

**EFFECT OF TAX ON PERFORMANCE OF THE SMALL SCALE BUSINESSES IN  
BUJUMBURA, BURUNDI**

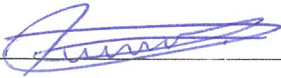
**BY  
RWASHA BRIAN  
1162-05014-08269**

**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND  
MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS  
FOR THE AWARD OF BACHELOR'S DEGREE IN ACCOUNTING  
AND FINANCE OF KAMPALAININTERNATIONAL  
UNIVERSITY**

**SEPTEMBER 2019**

## DECLARATION

I declare that this Dissertation is my original work and has not been submitted for any other award of a degree and published at any institution of higher learning.

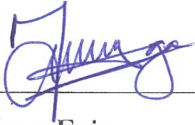
  
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Date 05<sup>th</sup> Sept 2019

**Rwasha Brian**

## APPROVAL

I declare that this dissertation has been done by the student under my supervision and is ready for submission.



Dr. Mabonga Eric

Date 5<sup>th</sup> 09/2019

## **DEDICATION**

I dedicate this dissertation to my father, mother, brothers and sisters.

## **ACKNOWLEDGEMENT**

I am very grateful to the Almighty God for the good health, life and wisdom that He gave me throughout my academic struggles at Kampala International University.

Secondly, I thank my parents for their support both emotionally and financially. Without their efforts, it would have been difficult to reach this stage.

In the same manner, I am grateful to my supportive supervisor, Dr. Mobonga Eric for his guidance and academic advice that saw this study where it is now.

In conclusion, my great indebtedness is extended to all my friends who assisted me or helped me in one way or the other. God bless you richly.

## **LIST OF ACRONYMS**

|      |  |
|------|--|
| GDP  | Gross Domestic Product                                 |
| OECD | Organization for Economic Co-operation and Development |
| SAS  | Self-assessment system                                 |
| UK   | United Kingdom   |
| US   | United States  |

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## ABSTRACT

The study investigated the effect of taxes on performance of small scale businesses in Bujumbura. The following objectives guided the study: i) to find out the effect of the tax mode of assessment on the performance of small scale businesses in Bujumbura; ii) to find out the effect of the tax mode of collection on the performance of small scale business in Bujumbura; and iii) to find out the effect of the legal tax penalties on the performance of small scale business in Bujumbura. The study used cross-sectional research design. The target population was 160 business owners and managers. The sample was 114 respondents though only 100 respondents successfully participated. The main research instrument was questionnaires and data was analyzed using frequency and percentages, mean and linear regression analysis. The study revealed that tax mode of assessment significantly affect performance of small scale businesses ( $R^2=0.065$ ,  $p=0.011$ ). In addition, the study revealed that tax mode of collection significantly affect performance of small scale businesses ( $R^2=0.476$ ,  $p=0.000$ ). Lastly, the study revealed that legal tax penalties significantly affect performance of small scale businesses ( $R^2=0.194$ ,  $p=0.000$ ). The study made the following conclusions: tax mode of assessment significantly affects the performance of small scale businesses in Bujumbura; tax mode of collection significantly affects the performance of small scale businesses in Bujumbura; legal tax penalties significantly affect the performance of small scale businesses. The study made the following recommendations: small scale business owners should use accounting software in the assessment and management of their business tax liabilities in order to minimize the time and energy used in the tax management and therefore enables the use of those resources to increase the performance of their business. Furthermore, tax officers should increase their visits to business premises so as to provide a better understanding of tax obligations and tax procedures, an occasion to answer questions that small scale businesses owners may have and, in that way, help to increase the awareness of small scale businesses owners about their tax liabilities which decreases tax penalties and therefore positively affect the small scale businesses performance. Lastly, the tax body of Burundi should review the rate of tax interest on unpaid tax liability in order to reduce the negative effect of taxes obligations and penalties on small scale businesses performance.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter comprises of the background of the study, statement of the problem, purpose of the study, objectives of the study, research question, its significance, study scope and conceptual frame work.

#### **1.1 Background**

Tax is generally referred to as a compulsory levy imposed by government upon assesses of various categories and taxation is a compulsory and non-refundable contribution imposed by government for public purposes (Manasseh, 2000). Small scale businesses have always been considered an important force for economic development and industrialization in smaller economies (Aryeetey & Ohene, 2004 and Oludele & Emilie, 2012). These small scale businesses have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. According to the 2005 World Development Report, the creating of “sustainable” jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty.

Small scale businesses are mostly private enterprises and they face difficulties when dealing with the government in general and the tax administration in particular mostly the developing countries. Many of the difficulties with the tax authorities may be deemed as the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes. However, it would be rare indeed to not observe complaints about the complication and/or ambiguity of the tax laws as well as high tax rates (Baurer, 2005).

If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affecting the final consumer due to the shifting ability of tax. According to a study report by Mnewa and Maliti (2008), the majority of small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies. This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the small enterprises.

Small scale businesses are considered the backbone of economic growth in all countries. Smaller enterprises represent over 90% of private businesses and they contribute to more than 50% of employment and GDP in most African countries (UNIDO, 2009).

In line with the various statements noted above, it is reasonable to state that small scale businesses therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. Despite the contribution that taxation can make towards the Gross Domestic Product (GDP) of a country in general, much attention is also needed to the side effects of tax on the performance of small scale businesses.

Small scale businesses play a crucial role in driving economic growth in both developing and developed countries. As highlighted previously, as a group, they do not only generate more new jobs than large firms or macro-enterprises but also introduce innovative ideas, products, and business methods. However, literature has not contributed much in exploring the effect of tax on the financial performance of small scale businesses in developing countries (Baurer, 2005).

This situation raises a serious concern about the issue of aligning the tax system to the specific requirements of a particular country's growth need, as it has to balance both short-term and long-term impact of the policy. This also triggers the need for an in-depth study of how tax payments affect small scale businesses performances. In addition, most of the literature and research on the subject matter are mostly foreign and western in nature where the dynamics of small scale businesses activities are different from that of developing countries like Burundi.

This study therefore seeks to examine the effect of the tax on the performance of small scale businesses in Burundi, focusing on those in Bujumbura.

## **1.2 Statement of the problem**

Taxes are raised by the government to generate revenue used to provide services to the public such as; Health centers, telecommunication, roads, schools and electricity and this have helped to improve on the performance of small scale businesses. Despite the services provided, the performance of small scale businesses in Bujumbura is still poor. This could be due to many reasons including the mode of assessment of taxes, the mode of collection of taxes or legal tax

penalties. This prompted the researcher to investigate more about the effect of taxes on performance of small scale business enterprises.

### **1.3 Purpose of the Study**

The purpose of the study was to evaluate the effect of taxes on performance of small scale businesses in Bujumbura.

### **1.4 Objectives of the Study**

- i. To find out the effect of the tax mode of assessment on the performance of small scale businesses in Bujumbura.
- ii. To find out the effect of the tax mode of collection on the performance of small scale business in Bujumbura.
- iii. To find out the effect of the legal tax penalties on the performance of small scale business in Bujumbura.

### **1.5 Research Questions**

- i. Does tax mode of assessment have any effect on the performance of small scale business in Bujumbura?
- ii. Does tax mode of collection have any effect on the performance of small scale business in Bujumbura?
- iii. Do legal tax penalties have any impact on the performance of small scale business in Bujumbura?

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

#### **1.6.1 Subject Scope**

The study covered small scale businesses in Bujumbura Town. Specifically, the study investigated the performance of small scale businesses and the relationship between the tax mode of assessment, mode of collection and tax penalties and the performance of the small scale businesses.

#### **1.6.2 Time scope**

The study was done a period of six months from March 2019 to August 2019.

### 1.6.3 Geographical scope

The study was carried out in Bujumbura, capital city of Burundi.

Burundi is a country situated in the southeastern region of Africa. The country's southwestern most border is situated along Lake Tanganyika. Burundi shares borders with Rwanda and Tanzania as well.

### 1.7 Significance of the study

The findings of this study are expected to be of importance to the various stakeholders including scholars and researchers, the tax authority and government and future academicians.

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

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

To future academicians especially of Kampala International University, the study will help in gaining insight about taxes and their effect on performance of small scale businesses.

### 1.8 Definition of some key terms

**Tax:** refers to a compulsory levy imposed by the government upon the assessment of various categories.

**Small scale business:** refers to a business which has an annual turnover equal to or less than Bif 50,000,000(Tax Procedures, Article 126).

**Performance of a small scale business:** refers to the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organization include; survival, profit making and expansion.

**Tax mode of assessment:** refers to the process of ascertaining the amount of tax to be levied on a person/business according to his/its income.

**Tax mode of collection:** refers to the methods used to collect the amount of tax to be levied on a person/business according to his/its income.

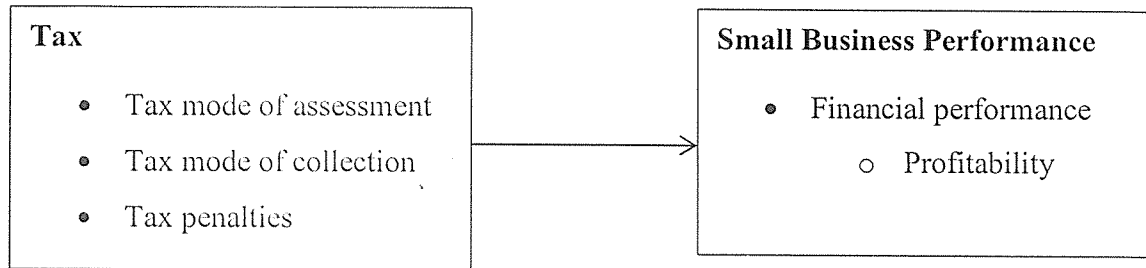


**Tax penalty:** refers to a penalty enacted on an individual for not paying enough of his or her total estimated tax and withholding. If an individual has an underpayment of estimated tax, they may be required to pay a penalty.

### 1.9 Conceptual Framework

#### Independent Variable

#### Dependent Variable



Source: Kasipillai (2010), and Jeff and Hijattulah (2008)

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter looks at taxation and its effect on performance of small scale business in Bujumbura, Burundi. It consists of existing literature on taxation by different scholars/research studies. It examines effects on small scale businesses of tax mode of assessment, tax collection mode and tax penalties.

The chapter starts by studying the relationship between tax mode of assessment and small scale businesses, it then studies the relationship between tax mode of collection and small scale businesses and finally it ends up by studying the relationship between tax penalties and small scale businesses.

#### **2.1 Tax mode of assessment and Small scale businesses**

##### **2.1.1 Tax mode of assessment**

According to the Income Tax Law 2013, income tax assessment of small scale businesses is done using SAS (self-assessment system). Self-assessment system is an assessment procedure based on the assumption that all information provided by the tax payer is correct and need not be checked by the revenue officers according to (Kasipillai, 2010). Self-assessment is a tool for revenue collection based on trust. One was of the view that the SAS (Self-assessment system) creates a partnership between tax payer and the authority where the authority's job is to check, for control purposes, on errors on completion of the return.

On revenue collection scholars like Osman (2011) believe that this system simplifies tax collection and increases the compliance levels. Wong (1999) stated that self-assessment was introduced for several reasons to encourage taxpayers to abide by the taxation voluntarily, to ensure efficient usage of tax administrators cost and resources, to ensure consistent performance in all assessment branches and to improve and increase tax collection. According to Abdul (1998), self-assessment system is introduced to achieve three main targets which are to reduce tax collection costs, to enhance tax collection and reduce uncollectable taxes, and to increase the rate of taxpayers performing their tax obligations

An active self-assessment system requires certain conditions to be fully met which are stressed out by Mulugeta (2016) as the tax knowledge of the taxpayers, simplicity of the tax system, effective enforcement of the tax laws and penalties, good services to tax payers, simple filling procedures. Osman (2011) believes that the most important aspect that needs to be considered for self- assessment to be effective is something which is of social moral being honesty. In addition Osman (2011) stated that, the individual knows the income they make and the payment due to the authority hence, the payment of the full liability heavily relies on the faithfulness of the taxpayer and the tax payer's awareness of the consequences of nontax compliance.

## **2.2 Effect of tax mode of assessment on small scale businesses performance**

A number of studies had shown that record keeping and documentation under a SAS have a huge effect on performance of small scale businesses because they lead to increase of tax compliance costs ( e.g. payment of external accountants) and sometimes to payment of penalty (in case of failure to conform to SAS requirement). More than 28 years ago, Hanefah and Al-Mureshi (1991) observed that the predominant services provided by accounting firms to small scale business clients are book-keeping and taxation. The lack of proper records led small businesses to fail to comply with business taxation requirements (Abdul-Jabbar, 1996). On the contrary, Hanefah and Al-Mureshi (1991) hypothesized that the small scale businesses may not have as much problem in this area, but to what extent this remains true in the SAS (self-assessment system) environment is not known.

Studies had been conducted which included self-employed taxpayers (Kasipillai et al., 1999, Mohd-Rizal Palil, 2005, Ramasamy et al., 2003), and small scale businesses (Hanefah and Al-Mureshi, 1991). Overall, these studies show that the issues relating to book-keeping and documentation for tax purposes are still relevant. Even a salary earner with a simple tax situation may have difficulties (Chen et al., 2005, Palil, 2005), and particularly self-employed business persons (small business) need to consider obtaining external advice.

Hanefah et al., (2001) observed that under SAS, business tax system appears to be becoming increasingly more complex. In this case, the trouble-free way to minimize such small scale businesses tax compliance problems is by outsourcing to tax professionals, but this generally increases tax compliance costs. Chittenden et al., (2003, p. 110) in their review of the tax

The tax gap represents the difference between the amount which was to be collected if there was one hundred percent (100%) compliance and the actual amount collected (James & Alley, 2014). In a research conducted by International Monetary Fund (2013), in the United Kingdom (developed country) 14% results from the tax gap of income tax from small scale businesses.

### **2.3 Tax mode of collection and its effect on small scale businesses**

#### **2.3 Tax mode of collection**

According to Jeff and Hijattulah (2008), there are three important types of tax collection methods: cadastral, at the source (before the receipt of the income) and through self-assessment (at the declaration of the income). The cadastre method implies the use of the cadastre. The cadastre is a register of all the typical objects (land, real estate) classified according to physical features and where the average profitability of the object is determined.

Taxation at the source is calculated and deducted at the accounting unit of the company, which pays the income of the taxation subject. In this way is deducted the tax from wages and salaries. Tax collection upon self-assessment represents the deduction of a part of the income after its receipt and implies that the taxpayer submits to the taxation authorities a self-assessment, i.e. an official statement about the income received.

According to Barr et al., (1997), under self-assessment system the primary function of tax collection mode is the logical base for income tax operations such as calculation of total income, tax exemption income, taxable income and taxes to be paid; followed by filling an income tax return form. This primary function is a taxpayer's responsibility. The secondary function, executed by the revenue officers, is more inclined towards verifying and checking the income tax returns. This is also known as tax auditing.

#### **2.4 Effect of tax mode of collection on small scale businesses performance**

According to Kasipillai (2005), self-assessment system involves a substantial shift of responsibility on to taxpayers in terms of their compliance obligations with tax professionals expected to play a significant role in providing services to taxpayers in complying with the tax laws. Thus, compliance costs are expected to increase with the introduction of self-assessment system in the tax system.

International experiences often indicate the difficulties faced by SMEs in managing government laws and regulations (Prafula, et al., 1998), particularly in maintaining proper records for management and taxation purposes (Evans et al., 2005). The issues facing small businesses in relation to regulatory costs are worldwide phenomena and almost identical in the US, UK, Australia and New Zealand. These include a lack of understanding of the regulatory requirements, frequent changes in regulations and high fixed costs (Chittenden et al., 2003).

Tax collection upon self-assessment increases tax compliance costs for Businesses incur costs to comply with tax requirements, which are additional to their tax liability. According to Hanefah and Al-Mureshi (1991), the predominant services provided by accounting firms to small scale business clients are book-keeping and taxation. Abdul-Jabbar (1996) explained that by the fact that the lack of proper records led small scale businesses to fail to comply with business taxation requirements.

## **2.5 Tax fines penalties and small scale businesses**

### **2.5.1 Tax penalties role in small scale businesses**

Taxation of small scale businesses poses different challenges from larger businesses. There are several reasons why the size and structure of businesses matter in tax compliance. Small scale businesses, in most cases sole proprietors or owner-operated incorporated companies, may lack the capacity properly to fulfill their tax obligations, even more so if these are onerous (Evans et al., 2005; Engstrom et al., 2006). Not many small entrepreneurs can or want to afford professional tax services and, instead, they rely on themselves. However, the low awareness of tax obligations<sup>1</sup>, coupled with relatively slower adjustment to tax law changes, commonly leads to mistakes and delays in tax calculations, reporting and payment (McKerchar, 1995; Coleman and Freeman, 1997).

The vulnerability of small scale businesses to changes in market conditions further increases the risk of involuntary non-compliance. Any exposure to trade shocks (e.g. a temporary ban on exports) or backlog of payments for supplied goods and services (e.g. delays in payments by a general contractor to its subcontractors) may easily result in a temporary cash flow-insolvency (Kitching, 2011; Ogawa et al., 2012). Since small scale businesses, unlike large companies, have also limited options in securing additional funding, e.g. accessing bank credit, they may be

unable to pay their taxes promptly (Ayadi and Gadi, 2013; Darvas, 2013; ECB, 2013; Ozturk and Mrkaic, 2014).

The risk of voluntary non-compliance is also higher in the case of small scale businesses (Cowell, 2003; Slemrod, 2004; Crocker and Slemrod, 2005). Many small scale businesses, even if incorporated, are managed by the owners. Unlike professional managers or accountants in large companies, they do business using their own capital and have different interests in its use. Their personal risk-aversion may be lower as any gains arising from tax evasion directly accrue to business manager-owners. For this reason they are more sensitive to changes in the financial situation, unfair treatment by tax administration or simply tempted by existing opportunities. Unquestionably, there are more opportunities for small businesses to be non-compliant than for larger ones – they can use cash transactions, disguise their private consumption as business inputs, or hide actual wage payments (Cowell, 2003; Engstrom et al., 2006). By doing so they manipulate their sales, margins, profits, and even taxable wages paid to their employees. More importantly, it is easier for them not to be formalized at all. Specific tax concessions available for small businesses offer further avenues for tax abuse, e.g. hiding below the eligibility threshold in a presumptive tax (OECD, 2009).

## **2.6 Effect of tax penalties on small scale businesses performance**

According to Kasipillai and Abdul Jabbar (2006), tax non-compliance, which is the source of tax penalties, may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date. Noncompliance happens from tax payer carelessness i.e. forgetting to pay their tax, human error in calculating their taxes and even more critical is the lack of knowledge and information about taxes. In the other end, tax fraud or tax avoidance is a type of noncompliance done intentionally by the tax payer (Kasipillai & Shamugam 1997)

Lewis et al., (2013) found no support for the deterring effects of fines and penalties on small scale businesses performance since it was weak. It is supported by Osman (2011) that taxpayers make calculations of the monetary consequences of different compliant alternatives such as whether or not to evade tax, whether to pay taxes on time or to wait a bit the probability of detection and consequences of their actions and they choose the alternative which maximizes

their expectation after tax return. Hendy (2013) argues that costs associated with consultation of tax consultants and tax lawyers are cheaper than payment of non-compliance fines and penalties. He further explained that the costs of non-compliance are higher than the cost of compliance.

Hendy (2013) went on to say that effective corporations at all times view tax noncompliance consequences such as tax fines interests and penalties as avoidable expenditures to their industries and for that reason they put in place arrangements to make sure that they act in accordance with the tax requirement of the nation. For example, Bajwa (2013) reveals that, in Zimbabwe, the submission of late tax returns to Zimra will result in the companies being fined with a penalty of \$30 per day they are not submitted. It can be perceived that this fine is a material cost and failure to submit tax liability on time also attracts interest in addition to the principal amount and this increases the costs incurred in a business, thereby reducing profitability, hence making taxpayers to comply. According to Kicher (2013), taxpayers always work hard to increase their benefit through consideration of the threat that they may be discovered and be reprimanded due to non-compliance activities pertaining to tax requirements.

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter covers the background against which data was gathered. It discusses the research design, study population, sampling, and study variables, sources of data, data collection methods and instruments, data processing, analysis and presentation and limitations of the study.

#### 3.1 Research Design

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

#### 3.2 Study Target Population

The study comprised Managers/owners and employees of 160 small-scale businesses (SSBs) in Bujumbura, Burundi. Thus the target population was 160 respondents.

#### 3.3 Sample Size

The sample size was determined using Slovene's formula:

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

Where N=target population, n=sample size, and  $\alpha=0.05$  level of significance

$$n = \frac{160}{1 + 160(0.05)^2}$$

$$n = \frac{160}{1 + 0.4}$$

$$n = \frac{160}{1.4}$$

$$n = 114$$



Therefore, the sample size of this study was 114 respondents comprising of managers/owners of small scale businesses.

### **3.4 Sampling Technique**

The study mainly used two sampling techniques. Stratified random sampling was used in that Bujumbura was divided into two strata of West and East. Each stratum was represented in a zone. The researcher chose the stratum with majority of small scale businesses. Simple random sampling was then used to select 114 small scale businesses. Simple random sampling was used to avoid any biasness in the selection process.

### **3.5 Source of Data**

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

### **3.6 Data Collection Instruments**

#### **3.6.1 Questionnaires**

The questionnaire was used in collection of data from respondents (owners of small scale businesses). The questionnaires consisted of both open and close ended questions administered to respondents of Bujumbura. The questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the information had to be collected from a large sample in a short period of time yet the respondents could read and write (Sekaran, 2003).

### **3.7 Data Analysis**

Data collected was checked for completeness, categorized and coded and entered into a computer where it will be summarized into frequency tables. The data was analyzed automatically using SPSS version 22.0. Frequency and percentage tables were used to determine the profile of the respondents. Descriptive statistics such as mean was used to determine the central tendency of

tax and performance variables. Regression analysis was used to determine the effect of tax mode of assessment, tax mode of collection, and tax penalties on performance.

### **3.8 Ethical Considerations**

Ethics refers to rules of conduct and refers to the researcher's conduct throughout the research process. According to Mugenda and Mugenda (2003), researchers are people who are concerned about other peoples' quality of life. They must, therefore, be people of integrity who would not take research for personal gain or research that had negative effect on others. There are various ethical issues that a researcher practiced when undertaking research such as confidentiality and privacy, anonymity and fraud among many others. Involvement of human beings either directly or indirectly in almost all research gave rise to ethical issues.

Hence, the researcher assured individuals involved of confidentiality. Considering the ethical values, the participation of employees was confidential and voluntary. There were no hard and fast rules to participate in the research process.

Questionnaires were distributed among business owners in Bujumbura who wish to fill them up. Since the questionnaires were not contain any questions regarding full names or any identification, the responses were confidential.

### **3.9 Anticipated Limitations of the Study**

The major limitations of the study may be as follows:

Some of the respondents may be very senior and busy people, hence getting an appointment with them were very hard. The researcher however will make sure that he meets them at their opportune time.

Some of respondents may refuse to provide data about their businesses because they want to keep them confidential, the researcher will assure individuals involved of confidentiality and since the questionnaires will not contain any questions regarding full names or any identification, the responses will be confidential.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.0 Introduction**

This chapter includes the analysis of the data collected and their interpretations by each objective. However, the chapter first presents the response rate and the demographic characteristics of the respondents.

#### **4.1 Descriptive Statistics of the Study Variables**

The study variables included tax and performance. Descriptive statistics such as frequency, percentage and mean have been used to give a better understanding of the variables. On a range of 5-1, the following abbreviations were adopted: Strongly Agree (SA), Agree (A), Not Sure (NS), Disagree (D), and Strongly Disagree (SD). The following tables give the summary of the findings.

**Table 4.1: Tax**

| <b>Tax</b>   | <b>SD (%)</b> | <b>D (%)</b> | <b>DN (%)</b> | <b>A (%)</b> | <b>SA (%)</b> | <b>Mean</b> |
|--|---------------|--------------|---------------|--------------|---------------|-------------|
| <b>Mode of Assessment</b>  |               |              |               |              |               |             |
| I assess my business income tax myself   | 21(21)        | 5(5)         | 2(2)          | 40(40)       | 32(32)        | 3.57        |
| I use accounting software to assess my business income tax                               | 35(35)        | 32(32)       | 0(0)          | 27(27)       | 6(6)          | 2.37        |
| The tax office provide clear, suitable and sufficient information about tax assessment   | 8(8)          | 19(19)       | 22(22)        | 39(39)       | 12(12)        | 3.28        |
| The tax deductions included in the income tax act are sufficient and useful.             | 35(35)        | 27(27)       | 18(18)        | 14(14)       | 6(6)          | 2.29        |
| My business has already received some of the tax benefits offered in the income tax act. | 58(58)        | 22(22)       | 11(11)        | 7(7)         | 2(2)          | 1.73        |
| <b>Average mean</b>  |               |              |               |              |               | <b>2.65</b> |
| <b>Mode of Collection</b>  |               |              |               |              |               |             |
| I voluntarily pay my business income tax through the bank.                               | 2(2)          | 7(7)         | 4(4)          | 37(37)       | 50(50)        | 4.26        |
| The tax office directly deducts income tax from the business's bank account.             | 83(83)        | 14(14)       | 3(14)         | 0(0)         | 0(0)          | 1.20        |
| I pay my business income tax liability in installments.                                  | 38(38)        | 15(15)       | 7(7)          | 13(13)       | 27(27)        | 2.76        |
| I usually receive letters from tax office reminding me my tax liability.                 | 19(19)        | 11(11)       | 23(23)        | 30(30)       | 17(17)        | 3.15        |
| I usually get a visit of a tax officer.  | 28(28)        | 30(30)       | 3(3)          | 27(27)       | 12(12)        | 2.65        |
| There is a pending case between my business and the tax office before court.             | 56(56)        | 29(29)       | 2(2)          | 8(8)         | 5(5)          | 1.77        |
| <b>Average mean</b>  |               |              |               |              |               | <b>2.63</b> |
| <b>Tax penalties</b>   |               |              |               |              |               |             |
| I sometimes pay non- compliance penalties.   | 9(9)          | 18(18)       | 13(13)        | 14(14)       | 46(46)        | 3.70        |
| The rate of tax interest on unpaid tax liability is high.                                | 21(12)        | 17(17)       | 19(19)        | 16(16)       | 27(27)        | 3.11        |
| Some of my businesses goods have already been seized by the tax office as tax penalties. | 52(52)        | 34(34)       | 11(11)        | 3(3)         | 0(0)          | 1.65        |
| I have already received a tax penalty relief.  | 45(45)        | 26(26)       | 27(27)        | 0(0)         | 2(2)          | 1.88        |
| I consider some tax penalties so high and non-proportional to the offence                | 17(17)        | 8(8)         | 18(18)        | 22(22)       | 35(35)        | 3.50        |

|  |        |        |        |      |        |             |
|--|--------|--------|--------|------|--------|-------------|
| charged.                                       |        |        |        |      |        |             |
| I have already appealed against a tax penalty. | 35(35) | 22(22) | 12(12) | 7(7) | 24(24) | 2.63        |
| <b>Average mean</b>                            |        |        |        |      |        | <b>2.75</b> |

**Source: primary data, 2019**

The results presented in table 4.1 revealed that majority (40%) of the respondents agreed that they assess their business income tax themselves (mean=3.57). Similarly (39%) of the respondents agreed that the tax office provide clear, suitable and sufficient information about tax assessment (mean=3.28). However, (58%) of the respondents strongly disagreed that their businesses have already received some of the tax benefits offered in the income tax act (mean=1.73). Additionally, (35%) of the respondents strongly disagreed that they use accounting software to assess their business income tax (mean=2.37). Furthermore, (35%) of the respondents strongly disagreed that the tax deductions included in the income tax act are sufficient and useful (mean=2.29). The above findings imply that the mode of assessment of small scale businesses is not fair to the business owners because they do not receive tax benefits, they do not use accounting software neither do they consent that the deductions included in the law is being done according to the way it is supposed to be.

In regard to mode of tax collection, majority (50%) of the respondents strongly agreed that they voluntarily pay their business income tax through the bank (mean=4.26). Additionally (30%) of the respondents agreed that they usually receive letters from tax office reminding me my tax liability (mean=3.15). However, (83%) of the respondents strongly disagreed that the tax office directly deducts income tax from the business's bank account (mean=1.20). Other respondents (56%) also strongly disagreed that there is a pending case between my business and the tax office before court (mean=1.77). Likewise, (38%) of the respondents disagreed that they pay their business income tax liability in installments (mean=2.76). Lastly, 28% of the respondents strongly disagreed that they usually get a visit of a tax officer (mean=2.65). This implies that the mode of tax collection is voluntary payment in the bank, reminding of tax liability from tax officers, and fall payment of taxes.

In regard to tax penalties, the study revealed that majority (46%) of the respondents strongly agreed that they sometimes pay non-compliance penalties (mean=3.70). Furthermore, (35%) of the respondents strongly agreed that they consider some tax penalties so high and non-proportional to the offence charged (mean=3.50). Similarly, (27%) of the respondents agreed that the rate of tax interest on unpaid tax liability is high (mean=3.11). However, (52%) of the respondents strongly disagreed that some of their business goods have already been seized by the tax office as tax penalties (mean=1.65). Additionally, (45%) of the respondents agreed that they have already received a tax penalty relief (mean=1.88). Likewise (35%) of the respondents strongly disagreed that they have already appealed against a tax penalty (mean=2.63). The above findings imply that the most common tax penalties include: non-compliance penalties, high tax rates, and high interest on unpaid tax liability.

**Table 4.2: Performance of Small Scale Business**

| Performance of Small Scale Business  | SD (%) | D (%)  | DN (%) | A (%)  | SA (%) | Mean        |
|--|--------|--------|--------|--------|--------|-------------|
| <b>Profitability</b>   |        |        |        |        |        |             |
| This business has been performing well in terms of profit in the last 3 years.       | 6(6)   | 17(17) | 20(20) | 31(31) | 26(26) | 3.54        |
| Losses in your business are always minimal.  | 17(17) | 19(19) | 19(19) | 24(24) | 21(21) | 3.13        |
| Your business always record increase in sales.                                       | 23(23) | 31(31) | 21(21) | 16(16) | 9(9)   | 2.57        |
| Financial statements of this business always reflect profits for the financial year. | 17(17) | 23(23) | 9(9)   | 32(32) | 19(19) | 3.13        |
| Low operational costs have favored your business.                                    | 8(8)   | 10     | 39(39) | 23(23) | 20(20) | 3.37        |
| The quality of goods sold by small scale business affect their profits.              | 2(2)   | 5(5)   | 13(13) | 40(40) | 40(40) | 4.11        |
| <b>Average mean</b>  |        |        |        |        |        | <b>3.31</b> |

**Source:** primary data, 2019

The results presented in table 4.2 revealed that majority (40%) of the respondents agreed that the quality of goods sold by small scale business affect their profits (mean=4.11). In addition, (32%) of the respondents agreed financial statements of their businesses always reflect profits for the

financial year (mean=3.13). Likewise, (31%) of the respondents agreed that their businesses have been performing well in terms of profit in the last 3 years (mean=3.54). Similarly, (24%) of respondents agreed that losses in their business are always minimal (mean=3.13). However, 39% of the respondents were not sure that low operational costs have favored their businesses (mean=3.37). On the other hand, (31%) of the respondents disagreed that their businesses always record increase in sales. The above findings imply that majority of the small scale businesses in Bujumbura have been performing well in their profits and sales.

#### 4.2 The Effect of the Tax Mode of Assessment on the Performance of Small Scale Businesses in Bujumbura

The first objective of this study was to find out the effect of the tax mode of assessment on the performance of small scale businesses in Bujumbura. Table 4.3 gives the summary of the findings.

**Table 4.3: The Effect of the Tax Mode of Assessment on the Performance of Small Scale Businesses in Bujumbura**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1     | .254 <sup>a</sup> | .065     | .055              | .50726                     | .065              | 6.782    | 1   | 98  | .011          |

a. Dependent Variable: Performance

Table 4.3 revealed that tax mode of assessment significantly affect performance of small scale businesses by a variance of 6.5% ( $R^2=0.065$ ,  $p=0.011$ ). This implies that if business owners are left to assess their own tax, or use accounting software for assessment, or use the clear tax information given by the tax office, then it is most likely going to affect their business performance positively.

### 4.3 The Effect of the Tax Mode of Collection on the Performance of Small Scale Business in Bujumbura

The second objective of this study was to find out the effect of the tax mode of collection on the performance of small scale business in Bujumbura. Table 4.4 gives the summary of the findings.

**Table 4.4: The Effect of the Tax Mode of Collection on the Performance of Small Scale Business in Bujumbura**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1     | .690 <sup>a</sup> | .476     | .470              | .37975                     | .476              | 88.965   | 1   | 98  | .000          |

a. Dependent Variable: Performance

Table 4.4 revealed that tax mode of collection significantly affect performance of small scale businesses by a variance of 47.6% ( $R^2=0.476$ ,  $p=0.000$ ). This implies that if the mode of tax collection is voluntary payment in the bank, reminding of tax liability from tax officers, and fall payment of taxes, then it is most likely going to affect their business performance positively.

### 4.4 The Effect of the Legal Tax Penalties on the Performance of Small Scale Business in Bujumbura

The third objective of this study was to find out the effect of the legal tax penalties on the performance of small scale business in Bujumbura. Table 4.5 gives the summary of the findings.

**Table 4.5: The Effect of the Legal Tax Penalties on the Performance of Small Scale Business in Bujumbura**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
|       |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1     | .440 <sup>a</sup> | .194     | .186              | .47093                     | .194              | 23.572   | 1   | 98  | .000          |

a. Dependent Variable: Performance

Table 4.5 revealed that legal tax penalties significantly affect performance of small scale businesses by a variance of 19.4% ( $R^2=0.194$ ,  $p=0.000$ ). This implies that if the legal penalties



are high tax rates and high interest on unpaid tax liability, then it is most likely going to affect the profits of the business and overall performance.

## **CHAPTER FIVE**

### **DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the discussion of the study guided by the study objectives. The discussion of this study findings were done by reviewing related literature, and comparing and contrasting with other previous studies. The study was later concluded and appropriate recommendations accruing from the findings were made.

#### **5.1 Discussion of the Findings**

##### **5.1.1 The Effect of the Tax Mode of Assessment on the Performance of Small Scale Businesses in Bujumbura**

The first objective of this study was to find out the effect of the tax mode of assessment on the performance of small scale businesses in Bujumbura. The study revealed that tax mode of assessment significantly affects performance of small scale businesses. This was attributed to the fact that the nature of information provided by the tax office in order to help business owner in assessing taxes was clear and sufficient but needed an improvement. However, it was revealed that most small scale business owners were not convinced by the sufficiency and usefulness of tax deduction. Furthermore, there were indications that majority of small scale businesses owners did not enjoy tax benefits offered by the income tax although they could help to save some money and increase small scale businesses performance.

This study agrees with several other studies such as Kasipillai et al., (1999), Mohd-Rizal et al., (2005), Ramasamy et al., (2003), Hanefah and Al-Mureshi (1991) who provided similar findings in regard to how the mode of tax assessment could affect the performance of small scale businesses. A case in question is when Ramasamy et al., (2003), Hanefah and Al-Mureshi (1991) found that self-assessment (SAS) affect the performance of small scale businesses since it has a lot of complication. The authors advised that small scale businesses should make use of tax experts to help in the assessment of taxes due to avoid miss-guided tax calculation.

### **5.1.2 The Effect of the Tax Mode of Collection on the Performance of Small Scale Business in Bujumbura**

The second objective of this study was to find out the effect of the tax mode of collection on the performance of small scale business in Bujumbura. The study revealed that tax mode of collection significantly affects performance of small scale businesses. This is attributed to the fact that respondents indicated that tax payment is done through a deposit on the bank account of the tax office and not direct deductions of income tax from small scale businesses bank accounts. The findings of this study made it clear that the Burundian tax office regularly uses letters as a mean of communication to inform small scale business owners their tax liabilities and responsibilities. The respondents also specified that sometimes the visits of tax officers are done even if they are not enough all that with the purpose of strengthening the tax collection process.

This study agrees with several other studies such as Kasipillai (2005), Prafula, et al., (1998), Chittenden et al., (2003), and Hanefah and Al-Mureshi (1991) who found that tax mode such as full tax payment or voluntary tax payment significantly affect the performance of small scale businesses. The authors argued that when small scale businesses pay full taxes in time, they will not attract any penalties thus attracting business performance.

### **5.1.3 The Effect of the Legal Tax Penalties on the Performance of Small Scale Business in Bujumbura**

The third objective of this study was to find out the effect of the legal tax penalties on the performance of small scale business in Bujumbura. The study revealed that legal tax penalties significantly affect performance of small scale businesses. This This was attributed to the fact that respondents indicated that tax interest on unpaid liability is high and they also considered some tax penalties to be so high and non-proportional to the offence charged. However, the respondents appreciated that fact that the seizure of goods is not usually used as a tax penalty by the Burundian tax office and this makes almost no one to appeal against tax penalty.

This study is in line with several other studies such as that of Lewis et al., (2013), and Osman (2011) who found that noncompliance happen from tax payer carelessness i.e. forgetting to pay their tax, human error in calculating their taxes and even more critical is the lack of knowledge and information about taxes. Furthermore, Lewis et al., (2013) found no support for the deterring effects of fines and penalties on small scale businesses performance since it was weak. It is

supported by Osman (2011) that taxpayers make calculations of the monetary consequences of different compliant alternatives such as whether or not to evade tax, whether to pay taxes on time or to wait a bit the probability of detection and consequences of their actions and they choose the alternative which maximizes their expectation after tax return. Hendy (2013) argues that costs associated with consultation of tax consultants and tax lawyers are cheaper than payment of non-compliance fines and penalties. He further explained that the costs of non-compliance are higher than the cost of compliance.

## **5.2 Conclusion**

**Objective one:** tax mode of assessment significantly affects the performance of small scale businesses in Bujumbura. The study indicates that most small scale businesses in Bujumbura prefer to use self-assessment system (SAS).

**Objective two:** tax mode of collection significantly affects the performance of small scale businesses in Bujumbura. The study indicates that most small scale businesses in Bujumbura prefer to use voluntary tax and full tax payment. However, tax officers also visit business premises with up to date information about taxes.

**Objective three:** legal tax penalties significantly affect the performance of small scale businesses. The study indicated that high taxes rates and interest on unpaid tax liability affect the performance of small scale businesses.

## **5.3 Recommendations**

**Objective one:** Small scale business owners should use accounting software in the assessment and management of their business tax liabilities in order to minimize the time and energy used in the tax management and therefore enables the use of those resources to increase the performance of their business.

Furthermore, the Burundian tax office should improve the quality of information provided in order to make the tax assessment process quicker and enable a saving of time which can be used for to increase the performance of small scale business.

**Objective two:** Tax officers should increase their visits to business premises so as to provide a better understanding of tax obligations and tax procedures, an occasion to answer questions that

small scale businesses owners may have and, in that way, help to increase the awareness of small scale businesses owners about their tax liabilities which decreases tax penalties and therefore positively affect the small scale businesses performance.

**Objective three:** the tax body of Burundi should review the rate of tax interest on unpaid tax liability in order to reduce the negative effect of taxes obligations and penalties on small scale businesses performance.

#### **5.4 Areas for further research**

The researcher carried out this study in order to examine the effect of tax on the performance of small scale businesses in Bujumbura, Burundi as a case study but the study was not exhaustive owing to constraints in terms of scope and time Further research is therefore needed in areas such as;

- i) Factors leading to tax evasion among small scale businesses.
- ii) The effect of tax management techniques on the performance of businesses that used such techniques.
- iii) Effects of electronic tax filing and tax compliance by small scale businesses.

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## APPENDIX I: QUESTIONNAIRES

Dear respondent,

My name is Brian RWASHA, a student of Kampala International University pursuing a Bachelor's Degree in Business Administration.

I'm carrying out a research on "Effect of tax on performance of small scale businesses in Bujumbura, Burundi". This questionnaire is therefore intended to seek information on the above subject matter. The information needed from you are purely for academic purposes and therefore any information given to me will be treated with maximum confidentiality.

Kindly spare a little time to fill this questionnaire.

Thank you very much.

### Section A: Tax

**Instructions:** Please check honestly based on what you actually do given the statements using the following scale: 5=Strongly agree 4=Agree 3=Not sure 2=Disagree 1=Strongly disagree

| #        | Tax  | 1 | 2 | 3 | 4 | 5 |
|----------|--|---|---|---|---|---|
| <b>A</b> | <b>Mode Assessment</b>   |   |   |   |   |   |
| 1        | I assess my business income tax myself.  |   |   |   |   |   |
| 2        | I use accounting software to assess my business income tax.                              |   |   |   |   |   |
| 3        | The tax office provide clear, suitable and sufficient information about tax assessment   |   |   |   |   |   |
| 4        | The tax deductions included in the income tax act are sufficient and useful.             |   |   |   |   |   |
| 5        | My business has already received some of the tax benefits offered in the income tax act. |   |   |   |   |   |
| <b>B</b> | <b>Mode of Collection</b>  |   |   |   |   |   |

|          |  |  |  |  |  |  |
|----------|--|--|--|--|--|--|
| 1        | I voluntarily pay my business income tax through the bank.                               |  |  |  |  |  |
| 2        | The tax office directly deducts income tax from the business's bank account.             |  |  |  |  |  |
| 3        | I pay my business income tax liability in installments.                                  |  |  |  |  |  |
| 4        | I usually receive letters from tax office reminding me my tax liability.                 |  |  |  |  |  |
| 5        | I usually get a visit of a tax officer.  |  |  |  |  |  |
| 6        | There is a pending case between my business and the tax office before court.             |  |  |  |  |  |
| <b>C</b> | <b>Tax Penalties</b>   |  |  |  |  |  |
| 1        | I sometimes pay non-compliance penalties.  |  |  |  |  |  |
| 2        | The rate of tax interest on unpaid tax liability is high.                                |  |  |  |  |  |
| 3        | Some of my businesses goods have already been seized by the tax office as tax penalties. |  |  |  |  |  |
| 4        | I have already received a tax penalty relief.  |  |  |  |  |  |
| 5        | I consider some tax penalties so high and non-proportional to the offence charged.       |  |  |  |  |  |
| 6        | I have already appealed against a tax penalty.   |  |  |  |  |  |



**Part B: Performance of small scale business**

**Instructions:** Please check honestly based on what you actually do given the statements using the following scale: 5-Strongly agree 4- Agree 3-Not sure 2-Disagree 1-Strongly disagree

| #        | Performance  | 1 | 2 | 3 | 4 | 5 |
|----------|--|---|---|---|---|---|
| <b>A</b> | <b>Profitability</b>   |   |   |   |   |   |
| 1        | This business has been performing well in terms of profit in the last 3 years.       |   |   |   |   |   |
| 2        | Losses in your business are always minimal.  |   |   |   |   |   |
| 3        | Your business always record increase in sales.                                       |   |   |   |   |   |
| 4        | Financial statements of this business always reflect profits for the financial year. |   |   |   |   |   |
| 5        | Low operational costs have favored your business.                                    |   |   |   |   |   |
| 6        | The quality of goods sold by small scale business affect their profits.              |   |   |   |   |   |