THE EFFECTS OF TAXATION ON SMALL SCALE BUSINESSES

A CASE STUDY OF SMALL SCALE BUSINESSES IN

NAMUWONGO MARKET,

KAMPALA

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS

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JULY, 2010

DECLARATION

Emmanuel Daniel Deng hereby declare that the work presented on this proposal is original and that no study of the kind has been submitted for award of the degree in any University as a whole or in part except where acknowledged.

Researcher

Emmanuel Daniel Deng

Signature

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Date

3/2/2011

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APPROVAL

This research has been prepared under my supervision and submitted to the School of Business and Management with my approval.

Signature

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Supervisor: Dr. George Stanley Kinyatta.

Date.3 1/20...........................

3/2/2011

DEDICATION

To Almighty God through His only begotten son our savior Lord Jesus Christ, my father Daniel Deng Bul , my mother Abuk Atem , family members specially my brothers Peter, Isaac, and my sisters Grace, Mather and Awak. To Uncle Malual Bul, and all my friends, colleagues and relatives who encouraged and supported me throughout my study period both morally and financially.

God bless all of you.

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I wish to further extend a word of thanks to all my respondents both owners and workers within the small scale businesses, for their generous contributions without which this dissertation would have remained a dream and special recognition of their efforts.

My special gratitude and sincere thanks to Mum Abuk , my brother Peter, and friends Thiang Bona, Mach Riak ,Sabir Kenneth, for the support and contributions and sacrifice that they dearly extended to me.

May God the Almighty bless you all. Amen

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ABSTRACTS

The topic was based on the effects of taxation on small scale businesses.

The objectives of the study were to investigate the relationship between taxation system and Performance of the small scale businesses, to investigate the effects of taxation on the Performance of small scale businesses, The research design used was descriptive in nature because the study was aimed at describing the effects of taxation on small scale businesses .Both qualitative and quantitative research designs were used.

The research was carried out using different methods through instruments such as Interviews, direct observation, questionnaire. A sample size of 50 respondents was selected by the researcher from the market. Out of the 50 respondents, 20 were men and 30 were female as there was gender equality in some of small scale business.

The findings of the study showed the effects of taxation on the small scale businesses where by the tax that impose on the small was high which some time can't help small scale businesses to develop and reach their main objective but due to the recommendation the tax will lowered to the level that can the small scale businesses to develop and make good profit.

Conclusively, it was evidenced that, taxation system had a lot of tremendous effects on the Performance of small scale businesses especially small scale businesses in Namuwogo market responded by over 73% of the respondents.

LIST OF ACRONYMS/ ABBREVIATIONS

URA .... Uganda Revenue Authority.

VAT .... Value Added Tax.

UIA.. Uganda Investment Authority.

SSB .... Small Scale Businesses.

CHAPTER ONE

1.0 INTRODUCTION

This chapter consists of the background of the study, problem statement, and purpose of the study, research objective, and research question, scope of the study, significance of the study and the structure of the study.

1.1 BACKGROUND OF THE STUDY

Taxation in Uganda is based on the system that existed in Britain by 1900 when the hut tax regulation and administered under the local government system and charged on each residential house. It was a simple tax intended to attract citizens into monetary production. It was followed by the poll tax in 1905, due to cotton growing in Uganda. It was aimed at raising revenue for the administrative; through promoting Africans voluntary labour necessary in the production of cash crops and minerals for export. In 1919 the first law legislation was introduce under local Authorities ordinance which later governed tax collections. In 1925 in Uganda, most people were exempted from paying income tax because the majorities were peasant who relied on coffee and cotton for their income leaving the initial collection on higher income. In September 1991, after a period of review, the Uganda Revenue Authority was establishing. All taxes include income taxes, custom taxes and excise duties are collected by the Authority.

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 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 business dominate the larger part of the informal sector.

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

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Proportional tax is one where the liability increases with the increase in income. Progressive tax is when the tax rate and absolute tax amount increase with the increase in revenue. Regressive tax, this is a tax whose tax liability falls with increase in income. Digressive tax, this is a tax where high income earners pay less or low tax for the extra income earned.

In Uganda, there exist several small scale business undertakings, such as capital employed, according to Kawabiblah (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 business with capital investment of less than US $ 5000000 both for public and private, URA.(2001). Tax payer Guide. Small scale business contribution 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 may be seen to affect the performance of these small scale businesses.

1.2 PROBLEM STATEMENT

The performance of small scale business is popularly becoming an important point to a large number of people as self employment in generation income for their survival.

The play a vital role in the development of the economy with each employing 5-50 people and contribution 30% to GDP. The government has put incentive like initial allow of 50% to encourage their development of located in prescribed areas of Kampala, Namanve, Entebbe, Jinja and Njeru. Despite the efforts by the government many of the small scale business can't leave beyond the first birthday. This may be 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 have affected the performance of the small scale business leaving them with little or 'no revenue for their

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operation. (New Vision, July 11, 2003). The researcher will try to establish how tax policies affect the performance of small scale business.

1.3 PURPOSE OF THE STUDY

Purpose of the study was to establish the relationship between taxation and the performance of small scale businesses.

1.4 RESEARCH OBJECTIVES

I. To evaluate the operation of taxation in Uganda.

II. To assess the performance of small scale business in Uganda.

III. To establish the relationship between taxation and performance of small scale businesses.

1.5 RESEACRH QUESTIONS

I. How does taxation operate in Uganda?

II. What is the performance of scale businesses in Uganda?

III. What is the relationship between taxation and small scale businesses?

1.6 SCOPE OF THE STDUY

The study was limited to the effect of taxation on the performance on small scale businesses.

And the report was confined to URA which located Nakawa Kampala District.

1.6.1 GEOGRAPHICAL SCOPE

The geographical scope of the study will be focus in Namuwogo market; Kampala and it concern the small scale businesses around that area.

1.6.2 TIME SCOPE

Time scope of the study will be between one to two months so that all information of the research should be collected and process to make the study complete.

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1.7 SIGNIFICANCE OF THE STDUY

I. The study was to help add additional literature of Kampala International University business school on exist ones.

II. The study had provided a support for promoting future research hence making Uganda a better place for businesses.

III. It is partial fulfillment of requirement for the award of degree in Bachelor of Business Administration of Kampala International University.

1.8 CONCEPTUAL FRAME WORK

The research study contains five chapters explaining different issues concerning taxation on the performance of small scale businesses. Where one is introduction of the study, background, problem statement purpose of the study.

Research objective, research question, scope of the study, and significance of the study, chapter two is about literature review, chapter three covers the research methodology, chapter four is about interpretation and discussion of findings and chapter five covers conclusion and recommendation Positive impacts Better services delivery Good performance of the business.

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┌─────────────────────────────────┐
│ Positive impacts                │
│ Better services delivery        │
│ Good performance of the business│
│ High profitability to the business.│
│                                 │
│                                 │
└─────────────────────────────────┘

INDEPENDENT                    DEPENDENT
VARIABLES                      VARIABLE S

┌─────────────┐          ┌─────────────────────────┐
│ Ta x system │          │ Performance  of  small  scale│
└─────────────┘          │ business.               │
                         └─────────────────────────┘

        ┌─────────────────────────────────┐
        │ Negative impacts                │
        │ -poor  management  of  the  small│
        │ scale business.                 │
        │ -poor planning                  │
        │ -poor services delivery Corruption,│
        │ embezzlement, fraud.            │
        └─────────────────────────────────┘
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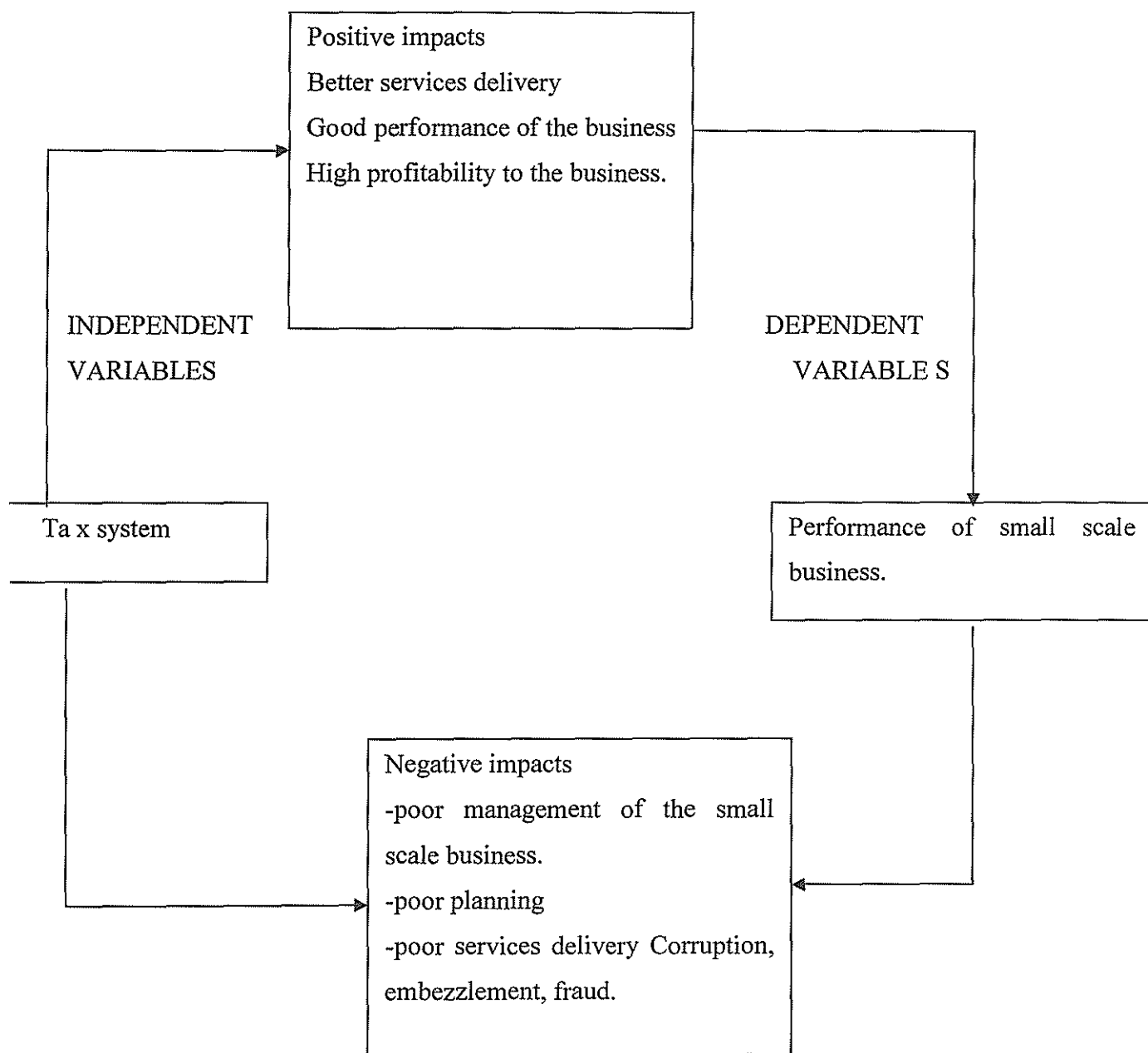
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter looks at the taxation in relation to performance of small scale businesses. It consists of existing literature on taxation by scholars and research studies, form textbooks, journals, newspapers and magazine.

The chapter covers definitions classification of taxes, theories of taxation and business performance, the purpose of taxation and performance, compared and contrasted the information to come up with similarities or differences issues that emerged and the possible relationship.

2.1 DEFINATION OF THE CONCEPT

Tumuhimbise, (2000), defined taxation refers to administration and collection of taxes. In Uganda, it is the responsibility of Uganda Revenue Authority. On the other hand Bhatia, (2002), argued that, taxation is process of tax administration that involves enumeration, assessment, collection and control. In addition, Balunyrwa, (1998), said that taxation is a compulsory levy imposed upon the tax assess who may be individuals, groups of individuals or other legal entities. This agrees with Bahemuka (2001) argument that taxation is based on economic theory, such as the process leakage from the circular flow of income into the public with exception of loans transaction and indirect payment for publicly produced goods and services. Therefore according to Tusubira. (1994). Taxation is a compulsory and non- 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 above, taxation is legally compulsory transfer of money from public to the government mainly as a source of government revenue.

2.1.1 TAX

(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 the law institute the charge. Bhatia (2000) on the other hand argued that tax is a compulsory levy, those who are taxed 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 non-quid-proquo payment.

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

2.1.2 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 to be indirect when the burden falls on another person, rather than the person paying their tax.

Tax based or activity: activity tax on this basis taxes levied on production income are generally direct taxes while those levied on consumption and expenditure are in direct.

The relationship between taxpayer 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 the 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 taxpayer.

However, of 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

Progressive tax; are those where with increasing income or tax bases activity the tax liability not only increase 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 rise as income rise. Where proportional tax is one where the tax liability increases with the increases in income.

REGRESSIVE Vs DIGRESSIVE TAX

Regressive tax is tax whose tax liability within increase in income taxable activity. The burden falls more on the poor than the rich. Most turnover taxes are regressive. While digressive tax is that whose earns pay less or low tax for the extra income earned.

2.1.3 THEORIES OF TAXATION

Hatred for tax by the taxpayers is a well-establish fact world over and is as old as man. Strong statements from taxpayer like: "A tax collector leads 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 said by (Okello).

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,

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 on general want to pluck the goose where the feathers are thickest and there is a minimum amount of squawking.

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Sociopolitical theory

Theory is creation of Adolph Wagner, a German scholar. He asserted that in contrast to the practicability theory, the social and political objective should be the cornerstones in 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 and taking care of. In this regard, a tax system should not be designed to serve the needs of the individual member but should be used to cure the ills of the society in so far as is possible. Wagner was specifically in favors of using taxation for reduction of income inequalities, and so to achieve this objective, he advocated for small income to exempt from taxation.

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 proportion taxation.

Cost of service theory

This theory implies that the citizens are not entitled to any benefits from the state and if they any, they must pay cost thereof. The theory emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The theory can notes a budget policy since it require the state to give up its basic protection and welfare function and embark on receiving the costs of services provided. This would leave neither benefits nor surplus in the economy.

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 principle of justice and equity, and that this equity criterion will be satisfied if the tax burden is apportioned according to the relative ability to The theory of ability to pay is combined with the objective of maximum welfare of the society. The index of paying ability is translated in terms of equal-marginal sacrifice such that society undergoes the least aggregate sacrifice in meeting the tax liability. Therefore the to pay is not an absolute quantity. It is related, indices are available for determine the relative ability to pay of the taxpayer; it could be income, wealth property or consumption expenditure.

The 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 amount of sacrifice irrespective of his income. It should therefore be envisaged that equal sacrifice admits of different interpretation and one tallies with the welfare consideration.

2.1.4 THE PURPOSE OF TAXATION

According to the Uganda Economic Journal. (1973) on taxation and economic development the main purpose of taxation is to reduce the quantity of resources consumed by the private sector. It further shows that in stressing the consumption reducing aspect, by the taxation may be there for other objectives such as to charge the distribution of income, to reduce consumption of particular commodities which may be harmful such as cigarettes and help stabilize the economy. On the other hand Tumuhimbise,(1996) argued that taxation is both important source of government revenue and also important economic tool for government. In addition Balunywa,(1988)said that the failure of the market mechanism for taxation, several scholars have argued that government has to three functions outlined below:

Allocation of function: that is based on the premises that certain goods cannot be efficiently provided by the market. In those circumstance if we leave provision of all

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goods and services to private sector will lead to market failure. Therefore government must step in to provide these goods.

Distributive function: this function 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 abilities differ.

Stabilization function: it involve 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 objective 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 scholars with scholastic materials and drugs for hospital.

Encourage development of local industries and protect against foreign competition with a view to provide 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 income 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 the more competitive in the world market, by reducing or removing tax on exports. (Uganda Revenue Authority, coping with taxes, 2007)..

2.2 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 relationship 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 Druckerjl99O)said that profit is the responsibility of an enterprise to the society that is the first to enterprise in the society to make profit This agrees with Richard,(1 983) argument that profit is excess of revenue over all opportunity costs include those of the capital in nature. For the purpose of the research much emphasis will be put on profit as per Drucker.

Pandy,(1979) defined performance as the process by which a business ensures the achievement of its set objective by using the available resources. These include: maximization 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 strength and weakness of the firm by properly establishing relationship between items of the balance sheet and profit and loss account. Poor performance administration greatly reduces the efficiency of taxpayer thereby reducing their ability to work.

This led to less production hence poor performance, the major obstacles the growth and development of small businesses has been the taxation policies. Which have serious implication on business profits and liquidity position? This is because of the unfair tax rates.

2.2.1 SMALL SCALE BUSINESS (SSB)

Zake, (2005), said that the defined of small scale business is quite broad, ranging from a one person' 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

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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 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 business as a business whose total annual sales turnover doesn't exceed Uganda shillings 50.000.000 million.

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 business is normally near the resident of the owner and worker comes from same location. The provision of capital in small business 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).

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 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 untied state dollars five thousand to fifty thousand dollar. This agrees with Bhatia (2002) argument that small scale enterprises or industry in fixed asset (plant and machinery). In addition Richard, (1993), said that small scale business is small undertaking, characterized by small number people and dependence on small market share. Thus small scale businesses are normally located around markets and trading centers.

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2.2.2 TAXES PAID BY SMALL SCALE BUISNESSES IN UGANDA

Income Tax Act1997 section 3 spells out the taxes paid by business as follows:

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

Individual Income Tax; this is charged on income earn 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 income earned by an individual from all sources except that income which is assessable separately.

Rental income Tax; it is income tax charged on rent earn 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 business whose gross turnover is less than the shillings 50,000,000 million. The income paid by such a person is estimated and varies according to the segment of the gross turnover in which his/ her sales falls for any given year

THE TURNOVER IS BROKEN INT DIFFERENT AMOUNTS WITH THEIR CORRESPONDING RATES AS SHOWN BELOW.

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

Source: Taxes payer Guide (22nd edition).

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TYPES OF TAXES AND SOURCES OF INCOME

TYPES OF TAXES	SOURCES OF INCOME
Corporation tax	Company income
Rental income tax	Rental earned
Individual tax	Income earned
Presumptive tax	Gross turnover

Source: Taxes payer Guide (22nd edition).

2.2.3 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 factor 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 factor for small business and indeed in business development. This may not be the case on the developed countries. Consequently, even if is opportunity to exploit, it may be difficult to realize because of lack of market.

Another aspect is the fragmentation of African market both physically culturally. For example selling in Uganda with over 40 languages becomes nightmare for salesman. Whereas in the development countries, the commodity of culture and language ease the selling process. The level of development itself imposes additional constraint 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 to finance as one of the key constraints to small business growth. This is worsened by the absence of financial market in the developing

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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 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 business end up using a cheap technology which is usually not top of the range. This result into high costs of production and un-competitiveness. For instance small business 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 may not be the case in the developed countries where because of market opportunity and likely success due to environment enabling factors, it is easier to new technology. Beside, 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 economics, 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 few countries especially India. There has been affirmative action to promote small business over a long period. In Uganda the government has only paid a lip service. In fact, the Uganda Investment Authority (UIA) which was set up to promote investment in Uganda was not attractive for the small business. The UJA would only support proposals from companies with more than US $ 50,000 to invest. The development banks in the country did not have programs for small businesses. It is only the non-government organizations and specialized financial institution that have come in to assist small businesses. It is easier for large businesses to get land for industrial development and license to operate the business that the small operate. Large businesses

get easy access to utilities than small businesses. Consequently, there is no enabling environment to promote small operators.

Managerial skills; the managerial skill 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 grow and ages, managerial demands arise. These are in the form of operational managerial requirement like production, sales, and finance and most important is the ability to with them. Some owners have a hunch over these but in the long run they need employ people. Some people believe that entrepreneurship skills are part of managerial skills. While others would wish differ and go beyond that. Entrepreneurship is beyond management and not all mangers are entrepreneurs.

2.2.3 RELATIONSIITP BETWEEN TAXATION AND SMALL SCALE BUISNESS PREFORPMANCE

Tumwine, (2001), the growth and performance of small scale business 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 then in order to survive, traders have been forced to increase the prices of their commodities so as to incorporate the tax elements. But this has left most of them unhappy as the number of customers decrease reduction in the sale and in some case a subsequent closure of the business are unavoidable facts in the same way.

On the other hand (1978) said that, high taxes affect consumption and consequently discourages investment in small scale businesses. High direct taxes will lead to high prices of good 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 taxes are show that government revenues can be realized through fiscal policy mechanism. Has adverse effect on business in form of savings propensity to

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consume. Fiscal policy includes tax policies therefore meaning that, taxation and small scale business performance are related.

In addition Zake (2003) said that high considerably reducing the profit margins of individuals undertaking, and act as a disincentives to further investments. These taxes are threatening the firm's investment 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 has scared 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

REASAERCH METHODOLOGY

3.1 INTRODACTION

This chapter covers the background which data was gathered. It discusses the research design, methods of collecting data, data processing, analysis and presentation as well as limitations to the study and it includes the target/research population and the sample size and sample design and the appendix instrument.

3.2 RESEARCH DESIGN

This study was both analytical and explanatory in nature and it was basically analyze taxation and performance of small scale business. It will be qualitative and quantitative.

3.3 TARGET/RESEARCH POPULATION.

The study population will be 200 shops on the market selected to represent the small scale business around the market in my research, Using sample technique.

3.3.1 SAMPLE SIZE.

The samples were 50 shops out of the 200 shops which is the research population it selected to represent the small scale business around the market. By used the random sample technique the sample was selected.

Table 1: Showing the number and composition of respondents

Category of Respondent	Number of Respondents
Shop owner	20
Small scale business owner	15
Shop keeper	8
Workers within the shops	7
Total	50

3.3.2 THE SAMPLING TECHNIQUES

The researcher employed three sampling techniques for carrying out the research. This will include, quota sampling, multi- stage cluster sampling and purposive judgmental sampling in data collection.

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A. Quota sampling

This shall address the issues of repetitiveness where the matrix describing the characteristics of the largest population will be used to determine what proportion of the population is male and female and for each sex, what proportion falls into the various educational levels.

B. Multi —stage sampling

This sampling technique shall involve two basic steps; listing and sampling of the study population; the list of the primary sampling units will comprise of seven shop owners, six small scale business owner, four shop keeper and three workers within the shop, this sample of those units will be selected and then listed.

C. Purposive sampling

In this sampling technique, the researcher will sample the population basing on the researcher's own knowledge of the population, its elements and the nature of the research designed, especially in the initial design with the questionnaires wishes to select the particular respondents to test the broad applicability of the research questions designed.

3.4 DATA COLLECTION METHODS

The researcher got information from secondary data sources this include literature on taxation and small scale business in journal, text books, and news papers. Magazine, data unpublished research report articles and the internet.

3.5 INSTRUMENTS OF DATA COLLECTION.

The following instruments were applied in data collection and analysis:

3.5.1 Questionnaires.

These were to be advanced by the researcher to get information on facts of how taxes affect the performance of small scale business.

The researcher anticipated that questionnaires were to help to collect data from respondents who had no time to be interviewed within the market and also those who

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may have time. The respondents had to answer or fill in the answers at their own place or free time.

3.5.2 Interview

The researcher carried out interview with the sampled such as shops owner or small scale businesses owners. By get the information that may be relevant for him to draw logical conclusion on which he may base his opinion.

The researcher tried to create a conductive environment for interview by building a report through explanation of the purpose of the study and assurance. The researcher preferred these data collection methods since he hoped that it was to give him room to make clarification on some of the questions through probing for easy understanding and ensured validity and reliability of data.

3.5.3 Observation.

In this method, the researcher used the eye to observe what actually happens on the ground and was taken to record, more so, the researcher was to observe the activities of the correspondents, selling and buying activities of shops and how they carry their business activities. This was done using observation technique such as natural observation.

3.6 Sources of Data.

The researcher used mainly two sources of data to get information on how taxes affect the performance of small scale businesses include the following discuss:

3.6.1 Primary sources.

The researcher involved in face to face contact and conversation with the respondents or interviewing from whom he hopes to get the information pertaining the topic of the study, the researcher was also active in asking questions or give to them questionnaires and the information was to be filled in the respondents on the questionnaire.

3.6.2 Secondary sources

The researcher collected and used data from the previous reports on the study of different text books, Journals, internets, reports from small scale businesses performance among others secondary Literature.

3.7 DATA PROCESSING

The processing of data was done so as to verify the data collection. This is so in order to ensure the completeness and uniformity, editing was done by the researcher which was involved checking the data for error, omissions and gaps. This helped the researcher to detect the errors that may influence the results. Editing also helped the researcher to ensure that every question in the interview guide has an answer and these answers given are accurate and correct.

3.9 DATA ANALYSIS

Under data analysis, both quantitative and qualitative methods used in this statistical and non statistical approach were used in the analysis of the finding.

CHAPTER FOUR

4.0 PRESENTATION OF FINDING, INTERPRETATION AND DISCUSSION OF SUCH FINDINGS.

This section reflects the findings of the study, the related interpretations and discussion on the effect of taxation on the performance of small scale businesses in Uganda using the literature review obtained in pervious chapter in the line with the research objective such as;

(i) To evaluate the operation of taxation in Uganda.

(ii) To assess the performance of small scale business in Uganda.

(iii)To establish the relationship between taxation and performance of small scale businesses.

4.1 Response rate

Out of the 50 questionnaires distributed to respondents, all were returned giving a response rate of 100%.

Table 1: Showing distribution of respondents by gender

Category of Respondents	Frequency	Female	Male	Percentage (%)
Shop owner	20	13	7	20
Small scale business owner	15	7	8	10
Shop keeper	8	5	3	50
Workers within the shops	7	3	4	20
TOTAL	50	28	22	100

Source: Primary Data

From the table above 56% of the respondents were female and 44% were male thus there was no bias on either sex. This implies that majority of the respondents are female who own small scale business and have shops more female works than male.

Table 2: .Shows responses on how the tax system is related to the performance of their small scale businesses.

Sex of respondents	No. of respondents	Percentage (%)
Male	22	40
Female	28	60
Total	50	100

Table 3 show that out of 50 respondents who participated, 22 were males forming the percentage of 40% whereas the female respondents were 28 with the percentage of 60%. The subtotal of the respondents were 50 meanwhile the sub percentage of the respondents was 100%

The above disparity between the figures and the percentages of the female and male respondents could be as a result of gender equality in most of the small scale businesses around the market.

When the researcher consulted those who were not working within the market or they just come as customers, the following responses were obtained.

Table 3: Shows responses on how taxes Systems were related to Performance of the small scale businesses from those who did not working within the market they are just customers.

Item	Tally	No. of respondents	Percentage
Aware	///// ///// ///// ///// /////	25	50
Not aware	///// ///// ///// ///// /////	25	50
Total		50	100

When the respondents were asked about their education levels the following responses were obtained.

Table 4: Showing the education background of respondents

Level of Education	Small scale businesses owners	Shop owners	Shop keepers	Worker within the shop	Frequency	Percentage (%)
O'Level	-	5	10	5	20	40
A'Level	-	-	13	2	15	40
Diploma	5	5	-	-	10	10
Degree	5	-	-	-	5	10
TOTAL	10	10	23	7	50	100

Source: Primary data

From the table above 10% were degree holders, 10% were diploma holders, 40% were 'A' level drop outs and also 40% were O' Level drop outs. This indicates that the majority of the respondents were 'O' level and 'A' level holders have enough skills to carry out their work and they were able to interpret the questionnaires as majority of the population knows how to read and write and more so it showed that the majority of the respondents had knowledge about the tax system since they are educated men and female with some qualifications.

The researcher further consulted the respondents to determine their ages. The researcher found out the following responses.

Table 5: Show the ages of respondents.

Age group(years)	Tally	No. of respondents	Percentage
18-24	//////	10	20
25-30	///// //	20	40
30-45	///// /////	10	20
45 above	///// ///	10	20
Total		50	100

Table 6 Shows that the respondents within the age bracket of 18-24 formed the percentage of 20%, 25-30 formed the percentage of 40%, those between 30-45 years

formed the greatest percentage of 20% whereas those above 45 years formed the percentage of 20% out of the sub percentage of 100.

Table 7: Shows the marital status of respondents

Marital status	Frequency	Percentage (%)
Single	10	20
Married	30	60
Separated	8	16
Divorced	-	0
Widowed	2	4
Total	50	100

Source: Primary data

The table above shows that 20% of the respondents were single, 60% are married, 16% were separated and 4% were widowed and there were no findings on divorced respondents. This shows that most respondents were married which can also be explained by majority middle aged respondents.

4.1.1 Objective one: The operation of Taxation in Uganda.

The research revealed that taxation referred to as process of administering and collecting taxes, it's concerned with public revenue, public expenditure and public debt. It is a process of tax administrating, which involve 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 source of government revenue and even though the general behind taxation in the prevision of public goods and services, they are a non quid-pro-quo payment.

Different scholars in the subject 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 function of 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

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small scale businesses to be called and for it to be able to achieve their objective, they should consider the income act 1997 section three.

The research revealed that in Uganda small scale business pay different taxes is; corporation income tax charged income earned by a person such as accompany. Individual income tax charged on income earn individual, Rental income tax charged on rent earn by individual, presumptive tax charged on small scale businesses whose gross turnover is less than shillings 50,000 million.

The research revealed that the presumption tax is taxed according to their category of annual turnover in which the business income lies. Rental 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 negatively.

4.2 objective two: The performance of small scale businesses in Uganda

The study revealed on the performance of small scale businesses, it was based on profits. The study found out that profit in simple term is the function of revenue and cost. Also the study found out the profit is the responsibility of an enterprise to the society that is the first responsibility of an enterprise in the society is to make profit.

This mean that the performance depend on the level of production, where the level of production is low the profit will be from the operation of the enterprise while where the level of production is high will be increase in profits.

The study found out that different scholars looked at profit is excess of revenue earned over total costs incurred in the process or event of providing goods and services. Hence profit is the responsibility of an enterprise in the society.

The research revealed that Income Tax Act of Uganda section three defined small scale businesses as a business whose total annual sale turnover doesn't exceed Ugandan shillings 50,000,000 million. Also the study found out that small business is based on some general feature as explained in chapter three. Therefore the study found out that most business groupings are based on the investment code Act 1993, under Ugandan Manufacturers Association. The various groups are in the term of the number of people employed the capital investment in United State dollars.

4.3 objective three: the relationship between taxation and performance of small scale businesses

The research revealed that there is a relationship between taxation and small scale business performance 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 businesses are mutually related. The study also found out those Keynesian modes shows that government revenue can be realized through fiscal policy mechanism, fiscal policy include tax policies therefore meaning that , taxation and small scale businesses performance are related. Hence own view taxation and small scale business level is low business pay high taxes and when taxes are high the level of business is low. Therefore low taxes repaid leaving too many incomes for day today running of the enterprise and increasing their performance.

The research 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.

CHAPTER FIVE

CONCLUSIONS AND RCOMMENDATIONS

5.0 INTRODUCTION

This chapter presents conclusion drawn from discussion of findings and are closely related to the purpose and objectives of the study, it also recommendation on the performance of small scale businesses and further research basing on the literature review.

5.1 Summary of findings

The findings in chapters four indicated that taxation has negative effect on the small scale business performance in terms of profits. Taxes charged on small scale businesses 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 business has been undermine.

The findings also revealed that taxation system on small scale businesses aim at increasing tax revenue while maximizing constraints to small scale business survival. Policy regarding tax burden like presumption tax encourage these firms to prepare proper books of accounts, locating taxpayer's 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.

5.2 Conclusions

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

Poor performance of small scale businesses is 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 businesses. Likewise other factors also affecting this variable should be taken into account. Taxation performance remains a major area to be explored by revenue authorizes of various classes of taxes, since improving taxation performance enhances almost all aspects of tax policy, including tax from small scale businesses.

Small scale businesses are those annual gross turnover does not exceed one million Uganda shilling, while large scale businesses are those with capital of more than fifty million Uganda shillings. The small business taxed depending on gross turnover and they pay fixed amount or1% of the annual turnover which is lower while large businesses are taxed at rate of 30 %. Therefore URA tried to avoid business income tax difference by imposing a fixed rate of 30% on businesses regardless of whether it is a small or large business. High direct taxes will be high prices of goods hence a shift in consumption pattern from highly taxation and performances of small scale businesses are mutually related.

5.3 Recommendation

Basing on the work carried out, the researcher recommends the following:

The government through URA should embark on intensive tax education program 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 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 then 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 owner have as far as primary least with this knowledge taxpayers can control their liquidity position. I recommend that the tax that should be imposed on small scale

businesses may be between 20 -30% to enable the small scale businesses to develop and make good profits.

5.4 Areas for further research

- The role presumption tax on performance of small business.

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

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APPENDIX INSTRUMENTS (I)

A. QUESTIONAIRES.

Dear respondent,

As a student of Kampala International University pursuing Bachelor of Business Administration (Banking and Finance option), I am carrying out a research on the topics:

The effects of taxation on the small scale businesses.

Case study: - Small shops on market and small scale business

The purpose of this study is to collect information on the effects of taxation on the small scale businesses.

Your response will be treated with high degree of confidentiality and the information gathered or obtained is strictly for academic purposes.

PERSONAL DATA (QN 1-4).

Please help to tick the most appropriate and fill in the blank spaces where applicable.

1 Age

a) 18-24   ☐   c) 30-45   ☐

b) 25-30   ☐   d) 45-and above   ☐

2. Sex:

a) Male   ☐   b) Female   ☐

3. Marital status

a) Married   ☐   b) Single   ☐

4. Level of education

a) 'O' level   ☐   c) 'A' level   ☐

b) Diploma   ☐   d) Degree   ☐

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RESEARCH QUESTION ONE (Qn 5-7)

5. How do you find the tax system imposes on the small scale business?

a) V. good ☐   c) Fair ☐

b) Good ☐   d) Non ☐

6. Is there any relationship between the taxes and how it affects the performance of the small scale business?

a) Yes ☐   c) Some how ☐

b) No ☐   d) others (specify') ☐

7. How do you determine the efficiency of taxes that collected from your business?

....

....

RESEARCH QUESTION TWO (Qn 8-9)

8. Does the tax system cope up with the technology changes in the world?

a) Yes ☐   b) some how ☐

b) No ☐   d) None ☐

9. Does tax system affect your business performance? If yes, how?

....

....

RESEARCH QUESTION THREE (Qn 10)

11. Which of the following taxes is imposing on your business?

a) Corporation Income Tax   Yes   None

b) Individual Income Tax   Yes   None

c) Rental income Tax   Yes   None

d) Presumptive Tax   Yes   None

RESEARCH QUESTIONS FOUR (11-14)

11. How was the taxpaying system is there any improvement?

a) Past

....

....

....

b) Present

....

....

....

12. What the specific contributions are of taxes on the performance your businesses?

....

....

....

13. How do manage and solve the problems of your business?

....

....

....

14. What is technique do you use to follow up your business activities?

....

....

....

(B) INTERVIEW GUIDES.

1. How do you determine the efficiency of tax systems used in the country?

2. How do you find the tax system used in your country?

3. What relationship is between the tax systems and the performance of you small scale business?

4. What are the general contributions of taxes on the performance of your business activities?

5. Do you think the tax system can help your business to achieve the vision, mission, and set objectives?

6. Are there some problems that have been faced by your business when paying your taxes? What are they?

7. How do manage and solve the problems mentioned above?

8. Give the way forward

APPENDIX (II) TIME FRAME

Time Period	Activity
May to June	Proposal writing
May to June	Data collection
Data Compilation	June to July
Handing in of Dissertation	August

APPENDIX (III)

BUDGET FRAME WORK

PARTICULARS	QUANTITY	UNIT COST	AMOUNT
Stationary			
Pens	3	250/=	7500/=
A flash Disk	1	25.000/=	30,000/=
Rim of Papers	1	10,000/=	10,000/=
Sub Total			47,500/=
Travel and Communication			
Air time cards	-	-	22,000/=
Travels	-	-	50,000/=
Meals	-	-	35,000/=
Sub Total			107,00/=
Data Collection			
Library	6 DAYS	5,000/=	30,000/=
Internet	15 HOURS	1,500/=	22,500/=
Sub Total			52,500/=
Typing and Printing			
Proposal	1 COPY	20,000/=	20,000/=
Research Report	1 COPY	70,000/=	70,000/=
Sub Total			90,000/=
Consultations			
Editing	1 COPY	20,000/=	20,000/=
Miscellaneous	-	36,000/=	36,000/=
Sub Total			56,000/=
Photocopying and Binding			
Research Report (Photocopy)	2 COPIES	6,000/=	12,000/=
Research Report (Binding)	3COPIES	3,000/=	9,000/=
Sub Total			21,000/=
GRAND TOTAL			374,000/=