

**TAXATION AND PERFORMANCE OF SMALL SCALE BUSINESSES IN SOROTI  
CENTRAL MARKET, SOROTI DISTRICT, UGANDA**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF APPLIED ECONOMICS AND  
MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS**

**FOR THE AWARD OF A BACHELORS DEGREE IN**

**BUSINESS ADMINISTRATION OF KAMPALA**

**INTERNATIONAL**

**UNIVERSITY**

**MAY, 2015**

**DECLARATION**

I **AKUNYO CHRISTINE** declare that this work is my original work and has never been submitted to any University or any other institution of higher learning before for any academic award and should not be reproduced without my consent.

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(Researcher)

Date: .....  .....

**APPROVAL**

I hereby certify that this work has been done under my supervision and I do approve it for submission to Kampala International University.

MICHAEL RUTEGANDA

Signature: Michael Ruteganda

(Supervisor)

Date: 06/05/15

## **DEDICATION**

I dedicate this research report to my children; Camryn and Ethan. Mummy loves you so much!

## **ACKNOWLEDGEMENT**

I would like to give thanks and Glory to the Almighty God for His mercy, love and care, for taking me through the years. My sincere appreciation to my Mother Kevin, Sister Immaculate for the great encouragement and support they gave me throughout my studies.

I extend my deep gratitude to my husband Peter for the financial support towards the successful completion of this research report and my course.

I thank my supervisor Mr. Ruteganda Micheal for guiding me throughout the production of this Research Report.

## **ABSTRACT**

This study is set to empirically establish the impact of taxation on the performance of small scale businesses in Soroti Central market in Soroti UGANDA. The purpose of this study was to find out whether the amount of tax paid could affect the profits and performance of the small scale businesses. In order to establish the relationship the researcher assumed that other related factors were to make significant effect on profits and performance of small businesses.

While tax has been embraced and described by the Government as "Taxes made easy," the business community believe that it has undesirable effects on their businesses like; High prices, low sales and low profits. Interviews, questionnaires and observation helped the researcher to collect the necessary data.

The data was mainly collected using questionnaires, interviews and analysis using relationships. Books and journals were also used to collect information on how other authors and researchers view the subject of taxation and how it affects the performance of businesses.

From the data analyzed, there was a significant relationship between the amount of tax paid and the performance of the small businesses in Soroti central market, such as high Tax rate resulting in increase in prices of goods and services, low sales, low profits, hence provision of poor quality goods and services due to high tax rates.

Moderate rate of Tax for efficiency and effectiveness of the businesses and the assessment of taxes should be on the ability to pay and therefore extra effort and emphasis was put on tax payers' education and awareness to fully understand tax and provide the business people with skills for systematic bookkeeping.

**Table of Contents**

DECLARATION ..... i

APPROVAL ..... ii

DEDICATION..... iii

ACKNOWLEDGEMENT ..... iv

ABSTRACT .....v

CHAPTER ONE..... 1

1.0 Background..... 1

1.1 Statement of the Problem ..... 2

1.2 Purpose of the Study..... 2

1.3 Research Objectives ..... 2

1.4 Research Questions ..... 3

1.5 Significance of the Study..... 3

1.6 Scope of the Study ..... 3

1.6:1 Subject Scope..... 3

1.6:2 Geographical Scope ..... 3

Time Scope ..... 3

1.7 Conceptual Framework..... 4

CHAPTER TWO..... 5

LITERATURE REVIEW ..... 5

2.0 INTRODUCTION ..... 5

2.1 Common Concept..... 5

2.2 Cannons of Taxation..... 5

2.2:1 Simplicity..... 5

2.2:2 Equity ..... 6

2.2:3 Certainty ..... 6

2.2:4 Convenience.....	6
2.2:5 Flexibility.....	7
2.2:6 Productivity .....	7
2.2:7 Neutrality .....	7
2.2:8 Diversity.....	7
2.2:9 Efficiency and Effectiveness.....	7
2.3 Objectives of Taxation.....	8
2.3:1 Provision of Revenue .....	8
2.3:2 Accelerate Economic Growth .....	8
2.3:3 Social Objectives.....	9
2.3:4 Avoidance of Concentration of Wealth and means of Production .....	9
2.3:5 Reductions of Disparities in Income.....	9
2.3:6 Helping the under privileged .....	9
2.3:7 Developments of Backward Regions.....	9
2.3:8 Economic Stabilization.....	10
2.4 Types of Taxation .....	10
2.5 Rights of a Tax Payer .....	10
2.6 Obligations of a tax payer to the tax Authority.....	11
2.7 Rationale and Functions of Taxation .....	11
2.8 Importance of Small Businesses.....	13
2.9 Demerits of Taxation.....	14
2.10 Taxation of Small Businesses.....	15
2.11 Taxes on Owners of Small Businesses.....	15
2.12 Effect of Taxes and Inflation on Investment Returns .....	16
2.13 The impact of taxation on the Small Business Sector .....	17

2.14 Increase in Tax Duty.....	18
CHAPTER THREE .....	19
METHODOLOGY .....	19
3.0 Introduction.....	19
3.1 Research Design.....	19
3.2 Population and Sample .....	19
3.3 Data Collection Method and Procedures.....	19
3.3:1 Primary Data .....	20
3.3:2 Secondary Data .....	20
3.4 Data Analysis and Presentation Method .....	20
3.5 Representation.....	20
3.6 Limitations .....	20
CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....	22
4.0 Introduction.....	22
4.1 Demographic Characteristics .....	22
4.2 The impact of Taxation on the performance of the small Business in Mbarara Central.....	24
Market -Uganda .....	24
CHAPTER FIVE .....	26
SUMMARY, RECOMMENDATIONS AND CONCLUSION.....	26
5.0 Introduction.....	26
5.1 SUMMARY .....	26
5.2 Purpose of Taxation.....	26
5.3 Importance of small Businesses .....	26
5.4 Demerits of Taxation.....	26
5.5 Taxes on owner of small Businesses .....	27

5.6 The impact of Taxation on the small Businesses sector .....	27
5.7 RECOMMENDATION .....	27
Conclusion: .....	28
APPENDICES .....	29
Appendix 1: Questionnaire.....	29
Interview schedule.....	32
APPENDIX II .....	33
TIME FRAME.....	33
APPENDIX III .....	34
RESEARCH BUDGET.....	34
REFERENCES.....	35

## CHAPTER ONE

### *1.0 Background*

**Taxation** is a legally compulsory transfer of money from the public to the government mainly as a source of Government revenue. It is a "non quid-pro-quo" payment in the sense that the benefit received by the tax payer from the Government does not necessarily correspond to the amount of tax paid. (Can be equal, greater or less than the tax paid)

**Performance** is the ability to operate efficiently, survive, grow and react to the opportunities and threats (Stoner 1996).

A **small business** refers to those businesses which operate on small scale basis, require little capital and are based mostly on management by one person. Example includes; market vendors, retail shops, service providers like saloons, internet cafes, and wholesale shops.

In Uganda, Tax can either be direct or indirect. Direct tax is when the impact and the incidence of taxes rest on the same person who is a tax payer for example, income tax, corporation tax and capital gains tax.

While, indirect taxes are those taxes where the impact and the incidence of tax rests on different persons. Examples include exercise duty, custom duty, export duty and value added tax.

Since taxation is the major source of Government revenue which revenue helps the Government to achieve its objective such as provision of services, like education, health and other remedies like water, defense, fighting inflation among others. This therefore does not imply that the Government should tax people and business enterprises heavily because high tax rate on individuals, small businesses and companies could make them reduce efficiency, increase costs of advertising, increase prices of goods, less turn over which would adversely affect the performance of the business and brings low productivity hence low profits. This still affects performance of small scale businesses in

an economy since their major target is profit making.

According to Adam Smith, the first economist who also laid down the cannons of taxation which are rules applied when devising a system of taxation, they include economy, simplicity or certainty, convenience, Equity, ability to pay, Elasticity and productivity.

### ***1.1 Statement of the Problem***

Small business enterprises in Soroti central Market perform below the expected standards. Their inefficiency and ineffectiveness is evident in their high costs of running due to high taxation that results into low profitability in Soroti central market. They are characterized by inefficiency, ineffectiveness, low sales, poor quality of goods and services and poor working environment around the market.

It is important to mention that the main objective of small businesses is profit making for further expansion from small to medium then large scale business which is not yet achieved due to high tax rate and this has given a reason for carrying out this research on the topic of taxation.

### ***1.2 Purpose of the Study***

The study seeks to investigate the impact of taxation on performance of small businesses in Soroti central Market in Uganda

### ***1.3 Research Objectives***

- To examine the impact of taxation on the performance of small businesses in Soroti central market.
- To establish the relationship between taxation and performance of small businesses.
- To examine the consequences of taxation on the performance of small businesses.
-

### ***1.4 Research Questions***

- What is the impact of taxation on the performance of small businesses?
- What is the relationship between taxation and the performance of the small businesses?
- What are the consequences of taxation on the performance of small businesses?

### ***1.5 Significance of the Study.***

The researcher believes that the study will benefit the following people;

The general public will be enlightened on merits and demerits of taxation.

The Government can acquire knowledge on conducting proper assessment before taxes are levied.

Businesses can use the policy recommendations in their strategies planning for the better performance.

Academicians and students will use this study as a stepping ground for further study and knowledge building.

### ***1.6 Scope of the Study***

#### **1.6:1 Subject Scope**

The study will focus on taxation and performance of small businesses in Soroti central market

#### **1.6:2 Geographical Scope**

The study will cover Soroti central Market in North Eastern Uganda as our study area.

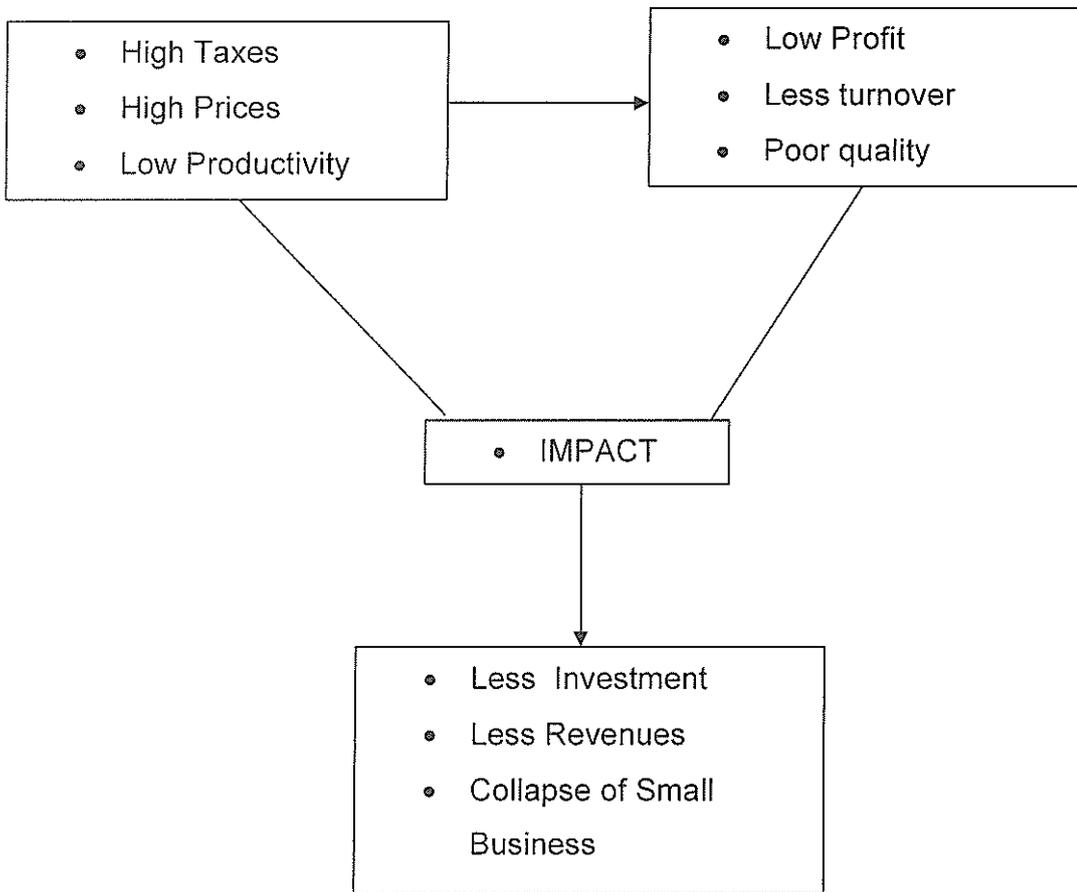
#### **1.6:3 Time Scope**

The study will focus on the period covering 2013-to date.

## 1.7 Conceptual Framework

This shows relationship between the independent variables and the dependent variables of the study on the research topic which is as below.

### Taxation



### Source: Researcher's Conceptualization

From the above conceptual framework it can be concluded that with high taxation, high prices and low productivity the results are low profit, less turnover and poor quality services.

The impact of the above results is low investment, less Revenues and collapse of small businesses.

## CHAPTER TWO

### LITERATURE REVIEW

#### ***2.0 INTRODUCTION***

The chapter focuses on the impact of Taxation on the performance of small businesses in Soroti central Market, Uganda.

#### ***2.1 Common Concept***

A tax is the most important source of government revenue.

It is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payers in return according to Dr Dalton.

According to professor Seligm, "a tax is a compulsory contribution from a person to the government to meet the expenses incurred in the common interest of all without reference to special benefit conferred".

Small businesses are the businesses that are run by one person. There is a considerable element of truth in this view.

Small businesses may include the following; manufacturing companies, wholesalers, Retailers and service providers like restaurants, internet cafes, drug shops etc

#### ***2.2 Canons of Taxation***

Principles of taxation are concepts that provide guidelines towards a good tax system. Principles of taxation are also referred to as canons that provide guidelines for tax payers to contribute to government revenue with maximum compliance in order for government to optimize its tax revenue. Some of the canons include:

##### ***2.2:1 Simplicity***

This refers to understanding the structure of law and administration. A good tax should be the one that is easy to understand i.e. the tax payer must be able to know the exact amount

to pay and when and how much to pay without any difficulty. .

If the tax legislation is so complex to understand by the taxable person this increases the level of resentment paving the way to tax evasion, it will also require a lot of manpower and facilities to implement.

### **2.2:2 Equity**

Matching tax liability with tax payer income and or consumption/transaction levels is an important criterion of levying taxes. Equity has two dimensions, horizontal and vertical

Horizontal equity refers to the taxing of all persons at the same level of income or consumption uniformly.

Vertical equity refers to treatment of people with different income levels accordingly. People at higher income bracket should be taxed highly and vice versa. The canon implies equity of sacrifice or ability to pay the tax in proportion to the income of the tax payer.

### **2.2:3 Certainty**

The tax which each individual is bound to pay ought to be certain and not arbitrary, in order to avoid corruption. The time of payment, manner of payment, and the quantum to be paid ought all to be clear and plain to every tax payer, in other words nothing to be left to the discretion of the tax body. In addition, the government should be fairly certain about the amount of tax revenue and the time when it is expected to flow in the consolidated account.

### **2.2:4 Convenience**

Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the tax payer to pay. The payment of value added tax is convenient because the consumer pays this tax when he buys commodities and at the time when he has the means to buy. The tax authority has tried to open offices as close to the tax payers as possible and to direct them to pay at the specified banks nearest to the tax districts.

### **2.2:5 Flexibility**

There should be no rigidity in taxation. The tax system can be changed to meet the revenue requirements of governments and at the same time help the tax payers to develop their businesses. The tax system ought to be able to respond easily to changed economic circumstances.

### **2.2:6 Productivity**

A tax should produce sufficient and stable revenue.

### **2.2:7 Neutrality**

A tax should not distort the way a community would otherwise use its resources - unless it is very clear that a change is socially desirable.

### **2.2:8 Diversity**

There should be variety in taxation. A single or few taxes would neither meet the revenue requirement of the government nor satisfy the canon of equity. There should be a variety of direct and indirect taxes but again not too many to administer.

### **2.2:9 Efficiency and Effectiveness**

The three basic objectives of a tax systems are;

To supply enough revenue to pay for government expenses

To redistribute wealth and

To secure economic stability

When a tax structure realizes these three objectives, it can be regarded as effective. However, due to many unknown variables it is unlikely that these objectives can ever be fully realized in practice. There are two factors that influence tax efficiency and effectiveness, that is collection and compliance costs.

## **Collection Costs**

The collection of tax revenues requires a portion of total revenue to be paid for the cost of collection. A tax is only effective if the cost of collection is relatively low. There is no sense in imposing a tax of which the net yield after collection cost is almost zero.

## **Compliance Cost**

The tax payers use services of chartered accountants and other tax experts to calculate accounts and other tax returns at a heavy professional fee.

## ***2.3 Objectives of Taxation***

### **2.3:1 Provision of Revenue**

Provision of revenue is the primary objective of levying taxes. Government has to play its traditional role of policing and protecting its citizens and requires money to finance such activities. Governments have assumed more roles with time and require more money for the purpose. Governments today provide infrastructure in form of roads, public buildings, hospitals, bridges, etc.

To be able to finance these activities, it requires finances and these are received through taxation.

### **2.3:2 Accelerate Economic Growth**

Taxation encourages savings in the economy and provides money for investment. Thus helps in allocation of resources from private to public sector. In poverty stricken countries government has the role of stimulating growth so as to increase the standard of living of the people. Since these countries are capital deficient and lack managerial skills and the enterprising spirit necessary for economic growth, government has to come in to establish basic and strategic industries to pioneer growth.

### **2.3:3 Social Objectives**

This objective is usually referred to as the distribution of income and wealth. It was noted that uncontrolled capitalism resulted into unprecedented miseries on the populace. Child labor, long working hours, poor working conditions and other economic hardships were the consequences of the free market economy. Government through taxation has invariably intervened in economy specifically in various forms.

### **2.3:4 Avoidance of Concentration of Wealth and means of Production**

Taxation has been used to reduce concentration of wealth and means of production. This is through consolidation of means of production through government ownership of businesses and also through regulatory measures which control extravagant expenditure by the rich.

### **2.3:5 Reductions of Disparities in Income**

Government, through minimum wage legislation and ceilings on salaries, attempts to reduce disparities in incomes. Taxation is used here either through establishing industries owned by government where salaries will be controlled or by taxing heavily those in higher income groups than those in lower income groups.

### **2.3:6 Helping the under privileged**

In many countries, especially the third world countries where poverty is rampant, a large section of the society cannot afford many facilities like education, health and a number of social amenities. Government assists such classes with the provision of such services and amenities with funds raised through taxation.

### **2.3:7 Developments of Backward Regions**

The private sector tends to concentrate on industries and hence development in certain areas which may be endowed with specific natural resources attracting such industries.

Consequently, regions without any natural resources to attract the development of such industries tend to lag behind. Government has to encourage balanced regional

development and it can assist develop backward areas by either providing necessary funds through taxation or create increasing incentives like tax rebates.

### **2.3:8 Economic Stabilization**

A market economy tends to have recurring trade cycles of rising and falling income, output, employment, and prices. Taxation has been used to neutralize such floatation in the economy. This was emphasized more in the great depression of the 1923's which led the philosophers to develop prescriptions for the economy in such conditions. It is argued that, during the periods of inflationary pressure, imposition of higher taxes may curb the pressure. Reduction of taxes during a recession stimulates production as more money is availed to investors.

### **2.4 Types of Taxation**

A tax is either-direct or indirect;

Direct tax is where the impact and the incidence of tax rest on the same person who is the tax payer Example, Income tax, Excise duty, corporate tax and Capital gains tax.

Indirect tax is where the impact and the incidence of tax rest on different persons for example Excise duty, Custom duty, Export duty and Value Added Tax was introduced in Kenya in 2005 with the standard rate of 18%.

### **2.5 Rights of a Tax Payer**

A tax payer has the rights to;

Equity

Confidentiality

Prior notice before any action is taken against him.

Objections and appeals  
Accountability of  
the taxes paid.

## ***2.6 Obligations of a tax payer to the tax Authority***

The obligations of a tax payer include the following:

To pay tax as required

To cooperate with the Government

To make monthly returns and appeals

He has an obligation to register as a tax payer

He has an obligation of declaring his taxes

## ***2.7 Rationale and Functions of Taxation***

Taxation is an important source of government revenue and an economic policy tool to attain economic growth and ensure justice. The importance of taxation therefore, arises from the debate of whether government should interfere in the operations of the market mechanism.

Several scholars have argued that government has to perform four functions;

### **Allocation functions:**

Government allocates resources in the economy for investment and production activities such as education, infrastructure, power generation, distribution and sale, etc.

### **The regulatory function:**

Government is involved in the regulation and control of the flow of activities in the economy.

**Distribution function:** Government has to adjust to the distribution of income/wealth in the economy.

**Stabilization function:** Government must ensure economic stability in terms of exchange rates, general price level, employment, output, etc Revenue, redistribution of wealth and economic regulation functions of taxation raise issues which contemporary role players in

taxation must reckon with. The failure of the market mechanism and the ability of the government to perform an extra role form the rationale for taxation.

Derived from the above functions are essentially three objectives for the government to attain using taxation, namely: Provision of government revenue, acceleration of economic growth, and attainment of social goals.

### **Provision of Government Revenue**

The orthodox view of levying taxes is to raise revenue for the government to and enable it undertake various policy measures for the betterment of society as a whole. The more the government is involved in the development of the society, the greater the demand for government revenue and hence the greater the burden of tax on the subjects.

Determining the amount of tax to be paid is however not as simple because taxation reduces private spending ability of the tax payer to the extent of the tax to be paid. Given that the tax payer has no choice, it is the task of the taxing authority to decide on behalf of the tax payer the relative relation between spending on public goods and services and private goods and services.

Although some taxes may be levied for other reasons, the need to raise revenue remains the prime objective of most taxes. Another aspect of revenue functions considered is whether the tax charged on a specific tax base can generate adequate revenue to comply with the needs of the public sector.

A tax levied for revenue is worthwhile only if it can generate meaningful revenue at socially acceptable rates.

There are three major reasons why government is pressed to have taxation as major source of revenue

Government requires revenue to enable it produce social, public or merit goods and services. These are goods that can't be produced by the private sector. Taxation is also used to avert the effect of externalities that may arise in the production of certain goods and services (Externalities e.g. health and education pollution and deforestation, etc)

To support the civil service and other government agencies established to regulate and coordinate activities in the economy

### **Acceleration of Economic Growth**

Government is considered to be a central factor in influencing economic growth through making and influencing economic growth through making and influencing policy actions like reducing tax rates, banning of imports, provision of subsidies, stabilization tax. The economic regulation function of taxation is an attempt to influence economic through changes in tax structure to minimize the effects of inflation, exchange rate fluctuations, etc. to enhance economic growth.

Also taxation is a means to, transfer or re allocate resources from the private to the public sector. In this way taxation is a forced savings tool in the economy where savings are partly re invested in the basic and strategic should be formulated with a view of securing economic stabilization objectives and acceptable economic growth rate.

### **Redistribution of wealth**

Another objective or taxation is to minimize the natural differentiation of wealth in any community. When more tax is collected form one tax payer than form anointer (yet both receive the same collective value in public services equal to the per capital cost for rendering services), the redistribution of wealth automatically takes place. However this is never the case. The government uses taxation as a means of balancing distribution of income, wealth and welfare in a more reasonable manner. This is attained through several ways.

Avoiding concentration of wealth and means of production, Reduction of income disparities, Helping the underprivileged, Development of backward regions.

### ***2.8 Importance of Small Businesses***

Regardless of their sizes they create jobs to many job seekers, it's innovative in terms of creating new ventures that provide revenue to the government and contribute to economic growth and development of the country. They give independence to the owners and reap the rewards for themselves.

## ***2.9 Demerits of Taxation***

Taxes discourage savings and investment. When people know that with the increase in the income and wealth, they will have to pay a large portion in the form of taxes, they are reluctant to save and invest. Consequently, employment opportunities will be limited.

Heavy and highly progressive taxes reduce the ability and willingness to save and invest as a side effect, the Banking activities will adversely be affected. Very heavy taxes on company profits might cause a distinctive to investment. They discourage the undertaking a risky profit. (According to John Ddumba Ssentamu, Basic economics for East Africa Concepts, Analysis Application).

Taxes inconveniences business people because they are paid before goods are sold and they are uncertain in yield in case of goods with elastic demand, the tax may bring in less revenues since people reduce purchasing such items (According to Tayebwa B. Mugisha Bernard, Basic Economics, 4<sup>th</sup> Edition, 2007, chapter eight, page 215)

Progressive taxation is a form of taxation where the tax rate and absolute tax amount increases with the increase in revenue. The tax liability increases at a faster rate than that of income which discourages capital formation.

It further discourages private savings and hard work since only the rich have the ability to save and they are unable to save if their incomes are taxed heavily. A higher tax rate discourages willingness to save and encourage luxury consumption, therefore progressive taxation discourages both ability to save and willingness to save and it is said that people may refer leisure to work (According to late professor VG, Manikav and professor L. Susela Sarma, Public Finance Theory and practices, 5th Revised Edition, chapter 2, page 29, 41 and 43).

Taxes have micro and macro economy in modern economy. The economic efforts of taxation may be good as well as bad due to heavy imposition of tax, the ability of the tax payer to work may be affected adversely or he may be reluctant to work more since the additional income or profit is taxed. This in turn may affect production adversely.

Benjamin Franklin had it right; taxes are a fact of life. They are also quite costly in

terms of collections by the federal state and local government. The level of taxation affects the amount of money individuals and business firms spend.

When government increase taxes, individuals and business firms have less to save, spend or invest conversely, when government lowers taxes, individuals and business firms have more money to save, spend or invest in other business activities.

### ***2.10 Taxation of Small Businesses***

The tax code provide that small businesses that meet certain restrictions as spelled out in the code may be set up as corporations and this receives the benefits of the corporate form of organizational especially, limited liability yet still be tax as proportion or partnership rather than as corporations.

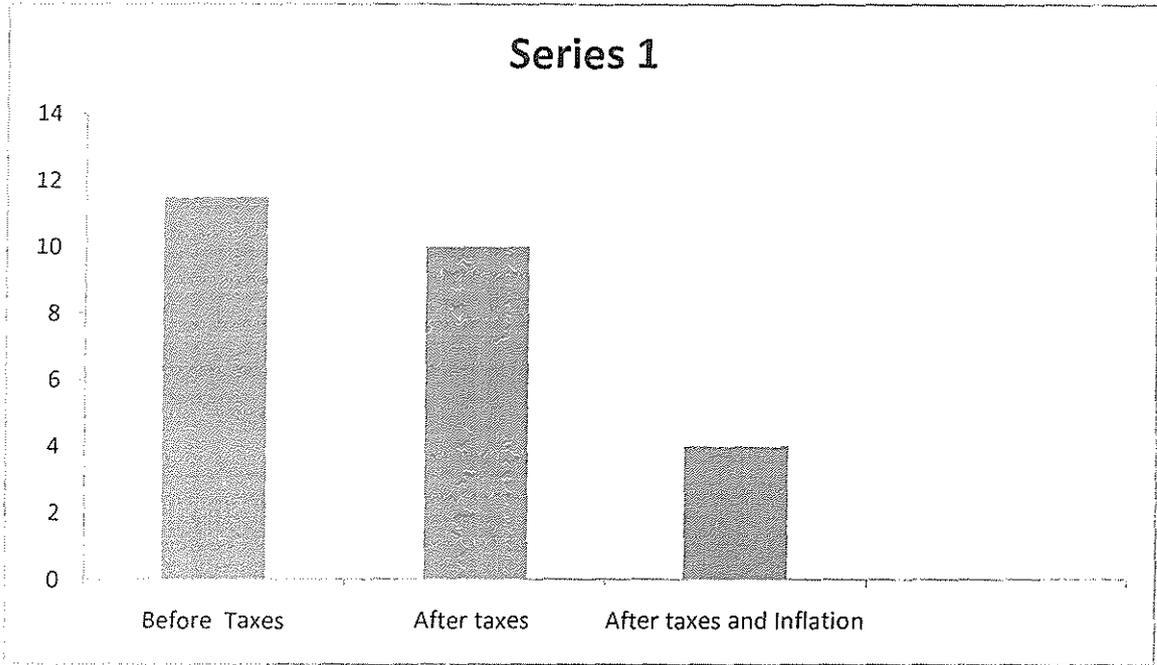
### ***2.11 Taxes on Owners of Small Businesses***

Business income (income less expenses) earned by a proprietorship or partnership is treated for tax purposes as the personal income of its owners. If a small business is incorporated; the owners may have to be taxed either as a partnership or as a corporation. If they must be paid, any salaries and dividends paid to owners will be tax as their personal income; however the salaries would be deductible in determining the corporation's taxable income but the dividends would not be deducted it would appear that there is little benefit in being as a corporation since the same business income is being taxed twice, one as corporate income and again, when the owners receive in form of dividends.

However suppose the owners wish to retain some or all the profits in the business in order to invest in additional assets to expand the firm. The funds retained would not be taxed on dividends until dividends are paid. Therefore dividends taxes on corporate income can be postponed. Taxes can have a negative effect on investment performance, each year when you receive dividends, interest income and short term capital gains, you pay a portion of that-income as a tax at high rate, long term capital gains are also taxed at rates higher than normal, therefore, tax payments greatly decrease the after-tax returns on investments, if they are held in a taxable account.

**2.12 Effect of Taxes and Inflation on Investment Returns**

Taxes and inflation are also enemies as shown in the diagram below.



**Sources;**

Extracted from **New Corporate Finance, Capital Markets and Evaluation, and Introductory Text, Exhibit 11-3 pages 11-11**

Taxes can be one of the largest cash out flow that a firm or business or small businesses experiences. The size of the tax bill is determined through the tax code of an often amended set of rules. Taxes for partnership and proprietorship are computed using the personal income tax schedules and the procedures are the same as for corporate taxes. Therefore the tax code is the result of political not economic forces; as a result, there is no reason why it has made economic sense.

Less tax payment on assets purchases, reduces earnings through increase in cost of goods sold (if the taxes were paid on inventory purchases), depreciation expense (if the

taxes were paid on depreciable asset purchases), and possible other expense if expenditures with no future benefit are subject to sales tax. Sales tax payments on purchases of inventory and long-lived assets are reported on the statement of cash flow as operating activities (for example, purchase of inventory), and investing activities (for example, purchase of equipment), respectively, are not segregated from the amount paid for these assets.

Taxes change behavior and change in behavior can affect supply and demand in markets, causing prices to change, when prices change, in input markets or output markets, some people may be made better off and others worse off. These changes finally, determine the ultimate burden of a tax.

Owners of corporations, proprietorship and partnership all bear the burden of the corporation tax in rough proportion to profits, even though it is directly levied only on corporations.

Taxes on incomes, goods and services reduce income levels, thereby reducing expenditure on automobiles or restaurant food and providing resources for public expenditure on tanks and school lunches. The tax system also serves to discourage certain activities which are taxed more heavily (such as smoking cigarettes), while encouraging lightly sectors (such as owner occupied housing).

The tax on businesses raises the cost of selling goods or providing of the service and leads to supply of a smaller quantity at a higher price therefore taxes discourage market activities. When goods are taxed, the quantity of the good reduces in the market.

### ***1.13 The impact of taxation on the Small Business Sector.***

tax models, the impact of taxation on the smaller business sector, because it is known that small number of business growth provide most of the new wealth and additional employment, created by the small firms sector. Consideration is given to the combined effect of the different elements of the tax regime on small firms, with particular reference growth to the implications of the business restrained by the tax regulation currently in force; are sales growth, employment generation and investment for the future.

Therefore, the fiscal barriers in these areas could be reduced by reducing the value added

tax registration limit, by compensating small businesses for the costs of collecting tax on behalf of Government and by reducing the level of taxation on profits re-invested in small business.

### ***2.14 Increase in Tax Duty***

Certain businesses should be aware of an expected increase in duty on products such as fuel, alcohol, tobacco, air time. Petrol prices pushed up early this year by \$ 1.15 per litre in the various Fuel stations of the country. Small businesses that rely on commercial vehicles for trade, will already be feeling the pinch, the increase in duty on fuel may therefore have a serious negative effect on small and growing businesses, despite the prices being in line with inflation levels in the country.

## CHAPTER THREE

### METHODOLOGY

#### ***3.0 Introduction***

This section includes various techniques and procedures, the researcher employed such as the proposed research design, population and sample size, data procedures, data analysis procedures and measurement of variables.

#### ***3.1 Research Design***

For a good research project, the researcher was used survey as the chosen design appropriate for the proposed study. Because the survey was to examine the impact of taxation as well as giving the general view of the study.

#### ***3.2 Population and Sample***

This section described the population from which the sample was drawn. The sample size and sample selection, methods were also discussed in this section.

Since the study was on the impact of taxation on the performance of small business in Soroti central market in Uganda the population was drawn from small scale businesses within and around the market area.

Random samples of fifty small businesses of various types were drawn from Soroti central market and it constituted the sample size.

#### ***3.3 Data Collection Method and Procedures***

Data are the raw facts collected but not yet processed into meaningful information and data are of two types; they are

**3.3:1 Primary Data**

This is original data that has been collected from its primary sources for example through observations, questionnaires, Interviews, focus groups.

**3.3:2 Secondary Data**

This is existing documented data, reading material available in libraries, internet data bases, government’s planning departments.

The researcher formulated a set of Questions that were distributed to the respondents in order to obtain the necessary information about the study and these sets of questions were of two phases; closed and open ended Questions.

***3.4 Data Analysis and Presentation Method***

The researcher employed descriptive and inferential statistics as the techniques of data analysis because descriptive statistics summarizes data and describes the sample and inferential statistics enables the researcher to infer the sample results to the population. For example correlation, tables, graphics, pie charts and regressive was used as descriptive tools to analyze the data. This data analysis technique was chosen in order to show the direction and magnitude of the relationship between given variables.

***3.5 Representation***

After the data has been analyzed, it was represented in form of tables, bar graphs, pie charts among others.

***3.6 Limitations***

This section gives the obstacle to the activities undertaken. It outlines the problems the researcher faced while collecting and processing data. The limitations are as below;

There was absenteeism from some of the respondents concerned in giving out adequate data which made this research not to be exhaustive.

Lack of enough written records reduced the vital information on tax and also factors

determining level of profit and performance.

Some information was not traceable from the respondents due to the negative attitude from some of them especially on profitability.

It was costly in terms of stationery, transport and lunch. Some respondents would also demand for some 'lunch' thinking that the research was for monetary benefit to the researcher.

It was time consuming since there were always breaks when customers come in. The Businessperson would first serve the customer.

It was an aspect requiring money and time which factors were beyond the total control of the researcher.

## CHAPTER FOUR DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### ***4.0 Introduction***

This chapter deals with the analysis, interpretation and presentation of the research findings. The analysis of the research findings were interpreted and analyzed basing on the research questions. The study was set to investigate the impact of Taxation on the performance of small Businesses in Soroti central market. The findings were obtained through the use of questionnaires, interviews, documents and observation from Soroti central Market which was used as the case study.

### ***4.1 Demographic Characteristics***

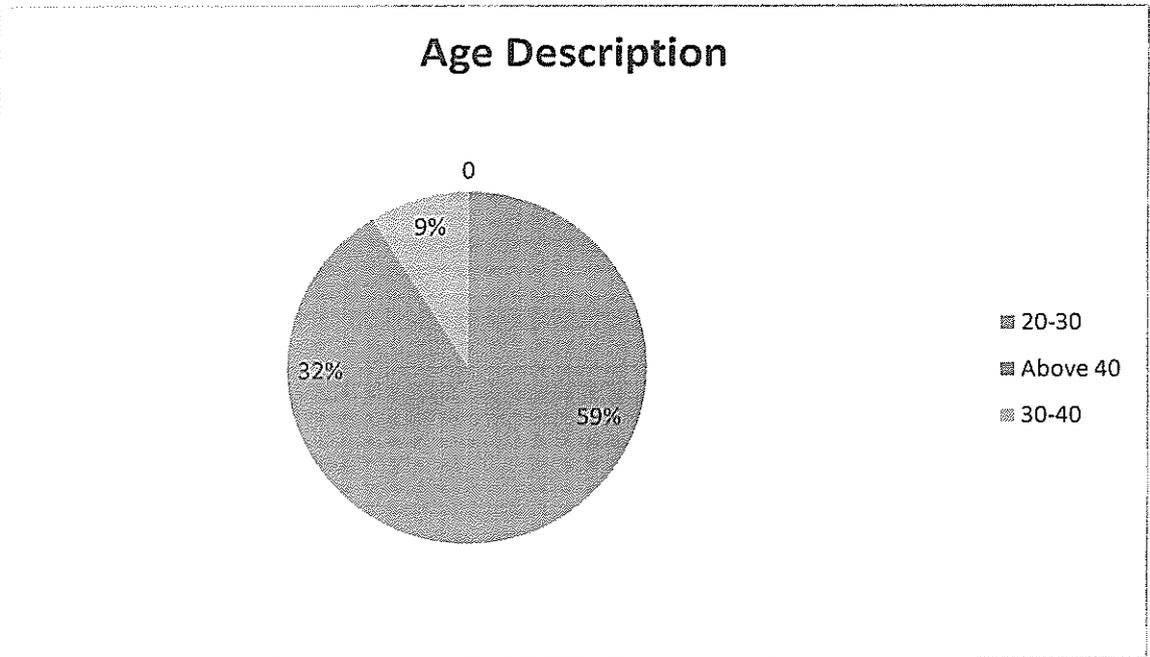
**4.1:1 Table 4.1:1 Table showing the respondents [Respondents**

<b>Respondents</b>	<b>Frequency</b>	<b>Percentage</b>
Male	30	60%
Female	20	40%
Total	50	100%

**Source: primary Data**

From the above, it can be concluded that, the total respondents were 50. Males representing 60% of the total number of respondents while females were represented by 40%.

4.1:2 Figure 4.1.2 Pie Charts showing the age description of the respondents



Source: Primary Data

Figure 4.1.2. shows that majority of the respondents are aged between 20 -30 years representing 59%, followed by above 40 years representing 32% and 9% representing the respondents falling under 30 -40 years.

From the above pie Chart it can be concluded that majority of the Businessmen and women fall under the age of 30 — 40 who are active in their ventures, hence the information obtained from them can be trusted and relied on by the researcher.

**4.1:3 Figure 4. 1. 3: Table showing the Academic qualification of the respondents**

<b>Academic Qualification</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Primary 7 drop outs</b>	<b>30</b>	<b>60%</b>
<b>Senior 4 drop outs</b>	<b>20</b>	<b>40%</b>
<b>Total</b>	<b>50</b>	<b>100</b>

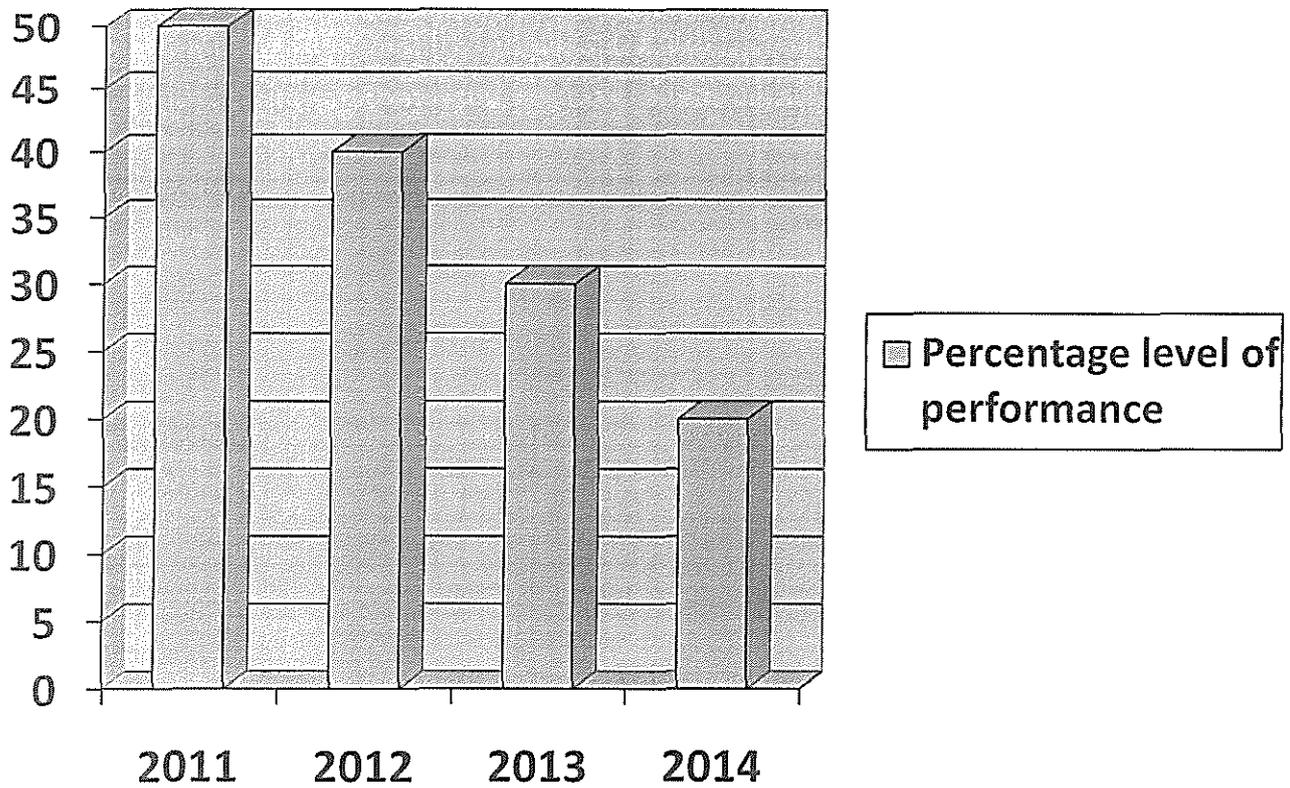
From the above figure it can be concluded that Majority of the Business people in Soroti are primary seven drop outs representing 60% while senior 4 leavers constitute 40% of the respondents implying that the data obtained from them can be relied upon for the purpose of this study.

#### ***4.2 The impact of Taxation on the performance of the small Business in Soroti central Market -Uganda***

The tax levied on small Businesses dates back to 19th century. Such taxes are; value added tax, excise duty, sales tax and corporation tax.

Though taxation cannot be solely responsible for the business current state of affairs that is low sales, low revenues, low profits and provision of poor quality goods the study established that it has played a great role in contributing to the decline in the performance of the businesses.

Some of the factors making taxation to be a heavy burden to the businesses include: wide tax bases, regressive taxes.



Source: Secondary Data

Figure 4.3.1 shows that the performance of the Businesses has been on a decline at an average rate of 10% since 2011 reaching 20% in 2014 from 50% in 2011.

Therefore research findings indicated that taxation has played a significant role in the poor performance of the small Businesses in Soroti central market.

## **CHAPTER FIVE**

### **SUMMARY, RECOMMENDATIONS AND CONCLUSION**

#### ***5.0 Introduction***

This chapter presents the summary, recommendations made based on the study findings. They were made basing on the research questions and researcher's personal opinion after looking at the data objectively.

#### ***5.1 SUMMARY***

The study was conducted to assess the impact of taxation in the performance of small scale Businesses. Both qualitative and quantitative methods of data collection were used to obtain data. The following were major findings obtained from primary Data.

#### ***5.2 Purpose of Taxation***

Taxes are mostly levied with the objective of raising revenues, checking people from consuming harmful articles, like opium; protect home industries, aiming at removing wealth inequality and to fight inflation.

#### ***5.3 Importance of small Businesses***

Small businesses create self employment to many job seekers, provide revenue to the Government and give independence to the owners who reap the rewards for themselves.

#### ***5.4 Demerits of Taxation***

Taxes discourage savings and investments thus limiting creation of job opportunities. Taxation encourages smuggling of goods across the borders.

Taxes inconvenience business people because they are paid before goods are sold thus creating uncertainty in profits.

Progressive taxation discourages risk taking because highly progressive taxes discourage private investment in risky ventures, and this may retard capital formation.

The level of taxation affects the amount of money individuals and businesses and firms spend.

When Government lowers taxes, individuals and business firms have more money to save, spend or invest in other business activities.

### ***5.5 Taxes on owner of small Businesses***

Business income earned by an owner is treated for tax purpose as the personal income of its owners. Salaries and Dividends paid are subject to taxation either as a partnership or as a corporation.

Sales tax payment on assets purchases reduces earnings through increase in cost of goods sold.

Taxes on income, goods and services reduce private income thereby reducing private expenditures. The tax on sellers raises the cost of selling goods or providing of the service and leads to supply a smaller quantity at every discouraging market activities.

### ***5.6 The impact of Taxation on the small Businesses sector.***

The tax regulations have had a serious impact on Businesses. This is mostly in, sales growth, employment generation and investment for the future.

### ***5.7 RECOMMENDATION***

The following recommendations were made.

1. Tax capacity of an individual Businessman/woman needs to be assessed by the Tax authority before such taxes are imposed on them arbitrarily.
2. Since taxation aims at revenue generation for the provision of social amenities e.g. schools, Hospitals, such endeavors needs to be availed to the business community at Soroti central market to protect the environment for instance on waste disposal.

3. Since the small Businesses act as a bridge towards job creation, the Government should pool a lot of resources towards making them expand to catalyze development within the industry.
4. There should be a moderate rate of tax for efficiency and effectiveness of the Businesses.
5. Extra effort and emphasis needs to be put on tax payer's education and awareness to fully understand tax and provide them with skills for systematic book keeping.

***Conclusion:***

As far as taxation is concerned, typically there is no government in the world that can run and operate smoothly in regards to provision of services to their citizens and communities where we live without imposing taxes. Thus, taxation is a price we pay for civilization and civilization goes hand in hand with organized communities. It is just for everybody because the rich and poor are contributing, for example the rich pay more and help the small businesses to grow by using infrastructure e.g. roads, hospitals and so on. But indirectly the poor also pay tax; in VAT everybody is contributing to development.

**APPENDICES**

***Appendix 1: Questionnaire***

Dear Respondent,

This questionnaire is designed to obtain data on the impact of Taxation on the performance of small business which is being carried out in partial fulfillment for the award of a Bachelors Degree in Business Administration of Kampala International University. The information obtained here is for education purposes only and will be treated with strict confidence.

Please tick  where necessary.

1. How Many years have you been in Business?

Less than 5 years  5 - 10 years  over 17 years

If over 10 years please indicate number of years .....

2. Academic qualifications

Degree  Diploma  Form 4  Standard Seven

Please indicate any other qualifications.....

3. Gender

Male

Female

4. Age

Below 30 years:

30-45 years

above 45 years

5. When did you start paying tax for your business?

15 years ago

10 years ago

Ever since the business Commenced

6. What kind of tax do you pay?

Direct tax

Indirect tax

If both, please indicate.....

7. Is tax a compulsory payment for business owners?

Yes

No

8. Do you think tax payment encourages or discourages further investment?

Yes

No

9. Low profit is as a result of harsh tax imposed to small business.

Yes  No

If yes, please explain.....

10. Has tax payment helped to improve the performance of the small business?

Yes  No

11. Do you have confidence in the system being used regarding taxation?

Yes  No

If no, please explain.....

12. Please indicate any problem that you have encountered in making tax payments.

.....  
.....

Thank you for your time and cooperation.

**Appendix II**

***Interview schedule***

1. What would be your opinion on tax payment?

.....  
.....

2. Whom do you think should pay tax?

.....  
.....

3. How do you benefit from the tax, if any benefit?

.....  
.....

4. What would you say is the appropriate tax rate for a businessman like you?

.....  
.....

5. Suggest ways or how the government and its tax agencies can improve on your earnings in relation to taxes.

.....  
.....  
.....  
.....  
.....  
.....

**APPENDIX II**

**TIME FRAME**

NO	ACTIVITIES	NOV 2014	DEC 2014	JAN 2015	FEB 2015	MARCH 2015	APRIL 2015	APRIL 2015
1.	Topic Identification	■						
2.	Preparation of Proposal		■					
3.	Proposal writing			■				
4.	Data Collection				■			
5.	Data Analysis and interpretation					■		
6.	Preparation of Report						■	
7.	Report Presentation							■