the equity and the welfare view. The equity approach presupposed that each taxpayer should be made to undergo amount of sacrifice irrespective of his income. It should therefore be envisaged that equal sacrifice admits of different interpretation and one tally with the welfare consideration. Eisenhardt, K.M. (1998).

2.1.1 The conceptual review

This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2000). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2002). Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer (Edwards, 2011). The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

Tax: It can be defined as a compulsory and nonrefundable contribution executed by government for public purposes. Payment is not followed by concurrent benefit in return. A tax is generally referred to as a compulsory levy imposed by the government upon the assesses of various categories. A tax is paid without a corresponding return in terms of goods or services from the government and hence it is referred to as a non-quid proquo payment *(Income Tax Act, 1997)*

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9

frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees.

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A tax can also be defined as a contribution imposed on any person, business/property, for supporting central/local governments (Tayebwa, 1998).

Classification of taxes.

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

a. Direct versus indirect.

1. Direct taxes are those that affect the individuals/firms directly through a deduction from earnings. Examples include; individual income tax, corporation tax, taxes on property and others.
2. Indirect taxes are those taxes that are paid to government by an intermediary and then passed on to the final user by including the tax in the final price. Examples include; export and import duties, excise and local production, value added tax (VAT) and others.

b. Proportional versus progressive tax

On the basis of equity, taxes are classified as proportional/progressive. A tax is said to be progressive when with increasing income the tax liability not only increases in absolute terms but also proportionate to income.

The purpose of taxation

According to Income Tax Act (1997), taxation is an important source of government revenue and an economic policy tool by government to attain economic growth. The importance of taxation therefore arises from debate of whether government should interfere in the operations of the market mechanism. Income Tax Act (1997) further noted that taxes may be levied for other reasons but revenue remains the prime objective of most taxes. (Programme A. P, 2012). Noted

10

that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice.

The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure.

These countries face a number of problems of insufficient savings and 7 capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has to be designed to help the economy (Bhatia, 2002). According to the Uganda economic journal (1973), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (1973) also shows that, in stressing consumption reducing aspect, taxes may change the distribution of income and help to stablise the economy.

2.2 Performance of small scale business

Kitinisa (2004) describes performance of small scale business as the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organisation include; survival, profit making and expansion. (Pandey 2008) looks at financial analysis as a measure of the organisation/business performance. The assessment of financial performance of business entities has a well-established methodology that includes computation and interpretation of univariate and multivariate models. Univariate predictions of performance are single ratios calculated for efficiency (Makerere Business Journal, 1996).

In this study, the researcher is to consider performance of small scale business as the ability of the business:

i. To meet its tax obligations.

ii. Cover its operating expenses and still retain some profits which can either be used for re-investment or otherwise.

iii. The ability of the business to make sales that sustain its expenses.

Taxation and business performance

Taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures (Musgrave and Musgrave, 1984). According to Gordon and (Marti, 2010, through taxation, the government takes away money from people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production

in the private sector to the public sector. They further asserted that, one of the most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently. According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/business they would otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

Taxes and profit levels.

The taxable profits of business are always different from the normal business account profits for three major reasons;

i. Certain income which may be considered in the normal accounting system may not be liable to tax.

ii. Certain expenses that are deducted on profit and loss account may not be available when determining taxable income.

iii. Some tax allowances may be provided and will not be reflected in business account (Kimaru, 2014).

(Gordon, 2010) assert that many business people have complained probably with some justification that taxes interfere with the opportunities to re-invest their profits in their businesses.

Taxation and 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 the following ways;

i. The possibility of taxing savings themselves. If this happens, the investor will experience a low level of savings and the overall level of investment will be low.

ii. The authorities might tax earnings from investment to an extent that it might become a problem for the firm to raise adequate resources in the market.

iii. 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, 2002).

Performance measures of small firm

Performance measures of small firm includes, but not limited to: profitability, total assets, return on investment (ROI), sales volume, employment size, capital employed, market share, customer satisfaction, productivity, turnover, delivery time, employees turnover and other.

In literature we failed to find, which measure is best suit in order to measure the performance of small firms. There is no empirical evidence that suggested Performance measure is preferred over non-financial measures and vice versa. Most studies suggested the use of hybrid measures of performance.

However, Carter and Jones-Evan (2000) and Gebreeyesus (2007) attempted to provide some theoretical justification, that assumed to use growth rate in sales(increase in sales), increase in capital assets and profits as more precise and potential offer more objective measurement as compared to other measures of performance of firm. However, in practice they reported these measures tends to be susceptible, problematic and not credible as firms hesitate report the true value of their sales and profit in fear for high tax burden from the government and the factors that influence one growth measure (for instance, increase in profits) may not necessarily influence another (for example, increase in employment), moreover, firms may unable to accurately report their sales and profit as they do not keep records and fixed assets could also not indicate proper measures of performance, as it could have possibility to be affected by inflationary conditions of the country hence this may leads to measurement errors and resulted incorrect inferences from the study.

Chong (2008) argued that business organization could measure their performance using hybrid approach combining both financial (profit before tax and turnover) and nonfinancial measures (customer satisfaction, delivery time, waiting time and employees turnover). Forsman (2008) ,also suggested use of financial and non –financial measures including the following: Sales growth Market share, Cost reduction, Operating profit ratio, Quality and productivity and Return on investment in order to incorporate multidimensional aspects of firm performance.

Wiklund and Shepherd (2005), used financial measure of performance such as gross margin - the ratios of gross profit to sales were used as proxy performance and qualitative financial measures profit and cash flow compared with competitors on five points on five point scale. In addition to

quantitative and qualitative measures of financial performance, Wiklund and Shepherd (2005) used nonfinancial measures of performance in their study of small firm performance such as growth as indicator of firm performance that were measured as change/growth in sales and employment as proxy of performance.

Emmanuel *et al.* (2013), has been used more diverse measure of performance such as: Survival, Sales volume, growth, profit margin, capital employed, numbers of employees.

Du Rietz and Henrekson (2000), has been used four performance indicators (profit, sales, number of employees and order or commission) while testing female underperformance in small firms using Swedish data. In addition to the financial measure of profit and turnover, Alasadi (2007) considered owner/manager satisfaction as measure of small firm performance.

According to Blackburn *et al.* (2 (2013), small firm performance should be measures in terms of employment, various authors in single study to overcome shortcoming of single measure of small firm performance.

4. Dynamics of firm performance measures

The traditional performance measurement has been derived from traditional accounting measure and had been widely used as the measure firm performance Prior 1980s (Wilcox and Bourne, 2003): Gomes *et al.*, (2006) noted the traditional accounting measures performance had been characterized by a cost accounting orientation which emphasized selective financial indicators such as profit and return on investment. However, the accounting measures of performance have been criticized and assumed to be inappropriate for modern organizations as its basis merely quantitative approaches to organizational performance measures (Wilcox & Bourne 2003). Arguably, these approaches received considerable criticism due to it stressing merely on financial indicator of performance. Similarly, Verbeeten and Boons (2009) criticized focusing merely on financial indicator of performance as financial indicators only may leads, historically and backward looking information and causes short-run orientation and causes management frustration and resistant and result incongruent with organizational strategic priorities.

Moreover, Gomes *et al.*, (2006) & Forsman (2008) argued, merely reliance on traditionally measures of business performance which have been derived from the financial data alone, is under serious challenge and firms should use integrated approach both financial and non – financial measure so that the result might more convincing and reliable.

As revealed by Verbeeten & Boons (2009) & Otley (2002) non –financial measures of performance of the firm includes, customer measures, employee measures, quality measures, innovation and development of human capital measures.

Otley (2002) noted that the financial measure of performance unavoidable at senior level in organization.

However for the effective running of the organization, the financial measure alone is arguably insufficient). As cited in Kotey *et al.*, (2008) the government is primarily interested in job creation, innovation and increased productivity, consequently, enterprise performance should be measured in terms of respondents to meet these and other business goals and assesses the extent to which the objective were meet by the firm i,e, respondents satisfaction with achievement of these goals (Kotey, 1999).

Small Firms may pursue various goals. Perhaps there is situation when particular measure of performance is more desirable if it is priorities are more important. For instance, Accounting performance measures (return on capital employed) more intensively used if the financial performance priorities of the firm become more important (verbeeten & boons, 2009). But, measuring the business performance solely by financial indictor will not capture the complex range of objective (Jarvis *et al.* 2000)

With objectives of overcoming the pitfall of traditional accounting measures, development of multidimensional framework (financial and non-financial) measure of performance has been more pronounced in recent times (Wilcox & Bourne, 2003)

Consequently, over the past decades, a great deal of attention has been paid to development and use of non-financial measures.

2.3 Tax obligations and policies

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 (Ojeka, 2011)., there are three broad approaches to tax policies and these are;

1. Application of the standard tax provisions to all business activities

2. 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. (Mika,2012).

3. Uganda has gone through a number of tax policy reforms, these include; gender, nationalization, and harmonisation of tax rates and tariffs, abolition of wide ranging exemptions, new tax incentives and conditional exemptions.

Approaches to tax administration

According to (Mbugua, 2014)., tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to (Kinyua, 2014). Tax administration refers to a structure/procedure of identification of potential tax payer, collection and laws governing taxation.

(John, 2013).says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

Identification of a tax payer

Taxes are levied on individuals, groups/legal entities income earned. The identification of a tax payer is done with reference to natural/artificial persons who can earn income. However, for the purpose of this research we shall confine ourselves to business as a tax payer and a business can be defined as vocation, trade, profession, adventure in the nature of trade but does not include employment (Income Act, 1997).

16

Assessment of taxes

Income Tax Act (1997) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income. According to the income tax Act (1997) section 96 (11) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven years from the date the return was furnished. However, small scale businesses are not required to submit in any return to the commissioner. (Gordon, 2010).

Small scale business

According to the Income Tax Act (1997), small scale businesses are those with growth turnover of less than 50 million shillings per annum. In Uganda it's not only income tax Act that has tried to define small scale businesses; there are 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.

The study is to assume a small scale business as one with the following features;

i. A business which employees 1-50 people.

ii. Has a capital investment of less than shillings 40 million.

iii. Has average annual revenue/sales of less than shillings 50 million.

Fines and penalties

Musgrave argues that in all matters of legal rules, better compliance can be served either by a higher penalty if the offender is caught or by well facilitating the enforcements so as to increase the probability of being caught. However, David Simiyu (2013). Argued that the law should provide an adequate penalty structure, appeal system and general administration. The penalty structure should be primarily financial in character and probably progressively related to the amount of tax evaded and the seriousness of the offence in case a tax payer fails to pay any tax including; provisional tax, any withholding tax or tax required to be withheld, the penalty is 2% simple interest per month on the amount unpaid calculated from the date on which payment was due until the date on which payment is made (Anyaduba, 2012).Under estimating provisional

17

income return is less than 90% of the tax payer's actual chargeable assessed for the year of income, the penalty is 20% of the difference between taxes based on provisional return as revised, and tax calculated in respect of the 90% of the actual income for the year of income.

The role of taxpayer awareness and compliance is very important for a nation in an effort to collect the state revenue from tax sector. Why government attention is focused on taxpayer awareness and compliance issues?

The answer is, because the understanding and awareness of the people to obediently pay the tax are still relatively low. This is due to the non-optimal tax understanding obtained by the community. Therefore, the people need to be given the understanding of taxes so that their awareness can be developed. This research is based on the problem of unachieved Rural and Urban taxpayer awareness in which it is influenced by the attitude of the taxpayer itself.

Based on the study of Kariyoto (2010) and Geetha and

Sekar (2012), factors that affect the consciousness of taxpayer are described by using the Theory of Planned

Behavior (TPB) developed by Ajzen (1991). The TPB model shows that compliance behavior provides a significant explanation that the variables of attitudes, subjective norms and perceived behavioral controls have an effect on non-compliance behavior. Different results are also found in the research of Widayati and Nurlis (2010) where the variables of knowledge and understanding of taxation could affect taxpayer compliance. However, these results are inconsistent with that of other researchers who found a positive relationship in their research because taxpayers who already understand the taxation think that it is better to pay taxes than attaining tax sanctions. This study was conducted because of the low level of tax awareness and compliance in Indonesia (Asri, 2004).

Assessing the knowledge and understanding of taxation is a variable that can raise people's awareness to comply with the laws and regulations of taxation. Thus, it is considered necessary to equip the previous research by including the variable, awareness as a mediator of taxation knowledge and understanding towards taxpayer compliance because so far, some researches have explained that: (a) Directly, knowledge and understanding of taxation have influenced awareness, (b) Knowledge and understanding of taxation have direct effect on compliance and, (c) Tax compulsory awareness directly affect willingness to pay taxes and knowledge and

18

understanding of taxation have an indirect effect on compliance through taxpayer awareness (Pratama,012).

Land Value Taxes after the delegation of tax management from the central government to local governments, as well as the differences in the results of previous studies concerning the taxpayer compliance. Several studies have explained that: (a) Knowledge and understanding of tax regulation could affect taxpayer compliance, (b) Knowledge and understanding of tax regulation does not affect taxpayer awareness and (c)

Knowledge and understanding of taxation can improve the taxpayer compliance through the willingness to pay taxes; the willingness to pay taxes increases due to the paying and reporting the tax on time, whereas compliance expected by the government is the material compliance which is filling the Annual Tax Return properly, clearly, and correctly. Formal compliance includes material compliance and taxpayers comply and implement the legislation.

Based on this issue, taxpayer compliance has a great role in government revenue; thus, it is necessary to be improved as well as create such obedience culture. To improve tax compliance, the government has conducted socialization, slogans, posters, warning letters, appeals and tax bills. Bobek and Hatfield (2003), Mustikasari (2007), Arniati (2009), Widi and Bambang (2014) and Imelda (2014) reported that taxpayer compliance can be explained by using the Theory of Planned Behavior (TPB) developed by Ajzen (1991). TPB model shows that compliance behavior provides a significant explanation that the variables of attitudes, subjective norms and perceived behavioral controls affect the non-compliant behavior of individual taxpayers.

With regards to the importance of taxpayer compliance according Randolph (2015), there are two things that make taxpayers not to be obedient. First, because of the inaccuracy in payment and /or report. Second, the discrepancies in the amount of paid tax due to the low knowledge and understanding of tax regulations. Third, the minimal awareness of taxpayers with regards to the meaning of paying taxes to the state.

Kehinde James Sunday (2011), The small and medium scale business have been Identified as the pivot of growth in the economy. The management of working capital impacts on liquidity, investment portfolio and profitability. All these three factors are decisive in the growth or failure of a business. Hence, good performances in working capital management affects these decisive factors favorably and thus, contribute to growth and success of the business. His work is based

on the theory that efficient management of working capital is very vital for a business survival. In 2002, the government in the annual budget also instructed the commercial bank to set aside certain proportion of the profit before tax of their firm as equity participation in the small business. Today, many and almost the large proportion of SMEs are financed by the corporative society. Most people join the corporative society to raise short and long term finance.

Ludovica Ioana (2011), The role of small and medium enterprises is worldwide acknowledged for their unique contribution to the economic development. Both the developed countries and the ones in course of development realise that the SMEs and the entrepreneurs play a vital role in the industrial development of a country. So there is no surprise that the political strategists have often thought that the SMEs can become the "seed" of economic revival. It is necessary that while the observance of thresholds regarding the average number of employees is compulsory, a SME can choose between observing either the threshold regarding the turnover in a year or the one regarding the total assets. It is not necessary to satisfy both criteria and one of them can e exceeded without losing the status of SME.

Musara Mazanai, Olawale Fatoki (2011), Small and medium sized enterprises (SMEs) play a significant role in the economic development of every nation, particularly in developing countries like Uganda and Africa. The development of SMEs is seen globally, as a key strategy for economic growth, job generation and poverty reduction. The Uganda Department of Trade and Industry (DTI) estimates that small businesses employ almost half of formally employed persons, and contribute to 42% of the country's gross domestic product. Start-up SMEs are a key driver of sustainable economic development of the country.

2.4 Problems encountered by SSBs in trying to comply with tax policies.

Most businesses in Uganda are owned and managed by persons who are unskilled in the profession of accounting and thus do not keep proper books of accounts. These are especially sole proprietors and family businesses or partnerships. These generally do not keep books of accounts; have low sales turn over and change hands and business very often (Ravenous, 2005). Mugulusi (2001) found out that a large proportion of business community is ignorant about taxes they pay, how these taxes are computed, lack of knowledge is attributed to the poor methods of sensitization used by URA. According to Ravenous (2005), the following are some of the problems faced by tax payers;

i. There is unfair treatment of tax payers, some of which are not necessary tax obligations and thus not met as a result of this process.

ii. Tax payers have little understanding of the obligation as a result of lack of tax education. It is said that URA would get fewer problems with tax payers if they were able to understand how their liabilities come about.

Tax payer's knowledge

Most Ugandans have poor/lack understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). As a result, the tax compliance in Uganda is still very low. Besides that, various surveys conducted on small scale businesses in Uganda suggest that about 60% of them keep no records at all, while 25% keep partial records making it difficult to assess taxes (Ndandiko, 2000). Alwedi (2002) found out that most SSBs are managed on unprofessional lines (poor or no business records) thus there is great uncertainty among traders in Uganda as regard to tax matters and to some extent due to their own making. Ludega (2002) asserts that, many traders have expressed ignorance about taxes imposed on their businesses. They say that this is highly attributed to the poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed, advantages of paying taxes and the use to which it is put. Therefore there is a need to sensitize the public especially business owners. The sensitization should be done on different taxes that impact the business owners and the rationale that underlines the imposition of taxes, because tax payers are not aware of the reasons for paying taxes, evasion of tax duties, laws and regulations are very rampant. (World Bank Survey, 1994).

Challenges faced by SMEs in raising finance in Uganda

The interconnection between the theory of social capital and challenges faced by SMEs in raising finance cannot be under-estimated. In the subsequent discussion, such an interconnection is revealed as inherently embedded in every challenge that SMEs encounter either consciously or unconsciously. The main focus here is on dissection
of challenges such as; inadequate collateral to secure loans; information opaqueness; low level technical and management skills; lack of professionalism; competition; inability to afford long term financing among others.

Inadequate collateral to secure loans

Much of the SME financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (Park (2006). The theory of social capital puts emphasis on social networks and reciprocity arising from such networks (Putman, 1995; Lin, 1999). In the absence of social networks, SMEs continue to grapple with scarcity of collateral to secure bank loans. Yet, there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs (Apire 2003; Griffiths, 2003; UNEP, 2007). This is not to imply that SMEs do not secure loans from banks. In fact financial analysts like Kasekende & Opondo (2003) explain that some SMEs get loans from financial institutions. However, they reveal that when banks lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs for SMEs.

In addition to collateral, SMEs are required to demonstrate that they have sufficient equity to contribute to their businesses, which many of them lack (Kiiru, 1991; Tomecko & Dondo, 1992; Oketch, 2000; UIA, 2008).

Evidence from the Uganda Securities Exchange (USE) Brochure (2013) indicates that banks consider lack of collateral as high credit risk because of the transaction costs associated with availing credit to such SME companies. The same view is held by Kurokawa, Tembo, & Velde, (2008) and Ruffing (2003). There is no single explanation for lack of collateral by SMEs. What is clear is that limited social networks impede the ability of SMEs to secure non-collateral securities.

Informational opaqueness

No business enterprise can survive early mortality without communication and effective information management; (Maicibi, 2003). And there is no best way a business enterprise can propel to greater heights if information management is not channeled through social networks in which social capital is derived (Putman, 1995; Lin, 1999; Davidsson & Honig, 2003). In fact Petersen (2004) draws a distinction between hard and soft information, with hard information being more numerical and encompassing such items as financial statements, payment history and output numbers. While soft information is more qualitative and includes opinions, ideas, rumors, and statements of future plans.

Much of what banks use in relationship lending and lending to more opaque small businesses would be characterized as soft information. However, SMEs have always been susceptible to information asymmetries (Zavatta, 2008; Oteh, 2010) or information opaqueness (Torre,

Soledad, Peria & Schmukler, 2010). Opaqueness makes it is difficult for banks to ascertain if SMEs have the capacity to pay or willingness to pay if credit is extended to them. This is exacerbated by lack of established information network such as a credit reference bureau for tracking defaulters (Apire, 2003) and unverifiable history of past credits and lack of adequate historical records of the firm's transaction (Oteh, 2010). As Ruffing (2003) explains, lack of financial information increases the transaction costs of banks, or even worse makes it impossible to evaluate the chances of getting their money back if they lend SMEs.

Owners or managers of SMEs sometimes keep three sets of books: one for the revenue authority, one for themselves and one for their ex-wives (Kasekende & Opondo, 2003). At the end of the day they do not know where their profit centres are (Namisango & Lubega, 2014). Other scholars DeYoung, Glennon, Nigro & Spong, (2012) argue that informational asymmetries between borrower and lender may limit the types of lenders and the lending technologies that may be used. In the same accord, Petersen (2004) contends that the amount of information available on firms will influence their access to capital and the structure of financial markets and financial institutions.

Low level technical and management skills

There is a strong interdependence between human capital, social capital and financial capital. Technical and management skills will determine the amount of social and financial capital generated for the SMEs. In human resource management studies, greater attention has focussed on the importance of human capital as a preliquisite for the survival of organizations including SMEs (Byars, & Leslie, 2000; Bernardin, 2003; Maicibi, 2003; Armstrong, 2006). Inadequate human capital hinders the ability of SMEs to strengthen their capacity to receive financing (Longenecker,Petty, Moore, & Palich,2006). This is because human capital provides management skills (Kasekende & Opondo, 2003; Tusubira & Nabeta, 2013), entrepreneurial skills (UIA, 2008) and knowledge of business opportunities (Tushabomwe, 2006). As such, SMEs lack good quality human capital which also means limited marketing and financial planning, lack of good business plans; poor business records and deficient corporate governance (Apire, 2003, UNEP, 2007). In addition, due to their small size, a simple management mistake is likely to lead to collapse of SMEs hence no opportunity to learn from its past mistakes (Bowen, Morara & Mureithi, 2009).

Lack of professionalism both internal and external

Ethics in business is an important element for the survival of enterprises regardless of size. One of the most important ingredients of ethics is trust. Ethics is closely related to professionalism. The theory of social capital underscores the importance of trust in social networks at both individual and organizational level (Bourdieu & Wacquant, 1992; Putman, 1995; Portes, 1998; Lin, 1999). However, there is evidence to the effect that SMEs in Uganda lack professionalism (Apire, 2003; Tushabomwe, 2006). This is exhibited in corrupt tendencies (Kurokawa, Tembo & Velde, 2008), disrespecting business contracts (UIA, 2008) and deliberate concealing of business records on transactions (Kasekende & Opondo, 2003). Other ethical issues include unfair treatment of stakeholders and manipulation of organizational structure (Tushabomwe, 2006; Ndagu & Obuobi, 2010). There are also concerns of lack of professionalism outside the control of SMEs such as dubious legal systems (Kauffmann, 2005). These ethical concerns have discouraged banks from lending to SMEs.

In the absence of ethical environment and trust, SMEs lose out on capital financing as well as deprivation of social capital advocated for by the theory of social capital.

Competition from large enterprises

SMEs always face competition in accessing finance and markets (Griffiths, 2003). A number of survey-level studies have found that SMEs face greater obstacles than large firms both in terms of accessing finance and the underlying cost of credit (Leo, 2011). Yet, limited accessibility to markets constrains SMEs from generating capital needed to run daily business operations. Compared to large enterprises, SMEs are less efficient and incur high costs per unit of revenue (Ishengoma & Kappel, 2008). They use labor-intensive technologies compared to larger firms which are more capital-intensive. Besides, Ugandan SMEs face competition from the global economy (UN report, 2003). With poor technology, competition for markets and inadequate finance, SMEs cannot expand to serve global markets or even establish business linkages with larger firms. Moreover, they cannot acquire credit ratings that satisfy investors (Kumar, Krishna, Raghuram, *et al*, 1999; Park, 2006). SMEs

are typically required to demonstrate that they have sufficient equity to contribute to their businesses, which many small business owners usually lack (Kasekende & Opondo, 2003). However, larger, older, and foreign firms have a much easier time accessing expansion and development capital than SMEs (Leo, 2011).

24

Consequently, many SMEs stay small and informal and use simple technology (Kauffmann, 2005). The non-symbiotic relationship between large firms and SMEs due to competition implies that the duo may not develop social networks from which to derive social capital. This continues to affect the ability of SMEs to access finance.

Inadequate capacity to afford long term financing

There are four major sources of long term financing in Uganda. These are; capital markets, long term bank loans, leasing and retained earnings. Although long term financing favours enterprises in perfect markets, SMEs tend to suffer greatly due to their inability to secure long term financing even in such markets (Park, 2006). This is true with Uganda where scarcity of long term finance is a key impediment to greater investment and growth of SMEs. Moreover, Ugandan SMEs tend to have short-term business outlook (UIA, 2008) and operate under very difficult business conditions (Mensah, 2004; Kauffmann, 2005; Ishengoma & Kappel, 2008). In addition, SMEs tend to rely on informal sources of funds such as family, friends and customer advances instead of relying on bank loans (Ruffing, 2003). As such, SMEs continue to operate in the vicious cycle of inadequate financing.

Given the important role played by SMEs in the Ugandan economy, it is paramount to mitigate these challenges by focussing on strategies that enhance favourable financing conditions. Such strategies are discussed below.

How the above challenges can be addressed to reverse the trend

In addressing the above challenges, the discussion here makes a link between social capital, human capital and financial capital. This is based on the premise that if social networks are developed by SMEs they will realize social capital which also leads to an increase human capital and financial capital as already discussed in the theory.

Development of social capital through networks

There is enough evidence to confirm that if SMEs develop and maintain social networks, they will reap social capital which in the end enables them to obtain finance capital to fund daily operations. This is because, social capital builds trust among SMEs and their network partners, brings about social insurance which translates into business insurance and gives access to relevant information which SMEs need for ease of business transactions (Spence, Schmidpeter & Habisch, 2003). This strategy has worked for banks which establish social networks with SMEs

(DeYoung, Glennon, Nigro, & Spong, 2012). Perhaps hiccups arise in making choices of which firms to engage in the social networks and which infrastructural mechanisms to establish in order for the networks to operate successfully. SMEs should build networks with non-rival firms in order to enhance their capacity to enter into, and observe contractual exchanges as well as legal protection from unfair practices by other firms (Spence, Schmidpeter & Habisch, 2003; Mensah, 2004).

Policy framework

The government should provide for a policy environment for reducing collateral requirements and providing safeguards. AS Ruffing (2003) explains, if an enabling policy, legal and regulatory framework and the necessary infrastructure to reduce the cost of doing business are accompanied by a stable macroeconomic environment, SMEs can play a significant role in economic development. Currently, the government of Uganda has made some initiatives to uplift the capacity of SMEs to raise funds. Such initiatives include provision of non-fiscal incentives like Plan for Modernization of Agriculture (PMA), Business Uganda Development Scheme (BUDS), Microfinance Outreach Plan, UNIDO Master Craftsman Programme (MCP), The Jua Kali Initiative and the Youth Fund (UIA, 2008). However, such initiatives have lacked multi-sectoral approaches (Oteh, 2010).

Worse still, there are concerns over the distribution of these incentives to all intended beneficiaries. Moreover, there is still much effort needed for the government to draft policies aimed at the protection of SMEs in Uganda.

Currently, interest rates on loans are higher than what SMEs can afford and money lender firms operate like sharks that devour SMEs' financial capital. Many SMEs are closing business because of inadequate collateral demanded by these firms. More incentives targeting youth should be established because they dominate the SME world and have proved to be more innovative and creative, yet lack of collateral hinders their operations (Nangoli, Basalirwa, Kituyi & Kusemererwa, 2013).

Enhancing information management in SMEs

One of the critical challenges limiting SMEs from accessing finance in Uganda is informational asymmetry.

There are two ways in which SMEs can neutralize this challenge. First, relationship lending enhanced by social networks (Torre, Soledad, Peria &Schmukler, 2010) has the potential of

26

mitigating opacity problems because it relies primarily on soft information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and Schmukler, 2010).However, SMEs should not wait for the loan officer to solicit for the soft information.

Through social networks, SMEs can learn best practices from other firms on how information is managed for effective business transactions. This is possible if SMEs understand their deficiencies in information management and the desirable way forward so that information availability is enabled and sustained to build their competitiveness (Namisango & Lubega, 2014). Secondly, adopting clear accounting standards, setting up independent, competent and reputable accounting firms and creating more credit bureau supplying data on the solvency of firms, banks can able to obtain relevant information from SMEs without having first to hustle with them (Kauffmann, 2005; Berger & Udell, 2006)

Improving management skills

There is consensus among management practitioners and academicians that effective management fosters qualitative and quantitative organizational development (Robbins; 1980; Tobbins, 1984; Koontz & O'Donnell, 1986; Pearson, 1990; Ivancevich& Gibson, 1990; Rosen Bloom, 1993; Habbard, 2001; Zondo, 2001; Ndagu & Obuobi, 2010; Maicibi, 2013). This paper concurs with scholars such as Seghers, Manigart & Vanacker (2009) whose research findings demonstrate that human capital and finance are linked. Entrepreneurs with high quality human capital can use more of their personal funds to mitigate their venture's finance constraints.

The implication here is that if SMEs invest in human capital, it will increase their ability to raise finance for funding their operations. In the same accord, Ugandan SMEs should improve management skills with a focus on entrepreneurial training and skills development (Mensah, 2004). In addition, proper supervision and business skills training will supplement and synergize management efforts (Tushabomwe, 2010).Above all, SMEs should hire competent and motivated workforce who are achievement-oriented (Nangoli, Basalirwa, Kituyi, Kusemererwa, 2013). It is important that SMEs transcent family and informal ties that potentially block effective management decision making.

Alternative sources of funding for SMEs in Uganda

This section examines how SMEs in Uganda can raise funds through alternative ways. Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff or production facilities (Kasekende & Opondo, 2003).

Financing through capital markets

SMEs may raise funds in capital markets in two forms: equities and bonds. However, it is not easy for SMEs to raise funds through equities as the equities issued by SMEs are not liquid enough to attract investors because they are not usually listed on exchanges (Parker, 2006). This can be mitigated by social networks in which social capital increases the social and financial strength of the SMEs to raise funds through equities and bonds (Putman, 1995; Lin, 1999).

Long term financing

There is a need to review and establish opportunities that will help expand financial instruments and improve access to business finance. Specifically, opportunities such as equity financing and other non-bank loan financing, including issuance of bonds, asset leasing and venture capital (Badagawa, 2003; Torre, Soledad, Peria & Schmukler, 2010). Knowledge of long term financing and business and financial literacy are synonymous, yet, most SMEs in Uganda are dominated by semi-illiterate or illiterate entreprenuers. It is therefore prudent to contend that long term financing requires long term planning embedded in the comprehensive national skills development framework.

Leasing

Renting of tangible and marketable assets through leasing can help overcome costly contract enforcement processes by SMEs including ambiguous commercial laws and inefficient bankruptcy procedures (Kasekende & Opondo, 2003; Parker, 2006; UIA, 2008).When good financial information is not available to gauge capacity or willingness to pay, banks can use other types of hard information and incentive-compatible mechanisms to increase the likelihood of repayment. In this way, banks can compensate for weaknesses in the institutional environment (Kauffmann, 2005). These mechanisms free banks from having to rely on government subsidies to lend to SMEs. If leasing is to succeed in Ugandan SMEs, they should have assets to lease out. Whereas medium enterprises may have these assets to lease, small firms operate in a hard environment with almost no asset to lease. The remedy to this is investment in social capital which translates into financial capital without having to incur heavy monetary costs.

28

Franchising

Apart from the need to boost SME capacities, some financial instruments can help provide missing information or reduce the risk stemming from some SMEs' lack of transparency. Franchising, which is very popular in Southern and East Africa, allows use of a brand name or know-how that reduces the risk of failure (Kauffmann, 2005; EOCD, 2013). However, it may not be feasible for SMEs which are grappling with start-up capital to think of investing in franchising. This financing option only makes sense for SMEs that have strengthened their financial capacity.

2.5 Conclusion

SMEs have been recognized as important contributors to the economy. As such, several financial institutions especially banks are focusing on SMEs and are coming up with special packages to finance SMEs. In most banks there are now departments to cater for the often unique banking requirements of these entities (Mbabazi,2012). However, the major aim of banks is not to uplift SMEs' financial status but to use them in expanding their business accumen. Moreover, bank loans are still a major source of funding for SMEs yet the interest rates are high. It is important that government hears the outcry of SMEs regarding reduction of interest rates (Nangoli, Basalirwa, Kituyi & Kusemererwa, 2013). Through social networks and linkages, SMEs will be able to expand their social capital and later financial capital.

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

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This entails the research design, study population, sample size determination, sampling techniques, data collection methods, data validity and reliability, data collection procedures, research instruments and analysis of data. This section is an overall structure to aid the researcher in answering the raised research question. This section is about how the research executed and how respondents approached, as well as how research will be completed.

3.1 Research design

The researcher used a cross sectional survey design basing on the use of qualitative and quantitative approaches that will be adopted to establish the relationship between taxation and performance of small scale businesses (Amin, 2005). This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Study population

The study comprised of Managers/owners and employees of small scale businesses (SSBs) in Mukono District.

3.3 Sampling

3.3.1 Sampling design

The study mainly used two methodologies. These will be stratified sampling, and simple random sampling methodology.

3.3.2 Sample size

The study involved 60 respondents. This sample size was assumed by the researcher to be representative enough of the entire population.

By using Solver's Formula.

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

Where;

n =   the required sample size

N =   the known population size

e =   the level of significance, which is fixed at 0.05

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

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

Where;

n =   the required sample size

N =   the known population size

e =   the level of significance, which is fixed at 0.05

$$n = \frac{72}{1 + 72(0.05)^2}$$

$$n = \frac{72}{1 + 72\,(0.0025)}$$

$$n = \frac{72}{1 + 0.195}$$

$$n = \frac{72}{1.195}$$

$$n = 60$$

3.3.3 Sampling procedure

Stratified random sampling was used in that Mukono district will be divided into two strata of West and East. Each stratum represented a zone. 30 small scale businesses were selected from each stratum.

3.4 Study variables

The independent variable is income tax assessment; the dependent variable is performance of small scale businesses. That is to say, the study is carried out to establish the relationship between how taxes affect the performance of small scale businesses in Mukono municipality.

3.5 Sources of data

Two sources of data were used for purposes of research. These will be primary data and secondary data.

3.5.1 Secondary data Collection

Roston (2001) defines secondary data as that kind of data that is available, already reported by some other scholars. Secondary data included policy documents and abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study was got from sources like libraries, archived records from the municipal council, and records of selected small scale enterprises, government publications, online information, text books, newspapers, and unpublished research reports. This was because it was readily available and easier to comprehend, as it comprised of extensively researched work.

3.5.2 Primary Data collection

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

3.6 Methods of data collection and instruments.

3.6.1 Questionnaires.

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the information had to be collected from a large sample in a short period of time yet the respondents could read and write (Sekaran, 2003).The questionnaire will be used in collection of data from respondents (owners of small scale businesses). The questionnaires will consist of both open and close ended questions administered to respondents of Mukono district.

3.6.2 Interviews

The researcher was to administer interviews. An interview is a dialogue between an interviewer and interviewee. It was an organized conversation aimed at gathering data about a particular topic. This was a method where a researcher interviewed respondents to obtain information on the issue of interest. In this case, the interviews during this research were structured and were specifically being administered to staff of Mukono district.

3.6.3 Observation

The researcher observed the tickets from the tax municipal that the business operators had pinned in the shelves of the businesses as well as counter books that will be used to record the customers who took goods on credit. However, the observation method was revealed that the respondents never used the counter books to record all the transactions made implying that they have poor records keeping system.

3.7 Measurement of Variables

3.7.1 Validity of Instruments

Validity is the efficiency or the degree to which a method, a test or a research tool actually measures what is supposed to be measured. It refers to the accuracy of the research data. For this case, the validity of the questionnaires was tested using the Content Validity Index Test (CVI). This involved item analysis to be carried out by the supervisors and an expert who was knowledgeable about the study. This process involved examining each item in the questionnaire to establish whether the items bought out were the ones expected. Item analysis was conducted using the scale that runs from relevant (R), Neutral (N), to irrelevant (I). The instrument is refined based on experts' advice. The following formula will be used to test validity index. Kothari C.R. (2014).

CVI = <u>No. of items regarded relevant by judges</u>

Total No. of items

3.7.3 Reliability of Instruments

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of settings or when it is administered to the same group on different occasions Kimberlin et al.,(2008)

3.7.4 Data Validity

Before the final data was analyzed, the collected data was re-tested as part of the pilot study to ensure that the right data was made available. Any other missing data was corrected and made ready for final analysis.

3.8 Data processing analysis and presentation

3.8.1 Data processing

Data collected was checked for completeness, categorized and coded and entered into a computer where it was summarized into frequency tables.

3.8.2 Data analysis

The edited data was analyzed quantitatively and it was as follows; Quantitative data are grouped and statistical description such as tables showing frequencies and percentages and pie- charts as well as graphs for better interpretation. Conclusions were drawn from the above analyze data to establish their relevancy in regard to my study variables. Field, A. (2005)

3.8.3 Data Presentation

Quantitative data was presented in form of descriptive statistics using frequency tables. Qualitative data was sorted and grouped into themes. The researcher thereafter evaluated and analyzed the adequacy of information in answering the research questions through coding of data, identifying categories and parameters that emerge in the responses to the variables of the study. Qualitative data will be presented using narrative text.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

4.0 Introduction

This chapter presents the findings on the Income tax assessment and Performance of small scale business enterprises of Fabtechnoid Electronic Hardware and Softwares in Mukono District. The findings were from both primary and secondary sources. The findings are presented in the gist of the three objectives that the study was set to achieve; To assess the performance of small scale business enterprises of Fabtechnoi Electronic Hardware and Softwares in Mukono District, To find out if tax payers are aware of all their tax obligations and policies and to find out problems affecting tax payers and their business.

The analysis is based on the objectives of the study and the presentation and the interpretation done with the help of tables, pie charts and narrative text as follows;

4.1 Background characteristics of the respondents

These include age, sex, education level and marital status. Findings on the age of the respondents revealed the following information/results.

4.1.1 Age of the respondents

Table 1: 4.1 Findings on the age of respondents

Response	Frequency	Percentage
20-30	17	28.3%
31-40	31	51.7%
41-50	10	16.7%
51 and above	2	3.3%
Total	**60**	**100**

Source: Primary Data 2018

Figure 2: 4.1 shows findings on the age of respondents
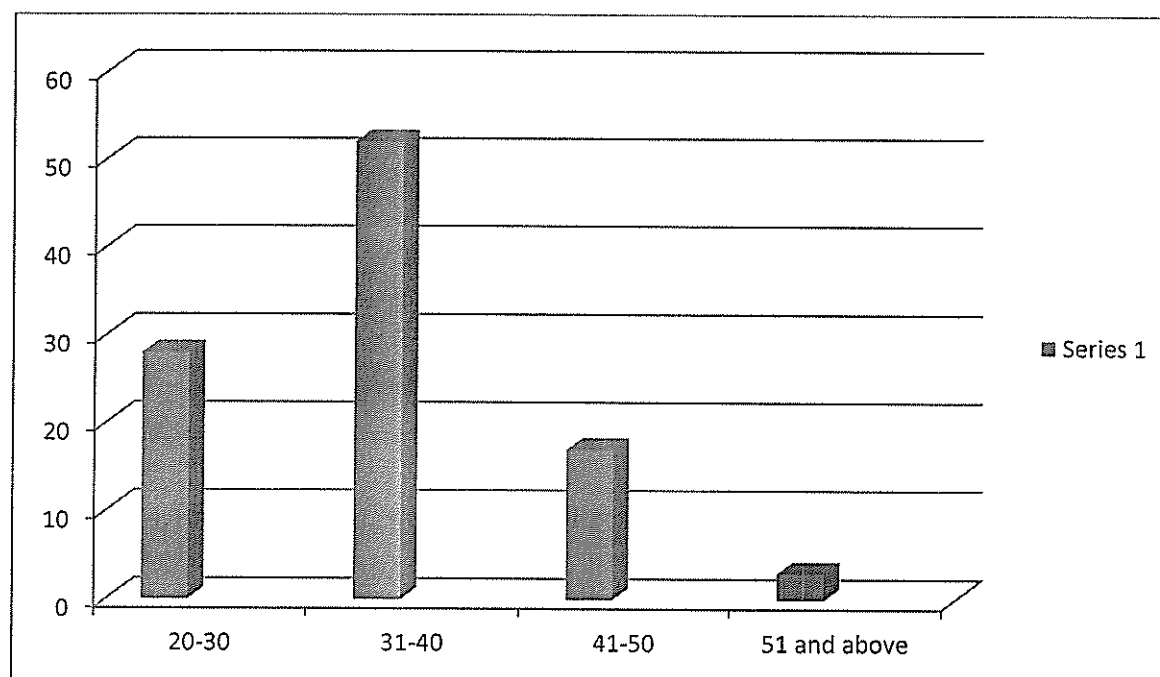
Source: Primary Data 2018

From the table and figure 4.1 above, 28.3% of the respondents range between 20-30 years, 51.7% were between 31-40 years, 16.7% were between 41-50 years while 3.3% were above 51 years. This meant that most of the small scale businesses were operated by people who were between 31-40 years.

4.1.2 Response on the level of education of the respondents.

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

Table 2: 4.2 Findings on the level of education

Level of education	Frequency	Percentage
None	4	6.7%
Certificate	16	26.7%
Diploma	10	16.7%
Degree	15	25.0%
Others	15	25.0%
Total	60	100

Source: Primary Data 2018

Figure 3: 42. Shows the findings on the level of education
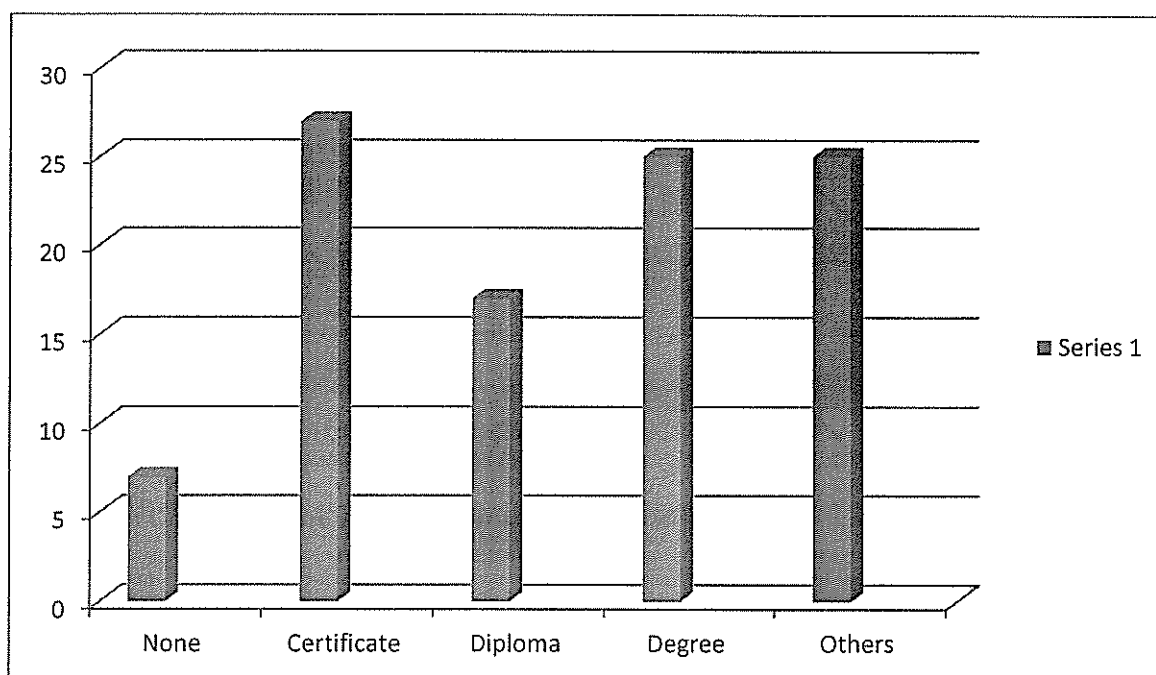
Source: **Primary Data 2018**

From the table and figure 4.2 above, 25.0% had not attained any level of education, 26.7% had certificates, 16.7% had diplomas, and 25.0% had acquired degrees while 6.7% had completed other levels of education like professional accreditations such as CPA (U). This means that the majority of respondents were literate and able to understand and internalize the contents of the questionnaires distributed to them.

4.1.3 Findings on the gender of respondents

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

Table 3:4.3 Shows gender of respondents

Gender	Frequency	Percentage
Male	41	68.3%
Female	19	31.7%
Total	60	100

Source: **Primary Data 2018**

Figure 4: 4.3 Shows the gender of respondents
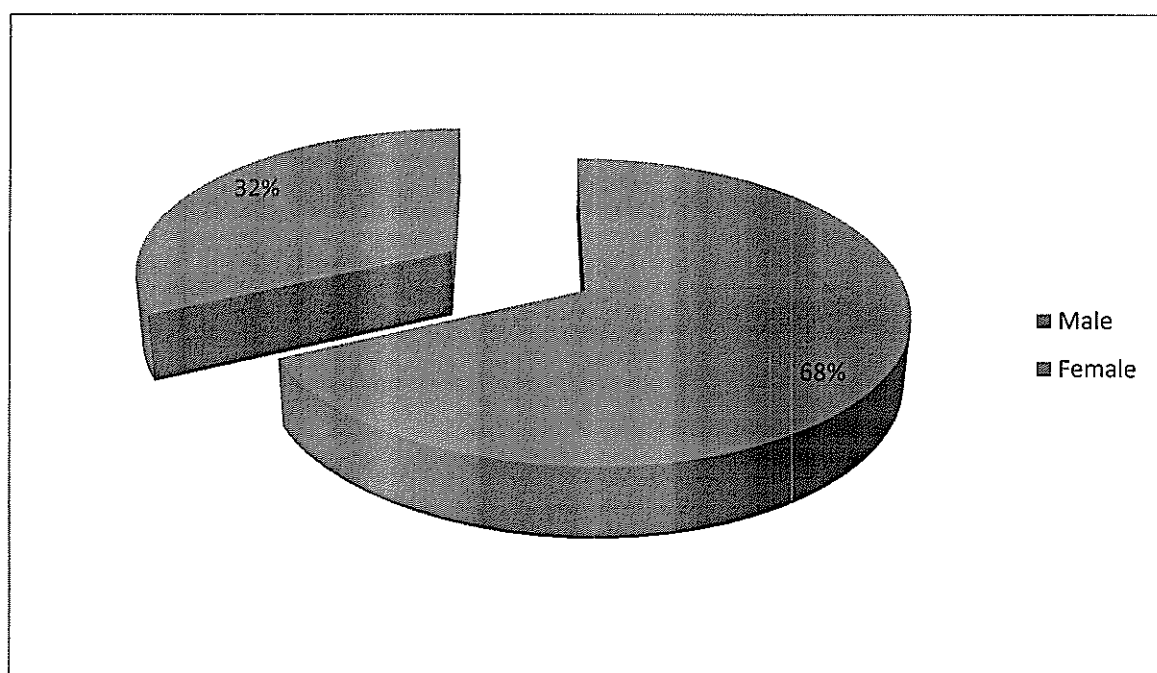
Source: Primary Data 2018

From table and figure 4.3 above, majority of the respondents, 68.3% were male while 31.7% were female. This means that most of the small scale businesses in Fabtechnoid Electronic Hardware and Softwares in Mukono District were operated by male.

4.1.4 Findings on the marital status of the respondents

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

Table 4: 4.4 Shows marital status of the respondents

Marital status	Frequency	Percentage
Single	4	6.7%
Separated	13	21.7%
Married	26	43.3%
Widow	17	28.3%
Total	**60**	**100**

Source: Primary Data 2018

Figure 5:4.4 shows marital status of the respondents
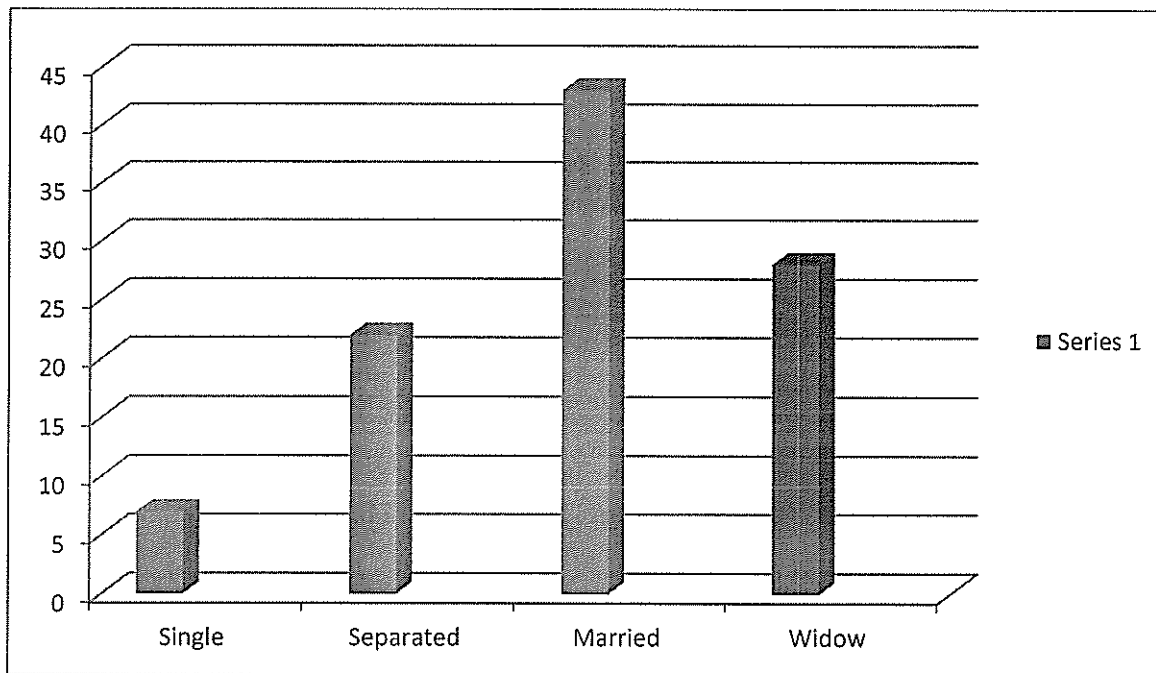
Source: Primary Data 2018

From table and figure 4.4 above 4, 6.7% were single, 21.7% were separated, 43.3% were married while 28.3% were widowed. This implies that most of the small scale business enterprises in Fabtechnoid Electronic Hardware and Softwares in Mukono District were operated by married people, widowed and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of fending for their families including opening up small scale businesses.

4.2 Findings on performance of the business

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

The results were as follows;

39

4.2.1 Response on stock levels of held in the business

Table 5: 4.5 Shows stock levels held in the business.

Response	Frequency	Percentage
Excessive	10	16.7%
Just enough	28	46.7%
Average	10	16.7%
Inadequate	12	20.0%
Total	**60**	**100**

Source: Primary Data 2018

From table 5 above, 16.7% said they always kept excessive stock in their business, 46.7% kept stock which is just enough, 16.7% indicated they kept average stock while 20.0% kept inadequate stock and that this is due to shut down in the production.

4.2.2 Shortage in the stock levels

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

Table 6: 4.6 Shows whether the business has ever experienced shortages in the stock levels.

Response	Frequency	Percentage
Yes	58	96.7%
No	2	3.3%
Total	**60**	**100**

Source: Primary Data 2018

From table 6 above, most of the respondents said that they have ever experienced shortages in stock due to the fact they lack enough capital to purchase stock and stock and due to transport problems. This was agreed to by 96.7% respondents as compared to 3.3% who disagreed.

4.2.3 Stock levels and profitability

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

Table 7: 4.7 Showing whether stock level have an effect on the level of profitability.

Response	Frequency	Percentage
Yes	41	68.3%
No	19	31.7%
Total	**60**	**100**

Source: Primary Data 2018

From table 7, above, 68.3% said that the stock level has an effect on the profitability of the business and 31.7% said that stock level don't have an effect on profitability.

4.2.4 Average daily sales

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

Table 8: 4.8 Showing average daily sales

Response	Frequency	Percentage
Less than 10,000	8	13.3%
10,000 – 29,000	11	18.3%
30,000 – 49,000	22	36.7%
50,000 – 69,000	8	13.3%
70,000 – 89,000	4	6.7%
90,000/= +	7	11.7%
Total	60	100

Source: Primary Data 2018

According to table 8, of all the SSBs sampled, 13.3% made sales less than UGX 10,000/=, 18.3% made sales between 10,000/= – 29,000/=, 36.7% made sales between sales between 30,000/= – 49,000/=, 13.3% made sales between 50,000/= – 69,000/=, 6.7% made sales between 70,000/= – 89,000/= and 11.7% businesses made sales over 90,000/=. This means that most of the SSBs in Fabtechnoid Electronic Hardware and Softwares in Mukono District made sales of over 30,000/= meaning that most of the businesses in the Town Council have an annual turnover of less than 50 million Uganda Shillings. This agrees with Income Tax Act (1997) which characterizes small scale businesses as those with an annual turnover of less than 50 million

Uganda Shillings, thus the taxes to be paid should be in the range of small scale enterprises as stated in the Income Tax Act (1997).

4.2.5 Capital employed

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

Table 9: 4.9 Showing capital employed

Response	Frequency	Percentage
Less than 0.5m	19	31.7%
0.5m-0.9m	15	25.0%
1m-4.9m	9	15.0%
5m-9m	10	16.7%
Over 10m	7	11.7%
Total	**60**	**100**

Source: Primary Data 2018

According to table 9, 31.7% employed capital of less than 0.5m, 25.0% employed capital of between 0.5m-0.9m, 15.0 % employed capital of between 1m-4.9m, 16.7% employed capital of 5-9m while 11.7% employed capital of over 10 Million. This implies that most businesses in Fabtechnoid Electronic Hardware and Softwares in Mukono District have capital contribution of less than 31.7% .This implies that the businesses are small scale as defined by USSIA and the Income Tax Act (1997).

4.2.6 Daily expenses

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

Table 10: 4.10Showing daily expenses

Response	Frequency	Percentage
Less than 10,000/=	26	43.3%
10,000 – 19,000/=	17	28.3%
20,000 – 39,000/=	13	21.7%
40,000 – 49,000/=	4	6.7%
50,000 – 59,000/=	0	0%
60,000/=	0	0%
Total	60	100

Source: Primary Data 2018

From the table 10 above, 43.3% spend less than 10,000/= Uganda Shillings, 28.3% spend between 10,000/= - 19,000/=, 21.7% spend between 20,000/= – 39,000/=, 6.7% spend between 40,000/= – 49,000/= and of all businesses sampled. None of the respondents indicated that they spend more than 49,000/= on average daily. Thus the majority of have an average daily expenses of less than 19,000/=. By implication, these business units spend less money because their daily sales are averagely low given the fact that they employ little capital and make small sales on a daily basis.

4.2.7 Average amount of tax

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

Table 11:4.11 Showing average amount of tax paid.

Response	Frequency	Percentage
Zero	0	0%
100,000/=	41	68.3%
100,000 – 190,000/=	10	16.7%
200,000 – 290,000/=	9	15.0%
300,000 – 390,000/=	0	0%
400,000 – 500,000/=	0	0%
Total	60	100

Source: Primary Data 2018

According to table 11, among the businesses sampled, no business does not pay taxes, 68.3% pay average tax of 100,000/=, and 16.7% pay on average between 100,000/= – 190,000/= while 15.0% of the businesses pay between 200,000/= and 290,000/=. By implication, basing on the working capital that small scale business employ and the kind of the merchandize they deal in, the above results show that the small scale businesses in Fabtechnoid Electronic Hardware and Softwares in Mukono District were paying more money in taxes.

4.2.8 People employed

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

4.3 Awareness of the tax payers

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

4.3.1 Taxes

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

Table 12: 4.12 Showing average taxes paid annually

Response	Frequency	Percentage
Yes	48	80.0%
No	12	20.0%
Total	60	100

Source: Primary Data 2018

According to table 12, 80.0% agreed that they were aware of the taxes they ought to pay while 20.0% indicated that they were not aware about all the taxes that they were meant to pay. Most business entrepreneurs in Fabtechnoid Electronic Hardware and Softwares in Mukono District were therefore aware of the taxes that they were supposed to pay.

4.2.2 Tax assessment

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

Table 13: 4.13 Showing if the businesses have ever been assessed for tax purposes.

Response	Frequency	Percentage
Strongly agree	19	31.7%
Agree	14	23.3%
Uncertain	9	15.0%
Disagree	9	15.0%
Strongly disagree	9	15.0%
Total	60	100

Source: Primary Data 2018

Table 13 shows that 31.7% of the business entrepreneurs strongly agreed that their businesses have ever been assessed for tax purposes, 23.3% agreed, 15.0% indicated that they were not certain, disagreed and strongly disagreed respectively. In all, majority 55.0% agreed that their businesses had been assessed for purposes of paying taxes. This implies that Fabtechnoid Electronic Hardware and Softwares in Mukono District carries out assessments of the small scale businesses before the tax they are meant to pay is levied.

Table 14: 4.14 Showing how businesses keep their records

Response	Frequency	Percentage
Bin cards	10	16.7%
Store ledgers	36	60.0%
Both	14	23.3%
Total	60	100

Source: Primary Data 2018

From table 14 above, 16.7% of the small scale business sampled, keep their records using Bin cards, 60.0% used store ledgers and 23.3% used both bin cards and store ledgers.

4.2.4 Assistance as regards tax awareness

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

Table 15: 4.15 Shows if the tax authority has ever given assistance as regards tax awareness.

Response	Frequency	Percentage
Yes	12	20%
No	48	80%
Total	60	100

Source: Primary Data 2018

From the table 15 above, 80% of the respondents said they had not received any assistance from the tax authority towards tax awareness and 20% said they had received some assistance. Over 80% of the respondents who agreed to having received assistance, said it was in form of manuals, this means that there very few workshops which could have been more effective in terms of creating awareness to the tax payers.

4.4 Problems faced by tax payers.

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

4.3.1 Mode of assessment, collection and the tax collector.

The table below illustrates in percentage the way they responded.

Table 16: 4.16 Problems related to mode of assessment, collection and the tax collector.

Response	Agreed (Yes)	Disagreed (No)	Total percentage
The methods used in assessing the taxes are fair	17 (28.3%)	43 (71.7%)	100%
Whenever taxes are collected from me, the methods used are friendly	20 (33.3%)	40 (66.7%)	100%
Tax collectors do not harass me whenever they come to collect the tax	15 (25%)	45 (75%)	100%

Source: Primary Data 2018

According to table 16 above, 28.3%, of the respondents agreed that the methods used in assessing the taxes are fair while 71.7% disagreed that ten methods used were fair. Basing on the views of majority respondents, 71.7%, the methods used in the assessment of the taxes were unfair to the proprietors of small scale businesses in Fabtechnoid Electronic Hardware and Softwares in Mukono District. Such affects the performance of the business enterprises.

Table 16 further shows that 33.3% of the respondents agreed that whenever taxes were collected from them, the methods used were friendly while majority, 66.7% disagreed. This implies that the tax authorities in Fabtechnoid Electronic Hardware and Softwares in Mukono District use unfair tax policies that could even encourage the tax payers to evade paying taxes.

From table 16, 25% of the respondents agreed that tax collectors do not harass them whenever they come to collect the tax while 75% disagreed. This implies that tax collectors in Fabtechnoid Electronic Hardware and Softwares in Mukono District were harsh to the tax payers

46

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

4.3.2 Efficiency and tax officers

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

Table 17: 4.17 Respondent's views on whether Tax officials are efficient

Response	Frequency	Percentage
Strongly agree	14	23.3%
Agree	6	10%
Uncertain	9	15%
Disagree	29	48.3%
Strongly disagree	2	3.3%
Total	60	100

Source: Primary Data 2018

From table 17, 23.3% strongly agreed that the tax officials are effective in identifying and registering potential tax payers, 10% agreed, 15% were uncertain, 48.3% disagreed while 3.3% strongly disagreed. Since majority of the respondents disagreed, it implies that there is too much inefficiency among the tax collectors in Fabtechnoid Electronic Hardware and Softwares in Mukono District.

4.3.3 Specific effects of the taxes on businesses.

The following are specific effects that were given by the proprietors of SSBs in Fabtechnoid Electronic Hardware and Softwares in Mukono District.

Loss of sakes; this is mainly as a result of closure of business premises by Fabtechnoid Electronic Hardware and Softwares in Mukono District staff on default during the time when the premises are closed, operation is halted therefore no sales made.

Loss of equipment; this happens when due to rough handling by the Fabtechnoid Electronic Hardware and Softwares in Mukono District staff. Sometimes machines and equipment are

47

confiscated by the tax collectors when the owners have failed to meet the tax obligations. During confiscation, equipment are damaged and sometimes lost.

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

Inconveniencing business operations; this happens when the staff of the tax authority visits business premises in the routine checkups on business. Sometimes they ask for books of accounts and try to interview the business owners and in the process they inconvenience business operations. From the above mentioned effects it was noted that 40% of business in Fabtechnoid Electronic Hardware and Softwares in Mukono District lose capital as a result of heavy fines

4.3.4 Suggestions from tax payers.

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

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

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

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

48

Table 18: 4.18 Shows the relationship between taxes and performance of small scale business enterprises in Fabtechnoid Electronic Hardware and Softwares in Mukono District.

		Taxes	Small scale business performance
Taxes	Pearson Correlation	1.000	.811**
	Sig. (2-tailed)	.	.000
	N	60	60
Small scale business performance	Pearson Correlation	.811**	1.000
	Sig. (2-tailed)	.000	.
	N	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Statistical Package for Social Scientists (SPSS)

The testing of the relationship between the variables was tested using Pearson correlation coefficient. This was used because the taxes and business performance were numerical. From table above, it is clearly indicated that there is a strong relationship between performance of small scale businesses and the average amount of tax paid in Fabtechnoid Electronic Hardware and Softwares in Mukono District. This indicated by positive results of Pearson Correlation, where $r = 0.811$, $p<.01$. It therefore implies that taxation strongly affects the performance of small businesses and tax assessors should always their performance before taxing them.

Management of Fabtechnoid Electronic Hardware and Softwares in Mukono District should therefore regulate the taxes charged on small scale businesses if they are to stimulate their performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

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

5.1 Summary of findings

This is aimed at determining the Income tax assessment and Performance of small scale business enterprises of Fabtechnoid Electronic Hardware and Softwares in Mukono District. The results revealed that the Income tax assessment and Performance of Small Scale Business Enterprises of SSBs is quite significance. The study further revealed that taxes mainly affects the performance of SSBs through lost sales during closure of the business premises by URA, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by URA onto SSBs that default on their tax obligation.

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

5.2 Conclusion

From the study it has been found that changes in tax rates lead to the changes in prices of various goods and services. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behaviour. People react to the higher prices by buying less of the product.

Whenever prices increase due to increase in tax rates; prices of goods and service increase and there is a drop in the consumption rate and a decrease in sales volumes reducing profitability which leads to retarded growth of SMEs. More so, tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study shows that the purchasing power of an enterprise drops immediately after the payment of taxes. That is why the amount of tax paid relates negatively to the impact of taxes on purchases.

On incentives for SMEs growth in Mukono district, most of them could not benefit from the tax system because they are meant for fully registered SMEs only but even with the registered business very few are aware of such incentives. This is because of the lack of education and training for the SME operators. The many SMEs that operate in the informal sectors cannot benefit from growth incentives.

It can be concluded that taxes are major limitations to the growth and expansion of SSBs in Fabtechnoid Electronic Hardware and Softwares in Mukono District. This is because very little and sometimes nothing is left after covering expenses and tax to allow for the expansion and growth of the existing SSBs. This was clearly shown by the fact that over 60% of all the businesses sampled in Fabtechnoid Electronic Hardware and Softwares in Mukono District had occupied their current premises, over 70% of businesses surveyed had been closed at one time due to non-payment of taxes.

5.3 Recommendations

The researcher made the following recommendations as a way of reducing the burden of taxes on SSBs as well as to increase the revenue of the Fabtechnoid Electronic Hardware and Softwares in Mukono District. The Fabtechnoid Electronic Hardware and Softwares in Mukono District 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. The Fabtechnoid Electronic Hardware and Softwares in Mukono District should introduce a scheme that allows tax payers to pay the tax obligation in the installments over a given period of time as opposed to lump sum at once.

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

Based on the findings made from this study, i. Tax regulations governing SMEs should be simplified in order to make compliance easier for them.

This includes clear and simple tax regulations, and an undemanding tax filing process. The use of information technology should be encouraged.

ii. Tax administrators should carry out their duties more efficiently with the most care and integrity as this will help combat issues such as multiple taxes.

iii. Tax administrators should improve their support services towards SMEs for example, small business owners should be educated on issues such as taxes they are expected to pay and the incentives and exemptions they are eligible for.

5.4 Areas for further research

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

i)   Factors leading to tax evasion among small scale businesses.

ii)   The effect of firms' management technique on the performance.

iii)   Tax consult and assistance they offer to small scale business operator.

iv)   U.R.A's sensitization programme and compliance by tax payers.

v)   Roles played by tax holidays in an effort to boost local businesses.

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QUESTIONNAIRE FOR BUSINESS PROPRIETORS

Dear respondent, I am a student of Kampala International University undertaking a Bachelor's Degree in Business Administration. Currently am carrying out a research study on Income tax assessment and performance of small scale business enterprises in Mukono district as part of the requirements for a ward of Bachelor's Degree of Business Administration of Kampala International University. This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given. (Please, tick the appropriate answers where options are given).

Part A General Information

1. What is your gender?

Male ☐   Female ☐

2. In which age group do you lie?

Between 20-30 years ☐   Between 30-40 years ☐   Between 40-50years Above 50 years

3. What is your marital status?

Married Single ☐

Separated Widow ☐

4. What is your highest status?

Certificate ☐

Diploma ☐

Degree ☐

Masters ☐

None ☐

PART B PERFORMANCE OF THE BUSINESS

5. How much stock levels do you always have in your business?

Excessive Just enough Inadequate

6. Has the business ever experienced any shortages?

Yes ☐   No ☐

7. Does stock levels have an effect on the level of profitability?

Yes ☐   No ☐

8. What are the average daily sales of the business?

Less than 10,000 ☐   10,000 – 29,000 ☐   30,000 – 49,000 ☐

50,000 – 69,000 ☐   70,000 – 89,000 ☐   90,000 + ☐   .

9. How much capital is employed in the business?

Less than 0.5m ☐   0.5m – 0.9m ☐   1m – 4.9m ☐

5m – 9.9m ☐   Over 10m ☐

10. What are the daily expenses of the business?

Less than 10,000 ☐   10,000 – 19,000 ☐   20,000 – 29,000 ☐

40,000 – 49,000 ☐   50,000 – 59,000 ☐   60,000 + ☐

11. How many people are employed in your business?

....

....

PART C: AWARENESS OF THE TAX PAYERS

12. Are you are of the taxes you are to pay?

Yes ☐   No ☐

13. If yes, which taxes does your business pay?

i) ....

ii) ....

iii) ....

14. Your business ever been assessed for tax purposes.

Strongly agree ☐   Agree ☐   Uncertain ☐

Disagree ☐   Strongly disagree ☐

15. Is there any tax record kept by the company?

Yes ☐   No ☐

16. Which of the following the does your business use to keep records?

Bin cards ☐   Store ledger ☐   Both ☐

17. Has the tax authority given you any assistance as regard tax awareness?

Yes ☐   No ☐

18. If yes, which form of assistance/what kind of assistance?

Manual ☐   Workshops ☐

PART D PROBLEMS FACED BY TAX PAYERS

19. What is the average amount of tax paid per year?

Zero ☐   100,000 – 190,000 ☐   200,000 – 290,000 ☐

300,000 – 390,0000 ☐   400,000 – 500,000 ☐   500,000 + ☐

20. Do you have any problem with?

i) The mode of assistance   Yes ☐   No ☐

ii) The mode of collection of tax (e) Yes ☐   No ☐

iii) The tax collector   Yes ☐   No ☐

21. The tax officers are effective in identifying and registering potential tax payers.

Strongly agree ☐   Agree ☐   Not sure ☐
Disagree ☐   Strongly disagree ☐

63

22. What are the specific effects of the tax on your business?

i) ....

ii) ....

iii) ....

23. Give any suggestions about the problems that may have been encountered while complying with tax obligations.

i. ....

ii. ....

iii. ....

iv. ....

Thank you for your valuable time