

**THE EFFECTS OF TAXATION ON PERFORMANCE
OF SMALL SCALE BUSINESSES**

**A CASE OF OWINO MARKET IN
KAMPALA DISTRICT**

BY

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May 2010

Declarations

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

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Approval

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DEDICATION

I dedicate this work to my parents and to my beloved uncles Ken and Job and above all to the Almighty God.

This research also I dedicate to Kampala international university at large; this is because it ensured a peaceful co-existence during my stay in the university

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LIST OF ABBREVIATIONS

GDP	: Gross Domestic Product.
URA	: Uganda Revenue Authority.
CTL	: Commercial Transaction Levy.
VAT	: Value Added Tax.
PAYE	: Pay As You Earn.
ITA	: Income Tax Act.

ABSTRACT

The study focused on the effect of taxation on the small scale businesses. The study initiated to find out the causes of continues failures of small scale businesses. The study was guided by the following objectives;

To ascertain how government revenue collection affects performance of small-scale businesses.

To establish how control of monopoly through taxation affects performance of small-scale businesses.

To establish the relationship on how government revenue collection, control of monopoly through taxation and performance of small-scale businesses

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

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

CHAPTER ONE

1.1 Introduction

This chapter consisted of the background of the study, problem statement, and purpose of the study, research objectives, and research questions, scope of the study, significance of the study and structure of the study.

1.2 Background of Study

Taxation in Uganda is based on the system that existed in Britain by 1900 when the hut tax regulation was introduced and administered under the local government system and charged on each residential house (Tusibir, 1994). It is a simple tax intended to attract citizens into monetary production. It is followed by the poll tax in 1905, due to cotton growing in Uganda. It is aimed at raising revenue for the administrative; through promoting Africans voluntary labor necessary in the production of cash crops and minerals for exports. In 1919, the first law legislation was introduced under the local Authorities ordinance, which later governed tax collections, In1925. In Uganda, most people are exempted from paying income tax because the majorities are peasants who relied on coffee and cotton for their income leaving the initial tax collection effort on the higher income. In September 1991, after a period of review, the Uganda Revenue Authority was established. All taxes include income taxes, customs taxes and the Authority collects excise duties. (Manasseh, 2000).

Taxation is one of the major sources of government revenue. The government uses the realized revenue to carry out its ongoing activities to regulate the economy, to make social goods and services available. Therefore, with the aim to widen and increase on revenue, the government levies different forms of taxes on the economic activities of its nationals of which small-scale businesses dominate the larger part of the informal sector, (Musgrave and Musgrave, 1985).

The taxes collected are of various classifications such as; Direct taxes are those that affect the individual of firm directly through a deduction, such as wealth tax, turnover. Indirect taxes are that are paid to government by an intermediary then passed on the

consumer by including the tax in the final price, such as value added tax customs duty turnover tax. Proportional tax was one where the tax liability increases with the increase in income. Progressive tax was when the tax rate and absolute tax amount increases with the increases in revenue. Regressive tax, this was a tax whose tax liability falls with increase in income. Digressive tax, this was a tax where high-income earners pay less or low tax for the extra income earned. (Tusubir,1994). In Uganda, there exist several small-scale business undertakings, such as capital employed, according to Kawabibblah (1995), employing 5-50 workers. Sales turnover; According to Sejjaka (1997), a small-scale business is any business pay VAT of US \$ 20,000 as an agreed threshold. The government of Uganda through the ministry of finance, planning and economic development consider businesses with capital investment of less than US\$5000000 both for public and private, URA, (2001), Tax Payer Guide. Small-scale businesses contribute about 30% to GDP. Due to taxation, many small-scale businesses today are coming out of operations; the owners claim that high taxes are disincentives for growth. Hence, taxation is seen to affect the performance of these small-scale businesses.

1.3 Problem Statement

The performance of small-scale business was popularly becoming an important point to a large number of people as self-employment in generating income for their survival. They play a vital role in the development of the economy with each employing 5-50 people, and contribute 30% to GDP. The government had put in place incentives like initial allow of 50% to encourage their development if located in prescribed areas of Kampala, Namanve, Entebbe, Jinja and Njeru. Despite the efforts by government, many of the small businesses cannot leave beyond the first birthday. This was attributed to the many taxes imposed on them. For instance, Victoria in glass limit has recently closed down five hundred shops before their owners hurriedly paid their dues. This was due to high taxes levied on the retail shop operators. The high taxes had affected the performance of the small-scale business leaving them with little or no revenue for their operation.

The researcher shall try to establish how tax policies affect the performance of small-scale businesses and to recommend the way forward to help small-scale businesses.

1.4 Purpose of the Study

Purpose of the study was to establish the effects between taxation and performance of small-scale businesses in Owino market of Kampala and their solution.

1.5 Research Objectives

- i. To ascertain how government revenue collection affects performance of small-scale businesses.
- ii. To establish how control of monopoly through taxation affects performance of small-scale businesses.
- iii. To establish the relationship on how government revenue collection, control of monopoly through taxation and performance of small-scale businesses.

1.6 Research Question

- i. How does government revenue collection affect the performance of small-scale businesses?
- ii. How does control of monopoly through taxation affects performance of small-scale businesses?
- iii. What is the relationship between government revenue collection, control of monopoly through taxation and performance of small-scale businesses?

1.7 Scope of the Study

The study was carried in Owino market, Venus Street of Kampala district in Uganda. The study was conducted between February and April 2010. The study was focus on the effects of taxation on the performance of small-scale businesses of Owino market. The research design include data collection by uses of sampling, interviews questionnaire and observation techniques. The researcher had chosen Owino market due to nearness to the researcher's residence and easy access the effect of taxation on the performance of small-scale businesses.

1.8 Significant of the Study

By the end of this study, it was hoped that;

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

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

The study also give the researchers knowledge on the professional aspects of the course and field training in the area of data collection, data analysis, tabulation, and report or dissertation writing for achieving the degree that is pursued.

The study contributed to the understanding of the effects of taxation towards the performance of small-scale businesses in Owino market of Kampala district in particular

1.9 Conceptual Framework

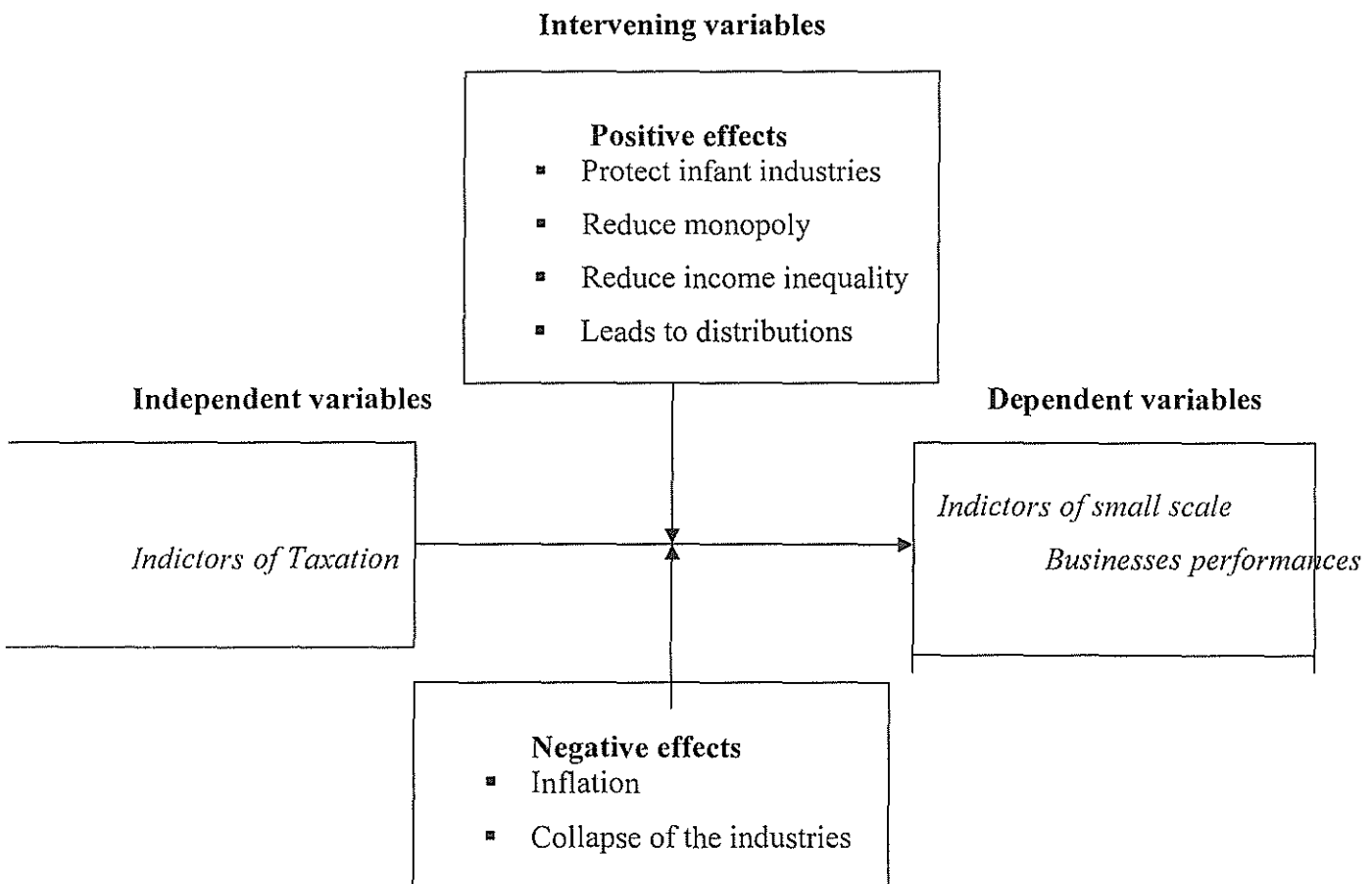
A conceptual framework defines the topic of the research through explanation of the variables within the topic.

Independent variables, which predict, control, determine and influence the dependent variable.

The intervening variables, work with independent variables to influence the dependent variable

For the purpose of the research, the independent variable was the indicators of taxation, the dependent variable was the indicators of small scale businesses performances while intervening variables was both positive and negative effects, leading us to the topic of research stated as follow; the effects of taxation on performances of small scale businesses

Conceptual framework



source, Tumuhimbise, (1996)

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

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

2.2 Review of Related Literature

Tumuhimbise, (2000), defined taxation refers to the administration and collection of taxes. In Uganda, it is the responsibility of Uganda Revenue Authority(URA). On the other hand, Bhatia, (2002), argued that, taxation is a process of tax administration that involves enumeration, assessment, collection and control. In addition, Balunywa, (1988), said that taxation is a compulsory levy imposed upon the tax assesses who may be individuals, groups of individuals or other legal entities. This agrees with Bahemuka (2001) that taxation is based on economic theory, such as the process argument of leakage from the circular flow of income into the public sector, with exception of loans transactions and indirect payments for publicly produced goods and services. Therefore according Tusubira, (1994), taxation is a compulsory and non-refundable contribution exacted by government for public purpose. This payment is not followed by a concurrent benefit in return. Basing on the definitions of various definitions scholars above, taxation is legally compulsory transfer of money from public to the government mainly as a source of government revenue.

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

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

2.2.1 Classification of Taxes

The income Tax Act (1997) classifies taxes as;

Direct Vs Indirect Taxes; The distinction between these two has not always been satisfactory and consistent. However the basis of distinction includes;-

Incidence of Tax; where the incidence of the tax rests upon the person paying the tax, then it is regarded as direct tax. Otherwise, the tax is deemed indirect when the burden falls on another person, rather than the person paying their tax

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

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

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

Proportional Vs Progressive Taxes

Bhatia, (2002), said Progressive Tax; Are those where with increasing income or tax bases activity the Tax liability not only increases in absolute terms but in proportion to the increase in the income; for example pay as you earn, presumptive.

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

Regressive Vs Digressive Tax

Bhatia, (2002), said regressive tax is a tax whose tax liability falls within increase in income/taxable activity. The burden falls more on the poor than the rich do. Most turnover taxes are regressive. While digressive tax is a tax that where high-income earners pay less or low tax for the extra incomes earned.

2.2.2 Theories of Taxation

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

Okello, (2006),said, ***Practicability theory***, this theory asserts that the choice of various tax proposals, the authorities need not consider various economic and social objectives or the effect of the tax system. The authorities would in general want to pluck the goose where the feathers are thickest and there is a minimum amount of squawking.

Okello, (2006), said **Socio-political theory**, this theory is creation of Adolph Wagner, a German scholar. He asserted that in contrast to the practicability theory, the social and political objectives should be the cornerstones in designing a tax system. Wagner argued in his theory that a society consisted of individual member. He further said that society had an existence and entity of its own which needed preservation and taking care of. In this regard, a tax system should not be designed to serve the needs of the individual members but should be used to cure the ills of the society in so far as it is possible. Wagner was specifically in favor of using taxation for reduction of income inequalities, and so to achieve this objective, he advocated for small incomes to be exempted from taxation.

Tusubira, (1994), said, **Benefit Received theory**, this theory traces its origin from the contracts theory of the state, where the state provides various goods and services to the member of the state and they contribute to the cost of these supplies in proportion of the benefits received. Normally, income is sometimes used as an indicator of the benefits received. In this case it is assumed that without the protection of the state the economy cannot exist and accordingly it may be inferred that benefits each member of society derives from the state are in proportion to his income. Such an inference would lead to policy recommendation for proportional taxation.

Manasseh (2000) said, Cost **of service theory**, this theory implies that the citizens are not entitled to any benefits from the state and if they receive any, they must pay the cost thereof. The theory emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The theory can notes a balanced budget policy since it requires the state to give up its basic protection and welfare functions and embark on recovering the costs of services provided. This would leave neither deficits nor surplus in the economy.

Tusubira, (1994), said, **Ability-to-pay theory**, the theory suggests that citizen is to pay taxes because he can and his relative share in the total tax burden is to be determined by his relative paying capacity.

The theory emphasizes that the burden of taxation should be shared amongst the members of society so as to conform to the principles of justice and equity, and that

this equity criterion will be satisfied if the tax burden is apportioned according to the relative ability to pay.

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

Manasseh (2000) said, the ***theory of equal sacrifice***, ***this*** theory is closely related to the Ability-to-pay theory. It has its meaning derived from two angles, namely, the equity and the welfare view. The equity approach presupposed that each taxpayer should be made to undergo some amount of sacrifice irrespective of his income. It should therefore be envisaged that equal sacrifice admits of different interpretations and one such interpretation tallies with the welfare consideration.

2.2.3 The Effects of Taxation

According to the Uganda Economic Journal, (1973) on taxation and economic Development

The main effects of taxation are to reduce the quantity of resources consumed by the private sector. It further shows that in stressing the consumption reducing aspect, taxation may be there for other objectives such as to change the distribution of income, to reduce consumption of particular commodities, which may be harmful such as cigarettes and to help Stabilize the economy. On the other hand Tumuhimbise, (1996) argued that taxation is both an important source of government revenue and also important economic tool for Government. In addition Balunywa, (1988) said that the failure of the market mechanism and the rationale for taxation.

Several scholars have argued that government has to perform three functions outlined below;

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

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

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

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

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

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

Encourage export of goods and services in order to make them more competitive in

the world Market, by reducing or removing tax on the exports. (Uganda Revenue Authority, coping with taxes, (2007).

2.3 Performance of Small-Scale Business

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

Pandy, (1979) defined performance as the process by which a business ensures the achievements of its set objectives by using the available resources. These include; maximizations, of profits, market share, and customer satisfaction in order to be assure of growth and survival. Performance as being defined in terms of financial analysis. Where financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Poor performance administration greatly reduces the efficiency of taxpayers thereby reducing their ability to work.

This leads to less production hence poor performance, the major obstacles to the growth and development of small-scale businesses has been the taxation policies, which have serious implications on business profits and liquidity position. This is because of the unfair tax rates.

2.3.1 Small-Scale Business (SSB)

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

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

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

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

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

2.3.2 Taxes Paid By Small-Scale Business in Uganda

Income Tax Act 1997 section 3 spells out the taxes paid by businesses as follows;

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

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

Rental Income Tax; It is income tax charged on rent earned by individual by way of letting property. It is levied differently from other sources of income by the same person and taxed separately under the rental tax structure.

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

Table 1; how the turnover was broken down into different amount with their Corresponding rates as shown below

GROSS ANNUAL TURN OVER	TAX RATE
Less 5,000,000/=	NIL
5,000,000/= to less than 20,000,000/=	100,000/=
More than 20,000,000/= but less than 30,000,000/=	250,000= or 1% of Gross turnover which whichever is lower
More than 30,000,000/= but less than 40,000,000/=	350,000/= or 1% of Gross turnover which whichever is lower
More than 40,000,000/= but less than 50,000,000/=	450,000/= of 1% Gross turnover which whichever is lower

Source: Taxes Payers Guide, (22nd Edition)

Table 2; the types of taxes and sources of income

<i>Types of Taxes</i>	<i>Source of Income</i>
Corporation tax	Company income
Rental Income tax	Rental earned
Individual tax	Income earned
Presumptive tax	Gross turnover

Source: Tax Payers Guide, (second Edition, 2001)

2.3.3 Factors Affecting the Performance of Small-Scale Business

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

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

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

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

Low level technology; Because of their smallness these businesses end up using a cheap technology which is usually not top of the range. This results into high costs of production and un-competitiveness. For instance small businesses cannot afford to use computers or even where they have a computer, to continuously upgrade their equipment. Therefore they cannot compete with large businesses. This is not being the case in the developed countries where because of market opportunity and likely

success due to environmental enabling factors, it is easier to secure new technology. Besides, this technology originates from the developed countries and unlike in the developing countries where it must be imported, it is relatively cheap.

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

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

2.4 Relationship between Taxation and Small-Scale Business Performance

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

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

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

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

CHAPTER THREE

METHODOLOGY

3.1 Overview

This chapter represented and described the methods and techniques that were used to collect and analyzes data. It included the, study population, data collection instruments, processing and analyzing and limitation of data.

3.2 Research Design

The study used both qualitative and quantitative research designs. Qualitative design was used to get detailed information from the diversity of multiple realities using methods such as interview and questionnaires. Quantitative research design was used such that the researcher would put some information in numerical form or tabular form. The study was carried out in Owino market in Kampala district. Most respondents were gotten from various vendors of Owino market.

3.3 Study Population

Due to poor performance of some small-scale businesses in Uganda, a survey was carried out on the effects of taxation and performance of small-scale businesses. The study was conducted only in Owino market area out of other branches countrywide namely: Nakawa ,Arua ,Jinja and amongst other branches.

3.4 Sampling Design And Size

3.4.1 Sampling Design

In order to ensure representatives of the samples from study population of Owino market, sampling was grouped according to chain of command. Random sampling technique was used in sampling the vendors on which the data was collected. Thus respondents were then randomly selected from Owino market. Thus sampling design was preferred to minimize biasness in sampling process to achieve maximum precision, which gave the research constraints of the study. The city council senior management and other staff members were also be interviewed.

3.4.2 Sample Size

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

3.5 Data Collection Instrument

The data collection instruments were basically self administered questionnaire, which comprised of open and closed ended questions that required respondents to answer all the questions to the best of his or her knowledge. Interviews were also used in data collection from which the respondents answered from selected various small businesses.

3.5.1 Interviews

An interview guide was used especially with the various small businesses owners of Owino market. The researcher carried face-to-face interview with the respondents. They also explained to the respondents why the study was carried out. The research was preferred because of the fact that the researcher would have to face interaction with the respondent and to be able to ask probing questions relevant to the study.

3.5.2 Questionnaires

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

3.6 Data processing and Analysis

Data collected was edited and analysed using percentages, tables and graphs and simple statistical modules like the central tendency, frequency distribution to assess the

effects of taxation on performance of small-scale businesses. Quantitative data analysis was performed in relation to research question.

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

3.6.1. Limitation of the Study

The study was likely to face the following problems;

Most of the small-scale businesses are busy people. Therefore, too limited time was likely to be posed on the researcher. The researcher would solve this by socializing with few of them to link him with more of them.

Some of the people were not willing to give information due to lack of trust on researcher.

Analogue on the research since the research was not beneficial to them in any way.

CHAPTER FOUR

PRESENTATION OF SUMMARIES OF FINDINGS, INTERPRETATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This section reflects the findings of the study, the related interpretations and discussions on the effect of taxation on the performance of small scale businesses in Owino market in Uganda

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

4.2 Demographic of Respondents

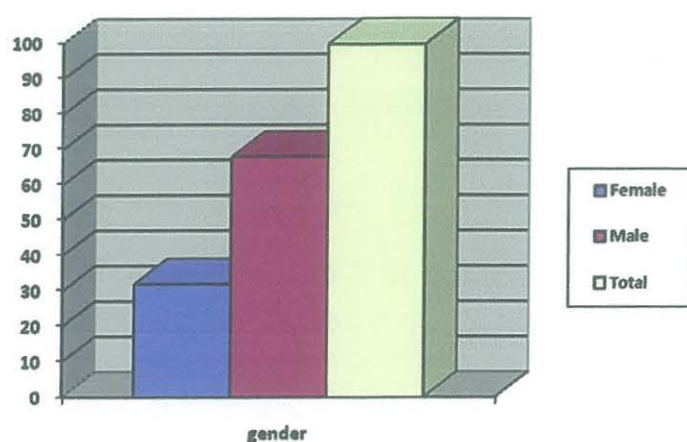
The respondents were classified under five different grounds in order to establish whether there was fair representation of the study population and that the respondents were informed to provide adequate data that would be relied on to make valid conclusion.

Table 4.1; showing gender composition of respondents

Gender	Frequency	Percentages
Female	16	32
Male	34	68
Total	50	100

Source; Primary Data

Figure 4.1; gender composition of respondent in percentages



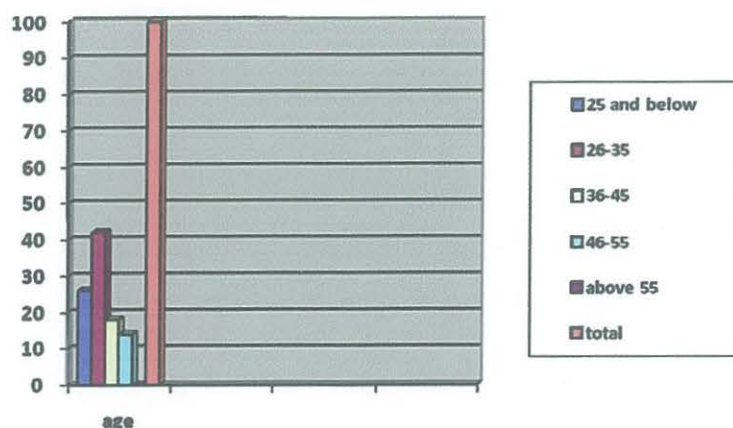
From the above table and chart, 68% were males and 32% were females, since it was observed that more males selling than females in the market.

Table 4.2 age wise analysis of respondents

Age(years)	Frequency	Percentages
25 and below	13	26
26-35	21	42
36-45	9	18
46-55	7	14
Above 55	0	0
Total	50	100

Source; Primary Data

Figure 4.2 age composition of respondents



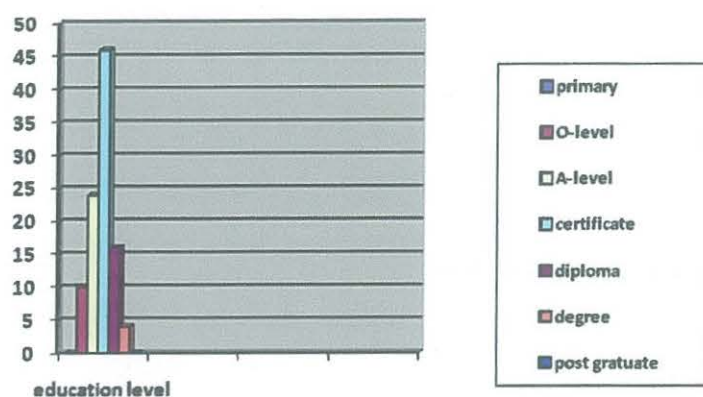
According to table and chart above, 42% were between 26-35 years, 26% were 25 years and below, 18% were 36-45 years and 14% were 40-55 years. This indicated that at least all age groups were represented except that above 55%. This was a fair representation.

Table 4.3; classification based highest education level attained

Age(years)	Frequency	Percentages
Primary	0	0
o-level	5	10
A-level	12	24
Certificate	23	46
Diploma	8	16
Degree	2	4
Post graduate	0	0
Total	50	100

Source; Primary Data

Figure 4.3 highest education levels for respondent



According to tables and chart above, 46% had certificate level, 24% had A-level, 16% had diploma level, 10% had O-level and 4% had degree level.

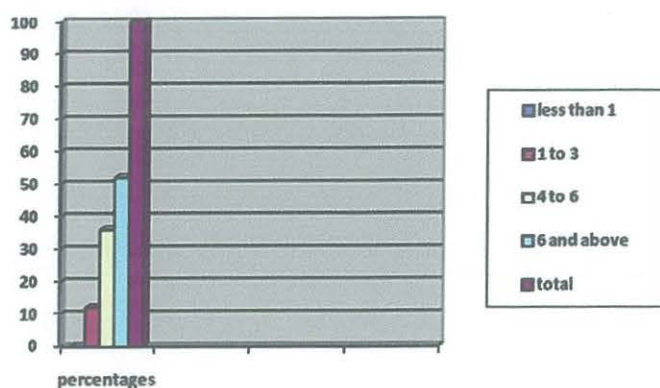
There was also fair representation of the study population since the respondents had relatively good education.

Table 4.4 Characteristics According to experience of respondents.

Period(years)	Frequency	Percentages
Less than 1	0	0
1-3	6	12
4-6	18	36
6 and above	26	52
Total	50	100

Source; Primary Data

Figure 4.4 period worked by respondent in owino market



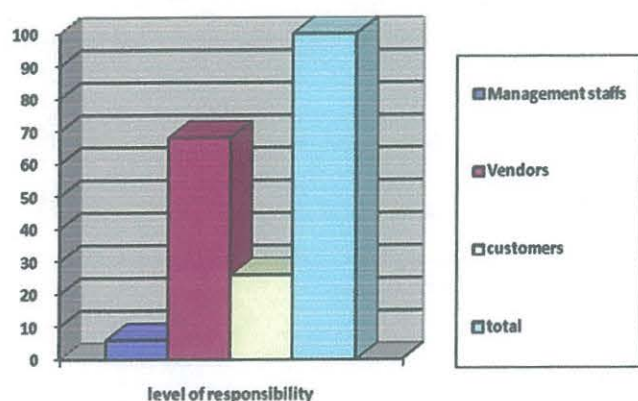
According to table and a chart above, 52% had worked with owino market for over 6 years, 36% for 4-6 years and 12% for 1-3 years. There was good representation of the study population.

Table 4.5 responsibility wise classification

Level of responsibility	Frequency	Percentages
Management staffs	3	6
Vendors	34	68
Customers	13	26
Total	50	100

Source; Primary Data

Figure 4.5 types/nature of level of responsibility of respondent



According to table and a chart above, 68% represented the vendors of owino market, 26% represented the customers of owino market and 6% the management staffs of owino market.

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

4.3 The Effects of Taxation on Performance of Small Scale Businesses of Owino Market

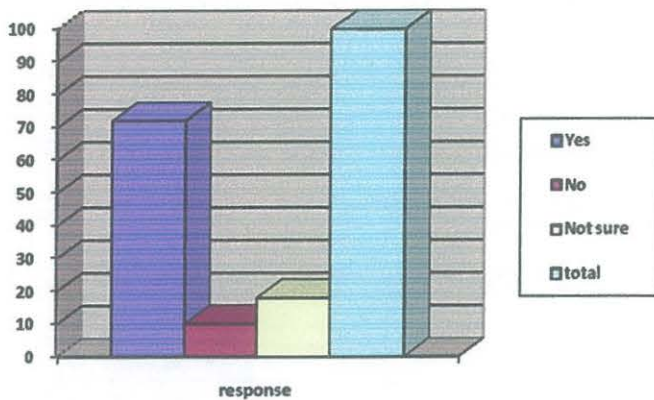
The study sought to establish whether the taxes paid affects ones business performance. The findings are represented in the table below;

Table 4.6; whether taxation affects the performance of small scale businesses of owino market

Response	Frequency	Percentages
Yes	36	72
No	5	10
Not sure	9	18
Total	50	100

Source; Primary Data

Figure 4.6 whether taxation affects the performance of small scale business of Owino market



From table and a chart above, 72% that yes the taxes paid affects ones is business performance, 18% not sure and 10% indicated that no, they don't. The biggest percentages indicated that the vendors are relatively affected by the taxes paid.

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

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

The study also found out that economists looked at taxation as a process of circular flow of income in public sector. The study also revealed on taxation that the

performance of small scale businesses to be called fair and for it to be able to achieve their objectives, they should consider the Income Tax Act 1997 section three.

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

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

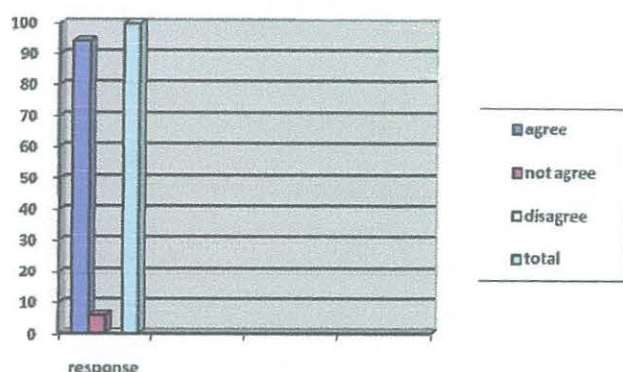
The study sought to establish whether the market had taxation system that guides its payment of taxes in the market. The findings are presented in the table below;

Table 4.7; consent of whether the presences of taxation system used in owino market have any implication

Response	Frequency	Percentages
Agree	47	94
Not agree	3	6
Disagree	0	0
Total	50	100

Source; Primary Data

Figure 4.7 the presence of taxation system used in owino market



From table a chart above, 94% agree that the market had taxation system that guides its payment of taxes in the market while 6% were not sure. This therefore shows that level of awareness on tax issues is high and well spread.

The study sought to establish whether the management of owino evaluates vendor's characters on willing to pay taxes.

4.4 Finding about the relationship on how government revenue collection and control of monopoly through taxation affects performance of small scale businesses of owino market

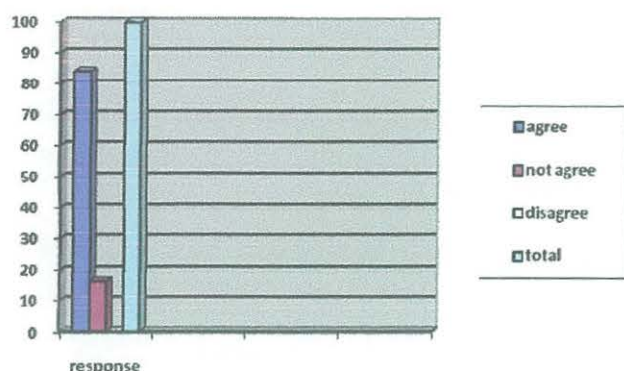
The study sought to establish whether taxation had the relationship with the performance of small scale businesses. The findings are presented in the table below;

Table 4.8; whether there is relationship of taxation and performance of small-scale businesses of owino market

Response	Frequency	Percentages
Agree	42	84
Not agree	8	16
Disagree	0	0
Total	50	100

Source; Primary Data

Figure 4.8 whether there is relationship of taxation and performance of small scale businesses of owino market



From table and a chart above, 84% agrees that the government revenue and control of monopoly through taxation affects significantly the performance of small scale businesses of owino market while 10% were not sure.

The study found out that high taxes collected as a form of government revenue and control of monopoly affects the performance of small-scale businesses of owino market because of high taxes which led to high prices of goods hence leading to low level of business and profit.

Finally the study also found out that apart from taxation, lack of good managerial skills affects the performance of small scale businesses because of fail to prepare proper books of accounts.

The research revealed that there is a relationship between taxation and small scale business performance in Owino market; means that high direct taxes will lead to high prices of goods hence a shift in consumption pattern from highly taxation and performance of small scale business are mutually related. The study also found out that Keynesian modes shows that government revenues can be realized through fiscal policy mechanism, fiscal policy include tax policies therefore meaning that, taxation and small scale business performance are related. Hence taxation and small scale businesses level is low, vendors pay high taxes and when taxes are high the level of business is low.

Therefore low taxes are paid leaving too many incomes with vendors for day today running of the enterprises and increase their performance.

The researcher also found out that apart from taxation lack of good managerial skills affect the performance of small scale businesses. A challenge only comes when small businesses fail to prepare proper books of accounts thus affecting their performance.

4.5 Factors Affecting Small Scale Businesses in Owino Market

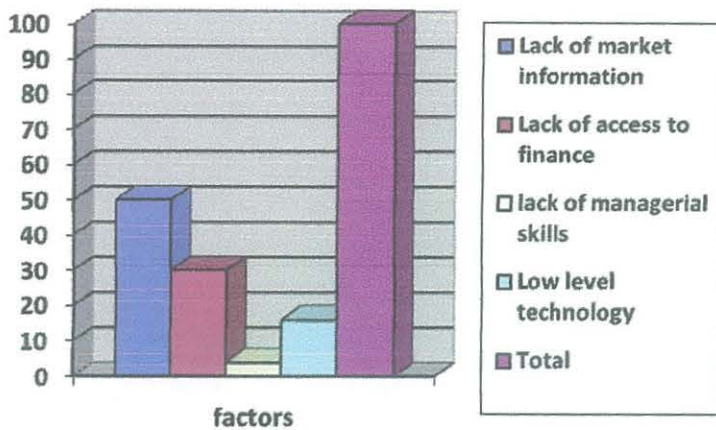
Factors affecting Owino market include lack of access to finance, market information and managerial skills, low level technology.

Table 4.9 the factors affecting small scale businesses of owino market

Factors	No of respondents	Percentages
Lack of market information	25	50
Lack of access to finance	15	30
lack of managerial skills	2	4
Low level technology	8	16
Total	50	100

Source; Primary Data

Figure 4.9 the factors affecting small scale businesses of Owino market



From the above table and chart, 50% of vendors were largely affected by lack of market information, 30% indicated lack of access to finance, 16% low level of technology and 4% indicated that lack of managerial skills.

The findings revealed that from the above factors, the market was affected largely by lack of market information and access to the finance. Factors which affects more than 80% of the respondents and probably a large portion of the Owino market. The level of technology used in Owino market is likely to be low and mostly labor intensive.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter presents conclusion drawn from discussions of findings and are closely related to the purpose and objectives of the study. Also recommendations on the performance of small scale businesses and further research basing on the literature review.

5.2 Summary of Findings

These are findings in the knowledge, attitude and practices towards the effects of taxation on performance of small scale businesses in regard in regard to a case of Owino market in Kampala. During the study, emphasis was put on vendors knowledge, attitude and safeguard against taxation in relation to performance.

The findings of objective one indicated that the taxes paid as a form of government revenue collection affects the performance of small scale businesses of Owino vendors in terms of profit. It was revealed in the findings of table 4, whereby the biggest percentages of 72% indicated that the vendors are relatively affected by the taxes paid hence 10% of the total vendors indicated that they are not.

Taxes charged on small businesses (vendors) have gross effect on the expansion of these businesses as they encroach on the expected revenue. Hence reducing investment finance since most small businesses are financed out of their profits and saving, as a result the performance of these small businesses had been undermined.

According to the findings of objective two in chapter four, the researcher revealed that the taxes charged as form of controlling of monopoly in the market affects the performance of the vendors in Owino market. This was revealed from table 6, that the biggest percentages of 84% indicated that the vendors are relatively affected by the taxes paid, 16% indicated that they are not affected.

The findings also revealed that due to the taxation system which was used as a way of controlling monopoly in the market aim at increasing tax revenue while maximizing

constraints to the vendors in the market. Policy regarding tax burden like presumptive encourages these firms to prepare proper books of accounts, locating taxpayers' tax rates, tax penalties, incentives needed to be applied on small scale business under different income levels. Thus taxation policies aim at protecting them although tendering of tax collection endangers the objectives of tax collection.

5.3 Conclusion

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

Poor performance of small scale businesses in Owino market was as a result of inadequate identification assessment and collection, which are aspects of taxation performance. Therefore tax policy should focus on improving taxation performance in favor of small scale businesses. Likewise other factors also affecting this variable should be taken into account.

Taxation performance remains a major area to be explored by revenue authorities of various classes of taxes, since improving taxation performance enhances almost all aspects of tax policy, including tax from small scale businesses of owino market.

5.4 Recommendation

Basing on the study carried out, the researcher recommends the following;

The government through URA should embark on intensive tax education program me especially for business community. This should be done through various media and in different languages on radio stations, televisions. URA should carry out massive

training of its staff about tax assessment and collection methods, as well as how to handle taxpayers

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

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

Finally the government through Uganda revenue authority should assess the taxation system used to collect taxes in the market to reduce its effects on the performance of small scale businesses.

5.5. Areas for Further Research

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

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

The effect of taxation on growth of small business enterprise.

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INSTRUMENTS

APPENDICES:

APPENDIX A

QUESTIONNAIRE: THE EFFECTS OF TAXATION ON PERFORMANCE OF SMALL SCALE BUSINESSES A CASE OF OWINO MARKET IN KAMPALA

I MAOGA ERICK REGISTRATION NUMBER BBA/17543/71/DF a student at Kampala International University pursuing a Bachelors' Degree in Business Administration kindly request you to fill in my questionnaire. I further assure you that the information given here shall be treated with all due respect and confidentiality and shall only be used for academic purposes. Please feel free to give all the relevant information as per the questions asked.

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

Thank you in advance.

INSTRUCTIONS:

Please tick the choice you most agree with.

1. Age of the respondent in years

(a) 20-30 ☐

(b) 31-40 ☐

(c) 41-50 ☐

d) 50 and above ☐

2. Gender of respondent

(a) Female ☐

(b) Male ☐

3. Highest level of education

a) Primary ☐

b) secondary ☐

c) Certificate ☐

d) diploma ☐

e) Degree ☐

4. Marital status

a) Single ☐

b) Married ☐

c) divorce/separated ☐

d) Widowed ☐

5. How taxes are paid in Owino market?

a) Cash ☐

b) bank ☐

c) Others (specify).....

6. After how long do you pay the tax?

a) Weekly ☐

b) Monthly ☐

c) Annually ☐

d) Others (specify).....

7. How do you find the taxation system used in Owino market?

a) Clear ☐

b) not clear ☐

c) none ☐

d) Others (specify).....

8. Indicate the most common form of taxation system used in Owino market?

a) Progressive ☐

b) Proportional ☐

c) Regressive ☐

d) Digressive ☐

9. Does taxation affects your business performance.

Yes

☐

No

☐

None

☐

d) Others (specify).....

Other questionnaires,

10. What are some of the obstacles to taxation in Owino market?

.....
.....

11. What are the solutions available for taxation problem?

.....
.....

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

.....
.....

Thank you

Interview Guide

Good morning sir/madam,

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

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

Appendix B

The period of the study

Proposal	February
Data collection	March
Dissertation writing	April
Submitting	May

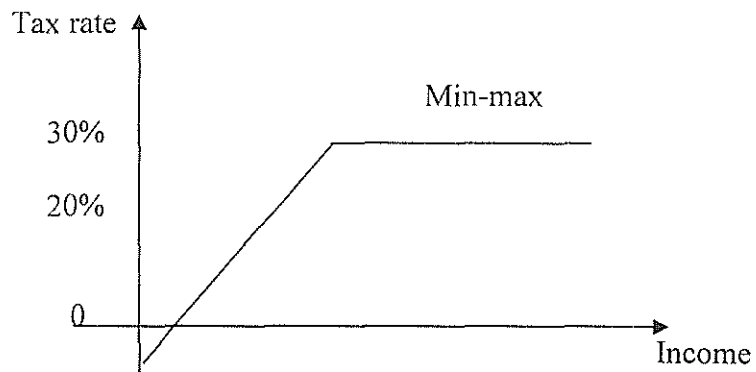
APPENDIX C

Budget for the study

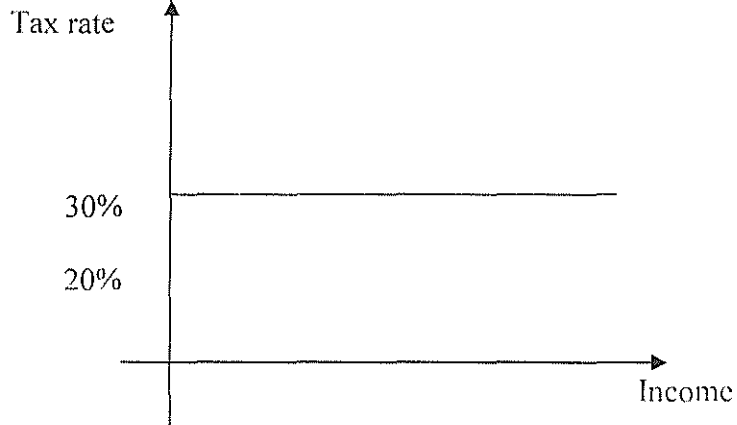
Item	Amount in Uganda Shillings
Typing and printing	150,000
Literature collection	100,000
Data collection	250,000
Miscellaneous	100,000
Total	600,000

APPENDIX D

DIGRESSIVE TAX



PROPORTIONAL TAX



REGRESSIVE TAX

