EFFECTS OF TAXATION ON PERFORMANCE OF SMALL SCALE BUSINESS ENTERPRISES A CASE STUDY OF DENEVO BREAD BAKERY IN MAKINDYE DIVISION

BY
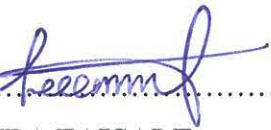
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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

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

Signed: .... Date: ...26 / 6 / 2014......

MUTUMBA FAISALE

APPROVAL

This report Titled *"The Impact of Taxation on performance of small scale business enterprises: A case study of Denevo bread bakery in Makindye Division "* has been submitted by Mutumba Faisale for examination with my approval as the University Supervisor, and it's now ready for presentation for the award of a Bachelor of Business Administration Degree of Kampala International University.

Signed: ....   Date: ..26/06/014...............

MR. BARIJUNO JOHN BAPTIST

(Supervisor)

DEDICATION

I dedicate this piece of work to my parents especially my Mother Mrs Aisha Nakuya who supported me financially and morally. I also dedicate this report to Miss Nampeera Jecca and Natukunda Generous for all their support and advice they rendered to me during the course of my study

ACKNOWLEDGEMENT

I extend a vote of thanks to a number of people who unreservedly, contributed towards the accomplishment of this research work.

I also would like to acknowledge the assistance and role played by the following personalities to the successful completion of this study especially Hon. Theodore Sekikubo for al the support and financial assistance he rendered to me

I cannot say exactly how grateful I am to my supervisor, Mr. Bariluno John Baptist His guidance in this study was beyond measure. Thank you also for providing me with professional advice, encouragement and your time that has spurred me to success.

In the same way, I would like to thank the management and staff of Denevo bread bakery in Makindye Division and the proprietors of the selected businesses for the time they gave me most especially in evenings after the long day's work. They honestly filled the questionnaires, surely, without their input, this study would not have come to fruition.

I cannot forget the efforts of the staff of Kampala International University especially the lecturers at College of Economics and Management for their input and effort that made me acquire the invaluable knowledge. Your contribution can never be quantified but will always be reminiscent whenever I look through this book.

Lastly, I thank my Mother for sacrificing the little she had, in thick and thin and invested in my education. This sacrifice that you made failed in other peoples' homes. Thank you for looking after me and enabling me to acquire a lifelong investment.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ACRONYMS

URA	:	Uganda Revenue Authority
SSB	:	Small Scale Business
SPSS	:	Statistical Package for Social Sciences.
MoFPED	:	Ministry of Finance, Planning and Economic Development
USSIA	:	Uganda Small Scale Industries Association
SPSS	:	Statistical Packages social scientists

ABSTRACT

The study was carried out to find out the impact of taxes on performance of small scale business enterprises in Uganda (SSBs), taking a case study of Denevo bread bakery in Makindye Division. The study aimed at assessing the performance of business enterprises in Denevo bread bakery in Makindye Division, finding out if tax payers are aware of all their tax obligations, policies and problems affecting them as well as their businesses. The study assessed the Impact of Taxation on Performance of selected small scale businesses in Denevo bread bakery in Makindye Division district and was based on three specific objectives: to determine the level of Taxation, to determine the level of Performance of selected small scale businesses in Denevo bread bakery in Makindye Division district, to establish whether there is a significant relationship between Taxation and Performance of selected small scale businesses in Denevo bread bakery in Makindye Division district. The study applied both qualitative and quantitative research designs where interviews and questionnaires were used. Data was collected from both primary and secondary sources. Data was processed and analyzed using formal tables, pie charts, narrative text, and correlation to find out the relationship between the impact of taxes and performance of small scale businesses. A total of 50 respondents were considered out of the entire population in the. The findings indicated that the performance of SSBs is affected by stock levels, capital employed, daily expenses, daily sales and the average amount of taxes paid annually. Most business owners are aware of taxes paid, uncertain of the mode of assessment and little assistance is given as regards tax awareness. The findings revealed the problems faced by the tax payers as regards mode of assessment, collection and tax collectors, inefficiency by tax collectors, loss of equipment, loss of sales and loss of stock as a result of taxes.

Recommendations on impact of taxes included; improvement on the method of collecting taxes, educating the business community about its different tax rates, introducing a scheme that allows tax payers to pay the tax obligation in installment, and finding a way of assessing the tax the SSBs should pay early in the financial year in order to give enough time to the business to pay up their duties rather than make an assessment and demand for payment spontaneously.

CHAPTER ONE

1.0 Introduction

The study was meant to establish the impact of taxes on performance of small scale business enterprises in Makindye Division, Kampala district. This chapter consists of the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope and significance of the study.

1.1 Background of the study

1.1.1 Historical perspective

Taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. Taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services (Moore, 2007).

Taxes have existed virtually as long as there have been organized governments. The first tax law legislation was introduced in 1919 and ever since then taxes have evolved through a number of reforms. The government in an attempt to widen the tax base and collect more revenue has had to levy several taxes especially on business enterprises in Uganda which constitute a large part of the formal sector. The taxes charged on business enterprises in Uganda include; corporation tax, value added tax, presumption tax and exercise duty. In 1997 the Income Tax Act was made. This was to give guidance in assessment and computation of taxes (Campsy, 1997). The Ugandan government has made some recommendable efforts to promote development through taxation since the inception of the current taxation laws for purposes of promoting development. The main objective of taxation in Uganda has always been to mobilize resources needed to meet the aspirations of the government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in position to provide goods and services to the people adequately. The Ugandan government has always had to ensure proper resource mobilization (Musa, 1992).

According to Manasseh (2000), a tax is generally referred to as a compulsory levy imposed by government upon assessees of various categories and taxation is a compulsory and non refundable contribution imposed by government for public purposes. In Uganda a considerable fraction of the businesses are sole traders operating small scale business, Performance of selected small scale businesses a case of Denevo bread bakery in Makindye Division district owned and managed by individuals or families and often with very few employees working at a single location (Uganda development bank report, 1988). Taxation in Uganda is based on system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British administration.

During that period, taxation was aimed at raising revenue for the administrative structure imposed by the colonial government but also as a means of encouraging monetary/economic activities. In September 1991, after a period of review the URA was established. All taxes including income tax came under the umbrella of the URA. From 1992, URA has been organizing and strengthening the administrative procedures and in 1993 this process was assisted by a grant from the British government of approximately US$ 10million.

Taxation in Uganda traces its origin or roots in the hut tax that was introduced way back in 1900 with the principle objective of attracting citizens into monetary production and to mobilize voluntary labour for the production of cash crops and minerals for export. The hut tax was transformed into poll tax in 1905, following the introduction of cotton growing in Uganda.

In 1939, income tax was introduced in Uganda, but was collected jointly with the tax from the government of Tanganyika, Zanzibar and Kenya.
In 1962, a source tax on employment emoluments under the system of pay as you earn (PAYE) was introduced.

Uganda also introduced four other tax legislations, namely: the sales tax act of 1970, the stamp duties act of 1970 and the finance decree of 1972 which impose sales tax on Performance of selected small scale businesses in Makindye Division district goods, stamp duty on various

instruments, various fees and charges relating to motor vehicles and drivers' permits and commercial transactions levy on various commercial service.

In 1996, the sales tax and commercial transactions levy legislations were abolished upon the introduction of value added tax act of 1997, while the traffic and road safety legislations was revised into the 1998 Act. All the tax reforms have always been aimed at enhancing the country's tax base in order to minimize economic dependency on foreign resources (loans and grants) that the Uganda government used to depend on.

According to Plank, E.D. and J.W.Jackson (1953), a tax is a generalized exaction, that is a liability imposed upon the tax assesses who may be individuals, groups of individuals or their legal entities to pay an amount on account of the fact that the assesses have income of minimum amount and from certain tangible and intangible property, or that they carry certain economic activities which have been chosen for taxation.

Makindye Division District is one of the ten (10) districts which make up Kampala region. At least 1 small scale business enterprises was selected in Makindye Division District and almost all of them employ 5 - 30 people. These small scale businesses in Makindye Division district are owned and managed by private individuals who sometimes employ their family members. These small scale businesses bear a wide tax burden which has led to poor performance. Therefore, it is against this background that the researcher has under taken the study to investigate more about the problem using Denevo bread bakery in Makindye Division District as a case study to evaluate the taxation and performance of small scale business enterprises.

Performance study began around 60 years ago as a source of income justification and was used to determine small scale wage based on performance; however, organizations used performance management to drive behaviors of the employees to get specific outcomes (Brandt 2000). In practice, this worked well for certain small scale businesses that were solely driven by financial rewards but where employees were driven by learning and development of skills, it failed miserably. Therefore, this gap between justification of pay and development of skills and knowledge became a huge problem and this was evident in the late 1980s'

Managing performance every day is the key to an effective performance management. For instance, setting goals, making sure expectations are clear and proving frequent feedback, and thus the high performance knowledge is the foundation of the enterprise improvement. This thesis analyses the current situation of employee performance management based on output operation and input based upon valued added.

1.1.2 Theoretical perspective

The study was guided by Ability-to-pay theory of taxation by the American Economic Association of 1939 in their book entitled 'The American Economic Review.' this theory presumes that money for public expenditures should come from 'him that hath' instead of from 'him that hath not.' the payment of a tax is viewed as a deprivation to the tax payer. He might have spent the money for his own purposes but instead must turn it over to the public treasury from which it was expended for social ends so in surrendering his money to the government.

1.1.3 Conceptual perspective

Taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures (Musgrave and Musgrave, 1984).

Conceptually, according to Gordon and Dawson (1987), through taxation, the government takes away money from people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production in the private sector to the public sector. They further asserted that, one of the most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently thus leading to small scale businesses not to perform very well as regards to the level of profits gained from the business.

According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/business they would otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

4

1.1.4 Contextual perspective

In content, the study concentrated on taxation and performance of selected small scale businesses in Makindye Division District. Specifically, the study investigated the performance of small scale businesses, the awareness of the tax payers regarding their obligations, problems faced by the tax payers and the relationship between the taxes paid and the performance of the small scale businesses.

According to Manasseh (2000), a 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. In Uganda a considerable fraction of the businesses are sole traders operating small scale business, locally owned and managed by individuals or families and often with very few employees working at a single location (Uganda development bank report, 1988). Taxation in Uganda is based on system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British administration. This process began in 1900 with the hut tax regulation which imposed a standard charge for every hut/dwelling.

During that period, taxation was aimed at raising revenue for the administrative structure imposed by the colonial government but also as a means of encouraging monetary/economic activities. It was the Local Authority Ordinance of 1991 that governed the collection of taxes. In September 1991, after a period of review the URA was established. All taxes including income tax came under the umbrella of the URA.

Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer (Balunywa, 1988). The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

Most businesses in Uganda are owned and managed by persons who are unskilled in the profession of accounting and thus do not keep proper books of accounts. These are especially sole proprietors and family businesses or partnerships. These generally do not keep books of accounts, have low sales turn over and change hands and business very often (Ravenous, 2005).

Tax payers have little understanding of the obligation as a result of lack of tax education. It is said that URA would get fewer problems with tax payers if they were able to understand how their liabilities come about. Most Ugandans have poor/lack understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). As a result, the tax compliance in Uganda is still very low. Besides that, various surveys conducted on small scale businesses in Uganda suggest that about 60% of them keep no records at all, while 25% keep partial records making it difficult to assess taxes (Ndandiko, 2000).

Peace & Brandt (2000) defined small scale business performance as the total effort that an small scale businesses inserts towards complete articulation of a given task. They further said that, small scale businesses performance can be noticed in different ways, for instance productivity, quality, and quantity and in most cases small scale businesses performance appraisal is done with the aim of ascertaining the mentioned variables.

The working definition adopted for this study is attributed to Armstrong (2007) who clearly put forward that small scale businesses performance is the total group effort both physical and mental employed towards effective attainment of organizational goals. In this study, small scal businesses performance was characterized by increased productivity which is a measure of efficiency of production. It's a ratio of what is produced to what is required to produce it, and usually this ratio is in the form of an average, expressing the total output divided by the total input and thus it's a measure of output from a production process, per unit of input, improved human relations characterized by the skill or ability to work effectively through and with other people in all aspect of life.

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Taxes have existed virtually as long as there have been organized governments. The first tax law legislation was introduced in 1919 and ever since then taxes have evolved through a number of reforms. The government in an attempt to widen the tax base and collect more revenue has had to levy several taxes especially on business enterprises in Uganda which constitute a large part of

6

the formal sector. The taxes charged on business enterprises in Uganda include; corporation tax, value added tax, presumption tax and exercise duty. In 1997 the Income Tax Act was made. This was to give guidance in assessment and computation of taxes (Campsy, 1997). The Ugandan government has made some recommendable efforts to promote development through taxation since the inception of the current taxation laws for purposes of promoting development. The main objective of taxation in Uganda has always been to mobilise resources needed to meet the aspiration of government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in position to provide goods and services to the people adequately. The Ugandan government has always had to ensure proper resource mobilization (Musa, 1992).

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Denevo bread bakery in Makindye Division is located in Kampala District. At least 1 small scale business enterprises was selected in Makindye Division and almost all of them employ 2-4 people. These small scale businesses are locally owned and managed by private individuals

who sometimes employ their family members. These small scale businesses bear a wide tax burden which has led to poor performance. Therefore, it was against this background that the researcher undertook the study to investigate more about the problem using Denevo bread bakery in Makindye Division   as a case study to evaluate the impact of taxes on performance of small scale business enterprises.

1.2 Statement of the problem

Taxes are raised by the government to generate revenue used to provide services to the public such as; Health centers, telecommunication, roads, schools and electricity and this have helped to improve on the performance of small scale business enterprises. Despite the services provided, small scale business enterprise's performance like Denevo bread bakery in Makindye Division is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually. These rates seem to be taking an upward trend (Gordon and Dawson, 1987) which has led to winding up of some small scale business enterprises. This prompted the researcher to investigate more about the impact of taxes on performance of small scale business enterprises.

1.3 Purpose of the study

The purpose of the study was to evaluate the impact of taxes on performance of small scale business enterprises a case of Denevo bread bakery in Makindye Division .

1.4 Objectives of the study

1. To determine the effectiveness of taxation in selected small scale businesses a case of Denevo bread bakery in Makindye Division   Kampala District.
2. To determine the level of performance in selected small scale businesses a case of Denevo bread bakery in Makindye Division   Kampala District..
3. To establish whether there is a significant relationship between Taxation and performance of selected small scale businesses a case of Denevo bread bakery. in Makindye Division Kampala District..

1.5 Research questions

4. What is the effectiveness of taxation in selected small scale businesses a case of Denevo bread bakery in Makindye Division Kampala District?

5. What is the level of performance in selected small scale businesses a case of Denevo bread bakery in Makindye Division Kampala District?

6. Is there a significant relationship between Taxation and performance of selected small scale businesses a case of Denevo bread bakery in Makindye Division Kampala District

1.6 Scope of the study

1.6.1 Subject scope

The study covered small scale businesses a case of Denevo bread bakery in Makindye Division . Specifically, the study investigated the performance of small scale businesses, the awareness of the tax payers regarding their obligations, problems faced by the tax payers and the relationship between the taxes paid and the performance of the small scale businesses.

1.6.2 Geographical scope

The study was carried out in Denevo bread bakery in Makindye Division, Kampala District. The area was purposely selected because the researcher worked within the vicinity and therefore this eased data collection.

1.6.3 Time scope

The study considered a period of 3 years 2012-2014. This period was selected to enable the researcher come up with coherent information from the respondents as it would enable them (Respondents) to give responses that are typical of their opinion from the observations made over this period.

1.7 Hypothesis

The study was guided by the following hypotheses: "There is no significant correlation between taxation and performance of selected small scale business a case of Denevo bread bakery in Makindye Division Kampala District"

9

1.8 Significance of the study

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

1. 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.

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

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

4. The accomplishment of the study will enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with a lot of precision and proficiency.

Operational Definitions of Key Terms

For the purpose of this study, the following terms were operationally defined:

Taxation: This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt.

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

A tax is generally referred to as a compulsory levy imposed by government upon assessees of various categories and taxation is a compulsory and non refundable contribution imposed by government for public purposes.

Small scale business

Small scale businesses are those with gross turn over of less than 50 million shillings per annum.

Capital this is the initial amount of money that is needed to start up a business

1.9 Conceptual framework

<table>
<tr><td align="center">Independent variable</td><td align="center">Dependent variable</td></tr>
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Taxation		**Performance of Small Scale businesses**	
i.	Tax assessment	i.	High Prices
ii.	Tax collection	ii.	Low sales
iii.	Tax compliance	iii.	Low savings

Intervening variables

- Fines and penalties
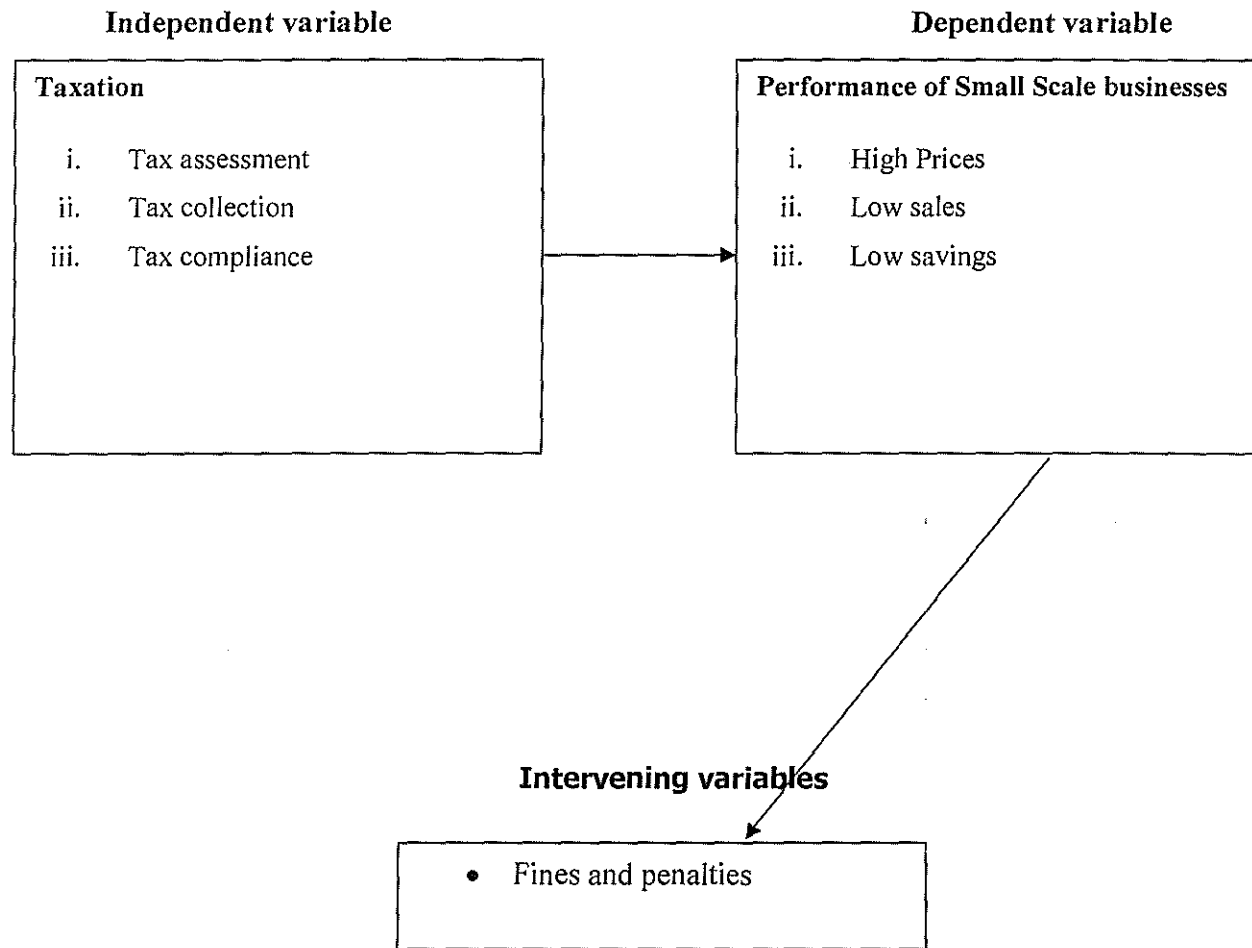
Source: Income Tax Act (2012), small scale businesses are those with growth turn over of less than 50 million shillings per annum.

From the above conceptual framework it is revealed that when the government or Uganda revenue authority levies taxes such as Direct tax, Indirect tax, Digressive tax, Regressive tax, Proportional tax to the small scale businesses, it has to know how the small scale businesses perform in terms of Tax assessment, Tax collection, Tax compliance, some of these small scale businesses can not afford to pay all these taxes and in the end their performance in the market diminishes or decreases through Low profits margins, Low savings, Low sales and all these lead to the small scale business charging high prices to the clients because they want to make more profits to suit for existence. On the other hand they are affected by some intervening factors

11

such as the constant fines and penalties rendered to the small scale businesses when they delay to pay the taxes thus limiting their performance in the business cycle.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at taxation and its impact to performance of small scale business enterprises in Uganda particularly Denevo bread bakery in Makindye Division.

It consists of existing literature on taxation by different scholars/research studies from magazines, text books, journals and news papers.

This chapter covers taxation, classification, and purpose of taxation. However it particularly addresses the problems affecting tax payers, the awareness of the tax obligation and performance of small scale business enterprises.

2.1 Theoretical Review.

The study was guided by Ability-to-pay theory of taxation by the American Economic Association of 1939 in their book entitled 'The American Economic Review.' this theory presumes that money for public expenditures should come from 'him that hath' instead of from 'him that hath not.' the payment of a tax is viewed as a deprivation to the tax payer because he would have spent the money for his own purposes but instead must turn it over to the public treasury from which it will be expended for social ends so in surrendering his money to the government, he is said to make sacrifice.

In this study, taxation of small businesses is taken to be the factor which presumes a change in tastes and preferences among consumer goods as well as resource allocation in the business which may determine the performance of the business as a failure or a success. In taxation, there are various kinds of taxes and have their impact on the performance of selected small scale businesses in Denevo bread bakery in Makindye Division Kampala District.

In this study, the researcher proposes that in order to achieve its basic goals, the government must raise money to sponsor its programs. This money can come in a number ways such as selling public assets or issuing government bonds, but one of the most common ways of raising money for public programs is through taxation. The act of imposing taxes requires the

society as a whole to decide how the tax system should be organized so as to improve the performance of small scale enterprises.

2.2 Related literature

2.2.1 The concept of taxation

This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA (Manasseh, 2000). The general idea behind taxation is the provision of public goods and services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2002).

Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer (Balunywa, 1988). The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

2.2.3 Tax

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

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

2.2.4 Classification of taxes.

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

14

a. Direct versus indirect.

1. Direct taxes are those that affect the individuals/firms directly through a deduction from earnings. Examples include; individual income tax, corporation tax, taxes on property and others.

2. Indirect taxes are those taxes that are paid to government by an intermediary and then passed on to the final user by including the tax in the final price. Examples include; export and import duties, excise and local production, value added tax (VAT) and others.

b. Proportional versus progressive tax

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

2.3 The purpose of taxation

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

Balunywa (1988) noted that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice.

The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. These countries face a number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has to be designed to help the economy (Bhatia, 2002).

According to the Uganda economic journal (1973), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (1973) also shows that, in stressing

consumption reducing aspect, taxes may change the distribution of income and help to stablise the economy.

2.4 Tax policies.

The World Bank has influenced many countries in under taking tax reform policies. For the case of Uganda, the tax base has remained significantly narrow since independence, leading to inadequate tax revenue. By May 2004, the tax ratio of tax revenue to GDP was just 18-20%. The composition of tax revenue has been predominantly important. Small scale businesses are taxed differently compared to corporation/business with an annual turn over of above 50 million shillings. Medical practices, legal practices, engineering service, accounting and audit practices are tax payers even when their turn over is less than 50 million shillings.

As quoted by Kitinisa (2003), there are three broad approaches to tax policies and these are;

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

2. Taxing various business activities differently to achieve economic business policy such as; increase in private investment, exports/employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and hence induce problems for compliance and adversely affect the general investment climate.

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

2.5 Approaches to tax administration

According to Bird (1974), tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to Olman (1967), tax administration refers to a structure/procedure of identification of potential tax payer, collection and laws governing taxation.

RoyBahl (1988) says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

16

2.5.1 Identification of a tax payer

Taxes are levied on individuals, groups/legal entities income earned. The identification of a tax payer is done with reference to natural/artificial persons who can earn income.

However, for the purpose of this research we shall confine ourselves to business as a tax payer and a business can be defined as vocation, trade, profession, adventure in the nature of trade but does not include employment (Income Act, 1997).

2.5.2 Assessment of taxes

Income Tax Act (1997) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person/business according to his/its income.

According to the income tax Act (1997) section 96 (11) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven years from the date the return was furnished. However, small scale businesses are not required to submit in any return to the commissioner.

2.6 Small scale business

According to the Income Tax Act (1997), small scale businesses are those with growth turn over of less than 50 million shillings per annum.

In Uganda it's not only income tax Act that has tried to define small scale businesses; there are also institutions which have tried to define small scale business (SSB) such as; Ministry of Finance Planning and Economic Development (MFPED), the Uganda Small Scale Industries Association (USSIA). The MFPED defines SSB as a unit with a capital investment not exceeding US$ 300,000.

The USSIA defines SSB as those with employees between 1-25 people and assets and capital exceeding US$ 1,000,000.

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

  i.   A business which employees 1-50 people.

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

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

2.7 Fines and penalties

Musgrave argues that in all matters of legal rules, better compliance can be served either by a higher penalty if the offender is caught or by well facilitating the enforcements so as to increase the probability of being caught. However, Bird (1974) argued that the law should provide an adequate penalty structure, appeal system and general administration. The penalty structure should be primarily financial in character and probably progressively related to the amount of tax evaded and the seriousness of the offence in case a tax payer fails to pay any tax including; provisional tax, any withholding tax or tax required to be withheld, the penalty is 2% simple interest per month on the amount unpaid calculated from the date on which payment was due until the date on which payment is made (Pius, 2001). Under estimating provisional income return is less than 90% of the tax payer's actual chargeable assessed for the year of income, the penalty is 20% of the difference between taxes based on provisional return as revised, and tax calculated in respect of the 90% of the actual income for the year of income.

2.7.1 Performance of small scale business

Kitinisa (2004) describes performance of small scale business as the ability to attain it's goals by using resources in an efficient and effective manner, the goals of the organization include; survival, profit making and expansion.

Pandey (1979) looks at financial analysis as a measure of the organization/business performance. The assessment of financial performance of business entities has a well established methodology that includes computation and interpretation of univariate and multivariate models. Univariate predictions of performance are single ratios calculated for efficiency (Kampala International Business Journal, 1996).

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

i.   To meet its tax obligations.

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

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

18

2.7.2 Taxation and business performance

Taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures (Musgrave and Musgrave, 1984).

According to Gordon and Dawson (1987), through taxation, the government takes away money from people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production in the private sector to the public sector. They further asserted that, one of the most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently.

According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/business they would otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

2.8 Taxes and profit levels.

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

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

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

iii.   Some tax allowances may be provided and will not be reflected in business account. (Manasseh T. 2000).

Gordon and Dawson (1987) assert that many business people have complained probably with some justification that taxes interfere with the opportunities to re-invest their profits in their businesses.

2.8.1 Taxation and investment

Given the fact that there are financial institutions and mechanism for collecting the community's savings and bringing them to investors, the level and patterns of investment will be greatly influenced by taxes. This is because the investors are basically interested in making profit yet profitability of investment can be affected through various tax measures in the following ways;

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

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

iii. If the retained profits of the firm are taxed, they will not be able to depend much upon their internal resources for expansion, instead they will borrow and invest if at all they do so (Bhatia H.L, 2002).

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

Most businesses in Uganda are owned and managed by persons who are unskilled in the profession of accounting and thus do not keep proper books of accounts. These are especially sole proprietors and family businesses or partnerships. These generally do not keep books of accounts, have low sales turn over and change hands and business very often (Ravenous, 2005).

Mugulusi (2001) found out that a large proportion of business community is ignorant about taxes they pay, how these taxes are computed, lack of knowledge is attributed to the poor methods of sensitization used by URA.

According to Ravenous (2005), the following are some of the problems faced by tax payers;

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

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

20

2.10 Tax payer's knowledge

Most Ugandans have poor/lack understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). As a result, the tax compliance in Uganda is still very low. Besides that, various surveys conducted on small scale businesses in Uganda suggest that about 60% of them keep no records at all, while 25% keep partial records making it difficult to assess taxes (Ndandiko, 2000).

Alwedi (2002) found out that most SSBs are managed on unprofessional lines (poor or no business records) thus there is great uncertainty among traders in Uganda as regard to tax matters and to some extent due to their own making.

Ludega (2002) asserts that, many traders have expressed ignorance about taxes imposed on their businesses. They say that this is highly attributed to the poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed, advantages of paying taxes and the use to which it is put. Therefore there is a need to sensitize the public especially business owners. The sensitization should be done on different taxes that impact the business owners and the rationale that underlines the imposition of taxes, because tax payers are not aware of the reasons for paying taxes, evasion of tax duties, laws and regulations are very rampant. (World Bank Survey, 1994).

2.11 Conclusions

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

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This 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 (Amin, 2005). This design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross-Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Study population

The study comprised of Managers/owners and employees of small scale businesses (SSBs) a case of Denevo bread bakery in Makindye Division, Kampala District.

3.3 Sampling

3.3.1 Sampling design

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

3.3.2 Sample size

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

3.3.3 Sampling procedure

Stratified random sampling was used in that Denevo bread bakery in Makindye Division was divided into two strata of West and East. Each stratum represented a zone. 30 small scale businesses were selected from each stratum.

3.4 Study variables

The independent variable is impact of taxes; the dependent variable is performance of small scale businesses. That is to say, the study is carried out to establish the relationship between how taxes affect the performance of small scale businesses a case of Denevo bread bakery in Makindye Division .

3.5 Sources of data

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

3.5.1 Secondary data Collection

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

.5.2 Primary Data collection

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

3.6 Methods of data collection and instruments.

3.6.1 Questionnaires.

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire was used on the basis that the variables under study cannot be observed for instance the views, opinions, perceptions and feelings of the respondents. The questionnaire was equally used because the information had to be collected from a large sample in a short period of time yet the respondents could read and write (Sekaran, 2003).The questionnaire 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 Denevo bread bakery in Makindye Division .

3.6.2 Interviews

The researcher also administered interviews. An interview is a dialogue between an interviewer and interviewee. It is an organized conversation aimed at gathering data about a particular topic. This is a method where a researcher interviews respondents to obtain information on the issue of interest. In this case, the interviews during this research were structured and were specifically administered to staff of Denevo bread bakery in Makindye Division .

3.6.3 Observation

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

3.7 Data processing analysis and presentation

3.7.1 Data processing

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

3.7.2 Data analysis

The data got was analyzed automatically using SPSS (Statistical Package for Social Sciences). The SPSS package was opted for, because it handles a large number of variables. Pearson's linear correlation index was used in order to correlate taxation and performance of small scale business performance. The index was selected because it measures the degree and direction of the relationship between variables.

3.9.3 Data Presentation

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

3.9 Limitation of the study.

Financial constraints: Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal and research report.

Limited time: Inadequate time frame required for a detailed research study. Comprehensive research study involves a great deal of collecting, analyzing and processing that requires a lot of time.

Non-response: Owners of businesses were busy attending to their customers and rarely spared time for the researcher.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

4.0 Introduction

This chapter presents the findings on effect of taxation on performance of small scale businesses a case of Denevo bread bakery in Makindye Division. The findings were from both primary and secondary sources. The findings are presented in the gist of the three objectives that the study was set to achieve;

1. To assess the performance of small scale business enterprises a case of Denevo bread bakery in Makindye Division.
2. To find out if tax payers are aware of all their tax obligations and policies.
3. To find out problems affecting tax payers and their business.

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

4.1 Background characteristics of the respondents

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

4.1.1 Age of the respondents

Table 1: Findings on the age of respondents

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

Source: Primary source 2014

26

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

Figure 1: Findings on the age of respondents
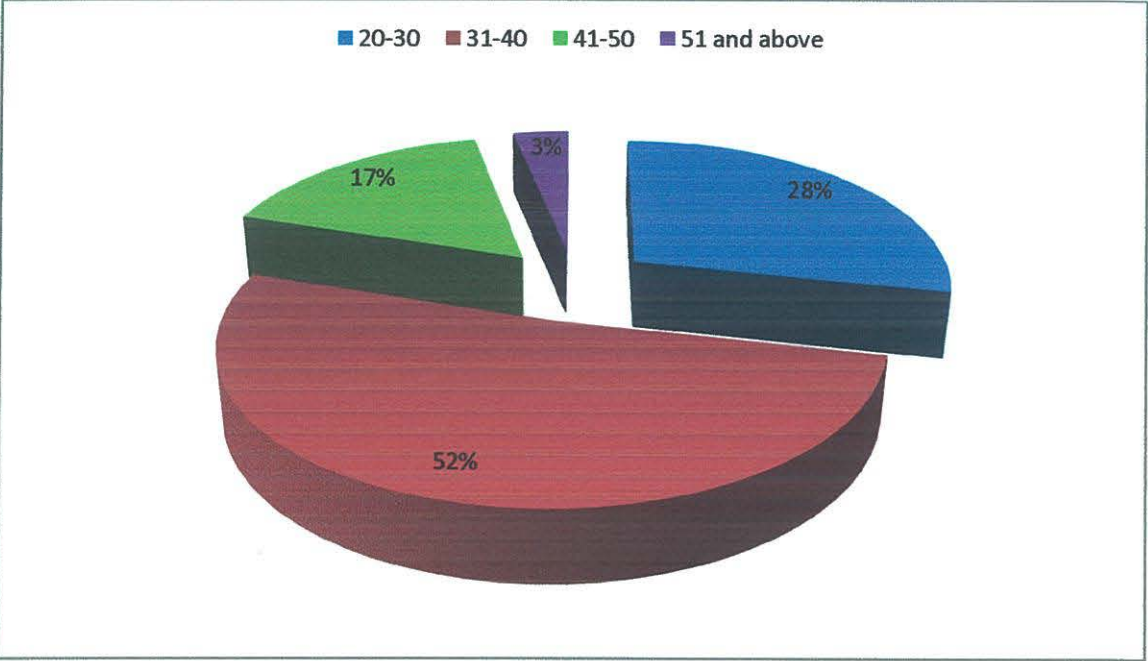
Source: Primary Data 2014

4.1.2 Response on the level of education of the respondents.

Here respondents were asked about their highest level of education that is those with Certificates, Degree, Diploma and others. The results were as follows;
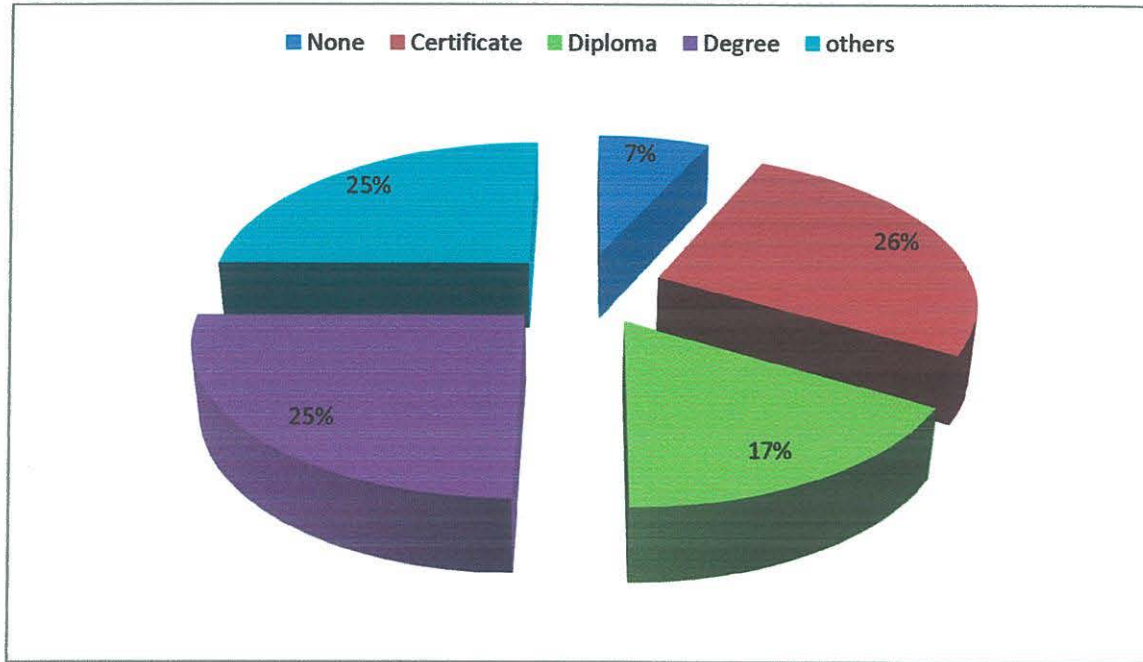
Source: Primary source 2014

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

4.1.3 Findings on the gender of respondents

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

Table 2: Shows gender of respondents

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

Source: Primary source 2014

From table 3, majority of the respondents, 68.3% were male while 31.7% were female. This means that most of the small scale businesses a case of Denevo bread bakery in Makindye Division were operated by male.

Figure 3: Shows gender of respondents
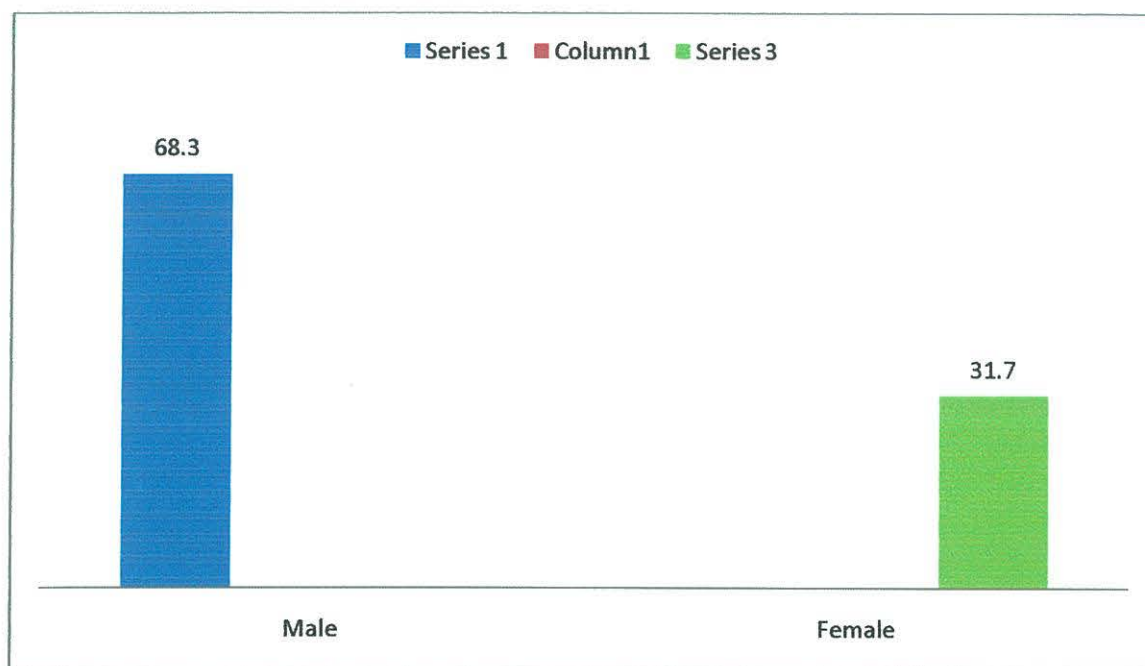
Source: Primary Data 2014

4.1.4 Findings on the marital status of the respondents

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

Table 3: Shows marital status of the respondents

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

Source: Primary source 2014

From table 4, 6.7% were single, 21.7% were separated, 43.3% were married while 28.3% were widowed. This implies that most of the small scale business enterprises a case of Denevo bread bakery in Makindye Division were operated by married people, widowed and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of fending for their families including opening up small scale businesses.

4.2 Findings on performance of the business

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

The results were as follows;

4.2.1 Response on stock levels of held in the business

Figure 4: Shows stock levels held in the business.
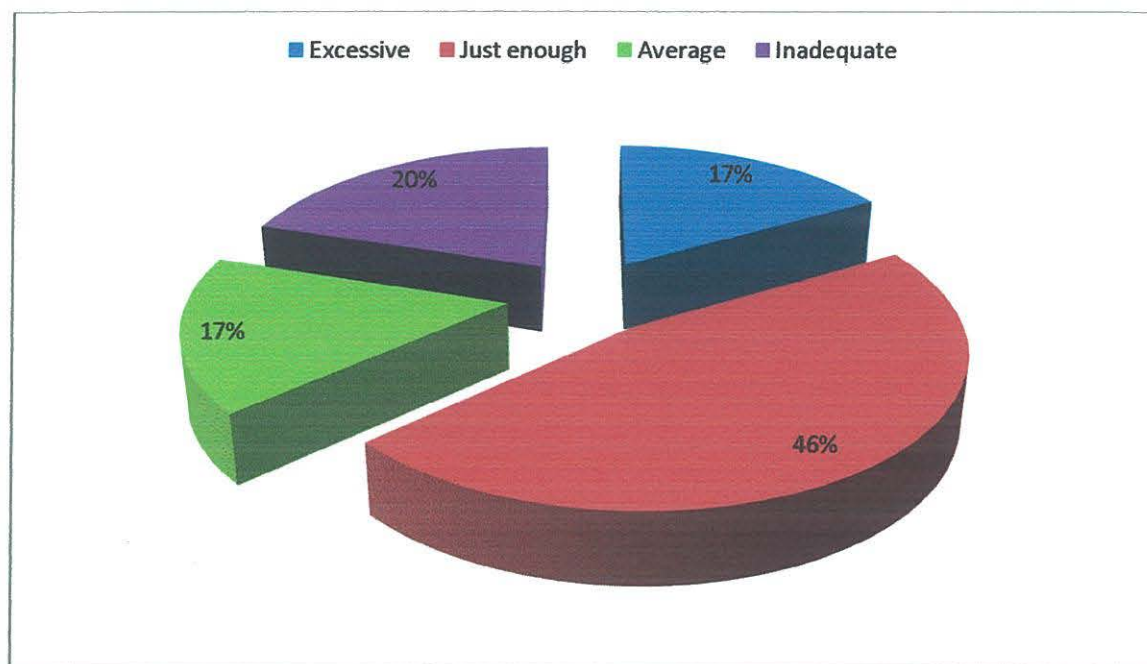
Source: Primary source 2014

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

4.2.2 Shortage in the stock levels

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

Table 4: Shows whether the business has ever experienced shortages in the stock levels.

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

Source: Primary source 2014

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

4.2.3 Stock levels and profitability

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

Table 5: Showing whether stock level have an effect on the level of profitability.

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

Source: Primary source 2014

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

4.2.4 Average daily sales

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

Table 6: Showing average daily sales

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

Source: Primary source 2014

According to table 8, of all the SSBs sampled, 13.3% made sales less than UGX 10,000/=, 18.3% made sales between 10,000/= – 29,000/=, 36.7% made sales between sales between

30,000/= – 49,000/=, 13.3% made sales between 50,000/= – 69,000/=, 6.7% made sales between 70,000/= – 89,000/= and 11.7% businesses made sales over 90,000/=. This means that most of the SSBs i a case of Denevo bread bakery in Makindye Division made sales of over 30,000/= meaning that most of the businesses in the   have an annual turnover of less than 50 million Uganda Shillings. This agrees with Income Tax Act (1997) which characterizes small scale businesses as those with an annual turnover of less than 50 million Uganda Shillings, thus the taxes to be paid should be in the range of small scale enterprises as stated in the Income Tax Act (1997).

4.2.5 Capital employed

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

Figure 5: **Showing capital employed**
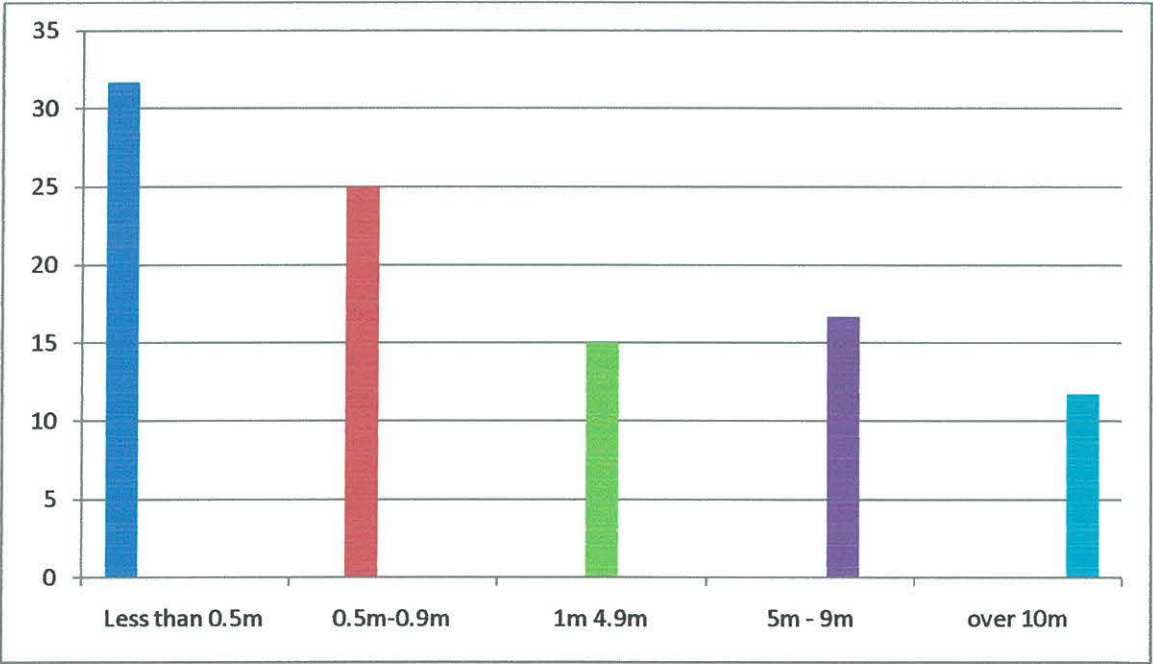
Source: Primary source 2014

According to figure 5, 31.7% employed capital of less than 0.5m, 25.0% employed capital of between 0.5m-0.9m, 15.0 % employed capital of between 1m-4.9m, 16.7% employed capital of 5-9m while 11.7% employed capital of over 10 Million. This implies that most businesses a case

33

of Denevo bread bakery in Makindye Division have capital contribution of less than 31.7% .This implies that the businesses are small scale as defined by USSIA and the Income Tax Act (1997).

4.2.6 Daily expenses

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

Table 7: Showing daily expenses

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

Source: Primary source 2014

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

4.2.7 Average amount of tax

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

Table 8: Showing average amount of tax paid.

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

Source: Primary source 2014

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

4.2.8 People employed

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

4.3 Awareness of the tax payers.

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

4.3.1 Taxes

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

Table 9: Showing average taxes paid annually

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

Source: Primary source 2014

According to table 12, 80.0% agreed that they were aware of the taxes they ought to pay while 20.0% indicated that they were not aware about all the taxes that they were meant to pay. Most business entrepreneurs a case of Denevo bread bakery in Makindye Division were therefore aware of the taxes that they were supposed to pay.

4.2.2 Tax assessment

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

Table 10: Showing if the businesses have ever been assessed for tax purposes.

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

Source: Primary source 2014

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

Showing how businesses keep their records
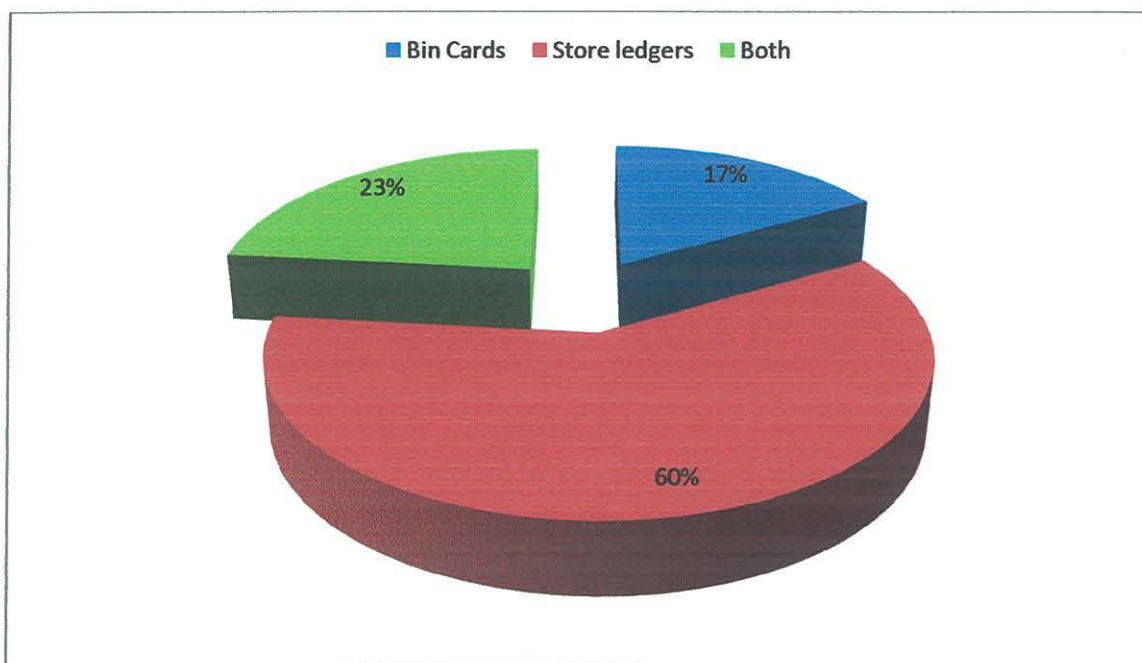
Source: Primary source 2014

From figure 6 above, 16.7% of the small scale business sampled, keep their records using Bin cards, 60.0% used store ledgers and 23.3% used both bin cards and store ledgers.

4.2.4 Assistance as regards tax awareness

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

Table 11: Shows if the tax authority has ever given assistance as regards tax awareness.

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

Source: Primary source 2014

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

4.4 Problems faced by tax payers.

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

4.3.1 Mode of assessment, collection and the tax collector.

The table below illustrates in percentage the way they responded.

Table 12: Problems related to mode of assessment, collection and the tax collector.

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

Source: Primary source 2014

According to table 16 above, 28.3%, of the respondents agreed that the methods used in assessing the taxes are fair while 71.7% disagreed that ten methods used were fair. Basing on the views of majority respondents, 71.7%, the methods used in the assessment of the taxes were unfair to the proprietors of small scale businesses a case of Denevo bread bakery in Makindye Division. Such affects the performance of the business enterprises.

Table 16 further shows that 33.3% of the respondents agreed that whenever taxes were collected from them, the methods used were friendly while majority, 66.7% disagreed. This implies that

38

the tax authorities a case of Denevo bread bakery in Makindye Division use unfair tax policies that could even encourage the tax payers to evade paying taxes.

From table 16, 25% of the respondents agreed that tax collectors do not harass them whenever they come to collect the tax while 75% disagreed. This implies that tax collectors a case of Denevo bread bakery in Makindye Division were harsh to the tax payers

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

4.3.2 Efficiency and tax officers

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

Table 13: Respondent's views on whether Tax officials are efficient.

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

Source: Primary source 2014

From table 17, 23.3% strongly agreed that the tax officials are effective in identifying and registering potential tax payers, 10% agreed, 15% were uncertain, 48.3% disagreed while 3.3% strongly disagreed. Since majority of the respondents disagreed, it implies that there is too much inefficiency among the tax collectors a case of Denevo bread bakery in Makindye Division.

4.3.3 Specific effects of the taxes on businesses.

The following are specific effects that were given by the proprietors of SSBs a case of Denevo bread bakery in Makindye Division .

Loss of sales; this is mainly as a result of closure of business premises by Denevo bread bakery in Makindye Division staff on default during the time when the premises are closed, operation is halted therefore no sales made.

Loss of equipment; this happens when due to rough handling by the Denevo bread bakery in Makindye Division staff. Sometimes machines and equipment are confiscated by the tax collectors when the owners have failed to meet the tax obligations. During confiscation, equipment are damaged and sometimes lost.

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

Inconveniencing business operations; this happens when the staff of the tax authority visits business premises in the routine checkups on business. Sometimes they ask for books of accounts and try to interview the business owners and in the process they inconvenience business operations. From the above mentioned effects it was noted that 40% of business a case of Denevo bread bakery in Makindye Division lose capital as a result of heavy fines imposed on them when they default of their tax obligation.

4.3.4 Suggestions from tax payers.

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

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

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

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

Table 14: Shows the relationship between taxes and performance of small scale business enterprises a case of Denevo bread bakery in Makindye Division.

Correlations

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

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

Source: Statistical Package for Social Scientists (SPSS)

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

Management of Denevo bread bakery in Makindye Division should therefore regulate the taxes charged on small scale businesses if they are to stimulate their performance.

41

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

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

5.1 Summary of findings

This is aimed at determining the impact of taxes on the performance of SSBs a case of Denevo bread bakery in Makindye Division . The results revealed that the impact of taxes on the performance of the SSBs is quite significance. The study further revealed that taxes mainly affects the performance of SSBs through lost sales during closure of the business premises by URA, the loss of machinery and equipment due to delay in remitting the tax and the loss of capital due to the fines imposed by URA onto SSBs that default on their tax obligation.

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

5.2 Conclusion

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

5.3 Recommendations

The researcher made the following recommendations as a way of reducing the burden of taxes on SSBs as well as to increase the revenue of Denevo bread bakery in Makindye Division. Denevo bread bakery in Makindye Division should find a way of assessing the tax in that the SSBs

should pay early in the financial year in order to give enough time to the businesses to pay their dues rather than make an assessment and demand for payment spontaneously. Denevo bread bakery in Makindye Division should introduce a scheme that allows tax payers to pay the tax obligation in the installments over a given period of time as opposed to lump some at once.

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

5.4 Areas for further research

The researcher carried this study in order to examine the impact of taxes had on the performance of small scale businesses a case of Denevo bread bakery in Makindye Division as a case study but the study was not exhaustive owing to constraints in terms of scope, time and finance. Further research is therefore needed in areas such as;

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

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

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APPENDIX I:

QUESTIONNAIRE FOR BUSINESS PROPRIETORS

Dear respondent,

I am a student of Kampala International University undertaking a Bachelor's Degree in Business Administration. Currently am carrying out a research study on impact of taxes on small businesses a case of Denevo bread bakery in Makindye Division as part of the requirements for a ward of Bachelor's Degree of Business Administration of Kampala International University. This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given. (Please, tick the appropriate answers where options are given).

Part A

General Information

1. What is your gender?

    Male ☐   Female ☐

2. In which age group do you lie?

    Between 20-30 years ☐   Between 30-40 years ☐

    Between 40-50years ☐   Above 50 years ☐

3. What is your marital status?

    Married ☐   Single ☐

    Separated ☐   Widow ☐

4. What is your highest status?

    Certificate ☐   Diploma ☐

    Degree ☐   others (specify) ☐

Part B

Performance of the business

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

   Excessive ☐   Just enough ☐   Inadequate ☐

6. Has the business ever experienced any shortages?

   Yes ☐   No ☐

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

   Yes ☐   No ☐

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

   Less than 10,000 ☐   10,000 – 29,000 ☐   30,000 – 49,000 ☐
   50,000 – 69,000 ☐   70,000 – 89,000 ☐   90,000 + ☐

9. How much capital is employed in the business?

   Less than 0.5m ☐   0.5m – 0.9m ☐   1m – 4.9m ☐
   5m – 9.9m ☐   Over 10m ☐

10. What are the daily expenses of the business?

    Less than 10,000 ☐   10,000 – 19,000 ☐   20,000 – 29,000 ☐
    40,000 – 49,000 ☐   50,000 – 59,000 ☐   60,000 + ☐

11. How many people are employed in your business?

    ....

    ....

Part C:

Awareness of the tax payers

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

Yes ☐   No ☐

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

i) ....

ii) ....

iii) ....

14. Your business ever been assessed for tax purposes.

Strongly agree ☐   Agree ☐   Uncertain ☐

Disagree ☐   Strongly disagree ☐

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

Yes ☐   No ☐

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

Bin cards ☐   Store ledger ☐   Both ☐

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

Yes ☐   No ☐

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

Manual ☐   Workshops ☐

Part D

Problems faced by tax payers

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

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

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

20. Do you have any problem with?

i)	The mode of assistance	Yes ☐	No ☐
ii)	The mode of collection of tax (e)	Yes ☐	No ☐
iii)	The tax collector	Yes ☐	No ☐

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

Strongly agree ☐   Agree ☐   Not sure ☐

Disagree ☐   Strongly disagree ☐

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

i) ....

ii) ....

iii) ....

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

i. ....

ii. ....

iii. ....

iv. ....

Thank you for your valuable time

49